EVALUATION OF ENTERPRISE SUPPORTS FOR START-UPS AND ENTREPRENEURSHIP

Forfás

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Executive Summary

Background Programme of Evaluations for Enterprise Supports

The Department of Jobs, Enterprise and Innovation (DJEI) has requested that Forfás undertake an evaluation of the comprehensive suite of enterprise support programmes provided by the enterprise development agencies[1]. This involves the systematic evaluation of circa 70 programmes. A framework was developed by Forfás in 2011[2] to ensure consistency of approach that facilitates comparison (where appropriate) and that is cognisant of the common challenges facing enterprise evaluation. The framework was informed by international best practice regarding the core principles and methodologies required.

The evaluations focus on the appropriateness, efficiency and effectiveness of supports with regard to:

i. individual programme performance;

ii. programme performance in relation to other interventions in the system; and

iii. alignment with national enterprise policy.

An Evaluations Steering Group has been set up, chaired by Forfás. It includes representation from the Department of Jobs, Enterprise and Innovation, the Department of Public Expenditure and Reform, IDA Ireland, Enterprise Ireland, Science Foundation Ireland, and independent evaluations expertise.

The programmes have been categorised by thematic area:

- Entrepreneurship and start-up supports;
- Research, Development and Innovation supports; and
- Business development supports that encompasses supports for capacity building (capital and employment) and capability building in the areas of productivity, management and skills, internationalisation and transformational change.

The evaluations are being conducted in an independent and informed manner, ensuring the integrity of the evaluation process. Where evaluations had been conducted in the past three years, a review of the evaluation is undertaken and where deemed necessary additional analysis carried out. External and internal resources are being used appropriately throughout the process.

This report sets out the findings and recommendations relating to the evaluation of the supports for Entrepreneurship and Start-Ups.

Before setting out the findings and recommendations for the programme evaluations, it is important to place these in the context of enterprise policy. The following sections set out the rationale for government intervention for start ups informed by international review. We then set out an overview of Ireland's enterprise policy and start up activity during the period under evaluation (2004-2010).

1 Including those provided by IDA, Enterprise Ireland, the County Enterprise Boards and those programmes delivered by SFI that have a 'touch point' with enterprise

2 Informed by research conducted by Indecon Consultants

Evaluation of Supports for Entrepreneurship and Start ups

Rationale for Government Intervention

Entrepreneurship is recognised internationally as a key element of enterprise policy and contributor to economic performance. There is a positive and robust correlation between entrepreneurship and economic performance in terms of growth, firm survival, innovation, employment creation, technological change, productivity increases and exports[3].

The rationale for Government intervention directed at start-up entrepreneurs is two-fold. In the first instance it relates to market failure specific to entrepreneurship, and in the second to a desire to proactively develop the enterprise base and to stimulate sustainable economic growth and job creation. Market failure involves a number of different factors. Examples include the fact that individuals may fail to recognise the benefits of starting a new business or may be unwilling to take risks in establishing that business; or that financial institutions may be unable to accurately assess the risk of lending to small firms or may simply be risk averse; or that there are imperfections in the market that restrict competition.

The different market failures and enterprise objectives demand different policy responses. For example, information deficits may be addressed by interventions that provide information to entrepreneurs. Financial market imperfections may be addressed by grant aid.

It is also true to say that the nature and extent of the market failures change over time. By way of example, where banks operate a more liberal lending policy, the rationale for grant-aid intervention diminishes. When there is a lack of credit availability, the rationale for fiscal supports becomes stronger.

Ireland's Enterprise Policy Context and Challenges

Relevant strategies over the period of review reflect the importance of supporting start-up companies as a means to stimulate economic growth and employment. These include *Building the Smart Economy,* 2008, and the *National Recovery Plan* as well as *Ahead of the Curve,* 2004 (Enterprise Strategy Group) and the *Report of the Innovation Task Force,* 2010.

Over the period of the evaluation (2004-2010) Ireland's economic circumstance changed significantly from one of high growth and high levels of employment to a situation where unemployment now stands at 14.2 per cent, cost competitiveness has deteriorated, public finances have weakened and access to finance became a significant issue.

In this changed economic context Forfás undertook a review of Ireland's prevailing enterprise policies and published *Making it Happen*[4] in 2010. The review reinforced the importance of returning to an export-led growth model and set out the critical factors that underpin a competitive and sustainable enterprise base. These include Innovation, Productivity, Cost Competitiveness and a Strong Enterprise Mix. These factors are relevant for all firms and particularly so for start-up activity given that entrepreneurship is a key driver of innovation and that start up companies tend to increase the level of productivity in the enterprise base and can increase competition with existing firms. Start-ups are one of the means by which new sectors or sub sectors of existing industries take root in Ireland helping to deliver a strong enterprise mix.

3 Action Plan – the European Agenda for Entrepreneurship, European Commission, COM (2004); Understanding Economic Growth, OECD, (2005)

4 Making it Happen – Growing Enterprise for Ireland, Forfás, 2010

The Action Plan for Jobs published in 2012 places an increased emphasis on supporting indigenous start-ups.

Entrepreneurship Activity in Ireland during the Period under Evaluation

Since the onset of the recession that occurred mid-way through the evaluation period, there has also been a decline in entrepreneurial activity. This trend is consistent with research findings that indicate that while interest in start-ups rises with economic recession, the capacity to implement them declines due to market conditions.

In 2004, at the beginning of the programme evaluation period, 3.6 per cent of the adult population was involved in new firm start-ups with 7.7 per cent involved in early stage entrepreneurial activity[5]. In 2010 the rate of new firm entrepreneurs in Ireland had fallen to 2.6 per cent of the adult population and early stage entrepreneurs had fallen to 6.8 per cent before increasing again in 2011 to 3.1 per cent and 7.3 per cent respectively.

Table 1: New Firm & Early Stage Entrepreneurs in Ireland 2004-2011

	New Firm Entrepreneurs	Early Stage Entrepreneurs[6]
2011	3.1%	7.3%
2010	2.6%	6.8%
2009*	-	-
2008	4.3%	7.6%
2007	4.2%	8.2%
2006	2.9%	7.4%
2005	4.7%	9.8%
2004	3.6%	7.7%
Average	3.7%	7.9%

Source: Figures compiled from Entrepreneurship in Ireland 2010 Global Entrepreneurship Monitor (GEM) Report and GEM Report 2011; *Data was not compiled for 2009

Ireland is not alone in experiencing this decline in entrepreneurial activity. Countries such as Australia and the United States which generally experience high levels of early stage entrepreneurial activity have also suffered considerable declines. The rate for entrepreneurial individuals in the adult population in Australia declined from 12 per cent in 2006 to 7.8 per cent in 2010, while the United States experienced a fall from 10.8 per cent in 2008 to 7.6 per cent in 2010.

5 Early-stage entrepreneurs include new entrepreneurs and those actively planning start-ups

6 Ibid

However, while a number of countries have experienced a fall in entrepreneurial activity, there has also been a deterioration in Ireland's performance *relative* to other European countries. In 2004, Ireland ranked first out of 13 European countries in both new firm and early stage entrepreneurs. However, by 2010, Ireland's ranking had slipped to 2nd place in terms of early stage entrepreneurs and to 6th place in terms of new firm entrepreneurs.

The individual evaluations take these changing circumstances into consideration.

Scope of Evaluations

This suite of evaluations covers programmes offered by Enterprise Ireland and by the City and County Enterprise Boards (CEBs)[7] to entrepreneurs and start-up companies. In general, Enterprise Ireland supports companies that employ greater than 10 people and that target export markets and /or demonstrate export potential. The County Enterprise Boards cater primarily to micro-firms (those employing less than 10 people).

Enterprise Ireland Programmes:

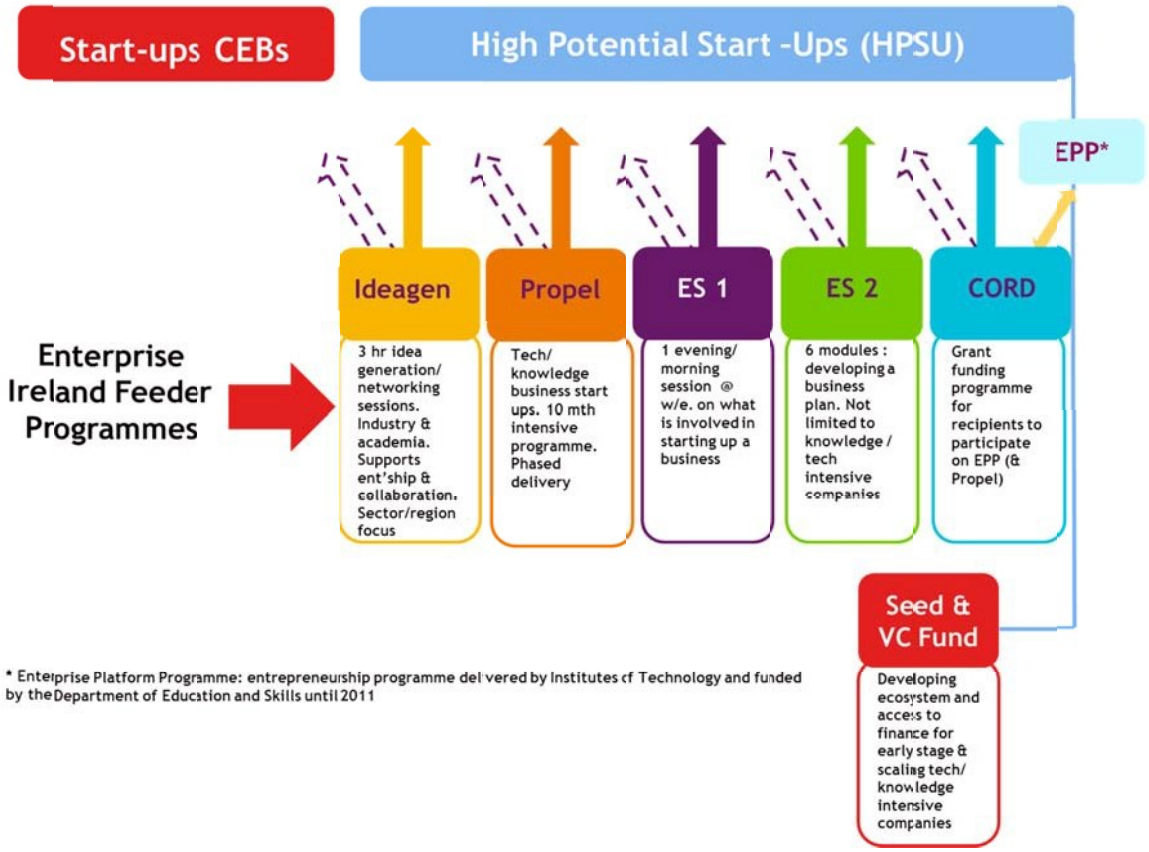
- High Potential Start-Ups Package
- Feeder Programmes:
  - CORD
  - Enterprise START 1
  - Enterprise START 2
  - Ideagen
  - Propel
- Seed & Venture Capital Programme - in terms of its contribution toward improving the eco system for start ups

County and Enterprise Board Programmes:

- Encompassing financial and soft supports, including Start Your Own Business courses.

7 This evaluation was substantially completed prior to the publication of the Action Plan for Jobs 2012 which envisages the dissolution of the existing CEB offices and the creation of a new network of Local Enterprise Offices. This evaluation pertains to the start up programmes provided by the CEBs and is not (nor was it intended to be) and evaluation of the CEB structures and/or overall performance

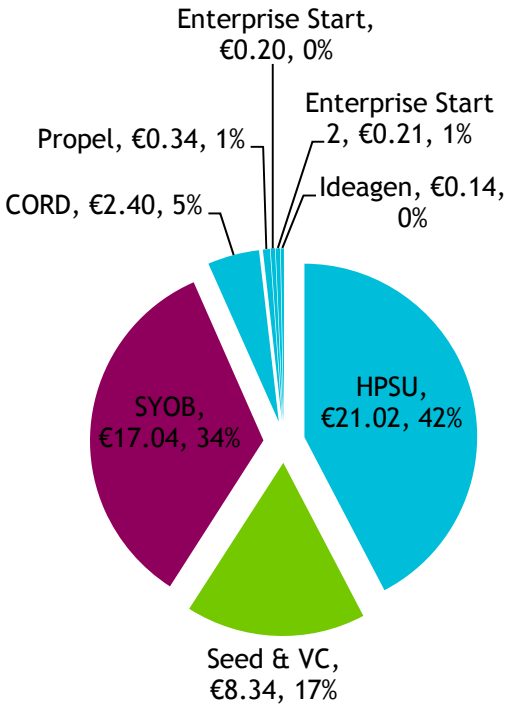
Overview – the Suite of Supports for Entrepreneurship and Start-ups



Based on 2010 expenditure of €49.68 million[8] for entrepreneurship programmes, the majority is targeted toward Enterprise Ireland's HPSU programme (42 per cent) and the CEBs' Start Your Own Business Supports (34 per cent), followed by the Seed and Venture Capital Funds (17 per cent). The other initiatives are lower cost 'feeder' initiatives for the HPSU programme delivered by Enterprise Ireland.

8 Including an apportionment of indirect costs that reflect the advisory services and guidance provided by executives and general admin/overhead.

Entrepreneurship Indicative Spend 2010 €49.68 million including indirect costs



Note: The net cost of the Seed & VC programme is calculated from Enterprise Ireland Cash Flow Statement year ended 31 December 2010 - investing activities were €15.61m and receipts from disposal of fixed assets were €7.40m. The net cost of the Seed and VC Fund for 2010 was €8.21m plus indirect costs of €0.13m giving a total net cost of €8.34m.

The evaluations relate to the period 2004-2010, with timelines varying depending on the type of programme being evaluated. For some programmes, it was necessary to allow for time lags in order to see impact, whereas others show impact relatively quickly. In all cases, the most recent time period possible was examined, allowing for data availability and any necessary time-lags.

The portfolio approach adopted proved valuable as it allowed the analysis to focus not just on individual programmes, but the performance of those programmes in the overall context of supports available to companies in the start-up phase.

Individual Programmes - Key Findings & Recommendations

High Potential Start Ups Programme – Findings

This programme is targeted at providing a wide range of services to a relatively small cohort of companies identified as high potential start ups (HPSUs). HPSUs are identified as those that demonstrate considerable potential for growth. A HPSU is defined as a company that is capable of introducing a new or innovative product or service to international markets, involved in manufacturing or internationally traded services, capable of creating 10 jobs in Ireland and realising €1 million in sales within three to four years of starting up, led by an experienced management team, headquartered and controlled in Ireland and less than six years old. HPSUs include the game changing company (high risk/high return), potential scaling companies (medium-high risk/medium-high return) as well small exporters often serving niche markets with a lower-medium risk/low-medium return). It is a distinctly different cohort than the micro firm supported through the CEB network.

Financial and non-financial supports provided by Enterprise Ireland encompass those areas critical to business success, including Strategy, Finance, Research & Development, Marketing, Human Resources and Production. Enterprise Ireland's funding contribution is primarily in the form of equity toward the implementation of a business plan[9].

The evaluation found that the impacts from the HPSU package of supports are very positive in terms of survival, sales, exports and employment. While this may be as might be expected considering the cohort of companies, the analysis strongly implies a causal link between performance and the injection of support. HPSU supported firms were also shown to be particularly resilient to the recession in terms of employment compared to firms generally.

The evaluation focused on HPSU programme entrants for the years 2004-2006 and considered the impacts over the period to 2010. This evaluation has not assessed the *future* potential growth of these firms beyond 2010 and longer term outcomes.

Key findings indicate that:

- Turnover per employee increased over the period 2004-2010 by 114.8 per cent (turnover in 2010 was circa €256 million for all 199 HPSU clients supported over the period). The comparator group[10] showed an increase of 8.4 per cent over the same period;
- Exports as a percentage of sales increased from 32.6 per cent in 2004 to 79.8 per cent in 2010. The comparator group saw fluctuations within the range of 35.6 per cent and 38.9 per cent between 2004 and 2009;
- Regardless of the year of entry to HPSU, there is generally an upward movement in employment per active firm. The increases have been robust, in that the recession of 2008 onwards has had little overall impact on employment per plant[11]. This compares favourably with the comparator group that saw a decrease of 10.9 per cent in employment per plant over the period 2004-2010.
- A Cost Benefit Analysis (CBA) was conducted over a 7 year period for each of the 2005 and 2006 cohorts to establish the impact to the wider economy. The CBA includes associated indirect costs relating to advice and mentoring as well as administrative costs. The CBA

9 In each of the years evaluated (2004-2006) at least 70 per cent of supports had been in the form of equity investment, primarily preference shares

10 All Irish owned firms surveyed annually through the ABSEI

11 Enterprise Ireland firms started between 2000 and 2006 with 10 employees or over

shows a benefit to cost ratio of **2.67:1** for 2005 and **3.98:1** for 2006[12]. The difference between the two ratios is partly attributable to a heavy purchaser of domestically-sourced raw materials in the 2005 cohort ceasing to trade in its second year as a HPSU with a knock-on effect on the benefit to the wider economy.

Currently, there are 85-90 new HPSUs generated per annum and Enterprise Ireland's target for 2012 is 95. A key question arises – is the target of 95-100 ambitious enough?

Recommendation

Assess the potential to increase the cohort of HPSUs generated per annum with due regard to retaining the quality associated with HPSU status. Higher numbers of HPSUs are likely to come from attracting overseas entrepreneurs and spin-outs from research in the more immediate term.

The recommendation (ref 2.6) set out in the Action Plan for Jobs requires that Enterprise Ireland deliver 95 new HPSUs for 2012. This is to include an increase in the number of overseas entrepreneurs supported by 50 per cent, and the number of new HPSUs arising as spin-outs from research by 40 per cent[13]. Enterprise Ireland is also charged with increasing the number of investments in Inward Entrepreneurial Start up projects by 50 per cent.

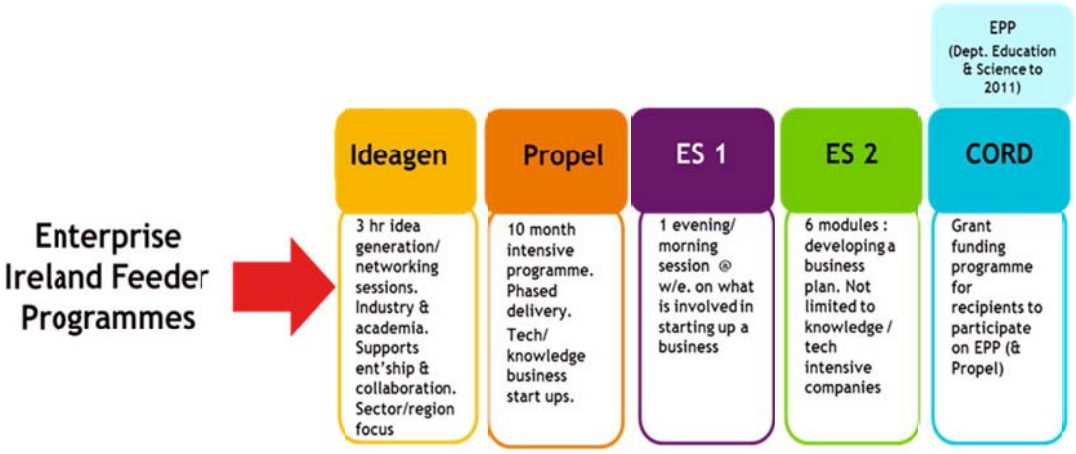
HPSU Feeder Programmes - Findings

Enterprise Ireland operates a number of feeder programmes[14] whose ultimate aim is to broaden the net to identify/stimulate a greater number of high potential start-ups. They are not designed as a progression pathway for an individual to start a new company, but are stand-alone initiatives. They range from idea generation workshops, to short training sessions, to a 10 month intensive programme. The Enterprise Support Platform (EPP) was a one year entrepreneurship training and start-up incubation programme, funded by Department of Education and Science (DES), which was complemented by a CORD grant made to the participant and funded by Enterprise Ireland.

12 This also takes into account an allocation of indirect costs of circa €3m to factor in the associated advisory services provided by the Development Advisors, as well as overhead costs

13 The RD&I suite of programmes include a number of initiatives that focus on commercialisation of HEI research and the stimulation of company start ups, including, for example: The National Technology Transfer system, the Business Advocates Programme and the Patent Fund

14 These include the following programmes: Enterprise Start 1, Enterprise Start 2, CORD, Propel, Ideagen and the Enterprise Platform Programme (EPP). The EPP was formerly funded by the Department of Education and Skills and delivered by the Institutes of Technology. It has been managed through Enterprise Ireland since 2011



A number of the initiatives are relatively recent and started in late 2008/early 2009. The main feeder programmes involve costs ranging from €140k - €300K per programme in 2010. In comparison, the cost of CORD was relatively high at an annual cost of €2.2 million (in 2010) and averaging at €25 - €30k per company - particularly given that it is a component of the wider EPP. Since the launch of EnterpriseSTART and EnterpriseSTART2 in late 2008/ early 2009, there has been a reduction in expenditure on the CORD programme, as well as a transfer of responsibility and funding for the EPP programme from Department of Education and Science to Enterprise Ireland. This is a welcome development.

In general, the feeder programmes have stimulated the creation of HPSUs - as well as a cohort of start-ups that proceed to become CEB clients – tapping into a broad pool of potential entrepreneurs in a cost effective way. In 2007 the HPSU cohort was 70, and this has increased to 93 by 2011. It is too early to assess the full economic impact of these programmes.

The reader is advised to read the individual evaluations which clearly set out the methodologies and basis for the findings: In summary:

- The CORD grant programme was a constituent part of the Enterprise Platform Programme (EPP), a one year training and start up incubation programme run by the Institutes of Technology. CORD grants provide €30,000 toward the salary stipend of an individual that is currently unemployed, is participating on the EPP and has a HPSU proposition. CORD expenditure, including indirect costs in 2010 was €2.2million. 35.1 per cent of[15] CORD recipients that responded to an Enterprise Ireland survey in 2009 indicated that they had become HPSUs.
- The PROPEL programme targets high technology and/or knowledge based companies/entrepreneurs. The aim of the programme is to work with these in order to develop business plans such that they can attract investment, develop their product/service for the export market and demonstrate their capacity as HPSUs. The programme incorporates a phased approach. Participants of Phase I (a month long programme) are required to present their business proposition to an evaluation panel before advancing to the more in-

15 That is - 33 out of the 94 CORD recipients that responded to the survey. As a comparison, the conversion rate of the EPP is 27 per cent. Source Evaluation of Propel Programme, Grant Connections, February 2011.

depth 8 month training programme of Phase II at which point they become eligible for CORD funding. A total of 15 of 25 companies that completed both phases of the PROPEL programme are expected to go on to become HPSUs representing a conversion rate of 60 per cent.

- EnterpriseSTART (ES1) and EnterpriseSTART2 (ES2) facilitate the sourcing of High Potential ideas and business plans at a relatively low cost of provision. ES1 involves weekend programmes that provide training and business advice to potential entrepreneurs. ES2 is delivered via the Business Innovation Centres (BICs) and aims to reduce the number of projects referred for feasibility support before having fully considered their propositions – in effect serves to strengthen a potential HPSU or to identify at an early stage that a proposed venture is unlikely to be viable. Over the period 2009 to 2011 a total of 88 HPSUs were 'generated' through these initiatives, 49 became CEB clients and a further 175 are still developing business plans[16].
- Ideagen involves networking sessions between entrepreneurs, innovators and researchers in the higher education sector – bringing together research capability and business acumen - with the aim of generating new ideas with commercialisation potential. The sessions are delivered regionally and take a sectoral focus. More immediate outcomes relate to increased awareness. Although longer term outputs will become apparent over time, of the 225 individuals that attended events over 2010 and 2011, seven are HPSU/pre-HSPU clients of Enterprise Ireland.

Overall, however, there is evidence of some duplication of activities across these HPSU feeder programmes in terms of programme content and target audiences. While there are some distinctions in target audiences, these are not sufficiently delineated to warrant the number of individual programmes currently being provided.

Recommendation

Introduce a modular system for the delivery of start-up/entrepreneurship supports, with clear marketing and communications material for participants aimed at providing a more streamlined delivery mechanism, removing duplication and increasing efficiencies.

Enterprise Ireland replaced the Enterprise Platform Programme (EPP) and Propel with a new programme New Frontiers in February 2012, which will partly address this issue. An ex-ante evaluation should be undertaken for the programme that clearly sets out the rationale for the (amended) programme in the current economic climate, the objectives and desired outputs/outcomes. A suite of appropriate metrics should be identified and collected in order to facilitate the measurement of its effectiveness over time.

Ex-ante evaluation should also be embedded within the agencies to ensure that existing supports are taken into consideration when developing new or enhanced programmes to avoid duplication and to ensure that new initiatives are targeted toward addressing a defined market failure.

16 The total number of participants was 640 in EnterpriseSTART for the period 2009-2011; and 141 in EnterpriseSTART2 for the period 2009 to 2011

Seed and Venture Capital Programme – Findings

The evaluation focused on the period 2000-2010 which covers two schemes of the Enterprise Ireland Seed & Venture Capital Programme[17]. This evaluation is not an analysis of the performance of the VC funds themselves. The Programme is evaluated in terms of its contribution to improving the ecosystem for high potential start-up companies.

The Enterprise Ireland Seed & Venture Capital Programme was initially conceived in the mid 1990s at a time when Ireland's VC industry was in the embryonic stages of development. State intervention was provided on the basis that the private sector on its own would not provide equity capital for high risk/high growth companies, and the State could address this market failure by committing capital to VC funds, thereby encouraging the private sector to participate in sharing the risk[18]. The logic for support under the 2000-2006 Scheme followed the same rationale. A review by PWC informed the development of the third scheme (2007-2012). The main conclusion of that study was that although significant progress has been made; the VC market in Ireland was still relatively young and underdeveloped vis-à-vis international benchmarks and had not reached a point where it could be considered sustainable in its own right. On this basis the report recommended continued State support to develop the VC market.

This evaluation focuses on the degree to which the Enterprise Ireland Seed & Venture Capital Programme is delivering on its stated objective which is to:

- Further develop the Irish VC sector and improve the ecosystem for high potential start-ups and scaling companies by:
  - Increasing the availability of risk capital to high tech/knowledge intensive SMEs in the seed, start-up and development stages;
  - Leveraging private sector investment; and
  - Developing commercially viable funds that can meet the capital requirements of high technology start-ups and scaling companies.

In that context, the programme was found to be effective, and particularly appropriate given the prevailing national and international economic environment.

- By the end of 2010, the total investment funding available under Schemes 2 and 3 amounted to €1.023 billion, of which €114 million is dedicated Seed funding;
- 805 actual investments from Enterprise Ireland partner funds were made by the end of 2010. These were made in 186 companies and had a combined value of €425 million;
- The pool of VC funds available and investments made for innovative start-ups has expanded. According to EVCA data, all Irish VC firms have invested circa €963 million in Irish firms since 2000[19]. This compares well with the previous decade when Irish VC firms invested approximately €358.7 million.
- Private funds invest in the Enterprise Ireland Partner Funds: Each €1 committed by the State to the Enterprise Ireland partner funds attracted €3 of private investment[20]. This compares

17 Scheme 2 from 2000 to 2006 and Scheme 3 from 2007 to 2012

18 The same rationale was set out for Finland's involvement in VC funds: Maula, M., Murray, G., Jääskeläinen, M. 2007, Public Financing of Young Innovative Companies in Finland, Ministry of Trade and Industry, Industries Department

19 Of this, approximately €425.3 million (44 per cent) has been invested by the Enterprise Ireland Partner Funds

20 Leveraging effect – Scheme 2 was €1:€3.80 – Scheme 3 was €1:€2.60

favourably with similar government interventions in the UK where investments between 2000 and 2009 had a leveraging effect of £1:£1.30[21];

- Private funds are attracted to the Irish Market: There has been €3 billion of VC investment in Irish SMEs from 2000 to 2010 according to the IVCA[22]. Approximately 50 per cent was invested directly by Irish VCs with the balance mainly introduced by Irish VCs through syndication with international VC funds. This indicates an increase in the number and extent of activity by private sector VC companies in the Irish market.
- Progress is being made toward achieving a commercially viable and sustainable VC and seed capital market. Although a somewhat crude measure of performance the size of the fund is a good indicator of its potential to: make sufficient investments across a range of projects to diversify risk; to make follow-on investments; and to generate sufficient management fees to support a strong management team[23]. All nine of the funds established to date under Scheme 3 meet or exceed the required fund size.

It is important that Enterprise Ireland continually assesses the availability of different and appropriate sources of funding for its clients and potential clients – aware that different sources of State and commercial funding are required by companies in different sectors at different stages in the company lifecycle[24]. In terms of alignment with enterprise needs, there may be scope for greater investment in the areas of clean technologies and technology based food products, such as nutraceuticals[25]. Both of these sectors have been highlighted in successive national strategies as offering significant growth potential for Ireland.

Although there have been improvements in terms of VC firms' investments in Irish firms since 2000, there remains a need for the Irish VC industry to continue to develop to bring it into line with international comparator countries and to meet the needs of high potential Irish based industry[26]. This is particularly relevant given the prevailing national and international economic environment which remains extremely challenging. It is questionable whether or not the Irish VC industry would perform at the levels needed if the State commitment to developing the industry were not in place. The establishment of the working group proposed by the Action Plan for Jobs is welcomed in this regard and is due to be set up by the end of this quarter[27].

Recommendations

Ensure that any future EI partner funds are aimed at addressing the prevailing market failures in the venture capital market and in sectors aligned with the investment strategies of commercial venture capital fund managers.

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21 Investments made by the Department for Business, Innovation and Skills and its predecessors in a series of funds managed by private sector fund managers. IVCA, 2011 report to Government, July 2011

22 IVCA, 2011, Report to Government, 2011 – Note: IVCA data included investments by angel and investors and corporation that are not considered to be VC firms

23 PWC review

24 For example, there are indications that firms involved in activities that provide a lower return (such as the food sector), are facing particular challenges in accessing required funding – based on international experience, not all companies in all sectors are appropriate candidates for VC investment. The Development Capital Fund (www.developmentcapitalfund.com) announced by the Minister in March may go some way to increasing the availability of capital for larger SMEs in the food sector

25 A Cleantech fund, Novas Modus, is supported by the ESB

26 Including Denmark, Finland and Sweden, see Chart 8.4

27 Reference Action 3.42. Establish a working group to ascertain the need for the State to continue its support, on the same terms as the private sector, for the development of the domestic venture capital sector (DJIE, EI, NPRF)

Work with the private sector to ensure the availability of funding from other sources for key sectors that are not appropriate for venture capital investment.

A full evaluation should be undertaken to assess the economic return through the State's investment in VC Funds, including employment, exports etc. The Department of Jobs, Enterprise and Innovation should be cognisant of the financial return to the State through EI-Partner funds[28].

Start Your Own Business Supports (SYOB) – Findings

The County Enterprise Board network consists of 35 companies limited by guarantee. The CEBs provide direct financial and soft supports to new and existing enterprises. They are also responsible for increasing awareness and for promoting entrepreneurship and supporting local developments that contribute to enterprise. Total exchequer funding to the CEBs is circa €33.5 million (2009) to support their wide ranging remit. Each year the typical CEB:

- Handles some 800 to 1,000 queries;
- Offers 7 Start Your Own Business (SYOB) courses and 30 management development training courses;
- Facilitates/operates between one and four networks; and
- Completes 110 mentoring assignments (provided with the support of voluntary mentors).

This evaluation pertains to supports provided to entrepreneurs and start-ups with an estimated expenditure of €17.9 million (2009)29. The Start Your Own Business (SYOB) supports include Financial Assistance and SYOB Training as well as mentoring and management training. Approximately 80 per cent of the CEBs' Measure 1 exchequer funding for financial assistance is directed toward start-ups (versus supports for existing companies) through capital, employment and feasibility study grants and equity. A survey of CEBs revealed that 44 per cent of management training (excluding SYOB courses) and 58 per cent of mentoring services are directed to start-up businesses.

The evaluation found that over the 2004-2010 period the financial supports are likely to have at least paid their way in terms of wages, profits and taxes generated. Financial supports are targeted at manufacturing and internationally trading companies and proposals are subject to a robust review by the Evaluation Committee[30]. An average of 766 start-ups received financial support each year over the 7 year period of the evaluation. Analysis indicates an average of 1.9 potential jobs per grant aided firm, including start-ups and existing firms. Looking across the full cohort of grant aided firms for the period from 1993-2000 indicates that CEB firms employ an average of 4 FTEs. Although imprecise, we can conclude that somewhere between 1,532 and 3,064 jobs may be associated with 766 start-up firms. We exercise a note of caution however, against grossing these up for the seven year period as closures over the period would not be accounted for (of the 14,400 clients who had ever received financial assistance from the CEBs, 68% were still in business by 2010). What is not quantified is turnover or the wider economic benefits arising from enhanced productivity, competitiveness and innovation.

The soft supports provided under Measure 2 cater to a broader range of firms. Some 46 per cent of supported firms are either providing personal and local market services or are in construction-related activities. In terms of SYOB training, there were almost 18,900 participants over the period

28 The Department of Jobs, Enterprise and Innovation should be cognisant of the financial return to the State through EI-Partner funds

29 This includes circa €6 million of indirect costs. This relates primarily to staff costs for the provision of associated advisory and soft supports to start ups and entrepreneurs

30 Which includes representatives with expertise in finance, accounting and business

2004 to 2010 and an average year on year growth rate in participants of 7.5 per cent. At a minimum, 50 per cent of course participants go on to start up a business, with an additional 10 per cent using the course to enhance their management of an existing business.

The economic value of the CEB soft supports depends somewhat on the prevailing economic environment and unemployment levels. In times of high unemployment, these CEB activities stimulate the use of surplus resources, creating additional wages, profits and tax revenues. Nonetheless, if resources for SYOB training supports were to become more limited or there were to be unmet demand for these courses, it would be advisable to target these soft supports to start ups in the fields of manufacturing and exportable services, by excluding supports to start-ups in local and personal services. This will require 'real-time' assessment and a more anticipatory and agile support system across the CEB network.

Overall, the CEB SYOB supports are deemed appropriate, effective and efficient.

The objectives for the SYOB supports are not explicitly stated, but can be interpreted to be synonymous with the overarching objectives for the CEBs. These are broad and open to different interpretation. Although this may allow for a degree of flexibility for each CEB, it militates against on-going evaluation specific to start ups.

It was also found that, although improvements have been made since the establishment of the CEB Coordination Unit, data required for evaluation purposes is not currently being collected or collated, and that this needs to be addressed.

Recommendations

- Given the current economic circumstances, the extent of market failure in relation to start-up activity is likely to have increased, as firms are finding it increasingly difficult to obtain credit. The overall expenditure of approximately €17.4 million is used to deliver a breadth of supports to a large number of clients and leaves little scope to make any material savings. Accordingly, it is recommended that the level of resources devoted to SYOB supports through the CEBs be at least maintained;
- Clarify the objectives and targets for the CEB start-up supports;
- Maintain a continuous review of the economic circumstances that prevail and develop a more agile and flexible support system that responds effectively - and in an explicit and coordinated way - to ensure best use of resources. This relates primarily to the provision of soft supports (as opposed to financial supports) undertaken by the CEBs which would effectively mean that at times of resource constraints these would be limited to manufacturing and internationally trading firms (to the exclusion of locally trading entities);
- Increase efficiencies of CEB training programmes by further collaboration on design and delivery; and
- Collect and collate data required for programme evaluation, and in particular facilitate the delineation of activities/supports directed toward the stimulation of entrepreneurship and start-ups. Electronic ex-post surveys of recipients of SYOB supports should also be implemented by the CEBs to a common format devised by the CCU.

This evaluation was substantially completed prior to the publication of the Action Plan for Jobs 2012 which envisages the dissolution of the existing CEB offices and the creation of a new network of Local Enterprise Offices. The evaluation pertains to the start up programmes provided by the CEBs and remains relevant in the context of the proposed new delivery mechanism/system.

Overarching Recommendations

Alignment with Government Policy – Findings

Generally, the entrepreneurship and start-up supports examined are in alignment with Government policy and mirror practices in many innovation driven economies.

Nonetheless, it is notable that Government policy in Ireland is *general* enterprise policy. There is no policy set out that is specific to entrepreneurship[31]. From an evaluation perspective, measurement of programme impact is most effective when set against specific policies and clearly identified targets. Currently performance tends to be measured (only) against targets set out by the agencies themselves, where these targets have been set.

In this regard, Enterprise Ireland has developed its own strategies, as have the CEBs, but the lack of clear direction from Government makes it difficult to assess whether or not supports provided to entrepreneurs are effective in realising Ireland's entrepreneurship potential.

Examination of entrepreneurship policy in the Nordic countries reveals similar trends but there has been progress since 2003 in formulating clear objectives and actions, particularly in Denmark and Finland. These countries have put more quantitative objectives in place over the past few years, including specified percentage increases in the number of start-ups or by benchmarking themselves against high performing countries.[32]

Recommendation

It is recommended that a national Entrepreneurship policy be developed for Ireland that sets out clearly identified objectives, targets and responsibilities. This would also facilitate a more system-wide approach to the design and development of instruments that are complementary and provide a clear progression pathway for the entrepreneur. This is likely to be even more pertinent in the context of proposed changes to the agencies/structures to support micro enterprises as set out in the Action Plan for Jobs, 2012[33].

Rationale for interventions – Findings

The period from 2004-2008 was characterised by low levels of unemployment and liberal lending policies by financial institutions. Since 2008, that situation has reversed with significant difficulties for enterprises relating to access to finance following the onset of the banking crisis, and a steep rise in unemployment.

The need to focus on productivity enhancements, innovation, knowledge and skills acquisition, and competition has remained constant throughout the 2004-2010 period. The desire to proactively develop the enterprise base to stimulate sustainable economic growth and job creation has also remained constant, and has been reflected in government policy and enterprise supports over the entire period.

In overall terms, the analysis of the enterprise agency supports for start-ups and entrepreneurship[34] shows that these programmes are addressing the market failures common to entrepreneurship. The

31 While policies such as the Smart Economy document, National Recovery Plan and successive strategies of the Department of Jobs Enterprise and Innovation recognise the importance of supporting start-up activity, these do not set out a clear vision or objectives for what Ireland wants to achieve in this area

32 Entrepreneurship policy in the Nordic Countries – perspectives of development since 2003, Nordic Innovation Centre 2008

33 Action Plan for Jobs, 2012. Action Number 2.2 refers

34 Including start up supports provided by Enterprise Ireland and the City and County Enterprise Boards

fact is that the emphasis on specific market failures change in differing economic circumstances – which also affects the nature of policy response and/or intervention required.

Recommendation

The rationale for State intervention should be continually reviewed to ensure that the most appropriate supports are being provided to address the market failures that pertain at any particular point in time.

An ex-ante evaluation should be undertaken and documented as a matter of course when introducing new and/or modified interventions (See below). At a 'system' level, consideration should also be given to what is already in existence to avoid duplication, and to inform the discontinuation of a no longer justifiable intervention.

Ex-ante Evaluation – Findings

In general, individual programmes were found to deliver on their stated objectives, although in some instances the specific objectives were unclear, open to interpretation or evolved over the term of the programme. There was also evidence of duplication across certain supports that could be avoided at design stage.

Individual programmes would benefit from explicitly stated objectives and targets when they are being designed. Effective ex post evaluation is largely dependent on the quality of the preparation of the intervention at its outset (ex ante evaluation). The programme logic model set out in the Forfás Evaluation Framework should be used to guide the process. At the design stage, an ex-ante evaluation will set out a brief description of the programme, the rationale for state intervention, target population and precise objectives. Appropriate metrics and approaches to data collection, collation and analysis should be identified at the outset relating to programme inputs, activities/processes, outputs and outcomes.

Recommendation

Introduce a system of ex-ante evaluation across the enterprise agencies, informed by the programme logic model set out in the Forfás Evaluation Framework.

The purpose of ex-ante evaluation is to carry out analyses that help define objectives, to ensure that these objectives can be met, that the instruments used are cost-effective and that reliable later evaluation will be possible.

One Stop Shop for Entrepreneurs – Findings

The analysis found that there are multiple supports available from a number of State agencies in the area of entrepreneurship and feedback from industry consultations and workshops highlighted the challenges they face in identifying the most appropriate avenue for them. At a minimum, there is a need to develop a central information portal advising potential entrepreneurs of the supports available to start a new business. This issue has been highlighted since the report of the Small Business Forum *Small Business is Big Business* published in 2007, and is again reinforced in the report of the Advisory Group for Small Business *The Voice of Small Business* 2011.

The proposed new network of Local Enterprise Offices (LEOs) in each local authority aims to provide a 'one-stop-shop' micro enterprise support structure (and envisages the dissolution of CEBs). It will be absolutely crucial that a focus is maintained on delivering to the specific needs of the business client during the transition period.

Recommendation

Develop a national information portal to provide easily accessible and relevant information for individuals wishing to start a new business, building upon existing websites.

In the immediate term State agency and local authority websites should incorporate a standard roadmap that gives a clear pathway to which agency is most suited to a firm's or aspiring entrepreneur's needs – with embedded links to the relevant websites[35].

Conclusion

Overall the individual supports aimed at stimulating entrepreneurships and start-ups are appropriate, in that they are aligned with national policy, and in general are effective and efficient. The feeder programmes are wide reaching and would benefit from streamlining and the adjustments already made in relation to the CORD and Enterprise Platform Programme are welcomed.

The suite of supports offered span a broad range of potential entrepreneurs and start-ups - through from the CEB supported micro firm that generates employment, to the High Potential Start Up that demonstrates greater potential for growth within a relatively short time period. In line with enterprise policy, financial supports are targeted toward manufacturing and internationally trading services companies thereby minimising the potential for displacement.

This report sets out the findings for each individual programme. It is intended that each can be read in isolation from the others. This has resulted in some content being duplicated, particularly as regards the alignment with national policy (although with different emphasis as relevant).

35 The Voice of Small Business, 2011 report of the Advisory Group for Small Business, Forfás

1 Background and Context

1.1 International Review – Entrepreneurship and Economic Performance

Entrepreneurship is recognised internationally as a key element of enterprise policy and contributor to economic performance. There is a positive and robust correlation between entrepreneurship and economic performance in terms of growth, firm survival, innovation, employment creation, technological change, productivity increases and exports[36]. Research by the OECD shows a positive correlation between the entry rate in a given industry and average labour productivity levels[37], with highly productive industries associated with relatively high entry rates. This echoes the creative destruction theories of Schumpeter[38] who argues that entrepreneurship is typically associated with innovative new firms competing with, and ultimately displacing, obsolete existing firms.

Rationale for Government Intervention

The rationale for Government intervention directed at start-up entrepreneurs is two-fold. In the first instance it relates to market failure specific to entrepreneurship, which involves a number of different factors, including:

- Individuals may fail to recognise the benefits of starting a new business or may be unwilling to take risks in establishing that business;
- New innovative firms may produce technological or other improvements that spill over to the rest of the economy but these may not be a factor in private investment decisions;
- Financial institutions may be unable to accurately assess the risk of lending to small firms or may simply be risk averse;
- There may be imperfections in the market that restrict competition, so that new entrants to the market facilitate increased competition and improved productivity;
- Start-up entrepreneurs may fail to understand the benefits of training or the fact that new knowledge and skills may spill over to other firms; and
- Creating vibrant regions and driving regional development may also have social as well as economic benefits that may not be a factor in private sector investment decisions.

In the second instance the rationale for government intervention relates to a desire to proactively develop the enterprise base and to stimulate sustainable economic growth and job creation. In general, companies that emanate from entrepreneurial activity are the feedstock for future employment and growth.

The different market failures and enterprise objectives demand different policy responses. For example, information deficits may be addressed by interventions that provide information to entrepreneurs. Underinvestment in knowledge acquisition may require increased training and advisory supports. Financial market imperfections may be addressed by grant aid.

36 Action Plan – the European Agenda for Entrepreneurship, European Commission, COM (2004)

37 Understanding Economic Growth, OECD, (2005)

38 Capitalism, Socialism and Democracy, Schumpeter, Joseph A. (1942), London

It is also true to say that the nature and extent of the market failures change over time. For example, where banks operate a more liberal lending policy, the rationale for grant-aid intervention diminishes. When there is a lack of credit availability, the rationale for fiscal supports becomes stronger. In periods of high unemployment, government intervention may be triggered to address the risk that some individuals may become long-term unemployed, with associated government and social costs for the individuals concerned and society as a whole. In this context start-up enterprises can deliver economic benefits by harnessing underutilised labour resources to generate additional wages, profits and tax revenues.

For entrepreneurial policy to be successful, new innovative firms have to survive and grow. Thus, the turnover and employment levels of new firms, export and productivity performance together with their longevity are indicators of a successful entrepreneurial performance.

1.2 Ireland's Enterprise Policy Context and Challenges

Relevant Government strategies over the period of review reflect the importance of supporting start-up companies as a means to stimulate economic growth and employment. These include *Ahead of the Curve,* 2004, *Building the Smart Economy,* 2008, the Report *of the Innovation Task Force,* 2010 and the *National Recovery Plan*.

Over the period of the evaluation (2004-2010) Ireland's economic circumstances changed significantly. The growth experienced during the Celtic Tiger era was primarily led by a construction boom and debt fuelled domestic consumption. The confluence of a number of factors including the global financial crisis in 2008 and global recession exposed the unsustainability of this era of unprecedented growth. Unemployment increased from a level of 4.5 per cent in 2004 to 13.7 per cent in 2010. Ireland's relative cost competitiveness deteriorated, its public finances weakened and access to finance became a significant issue.

In this changed economic context Forfás undertook a review of Ireland's prevailing enterprise policies and published *Making it Happen*[39] in 2010. The review reinforced the importance of returning to an export-led growth model and set out the critical factors that underpin a competitive and sustainable enterprise base. These are relevant to all firms in the economy, and particularly so for start-up activity:

- Innovation: Entrepreneurship is a key driver of innovation. Increased start-up activity enhances innovation in the market place but potential entrepreneurs face considerable challenges, particularly in the current economic climate. Access to finance is likely to remain a challenge in the short to medium term. Forging links with research institutions may be particularly challenging for some start-up firms, as is the acquisition of new knowledge and skills. Programmes provided by the enterprise agencies should seek to address these challenges[40].
- Productivity: Start-up companies tend to increase the level of productivity in the enterprise base. As stated above, there is a positive correlation between the entry rate in a given

39 Making it Happen – Growing Enterprise for Ireland, Forfás, 2010

40 The RD&I suite of programmes include a number of initiatives that focus on commercialisation and stimulation of company start-ups, including for example, the Innovation Partnership Programme, Business Partners Programme, the National Technology transfer system, Commercialisation Fund , Big Ideas Showcase. The evaluation of these programmes is currently underway and is scheduled for completion Oct/Nov 2012

industry and average labour productivity levels. This should be borne in mind in terms of resource allocation to entrepreneurship programmes.

- Cost Competitiveness: As an open economy that is reliant on export performance for economic growth, relative cost competitiveness comes into sharp focus for Ireland. Start-up activity can increase competition with existing firms and contribute to addressing this economic challenge.
- Strong Enterprise Mix: Government intervention in entrepreneurship can play a key role in creating a strong enterprise mix. Start-ups are one of the means by which new sectors or sub sectors of existing industries take root in Ireland.

A new Government was formed in 2011. Its recent publication, *The Action Plan for Jobs* published in 2012 places an increased emphasis on supporting indigenous start-ups.

1.3 Entrepreneurship Activity during the Period under Evaluation

Since the onset of the recession that occurred mid-way through the evaluation period, there has also been a decline in entrepreneurial activity. This trend is consistent with research findings that indicate that while interest in start-ups rises with economic recession, the capacity to implement them declines due to market conditions.

In 2004, at the beginning of the programme evaluation period, 3.6 per cent of the adult population was involved in new firm start-ups with 7.9 per cent involved in early stage entrepreneurial activity[41]. By 2010 the rate of new firm entrepreneurs in Ireland in 2010 had fallen to 2.6 per cent of the adult population and early stage entrepreneurs had fallen to 6.8 per cent before increasing again in 2011 to 3.1% and 7.3% respectively.

41 Early-stage entrepreneurs include new entrepreneurs and those actively planning start-ups. Entrepreneurship in Ireland, Global Entrepreneurship Monitor 2010.

Table 1.1: New Firm & Early Stage Entrepreneurs in Ireland 2004-2011

	New Firm Entrepreneurs	Early Stage Entrepreneurs
2011	3.1%	7.3%
2010	2.6%	6.8%
2008	4.3%	7.6%
2007	4.2%	8.2%
2006	2.9%	7.4%
2005	4.7%	9.8%
2004	3.6%	7.7%
Average	3.7%	7.9%

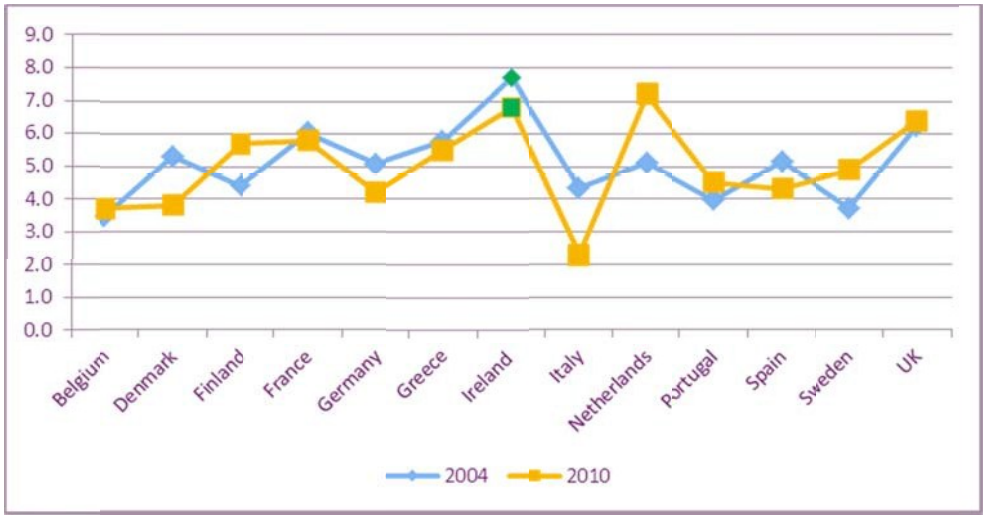
Source: Figures compiled from Entrepreneurship in Ireland 2010 GEM report and GEM Report 2011;

Ireland is not alone in experiencing this decline in entrepreneurial activity. Countries such as Australia and the United States which generally experience high levels of early stage entrepreneurial activity have also suffered considerable declines. The rate for entrepreneurial individuals in the adult population in Australia declined from 12 per cent in 2006 to 7.8 per cent in 2010, while the United States experienced a fall from 10.8 per cent in 2008 to 7.6 per cent in 2010[42].

However, while a number of countries have experienced a fall in entrepreneurial activity, there has also been deterioration in Ireland's performance *relative* to other European countries. In 2004, Ireland ranked first out of 13 European countries in both new firm and early stage entrepreneurs. However, by 2010, Ireland's ranking had slipped to 2nd place in terms of early stage entrepreneurs and to 6th place in terms of new firm entrepreneurs (Charts 1.1 and 1.2).

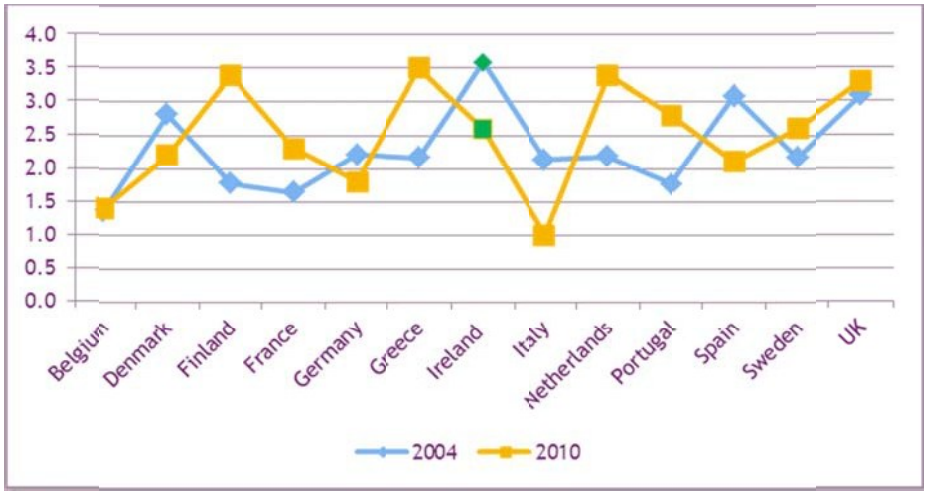
42 Global Entrepreneurship Monitor, 2004&2010. Key Indicators Database at: <http://www.gemconsortium.org/key-indicators> [Accessed 04 May 2012].

Chart 1.1: Percentage of Early Stage Entrepreneurs per Head of Adult Population 2004 & 2010



Source: GEM, 2004, 2010

Chart 1.2: Percentage of New Firm Entrepreneurs per Head of Adult Population 2004 & 2010



Source: Gem, 2004, 2010

2 Enterprise Ireland – High Potential Start Up Supports

Programme Logic Model

Objectives

- Increase the number of high potential, innovation-led start-up companies in Ireland with the capacity to sell innovative products and services in world markets
- Foster job creation across the regions of Ireland
- Promote the growth of new sectors with sustainable competitive advantage

Inputs

- Enterprise Ireland contribution – predominantly in the form of equity funding (standard Enterprise Ireland supports may also run concurrently)
- Private sector funds

Outputs

- High potential start-up/infant companies in receipt of HPSU equity investment per year
- Facilitation of company expansion, investment in specific areas (e.g. R&D, consultancy etc.)

Activities

- Based on a robust approval process, Enterprise Ireland provides financial (equity) and non-financial support to HPSU with a business strategy that encompasses all elements required for business success
- Enterprise Ireland also assesses future HPSUs who are participating on other programmes, or in receipt of other Enterprise Ireland supports (e.g. EnterpriseSTART, CORD)

Outcomes & Impacts

- Increased number of high potential, innovation-led companies with the capacity to sell innovative products and services in world markets
- Increased exports
- Increased turnover
- Increased employment
- High survival rates

2.1 Evaluation Aim

The aim of the evaluation is to assess the appropriateness, efficiency and effectiveness of the Enterprise Ireland High Potential Start Up supports. This is an interim evaluation focusing in the period 2004-2006.

2.2 Programme Background, Objectives & Target Population

A HPSU is defined as a company that is capable of introducing a new or innovative product or service to international markets, involved in manufacturing or internationally traded services, capable of creating 10 jobs in Ireland and realising €1 million in sales within three to four years of starting up, led by an experienced management team, headquartered and controlled in Ireland and less than six years old.

In operation in its current format since 2004, the HPSU programme constitutes a range of supports to companies identified as High Potential Start Ups, provided by the HPSU and Scaling Division in Enterprise Ireland. The core role of the team involves assessing enquiries, project building and getting a company past the crucial milestone of a first investment[43].

The speed of progress from enquiry to Enterprise Ireland HPSU depends on the experience of the founders and the quality of the idea. Enterprise Ireland runs and supports a range of programmes that help the entrepreneur build the project, create the business plan, make the first sale and get to the point of being investor ready. Precursor agencies to Enterprise Ireland typically invested in Start-Up companies in the form of grant aid however over time this evolved into a risk-reward strategy involving state investment in the equity of high risk companies.

This has been a significant force in minimising the overall cost of state support for start-ups and the provision of upfront equity payments is particularly important to start-up companies who may encounter difficulty securing funding from the private sector in the absence of that investment.

The main mechanism for funding HPSU clients is now through an Innovative HPSU funding offer. Enterprise Ireland's funding contribution is in the form of equity towards the implementation of a business plan. The size of Enterprise Ireland's contribution is based on the company's growth potential, the achievement of milestones and value for money criteria. The Innovative HPSU offer is an equity offer, which can be approved in a series of milestone related investments. The maximum amount that can be approved as an Innovative HPSU is €1m for HPSUs located outside the BMW and €1.25m for those located in the BMW.

The Innovative HPSU offer provides funding of a business plan and is similar to a Venture Capital approach. Clients receive funding towards the achievement of an overall business plan, rather than funding towards discrete elements of a business plan, such as R&D or Management Development.

Target Population

Enterprise Ireland identifies three general types of HPSU clients, though individual targets may not be definitively set with this in mind:

- Game-changing companies; high risk/high return (in strategic sectors/new technologies);

43 Technically, EU State aid regulations determine that a HPSU can be so treated for up to 6 years after hiring its first employee

- Potential Scaling companies; medium-high risk/medium-high return;
- Small Exporters; low-medium risk/low-medium return (often rural-based, serving niche markets).

Growth and Scaling Divisions work with the client to achieve €1m, €3m and €5m, €20m, €50m and €100m targets. 80 per cent are achieving targets within 3 years, but 10-15 per cent of all firms deliver the vast majority of returns.

In terms of the sectoral categories of the recipient companies, the majority of firms fall into the Software, BioPharma and Engineering categories, but the cohort also includes a small number of firms in areas such as Food, Waste Management and Construction. Enterprise Ireland has also begun supporting entrepreneurs relocating from overseas that now average 10 per year.

2.3 Programme Rationale

Funding HPSUs is a fundamental part of enterprise policy (and forms the core part of the Enterprise Ireland Policy framework set out by DETE in 1998). The objective of State activities in this area is to increase the number of innovation-led start-up companies in Ireland with the capacity to sell innovative products and services in world markets in order to foster job creation across the regions of Ireland, promoting the growth of new sectors with sustainable competitive advantage, providing for growth in exports and employment in Ireland.

The provision of upfront equity payments is particularly important to start-up companies who may encounter difficulty securing funding from the private sector in the absence of that investment. The HPSU supports are a method of leveraging and matching private sector funding, the full amount of which may not be realised without the scheme.

This echoes enterprise policy in most innovation-driven economies, particularly the US, Australia, Denmark, Finland, the Netherlands and Sweden, where there is a focus on supporting high potential start-up companies.

2.4 Evaluation Methodology

The evaluation is an ex-post evaluation, focusing on firms receiving HPSU supports between 2004 and 2006. The timeframe chosen reflects time lags associated with entrepreneurship and start-up programmes – a 5 year timeframe is considered necessary for a programme of this type to deliver on its stated objectives. While subsequent years are not evaluated per se, commentary is made on activity in the 2006-10 period, particularly regarding issues such as continuing take-up and a changing enterprise policy context. The evaluation of the programme's impact focuses on the annual levels of turnover, exports, employment and survival rates between 2004 and 2010 for all firms receiving HPSU supports between 2004 and 2006, and measured against the level of direct costs of the programme between 2004 and 2006.

The performance of the supported companies is contextualised by comparing impact to an appropriate comparator group of companies. Given that the status of the supported companies is considered to be high potential, the ex-ante expectation is to see a high level of growth in turnover, exports (proportional to sales, as well as in absolute terms), employment, and a comparatively high survival rate. From a methodological point of view, the ideal way to measure

the counterfactual (what would have happened in the absence of the programme) would be to use a control group established before the intervention.

As this is an ex-post evaluation, without the benefit of a control group set up ex-ante, there is no perfect comparator group. Nonetheless, it is possible to compare the performance of HPSU supported firms with the wider population of the Irish owned firm population supported by Enterprise Ireland, Shannon Development and Údarás. Using data from The Annual Business Survey of Economic Impact (ABSEI), comparator groups from the wider population of Enterprise Ireland supported firms have been constructed, controlling for age of firm, numbers employed, turnover and sector[44]:

- For turnover and exports we use all Irish owned companies from the ABSEI from 2004-2010 for comparison;
- For employment we use the population of Enterprise Ireland start-ups from 2000-2006 with a minimum of ten employees for comparison[45];
- For survival rates, CRO registration data for 2004-2006 provides a reference group for companies' trading status up to early 2011.

It is generally difficult in Ireland to construct comparator groups, given the relatively small pool of firms available in comparison to other countries, and the fact that while firms may not be in receipt of the support being evaluated, they may be in receipt of other forms of support. Nonetheless, such comparisons provide a practical method of estimating additionality, using the rich data collected annually from agency supported firms.

A previous review of HPSU supports was carried out by Enterprise Ireland in 2010. This review covered the period 1989-2008 and has proposed additional measures to enhance and improve the reach of the supports by targeting specific opportunities such as greater emphasis on scalability, and encouraging a higher proportion of overseas entrepreneurs/investment in future HPSUs.

2.5 Alignment with National Policy

This evaluation centres on impacts of the programme over the period of 2004 – 2010, a period that has seen a shift in economic circumstances. More recent policy documents emphasise the importance of returning to an export-led growth model and sustainable job creation. The important contribution of entrepreneurship and innovative start-ups is reflected in relevant reports throughout the evaluation period. The increased potential for international trade in services is also pertinent.

The Enterprise Strategy Report Group, which reported in 2004 cited "Internationally-traded services sector" as "forming an increasingly important component of trade in the economies of the more developed countries, and will be a growing source of high-skilled, knowledge-intensive jobs and competitive advantage". The report of the innovation task force refers to "Success in achieving our vision of Ireland as an Innovation Hub requires a dramatic increase in the number of start-ups

44 To control for the difference in the average age of firms between HPSUs and the wider population, relative levels will be more appropriate metrics than absolute levels in some cases. For example, given the infancy of most of the HPSUs examined, turnover per employee is a more appropriate comparator metric, as absolute turnover and growth in turnover would be expected to vary dramatically between the two groups

45 Start-ups dating back to 2000 were selected as a more robust comparator group to reflect the fact that companies can be trading for some years before receiving HPSU supports

with the potential and ambition to grow innovative, export-focused companies." Increasing export potential of entrepreneurs is at the core of both of these reports. The HPSU programme assists entrepreneurs in gaining competitive advantage in international markets to generate value and jobs in the domestic market.

Enterprise Ireland's corporate strategies build on this by highlighting export growth and service growth as drivers for enterprise development. Enterprise Ireland's corporate strategy (2008-2010) points to "the flow of innovative start-ups into the Irish economy which is critical for future growth". The HPSU programme encourages this flow through incentives provided.

Towards Developing an Entrepreneurship Policy for Ireland (2007) stresses that enterprise supports should "optimise the number of start-up businesses and in particular to maximise the number of innovative start-ups aspiring to and achieving high growth". The Programme for Government (2011), which outlines the key areas Government will be focused on in the future, echoes this by targeting "key technology areas and sectors where innovation can be applied." The HPSU programme aims fit with both of these statements.

The recently published Action Plan for Jobs, 2012, sets out a number of actions targeted toward generating a higher number of start-ups and stimulating sustainable growth in the indigenous sector.

2.6 Inputs

A total of 199 companies received HPSU supports over the period 2004-2006, involving a total expenditure of €61,297,526, including direct and indirect costs (Table 2.1). Grant approvals for the period amounted to €61,568,767, of which 84 per cent was paid out to firms. This sum covered supports to clients in the form of equity investments, feasibility studies, training, R&D, management development, consultancy and others.

Table 2.1: HPSU Inputs, 2004-2006

All Firms	2004	2005	2006	Total
Number of firms	61	66	72	199
Total Approvals (€)	21,374,235	15,292,547	24,901,986	61,568,767
Direct Costs (€)	18,400,614	12,450,189	21,065,835	51,916,638
Indirect Cost (€)	3,050,062	3,105,257	3,225,569	9,380,888
Total Costs (€)	21,450,676	15,555,446	24,291,404	61,297,526

However, the level of payments fluctuated considerably between the three years, from €12.45m in 2005, to €21.07m in 2006. Costs to Enterprise Ireland in providing support services such as advice for clients on aspects of their business, general administrative duties and mentoring where appropriate are included in the analysis and are grouped under the heading of indirect costs. These costs were established using an average salary level which was apportioned by, the estimated time

spent by the team administering support. The estimated annual indirect costs of the programme, comprising of salaries and overheads, ranged between €3.05m and €3.23m over the period 2004 to 2006 (Chart 2.1).

Chart 2.1: HPSU Total Costs, 2004-2006

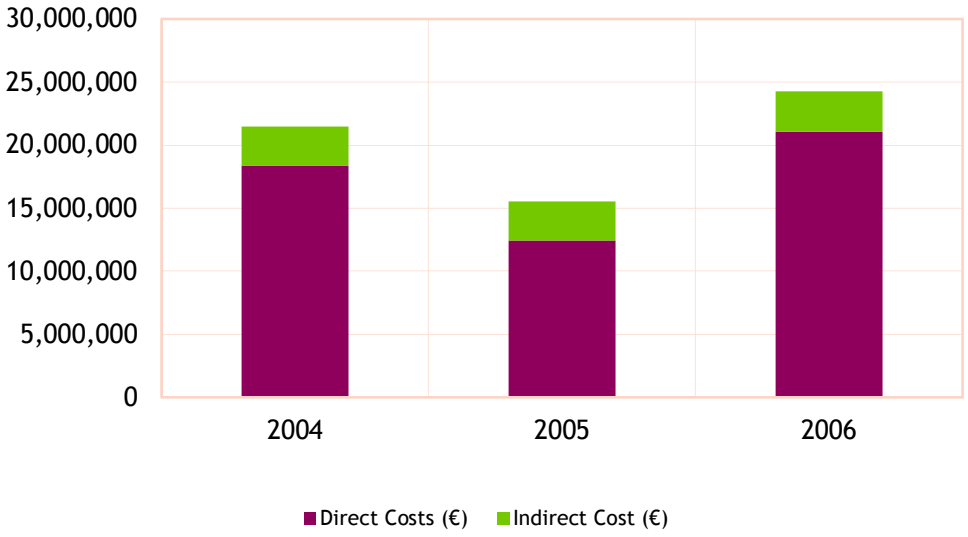


Table 2.2: Itemised Breakdown of Expenditure by Year

	2004 (%)	2005 (%)	2006 (%)
Capital	15.0	1.2	0.9
Consultancy/Ex-Directors	0.6	1.5	1.6
Employment	1.9	2.8	3.4
Equity - Ordinary Shares	11.6	10.9	7.0
Equity - Preference Shares	59.8	64.2	64.1
Feasibility Capital	3.7	2.8	0.8
IP Assistance	0.0	0.0	0.0
Leasing	0.4	0.4	0.0
Management Development	0.1	0.0	0.0
New Market Research	0.0	0.6	0.1
Research Costs (formerly R&D)	7.0	15.0	20.8
Trade Fair for SMEs	0.0	0.5	0.5
Training	0.0	0.2	0.7

In each of the years 2004-2006, at least 70 per cent of expenditure on 2004-2006 HPSUs had been in the form of equity investment, predominantly preference shares. Research/R&D has emerged as the second largest component of HPSU expenditure; in 2006 one-fifth of HPSU expenditure was in this form. Other areas, including training and management development, market research, consultancy, together account for less than 10 per cent of expenditure.

Matching funds are also provided by supported companies. In the case of grant funding, this is usually 50 per cent. For education and training supports, companies pay a matching 30 per cent on sign-up to the programme being funded. In the case of equity support, supported companies are required to raise matched funding of 50 per cent from the private sector to provide 3rd party validation for the investment. This will normally also include funds from the company's management team.

In terms of the distribution of equity funding by sector, over half of recipient companies (54.1 per cent) and over half of all funding (57.8 per cent) fell within Internationally Traded Services, consisting predominantly of ICT and Business Services (Table 2.3). Metals and Engineering accounted for 20.7 per cent of recipients and 21.5 per cent of funding. In general, the distribution of HPSU equity funding aligns with the sectoral composition of the HPSU cohort.

Table 2.3: 2005 & 2006 HPSUs by Sector and Equity Share

Sector	Total Firms	Proportion	Equity Investment 2005-2011	Proportion
Chemicals	7	5.2%	€ 1,749,362	6.2%
Clothing Footwear and Leather	2	1.5%	€ 175,000	0.6%
Drink and Tobacco	2	1.5%	€ 265,000	0.9%
Financial Services	1	0.7%	€ -	0.0%
Food	8	5.9%	€ 939,380	3.4%
ITS (ICT and Business Services)	73	54.1%	€ 16,192,797	57.8%
Metals and Engineering	28	20.7%	€ 6,033,163	21.5%
Mining, Quarrying and Indigenous Services (Health and Education Services; Construction and Waste Management)	9	6.7%	€ 1,471,997	5.3%
Miscellaneous Manufacturing	3	2.2%	€ 475,000	1.7%
Non-metallic Minerals	1	0.7%	€ 250,000	0.9%
Textiles	1	0.7%	€ 450,000	1.6%
Total	135		€ 28,001,699	

The HPSU team works closely with the Investment Services Division of Enterprise Ireland to identify suitable third party funding for start-up companies. A database of 150 private investors, serial investors and international investors has been developed who regularly receive profiles of client companies in sectors that match their knowledge domain. Since 2009, Enterprise Ireland also funds the activities of the Halo Business Angel Network, administered through the four regional BICs. The availability of this type of seed funding has a direct impact on the number of HPSUs started each year.

2.7 Outputs & Activities

Broadly speaking, outputs and activities involve the provision/facilitation of HPSU activities itemised in Table 2.3. Enterprise Ireland offers a wide range of services to HPSUs eligible to be considered for supports and ensures that suitable supports are available across those areas critical to business functions namely: Strategy, Finance, Research & Development, Marketing, Human Resources and Production. Financial and non-financial supports are provided to companies with a business strategy that encompasses all elements required for business success.

HPSUs are tracked through the ABSEI[46] and the Annual Employment Survey that are published annually by Forfás. There are also performance reviews that take place. Milestones are incorporated in innovation HPSU projects that trigger second round funding. Relevant metrics are supplied to the Enterprise Ireland Board each month (spinouts from research are also captured).

Getting funded is a key milestone a start-up faces and Enterprise Ireland plays an important role in helping companies to reach this goal. Once this has been achieved, HPSU and the Enterprise Ireland overseas team works closely with companies to achieve another major milestone, getting to €1m in sales.

2.8 Impacts & Outcomes

Turnover

Total turnover for all HPSU clients over the period 2004-2006 (regardless of which year they entered the "programme") increased from €51.1m in 2004 to €256m in 2010 – an increase of 401 per cent.

- Between 2005 and 2010, the increase was 125.2 per cent;
- Between 2006 and 2010, the increase was 79 per cent.

Table 2.4: Total Turnover (2004, 2005 and 2006 HPSUs) (€000's)

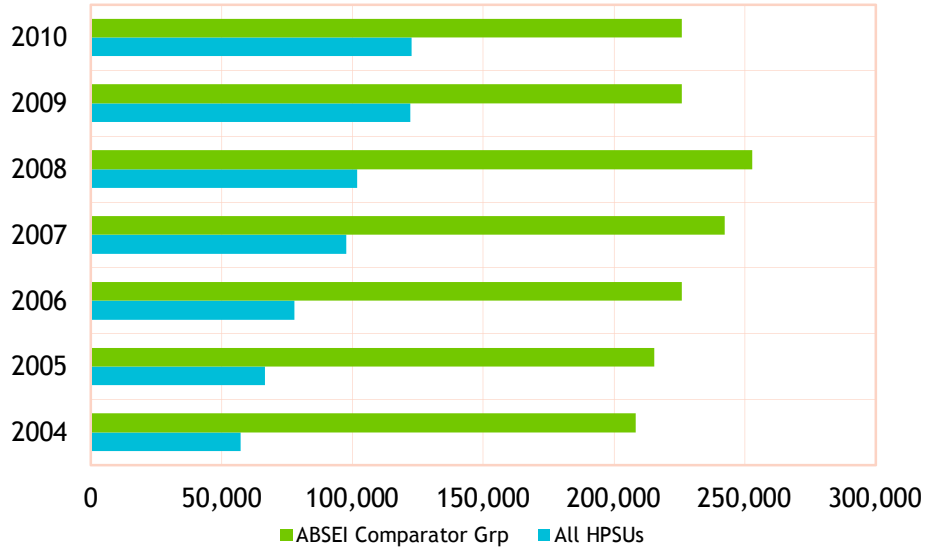
All Firms	2004	2005	2006	2007	2008	2009	2010
Total Sales €m	51,136	113,662	143,037	194,855	221,101	240,561	255,991

46 Annual Business Survey of Economic Impact, Forfás

Chart 2.2: Total Turnover (2004, 2005 and 2006 HPSUs)

In terms of turnover per employee, for all HPSUs the rate of increase was 114.8 per cent between 2004 and 2010; for our comparator group, all Irish-owned firms surveyed annually through the ABSEI, this increased 8.4 per cent between 2004 and 2010.

Chart 2.3: Turnover per Employee, HPSU clients 2004-2006 and ABSEI Comparator Group

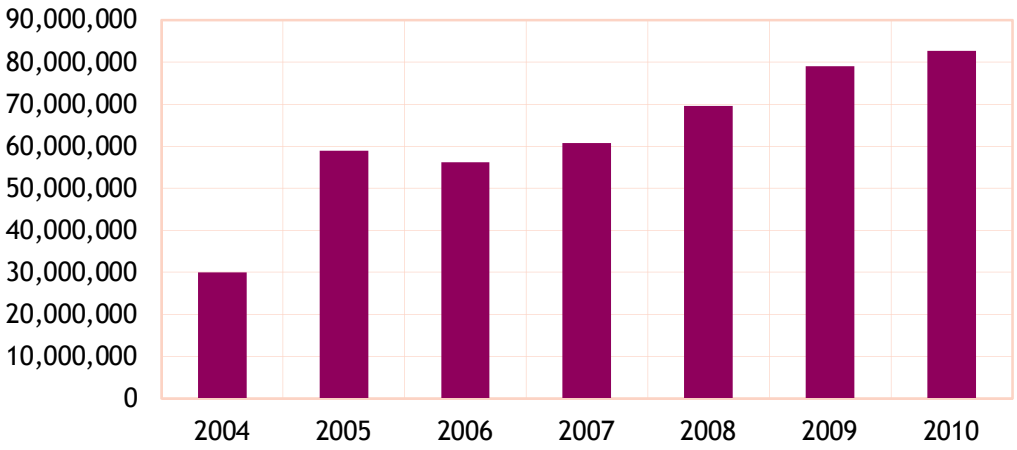


In order for a more robust comparison with the comparator group, turnover per employee is the most useful metric, as it controls for the often low levels of employment in start-ups, overcoming some of the selection bias that arises with HPSUs (mostly new firms) vis-à-vis the ABSEI group (mostly established firms).

Table 2.5: Total Turnover (2004 HPSUs) (000's)

	2004	2005	2006	2007	2008	2009	2010	2004-2010
Total Sales 2004 Arrivals	30,030	58,965	56,255	60,835	69,625	79,020	82,678	
Change %		96.4 %	-4.6 %	8.1 %	14.4 %	13.5 %	4.6 %	175 %

Chart 2.4: Total Turnover (2004 HPSUs)



2004 HPSU intake recorded an increase of 175 per cent in sales between 2004 and 2010 (Table 2.5). The largest annual jump in sales was between 2004 and 2005 – the first year in receipt of supports.

In terms of turnover per employee (Chart 2.5), for 2004 HPSUs this climbed 145 per cent between 2004 and 2010; for our comparator group, all Irish-owned firms surveyed annually through the ABSEI, this increased 8.4 per cent between 2004 and 2010.

Chart 2.5: Turnover per Employee (2004 HPSU arrivals, ABSEI Comparator Group)

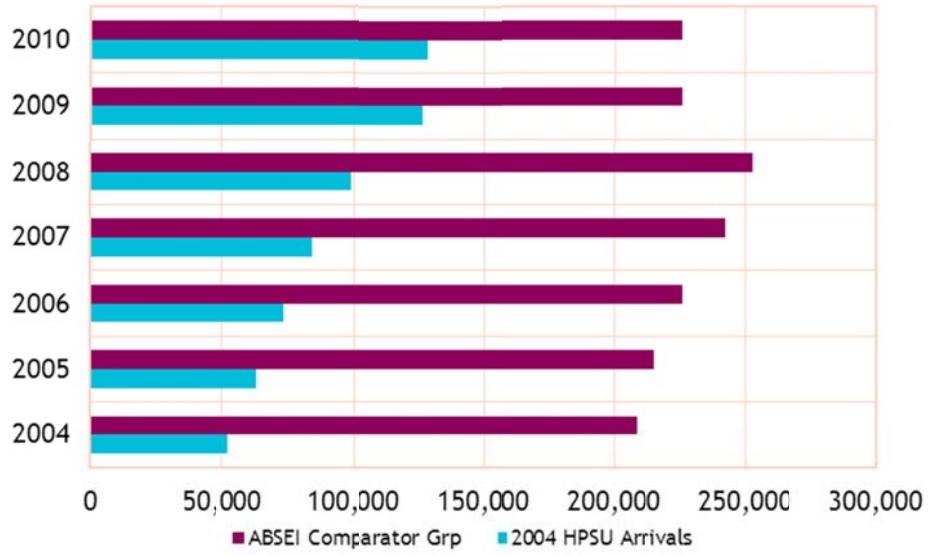


Table 2.6: Total Turnover (2005 HPSUs) (€000's)

	2004	2005	2006	2007	2008	2009	2010	2004-2010
Total Sales 2005 Arrivals	17,968	42,552	65,781	100,791	107,749	108,481	109,518	
Change %		136.8 %	54.6 %	53.2 %	6.9 %	0.7 %	1.0 %	510 %

2005 HPSU intake recorded an increase in sales of 510 per cent between 2004 and 2010. Sales increased 157.4 per cent between 2005 and 2010 (Table 2.6). The largest annual jump in sales was between 2004 and 2005 (136.8 per cent); the second highest was between 2005 and 2006 (54.6 per cent), the first year of supports.

In terms of turnover per employee (below), for 2005 HPSUs this climbed 81.3 per cent between 2004 and 2010; for our comparator group, all Irish-owned firms surveyed annually through the ABSEI, this increased 8.4 per cent between 2004 and 2010.

Chart 2.6: Turnover per Employee (2005 HPSU arrivals, ABSEI Comparator Group)

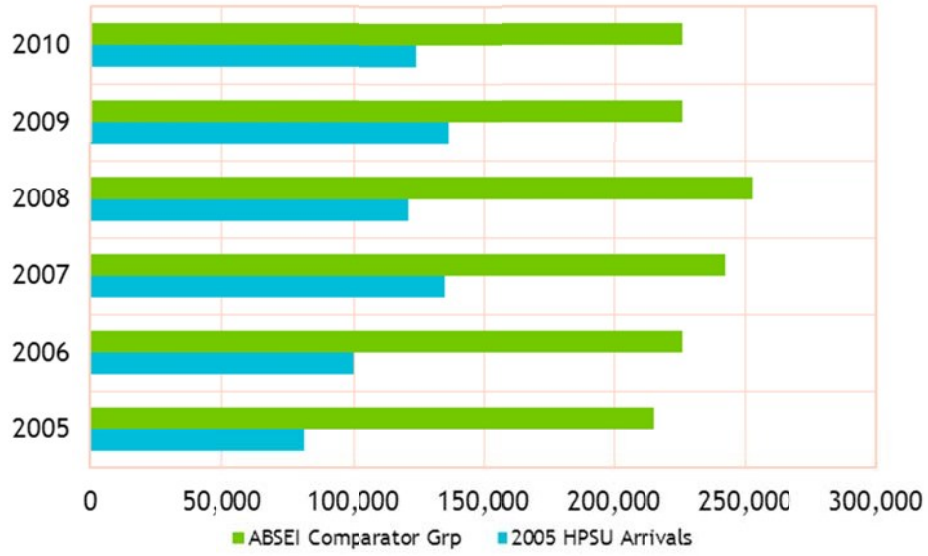
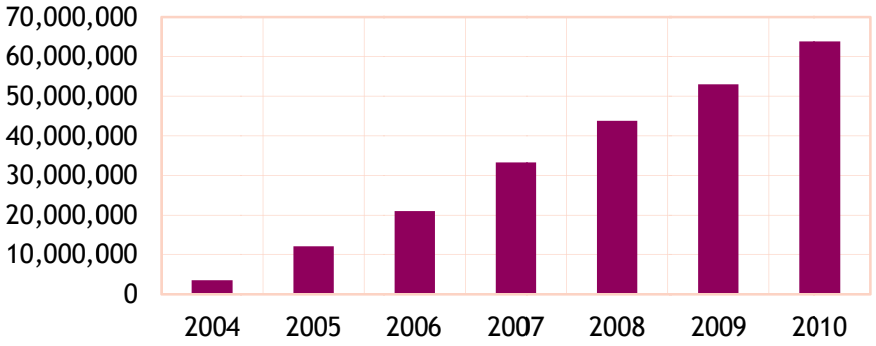


Table 2.7: Total Turnover (2006 HPSUs) (€000's)

	2004	2005	2006	2007	2008	2009	2010	2004-2010
Total Sales 2006 Arrivals	3,409	12,145	21,001	33,229	43,727	53,060	63,795	
Change %		256.3%	72.9 %	58.2 %	31.6 %	21.3 %	20.2 %	1771 %

Chart 2.7: Total Turnover (2006 HPSUs)

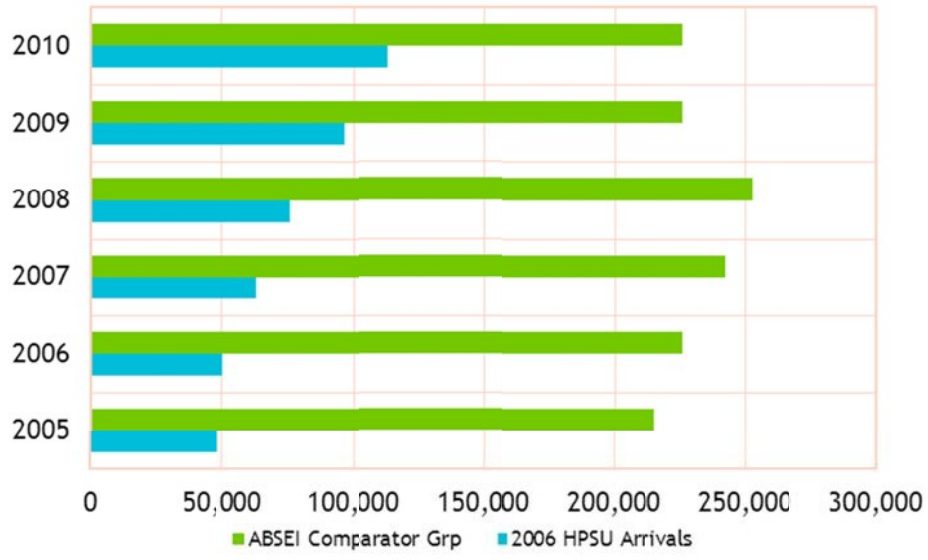


2006 HPSU intake recorded an increase in sales of 1771 per cent between 2004 and 2010, albeit from a much lower base (volume of companies and revenue in 2004); sales increased by 203.8 per cent between 2006 and 2010 (Table 2.7).

Between 2006 and 2007 - the first year of supports - sales jumped by 58.2 per cent to just over €21 million, with continued growth thereafter, although at a slower rate.

In terms of turnover per employee, for 2006 HPSUs this climbed 102.8 per cent between 2004 and 2010; for our comparator group, the ABSEI Irish-owned cohort of firms, this increased 8.4 per cent between 2004 and 2010.

Chart 2.8: Turnover per Employee (2006 HPSU arrivals, ABSEI Comparator Group)

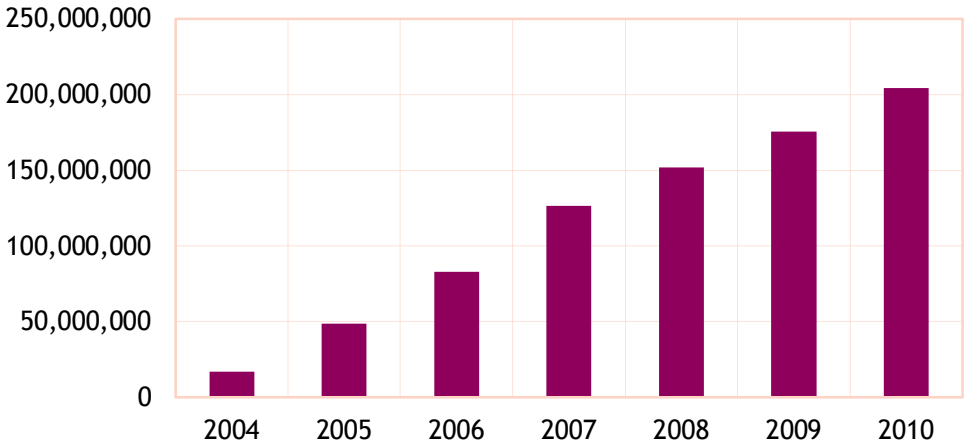


Exports

Table 2.8: Exports (nominal and as percentage of sales; 2004, 2005 and 2006 HPSUs) (000's)

	2004	2005	2006	2007	2008	2009	2010	2004-2010
Total Exports	16,671	48,697	82,844	126,325	151,863	175,733	204,234	
(as % of Sales)	32.6 %	42.8 %	57.9 %	64.8 %	68.7 %	73.1 %	79.8 %	1125.1 %

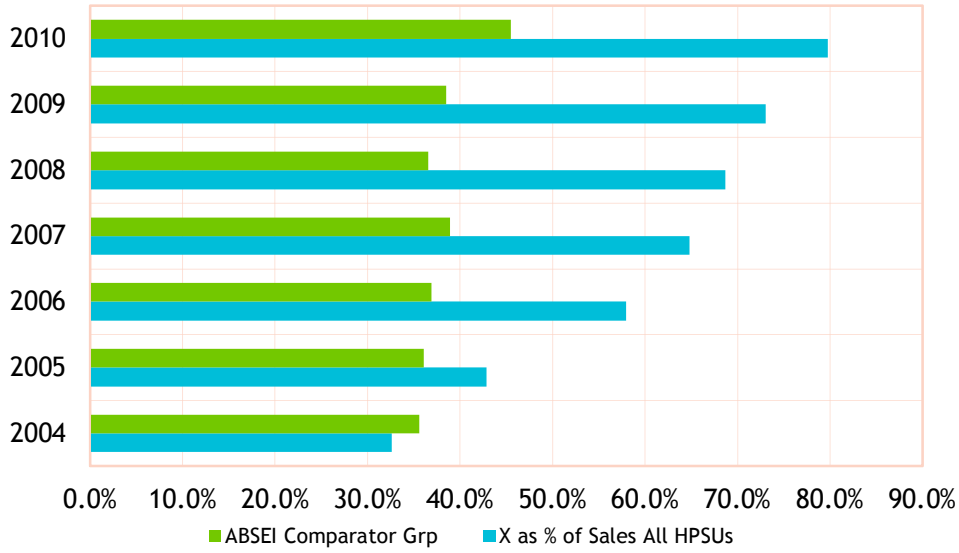
Chart 2.9: Total Exports (2004, 2005 and 2006 HPSUs)



Total exports for all HPSUs increased from €16.7m in 2004 to €204.2m in 2010 – an increase of 1125.1 per cent (Table 2.8). As a percentage of sales, exports for all HPSUs increased from 32.6 per cent in 2004 to 79.8 per cent in 2010. Our comparator group, all Irish-owned firms surveyed annually through the ABSEI, saw fluctuations within the range 35.6 per cent and 38.9 per cent between 2004 and 2009 (below).

Exports as a percentage of sales is a more robust metric for comparison with a comparator group such as the ABSEI population, as it puts companies' (HPSU or otherwise) export growth into context. We would expect, ex-ante, that HPSUs would see an increasing proportion of sales as exports, to a level considerably higher than average, as shown below.

Chart 2.10: Exports as Percentage of Sales, (2004, 2005 and 2006 HPSUs & ABSEI Comparator Group)



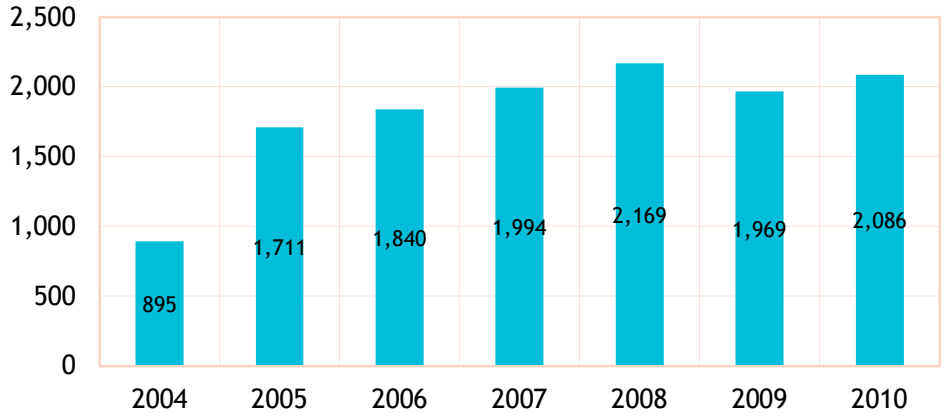
Employment

HPSUs (2004-2006 entrants) appeared to be more resilient in employment terms during the period of the recession than the comparator group (Enterprise Ireland firms started between 2000 and 2006 with 10 employees or over)[47]. Among the HPSU cohort, a significant company started in 2004 with 114 employees and grew to 250 employed in 2005 and then ceased trading in 2006.

Table 2.9: Employment (2004, 2005 and 2006 HPSUs)

	2004	2005	2006	2007	2008	2009	2010
Employment	895	1,711	1,840	1,994	2,169	1,969	2,086
Employment Yr on Yr Growth		91.2%	7.5%	8.4%	8.8%	-9.2%	5.9%
Comparator Group (EI 2000-2006 Start-Ups)	5,254	6,735	8,566	10,110	10,980	9,542	9,904
Comparator Group Y on Y Growth		28.2%	27.2%	18.0%	8.6%	-13.1%	3.8%

Chart 2.11: Employment (2004, 2005 and 2006 HPSUs)



Regardless of year of entry to HPSU, there is generally an upward movement in employment per plant. The figure does not take into account closures; figures for a given year are based on active companies only. The increases have been robust, in that the recession of 2008 onwards has had little overall impact on employment per plant (Table 2.10).

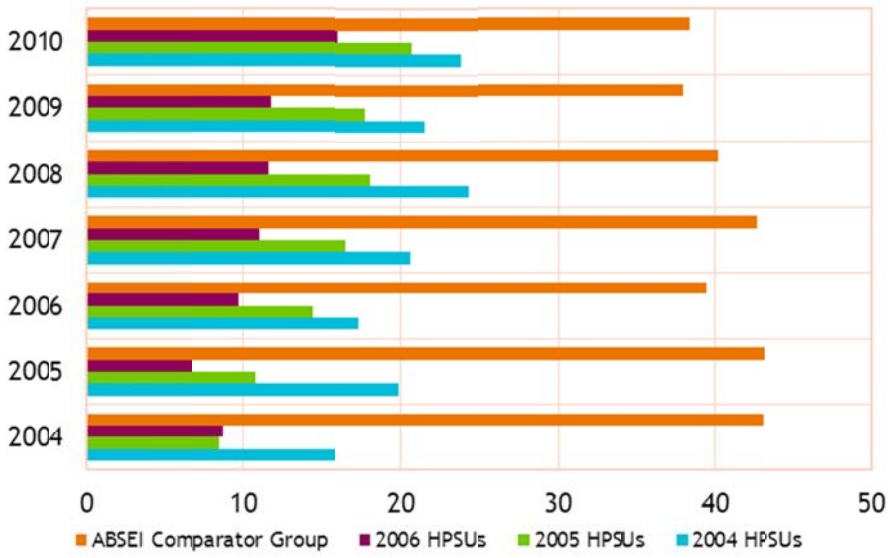
47 Start-ups dating back to 2000 were selected as a more robust comparator group to reflect the fact that companies can be trading for some years before receiving HPSU supports

Table 2.10: Employment per Plant (2004, 2005 and 2006 HPSUs)

Employment p/plant	2004	2005	2006	2007	2008	2009	2010	2004-2010
2004 Arrivals	16	20	17	21	24	21	24	49.7%
2005 Arrivals	8	11	14	17	18	18	21	145%
2006 Arrivals	9	7	10	11	12	12	16	84.6%
Comparator Group	43.1	43.2	39.5	42.7	40.2	38.0	38.4	-10.9%

Our comparator group, Enterprise Ireland firms started between 2000 and 2006 with 10 employees or over, saw a decline of 10.9 per cent in employment, from 43.1 in 2004 to 38.4 in 2010.

Chart 2.13: Employment per Plant (HPSUs and Comparator Group)



Firm Survival Rates

Of the 199 companies who came onto HPSU support between 2004 and 2006, 38 have ceased trading – a survival rate of 80.9 per cent[48] (Table 2.11). Of all companies started between 2004 and 2006, there is a survival rate of 64.3 per cent, and was below the overall HPSU survival rate for each of the three years (see below)[49].

Just under two-fifths of the closures occurred in 2009 alone, a probable reflection of tougher external trading conditions. Companies who came on board in 2005 contributed to just under half of all closures.

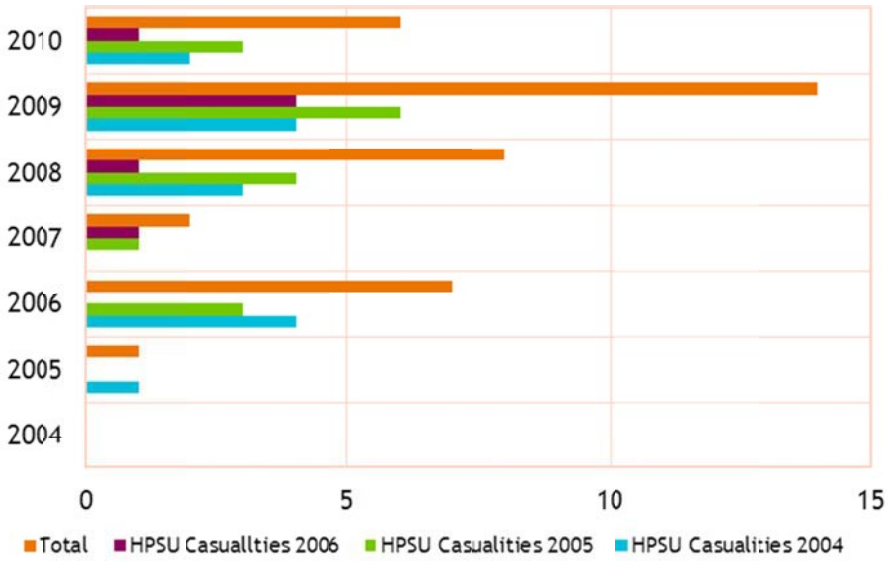
48 Note that acquired companies are not considered casualties, as they have continued trading

49 Based on CRO company registrations, March 2011. Companies either trading normally or in receivership were considered to be trading

Table 2.11: HPSU Closures Matrix by year

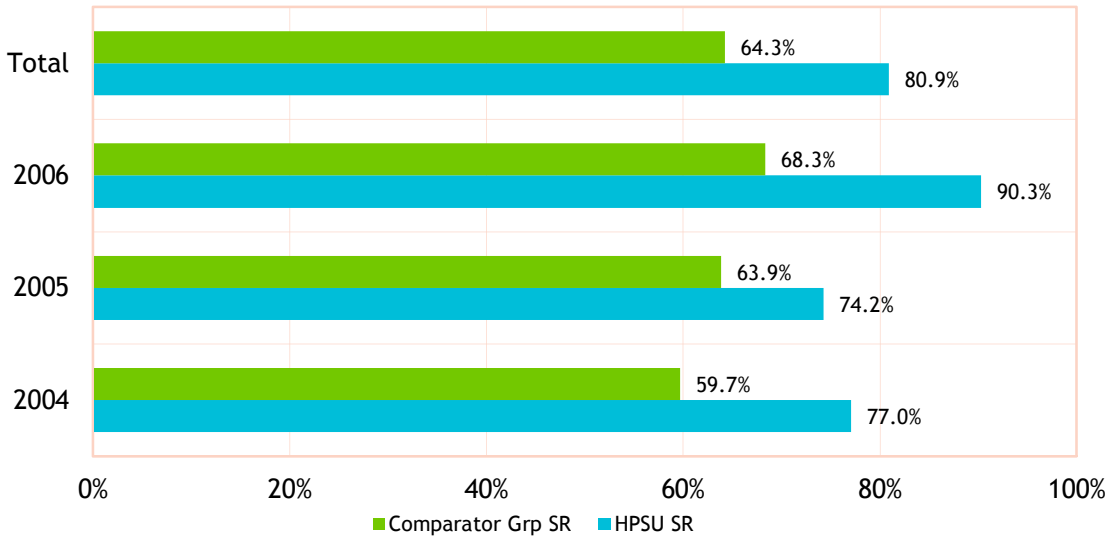
	2004	2005	2006	2007	2008	2009	2010	Total
Casualties 2004 HPSUs	0	1	4	0	3	4	2	**14**
Casualties 2005 HPSUs		0	3	1	4	6	3	**17**
Casualties 2006 HPSUs			0	1	1	4	1	**7**
Total	**0**	**1**	**7**	**2**	**8**	**14**	**6**	**38**

Chart 2.13: HPSU Closures (2004-2010)



The survival rates of the 2004-2006 HPSUs were also benchmarked against the wider Enterprise Ireland start-up population 2000-2006, a large proportion of which are not, of course, HPSUs. The trading status of this Enterprise Ireland Comparator Group was determined by its Annual Employment Survey returns (or lack thereof) between 2004 and 2010.

Chart 2.14: Survival Rates (HPSU V's Comparator Group, 2004-2006)



Start-ups dating as far back as 2000 were selected as a more robust comparator group to reflect the fact that companies can be trading for some years before receiving HPSU supports. Specifically, it reflects the following:

- The mean age of a HPSU prior to accession onto the programme is 2.5 years old[50];
- The median age of a HPSU prior to accession onto the programme is 2 years old;
- The mode age of a HPSU prior to accession onto the programme is 1 year old;

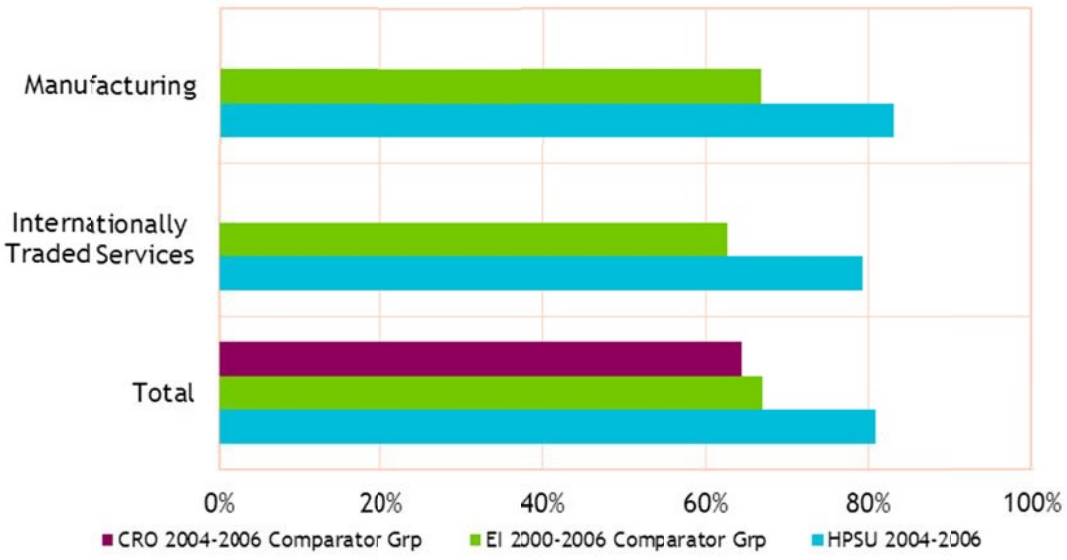
Technically, EU State aid regulations determine that an HPSU can be so treated for up to 6 years after hiring its first employee.

The chart below outlines how survival rates for the HPSU 2004-2006 cohort are consistently higher than all comparator groups – this is also true for each individual sectoral group.

To ensure statistically significant samples, "Internationally Traded Services" broadly categorised includes Internationally Traded Services and Software and Public Procurement; "Manufacturing" refers to all other sectors for the HPSU 2004-2006 cohort only.

50 Note that ages of individual companies were calculated in years on a deductive basis, therefore the figures here should best be considered as a possible range in months. For example, a company started in 2003 which became a HPSU in 2004 would be recorded as one year old, but could be anywhere between 1 and 23 months old; if it became a HPSU in 2005 it could be anywhere between 13 and 35 months old, etc.

Chart 2.15: Survival Rates by Sector, HPSUs and Comparator Groups, 2004-2006



Equity disposals also provide a financial return which over the past 20 years has yielded €164.9m from an investment of €239m.

Cost-Benefit Analysis

To supplement the analysis on the effects of HPSU investment on individual metrics, available data for HPSUs was also applied to a Cost-Benefit Analysis (CBA) model. Source data covered the 2005 and 2006 HPSU groups, based on ABSEI data from the 102 respondent companies for which data was available[51]. Figures were applied where appropriate over a seven year period, with 2005 or 2006 as the base year, depending on the HPSU cohort.

In order to gauge the net impact on the wider economy, salary levels, expenditure on Irish-sourced raw materials, and expenditure on Irish-sourced services were calculated and collated on the benefits side. On the cost side, payments formally categorised as HPSU supports (equity only) were added. In addition, estimates of the indirect costs were added, based on the breakdown by salary grade of personnel involved in administering the supports over a seven year period.

In applying this set of costs and expenditures to the CBA model, the shadow cost of public funds is taken into account, by inflating the raw expenditure and cost levels by 25 per cent[52]. Deadweight is set at 60 per cent: this is based on a 2003 study[53] in which estimates of deadweight for HPSUs in rural and urban areas were calculated.

The data for each of the two HPSU cohorts (2005 and 2006 HPSUs) were applied separately, generating two Benefit-to-Cost Ratios (BCRs). For 2005 HPSUs, the BCR was 2.67; for 2006 HPSUs it was 3.98. The difference between the two ratios is partly attributable to a heavy purchaser of domestically-sourced raw materials in the 2005 cohort ceasing to trade in its second year as a

51 Data for 2004 HPSU group was too limited to use for analysis (two companies).

52 Costs and benefits should normally be based on market prices as they usually reflect the best alternative uses that the goods or services could be put to (the opportunity cost). However, in order to ensure that the NPV of projects where public funds are used is not systematically overestimated, a premium must be attached to the nominal costs of the proposals to account for the deadweight loss of taxation. The Green Book, Appraisal and Evaluation in central Government (2003 edition)

53 The economic appraisal system for projects seeking support from the industrial development agencies, Forfás, 2003

HPSU, leading to a sharp decline in subsequent years, with a knock-on effect on the benefit to the wider economy.

Table 2.12: Seven Year Benefit-to-Cost Ratios for 2005 and 2006 HPSUs

Year of Entry to HPSU	CBR
2005	2.67
2006	3.98

2.10 Conclusions & Findings

Appropriateness

The HPSU supports are in alignment with Government policy and its approach also reflects international practice in innovation driven economies. The support is tailored to individual client needs and takes a whole of business approach, drawing from a range of suitable supports that include advice, R&D, management development and financial supports. HPSU supports take the form of equity injection, normally on the basis of leveraging investment through matching private sector funding. In doing so, investment risk is pooled between multiple parties, mitigating or overcoming the often sub-optimal allocation of funding by capital markets to start-up firms of this type.

Efficiency

In the years 2004 to 2006, the overall level of direct financial supports to HPSUs totalled €51.92m, which amounts to approximately 8 per cent of total combined turnover for HPSUs in the subsequent three years, 2007 to 2009. Generally, there is a considerable impact on turnover of the HPSU funding in the first instance, followed by sustained turnover growth thereafter. Growth in exports, both in proportional and absolute terms, is realised for this cohort of firms, considerably in excess of comparator groups; employment has generally grown steadily, and survival rates are also above national average. Importantly, the proportion of overall funding committed to companies who do not ultimately survive (18.6 per cent) is lower than the attrition rate for the HPSU population (19.1 per cent); a proportion far in excess of the attrition rate might have suggested inefficiencies with respect to the impacts of funding. Further, of total funding between 2007-2010, the proportion spent on companies who do not survive is only 1.8 per cent. The combination of these factors points to an efficient administration of the supports and distribution of resources.

Synergies/Overlap

The HPSU support is an holistic approach, drawing on appropriate Enterprise Ireland programmes to address client requirements. As such, the synergistic effect is important in the delivery of the support. There is a potential overlap between HPSU and CEB supports, but our analysis found that in practice this does not occur.

Effectiveness

The impact of funding outlined above suggests that the programme is indeed effective, with the development of viable HPSUs achieved that show excellent performance in terms of survival, sales,

exports and employment in a high number of cases. The number of HPSUs established annually since the period under evaluation (2004-6) has increased, but there is likely the potential to grow those numbers more, particularly in light of sustained investment by the State in innovation and the third level sector generally. Enterprise Ireland has now set targets of 100 HPSUs per year and has been active in securing HPSUs from overseas, through the Competitive Start programme and through spin-outs from higher education institutes. An improved focus of the HPSU feeder programmes should also assist this target.

Table 2.13: HPSU companies generated 2007-2011

2011	93
2010	80
2009	73
2008	71
2007	79

Source: Enterprise Ireland

It is recognised that it will be important that any increase in numbers generated is not at the expense of quality of HPSU. Scalability of companies in subsequent years will also be an important consideration in maximising the return on investment in HPSU clients.

Recommendation

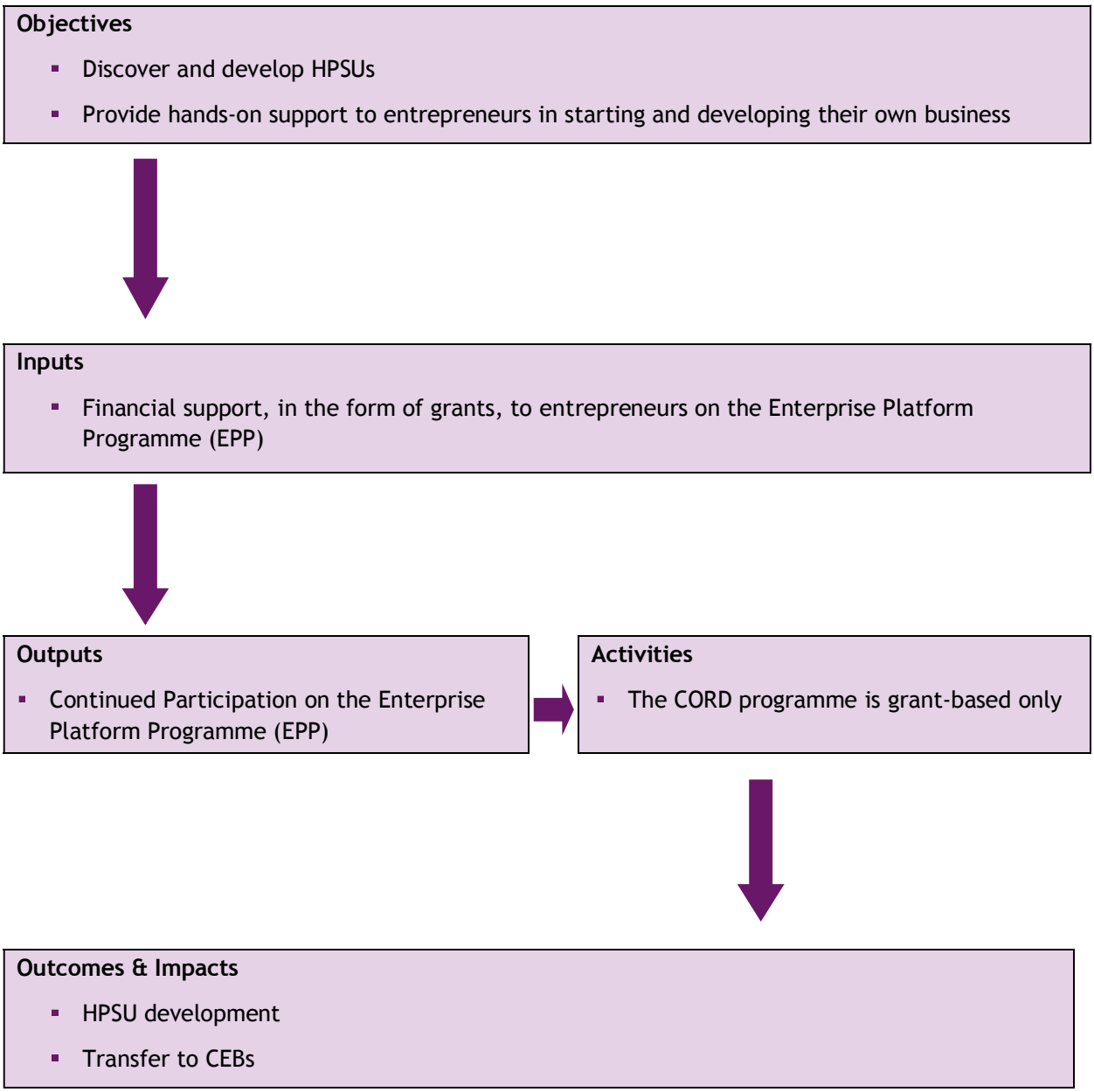
Assess the potential to increase the cohort of HPSUs generated per annum with due regard to retaining the quality associated with HPSU status. Higher numbers of HPSUs are likely to come from attracting overseas entrepreneurs and spin-outs from research in the more immediate term.

The recommendation (ref 2.6) set out in the Action Plan for Jobs requires that Enterprise Ireland to deliver 95 new HPSUs for 2012. This is to include an increase in the number of overseas entrepreneurs supported by 50 per cent, and the number of new HPSUs arising as spin-outs from research by 40 per cent[54]. Enterprise Ireland is also charged with increasing the number of investments in Inward Entrepreneurial Start Up Projects by 50 per cent.

54 The RD&I suite of programmes include a number of initiatives that focus on commercialisation of HEI research and the stimulation of company start-ups, including, for example: The National Technology Transfer system, the Business Advocates Programme and the Patent Fund

3 CORD Programme (2005 – 2010)

Programme Logic Model



3.1 Evaluation Aim

The aim of the evaluation is to assess the appropriateness, efficiency and effectiveness of the Enterprise Ireland CORD grant supports.

3.2 Programme Background, Objectives & Target Population

Launched in 2005, the CORD Grant programme provided by Enterprise Ireland is a constituent part of the Enterprise Platform Programme (EPP), a one year entrepreneurship training and start-up incubation programme run by the Institutes of Technology and funded by Department of Education and Science.

These start-up incubation programmes are designed to provide hands-on support and management development for entrepreneurs who wish to commit full time to starting their own high potential business.

Participants are eligible to apply to Enterprise Ireland for a salary grant of 50 per cent of their previous year's salary, to a maximum of €30,000 grant. This salary grant is paid to the individual in monthly instalments while they are on the Enterprise Platform Programme.

The broad objective of CORD is to discover and develop High Potential Start-Ups. In order to qualify, the proposed project must meet the eligibility criteria of a High Potential Start-up (HPSU) project i.e. a manufacturing or internationally traded services proposition with the potential to create a minimum of 10 jobs and €1 million in sales.

The evaluation looks at the programme since its inception in 2005 to the present day, and attempts to capture the impacts over that period. No specific targets for CORD are set, but those funded are tracked closely once they enter the system.

However, in assessing the impact of the CORD, particular attention will be paid to:

- The level of annual grant expenditure (mean and actual);
- The number of HPSUs resulting from the programme annually; and
- Recipients' feedback on the importance of the EPP/CORD in attaining HPSU status.

Due to the fact that many CORD recipients are initially registered on internal monitoring systems as individuals. Subsequent start-up companies created by these individuals often entail separate system registration. This makes it difficult to methodically monitor the performance of CORD recipients (and thus the CORD programme itself) in subsequent years. For future evaluations, it would be beneficial if the system registration for entrepreneur and subsequent company are linked wherever possible; this would ensure better monitoring of the performance of HPSU feeder programmes such as CORD, or any of its successor programmes.

3.3 Programme Rationale

EPP/CORD participants are a source of potential High Potential Start-Ups to Enterprise Ireland, and the programme is a way of discovering and developing new entrepreneurs and ideas. Through this programme, people who have been made redundant or are currently unemployed are encouraged to engage in education and training with a view to establishing a HPSU. The CORD support toward a salary stipend addresses the immediate barrier for these individuals in considering setting up their own business.

By leveraging the expertise of the Institutes of Technology to deliver the programme, it also ensures a regional spread of programme activity, and lowers the non-monetary costs of participation for regional-based entrepreneurs.

3.4 Alignment with National Policy

Motivation for supporting entrepreneurs through CORD and other programmes which target high growth entrepreneurs first emanated from the then Department of Trade Enterprise and Employment's Strategy of 2003 to 2005. The Department was instigating a change in focus from "low cost manufacturing industry to attracting and growing high knowledge service sectors and developing potential of the export market through improvements in market knowledge, products and management of businesses". The CORD programme is used to find entrepreneurs with potential to develop their ideas into products and services that can add value in the domestic economy and have potential to export.

More recent policy documents continue to highlight the importance of assisting entrepreneurs with idea creation and development. Towards Developing an Entrepreneurship Policy, 2007, recommends that an entrepreneurship policy and other policies dealing with entrepreneurship should "focus on the entrepreneur and not the firm in order to maximise the number of potential entrepreneurs in start-ups… policies should focus particularly on innovative entrepreneurs and start-ups that are trying to achieve high growth". The CORD enterprise support has a particular focus on finding and assisting early stage high potential entrepreneurs with their business ideas. Enterprise Ireland's Strategy 2008-2010, Transforming Irish Industry highlights the importance of "developing the pipeline of new ideas, leaders and innovative products and services". This strategy also emphasises the importance of supports such as CORD to "encourage and produce entrepreneurs in all locations and high potential sectors".

3.5 Inputs

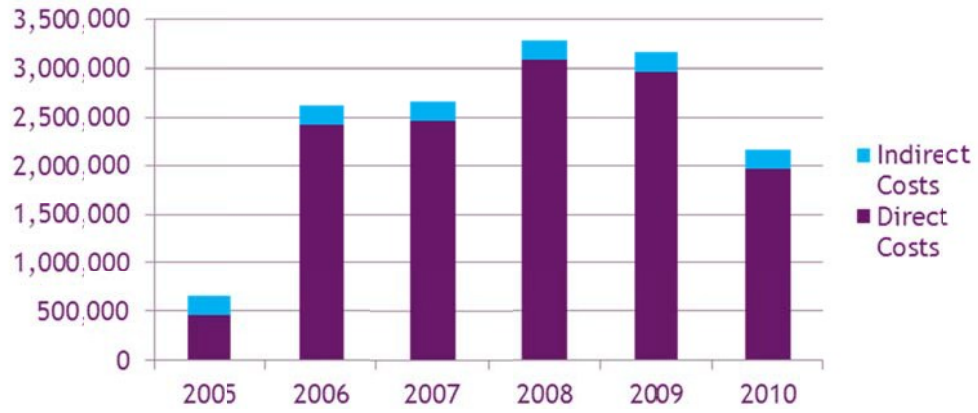
The CORD programme is grant-based only. Enterprise Ireland only funds the salary stipend of the entrepreneurs with a High Potential Start-up (HPSU) proposition, that have left employment (have been made redundant or are currently unemployed) and are participating full time on the Enterprise Platform Programme.

Between 2005 and year-end 2010, a total of €13,367,935 has been spent on individuals as part of the CORD programme. In the same period, a total of €15,652,227 was approved - this represents an approval to payments ratio of 85.4 per cent[55].

Since its inception year in 2005, total annual payments to CORD recipients climbed to over €3m in 2008, before falling back to under €2m in 2010 (Chart 3.1). Part of the reason for the decline in annual funding from peak was a drive for efficiency gains and a sharpening of focus on the part of Enterprise Ireland – from 2009 onwards, only companies with clear, demonstrable HPSU potential would be offered CORD funding. The figures paid are directly linked to the numbers participating, as the grant to each entrepreneur stands at €30,000. It should be noted that CORD funding has also been provided to participants on the first two rounds of the Propel Programme detailed in Chapter 6. Under the first round of Propel which commenced in 2009, 14 participants received €210,736 in CORD funding. In the second round, 11 participants received €138,919 in CORD funding[56].

The typical annual indirect cost of the programme is estimated to be €197,049; this includes cost of administrative needs of the programme such as answering queries, providing guidance on business issues such as taxation and other sources of funding and mentoring the entrepreneur to ensure that the potential of their business idea is realised in so far as possible. To arrive at €197,049, an average salary level was established based on the employee profile of the agency working on the project. This figure was then adjusted by the estimated amount of time the team spent conducting the support. For this programme, overheads are considered negligible due to its limited size and scope.

Chart 3.1: Annual CORD Expenditure, 2005-2010



In terms of the numbers of recipients of CORD funding in a given year, these roughly correlate positively with the levels of annual payments.

Until year-end 2010, there had been 525 recipients of CORD funding. The highest number of new CORD recipients was in 2007, with 114; followed by 2008, with 108. The number of known CORD recipients by year has fallen back since then (Table 3.1).

55 Based on a payments total of €13,367,935 to year-end 2010

56 NOTE: CORD Funding was only available to participants that progressed successfully to Phase II of the programme. The maximum CORD grant available to Phase II participants was reduced from €30,000 for Propel One to 15,000 for Propel Two. No CORD funding has been provided to Propel Three participants.

Table 3.1: Number of CORD Recipients, 2005-2010

2005	71
2006	88
2007	114
2008	108
2009	75
2010	71

3.6 Outputs & Activities

The CORD consists of grant funding only, so the only immediate output of CORD Grant is continued participation on the Enterprise Platform Programme.

3.7 Impacts & Outcomes

HPSU progression is an indication of a successful impact. Although not a defined objective of the programme, start-ups that are referred to and supported by the CEBs are also a positive impact. It is possible to look at what CORD recipients proceed to do based on follow-up consultation, as well as client responses via surveys conducted. The approach outlined below helps to determine additionality.

Of the 446 new HPSUs between 2005 and 2010, 92 (20.6 per cent) were CORD recipients. The proportion in a given year varied between 27.4 per cent at its highest in 2006, and 16.5 per cent at its lowest in 2007.

Table 3.2: Number of CORD Approvals/HPSU Intake, 2005-2010

Year	HPSU Total	No. of CORD approvals	Proportion %
2005	75	16	21.3
2006	73	20	27.4
2007	79	13	16.5
2008	71	13	18.3
2009	68	12	17.6
2010	80	18	22.5

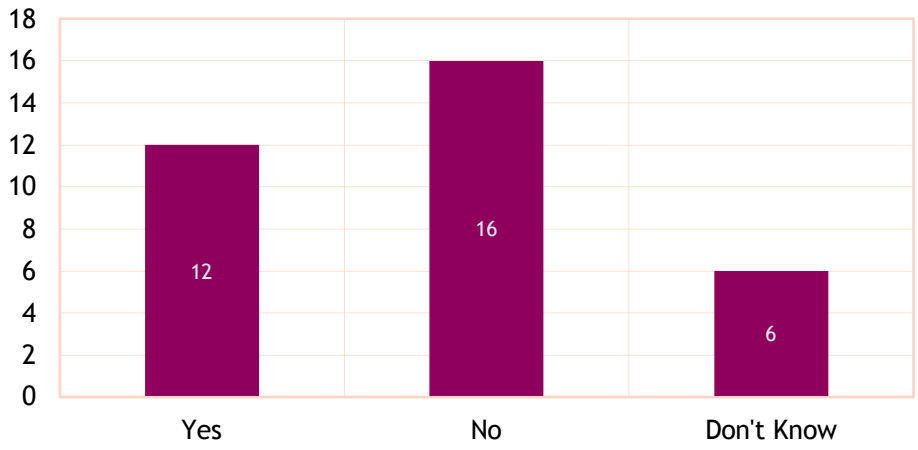
Total	446	92	20.6

A survey was undertaken on behalf of Enterprise Ireland, gauging the opinion of EPP participants in late 2009 (EPP is CORD's parent programme) across all years of the programme's existence. Given that some 98.9 per cent of the EPP survey population were at some point in receipt of CORD funding, this allows us to draw some findings on the CORD programme's impact and additionality, albeit indirectly.

A total of 94 participants responded to the Enterprise Ireland survey. Of these, 33 (35.1 per cent) indicated that they were a HPSU client. Within this cohort, when asked if they would still be a HPSU client in the absence of the EPP, 12 (35.3 per cent) said yes, 16 (47.1 per cent) said no, and 6 (17.6 per cent) did not know (see Chart 3.2).

That is 47.1, per cent of survey respondents that were HPSU clients indicated that they would not be a HPSU client in the absence of the EPP (and by inference CORD).

Chart 3.2: Would your business be an HPSU client if you had not participated on the EPP programme (respondents 34)



3.8 Findings and Conclusions

Appropriateness

In terms of wider policy objectives, CORD has improved its alignment since its launch, particularly with respect to developing entrepreneurs at a regional level, as well as using education as a means to achieve that objective; these were emphasised some time after the programme's introduction.

Effectiveness

The potential strength of the feeder programmes to the HPSU supports is the availability of a source of High Potential ideas and business plans that would not otherwise have been captured and fully exploited. In the case of the CORD, a high proportion of surveyed HPSU/CORD participants ascribe the CORD support as being instrumental in their becoming an Enterprise Ireland HPSU client.

Efficiency

Based on client surveys, 35.1 per cent of CORD recipients that responded to an Enterprise Ireland survey in 2009 had become HPSUs. This compared with a progression rate to HPSU of approximately 60 per cent on the Propel programme.[57] The level of per company CORD expenditure, of €25-30k is also high by comparison, particularly as it is a component of a wider support programme, namely the EPP. CORD has changed slightly in focus since its launch, with smaller numbers of companies targeted and supported and, by extension, lower levels of total annual expenditure committed. In part, this represents a more risk-averse approach by Enterprise Ireland, by concentrating more on those companies with clearer HPSU potential. It also reflects the fact that a number of other HPSU feeder programmes, such as EnterpriseSTART/EnterpriseSTART2 have since been introduced, which, in many cases, may better target sections of aspiring entrepreneurs without upfront financial commitment, offsetting potential deadweight loss of CORD expenditure, which in the absence of ES1/ES2, would have been committed without a tangible return. Its responsiveness to the prevailing conditions and changing policy/support framework suggests a degree of efficiency gain, and demonstrates a move towards complementarity/away from overlap with other start-up support programmes.

Synergies

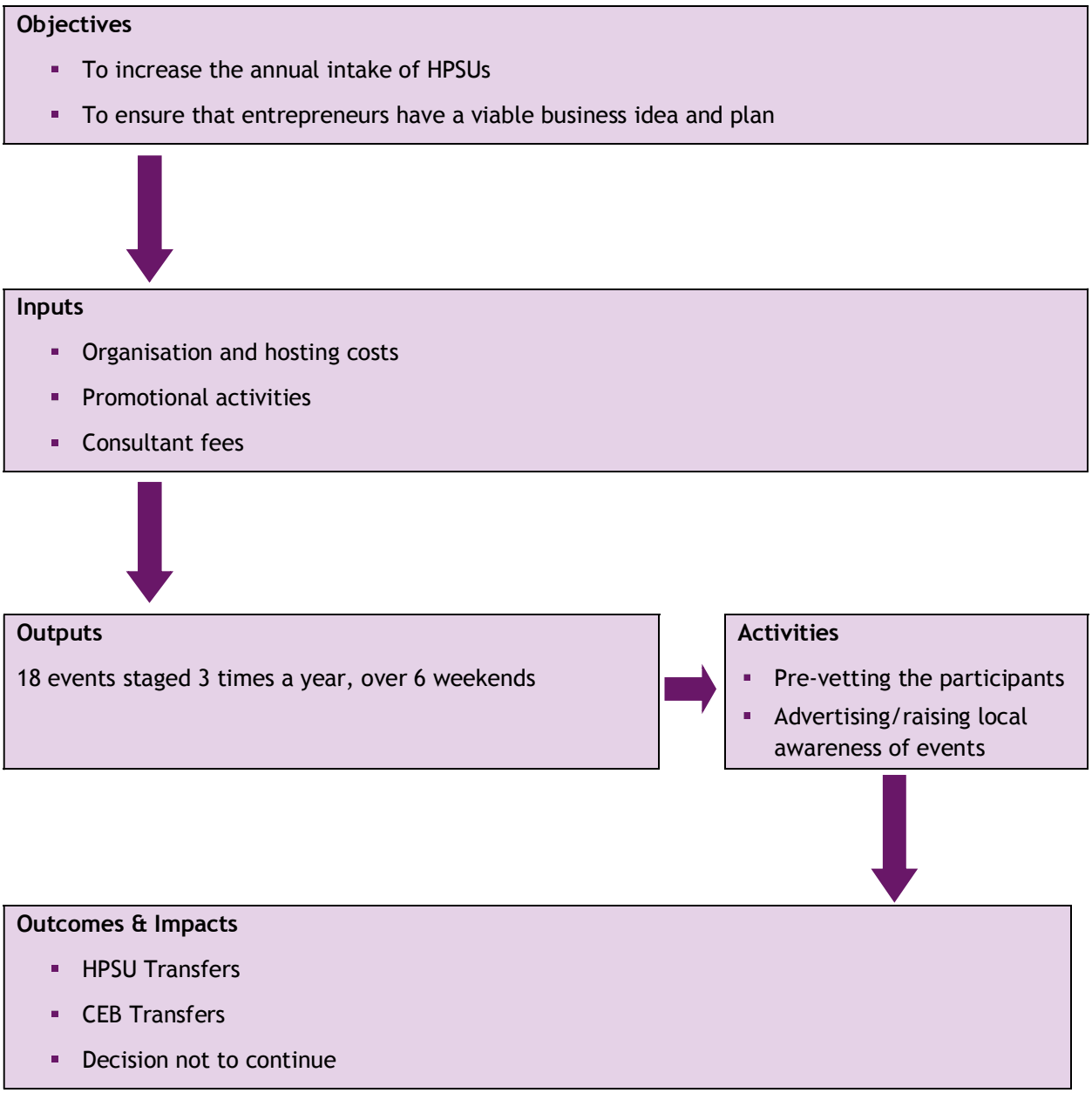
However, this may also point to a degree of naturally occurring overlap between CORD and other start-up supports, and in such a light it is reasonable to question the appropriateness and efficiency of funding and administering multiple programmes in this space. In particular, it raises the question of whether one centrally-administered programme could target potential HPSUs in a number of different areas, as opposed to individual programmes each focusing on different -but not necessarily highly differentiated - cohorts of entrepreneurs.

During the process of this evaluation, full responsibility for the EPP was assigned to Enterprise Ireland. In February 2012 Enterprise Ireland launched a new programme (New Frontiers Entrepreneurship Development Programme - which includes the replacement of Propel) and should address some of that overlap.

57 15 of 25 companies that completed both phases of the PROPEL programme are expected to go on to become HPSUs representing a conversion rate of 60 per cent.

4 EnterpriseSTART 1 Programme

Programme Logic Model



4.1 Evaluation Aim

The aim of the evaluation is to assess the appropriateness, efficiency and effectiveness of the Enterprise Ireland EnterpriseSTART 1 programme.

4.2 Programme Background, Objectives & Target Population

Introduced in January 2009, The EnterpriseSTART Programme delivers training and business advice to potential entrepreneurs to assist them in developing their business idea into a tangible business plan.

The programme is usually run 3 times a year, over 6 weekends (Friday evening and Saturday morning) by third party consultants, taking place either in Enterprise Ireland regional centres or nearby hotels. They provide the potential entrepreneur with market-place perspectives on what is involved in creating a competitive and sustainable commercial enterprise.

Targeted at potential entrepreneurs, there are two broad objectives: for Enterprise Ireland it is to drive the number of HPSUs in the context of the increase in the Enterprise Ireland target from 80 to 100 per year; and to ensure potential entrepreneurs are able to formulate a business plan and understand their value proposition. However, HPSU generation is the ultimate end goal of this programme.

4.3 Methodology

In evaluating the programme, the most advantageous approach is to attempt to establish the number of HPSUs developed as a direct result of the programme, and to quantify the returns from this segment of the HPSU throughput, based on:

- The level of annual programme expenditure, 2009-2011;
- The number of HPSUs resulting from the programme annually; and
- Recipients' feedback on the importance of EnterpriseSTART in attaining HPSU status.

A limitation in terms of data collected was identified during the course of the evaluation. Entrepreneurs may be formally registered on the internal monitoring system, but any resultant company registration often involves another separate registration on the system. As a result, it is difficult to track the progress of participants from idea conception, in order to quantify the success or otherwise of participants, or the economic outcomes of the programme itself. Because of this, and given that the programme has only been established since 2009, the evaluation considers first order effects only.

For future evaluations, it would be beneficial if the system registration for entrepreneur and subsequent company are linked where appropriate; this would ensure better monitoring of the performance of HPSU feeder programmes such as EnterpriseSTART2, or any of its successor programmes.

Client surveys were not undertaken that could allow a more accurate basis for determining and more precisely quantifying what additional impact the programme has with its participants.

It is also important to point out that the number of companies who decide not to pursue their idea can also be seen as a positive impact of the scheme, in that any potential foregone time/expenditure by Enterprise Ireland on all or some of those ideas would have resulted in inefficiency and deadweight loss. The withdrawal of entrepreneurs on such a basis is in fact an indirect objective of the programme itself.

4.4 Alignment with National Policy

In terms of policy alignment, the wider context in which this programme was established was set by an increasing emphasis on participation in education and training as a means to enhancing entrepreneurial ability and awareness[58]. Added to this was Enterprise Ireland's revised strategy between 2008 and 2010, under which innovation-led regional and regionally based start-ups would be supported through encouraging and delivering entrepreneurship from/in all regions.

As a means of achieving these wider strategic objectives, the programme facilitated a pooling of potential entrepreneurs and HPSUs/HPSU ideas from different regions, by delivering targeted advice in fixed locations. This simplified the process for, and reduced the search costs of developing entrepreneurs and HPSUs, particularly at a regional level.

4.5 Programme Rationale

A range of market failure factors relating to entrepreneurship were highlighted in Section 1. These included information deficits and the fact that individuals may fail to recognise the benefits of starting a new business, or may be unwilling to take risks in that business. The EnterpriseStart programme aims to increase awareness of and participation in Enterprise Ireland programmes in all regions, by making information and training more easily accessible. The Enterprise Ireland regional offices are expected to hold two sessions each per year.

4.6 Inputs

Total costs for the programme for the two years 2009-2010 were €344,800 as set out in Table 4.1.

Table 4.1: EnterpriseSTART Inputs, 2009-2010

Year	2009	2010
Direct Expenditure	€140,000	€114,000
Estimated Indirect Costs	€45,400	€45,400
Total Costs	€185,400	€159,400

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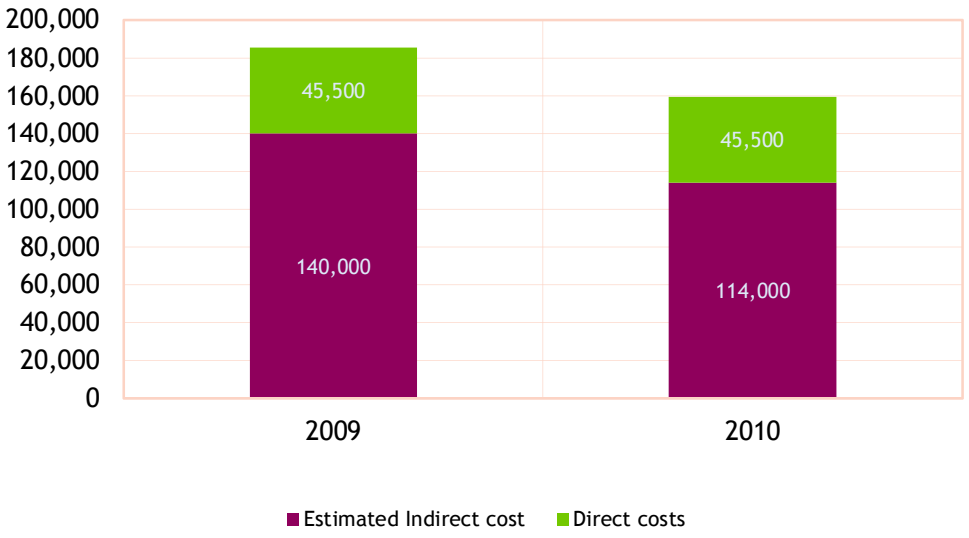
Direct expenditure relates to the service provided to entrepreneurs and companies, and not to investment in the entrepreneurs/companies themselves. Indirect cost estimates comprise of salaries only; for this programme, overheads are considered negligible due to its limited size and scope. Salary costs include the provision of soft support services such as evaluating who is eligible for the project, organisation of the events, providing training and advice to clients. Average salary of all enterprise Ireland employees involved was calculated and then weighted depending on the estimated time spent delivering the support.

Chart 4.1: EnterpriseSTART Direct and Indirect Costs 2009 & 2010



4.7 Outputs & Activities

Eighteen events are held per year in Enterprise Ireland's regional offices. The events are staged by Excel Partners, in conjunction with Enterprise Ireland. The programme executives pre-vet the participants for each session – the aim is to restrict the number per session to 15. Notices in local newspapers and radio stations are posted, with a view to increasing awareness of the sessions and of start-up supports in general.

4.8 Impacts & Outcomes

In 2009, out of 270 participants:

- 3 HPSUs established that year;
- 1 participant transferred to the County Enterprise Boards (CEBs); and
- 14 are still in progress.

In 2010, out of 241 participants;

- 16 are HPSUs/Pre HPSU clients of Enterprise-Ireland;
- 12 transferred to the CEBs;

- 1 was transferred to Udarás na Gaeltachta;
- 106 are still developing their business plans; and
- 106 have decided not to pursue their business plan to date but may do so in the future.

So far in 2011, out of 156 participants:

- 25 are HPSUs/Pre HPSU clients of Enterprise-Ireland
- 4 transferred to the CEBs
- 55 are still developing their business plans
- 46 have decided not to pursue their business plan to date but may do so in the future
- 26 have not yet been tracked.

4.9 Findings & Conclusions

Appropriateness

It is clear that the function of the Enterprise START programme is well aligned with the prevailing policy objectives of stimulating regional entrepreneurship, in pursuit of future HPSU development and export performance.

Efficiency and Effectiveness

Although the programme has been in existence for a short period, its efficiency is already apparent, especially when compared with the existing alternative practices for scouting for HPSUs 'on the ground'. Annual expenditure is relatively low at less than €1m for 2009-11, as is the time commitment required on the part of Development Executives. Over the two years 44 HPSUs/pre-HPSUs have been created, as well as 17 potential CEB client companies.

The immediate development of a HPSU as a direct result of the programme is a gain in itself, as most entrepreneurs are merely expected to be at the stage of idea inception at the point of attending EnterpriseSTART.

That said, in the absence of a client survey we cannot assess the counterfactual outcomes i.e. what participants would otherwise have done in the absence of ES1. Of the HPSUs who have come through ES1, it is as yet unclear whether, or to what extent, ES1 participation directly enabled a transition to HPSU.

Synergies

Since the launch of EnterpriseSTART and EnterpriseSTART2 in late 2008/early 2009, there has been a reduction in expenditure on the CORD programme, also a feeder programme for HPSUs. Although they aim to target different cohorts within the wider aspiring entrepreneur group, a degree of naturally-occurring overlap between the programmes may be inevitable, given the size of the population, and also that the target cohorts may not be sufficiently differentiated. In this light, it is reasonable to question the appropriateness and efficiency of funding and administering multiple programmes in this space.

In particular, it raises the question of whether one centrally-administered modular programme could target potential HPSUs in a number of different areas, as opposed to individual programmes

each focusing on different - but not necessarily highly differentiated - cohorts of entrepreneurs. The Ideagen programme, operating in a similar space and geared towards development of HPSU ideas as its principal aim, also requires consideration in this context. Given the infancy of the EnterpriseSTART/EnterpriseSTART2 programmes, it is difficult to assess the extent to which this is the case; it is however something that merits ongoing monitoring and review as the programmes continue.

5 EnterpriseSTART2 Programme

Programme Logic Model

Objectives

To increase the number of High Potential, export intensive and innovation-led enterprises, from all regions through:

- Refining and integrating new business ideas into HPSU-worthy enterprises;
- Enabling entrepreneurs to best judge the viability of their ideas; and
- To filter out non-HPSU worthy value propositions.

Inputs

- Financial commitment of €2m in annual funding from Enterprise Ireland to the Business Innovation Centres (BICs),
- Projects are referred to the BICs by Regional Development Executives and Development Advisers following agreement with the HPSU Validation Unit.

Outputs

- Modular-based programmes run by the four BICs,
- Participants' assessment of own value propositions and where appropriate, business plans.

Activities (Enterprise Ireland)

- Project referral,
- Ongoing Participant assessment with respect to HPSU.

Outcomes & Impacts

- HPSU Transfer,
- CEB Transfer,
- Discontinuation of incomplete/non-HPSU ideas.

5.1 Evaluation Aim

The aim of the evaluation is to assess the appropriateness, efficiency and effectiveness of the Enterprise Ireland EnterpriseSTART 2 programme.

5.2 Programme Background, Objectives & Target Population

Commencing in December 2008, the EnterpriseSTART2 (ES2) programme is targeted at potential entrepreneurs who wish to develop a particular business idea which could become a High Potential Start Up. The programme is delivered by the Business Innovation Centres (BICs), in a six module format, spread across six weeks. It can either be on a group, or one-to-one basis.

The programme covers specific idea/opportunity evaluation and encourages participants to assess their idea in terms of value proposition, target markets, potential obstacles to be faced, and the practical elements of implementing the business idea.

5.3 Methodology

In evaluating the programme the objective was to attempt to establish the number of HPSUs developed as a direct result of the programme, and to estimate/quantify the returns from this segment of the HPSU throughput, based on:

- The level of annual programme expenditure, 2009-2011;
- The number of HPSUs resulting from the programme annually.

A limitation in terms of data collected was identified during the course of the evaluation. Entrepreneurs may be formally registered on the internal monitoring system, but any resultant company registration often involves another separate registration on the system. As a result, it is difficult to track the progress of participants from idea conception, in order to quantify the success or otherwise of participants, or the economic outcomes of the programme itself.

For future evaluations, it would be beneficial if the system registration for entrepreneur and subsequent company are linked where appropriate; this would ensure better monitoring of the performance of HPSU feeder programmes such as EnterpriseSTART2, or any of its successor programmes.

Client surveys were not undertaken that could allow a more accurate basis for determining and more precisely quantifying what additional impact the programme has with its participants.

It is also important to point out that the number of companies who decide not to pursue their idea can also be seen as a positive impact of the scheme, in that any potential foregone time/expenditure by Enterprise Ireland on all or some of those ideas would have resulted in inefficiency and deadweight loss. The withdrawal of entrepreneurs on such a basis is in fact an indirect objective of the programme itself.

5.4 Programme Rationale

A range of market failure factors relating to entrepreneurship were highlighted in Section 1. These included information deficits and the fact that individuals may fail to recognise the benefits of starting a new business, or may be unwilling to take risks in that business. The EnterpriseStart programme aims to increase awareness of and participation in Enterprise Ireland programmes in all regions, by making information and training more easily accessible.

In terms of addressing specific market failure, there are four BICs involved with the programme, each covering potential HPSUs in their respective regions: Dublin, Cork, Galway (West) and Waterford (South East), providing accessibility to regional entrepreneurs, as well as ensuring greater efficiency in programme delivery.

Addressing market failure to support the establishment of start-ups with potential for growth based on a sustainable and viable business model is a key policy. EnterpriseStart 2 is designed to reduce the number of projects referred for feasibility support before having fully considered their proposition. Success of these programmes should be examined on two levels: (a) projects that go onto to HPSU with a better proposition or (b) projects that realise through structured consideration of the idea that the venture is not viable. By learning this early on, it saves both the promoter and Enterprise Ireland time and money, with the programme effectively acting as a filter for unworkable ideas/business propositions without potential.

5.5 Alignment with National Policy

In terms of policy alignment, this programme was established in the context of an increasing emphasis on participation in education as a means to enhancing entrepreneurial ability and awareness and, as a longer term consequence, developing a sustainable enterprise base[59]. Added to this was Enterprise Ireland's revised strategy between 2008 and 2010, under which innovation-led regional and rural based start-ups would be supported through encouraging and delivering entrepreneurship from/in all regions.

By delivering targeted training modules in fixed locations, the programme facilitated a filtering of potential entrepreneurs and HPSUs/HPSU ideas from the simple idea inception encouraged in ES1.

5.6 Inputs

The BICs receive €2m annually to fund programmes such as the START2 programme. Projects are referred to the BICs by Regional Development Executives and Development Advisers following agreement with the HPSU Validation Unit. The expenditure is on the service provided to entrepreneurs and companies, and not investment in the entrepreneurs/companies themselves.

Apportioned costs to EnterpriseSTART 2 are €180,000 annually. Indirect costs are estimated at €15,141 per annum; comprising of salaries only. These salary costs allow for soft support services such as answering queries, organisation of resources for the programme and advice on business issues. To arrive at salary costs; average salary level was established from the employees of the agency working on the project, this figure was then adjusted by the estimated amount of time the

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team spent conducting the support. In common with other HPSU feeder programmes, overheads would be considered negligible for this programme, due to its limited size and scope.

5.7 Outputs & Activities

Delivered in a group or one-to-one format, one day a week for six weeks, the six module programme challenges early stage business ideas and aims to help entrepreneurs:

- Clarify their business proposition
- Identify the key areas that require feasibility study support
- Gain an understanding of the requirements and processes in establishing a HPSU project

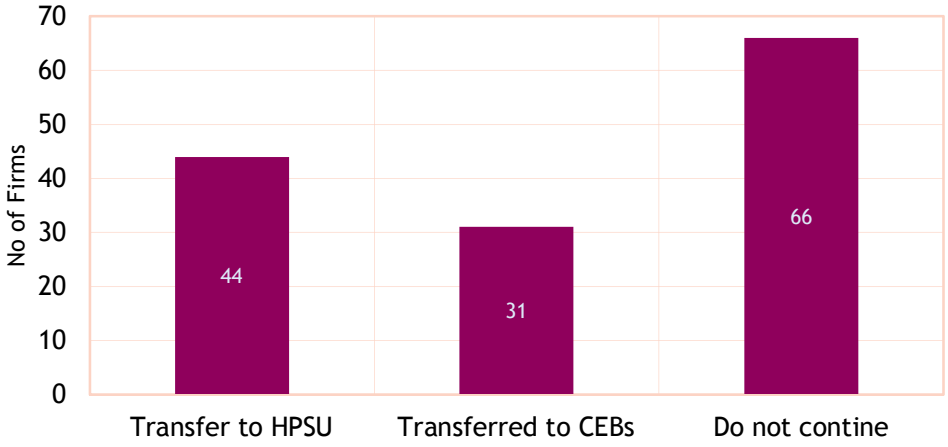
Between the programme's inception in December 2008 and July 2011, there have been 141 participants who have completed the programme. Of these participants, 64 go through the Dublin BIC; 41 go through the Cork BIC; 20 go through the West BIC; and 16 go through the South East BIC.

5.8 Impacts & Outcomes

Of the 141 participants who completed ES2 up to mid-2011 (Chart 5.1):

- 44 (31.2 per cent) transferred to HPSU
- 31 (22 per cent) transferred to CEBs
- 66 (46.8 per cent) decide not to pursue the business idea

Chart 5.1: ES2 Participant Outcomes, 2009-2011

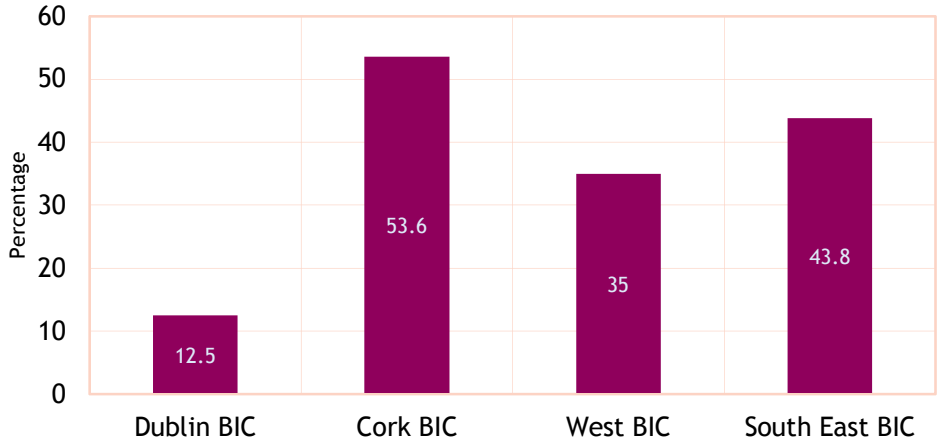


Based on the first 30 months of the programme, the 44 HPSU transfers amount to an input of approximately 18 HPSUs per year.

Of the four BICs, the HPSU transfer rates are (Chart 5.2):

- Dublin BIC: 12.5 per cent (of 64 participants);
- Cork BIC: 53.6 per cent (of 41 participants);
- West BIC: 35 per cent (of 20 participants); and
- South East BIC: 43.8 per cent (of 16 participants).

Chart 5.2: ES2 BIC Transfer Rates to HPSU, 2009-2011



As mentioned, the extent to which this constitutes a positive impact is not clear, as there is no feedback from clients on the counterfactual outcomes i.e. what participants would otherwise have done in the absence of ES2. Of the HPSUs who have come through ES2, it is as yet unclear whether, or to what extent, ES2 participation directly enabled a transition to HPSU.

5.9 Findings & Conclusions

Appropriateness

In terms of appropriateness to wider policy objectives, 44 HPSUs had been developed through this programme from 2009 to Q3 2011; this was the major part of the return on a spend of less than €2m per annum. However, despite an apparent developmental sequencing and synergy between ES1 and ES2 in terms of their target cohorts and wider objectives, fewer than 10 per cent of ES1 attendees participate on ES2. The higher HPSU transfer rates from regional BICs, as well as regional participation rates fairly consistent with the national population distribution, suggest a degree of success in achieving the objective of developing regional HPSUs.

Efficiency and Effectiveness

The potential strength of the feeder programmes to the HPSU supports is the availability of a source of High Potential ideas and business plans at relatively low cost, that would not otherwise have been captured and fully exploited. In this case, it is difficult to quantify the precise

contribution of EnterpriseSTART2 to the HPSU cohort, and whether it is value for money, due in part to a lack of data, but also due to the programme's infancy. In addition, many of the benefits of the programme come in the form of cost savings, such as in Enterprise Ireland resources which, in the absence of the programme, would have been devoted to companies with incomplete or unviable propositions (and perhaps were, prior to the programme's establishment).

A question mark could be raised even at this stage, however, over the lower HPSU transfer rate from the Dublin BIC, which also experiences the highest throughput of entrepreneurs. This should be looked at closely in upcoming years, as it may suggest that delivery is inefficient or poorly targeted in its catchment region. Enterprise Ireland had made clear the advantage of delivering ES2 through three other BICs is that it would relieve the Dublin BIC of a bottleneck of participants; the extent to which this is effective will merit further monitoring. However, at this early stage, it is difficult to quantify what gains, if any, have been achieved.

Synergies

Since the launch of EnterpriseSTART and ES2 in late 2008/early 2009, there has been a reduction in expenditure on the CORD programme, itself also a feeder programme for HPSUs. Although they aim to target different cohorts within the wider aspiring entrepreneur group, a degree of naturally-occurring overlap between the programmes may be inevitable, given the size of the population, and also that the target cohorts may not be sufficiently differentiated. In this light, it is reasonable to question the appropriateness and efficiency of funding and administering multiple programmes in this space. In particular, it raises the question of whether one centrally-administered modular programme could target potential HPSUs in a number of different areas, as opposed to individual programmes each focusing on different - but not necessarily highly differentiated - cohorts of entrepreneurs.

The Ideagen programme, operating in a similar space and geared towards development of HPSU ideas as its principal aim, also requires consideration in this context.

Given the infancy of the EnterpriseSTART/EnterpriseSTART2 programmes, it is difficult to assess the extent to which this is the case; it is however something that merits further monitoring as the programmes continues.

6 Enterprise Ireland Propel Programme

Programme Logic Model

Objectives

The strategic objective of the Enterprise Ireland Propel programme is to improve the overall economy of Ireland by:

- Increasing the number and accelerating the development of technology led start-up companies with scaling potential; and
- Utilising the infrastructure, capabilities and expertise that exist within the 3rd level sector to strengthen industry/college linkages.

Inputs

- Enterprise Ireland contribution:
  - Organisation and hosting costs;
  - Promotional activities; and
  - Consultant fees (PA).

Outputs

- Number of participants,
- Number of investor ready business plans,(Phase II as proxy)
- Number of HPSUs.

Activities

The specific elements of the Propel Programme are:

- Workshops including residential;
- One to One Mentoring;
- Incubation/dedicated desk facilities;
- Networking; and
- Financial Support.

Outcomes & Impacts

- Increased numbers of innovative start-ups and companies,
- Increased exports and employment in participant start-ups and companies,
- Increased numbers of business/technology ideas successfully developed and commercialised as a result of participation on the programme,
- Increased numbers of innovative collaborations between companies, entrepreneurs and academics.

6.1 Evaluation Aim

The aim of the evaluation is to assess the appropriateness, efficiency and effectiveness of the Enterprise Ireland Propel programme. This is an interim evaluation, focusing on Propel One and Propel Two, over the period 2009-2010. A third round is currently being delivered to a number of candidates for the Competitive Start Fund that were unsuccessful but who showed that they would benefit from Propel.

A previous evaluation of Propel was carried out by Grant Connections between December 2010 and February 2011[60]. The Grant evaluation focused on consulting with current and past participants, the programme providers and stakeholders to assess their views on the programme and its impacts. They also reviewed the programme vis-à-vis international benchmarks and other enterprise supports such as the Enterprise Platform Programme (EPP) run by the Institutes of Technology.

The Grant evaluation focused on the progression of participants to develop business plans and/or become High Potential Start-Ups which are the key success metrics for the programme in the short term. They also provided an overview of the costs of the programme and the cost per HPSU created. The lessons learned and feedback from the evaluation in terms of how to maximise effectiveness and efficiency have been incorporated into the programme i.e. format changes.

This evaluation builds on the work completed by Grant in order to provide findings and conclusions on the appropriateness, efficiency and effectiveness of the Propel Programme. In particular, it reviews the rationale for establishing Propel and provides detail on the national enterprise policy context. It also considers Propel in terms of complementarity and/or overlap with other enterprise interventions.

The Propel programme runs until the end of 2011. Enterprise Ireland is launching a new programme in 2012 which combines the Enterprise Platform and CORD Programmes. This programme will also address the objectives of the Propel programme.

6.2 Background, Objectives and Target Beneficiaries

Propel provides training and business development supports to start ups and entrepreneurs with ideas for export based businesses which have the potential to become Enterprise Ireland High Potential Start Up clients.

The strategic objective of Propel is to improve the overall economy of Ireland by:

- Increasing the number and accelerating the development of technology led start-up companies with scaling potential; and
- Utilising the infrastructure, capabilities and expertise that exist within the 3rd level sector to strengthen industry/college linkages.

The programme emanates from Transform, a cross border collaborative programme run by Enterprise Ireland and Invest Northern Ireland in 2007 and 2008. Following the success of Transform, it was decided to run two similar programmes simultaneously on both sides of the border. This new programme was branded Propel with the southern initiative being offered to entrepreneurs in Cavan, Donegal, Leitrim, Louth, Monaghan and Sligo in 2009.

60 The evaluation reviewed Propel One and Two which commenced in 2009 and 2010 respectively. Please see Appendix I for a detailed overview of the methodology employed and the recommendations provided by Grant Communications

6.3 Programme Rationale

Over the past fifteen years there has been significant investment in increasing the levels and intensity of research, development and innovation activities in Ireland and in developing the business environment to support the emergence and early stage development of knowledge based and/or high technology companies. These investments have greatly enhanced the capacity of, entrepreneurs and businesses to engage in the development and commercialisation of innovative products, technologies and services.

However, in many instances, early stage businesses and entrepreneurs do not have the resources and/or expertise to translate these initial ideas phases into investor ready business plans and from there to full scale development and commercialisation.

The specific aim of Propel is to work with these companies and entrepreneurs so that they can develop their business plans such that they can attract investment, develop their product/service for the export market and demonstrate their capacity as high potential start ups. A particular benefit of the programme is that participants have the opportunity to network and share ideas and issues with the other early stage entrepreneurs on the programme.

6.4 Alignment with National Policy

This evaluation focuses on impact achieved over the 2009-2010, and it is important to take note of how the policy environment evolved during this time. This programme is in line with national enterprise policy[61] as it has evolved over the past decade. There has been a strong emphasis on stimulating the emergence of, and supporting the development of, knowledge and/or technology based start-up companies and on supporting the effective commercialisation of the ideas and know-how being generated in higher education institutes.

In more recent times, as Ireland faces very challenging economic conditions, the Government's Building the Smart Economy, 2008 discusses the importance of providing "strong supports for start-up companies and entrepreneurs whose companies will provide the employment of the future" as a key element of supporting economic recovery and growth.

Building on the Smart Economy strategy, the Report of the Innovation Taskforce, 2010 states that "policy and investment decisions must be centred on supporting and encouraging the entrepreneur and innovative enterprises", the Propel programme is directly relevant in this regard.

Enterprise Ireland's corporate strategy[62] states that "the development of innovative products and services by start-up companies with a high potential to grow, underpinned by the effective and imaginative use of technology, will be the lifeblood of the Irish economy" and that "supporting these companies is a key objective." This fits with the core objective of Propel which is to increase the number of and accelerating the development of technology led start-up companies with scaling potential.

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61 Key enterprise related policy documents over this time include the Enterprise Strategy Group Report, Ahead of the Curve, 2004, Building Ireland's Knowledge Economy – The Irish Action Plan for Promoting Investment in R&D to 2010, Forfás, 2004, the National Development Plans, 1999 and 2006, and the Strategy for Science, Technology and Innovation 2006-2013, 2006

62 Enterprise Ireland, 2007, Transforming Irish Industry, Enterprise Ireland Strategy 2008-1010

Making it Happen – Growing Enterprise for Ireland, Forfás, 2010 also considers that entrepreneurs and start-ups are significant drivers of economic growth and that supporting entrepreneurs and start-ups has a key role to play in Ireland's return to sustainable growth and job creation.

The recently published Action Plan for Jobs, 2012, sets out a number of actions targeted toward generating a higher number of start-ups and stimulating sustainable growth in the indigenous sector.

6.5 Inputs & Programme Implementation

Table 6.1 Programme Inputs

Propel One:	Phase I & II	€293,093
	Phase I May 2009 – July 2009	€82,357
	Phase II Aug 2009 – June 2010	€210,736
Propel Two:	Phase I & II	€224,088
	Phase I March 2010 – June 2010	€52,037
	Phase II July 2010 – March 2011	€172,051
Estimated Indirect Cost	(Propel One & Two)	€162,286

These input costs do not reflect the funding made available to Phase II participants under the CORD Programme – these costs are addressed in the review of the CORD supports[63]. Indirect costs are comprised of salaries only. The figure for indirect costs includes support services such as mentoring, answering queries and offering advice on clients business. The salary cost was established by finding the average salary level associated with providing the support, the amount of employees involved and the estimated amount of time the team spent delivering the support. In common with other HPSU feeder programmes, overheads would be considered negligible for this programme, due to its limited size and scope.

The specific elements of the Propel programme are:

- Workshops including residential training
- One to one mentoring
- Incubation/dedicated desk facilities
- Networking
- Financial support

63 NOTE: the maximum CORD grant available to Phase II participants was reduced from €30,000 for Propel One to 15,000 for Propel Two. No CORD funding has been provided to Propel Three participants. CORD Funding awarded for Propel One amounted to €210,736 and €138,919 for Propel Two

Each round of Propel involves two phases. Participants submit an application for inclusion onto Phase I and selection is based on short listing (see Box 6.1) and an interview process. The selection process is done jointly by PA Consulting (the contracted providers) and Enterprise Ireland.

Propel Recruitment and Selection Criteria

- Senior manager with 5 years plus experience &/or graduate
- Participant proposals should have a significant market opportunity, particularly in international markets
- Knowledge base business with some potential for intellectual property ownership (even if this ownership is not yet formalised)
- A realistic potential for substantial growth to a minimum turnover of €1 million within 3 years
- A management team with a strong track record should be planned or already in place
- A realistic expectation that the level of funding required to grow the business can be accessed

In Phase I, which takes place over a single month, 25 successful candidates receive intensive training through a series of workshops in financial management, product and service marketing and international business planning.

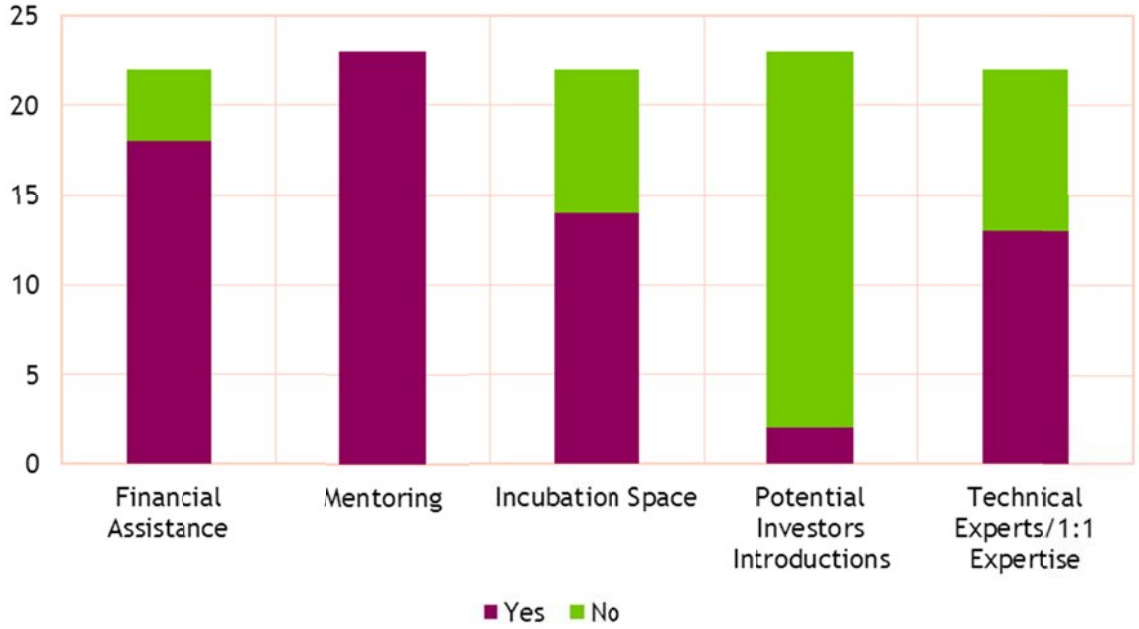
At the end of Phase I participants present their business proposition to an evaluation panel who determine the most appropriate candidates to progress to the next phase of the programme. The selection panel is made up of strategic business development experts from Enterprise Ireland and PA Consulting. For Phase II, 10 of the candidates are selected for the training process, which lasts eight months. During Phase II, participants receive regular training in a range of business functions these include; monthly one to one sessions with industry experts, as well as financial support provided through the Commercialisation of Research & Development (CORD) fund[64]. The Grant evaluation found that this CORD funding is regarded as a critical part of the programme as it allows the participants focus on their idea for a period of time. However, there was the view that CORD payments should be linked to performance such that non-attendance at training and one to one sessions would attract penalties of some description.

In addition to the training, participants can avail of a range of other supports to enable them to develop their business including mentoring, incubation space and networking sessions with potential investors. These add significant value to the programme and this is demonstrated to some extent by the high proportion of participants that access these supports (Chart 6.1).

The programme is managed by a team of people from Enterprise Ireland and PA Consulting, the latter being responsible for its delivery over a three year period.

64 Up to a maximum of €30,000 per participant for Propel One Phase II and €15,000 per company in per participant for Propel Two Phase II. No CORD funding has been provided to Propel Three participants

Chart 6.1: Accessing Available Supports



Source: Grant Connections, Evaluation of the Propel Programme, February 2011

6.5 Outputs & Activities

The operational targets of each of the programme rounds are to:

- Recruit a minimum of 25 technology entrepreneurs per annum to Phase I of each programme; and
- Achieve 10 investor ready business plans per annum for each of the three years of the programme.

In addition to these, the most important short to medium term deliverable of Propel is the number or percentage of participants who progress to become HPSUs.

The participation figures can be taken as demonstrating delivery on these operational targets and follow up analysis of participants shows progression to HPSU status.

Participants

The primary output of Propel is the number of participants who complete Phase I and II.

Propel One - actual outputs

- Phase I: 24 participants
- Phase II: 14 participants were selected at the end of phase I to progress to phase II

Propel One programme was run in two phases over a time span of 10 months. Phase I involved 24 people attending four full day sessions in May and June 2009; of which 14 were selected at the end of this phase to progress to Phase Two of the programme. Selection was made by a panel who observed a formal pitch by each of the participants.

Phase II of the programme involved participants attending training and workshops, getting incubation space, qualifying for financial support and having access to mentors over a 10 month period. There were also formal reviews with the Propel team on a twice monthly basis. This commenced in August 2009 and ended in June 2010.

Propel Two –actual outputs

- Phase I: 21 participants
- Phase II: 11 participants who were selected at the end of phase I to progress to phase II

Following a review of Propel One a further programme was launched, which commenced in May 2011, on a national basis. Phase I was reduced to 21 participants attending two full days of training with 11 being selected for Phase II. The same supports were offered with some additional services available such as one to one meetings with sector experts. The training now takes place on a residential basis to allow for greater networking to take place. Phase II ended in late March 2011.

Based on the participant figures above the recruitment to Phase I for both Propel One and Two was marginally below the target of 25; 4 per cent for Propel One and 16 per cent for Propel Two.

For Propel Two it was decided to focus on the LifeSciences and the ICT sector, based on the existing enterprise base, the profile of programme candidates and the experiences from the pilot programme. This enabled the training and mentoring to be tailored to the specific needs of these sectors.

Table 6.1 Participants: Target Propel One and Two

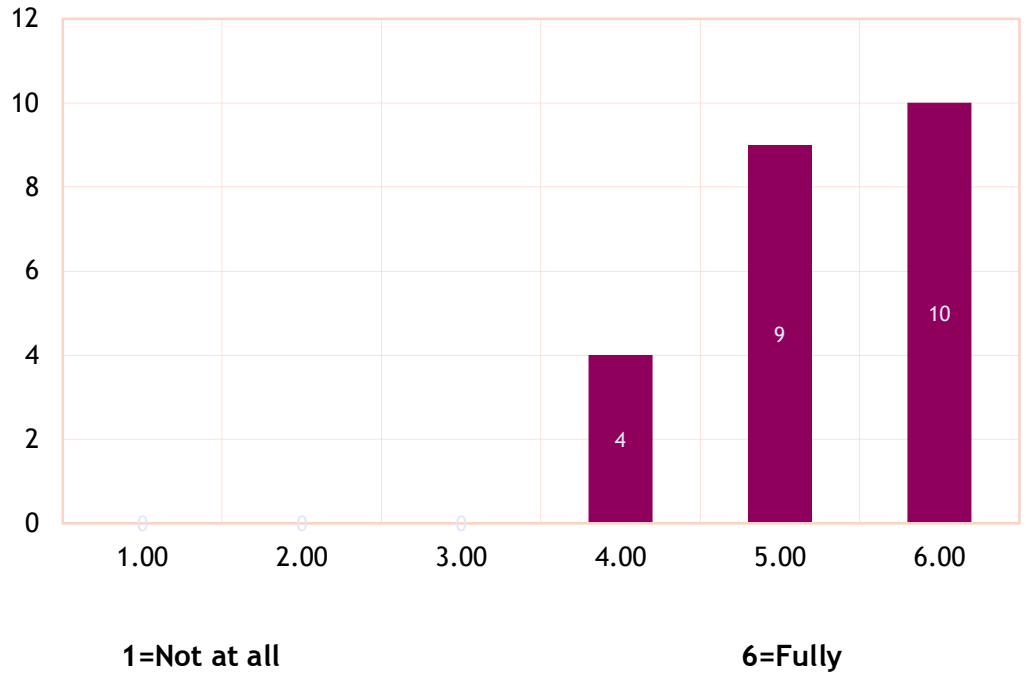
	Phase I	Achievement against target	Phase II	Achievement against target
Target	25		10	
Propel One Actual Participants	24	96%	14	140%
Propel Two Actual Participants	21	84%	11	110%
Total Participants	45		25	

Number of investor ready business plans

The Grant Connections review did not specifically assess the numbers of participants that went on to develop investor ready business plans. However, developing a business plan is a central activity of Phase II and the numbers of participants that complete this phase can be taken as a proxy for the development of an investor ready business plan. As such, 14 participants from Propel One and 11 participants from Propel Two developed investor ready business plans exceeding the operational target by 40 per cent and 10 per cent respectively.

Furthermore, of the ten Phase I participants surveyed by Grant Connections, nine went on to develop their business plans.

Chart 6.2: Extent to which Propel benefitted the development of your business - Survey Respondents Propel One & Two: Phase II



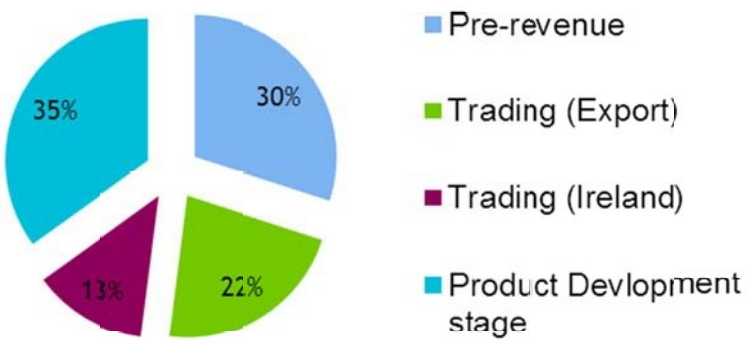
Source: Grant Connections, Evaluation of the Propel Programme, February 2011[65]

Participant progression to become High Potential Start Ups

The first cohort of participants from Propel One Phase II finished in June 2010 with 7 of the 14 (50 per cent) participants progressing to become HPSUs. This compares very favourably to the national EPP average of 27 per cent for progression to HPSUs. As of March 2011 it was estimated that the conversion rate to HPSU from Propel Two Phase II will be as high as 72 per cent.

65 Grant Connections, Evaluation of the Propel Programme, February 2011. The conversion rate for the EPP is 27 per cent. The cost per HPSU created from the EPP is just below €37,000

Chart 6.3: Stage of Business Development – Survey Respondents Propel One & Two: Phase II



Source: Grant Connections, Evaluation of the Propel Programme, February 2011

6.7 Impacts & Outcomes

Over the medium and longer term outcomes of Propel include:

- Increased numbers of innovative start-ups and companies
- Increased exports and employment in participant start-ups and companies
- Increased numbers of business/technology ideas successfully developed and commercialised as a result of participation on the programme
- Increased numbers of innovative collaborations between companies, entrepreneurs and academics

Chart 6.4: Stage of Business Development – Survey Respondents Propel One & Two: Phase II

Source: Grant Connections, Evaluation of the Propel Programme, February 2011

Increased exports and employment in participant start-ups and companies

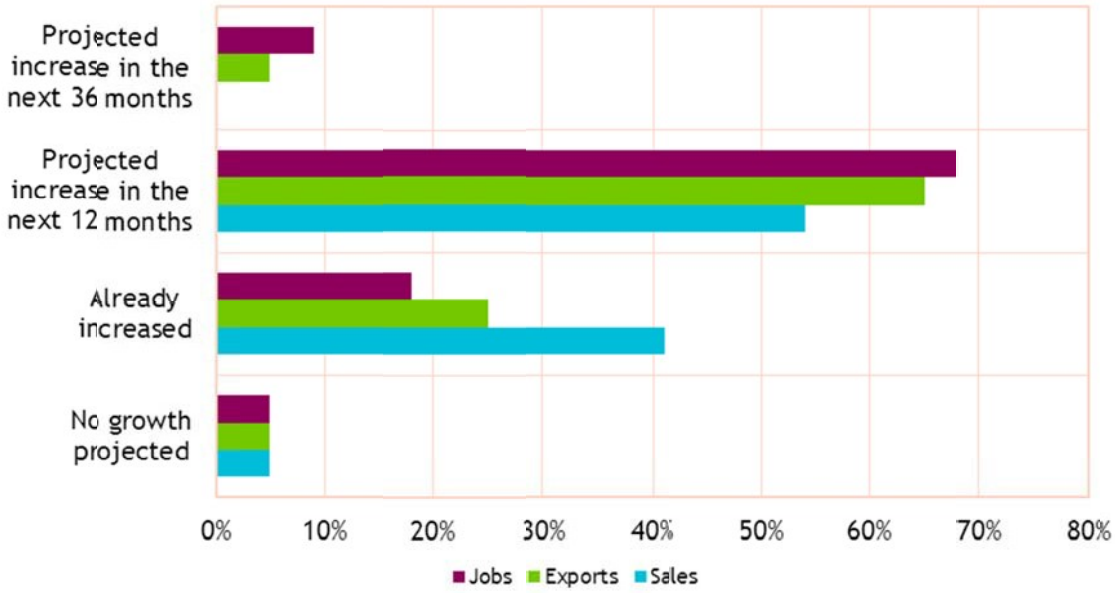
It is too early to assess the full impact of Propel in terms of increased exports and employment. However, the Grant evaluation does provide data on both the actual and projected activities for participants that completed Phase II terms of sales, exports, and employment. In each case, the data indicates that Propel has had a significant impact on the companies' activities. It should be noted that projected activities are likely to incorporate an element of optimism bias.

Sales: 41 per cent of respondents had already experienced some sales growth as a result of their participation on the programme and a further 54 per cent expected sales growth over the following twelve month period.

Exports: 25 per cent of respondents experienced some export growth as a result of their participation in Propel. 65 per cent expected to realise export growth over the following twelve month period and 5 per cent expected exports to increase over the following 36 months.

Employment: 18 per cent of respondents experienced some employment growth which they attribute to their participation on the programme. 68 per cent expected employment growth over the following twelve month period and 5 per cent expected employment to increase over the following 36 months.

Chart 6.5: Projected per cent Sales, Exports and Employment Growth as a Result of the Programme – Survey Respondents Propel One & Two: Phase II



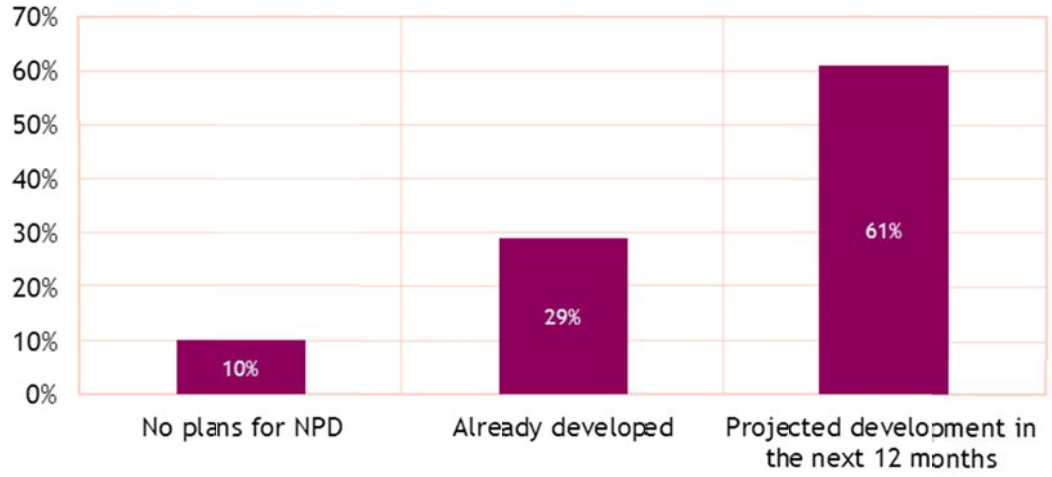
Source: Grant Connections, Evaluation of the Propel Programme, February 2011

Increased numbers of business/technology ideas developed and commercialised

As with impacts on exports and employment, it is as yet too early to assess the full impact of the programme in terms of the successful development and commercialisation of new products/ services. The Grant evaluation did assess the impact of programme participation in terms of product/service development and provides detail on actual and projected activities in this regard. Any projected figures may contain some optimism bias on the part of the company involved.

New product/service development: 29 per cent of respondents had engaged in new product development as a result of their participation on Propel with a further 61 per cent expecting to develop and introduce a new product or service over the following twelve months.

Chart 6.6: Projected New Product/Service Development as a Result of the Programme - Survey Respondents Propel One & Two: Phase II (21 responses)



Source: Grant Connections, Evaluation of the Propel Programme, February 2011

Increased numbers of innovative collaborations between companies, entrepreneurs and academics

One of the core strategic objectives of the Propel programme is to improve the overall economy of Ireland by utilising the infrastructure, capabilities and expertise that exist within the 3rd level sector to strengthen industry/college linkages.

A number of the aspects of the programme have been designed to support delivery on this objective, such as the use of HEI based incubation space by the participants on Phase II of the programme and the use of signposting to direct participants to relevant supports such as innovation vouchers. The Grant evaluation did not cover this area in detail and as such, though it is likely that the Propel programme has led to some industry/academic collaborations, it is not possible to quantify these at this point.

6.8 Findings & Conclusions

Appropriateness

Propel is appropriate to meet its objectives. The Grant evaluation found that that participants were very satisfied with the programme overall. Of the 23 participants surveyed that had completed phase II, all 23 considered that the programme had helped them with the strategic direction of their business. This strongly indicates that the programme is appropriate to deliver on its objectives.

As outlined above, the programme and its objectives do align with national enterprise policy objectives to support the emergence and development of such start-ups.

Synergies and Complementarity

There is a high level of complementarity between Propel and a number of other agency-delivered programmes particularly those focused on early stage business development such as feasibility and HPSU supports. There are also synergies with a number of the RDI supports available through the agencies such as Innovation Vouchers and Innovation Partnerships.

Start-Up programmes have a natural progressive link with the thematic area of business development as they grow and become more established. For example, a start-up enterprise could move from the thematic area of start-up to business development after a number of years and avail of supports such as Excel at Export Selling or Leadership4Growth.

Overlap/Duplication

There is some overlap between Propel and other enterprise support programmes. In particular, Enterprise Start 2 and the EPP in terms of aspects of the training delivered and access to supports such as incubation space. However, the Propel programme is more intensive than Enterprise Start and involves significantly more one to one and tailored training specifically to high technology start up needs. As outlined above, Propel concludes at the end of 2011. Enterprise Ireland is launching a new programme in 2012 which combines the EPP and CORD and which also addresses the objectives of the Propel programme.

Efficiency

Efficiency covers the extent to which the inputs have led to the desired outputs and outcomes. The outputs to date are the 45 participants that completed Phase I of the programme of which 25 completed Phase II. The direct costs for Propel One and Two were €517,181. As such, the average cost per participant is €11,492. Taking into account the indirect costs, this would increase to €15,099 per participant.

In terms of outcomes, 15 of the 45 attendees have gone, or are expected to go, on to become HPSUs as a result of their involvement in the programme. Therefore, the average total cost per HPSU created is €45,290. Taking into account the direct costs only, the average cost per HPSU created is €34,480. This compares favourably with the comparable average cost per HPSU created under the EPP programme at €37,000[66].

There were efficiency gains between Propel One and Two. The average direct cost per participant was reduced from €12,212 for Propel One to €10,670 for Propel Two. The average direct cost per HPSU created was also reduced between Propel One and Two; from €41,870 for Propel One to €28,010 for Propel Two.

66 Grant Connections, Evaluation of the Propel Programme, February 2011 – direct costs only

Table 6.2: Propel - Outcomes and Costs

	Propel One & Two	Propel One	Propel Two
Direct Cost	€517,181	€293,093	€224,088
Estimated Indirect Cost[67]	€162,286	n/a	n/a
Total Cost	€679,467		
Participants **Phase I (initial cohort):** **Phase II: (progressed from Phase I)**	 45 25	 24 14	 21 11
Projected HPSUs	Projected : **15**	7 HPSU clients 5 are in business; 3 did not establish businesses	Projected that 8 participants will become HPSUs
Conversion rate to HPSU (from Phase II)	60 per cent	50 per cent	Projected conversion rate of 72 per cent
Average total cost per participant(45) (including indirect costs)	€15,099 approx.		
Total cost per HPSU created	€45,298		
Direct cost per HPSU created	€34,480		

Source: Grant Connections, Evaluation of the Propel Programme, February 2011, Enterprise Ireland data and Forfás analysis

Effectiveness

Effectiveness covers the extent to which the outputs have led to the desired outcomes. Propel is relatively new and the full impacts in terms of the development of commercially successful products or services, increased exports and employment are difficult to measure at this point.

However, one of the key deliverables for Propel is the number of participants that progress to become HPSUs. Propel is effective in delivering on this target, of the 25 participants that completed Phase II, it is anticipated that 15 will go on to be HPSUs representing a conversion rate of 60 per cent.

Furthermore, the projected sales of Phase II participants are estimated at €11m over the next 24 months with a minimum of 69 jobs predicted in the next 36 months. Of that same group, six had already engaged in new product development as a result of participation on the programme and 13 expected to develop and introduce a new product or service over the following twelve month

67 Extrapolated from a combined annual cost estimate of €88,681. Salaries only.

period. Though these are projected figures, and contain an element of optimism bias, they do demonstrate that Propel is effectively delivering on its objectives.

There is some substitution effect as participants may gain an understanding of areas that they would otherwise have sourced from the private sector such as accountancy. However, this is likely to be quite low in practice. Furthermore, Propel does not directly substitute for any education/ training programmes offered by the private sector. There would seem to be considerable overlap between Propel and a number of other enterprise development supports and it is likely that there is some substitution effect across these programmes.

Any displacement effect of Propel is small. It supports the development of innovative high technology/knowledge based ideas and does not support "me too" businesses or services. Propel has clear criteria in place to ensure participants are appropriate to deliver on these aims.

As with any start your own business type support, there is likely to be some deadweight associated with Propel as companies/entrepreneurs can develop business plans without participation on the programme. However, Propel is designed specifically for companies and entrepreneurs seeking to develop and commercialise high technology and/or knowledge based ideas. This typically requires a complex set of activities and skills. Propel aims to give participants an understanding of these activities and to develop their business development skills over a relatively short period of time. As a result, Propel reduces the time taken to develop the business plan in the first instance and increases the likelihood that the business will be a success.

Input additionality: Based on progression to be HPSUs, at least seven participants have gone on to develop a new technology or knowledge based product or service as a result of the programme. It is projected that a further eight participants from Propel Two Phase II will also go on to be HPSUs.

Behavioural additionality: Participants benefit from an increased awareness of the value of networking as part of the business development process. In addition, they gain a greater knowledge and understanding of supports for enterprise development and commercialisation of research.

7 Enterprise Ireland Ideagen Programme

Programme Logic Model

Objectives

- Bring entrepreneurs, innovators and researchers together to network and generate new innovative ideas; and
- Provide information to entrepreneurs and academics on sectoral trends, research activities, enterprise and research supports, commercialisation strategies and market developments.
- So that they can develop commercially successful products and services based on research outputs and market led business innovations.

Inputs

- Enterprise Ireland contribution:
  - Organisation and hosting costs;
  - Promotional activities;
  - Consultant fees.
- Partner HEI contribution.

Outputs

- Number of participants – industry and academic,
- Sectors and technology areas covered – aligned to enterprise and research base,
- Number of events held in different regional locations.

Activities

- Sectorally based networking events,
- Presentations by industry experts on commercialisation strategies, growth opportunities etc,
- Structured networking,
- Brainstorming sessions,
- Information sessions – enterprise and research supports etc.

Outcomes & Impacts

- Increased awareness among participants of:
  - Potential businesses and researchers to collaborate with;
  - Market opportunities; and
  - Available supports.
- Increased numbers of innovative collaborations between companies, entrepreneurs and academics.
- Increased numbers of business/technology ideas successfully developed and commercialised based on the Ideagen events ultimately leading to increased employment and exports.
- Increased take-up of supports to promote enterprise development.

7.1 Evaluation Aim

The aim of the evaluation is to assess the appropriateness, efficiency and effectiveness of the Enterprise Ireland Ideagen Programme. This is an interim evaluation, focusing on the period 2009-2011.

The methodology for the evaluation is predominantly secondary research involving a literature review, a review of an early stage internal report on the programme and data analysis.

7.2 Programme Background, Objectives and Target Population

Ideagen was launched in 2009 and involves focused three hour networking and information sessions between entrepreneurs, innovators and researchers in the higher education sector. Each of the sessions focuses on a specific sector and they are organised on a regional basis.

The specific objectives of Ideagen are to:

- Bring entrepreneurs, innovators and researchers together to network and generate new innovative ideas and market led business innovations; and
- Provide information to entrepreneurs and academics on sectoral trends, research activities, enterprise and research supports, commercialisation strategies and market developments.

The target beneficiaries are entrepreneurs, businesses, researchers and research institutions who have the vision to build new businesses and/or develop new products, services or technologies and who would benefit from collaboration with other local businesses and higher education institutes (on a regional scale) in order to develop innovative products and services.

The pilot for Ideagen was launched in the South East region in 2009 and Enterprise Ireland worked with a number of stakeholders and partners in delivering this programme including the South East Business Innovation Centre, local Chambers of Commerce, the City and County Enterprise Boards in the region, South East Spirit of Enterprise, Waterford IT, Carlow IT and Tipperary IT.

Four events were held as part of the pilot between October and December 2009. Each of the events focused on different sectors which drew on the research and enterprise base in the region as well as emerging business opportunity areas, such as converging technologies and consumer foods.

Based on the success of the pilot phase the initiative has since been rolled out nationally and ten events have been run regionally over 2010 and the three quarters of 2011.

7.3 Programme Rationale

At the time Ideagen was conceived in mid-2008, there was a marked increase in the numbers of people seeking to start a business. This was primarily driven by the increased numbers of people who had become unemployed and were unable to find new employment. As a result, significant numbers of people were engaging with Enterprise Ireland and other enterprise development bodies to seek support and guidance on developing their business propositions.

In a number of cases, the business propositions being put forward by entrepreneurs were not sufficiently innovative to meet the qualifying criteria for High Potential Start Up supports. At the

same time, significant investments were being made to commercialise research outputs from the higher education sector and there was an increasing amount of research being generated that had commercial potential. However, the researchers involved did not always have the business acumen and/or desire to commercialise these outputs.

Ideagen was devised as a mechanism to address this market failure; that is to bring entrepreneurs and researchers together to see if together they could network, combine their expertise and develop new innovative projects. This is supported by research literature on entrepreneurship, idea generation, and successful commercialisation of innovations which highlights the importance of:

- Previous related experience in the field or sector;
- Knowledge of markets and marketing;
- Knowledge of new developments (research and/or market based); and
- The ability to analyse and combine this knowledge to develop products or services that service a customer need[68].

In many instances, this knowledge and expertise does not sit with any one individual or cohort. As such collaboration with academic and/or enterprise partners is often essential to realise the full potential of innovative business ideas in terms of economic growth and job creation. A specific aim of Ideagen is to stimulate and support exactly this type of collaboration.

Specifically it has been designed to enable entrepreneurs with an interest in a particular sector to engage with relevant researchers and experts on the one hand and on the other to facilitate researchers with innovative ideas to meet up with entrepreneurs who can potentially help them develop and commercialise these ideas. Although such collaborations can take place across geographies and business sectors; cluster theory provides strong evidence that proximity and sectoral relationships plays a key role in promoting collaboration. As such this programme focuses on arranging events on a sectoral and regional basis. These two factors combined facilitate effective networking in the first instance and are highly likely to lead to collaborations in the near to medium term.

7.4 Alignment with the National Policy

This evaluation focuses on impact achieved over the 2009-2010, and it is important to take note of how the policy environment evolved during this time.

In December 2008, the Government published Building Ireland's Smart Economy – A Framework for Sustainable Economic Renewal in response to the economic challenges facing Ireland. It emphasised the importance of "building the innovations or 'ideas' component of the economy through the utilisation of human capital - the knowledge, skills and creativity of people - and its ability and effectiveness in translating ideas into valuable processes, products and services."

Building on the Smart Economy strategy, the Report of the Innovation Taskforce (2010) places innovation and entrepreneurship at the heart of driving increased productivity and economic growth. It reaffirms the importance of driving innovation in the indigenous company base and on increasing commercialisation of the R&D activity within the HEI's. In particular, it discusses the ongoing need to enhance mechanisms to support collaboration between academia and industry.

68 Ardichvili, A. and Cardozo, R.N. (2000). A model of the entrepreneurial opportunity recognition process. Journal of Enterprising Culture, 8, 103-119.

The programme fits with Enterprise Ireland's stated corporate strategy that "the development of innovative products and services by start-up companies with a high potential to grow, underpinned by the effective and imaginative use of technology, will be the lifeblood of the Irish economy. Supporting these companies is a key objective for Enterprise Ireland."

Making it Happen – Growing Enterprise for Ireland, Forfás, 2010 sets outs four interlinked and complementary critical success factors to ensure a sustainable and competitive enterprise base in Ireland. These success factors are Productivity, Innovation, Cost Competiveness, and a Strong Enterprise Mix. Innovation is viewed as an essential element for driving economic growth and the report emphasises the strong role of entrepreneurship and the commercialisation of academic R&D in increasing innovation.

More recently, the National Recovery Plan, 2011-2014, which was developed in the context of Ireland's challenging economic environment the plan emphasised the absolute need to support economic growth and stresses the importance of "protecting investment … in supports for enterprise and innovation for the development of the smart economy" and on the key role of "growing high potential indigenous enterprises to support economic recovery."

The Programme for Government similarly stresses the importance of supporting the commercialisation of research and innovations from the higher education sector to promote economic growth, it states that "we will promote and support investment in technology research, development and commercialisation."

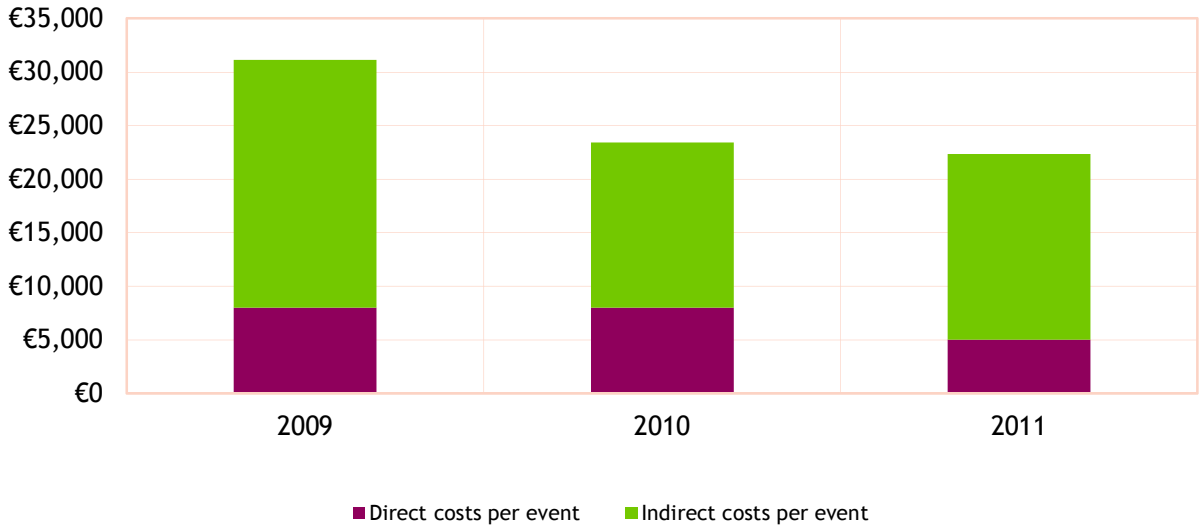
7.5 Inputs

The average cost per Ideagen event was €8,000 in 2009 and 2010. This has been reduced to €5,000 per event in 2011 reflecting changing market conditions and greater efficiencies achieved in running the programme; for instance utilising space in the HEIs to host the events. These figures cover all direct input costs such as advertising, venue hire, catering, and facilitation fees.

- Four Ideagen events were held in 2009 with a total cost of €32,000,
- Six events were held in 2010 with a total input cost of €48,000,
- Four events were held in the first half of 2011 with a total cost of €20,000.

The total direct costs associated with this programme from 2009 to September 2011 are €100,000. Over the same period, indirect costs are estimated at €247,000 (approx. €92,500 per annum), comprising of salaries only and relating to the design of the programme in the first instance as well as soft supports provided throughout the period. Salary costs contain the average salary of all the agency employees involved which is then weighted by the amount of time the project leader estimates was spent administering soft support services such as organisation of events, answering queries (i.e. researching for clients) and mentoring where necessary.

Chart 7.1: Direct and Indirect Costs



7.6 Activities & Outputs

Enterprise Ireland arranges and promotes a series of sectoral based networking events that involve:

- Presentations by industry experts on commercialisation strategies, growth opportunities etc;
- Structured networking;
- Brainstorming sessions; and
- Information sessions – enterprise and research supports etc.

Each Ideagen event is a three hour session focusing on a specific sector and is facilitated by an external innovation expert. Each event begins with a presentation from the industry expert from Enterprise Ireland who highlights the trends and high-growth opportunities within the sector and gives detail of relevant research and enterprise supports. Next, the structured brainstorming session called 'Brain Frame' allows participants to generate entrepreneurial ideas and also network within the larger group situation.

Enterprise Ireland designs the format and content for each of the Ideagen events. They arrange the speakers and facilitators for each of the events and work with the Higher Education Institutes, business organisations and enterprise support agencies in the regions to develop and promote the specific events. They have found this model to be very effective.

In addition to traditional media, a particular feature of the initiative is the central role of social media in promoting the initiative and as a tool for building on the networking from the initial events. In this context, Enterprise Ireland manages a LinkedIn and Facebook page for Ideagen to facilitate ongoing networking and information sharing between participants and to promote the initiative to all stakeholders.

The Pilot phase was attended by 144 individuals. In order to assess the success of the programme and to identify ways in which the programme could be more effective, a survey of the Pilot participants was undertaken. Based on responses from 92 of the 144 attendees at the Pilot events:

- 88 per cent were interested in participating in follow-up events.

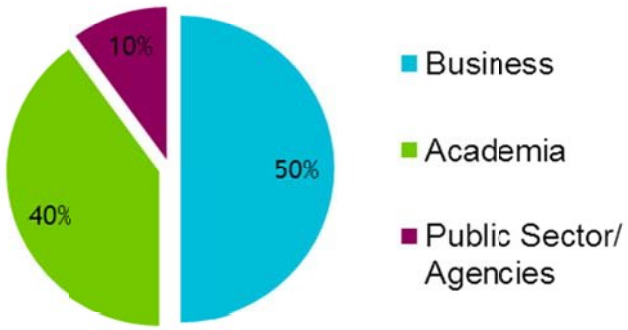
- 98 per cent found the events to be 'Useful', 'Very Useful' or 'Extremely Useful'.

The primary output of the Ideagen programme is the number of participants who take part in the events. For each Ideagen event there is a target of 40 participants with a 1:3 academic to industry ratio.

In total, and including the Pilot phase, fourteen events were run regionally between October 2009 and September 2011 and the first three quarters of 2011 with a total attendance of 414 across a number of sectors[69].

Although there has been some variation across the events average attendance has been 41 participants per event. In terms of the background of participants circa 50 per cent are from industry, 40 per cent are from academia and the remaining 10 per cent are from the public sector or enterprise development groups such as chambers of commerce or have not stated their background (Chart 7.2).

Chart 7.2: Background of Ideagen Participants



Representation of Sectors & Regional Coverage of Events

The fourteen Ideagen events held during the period under review took place in twelve different regional locations. In each case, Enterprise Ireland worked with business organisations and higher education institutes to promote the events and ensure attendance by the target audience, that is:

- Entrepreneurs and businesses with intentions to set up a high-growth export business with significant market potential; and
- Researchers with ideas, technology or science who need a business partner to help them commercialise it.

These events focused on a range of different sectors which drew on the research and enterprise base in the particular region as well as emerging business opportunity areas. A number of these relate to different aspects of the clean technology, food and life sciences sectors.

Three of the fourteen events were delivered in partnership with NUI Galway and focused on the area of medical devices. These were a variation on the standard Ideagen sessions whereby the same

69 There is some overlap in attendance as a small number of people attended more than one event – total numbers includes pilot programme participants

participants[70] attended all three sessions which allowed them to spend more time discussing and generating ideas and to gain a better understanding of how to successfully develop and commercialise these ideas.

Initial feedback from the participants is that this worked extremely well. It is intended to run a similar model with HEIs in 2012, focussing on particular sectors.

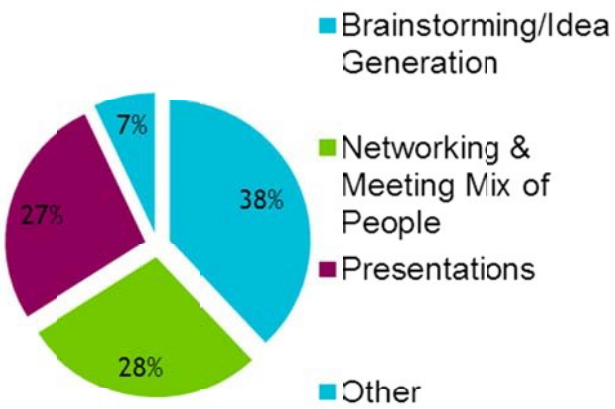
7.7 Outcomes & Impacts

The primary focus of Ideagen is to bring entrepreneurs, innovators and researchers together to network and generate new innovative ideas. The programme has been designed to provide information to entrepreneurs and academics on sectoral trends, research activities, enterprise and research supports, commercialisation strategies and market developments and to stimulate networking between these two groups.

The way in which the programme is designed and delivered enables a set of immediate outcomes for the participants including:

- Increased awareness of:
  - Potential businesses and HEIs to collaborate with;
  - Value of collaboration and networking;
  - Market opportunities; and
  - Available supports for enterprise development and commercialisation of research.
- Positive engagements and networking between entrepreneurs and researchers.

Chart 7.3: What did you enjoy most about Ideagen - Pilot (92 responses of 144 attendees)



The longer term outcomes include:

70 Twenty one participants attended all three of the events; eight healthcare practitioners affiliated with University Hospital Galway and thirteen researchers in NUI Galway

- Increased numbers of innovative collaborations between companies, entrepreneurs and academics;
- Increased numbers of business/technology ideas successfully developed and commercialised; and
- Increased take-up of supports to promote research, development and innovation including the High Potential Start Up suite of supports.

It is challenging to quantify these longer term outcomes as these will only become evident over time. However, Enterprise Ireland actively tracks the progress of the participants on the programme particularly in terms of business plan development and progression to become HPSU/Pre HPSU clients of Enterprise Ireland as a result of Ideagen.

Data on the progression of participants from the pilot phase to become HPSU/Pre-HPSU is not available. However, looking at the 225 participants that attended events over 2010 and 2011 we can say that:

- 7 are HPSU/Pre HPSU clients of Enterprise Ireland; and
- A high proportion of other attendees are in the process of developing business plans and are still in contact with their Regional Executives in Enterprise Ireland.

7.8 Findings & Conclusions

Appropriateness

Ideagen is appropriate in meeting its objectives. It was developed in response to a specific identified need that became apparent over 2008. Namely, a marked increase in the numbers of people seeking to start a business and looking to secure support and advice from the enterprise agencies.

Although the economic circumstances were (and remain) challenging, an increasing amount of research with commercial potential is emerging from the higher education sector and a number of Irish entrepreneurs are looking for next generation business opportunities. In many instances, researchers, businesses and entrepreneurs do not have the resources and/or expertise to bring these from the initial ideas phase to full scale development on their own. Ideagen brings these actors together to network, generate ideas and identify opportunities for collaboration informed by opportunities and trends in the particular sector.

As outlined above, the programme and its objectives do align with national enterprise policy and there remains an ongoing rationale for the Ideagen programme.

Synergies and Complementarity

There is a high level of complementarity between Ideagen and a number of other agency delivered programmes and it can act as a feeder for programmes and supports such as Enterprise Start or the HPSU supports. A key element of Ideagen is the provision of information on relevant enterprise and research supports such as Propel and Innovation Vouchers that the participants can avail of in developing their business idea. This increases the likelihood that the business idea is successful and ultimately leads to increased economic growth in terms of jobs and exports.

Start-Up programmes have a natural progressive link with the thematic area of business development as they grow and become more established. For example, a start-up enterprise could

move from the thematic area of start-up to business development after a number of years and avail of supports such as Business Accelerator or Going Global.

Duplication

There is limited duplication between Ideagen and other programmes. The City & County Enterprise Boards run periodic Idea Generation sessions; but these sessions target a more general audience than Ideagen and typically address more general business start up issues. However, they do cover issues such as intellectual property management and business plan development which may be of benefit to the Ideagen target audience as well.

Efficiency

Efficiency covers the extent to which the inputs have led to the desired output and outcomes. The outputs to date are the fourteen events covering ten sectors or technology areas and attended by 414 participants. The breakdown of participants is circa 50 per cent industry, 40 researchers with the remaining 10 per cent from the public sector or enterprise development groups.

The total expenditure on the fourteen events between October 2009 and September 2011 was €347,000 (including indirect costs of €247,000) – with much of the indirect costs relating to soft supports/mentoring etc. The average direct cost per event is €7,143 and €243 per attendee.

In terms of outcomes, 7 of the 225 attendees between 2010 and September 2011 have gone on to become HPSUs as a result of their involvement in the programme[71]. Given that this is an interim indicator, it is too early to provide a realistic estimate on cost per HPSU created.

Ideagen is a relatively low cost intervention and the direct costs to run the events have reduced from an initial cost of €8,000 per event in the first year of the programme, to €5,000 per event in the first half of 2011. It is unlikely that significant cost savings could be made in how the events are run.

Effectiveness

Effectiveness covers the extent to which the outputs have led to the desired outcomes. Ideagen is relatively new and the full impacts in terms of leading to the development of commercially successful products or services are difficult to measure at this point. However, there is evidence that a number of participants on the programme have gone on to fully develop their business plans and avail of enterprise and/or research supports to develop their business idea. Though these are in the early stages of development they are an indication that the Ideagen programme is delivering on its objectives. Furthermore, attendance at the events continues to meet, if not exceed, targets set which signals that the target audience considers the programme to be of value to them in generating new business ideas and networking to advance their business/research.

The substitution effects of Ideagen are limited. Companies, entrepreneurs and researchers can, and do, come together to develop new businesses and ideas without participating in the programme and as result of other initiatives. However, prior to Ideagen there was no specific support available to facilitate this early stage networking focused on idea generation within particular sectors and regions. The CEBs do run periodic Idea Generation workshops and seminars, although the target audience is general business rather than technology or knowledge based businesses in any specific sector, there may be scope for greater integration between these and the Ideagen events.

71 Data on the progression of participants from the pilot phase to become HPSU/Pre-HPSUs is not available

Any displacement effect of Ideagen is small. It has been designed to facilitate early stage networking focused on idea generation within particular sectors and regions and to provide advice on available enterprise supports. The premise of the programme is that it leads to the development of new and not "me too" businesses and services. It is open to all interested businesses, researchers and entrepreneurs and involves a limited resource commitment by participants; as such no one business, researcher or entrepreneur is particularly advantaged at the expense of another.

Input additionality: Based on their progression to become HPSU/Pre-HPSUs at least 7 participants on the programme have gone on to invest in the development of a new technology or knowledge based product or service based on an idea they came up with as a result of the programme.

Behavioural additionality: Participants from the programme benefit from an increased awareness of the value of collaboration and networking and a greater knowledge of who they can seek to progress such collaborations with. In addition, participants gain a greater knowledge and understanding of available supports for enterprise development and commercialisation of research.

8 Enterprise Ireland Seed & Venture Capital Fund Programme

Programme Logic Model

Objectives

- Further develop the Irish seed and venture capital sector by:
  - Increasing the availability of risk capital to high tech/knowledge intensive SMEs in the seed, start-up and development stages
  - Leveraging private sector investment
  - Developing commercially viable funds that can meet the capital requirements of high technology start-ups and scaling companies

Inputs

- Enterprise Ireland contribution – as limited partners
- Private sector funds

Outputs

- Commercially viable partner funds – based on Enterprise Ireland contribution leveraging private investment
- Companies securing seed and VC funding
- Availability of management expertise/advice through the Enterprise Ireland partner funds

Activities

Coordination and Governance

- Enterprise Ireland invites and assesses proposals from potential funds to operate under this Scheme
- Enterprise Ireland coordinates the drawdown of funding by the partner funds
- As a limited partner in the partner funds Enterprise Ireland is represented on the Advisory Boards of each of the funds

Outcomes & Impacts

- Companies and entrepreneurs benefit from an expanded pool of funds available for export oriented high technology start-ups and scaling companies
- Leveraging effect – Increased numbers of funds (Irish &/or international) operating in the Irish VC market
- Commercially viable and sustainable VC and seed funding sector – with greater private sector involvement and investment and aligned to the needs of the enterprise base
- Increased number of early stage and scaling high technology companies which have/are receiving VC or seed capital

8.1 Evaluation Aim & Methodology

The aim of this evaluation is to assess the appropriateness, efficiency and effectiveness of the Enterprise Ireland Seed & Venture Capital Programme. This is an interim evaluation, focusing on the period 2000-2010 which covers two Schemes which have been run under this programme of activity over the period; Scheme 2 from 2000 to 2006 and Scheme 3 from 2007 to 2012[72].

It is important to state that this is not an evaluation of individual firm level performance as a result of receiving venture capital (VC) funding nor is it an analysis of the merits of VC financing versus other forms of finance. Rather this evaluation focuses on the degree to which the Enterprise Ireland Seed & Venture Capital Programme is delivering on its stated objective which is to further develop the Irish VC sector and improve the ecosystem for high potential start-ups and scaling companies.

The methodology for the evaluation is predominantly secondary research involving data analysis and literature review. This approach has been supplemented by primary research involving consultations with representatives of the VC sector, of Enterprise Ireland as the programme provider and other relevant individuals in the area of enterprise development. The data on the Enterprise Ireland partner funds is provided in terms of the two separate Schemes as it is not generally possible or advisable to aggregate the activities of two Schemes. Where it is possible and appropriate to provide aggregate figures this is done as it better enables international comparisons.

Venture Capital

Venture Capital refers to equity investments made by professional investors. VC companies seek to generate high levels of returns by investing in early stage, high risk, high growth potential and scaling companies.

This involves investing substantial amounts of money over the lifetime of a company in order to facilitate the company to generate very rapid growth. VC forms an essential component of hi-tech, early-stage investing and there is a general consensus in academic literature that the impact of VC finance is positive. VC backed companies typically grow faster than other types of companies, employ more people and are more profitable when benchmarked against their peers.

Venture Capital Funds

VC Funds are generally established for a ten year term. Investors in the funds commit to provide their capital as requested by the VC fund manager for investment during that period. The fund invests in new opportunities during its first five years "the investment period" and, if required, makes "follow-on" investments during the later years of the fund's 10-year term.

The development of a venture-backed company has three basic financing stages:

- Seed capital is provided to research, assess and develop an initial concept (Pre/High Potential Start-Ups).
- Start-up financing is provided for product development and initial marketing (High Potential Start-Ups)
- Expansion financing is provided for the growth and expansion of a company that is breaking even or trading profitably (High Potential Start-Ups/Scaling)

72 Scheme 1 ran from 1994-1999 under the Indigenous Industry sub-programme (part of the 1994-1999 Operational Programme for Industrial Development and the 1994-1999 National Development Plan).

The primary objective of a VC Fund is to make attractive capital profits for its investors by divesting its holding in investee companies after they have developed from being early stage companies into successful businesses operating in world markets. The time required for an investee company to grow to this scale can range from four years to ten years or longer, with an average life within the VC Fund of about six years. The VC Fund distributes the proceeds of realisations back to its investors throughout the Fund's life. International experience is that first returns typically start from around the fourth year.

8.2 Programme Background, Objectives and Target Beneficiaries

The VC model of financing is directed at innovative knowledge and technology intensive start-ups, early stage and scaling companies that have significant funding requirements and which demonstrate the potential to generate high returns to the VC fund through an initial public offering (IPO) or trade sale. VC funding is appropriate for a very small percentage of companies overall. According to the US National Venture Capital Association "for every 100 business plans that come to a VC firm for funding, usually only 10 or so get a serious look, and only one ends up being funded[73]".

The Enterprise Ireland Seed & Venture Capital Programme started in 1994 and there have been three Schemes to date; Scheme 1 from 1994-1999; Scheme 2 from 2000-2006; and Scheme 3 from 2007-2012. This programme of activity was put in place to develop the enterprise environment as part of broader efforts that included, for example, the Seed Capital and Business Expansion Schemes (recently replaced by the Employment Investment Incentive Scheme) and R&D tax credits as well as direct firm level interventions - aimed at supporting the emergence and development of high potential companies.

The overall aim of the Seed and Venture Capital Programme is to:

- Further develop the Irish VC sector and improve the ecosystem for high potential start-ups and scaling companies by:
  - Increasing the availability of risk capital to high tech/knowledge intensive SMEs in the seed, start-up and development stages;
  - Leveraging private sector investment; and by
  - Developing commercially viable funds that can meet the capital requirements of high technology start-ups and scaling companies.

The aim is to provide finance for entrepreneurs and businesses in high technology and/or knowledge intensive sectors. These tend to be in the areas of ICT, the LifeSciences, engineering, and latterly clean technologies. The recipients are typically high risk companies with primarily knowledge based assets and/or unproven technologies and which are too small to raise capital in the public markets. As such, their financing needs tend to fall outside the scope of financing through retail banks which predominantly provide business loans to hard asset backed companies.

Under this programme of activity Enterprise Ireland partners with private sector seed & VC funds. The partner funds are independently managed by the private sector, who decide what projects to invest in/companies to support and who take investment decisions on a fully commercial basis. This model whereby the State does not have an operational role in running the funds and making

73 National Venture Capital Association, 2011, NVCA Yearbook

investment decisions is reflective of international experience and best practise[74]. The State invests on a "pari passu" basis whereby the State shares equally in any risk and returns associated with investments.

The current Scheme, 2007-2012, places a strong emphasis on stimulating and supporting the development of the seed capital market in light of the particular difficulties early stage entrepreneurs are experiencing in raising capital due to the national and global financial downturn. EU level data shows that seed capital funds typically experience greater challenges than VC funds in raising private capital and as such tend to require greater state intervention[75].

Though it is not an explicit target of this programme of activity many of the companies that avail of VC and seed funding in Ireland are companies that emerge to commercialise outputs of state investment in R&D e.g. Opsona, and Sigmoid. Approximately 75 per cent of Irish university spin-outs go on to raise venture capital and 66 per cent of the SMEs collaborating within the Science Foundation Ireland Funded Centres for Science, Engineering and Technology and Strategic Research Centres are venture backed[76].

8.3 Programme Rationale

While most enterprises are not venture-backed, venture capital has a particularly important role to play in high-growth/high-risk enterprises. Innovative firms, particularly in high technology sectors, find it difficult to raise more traditional forms of finance (e.g. bank debt). A healthy VC market and associated management experience is therefore considered a prerequisite for the growth and development of high potential start up companies - particularly within high-tech or knowledge based sectors. Risk capital provided by the VC sector, therefore becomes crucial.

The empirical evidence[77] shows that venture-backed start-ups redefine the US economy through direct and spillover effects. According to the 2011 Venture Impact study, produced by IHS Global Insight, originally venture-backed companies accounted for 11.9 million jobs and over US$3.1 trillion in revenue in the United States representing 11 per cent of private sector employment and 21 per cent of GDP (2010 data). Consequently many governments have programmes focused on improving access to risk capital for innovative firms with growth potential. These typically focus on addressing the equity gap in VC financing for early stage companies which arises as many private VCs are not willing to invest due to high transaction costs, shortages of exit options and the greater risk involved[78]. A 2007 review of early stage financing carried out by the United Nations Economic Commission for Europe found that well-targeted public interventions have played an important role in developing national VC markets which are crucial for providing early stage financing for SMEs[79].

74 Gilson, R.J., 2003, "Engineering a Venture Capital Market: Lessons from the American Experience," Stanford Law Review, 55(4)

75 PricewaterhouseCoopers, 2006, Final Report: Enterprise Ireland Seed and Venture Capital Funds Programme

76 Irish Venture Capital Association, National Venture Capital Association, British Venture Capital Association cited in IVCA Report to Government, July 2011

77 Lerner, J., 2009, Boulevard of Broken Dreams pp. 58-61

78 Maula, M., Murray, G., Jääskeläinen, M. 2007, Public Financing of Young Innovative Companies in Finland, Ministry of Trade and Industry, Industries Department

79 United Nations Economic Commission for Europe, 2007, Financing Innovative Development, United Nations

The Enterprise Ireland Seed & Venture Capital Programme was initially conceived in the mid 1990s with a view to developing a viable and sustainable VC market in Ireland so that we would realise higher numbers of successful high technology companies based here. At the time, Ireland's VC industry was in the embryonic stages of development. State intervention was provided on the basis that the private sector on its own would not provide equity capital for high risk/high growth companies, and the State could address this market failure by committing capital to VC funds, thereby encouraging the private sector to participate in sharing the risk[80]. The logic for support under the 2000-2006 Scheme followed the same rationale.

A review by PWC informed the development of the third scheme (2007-2012). The main conclusion of that study was that although significant progress has been made; the VC market in Ireland was still relatively young and underdeveloped vis-à-vis international benchmarks and had not reached a point where it could be considered sustainable in its own right. On this basis the report recommended continued State support to develop the VC market.

PWC also considered that the discontinuation of State support and the withdrawal of funds at that time would send a negative signal to local institutional investors and would be negatively viewed by overseas investors, who tend to look to the local market for evidence of support for venture capital. This was particularly relevant given the need to attract private limited partners to invest in Irish venture funds; a key requirement for developing a sustainable VC market over the long term.

Some of the other key findings of the review were:

- The evidence available on the outlook for new, early stage, high growth companies suggested that there would continue to be a demand for VC investment from these enterprises at a rate similar or greater than that experienced over the preceding five years; and
- Irish VC funds were too small to be considered sustainable and commercially viable in the long term. The study recommended that Enterprise Ireland should consider introducing a minimum size as an eligibility requirement for its support in the next Scheme of funds to assist the funds in achieving scale, in being able to "follow" their investments and in becoming more commercially viable and attractive to investors.

The PWC study preceded the global financial crisis and the downturn in the national economy. In assessing the impacts of the Enterprise Ireland Seed & Venture Capital Programme it is essential that the national and international economic environment is considered.

Changed Economic Context

The global financial crisis in particular continues to have ramifications across the private equity market internationally. VC firms are experiencing greater difficulty in raising new funds as investors have become more risk-averse post the global financial crisis. The international environment for the industry remained challenging in 2010 with opportunities for company exits through trade sales and IPOs being limited. It is worth noting that in the first half of 2011 the US, which has a much more mature VC system than Ireland, experienced the lowest number of funds garnering commitments since the first half of 1995[81]. Similarly, Israel, generally one of the leaders in international rankings for numbers of start-ups, patents, and VC investment, has experienced major

80 The same rationale was set out for Finland's involvement in VC funds: Maula, M., Murray, G., Jääskeläinen, M. 2007, Public Financing of Young Innovative Companies in Finland, Ministry of Trade and Industry, Industries Department

81 National Venture Capital Association, 2011, Venture Capital Industry Raises $2.7 Billion in Q2 2011, Press Release

challenges in raising VC in recent years. In 2010, no capital was raised and in 2009, only $234 million was raised by Israeli VC funds[82].

The Irish VC industry currently has funds available for investment at a time when lower valuations are presenting attractive investment opportunities. However, these funds will be fully committed by 2012 and Irish VC firms will then need to raise fresh capital if they are to continue investing in Irish SMEs[83]. The National Competitiveness Council also maintains that "continued Government support through the BES … and further funding for Enterprise Ireland to continue to act as a catalyst for the establishment of new funds and attract venture capital and private equity investment from abroad is vital to ensure competitive and diverse venture capital funding is available to support new businesses[84]."

8.4 Alignment with National Policy

This evaluation focuses on the period 2000-2010, and it is important to take note of how the policy environment evolved during this time. In particular, the National Development Plan, 1999 stated that a dynamic VC industry is "… a key element in business development, with the private sector being the primary source of equity for companies. If the indigenous sector is to continue to grow and prosper it depends on a continual flow of good high potential start-up and development companies. To ensure this happens it is vital to consolidate and build on the success achieved over the (1994-99 programme) by continuing to provide support through the seed and venture funds mechanism".

In July 2004, at a time when Ireland had experienced a decade of sustained growth, the Government launched the Enterprise Strategy Group Report, *Ahead of the Curve*. This report called for the adoption of a new enterprise strategy which would position Ireland to retain the competitive advantage it had achieved in an increasingly competitive global market. Despite the advances made in developing a VC market in Ireland, the report identified continued market failures in the provision of risk capital to start-ups and stated that there was a continued need for some state intervention.

In parallel to this enterprise strategy report, *Building Ireland's Knowledge Economy – The Irish Action Plan for Promoting Investment in R&D to 2010* was launched in July 2004. This report stated that there is a clear role for the State in funding ventures at the seed stage. It recognised the progress made in provision of finance for early stage and scaling companies; however, it found that a gap remains in funding for seed or very early stage investments. The report recommended that the focus of State intervention should be to support funding mechanisms and initiatives at the seed stage, to support the development of technologies to the stage where private VC firms will invest.

The longer term strategic importance of successful commercialisation of R&D in Ireland was again highlighted in the *Strategy for Science, Technology and Innovation 2006-2013*, which called for actions to support the effective commercialisation of the ideas and know-how being generated in higher education institutes, and to forge new partnerships between these institutions and enterprise. The existence of a vibrant, and more importantly, sustainable VC industry in Ireland

82 Ibid.

83 Irish Venture Capital Association, 2010, The Economic Impact of Venture Capital in Ireland - 2009

84 National Competitiveness Council, 2010, Annual Competitiveness Report 2009, Volume Two: Ireland's Competitiveness Challenge

into the future is vital for the commercialisation of the research investments and commitments into tradable products and services or intellectual property.

In more recent times, as Ireland faces very challenging economic conditions, the Government's *Building the Smart Economy*, 2008 aspires to make Ireland "an innovation and commercialisation hub for Europe" with a focus on generating economic return from knowledge creation. As part of the implementation process for this strategy, the Government established the Innovation Fund – Ireland, where up to €500 million has been dedicated to support early stage R&D-intensive SMEs.

Building on the Smart Economy strategy, the Report of the Innovation Taskforce, 2010 states that "venture capital has a particularly important role to play in high-growth enterprises." It refers to the role of Enterprise Ireland and the Enterprise Ireland Seed & Venture Capital Scheme in developing the domestic Irish VC industry and states that "one critical challenge facing Ireland is to continue to support the development of the Irish VC industry, which will remain an important part of the overall VC ecosystem, particularly in the current economic environment, as VCs commence a new fundraising cycle in the coming years … The Taskforce therefore supports continued investment to sustain and build further the domestic VC sector." However, the report is clear that this is in tandem to developing a broader and sustainable VC sector in Ireland stating that "a key goal must be a transformation in the scale and nature of the Irish Venture Capital environment by attracting top tier venture financing to Ireland so as to successfully scale innovative companies."

The programme fits with Enterprise Ireland's stated corporate strategy[85] that it will "support the development of seed and venture capital funding in Ireland" and that it will "engage with investors (financial institutions, private investors, domestic and international venture capitalists) to secure longer-term finance to support the scaling of software companies."

Making it Happen - Growing Enterprise for Ireland, Forfás, 2010 also considers that the "continuing efforts of the State in the area of Seed and Venture funds are especially important in ensuring a flow of venture equity into companies. The challenge is to build a sustainable VC industry in Ireland despite the current economic environment."

More recently, the *National Recovery Plan, 2011-2014,* which was developed in the context of Ireland's challenging economic environment and the absolute need to support economic growth committed to introducing the Innovation Fund Ireland[86] to "attract international venture capital fund managers to Ireland, making their expertise, experience and network available to … enterprises" and supporting the development of the national VC sector.

The Programme for Government similarly stresses the importance of a sustainable and viable VC sector as a key element of supporting economic development and the emergence of high potential technology and knowledge based companies to support enterprise development stating "we will support the development of a more dynamic, venture capital industry in Ireland by seeking to attract top tier venture financing and investment companies to Ireland."

Although a very valuable instrument for supporting innovation, state support for VC is only one part of a much wider support system for innovation and enterprise development. The role of the state

85 Enterprise Ireland, Transforming Irish Industry, Enterprise Ireland Strategy 2008-1010

86 Innovation Fund Ireland was launched in September 2010 and is a component of the National Recovery Plan 2011-2014. Through this initiative, the Government made available €125 million for Enterprise Ireland to invest in international venture capital funds that establish a presence in Ireland and that invest, at a minimum, an equivalent amount in Irish companies or companies with a significant presence in Ireland. A further €125 million has been made available by the National Pension Reserve Fund for this initiative86. The first call for expressions of interest in Innovation Fund Ireland closed on the 26th November 2010, with 32 expressions of interest received. The National Pension Reserve Fund has already announced two investments which they have made. In addition, in cooperation with Enterprise Ireland, a number of commitments have been made that are due to be announced in the near term.

involves using different instruments to ensure that the business environment is conducive to the emergence and development of high potential start up companies including:

- Ensuring the availability of seed funding options for high potential start-ups (e.g. seed capital scheme); and
- Providing appropriate supports to assist companies in becoming "investor ready" through, for example, the development of robust business plans.

8.5 Inputs & Implementation

€250 million has been committed by Enterprise Ireland to date across the two Schemes as follows.

- 2007–2012: commitment of €175 million of which €152 had been committed across nine funds as of the end of 2010.
- 2000–2006: commitment of €98 million across fifteen funds[87].

Indirect costs are estimated at €130,000 per annum related to the cost of providing soft support services to clients through activities such as answering queries and evaluating seed & venture capital opportunities. The calculation is based on the aggregation of salaries for all staff levels in the first instance. Then an average salary level is established which is then weighted based on the time commitment and the number of agency employees involved in providing the support as determined by the team leader. In common with other HPSU feeder programmes, overheads are considered negligible, due to the relatively small size of the team directly involved with the programme.

Implementation of the Seed & Venture Capital Scheme

Enterprise Ireland's Role

Enterprise Ireland's primary role in relation to the Seed & Venture Capital Programme relates to coordination and governance of the programme.

- Enterprise Ireland invites and assesses proposals from potential funds to operate under this Scheme on an open and competitive basis. The proposals are assessed against a range of criteria including:
  - How an application meets the objectives of the Scheme;
  - The track record and qualifications of the promoters/management of the proposed funds;
  - The availability of management expertise to enable hands-on input into investee businesses;
  - The likely impact of fund investment on SME access to the capital market;
  - Potential for growing and developing business operations in terms of added value/turnover and sustainable job creation;
  - Capacity to use funds for additional investment;
  - The level of administrative expenses relative to the level of total investment.

87 A number of the funds established under the Seed and Venture Capital Scheme 2000-2006 are still open for making investments

These assessments are made by the Board of Enterprise Ireland with the assistance of a Seed and Venture Capital Approvals Committee, which includes both Enterprise Ireland members and other external public and private sector members.

- Enterprise Ireland manages the drawdown of its commitments by the partner funds. Enterprise Ireland's funding support is provided up to a maximum of 50 per cent of total fund size, which is the maximum amount of funding allowable under the EU approval for the scheme.
- As a limited partner in the partner funds Enterprise Ireland is represented on the Advisory Boards of each of the funds.

Enterprise Ireland also produces annual reports on the Seed & Venture Capital Scheme providing detailed updates of the three VC initiatives undertaken in partnership with the private sector. They provide data on the partner funds themselves and on the investments they make in terms of the size of individual investments in companies, the company's stage of development and what sectors they operate in.

The Partner Funds

The partner funds are staffed by professional seed & VC fund managers and sectoral experts who are responsible for raising financing from the private sector, making all investment decisions (based on eligibility criteria) and the ongoing management of investments.

The partner funds have a committed amount of capital in the fund for a period of ten years which allows for initial investments and follow on capital to support company needs and realise the potential for growth. The fund managers also provide key strategic and development advice to companies particularly in the early stages and for companies considering initial moves to the international marketplace.

Enterprise Ireland engages with the fund managers on an ongoing basis as part of its coordination and governance functions.

Investment Model

The Irish Seed and Venture Capital Scheme is run on a "pari passu" basis whereby the Government is a direct investor in the funds and the investment is made on the same grounds as all other private sector investors. The State shares equally in any risk and returns associated with investments. The advantage of "pari passu" is that it is commercially driven and therefore encourages market discipline, which avoids the type of market distortions that other forms of State intervention might involve while at the same time improving the focus on generating returns and sharing risk.

8.6 Outputs

The primary outputs of the Seed & Venture Capital Scheme are:

Establishment of partner funds

24 funds have been established under Scheme 2 and 3 as set out in Table 7.1. These funds successfully leveraged sufficient private sector investments based on the Enterprise Ireland contribution, the track record of the fund and its management team. Of the 24 funds five have or had an explicit focus on the provision of seed funding to emerging companies.

As of the end of 2010:

- The fifteen funds established under Scheme 2 had made a total of 691 investments with a combined value of €345 million.
- The nine funds established under Scheme 3 had made a total of 114 investments with a combined value of €80 million.

Table 8.1: Enterprise Ireland Partner Funds established under the Seed & Venture Capital Schemes 2 & 3

Scheme 2, 2000-2006[88]	Size	Scheme 3, 2007-2012	Size	Total
AIB Equity Fund 2002*	€0m	AIB Seed Capital Fund	€53m	
Atlantic Bridge Limited Partnership**	€98.5m	Atlantic Bridge II	€75m	
BOI Kernel Capital Partners Private Equity Fund I	€27.3m	BOI Kernel Capital Partners Private Equity Fund II	€51m	
BOI Venture Capital Ltd*	€8m	BOI Seed and Early Stage Equity Fund 2009	€27m	
Delta Equity Fund II Limited Partnership	€90m	BOI Start-Up and Emerging Sectors Equity Fund 2010	€17m	
Enterprise Equity Investment Fund Ltd.	€15m	Delta Equity Fund III	€105m	
Enterprise Equity Seed Capital Investment Fund	€7m	Fountain Healthcare Partners Fund I	€73m	
European BioScience Fund I	€12.7m	Seroba Kernel LifeSciences Fund II	€75m	
Guinness Ireland Ulster Bank Equity Fund Limited Partnership	€19m	Ulster Bank Diageo Venture Fund	€75m	
HotOrigin Fund I*	€2.1m			
EVP Early Stage Technology Fund	€10m			
ICC Regional Venture Capital Fund*	€7.6m			
Seroba BioVentures	€20m			

88 * Closed for new and follow on investment

** c. €67.5m of the Atlantic Bridge Venture Fund relates to the Seed & Venture Capital Scheme 2007- 2012

*** Trinity Venture Fund 2 converted to TVC Holdings plc. in July 2007

Trinity Venture Fund II***	€138.7m			
4th Level Ventures University Seed Fund	€17.2m			
Total Funds	€473.1m		€550.6m	€1,023.7
Investments made to 2010	€345 (73%)		€80 (14.5%)	€425 (41.5%)

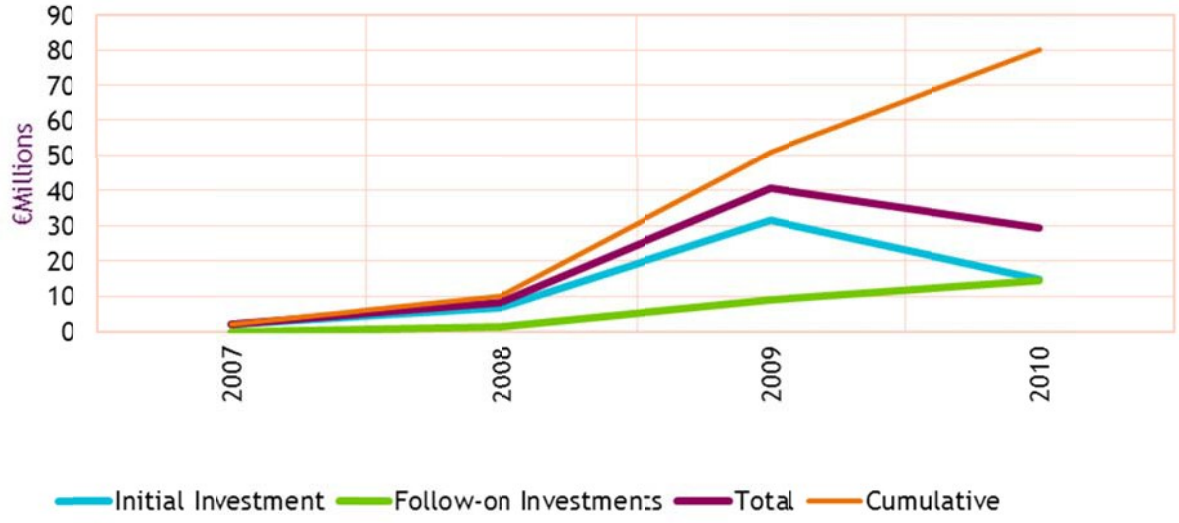
Number of Companies securing Seed & VC Funding

Up to the end of 2010, investments had been made in 186 separate companies through the Enterprise Ireland partner funds established under Scheme 2 and 3. Taken in isolation, this figure can understate the extent of investments through the partner funds to support the development of portfolio companies.

A key feature of seed & VC funds is that after they make their initial investment in a company, they typically reserve approximately three times that initial investment for follow-on financing as the company grows. Otherwise, a VC fund's stake in a company will be diluted in subsequent funding rounds lowering eventual returns. The resources to make follow-on investments in portfolio companies, particularly where they are initially investing in the very early stages of a company's development, are a crucial element of funds being commercially viable and sustainable.

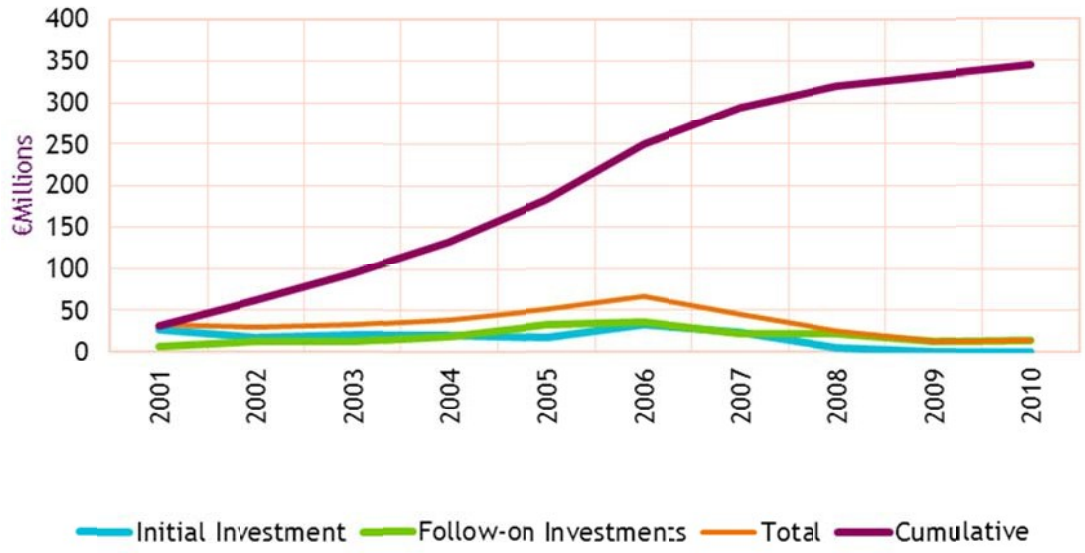
In this context, 538 of the investments made through Scheme 2 have been "follow through" investments representing 78 per cent of all investments and 45 of the investments made through Scheme 3 have been "follow through" investments accounting 65 per cent of all investments.

Chart 8.2: Scheme 2 - Value of Investments per Year and Cumulative to December 2010 (by value)



Source: Enterprise Ireland, Seed & Venture Capital Programme 2010 Report

Chart 8.3: Scheme 3 - Value of Investments per Year and Cumulative to December 2010 (by value)



Source: Enterprise Ireland, Seed & Venture Capital Programme 2010 Report

Availability of Management Expertise/Advice

VC and seed funds have an interest in supporting the companies to succeed commercially so that they realise the optimum return on their investments. As such, VC and seed funds are staffed with experienced investors that provide advice and supports to companies. This is recognised as a benefit for companies that receive VC funding and plays a strong role in encouraging entrepreneurship and supporting innovation.

The IVCA's 2011 publication "The Economic Impact of Venture Capital in Ireland" showed that Irish VCs, as well as providing the essential finance for growth, have added real value to their investee companies in the following areas:

- Management team formation and development;
- Development of realistic but challenging business objectives;
- Advice from technology development experts with experience of bringing similar technologies to market;
- Positioning the companies for international growth;
- Introduction of international investors to form larger VC syndicates; and
- Consistent monitoring of performance and the creation of shareholder value.

8.7 Outcomes & Impacts

There are a number of outcomes from the Enterprise Ireland Seed and Venture Capital Programme – some of which are more directly linked to the Enterprise Ireland Seed and Venture Capital Programme – and others result from a range of factors relating to the overall business environment.

A note of caution relates to the challenges faced in providing comprehensive and comparative data for seed and VC funding. This arises because of the inconsistencies in definitions as to what constitutes VC funding versus seed funding and in how company stages are defined across countries. The analysis below is based on data from the Enterprise Ireland Seed & Venture Capital Programme Annual Reports and data provided from the European Venture Capital Association (EVCA). The EVCA compiles data provided to it by national VC associations. The Irish Venture Capital Association (IVCA) is the relevant body in Ireland.

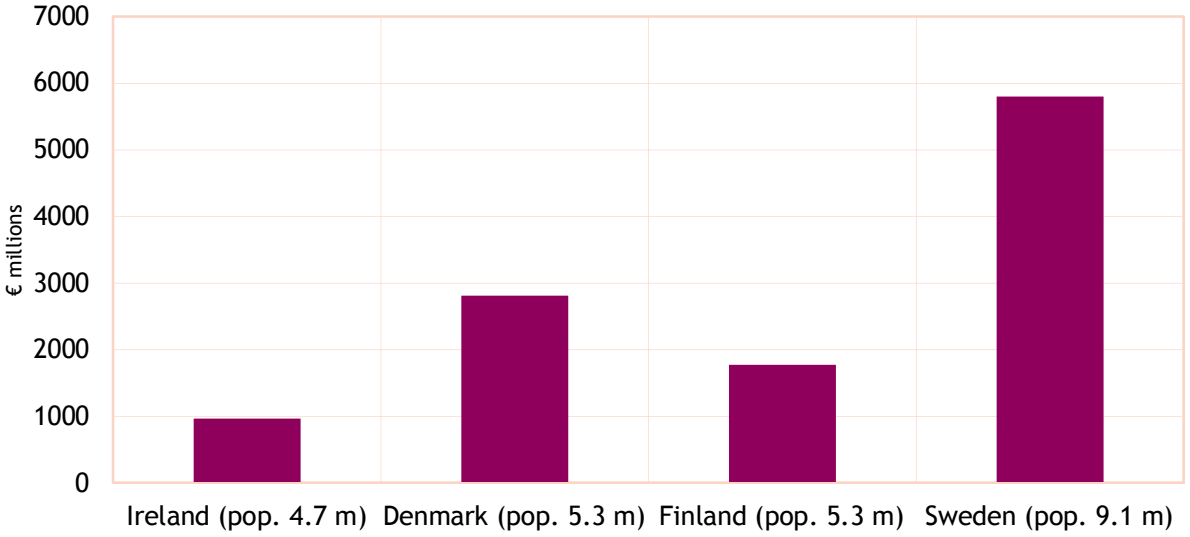
Companies and entrepreneurs benefit from an expanded pool of funds available for export oriented high technology start-ups and scaling companies

Data from the EVCA shows that Irish VC firms have invested circa €963 million[89] in Irish firms since 2000. This compares well with the previous decade when Irish VC firms invested approximately €358.7 million over a ten year period.

However, it is still considerably lower than that for a number of other countries that are appropriate benchmarks for Ireland in terms of their populations and enterprise base (Chart 8.4 below). Similar to Ireland, Sweden, Denmark and Finland all have government VC schemes in place to support the development of their VC industries, leverage private sector financing and to nurture technology-based firms over the longer-term. Finland and Denmark introduced specific initiatives in the early 1990s and Sweden has had a series of initiatives in place to support VC and financing for SMEs since the early 1970s.

89 European Venture Capital Association, Yearbook 2011. Of this, approximately €425.3 million (44 per cent) has been through the Enterprise Ireland Partner Funds

Chart 8.4: Total VC Investments by Country of Origin of the Investing Firm, 2000-2010



Source: European Venture Capital Association

The State commitment to the partner funds has a leveraging effect which is demonstrated in two key ways:

1. Private funds invest in the Enterprise Ireland partner funds

   Based on the Enterprise Ireland commitment of €98 million to Scheme 2 the total investment funding available to companies reached €473 million by the end of 2010; representing a leveraging effect of €1:€3.80.

   Based on the Enterprise Ireland commitment of €152 million to Scheme 3 to date the total investment funding available to companies reached €550 million by the end of 2010; representing a leveraging effect of €1:€2.60. That is for every €1 committed by Enterprise Ireland €2.60 was raised from the private sector.

   This compares positively with similar government interventions in the UK where investments between 2000 and 2009 by the Department for Business, Innovation and Skills and its predecessors, in a series of funds managed by private sector fund managers, had a leveraging effect of £1: £1.30[90].

2. Private funds are attracted into the Irish market

   Data from the IVCA states that there has been €3 billon of investment in Irish SMEs since 2000[91]. Approximately 50 per cent was invested directly by Irish VCs with the balance mainly introduced by Irish VCs through syndication with international VC Funds[92]. This indicates that

90 House of Commons, Committee of Public Accounts, Department for Business, Innovation and Skills: Venture capital support to small businesses, Seventeenth Report of Session 2009–10, March 2010

91 IVCA, A Guide to Venture Capital, Fifth Edition - Note. The IVCA data is broad in scope and includes investments by angel investors and corporations that are not considered to be VC firms. It also includes some of the investments in companies through the HPSU suite of supports

92 IVCA, 2011, Report to Government, July 2011

there has been an increase in the number and extent of activity by private sector VC companies in the Irish market. However, it should be noted that the IVCA data is quite broad in scope and includes investments by angel investors and corporations that are not considered to be VC firms. It also includes some of the investments in companies through the HPSU suite of supports.

A viable and sustainable VC and seed capital market in Ireland with greater private sector involvement and investment and aligned to the needs of the enterprise base.

There is no single set of criteria that describes what a "viable and sustainable VC and seed capital market" looks like. However the PWC review did identify a number of factors underlying the creation of a sustainable and commercially viable VC fund, which informed the design and implementation of Scheme 3, namely:

- The capacity to make sufficient investments (15-20) across a range of projects which diversifies the risk of investments;
- The resources to make follow-on investments in portfolio companies as they grow. This is particularly important where funds are initially investing in the very early stages of a company's development as otherwise a VC fund's stake in a company will be diluted in subsequent funding Schemes;
- The capability to generate enough management fees to allow the VC fund to support a strong management team and meet the other costs associated with running a VC fund.

On this basis, PWC determined that to have the potential to be commercially viable, a VC fund needs to be at least €40 million to €50 million in size so that it can generate the level of performance needed to raise follow-on funds. These same factors apply for funds focused on provision of seed capital; however, the minimum fund size requirement is less whereby for a seed fund to be commercially viable it would need to be at least €15 million to €40 million.

Assessing the Enterprise Ireland partner funds against these criteria and reflecting the relative newness of a number of the funds under Scheme 3, it is evident that a high proportion satisfies these criteria[93]. Though a crude measure of performance, this can be taken as demonstration of progress towards "a commercially viable and sustainable VC and seed capital market."

- Scheme 3: All nine of the funds established to date meet or exceed the required fund size and there are indications that each of the funds will make sufficient numbers of investments to spread their risk across their portfolio and to be able to participate in follow-on funding rounds.
- Scheme 2: This Scheme preceded the PWC review. As such, the partner funds established under Scheme 2 are measured against a modified set of criteria[94] to reflect the circumstances at the time. Measured on this, nine of the fifteen funds established under Scheme 2 date meet or exceed the required fund size, and spread of investment. They also have engaged in high levels of follow on funding.

93 Specific data on fund management and administration fees is not publicly available and has not been included in this analysis

94 Venture Capital Fund size: €25 million plus; Seed Fund size: €10 million plus; Number of Portfolio Investments: 6 plus

Table 8.2: Scheme 2, 2000-2006

Scheme 2, 2000-2006	Size	No. of Companies	No. of FO	Viable & Sustainable
AIB Equity Fund 2002	€0m	2	1	N/A
Atlantic Bridge Limited Partnership	€98.5m	13	55	Yes
BOI Kernel Capital Partners Private Equity Fund I	€27.3m	9	36	Yes
BOI Venture Capital Ltd.	€8m	7	7	-
Delta Equity Fund II Limited Partnership	€90m	26	167	Yes
Enterprise Equity Investment Fund Ltd.	€15m	10	38	-
Enterprise Equity Seed Capital Investment Fund	€7m	11	33	Yes
European BioScience Fund I	€12.7m	6	33	-
Guinness Ireland Ulster Bank Equity Fund Ltd.	€19m	12	25	Yes
HotOrigin Fund I	€2.1m	3	-	-
EVP Early Stage Technology Fund	€10m	6	18	Yes
ICC Regional Venture Capital Fund*	€7.6m	6	11	-
Seroba BioVentures	€20m	10	27	Yes
Trinity Venture Fund II	€138.7m	17	40	Yes
4th Level Ventures University Seed Fund	€17.2m	13	79	Yes
Total Funds	**€473.1m**			

Table 8.3: Scheme 3, 2007-2012

Scheme 3, 2007-2012	Size	No. of Companies	No. of FO	Viable & Sustainable
AIB Seed Capital Fund	€53m	25	17	Yes
Atlantic Bridge II	€75m	Est. 2010		Yes
BOI Kernel Capital Partners Private Equity Fund II	€51m	4	1	Yes
BOI Seed and Early Stage Equity Fund 2009	€27m	5	1	Yes
BOI Start-Up and Emerging Sectors Equity Fund 2010	€17m	Est. 2010		Yes
Delta Equity Fund III	€105m	10	21	Yes
Fountain Healthcare Partners Fund I	€73m	6	5	Yes
Seroba Kernel LifeSciences Fund II	€75m	7	4	Yes
Ulster Bank Diageo Venture Fund	€75m	8	0	Yes
Total Funds	**€550.6m**			

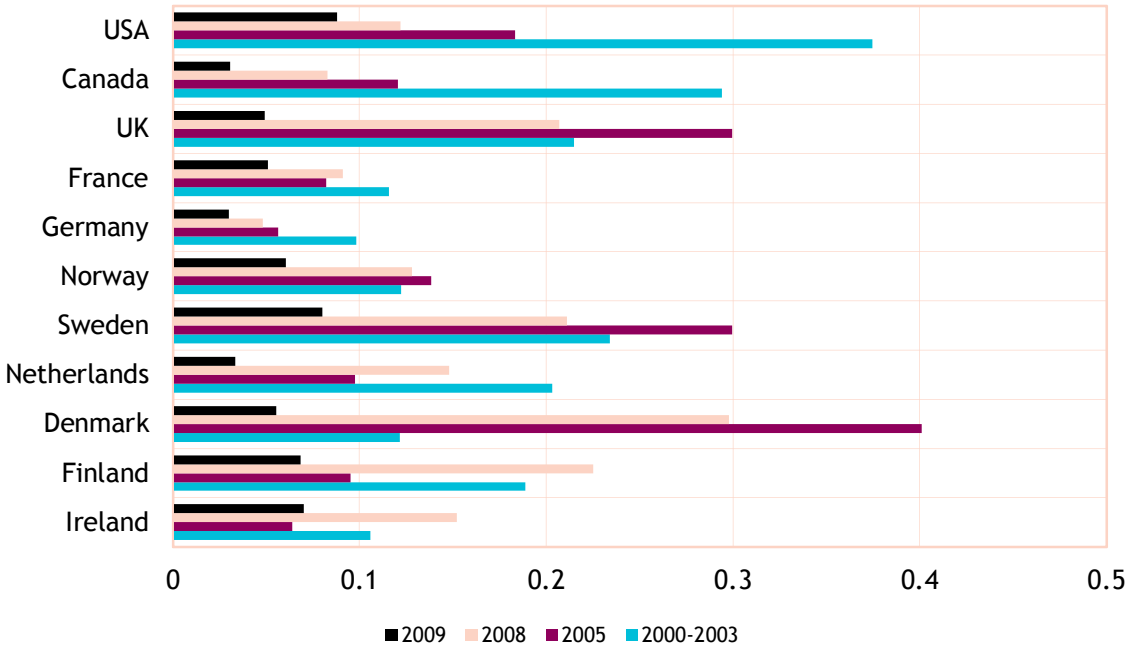
Viability and Sustainability of the Irish VC Industry

Measuring the commercial viability and sustainability of the Irish VC industry, or indeed any national VC industry is challenging, and this is heightened by the major impact that the global financial crisis has on the VC industry internationally. However, standard measures for assessing VC activity over time and across geographies are VC investment as a percentage of GDP, numbers of investments and numbers of companies invested in.

The chart below shows VC investments as a percentage of GDP for a number of OECD members over the past decade. The OECD data shows that VC investment in Ireland still only accounts for a small proportion of GDP, of which the Enterprise Ireland partner funds account for roughly one third. However, against this measure, the Irish VC industry does show signs of viability and sustainability in terms of a relatively consistent performance and does not show the scale of volatility that has been experienced in some other countries as a result of the financial crisis.

This is most likely a function of the relative stage in the investment cycle of the Enterprise Ireland partner funds rather than the resilience of the Irish VC industry per se. The international VC industry collapsed in 2008 and 2009 at which time many of the funds under Scheme 3 had already secured commitments. This potentially lessened the impact of the financial crisis on the sector in Ireland and it is unlikely that this would have been the case had the Scheme not been in place. Furthermore, the impact of the crisis on the industry persists particularly in regard to the increased risk aversion among institutional investors such as pension funds.

Chart 8.5: VC Investment as a Percentage of GDP, Selected OECD Member States, 2000-2009

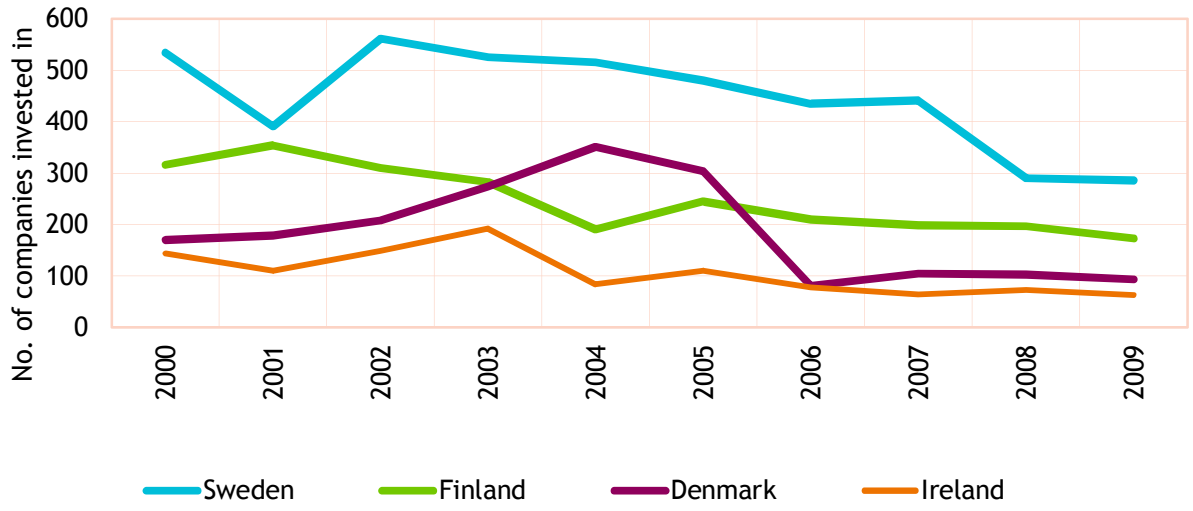


Source: OECD Science Technology & Industry Scorecard, 2003, 2005, 2007. 2009, 2011[95]

95 Note: The 2005 figures for Denmark are a function of the exceptionally high level of VC activity that year when a number of high value companies such as TDC, Falck and ISS were bought out by international private equity funds. Danish Venture Capital Association, 2008, Active ownership and transparency in private equity fund; Background report and Guidelines for responsible ownership and good corporate governance

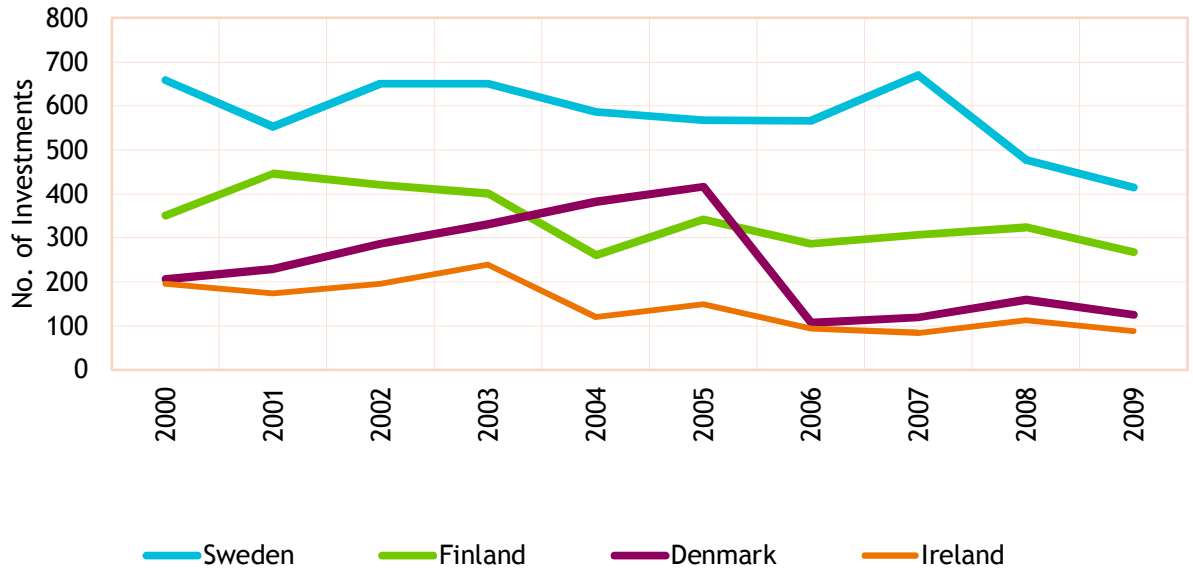
Data on the numbers of investments and the numbers of companies invested in by Irish Seed & VC firms shows that the Irish VC industry has followed much the same trajectory as in benchmark countries; the general decline in the scale of activity in the VC industry in each of these countries reflects the wider international trends in the industry largely as a result of the financial crisis. However, the numbers of investments and numbers of companies invested in by Irish firms have been consistently lower in absolute terms. This indicates that there remains a need for the Irish VC industry to continue to develop and grow to be of the same (or greater) scale as international comparator locations and be able to meet the needs of high potential Irish based industry. Irish based companies can of course seek and secure VC financing from international VC firms. However, analysis by the IVCA found that international VCs typically prefer to co-invest with an Irish partner rather than invest alone.

Chart 8.6: Number of Companies Invested in by Country of Origin of the VC Fund, 2000-2009



Source: European Venture Capital Association

Chart 8.7: Number of Investments by Country of Origin of the VC Fund, 2000-2009



Source: European Venture Capital Association

Significant Private Sector Involvement

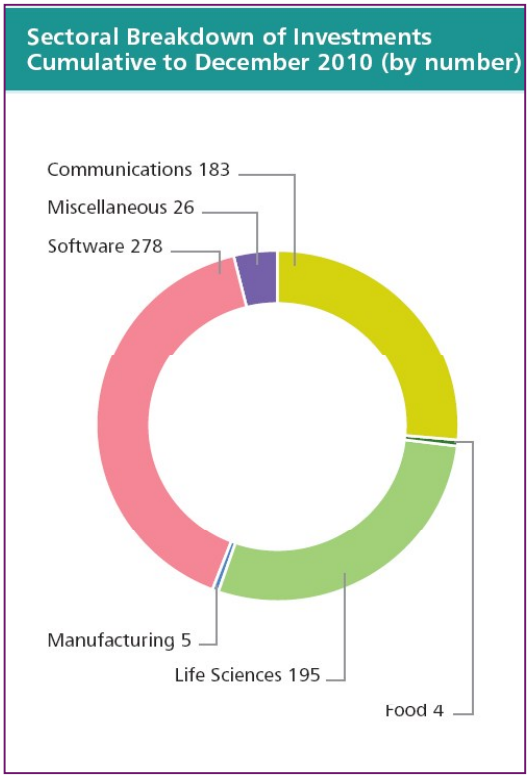
As discussed above, there is significant private sector involvement in the Irish seed & VC industry. In the first instance, if the leveraging effects of Scheme 2 and 3 are combined each €1 committed by the State to the partner funds attracted €3 of private investment into the funds.

Secondly, data from the IVCA indicates that, aside from the EI partner funds, further private VC investment has been attracted into Irish based SMEs.

Alignment with Enterprise Needs

A stated objective of the Enterprise Ireland Programme is to further develop the Irish seed and VC sector by developing commercially viable funds that can meet the capital requirements of high technology start-ups and scaling companies. Analysis of the sectoral breakdown of investments by number and volume of investment under the two Schemes clearly demonstrate that the Enterprise Ireland partner funds are investing in those high technology sectors where Ireland has demonstrated or emerging strengths, particularly the LifeSciences, software and communications.

Chart 8.8: Scheme 2 – Sectoral Breakdown of Investments by Enterprise Ireland Partner Funds



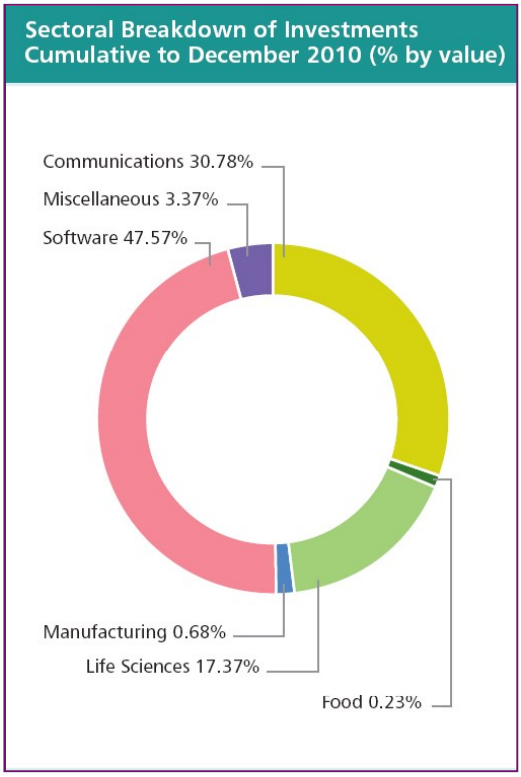
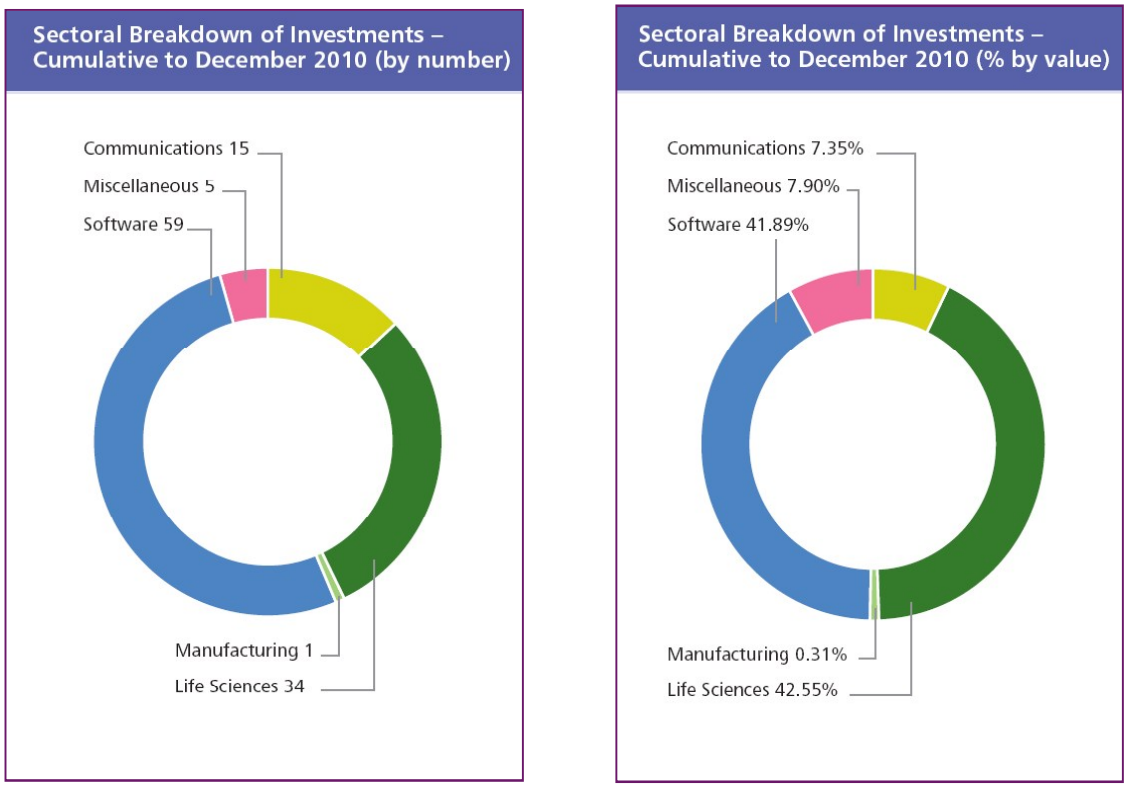


Chart 8.9: Scheme 3 – Sectoral Breakdown of Investments by Enterprise Ireland Partner Funds

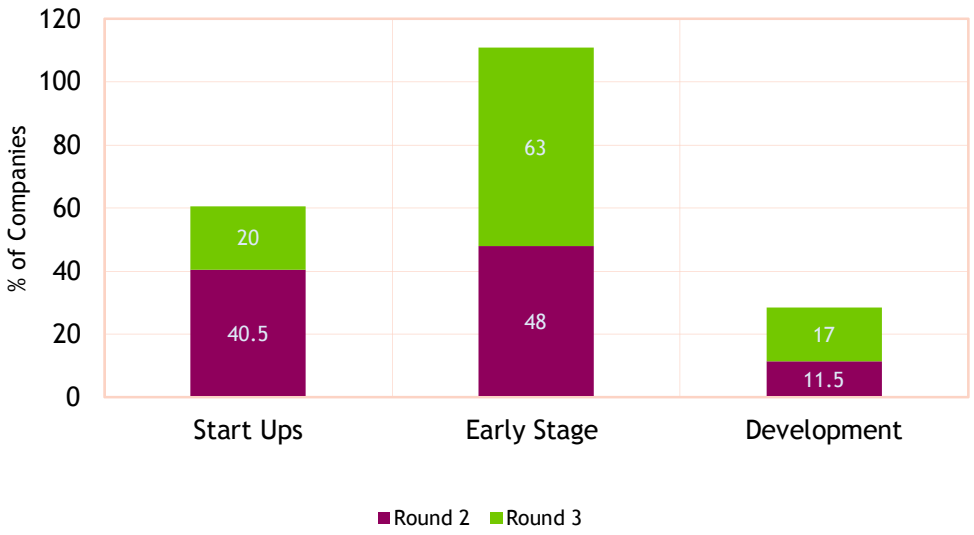


There may be scope for greater investment in the areas of clean technologies and technology based food products; both of which have been highlighted in successive national strategies as offering significant growth potential for Ireland. There is little debate that clean technology is a high technology and high potential area. It is likely that a review of the sectoral breakdown of investments in future years will show greater numbers of early stage clean companies attracting financing through the partner funds. The food sector is typically regarded as a traditional and low technology sector; however, science and technology play an ever increasing role in this sector particularly in terms of processing, consumer foods and functional foods. Given the importance of the food sector for Ireland and Ireland's international reputation for leading edge science in this area, the food sector may warrant further analysis in terms of assessing specific financing needs.

Increased number of early stage and scaling high technology companies which have/are receiving VC or seed capital

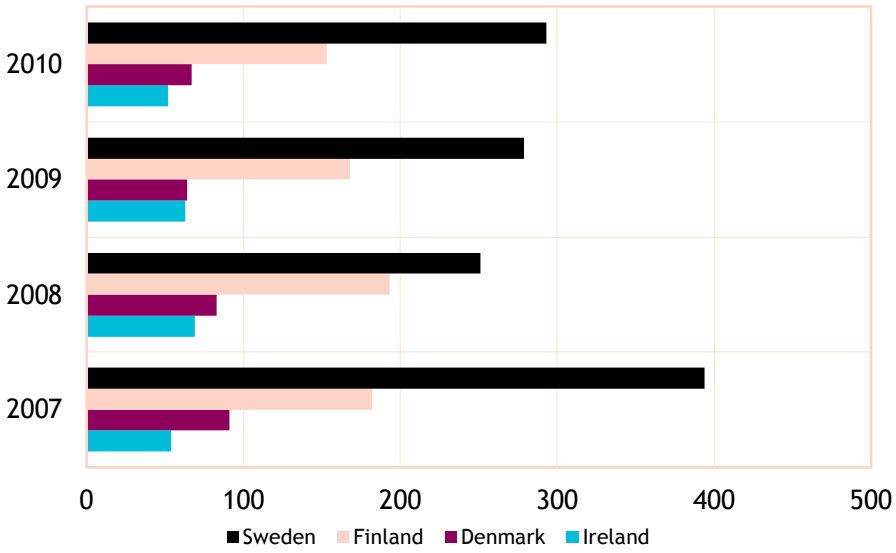
A key objective of the programme is that it increases the availability of funding for high technology or knowledge based companies in the seed, start-up and development stages. In this context, a total of 805 separate investments have been made in 186 start up, early stage and developing companies through Scheme 2 and 3. This averages out at 17 companies per annum and represents between 25 per cent and 30 per cent of all Irish based companies in receipt of VC funding per annum (based on figures available for 2007 to 2010).

Chart 8.10: Enterprise Ireland Partner Funds – Breakdown of Investments by Stage of Development



Though these figures are relatively small in absolute terms, VC financing is a niche funding vehicle that is only appropriate for a small proportion of companies. Even within the high technology population of early stage companies, figures from the US National Venture Capital Association indicate that only one in 100 companies end up being funded[96]. However, analysis of the numbers of companies receiving funding in benchmark countries indicates that there is still considerable scope to increase the numbers of early stage and scaling high technology companies that secure VC financing to bring Ireland up to the levels of international comparators such as Finland.

Chart 8.11: An International Comparison of Number of Firms Invested in by VCs 2007-2010



Source: European Venture Capital Association

96 National Venture Capital Association, 2011, NVCA Yearbook

8.8 Findings & Conclusions

Appropriateness

This evaluation focuses on the period 2000-2010 which covers two Schemes of the Enterprise Ireland Seed & Venture Capital Programme[97]. Analysis of the outputs and impacts of the programme over this time indicates that it is appropriate to meet its objective which is to further develop the Irish VC sector and improve the ecosystem for high potential start-ups and scaling companies by:

- **Increasing the availability of risk capital to high tech/knowledge intensive SMEs in the seed, start-up and development stages**

  As stated earlier, Irish VC firms have invested circa €963m between 2000 and 2010.[98] This compares well with the previous decade when Irish VC firms invested approximately €358.7 million over a ten year period.

  By the end of 2010, the total investment funding available to companies under the two Schemes was €1.024 billion of which €250 million was provided by Enterprise Ireland. Of the €1.024 billion available under the two Schemes, €114 million is dedicated seed funding.

  By 2010, 805 investments have been made through the Enterprise Ireland partner funds in 186 separate companies with a combined value of €425 million.

  A review of the investments by sector shows clear alignment with the needs of the Irish enterprise base. However, there is potentially a need for greater investment in the areas of clean technologies and technology based food companies; both of which have been highlighted in successive national strategies as offering significant growth potential for Ireland.

- **Leveraging private sector investment**

  There is significant private sector involvement in the Irish seed & VC industry. Firstly, if the leveraging effects of Schemes 2 and 3 are combined each €1 committed by the State to the partner funds attracted €3 of private investment into the Enterprise Ireland partner funds.

  Secondly, data from the IVCA states that there has been €3 billon of venture, angel and related investment in Irish SMEs since 2000[99]. Approximately 50 per cent or €1.5 billion was invested directly by Irish VCs with the balance mainly introduced by Irish VCs through syndication with international VC Funds[100].

- **Developing commercially viable funds that can meet the capital requirements of high technology start-ups and scaling companies**

  24 Enterprise Ireland partner funds have been established under Scheme 2 and 3; five of which have or had an explicit focus on the provision of seed funding to emerging companies. Based on the factors identified by the PWC review as underpinning the creation of a sustainable and commercially viable VC fund, a minimum of 18 of the 24 partner funds (75 per cent) can be characterised as commercially viable.

97 Scheme 2 from 2000 to 2006 and Scheme 3 from 2007 to 2012

98 European Venture Capital Association, Yearbook 2011, Of this, approximately €425.3 million (44 per cent) has been through the Enterprise Ireland Partner Funds,

99 IVCA, 2011, Report to Government, July 2011. Note : the IVCA data is broad in scope and includes investments by angel investors and corporations that are not considered to be VC firms. It also includes some of the investments in companies through the HPSU suite of supports.

100 Ibid.

As outlined in detail above, there is clear alignment between the programme and the national policy emphasis on supporting the creation and development of high potential start up and scaling companies as part of Ireland's economic development and on the key role of seed & VC funding in delivering on this. It is also worth noting that a number of countries have government initiatives in place to support the development of a national VC industry as part as of broader measures to stimulate the formation and growth of high potential young firms and scaling companies.

Synergies and Complementarity

The Enterprise Ireland Seed & Venture Capital Programme is quite distinct from a number of agency delivered programmes in that it operates at the broader enterprise environment level rather than at that of the company or individual. However, there is a high level of complementarity between the programme and a number of other agency programmes particularly those focused on early stage business development such as feasibility, training and mentoring and High Potential Start-Up Supports. By their nature, recipients of VC funding through the Enterprise Ireland Partner Funds are very likely to be involved in research, development and innovation activities. As such, a number of the RDI supports available through the agencies such as Innovation Vouchers and Innovation Partnerships are relevant.

Overlap/Duplication

There is potentially some overlap between the Enterprise Ireland Seed & Venture Capital Programme and the equity supports available through the HPSU package. Of the 186 companies that have received seed & VC financing through the Enterprise Ireland partner funds circa 15 per cent are HPSU clients of Enterprise Ireland.

However, this is not necessarily an overlap per se but rather a function of the fact that companies that seek VC and HPSU type supports are at common stages of development. Analysis of venture capital received by all Irish based companies between 2007 and 2010 shows that a similar number of HPSU clients have secured VC funding through non-Enterprise Ireland partner funds as have through the partner funds[101].

Efficiency

Efficiency covers the extent to which the inputs have led to the desired outputs and outcomes.

This is challenging in the context of the Enterprise Ireland Seed & Venture Capital Programme as typical measures such as cost per participant are not appropriate. Furthermore, the nature of VC is that the returns arise to the State on the back of successful investments which would have the effect of reducing the direct costs of the Programme. As noted above, the State invests on a "pari passu" basis whereby the State shares equally in any risk and returns associated with investments. Data on this is not available due to commercial and confidentiality considerations[102].

Over the medium to longer term, there are also real and positive impacts associated with the programme in terms of employment, exports and exchequer returns from the companies that receive seed & VC funding through the Schemes. But as yet, it is too early to apply these measures to the programme.

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101 Irish Venture Capital Association, Venture Pulse 2007-2010

102 Enterprise Ireland cannot disclose the returns of the Funds either collectively or individually due to the commercial sensitivity of the information and the legal agreements that have been signed with the Partner Funds. This information is also excluded under Freedom of Information on commercial sensitivity grounds and is only discussed within the confines of the SVC Committee and the Board of Enterprise Ireland.

In this context, it is most appropriate to measure the efficiency of the programme in terms of the leveraging effect of the State commitment, which as outlined above is €1:€3 for the period 2000 to 2010. Acknowledging that it is difficult to find a direct comparator, we looked to similar government interventions in the UK where investments between 2000 and 2009 by the Department for Business, Innovation and Skills and its predecessors, in a series of funds managed by private sector fund managers, had a leveraging effect of £1: £1.30[103].

Effectiveness

Effectiveness covers the extent to which the outputs have led to the desired outcomes. The impacts summarised above in terms of numbers of investments and partner funds as well as the leveraging effect of the State commitment all demonstrate that the programme has been effective in delivering on its objectives in the main.

Additionally, comparative analysis of the Irish VC industry based on standard measures for assessing VC activity over time and across jurisdictions shows that the Irish VC industry has followed much the same trajectory as in benchmark countries[104] which indicates that the sector is reaching some level of maturity and sustainability. However, for each of the indicators, VC investment as a percentage of GDP, numbers of investments and numbers of companies invested in, the scale of activity in Ireland remains lower than in each of these countries.

VC investment in Ireland still only accounts for a small proportion of GDP, of which the Enterprise Ireland partner funds account for roughly one third. The Irish VC industry has not shown the scale of volatility that has been experienced in some other countries in terms of share of GDP, particularly the US, the UK and Israel, as a result of the financial crisis. This is most likely a function of the relative stage in the investment cycle of the Enterprise Ireland partner funds rather than the resilience of the Irish VC industry per se. In addition, the Irish VC industry as a whole has seen a general decline in the scale of activity largely as a result of the financial crisis and the impacts of which continue to be felt by the industry.

There may be some substitution or deadweight effects associated with the programme in that, companies securing funding though the partner funds may have sourced it from wholly private VC funds in the Scheme's absence. However, any substitution or deadweight effects are moderated by a number of factors:

- The State commitment represents less that 25 per cent of the overall funding available through the partner funds;
- Without the initial State commitment, it is likely that the scale of VC activity in Ireland would be considerably smaller.

The displacement effect of the programme is relatively limited. In the first instance, VC funding is a niche funding mechanism which is only appropriate for a small proportion of the overall enterprise base. The partner funds are independently managed by the private sector, who take investment decisions on a fully commercial basis. As such, they do not favour any particular company or entrepreneur at the expense of another – rather they invest based on perceived value for money and potential return. This model whereby the State does not have an operational role in

103 House of Commons, Committee of Public Accounts, Department for Business, Innovation and Skills: Venture Capital Support to Small Businesses, Seventeenth Report of Session 2009-10, March 2010

104 Denmark, Finland and Sweden

running the funds and making investment decisions is reflective of international experience and best practise[105].

Additionality

The overall aim of this Programme is to support the development of a vibrant and sustainable VC market to support greater numbers of high potential, technology and knowledge based companies to emerge and grow to scale in Ireland. A key feature of a vibrant and sustainable VC market is the availability of fund managers with the experience and expertise required to run successful funds, provide management guidance to portfolio companies and to raise private capital. The Scheme has played an important role in this regard. The IVCA's 2011 report, *The Economic Impact of Venture Capital in Ireland* found that the management teams of Irish VCs add real value to their investee companies in terms of business development and positioning the companies for international growth. A further indication of the calibre of the fund management teams is the strong role they play in facilitating the introduction of international investors to form larger VC syndicates.

The overall effectiveness of the Enterprise Ireland Seed & Venture Capital Programme notwithstanding, there remains a need for the Irish VC industry to continue to develop to bring it into line with international comparator countries and more importantly so that it is able to meet the needs of high potential Irish based industry. This is particularly relevant given the prevailing national and international economic environment which remains extremely challenging. It is unlikely that the Irish VC industry would perform at the levels needed by Irish based SMEs if the State commitment to developing the industry were not in place. The establishment of the working group proposed by the Action Plan for Jobs is welcomed in this regard[106].

Recommendations

Ensure that any future EI partner funds are aimed at addressing the prevailing market failures in the venture capital market and in sectors aligned with the investment strategies of commercial venture capital fund managers.

Work with the private sector to ensure the availability of funding from other sources for key sectors that are not appropriate for venture capital investment.

A full evaluation should be undertaken to assess the economic return through the State's investment in VC Funds, including employment, exports etc. The Department of Jobs, Enterprise and Innovation should be cognisant of the financial return to the State through EI-Partner funds[107].

105 Gilson, R.J., 2003, "Engineering a Venture Capital Market: Lessons from the American Experience," Stanford Law Review, 55(4)

106 Reference Action 3.42. Establish a working group to ascertain the need for the State to continue its support, on the same terms as the private sector, for the development of the domestic venture capital sector (DJEI, EI, NPRF)

107 The Department of Jobs, Enterprise and Innovation should be cognisant of the financial return to the State through EI-Partner funds

9 City & County Enterprise Boards – Start Your Own Business Supports 2004-2010

Programme Logic Model

Objectives

- Stimulate an increase in the number of start-ups in Ireland and foster potential entrepreneurs with the capacity to develop their ideas into successful business
- Promote the growth of new business with ability to create new jobs

Inputs

- Exchequer funding allocated by the Department of Jobs, Enterprise and Innovation
- Private Sector Funding
- Participant fees for training programmes

Outputs

- Number of participants in receipt of supports each year

Activities

CEBs provide several supports for entrepreneurs including;

- Training
- Management Development
- Finance
- Mentoring
- Enterprise Education
- Enterprise Promotion

Outcomes & Impacts

- Increased number of Start-ups
- Increased number of entrepreneurs
- Increased employment
- Higher survival rates of start-ups

9.1 Background to City and County Enterprise Boards

The network of City and County Enterprise Boards (CEBs) was established in 1993, during a time of high unemployment and low economic growth in Ireland. It was recognised that micro enterprises (employing 10 or less people) could be a valuable source of employment and economic growth, and that at that time, there was a gap in the provision of state supports to those enterprises. It was also considered that those supports could best be provided at a local level. The CEBs were designed to fill this gap.

The CEB network consists of 35 companies established under the Companies Act and limited by guarantee. Each of these is responsible for a specific part of the country[108]. State funding for the CEBs was placed on a formal statutory footing by the Industrial Development Act 1995.

The CEBs provide direct financial and soft supports to new and existing enterprises and promote entrepreneurship through[109]:

- Providing financial supports to firms, sole traders and cooperatives both newly formed and pre-existing;
- Supporting local developments that contribute to enterprise creation, the development of existing businesses or other economic benefits; and,
- Fostering an awareness of the need for enterprise creation and development in their local area.

Based on a range of data sources, it is estimated that each year on average a typical CEB:

- Handles some 800 to 1,000 queries;
- Offers 7 Start Your Own Business (SYOB) courses and 30 management development training courses;
- Operates between one and four networks;
- Delivers a range of initiatives to primary and secondary levels students[110]; and
- Completes 110 mentoring assignments.

In 2007, a Central Co-ordination Unit (CCU) for the CEBs was established within Enterprise Ireland. The CCU has responsibility for the provision of day-to-day operational, technical and financial support to the CEBs.

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108 One CEB was established for each of the 34 Local Authority areas in the country, with the exception of Galway City, Galway County and Cork County. Galway City and Galway County are serviced by a single Enterprise Board. Cork County is served by three CEBs: the Cork North, South Cork and West Cork County Enterprise Boards

109 This reflects the objectives set out in the Industrial Development Act 1995. The CEB Network Strategy 2010 restates and updates the objectives across three key pillars, namely to: (1) Support new enterprises via training, advice and support, mentoring, financial support; (2) Foster a spirit of enterprise: schools, media events, Women in Business conference; (3) Enhance existing enterprises: advice, mentoring , training, networking, financial supports

110 Over 20,000 students a year now participate in the various CEB supported programmes implemented in the education sector

9.2 Exchequer Funding to CEBs

The SYOB programme of supports is delivered within the context of the wide range of inter-linked and complementary activities delivered by the CEBs to support, encourage and promote an enterprise culture. Therefore, before moving on the specifics of the SYOB evaluation, we set out the overall Exchequer funding of CEBs in order to put the SYOB programme funding into context.

The level of Exchequer funding to the CEBs increased between 2004 and 2007 and has been static or declining since then. Since 2010 the basic capital allocation under the Exchequer Estimates has been maintained at circa €15 million, and where savings can be made elsewhere in the DJEI, full consideration is given to making additional capital available to the CEBs. The Exchequer funding to the CEBs is broken out as follows:

- Current Costs which covers employee, rent/property and running costs. It is important to acknowledge that the greater proportion of this relates to staff costs (c.70 per cent) and that these staff members provide a day to day information and support services to small businesses and new start ups. In addition they provide an essential input into the Measure One and Measure Two activities.
- Measure One Grants - which facilitate the provision of direct financial supports to firms by way of capital, feasibility and employment grants;
- Measure Two Grants – which covers other costs including the provision of entrepreneurial and capability development through education, training, mentoring, awareness raising and promotion.

Table 9.1: Exchequer Funding to CEBs – Total: 2004-2009

Year	2004	2005	2006	2007	2008	2009	2010 (e)
	(€'000)						
Current Costs	11,873	14,400	12,821	13,713	13,589	13,417	13,550
Measure One Grants				9,429	9,321	9,423	
Measure Two Grants				10,705	9,774	10,640	
Combined Measure One and Two	16,714*	15,714*	20,600*				20,108
Total	28,587	30,114	33,421	33,847	32,684	33,480	33,658

*Prior to 2007 only figures for the combined budget allocation for Measures One and Two were available

Source: DJEI and Enterprise Ireland CEB Central Co-ordination Unit

Table 9.2: Using 2009 data this averages out as follows per individual CEB:

Average per CEB	€'000
Current costs	383
Measure One Grants	269
Measure Two Grants	304
Total	956

The CEBs operate within national policy and national eligibility guidelines in disbursing the three separate funding streams they receive from the Exchequer each year. Details of total spending under each of these headings are set out below. The current costs have been apportioned in order to identify the full input costs for the activities carried out for start ups.

Measure One Spending – Financial Supports

During the evaluation period the Measure One grant was used to make three types of grant to firms. These were:

- Capital grants to meet part of the cost of investments in capital equipment;
- Feasibility grants to cover the costs of investigating a new business idea and preparing a business plan;
- Employment grants to meet part of the cost of taking on additional staff.

At least 30 per cent of the grants given by a CEB have to be refundable by the recipient. A portion of the capital grants made by the CEBs are refundable or are in the form of preference shares which pay a dividend to the CEB and are redeemable over time - Table 9.3 below.

Table 9.3: Breakdown of Grant Expenditure 2004-2009

	2004	2005	2006	2007	2008	2009
	(€)	(€)	(€)	(€)	(€)	(€)
Capital	8,043,430	8,411,542	8,190,364	9,562,910	8,879,577	7,040,898
Feasibility	405,859	393,148	351,970	413,044	520,302	622,412
Employment	2,169,614	2,048,559	2,027,024	2,395,869	2,183,194	2,579,275
Priming	0	0	0	0	0	230,365
	10,618,903	10,853,248	10,569,358	12,371,823	11,583,073	10,472,950

Source: Enterprise Ireland CEB Central Co-ordination Unit

With effect from 2010 a new set of financial instruments was introduced which reflects the life stage of a micro firm, and are:

- Feasibility grants: to cover costs of **investigating a new business idea** and preparing a business plan
- Priming grants for new start ups and firms in their **first 18 months** of existence; and,
- Business Expansion grants for firms in existence for **more than 18 months**.

Some CEBs started to identify "Priming" grants in their returns to the Central Coordination Unit in 2009, and these are shown separately in Table 9.3 above.

As is evident from the above tables the financial supports provided to firms is greater than the Measure One Exchequer funding. A portion of the financial support given by CEBs is repaid to them by the recipients[111] and is disbursed into further grants by the CEBs.

Measure 2 Spending – Other Supports/Soft Supports

The main types of activity financed from the Measure Two grants are: Management Development, Training, Mentoring, Enterprise Education and Promotion. These supports are directed at both new and existing businesses and also fund a range of activities in the wider community and in schools to promote a culture of enterprise. The total spending by CEBs on Measure Two activities between 2004 and 2009 is set out in Table 9.4. The Central Coordination Unit has provided an analysis of this spending for 2008 and 2009 (Table 9.5).

Table 9.4: Measure Two Spending 2004-2009

Year	2004	2005	2006	2007	2008	2009
Amount (€)	7,392,307	8,926,188	11,072,478	11,271,531	13,743,970	12,885,318

Source: Department of Jobs, Enterprise and Innovation, Enterprise Ireland CEB Central Coordination Unit

111 Some grants are refundable, and preference shares are redeemed by the firms invested in

Table 9.5: Analysis of Measure Two Spending 2008-2009

	2008	2009
	(€)	(€)
Management Development	1,640,129	1,686,443
Training	3,775,691	3,689,632
Mentoring	1,479,388	1,580,737
Enterprise Education	1,155,270	978,163
Enterprise Promotion	2,468,936	2,512,064
Other	2,026,008	1,375,507
Total	13,743,970	12,885,318

Source: Enterprise Ireland CEB Central Co-ordination Unit

CEBs raise additional funds for Measure Two activities by making small charges for their training courses and by obtaining local sponsorship and contributions from other Agencies for some of their activities. In 2009 CEBs raised income of €2m from these sources[112].

9.3 Programme Description and Objectives

This evaluation is focused assessing the appropriateness, efficiency and effectiveness of the Start Your Own Business (SYOB) programme of supports provided by the CEBs[113]. The SYOB programme has been run by the CEBs since 2004. It is targeted at potential entrepreneurs and entrepreneurs who have a company now or had one in the past. The programme aims to support entrepreneurs in ways that equip them with the greatest chance of generating a successful business, and can be grouped under two main areas:

- SYOB financial assistance delivered through capital & refundable grants, employment grants, feasibility study grants and equity grants; and
- SYOB training which provides business information & advice and training.

Since 2008, the SYOB training course content has been broadly standardised across CEBs, addressing the significant variation from CEB to CEB that had developed over the years prior. Typically, the course is provided by external trainers who are procured via a panel which is established twice yearly on foot of open competition. Trainers develop and deliver the training to a specification established by the CEB. The course is normally delivered over a period of up to ten weeks on a part time participation basis. Participants are charged a fee for attendance, which may be up to €200 per course, with reductions for unemployed persons. Each CEB provides between five and ten SYOB

112 Comptroller And Auditor-General Report on the Accounts of the Public Services 2010, Chapter 28: County and City Enterprise Boards

113 The evaluation is informed by research and analysis undertaken by AECOM consultants, December 2011

courses per annum, indicating that there are currently over 250 such courses offered annually on a nation-wide basis[114].

Ultimately the objectives of the SYOB supports are to:

- Stimulate an increase in the number of start-ups in Ireland and foster potential entrepreneurs with the capacity to develop their ideas into a successful business; and
- Promote the growth of new business with ability to create new jobs.

Performance indicators are set and reported under the EU European Regional Development Fund (ERDF) 2007-2013 for the BMW and Southern & Eastern Regions under the Entrepreneurship in Micro Enterprise Theme[115]. In some instances, individual CEBs may have set out their own targets.

9.4 Rationale for Government Intervention

The role of entrepreneurship in driving economic growth is well accepted. The OECD has established that a large fraction of aggregate labour productivity growth is driven by what happens in each individual firm, whilst shifts in market shares from low to high productivity firms seem to play only a modest role in driving overall productivity[116]. The benefits of high levels of start-up activity are two-fold:

- Firstly, increased start-up activity may raise productivity, reduce costs and introduce greater innovation in the market place. Increased productivity and reduced costs will raise incomes and increase spending power.
- Secondly, at times of high unemployment, where there are unused or underused resources in the economy, start-up activity may utilise surplus resources thereby creating additional wages, profits and tax revenues.

The rationale for Government to provide start your own business (SYOB) supports rests largely on the concept of market failure. The SYOB initiative aims to addresses the following market failures:

- Individuals may be myopic and fail to recognise the benefits of starting or growing a business;
- Start-up entrepreneurs or owners of small firms may fail to understand the benefits of training, or the fact that acquisition of knowledge and skills may spill over to other firms;
- Innovative small firms may produce technological or other improvements that spill over to the rest of the economy and are not reckoned in private decisions; and/or
- Financial institutions may be unable to accurately assess the risk of lending to small firms or may be simply risk averse.

114 Based on Case Studies and Annual Reports of CEBs for 2009 and 2010

115 CEB capital expenditure is eligible for part-refund under the EU ERDF 2007-2013. These refunds are made at national level to the State

116 OECD. 2005, Understanding Economic Growth

9.5 Alignment with National Policy

During the period under review, Government policies recognised the role that entrepreneurship and small and medium business play in the development of the national economy. *The National Development Plan 2007-2013*, for example, recognising that lack of scale is a key issue highlighted the need: for improved management skills within small and micro firms; to develop international marketing and sales capabilities; to exploit state-of-the-art technology and business processes; and the need to forge strategic alliances and partnerships.

In 2004 *Ahead of the Curve*[117] recommended that skills, education and training initiatives be focused on the needs in the labour market. The concept of developing entrepreneurs through education and training was echoed again in *Towards Developing an Entrepreneurship Policy for Ireland, 2007*.

The Department of Jobs, Enterprise and Innovation: *Statement of Strategy (2008 - 2010)* highlighted the development of "culture surrounding entrepreneurship through educational and society supports which should develop Ireland into a market leader of entrepreneurs with a reputation, worldwide, as a world class place to start and grow a business".

Recently, the Report of the Innovation Task force (2010), recommended that policy be formed around; "encouraging and retaining entrepreneurs…and enabling entrepreneur's access smart capital".

The SYOB programme aligns with national policy, focused as it is on stimulating and supporting entrepreneurship and start ups through a range of financial supports, mentoring advice and training. Its targeted approach aims to develop entrepreneurs' capabilities and skills to ensure that they have the best chance of success with their business idea.

9.6 Evaluation Methodology

This evaluation is an interim evaluation and examines the SYOB supports offered by the CEBs during the period 2004-2009 inclusive. Data for 2010 and 2011, where available, has also been used. The methodology follows the template for entrepreneurship and start-up programmes, developed in the Forfás Evaluation Framework[118].

The methodology included analysis of the data contained in the management information systems operated by the CEBs, existing reports and data provided by the Central Co-ordination Unit in Enterprise Ireland, case studies of 7 CEBs[119] including office visits and analysis of locally available data, a survey of former SYOB participants, a client focus group, specific enquiries to CEBs, and an international literature review.

The CCU has greatly facilitated this evaluation by providing aggregate data on the CEBs activities. As a large part of the period under review pre-dated the CCU, established in 2007, there were considerable data challenges associated with this evaluation.

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117 Report of the Enterprise Strategy Group, Ahead of the Curve, 2004

118 Framework for Evaluation of Enterprise Supports,2011, Forfás

119 The case studies included a representative sample of CEBs, taking into account location, urban/rural split and size. The following CEBs were selected on that criteria: Dun Laoghaire/Rathdown, Cork city, Wexford, Tipperary North , Limerick City, Roscommon, Cavan

It is also worth noting that the data currently being collected is not done for the purposes of evaluation in that the data appropriate to monitoring the impact of the CEBs activities is not generally available. However, with some adjustments to what is currently collected, the management information systems now in place have the capacity to provide aggregate information to facilitate evaluation across the network of CEBs.

In line with the Programme Logic Model, the following sections set out the:

- Inputs
- Outputs and Activities
- Outcomes and Impacts

9.7 Inputs for Start Your Own Business Activities

For the purposes of this evaluation it was necessary to identify the inputs specific to SYOB activities, given that the range of financial and soft supports are available to both new start ups and existing firms[120]. In practice, the share of a CEB's inputs that is applied to new start ups depends on:

- The level of applications and interest from new and existing businesses; and
- The relative priority placed on new and existing businesses by the CEB.

The total exchequer funding for Measure 1 set out in section 9.2 above, have been split between supports for new businesses and supports for existing businesses, based on additional analysis and information.

It was estimated that 80 per cent of the funds allocated to Measure One are used for financial support for new firms, based on an analysis of grant applications[121]. Using this estimate, the Measure One grant spending on new firms is set out in table 9.6, together with an allocation of share of the current costs of the CEBs.

120 The data gathered by the CEBs and reported to the Central Co-ordination Unit does not make a distinction between start ups and established firms

121 Numbers of grant applications made under each of the grant categories (capital, feasibility, employment, and priming) were obtained in the period from their introduction to the end of 2010. These indicated that 80 per cent of grant giving activity related to new firms (Feasibility/Innovation grants and Priming grants) and 20 per cent related to established firms (Business Expansion grants)

Table 9.6: Measure 1 Grant and Associated Costs Spent on New Firms 2004-2009

	2004	2005	2006	2007	2008	2009
	(€)	(€)	(€)	(€)	(€)	(€)
Capital	6,445,838	6,740,836	6,563,588	7,663,518	7,115,909	5,642,430
Feasibility	325,247	315,061	282,061	331,005	416,959	498,788
Employment	1,738,684	1,641,673	1,624,415	1,920,000	1,749,567	2,066,978
Priming	0	0	0	0	0	230,365
Total Direct Spending	8,509,769	8,697,569	8,470,065	9,914,523	9,282,435	8,438,561
Allocation of Current Costs	5,572,824	5,112,505	4,949,723	5,640,735	5,152,025	4,961,287
Total Inputs	14,082,593	13,810,074	13,419,788	15,555,258	14,434,460	13,399,848

Source: Analysis of CCU data

The Central Co-ordination Unit collects data on the number of participants on training courses, including SYOB courses, run by each CEB, each year. Based on the data from the Central Co-ordination Unit and the results of a complementary survey[122], it has been estimated that 52 per cent of attendees at training courses run by CEBs were from new start ups. On this basis the Measure Two funds devoted to training individuals from new start ups amounted to €1,972,038 in 2008 and €1,927,089 in 2009. Taking into account an allocation of current costs to reflect the full-time CEB staff involved in the provision of courses, the total inputs costs were €3,066,577 in 2008 and €3,060,084 in 2009.

The survey of CEBs conducted for this evaluation also asked about mentor appointments. CEBs were asked how many mentor appointments they had made in a sample year, 2010, and what proportion of these appointments were for new and existing firms. Based on the results of this survey 58 per cent of mentor appointments were for new firms in the sample year, 2010. Using the same methodology, the Measure Two funds devoted to mentoring appointments for start ups were estimated as €859,023 for 2008 and €917,873 for 2009. The total input costs (including related staff costs) were estimated as €1,335,806 for 2008 and €1,457,518 for 2009.

122 For the purposes of this evaluation, the CEBs were surveyed, asking each one what proportion of the participants in their non-SYOB courses were from new firms and what proportion were from existing firms.

Table 9.7: Total CEB Spending on Supports for New Firms 2004-2009

Year	2004	2005	2006	2007	2008	2009	2010e
	(€'000)	(€'000)	(€'000)	(€'000)	(€'000)	(€'000)	(€'000)
Total Exchequer Funding	28,587	30,114	33,421	33,846	32,682	33,480	33,658
Supports for New Firms							
Grant Aids (Measure 1)	14,083	13,810	13,420	15,555	14,434	13,400	13,550
Training Courses	*	*	*	*	3,067	3,060	2,358
Mentoring	*	*	*	*	1,336	1,458	1,127
Allocation of Current Costs					5,152	4,961	
Total (2008 and 2009) incl. indirect costs					23,989	22,879	N/A
% of CEB funds focused on start-ups					73%	68%	

*Breakdown of Measure Two spending not available for these years

Source: Analysis of CCU data and CEB survey: includes indirect costs

Over the period 2008-2010 the total expenditure by CEBs on start-up supports is estimated at between €18.8m and €17m per annum.

This level of input delivers a full programme of supports for people starting their own business. There appears to be little scope to make material savings on these sums.

9.8 Activities and Outputs

As stated earlier the CEBs engage in a range of activities to deliver on their broad mandate. Case studies and survey results were used to assist in determining the related budget/input costs. The same methodology to delineate activities and outputs specific to start-ups has been used and is outlined in this section, together with additional information on the nature of the activities.

Activities are broadly characterised as:

A. Information and Advice
B. Financial Supports
C. Training & Management Development
D. Networking
E. Developing an Enterprise Culture; and
F. Other activities.

A Information and Advice

CEBs are a first point of contact for those needing information and advice on setting up or expanding a micro business venture. This involves signposting of services and supports for existing and would-be entrepreneurs. The CEBs' presence on the ground locally is an important feature of this service. In meeting the demand for information, CEBs generally provide:

- Access to a selection of fact sheets, business publications and periodicals;
- Access to sources of market and business development information;
- Signposting of local and national support schemes and programmes operated by other public agencies; and
- Access to the range of supports provided by the boards themselves.

Not all CEBs log the number of enquiries received annually, but returns from a number of Boards indicated that 800 to 1,000 enquiries in one year would be typical.

B Financial Supports

The current financial supports are categorised as follows:

Priming Grants (Start Ups)

These are for sole traders, partnerships, community or limited companies that fulfil the following criteria

- Located within the CEB's geographic area;
- A business which on growth may or may not fit the Enterprise Ireland portfolio;
- A business employing up to 10 employees;
- A manufacturing or internationally traded services business;
- A domestically traded service business with the potential to trade internationally; and/or
- A domestically traded services being established by a female returning to the workforce or unemployed persons where the potential for deadweight and displacement is likely to be minimal.

Eligible clients are awarded a Priming Grant within the first eighteen months of setting up the business. They are thus focused specifically on start-up activities.

The maximum Priming Grant payable is 50 per cent of the investment or €150,000 whichever is the lesser. It is intended that grants over €80,000 are the exception and only apply in the case of projects that clearly demonstrate a potential to graduate to Enterprise Ireland and/or to export internationally.

Feasibility Grants – available to both start-ups and existing enterprises

Feasibility Grants are designed to assist with researching market demand for a product or service and examining its sustainability. Grants include assistance with innovation including consultancy requirements, hiring of expertise from third level colleges, private specialists, design costs, patent costs and prototype development costs.

The maximum Feasibility Grant payable for the S&E region is the lesser of 50 per cent of the costs, or €20,000 and for the BMW region is the lesser of 60 per cent of the costs or €20,000.

Business Expansion Grants

Business Expansion Grants are not targeted toward start-up businesses.

Previous Arrangements for Financial Support (relevant to period of this evaluation)

Prior to 2008, the suite of grants available included:

- **Feasibility Grants** were for a maximum amount of €6,350 in the BMW Region and €5,100 in the SE Region.
- **Capital Grants** were for up to €75,000 or 50% of the capital investment.
- **Employment Grants** were for up to a maximum of €7,500 per employee and a maximum of ten employee

C Training & Management Development

The CEBs provide Start Your Own Business, Management Development Training and Mentoring services.

Start Your Own Business Training

This training is specifically aimed at those seeking to or in the course of starting up a new business. The course content normally includes information on:

- Company structures;
- Business planning;
- Market research and Marketing;
- Sources of finance, financial Management, taxation and book keeping; and
- Legal and insurance issues.

Since 2008, the course content has been broadly standardised across CEBs to address the variations that existed prior to that. The course is typically provided by external trainers who are procured via a panel which is established twice yearly on foot of open competition. Trainers develop and deliver the training to a specification established by the CEB. The course is normally delivered over a period of up to ten weeks on a part time participation basis. Participants are charged a fee for attendance, which may be up to €200 per course, with reductions for unemployed persons.

Each CEB provides between five and ten SYOB courses per annum, indicating that there are currently over 250 such courses offered annually on a nation-wide basis [123] .

Management Development Training

The CEBs offer a wide range of management development programmes. Typical management development programmes include all aspects relating to the running of a business, ranging from business and financial planning to HR and employment law, as well as personal effectiveness and leadership management[124]. The scale of these courses varies considerably with some amounting to

123 Based on Case Studies and Annual Reports of CEBs for 2009 and 2010.

124 Business Analysis, Business Planning Development, Financial Planning and Management, Book-keeping, HR Management, Market Research & Promotion, Business & Employment Law, Time Management & Life Work Balance, Sales and Marketing, Taxation, Website development, Time Management & Life Work Balance, Personal Effectiveness and Leadership Management

half-day involvement covering basic skills or information giving to more prolonged course offered over a period of weeks.

Analysis indicates that the typical CEB delivers some 30 such courses annually or some 1,000 courses for the CEB network as a whole.

Management development also embraces seminars and other events such as conferences. These provide access to entrepreneurs to speakers and activities that increase their skills base and motivational levels and are additional to the above courses.

Mentoring

The Mentor Programme is a key element of CEB activity. The Programme matches experienced business practitioners with small business owners and start-up entrepreneurs, who need practical one-to-one advice and guidance. Assignments under the programme are normally short-term and the specialist fields for mentor engagement typically include general management, financial structuring, production planning, marketing, distribution, corporate organisation and strategic planning. CEBs have a panel of skilled and experienced people from a range of backgrounds who make their expertise available to the Mentor Programme on a voluntary basis.

The typical CEB arranges for some 110 mentoring assignments annually, each of which may involve up to three to four meetings or visits. This suggests that the total of mentoring assignments across the CEB network is in excess of 3,800.

D Networking

The CEBs generally operate a number of standing networks. These include:

- Start-up entrepreneur networks;
- General business networks;
- Women in business networks; and
- Owner-manager networks.

The most common networks are those focused on women in business networks which address the particular issues facing women entrepreneurs and comprise business owners/managers coming together to meet and exchange views and information on being in business.

The owner/manager networks are also prevalent and often arise from the demand from clients of management development programmes who wish to build on previous learning and maintain and enhance the contacts made.

The CEBs usually operate between one and four different networks, with meetings held throughout the year.

E Developing an Enterprise Culture

Encouraging and promoting an enterprise culture is an important area of activity for the CEBs. A number of initiatives are run by the CEBs at both primary and secondary level including:

- Student Enterprise Awards - Second Level;
- Exploring Enterprise - Second Level;
- Enterprise Encounter - Second Level;

- Celtic Enterprise - Second Level;
- Bi Gnothach Enterprise Programme - Primary Level; and
- Third Level

Over 20,000 students a year now participate in the various CEB-supported programmes implemented in the education sector

F Other Activities

The CEBs are involved in a wide range of other activities in response to their local development mandate. These vary considerably from place to place. For example in the Border Region, CEBs are involved in a range of initiatives that are focused on local area development.

By way of example, over €3.064m was approved in 2011 by the European Union under the INTERREG IVA Programme to support the Harnessing Natural Resources (HNR) project. It comprises 26 rural tourism and enterprise initiatives across the three counties of Cavan, Fermanagh and Leitrim. The project is managed by a consortium led by Cavan County Enterprise Board and will act as a catalyst for entrepreneurial activity and private sector investment in new businesses. Enhancement of the environment and infrastructure, combined with economic and enterprise support initiatives, will be of long term benefit to the local economy.

A number of CEBs operate a Hi-Start programme which provides specialist support to those businesses with strong growth aspirations and the potential to trade internationally and assists these clients to become investor-ready and prepared for consideration by Enterprise Ireland as potential HPSU clients.

In summary the typical CEB is engaged in a range of activities – supporting both start-up enterprises and existing micro businesses (Table 9.8)

Table 9.8: Type and Level of Activity of a Typical CEB

Type of Activity	Level of Activity - per annum
Advice and Support - queries	800 – 100
SYOB Training Courses	5 – 10
Management Development Programmes	30
Mentoring Assignments	110
Networks supported	1-4
Student Enterprises Initiatives	20,000 nationwide (All CEBs)

CEB Activities specific to Start-up Enterprises

While it is clear that CEB activities have a focus on start-ups, the available data do not enable this to be easily encapsulated. There are two reasons for this:

- Separate budget allocations are not allocated between start-up and existing enterprise supports; and

- For practical reasons, services, such as management training, may be most effectively delivered jointly to new and existing entrepreneurs.

Table 9.9 sets out the key activities undertaken by CEBs and indicates that in most cases, the services arising from these activities are delivered to both new and existing enterprises. Only Priming Grants and the SYOB courses are focused solely on start-up enterprises. The survey of the CEBs established indicated that with regard to management training, 44 per cent of activity is directed towards start-up enterprises. The majority of mentoring assignments (58 per cent) is in respect of start-ups rather than existing firms.

Table 9.9: Focus of Key CEB Activities

CEB Activity	Focused on		
	Start-ups Only	Existing Firm Only	Both
Information and Advice			■
Financial			
Priming Grants	■		
Business Expansion Grants		■	
Feasibility Grants			■
Training			
SYOB Training	■		
Management Training			■
Mentoring			■
Networking			■

Measure 1: Financial Supports

A total of 6,767 grants were approved for payment over the period from 2004 to 2010 inclusive. There was an increase in the number of grants from 864 in 2004 to 1,037 in 2010, an annual rate of growth of 3.1 per cent. The number of grants approved has been in excess of 1,000 for the last two years. Our analysis indicates that 80 per cent of financial supports are directed at start ups.

Table 9.10: Total Number of Grants Approved

Year	Number of Grants	Annual Growth Rate (%)
2004	864	9.7
2005	948	9.7
2006	894	-5.7
2007	945	5.7
2008	959	1.5
2009	1,120	16.8
2010	1,037	-7.4
All	6,767	3.1 (Annual average)

Source: Derived from CCU data

Over the period 2004 to 2010 as a whole, the vast bulk of the grants made were in respect of capital or employment projects.

Table 9.11: Measure1 Projects by Type

	Business Expansion	Priming	Capital	Employment	Feasibility	Feasibility/ Innovation	Preference Shares	Refundable Grant Aid	Grand Total
2004			369	293	143		21	41	867
2005			440	298	147		27	36	948
2006			440	283	147		36	30	936
2007			443	278	163		38	27	949
2008			445	280	182		30	25	962
2009	16	55	415	361	229	10	33	14	1,133
2010	236	786	21	7	5	248		2	1,305
Total	252	841	2,573	1,800	1,016	258	185	175	7,100

Source: Derived from CCU data

Note: The data in Table 9.11 above includes grants from both the European Regional Development Fund and the European Globalisation Fund. The new CEB Financial Instruments of Feasibility/ Innovation, Priming and Business Expansion came into being in November 2009 so that is the reason for there being no data entries before that time.

There is evidence that in 2010 the average grant size fell - so that pressure of reduced budgets may be resulting in the spreading of funding over a larger number of projects in order to meet demand – a point confirmed by the case studies.

By 2010, the CEBs had 14,400 clients who had ever received financial assistance, of which 9,800 were still in business. Over the period as a whole 60.9 per cent of grants were in the BMW region and 39.1 per cent in the SE Region.

Measure 2: Soft Supports

A total of 142,392 persons participated in Measure 2 activities over the period under review (see table 9.12). Participants doubled over the period, rising from 12,754 in 2004 to 23,732 in 2010. The average annual growth rate in participants was 10.9 per cent. Growth was especially strong in 2005 at 33.8 per cent.

It should be noted that perusal of CEB annual reports indicates that the various CEBs interpret what should be included under this measure differently; some exclude mentoring activities, while networking activities are generally included. Despite these differences, there is nevertheless strong evidence of a growth in output over the period. In 2010, participants were equally divided between men and women.

Analysis for 2009 indicates that some 15,000 of the 25,900 participants (or 58 per cent) were attending training courses, with the remainder engaged in networking and mentoring events[125].

As networks tend to be large and meet regularly, participants at networks make up the vast majority of non-training participants.

Table 9.12 Number of Participants in Measure 2 Activities

Year	Number of Participants	Annual Growth Rate (%)
2004	12,754	33.8
2005	17,040	33.8
2006	19,867	16.6
2007	21,169	6.6
2008	21,192	3.5
2009	25,918	18.3
2010	23,732	-8.4

125 Based on Case Studies and Annual Reports of CEBs for 2009.

All	142,392	10.9 (Annual average)

Source: Derived from CCU Data

Start Your Own Business Training

A total of 18,899 individuals participated in SYOB soft support courses from 2005-2010 (data is unavailable for 2004). The average year on year growth is 7.5 per cent. Table 9.13 charts the breakdown of participants each year.

Table 9.13: Number of Participants in SYOB courses

Year	2004	2005	2006	2007	2008	2009	2010	All
No. of Participants	n.a.	2,657	3,128	2,776	2,801	3,797	3,811	18,899
Annual growth Rate (%)			17.7	-11.3	0.9	35.6	0.4	7.5

Source: Derived from CCU data

The analysis conducted for this evaluation indicates that 80 per cent of financial supports are directed to start-up enterprises, while 44 per cent of management training (excluding SYOB Programmes), and 58 per cent of mentoring services are directed to start-up businesses.

9.9 Impacts and Outcomes

Financial Supports: Impacts and Outcomes

Over the period under review, approximately 6,700 projects were approved for financial support. These would have affected some 5,400 start-ups (based on the indication that 80 per cent of financial supports are directed at start-ups).

Robust assessment process: During the course of this evaluation, attention was paid to the mechanisms in place in CEBs to assess applications for financial supports. These mechanisms were found to be robust, with each CEB having an Evaluation Committee made up of bankers, accountants and business people who evaluate proposals for funding. Because of their local knowledge and fields of expertise, the Evaluation Committees are well placed to assess the effect of deadweight and displacement factors – important considerations when attempting to evaluate the impact and outcomes arising from State supports.

Deadweight is a complex concept: full deadweight applies if the intended outcome would have occurred at the same time and to the same extent without the support programme; partial deadweight occurs for example where the timing and/or extent of investment is positively impacted by state support.

The approach adopted here is to survey estimates of deadweight from both Irish and international support schemes to establish a broad range within which deadweight could lie. Active labour market programmes and market-driven programmes are also considered separately[126]. Scenario

126 The outcome of a programme targeted at entrepreneurship may be that of securing employment for unemployed persons or helping individuals to start up a business

testing is then used to establish the extent to which the benefits of the SYOB Supports would exceed their costs under different deadweight scenarios.

Active labour market programmes – international review

In Finland, Start-Up Grants (SUG) are provided by TE centres which aim to get people out of unemployment and into employment. The grants are provided to unemployed people, who can demonstrate a solid business plan, for a period of 18 months at a rate of €590 per month (in 2009). The grant was introduced in the 1980s and initially focused only on unemployed people but was expanded in 2005 to include wider application criteria to enabling non-unemployed people to apply.

In terms of the deadweight impacts of the scheme, research found that 51 per cent of unemployed participants would have started a business regardless of the SUG, while 65 per cent of non-unemployed would have proceeded without the funding.

In Australia, the New Enterprise Incentive Scheme (NEIS) offers an allowance to unemployed people to start a business with provision of an allowance for up to 1 year as well as rent allowance for up to 6 months[127]. An evaluation of the scheme in 2001 (and updated in 2002) was based on a follow-up survey of unemployed people in receipt of the allowance.

The analysis found that around 80 per cent of participants were still in employment three months after cessation of the NEIS allowance. With regard to the survival rate of businesses, there were at most 73 per cent of participants in self-employment 12 months after cessation of NEIS allowance while just 52 per cent were still in self-employment 18 months after benefits ceased. The evaluation found that 73 per cent of 'survivors' would have started a business without the NEIS scheme, compared to 54 per cent of non-survivors. Overall, 62 per cent of participants said they would have started a business without assistance.

The evaluation also demonstrated that the level of deadweight varies depending on previous business experience – the lower the level of business experience participants have, the less likely they are to have set up their business without assistance. The evaluation concluded that the scheme, taking high deadweight and displacement effects into account, was an expensive mechanism for getting people into employment in terms of the cost per positive outcome (about $30,000).

In Germany, business start up programmes have also targeted the unemployed with the provision of both business 'start up grants' or a 'bridging allowance'. Key objectives of both schemes were to reduce unemployment and increase self-employment. Evaluation of the deadweight impacts of both schemes suggests they were a success: at the end of the assessment period, the unemployment rate of participants in the bridging allowance scheme was 17 per cent lower than in the non-participating control group. In relation to the 'Start Up Subsidy' scheme the unemployment rate was 18 per cent lower for women and 29 per cent lower for men than in the control group.

In conclusion and based on these preliminary investigations, business support tools to stimulate the labour market are generally a success in reducing unemployment. However, these schemes often come at high costs, with relatively high levels of deadweight.

127 The Centre for Labour Market Research. Findings in the NEIS Evaluation, 2001

Market Driven Start-Up Programmes

Evaluations of the deadweight impact of market driven business start up assistance are more frequently completed. The estimation of deadweight is often based on surveying the participants in the support programme. This gives rise to a problem in that if participants are asked ex-post whether they would have succeeded in starting up a business or gaining employment without the support programme, they may have a tendency to believe that they would have succeeded without the support. Thus, reported deadweight could be very high, but would not relate to reality.

The summary of deadweight impacts from programmes in Ireland, presented by Lenihan (2004) demonstrates the challenges in assessing deadweight impacts. It was found that deadweight impacts are heavily dependent on the grant type, size of firm, location, whether a grant was included and if the firm was a repeat recipient of grant aid. Deadweight impacts assessed ranged from 45 to 80 per cent (Table 9.14). Table 9.15 sets out findings in relation to a number of international projects.

Table 9.14: Deadweight Estimates for Irish Projects

Authors (Year)	Evaluation of	Deadweight Estimate
IEU (1999)[128]	Micro Enterprise Supports	45%
Forfás (2003)[129]	Start Up Project	
	GDA	80%
	Rest of Ireland	70%
	BMW	65%
	High Potential Start Up:	
	GDA	60%
	Rest of Ireland	60%
	BMW	60%
Honohan (1998)[130]	Key Issues of Cost Benefit Methodology for Irish Industrial Policy	80%
IEU (2000)[131]	Seed and Venture Capital Scheme	60%

128 IEU, Evaluation of Micro Enterprise Supports Across National and Local Development Agencies, Industrial Evaluation Unit, Dublin, 1999

129 Forfás, The Economic Appraisal System for Projects Seeking Support from the Industrial Development Agencies, Forfás, Dublin, 2003

130 Honohan, P., "Key Issues of Cost-Benefit Methodology for Irish Industrial Policy", General Research Series 172, The Economic and Social Research Institute, Dublin, 1998

131 IEU., Evaluation of the Seed and Venture Capital Scheme, Industrial Evaluation Unit, Dublin, 2000

Table 9.15: Deadweight Estimates in International Projects

Authors (year)	Evaluation (Focus of Study)	Where	Deadweight Estimate
Public Sector Management Research Unit (PSMRU) (1988)	Urban Development Grants (UDG) programme	UK	57%
PA Cambridge Economic Consultants (PACEC) (1993)	Regional Selection Assistance (RSA) Scheme	UK	21%
Public & Corporate Economic Consultants (PACEC) (1998)	Business Links	UK	38%
Hart & Scott (1994)	Local Economic Development Unit (LEDU) Assistance Policies to Small Firms in Northern Ireland (NI)	NI	8 – 32%
Sheehan (1993)	Capital Grants to Manufacturing Firms in Northern Ireland	NI	59% (approx)
Monk (1990)	Enterprise Board Investment	UK	46%
Davenport et al (1998)	Technology for Business Growth (TGB) Programme	NZ	37.5% (approx)

Source: Lenihan (2004) [132]

Conclusion - Deadweight

We can conclude then that deadweight impacts of business start-up programmes appear to vary immensely across various programmes, but are generally in the range of 45 to 80 per cent. Experience in Ireland to date suggests deadweight falls in the upper limits of this range. It has been suggested that even if policies are planned carefully, deadweight spending is not completely avoidable because the government never has full information about a firm's actions in the absence of a subsidy[133].

The scale of impacts and benefits are set out below in relation to CEB financial supports for start-ups and the SYOB training programme.

Scale of Impacts – financial supports

The benefits of increased start-up activity are twofold:

- Increased start-up activity may raise productivity, reduce costs and introduce greater innovation in the market place. Increased productivity and reduced costs will raise incomes and increase spending power. Innovation brings new higher quality products that will enhance consumer welfare; and

132 H.Lenihan and M.Hart. Additionality and the Public Sector Support to Irish Industry: Some Methodological Issues. European Conference on Good Practice in Research, Evaluation and Indicators, 2004

133 Layard, Richard and Nickell, S. J. The Case for Subsidising Extra Jobs. The Economic Journal, 90 (357). 1980

- At times of high unemployment, where there are unused or underused resources in the economy, start-up activity may utilise surplus resources thereby creating additional wages, profits and tax revenues.

While the first category of impacts is difficult to quantify in monetary terms, the second is amenable to quantification.

The scale of the wage, profits and tax impacts depends on the growth of the start-up and its longevity. Precise data are not available to measure these attributes – however we have looked to job creation estimates for all grant aided firms as an indicator of the scale of impacts.

The total of CEB projects grant aided in the period 2004 to 2010 including start-ups and existing firms was 6,767 (Table 9.10, above) averaging 957 projects per annum. Over the period, 2004 to 2010, a total of 12,900 potential jobs were identified for all grant aided firms indicating an average of 1.9 potential jobs per supported project. Another, although imperfect measure, involved looking to the number of *actual* jobs currently associated with the full cohort of grant assisted firms - which enabled us to derive an average employment for CEB grant assisted firms at 4 FTEs[134].

An average of 766 start-ups received financial support each year over the 7 year period of the evaluation. Analysis indicates an average of 1.9 potential jobs per grant aided firm, including start-ups and existing firms. Looking across the full cohort of grant aided firms for the period since 1993-2010, indicates that CEB firms employ an average of 4 FTEs. Although imprecise, we can conclude that somewhere between 1,532 and 3,064 jobs may be associated with 766 start-up firms. We exercise a note of caution however, against grossing up these figures for the seven year period as closures over the period would not be accounted for (of the 14,400 clients who had ever received financial assistance from the CEBs, 68 per cent were still in business by 2010). The scale of benefits arising from additional wages, profits and tax revenues needs also to take account of the potential for labour market displacement. Our assessment has been informed by Forfás' appraisal methodology for projects seeking support from the industrial development agencies which concludes that no more than 20 per cent of the wage, profit and tax benefits should be reckoned in the context of tight labour markets[135]. Based on an average earned income of €39,000 the annual value of these benefits is estimated at between €12 million and €24 million depending on the level of employment created by grant aided start-up firm.

These are gross benefits and will be reduced by the element of deadweight. As indicated above deadweight is very difficult to measure and a wide range of values are usually calculated. The tables below set out the annual benefits, depending on a range of deadweight scenarios and average firm employment levels. Given the robustness of the mechanisms employed by CEBs in the assessment of applications of financial supports (outlined above), we have concluded that scenarios that consider a deadweight of 40 per cent and of 60 per cent is appropriate.

134 Based on 3.4 full time employees and 1.1 part time

135 Forfás, The Economic Appraisal System for Projects Seeking Support from the Industrial Development Agencies, Forfás, Dublin, 2003

Table 9.16: Annual Benefits - different Employment and Deadweight Scenarios (€ m)

Deadweight	Average Employment per Firm	
	2 FTEs	4 FTEs
	€ '000 per annum	
60%	4,800	9,600
40%	7,200	14,300

Costs and Benefits - Summary

The average annual cost of financial support to start-up firms is estimated at €8.9 million, excluding the cost of related advisory services and at €14.1 million when we include related advisory services.

Comparing the annual benefits to the fully loaded costs indicates that the least favourable scenario would mean that each firm supported would have had to deliver the employment benefits for a period of approximately 3 years, if cost benefit breakeven were to be achieved (based on 60 per cent deadweight and employment levels of 2 FTEs per firm). If deadweight of 40 per cent occurs with 4 FTEs this falls to a payback period of less than one year.

These calculations suggest that even allowing for a high level of labour market displacement in the period 2004-2010, financial aid for start-ups is likely to have at least paid its way in terms of wages, profits and taxes created. This is apart from the productivity, cost saving and innovation benefits achieved.

Table 9.17: Number of Years Required to Pay Back Measure 1 Support to Start-Up Firms

Deadweight	Average Employment per Firm	
	2 FTEs	4 FTEs
	Years to Pay Back - Measure 1 Grant (including indirect costs)	
60%	2.95	1.48 years
40%	1.97 years	0.88 years
	Years to Pay Back - Measure 1 Grant: direct financial costs	
60%	1.86 years	0.93 years
40%	1.24 years	0.62 years

SYOB Training: Impacts and Outcomes

This section sets out the outcomes of SYOB training supports in terms of:

- Progression to start-up businesses;

- Scaling of new start-ups;
- Associated employment generated; and
- A brief outline of the sectoral spread.

Progression to Start-up

Participants of the SYOB courses are a cross-section of existing entrepreneurs who are in the start-up phase, self-employed persons, persons in employment, the unemployed, and those outside the workforce.

Table 9.18: SYOB Participant Cohort

SYOB Participant Cohort	%	Propensity to Start-Up %
In employment	38.2	54
Unemployed persons	35.8	47.5
Self-employed/proprietors	21.2	20.0
Outside the workforce	4.8	37.5

Table 9.19 sets out the impact of the course on participants by year they undertook the course, focusing on whether they started a new business or not. Overall, the crude start-up rate was 43.3 per cent. However, this tends to underestimate the true start-up rate as participants in 2011 and 2010 could yet progress to start-up. The 51.4 per cent start-up rate for 2009 participants may be a better indicator of the success rate.

When we consider that for the bulk of the period under evaluation, economic conditions would have been more benign, it is considered safe to conclude that at a minimum 50 per cent of course participants go on to start-up a business, with an additional 10 per cent using the course to enhance their management of an existing business.

Table 9.19: Proportion of SYOB Course Participants Who Start a Business by Year (%)

Year	Pre 2008	2008	2009	2010	2011	All
Proportion of Participants (%)	65.0	42.9	51.4	37.0	33.3	43.3

Source: Survey of SYOB Course Participants 2011

Table 9.20 depicts the propensity of persons of different prior employment status to start a business. Employees are most likely to start a business at 54.0 per cent, followed by unemployed persons at 47.5 per cent and those outside the workforce at 37.5 per cent. The lowest propensity at 20.0 per cent relates to self-employed/proprietors, which includes entrepreneurs in start-up phase and whose businesses benefit from their participation in the SYOB course.

Table 9.20: Propensity of SYOB Course Participants to Start a Business by Prior Employment Status (%)

Prior Employment Status	Self-employed/ proprietor	Employee	Unemployed	Outside the workforce	All
Propensity to Start a Business after Course Participation (%)	20.0	54.0	47.5	37.5	43.3

Source: Survey of SYOB Course Participants

The respondents to the client survey fell into three categories:

- Those who subsequently started up a business (new start-ups);
- Those who were already in the start-up phase (existing start-ups); and
- Those who did not start up a business.

New Start-ups

Those who started a business consequent to taking the course were asked about the usefulness of the course in establishing their business. Over four-fifths (80.3 per cent) found the course either useful or extremely useful with only 7 per cent of entrepreneurs indicating that the course was of no benefit. Almost 10 per cent of respondents indicated that the course gave them the confidence to proceed to start-up, suggesting that for this proportion of participants, the course may have been a crucial determinant of start-up.

Table 9.21: Effect of Course on New Start-up Entrepreneurs

Effect	Number	(%)
No effect	5	7.0
It enabled me to start the business sooner	18	25.4
It made the business more successful than it would have been otherwise	23	32.4
It ensured that the business had a longer life than it would have otherwise	5	7.0
It gave me confidence to proceed	7	9.9
It provided me with technical information	9	12.7
It enabled me to assess feasibility of the enterprise	2	2.8
Other (please specify)	2	2.8
Total	71	100.0

Source: Survey of SYOB Course Participants 2011

Existing Start-Ups

For the 10 per cent of participants that were already in start-up phase, the impact of the course is illustrated in Table 9.22. Some 25 per cent indicated that the course had no effect. When compared with the results for new entrepreneurs, it is evident that the course is valued more highly by those who are at the very early stages of starting up a business.

Table 9.22: Impact of the Course on Existing Start-Up Businesses

Effect of Course	Existing Start-ups (%)
No effect	25.0
Business more successful	42.9
Business lasted longer	17.9
Lead to business change	28.6
Other	10.7

Note: multiple responses allowed.

Source: Survey of SYOB Course Participants (n=28)

Non-Start-ups

Some 39 per cent of survey respondents indicated that they had not started up a business. Of these 76.9 per cent indicated that the course made it more likely that they would start up a business at some point in the future (n=65).

In conclusion, these survey results indicate that the SYOB training course is generally regarded as relevant and very supportive of start-up activity.

Sectoral Analysis

Table 9.23 describes the firms that were started up by SYOB course participants by the business sector in which they operate. It is clear from the Table that most businesses are in the (primarily locally trading) service sector which may limit the contribution that the SYOB training supports makes to innovation based productivity improvements.

Table 9.23: Start-Up Firms by Business Sector

	Number	(%)
Food Production	2	2.8
Manufacturing Electronic Products	0	0.0
Manufacturing Medical Products	0	0.0
Manufacturing Green Technology	1	1.4
Other Manufacturing	8	11.3
Software Development	3	4.2
Web Based Services for Consumers	0	0.0
Web Based Services for Businesses	4	5.6
Construction and Related Activities	8	11.3
Personal & Local Services for Consumers	25	35.2
Other Consumer Services	6	8.5
Services for Businesses	10	14.1
Other	4	5.6
Total	71	100.0

Source: Survey of SYOB Course Participants (N=71)

9.10 Findings and Conclusions

Appropriateness

The SYOB programme is in line with government policy and addresses market failures relating to start-up businesses. Given the current economic circumstances, the extent of market failure in relation to start-up activity is likely to have increased, as firms are finding it increasingly difficult to obtain credit. There are significant long term benefits for the economy arising from a high level of start-ups in terms of productivity, cost efficiency and innovation. With the current rate of unemployment and the existence of unused resources in the economy, the benefits in the short term of increasing start-up activity and creating additional wage income, profits and tax revenues are substantial.

Accordingly, it is recommended that the level of resources devoted to SYOB supports through the CEBs be at least maintained.

The research conducted for this evaluation revealed that CEB clients consider the face-to-face interactions with CEBs are particularly important, and the opportunities to network with other entrepreneurs. In that regard, while there may be further efficiencies possible in terms of delivery

of services, there is a strong argument for maintaining the face-to-face contact between CEBs and clients. It was noted in the course of this evaluation that in some cases offices were located in areas that were not easily accessible such as out of town industrial parks. There may also be some merit in examining the location of offices and how that may affect accessibility of supports for potential entrepreneurs.

Note: this evaluation of supports provided by the CEBs was substantially completed when the proposed establishment of the Local Enterprise Offices was announced in the Action Plan for Jobs 2012. This was not an evaluation of the CEB structures, and the findings in relation to the programme and activities remain valid.

Efficiency

The total exchequer cost of the financial supports, including related indirect costs of provision, is approximately €13.5m per annum. Training, including dedicated Start Your Own Business courses and follow up training in specific business skills is delivered at a cost of only €3m per annum. Less than €1.4m per annum is spent providing mentoring to people starting new businesses. Therefore, total expenditure by CEBs on start-up supports is approximately €17.9m per annum. These are relatively small sums considering the breadth of supports offered and the numbers of clients. There would appear to be little scope to make material savings on these relatively small sums.

A number of areas can be identified where the efficiency of the delivery of supports to persons starting their own business could be improved. Although the local delivery of support through 35 "local" CEBs is a clear strength of the programme of supports, there is scope for CEBs to make savings by working together and pooling certain costs. Co-operation between all CEBs or between specific groups of CEBs, in developing training courses could also realise efficiencies. Co-operation between CEBs in carrying out other administration and service functions could also ease the imbalance between the staffing of CEBs that has emerged following the moratorium on public sector recruitment. The key areas to seek improved efficiency are:

- Joint purchasing of services and other supplies by CEBs;
- Joint development of courses, publicity material and reference material; and,
- Co-operation between CEBs on back office and administrative tasks.

The efficiency of CEB activities is enhanced by the focus on harnessing local voluntary effort. This is particularly true of mentoring activities which are provided with the support of voluntary mentors. Evaluation Committees are also supported by volunteer effort.

Turning to quantitative measures in Table 9.24 below, the increase in the M1 indicators can largely be attributable to a significant increase in the number of projects funded in 2010. Between 2009 and 2010, the number of M1 projects increased 25 per cent. This increase can largely be attributed to changes in the policy relating to projects funded. In 2008 the CEBs introduced Business Expansion grants, followed by priming grants in 2009 and feasibility innovation grants in 2010.

This increase in the number of projects funded coupled with relatively static expenditure is causing a substantial jump in the efficiency indicator.

The total headcount for CEBs declined from a peak of 151 staff in 2006 to 136 staff in 2010 mainly because CEBs are prohibited from replacing staff by the government moratorium. When account is taken of part-time working, the total staffing of CEBs in 2011 was 132.1 whole time equivalent staff, an average of 3.8 whole time equivalent staff per CEB[136].

136 Source: Department of Jobs, Enterprise and Innovation

Table 9.24: Efficiency Indicators SYOB

Indicators	2004	2005	2006	2007	2008	2009	2010
No of M1 Projects per €1,000 M1 Expenditure	0.12	0.11	0.12	0.11	0.11	0.13	0.15
No of M2 Persons Trained per €1,000 M2 Expenditure	2.0	2.7	2.3	2.1	1.9	2.2	
No of M1 Projects per Person Employed	8.2	7.8	7.7	8.0	8.0	8.2	11.2

Source: Derived from CCU data

These metrics indicate that the CEBs have become more efficient over more recent years (Table 9.24). In particular, because of reduced employment levels, labour productivity has shown a significant increase across a range of efficiency indicators. A note of caution is necessary. Given the nature of the hands-on activities, further reductions of staffing levels will reduce the capacity of the CEBs to even maintain output levels.

Synergies/Overlap

The CEBs work alongside other State Enterprise Agencies (Enterprise Ireland, Shannon Development and Údarás Na Gaeltachta) in the provision of State supports to existing businesses and to people who intend to start new businesses. Potential overlaps in supports to people starting their own business arise with FÁS, and with Enterprise Ireland.

A key element of the CEBs support for new start-ups is the provision of "Start Your Own Business" training. At the time of the evaluation, FÁS, the national training authority, provided similar training in certain parts of the country.

FÁS' objectives in providing these courses relate to the labour market. If the course succeeds in bringing a person from a position of being unemployed and out of the labour market to a situation where they are a proprietor of a business, FÁS has succeeded in its objective of progressing individuals to employment/self-employment.

Discussions with individual CEBs indicated that, in practice, duplication does not tend to occur between the CEBs and FÁS. CEBs adjust the number and location of the Start Your Own Business Courses that they offer to reflect the availability of training from FÁS. In the case of at least one CEB in an urban area, FÁS does not offer this type of training in their area and refers people to the CEB for this type of training. Finally, our workshop with course participants indicated that the CEB courses reach an audience at least part of which would not consider taking the equivalent FÁS start your own business courses.

In terms of any overlap with Enterprise Ireland, our research found that this does not tend to occur, with CEB clients not considering themselves to be appropriate for Enterprise Ireland supports.

Effectiveness

SYOB Training Supports

The research found the SYOB training supports had been very effective in the period evaluated.

At a minimum, 50 per cent of SYOB course participants go on to start-up a business, with an additional 10 per cent using the course to enhance their management of an existing business. Employees are most likely to start a business at 54.0 per cent, followed by unemployed persons at 47.5 per cent and those outside the workforce at 37.5 per cent.

Some 46 per cent of supported firms are either providing personal and local services or are in construction-related activities. This indicates substantial scope for product market displacement, although start-ups may potentially expand the range of products available locally. The fact that a smaller proportion is involved in the technology-driven sectors may limit the contribution that the SYOB supports makes to innovation based productivity improvements.

The wider economic impact in terms of productivity and cost reduction depends on the success rate of start-ups and their longevity. The survey data indicates a high start-up rate, but unfortunately, the response from course participants from former years is too low to enable longevity to be assessed. However, in our view there may be significant positive effects in local markets, although the national impact is limited by the sectors in which start-ups under the scheme are concentrated.

Turning to impacts on wages, profits and tax revenues, these additional impacts are likely to be relatively small in the period up to 2008, because of the low levels of unemployment and consequent high levels of labour market displacement. Post 2008 and for the immediate future, these benefits will be larger, given the more straitened economic circumstances.

Financial Supports

The scale of the impacts of financial supports depends on the growth of the start-up and its longevity. Precise data are not available to measure these attributes.

However, the analysis indicates that over the seven year period under review approximately 5,400 start-up companies received financial supports. This translates into potential employment levels of between 10,700 and 21,500 depending on the scale of employment in assisted firms (and assumes employment of between 2 and 4 persons per firm).

Comparing the annual benefits to the fully loaded costs indicates that even allowing for a high level of labour market displacement in the period 2004-2010, financial aid for start-ups is likely to have at least paid its way in terms of wages, profits and taxes created. This is apart from the productivity, cost saving and innovation benefits achieved. The least favourable scenario would mean that each firm supported would have had to deliver employment benefits for a period of approximately 3 years, if cost benefit breakeven were to be achieved, with the most favourable realising a pay-back period of less than one year.

Displacement in the product market could reduce this benefit. However, given that grant aid is targeted on the manufacturing and export oriented services, this is less of a concern. However, exceptions are made where a domestically traded service is being established by a female returning to the workforce or unemployed persons where the potential for deadweight and displacement is less. Any loose application of these exceptions could give rise to displacement potential.

In general, the evaluation indicated that financial supports are currently well targeted.

With regard to SYOB training supports – it would be advisable to target supports toward those involved in manufacturing or exportable services if resources were to become more limited or if

demand from this cohort could not be met. In these circumstances the more effective use of resources would exclude supports to start-ups in local and personal services.

Analysis of the CEB activities for policy-making purposes requires data which are not currently being collected or collated. Existing databases in the CEBs should be used to track the experience of grant recipients and course attendees so as to facilitate measurement of the impact of CEB activities. Electronic ex-post surveys of recipients of SYOB supports should also be implemented by the CEBs to a common format devised by the CCU.

Recommendations

- Given the current economic circumstances, the extent of market failure in relation to start-up activity is likely to have increased, as firms are finding it increasingly difficult to obtain credit. The overall expenditure of approximately €17.9m is used to deliver a breadth of supports to a large number of clients and as such, leaves little scope to make any material savings. Accordingly, it is recommended that the level of resources devoted to SYOB supports through the CEBs be at least maintained;
- Clarify the objectives and targets for the CEB start-up supports;
- Maintain a continuous review of the economic circumstances that prevail and develop a more agile and flexible support system that responds effectively - and in an explicit and coordinated way - to ensure best use of resources. This relates primarily to the provision of soft supports (as opposed to financial supports) undertaken by the CEBs which would effectively mean that at times of resource constraints these would be limited to manufacturing and internationally trading firms (to the exclusion of locally trading entities);
- Increase efficiencies of CEB training programmes by further collaboration on design and delivery; and
- Collect and collate data required for programme evaluation, and in particular facilitate the delineation of activities/supports directed toward the stimulation of entrepreneurship and start-ups. Electronic ex-post surveys of recipients of SYOB supports should also be implemented by the CEBs to a common format devised by the CCU.

This evaluation was substantially completed prior to the publication of the Action Plan for Jobs 2012 which envisages the dissolution of the existing CEB offices and the creation of a new network of Local Enterprise Offices. The evaluation pertains to the start-up *programmes* provided by the CEBs and remains relevant in the context of the proposed new delivery mechanism/system.

Appendix I: Active Labour Market Schemes in Finland

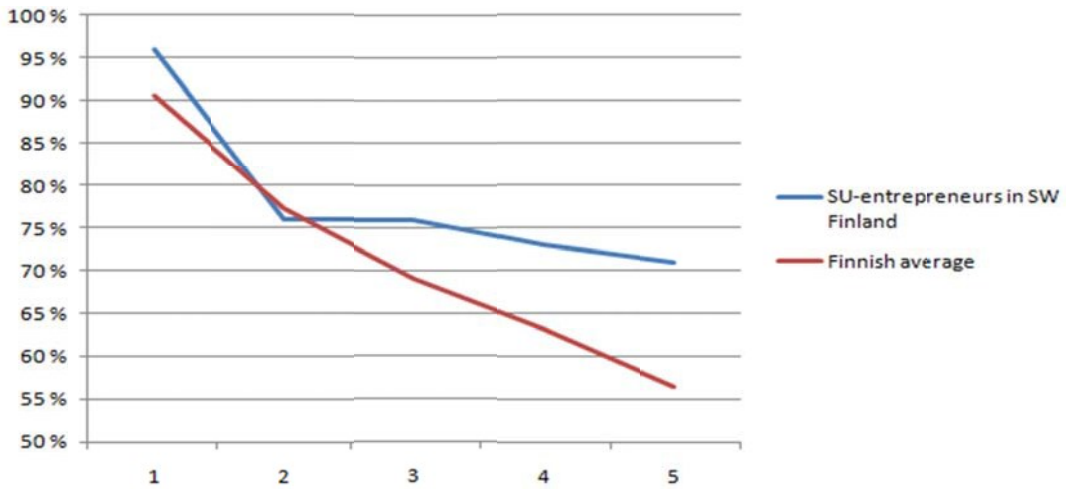
In Finland, Start-Up Grants (SUG) are provided by the Employment and Economic Development Centres (TE centres) which aim to get people out of unemployment and into employment. The grants are provided to unemployed people, who can demonstrate a solid business plan, for a period of 18 months at a rate of €590 per month (in 2009). The grant was introduced in the 1980s and initially focused only on unemployed people but was expanded in 2005 to include wider application criteria to enabling non-unemployed people to apply. Applicants for funding need to follow a strict procedure and demonstrate:

- That the applicant has the necessary skills and know how to develop the business;
- That the applicant is not receiving any other financial aid for his/her livelihood;
- Present a solid business plan which is separately reviewed; and
- Demonstrate that without the funding the enterprise could not be initiated.

A comprehensive review of the employment impact of the programme is currently underway; however initial outputs suggest that the programme has been successful in boosting entrepreneurship among the unemployed.

In terms of the survival rate of businesses, the research has found that businesses in receipt of a SUG had a higher survival rate than the Finnish average as outlined in Chart A.1 below. The research also found that businesses established by previously non-unemployed participants had a slightly greater chance of survival.

Chart A.1: The Early Stage Survival among Unemployed SUG-Entrepreneurs & Regular Small Business Owners



Source: Start-up Grant – A Key to Entrepreneurship (Stenholm, 2010)

In terms of the deadweight impacts of the scheme, the research found that 51% of unemployed participants would have started a business regardless of the SUG, while 65% of non-unemployed would have proceeded without the funding.

Table A.1: Deadweight Impacts of the Finnish Start-up Grant 1985-2009

Would you have started the same business without the Start-up Grant that you received ?		
	Unemployed (n=1.160)	Non-unemployed (n=596)
Yes	51	65
No	24	16
Don't Know	25	19
Total	100	100

Source: Start-up Grant – A Key to Entrepreneurship (Stenholm, 2010)[137]

Some of the key success factors of the Finnish model of business support include the strict application procedure which aims to minimise deadweight impacts from the outset. Nevertheless, the scheme demonstrates a relatively high level of deadweight, especially among unemployed participants. However, the impact on employment trends in the same period was positive.

137 www.praxis.ee/fileadmin/tarmo/Projektid/.../Stenholm_SU_Grant.ppt

Appendix II: Grant Evaluation

Methodology and Recommendations

Grant employed mixed methods involving literature review, stakeholder consultations, value for money analysis, and participant surveys. They also reviewed the programme vis-à-vis international benchmarks and other enterprise supports such as the Enterprise Platform Programme.

A considerable part of the analysis relates to process and the views of participants, Enterprise Ireland and the programme providers. It provides an overview of participant views on the likely impact of the programme on sales, exports and employment growth. It also provides detail of the progression of Propel participants to become HPSU clients which is a demonstration of the effectiveness of the programme.

A series of consultations were held with all stakeholders involved in rounds One and Two of the Propel programme. The consultations comprised a mixture of one to one meetings, group discussions, survey and telephone/email research contact.

The evaluation paid particular attention to the following key areas:

- Assessing the appropriateness and effectiveness of the methods adopted to achieve the aims
- Assessing the success of the project in new business start-ups, jobs created, sales achieved, research completed or other criteria defined by Enterprise Ireland
- Identifying key learning for the programme promoters and managers
- Considering the overall impact of the programme
- Determining the market need for the programme
- Assessing the value for money of the programme in terms of outputs versus costs and comparisons against other forms of support given to entrepreneurs from other initiatives
- Assessment of the future potential of the participants supported. Given that the programme has only been running since 2009 the full realisation of some projects have yet to materialise. Some allowance for the likely future impact of the programme was sought through assessing the business plans of the participants

Stakeholders and participant consultations:

- PA Consulting, Programme Director, Programme Manager and other staff members involved in the Propel Team
- The Enterprise Ireland programme coordinator and 3 other Enterprise Ireland staff making up the Propel Team
- Representative sample of Enterprise Ireland staff who work with HPSU/Cord and Programme Supports
- 3 of the trainers and 3 of the mentors used by PA/Enterprise Ireland in the delivery of the programme
- A complete 100 per cent sample of the current and past participants of the programme
- Other stakeholders in Graduate Enterprise Programmes including one to one interviews

In addition, a member of the evaluation team attended one day of the two day residential workshops and observed trainers, participants, guest speakers and programme managers during the course of the training workshop held for Propel Phase Two participants

An online survey was designed to get feedback from the participants. All of the current and past participants were targeted with a target response rate of 75 per cent being set. The questionnaire and other research aids used were designed in advance with a view to yielding the following information;

- Overall level of satisfaction with the programme
- Reaction to each of the supports offered
- Comments on the content and delivery style of the trainers/mentors
- Effectiveness of communication between Enterprise Ireland, PA and participants
- Suggestions for improvements in the programme
- Ideas from best practice from other Enterprise Development Programmes in Ireland and overseas
- Unexpected benefits from the programme
- Future plans of the participants
- Impact of the programme on the future of the participant's Business Plans

Two separate questionnaires were designed and circulated by email in order to obtain feedback from participants on Propel Phase One and Phase Two. Non respondents were followed up by telephone which resulted in some participants completing the questionnaire over the phone.

Phase One Participants: All 19 participants were emailed and one bounce back email was received. Of those successfully contacted, 10 completed the questionnaire. Therefore a 56 per cent response rate was achieved.

Phase Two Participants: All 25 participants were contacted. 1 participant refused to participate in the survey and 1 participant was on maternity leave. 23 participants completed the survey therefore a 92 per cent response rate was achieved.

Overall the results of the survey showed that the participants were very satisfied with the Propel programme and verified that the strategic direction of their business idea had been greatly assisted by their participation on the programme. There were some weaknesses identified through the survey involving website information, follow up networking and organisational issues surrounding some of the workshops. These have been addressed in the current round.

The evaluation provided recommendations for future actions under two distinct headings; actions for Propel Three planned for 2011 and long term actions.

The recommendations for Propel Three were primarily operational and process related but based on participant and stakeholder feedback their implementation would increase programme effectiveness; for instance, using Enterprise Ireland Technical staff to complete a Technical Assessment during Phase I of the programme.

The longer term actions primarily related to where Propel sits vis-à-vis the overall continuum of support offered by Enterprise Ireland. There were a limited number of specific recommendations on enhancing the effectiveness of the Propel programme itself such as completing a formal review of progress of all past Propel participants on an annual basis and through the use of well known technologists to promote the programme.

International comparators

United Kingdom

There are a number of enterprise development programmes available in the UK which are broadly similar to Propel and provide training and funding, as well as mentoring from industry experts, through a multistage workshop process.

The two programmes which are most directly comparable with Propel are the Gateway2Investment programme which is run through the Understanding Finance for Business programme in London and the High Growth Start-Up Programme which is delivered through Business Link South Yorkshire.

The Gateway2Investment programme works with entrepreneurs and/or researchers in high technology sectors that are past the seed stage and which have good prospects for financing over the next twelve month period. The focus is on ensuring that their business plan is well developed and investor ready so that they can secure external finance. The programme is delivered in workshop format and draws on the expertise of local universities and industry experts.

The High Growth Start-Up Programme targets start-ups in high technology sectors and provides coaching and training over an 18 month period to enable participants to develop their business plan and become investor ready. This programme ceased in 2009.

Netherlands

The Netherlands has a well-developed entrepreneur support network and two of the enterprise programmes assist SMEs and entrepreneurs in a similar way to the Propel programme. These are delivered by Syntens, a part of the Netherlands Ministry of Economic Affairs, which aims to strengthen the innovative capacity of small and medium-sized companies.

- The Regional Attention and Action for Knowledge Circulation programme works to improve interaction and exchanges between SMEs, entrepreneurs and 3rd level to strengthen industry and academic linkages.
- Livewire provides information, mentoring, coaching, training and workshops for entrepreneurs for SMEs and entrepreneurs. Livewire is funded by the state and Royal Dutch Shell as part of its corporate social responsibility programme.

Sweden

The Entrepreneurship and New Business Development Programme in Sweden provides coaching and mentoring supports for entrepreneurs and SMEs. The programme is similar to Propel in that it combines workshops and mentoring to help companies develop their business plan. This support is provided in the Linköping region of Sweden through the Centre for Innovation and Entrepreneurship, which is based in the University of Linköping, and SMIL a local business association whose membership is composed of small technology-based firms in the region.

Appendix III: Forfás Board Members

Eoin O'Driscoll (Chairman) Chairman, Southwestern
Martin Shanahan Chief Executive, Forfás
Mark Ferguson Director General, Science Foundation Ireland
John Murphy Secretary General, Department of Jobs, Enterprise and Innovation
Barry O'Leary Chief Executive, IDA Ireland
Frank Ryan Chief Executive Officer, Enterprise Ireland
Michael O'Leary Secretary to the Board, Forfás

Appendix IV: Recent Forfás Publications

Annual Employment Survey Forfás	April 2014
Costs of Doing Business in Ireland 2014 NCC	April 2014
Annual Business Survey of Economic Impact Forfás	March 2014
Regional Labour Markets Bulletin 2013 EGFSN	March 2014
Action Plan for Jobs 2014 Forfás, DJEI	February 2014
Consumer Costs and Inflation Forfás	February 2014
State Investment in Research and Development 2012 – 2013 Forfás	December 2013
Survey of Research and Development in the Higher Education Sector 2010/2011 Forfás	December 2013
NCC Submission to the Action Plan for Jobs 2013 NCC	November 2013
Addressing Future Demand for High-Level ICT Skills Forfás, EGFSN	November 2013
Business Expenditure on Research & Development (BERD) 2011/2012 Forfás, CSO	August 2013
State Investment in Research & Development 2011 – 2012 Forfás	August 2013
Social Enterprise in Ireland: Sectoral Opportunities and Policy Issues Forfás	July 2013
Ireland's Construction Sector: Outlook and Strategic Plan to 2015 Forfás	July 2013
Forfás Annual Report 2012 Forfás	July 2013

Research Prioritisation: Framework for Monitoring Public Investment in Science, Technology and Innovation and 14 Action Plans Forfás	July 2013
Monitoring Ireland's Skills Supply – Trends in Education and Training Outputs 2013 EGFSN	July 2013
National Skills Bulletin 2013 EGFSN	July 2013
Annual Business Survey of Economic Impact 2011 Forfás	July 2013
Global Entrepreneurship Monitor (GEM) 2012 Global Entrepreneurship Monitor	July 2013
Annual Employment Survey 2012 Forfás	July 2013
Ireland's Competitiveness Performance 2013 Forfás	May 2013
Making it in Ireland: Manufacturing 2020 Forfás	April 2013
Future Skills Requirements of the Manufacturing Sector to 2020 EGFSN	April 2013
Sectoral Regulation Forfás	April 2013
EGFSN Statement of Activity EGFSN	March 2013
Costs of Doing Business in Ireland 2012 Forfás	March 2013
Vacancy Overview 2012 EGFSN	February 2013
Action Plan for Jobs 2013 Forfás, DJEI	February 2013
A Review of the Equity Investment Landscape In Ireland Forfás	January 2013

The publications of Forfás and the advisory groups to which it provides research support are available at www.forfas.ie

To sign up for our email alerts contact us at info@forfas.ie or through the website.

March 2012

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