IVCA Pre Budget Submission 2023

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IVCA
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Who are the IVCA?

The Irish Venture Capital Association is the industry body for the venture capital and private equity ("VC/PE") industry in Ireland. The IVCA represents Irish-based VC/PE firms, as well as their investors and professional advisers. We believe that every great entrepreneurial management team should be able to obtain the finance it needs in Ireland to develop their ideas into major global businesses.

Contribution of the industry to the Irish Economy

Over the last 25 years Government policy has enabled the creation of an active VC/PE market that leverages State investment and raises capital from international institutional investors and invests it in Irish SME's. Our members are long-term investors, investing in unlisted companies for around three to seven years, and are committed to building lasting and sustainable value in the businesses they invest in. This benefits the Irish economy in many ways including:

Significant investment: Over the five-year period 2016-2021, IVCA members invested over €6bn into over 1,500 high potential companies based in Ireland.

Supporting jobs: Since 2016 companies backed by our members have created over 10,000 high calibre jobs in Ireland. Our members portfolio companies have grown their employee base by over 25% per annum.

Increased SME R&D Spend: Companies supported by IVCA members have on average contributed between 35%-40% of the total spend by all Irish SMEs on R&D.

The issue: Availability of Scaling Finance impacted by Global Headwinds and Geopolitical Realignment

IVCA data for 2021 shows that 57% of funding in Irish firms came from investors outside of Ireland. Until recently the major concerns with this level of reliance on overseas investment were keeping companies with overseas investors growing operations in Ireland and remaining Irish, and how we could replace this funding should the global economy shrink, and overseas capital become less available. We were also keen that Irish pension savers should have an opportunity to participate in the future of our economy.

AI, Blockchain, digital and deeptech technologies will be the innovations that propel our digital economic future. Ireland has shown itself capable of creating world class companies in these areas, but not in providing scaling funding for them.

Today we are not only witnessing a global economic slowdown but also the weaponisation of international trade. In recent years, persistent Chinese and U.S. trade tensions, combined with potential UK and EU ones were already serving as headwinds to continued globalisation and liberalisation of both economic and financial cross-border interactions. Russia's invasion of Ukraine has accelerated this trend and moved the global economy to a bipolar world with much more segmented capital markets. This combined with a European movement towards Tech sovereignty will impact the availability of scaling capital for Irish companies. If we are unable to fund our own leaders in these areas, we risk having our economic future dictated by interests outside of Ireland. Recent events have highlighted that this is unwise.

Solution - How we can fund our own future

The asset allocation of Irish pension funds according to Central Bank figures show that direct holdings of equities represent a small share (3%) of the balance sheets of Irish pension funds, the European average is 7% and the US is 11%. Most Irish pension funds invest in equities via equity-focused investment funds. There are €3.8 billion of equity holdings invested in c. 2,300 distinct entities across a diverse range of countries outside of Ireland with the United States accounting for almost half of holdings (47.7%). IVCA figures show that less than .01% of the equity holdings of Irish pension funds is allocated to Irish PE and VC funds.

A small increase in domestic venture and private equity allocation would have a significant positive impact on the availability of capital for high-growth innovative businesses. To achieve this the IVCA recommends introducing an "opt-in" requirement on new payments into pension schemes to attract pension fund investment into indigenous enterprises. This would require that schemes offer members an option to allocate a small proportion of their pension to a fund supporting Irish industry. The intent would be to emulate the successful implementation of the French LME Law in 2008 which mandated that Corporate Employee Savings Schemes must offer a Solidarity Investment Funds option. This resulted in significant growth in the amount of capital allocated from €200m to €6bn between 2002 and 2016. This policy intervention in budget 2023 would mobilise a small percentage of this pool of private capital to support Irish industry and would have a long term and far-reaching impact on the availability of funding for Irish companies. We believe that the measure outlined in this submission would both increase the number of start-ups in Ireland and crucially ensure their ability to remain Irish and scale here.