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# SMEs, Innovators, and their recovery

Can SME's Survive COVID?

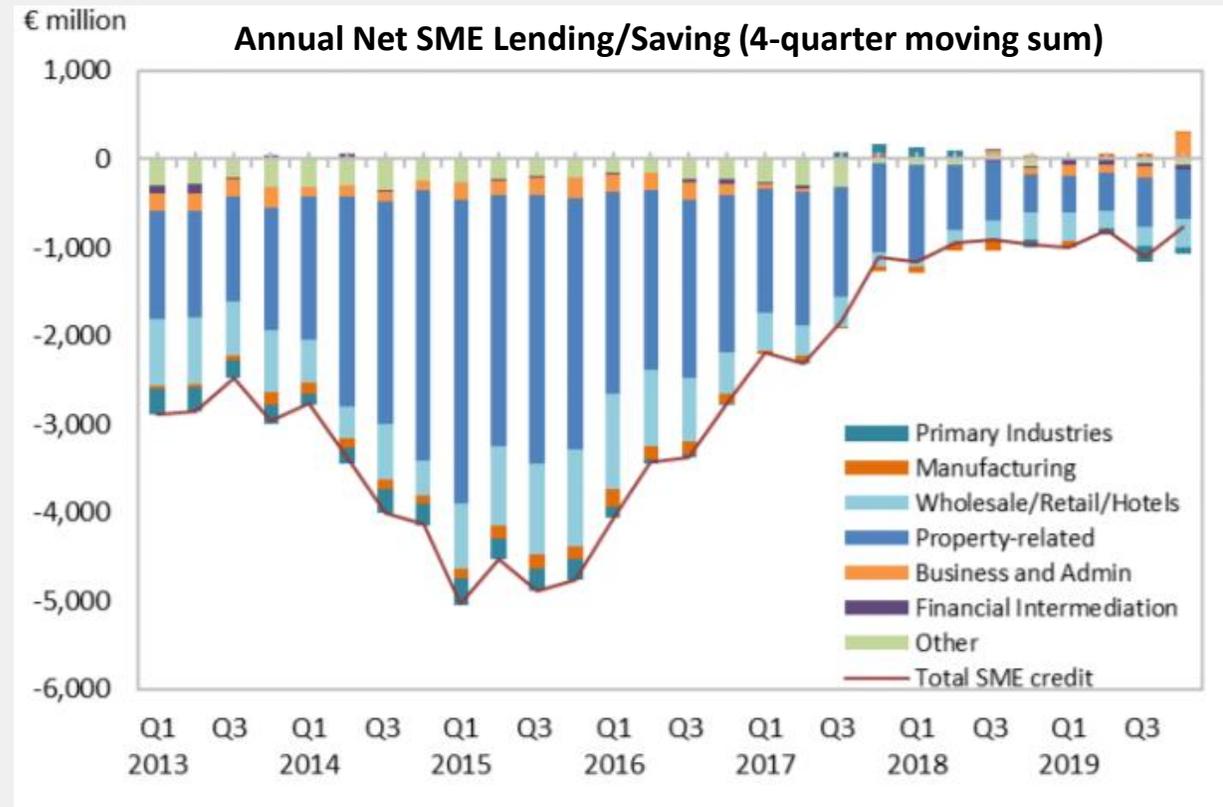


# Can SME's survive COVID shutdown period?

- 224,000 SMEs in highly or moderately affected sectors due to COVID
  - 79% of all SMEs
  - 768,000 workers
- Remaining liquid means:
  - Staff salaries are covered by State
  - Non-payroll costs are reduced (e.g. heating bills) or postponed (taxation)
  - Remaining costs must be funded by savings or debt
- Scale of potential liquidity problem
  - Assume: 50% reduction in non-payroll cost and 60% of firms requiring finance
  - **€4.9 billion** liquidity gap over 3 months

# Is €5 billion for 3 months a lot?

- €18 billion – relevant SME debt (Dec 2019)
- 58% reduction in last decade.
- Undrawn credit lines of €2.7 billion
- 60% of SMEs have no debt but this means no lending relationships



# Trade credit may be more important

- Total trade credit in Ireland is €250bn (all sectors)
- Unsure how much is used by COVID affected firms.
- 75%+ of Irish SMEs use trade credit as a financing source
  
- Missing rent, rates, electricity bill has confined effects
- Unable to access trade credit has spiraling effects.
- Supply chains linkages are potential transmission mechanism for COVID-19 shock.

BETA

This is a prototype - your feedback will help us to improve it.

## Publication

# Government outlines further measures to support businesses impacted by COVID-19

Published: 2 May 2020

From: [Department of the Taoiseach](#)

The government has today (Saturday 2 May) agreed, at a special Cabinet meeting, a suite of measures to further support small, medium and larger business that are negatively impacted by COVID-19.

It follows the publication yesterday evening of the government's Roadmap for Reopening Society and Business, which sets out a five stage plan to ease the COVID-19 restrictions and reopen Ireland's economy and society. The COVID-19 emergency has had an unprecedented impact on our economy, as well as our society. As we begin the phased reopening of our economy, the government recognises that businesses require significant additional

## Limited Support So Far

- €6.25 Billion announcement
- €2 Billion ISIF
- €2 billion Credit Guarantee Scheme at 80% guarantee
- €2 Billion warehousing of tax liabilities (loan)
- €250 Million Grants (€10k max)
- €1 Billion: Real 'cost' estimate





# Uncomfortable truths face government-formation negotiators

Next administration will be as constrained as Labour-Fine Gael coalition after 2011 bailout

Tue, May 12, 2020, 01:00



Pat Leahy

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Mario Draghi, president of the European Central Bank © FT montage; Reuters

Dan McCrum JULY 25 2017



In July 2012 Mario Draghi said “within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough.”

# Grants, Loans or Equity?

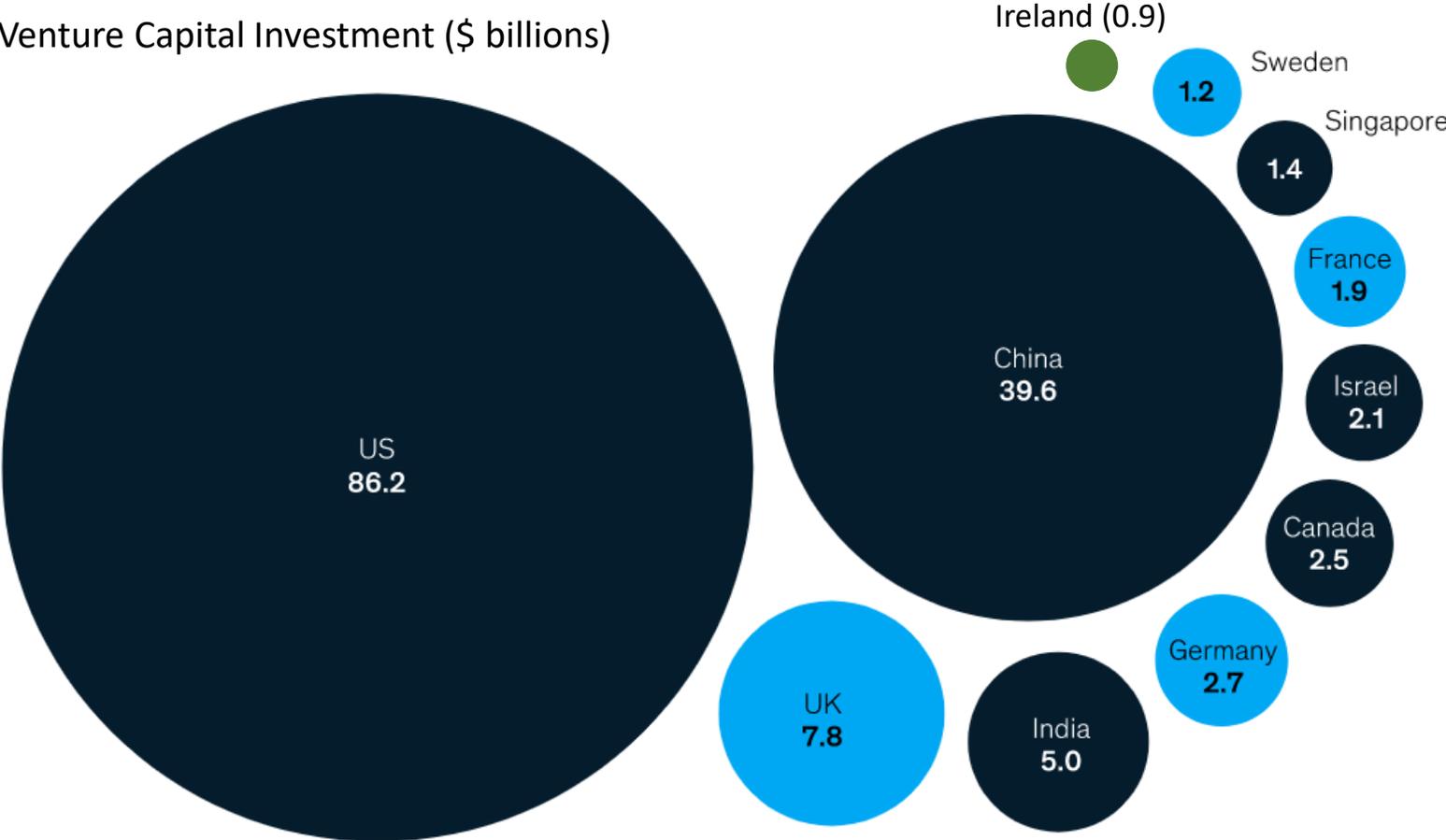
# Short term liquidity Vs Post-crisis demand

*“Liquidity keeps us in business until Christmas, the real test is how many shops will open again in January?”*

# Venture funding in a crisis

Compared with the United States and China, venture-capital funding in Europe is low.

Venture Capital Investment (\$ billions)



No European company established in the past 30 years has yet joined the ranks of the world's top 100 companies by market capitalization



*“The value of deals in the €1-€5m category fell by 44% in the first quarter.....*

*...Deals in the under €1m range fell by 39%...*

*...This is all the more alarming as the impact of Covid-19 on funding did not fully arise until mid-quarter.”*

**Irish Venture Capital Association VenturePulse survey May 2020**

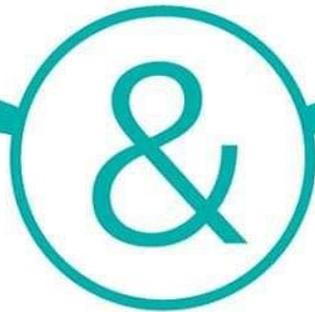


# Two Types of Entrepreneurs

## OPPORTUNITY

### ENTREPRENEUR

A new entrepreneur driven primarily by “opportunity” rather than “necessity”



## NECESSITY

### ENTREPRENEUR

A new entrepreneur who was previously unemployed and looking for a job

# PROCESS



Concept

Dev

Testing

Launch

Marketing

Sales

Bus Dev

- Create Materials/  
Positioning

- Early Buzz

- Hire Sales VP/  
Staff

- Hire first Bus  
Dev

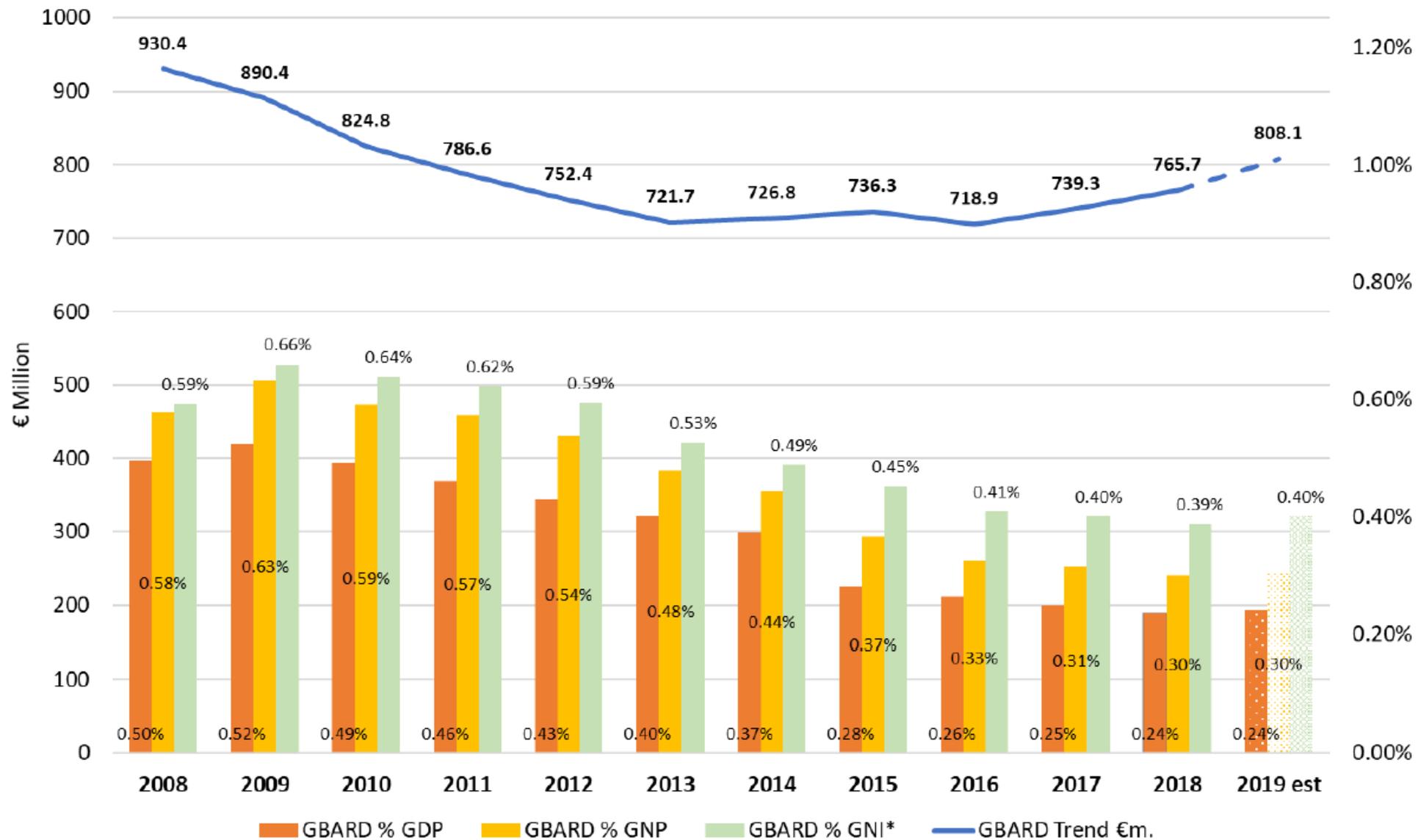
- Launch Event
- Branding

- Build Sales  
Organization

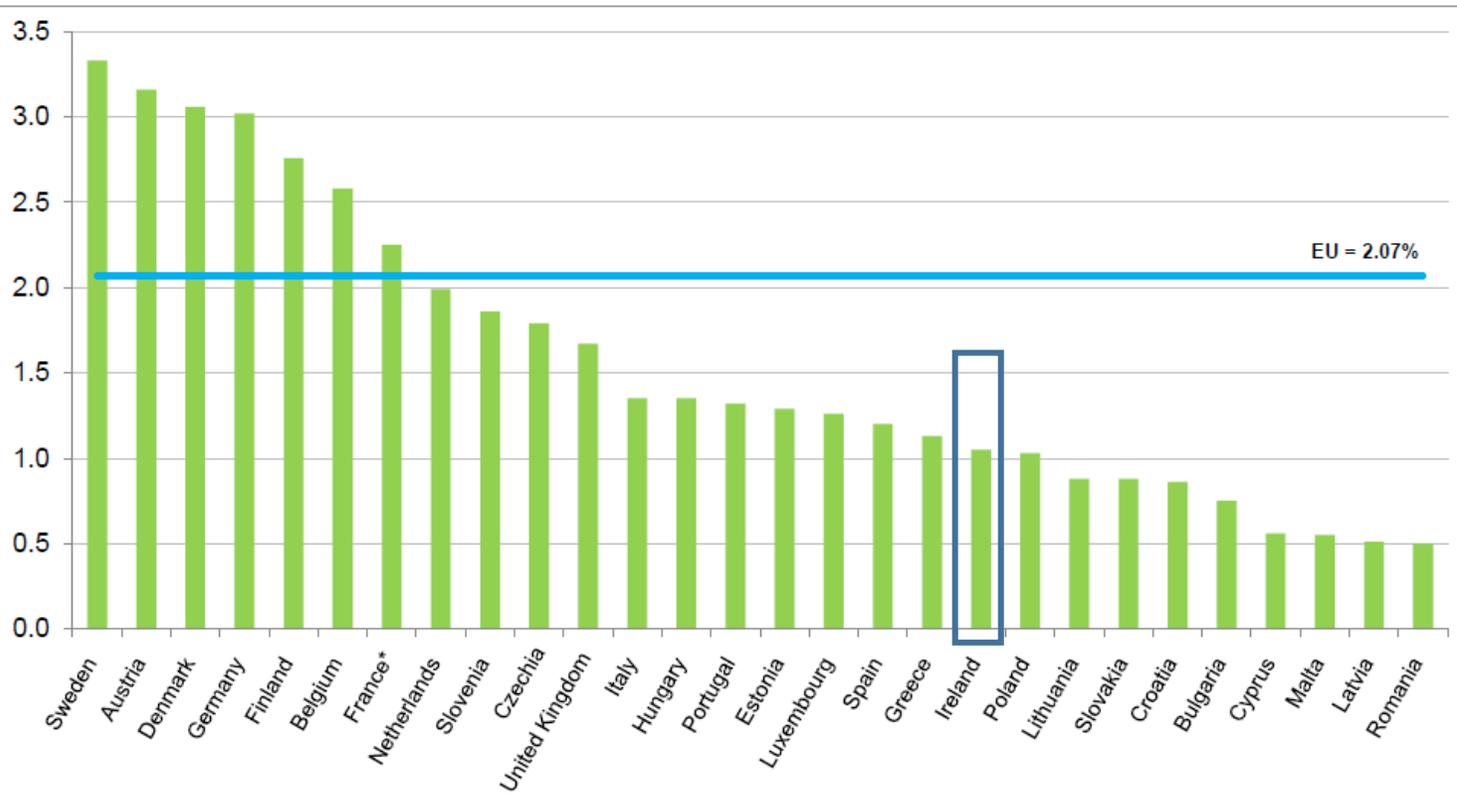
Long term commitment to R&D



**Figure A: Government R&D Budget (€m) current prices and as a percentage of GDP/GNP/GNI\***



**R&D intensity in the EU Member States, 2017**  
(R&D expenditure as % of GDP)



Ireland needs to double its government investment in R&D to reach the levels of the nations we aspire to (in delivery of social services)

# Appetite For Radical Investment in Innovation

- Science Foundation Ireland: €188 million annual budget
- MIT Research & Outcomes:
  - \$2.9 billion (research only) annual budget
  - 4.6 million employees, \$2 trillion in annual revenues.
- Policy question: Why does Ireland (citizens & institutions) not believe more strongly in the opportunity?



# Promoting Innovation

*“technological development will be the motor for economic growth in the long run”.*

Robert Solow



## **A Toolkit of Policies to Promote Innovation**

Nicholas Bloom, John Van Reenen,  
and Heidi Williams

**T**he US economy has experienced a slowdown in productivity growth since the 1970s, which—except for an upward blip between 1996 and 2004—has been remarkably persistent. Other developed countries have also experienced this disappointing productivity trend. Moreover, slow productivity growth has been accompanied by disappointing real wage growth for most US workers, as well as rising wage inequality.

Innovation is the only way for the most developed countries to secure sustainable long-run productivity growth. For nations farther from the technological frontier, catch-up growth is a viable option, but this cannot be the case for leading-edge economies such as the United States, Japan, and the nations of Western Europe. For countries such as these, what are the most effective policies for stimulating technological innovation?

In this article, we take a practical approach to addressing this question. If a policymaker came to us with a fixed budget of financial and political capital to invest in innovation policy, what would we advise? We discuss a number of the main innovation policy levers and describe the available evidence on their effectiveness: tax

*“If a policymaker came to us with a fixed budget of financial and political capital to invest in innovation policy, what would we advise?”*

- R&D Tax Credits
- Skilled immigration
- Pro-competitive policies
- Government research grants



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