



Northern Ireland
Assembly

Committee for Enterprise, Trade
and Investment

OFFICIAL REPORT (Hansard)

Border Region Economy and Impact of
Savings Delivery Plans: InterTradeIreland

6 March 2014

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Mr Patsy McGlone (Chairperson)
Mr Steven Agnew
Mr Sydney Anderson
Mr Gordon Dunne
Ms Megan Fearon
Mr Paul Frew
Mr Fearghal McKinney
Mr Mitchel McLaughlin

Witnesses:

Mr Aidan Gough	InterTradelreland
Dr Eoin Magennis	InterTradelreland

The Chairperson: With us here today we have Aidan Gough, the strategy and policy director, and Dr Eoin Magennis, the policy research manager, from InterTradelreland. You are very welcome. That is twice in one week, Aidan; we will be getting used to you. Thank you very much for coming along today. You know the format by now. You have up to 10 minutes to present to the Committee, and then we will have a question-and-answer session with members. The floor is yours.

Mr Aidan Gough (InterTradelreland): Thank you, Chairman and members. We have been asked to come today to speak about InterTradelreland's views on and work in the border region economy. In InterTradelreland, we have taken the view, from almost the day we started, that we were perceived as a cross-border body and that we wanted to change that, because there was a perception that a cross-border body just works in the cross-border region and the counties that are contiguous to the border. As you can see in the paper that we have presented, we work with businesses in every county across the island, in Northern Ireland and in the Republic.

From a strategic perspective, our research has shown that exporting and innovating companies are the ones that are growing and are more likely to grow. A company that is involved in innovation is three times more likely to grow than a company that is not innovating. It is the same ratio for companies that are exporting. We have taken the view, expressed in our corporate plan, that the key drivers of growth, and the ones that we will try to promote, are innovation and exporting — getting more companies innovating and exporting through availing themselves of cross-border opportunities in those two areas. That focus is the same whether it is in the border region or anywhere else on the island.

The short paper that we gave looks at innovation and exporting performance in the context of the border regional economy. I am also going to quickly run through, from an operational perspective,

what types of interventions and supports we have in the border region, the take-up of those supports and the value they are generating.

We will take a look at the border economy first. The recent Organisation for Economic Co-operation and Development (OECD) regional development working paper, which looks at the border economy and the cooperation between Northern Ireland, Ireland and six other regions within the OECD area, provides a snapshot of the economic characteristics of the cross-border area and reviews the potential for that area. It finds that both sides of the border face very similar challenges as peripheral regions. For example, it notes that the six Southern border counties are less advanced in the knowledge economy than in the southern and eastern areas in the Republic of Ireland. Indicators regarding technology-based innovation also show that Northern Ireland is generally similar to the neighbouring Irish region in the border, midlands and western region, but that the south-east of Ireland is outperforming both. The southern and eastern region, which includes Dublin, generally has a much stronger performance than the border regions, particularly the Southern side of the border.

One of our most recent business monitors, in which we survey businesses across the island four times a year — it is the biggest survey of business on the island — shows that roughly 69% of firms say that they have engaged in innovation activity over the past three years, but, at a subregional level, the proportion of innovative firms is poor in Northern Ireland's border counties. It is down at around 60%, whereas it is around 68% or 69% in the Belfast area. In Ireland, the border, midlands and western area has a much lower performance than the Dublin area. The proportion of firms introducing new products or services in Northern Ireland outside of Belfast is only 48% and, in the border, midlands and western region, it is 59%. The point is that there is much lower performance in innovating activity within the border region than there is in, say, the Dublin, southern-eastern or Belfast region. So, if innovation is a key driver of growth and innovation performance is lower in the border area, it is a key area for an agency such as ours to work in.

On a more positive note, we said that, from our point of view, there are two key drivers of growth: innovation and exports. Looking at exports, on the positive side, the border-based businesses in Northern Ireland exhibit a stronger propensity to export than non-border-based counterparts. The figures from the Northern Ireland Statistics and Research Agency (NISRA) show that, in 2011-12, Northern Ireland's border-based manufacturers accounted for 30% of external sales, 42% of exports and almost 50% of exports to Ireland. That is a very solid exporting performance by firms within the border county region.

In 2011-12, three in every four border-based manufacturing businesses were exporting, compared with two in every three in the wider area. Again, that shows that the exporting performance among manufacturing and the wider business community in the border region is quite good. Not surprisingly, the propensity to be engaged in cross-border trade is much stronger among microenterprises that are based in the border region compared with the Northern Ireland average.

The cross-border market is also a very important first step for potential exporters. Some 73% of exporters off this island have taken their first steps to exporting by availing themselves of the opportunities on the other side of the border, so there is a pathway here to wider export performance. If you can get companies exporting on a cross-border basis, the likelihood is that they will have more chance of moving on because they will get the experience and the confidence to move off the island. So, there is a pathway here to growing companies, and it is an area in which businesses based in the border counties are showing a degree of success. That is in Northern Ireland. The export performance of border-based businesses in the Republic — on the Irish side of the border — is not as strong as their counterparts north of the border.

What have we been doing to help? Notwithstanding the fact that, as I said, InterTradeIreland aims to help businesses across the whole island to avail themselves of cross-border opportunities, we have shown in our paper that about a quarter — 27% — of the businesses involved with InterTradeIreland are located in the border counties. We try to follow every pound and euro that we give out and to assess the impact that it has had on the business that receives the support — stripping out additionality and stuff like that — so we know that the businesses that we have helped from the border area have produced a higher return than the overall figures. For instance, 27% of the businesses that InterTradeIreland helped in the period of its previous corporate plan for 2011-13 gave a return, in terms of the business value created, that equates to 44% of our overall business value generated in that period. That is another indication that there are very entrepreneurial and successful businesses with potential within the border region if we can help them and direct the right supports to them.

To conclude, across the border region, innovation performance is weak, while export performance is relatively strong. InterTradeIreland will continue to encourage applications from border-based businesses for its innovation programmes, in particular, but also for its trade and export programmes. The introduction of the Elevate programme will certainly be aimed at microenterprises within the border region. We are also working with the Special EU Programmes Body (SEUPB) to take a more strategic look at the dispersion of the funds under the INTERREG V programme, so that we can really address and improve the innovation deficiencies, particularly within companies, that are apparent from our work in the border region. Crucial to this is developing linkages between businesses within the border region — the larger, successful businesses that are growing and firms that can supply them within the region — and between those businesses and higher education institutions outside the region. That is particularly important in the innovation sphere. The Bradley and Best report, which I think that you have taken evidence on, also shows that there is evidence of clustering dynamics in some specific areas such as food processing and aerospace, and we are conducting a piece of research that is looking at the potential to develop these clusters. We are doing that more on an all-island basis, but it will focus on the border region as well.

I think that I will leave it there, Chairman, and take questions.

The Chairperson: Thanks very much for that, Aidan.

I do not know whether you have your report entitled 'Analysis of the Key Features of an Exporting SME on the Island of Ireland' in front of you. I was looking at table 1.3 on page 18. Maybe it is just me having a dull moment, but I could not understand the columns there in regard to the percentages on cross-border trade, some to Great Britain, to other EU countries and others. Maybe you do not have that detail in front of you at the moment.

Mr Gough: I do not have that report in front of me.

The Chairperson: Right. We will park that and maybe get some detail around it again.

Mr Gough: What table is it? We will provide an explanation of it.

The Chairperson: It is table 1.3. It is laid out with percentages and so on, but I could not quite understand it. I had a few questions.

Mr Gough: I will provide a written explanation of that table.

The Chairperson: That would do lovely. Thank you very much.

Ms Fearon: Thanks for your presentation today. I am delighted to have everyone in Newry this morning. It was not too long a drive for me.

My question is about the border region economy. From your perspective, how do you think we can further integrate border businesses into the island economy? I know that it is a hugely important part of our economy, given that it accounts for 37% of our GVA.

Mr Gough: You are right: from InterTradeIreland's perspective, the best way to further growth in the border region is to get businesses to grow and to increase the connectivity of those businesses with the wider economy. Everything that InterTradeIreland does is based on creating linkages and connections. That is why our innovation programmes are about connecting businesses to businesses on a cross-border basis and connecting businesses to research institutes. Our FUSION programme does that. That is what our focus is: it is on driving connections so that the border economy of the border region becomes central to an island economy.

Ms Fearon: How do you think that the Committee could support the development of a cross-border economic zone?

Mr Gough: I am not really aware of any details on the cross-border economic zone. There was some suggestion of it in the Bradley and Best report, and there has been some follow-on work for a border development zone. There is also talk of enterprise zones in Northern Ireland. Again, we are having discussions with our Departments to see exactly what that means, but we are not sure of the detail of any of that at the minute.

Work done by Maureen O'Reilly and Philip McDonagh shows that the border region itself is a very different and heterogeneous area. The Louth, Newry and Mourne area is very different from the central border region and the north-west region. I think that they foresee some difficulties in having one complete border region zone, although they point out that there is scope for much greater cooperation in specific sectors — for instance, tourism, agrifood and maybe even environmental and waste management — where there are centres of entrepreneurial excellence scattered across the whole border region. There may be scope to do more there, and, in our research study on clusters, we will be looking at those areas. Certainly, connectivity is what it is all about.

Ms Fearon: I have a few questions about your view of the proposed heavy goods vehicle (HGV) levy from Westminster and the impact that that will have on border areas and border business.

Mr Gough: The HGV levy is a hot topic at the minute. It is a levy that, as far as we know — we are not directly involved in the conversations — has been supported by the freight industry and the transport industry on a broader basis across the UK and Ireland. However, when the legislation was being drafted, it was the sin of omission because they forgot about the land border that is shared on this island, particularly the impact on Donegal and on firms there. As far as we can see, that is where the main impact will be. It has been recognised that there will be a disproportionate impact on hauliers from the Donegal region, and discussions are taking place. I am not sure exactly what can be done, but one idea is to exclude certain roads from the levy.

Ms Fearon: It is concerning given that island-wide trade generates £2.3 billion for the island every year. Do you think that there is support for an exemption? There is a lot of speculation that the South will probably introduce a similar levy to even it up, but the additional bureaucracy could have the potential to undermine the island economy.

Mr Gough: I do not believe that the South will introduce a similar levy because it already has tolls. This is happening because there are no tolled roads in the UK. We have had talks with the freight associations and, as far as we can see, the impact is specific to the Donegal area. To me, the most sensible thing to do is look at exemptions on roads.

Dr Eoin Magennis (InterTradelreland): You could also include parts of Monaghan in that. Where somebody is hauling freight and crossing the border a number of times, those are the obvious places to look for exemptions. You could be taking that from one part of Northern Ireland to another part of Northern Ireland but going through certain roads. That seems the obvious area to think of having exemptions, and likewise for Donegal.

The Chairperson: One thing is causing concern — depending on who you speak to, of course — among small and medium-sized enterprises (SMEs) in particular and some of the microbusinesses as well. It is particularly relevant in this area. If Euroscepticism were to have its way and have an impact on the British Government and there were measures to withdraw from the EU or even to take a Eurosceptic half foot in, half foot out approach, there would be implications in an area like Newry where you have the free and natural movement of goods, services and people in alignment with the principles of an open EU. Do you have any reservations or concerns? You are right in a border town here. Do people have concerns? Has that been expressed to you by businesses that are looking ahead to the future? The people who reflect their concerns to me say that it would be utter, sheer, complete madness. I remember travelling with my father down to All-Ireland matches and you had to go through a lot. You had to have that wee triangular thing on the windscreen of your car, and you had to go through customs posts. That is before you even consider businesses having to produce VAT documentation and other customs-related documentation. Has that been reflected by any of your clients as they spoke about it in general terms?

Mr Gough: The debate has taken place largely in the UK. The voice that speaks about the impact on the island here and on cross-border trade is probably not being heard at the minute. InterTradelreland is an implementation body, and we have to work within the policies of the two Governments. You are right: it will have far-reaching implications because all those things would have to be thought out depending on what way the vote went. As you say, what happens to the free movement of labour? Do you have border controls? The free movement of goods and so on would have to be thought about. Obviously, rather than creating new opportunities, they are all potential barriers to trade.

The Chairperson: The concern that has been expressed to me by businesses is not a political point. They are thinking of the effects on the practical workings of their business: increased red tape,

paperwork and bureaucracy. That is at a time when we are trying to expand the element of cross-border trade that exists, as your report clearly shows. We do not want to be placing barriers in the way of that; we want to encourage it. That is why you are there. So, thank you for that.

Secondly, I want to follow up briefly on the conversation that we had at the Committee last week — maybe "conversation" is the wrong word for it, depending on who is looking at — on Horizon 2020 and the take-up of FP7. Are you finding an increased awareness in areas like this? The two key drivers for the expansion of business that you mentioned were export and innovation. Are you finding an increased awareness of those, as a result of what you are doing and, albeit belatedly, what the Department might be doing now?

Mr Gough: It is not straightforward. Horizon 2020 is a step change. It is for companies that are innovative and active. You ask me whether there has been an increase in awareness. We would say that there has almost definitely been an increase in awareness among the business community of the potential to get funding from Europe, but there is still a lack of understanding of the processes. Translating that awareness into an understanding is what we are trying to do at the minute, particularly through the 'Focus on' events that we are holding and the new Horizon 2020 app. All of that provides information on the Horizon 2020 application process.

The Chairperson: Let me compliment you on your work on that. I have the app on my phone, and it is very informative.

Mr Gough: Thank you. I will give you an example. I will not mention the company by name because I have not spoken to it directly. However, this is a small company in Donegal that we have worked with. Initially, it had not exported, and we helped it to export to Northern Ireland. It is now exporting to 14 or 15 countries across the world, and it is looking at Horizon 2020 to develop its products. That example shows you the pathway. The first step into exporting gives confidence to export further afield. Now that company is looking at Horizon 2020 to improve its innovation capacity.

Mr McKinney: It is great to be in Newry, particularly here at the WIN Business Park. They are undergoing some renovations and have made room for us even against that backdrop. We are delighted to be here.

Thank you for your presentation so far. I am interested in a couple of things. You make a distinction between North/South and South/North. If we regard the border region as one area, has any analysis been done on why Northern companies are performing better than Southern ones within that region?

Dr E Magennis: The analysis that was done in the Bradley-Best report, and subsequent to that, looked at the characteristics of the firms there and what you find as an overall theme. Looking at the manufacturing firms and taking levels of GVA as an indicator of productivity or innovation and all those things in firms, you find that it is slightly higher in firms in the Northern border counties than in the Southern ones. Where you have innovative firms on the Southern side of the border, they tend to be foreign direct investment (FDI) firms whose export platform is to somewhere else, rather than on a cross-border basis. Their interaction across the border is less than firms that are on the Northern side. So, there are a number of factors, but a lot of it comes down to the characteristics of the firms and their market orientation.

You also have to look at geography and the fact that the Southern border counties are largely rural. There are Sligo, Dundalk and Letterkenny, but there are not too many other large towns along the Southern border, with all due respect to Monaghan and a few towns like that. There are not that many large urban centres that have industrial bases, either historically or in the last 20 or 30 years.

Mr McKinney: It throws up a headline, if you like. Are you content that enough analysis has been done on that and that the situation will just prevail? Or could some sort of intervention in the form of knowledge, resource or whatever alter that positively?

Dr E Magennis: Good knowledge economy companies have grown up around the institutes of technology, particularly those in Letterkenny, Sligo and Dundalk. The challenge is in getting more of those companies. As John Bradley said when he was before the Committee, they are not like castles in the desert; they are networked. They need to be more networked among themselves and with their suppliers and companies from other parts of the island.

There are some superb entrepreneurial firms on the Southern side of the border. Firms such as Combilift, which is based outside the town of Monaghan, Castlecool or some of the other companies that John Bradley and Michael Best went to see can compete anywhere on the island and globally.

Mr McKinney: That is great to see, but we are also trying to look after firms that find themselves in a weaker position. What is being done to network them or to assist them in networking?

Mr Gough: From InterTradeIreland's point of view, it is about identifying small indigenous companies that have the potential. The Chairman referred to the report on the export capabilities of SMEs, and one of the key drivers of a company's growth is the ambition of the entrepreneur. You have to identify first the entrepreneurial firms that want to grow and then give them the capabilities that they do not have. I have not gone through them all, but that is what our range of programmes are designed to do. They are designed to put capabilities that they do not have into small or microbusinesses. We let the entrepreneurs go after the market and facilitate them to do so. That is what the range of programmes, both in the exporting and the innovation spheres, are designed to do. Those small or microbusinesses do not have all the capabilities that, say, a big FDI firm has access to.

Mr McKinney: An awful lot of the cross-border stuff clearly happens through osmosis. It has been pointed out that there is an absence of data on that. Are you content that enough is being done on data collection or does more need to be done?

Mr Gough: Eoin and I are both economists by training, and economists always want more and better data. The Bradley and Best report pointed out that there were deficiencies in the data at a local level.

Dr E Magennis: I do not want to be the one who jumps to the Department's defence, but, in fairness to it, it responded well to John Bradley's challenge and expanded the sample in the annual business inquiry in the last 12 months. It is taking some steps in the right direction.

Mr McKinney: On a structural issue, what about broadband services and how they impact on the border? Is there sufficient broadband access to encourage or to help deliver better outcomes?

Mr Gough: We survey businesses, and broadband connectivity has not been made apparent to us as an issue. There are anecdotal and individual stories, but it has not been an issue that has been on our radar screen in the aggregate of all the surveys of businesses that we have done. You hear about the odd company that is missing out because of its location, but, by and large, it has not been raised with us as a major problem. The problem that did come to us and is still around, although actions are being taken, is the roaming charge issue.

Mr McKinney: You are not hearing it, but connectivity is something that we, as politicians, are hearing a lot about. I was drawn to that issue, but I will return to how you categorise some of these companies. There is cross-border trade and off-island trade. How is the border region performing? Obviously, a lot of companies are trading across the border, but are they being strengthened sufficiently to go off-island?

Dr E Magennis: On the Northern side, official statistics suggest that, regarding market share, border-area companies are outperforming non-border area companies in all markets bar the GB market, which seems to be one in which they do not have as large a share. However, their exporting performance is relatively strong in the rest of the EU, the rest of the world and so on. On the Southern side, as I said earlier, it seems to be that, taking FDI out of the equation, export performance is weaker. So, it is uneven, depending on what side of the border you are looking at.

Mr Frew: I will refer to the report you published in December 2013 called 'Access to Finance for Growth for SMEs on the Island of Ireland'. That provides, for the first time, a picture of the total supply of bank finance. For Irish SMEs, it is £21 billion, and for Northern Irish SMEs, it is £4.7 billion. Is that proportionate? It is hard to compare given the different populations and styles of business. Is it proportionate, or is it something that causes concerns in either of the two states?

Mr Gough: We think that, by and large, the figures are proportionate and what you would expect for the scale of activity in the two economies, particularly in the SME sector.

Mr Frew: Is fair to say that they are both low?

Mr Gough: We do not know whether the figure is low for Northern Ireland because we never had that figure before. We are the first organisation to get that figure. We do know that it is substantially below the level in Ireland a few years ago. However, as we all know, that was because of the ease with which banks were lending.

Mr Frew: It seems to be a worry. You highlight the lack of bank supply data in Northern Ireland. How can you strategise in the dark or when you are blind? How big an issue is the absence of data like this for an organisation such as yours which is trying to strategise and link things up in order to enhance and help businesses? How can you change it? How can you force the banks' hand? Who is to blame? Why do we have poor data?

Mr Gough: The lack of supply-side data is a big issue. As I am sure you know, it is being addressed by the Ministers with responsibilities in this area. They are in negotiation with the banks and the British Bankers' Association, and I am aware that they have agreed to supply some sort of figures. It is a critical gap in understanding the marketplace. We have said that information about the marketplace is critical to help improve the finance situation for growth-orientated SMEs. The supply-side figure and how much banks are lending to the SME community is just one area where there is a lack of information in the marketplace.

There are other deficiencies that we point out in the same report. Businesses feel that there is a lack of information on the wider environment and on the products and services available to them. For instance, the same report shows that there is a disproportionate reliance on bank funding in Northern Ireland and in Ireland. Ninety-three per cent of funding to SMEs is from banks, which is way above any European counterpart. This is because there is a lack of information about other available products.

Mr Frew: For me, reliance on the banks is something that came out of the report, and if businesses do not have the data they need, it can be very difficult. That moves you on to other streams of funding, whether it is public finance or angel investment.

The report states:

"Direct government funding represents less than 1% of total SME finance."

I am always of the mind that government cannot fund business. All we can do is have the runway smooth for them to take off, and help them out as much as possible. In a healthy economy, what should that funding percentage look like?

Mr Gough: I do not know what a healthy economy looks like. It is a hypothetical question.

Mr Frew: Make a comparison with, say, Germany or France. What percentage would their Governments fund directly?

Dr E Magennis: It is around 3% or 4%. France is a little bit lower than Germany.

Mr Gough: You have to be careful with all statistics with regard to what you are measuring and whether you are comparing apples with oranges. The funding that we are referring to is in the form of repayable loans and does not include direct grants.

Mr Frew: OK.

Mr Gough: It excludes that, so you have to be careful. There could well be more grants available in Northern Ireland and Ireland compared to other regions.

Mr Frew: I understand and take your point. I know that governments cannot fund business. That is very hard. Although we are, hopefully, on the right side of recession and are going to see growth, the report states:

"Of the four main sectoral employers in each jurisdiction, three are in distress".

This is bound to have a destabilising and restrictive effect on growth. The three sectors are retail, construction and hospitality. What is the fourth sector and the one that is not in distress?

Dr E Magennis: Manufacturing.

Mr Frew: OK, brilliant.

Mr Gough: The report was done at a point in time. Our latest business monitor, which we published just two weeks ago, shows a massive increase in the number of companies that consider themselves to be in growth mode. The number has quadrupled in the space of one year.

Mr Frew: That is very encouraging.

Mr Gough: Yes, it is very encouraging. Also, it has been across all sectors, including construction, which has shown one of the biggest increases. Retail, leisure and hospitality are also showing increases but at a slightly lower level than the other sectors. There is definitely positive news and a change from when we did the initial research for that report.

Mr Frew: The other aspect of funding is angel funding. One of the recommendations of the report is to:

"Support of Angel Investment across the island of Ireland".

It goes on to mention the establishment of a co-investment fund or angel fund. How would that work in practice and how would an angel dip into that and a company draw out of it?

Dr E Magennis: Co-investment funds have been coming up on the agenda in Europe in the past couple of years. The idea is to allow business angels a little bit more flexibility to come into and go out of those funds. Co-investment may be by governments, banks or pension funds; a number of models are being followed. In the past, business angels have been a bit leery about getting into an open-ended relationship with firms; they perhaps wanted a time-bounded two or three years to come in and go out. The co-investment funds allow them more flexibility to do that with regard to the contracts that can be signed. In a sense, the risk is being undertaken slightly more by the co-investor as well as the business angel. This seems to be why they are quite attractive to angel investors.

Mr Frew: Is that model the best way forward for growth in the future?

Dr E Magennis: For the syndicates coming up with respect to business angels, it seems to be the one that they like. In a sense, if you are trying to attract more investment into the market, this does seem to be the way in which things are going. Scotland has run out a number of these as well. There seems to be a kind of a shift in sentiment towards co-investment funds. Ireland is looking at them in cooperation with the European Investment Bank. There seems to be a kind of mood moving towards co-investments.

Mr Gough: It is not that it is the best model; it is creating more diversity, so that you get the right model for the right investment, rather than just doing what businesses are doing at present, which is going in and extending their overdraft, which is perhaps a costly way to do it.

Mr Frew: Yes; absolutely.

I have one final question on recommendation 13, and it relates to investment in seed capital and early-stage capital in Northern Ireland. Obviously, we are on the right side of a recession and we want to get entrepreneurs on to the right ladders. We hear constantly about a one-stop shop. It is a great phrase. However, do we see it happening in practice? If not, when will we see it happening? When can entrepreneurs go to one place and get all information they require?

Mr Gough: We have highlighted the whole problem regarding information flow. Any market that is operating well has a good flow of relevant information to the demand and supply sides. The report shows that there is a need to improve the information flow. Businesses need somewhere to which they can go and find out just what products are available. They also need the capability to assess the products that are most appropriate for them. So, we have to address the flow of information regarding what is available and the capability of businesses to discern what is most appropriate for them. All the recommendations in the report are probably around those two key dimensions of developing capability and information flow. That has been acknowledged. We have made a number of presentations on

the report. Lack of information, and improving information flow to the business community in particular, are critical. I think that that has been grasped.

The Chairperson: We often hear about the advisers available and the 0800 number for the likes of Invest NI. I do not know this — and I do not know whether you are aware of it — but could we establish whether, when you ring in, there is someone there who actually specialises in funding sources? A business could ring in and say, "This is what we propose", and be told, "We can do a start-up grant for that, but have you thought of approaching x, y or z streams of funding, other than your bank? Some proposals might be higher risk and banks might not want to touch them, but other funding sources could be available. I do not know the answer to the question; perhaps, you do, or perhaps we could establish it. If it is not available there — to pick up on Paul's point about the one-stop shop — could work be done to make it available? Perhaps, you are not aware of it.

Mr Gough: I am aware that Invest NI is running, and has run over the past year or so, a number of programmes addressing financial capability in SMEs and gives that sort of advice.

The Chairperson: I have seen the details of that. However, I wonder whether it is down to that specialist form of, "This is the suite of financial options or sources available to you. Have you thought about trying x, y or z?". I do not know. We will find that out if members are in agreement. Are we agreed?

Members indicated assent.

Mr Mitchel McLaughlin: Thanks very much for the presentation. It is very interesting. The disparity in export performance North and South is interesting, but my question relates to the wider context. It would be good to understand why the disparity exists. I do not think that I do, on the basis of what is in front of us. From a wider perspective, there are border regions all over the European Union. Are there particular issues here that affect competitiveness or interest in developing the export potential of what we refer to as the border corridor compared to other parts of Europe?

Mr Gough: Eoin touched on some of them. Every border region is different. Some are highly industrialised. The border region here, particularly on the southern side, is very rural, which is bound to be a key factor.

Mr Mitchel McLaughlin: To compare, as much as we can, apples with apples, you point to the obvious difference, which is that some central European border regions may be heavily industrialised and have a long tradition of being so. However, to compare apples with apples, are there particular issues that we, in Ireland, can bear down on?

Mr Gough: I can talk only from InterTradeIreland's point of view and focus. Now, we talk more about opportunities rather than barriers, and this is due to our experience in working with businesses. You can work with and facilitate an ambitious entrepreneur who wants to grow, and they can usually find a way round any barrier. We focus very much on identifying such ambitious small businesses and microbusinesses in the border region and we focus on giving them the ability and facilities to develop their businesses; first, on a cross-border basis and then, hopefully, further afield. We operate on an individual, firm-to-firm basis. The reason is that most successful border regions, and any successful subregional economy, are usually based around growing entrepreneurial firms. From our point of view as a development agency, working with them is critical.

Mr Mitchel McLaughlin: Those innovators, the people who perhaps demonstrate particular abilities, obviously point to solutions that could benefit other companies. I agree that people will find solutions to the most difficult issues, except, maybe, the politicians at Stormont, but we will not go into that. I am addressing the issue of the pattern of export performance: Does that stand true going back to the Celtic tiger days? Has it been affected by, for instance, those massive infrastructure projects that were carried out south of the border. Does that have a distorting impact on the border region?

Mr Gough: That is a good point and it is something that we probably should have mentioned. The domestic economy was booming for many businesses on the southern side of the border. They became reliant on that domestic economy.

Mr Mitchel McLaughlin: Of course, yes.

Mr Gough: So, now, as the domestic economy has contracted, they have to look for other markets.

Mr Mitchel McLaughlin: Has the pattern changed? At the moment, the northern parts are still outperforming them, but are they improving their performance?

Mr Gough: We do not have the figures for that. We know that there has been a shift in the marketplace for small microbusinesses in that they relied on the domestic market that has, more or less, collapsed over the past three or four years. We are finding that there is a big demand for our types of services, an increased demand.

Mr Mitchel McLaughlin: In recent years, maybe coinciding with the economic decline, there was a massive slide in connectivity and telecommunications etc. All that has had an impact as well. Regarding preference, which is almost a psychological circumstance as well as a physical or economic one; is there a way in which we can tie together what would be regarded as areas that do not have good connectivity with areas adjacent to the border, such as Newry and Derry? I suppose that Letterkenny is pretty well served. Is there a way in which we can provide that kind of hot-spot access, perhaps on a shared services basis, to help border region companies, the small SMEs that will see no massive investment in the foreseeable future in either physical infrastructure or telecommunications?

Mr Gough: I am not sure about that. I am sure that it is possible, but I do know about the technology.

Mr Mitchel McLaughlin: If we had a portal based in Newry, it would certainly help companies in this region. If we had one based in Derry, especially with Project Kelvin, it is bound to give them an advantage that they do not enjoy at present.

Mr Gough: You would think that it would be an advantage. All I know, from the information that we have from the businesses — and we survey and work with a lot of them — is that the issue has not been high on their agenda. We can look at it in one of our upcoming surveys to see the extent of the problem. We could report that back to you.

Mr Mitchel McLaughlin: I am trying to understand the sector. Do microbusinesses tend to be family-based?

Dr E Magennis: Yes, by and large. It sometimes leads to succession issues or problems because the business is family-oriented. I take you back to the examples that Bradley and Best came out with and the kind of management strategies that some of those companies followed when bringing people from outside the family into new management teams as well as working alongside other family members who might be the successors in the firm. It is not necessarily always a bad thing. The issue is getting a succession plan into the firm.

Mr Mitchel McLaughlin: You pointed to some exceptions, and there will be some very good performers. However, is the tradition of SMEs being family-based and, at times, very localised an inhibitor to innovation?

Mr Gough: There are some inhibiting factors in the border region. The performance of businesses in the border region on innovation is lower than average. I think that it is to do with connectivity. We need to develop those connections to the research institutions and the technology bases. It is all about connectivity.

Mr Mitchel McLaughlin: It is about trying to tease out what we can do to make a difference.

Mr Anderson: Thank you for your presentation. I want to touch on the companies involved. Figure 2 shows the companies across all the counties, and you have some very fancy little circles there. It also shows the density of companies involved in the border counties. I have had some discussion and engagement in recent months — I think I mentioned that — with InterTradeIreland locally to see how we could get companies to have more engagement across Northern Ireland. Has there been a lack of connection with local authorities in getting your message out in trying to push companies to take up position and connect with you?

Mr Gough: There are a number of things involved in that. InterTradeIreland has to manage the demand for its services. That demand exceeds supply, and we have to be very careful about doing a big campaign to get businesses because we only have a limited budget and can end up with disappointment. So, we take a targeted approach to ensure that we have representation across the whole island. InterTradeIreland is a small body and works through the relevant agencies, including Invest NI, Enterprise Ireland, the county enterprise boards, the enterprise network, the local authorities and a range of advisers on the ground in local areas. We have to be very careful when managing the demand for our services. On a more general level, we have also found that, across Northern Ireland and the Republic, there is a lack of awareness in the wider business community about the services that agencies such as ours — not just ours — offer.

Mr Anderson: That is where I am coming from. It appeared to me in my discussions that there was lack of awareness. Maybe you do not get the message out there. Aidan, you talk about your budget, which may be small compared to many others, but there may be a number of small firms that want to get engaged but do not know where to make the connection. I know that local authorities are now trying to make that connection and run events to get the message out.

Mr Gough: We try to leapfrog on to those events where possible.

Mr Anderson: Running joint events with other agencies would be a good way of getting the message out. The figures in Table 2 show that the total number of programmes is 1,142 and that there are 315 from the border areas. Obviously, the message is getting out somewhere if you have that uptake in the border areas. Is it not a case of trying to spread that out and get more involvement and engagement? That is where I am coming from.

Mr Gough: We have an outreach programme and we closely monitor the take-up of our programmes in every area. If we see that take-up is falling below the proportions expected for an area, we will run outreach events there. We are aware of this, we are on top of it, and we keep trying to address the issue; but, again, it is a balancing act. You could end up disappointing more companies because of the budget constraints that every development agency has.

Mr Anderson: How do you balance between the companies that know about your programmes and those that do not? Everyone should have an opportunity to know what you are about and what is available. Is that balancing act taking place because of the amount of funding that you might be able to provide?

Mr Gough: There are a number of issues. First, you can always improve the information you are trying to get out. We are aware that in all agencies there is a lack of awareness of the products that an organisation such as ours can offer; again, our business monitoring is showing this. We are doing more than that. We are looking at changing the brands we are using to market ourselves to the business community. We are always aware of this. For instance, businesses may have heard of the Acumen programme, and you may have heard of it, but you could probably not tell me what it actually does. It is a cross-border export programme. We are looking at changing terminology like that. We are always aware of this and are always striving to improve. The diagram shows that we have been relatively successful in getting representation across the island, particularly in the border region.

Mr Anderson: You briefly mentioned earlier that you survey businesses. To what extent do you do that?

Mr Gough: Maybe Eoin will talk to you about the businesses.

Dr E Magennis: Every quarter, we run the business monitor survey which surveys 750 companies, 365 in the North and 375 in the South. It is not the same cohort of companies every quarter; it is a fresh sample. The survey is stratified to make sure that there is a proportionate number of micros, small companies and medium-sized companies, and it is proportionate across sectors such as construction, retail, manufacturing, business services and so on.

Mr Anderson: So, it is always different businesses in each quarter.

Dr E Magennis: It is.

Mr Anderson: Do you get feedback from the businesses that you have already connected with?

Dr E Magennis: That is a slightly different thing.

Mr Anderson: Do you connect with local authorities in relation to databases and the businesses you need to connect with? How big is that? How do you identify a business to survey?

Mr Gough: When we market our programmes, for instance the Elevate programme which is aimed specifically at microenterprises, we run events across the island. We work with local authorities, Invest Northern Ireland, Enterprise Ireland and the local enterprise agencies North and South and with county enterprise boards. We work through those agencies to market our programmes and offerings, and we have a communications campaign that will target local papers so that we reach the businesses that we want to reach. It is a coordinated approach. We work closely with other agencies in that area, and, as I keep coming back to, the demand for our programmes is higher than the number of places that we can supply.

Mr Anderson: I will finish with this. Can I take it that there will be a more active engagement on your part to get out there with the areas that are lacking and where there is not much uptake? Will you be trying to expand into those areas to get a better connection?

Mr Gough: Yes. We design an outreach programme and look at the figures to see where the uptake for our programmes is. If something is falling down, we target events in that area. We have been looking at the south-west — Kerry, Cork, and so on — for a year because the numbers for our programmes there were low. We target specific areas. Almost 28% of the businesses are from the border region.

Mr Anderson: Are you doing more events beyond the border region — say, in Northern Ireland?

Mr Gough: Yes. We had events in Ballymena recently.

Mr Anderson: I appreciate your efforts on that and encourage you to get the message out.

Mr McKinney: You mentioned your budget a couple of times. We all want bigger budgets, but, to be honest, I am not hearing you say it in that context. Is your work being restricted? Are you sufficiently financed to be able to do the work? Has your work grown beyond the originally envisaged budget?

The Chairperson: On the back of that, I read in the report that expenditure on programmes has been reduced by upwards of £1 million. Will you give me some idea about the programmes that have been affected and whether previous programmes no longer exist on foot of that significant cutback on expenditure?

Mr Gough: Like all government agencies, we are subject to efficiency savings. Across the island, North and South, every agency has suffered from cutbacks over the past number of years. I provided a note to the Committee that sets that out very clearly. Our budgets are determined through planning and budget guidance, which emanates from the Department of Finance and Personnel in the North and the Department of Public Expenditure and Reform in the South. As our paper sets out, that planning and guidance has called for cash-releasing efficiency savings of 4% in 2014 of our 2013 budget. It calls for 8% in 2015 of our 2013 budget and 12% in 2016 of our 2013 budget. Over the previous corporate planning period, we were subject to 3% cumulative savings, so it was 3%, 6% and 9% off the baseline. The efficiency savings are required on both sides of the budget. They are required in administration expenditure, which includes pay and non-pay costs, and on the programmes budget. We have prioritised the savings that we have to make to try to avoid or lessen the impact on front line services of the amount of money that we are actually using to support businesses. We have been able to do many things there. We are constantly striving to meet those efficiency targets, and we have done that. Obviously, we have had to reduce overall expenditure on our trade and innovation suite of programmes. In some areas, we have reduced the level of financial support so that we can try to keep up the number of businesses that can benefit. Sorry?

Mr McKinney: I am sorry. I did not mean to interrupt you. I am simply signalling to the Chair that I want to follow through on a point. Please finish.

The Chairperson: I was going to explore this point anyway, so I will allow a bit of latitude.

I am trying to get into the specifics, Aidan. There is a reduction in expenditure on trade and innovation activities at a time when the main theme appears to be not only export but innovation. I am trying to square that circle, but at some point it hits the wall. You are making many cutbacks at a time when there is potential for growth, we are trying to draw down additional funding through Horizon 2020, and you are being heavily relied on by DETI — that was obvious last week — to support businesses. I am trying to establish clearly what specific programmes have been affected and which have been either significantly reduced or no longer exist to support businesses and their innovation activities.

Mr Gough: You can see that in our corporate plan. We said that we have to rationalise our programme offering, and we are looking at that. I will give you a specific example. We run a programme called Innova, which links companies together on a cross-border North/South basis. We bring together two companies that are working on an innovation-related project. It is an expensive programme because of the amount of support that we give because it is research intensive, although it has had good returns for participants. However, because the ratio of grant to the number of businesses involved is quite high, we have decided to reduce, and maybe even completely move out of, the Innova programme offering because that will free up a substantial amount of resources that can be used to put companies through other innovation programmes that are less intensive as to the amount of grant support that we give. That is a practical manifestation of cash-releasing efficiency savings.

The Chairperson: It would be helpful if we had details of the programmes involved and how they are being affected. Will you provide us with that, please?

Mr Gough: Yes.

Mr McKinney: All Departments can argue about why they should not be subjected to the full scale of efficiency savings. Is there not a case to be argued, when an organisation is assisting businesses and others to bring money in, that that money can be offset against savings? If efficiency savings are restricting business, they are also restricting the potential to encourage companies to bring in money. Is an equation being calculated? The amount of money that an organisation such as InterTradelreland assists the countries to bring in might be used to argue that you should not be subjected to efficiency savings on the scale that you are being asked to make?

Mr Gough: We can clearly show the value that we create through our interventions. The ratio of value generated by the businesses that we help to the expenditure that we make in giving grant support runs at around 12:1. It is a substantial ratio. It is generally acknowledged that we are having a substantial economic impact. However, no matter what we do, the economy, particularly in the South and Southern public finances, has suffered a tremendous hit, and we are funded two thirds from the South and one third from the North. It is hard to escape the impact of that massive hit on public finances.

Mr McKinney: An organisation such as InterTradelreland can argue its case, make calculations or present in the way that you have, and you have obviously done other research. Would it be in order for the Committee to take a view on that at some point?

The Chairperson: We could perhaps raise it when we meet our colleagues from the Dáil and the Oireachtas. They are due to meet us at some stage in the next month or two. We could make a case for an advocating champion.

There are times when you have to invest to get more money. We talked about Horizon 2020, and we do not want an organisation to reach a tipping point whereby there is a resource that could be fully utilised to draw down €1.4 billion in the rest of the island and, potentially, millions of pounds in the North, although we are less ambitious. We must make sure that any resource that could tap into that and get that money is not at a point at which it cannot be fully utilised. That is our point, and we can raise it with our colleagues from Dublin.

Mr Dunne: Thanks very much for your presentation. I apologise for being late. I had a tour around Newry and saw considerable investment, especially around the canal area. That is to be welcomed.

Aidan, you talked about and recognise the need for a growth in exports. That target needs to be addressed in Northern Ireland and in the Republic. What do you see as the key opportunities and challenges for increasing export growth? We are quite strong in the agrifood sector and in machinery

and equipment, which is recognised in your report. In what other areas can we move things forward? I will run through my points, Chairman, and then Aidan or his colleague can answer them.

There has been some talk about Invest NI. How does the number of staff in your organisation compare with Invest, which has nearly 600 staff located all over the world? How do you interact with Invest? We came to Newry about two years ago and talked about Invest. How do you make sure that there is no duplication between the work of your organisation and that of Invest? To be fair, you said that you refer to the various agencies as and when you need to. I am also interested in your feedback on Invest's activities in the Newry and border areas. How do you feel that it works and interacts with you?

Yesterday, I was at a health conference, as was my colleague Fearghal. Connected Health is one of the big initiatives. Are you aware of that? Are you engaging in that? It is being headed up by the Health Department and DETI, and it is all about engaging with industry and business to try to come up with new ideas. It links into innovation, which we all talk about, and it is about drawing down funding from Europe.

When you think about Newry, you think about the pharmaceutical company Norbrook. Perhaps you supported that company previously. Do you see it as a firm that could be supported? Combilift — a great business — was mentioned earlier. Perhaps you could give us further information about how you have supported those businesses and the good work that you have done with them.

Mr Gough: There are a lot of questions there. I think that I can answer two or three in one. You asked about the type of sector that we focus on or the sectors that show real potential —

Mr Dunne: Yes — for export.

Mr Gough: You need some cognisance of the sectors that are doing well. We are involved in cross-border trade, and almost 50% of cross-border trade is in the agrifood sector. There is still potential for that sector to grow. It is a massive sector on and off the island.

Mr Dunne: To export?

Mr Gough: Yes. Some of the companies that you mentioned such as Combilift, Norbrook and Castlecool, which Eoin mentioned, are the shining lights in this region, particularly in the environmental sector. We also have a shining light in the financial sector in First Derivatives. You can see the diversity.

Our report on exports focuses on capabilities. We try to work with businesses that have the potential and capability to grow no matter what sector they are from. As you can see from those examples, the businesses can come from any sector, which is why our programmes are very much focused on working with individual businesses. There are some sectors, such as retail, that we do not work with. There has to be a tradable element to the sector — internationally tradable services such as manufacturing. However, within that, we focus more on entrepreneurs than the sector that they are in.

Our staff numbers are small. We have about 39 people. I do not know how many Invest NI has.

Mr Dunne: I think that it has about 600 staff, but they are all over the world, of course.

Mr Gough: We have 39.

Mr Mitchel McLaughlin: They are looking for reinforcements. *[Laughter.]*

Mr Gough: You mentioned duplication, and for every initiative and programme that we run and for our research agenda, which is important, we establish a committee that runs that programme. If it is on the operational side, Invest Northern Ireland and Enterprise Ireland will be invited onto that committee so that we avoid any duplication. That is the model that we use.

Dr E Magennis: Connected Health is a key focus area for Horizon 2020. There is to be a 'Focus on' event on the opportunities and the calls for Connected Health. A Northern Ireland contact point, Shirley Davey, is working in that specific area. She used to work at the University of Ulster. We have been working closely with them on the opportunities.

Mr Dunne: Is she with the Department?

Dr E Magennis: She is now with the Department of Health, but she was at the University of Ulster before that.

Mr Dunne: You see opportunities there.

Dr E Magennis: Yes.

Mr Dunne: What about Norbrook? It is a big well-established organisation. Have you had contact with Norbrook? Do you see opportunities there? Pharmaceuticals are big business.

Mr Gough: Norbrook is a phenomenally successful business. Our prime focus and the focus of most of our interventions is small to micro business. Companies such as Norbrook are probably clients of Invest Northern Ireland; I am not sure.

The Chairperson: Gentlemen, thank you very much for the presentation. It was good to hear about the innovative work that is going on. Perhaps you will provide us with the few details that we requested. Good luck with your work. We will raise the issues about funding and that with our colleagues from the Oireachtas when we see them. The point is that sometimes you have to invest for the future.