RESPONSE

Introduction

This is an individual company response to the review of the White Paper on Irish Aid. It focuses very much on a particular element, namely on the possible assistance that could be given to Irish companies in emerging markets that would certainly result in a significant boost in employment and trade as well as restoring Ireland international reputation and status to a pre 'Celtic Tiger' level.

This paper will outline the possible beneficial effect that a refocused element of IrishAid could have in winning more business for Ireland in both the short and long term, leading to greater job creation and prosperity for Ireland and more appropriate focus on the recipient countries and their needs.

The views are based on over 27 years dealing in emerging markets, in organisations both large and small and across a number of key sectors. In addition this work has primarily been carried out for the major International Funding Institutions (IFIs) as well as other Bi-lateral Aid programmes (including IrishAid) and privately–funded business.

ASTEC Experience

Our company ASTEC Global (formerly part of the Eircom Group before an MBO) has worked in over 100 of these emerging markets across all continents for;

- IFIs (such as EC, World Bank, EIB, EBRD, Islamic Bank)
- Government Ministries in the emerging markets (Finance, Foreign Affairs, Interior, Environment, Agriculture etc)
- with Multi-national such as Microsoft, HP, Siemens etc
- local companies in the emerging market as well as
- international companies specialising in various sectors and
- providing support and assistance in helping Irish companies enter these market through initiatives such as 'ConsultingIreland'.

Our executives have worked previously in other large companies (from the Energy, Finance and Agriculture sectors) on both IFI and private business in these developing markets.

Context

The challenge for Ireland is to find new ways of projecting ourselves in some of these emerging economies where we may not have the historical links of old. This is not a short-term fix and companies should not expect to see major returns or profitability in the short-term. Rather it can be part of an overall strategy for the future that can hopefully be built on to return to greater profitability and ensure less reliance on the domestic marketplace. By diversifying into these markets and maintaining adaptability and flexibility, Ireland and our companies may be able to better weather this and future economic downturns.

The amount of funds and opportunities within the broader **IFI markets is enormous – over €975bn from the EC alone over a six year period.** Significant funded programmes and IFIs remain largely ignored by Irish firms as Ireland has tended to focus on elements that are more research based or which entail accessing funds in the EC internal markets.

As a nation we have targeted the EC FP7 €50bn research programme with some success. However this represents just over 5% of the overall budget and we have tended to ignore the other 95%. If Ireland's reasonable success in FP7 could be brought to the other larger and more business oriented IFI programmes, then this would see some significant returns and benefits for Irish Companies and the Irish economy in terms of jobs and exchequer returns.

As a comparison, Denmark has won almost 10 times the business Irish firms have won in these other IFI markets, markets that are more relevant and commercial than those associated with FP7 work. While Ireland has regressed since the turn of the century, Denmark and our other EC partners have forged ahead.

In the case of Ireland, the IFI-funded market is now a **virtually untapped market opportunity** as many of the Irish firms exited the marketplace during the **'Celtic Tiger'** era. In recent years Ireland has struggled to keep pace with its many European partners in winning international business in the developing and emerging markets in receipt of funds from the likes of the EC and World Bank.

The smaller indigenous companies – with some exceptions - are not well represented, particularly in the €multi-billion emerging markets. However as an SME, we would contend that it is easier to win business in these markets than in the more competitive markets of the UK and US – especially as one of the 'old 15' original EC member states.

There are more opportunities in these markets – over 200,000 tenders on any given day (nearly 25,000 alone in the Construction sector) and yet Irish agencies and companies still overly focus on domestic procurement opportunities in a declining market.

In this particular sphere of business, Ireland now ranks 20th out of the 27 member states (in the past we ranked in the top 7), behind many of the most recent accession members and will no doubt fall further back in the short term unless this is seriously addressed.

The target markets are international – particularly those in the emerging countries - and are **across various sectors**, representing **services, supply and infrastructure opportunities.** The financing of **Public sector activity** in these emerging markets is often **a prelude to Private sector business opportunities.** The continued success of this strategy depends on commitment and adaptability to find new opportunities.

Ireland's failure to recognise and implement this strategy for market entry and our gradual withdrawal from the IFI funded and emerging markets at the turn of the century, has resulted in our **global demotion** in status and recognition as a serious player.

Too often Irish companies have tried to enter emerging markets without solid groundwork or research. It is imperative that a planned and well thought out strategy is followed.

Irish companies targeting new markets in Africa continue to be unaware of, or are ignoring the fact that interested parties have been positioning themselves for some time for upcoming opportunities. The multinationals such as Microsoft, HP, Cisco will have set out their strategy for various sectors and have their preferred resellers, local companies, political contacts and international partners to ensure business is delivered to them in a structured way.

Irish companies have little chance to win business unless they can engage and 'add value' in this scenario.

Another key fact in targeting this market is the security of payment. Even though the work may be in a Less Developed Country (LDC), the funder is an IFI, and while somewhat bureaucratic in nature, is nevertheless financially secure and dependable. The other key fact is that **advance payments can be up to 60**%, thus in many cases, effectively negating the need for banking facilities and reliance on their discretionary whims to fund the business.

Reports by the major research firms confirm the potential for the emerging markets. IDC Research revealed that IT spending in emerging markets is expected to grow at a compound annual growth rate (CAGR) of 11.3% through 2012, compared to just 2.5% for the world's developed markets. Additional research by the Gartner Group, indicates that in some segments, such as telecom equipment, **emerging markets are about to overtake developed markets.**

Interestingly the growth rates of emerging markets continue to accelerate and further expand beyond the current leaders – Brazil, Russia, India and China (BRIC) into newer markets such as Turkey, Vietnam, Egypt, South Africa and Nigeria.

As an indication of this lack of focus on the commercial IFI projects, **the top 25 Danish companies** have won more than all of the Irish companies engaged in these IFI funded markets.

The potential for increased revenues is evident as the key IFI focus is in areas such as Security and Civil Protection, Agriculture, Clean Tech, Transport, Construction, E-learning, Customs, Health, IT / Telecommunications and Financial Services; all areas in which Irish companies have particularly strong relevant experience and expertise.

The chart below (Fig.1) shows figures which were extracted from the various IFIs, and shows country of origin of companies that have bid (not necessarily won) external EC and other IFI funded tenders over the period 1999 until today. What is clear is that **Ireland has now fallen behind** many of the newer member States such as Slovakia (SK) and Lithuania (LT). What is even more alarming when one evaluates the figures more closely is that Ireland have only 76 companies that have made any effort to bid IFI tenders since January 2007. The number of 'active' bidders is much less, probably in single digits.

The countries with whom we should be trying to maintain some sort of equality – as they have many similarities such as population, size, IFI involvement, etc - and use as a benchmark, are those like Denmark and Finland. Sadly you can see from the compiled figures that Ireland now lags behind both these countries.

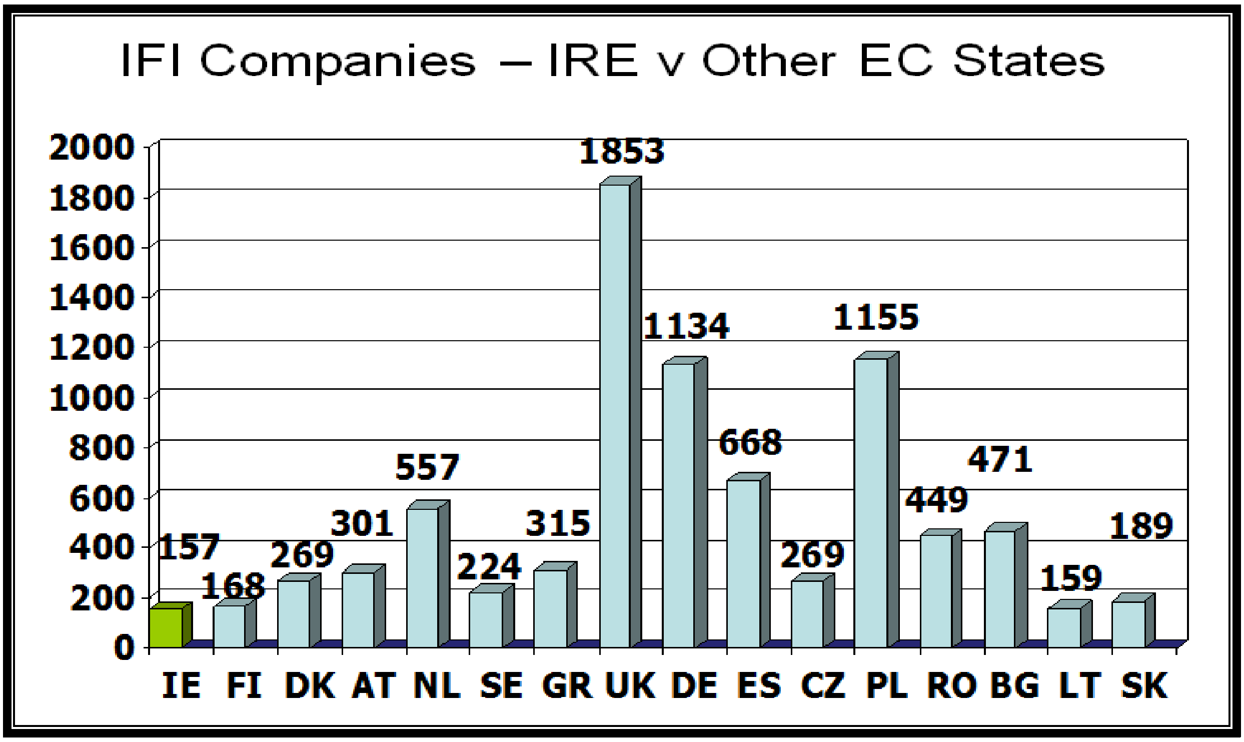

***Fig.1** Irish companies tendering on IFI opportunities versus EC States (1999-2010)*

The Danish (DANIDA) and Finnish (FINNIDA) Government Agencies have long established networks and presence in targeted countries (e.g. Sri Lanka, South Africa, Nepal, Philippines, Bosnia etc) as well as direct financial support they give to their companies who are engaging in international activities. A quick analysis reveals the fact that **this Governmental support has resulted in additional significant business wins** for their national companies and continued influence and positioning for future opportunities in both the Private and Public sectors.

During our earlier experience with Eircom we had association with the telecoms groups from Denmark Finland and Portugal and it was clear that a very sizeable proportion of their business was coming via their bi-lateral aid programmes. Irish companies will be lucky to be a recipient of such aid once per decade. As an SME we have never sought or been granted any such funding – knowing that it would be pointless to apply.

However we have spoken to other companies from other countries who expect to benefit on an often annual basis from IrishAid. What limited funds that are available to companies, are untied and targeted by the likes of Dutch and UK firms. This is a particular irritant to Irish firms that target these markets and try to compete with these foreign companies. These policies have left Irish firms at a serious disadvantage in the emerging markets in both the Public and Private sector.

In fact Ireland is indirectly helping other nations to compete against it own nationals.

ASTEC has benefited from Norwegian and Finnish Aid, but it has always been as a junior partner on a project not as a lead firm. Today the likes of Finnish Aid are helping Finnish firms win significant business in Turkey, South Africa and parts of the Former Soviet Union. Additionally bilateral aid agencies generally encourage the beneficiary countries to include their national firms on short-lists. This will all have a long-term benefit for those developed economies.

A serious disadvantage in winning international business in these markets is the fact that the Irish Government and the various agencies do not have this extended physical network and presence in-country in the majority of emerging markets. Irish Aid itself is also very much reserved for the NGOs, with only 2% available to Technical Assistance, the lowest in any of the Development Assistance Committee (DAC) of the OECD , well below the EU average of 22% and even the 9% for the UK. It is certainly well short of the 50%+ for the likes of the Germans and Australians who are targeting international business for their companies in the emerging markets.

With the impact of reduced home markets, some medium to large Irish firms have targeted some of the new markets in e.g. Turkey and Middle East. They have been aggressive in making marketing trips, finding local partners – but often not the right partner etc. So while this activity is commendable, the market approach is often impracticable - **unless some initial and extensive market research is first carried out.**

International competitors to Irish firms in sectors such as Waste, Environment, Construction and Energy have already long established local offices in places like Ankara, Belgrade, Manila and Pretoria and have been **tracking and positioning themselves** for the upcoming opportunities for some time now, often up to 3 years prior to the release of the interested tender/project.

Other Irish companies wish to exploit these markets but are confused about the processes, procedures, logistics and business practices.

This is **not a short-term fix** and companies should not expect to see major returns or profitability in the first 2 years in these new markets. Rather it is a strategy for the future that can hopefully be built on, to return to greater profitability and ensure less reliance on the domestic marketplace. By diversifying into markets and maintaining adaptability and flexibility a company may be able to better weather the economic downturns.

Below is a summary list of the advantages and disadvantages that Irish firms can expect with their involvement in the Emerging and IFI Markets.

Many **factors favour Irish firms** seeking to develop business in this area:

- As a smaller country that emerged from an impoverished agricultural based economy, we can appreciate the similarities with many of the current LDCs;
- Our lack of a colonial history and non-alignment politically result in a **positive attitude** to Irish people abroad;
- Having **English as our primary language** is a major advantage and cannot be understated particularly when furnishing reports and dialoguing with clients and beneficiaries;
- There is a pool of experienced Irish consultants available – although many of our European partner countries are presently availing of their services;
- Relevant home experience is transferable to accession countries;

- Even today our track record in accessing IFI funds – particularly in Structural Funds – is still remembered - However to date we have not taken full advantage of that fact.

On the negative side, Irish firms face a number of barriers in exploiting the market such as:

- Their **limited IFI experience** results in a lack of references, lack of expertise in pursuing tenders and insufficient knowledge of major competitors / local partners;
- Irish firms are usually smaller and face **barriers of scale** versus their competitors from other larger nations;
- **Fee rates** in Ireland have tended to be **relatively high**;
- The limited scale of Irish Aid and lack of Government Agency presence in emerging markets;

What will be needed is a strategic and co-ordinated approach that will address the issues identified earlier in this submission.

Other initiatives that need to be developed over time, and which ASTEC has made a start on, include:

- **An Opportunity / Project Tracking system** – allowing companies view, within a single system, the opportunities available across programmes and in different regions. We have developed such an in-house system that identifies up to 30 potential opportunities per day and would be able to extend this to all key sectors with some small support.
- **Seminars and Mentoring** to help companies develop Expressions of Interest and respond to tenders in the proper format. As a company we have been involved in seminars – funded by Multinationals - helping other national governments and local companies access IFI funding and winning IFI projects
- Support to companies in creating scale and developing references, utilising structures such as EEIGs (European Economic Interest Groups) and the use of **clustering** either on a sectoral or cross-sectoral basis.

ASTEC is also in a position to assist in developing targeted training for agencies and private companies. We can help to identify opportunities, partners and players in these markets.

Other issues to be addressed are;

- **Bid and Performance Bonds** and the role and inflexible approach by Irish Banks in providing support. The Group is aware that there are International Banks (for example some based in Brussels) who have a more flexible and business-orientated approach to this issue. This limiting requirement has already been identified and discussed with another interest Group representing the Construction Industry and it is planned to jointly address this critical issue.
- The role of Irish Aid. This is a critical limiting factor for Irish companies when competing with other countries and their support agencies such as US (USAID), UK (DFID), Australia (AUSAID), Canada (CIDA), Finland (FINNIDA), Denmark (DANIDA) Sweden (SIDA), Germany (GIZ) etc. Realistically little

will be advanced here unless the Group can attract some political and/or agency support for change.

Follow-on practical steps will result from focussed ASTEC seminars and individual company post seminar review meetings. This would cover specific areas of assistance such as;

- Identification of opportunities related to the particular company
- Relationship building with key decision makers
- Establishing meetings with country contacts and possible partners
- General or specific assistance in developing tenders - compliance
- Pricing for different markets
- Obstacles to target market entry
- Continued International Mentoring.

Independently the course mentors can also give a **‘health check’** on the suitability of the company to enter the international emerging markets.

Summary

With the undoubted increased interest in international business opportunities, in part due to the post ‘Celtic Tiger’ reality, companies (whether internationally-experienced, re-entering or market novices) will all be aware of the need to have support and guidance to fully exploit those global markets.

This summary has indicated the potential that exists in the emerging markets and particularly those in receipt of IFI funding. The potential revenues and **opportunities in the emerging markets are substantial** and currently virtually untapped by Irish companies. Again the possible reasons for this have been analysed.

Today those few organisations that are in a position to possibly assist in opening these markets for other firms are so focused on their own business or are reluctant to help what they perceive as potential competitors.

In addition the lack of Irish Aid to support market entry puts Irish firms in a disadvantaged position. A supported initiative is needed that will be a small step in redressing those limitations and will be welcomed by those planning to expand and diversify into these Less Developed Countries. This initiative will also be welcomed by recipient countries and respective ambassadors. The concept of ‘teaching a man to fish’ rather than giving food aid allows dignity and respect and is far more effective in the long term.

Our involvement with The ConsultingIreland Initiative is a determined attempt to provide that initial direction, support and advice to companies who want to enter these emerging markets. The strategy and direction provided by this initiative will go some way to close the gap that currently exists between what Ireland offers by way of support, as opposed to what other nations such as Denmark and Finland provide both in term of financial packages and in-country presence.

We have engaged with companies hoping to expand into these markets and are convinced of their support for this process and a definite need for the proposed services and practical help.

It is further hoped that EI – and Government – will continue to actively engage with the Group to help restore Ireland's status, position and revenues it once enjoyed in these IFI funded markets and to use this involvement to also take advantage of the growing Private sector activity in the LDCs that naturally results.

Ireland needs to be more aggressive internationally and find new markets in new places rather than trying to squeeze more out of a declining home market.

What is needed is 'connectivity' between the key parties in Ireland and the target country/region and therefore it is important that a well planned and thought-out strategy is followed. Government itself should take a lead role in this expansion which would be implemented through the various Departments, export agencies - such as Enterprise Ireland - and include representation from the business community and importantly those from the beneficiary or target countries.

This is the structured approach and strategy that other more successful nations have adopted for these international markets.

10 years ago Irish companies were slow to explore the Chinese and Indian markets, now there is a rush to these BRIC markets. In the next few years Africa will be the 'new China' and we cannot afford to be following behind our European partners and other nations if we want to ensure Ireland maximises the commercial opportunities and its political standing, particularly in these difficult times.