Key points

Past & future SME performance: The strong recovery in Ireland’s SME sector continued in 2015. Total SME added value is estimated to have increased by more than 18%. At the same time, the number of SMEs is estimated to have increased by 5% and SME employment by more than 3%, adding more than 27 000 additional jobs to the economy. Since the crisis reached its lowest point in 2015, SME added value increased by 31% and SME employment by 14%. Micro firms performed particularly well. In the larger economic sectors, SMEs in the information and communication sector expanded the fastest. The recovery is expected to continue in 2016 and 2017. SME employment is forecast to rise by 5% between 2015 and 2017, creating approximately 43 000 new jobs. SME added value is expected to increase by 14%. However, although total SME added value has surpassed pre-crisis levels, for SME employment this is only expected after 2017.

Implementing the Small Business Act for Europe (SBA): Ireland maintained its competitive SBA profile as compared to last year’s analysis. In five SBA areas — Entrepreneurship, ‘Second chance’, ‘Responsive administration’, Single market and Skills & innovation — it performs well above the EU average. In the latter two, it even features among the top three performers in the EU. In three other SBA areas Ireland performs on a par with the EU average. Since 2008, Ireland has improved its performance in all but one SBA area — ‘Second chance’. This progress was fuelled by the country’s proactive approach to implementing the SBA. Improving SMEs’ Access to finance and competitiveness and increasing new business and job creation through enhancing Entrepreneurship are some of the key priorities that have directed policy-making in Ireland in recent years.

SME policy priorities: Ireland introduced many measures to improve business conditions for SMEs, but significant challenges remain. The country does not yet have a national strategy to embed entrepreneurial education within the national curriculum for students of all ages. A systematic SME test and common commencement dates have yet to be implemented. Access to credit has to be further improved. The costs of enforcing contracts, including those related to legal remedies in the context of public procurement, remain high. Although progress on the take-up of information and communication technologies (ICT) in recent years has been impressive, Irish SMEs’ lack of progress on innovation should be monitored. More strategic cooperation with foreign multinationals and universities would boost innovation and therefore help counter this negative trend.

About the SBA fact sheets

The Small Business Act for Europe (SBA) is the EU's flagship policy initiative to support small and medium-sized enterprises (SMEs). It comprises a set of policy measures organised around 10 principles ranging from Entrepreneurship and ‘Responsive administration’ to Internationalisation. To improve the governance of the SBA, the 2011 review of it called for better monitoring. The SBA fact sheets, published annually, aim to improve the understanding of recent trends and national policies affecting SMEs. Since 2011, each EU Member State has appointed a high-ranking government official as its national SME envoy. SME envoys spearhead the implementation of the SBA agenda in their countries.
Irish SMEs generate only 47% of added value, whereas the EU average is 57%. However, they generate 71% of employment in the non-financial business economy, around four percentage points higher than the EU average. In the information and communication sector, SMEs account for roughly 13% of total added value, against only 6% for SMEs in this sector in the EU on average.

Between 2010 and 2015, SME added value increased by 31%, the same as in the non-financial business economy as a whole. Growth in SME employment levels was more sluggish, at 14%. Micro firms performed particularly well, with a 55% increase in added value and a 13% increase in employment.

Between 2008 and 2015, SME added value in the information and communication sector doubled and employment also increased significantly, by 18%. This was driven by continuing foreign direct investment (FDI). In particular, many multinational ICT companies and internet firms chose Ireland as the base for their European operations. Although this has increased the competition for talented employees, SMEs still benefit from the presence of these large multinational companies because of possibilities for business collaboration. Irish start-ups in the ICT sector also receive government support in the form of advice and access to financing through various SME funding schemes. Other government support has included substantial investment in the development of broadband infrastructure.
In the construction sector, SME added value increased by 13% and employment by around 75% between 2010 and 2015. However, SME added value in 2015 was only slightly more than half the level of 2008. Nonetheless, from 2013 onwards, rising domestic demand and investment, such as increased government spending on infrastructure construction, made it possible for the industry to begin its recovery. In addition, tender prices for non-residential construction projects started to rise significantly in 2012, whereas construction costs have increased only moderately since then. These favourable price trends have contributed to the increase in the industry’s added value.

In the wholesale and retail trade sector, SME added value increased by 30%, while employment increased by 6%. As a result of falling retail prices, the increase in added value in this sector came primarily from increases in sales volume. This was combined with lower retail rental costs, which fell in every quarter between June 2009 and September 2014, with only a small increase thereafter. Added value may also have increased in this sector due to improved resource efficiency, for example as a result of packaging improvements reducing waste, and more efficient energy usage in refrigeration.

Company registrations have increased every year since 2012, following a slight dip in the 2011-2012 period. Prior to 2015, the highest number of registrations since 2007 had been in 2014, with 17,923 new business registrations. This was an increase of 14% against 2013, when 15,665 new companies were registered. However, there was even greater growth in 2015; 19,472 new companies were registered, a 9% increase over the 2014 total of 17,923. The 2015 total exceeded the previous high of 19,306 new registrations in 2006.

At the same time, de-registrations have fallen every year since 2011, resulting in a 17% drop between 2011 and 2014. This means that registrations have consistently outnumbered de-registrations over the past five years. In 2015, there were 7,188 de-registrations, a fall of 40% compared to the 2014 total of 11,882. This is a very significant drop compared to the more gradual annual decline between 2011 and 2014. During that period, registrations fell by 7% in 2012, 3% in 2013 and 8% in 2014. Overall, there were 32% more business registrations and almost 50% fewer business de-registrations in 2015 than in 2011.

For SMEs, as for the non-financial business economy as a whole, the outlook for 2016 and 2017 is positive. SME employment is forecast to increase by 5% between 2015 and 2017. This will add approximately 43,000 new jobs. SME added value is expected to increase by 14%.

2. SBA profile

In three other areas — State aid & public procurement, Access to finance and Environment — it performs on a par with the EU average. In the area of internationalisation its score dropped significantly compared to previous years, and is now trailing behind the EU average for the formal SBA criteria. However, as explained in the section on Internationalisation, this rating is largely due to technical reasons and there is evidence to suggest that Ireland continues to perform well on certain aspects of this area. The underlying conditions for trading and the actual trading performance of Irish SMEs has not fundamentally changed compared to last year. Since 2008 it has improved its performance in all but one SBA area — ‘second chance’ — even exceeding progress made in the EU in general.

The progress described above was fuelled by Ireland’s proactive approach towards implementing the SBA. Government measures put in place since 2008 have addressed all 10 SBA areas to varying degrees. Some areas, such as ‘Second chance’, ‘Think Small First’, Single market and Internationalisation, have been the focus of relatively few measures. This is because in most cases, these SBA principles are already well established in Ireland and they have therefore not been policy priorities for the government. ‘Think Small First’ is the main exception, as both the SME test and common commencement dates have yet to be implemented. Areas such as Access to finance and Entrepreneurship have been the government’s most important
priorities since 2008 and have therefore been the focus of a considerable number of policy measures. Measures have also targeted ‘Responsive administration’, State aid & public procurement’, ‘Skills & innovation’ and Environment.

Of the measures which were announced between the beginning of 2014 and the end of the first quarter of 2015, one was implemented in 2015 (the Construction Contracts Act 2013) and one was not. Setting up a local division of the Unified Patent Court in Ireland is delayed because it is subject to Ireland’s ratifying the International Agreement on a Unified Patent Court by referendum. The decision on when this referendum will take place rests with the new Irish government.

In this reporting period, Ireland implemented a total of 19 new policy measures addressing 6 out of the 10 policy areas under the SBA. Overall, stakeholders acknowledge that progress in implementing the SBA has been substantial.

There is wide consensus that the area with the most significant progress in 2015 was Entrepreneurship. Following the publication of the National Policy Statement on Entrepreneurship in Ireland in 2014, a total of 11 measures were implemented in this area in 2015. For example, new competitive start funds were introduced to help female entrepreneurs, foreign entrepreneurs and entrepreneurs in the agricultural and manufacturing sectors to set up and develop start-up businesses in Ireland. Other measures include support for dynamic, high-impact partnerships and engagement with business as a core feature of higher education in Ireland. A particularly interesting measure is the development of online business and innovation training for graduates and young unemployed people. In addition, unique European cross-border employment alliances are being encouraged to address the skills mismatch that can occur between universities and the labour market, and a toolkit to help employment alliance replication in other EU regions is being developed.

The most significant measure introduced in this reporting period is the Regional Action Plan for Jobs. This 5-year strategy has 8 regional action plans to accelerate job recovery across the country. All regional plans will be supported by investment of up to €250 million over the next 5 years, with €150 million to help attract more multinational jobs into each region and €100 million in competitive calls that target innovative and collaborative approaches to supporting job creation.

The Irish Government has not adopted a specific SBA implementation strategy. SBA measures are largely introduced as part of broader, non-SME specific strategies at national level. The annual Action Plan for Jobs implemented by the Department of Jobs, Enterprise and Innovation is the main strategic initiative that contributes to SBA implementation in nearly every area. Other key policies that contribute to SBA implementation include: the National Entrepreneurship Policy14 and five-year plan launched in 2014; the Strategy for Higher Education-Enterprise Engagement 2015-202015; the Innovation 202016 strategy; the National Skills Strategy 202517, and the broad overarching Enterprise 202518 strategy which now covers the implementation of all business policies and initiatives.
SBA performance of Ireland: state of play and development from 2008 to 2016

Note: The scores presented in the chart above are not fully comparable to the ones displayed in previous versions of the fact sheet. This is due to a review of the framework of indicators used to assess performance across the SBA principles. Only the aspects with sufficient background data are presented. For more details, please consult the methodological note on the webpage of the SME Performance Review:

3. SBA principles

3.0 ‘Think Small First’

The ‘Think Small First’ principle is intended as a guiding principle for all policy- and law-making activities. It requires policymakers to take SME interests into account at the early stages of the policy-making process. The principle also calls for newly designed legislation, administrative rules and procedures to be made simple and easy to apply.

Most of the ‘Think Small First’ principles are in place in Ireland. It is standard practice, for example, for new legislation to be subject to regulatory impact assessments and SME consultations, though there is room for improvement. Two key measures have yet to be implemented, however. The first is a dedicated SME test which should be an integral part of the legislative impact assessment process to help ensure that new legislation is fit for small businesses. The second is the use of common commencement dates for the introduction of new legislation. As yet, the government has not publicly stated that it intends to implement these measures.

In this reporting period, some progress was made. One of the SBA-related measures introduced in 2015, which principally relates to ‘Responsive administration’, also has an impact on the ‘Think Small First’ area. An integrated licence application system, Licences.ie, was implemented and went ‘live’ online in 2015. The service was introduced to help Irish businesses identify which licences they are required to have and to simplify the process of obtaining them. Entrepreneurs simply select the business activities they plan to undertake using ‘Licences.ie’ and the system automatically generates a list of the licences required from all registered licensing authorities. The objective of ‘Licences.ie’ is to provide a single portal for businesses to register for and renew single or multiple licence applications. The system is a key component of the government’s Action Plan for Jobs and an important part of its drive to make Ireland the best small country in the world in which to do business by reducing and simplifying the administrative burden and red tape for business owners.
3.1 Entrepreneurship

Ireland performs above the EU average in this area. There have been no significant changes compared to last year; most changes affected the indicators measuring entrepreneurial activity in Ireland. However, these were relatively small and had opposing outcomes. As a result, the situation with regard to entrepreneurial activity has remained stable over the last 12 months. Since 2008, however, the level of entrepreneurial activity has improved steadily, and at a faster pace than in the EU.

Ireland offers a generally welcoming environment for entrepreneurs. Media attention given to the topic is high compared to the rest of the EU, as is the social status given to successful entrepreneurs. Entrepreneurship as a topic is well integrated into school curricula, especially at post-secondary level. Although a relatively high proportion of the adult population stated that they do not think that school education helped them develop an entrepreneurial attitude, this refers more to the past then the present educational system.

A substantial number of policy measures implemented in recent years has supported the creation of an environment that is conducive to Entrepreneurship in Ireland. Since 2008, Ireland has implemented nearly all of the Entrepreneurship-related SBA measures and has introduced a considerable number of measures to boost Entrepreneurship, with a particular focus on providing financial support, as well as information, advice and mentoring schemes.

Eleven measures were introduced between 2008 and 2014. Examples include financial support measures such as the Seed Capital Scheme (2011) and the Microenterprise Loan Fund (2012), fiscal measures such as startup tax relief and the Employment and Investment Incentive (since 2011), business support measures such as mentoring schemes, ‘first-stop’ (2012) and ‘one-stop’ (2013) shops for local businesses, and specific measures to support female entrepreneurs (2012).

In this reporting period, substantial progress was made on the following measures:

- Three Competitive Start Funds were set up to provide critical early stage funding to female entrepreneurs, entrepreneurs in the agricultural and manufacturing sectors, and foreign entrepreneurs in the manufacturing and internationally
traded services sectors and willing to set up a company in Ireland.

- A Strategy for Higher Education–Enterprise Engagement 2015–2020. It includes implementing measures to address communication, employer access to opportunities in higher education, education–enterprise funding, skills and research initiatives, a new apprenticeship model, continuous professional development, Entrepreneurship as a core feature of higher education, current and future skills needs, regional infrastructure transformation, and education–employment pathways.

- A major new 12-month SME awareness campaign took place in 2015 to provide start-ups and SMEs with information on over 80 significant government support measures available to assist them in starting and developing their businesses. The campaign, which included media advertising and attendance at key SME events, directed them to the ‘Supporting SMEs’ online guide. By answering eight simple questions, SMEs are provided with a list of support measures specific to their sector and business needs.

- Irish Design 2015 was a year-long programme of events and activities to showcase the best of Irish design, workmanship, ingenuity and innovation, and to encourage investment, job creation, sales and export potential for the Irish design sector. Throughout the year, there were more than 600 projects showcasing over 2,000 Irish designers at home and abroad to more than 1.5 million people.

- The Innovation & Entrepreneurial Skills Passport Programme is an entry level, competence-based introduction to the development of key entrepreneurial life skills, essential to the ‘new economy’ in the area of innovation and Entrepreneurship. It aims to provide potential entrepreneurs, from students and graduates to any individual with innovative ideas, with the foundation needed to create a start-up business.

The Action Plan for Jobs 2016 announced a mapping and review of existing measures to support Entrepreneurship, as well as a number of new measures, including:

- the New Frontiers Development Programme (support for 130 new entrepreneurs).

- Provision of business development and financial support to 185 high-potential and early stage start-ups.

The key gap that remains to be addressed is the lack of a national strategy to embed entrepreneurship education in school curricula. Progress is being made in this area, however, following the launch of the National Policy Statement on Entrepreneurship in 2014, which serves as the basis for the introduction of a broad range of improvement measures. The Action Plan for Jobs 2016 re-confirms Ireland’s commitment to implementing all the actions in the National Policy Statement on Entrepreneurship and reporting on progress.

3.2 ‘Second chance’

‘Second chance’ refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. Ireland once again performs above the EU average in this area. There have been no significant changes compared to last year. The country’s strong performance rests mainly on the very efficient insolvency procedure, the fastest in the EU. Also, ‘Second chance’ entrepreneurs get considerably more support than in the EU overall. There are weaknesses in the general insolvency framework, however. This refers especially to issues related to creditor participation and the management of debtor assets in the insolvency process.

On the policy side, since 2008 a number of pieces of legislation — the Civil Law (Miscellaneous Provisions) Act (2011), the
Personal Insolvency Act (2012) and the Bankruptcy (Amendment) Act 2015 — have significantly reformed insolvency law in Ireland. The automatic discharge from the bankruptcy period has been reduced from 12 years to 5 years, then to 3 years and finally to 1 year. The Insolvency Service of Ireland was set up with responsibility for running the personal insolvency system, and newer debt settlement concepts have been introduced, including debt relief notices, debt settlement arrangements and personal insolvency arrangements.

In this reporting period, good progress was made, with the introduction of two new pieces of amended legislation:

- The Personal Insolvency (Amendment) Act 2015 increases the ceiling for a debt relief notice from EUR 20000 to EUR 35000. It strengthens insolvency service powers, particularly in relation to insolvency data management and use, and the regulation and oversight of personal insolvency practitioners. It introduces an amendment to ensure that a borrower who has entered a mortgage restructuring is not excluded from applying for a personal insolvency arrangement, should the restructuring not succeed in returning the borrower to solvency. It implements technical changes to clarify the rules for creditor approval of a proposed personal insolvency arrangement or debt settlement arrangement. It also makes it possible for a debtor to seek review by the Circuit Court if creditors reject a proposed personal insolvency arrangement which includes the home mortgage.

- The Bankruptcy (Amendment) Act 2015 reduces the normal duration of bankruptcy from 3 years to 1 year and the normal maximum duration of orders requiring payments to creditors from any income of the bankrupt person from 5 years to 3 years. It extends the bankruptcy term (up to 15 years in serious cases) and the duration of payments to creditors, if the bankrupt person tries to hide income or assets or does not cooperate in the bankruptcy process. It stipulates that bankrupt people will re-gain ownership of their home, subject to any mortgage, after 3 years, if steps have not been taken to sell it for the benefit of creditors within that period. It also introduces some key reforms to modernise and streamline bankruptcy procedures and remove unnecessary delays and costs to the parties concerned and the taxpayer.

All of the ‘Second chance’ measures are well established in Ireland, though further assistance is needed to help restarters get better access to finance from private sector lenders.
3.3 ‘Responsive administration’

‘Responsive administration’ refers to public administration being responsive to the needs of SMEs. Like in previous years, Ireland performs above the EU average. Its profile in this SBA area is very competitive, with very few weaknesses. There have been marginal changes compared to last year. If anything, these changes have further accentuated the differences between Ireland’s strengths and weaknesses in this area. The general administrative environment remains very competitive. This is true for all aspects that are important for SMEs’ daily operations. The general administrative burden is very low and the licence and permit system is, in general, rather straightforward. The broader legislative framework is also much more stable and less complex than in the EU in general.

Furthermore, government staff dealing with new and expanding companies are rated as being more competent and effective than in the EU in general. Tax administration also comes with less bureaucratic burden than in the EU in general. For instance, the time it takes to pay taxes is estimated at only 82 hours, which is one of the three lowest rankings in the EU. Ireland’s weaknesses in this area are concentrated on a few selected issues linked to specific events in a company’s lifecycle, mostly of a one-off nature. For instance, some specific cost items such as the cost of transferring property or costs related to the enforcement of contracts are higher than the EU average. The latter, which has shown no signs of improvement since 2008, is the most significant problem as it burdens SMEs with comparatively high transaction costs. In general, however,
progress in this SBA area has been considerable and in step with the pace of improvement in the EU.

As a result of the continuous policy efforts to reduce administrative burden since 2008, the most significant reforms introduced have sought to simplify and increase the effectiveness of the legal framework for companies (Companies Act 2014) and of the business support infrastructure to reduce the administrative burden on businesses. Another key area of reform continues to be the government’s drive to move its services online, with recent and ongoing work being led by the government’s Public Service ICT Strategy launched in January 2015. The Legal Services Regulation Bill adopted in December 2015 in order to reform Ireland’s legal system should contribute to reducing the high costs of legal services. However, this bill is less ambitious than originally planned following significant concessions made to the Law Society and Bar Council during the adoption process.

The ‘Licences.ie’ measure was also implemented during this reporting period. It is a one-stop shop online portal that groups licence applications for businesses across government departments, agencies and licensing authorities. Businesses can use it to apply for and renew all their licences with a single payment, thereby reducing the associated administrative burden. The service was introduced to help Irish businesses identify which licences they are required to have and to simplify the process of obtaining them. Users can track their applications through regular status updates sent electronically.

The ‘Licences.ie’ service is being expanded to include licences from other key sectors of the economy and to involve other licensing authorities as the Integrated Licensing Application System is rolled out.

Once there is a critical mass of licensing authorities and relevant licences available as part of the service, entrepreneurs will be able to simply select the business activities they plan to undertake and the system will automatically generate a list of the licences required from all registered licensing authorities.

Almost all of the ‘Responsive administration’ SBA measures are well established in Ireland. The missing element is the lack of widespread interconnected databases across the various public administration entities to enable companies to provide information only once.

Certain existing legislative provisions already make it possible to share business data between public service bodies. However, new legislation on data sharing is being prepared. One section of the proposed bill deals specifically with the sharing of business data. This is being further supported by the Public Service ICT Strategy which was launched in January 2015.

### 3.4 State aid & public procurement

Ireland performs on a par with the EU average. There was one major change compared to last year’s analysis: the proportion of SMEs participating in public tenders dropped considerably from 41% to 29%. The reasons for this change are not clear. However, overall, the public procurement system is comparatively SME-friendly in Ireland. In fact, some 66% of public expenditure went to SMEs in 2013. Furthermore, payment delays are lower than in the EU in general. In addition, authorities have invested considerably in expanding the IT infrastructure to support e-tendering. As a result, the proportion of Irish SMEs who submit proposals using e-tendering is 2.5 times as high as in the EU on average. However, the high costs of legal proceedings are a problem as they may prevent SMEs from challenging procurement decisions.

Since 2008, nine measures were introduced to improve public procurement and payment conditions for SMEs. The National Procurement Service (2009) has succeeded in making public...
procurement more efficient. Public procurement guidelines (2010, 2014) have helped make the procurement process more SME-friendly. Measures have targeted the improvement of payment conditions to help SMEs (2012). Furthermore, the Office of Government Procurement was set up in 2013 to bring a more professional approach to procurement and involve the whole government. This office, together with four key sectors (health, defence, education and local government), is responsible for sourcing all goods and services on behalf of the civil service. Other measures have focused on providing SMEs with business support and advice on practical and procedural aspects related to public procurement to maximise their opportunities to compete in the market.

The latest progress report was published by the High Level Group on SME Access to Public Procurement in January 2016. It identified the following as the key reforms in recent years: the SME Working Group; initiatives to assist SMEs in public procurement (Circular 10/14) (2014); the Tender Advisory Service (2014); the publication of procurement schedules; and increased e-tendering. The report states that these have been welcomed by SME industry representatives.

No measures were adopted, implemented or announced during this reporting period. As all SBA principles in this area have been put into practice, new measures were not a priority in 2015.

Public procurement does, however, feature in two new national policies and strategies published in 2015 — Enterprise 2025 and Innovation 2020 — with new measures being planned for rollout in the coming years. The strategies include a government commitment to use its EUR 8.5 billion procurement budget over the next 5-10 years to expand the Small Business Innovative Research Programme and encourage a focus on innovative SME solutions to public sector needs. These strategies are not SME-specific. They aim to benefit Irish businesses and the economy as a whole, across all sectors, including education and the scientific and academic community (see section 3.7 for more general information on them).

3.5 Access to finance

Ireland’s performance is in line with the EU average. Financing conditions have improved significantly for Irish SMEs since the height of the financial crisis some 4-5 years ago. Since 2008, they have improved even faster than those of their EU peers. The situation improved last year, especially with regard to loan financing. The proportion of SMEs that reported a deterioration (in terms of rejected loan applications, access to public support instruments or the willingness of lenders to provide loans) is at its lowest since 2008. The mark-up charged by banks on small loans compared to those of more than EUR 1 million has increased from 37 % to 49 %. However, with the interest rates in absolute terms having dropped simultaneously and now being

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Variation from the EU average (measured in standard deviations, EU average=0)

<table>
<thead>
<tr>
<th>Category</th>
<th>EU Average</th>
<th>Ireland</th>
<th>Variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong</td>
<td>5.76</td>
<td>7</td>
<td>1.44</td>
</tr>
<tr>
<td>Total</td>
<td>34.96</td>
<td>24.33</td>
<td>14.28</td>
</tr>
<tr>
<td>Bad</td>
<td>3.76</td>
<td>7</td>
<td>3.94</td>
</tr>
<tr>
<td>Cost of borrowing</td>
<td>25.22</td>
<td>49.06</td>
<td>-23.84</td>
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<tr>
<td>Rejected loan applications</td>
<td>16.71</td>
<td>13.41</td>
<td>3.30</td>
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<tr>
<td>Access to public financial support</td>
<td>13.76</td>
<td>13.41</td>
<td>-0.35</td>
</tr>
<tr>
<td>Willingness of banks to provide a loan</td>
<td>2.73</td>
<td>3.39</td>
<td>-0.66</td>
</tr>
<tr>
<td>Business angels funding</td>
<td>2.87</td>
<td>3.25</td>
<td>-0.38</td>
</tr>
</tbody>
</table>

Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.
near record lows, the effect of the larger mark-up which small business have to pay was diminished. Furthermore, government measures have helped improve the lending market for SMEs, with lending increasing by 4.9% between 2014 and 2015 and funding application decline rates falling by 15% in 2015.

However, according to recent surveys and SME representatives, Access to finance is still a concern for SMEs, just to a lesser extent than before. These surveys indicate that SME demand for credit remains stable, with 30% of SMEs having applied for credit between April and September 2015. Insufficient levels of competition in the SME finance market are one factor behind this development. Another relates to the above-mentioned elevated interest rate levels in Ireland. In absolute terms, small businesses still pay 2.3% more in interest rates than the euro area average despite a fall in recent years. The surveys also show that SMEs remain cautious about taking on debt, with many pursuing business consolidation and smaller growth opportunities with the support of non-bank finance (e.g. internal funds/equity). They also point to a credit demand rebound in the manufacturing and hotel and restaurant sectors. However, the 2015 euro area bank lending survey shows that banks saw an increase in demand from SMEs and expect this to continue.

The equity financing situation is better. In terms of venture capital availability and access to business angel funding, on average the conditions are better for Irish SMEs than for their EU peers. Funds raised by Irish SMEs totalled some EUR 522 million in 2015.

Since 2008, improving Access to finance has been the prime focus of policy-making in Ireland, which has led to the implementation of 32 significant SME-related policy measures between 2008 and 2014. These have largely focused on providing a range of funding schemes and mechanisms to improve SME Access to finance; fiscal schemes and incentives to encourage SMEs to invest and create employment; and initiatives to help tackle late payments and provide support services to small businesses.

In this reporting period, significant progress was made with the introduction of four key measures.

- A series of fiscal measures and incentives was introduced through the 2016 budget to help reduce SMEs’ costs and support their ability to invest, create jobs and expand.

Measures include tax credits for the self-employed, tax relief for start-ups and small businesses, reduced VAT and a lower rate of tax on Irish-generated R&D profits.

- The Credit Guarantee Amendment Act was passed into law in 2016. It opened up the Credit Guarantee Scheme introduced in 2012 to a greater variety of lenders to make it more attractive to SMEs. It also created a better balance of risk between the state and finance providers to make credit more attractive to lenders. The introduction of the ability to support the Strategic Banking Corporation of Ireland (SBCI) with counter guarantees will further improve the SBCI’s capabilities of developing targeted risk-sharing measures in the future. This will improve Access to finance for specific classes of SMEs as market failures arise and leverage available European support.

- Implementation of the Construction Contracts Act 2013 began in 2015 and now requires all construction contracts over EUR 10000 to specify payment terms and due dates to ensure prompt payment practices throughout the construction industry.

In addition to these measures the Ireland Strategic Investment Fund invested significantly in the SME sector during the reference period.

The Access to finance measures as recommended by the SBA are well established in Ireland, but challenges remain. Despite progress being made in this area, the issue of late payments continues to hinder SME growth.

The Irish Government attaches great importance to tackling this issue and therefore introduced the Payments Forum in 2015 as part of its ongoing drive and commitment to encouraging a prompt payment culture in Ireland. The Forum’s role is to support the delivery of the prompt payment code and to examine further initiatives that would help sustain a prompt payment culture in Ireland. This measure complements a number of initiatives implemented earlier, such as the prompt payment code, the late payment information campaign and the 15-day-prompt-payment rule.
3.6 Single market

Ireland ranks well above the EU average in this area, and this is the area in which its performance has improved most since 2008. As a result, the country is now one of the three top countries in this area. Further improvements have been made in the last 12 months. The average transposition delay for overdue directives was slashed from more than 16 months to less than 6. The number of overdue Single market directives was almost halved from seven to four this year. The number of infringement proceedings is down from 25 to 21. An update of official statistics on the proportion of Irish SMEs importing from and exporting to the Single market is not available for technical reasons. However, the already high proportion of Irish SMEs exporting online to the Single market increased further from 8.9% in 2009 to 13.8% in 2014 and 16.2% in 2015, more than twice the EU average. This increase in trade was accomplished by targeted support measures. The SME Portal run by the National Standards Authority of Ireland since 2012 provides SMEs with access to information on the relevant standards they need to comply with to run a successful business. The Online Trading Voucher Scheme (launched in 2013) will continue providing vouchers to help SMEs become digital businesses. More recently, Ireland’s National Enterprise Policy 2015-2025 (Enterprise 2025) sets out an ambition for Ireland to become a digital economy ‘hot-spot’ in Europe and singles out big data as a major opportunity. The Action Plan for Jobs announces some future measures in this area, including a forum to discuss data protection issues with industry, government and other stakeholders.

All of the Single market SBA principles are in place in Ireland and most are well established. This area has not been a significant focus for the government since 2008, with activity mainly limited to transposing and implementing EU directives. The latest Single market Scoreboard shows that Ireland scores about the EU average in terms of transposition of directives into law, but below average in terms of the time it takes to complete infringement proceedings and actual implementation. There is room for improvement in each of these areas. The fact that this SBA area has not been a key focus for policy-makers in recent years may offer some explanation for these delays.
3.7 Skills & innovation

Ireland is one of the three EU top performers in this area and scores well above the EU average. Since 2008, the country has steadily improved its performance while in the EU in general performance deteriorated slightly from when the SBA came into effect. Ireland’s performance surpasses the EU average for almost all indicators. However, indicators measuring SMEs’ innovative capacity, for which an update was unavailable this year, slightly deteriorated since 2008. The strong improvement in this area was largely driven by indicators measuring the ICT competence and use of SMEs. For example, the proportion of SMEs selling online increased from 18% in 2009 to more than 31% in 2015. The share of turnover from e-commerce increased by half from 12.6% to 19.2%. The same is true for the indicators measuring the ICT skills of SME employees and the proportion of SMEs offering ICT training to their employees. In its annual report, Skillnets, a principal provider of business-led workplace training and up-skilling, confirmed that it surpassed its overall objectives.38

More recently, the step-up in skills-disruptive reform announced in the Action Plan for Jobs 2016 includes developing 25 new apprenticeship programmes led by industry groupings.

However, although progress has been made, there continues to be a significant gap between the demand and supply of the skills that Irish businesses need. This fact is highlighted by the National Skills Bulletin 2015,39 which identifies shortages in ICT, science and engineering, financial services, health, construction, transport, distribution and logistics and sales and marketing. According to a recent report, Resourcing for Growth40, only 38% of Irish SMEs believe they can compete with multinationals when recruiting for the best candidates. According to 45% of them, one solution could be to change the current visa system, for example to remove the sponsorship requirement and make it easier for skilled overseas workers to seek work in Ireland.41

A range of ‘Skills & innovation’ SBA measures are in place in Ireland and most are well established. Since 2008, measures have largely focused on the delivery of ICT, management and innovation skills training initiatives to help supply SMEs with more skilled employees and to help them expand. Examples of business support initiatives include the Management 4 Growth Programme (2012), which provides management coaching and training, and the Management Works Programme (2012), which mentors SMEs in sales, output and employment growth. Examples of skills development initiatives include Springboard+,
the ICT Skills Action Plan (2014-2018), and the Skills to Work online tool (2014) that is improving access to government skills initiatives.

A number of measures were introduced in this reporting period.

- As part of the Action Plan for Jobs, an allocation of €5 million in funding has been made available for local and regional initiatives to support common projects that support Entrepreneurship, clustering, innovation and job creation among micro-businesses. The funding is focused on initiatives led by the Local Enterprise Offices (LEO Competitive Fund) and a second call for proposals promoting community enterprise initiatives. There was a high level of interest in both calls for proposals and another call is still planned in 2016.

- The SHIP programme (SMEs and higher education institutions in innovation partnerships) supports cooperation between SMEs, higher education institutions and innovation support organisations. It creates pathways that make it possible to transfer and implement innovation to boost SMEs profitability. As part of the SHIP programme, four innovation alliances are being developed in five countries (Ireland, the UK, Germany, Spain, Romania), bringing key stakeholders together to create a new culture of working together to support innovation. To support this culture, online training resources are being created to provide SMEs with the skills they need to effectively use research being carried out by higher education institutions. The programme also provides higher education institutions with case study guides to help identify new methodologies for innovation transfer.

- The REAL project (regional education and employment alliance) is developing cross-border employment alliances and an ‘employment alliance toolkit’ to address the skills mismatch that can occur between university graduates and the labour market. It is also creating training courses and digital resources to help graduates develop the creative and innovative skills they need to engage in enterprise and innovation.

In 2015, the government also introduced a number of broad mid- to long-term strategies that are not specific to SMEs but aim to benefit them.

- The overarching strategy is Enterprise 2025\(^\text{42}\) — Ireland’s national enterprise policy for 2015-2025. Over the next decade it will deliver measures to further support SMEs in areas such as growth financing and investment incentives, design and innovation, education and enterprise partnerships, access to public procurement and R&D&Dl capacities.

- The National Skills Strategy 2025 was launched\(^\text{43}\) It aims to improve skills development and teaching quality in education, training and lifelong learning, get businesses more involved, encourage active inclusion and increase the supply of skills to industry. The strategy includes support for management development for Enterprise Ireland SME client companies, and the continued roll-out of the Regional SME Innovation Forum.

- Innovation 2020\(^\text{44}\) aims to increase investment in R&D and to support innovation in business, education for innovation, and innovation for social and economic progress.

- The Strategy for Higher Education-Enterprise Engagement 2015-2020\(^\text{45}\) aims to build effective partnerships to identify skills needs, transform entrepreneurship education, develop skills and support infrastructure, and expand pathways into employment.

A new network of nine regional skills fora (www.regionalskills.ie) was set up in 2015 as part of the government’s National Skills Strategy. It:

- provides a single contact point in each region to make it easier for employers and the education and training system to work together to meet the emerging skills needs of their regions;

- helps employers better understand and access the full range of services available across the education and training system;

- provides extensive labour market information and analysis of employer needs to feed into programme development;

- strengthens links between education and training providers in planning and delivering programmes, reduces duplication and influences national funding decisions.

The work to set up the new skills fora was carried out in the context of the government’s policy to support economic recovery and development and job creation, and to tackle unemployment. More structured engagement on the skills agenda and the work of the fora will contribute to better outcomes for learners and support enterprise development.

Skills and innovation feature in each of these strategies, with new measures being planned for the coming years.

In addition, the possibility for businesses to offset specific types of R&D expenditure against corporation tax has been extended under the 2016 budget (R&D tax credits). There is also a new Knowledge Development Box offering tax relief on income from qualifying intellectual property resulting from R&D activities carried out in Ireland.

More recent initiatives, such as the SHIP programme, will also help improve the situation.\(^\text{46}\)
3.8 Environment

Ireland’s performance dropped and is now on a par with the EU average. As is the case in general in EU countries, the proportion of Irish SMEs that implement resource-efficiency measures and the proportion that receive public support for such measures dropped compared to 2013, the last time data on this were compiled. Over this period, the number of SMEs receiving support for the production of green products also fell slightly, from 25% to 23%. With regard to the number of SMEs producing green products, the development was a bit more balanced. While the proportion of ‘green specialists’, i.e. firms that generate more than half of their turnover from green products, dropped from 22% to 18%, the overall proportion of SMEs producing such products increased from 34% to 37%. This is particularly true for resource efficiency, where the crisis put pressure on both governments and businesses to reduce budgets, cut investment and support programmes.

All the environment SBA measures are in place in Ireland and are well established. Many have been implemented since 2008. They address a wide range of issues: awareness of business support; green growth and job creation; environmental sustainability for farmers and food producers; renewable energy use, sector development, R&D and sustainability; green public procurement and industry innovation; and environmental best practice and management structures for SMEs.

For example, Enterprise Ireland’s GreenStart programme provides businesses with an introduction to environmental best practice and helps in the preparation of a formalised environmental management structure to improve their resource efficiency (energy/water/waste costs).

The rural enterprise development measures announced in the Action Plan for Jobs 2016 include waste prevention and cost-saving initiatives for SMEs. No other measures were adopted, implemented or announced during this reporting period. With all SBA principles in this area having already been implemented, it was not a key priority for new measures in 2015.

Additional policy measures are however needed in this area in the coming years to help Ireland reduce its emissions and deliver on its 2020 targets, particularly in the agricultural and transport sectors. Agriculture and transport are projected to account for 76% of Ireland’s non-ETS sectoral emissions in 2020 (agriculture 47% and transport 29%). For 2014-2020, a 6-7% increase in agriculture emissions and a 10-16% increase in transport emissions are expected. Given their importance for the Irish economy, SMEs will need to be involved in these sectors.
Although there is evidence to suggest that Irish SMEs continue to do well on international markets, Ireland’s performance against the SBA criteria dropped below the EU average in this area. Given that it surpassed that average last year, this is a significant change in performance relative to the rest of the EU. However, a number of technical factors make the comparison of Ireland’s performance against last year’s performance difficult, and put this development in perspective. For one, the indicators describing the cost of and time for documentary compliance when exporting and importing, as sourced from the World Bank, have undergone a methodological change. The new methodology puts additional emphasis on Ireland’s weaker features, i.e. the relatively high compliance costs of importing and exporting from and to non-EU markets. As the Irish authorities are revising their business statistics, there is — for the time being and in contrast to all other EU countries — no update of formal trading performance indicators which could be included in the overall score for this SBA principle area. Last year, the proportion of Irish SMEs exporting to and importing from non-EU countries exceeded the EU average by a large margin. The related figures on intra-EU performance given in section 3.6, as well as available national statistics, suggest that this high performance level has not fundamentally changed.

Hence, the latest overall figures show that exports of Irish goods and services rose to EUR 215 billion in 2014 from EUR 184 billion in 2013\(^5\), with a forecast of EUR 207 billion for 2015.\(^6\) Exports from multinationals and foreign-owned companies account for most exports. There are also some more recent specific statistics showing Irish SMEs’ good export performance. For example, the export of goods in sectors dominated by domestically-owned companies account for about 40% of total goods exports and increased by 10.3% in the first nine months of 2015 over the same period in 2014. These are typically SMEs that have regained competitiveness and benefit from the weak euro when selling to the US and the UK. The key barriers to SME internationalisation are limited managerial skills and knowledge and resource poverty, due to a lack of internal financial resources, access to external finance, awareness of available support, market knowledge and local resources in target markets.\(^5\)

All of the Internationalisation SBA principles are in place in Ireland and are well established. A number of measures have been implemented since 2008, such as tax relief on foreign earnings, sector-based strategies, financial incentive and funding schemes, and business advice and support programmes.

Enterprise Ireland is one of the key sources of support for SME internationalisation. The Action Plan for Jobs 2016 indicates a goal of increasing Enterprise Ireland client exports from EUR 20.6 billion in 2015 to an estimated EUR 22 billion in 2016. It also highlights ongoing work to finalise an integrated export finance strategy and proposals concerning financial products for consideration by the government.

Internationalisation was not the primary focus of any other significant measures in this reporting period. However, a couple of measures that primarily target other SBA areas also have an impact on internationalisation.

The Competitive Start Fund for Mobile/International Entrepreneurs is designed to entice overseas entrepreneurs to relocate and establish a start-up business in Ireland. The new fund is part of Enterprise Ireland’s strategy to increase the number and quality of high-potential start-up companies that have the potential to employ over 10 people and reach EUR 1 million in export sales within a three-year period.
Irish Design 2015 (ID2015) showcased Irish design, workmanship, ingenuity and innovation both domestically and internationally. Major results include support for over 270 companies to attend trade missions/shows, over 370 new design businesses registered in Ireland in 2015, and an export sales pipeline of over EUR 20 million.51

Changes to EU regulations in 2015 mean that digital products can now be taxed at the VAT rate applicable in the consumer’s country of residence, rather than in the seller’s, providing an added boost to Ireland’s e-exporters. Ireland’s high VAT rate was previously a disincentive to e-exporting from Ireland.52

Overall, Irish exporters are fairly optimistic about 2016, according to the latest Irish Small and Medium Enterprise Association (ISME) Business Trends Survey which is based on a sub-sample of their members. This is despite a moderate dip in current exports (36% in the fourth quarter of 2015, down from 38% in the fourth quarter of 2014) and in future export expectations (51% in the fourth quarter of 2015, down from 57% in the fourth quarter of 2014). Exporters are forging ahead of non-exporters, according to the latest Quarterly Business Monitor survey for the fourth quarter of 2015, carried out by InterTradeIreland. This survey concludes that 54% of companies with cross-border sales are expanding, compared to 30% of non-exporting companies.54
4. Interesting initiative

Below is an example of an initiative from Ireland to show what governments can do to support SMEs.

REAL (regional education and employment alliance) programme

The EU-funded REAL programme aims to empower young unemployed or underemployed graduates (especially arts and humanities graduates) to become entrepreneurs and high-value employees shortly after leaving university. By setting up working alliances between universities, training and business development organisations and local authorities, this project aims to address the skills mismatch that can occur between university graduates and the labour market.

The first line of action is the development of two unique cross-border employment alliances in four countries (Ireland, the UK, Germany and Poland). Stakeholders in employment, education and economic development — such as providers of vocational education and training, universities and colleges, enterprise development agencies and local authorities — will jointly explore the structural issues that generate a skills mismatch between university-educated students and the current labour market, create an inventory of existing resources, and commit themselves to implementing joint actions to address these issues in an employment alliance action plan. The project will systematise the process and lessons learned in the form of an ‘employment alliance toolkit’, which will be published and promoted as a way of replicating the alliances in other regions.

The second line of action is the development, piloting, publishing and promotion of open access, digital learning resources for recent graduates (especially arts and humanities graduates), and training these graduates in the specific skills needed for engaging in enterprise and innovation. Unlike current innovation courses which are highly academic in focus or aimed at start-up entrepreneurs with a fixed business idea, and which too often teach innovation based on technological invention, REAL Programme courses will introduce learners to the contemporary understanding of innovation, focusing on the psychological/personality drivers of creativity as the basis of innovation and acknowledging the importance of non-technological innovation in creating value.

References:


http://www.employmentalliance.eu/
Important remarks

The European Commission Directorate- General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW) produces the SBA fact sheets as part of the SME Performance Review (SPR), its main vehicle for economic analysis of SME issues. They combine the latest available statistical and policy information. Produced annually, they help to organise the available information to facilitate SME policy assessments and monitor SBA implementation. They take stock and record progress. They are not an assessment of Member State policies. Rather, they should be regarded as an additional source of information to improve evidence-based policy-making. For example, they cite only policy measures national SME policy experts consider relevant. They do not and cannot reflect all measures the government has taken over the reference period. There is more policy information on a database accessible from the SPR website.

SME Performance Review:


grow-spr@ec.europa.eu

Small Business Act:


European Small Business Portal:

http://ec.europa.eu/small-business/index_en.htm

Endnotes

1 The two graphs below present the trend over time for the variables. They consist of index values for the years since 2008, with the base year 2008 set at a value of 100. As from 2014, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2013 figures from Eurostat's Structural Business Statistics Database. The data cover the ‘non-financial business economy’, which includes industry, construction, trade and services (NACE Rev. 2 sections B to J, L, M and N). They do not cover enterprises in agriculture, forestry and fisheries or largely non-market service sectors such as education and health. A detailed methodology can be consulted at: http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index_en.htm


4 For example, see funding grants for established SMEs (>10 employees) from Enterprise Ireland, https://www.enterprise-ireland.com/en/funding-supports/Company/Establish-SME-Funding/, last accessed 5 April 2016.


7 Ibid.

8 Ibid.


10 Ibid.
The 2016 SBA fact sheets benefited substantially from input from the European Commission’s Joint Research Centre (JRC) in Ispra, Italy. The JRC made major improvements to the methodological approach, statistical work on the dataset and the visual presentation of the data.

The quadrant chart combines two sets of information. Firstly, it shows current performance based on data for the latest available years. This information is plotted along the X-axis, measured in standard deviations of the simple, non-weighted arithmetical average for the EU-28. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2016. These are measured against the individual indicators which make up the SBA area averages. This means that the location of a particular SBA area average in any of the four quadrants provides information not only about where the country is located in this SBA area relative to the EU average at a given point in time, but also about the extent of progress made between 2008 and 2016. All SBA principles, with the exception of the ‘Think Small First’ principle, for which there is not enough statistical data available, are calculated as composite indicators following the OECD/JRC Handbook guide. A detailed methodology can be consulted at http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index_en.htm.

The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2015 and the first quarter of 2016. The national SME policy expert that CARSA Spain (DG GROW’s lead contractor for the 2016 SBA fact sheets) contracted made the selection. The experts were asked to select only the measures they considered the most important, i.e. the ones expected to have the highest impact in the SBA area in question. The complete range of measures the government took is available at http://www.retailireland.ie/ and is updated every three months.

Having advance notice of forthcoming tendering processes can help SMEs to plan and prepare for competing for public procurement contracts. The Office of Government Procurement Schedule of Contracts and Frameworks aims to provide an indication of when it expects to have particular contracts and frameworks in place for public service bodies. The schedule is published on www.procurement.ie and is updated every three months.

13 The 2016 SBA fact sheets benefited substantially from input from the European Commission’s Joint Research Centre (JRC) in Ispra, Italy. The JRC made major improvements to the methodological approach, statistical work on the dataset and the visual presentation of the data.
19 The quadrant chart combines two sets of information. Firstly, it shows current performance based on data for the latest available years. This information is plotted along the X-axis, measured in standard deviations of the simple, non-weighted arithmetical average for the EU-28. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2016. These are measured against the individual indicators which make up the SBA area averages. This means that the location of a particular SBA area average in any of the four quadrants provides information not only about where the country is located in this SBA area relative to the EU average at a given point in time, but also about the extent of progress made between 2008 and 2016. All SBA principles, with the exception of the ‘Think Small First’ principle, for which there is not enough statistical data available, are calculated as composite indicators following the OECD/JRC Handbook guide. A detailed methodology can be consulted at http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index_en.htm.
20 The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2015 and the first quarter of 2016. The national SME policy expert that CARSA Spain (DG GROW’s lead contractor for the 2016 SBA fact sheets) contracted made the selection. The experts were asked to select only the measures they considered the most important, i.e. the ones expected to have the highest impact in the SBA area in question. The complete range of measures the experts compiled in producing this year’s fact sheets will be published alongside the fact sheets in a policy database on the DG GROW website.
23 http://ictstrategy.per.gov.ie.
25 Ibid.
29 Having advance notice of forthcoming tendering processes can help SMEs to plan and prepare for competing for public procurement contracts. The Office of Government Procurement Schedule of Contracts and Frameworks aims to provide an indication of when it expects to have particular contracts and frameworks in place for public service bodies. The schedule is published on www.procurement.ie and is updated every three months.
As with all such business surveys, its representativeness is determined by the nature of the association’s, i.e. ISME’s, membership. Surveys on loan financing need to take into account the fact that many of the respondents who were unable to obtain a loan will not be eager to share this information.

Ibid.

The Credit Demand Survey asks about the average number of days it took companies to receive payments (with regard to the direction of movement rather than the number of days). The survey covering the period April-September 2015 showed that 17% of SMEs felt the average number of days in which their customers paid had increased, 73% said it had remained the same, and 8% felt it had decreased. In terms of supplier payment, 81% of SMEs felt that the average number of days they took to pay a supplier remained unchanged, 9% said it had increased and the same percentage felt it had decreased.

Ibid.

Public expenditure in R&D financed by business enterprises was 0.007% of GDP in 2013 compared to 0.051% in the EU on average.