



Key points

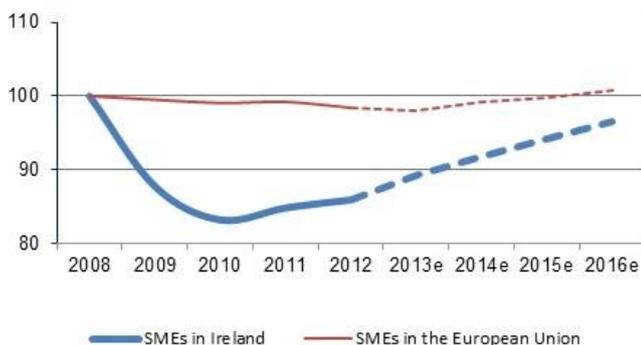
Past & future SME performance¹: Ireland's SME sector was one of the hardest hit by the crisis in the EU. Since 2011, there has been significant and sustained recovery. However, employment and value added are not yet back to pre-crisis levels. Manufacturing was the most severely affected sector. Some service sectors returned to pre-crisis levels or even surpassed those, including information and communication, real estate and professional services. SME employment is projected to increase by some 20 000 per year in 2015 and 2016. Value added is expected to grow by 4.5 % in 2015 and 5.3 % in 2016. Information and communication, real estate activities and professional services are expected to lead the SME recovery.

Implementing the Small Business Act for Europe (SBA): Ireland features one of the most SME-friendly environments in the EU. Its performance is above the EU average in six SBA areas. In 'second chance' and internationalisation, it is the EU's top performer. Since the SBA was adopted in 2008, conditions have steadily improved in almost all SBA areas. This recovery has been accompanied by substantial policy reform efforts in most SBA areas, with a particular focus on access to finance and entrepreneurship. Overall, Ireland has addressed most of the SBA recommendations.

SME policy priorities: Despite substantial efforts on the policy front and tangible improvements since 2008, access to finance remains a major challenge for many Irish SMEs. A number of new schemes such as the Strategic Banking Corporation of Ireland and the Ireland Strategic Investment Fund have been set up. Changes have also been made to government-supported micro-finance and guarantee schemes which experienced low uptake in the past. However, the effectiveness and impact of these initiatives can be judged only in the light of experience. In addition, alternative, non-bank financing requires stronger support in the form of loans and equity financing, such as peer-to-peer financing, seed capital and crowdsourcing and crowdfunding. A systematic SME test for 'think small first' still needs to be introduced. Also, SME consultations and the Regulatory Impact Assessments (RIAs) can be improved still further. RIAs should be carried out on all policies and, in each case, stakeholders' submissions should be analysed and the results published.

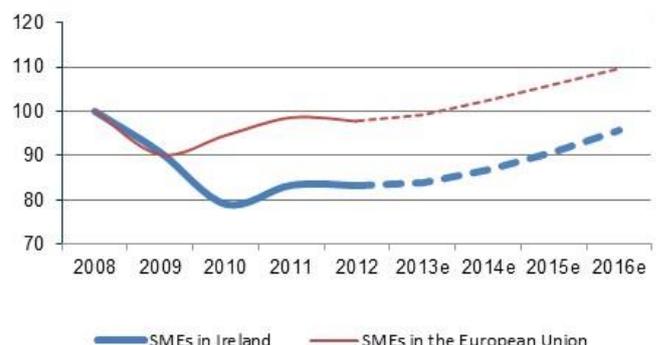
Number of persons employed in SMEs

(Index: 2008=100, estimates as from 2013 onwards)



Value added of SMEs

(Index: 2008=100, estimates as from 2013 onwards)



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.

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1. SMEs — basic figures

	Number of enterprises			Number of persons employed			Value added		
	Ireland		EU-28	Ireland		EU-28	Ireland		EU-28
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	138 823	88.9 %	92.7 %	297 656	25.5 %	29.2 %	13	14.7 %	21.1 %
Small	14 143	9.1 %	6.1 %	276 516	23.7 %	20.4 %	14	15.1 %	18.2 %
Medium-sized	2 785	1.8 %	1.0 %	253 848	21.7 %	17.3 %	15	16.9 %	18.5 %
SMEs	155 751	99.7 %	99.8 %	828 020	70.9 %	66.9 %	42	46.7 %	57.8 %
Large	464	0.3 %	0.2 %	339 113	29.1 %	33.1 %	48	53.3 %	42.2 %
Total	156 215	100.0 %	100.0 %	1 167 133	100.0 %	100.0 %	90	100.0 %	100.0 %

These are estimates for 2014 produced by DIW Econ, based on 2008-2012 figures from the Structural Business Statistics Database (Eurostat). 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), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.

SMEs in Ireland are not as dominant in the 'non-financial business economy' as SMEs in the EU on average. While SMEs generate 58 % of value added in the EU, the corresponding share in Ireland is only 47 % due partly to the large number of multinational companies in the Irish economy. Micro enterprises, with up to 9 employees, generate only 15 % of value added, whereas on average in the EU they contribute more than a fifth of value added.

Sectors of high importance for SMEs in Ireland are the *wholesale and retail trade, information and communication, and accommodation and food services*. Their combined share of SME value added is more than 45 %, accounting for 53 % of SMEs employment, whereas the EU average is 32 % of value added, and 40 % of employment.

By the end of 2014, SME's value added was still estimated to be 13 % lower than in 2008, despite an average annual growth rate in value added of 2.4 % from 2011 to 2014. The *manufacturing* sector was one of the sectors most affected by the crisis. In

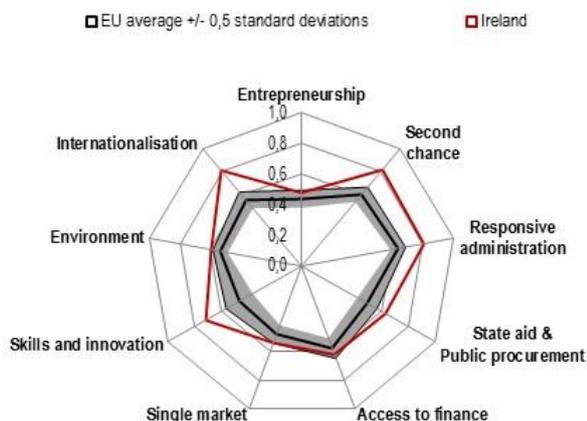
2009-2014, value added dropped by 10 % and employment fell by 11 %, mainly due to the sector's high dependency on the Irish and British markets. Declining demand in both markets, from the time of the crisis until the recent upturn, exposed this key vulnerability factor in Irish manufacturing, especially in SMEs. Other contributing factors, some of which have been addressed by government action in the meantime, include insufficient dedicated public support, infrastructure, and overall government strategy to support and drive growth in the sector.² Even in sectors that started to recover in value-added terms, employment growth has remained sluggish. For example, in 2009-2014, SME value added in the *transportation and storage* sector grew by 7 %, while employment expanded by less than 1 %. ICT-induced productivity growth is one of the important determinants for this development.³

The improvement in economic growth is reflected in the upward trend in company start-ups and the downward trend in company liquidations. The number of start-ups continues to rise. According

to figures published by Vision-net.ie, there were 14 177 new business registrations in 2012, 15 665 in 2013 (up 10.5 % on 2012), and 17 923 in 2014 (up 14.4 % on 2013). 13 254 companies were dissolved in 2012, 12 923 dissolved in 2013 (down 2.5 % on 2012), and 11 882 in 2014 (down 8 % on 2013). The net gain is over 6 000 companies, twice as many as in 2013. Key contributing factors are: better access to finance; a rise in employment and incomes; and growth in consumer spending, domestic demand and investment spending.⁴

The total value added of SMEs is projected to grow by 4.5 % and 5.3 % in 2015 and 2016 respectively, on the back of growth of 3.7 % in 2014. This trend has been accompanied by an estimated growth in SME employment of about 2.6 % annually. In particular, a strong improvement in value added is expected in the following sectors: information and communication; real estate activities and professional services — with estimated growth rates for 2014 to 2016 of 12 %, 22 % and 11 %, respectively.

2. SBA profile⁵



Ireland has one of the strongest SBA profiles in the EU. It has maintained the strong performance of past years. In the reference period for the 2015 fact sheet, covering 2014 and the first three months of 2015, it outperformed the EU average in six SBA areas. These are 'second chance', internationalisation, 'responsive administration', entrepreneurship, state aid & public procurement, skills & innovation and environment. It is the EU's top performer in 'second chance' and internationalisation. Since the SBA was adopted in 2008, Ireland has steadily improved its performance in all areas except 'second chance'. However, the modest decline in performance in this area is immaterial as Ireland still managed to maintain its top position in the EU. The most significant improvement over time was in access to finance. This area has been, and still is, a key challenge for many Irish SMEs. Even though conditions in Ireland have improved much faster than elsewhere in the EU, problems still remain.

The improvements are partly due to sustained policy efforts to improve the SME environment. SBA implementation since 2008 has been substantial, with the introduction of a broad range of measures addressing all SBA areas. The measures have focused on access to finance and entrepreneurship, but several have also addressed state aid & public procurement, 'responsive

administration' and environment, and to a lesser extent, 'think small first' and skills & innovation. 'Second chance' and internationalisation have been subject to the fewest number of measures. The number of measures implemented in a particular area is an indication of progress rather than performance. There have been few new measures addressing 'second chance', for example, because Ireland consistently performs well in this area compared with the EU average. By contrast, Ireland's greatest challenge in recent years has remained the provision of better access to finance, which explains the large number of measures implemented in this area.

Overall, Ireland's SBA profile and performance in recent years has been strong and is still improving. Ireland has addressed the vast majority of the SBA recommendations. There is room for improvement in some domains, particularly access to finance and 'think small first'. In the reference period, Ireland continued to implement a number of important policy measures related to the SBA. In total, it implemented 13 measures addressing five of the 10 SBA policy areas, with four of them targeting more than one area. Overall, stakeholders acknowledge that progress in implementing the SBA has been substantial. In terms of impact, there is wide consensus that the areas that saw the most progress during the reference period were in the fields of access to finance (targeted by 7 measures) and state aid & public procurement (targeted by 3 measures). Significant progress was also made in promoting entrepreneurship, with the implementation of one major measure — the National Policy Statement on Entrepreneurship. Three of the measures targeting access to finance also cover entrepreneurship as a secondary SBA area. The remaining two measures target 'think small first' and skills & innovation. No measures were taken in 'second chance', 'responsive administration', single market, environment and internationalisation. In each of these areas, Ireland either consistently or usually performs above the EU average, and has introduced numerous measures in recent years. The Department of Finance and the Department of Jobs, Enterprise and Innovation (DJEI) will roll out an integrated export finance strategy in 2015.

The major policy developments during the reference period were the launch of the Strategic Banking Corporation of Ireland (SBCI) and the National Policy Statement on Entrepreneurship.

The SBCI was launched in October 2014 and is expected to have a positive impact on the domestic economy and the funding landscape for Irish SMEs in particular. The SBCI will channel externally sourced funds to Irish SMEs via established lenders, and will provide SMEs with flexible payment terms and lower costs (due to the lower cost of capital) to support their growth ambitions.

The National Policy Statement on Entrepreneurship was also launched in October 2014 and is expected to have a positive impact on entrepreneurship in Ireland and on other SBA areas, including access to finance, 'responsive administration', single market, skills & innovation, and internationalisation. It aims to create an extra 93 000 jobs in start-up companies over the next five years by increasing the number of start-ups by 25 % (3 000 extra start-ups per annum), increasing the survival rate in the first five years by 25 % (1 800 extra survivors per annum), and improving the capacity of start-ups to grow to scale by 25 %. The plan resembles what could be called a specific national strategy for the implementation of the SBA. Furthermore, SBA measures are also being introduced as part of broader (i.e. non-SME specific) strategies at national level. In addition, there is also the annual Action Plan for Jobs developed by the Department of Jobs, Enterprise and Innovation (DJEI) and implemented across Government Departments and State agencies. It is an important strategic initiative that contributes to SBA implementation in nearly every area. The SME envoy, appointed in 2011, has helped simplify communication channels between SME stakeholders and the government.

Ireland has been very diligent in following up on implementing measures once they have been announced. In the reference period, Ireland maintained this good track-record. Only one measure that was announced during the previous reference period was not implemented — the integrated export finance strategy due to be rolled out in 2015.

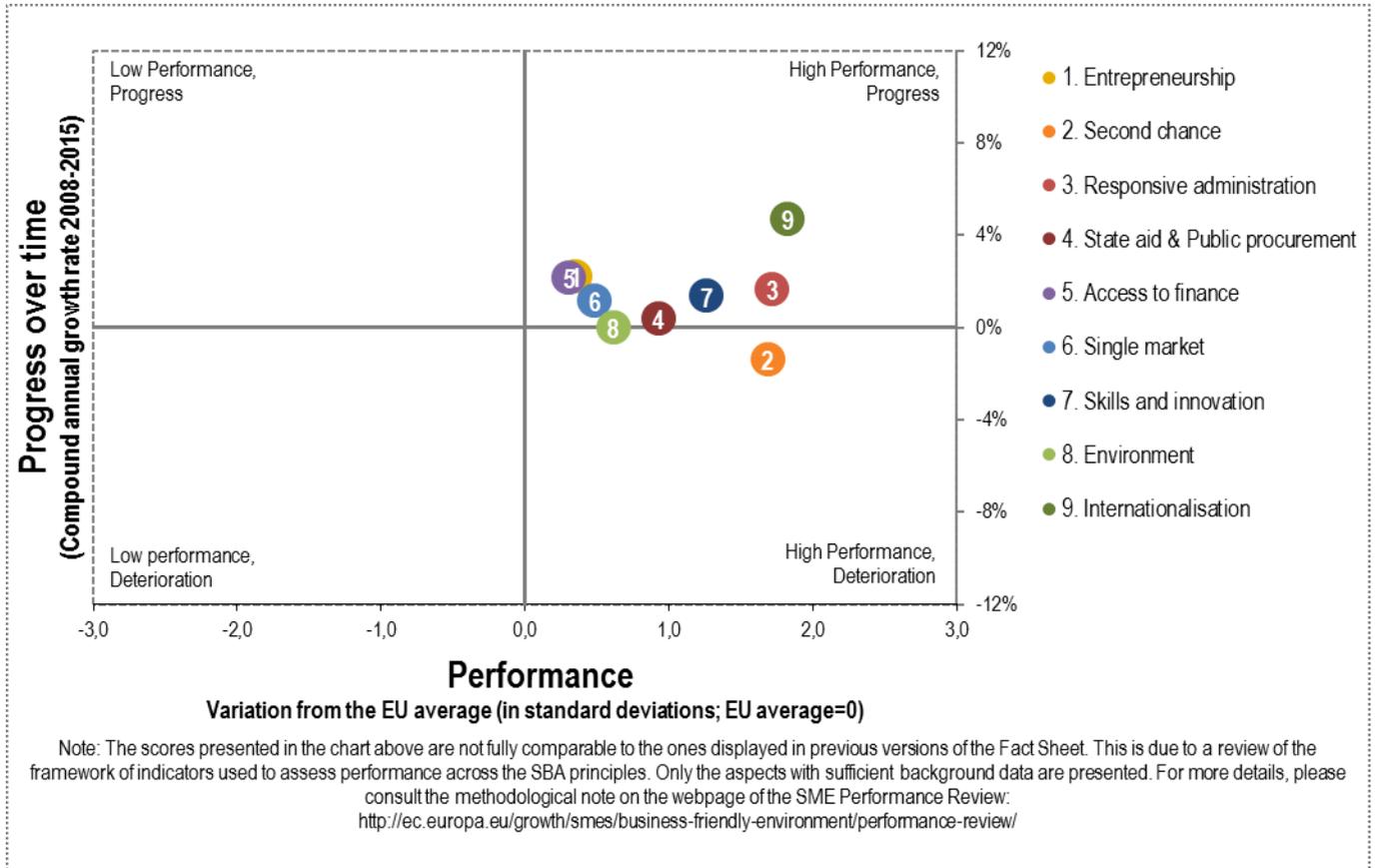
Two future policy measures were announced during the reference period. The first is the Construction Contracts Act 2013. Implementation was due to commence in the spring of 2015, but has been delayed. However, work is ongoing to implement the legislation and with implementation now envisaged for the next reporting period (2015 to Q1 2016). The second measure is the establishment of a local division of the international patent court in Ireland to make Ireland more attractive for R&D-related activities. The decision was announced by the Minister for Jobs, Enterprise & Innovation in November 2014. This measure is dependent on a number of important factors. Ratification of the international agreement to set up the court is subject to a successful referendum. The government has announced its intention to hold a referendum, but the needs yet to be decided.

While Ireland has made substantial progress in implementing SBA-related measures, key challenges remain:

- Better legislation for SMEs ('think small first'): This is one of the SBA areas in which Ireland has made the least policy progress. SME stakeholders interviewed in the process of preparing this fact sheet are keen to see this area receive much more attention from the government. In particular, all new proposals for business-related legislation should involve SME stakeholders at the very start of the process, so that the ensuing legislation is right for the majority of businesses.
- More SME-friendly procurement and prompt payment: Measures have been introduced to improve SME access to procurement. The impact of these should be monitored. Important new government guidelines have recently been published to encourage tender authorities to tailor tender procedures to attract SME bids. Work is needed to ensure that these guidelines are applied as systematically as possible. Late payments to SMEs, in particular by large private sector companies to their SME suppliers, remain a considerable challenge. The government therefore launched in April 2015 the 'Prompt Payment Code of Conduct Portal' (<http://www.promptpayment.ie/>) so as to encourage prompt payment for all business transactions.
- Better access to finance: Many measures have been implemented in this SBA area and considerable progress has been made. The fact that many SMEs are still struggling to access finance through lenders and other providers of capital is an indication of the high demand and the shortfall in supply. One important indicator for this is the high cost of interest for small loans which SMEs have to pay. This SBA area has been the focus of more measures than any other in Ireland since 2008, and it continues to be the greatest challenge facing Irish businesses despite recent progress.

Internationalisation: Irish indigenous businesses are overly dependent on domestic demand. This makes them especially vulnerable to changes in market demand, a fact that became very evident in the aftermath of the economic crisis. Progress has been made in supporting Irish businesses wishing to export or expand internationally, in particular through the enhancement and extension of the Foreign Earnings Deduction until the end of 2017, the integrated export strategy due to be rolled out in 2015 and the provision of advice, business support and mentoring services. However, much more is needed to help educate and change the mind-set of many Irish companies so as to encourage them to internationalise their horizons, ambitions and client base.

SBA performance of Ireland: state of play and development from 2008 to 2015⁶



3. SBA principles⁷

3.0 'Think Small First'

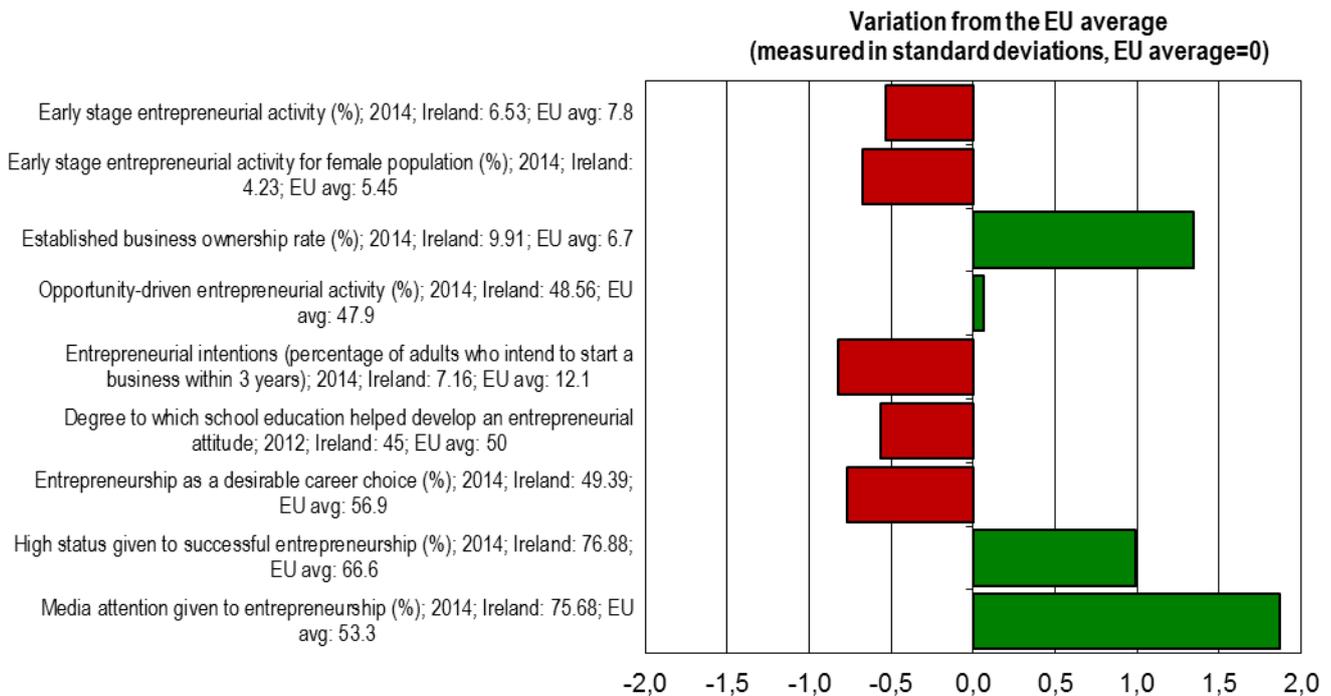
The 'think small first' principle is meant to be a guiding principle for all policy- and law-making activities. It requires policy-makers to take SME interests into account at the early stages of the policy-making process. The principle also calls for newly designed legislation, administrative rules and procedures to be made simple and easy to apply.

Ireland has a number of key measures in place, but implementation is incomplete. A dedicated process is in place for SME consultation. SME stakeholders are consulted on SME-related legislative proposals and their views are considered. However, some SME stakeholders interviewed during the preparation of this fact sheet argue that their role in the process design and drafting of legislative proposals needs to be more prominent. Although Ireland also conducts Regulatory Impact Assessments (RIAs), there is evidence that the requirement to conduct RIAs has not been fully respected in recent years, with just 42 % of the bills introduced since March 2011 being the subject of an RIA, including some of the more controversial policy issues⁸. It is not clear whether RIAs systematically analyse submissions received from stakeholders and whether detailed RIAs are actually published before Parliament considers the draft legislation. Also, key 'think small first' principles that are yet to be implemented in Ireland include the SME Test and common commencement dates. Both are the subject of discussion at government level and SME stakeholders are keen to see them implemented.

Some progress has been made during the reference period. 2014 saw the implementation of a newly reconstituted Advisory Group on Small Business (AGSB) to provide SMEs

with direct access to government. The AGBS includes entrepreneurs, nominees from the main business representative bodies, and officials from the DJEI, state enterprise support agencies, the Irish Farmers Association and the Credit Review Office. The aim is to facilitate structured and regular dialogue between the Minister for Business & Employment and representatives of the small business sector in Ireland. Entrepreneurs and small business owners are able to make contact with AGBS members to raise issues of concern. The AGBS is addressing a wide range of concerns such as tax treatment of SMEs, the interaction between multinational corporations and SMEs, and finance for growth. Recent priority issues have been the 2015 budget proposals and proposals to support SMEs in the 2015 Action Plan for Jobs. There are two other key measures that have been implemented in entrepreneurship and procurement that provide a positive impact on 'think small first'. The National Policy Statement on Entrepreneurship, which focuses primarily on increasing the number of start-ups/SMEs in Ireland, also focuses on improvements to the business environment and support to ensure that they are aligned with the needs of start-ups and small businesses. New public procurement guidelines for contracting authorities have also been published to encourage authorities to make it easier for small businesses to tender for public sector contracts. Despite the progress made during the reference period, the most pressing need for policy action remains the full implementation of the SME Test. The AGBS is also willing to address issues raised by its membership which are considered relevant to the SME sector.

3.1 Entrepreneurship



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Ireland’s performance is in line with the EU average. Ireland continues to provide a business-friendly environment. Its performance has consistently improved since 2008 and at a much faster rate than the EU on average. The picture as regards individual indicators is mixed. Its performance on the indicators measuring entrepreneurial activity has dropped compared to last year. However, this appears to be a temporary blip rather than part of a longer-term trend. Since 2008, entrepreneurship rates have stabilised around the EU average. The same goes for the rate of entrepreneurial intentions among the population. Opportunity-driven entrepreneurial activity, which increased considerably on last year (44 %), follows a more positive trend. It has increased steadily since the height of the crisis in 2010 (33 %), which is testament to the improving economic outlook. The rate of business ownership remains one of the highest in the EU. Entrepreneurs can count on much support from society. The status of successful entrepreneurs in society is substantially higher than elsewhere in the EU. The media attention given to entrepreneurship is the highest in the EU. Improvement since 2008 goes hand in hand with the substantial policy efforts in this area since then. Eleven key measures were implemented between 2008 and 2014.

There are a number of schemes providing financial support to entrepreneurs, such as Microenterprise Loan Fund (operational since 2012) and a fund for female entrepreneurs starting their own business (2012). There are a number of tax relief schemes to help start-ups, such as the Employment and Investment

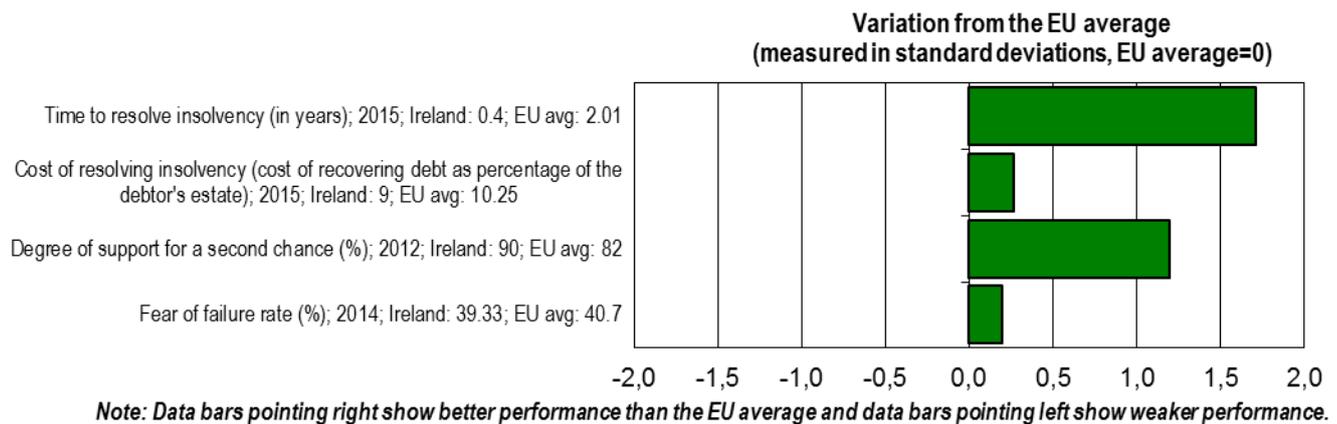
Incentive, the Seed Capital Scheme (since 2011) and the Start Your Own Business (SYOB) initiative (2013). A number of these schemes were reviewed in 2014, which included public consultations with SMEs. Following on from these reviews, enhancements were made to schemes such as the Employment and Investment Incentive, the Foreign Earnings Deduction and the rebranding of the Seed Capital Scheme as Start Up Refunds for Entrepreneurs (SURE). In addition the Microenterprise Loan Fund Scheme was enhanced in 2015. Business support initiatives are also helping start-ups and entrepreneurs to access valuable information and advice to help them get ahead, including mentoring programmes, ‘first stop’ shops for start-ups at local level (set up in 2012), and the ‘Taking Care of Business’ one-stop shop events (2013-2015). Measures were implemented to encourage female entrepreneurs to start and grow their own businesses, such as the National Mentoring Programme for Female Entrepreneurs (since 2012) and the Competitive Start and Feasibility Funds for Female Entrepreneurs (since 2012). Measures that target improvements in entrepreneurial education, training and skills included the introduction of the ‘Sean Lemass Award for Enterprise’ (2010) and the implementation of the Strategy for Innovation and Entrepreneurship (2013) — a joint initiative between Trinity College Dublin and the government to create new companies through spin-outs, spin-ins and a series of measures to create a ‘creative quarter’ for academia and business.

During the reference period, these measures were complemented by one significant measure — the launch of the National Policy Statement on Entrepreneurship. Its objectives are: creating an extra 93 000 jobs from start-up companies over the next five years by increasing the number of start-ups by 25 % (3000 more start-ups per annum); increasing the survival rate in the first five years by 25 % (1 800 more survivors per annum); and improving the capacity of start-ups to grow to scale by 25 %. Additional measures have been launched in the framework of the 2015 Action Plan for Jobs, such as: rebranding the Seed Capital tax relief scheme SCS as the ‘Start-up Refunds for Entrepreneurs’; finalising the Enterprise 2025 Strategy and starting work on reviewing the coverage of entrepreneurship in Higher Education; and measures to stimulate

entrepreneurship in the food sector. Supported by the Department of Education and Skills, further education and training bodies and higher education institutions have come together to work with public and private sector stakeholders to establish a number of regional Employer/Education provider Skills Forums. These have the potential to effectively and collaboratively address a number of skills issues and to be a key resource and enabler in each region to support economic development.

The National Policy Statement on Entrepreneurship targets improvements in many areas such as entrepreneurial education, business taxation, burden of administration, innovation and access to finance. Overall, SBA implementation in this domain is close to complete.

3.2 ‘Second chance’



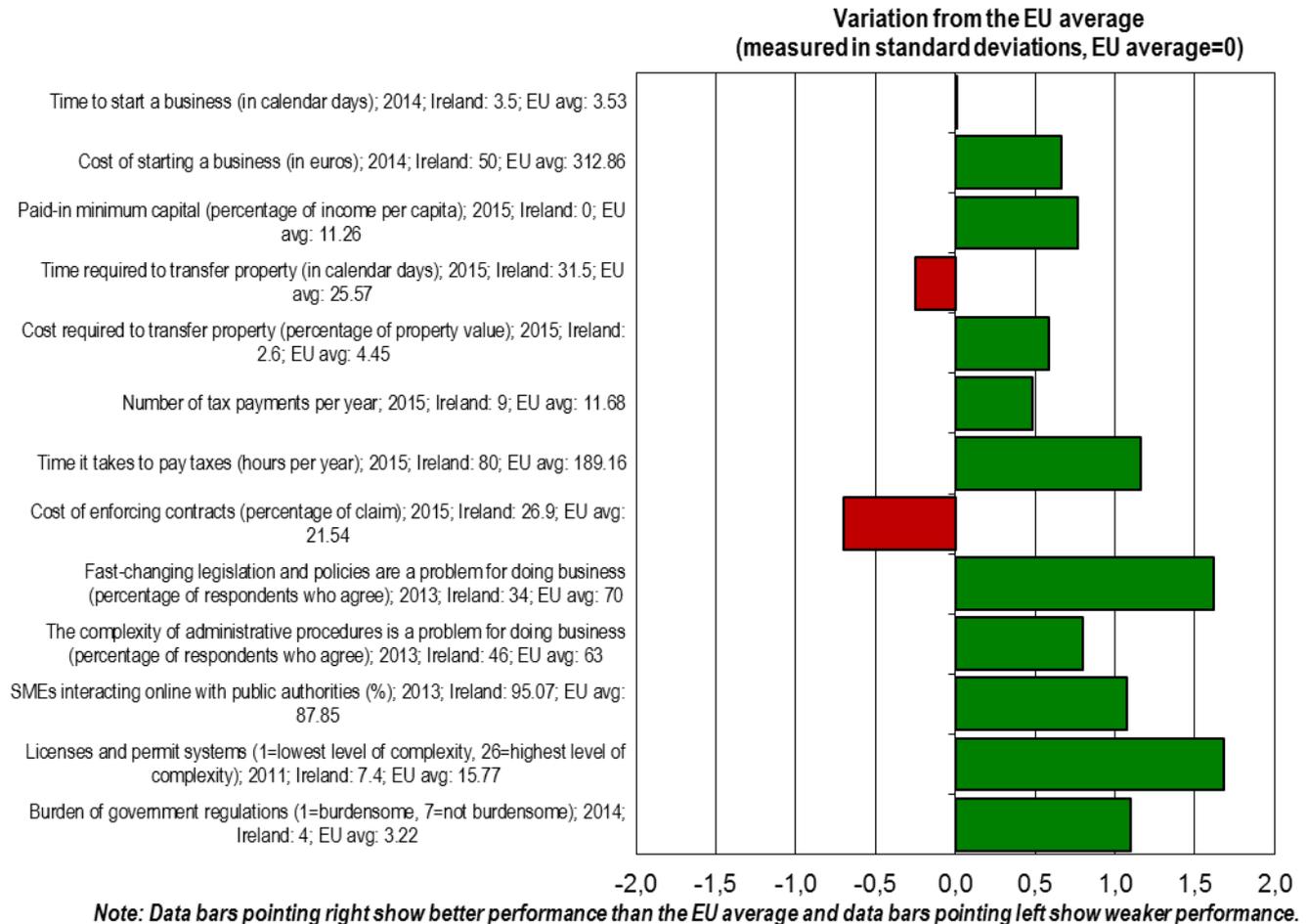
‘Second chance’ refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. Ireland remains the EU’s top performer in this area, despite a decline in performance since 2008. However, this deterioration was only slight and limited mainly to one indicator. The fear of failure rate increased somewhat during the crisis, but is still very much in line with the rest of the EU. Overall, Ireland’s strong performance in this area is a reflection of its overall welcoming attitude towards business. Conditions for resolving insolvencies, an important intermediate step for restarting as a ‘second chance entrepreneur, remain very good. For instance, insolvency cases get solved in less than six months, faster than anywhere else in the EU.

On the policy front, progress since the adoption of the SBA in 2008 was achieved through two key bankruptcy reforms. The Civil Law Act (2011) reduced the discharge from bankruptcy period from 12 to 5 years and provided for automatic discharge after a 12-year period. The Personal Insolvency Bill (2012) then further reduced the discharge from bankruptcy period from 5 to

3 years, and introduced three new insolvency procedures to enable individuals in difficulties to resolve their debt issues without having to resort to becoming bankrupt. These procedures were Debt Relief Notices, Debt Settlement Arrangements and Personal Insolvency Arrangements. The bill also established an independent Insolvency Service of Ireland to oversee and operate the new personal insolvency system. There are also procedures that can be invoked to bring a company back from the finality of liquidation. The Examinership procedure provides the possibility for a court-appointed official to take control of a company going through liquidation proceedings and find a solution to enable the company to continue to trade. During the reference period, no further measures were introduced given Ireland’s already favourable conditions in this domain.

Overall, SBA implementation in this domain is very much complete. However, as is the case elsewhere, ‘second chance’ entrepreneurs face more difficulties in getting access to finance with private lenders.

3.3 'Responsive administration'



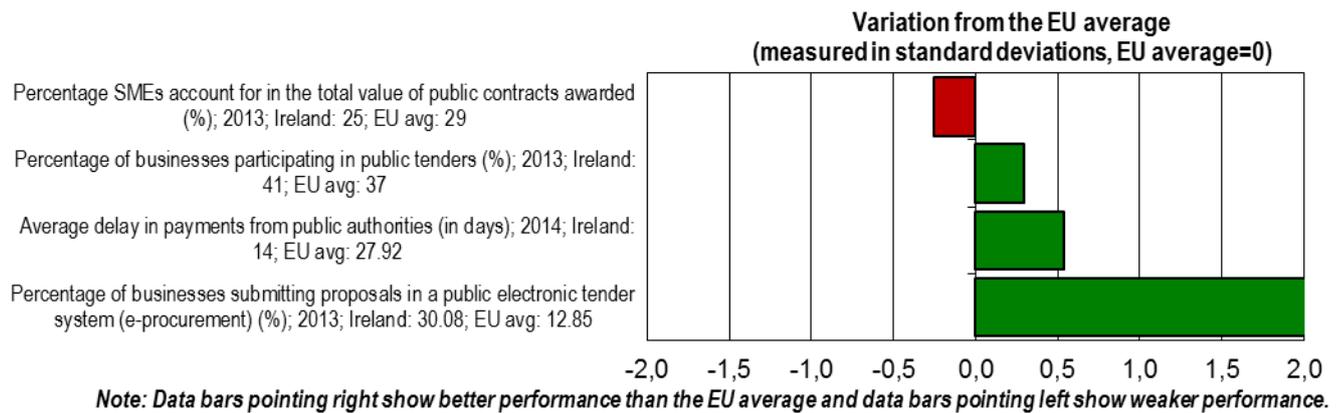
'Responsive administration' refers to public administration being responsive to the needs of SMEs. Ireland's performance is second only to that of Estonia, emphasising that the public administration is principally very conducive to businesses and SMEs, in particular. Compared to last year, the changes were limited. However, since the adoption of the SBA, Ireland has improved its performance level, which is in line with that of the EU. Ireland does better than the rest of the EU on most aspects of public administration. It is furthest ahead on the indicators describing the general administrative environment, featuring relatively simple administrative procedures, a low burden of government regulation, a straightforward licensing system and legislative change at an adequate pace. Start-up conditions also tend to be more conducive to setting up a new firm, with the exception of the start-up time which is on a par with the EU and still slightly higher than the three days stipulated in the SBA. The most significant progress since 2008 has been related to the cost of registering property which dropped from more than 10 % of a property's value in 2008 to less than 3 % in 2014. The only area where Ireland trails the EU average is on the cost of enforcing contracts.

The progress in performance in this area was accompanied by substantial activity regarding policy implementation. Five key measures were implemented between 2008 and 2014. The EU Services Directive was transposed into Irish law (2010) to help create a single market in commercial services. The Advisory Group on Small Business (2011) was set up to communicate the collective views of small business to the government and to identify priority actions for implementation. Company e-registration facilities (2012) have enabled companies to fulfil their filing obligations with the Companies Registration Office in a secure and private environment. The Companies Act 2015 (originally initiated in 2012 and which came into effect in June 2015) established the basis for a new legal framework for companies in Ireland. Designed to reduce red tape for small firms and to make it easier and cheaper to set-up and run a company in Ireland, it is one of the most important legislative changes in recent Irish history, providing landmark reform of company law to cut costs and facilitate the starting of a company in Ireland. In 2013 there was a reform of the National Micro and Small Business Support Infrastructure.

In the reference period, no further actions were taken. However, there is little need for further action as the SBA has been almost fully implemented in this domain. The interaction with public

authorities could be speeded up. This issue is in the process of being addressed by the Public Service ICT Strategy which was launched in January 2015.

3.4 State aid & public procurement



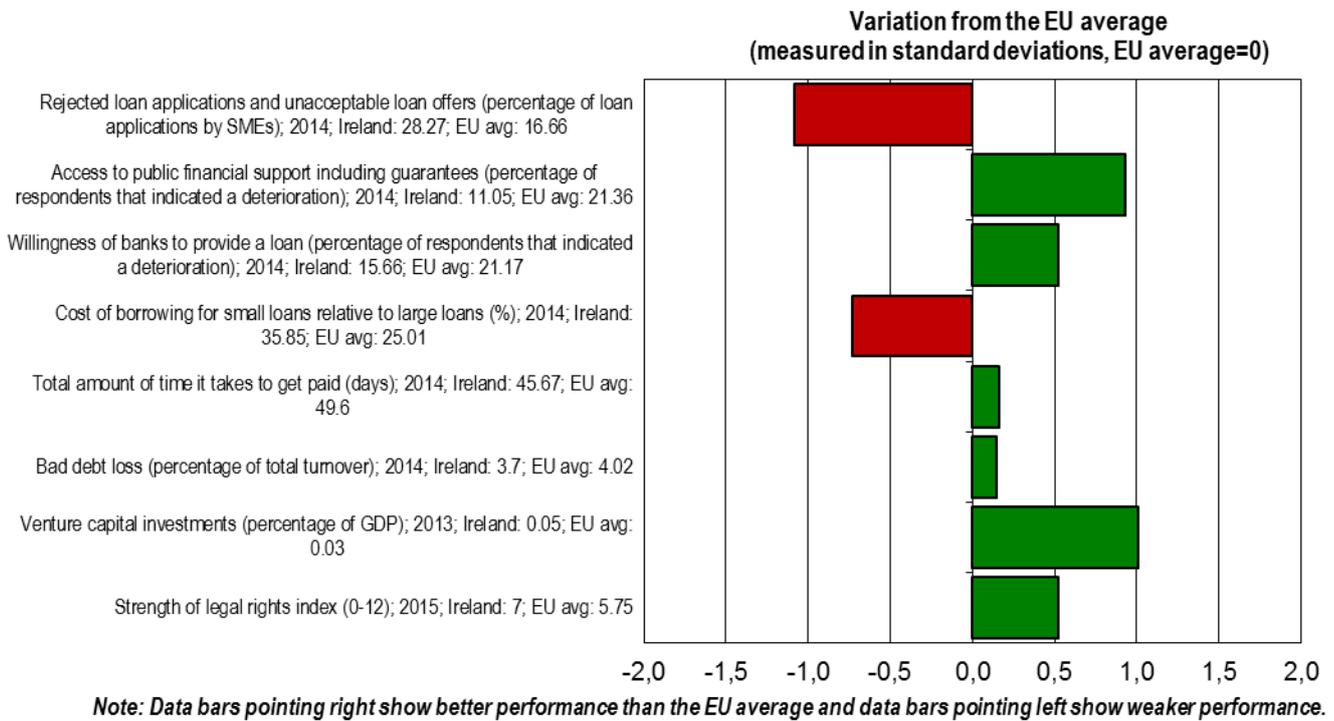
Ireland also performs better than the EU average on many of the criteria under this heading. However, one reform which has caused some concerns for SMEs is the perceived widespread use of large-scale framework contracts. The government has taken action to address this issue, including the publication of government guidelines to encourage authorities to make tender procedures more SME-friendly (see below). Nevertheless, SME participation in the total value of public contracts remains slightly below average, indicating a need for continued action. Tendering processes in Ireland are otherwise SME-friendly. Ireland has a user-friendly e-tendering system, as borne out by the fact that the take up of e-tendering is the highest in the EU. 30 % of SMEs submit their proposals in electronic form, a figure which has steadily increased from 26 % in 2011. SMEs are also paid twice as fast by public authorities than their EU peers.

The government has also been very active in this area. Six key measures had been implemented since 2008. The National Procurement Service was established in 2009 to ensure maximum efficiency in the area of public procurement of goods and services. Government guidelines on facilitating SME participation in public procurement were published in 2010. They require contracting authorities to promote SME involvement by: advertising all contracts for supplies and general services with an estimated value of EUR 25 000 or more on www.etenders.gov.ie; increasing the number of open procedures; reducing the amount of documentary evidence a tenderer must supply to prove their capacity to undertake a project; and setting more SME-friendly eligibility criteria. The EU Directive on Late

Payments in Commercial Transactions (2012) was transposed into Irish law to combat late payment in commercial transactions, with measures introducing, for example, specific payment deadlines and provisions for supplier compensation (interest on overdue payments).

Finally, during the reference period, three more measures were put in place, the most important of which are the newly published government guidelines to make public procurement more accessible to SMEs (2014). Contracting authorities now have to ensure that the financial capacity, turnover and insurance level requirements for tendering firms are relevant and proportionate, and that larger contracts are sub-divided into lots (where possible) so that SMEs can bid for them. They also need to ensure that SMEs are encouraged to form consortia where they are not large enough to tender in their own right, and to register on a dedicated e-tendering website to ensure maximum exposure to tendering opportunities. Secondly, a Tender Advisory Service pilot scheme was launched in 2014 to act as an interlocutor between suppliers, particularly SMEs, and contracting authorities, ensuring direct replies to supplier queries and communication with contracting authorities to suggest improvements/changes to information contained in tender documentation where appropriate and reasonable. Finally, the government published an SME Guide on how to comply with competition law when tendering as part of a consortium (2014). With the measures put in place during the reference period, Ireland has made substantial progress towards complete implementation of the SBA in this area too.

3.5 Access to finance



While Ireland performs in line with the EU average, finding adequate finance remains difficult for many Irish SMEs. The situation has improved substantially since 2008, though, and at a higher rate than for the EU on average. The most improved areas include the time to receive payments, the willingness of banks to provide credit and access to public financial support. Between 2008 and 2014, the average payment period was reduced by almost 10 days. During the same period, the proportion of SMEs which complained about increasing problems in obtaining a loan fell from 43 % to 16 %. The proportion of those reporting increased difficulty in accessing public financial support dropped even more — from 47 % to 11 %. However, problems remain, especially as regards credit financing. While it has generally become easier to obtain credit, the lending conditions for SMEs have largely worsened. Interest rates on small loans are higher than the EU average and markedly higher than the rates for larger firms. A key component of this is the high level of mark-up. On small loans of less than EUR 1 million, mark-up soared from 7 % to 35 % from 2008 to 2014 compared with larger loans. This is in line with the increase in SMEs reporting credit offers at conditions deemed unacceptable (up from 18 % to 28 %). As can be expected in a severe economic crisis, SMEs are still saddled with historic debts and the banks still have a significant proportion of distressed SME loans on their books. The banks are therefore giving priority to strengthening their balance sheets and remain reluctant to extend risk exposure by providing more loans to SMEs.

As demonstrated by the indicators in the diagram above, the substantial efforts of policy makers in this area since 2008 have

helped to mitigate the effects of the financial crisis. Access to finance has been given the highest priority of all the SBA areas by policy makers. 25 key measures have been implemented since 2008, including a number of important lending schemes such as the Competitive Start Fund (2011), the Microenterprise Loan Fund Scheme (2012), the Credit Guarantee Scheme (2012), the AIB 100M EUR Lending Programme for SMEs taking on energy efficiency projects (2013) and the EUR 100 million AIB + EIB Renewable Energy Framework Loan (2013). A range of tax-related schemes have also been implemented to provide SMEs with tax relief to encourage investment and to stimulate employment. There have been reforms to tax incentives for investment in businesses (most recently for the 2015 financial year) such as revising capital gains tax relief for reinvestment, improving the R&D tax credit, the already mentioned re-launch of the Seed Capital Scheme as Start Up Refunds for Entrepreneurs (SURE), VAT reform (2013), and boosting the Employment and Investment Incentive. Various other government support measures have been implemented, such as the Credit Review Office (established in 2010) and several government guidelines have been published, e.g. Your Business, Your Bank (2010), the Code of Practice for Business Lending to SMEs (2012), and guidance for SMEs seeking credit (2012).

A public consultation on the role the tax system can play in encouraging entrepreneurs is ongoing. The consultation is seeking views from interested parties on measures currently available in the tax system to encourage entrepreneurs and small business, and what tax-related barriers these parties feel exist for new enterprises seeking to establish.

This already comprehensive list of measures was complemented by a set of seven measures:

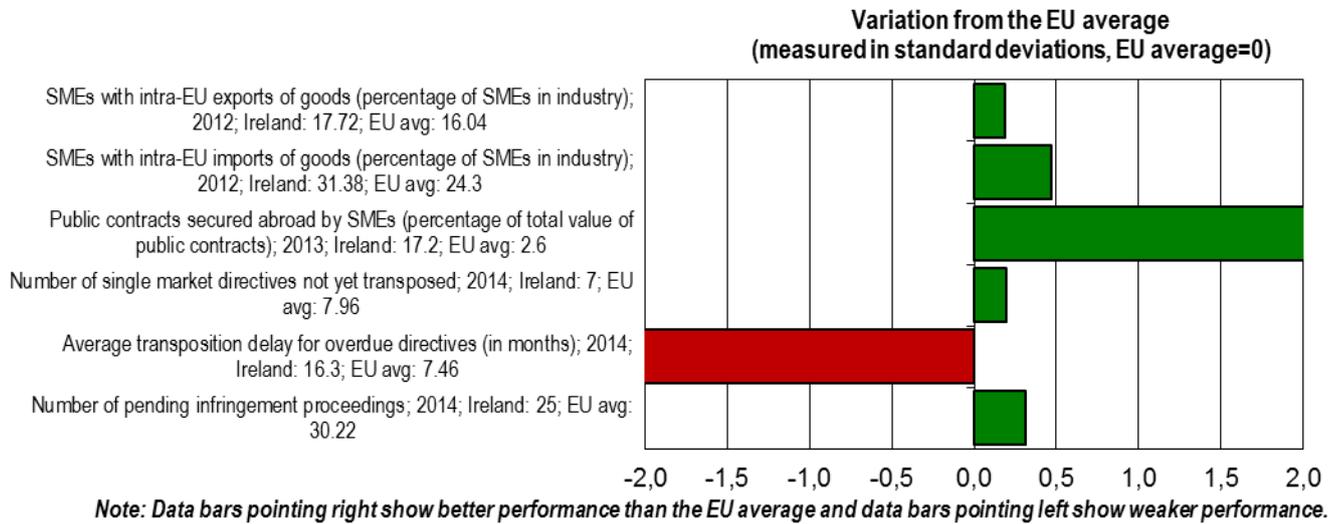
- The launch of a new strategic SME funding company — the Strategic Banking Corporation of Ireland (SBCI) — that sources funds externally and lends them to SMEs through innovative loans via other institutions called on-lenders. Key features of the SBCI's flexible funding for Irish SMEs include: flexible products with longer maturity and capital repayment flexibility, subject to credit approval; lower-cost funding to financial institutions which is passed on to SMEs; and market access for new entrants to the SME lending market, creating real competition. This initiative is the most important of the seven measures introduced during the reporting period.
- A measure to set up a new network of Local Enterprise Offices (LEOs) to deliver an improved system of local enterprise support to start-ups and small businesses across Ireland. The LEOs provide a wide range of services that include: financial support and guidance; business information/advice/support; training and mentoring; advice on local property solutions for start-ups and business expansions; events and networking; and assistance with local entrepreneurship education.
- Two competitive funding measures to accelerate the growth of high potential Irish start-up companies that demonstrate the capability to succeed in global markets. One measure focuses on aviation and manufacturing start-ups and the other on graduate student start-ups. Critical early-stage funding is provided to enable these companies to reach key commercial and technical milestones. Successful applicants receive a maximum of EUR 50 000 for a 10 % ordinary equity stake in the start-up company. In addition to funding, a mentor is appointed to aviation and manufacturing start-ups, and graduate student

start-ups are invited to participate in a business development programme for early-stage companies.

- Two measures to improve SME awareness of the full range of government support and their access to it. The measures involve the launch of a new online search tool for SME business support, which is available on the new Local Enterprise Office website (www.localenterprise.ie/smeonlinetool/). The also include a year-long advertising campaign to raise awareness of a range of government provided enterprise supports among business owners, and potential start ups, by generating traffic to a new website. (www.actionplanforjobs.ie).
- A competitive feasibility funding measure to help new agri-business start-up companies or entrepreneurs to investigate the viability of a new growth-orientated business proposition that has the potential to become a 'high potential start-up.
- The launch of an online portal to host the prompt payment code of conduct to encourage buyers and suppliers to: sign up to the code and online portal; undertake to pay suppliers on time and adhere to contract terms; give clear guidance to suppliers on payment and complaints procedures; and encourage good practice in supply chains.

Even though Ireland has addressed the SBA agenda in full in this area, many challenges remain, as banks are still hesitant about providing credit to SMEs and equity capital is hard to come by. Furthermore, it will take some time to see the full impact of recently launched financial instruments and of changes made to existing instruments, such as the reform of the credit guarantee scheme. Also, alternative non-bank finance should be extended, including peer-to-peer finance, venture capital, and crowdfunding and crowdsourcing.

3.6 Single market



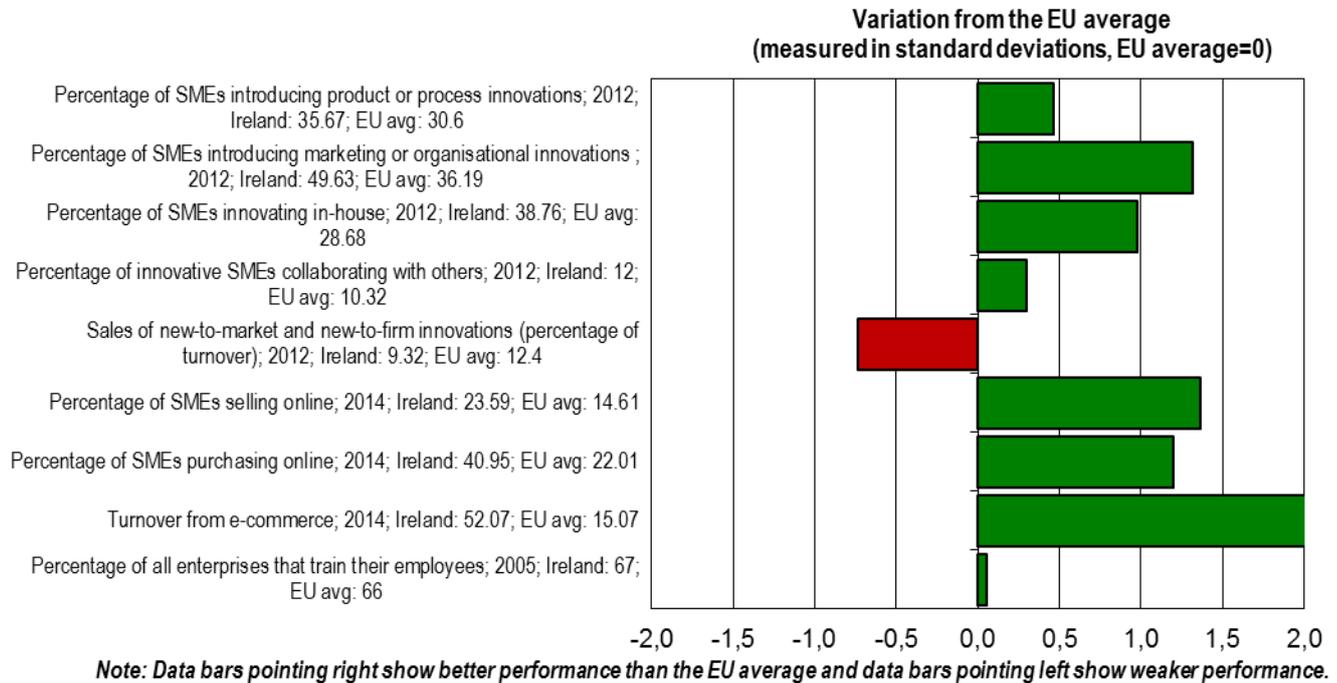
Ireland’s performance is in line with the EU average. Since 2008, its performance has improved steadily, albeit less than the EU on average. Irish SMEs are well represented on the EU market. Ireland’s performance is well within the EU average, both in terms of importing and exporting manufacturing SMEs. In terms of the proportion of SMEs that have secured public contracts in other EU countries, it tops the list. The picture is more mixed as regards the implementation of the legal enabling framework. While Ireland ranks within the EU average in terms of overdue directives and pending infringement procedures, it has the longest transposition delays in the EU, a figure that has been steadily increasing, doubling from less than eight months in 2008 to more than 16 in 2014. Simultaneously, the number of pending infringement procedures has more than halved (from 53 to 25).

As the chequered single market implementation record suggests, this has not been a priority area of SME policy-making. Two key new measures have been implemented since 2008 specifically

to help SMEs take advantage of the single market. The National Standards Authority of Ireland Small Business Portal (2012) enables small firms to research standards relevant to their industry. The Online Trading Voucher Scheme (2013) helps small businesses to trade online by encouraging them to develop their digital presence to avoid missed opportunities. The scheme offers small businesses the opportunity to develop their website or digital marketing strategy by providing vouchers of up to EUR 2500 or 50 % of eligible expenditure. There are also other government services which contribute towards this goal, such as the support provided by Enterprise Ireland. This organisation also coordinates the Irish Enterprise Europe Network, with support from the COSME programme.

During the reference period, no new measures were introduced. Despite the low priority of this area, the SBA recommendations have generally been adequately addressed.

3.7 Skills & innovation

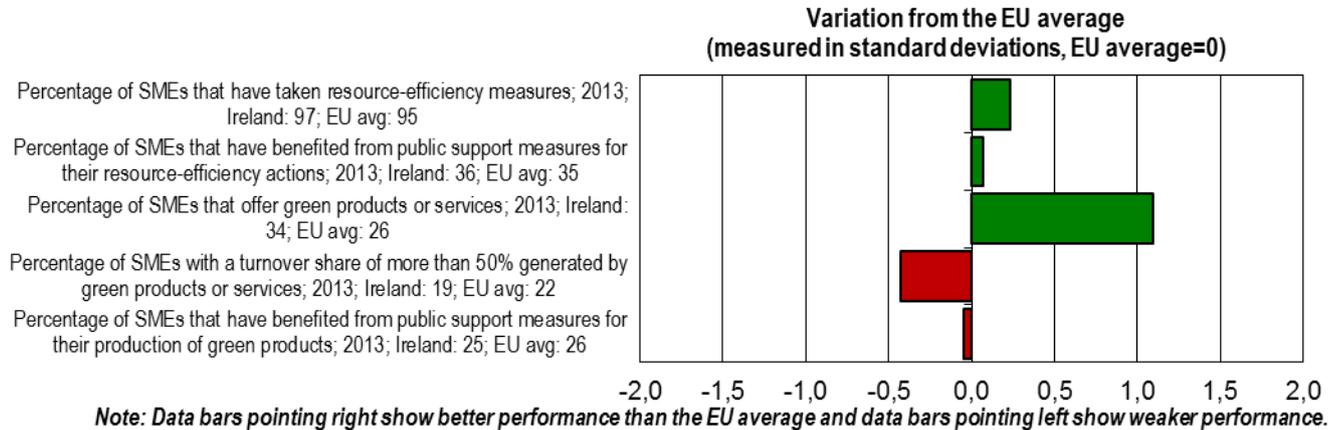


Ireland performs well above the EU average. There is relatively little change compared with last year, but performance has steadily improved since 2008. The picture as regards individual indicators is mixed, though. The indicators measuring different aspects of SMEs' innovative capacities show Irish SMEs performing better than their EU counterparts, the sole exception being the share of firms selling new-to-market and new-to-firm innovations. Irish firms are however slowly losing their competitive edge. The performance trend has been negative since 2008 for almost all innovation-centred indicators. This may be related to the financial distress many SMEs experienced during the crisis, leaving them without sufficient funds to invest in their innovation capacities. The area which helped Ireland to consolidate its good position within the EU in this domain was the take-up of IT. Irish SMEs are far ahead of their EU peers in integrating the use of electronic tools and the internet into their business operations. Substantial parts of the Irish SME population sell their goods or services on-line, generating turnover from e-commerce.

This last trend in particular has been associated with significant policy efforts since the adoption of the SBA. Four key measures

have been implemented to help with the upgrading of skills in SMEs and all forms of innovation. The ICT Skills Action Plan (2014-2018) and the Annual Conversion/Springboard+ are addressing the specific skills shortage in Ireland for people with high-level ICT skills. The objective is to double the annual output from honours degree ICT undergraduate programmes to 2 000 graduates by 2018. The Management 4 Growth Programme (2012) is developing world-class, highly competent and confident management teams that are capable of growing their businesses internationally through excellence in productivity, innovation and competitiveness, using executive education learning modules, business coaching and peer-to-peer learning. The Management Works Programme (2012) provides a range of subsidised and tailor-made programmes which are supported by professional business mentors. The purpose is to assist firms to grow in terms of their sales, output and employment. The Skills to Work online tool (www.skillstowork.ie) (2014) is making it easier for both jobseekers and employers to identify what government skills initiatives are available to them. An important skills and innovation development element is being delivered through the National Policy Statement on Entrepreneurship (2014).

3.8 Environment



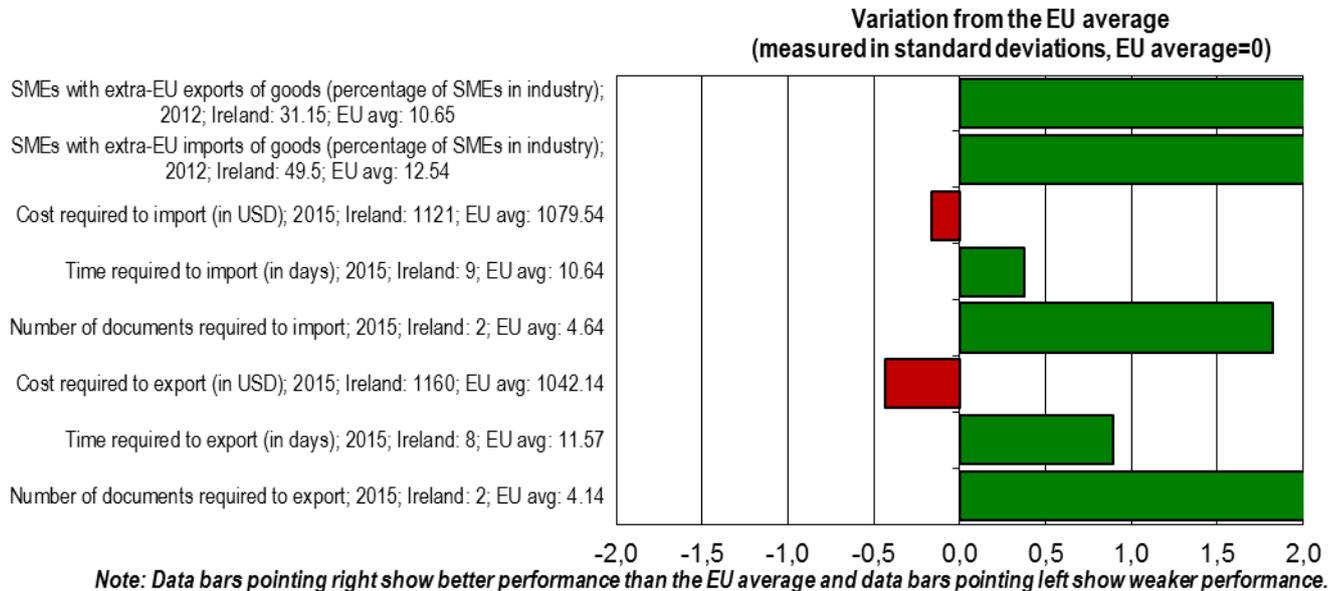
Ireland performs above the EU average. It performs best on the percentage of SMEs that offer environmentally-friendly goods or services. One in three SMEs in Ireland does so as opposed to only one in four for the EU as a whole. The proportion of SMEs saying they have either benefited from public support for introducing resource-efficiency measures or for introducing ‘green’ products is in line with the EU average. The EU figure may rise in the future, though, given the substantial policy efforts in recent years.

Five key measures have been implemented to help SMEs to be eco-efficient and to compete in the green economy. A guide was published on the key sources of support for companies implementing eco-efficient measures, on the recommendation of the High Level Group on Green Enterprise (2011). The Delivering Our Green Potential policy statement (2012) outlines the government’s ambition for growth and job creation in the various sectors that make up the green economy and the range of actions to be delivered in order to deliver on this ambition. The Origin Green Programme (2012) is the only sustainability programme in the world that operates on a national scale, uniting the government, the private sector and food producers through Bord Bia, the Irish Food Board. The programme enables Ireland’s farmers and producers to: set and achieve measurable sustainability targets to reduce environmental impact; serve local communities more effectively; and protect natural

resources. The Strategy for Renewable Energy (2012) for the 2012 to 2020 period sets out five strategic goals — increasing on- and off-shore wind, building a sustainable bioenergy sector, fostering R&D in renewables such as wave and tidal power, growing sustainable transport and building robust and efficient networks. It proposes actions to address the challenges involved. Green Tenders (2012) is the first green public procurement action plan, assisting public authorities to successfully plan and implement green public procurement (GPP). GPP is also being used as a major driver for innovation, providing industry with real incentives for developing green products and services — particularly in sectors where public purchasers represent a large share of the market, such as construction, health services and public transport. There were two other financial support programmes to support the energy efficiency investments of SMEs.

Given the substantial efforts of recent years, no additional measures were introduced in the reference period. However, following a meeting in January 2015 between representatives of government services and industry, one planned action under the Action Plan for Jobs is to examine how existing financial offerings can match the needs of cleantech companies, and identify any gaps in the current provision.

3.9 Internationalisation



Ireland is the EU’s top performer in this area. Improvement has been at a much faster rate than in the EU on average. The main driver behind this is the trading performance of Irish SMEs. Ireland features the highest proportion of SMEs exporting to and importing from overseas markets. These shares have rapidly increased over recent years. For instance, the proportion of manufacturing SMEs exporting overseas increased by 50 % in only three years — from 21 % in 2010 to 31 % in 2012. These figures may, however, include a considerable number of foreign-owned firms. Several recent reports indicate a need to increase the export capacity of indigenous firms. According to a report by Forfas⁹ in 2014, for example, Irish-owned companies account for 9.2 % of total exports. The strong overall surge in export activity in Ireland largely reflects the impact of contract manufacturing outside Ireland (companies based abroad contracted to manufacture products on behalf of Irish businesses). The enabling environment for trading has changed, not only compared to last year but also in relation to the entire period since 2008. While the administrative processes related to trading, e.g. measured in the number of documents required, are less burdensome than in the EU in general, exporting and importing processes are also faster than in the EU on average. Only the costs associated with trading, in particular on the export side, are somewhat higher. To support SMEs in growing their businesses abroad,

the Foreign Earnings Deduction is being extended for a further three years until the end of 2017 and the list of qualifying countries is being extended. Furthermore, the Department of Finance and the DJEI will roll out an integrated export finance strategy in 2015, with financing products and platforms being developed by the SBCI and the Ireland Strategic Investment Fund in conjunction with Enterprise Ireland. Other measures launched at an earlier stage include the Get Export Ready Programme (2012) which provides support on export readiness, the importance of research, developing a value proposition and the skills for export. The national strategy for the construction sector to 2015 (2013) contains measures to encourage the internationalisation of Irish construction businesses, the vast majority of which are SMEs. The Online Trading Voucher Scheme is awarding vouchers worth up to EUR 2500 to 50 small businesses in Dublin. The promotion of internationalisation has been a longstanding concern of policy-making in Ireland.

Many measures stipulated in the SBA were already in place even before the SBA was adopted. Therefore, there was less of a need to introduce new measures during the crisis than in many other EU countries. However, as mentioned above, there is scope for further action to support indigenous businesses.



4. Interesting new initiative

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

Strategic Banking Corporation of Ireland

The Strategic Banking Corporation of Ireland (SBCI) is a state-owned banking corporation which has been set up to provide tailored loans to SMEs. It will be a key source of funding to SMEs for years to come. The SBCI is designed to access lower cost funding and to pass on these lower costs directly to SMEs. The new initiative also has a mandate to increase the number of finance providers for SMEs and create competition. The SBCI uses established institutions as on-lenders, thus providing funding more quickly and efficiently than if it established its own direct lending organisation. This model of lending is in line with international best practice for state promotional entities. An initial tranche of EUR 800 million is to be made available for lending to SMEs and the first products were launched in February 2015. The legislation establishing the scheme, which is jointly backed by German, European and Irish money, will ultimately facilitate up to EUR 4 billion in lending to the sector, should demand require it. The scheme will be financed initially with EUR 150 million from KfW, the German Promotional Bank, with the other EUR 650 million coming from the European Investment Bank and the Ireland Strategic Investment Fund, formerly the National Pension Reserve Fund. The initial SBCI products include new lending to SMEs for investment and working capital, loans to agricultural SMEs and refinancing of SME loans that originated with banks which are exiting the Irish market. The rates charged on loans will vary from product to product, but they are expected to be about 1 per cent cheaper than current market rates.

References:

<http://sbci.gov.ie/>

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 for the 28 EU Member States and 7 non-EU countries that also contribute to the COSME programme. 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:

http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index_en.htm

grow-spr@ec.europa.eu

Small Business Act:

http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm

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 2013, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2012 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

² The Future of Manufacturing in Ireland (Interim Report 2013) — www.iae.ie/publications/publication/the-future-of-manufacturing-in-ireland-interim-rep/document/, last accessed 30.3.2015.

³ Ibid.

⁴ http://www.finfacts.ie/irishfinancenews/article_1028264.shtml, last accessed 30.3.2015.

⁵ The 2015 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.

⁶ 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 2015. These are measured against the individual indicators which make up the SBA area averages. Hence, 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 2015.



⁷ The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2014 and the first quarter of 2015. The national SME policy expert that CARSA Spain (DG GROW's lead contractor for the 2015 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 the form of a policy database on the DG GROW website.

⁸ EPS Consulting, (2014), 'Smart Regulation: A Driver of Irish Economic Recovery', Dublin: January 2014.

⁹ Note: In the meantime, FORFAS has ceased to exist.