MARCH 2020

SME Financing Market Health Index
Advisor Survey

Here to build business.
Strategic Banking Corporation of Ireland

Table of Contents

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Foreword

Introduction

The Strategic Banking Corporation of Ireland (SBCI) commenced operations in 2015 and as a strategic SME funding company its goal is to ensure access to flexible funding for Irish SMEs. Since its launch, the SBCI has continuously engaged with SMEs and their advisors, seeking to understand the funding market in which they operate and the challenges they face in financing and growing their businesses. This engagement focused specifically on areas such as access to finance, products required by businesses, interest rates and how these issues impact on SMEs and their appetite to borrow and invest in their businesses. The SBCI delivers lower cost, long-term, innovative and accessible funding to independent Irish SMEs by offering flexible products, through its on-lending partners, which include a range of bank and non-bank financial institutions.

For some time the SBCI has believed that there would be value in engaging directly with SME advisors. Their unique perspectives on the Irish financial landscape and views on the funding of Irish SMEs are crucially important. The areas explored within this study put focus on the following areas; financing investments, financial barriers, exporting, financial literacy, capital structure, the financing lifecycle, local issues and the economy. The findings shed light on the current financial landscape that SMEs operate in and also highlight current and future challenges facing these firms. The study highlights the important role of finance for SMEs to grow and develop and aims to inform key stakeholders of the current situation pertaining to these firms according to their advisors.

In this the first iteration of the SME Financial Market Health Index, the SBCI aims to create a core document from which to produce an annual piece of research to monitor and explain changes in advisor sentiment. This research will act as a means of gauging ongoing attitudes to business finance among the SME population in Ireland and provide unique insights not currently available within the SME ecosystem. According to the calculated findings, the SME Financial Health Index is found to be at level of 4.924 (from a 1-10 ranking scale), which represents that the financial health of the market is in a moderately acceptable position but can benefit from improvement. When the financial health of firms is investigated by size (micro, small, medium) the results note that micro firms are in the most difficult position with an index value of 4.507. This compares to the index value for small firms of 5.106, which is a significant positive difference compared to micro firms. This difference suggests that micro businesses find accessing finance more challenging. Finally, with an index value of 5.607, the financing market for medium firms is in a more robust situation regarding the availability of finance, ability to deal with potential issues and stronger economic position.

Study Overview

The study follows the most recently revised international standards on market, opinion and social research, through the implementation of the standards presented in ISO 20252. These standards provide for a constancy in industry standards throughout global markets and can lead to the continual improvement of research. This study, conducted by the SBCI's research specialist, Dr. Conor Neville, was carried out during November 2019. The survey was hosted on a secure online service provider and the data was then cleaned and analysed to provide the key findings during December 2019 and January 2020.

With a response of 280 SME advisors spread across all 8 economic regions, engaging with all economic sectors, the survey consists of a robust number of participants. The advisors provided advice to an average number of 31-40 SMEs, (throughout the survey, the findings represent approximately 8,000 SMEs, i.e. 3% of all SMEs within Ireland). Interestingly, the largest category of SME clients that received advice by advisors consisted of the 100+ SME range, with 27%.

The counties that SMEs were predominately based in were Dublin (53.1%), followed by Cork (10.6%), Galway (4.4%), Limerick (3.66%) and then Wexford (3.3%). The main sectors that the advisors assisted were for SMEs based in Professional services (59.3%), Retail Trade (45.3%), and Construction (44.24%). This survey also included representation from other important sectors such as Agriculture (27.7%), Renewable Energy (12.6%), ICT (30.84%) and Hospitality (32.7%).

In relation to the average firm size: micro firms account for 43%, small firms represent 43% and medium firms make up 14% of the survey. Finally, the SBCI would like to take this opportunity to thank the SME Advisors for taking the time and providing the necessary data to conduct the study.

Glossary and Acronyms

Table i: List of Acronyms	
CEDEFOP	European Centre for the Development of Vocational Training
CSO	Central Statistics Office
EC	European Commission
ECB	European Central Bank
EIB	European Investment Bank
EIF	European Investment Fund
EU	European Union
MNE	Multinational Enterprise
SME	Small and Medium Sized Enterprise

Table ii: Glossary	
Investment Gap	Difference between the supply of investment capital and the demand for investment capital
Lifecycle Stages	
Development	Entrepreneur is developing and completing an initial validation of a business concept. Financial resources will be minimal.
Launch	Ready to officially launch its product to market, it will need increase spending on hiring and create relationships with stakeholders – with little or no incoming revenue
Growth	Once a product has been successfully accepted by the market, the business will be looking to grow and expand its reach.
Maturity	Once the business has matured, additional financing options will become available for growth and expansion opportunities
Decline	Final stage where sales drop and production is ultimately halted. Profitability will fall, eventually to the point where it is no longer profitable to continue

Key Findings

Ranking scales of 1-to-10 are used in questions throughout the report and assist in measuring the views of the SME advisors. When reviewing the results, 1 represents a negative aspect, weakness or a strong unwillingness to engage, while 10 represents the positive aspect, strength or a strong willingness to engage.

Financing Investments

A large investment gap of 41% is found to exist for SMEs, demonstrating how credit constraints or market failures are preventing potential investments and possible future growth and innovation amongst SMEs.

For short to medium-term investments, the findings suggest that: Internal Finance (7), Loans (6.36) and Lease (6.44) are the most important, with Equity (3.84) and Alternative Finance (4.08) less so at present.

For long-term investments, the findings suggest that: Internal Finance (6.26), Loans (6.93), Lease (6.01) are the most important, with Equity (4.29) and Alternative Finance (4.15) less so at present.

The report suggests that SME clients currently fund their businesses as follows: Internal Finance (35%), Bank Debt (33%), Non-Bank Debt (12.5%) Equity (12.5%), and Alternative Finance (7%).

It also states that the current SME demand for new debt finance is at 5.81, representing a slightly above average demand for such finance.

Financing Lifecycle & Exporting

Ranking the different lifecycle stages using a scale of 1-5, access to debt is easiest at the maturity stage (3.66), whereas it is the most difficult at the development stage (1.78). Regarding equity, it is found to be the easiest to obtain such finance during the growth stage (3.08), while the most difficult is the decline stage (1.88).

Development stage: Debt has a value of 1.78, while Equity is valued at 2.46

Launch stage: Debt has a value of 2.04, while Equity is valued at 2.55

Growth stage: Debt has a value of 3.01, while Equity is valued at 3.08

Maturity stage: Debt has a value of 3.66, while Equity is valued at 2.88

Decline stage: Debt has a value of 2.29, while Equity is valued at 1.88

According to their advisors, an average of 27% of SMEs currently export to some extent. Of these exporters, the average percentage of SME turnover generated from exports is 31%. For 10.40% of exporting SMEs, exports account for at least 71% of their turnover.

Financial Literacy & Capital Structure

The financial literacy capabilities of SMEs are 5.22 according to the survey score. This suggests that SMEs advisors regard their clients as possessing the adequate necessary knowledge.

The strategic engagement level of an optimal capital structure is found to be 4.7 out of 10, which proposes that SMEs recognise the importance of capital structure but are unlikely to strategically evaluate or alter their financing options at present.

Financial Barriers, Local Issues & the Economy

The importance of local conditions on SME performance recorded an average score of 6.66, demonstrating their moderate-to-strong impact on how they can affect such firms.:

- Broadband Access (7.68) is found to be the most important local economic condition
- Transportation Links (7.37) is also an important economic condition for SMEs
- Local Economic Growth (6.92) is important local economic condition
- Level of Education in the Local Economy (6.29) is a moderate-to-important economic condition
- Local Population Size and Age (6.24) is a moderate-to-important condition
- Local Unemployment Rate (5.46) is moderately important

The significance of business issues that impact SMEs according to their advisors have an average score of moderate-to-important strength with 6.5.

- Financing Difficulties (7.09) is the most substantially important issue
- Human Capital Issues (6.54) is an important issue
- E-Commerce and Digital Strategy Programmes (6.50) is an important issue
- Support for International Sales (6.46) is an important issue
- Financial Literacy Programmes (5.89) is the lowest ranked local economic condition, but still moderately important

The importance of factors that can act as barriers to finance for SMEs records an average value of 5.91 according to the advisors, representing moderately strong barriers.

- Personal Guarantees (7.51) are found to be the strongest barrier to finance by a significant difference
- Time and Work Involved to Apply (6.22) is a medium-to strong barrier.
- High Proportion of Intangible Assets (5.3) is a moderate barrier
- Provision of Comprehensive Information (5.28) is found to be a moderate barrier
- Cost of Credit (5.27) is a moderate barrier to finance.

The current capacity for SMEs to deal with any financial shocks or market changes is just slightly less than tolerable (4.54). Just 52% of respondents stated that SMEs have a minimum tolerable position, while 26.5% are in a weak or very weak position.

SME Financial Health Index

The SME Advisor Financial Health Index acts as a means of evaluating sentiment towards business finance among the SME population in Ireland

The overall SME Financial Health Index is found to be at level of 4.924, which represents that the financial health of the SME market is in a moderately acceptable position with need for improvements.

Micro firms find the overall financing market most difficult with an index value of 4.507.

Small firms have a Financial Health Index value of 5.106, which is signifies the positive difference compared to micro firms.

Medium firms are found to be in a stronger position regarding the Index with a value of 5.607.

1. Financing Investments

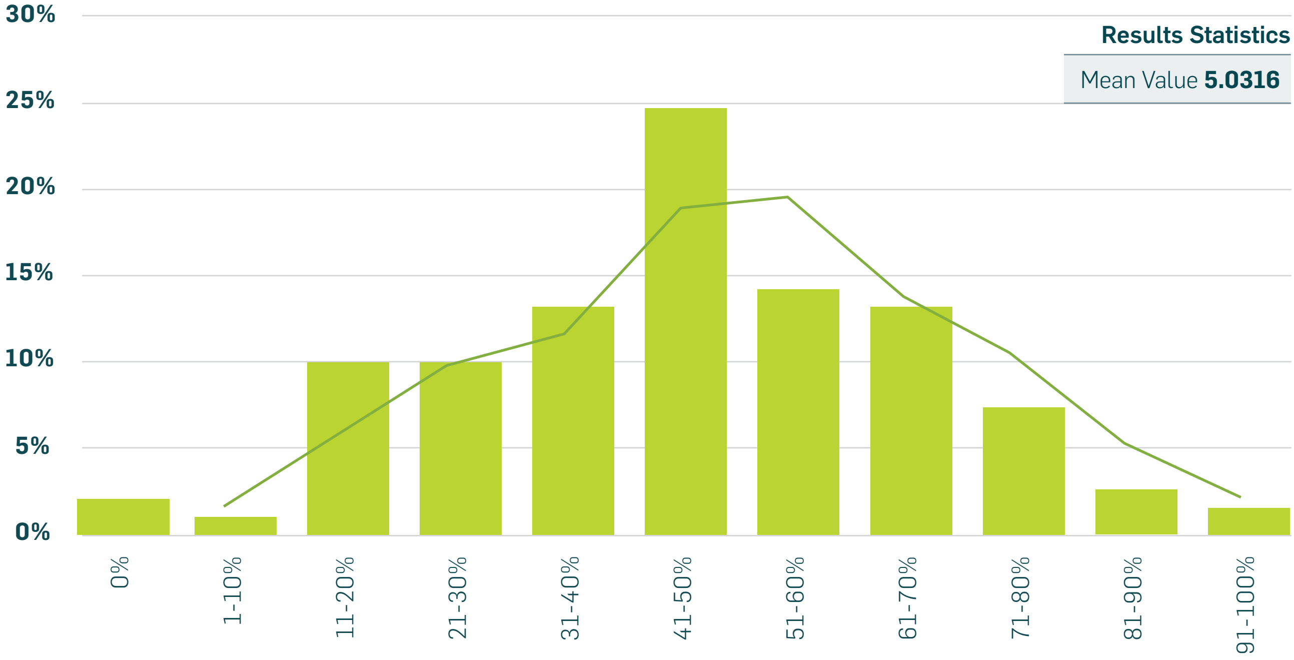
1.1 Investment Gap

The difference between the supply of investment capital and the demand for investment capital within the market is known as the investment gap. It relates to credit constraints or other market failures preventing the expected level of potentially productive investments. This can be critically important in determining the productivity and efficiency of the financial market to support business needs. According to the SME advisors surveyed, the report findings suggests that a mean investment gap for SMEs of 41% exists, meaning that a considerable level of firms' investments fall below that which would be expected for similar businesses. This is quite a significant difference and one which demonstrates the need for further development and engagement with both finance providers and those SMEs seeking to make such investment.

In previous research undertaken by ESRI (2016), their study indicated that an investment gap of 30% exists. Comparing this to the findings in our study, the investment gap has subsequently widened by 11% between 2016 and 2019. The difficulty in obtaining external finance, together with challenging local economic conditions and barriers to finance may all have contributed to this increase in the investment gap.

The findings presented in this survey indicate that a gap of 39% exists for micro firms, 41% for small and 39% for medium firms. This conflicts with the ESRI (2016) research which finds that the size of the gap becomes substantially larger for medium-sized firms compared to micro or small enterprises. This difference may be due the evolving financing appetite among smaller firms which correlates with a strengthening economy.

Figure 1: Current investment gap for SMEs



Notes: The investment gap relates to credit constraints or other market failures preventing the expected level of potentially productive investments being undertaken. Note that the scale ranges from 0 = 0%, 1 = 1-10%, 5 = 41-50%, 10 = 91-100%

1.2 Short to Medium-Term Investments Financing Sources

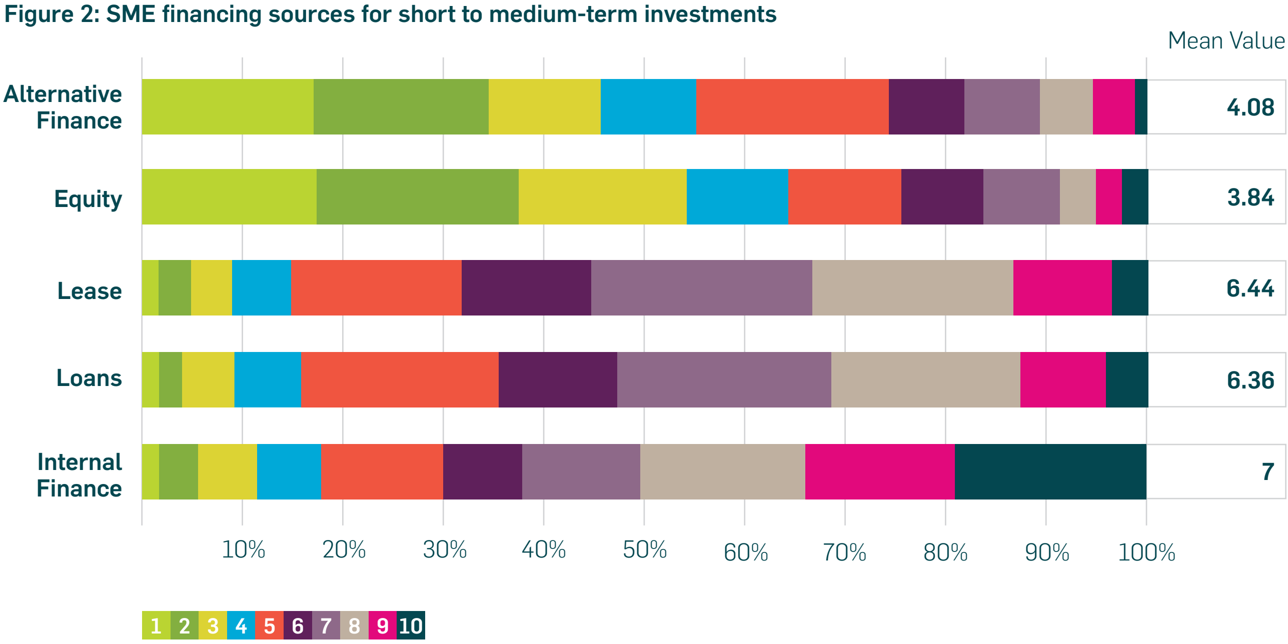
When investigating the appetite for different financing options for short to medium-term investments, the advisors indicate that internal finance is the most likely to be implemented with a mean score of 7. This supports prior literature that denotes a strong dependence on internal finance amongst SMEs and preference to use such an option to sustain the business. According to research produced by the EIB (2019), on average internal funds account for 75% of Irish firms' investments, an increase from 69% the previous year and higher than the EU average of 62 %.

Leasing and loans were also found to be a popular option for SMEs according to their advisors and with mean scores of 6.44 and 6.36 respectively. This is an important finding and may relate to the short-term nature of the investment, and the perceived relationship between this type of financing and shorter projects. Prior research produced by the ECB (2019) denotes that leasing or hire-purchase was relevant for 47% SMEs in Ireland and 45% within the euro area. Furthermore, 48% of the SMEs interviewed by the ECB indicated that bank loans are not a relevant source of finance for them. These findings suggest a difference of opinion between the viewpoints of the advisors and SMEs in relation to the appetite for financing future investments.

For SMEs, the use of equity finance is a slightly-to-moderately reluctant source with an average score of 3.84. This finding illustrates that the need to make such a source more accessible to firms is an area requiring further exploration. When firms are listed, they must address a variety of expenses and meet administrative deadlines, which act as a major deterrent to SMEs encouraging them to remain private entities, particularly younger firms (ECSIP Consortium, 2013). The additional regulatory costs can contribute to this low score, but other factors such as the reluctance of founders to relinquish some ownership and control to other parties may also impact.

Alternative Finance options were found be a slightly more appealing source than equity with a mean score 4.08, but SMEs still remain slightly reluctant to use them. These options include financing activities such as crowdfunding, peer-to-peer lending, invoice trading, revenue-based trading and cryptocurrencies. This preference over equity indicates that the loss of ownership could indeed be a key element relating to the limited utilisation of equity. Furthermore, the result suggests that while the SMEs are wary of alternative financing options, they are not ruling them out and their appetite for such sources may grow in the future.

Figure 2: SME financing sources for short to medium-term investments



Note: 1 = Very reluctant, 5 = Neither opposed nor open, 10 = Very strong willingness

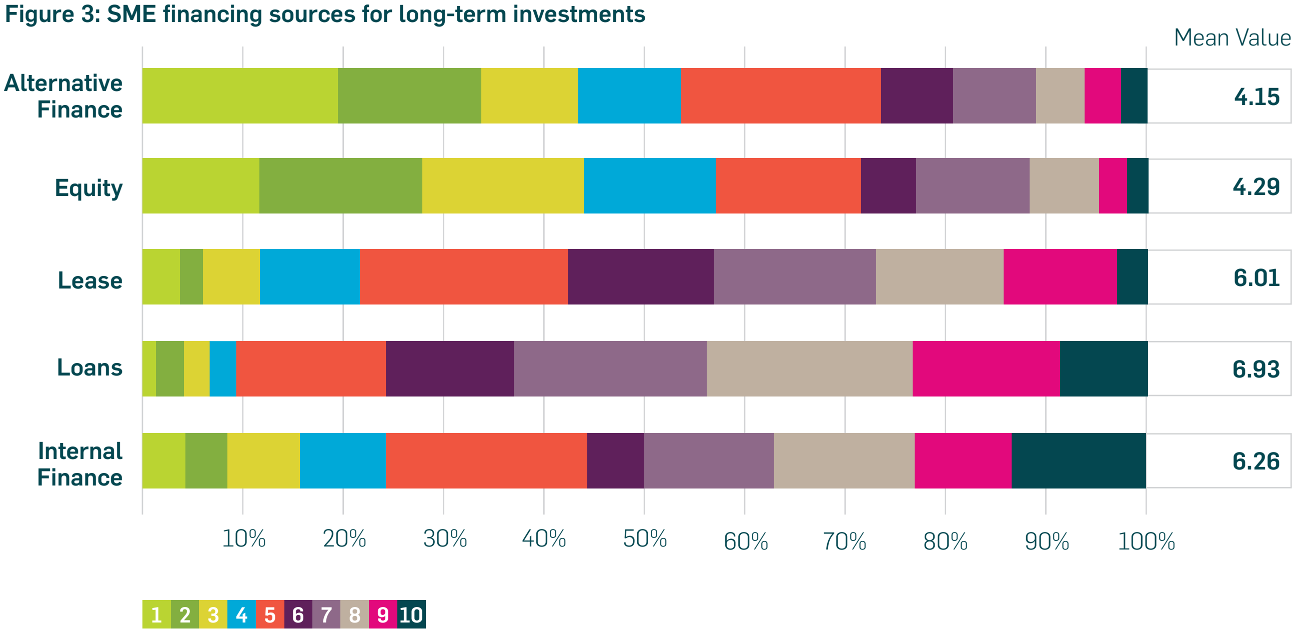
1.3 Long-Term Investments Financing Sources

The appetite for financing sources of long-term investments is within the same range of the short-to-medium term options but with some variance. Interestingly, according to advisors, loans (6.93) is the source that SMEs are most willing to implement for such longer-term investments. Internal finance (6.26) is the second option, with a slight-to-moderate willingness amongst firms for their use. A comparison between Figure 2 and Figure 3, highlights a willingness to engage with external finance and be less dependent on internal finance for investments with longer timeframes.

SMEs also have a willingness to use leasing (6.01) for such investments and these results demonstrate that long-term investments are often more expensive but remain an acceptable option. The slight willingness to implement leasing regardless of timeframe supports the finding by the ECB (2019) whereby 11% of SMEs indicated a higher demand for leasing or hire-purchase.

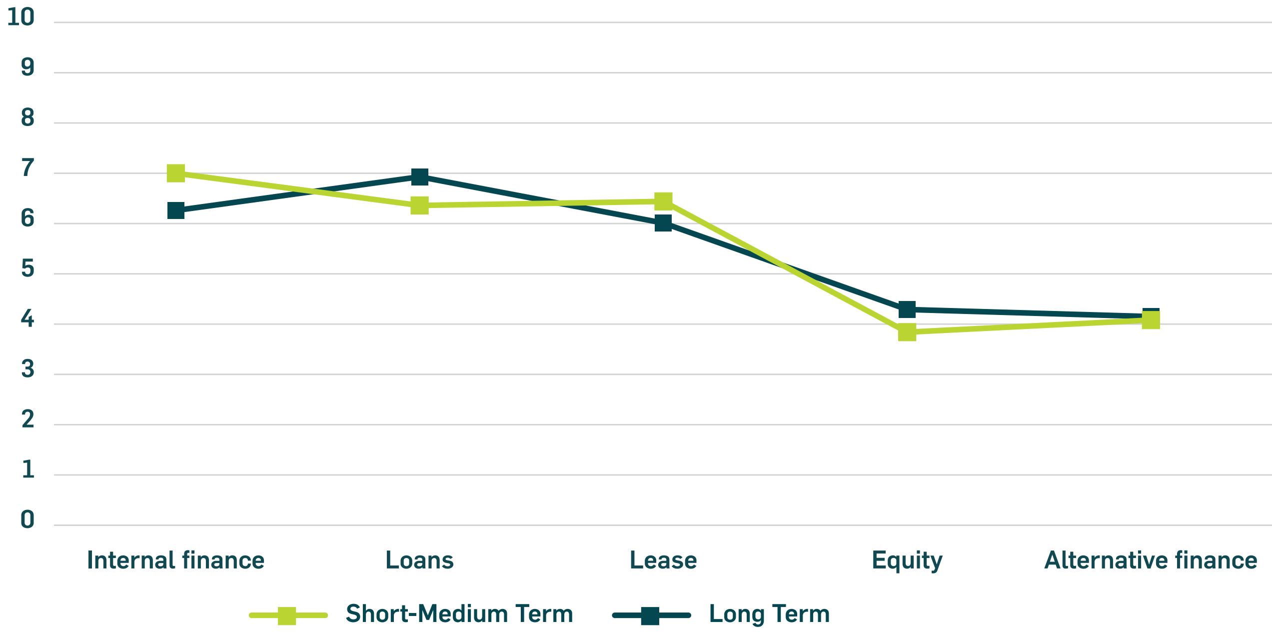
Equity (4.29) and alternative finance (4.15) are both found to be less popular long-term investment finance options for SMEs (according to their advisors). This reluctance is further compounded given the willingness to implement the previously discussed options. When comparing the timeframes, there is a slightly stronger willingness to use equity and alternative finance when it is for a long-term investment. Interestingly, the EIB (2019) finds that 79% of Irish firms believe that their investment activities over the past 3 years have adequately matched their needs, this is similar to European businesses. Possibly the greater support for equity finance and regulation of alternative finance may assist the 21% of firms that were not adequately financed and may also be reluctant to engage these finance sources.

Figure 3: SME financing sources for long-term investments



Note: 1 = Very reluctant, 5 = Neither opposed nor open, 10 = Very strong willingness

Figure 3.1: SME financing sources appetite comparing short-to-medium and long-term investments



1.4 Current Implemented Financial Sources

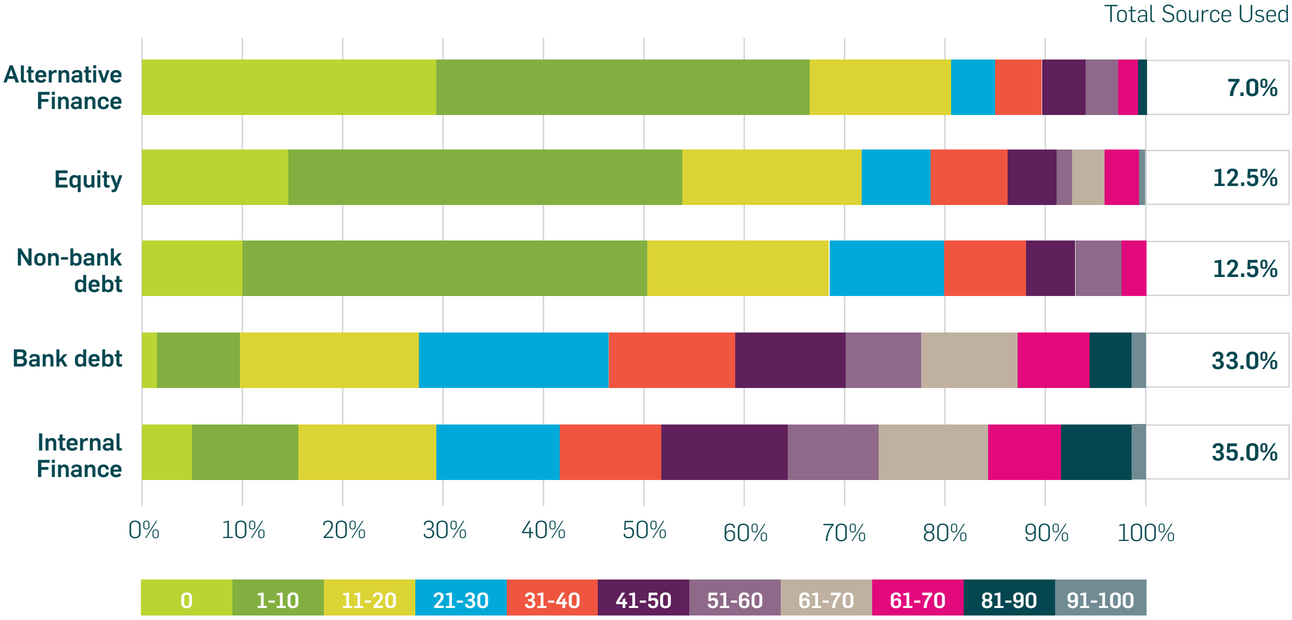
The current capital structure of the SMEs according to their advisors, denotes internal finance as the most used source of capital with an average of 35 %. Prior research by the ECB (2019) denotes that profitable firms relied more on their internal funds (18%), more frequently than vulnerable firms. As found in Figure 2 and Figure 3, internal finance represents the source of finance with the strongest willingness for implementation and the finding in Figure 4 provide support to this belief given the use of such retained earnings. Firms that are in profitable position may be content to continue along the same financing path, while those with limited such capital are more likely to have the need to seek external sources to survive.

While internal finance is the largest financing option, it is closely followed by bank debt at 33%, denoting the use of external sources when it's a tangible option. These results conflict with some previous analysis which find that internal finance is the largest financing option. This relates to the findings by ECB (2019) where vulnerable firms resorted to credit lines (53%) and bank loans (25%) as their main source of external financing to a much larger extent than profitable firms (26% and 12% respectively).

Non-bank debt is an important source particularly for micro and smaller firms that may take loans from family and friends and at 12.5% is an important element of the SME capital structure. The results provide credence to the findings in Figure 2 and Figure 3 that signifies the importance of debt for investment and the willingness of these SMEs to implement this capital source. As per the prior discussion, equity is an under-utilised source at just 12.5% and provides support to the previously mentioned closed outlook of SMEs to implement such finance. Less restrictive regulations to list on stock exchanges and procedures for efficient and fair price valuations may help SMEs.

Alternative finance makes up the remaining 7% of the SME capital structure. This source may gain in popularity over the coming years due to increased understanding of available options and their ability to tailor products and services for a variety of firms and owners.

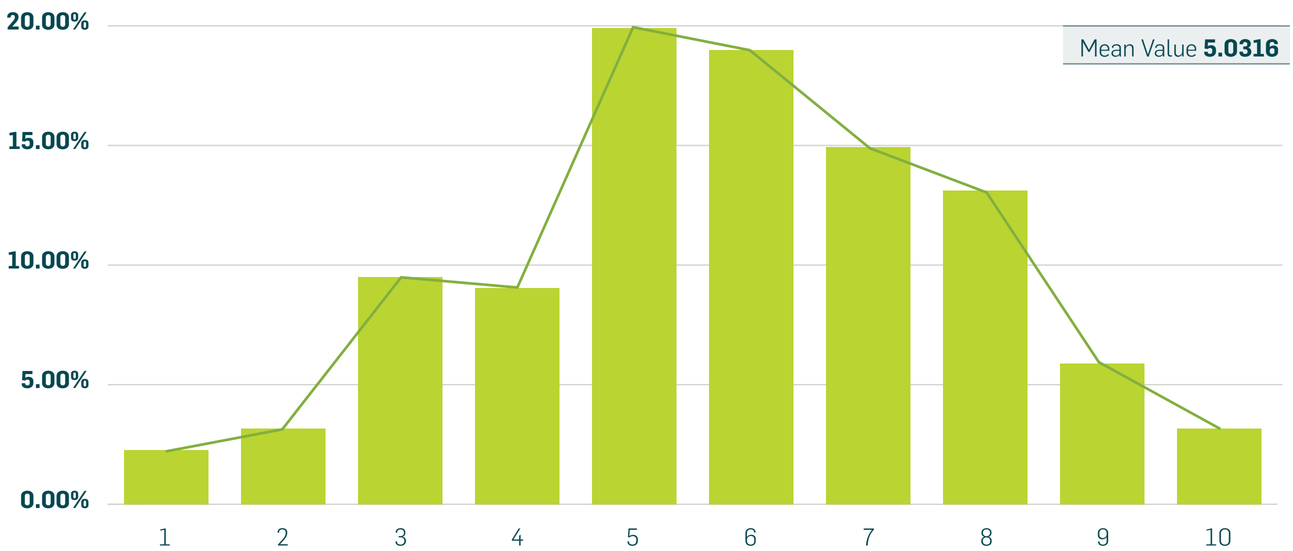
Figure 4: Current financial sources implemented by SMEs



1.5 SME Demand for New Finance

When focusing specifically on new debt finance, SMEs are found to have a medium demand (5.81). According to their advisors, SMEs are open to utilising debt finance and have a moderate demand for this option. However, a lack of adequate supply of external finance to meet demand as demonstrated in Figure 1 is supported from the perspective of debt finance. These results suggest that continued effort is necessary to develop options to adequately support the SMEs that currently cannot access required debt and other financial supports.

Figure 5: SME demand for new debt finance



Note: 1 = No demand, 5 = Medium demand, 10 = Very high demand

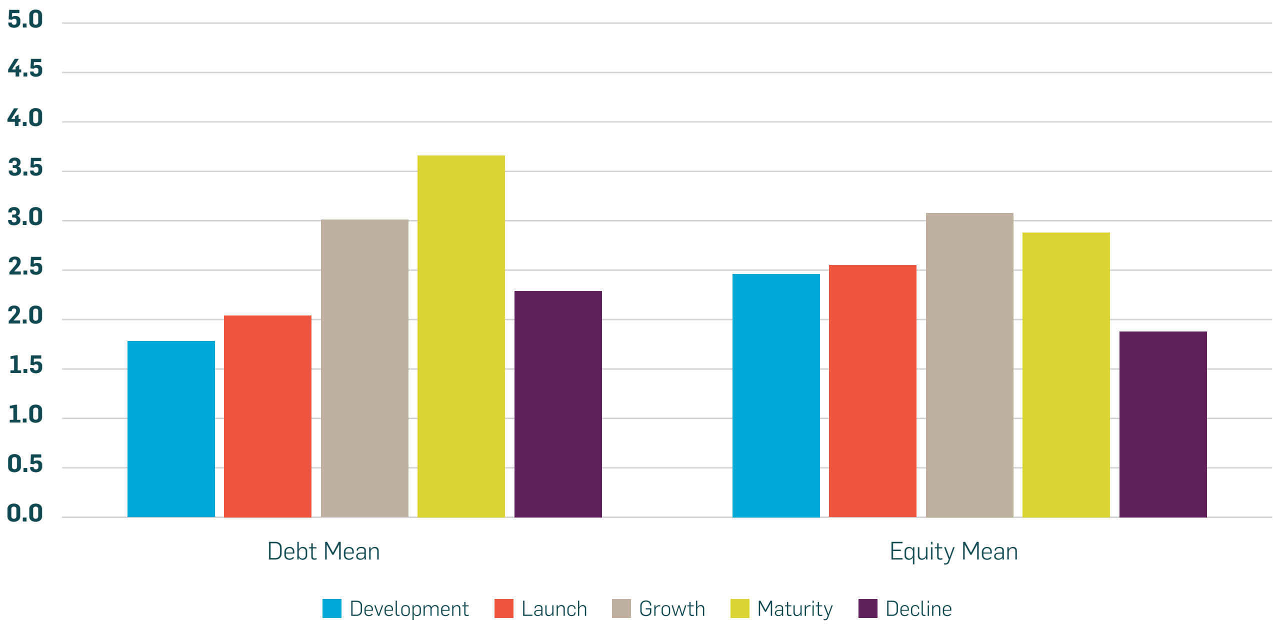
2. Financing Lifecycle & Exporting

2.1 Lifecycle Stages for Debt and Equity Finance

The research examines the different lifecycle stages and the ease of obtaining debt and equity finance for SMEs. When analysing debt, advisors note that the stage that is the easiest to obtain such finance is during the maturity stage (3.66), whereas the most difficult is the development stage (1.78). In relation to equity, the growth stage (3.08) is the easiest to obtain such finance, while the most difficult is the decline stage (1.88). The growth stage is found to be the one where obtaining such external finance is most likely to occur, which aligns with business logic as evidence of growth gives both debt and equity providers comfort regarding business' repayment capacity.

Perhaps understandably, SMEs that are in the decline stage find it more difficult to obtain equity (1.88), yet debt (2.29) is more likely to be obtained in this stage than development and launch. This illustrates the issue of future growth and cash reserves, as financers instead put the onus on SMEs to provide substantial information to gain their financing and strong balance sheet can help in obtaining debt. Indeed, while difficult in all 3 stages, SMEs find it more accessible to obtain in their decline than at development and launch. This further reveals the relevance of information asymmetry which can act as a barrier younger SMEs seeking debt finance. Taking these findings into account, an overall conclusion suggests that it is difficult to obtain external finance for SMEs, with debt during the maturity stage as sole option found to be in accessible threshold.

Figure 6: SME lifecycle stages accessibility for debt and equity finance



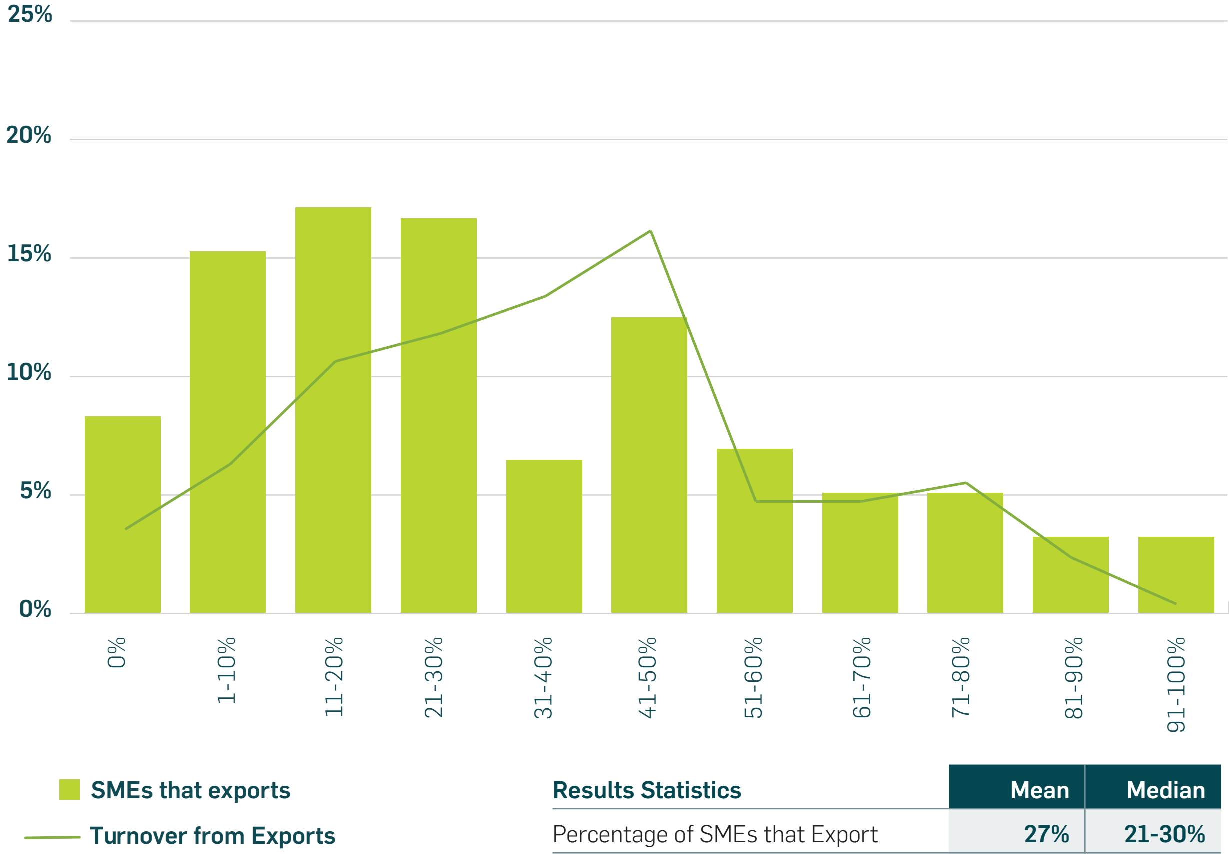
Note: 1 = Hardest stage to obtain finance type, 5 = Easiest stage to obtain finance type

2.2 Exporting Overview

A key area of growth and expansion for SMEs is through international sales and the research finds that according to their advisors, an average of 27% of SMEs currently export. This finding reveals the importance of international sales for SMEs and that such firms no longer rely solely on their domestic market. Prior research by the ECB (2019) further demonstrates the importance of exporting, where 37% of Irish SMEs exported some goods or services in 2018, with the majority of them targeting the euro area markets.

Furthermore, when asked about the proportion of revenue that is generated from exports, the average value reported was 31 %. This is a significant percentage and one that may be negatively impacted by Brexit and its' associated risks and costs. Further analysis finds that for 10.4% of SMEs, exports account for at least 70% of their turnover, which highlights Irish firms' willingness to engage with an open economy and the importance of international trade for firms of all sizes, not just larger MNCs. Indeed, the CSO (2019) notes that exports by SMEs account for 32percent of all export value in Ireland, of the total €121.7billion in 2017.

Figure 7: Percentage of SMEs that currently export and their proportion of revenue from exports



Results Statistics	Mean	Median
Percentage of SMEs that Export	27%	21-30%
Proportion of Revenue from Exports	31%	31-40%

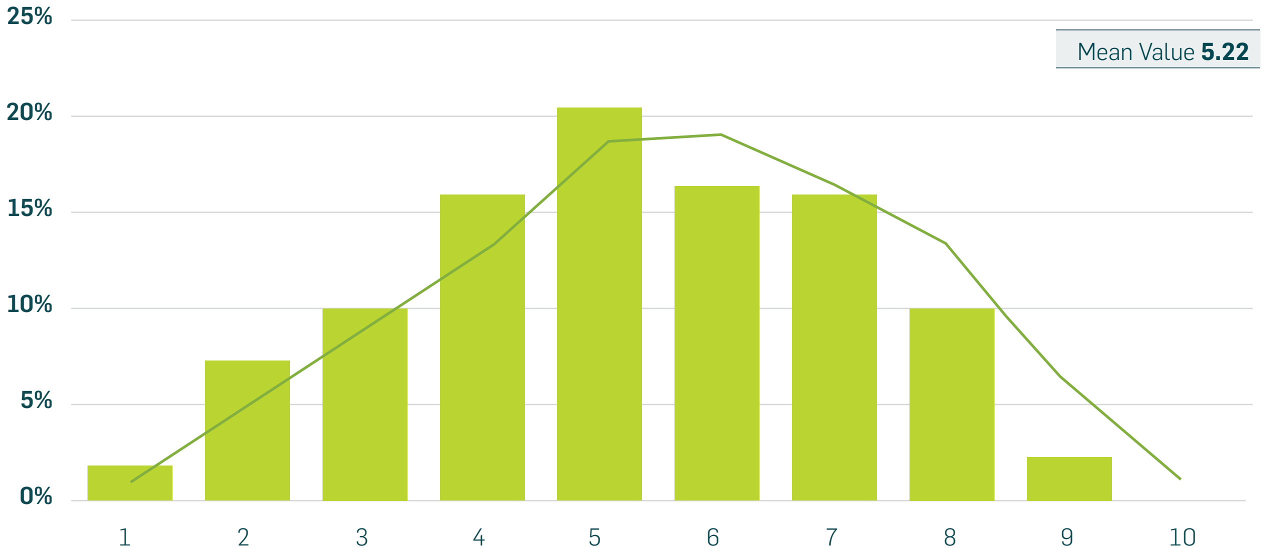
3. Financial Literacy & Capital Structure

3.1 Financial Literacy Capabilities

Financial literacy relates to the understanding of financial statements, relevance of cash flow and the ability to draft business plans. When advisors were asked to rank the capabilities of their client SMEs, on a scale of 1 to 10, it was reported that 65% of SMEs had at a minimum the adequate, necessary financial literacy knowledge (5+). The advisors reported that 28% of their client SMEs had at least good knowledge (7+). In relation to the proportion of SMEs that have inadequate knowledge regarding financial literacy, the advisors state that this covers 19% of the firms, a significant figure. A lack of adequate of financial literacy can increase risks to viability for SMEs, particularly in the area of financial management.

It is useful to compare these findings to prior research undertaken by the SFA (2019), whereby 81% of SME respondents declared that financial literacy is very or extremely important. This report stated that 46% of SMEs declared that their knowledge of financial literacy was good or expert, which is a substantially lower value than the findings in this research, where 65% of firms are deemed to possess satisfactory knowledge. Furthermore, in the SFA report, just 19% stated that other Irish business owners possess good financial literacy knowledge.

Figure 8: Financial literacy capabilities of your client SMEs

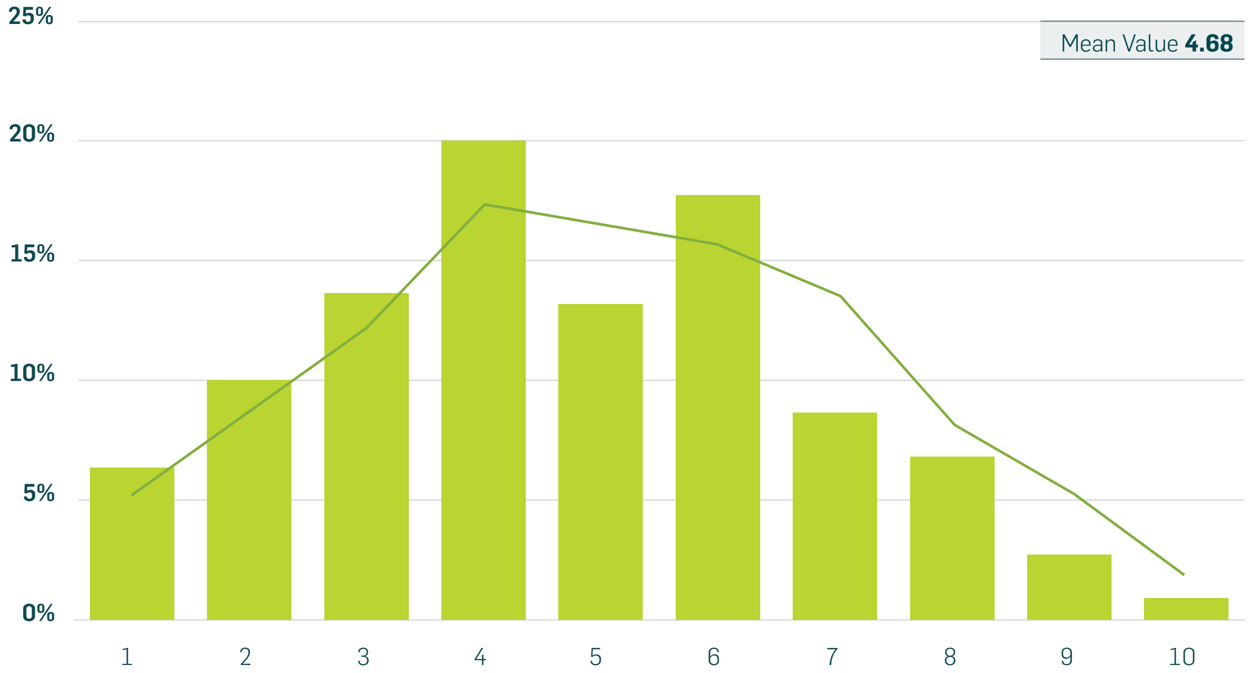


Note: 1 = Very poor; needs substantial improvement, 5 = Adequate; necessary knowledge, 10 = Very good; strong financial literacy.

3.2 Capital Structure Engagement

According to the SME advisors, the strategic engagement level for capital structure and its relevance to business development amongst SMEs is found to be limited. With the results coming out as a ranking of 4.7, it suggests that SMEs recognise the importance of capital structure but are unlikely to evaluate or alter their financing options. This can be related to the issue of obtaining capital for these firms and when combined with the lack of appetite to utilise equity finance, means that SME will tend to rely on internal finance or debt. Subsequently, if they can finance their investments and are on track for future growth, they will likely not alter their capital structure to mitigate the risk of unwanted outcomes. Indeed, implementing an optimal capital structure tailored towards the firms' needs is unlikely for SMEs given the issues involved with obtaining enough capital. This is reflected in the results and demonstrates the need for further information on this important topic, given that either highly leveraged or under-leveraged firms may in fact do damage to their growth, investment options and returns over time.

Figure 9: Strategic engagement level of capital structure



Note: 1 = Do not acknowledge capital structure strategically, 6= Review on occasion, when necessary, 10 = Critical aspect; plan accordingly

4. Financial Barriers, Local Issues & the Economy

4.1 Local Economic Conditions

Local economic conditions are examined by asking SME advisors to provide a ranking of 1 to 10, to determine the importance of the conditions that affect the performance of SMEs. The importance of local conditions on SME performance have an average score of 6.66, demonstrating their moderate-to-strong impact on such firms. Given the connection between society and SMEs, this reveals how these conditions and any changes therein can affect SMEs throughout Ireland.

The local economic condition that is most important to SME performance is broadband access (7.68) and this is one which can affect firms as they view e-commerce and a working website as a critical part of business. The move toward remote working and a greater work-life balance also has a role, particularly in rural Ireland where there is limited broadband access.

Transportation links (7.37) form another very important condition given the impact of long commutes on SMEs and the need to upgrade roads and railways to ensure fast and efficient delivery of their products or services. This is also particularly important for those exporting products as often fast delivery is a key rationale for an online purchase.

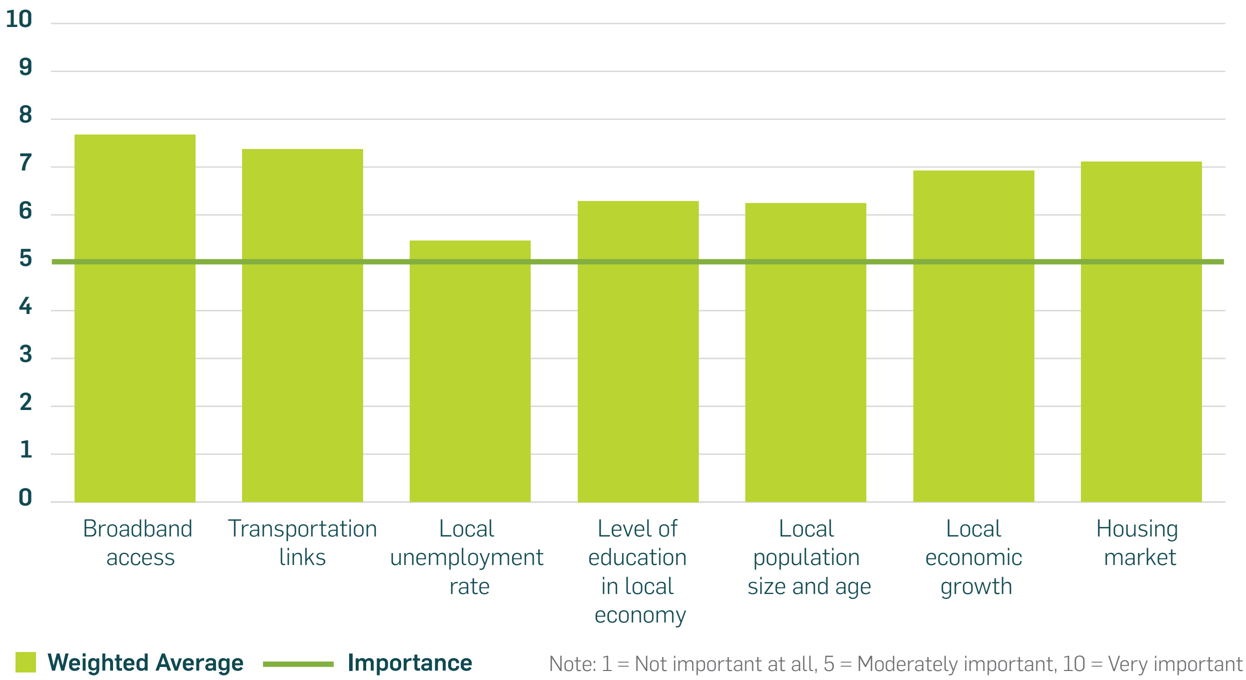
Local Economic Growth (6.92) is an important issue as depending on the services that the SMEs provide, they may need to adjust their product or service offering to ensure survival if their local town or village is economically marginal.

However, when local economies have strong growth this can have a positive impact on the business and there may be an uptake in luxurious and higher-quality offerings. A consequence of strong economic growth is that SMEs must be aware of new competitors entering the market, offering a slightly modified product or service.

According to the advisors, both the level of education (6.29) and the local population size and age (6.24) are moderate-to-important local economic conditions for SMEs. A well-educated workforce of adequate size can be a critical component for SMEs seeking to grow and expand. These findings supplement the research undertaken by the ECB (2019), whereby availability of skilled labour has been found to be the second largest concern for Irish SMEs. The importance of education is further supported by research produced by the CEDEFOP (2018) that notes more than 50% of the projected jobs created in Ireland from 2016 up to 2030 will have a high-level qualification prerequisite. This is an issue that stakeholders should seek to address, since SMEs will find it difficult to implement their strategy and develop their products or services without enough skilled staff.

Finally, the local unemployment rate (5.46) while the lowest ranked issue, is still of moderate importance for SMEs and signifies the current overall employment rate in the country. The result provides further support of the need for a substantial, educated and motivated workforce.

Figure 10: Importance of local economic conditions that can affect the performance of SMEs



Results Statistics	Mean	Median	Standard Deviation
Broadband access	7.68	8	2.58
Transportation links	7.37	8	2.27
Local unemployment rate	5.46	5	2.48
Level of education in local economy	6.29	6	2.18
Local population size and age	6.24	6	2.3
Local economic growth	6.92	7	2.32
Housing market	7.11	7	2.10

4.2 Business Issues

From the advisor viewpoint, a range of issues are examined to determine the importance of their impact on SMEs. Through a scale of 1 to 10, the significance of the business issues examined have an average score of moderate-to-important strength with 6.5. The issue of financing difficulties (7.09) is deemed the most important. This finding supports current view that while SMEs may be financially viable, they are not being financed optimally and this can relate to primarily to the availability of financing options. Another aspect to acknowledge is the workload and time involved in applying for finance and how this trade-off relating to growing the business, producing products and managing clients may in fact prove damaging to SMEs.

The EIB (2019) provides support to this and notes that for long-term barriers to finance, the availability of finance is a similar sized barrier for Irish (50%) and EU (45%) firms. However, research by the ECB (2019) illustrates that the access to finance was considered the least important obstacle over the past 6 months for Irish SMEs (7%) and those in the Euro area (8%). Subsequently a difference in opinions is demonstrated when comparing such results and provides an interesting insight regarding the perceived importance financing difficulties and access to finance as a key issue to address.

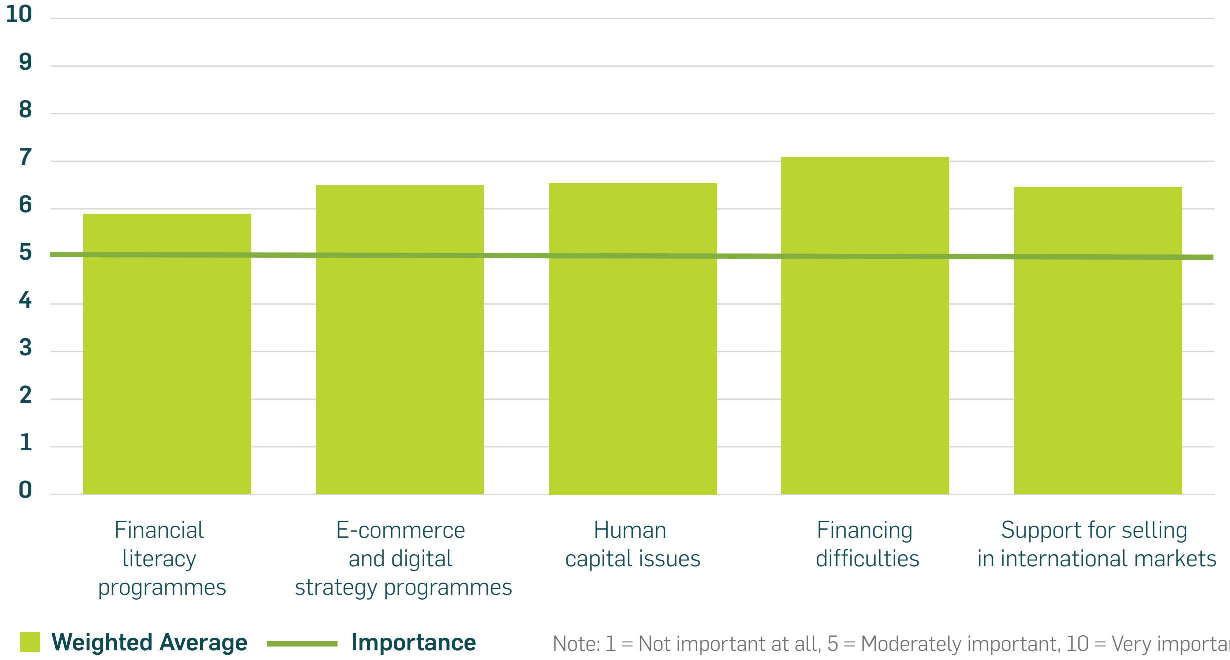
Human capital issues (6.54) are of importance which complements the previously discussed findings from Figure 10. Prior research by the EIB (2019) supports this whereby the second most common long-term barrier to investment in Ireland is the availability of skilled staff at 77%, similar to the EU levels. While Irish universities and colleges produce well-educated and motivated graduates, SMEs must ensure they have engaging roles offering a desirable career path, as competition exists amongst SMEs but also MNEs for such human capital within Ireland. These results further support previous research, whereby 40% of EU firms can find it hard to acquire staff with the required skills, which negatively impacts productivity and growth (CEDEFOP, 2015).

When seeking experienced managers and the retention of staff, the larger firms may be able to provide better career progression and benefits than SMEs can offer. A paper published for the European Commission finds that there is an important link between an increase in productivity and an increase in compensation, however a substantial gap exists (Pasimeni, 2018). Regarding the EU firms with difficulties obtaining skilled staff, the CEDEFOP (2015) states that between 50% and 66% declare it is due to remuneration, employer commitment and contract issues. .Subsequently, competition amongst firms to obtain these skilled employees is critical and further supports the finding within this report. While SMEs may offer a greater scope of roles and the ability to make an immediate impact on the businesses, they often cannot compete with the compensation packages and the prestige that such large global firms can provide.

The relevance of e-commerce and digital strategy programmes (6.50) is found to be an important issue that advisors believe impact SMEs. This relates to evolving marketing methods that now incorporate data collection and targeted advertisements. Such methods have become key elements for firms of all sizes due to the frequency of data and importance of analytical insights to manage customer engagement and boost sales. This also relates strongly to the important issue regarding the support for international sales (6.46), whereby both transport links and the need to implement an e-commerce and digital strategy can be critical elements. As previously found in Figure 7, a large amount of SMEs export, with the proportion of revenue that is generated from exports, averaging 31 %. Support for international sales has become more important with the advent of Brexit and need for Irish firms to sell to different intentional markets.

The final issue is financial literacy programmes (5.89) which according to their advisors is viewed as an issue of moderate importance for SMEs. While financial literacy is imperative for SMEs when making educated financial management decisions, the reason for its moderate importance may correlate with the findings in Figure 8. As mentioned, advisors claim that 65% of their SME clients possess the minimum, adequate, financial literacy knowledge (5+). Therefore, the issue of financial literacy programmes would be considered of less importance. This relationship between both findings suggests that when SMEs are in a stronger position, key issues will become less important, thus further illustrating the robustness of the findings within the study.

Figure 11: Importance of business issues for SMEs



Note: 1 = Not important at all, 5 = Moderately important, 10 = Very important

Results Statistics	Mean	Median	Standard Deviation
Financial literacy programmes	5.89	6	2.33
E-commerce and digital strategy programmes	6.50	7	2.03
Human capital issues	6.54	7	2.01
Financing difficulties	7.09	7	1.85
Support for selling in international markets	6.46	7	2.40

4.3 Barriers to Finance

When barriers to finance exist, they can have a substantial impact on the performance and outlook on SMEs, given the effort involved to overcome them in order to finance future investment. Through a scale of 1 to 10, potential key barriers were reviewed and ranked by advisors. Personal guarantees (7.51) are found to be a strong barrier, as often business owners are wary of making their own personal assets available to banks or investors. The negative impact of experience with personal guarantees during the last recession is thought to have exacerbated this barrier from the demand side. Research by the EIB (2019) notes that at 12%, the joint highest levels of dissatisfaction among Irish firms seeking external finance relate to the collateral required. Subsequently, while SMEs may have the appetite for obtaining new finance, the risk trade-off associated with personal guarantee can be a noteworthy barrier.

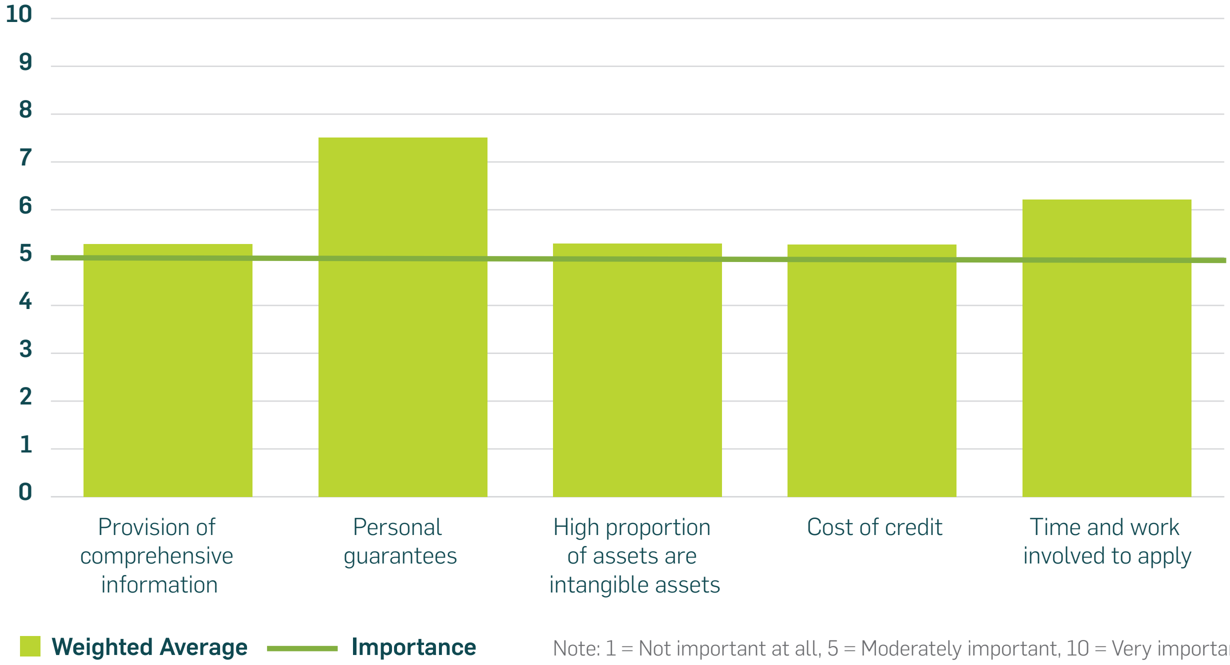
The time and work involved to apply (6.22) is a medium-to strong barrier, as often firms cannot devote additional work hours to completing applications and attending meetings without some negative impact on SME performance. Furthermore, there is no guarantee that the SMEs will be successful in their application, further reducing their appetite to commit resources to this process.

The provision of comprehensive information (5.28) is another barrier which exists at a level of moderate importance and relates to the costs of involving external parties to produce required documentation. The provision of these reports, audits and reviews can result in a substantial monetary expense for SMEs. The cost benefit of seeking additional capital may not be justified for smaller firms. Furthermore, smaller SMEs may not possess the internal skills to provide this information, resulting in a significant additional external consulting expense. The advent of new accounting technology that links to banks' systems offers an opportunity for SMEs to mitigate this issue, especially in partnership with their advisors.

The high proportion of intangible assets (5.3) ,which are strongly associated with innovation and research and development (R&D), is found to be a moderate barrier according to the advisors. However, intangible assets are the platform for the future growth opportunities of a firm, since they often hold market-changing potential. Intangible assets are not physical assets, such as buildings and machinery, but do have a value which is often positively related to the specific business. Due to information asymmetries, a strong negative correlation with intangible assets and external capital has been previously found to exist due to the reluctance amongst lenders and investors to distribute capital to firms with little hard collateral, resulting in a premium cost for external finance (Garnsey, 1995). Given this, intangible assets are hard to value due to their more complex nature and this can result in their presence serving as a barrier to finance.

The final barrier investigated related to the cost of credit (5.27), which is found to be a moderate barrier, given that a range of variables can impact upon the rate provided, such as the SMEs financial performance. EIB (2019) research finds that at 12% the cost of finance is the joint highest issue when seeking external finance. Furthermore, according to the ECB (2019), also at 12%, Ireland had the highest net percentage of SMEs reporting an increase in interest expenses at compared to other EU member states. Lower rates help encourage SMEs to apply for external finance and as mentioned, a positive correlation exists between the perceived risk to providers of a lack of a personal guarantee, large proportion of intangible assets and then the higher cost of credit. Reducing these barriers will help SMEs throughout the country to avail of the necessary external capital to undertake innovative strategies, new investments and the attainment of economic growth.

Figure 12: Barrier to finance issues for SMEs



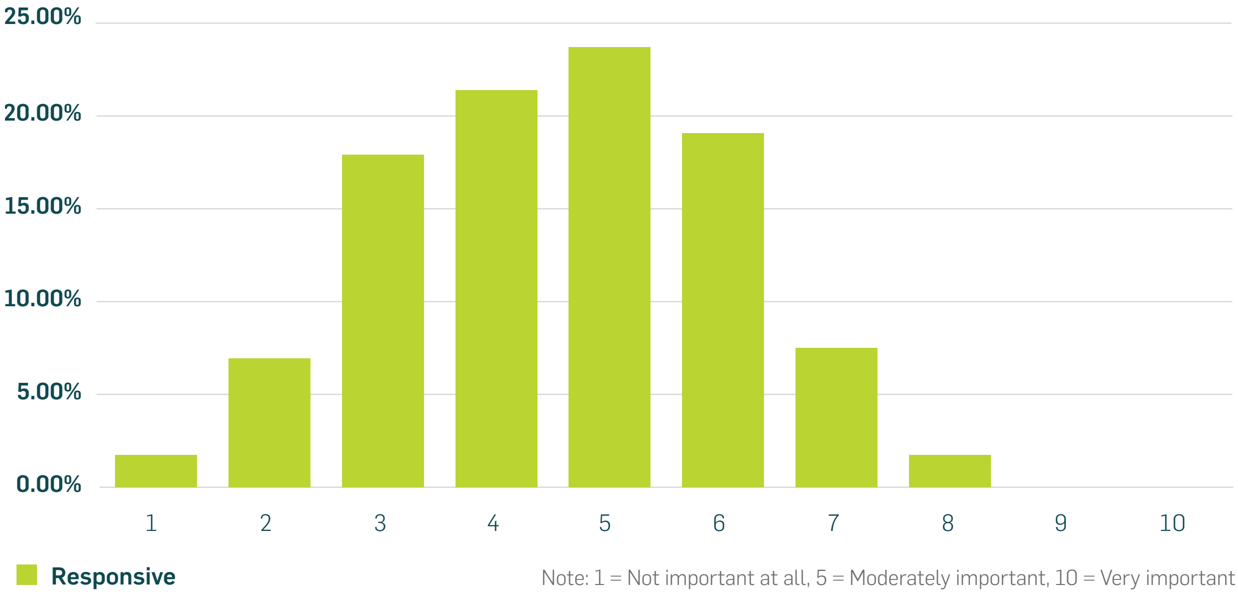
Note: 1 = Not important at all, 5 = Moderately important, 10 = Very important

Results Statistics	Mean	Median	Standard Deviation
Provision of comprehensive information	5.28	5	2.56
Personal guarantees	7.51	8	2.46
High proportion of assets are intangible assets	5.3	5	2.58
Cost of credit	5.27	5	2.31
Time and work involved to apply	6.22	6	2.36

4.4 Position to Deal with Financial Shocks or Market Changes

The report suggests that at a score of 4.54, SMEs would encounter some difficulty in dealing with any financial shocks or market changes. This demonstrates the complicated aspects of SME market financing with some SMEs deeming themselves to be in a strong position with improving profits and little need for support. However, if such an unwanted economic shock occurs, these firms could find themselves in a precarious position, with negative impacts. The findings support those of the ECB (2019), where changes in the macroeconomic outlook were perceived to have negatively affected the access to finance for SMEs and the deterioration was widespread across the EU. EIB (2019) research finds that more firms in Ireland expect the political/regulatory environment and economic climate to worsen in 2020.

Figure 13: Current position of SMEs to deal with any financial shocks or market changes



Results Statistics	Mean	Median	Standard Deviation
Preparation	4.54	5	1.51

5. Financial Health Index & Key Results by Size

The SME Advisor Financing Market Health Index acts as a means of evaluating sentiment regarding business finance among the SME population in Ireland. The overall SME Financial Health Index is found to be at level of 4.924, which indicates the financial health of the SME market is in a moderately acceptable position with need for improvements. In summary, micro firms find the overall financing market most difficult with an index value of 4.507, small firms at 5.106, and medium firms are 5.607, clearly demonstrates that as firms grow in size and mature, access to finance become less of an issue. The importance of size and the impact differing issues can have on SMEs is further demonstrated in Table 1 and this information helps provide new insights into this important topic and one that will prove beneficial to stakeholders and SMEs alike.

Table 1: Results by size and associated financial health index value

Analysis Topic	Initial Survey Result Mean	Micro	Small	Medium
SME Engage Pay Advice	**5.710**	5.350	5.900	6.243
Short-Medium Term Investments: Internal Finance	**7.000**	6.714	6.990	8.000
Short-Medium Term Investments: Loans	**6.360**	6.088	6.596	6.345
Short-Medium Term Investments: Lease	**6.440**	6.077	6.820	6.276
Short-Medium Term Investments: Equity	**3.840**	3.856	3.883	3.586
Short-Medium Term Investments: Alternative Finance	**4.080**	3.689	4.441	4.069
Long-Term Investments: Internal Finance	**6.260**	5.778	6.262	7.821
Long-Term Investments: Loans	**6.930**	6.744	7.019	7.179
Long-Term Investments: Lease	**6.010**	5.778	6.060	6.607
Long-Term Investments: Equity	**4.290**	4.114	4.392	4.464
Long-Term Investments: Alternative Finance	**4.150**	3.787	4.412	4.393
Demand for New Debt Finance	**5.810**	5.322	6.126	6.214
Capital Structure Strategic Engage	**4.680**	4.292	4.902	5.103
Financial Literacy	**5.220**	4.670	5.485	5.966
SMEs that Export	**3.680**	2.605	3.961	5.929
Proportion of Total SME Turnover from Exports	**4.120**	3.872	4.124	4.852
Investment Gap	**5.030**	4.961	5.118	4.905
Barrier External Finance: Comprehensive Information	**5.280**	5.481	5.181	5.000
Barrier External Finance: Capital Guarantee	**7.510**	7.299	7.570	8.000
Barrier External Finance: Intangible Assets Proportion	**5.300**	5.103	5.452	5.364
Barrier External Finance: Cost of Credit	**5.270**	5.184	5.372	5.091
Barrier External Finance: Time Work to Apply	**6.220**	6.380	6.170	5.864
Credit Demand & Invest: Borrow Appetite	**5.380**	5.051	5.596	5.636
Credit Demand & Invest: Uncertainty Perception	**6.320**	6.038	6.628	6.000
Credit Demand & Invest: SME Current Investment Level	**4.860**	4.636	4.872	5.591
Credit Demand & Invest: SME Future Invest Expectation	**5.330**	5.165	5.404	5.591
Credit Demand & Invest: SME Current Risk Tolerance	**5.460**	5.342	5.521	5.591
Prepared for Financial Shocks & Market Changes	**4.540**	4.471	4.482	5.050
Calculated Index Value	***4.924***	*4.507*	*5.106*	*5.607*

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