SME ADVISOR SURVEY

2022

Anseo chun gnó a fhorbairt
Corparáid Baincéireachta Straitéiseach na hÉireann
Here to build business
Strategic Banking Corporation of Ireland

CONTENTS

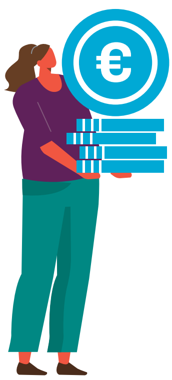
FOREWORD

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 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 to gain their unique perspectives on the Irish financial landscape and their views on how Irish SMEs are currently funding their businesses. The study consists of analysis regarding the following key topics: financial literacy, financing investments, financial barriers, exporting, capital structure, the financing lifecycle, local issues, and the economy. The findings shed light on the current financial landscape that SMEs operate in, post-Brexit and COVID-19, and highlight current and future challenges facing these firms. The results underline the important role of finance for SMEs to grow and develop. The report aims to inform key stakeholders about the current SME situation according to their advisors.

In this, the second iteration of the SME Advisor Survey, the SBCI aims to create a core document produced on an annual basis 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.



EXECUTIVE SUMMARY

INTRODUCTION

The SBCI believes that SME advisors have unique insights and perspectives on the SME financial landscape and strong value exists from direct engagement to ascertain their views.

The areas explored within this study focused on the following: financing investments, financial barriers, exporting, financial literacy, capital structure, the financing lifecycle, local issues, and the economy.

Now in a post-COVID-19 pandemic and Brexit landscape, the analysis and results provide unique insights into the financial landscape from an advisor's viewpoint, which should assist in further comprehension of the SME funding market. The survey obtained responses from 189 SME advisors, covering all economic sectors, throughout the eight economic regions of Ireland. The report aims to inform key stakeholders about the current situation facing SMEs, according to their advisors. The findings underline the critical role that finance plays in the growth and development of SMEs.

STUDY OVERVIEW AND METHODOLOGY

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 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 July and August 2022.

The survey was hosted on a secure online service provider and invitations were sent by email directly to participants, while key stakeholder advisors also invited their members to participate. The data was then analysed to produce the findings. With a response of 189 SME advisors spread across all eight economic regions, engaging with all economic sectors, the survey consisted of a robust number of participants. Each advisor provided advice to an estimated average number of 60 SMEs (representing approximately 11,300 SMEs across the study). Interestingly, this value consisted of a large range, as 17.7% of advisors provided advice to 1-10 SMEs, while 15.6% provided advice to 150+ SME clients.

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. Additional questions utilise a percentage range, through a 0 to 10 scale, which follows a similar representation from 0%, 1-10%, to 91-100%.

The counties in which the SMEs were predominately based were Dublin (52.4%), followed by Cork (9.4%), Galway (3.9%), Wexford (3.9%) and Louth (3.3%). 52.4% of the advisors surveyed had one or more clients in the Retail Trade sector, 51.9% of advisors had at least one client in the Professional Services sector, and 46.5% of advisors had at least one client in the Food and Beverages sector. The Construction sector is also well represented, as 43.9% of advisors had at least one or more clients in this sector, while 41.7% had at least one client in the Manufacturing sector. This survey also included representation from other important sectors such as Hospitality (35.8%); Information, Communication, and Telecommunications (ICT) (28.9%); Agriculture (16.6%); and Renewable Energy (10.1%).

Regarding the average size of the companies, micro firms accounted for 55.4%, while small firms represented 29.6% and the remaining 15% of the survey respondents consisted of medium-sized firms. The SBCI would like to take this opportunity to thank the SME advisors for taking the time to complete the survey and providing the necessary data to produce the findings.

KEY FINDINGS

The overall SME Financial Health Index is found to be at the level of 4.7, which indicates that, according to the advisors, the financial health of the SME market is just below a moderate position. This is a small decrease from the 2020 value of 4.9, illustrating how the impacts of COVID-19 and Brexit have not overly damaged the perceived health of the financing market; however, this may be due to Government support. Micro firms have an index value of 4.3, a decrease from 4.5; while the value among small firms has increased to 5.2, from 5.1; and medium-sized firms have a value of 5.2, a notable decrease from the value of 5.6 in 2020.

User experience and security are found to be the greatest barriers for SMEs in securing finance. The strongest barrier is personal guarantees (7.5) which has remained at the same level as in 2020. The need for personal guarantees is found to be the strongest barrier in the Wholesale (8.3), Administrative (8.1), Motor (7.9), and ICT (7.9) sectors. **40.6% of advisors deem the need to provide personal guarantees as a very strong barrier, while 63.8% state that it is at least a strong barrier to finance.** The issue is one of the strongest barriers for micro (39.7%), small (45.0%), and medium-sized firms (31.6%).

Inadequate collateral (7.1) is a strong barrier, with 23.4% of advisors stating that inadequate collateral is a very strong barrier to accessing funding. Inadequate collateral is the strongest barrier in the Wholesale (7.9) and Renewable Energy (7.6) sectors, while Agriculture (6.6) is the sector where it is at its lowest value. The counties of note where inadequate collateral is the strongest barrier are Meath (8.5), Limerick (7.5), Cork (7.4) and Dublin (7.2).

A medium level of demand (5.8) for new debt finance exists and has remained static with 32.5% of SMEs possessing a high demand for new debt finance compared to the previous finding in the 2020 report. 23.9% of micro firms have a high demand for new debt finance, however, this increases substantially for both small (45.7%) and medium-sized (42.9%) firms. SMEs based in the Renewable Energy (6.8), Scientific (6.3), Manufacturing (6.2), Wholesale Trade (6.2) and Agriculture (6.1) sectors possess a stronger level of demand for new debt than the average value (5.8).

57.8% of SME advisors state that their clients have the willingness to use bank loans for long-term investments, but just 23.6% of SMEs would use non-bank loans. 28.3% of SME advisors believe that their clients are very reluctant to use non-bank loans for short- to medium-term investments, compared with just 5.13% for bank loans.

Advisors suggest that an investment gap for SMEs of 48.3% exists, which represents a notable increase from 41% in the previous 2020 report. Just 1.5% of respondents state no investment gap exists, while 28.5% of advisors believe that the investment gap is between the 40-49% range. The results within this report note that a gap of 48.9% exists for micro firms, 47.9% for small firms, and 45% for medium-sized firms. The largest investment gaps exist within the Motor Trade (61%), Wholesale (53%), Hospitality (52%), and Manufacturing (50%) sectors. Concerning location, advisors claim that the investment gap for SMEs is most apparent in Kerry (70%) and Wexford (61%).

According to the advisors, 47.1% of their SME clients' main reason to seek investment is to launch a new product or service. This finding is supported by micro firms (52.2%), small firms (34.3%), and medium-sized firms (50.0%). 68.0% of Administration and Support, 64.1% of ICT, and 61.1% of Wholesale Trade SMEs note it to be the main objective. **Growing revenue (8.5), reducing costs (8.2) and recruitment, and retaining skilled staff (8.1) are found to be the most important objectives amongst SMEs.** Attracting and keeping skilled staff is the most important objective amongst SMEs based in the Renewable Energy (9.0), Manufacturing (8.3) and ICT sectors (8.3), and of least importance within the Real Estate sector (7.8). 65.5% find that human capital issues are deemed to be an important issue (at a minimum) that needs to be addressed, while 35.5% of advisors declare it to be a very important issue.

SMEs are slow to enact ESG policies; in this study they are found to be mildly relevant with an average of 20.7% of SMEs having an environmental policy that sets out clear commitments and targets to improve the firm's environmental footprint. 7.4% of advisors claim that none of their clients have such a policy. Advisors note that 16.0% of micro firms, 27.3% of small firms, and 25.9% of medium-sized firms have an environmental policy in place. Just 6% of SMEs in the Motor trade and 16% of SMEs in the Agriculture sector possess an environmental policy, while 31% of SMEs in the Real Estate sector have such a policy. SMEs have some considerations (4.9) regarding whether environmental elements are considered in investment decisions. The environmental impact is most important amongst SMEs based in the Renewable Energy (6.5) and Real Estate (5.8) sectors, but it is of less importance for SMEs in the Motor (4.5) and Wholesale (4.7) sectors. **As illustrated by micro firms (4.4), small firms (5.5) and medium-sized firms (6.0), it is apparent that as firms grow, the importance of the environment in investment decisions also grows.**

The financial literacy capabilities (4.6) of SMEs are found to be less than adequate and represents a decrease in financial literacy amongst SMEs from the 2020 value of 5.2. SME advisors note that 53.5% of their clients have a minimum of adequate or necessary financial literacy knowledge regarding cash flows. Concerning the understanding of financial statements, SME advisors note that 53.5% of their clients have a minimum of adequate or necessary knowledge. 32.7% were deemed to possess a minimum level of the required financial literacy knowledge to draft business plans. According to their advisors, financial literacy programmes (5.9) are an issue of moderate importance for SMEs, similar to the previous survey's value (5.9). SMEs based in the Scientific (7.1) and Renewable Energy (6.8) sectors regard it as the most important.

KEY INSIGHTS

Financial literacy capabilities of SMEs can be improved

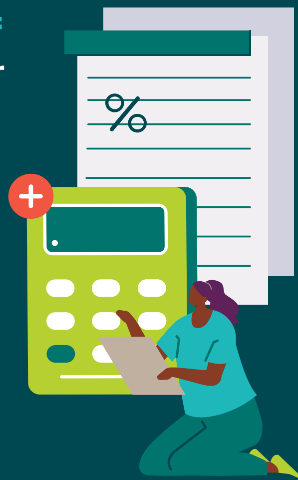
Advisors note that 11% of SMEs deem financial literacy to be an issue of the utmost importance, with 75% acknowledging it is an issue of at least moderate importance.

30% of SMEs display inadequate knowledge regarding financial statements, while 51% of SMEs do not demonstrate the ability to draft business plans, according to their advisors.

Launching a new product or service is the main reason for obtaining investment finance

47% of SMEs' main reason for obtaining investment finance is to launch a new product or service.

A medium level of demand remains for new debt finance



33% of SMEs possess a high demand for new debt finance. When filtered by size, 24% of micro firms, 46% of small firms and 43% of medium-sized firms have high demand for new debt.

Perception of an "investment gap" has increased to 48%

The largest investment gaps exist within the Motor Trade (61%), Wholesale (53%), Hospitality (52%), and Manufacturing (50%) sectors.

SMEs are slow to enact ESG policies, found to be mildly relevant

Just 21% of SMEs possess an environmental policy that sets out clear commitments and targets.

Regarding their investment and decision making the advisors claimed that: 18% of SMEs do not believe that the environmental impacts are worth considering. 21% of SMEs do not take the social implications into account. While 41% of SMEs do not consider governance impacts in their decision making

Stronger willingness to utilise bank loans over non-bank loans for investments

58% of SME advisors state that their clients have the willingness to use bank loans for long-term investments, but just 24% of SMEs would use non-bank loans, according to their advisors.

User experience and security cause the greatest barriers to securing finance

41% of advisors deem the need to provide personal guarantees as a very strong barrier, while 23% of advisors state that inadequate collateral is a very strong barrier to funding.

1

THE FINANCING LANDSCAPE

1.1 LIFECYCLE STAGES FOR DEBT AND EQUITY FINANCE

The importance of lifecycle stages when firms seek to obtain external finance is a critical area to analyse.

This research ascertains which stage is the hardest (1) and the easiest (5) for SMEs when seeking external debt and equity finance. According to the advisors, the maturity stage (3.8) is the period in which SMEs can obtain debt finance with the most ease, whereas the development stage (1.6) is found to be the most difficult. This aligns with the previous results in the SBCI SME Finance Market Health Index 2020: Advisor Survey ("the previous 2020 report"), which found that the easiest and most difficult periods were also the maturity stage (3.7) and the development stage (1.8) respectively. We can conclude, then, that little change of note has occurred regarding the obtainment of debt finance regarding the SME lifecycle.

40.3% of advisors selected the development stage as the hardest stage to obtain debt finance, followed by the decline stage, which was selected by 28.2% of advisors. Similarly, the results for micro (41.4%,), small (39.3%) and medium-sized (38.9%) firms indicate the development stage as being the most difficult period to obtain finance. This illustrates the importance of a track record for SMEs to obtain debt financing even when the firm is in decline, compared to a new firm that is developing a product or service. These findings are further enforced by the findings that the development stage is found to have the lowest value (5.8%), compared to the decline stage (10.1%), which is deemed to be an easier stage for obtaining debt.

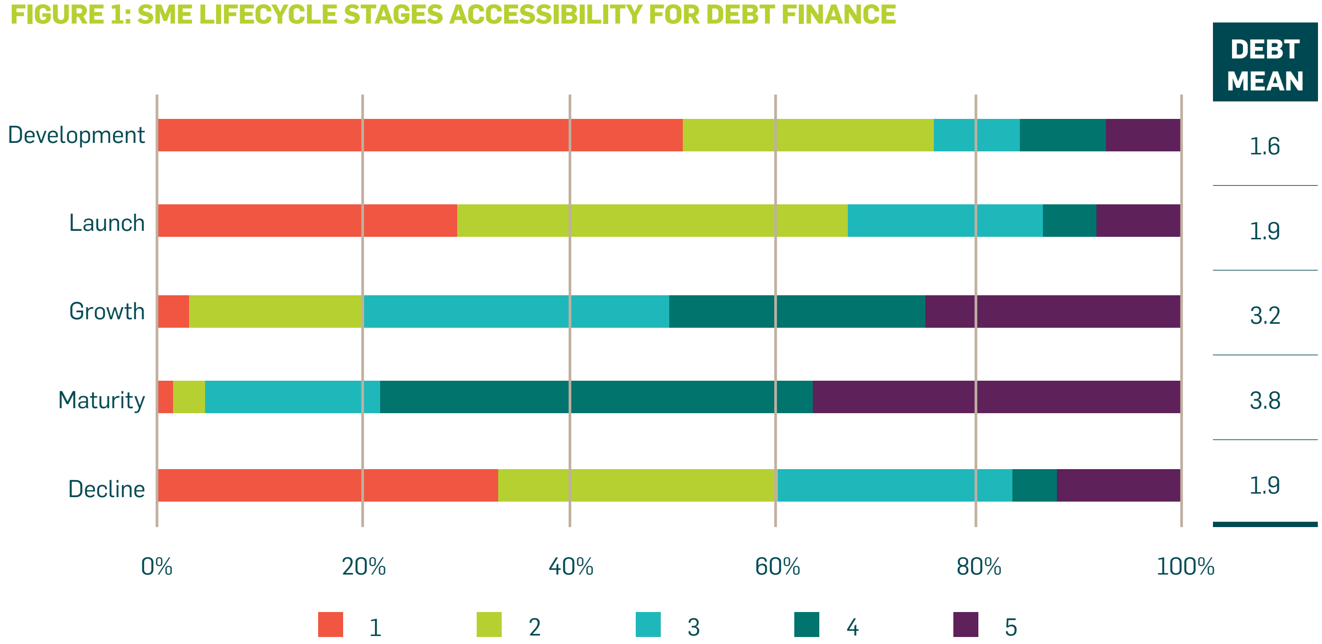
When further analysing the lifecycle stages among SMEs, advisors noted that the maturity stage (47.8%) and the growth stage (29.0%) are estimated to be the stages where debt is most likely to be obtained. When analysing the lifecycle stages by each of the firm sizes, the maturity stage is found to be the easiest period for gaining debt finance amongst micro (46.3%), small (60.0%), and medium-sized firms (38.5%).

Regarding equity funding, the growth stage (3.4) is the easiest lifecycle stage to obtain equity finance, which represents a small increase from the previous 2020 report finding (3.1), demonstrating that the impact of COVID-19 and Brexit has not had a negative effect for SMEs seeking equity funding at this stage. 40.9% of advisors selected this stage as the easiest stage for SMEs to obtain equity finance; this finding is supported for micro (42.5%), small (46.1%), and medium-sized (36.4%) firms. It is important to note that the growth stage shares this position with the maturity stage (36.4%) for medium-sized firms, while it is the second most likely stage to obtain equity finance among SMEs (28.8%).

39.4% of advisors state that the decline period is the most difficult stage (1.8) for SMEs when obtaining such finance. This finding is supported when analysed for micro (40.4%), small (39.7%), and medium-sized (33.3%) firms. The findings from the previous 2020 report also found that the decline stage (1.9) is the most difficult period to obtain equity finance. 32.8% of advisors noted that the next most difficult stage for equity finance is the development stage (2.0). This illustrates that while firms that are growing can obtain such finance, those firms that are deemed to be in the decline stage may find it more difficult to invest in assets such as staff, machinery, new ideas or innovations, among others. Equity funding is more difficult to obtain for businesses without a track record, or if they are facing an uncertain future.

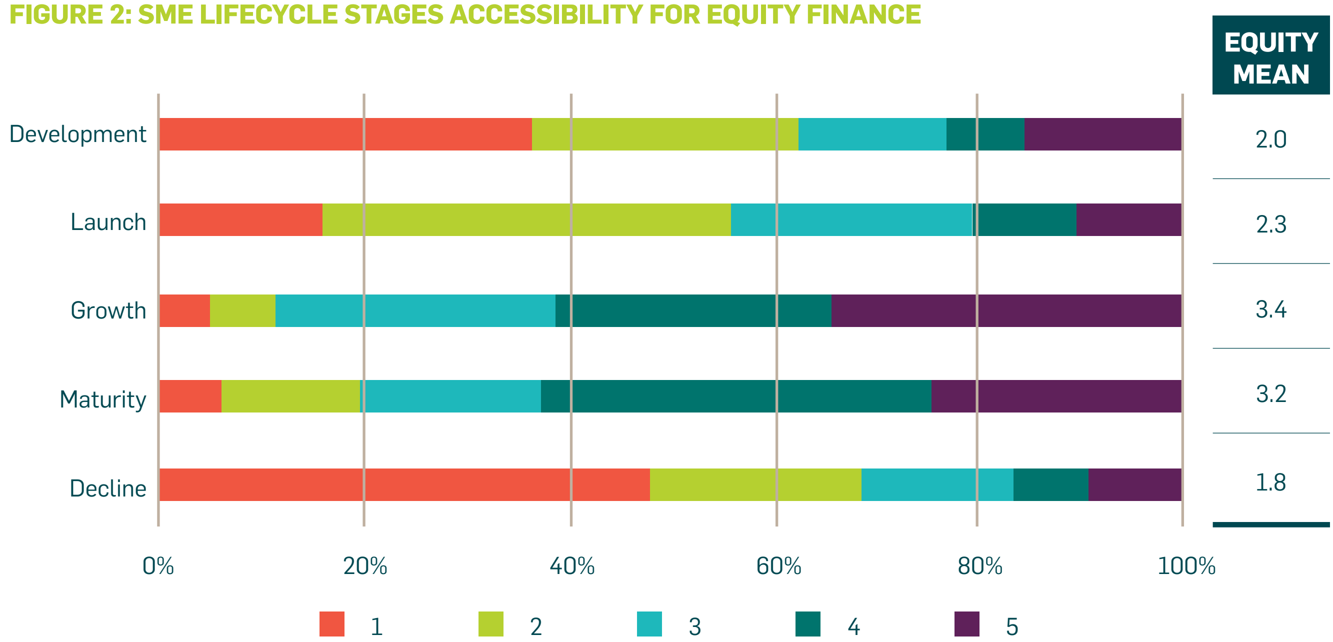
The decline stage is deemed to be the most difficult stage when seeking to gain equity (1.8), but debt (1.9) has a similar score in the decline and launch stages (1.9), demonstrating how SMEs at the beginning and end of their lifecycle have difficulty accessing debt and equity finance. However, the results demonstrate that the development stage (1.6) is a more difficult stage for SMEs to obtain debt than the decline and launch lifecycle stages (1.9). This represents a decline in values competed to the previous 2020 report, whereby debt financing in the development stage was less difficult to obtain (1.8). This finding provides some additional context on the availability of external finance for SMEs throughout their lifecycle and whether Brexit and COVID-19 have impacted them. Indeed, as discussed, SMEs in the growth stage seeking equity funding are deemed to find it easier now than previously, while SMEs in the development stage seeking debt finance now have a more difficult task in gaining such finance. The results provide insights regarding how working capital and future growth can be hampered depending on the lifecycle stage and the perceived need for the most adequate external sources that may best benefit the SMEs. The findings provide an overview of the difficulty that early-stage SMEs have when seeking to obtain debt and equity at the development and launch stages. A potential explanation for this difficulty is the information asymmetry between funders and SMEs, which can act as a barrier to younger SMEs seeking finance, particularly debt.

FIGURE 1: SME LIFECYCLE STAGES ACCESSIBILITY FOR DEBT FINANCE



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

FIGURE 2: SME LIFECYCLE STAGES ACCESSIBILITY FOR EQUITY FINANCE



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

1.2 BARRIERS TO FINANCE

The performance of SMEs can be severely impacted by the presence and strength of barriers to finance, as they can hamper future investment and firm growth.

On a scale of 1 (not a barrier) to 10 (very strong barrier), potential key barriers were ranked by SME advisors. Respondents were asked to select from a list of seven potential barriers as outlined in Figure 3 below.

The strongest barrier is revealed to be personal guarantees (7.5), as the provision of assets to banks or investors may impact their personal and family life if there is an issue with repayments. The mean result further supports that of the previous 2020 report finding (7.5), remaining at the same level. When analysed by sector, the need for personal guarantees is found to be the strongest barrier in the Wholesale (8.3), Administrative (8.1), Motor (7.9) and the ICT (7.9) sectors. 40.6% of advisors deem the need to provide personal guarantees as a very strong barrier, while 63.8% stated that it is at least a strong barrier to finance. When further analysed by firm size, the issue is found to be one of the strongest barriers for micro (39.7%), small (45.0%) and medium-sized firms (31.6%). The negative experience with personal guarantees during the last recession is thought to have exacerbated this barrier. For SMEs based in Meath (9.0), Wexford (8.8) and Dublin (7.9), the need to provide personal guarantees is a stronger barrier than the average national value (7.5). The latest findings from the Department of Finance SME Credit Demand Survey 2023 ("SME Credit Demand Survey (2023)") note that 50% of approved/partially approved SME bank applications had a personal guarantee condition attached, which were more widely used in 2022 compared to 2021. Consequently, while SMEs may have an appetite for obtaining new finance, the risk associated with personal guarantees can be a noteworthy barrier.

Inadequate collateral (7.1) is deemed to be a strong barrier and one that can hamper further investment and business growth. 23.4% of advisors stated that inadequate collateral is a very strong barrier to accessing funding, while 66.4% declared it to be a strong barrier to finance at a minimum. When analysed by sector, inadequate collateral is the strongest barrier in the Wholesale (7.9) and Renewable Energy (7.6) sectors, while Agriculture (6.6) is the sector where it is at its lowest value. The counties of note where inadequate collateral is the strongest barrier are Meath (8.5), Limerick (7.5), Cork (7.4) and Dublin (7.2). The SME Credit Demand Survey (2023) finds that among the SMEs that applied for bank finance, 27% of applications required some kind of collateral, a decrease from 42% in September 2021. The impact of the barrier varies depending on the firm size. According to their advisors, just 5.3% of medium-sized firms view inadequate collateral as a very strong barrier, perhaps due to the availability of assets and capital, while 29.5% of micro firms and 18.0% of small firms deem it to be a very strong barrier. The findings illustrate that the relevance of inadequate collateral as a very strong barrier decreases as firms grow. Results within the EIB Investment Survey 2021 – Ireland Overview finds that collateral (2%) accounts for a small level of dissatisfaction with external finance amongst Irish firms, compared to the EU average (6%) (EIB, 2022).

The time and effort involved in the application process (7.0) is another strong barrier; this is a notable increase on the 2020 finding (6.2), demonstrating the issue of the additional work involved in the process, which can remove key staff from completing their roles and may stifle firm growth for that period. 30.43% of advisors state it to be a very strong barrier, and when categorised by size, medium-sized firms (36.9%) view it as a very strong barrier, followed by micro firms (30.8%) and small firms (27.5%). SMEs may not be successful in their application, and the use of resources may relate to it being a strong barrier. Indeed, further analysis finds that 66.7% of advisors stated it to be a strong barrier.

A previous negative experience (6.6) is a moderate-to-strong barrier to finance and one that may be harder to remove than others, given that experience can act as a reminder when deciding on future areas to address and halt a repeated process. 62.3% of advisors deemed it to be at least a robust barrier, with 21.7% declaring it a very important barrier, which is inhibiting access to finance. When analysing this barrier by firm size, while a strong barrier for all, its impact as a barrier diminishes as firms grow in size as demonstrated by the findings for micro (69.0%), small (60.0%), and medium-sized (47.4%) firms.

The provision of comprehensive information (5.7) relates to the costs involved with paying for and organising external stakeholders to produce the required documentation. It is deemed to be a barrier of moderate importance, which mirrors the results of 2020 (5.3), demonstrating that the barriers have either remained at a similar strength or have increased as barriers to external finance, The production and expense of reports, audits, legal inputs, and reviews can result in a substantial cost for SMEs in proportion to the value of external finance. Subsequently, 40.2% of advisors declare it a strong barrier that constrains access to finance.

These additional expenses may not be justifiable for smaller firms, due to their possible lack of skilled human capital to provide this information, resulting in a possible review of the cost-benefit of obtaining such funding.

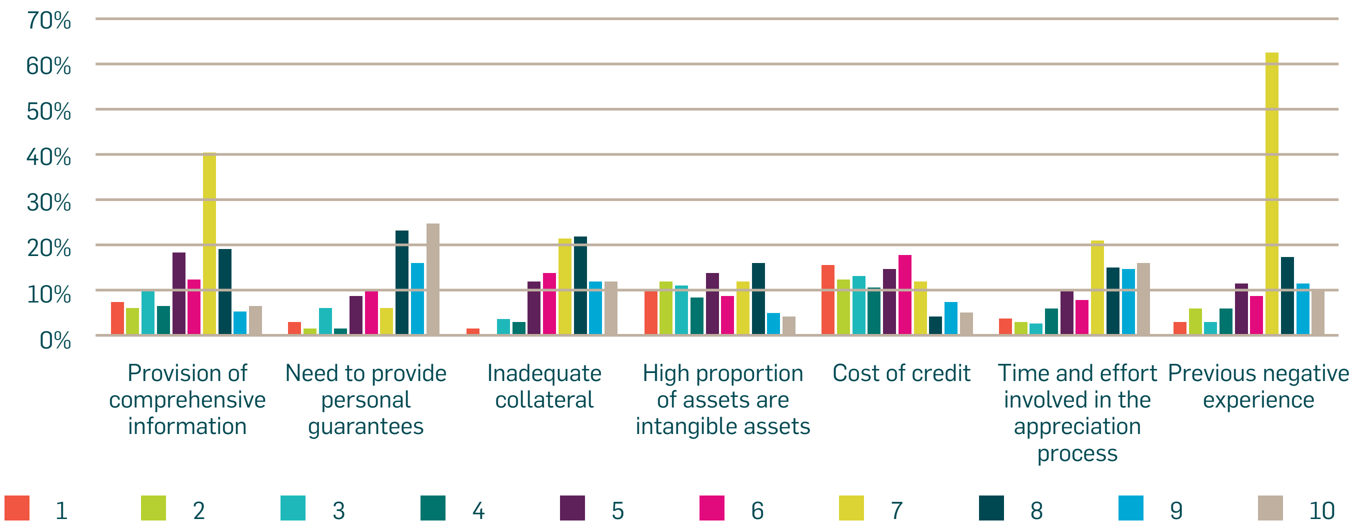
Due to information asymmetries and limited physical collateral for finance providers, there is often a premium risk associated with these assets if successful in obtaining funding (Garnsey, 1995). Subsequently, their presence as a high proportion of assets can be used against firms and is viewed as a barrier to finance. Possessing a high proportion of intangible assets (5.2) is found to be another moderate barrier and this has remained at a similar level to the 2020 value (5.3). Intangible assets are often positively correlated with innovation and research and development (R&D) and can often be a catalyst for firm growth. 37.2% of advisors declare it to be at least a strong barrier when SMEs seek financing. Intangible assets can be sector-specific, and their value is often positively related to the specific business. However, they are difficult to value since they are not physical assets.

The cost of credit (5.2) is found to be a moderate barrier and remains similar to the 2020 value (5.3), which again demonstrates that no barrier has decreased in any significant manner despite SMEs having to deal with COVID-19, Brexit and inflationary issues during the intervening period. When analysed by sector, Scientific (6.2), Transport and Storage (5.9) and Wholesale (5.8) are found to be those where the cost of credit is a stronger barrier to finance, while Agriculture (4.2) is the sector in which it is the weakest barrier. Just 28.7% of advisors deemed it to be a strong barrier to finance, while 15.4% note that the cost of credit does not act as a barrier. According to the advisors. 16.9% of micro firms find the cost of capital to be a very strong barrier, compared to just 5.0% of small firms, and 11.1% of medium-sized businesses. Further analysis provides a location breakdown: the cost of credit is a significantly stronger barrier in Limerick (7.3) and Meath (7), while it is near the national average in Clare (5.3) and Dublin (5.3). It is found to be less of a barrier to finance within Cork (4.2) and Galway (4.8), thus illustrating the variance between counties on the perceived barrier of the cost of credit.

The EIB Investment Survey 2021 – Ireland Overview report notes that the largest net level of dissatisfaction amongst those that have received external finance in Ireland relates to the cost of finance (13%), a considerably higher value than the EU average (5%) (EIB, 2022). The next element that has the highest net level of dissatisfaction is the type of external finance available in Ireland (4%), which is double the EU average (2%). Reducing the influence of these barriers will help SMEs throughout the country to avail of the necessary external capital to undertake innovative strategies, new investments, and economic growth. According to the EIB (2022), the financing conditions in Ireland are worse than the EU average, with 10% of Irish firms estimated to be financially constrained, compared to 5% on average within the EU. EIB (2022) research finds that at 13%, the cost of finance is the joint highest issue when seeking external finance.

FIGURE 3: IMPORTANCE OF KEY ISSUES THAT ACT AS BARRIERS TO FINANCE FOR SMES

MEAN	5.7	7.5	7.1	5.2	5.2	7.0	6.6



Note: 1 = Very weak barrier, 5 =Moderate barrier, 10 = Very strong barrier

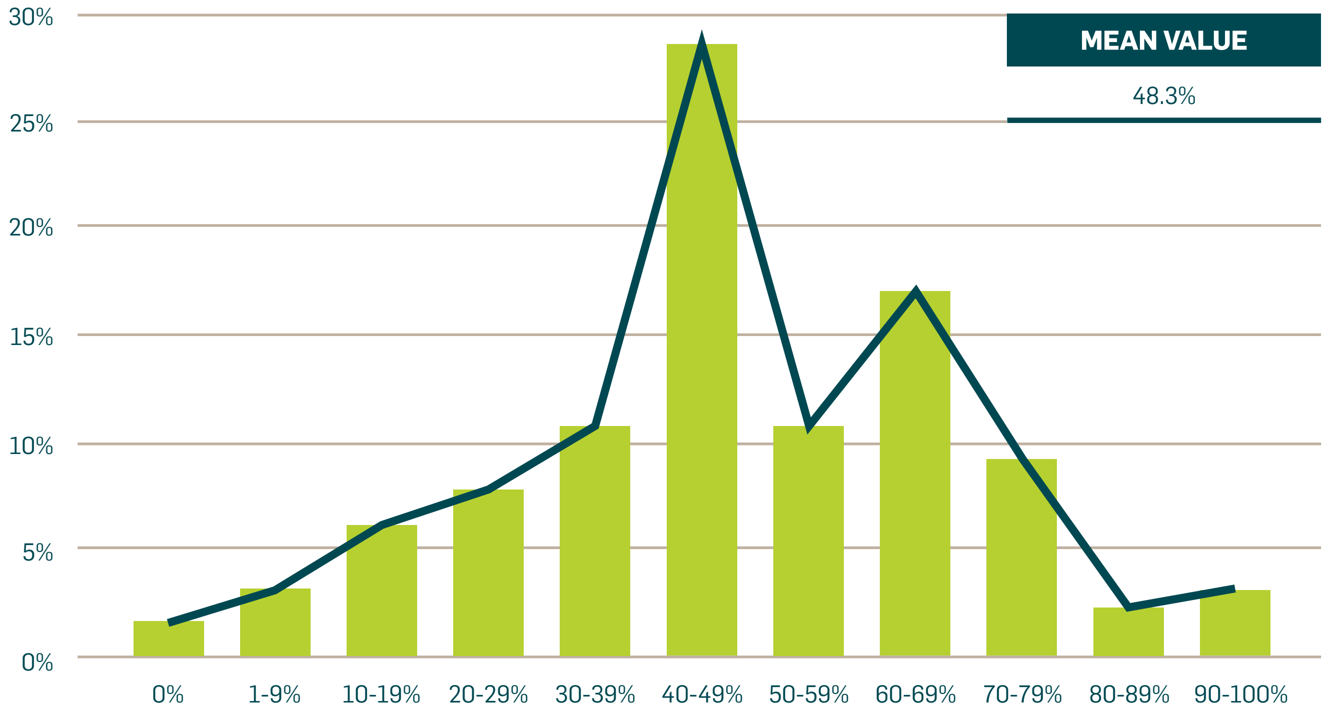
1.3 SME INVESTMENT GAP

The difference between the supply of investment capital and the demand for investment capital within the market is known as the investment gap.

The prevalence of market failures or credit constraints can result in a reduction in the expected level of potentially productive investments. It is often used to review the productivity and efficiency of the financial market to ensure businesses are supported and provided with growth opportunities. The SME advisors surveyed claim that an investment gap of 48.3% exists for SMEs, resulting in a considerable level of possible investments not occurring due to funding issues. This compares to the previous mean investment gap of 41% in the previous SBCI SME Advisor Survey in 2020, demonstrating an increase of 7.3%. When reviewed by sector, the largest investment gaps exist within the Motor Trade (61%), Wholesale (53%), Hospitality (52%) and Manufacturing (50%) sectors. Regarding location, the investment gap is most apparent within Kerry (70%) and Wexford (61%), while SMEs in Clare (38%) have one of the smaller investment gaps, according to their advisors.

The impact on the economy due to COVID-19, Brexit and inflation may have increased the investment gap, as economic conditions tightened the available investment capital within this time frame. This is a noteworthy gap and illustrates the need for dialogue and action amongst finance providers, policymakers and SMEs to ensure their financing investment needs are catered for in the future. Just 1.5% of advisors stated no investment gap exists, while 28.5% of respondents stated that the investment gap was in the 40-49% range. A study produced by the ESRI (2020) estimated that a substantial financing gap is in existence, whereby investment could increase by 55% if all financing constraints were no longer in existence. The difficulty in obtaining external finance, together with challenging local economic conditions may have contributed to the increase in the investment gap during 2016, which was estimated at 30% (ESRI 2018). The results of this survey claim that a gap of 48.9% exists for micro firms, 47.9% for small, and 45% for medium-sized firms. This does not support the ESRI (2018) research, which found that the size of the gap becomes substantially larger for medium-sized firms.

FIGURE 4: 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 from being undertaken. Note that the scale ranges from 0 = 0%, 1 = 1-9%, 5 = 41-50%, 10 = 91-100%

1.4 SME APPETITE FOR INVESTMENT, RISK AND BORROWING

According to their advisors, the SME appetite for borrowing is at a medium level (4.9), a notable decrease from the 2020 value (5.4), which means that the impacts of economic shocks such as COVID-19 and inflation have slightly decreased the appetite.

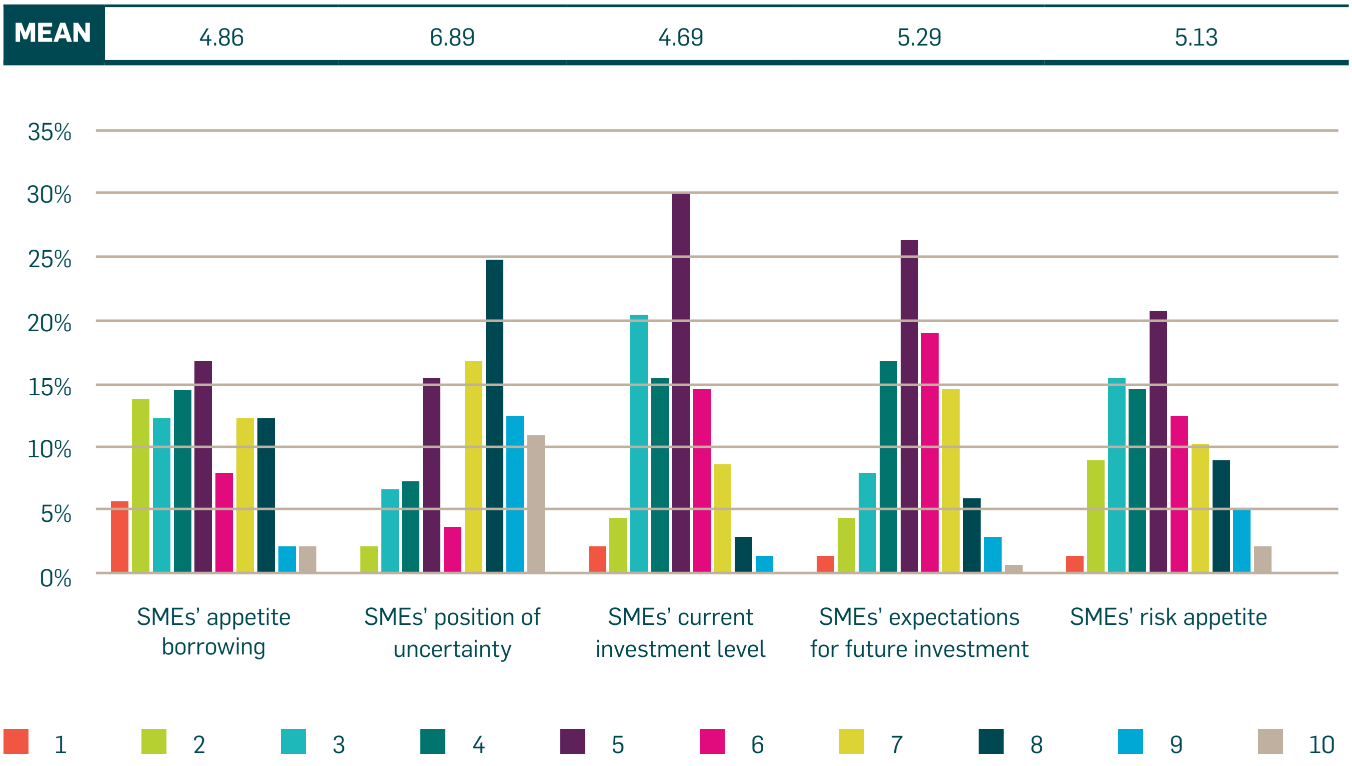
This mean value demonstrates that SMEs view borrowing with a medium level of interest, and while are not currently searching for such finance, they would not be. When viewed by sector, Wholesale (5.9), Agriculture (5.5) and Hospitality (5.4) are those that have the strongest appetite, while Scientific (4.6) and ICT (4.7) sectors have the lowest level of appetite for borrowing. These results may be due to the impact of Brexit and COVID-19, as those businesses were most negatively impacted, while Scientific and ICT sectors remained operational and perhaps generated retained earnings to negate the appetite for borrowing. 19.6% of advisors claim that the SMEs' appetite for borrowing is at a very low level, while just 4.34% stated that the appetite for borrowing is at a very high scale. When further analysing the findings relating to firm size, there is a substantial amount of medium-sized (47.37%) firms, followed by micro (25.6%) and small (25%) firms that have a high-level appetite (7+) for borrowing. When viewed by county, SMEs based in Wexford (7), Kerry (6.5) and Limerick (6) have some level of appetite for borrowing, while firms based in Cork (4.5) have no specific desire to borrow.

Due to supply chain issues, rising costs and the effects of economic shocks such as the Russian invasion of Ukraine, the perception of uncertainty within the economy and business environment is found to be at a high level (6.9). This has increased from the 2020 value (6.3). 23.4% of advisors stated that the level of uncertainty is very high, with just 2.2% stating it does not relate. When viewed by county, advisors say that SMEs based in Kerry (9.5), Wexford (9.2) Kilkenny (9) and Meath (8.5) view the uncertainty within their business environment as very uncertain. The impact of such high uncertainty may result in SMEs waiting to see how key variables settle, such as the price of raw materials, labour availability and supply chain disruptions, before making any important decisions. This is most notable in the Scientific (7.7), Wholesale Trade (7.6), Motor Trade (7.5) and Hospitality sectors (7.3), as the impact of lockdowns and supply chain disruptions have most impacted these sectors over the past year.

Examining current (4.7) and future (5.3) investment levels, both are calculated to be mid-range, with future investment expectations higher compared to current investment levels. It is important to note that both investment levels have decreased slightly from the 2020 values, with current (4.9) and future (5.3) levels of investment previously at the medium level. Just 1.5% of advisors state the current SME investment level is very high, while 3.7% believe that future expectations are also very high. These results further support the finding that there is a perception of uncertainty. When analysed by sector, the Motor Trade (5.6), Renewable Energy (5.0) and Real Estate (5.0) sectors have a strong current level of investment compared to the sectoral average. Comparing these results to the SMEs' expectations for future investment, Renewable Energy (6.4), Scientific (6.0) and the Motor Trade (6.0) sectors have the highest perceived level.

Finally, the risk appetite amongst SMEs is estimated at a medium level (5.1), which relates strongly to the other findings, such as the appetite for borrowing and current investment level. This value is similar to the finding in 2020 (5.5), with just a slight decrease in the mean value. 7.4% of advisors believe their SME clients have a very strong risk appetite, while 10.3% deem it to be at a very low level. The findings demonstrate that on average, SMEs are in a state of heightened awareness, neither open to nor against certain activities, but at the same time unlikely to undertake any unnecessary activity given the level of uncertainty that currently exists.

FIGURE 5: CURRENT POSITION OF SMEs ON CRITICAL TOPICS



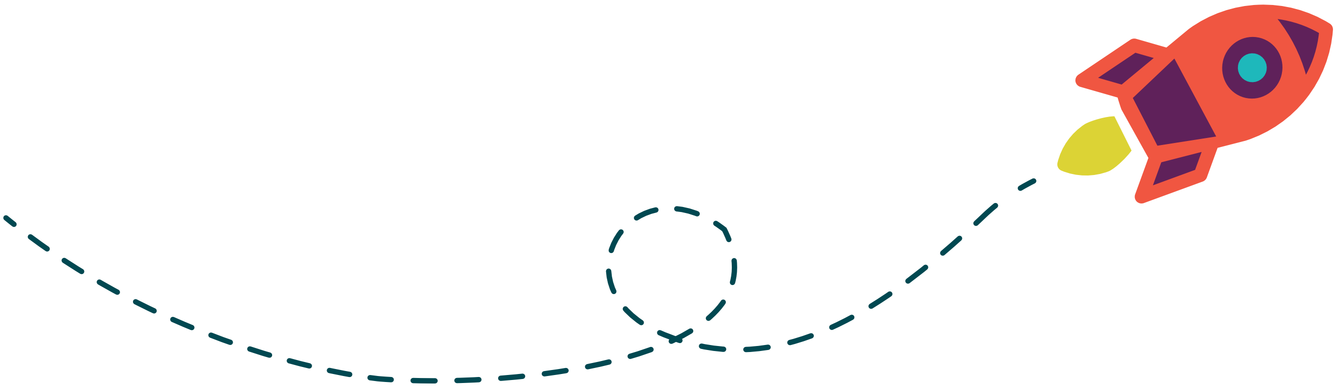
Notes: 1 = Very Low, 5=Medium, 10 = Very High

2

FINANCING INVESTMENTS AND CAPITAL STRUCTURE

2.1 REASONS TO OBTAIN INVESTMENT FUNDING

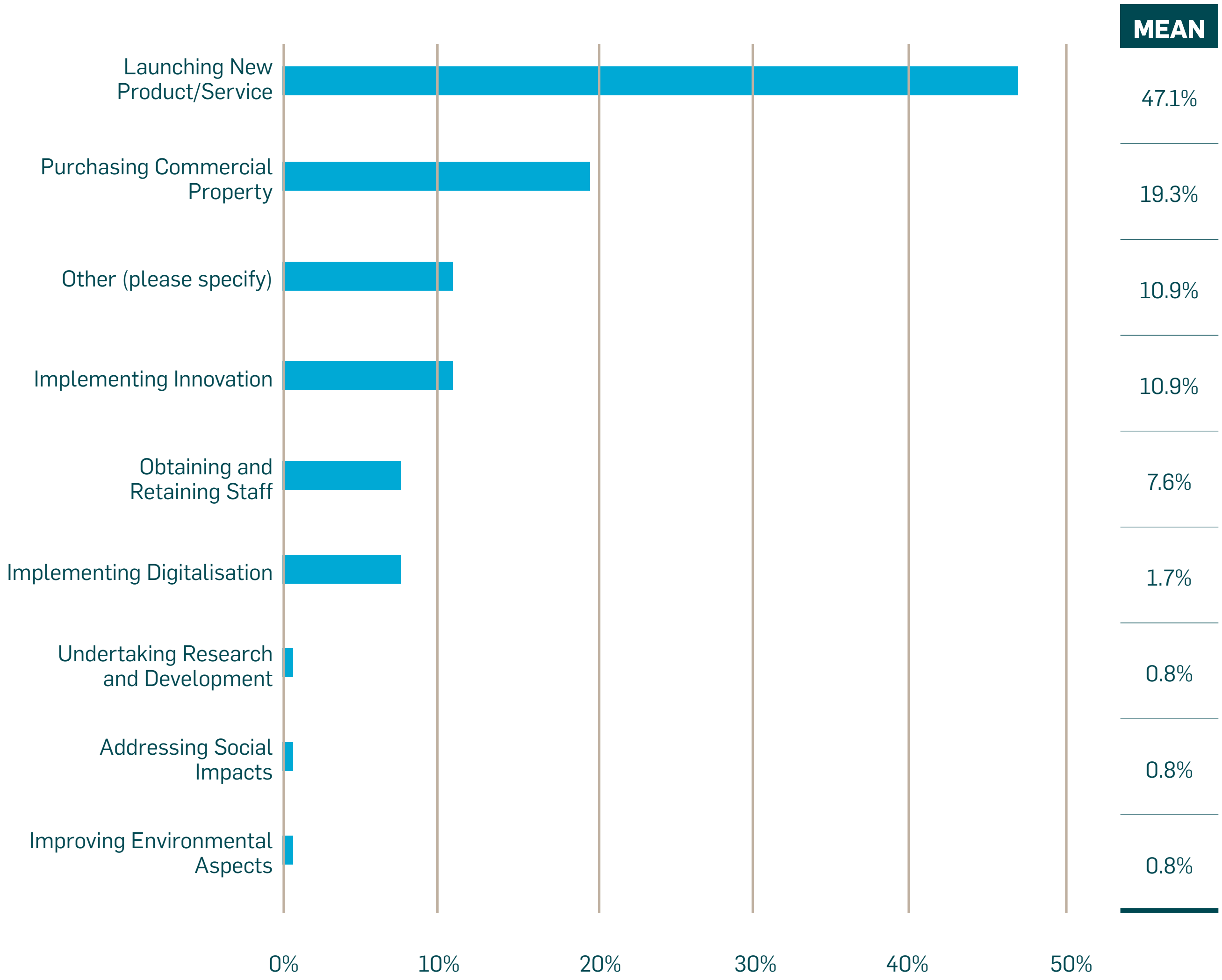
When asked to select the primary reason for their clients to obtain investment funding, 47.1% of advisors stated that launching a new product or service is the goal.



This is supported by micro firms (52.2%), small firms (34.3%), and medium-sized firms (50.0%). When analysed by sector, launching a new product or service is the main objective for almost all sectors, with 68.0% of administration and support, 64.1% of ICT, and 61.1% of wholesale trade SMEs noting it to be the main objective. Figure 6 illustrates that the second most common response was purchasing commercial property (19.3%). Interestingly, obtaining and retaining staff (7.6%) is not seen as a key reason to seek investment funding, despite previous findings in this study noting a larger proportion of advisors (46.4%) believe that gaining and retaining skilled staff is a very important objective.

According to the advisors, implementing innovation (10.9%) has some level of importance, but implementing digitalisation (1.7%) and undertaking research and development (0.9%), are generally not deemed to be core drivers for seeking investment funding. Implementing innovation is the most prevalent main objective amongst the ICT (10.3%), Renewable Energy (10.0%) and Personal Services (9.2%) sectors. Purchasing commercial property (19.3%) is the second most selected reason for obtaining investment finance and can relate to the need to increase capital, given the often-substantial costs of commercial property. When analysed by sector, Transport and Storage (33.3%), Real Estate (27.3%) the Motor Trade (26.7%) and the Construction (25.0%) sectors view it as their second reason to obtain investment funding.

FIGURE 6: MAIN REASONS TO OBTAIN INVESTMENT FUNDING



When breaking these results down between small and micro firms, there were some notable differences. For micro firms, launching a new product or service (52.2%) purchasing commercial property (20.3%), implementing innovation (11.6%), and obtaining and retaining staff (7.3%) were the key reasons. Meanwhile, launching a new product or service (34.3%) was significantly less important for small firms, but obtaining and retaining staff was notably more important (11.4%).

When reviewing the purpose of investments for medium-sized firms, launching a new product or service (50%) was again found to be critical. Interestingly, the need to purchase a commercial property (7.1%) is considerably lower than their counterparts. These findings illustrate how larger firms may possess considerable commercial assets and human capital, but external funding is used to launch a new product or service.

2.2 SHORT- TO MEDIUM-TERM INVESTMENT FINANCING SOURCES

In this section, advisors were asked to rank the appetite of the client SMEs to utilise different financing options for short- to medium-term investments.

As illustrated in Figure 7, advisors indicated that SMEs place internal finance (6.4) as the most likely funding source for short- to medium-term investments. This score represents a relatively small preference, which has notably decreased from the 2020 result (7.0), which demonstrated a willingness to implement such funding. The impacts of COVID-19, Brexit and inflation demonstrated the importance of retained earnings for survival; this finding demonstrates that SMEs are now less willing to utilise their capital than before. When analysed by sector, the Scientific (7.7), Manufacturing (7.0) and ICT (6.8) sectors highly rank the use of internal finance, while SMEs within the Real Estate (5.2) sector have the lowest appetite to use such funding for these investments. 55.5% of advisors stated that SMEs have the willingness to fund short- to medium-term investments with internal finance. Research produced by the EIB (2022) finds that internal finance was utilised for 77% of Irish firms' investments during 2020, significantly higher than the EU average of 63%. Furthermore, this represents an increase from 73% from the previous year, demonstrating an increasing reliance on internal finance, which suggests how internal finance may be only the sole source available for such investments, regardless of the preference to utilise such options.

According to their advisors, bank loans (6.2) and bank leases/hire purchases (6.2) were found to be the next most prevalent options for SMEs, with 49.2% and 47.9% of advisors, respectively, believing there is a strong willingness to use such sources. This is mirrored in the EIB data (2022), which found that bank loans (40%) and leasing (36%) are the largest external sources of finance for all investment activities in Ireland. When analysed by sector, a stronger appetite for bank loans exists within the Agriculture (7.1), Hospitality (6.7) and Wholesale sectors, while for bank leases/hire purchases, the strongest appetite exists amongst the Agriculture (7.3), Scientific (6.8), and Transport and Storage (6.6) sectors. This finding illustrates the preference for bank-based debt in the Agriculture sector at a stronger level than the sectoral average.

SMEs are slightly open to using bank overdrafts (5.7) as a funding choice, but this is the least likely among the three bank sources of finance. Interestingly, when the three financing options provided by banks are offered by non-banks, there is a significant decrease in their attractiveness among SMEs. Non-bank leases/hire purchases (4.4) and non-bank loans (4.4) offer significantly less appeal to SMEs concerning the financing of short- to medium-term investments, compared to their bank equivalents. When reviewing non-bank loans by sector, the Agriculture (5.4) and Renewable Energy (5.3) and Scientific (5.1) sectors are those that demonstrate some level of appetite for their use.

Concerning non-bank leases/hire purchases, 24.1% of advisors claim that their SME clients possess a strong willingness to use this funding, while 28.6% claim there is a very strong reluctance for short to medium-term investments. Just 23% of advisors deem there to be a strong willingness to use non-bank loans for such investments, while 28.3% are very reluctant to implement this funding source.

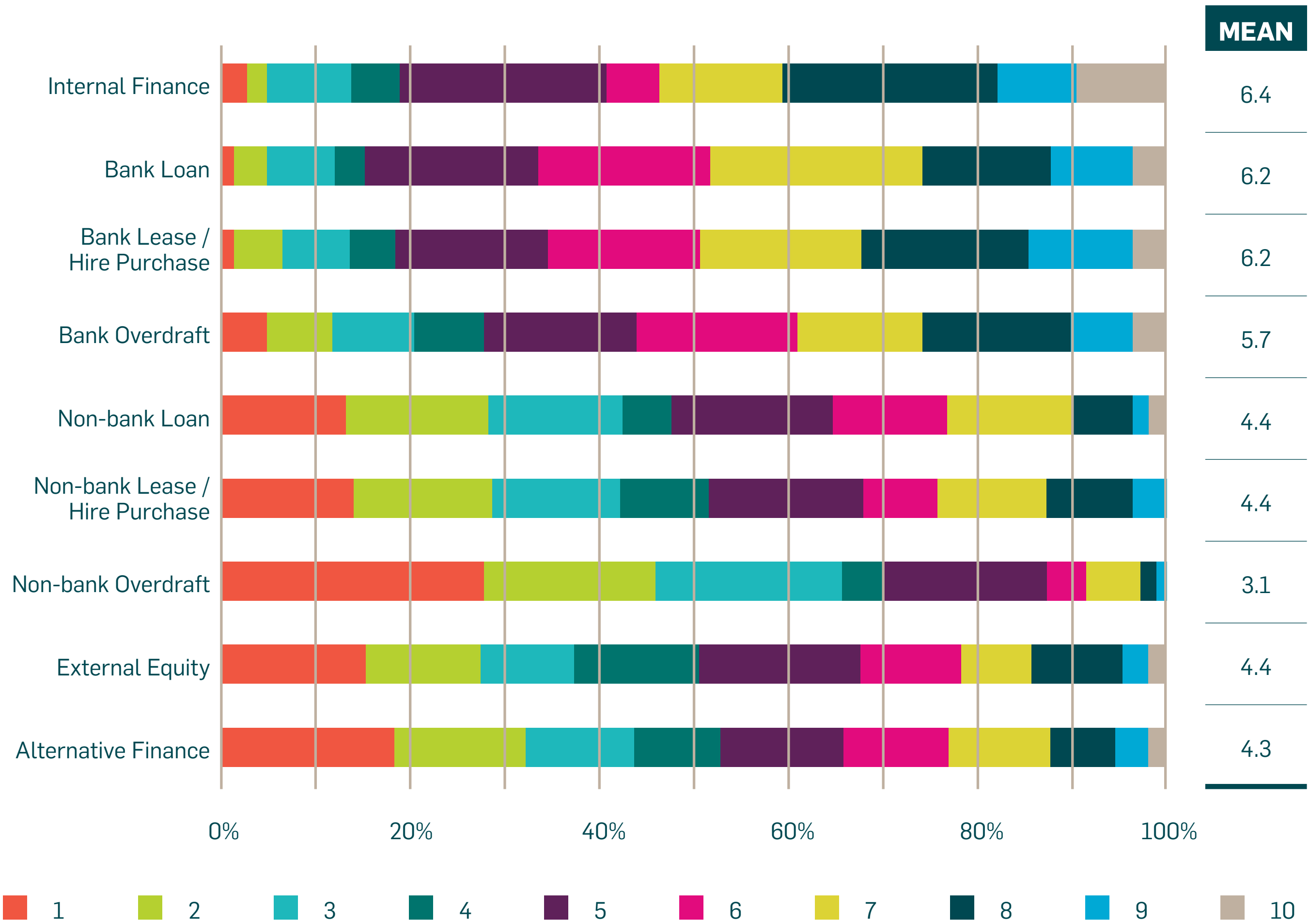
Non-bank leases/hire purchases and non-bank loans have both fallen to levels where the appetite is just below a neutral standing among SMEs for short- to medium-term investments. SMEs are reluctant to use non-bank overdrafts for short- to medium-term investments, given the mean score of 3.1. This represents a significant difference in comparison to bank overdrafts' mean value of 5.7, illustrating the perceived importance of debt providers in combination with the funding offered. 46.0% of advisors state that SMEs are very reluctant to implement overdrafts for short- to medium-term investments. These findings are important and may relate to the shorter-term nature of the investment, and the perceived relationship between this type of financing and shorter projects. Prior research produced by the ECB's Survey on the Access to Finance of Enterprises: October 2021 to March 2022) notes that trade credit is deemed to be relevant for 63% of Irish SMEs and leasing/hire purchase is found to be relevant for 48% of Irish SMEs (ECB, 2022).

The analysis suggests a difference of opinion between the viewpoints of the advisors and SMEs concerning the appetite for financing future investments. Furthermore, the importance of bank-based financing is evident amongst the advisors and could point toward the historical importance of bank funding as opposed to the relevant new arrival of non-bank finance into the SME market.

External equity finance (4.4) is slightly below the value whereby SMEs are equally open or opposed to using such finance. This represents an increase from the previous survey's findings (3.8), with 21.4% of advisors stating a strong willingness to use external equity. These findings provide some support to previous analysis produced by the ECB (2022), whereby 12% of Irish SMEs deemed equity to be a relevant external source of finance. According to the advisors surveyed, 27.7% of SMEs believe that external equity is a very reluctant funding source for investments. Consequently, the relationship between external equity finance and SMEs is interesting to note given the opposite results illustrated. Regarding sectors, the Scientific (5.9), Renewable Energy (5.9) and ICT (5.1) sectors have some appetite in implementing equity finance for short-term investments, while other sectors such as Agriculture (3.9) have little interest. These results demonstrate the untapped area of equity finance, the need to make it more accessible, the need to address additional legal expenses, and the fear of the unknown that can contribute to this value.

SMEs have some minor reluctance to use alternative finance options (4.3), which represents a small improvement from the previous survey findings (4.1). These options include financing activities such as crowdfunding, peer-to-peer lending, invoice trading, revenue-based trading and cryptocurrencies. While 22.8% believe that a strong willingness (7+) exists for SMEs to use alternative finance, 32.5% claim strong reluctance for SMEs in implementing such funding for short- to medium-term investments. SMEs are wary of alternative financing options, but they are not ruling them out. Their appetite for such sources may increase in the future, but internal finance and bank funding are the preferred options currently.

FIGURE 7: PREFERENCE OF SME FINANCING SOURCES FOR SHORT- TO MEDIUM-TERM INVESTMENTS



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

2.3 LONG-TERM INVESTMENTS FINANCING SOURCES

Advisors were then asked to rank the appetite of the client SMEs to utilise different financing options for long-term investments using the same scale of 1 to 10, per short- to medium-term investments.

A similar level of willingness to utilise differing funding types exists between short- to medium-term investments and long-term investments according to SME advisors, with some level of variance. As shown in Figure 8, the source of finance that SMEs are most willing to use to fund longer-term investments is bank loans (6.6) with 57.8% of advisors rating their clients' appetite to use such funding as very strong. When analysed in further detail, SMEs based in Agriculture (7.2), Scientific (7.1), Renewable Energy (7.0) and Hospitality (6.9) sectors have a stronger preference for such funding for long-term investments.

The remaining sources have a small willingness or firms are neither opposed nor open to implementing the funding options. Internal finance (5.8) is the second most favoured option, but shows a minor decrease from the previous iteration of the survey (6.3). However, 43.1% of advisors say SMEs possess a very strong appetite for such funding in long-term investments, which illustrates the level of importance of internal finance. When analysed by sectors, SMEs based in the Scientific (7.8), Agriculture (6.2), Manufacturing (6.1) and Construction (6.0) sectors have a stronger appetite than the sectoral average.

A slight willingness exists for using bank leases/hire purchases (5.7), demonstrating that these sources remain a suitable option. Further evidence of this is provided in the finding that 38.3% of advisors believe there is a strong willingness to use such funding. The slight willingness to implement leasing regardless of timeframe supports the finding by the ECB (2022) whereby the net demand for leasing/hire purchases amongst SMEs increased by 13%. The remaining sources, excluding external equity, have some degree of reluctance amongst SMEs when deciding upon the source of finance to implement for long-term investments. Bank overdrafts (4.7) are unlikely to be implemented for long-term investments, with 28.6% declaring a strong willingness to use the funding, yet 25% note a very strong reluctance. These figures illustrate the significant decrease in appeal for long-term investments that use bank overdrafts when compared to their use for short- to medium-term investments (5.7).

Reviewing the results of non-bank financing options, all three of the sources have had decreases in their willingness to be implemented by SMEs when compared to their short-term counterparts.

Non-bank loans (4.4) have a slightly negative connotation, which is a strong decrease compared to the bank loans' average value, with 30.9% of advisors declaring it to be a very reluctant source to implement. Just 23.6% of SMEs would use non-bank loans. The sectors that may have some level of appetite to use non-bank loans are the Renewable Energy (5.3) and Scientific (5.0)sectors, while the Administrative and Support (3.9) and the Motor Trade (3.9) sectors have the least level of appetite for non-bank loans.

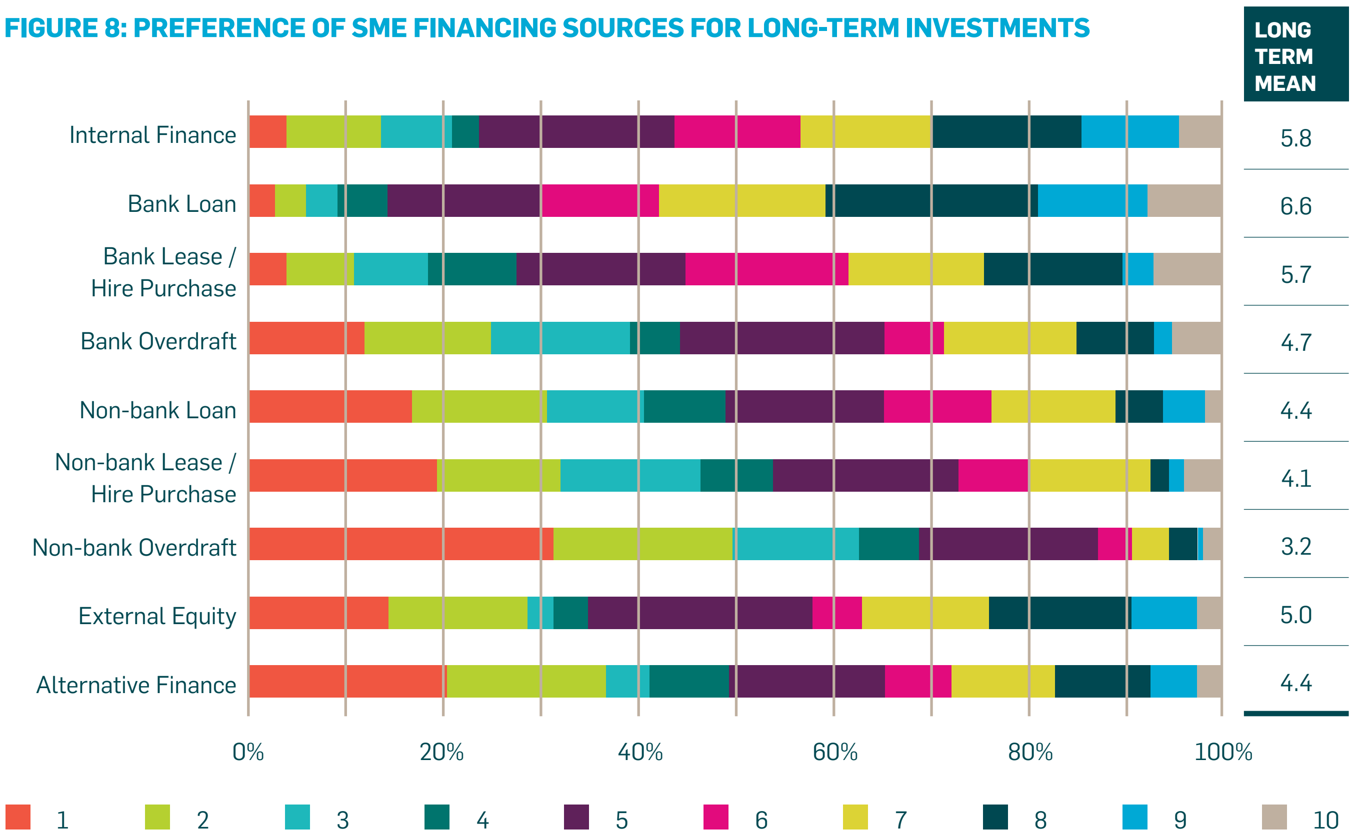
Non-bank leases/hire purchases (4.1) show a slight unwillingness to be used by SMEs when funding long-term investments, with 32.4% of firms declaring it to be a very unwanted source. SMEs have a hesitance to implement non-bank overdrafts (3.2), with a similar value to their score for short- to medium-term investments, with 50.0% declaring it a very reluctant source of investment finance.

External equity (5.0) and alternative finance (4.4) are both found to be less popular long-term investment finance options for SMEs when compared to internal finance and bank loans and bank leasing/hire purchases. Compared to the findings from the previous iteration of the survey, external equity (3.8) has substantially increased, while alternative finance (4.1) had a slight increase.

36% of advisors view external equity as a source that SMEs have a strong openness to using, but 29.0% state that it is a very reluctant funding source for such firms. This suggests a binary view of external equity exists, similar to the findings for short- to medium-term investments. When analysed by sector, SMEs based in the Scientific (6.2), ICT (6.0) and Renewable Energy (5.9) sectors are most open to using external equity to fund long-term investments. Regarding alternative finance, 28.0% of SMEs have a strong openness to using this source, while 37.0% of firms believe it to be a very reluctant type of funding, which further compounds the unwillingness of utilising the previous sources.

A slightly stronger willingness to use equity and alternative finance exists for long-term investments, compared with short- to medium-term investments. The EIB (2022) finds that 76% of Irish firms believe that their investment activities over the past three years have adequately matched their needs, which while a strong majority, is below the EU average of 82%. As discussed, the potential to support equity finance and alternative finance through more efficient regulation and provision of information may assist the 24% of firms that were not adequately financed to involve these funding sources.

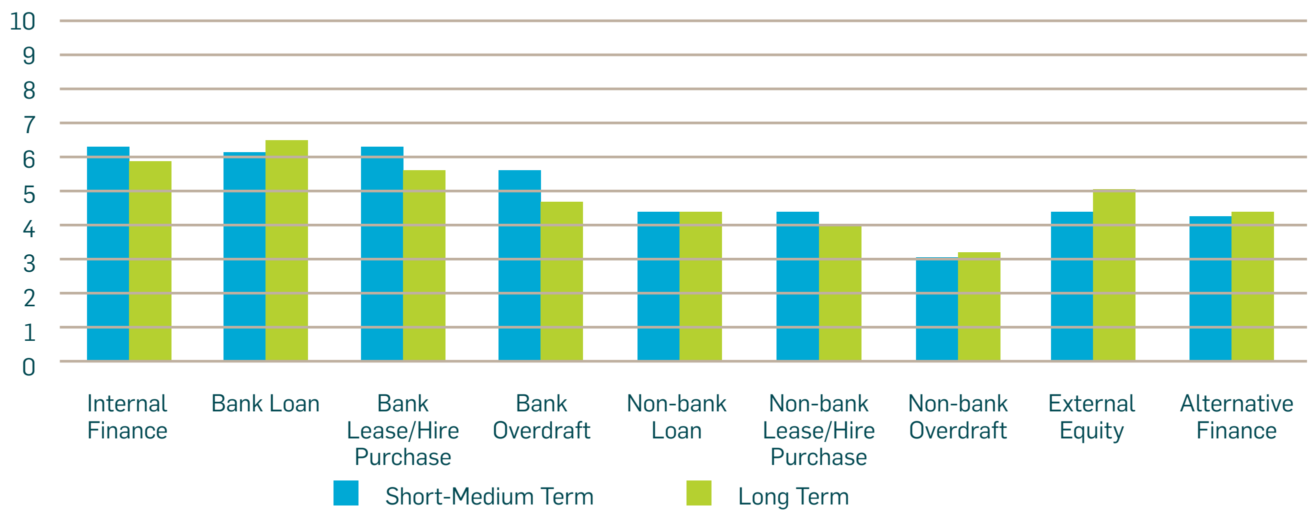
FIGURE 8: PREFERENCE OF SME FINANCING SOURCES FOR LONG-TERM INVESTMENTS



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

FIGURE 9: SME FINANCING SOURCES APPETITE COMPARING SHORT- TO MEDIUM-TERM INVESTMENTS TO LONG-TERM INVESTMENTS

Average Value Short-Medium and Long-Term Investment Financing



2.4
CURRENT FINANCIAL SOURCES

As shown in Figure 10, according to their advisors, the current capital structure of the SMEs consists of internal finance, with an average of 19.1% as the most used source.

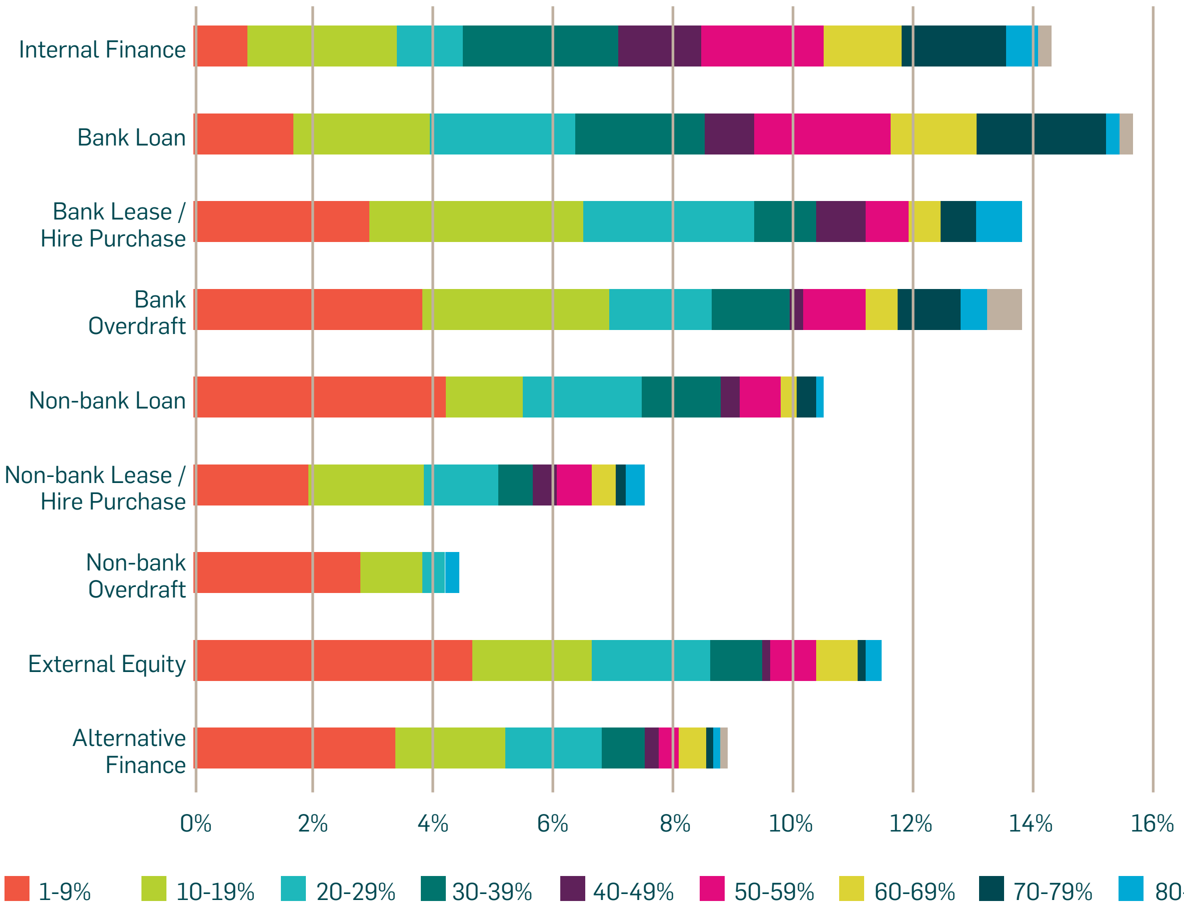
As found in Figure 7, internal finance represents the source of finance with the strongest willingness for implementation and is one of the strongest for long-term investments per Figure 8. The findings illustrated in Figure 9 provide support to this belief given the use of internal finance. Interestingly, prior research by the ECB (2019) denotes that profitable firms relied more on their internal funds (18%), more frequently than vulnerable firms. Firms that are not profitable and do not possess sufficient internal finance may be more likely to implement external sources to ensure growth or survival. Conversely, profitable SMEs may be content to continue implementing a financing path that limits external sources and utilises the available internal capital.

The use of bank loans (18.1%) closely follows internal finance, which represents how external sources are a critical option for funding SMEs. Bank overdrafts (13.6%) and bank leases/hire purchases (13.0%) are the next most implemented sources of funding by SMEs currently, according to their advisors. When these values are combined (44.7%), they are more than double the internal finance value.

Non-bank loans (9.1%) are a crucial source for SMEs, such as obtaining debt from family and friends or other financial firms. Supporting this value are non-bank leases/hire purchases (8.3%), which also play an important role in the capital sources being used by SMEs, according to their advisors. While non-bank overdrafts (2.2%) have a limited role, when non-bank options are combined (16%), they are shown to have an important role in the financing of SMEs in Ireland. The results further support the findings in Figure 7 and Figure 8 and illustrate the willingness of these SMEs to implement debt finance for investments.

As previously discussed, the potential for equity to be implemented for investments is evident and the current proportion (8.9%) provides support to the previously mentioned outlook of SMEs. The final source of funding is alternative finance, which represents an average of 7.7% of the capital among SMEs. Like equity funding, the potential for this source to grow in popularity is something that should be considered amongst stakeholders and policymakers as technology and increased awareness makes these sources more mainstream for SMEs.

FIGURE 10: PROPORTION OF CURRENT FINANCIAL SOURCES IMPLEMENTED BY SMES



PERCENTAGE PROPORTION OF FINANCE USED*
19.1%
18.1%
13.0%
13.6%
9.1%
8.3%
2.2%
8.9%
7.7%

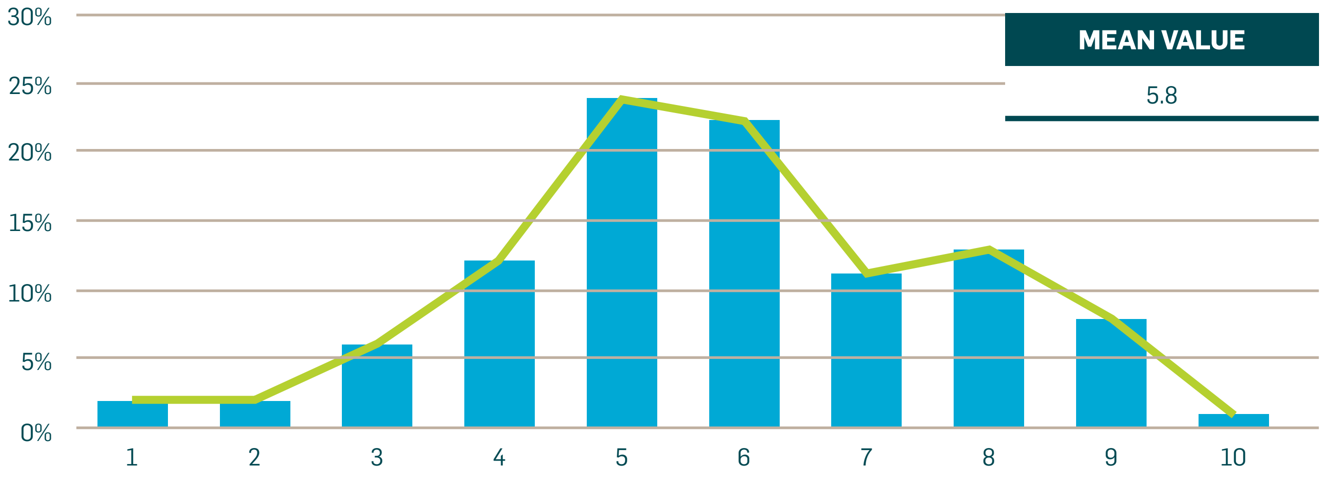
* Implementing ranking scale relevance

2.5 SME DEMAND FOR NEW DEBT FINANCE

Figure 11 shows that SMEs possess a medium level of demand (5.8) for new debt finance, which has remained similar to the pre-COVID-19 iteration of the survey (5.8).

32.5% of SMEs have a high demand for new debt finance, which represents a notable proportion of firms. The inability to meet the demand for new debt, due to a lack of adequate supply of external finance as illustrated in Figure 4 is supported. According to the SME Credit Demand Survey (2023), 17% of SMEs have applied for bank finance, while 17% are expected to apply for credit in the next six months, a notable increase from 7% in September 2021. which could be an indication of the business environment. Further findings from the Credit Demand Survey (2023) note that the expectation to apply for credit has increased significantly among small firms (21% from 8%) and medium-sized firms (23% from 8%). These findings provide context to the need for a continued effort to develop options to support SMEs that cannot obtain external sources of capital. When analysed by size, 23.9% of micro firms have a high demand for new debt finance, however, this increases substantially for both small (45.7%) and medium-sized (42.9%) firms. When further analysed, SMEs based in the Renewable Energy (6.8), Scientific (6.3), Manufacturing (6.2), Wholesale Trade (6.2) and Agriculture (6.1) sectors possess a stronger level of demand for new debt than the average value (5.8). These finding provides support to the appetite to implement debt finance for short- to medium-term investments and long-term investments, as discussed in section 2.2 and section 2.3.

FIGURE 11: SME DEMAND FOR NEW DEBT FINANCE



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

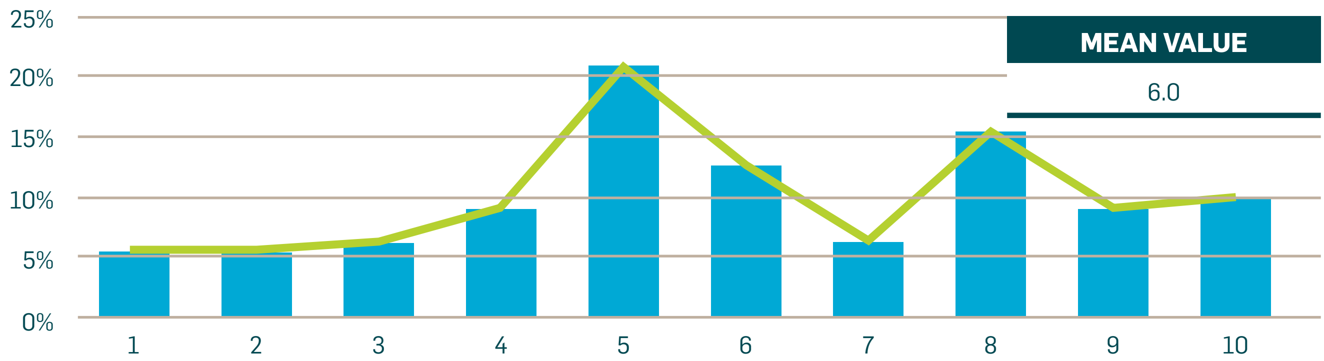
2.6
CAPITAL STRUCTURE ENGAGEMENT

Concerning capital structure, SMEs are deemed to have a limited level of strategic engagement regarding their funding sources and how they may impact business development and growth opportunities.

SME advisors provided an average score of 6.0, as shown on Figure 12, which suggests that SMEs recognise the importance of capital structure and may undertake a brief overview of any serious advantages or disadvantages when selecting their next source of capital. This is a notable increase from the previous iteration of the survey (4.7), which occurred before the onset of Brexit and COVID-19. SMEs now have greater respect for the available financing options and the corresponding strengths and weaknesses. When analysed by sector, SMEs based in the Real Estate (7.6), Wholesale Trade (7.3), Scientific (6.8) and the Motor Trade (6.5) sectors are more likely to review the impacts of their funding sources in regard to their level of debt and over-use of internal funding or equity finance. 40.5% of SMEs review the benefits and negative aspects of financing sources when selecting their funding type, to ensure their business is not over-reliant on a key source or ignoring an option that could benefit them.

Advisors state that 10.8% of SMEs obtain any source of finance without contemplating the advantages or disadvantages. Regarding the location breakdown, SMEs based in Galway (7.0), Cork (6.1) and Dublin (6.0) review the advantages and disadvantages to some degree, while firms in Clare (4.7) are more interested in obtaining funding than reviewing the impact on capital structure. When categorised by firm size, 34% of micro firms, 48% of small firms and 50% of medium-sized firms acknowledge the importance of reviewing the advantages and disadvantages of financing sources. Implementing an optimal capital structure tailored towards the firms' needs is unlikely for SMEs given the issues involved with obtaining enough capital, but the findings demonstrate its increasing importance as firms grow in size.

FIGURE 12: STRATEGIC ENGAGEMENT LEVEL OF CAPITAL STRUCTURE



Note: :1 = Obtaining any source of finance is the most important consideration 5 = Clients have some interest in the relative advantages and disadvantages. 10 = Clients pay close attention to the advantages and disadvantages of the funding source

3

FINANCIAL LITERACY AND EXPORTS

3.1 FINANCIAL LITERACY CAPABILITIES

Financial literacy is an important aspect for SMEs to ensure the efficient running of a business.

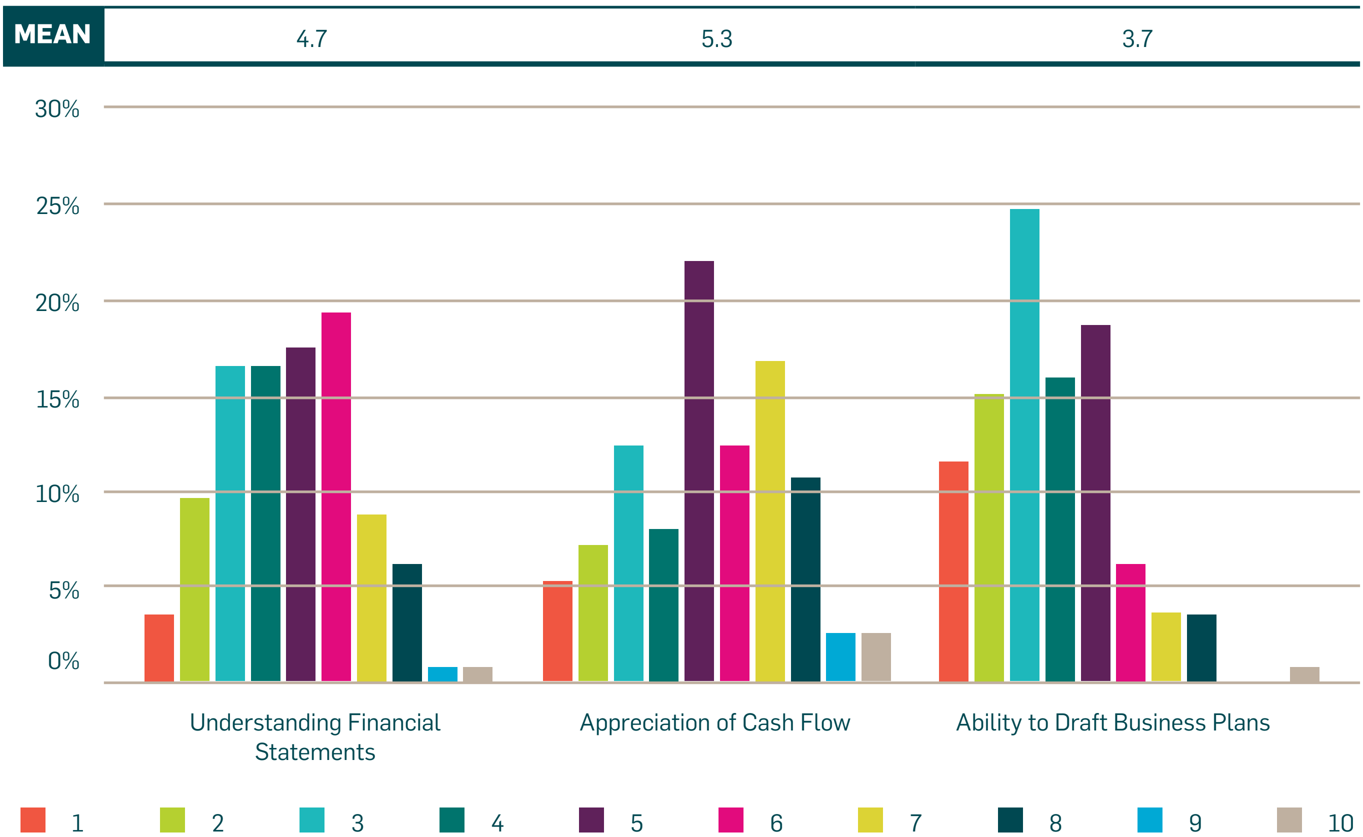
It relates to understanding financial statements, appreciation of cash flow importance and the production of business plans. According to advisors operating in the SME market, the average value of the capabilities amongst client SMEs, regarding the understanding of cash flow, is deemed to be adequate (5.3). Concerning SMEs' understanding of financial statements, the results indicate that they are slightly less than adequate (4.7), while the ability to draft business plans is deemed a minor inadequacy (3.7) and demonstrates a need for improvement to reach the required knowledge. These values compare with the previous survey's finding of financial literacy capabilities of 5.2, a value that incorporates all aspects of financial literacy. The comparative average value found within this survey is 4.6, which demonstrates the perceived decrease in financial literacy amongst SMEs as they deal with the effects of COVID-19 and Brexit.

When reviewed by firm size, it is apparent that micro firms display the most difficulties, according to their advisors. This is demonstrated, in the case of the appreciation of cashflows, where micro firms report a minimum appropriate level (4.9), followed by medium-sized firms (5.5) and small firms (5.8). Further analysis by firm size finds that, for the understanding of financial statements, micro firms have less than adequate knowledge (4.3), while small firms (5.2), followed by medium-sized firms (5.5), possess adequate knowledge. The ability to draft business plans is a skill in which all SMEs surveyed need improvement and better knowledge, with the most pressing segment being micro firms (3.3), followed by medium-sized firms (4.2) and small firms (4.3).

When advisors were asked to rank the capabilities of their client SMEs concerning their appreciation of cash flows, Figure 13 shows that 67.2% of SMEs have, at a minimum, adequate and necessary financial literacy knowledge. The advisors reported that 32.3% of their client SMEs had at least good knowledge regarding cash flows. Regarding the understanding of financial statements, SME advisors note that 53.5% of their clients have at a minimum, adequate and necessary financial literacy knowledge. While just 16.7% of SMEs are considered to have a good understanding of financial statements. When asked to provide a value on the ability of SMEs to draft business plans, 32.7% were deemed to possess the minimum level of the required financial literacy knowledge. When reviewing the percentage of SMEs that have a good ability to draft business plans, just 8.0% were deemed to have this level of knowledge. According to research undertaken by the SFA (2019), 46% of SMEs declared that their own knowledge of financial literacy was good or expert, while just 19% thought that Irish business owners possess good financial literacy knowledge. This finding highlights the perceived greater knowledge that SMEs believe themselves to have acquired in comparison to their peers.

Regarding the proportion of SMEs that have inadequate knowledge regarding financial statements, the advisors in this study gave a value of 29.8%, a significant figure. When examining the acknowledgement of cash flow, 24.8% have inadequate knowledge, while 51.3% of SMEs do not possess the ability to draft business plans, according to their advisors. A lack of adequate financial literacy can increase risks to SME viability, and thus it is an important topic on which to gather insights. To compare, research undertaken by MentorsWork (2022) found that SMEs stated their financial literacy is at a high level with a score of 77.6, with small firms accounting for the highest score of 81.5. These results illustrate how SMEs and their advisors may view their level of knowledge differently, and the importance of acknowledging a level of bias that may exist for each respective figure regarding this section. The gap between their perception of their financial literacy compared to their advisors' view demonstrates the importance of gathering data from different entities to illustrate a more coherent picture,

FIGURE 13: FINANCIAL LITERACY CAPABILITIES OF SMES



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

3.2 EXPORTING OVERVIEW

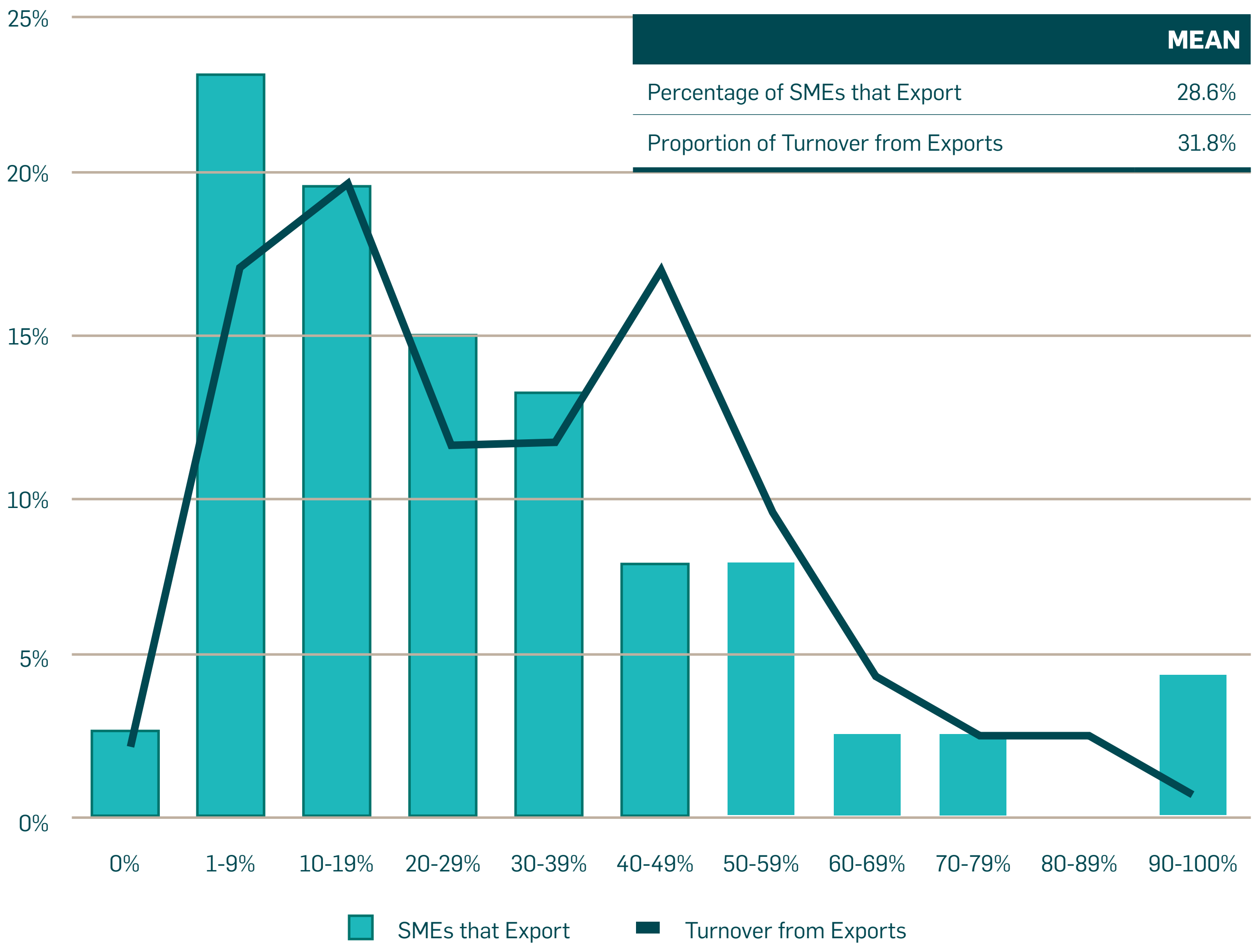
While not an option for all sectors, the ability to do business internationally is something that SMEs can utilise to benefit their growth and increase sales.

As illustrated in Figure 14, advisors state that an average of 28.6% of their client SMEs currently export. This compares to the previous iteration's findings, before the advent of COVID-19 and Brexit, that 27% of firms exported, which demonstrates a stable value. Perhaps SMEs moved their sales strategy towards the EU instead of the UK given the additional regulations and expenses (Government of Ireland, 2019). According to the SME Credit Demand Survey (2023), 19% of Irish SMEs exported some goods or services between October 2021 to September 2022, which is within a similar range presented in this report. Further analysis of the findings establishes that a significant discrepancy exists between firm size and exporting whereby just 22.0% of micro firms export, compared to 33.6% of small firms and 51.9% of medium-sized firms. When analysed by sector, exporting is most prevalent amongst the SMEs within the Scientific (54%), ICT (39%) and Renewable Energy (38%) sectors, while Agriculture (26%) is just below the average value for all sectors.

When asked about the proportion of SME revenue generated from exports, the average value reported by their advisors is 31.8%. Given the impact on trade and supply chains due to COVID-19 and Brexit, this value is notable. However, it also represents a stable level compared to the previous iteration's value of 31%. According to the SME Credit Demand Survey (2023), the average percentage of total turnover from exports was valued at 24%, with micro firms accounting for 21%, small firms at 24%, and medium-sized firms at 27%. In comparison to these figures, further analysis of the data finds that exports account for at least 50% of their turnover in the case of 20.5% of SMEs. When analysed by sector, exporting accounts for a substantial level of revenue for SMEs based in the Scientific (45%), ICT (44%) and Renewable Energy (40%) sectors. The importance of an open economy and the willingness of stakeholders and policymakers to encourage international trade for firms of all sizes is something that should be further encouraged and developed as SMEs seek growth and expansion.

FIGURE 14: PERCENTAGE OF SMES THAT CURRENTLY EXPORT AND THEIR PROPORTION OF TURNOVER GENERATED FROM EXPORTS

	MEAN
Percentage of SMEs that Export	28.6%
Proportion of Turnover from Exports	31.8%



4

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

4.1 ENVIRONMENTAL AND SOCIAL POLICIES

According to their advisors, an average of 20.7% of their SME clients possess an environmental policy that sets out clear commitments and targets to improve their environmental footprint.

As illustrated in Figure 15, 7.4% of advisors surveyed claim that none of their clients have such a policy, while just 1.9% of SME advisors surveyed claim that at least 60% of their clients have an environmental policy. When reviewed by size, advisors noted that 16.0% of micro firms, 27.3% of small firms, and 25.9% of medium-sized firms have an environmental policy in place. Findings produced by Euronext (2022) state that limited resources and problems identifying the relevant ESG criteria are issues among firms seeking to implement such policies. This finding demonstrates not only the substantial opportunity amongst SMEs to undertake such policies but also highlights the challenges going forward. According to their advisors, just 6% of SMEs in the Motor Trade sector and 16% of SMEs in the Agriculture sector possess an environmental policy, while 31% of SMEs in the real estate sector have such a policy.

Advisors claim that 28.8% of their SME clients have a social policy that supports diversity and equal opportunity. 8.3% of advisors claim that none of their clients have implemented such a social policy. According to their advisors, the largest proportion of SMEs that have a social policy fall into the following categories: 1-9% (20.4%), 10-19% (15.7%), and 20-29% (15.7%). Similar to the environmental policy findings, over 70% of the client SMEs do not have any such social policy, which again represents both a challenge and an opportunity for businesses and policymakers alike. This finding relates to findings by the Azets SME Barometer Spring 2022 whereby 53% of SMEs do not believe ESG will majorly impact their firm in the next two years (Azets, 2022). The advisors claim that 48% of SMEs within the Renewable Energy sector and 40% of those within the Real Estate sector have a social policy.

The growing importance of social outcomes provided by businesses has become more pressing over the past decade and evaluating firms by not only their financial performance but also their social benefits and environmental impacts will prove critical. Research produced by KPMG (2022) finds that 83% of large firms, which are defined as having over 250 employees and an annual turnover of at least €50 million or a balance sheet of greater than €43 million, acknowledge that implementing an ESG policy will improve their business. However, just 30% of these large firms state they have a strategy to instigate such actions. Concerning findings within this study, when reviewed by size, advisors noted that 23.5% of micro firms, 37.6% of small firms, and 26.4% of medium-sized firms have a social policy in place.

FIGURE 15: PERCENTAGE OF SMES THAT HAVE AN ENVIRONMENTAL POLICY OR SOCIAL POLICY THAT SETS OUT CLEAR COMMITMENTS AND TARGETS

	MEAN
Environmental Policy	20.7%
Social Policy	28.8%

4.2
ESG AND INVESTMENT DECISIONS

While the findings in Figure 15 illustrate that the majority of SMEs do not possess a social or environmental policy, an important area to focus on is whether ESG elements are considered in investment decisions.

The importance of this area is that while it may not relate to an actual written policy, the relevance of the ESG components when deciding upon the future aspects of their firms is an important feature to ascertain.

The findings presented in Figure 16 demonstrate that some consideration regarding ESG aspects is undertaken when finalising investment decisions. In relation to the environmental elements, which can include aspects such as the impact on carbon emissions, supply of raw materials and impact on the local ecosystem, amongst others, SMEs note that they have some considerations (4.9). When analysed by sector, the importance of environmental impact is apparent amongst SMEs based in the Renewable Energy (6.5) and the Real Estate (5.8) sectors, but it is of less importance for SMEs in the Motor Trade (4.5) and Wholesale Trade (4.7) sectors compared to the overall average.

18.3% of SMEs do not believe the environmental impacts are worth considering when selecting an investment decision, while 57.8% of firms have some consideration of their impact. According to Azets (2022), just 15% of firms are measuring their carbon output, while 29% of SMEs are attempting to reduce their carbon emissions. These findings demonstrate the growing importance of environmental actions and how there is further scope for SMEs to review the impact of their decisions on the environment. As demonstrated by micro firms (4.4), small firms (5.5) and medium-sized firms (6.0), it is apparent that as firms grow, the importance of the environment in investment decisions also grows.

When reviewing the impact of social elements on the investment decision, the results are similar to environmental considerations, with a value of 4.7, with 55.9% of SMEs taking it into consideration. This consists of topics such as high-quality workplace conditions and ethical choices the firm can make. The sectors in which the social elements are considered prior to an investment decision higher than the average value is within the Real Estate (5.9), Renewable Energy (5.6) and Administrative and Support (5.2) sectors. According to the advisors, 21.1% of SMEs do not take the social implications into account when deciding upon their investments, which represents a noteworthy proportion of firms. When reviewed by size, there are similar values for micro firms (4.3) and medium-sized firms (4.3), while small firms (5.3) deem it to be a more relevant aspect for investment decisions.

FIGURE 16: RELEVANCE OF ESG ELEMENTS WHEN ANALYSING INVESTMENT DECISIONS

LONG TERM	MEAN
Environmental	4.9
Social	4.7
Governance	5.2

1 = Not at all relevant, 5 = Have some consideration, 10 = Key criteria of decision making

The final element of ESG, governance, is found to have a greater level of relevance (5.2), with 58.7% of SMEs considering such impacts in their decision-making. This area can cover aspects such as not engaging in any illegal conduct and ensuring no conflicts of interest occur. As illustrated in Figure 16, 11.0% of SMEs view governance as a crucial criterion for decision-making, more than double that of the environmental and social elements. When reviewed by size, a similar result for social elements is found to exist for governance elements. Similar values are noted for micro firms (4.9) and medium-sized firms (5.1), while advisors claim that small firms (5.8) consider it to be a more relevant aspect for investment decisions. Firms based in the Renewable Energy (7.1) sector view this as an important aspect before an investment, followed by the Real Estate (6.1) sector. The ESG figures illustrated in this research provide support to findings presented by EY (2021), which states that 60% of Irish businesses believed that ensuring their businesses are sustainable was very important to them. The findings provide a foundation to further develop the need for support towards ESG implementation and communicate the importance of sustainability for SMEs both now and in the future.

5

BUSINESS ISSUES, OBJECTIVES AND ECONOMIC SHOCKS

5.1 BUSINESS ISSUES

Advisors were asked to provide a score on the significance of business issues amongst their SME clients, with human capital issues (7.3) considered the most important.

As illustrated in Figure 18, human capital (7.3) is the most pressing business issue and this value increased from the previous survey value (6.5), demonstrating the growing shortage of skilled staff. Previous research produced by the EIB (2022) supports the finding that the lack of available skilled staff (85%) is a major barrier to investment among Irish firms, and this finding increased from the previous year (72%). When filtered by firm size, it is apparent that this issue is deemed more important as firm size increases, whereby micro (7.1) and small (7.3) firms have relatively similar values, this increases further for medium-sized firms (8.1). These findings illustrate the challenges that SMEs have in obtaining and retaining sufficient human capital to ensure objectives are met and growth can be achieved. The difficulty for SMEs in offering employee benefits such as a clear career path to their staff, competitive remuneration, and good levels of annual leave compared to those offered by larger firms and multinational enterprises (MNEs) is a considerable challenge to maintaining key staff. When reviewed by sector, this issue is most prevalent amongst SMEs in the Real Estate (7.8), Wholesale Trade (7.7), and Transport and Storage (7.7) sectors. Further analysis finds that 35.5% of SME advisors believe that human capital is a very important issue facing firms, while 91.8% claim it to be at least a moderately important issue. Research produced by Ibec (2022) provides support to these findings, where over 80% of Irish SMEs deemed staff retention as a major business issue.

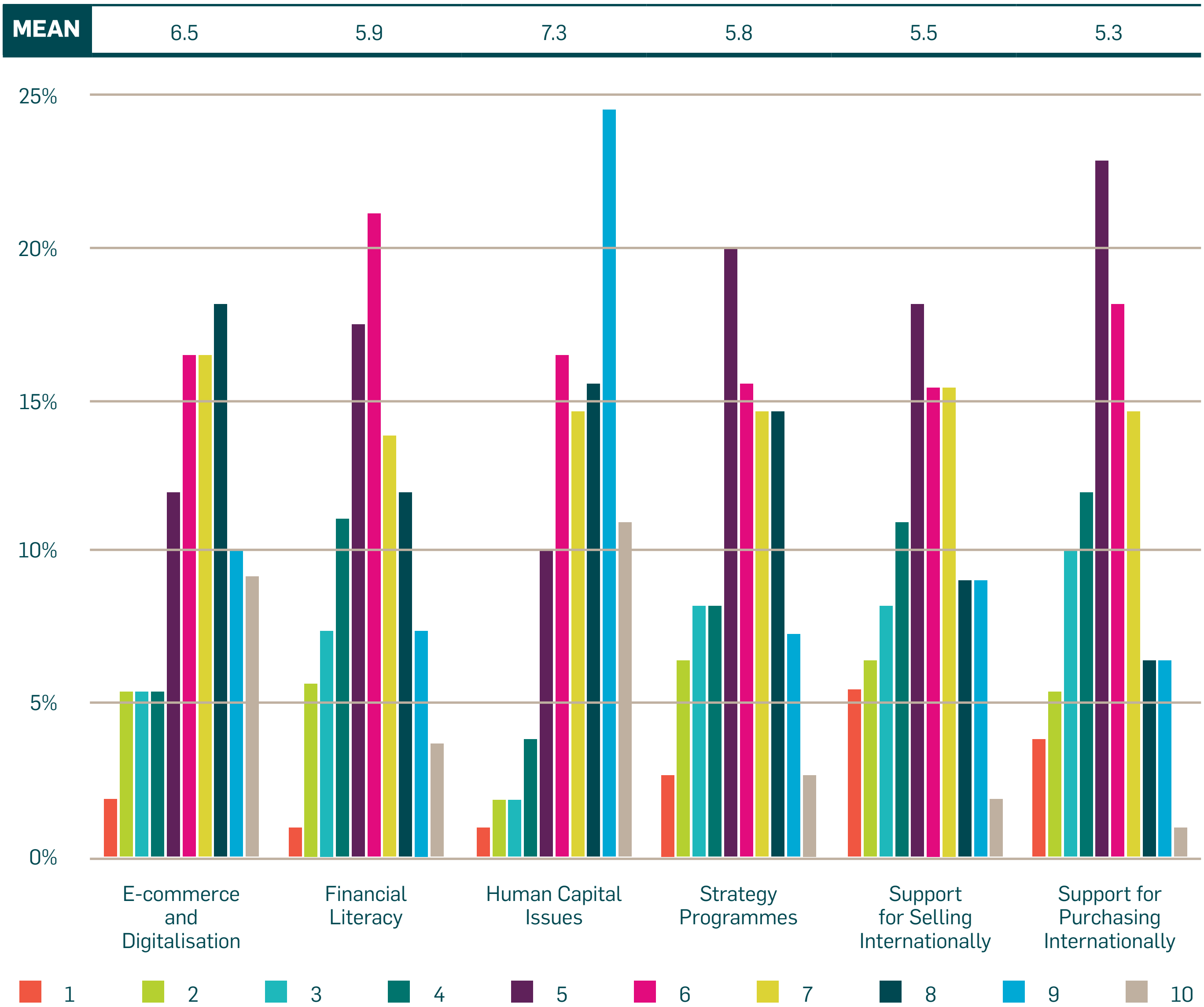
E-commerce and digitalisation (6.5) continue to be important issues that SMEs should address. The value has remained static from the previous survey (6.5), illustrating that COVID-19 had no impact on the level of importance, despite the growth of online sales due to store closures. The importance of data collection, implementation of artificial intelligence (AI) to improve efficiencies and targeted marketing are all elements that could be utilised if firms implement digitalisation and move their business towards a digitally run operation. Certain sectors may not fully benefit from digitalisation, and larger-sized firms may have the human capital available to work on customer-relationship management and data analysis full-time, as it is critical to their success. When analysed by sector, this issue is most prevalent amongst SMEs in the Renewable Energy (7.5), ICT (7.1) and Wholesale Trade (6.9) sectors, while it is of the least importance within the Motor Trade (5.1) sector. The analysis finds that the importance of these issues heightens as firm size increased. Micro (6.4) and small (6.5) firms denote this issue at a similar level of importance, but medium-sized firms (7.2) deem it to be of more importance, according to their advisors. This illustrates the key role e-commerce and digitalisation can have for medium-sized firms when seeking to strengthen and nurture customer relationships to improve their growth.

The issue of support for selling internationally (5.5) and the support for purchasing internationally (5.3) are deemed to be of moderate importance according to the advisors. The issue of support for international sales has decreased in importance compared to the previous survey findings (6.5) and this may relate to improved Government supports due to the challenges presented by Brexit and COVID-19. It is important to acknowledge the issue of international supply chains and how this may hamper business, given that it is a known issue for firms of all sizes. As previously discussed, and illustrated in Figure 14, a significant proportion of SMEs export and, with an average of 31.8% of revenue generated from exports, it is an issue that needs to be managed effectively. According to their advisors, 10.9% of SMEs deem the need for support for selling internationally as a very important issue to address, while just 7.3% of SMEs view support for purchasing internationally as a very important issue.

Strategy programmes (5.8) are found to be of moderate importance amongst SMEs and can relate to such topics as sustainability, producing new products/services, entering new markets, and reaching new business objectives. Advisors believe that 10.0% of SMEs view strategy programmes as a very important issue to address, while 9.1% of SMEs describe this as an issue of no importance.

According to their advisors, financial literacy programmes (5.9) are an issue of moderate importance for SMEs, which is the same as the previous survey's value (5.9). As previously discussed, SMEs are not in a strong position regarding their ability to draft business plans, understand financial statements and acknowledge the importance of cash flow. A sectoral analysis finds that SMEs based in the Motor Trade (5.4) and Transport and Storage (5.5) sectors deem it to be of the least importance, while the Scientific (7.1) and Renewable Energy (6.8) sectors are those in which it is found to be most important. When the results are compared, it is evident that there is a need to address this issue amongst SMEs in the future. According to their advisors, 11.0% of SMEs deem financial literacy to be an issue of the utmost importance, with 75.2% acknowledging it is an issue of at least moderate importance.

FIGURE 18: IMPORTANCE OF BUSINESS ISSUES FOR SMES



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

5.2 OBJECTIVES

When asked to rate the importance of objectives for their SME clients, it is apparent that advisors believe that four key objectives are seen as more vital than others.

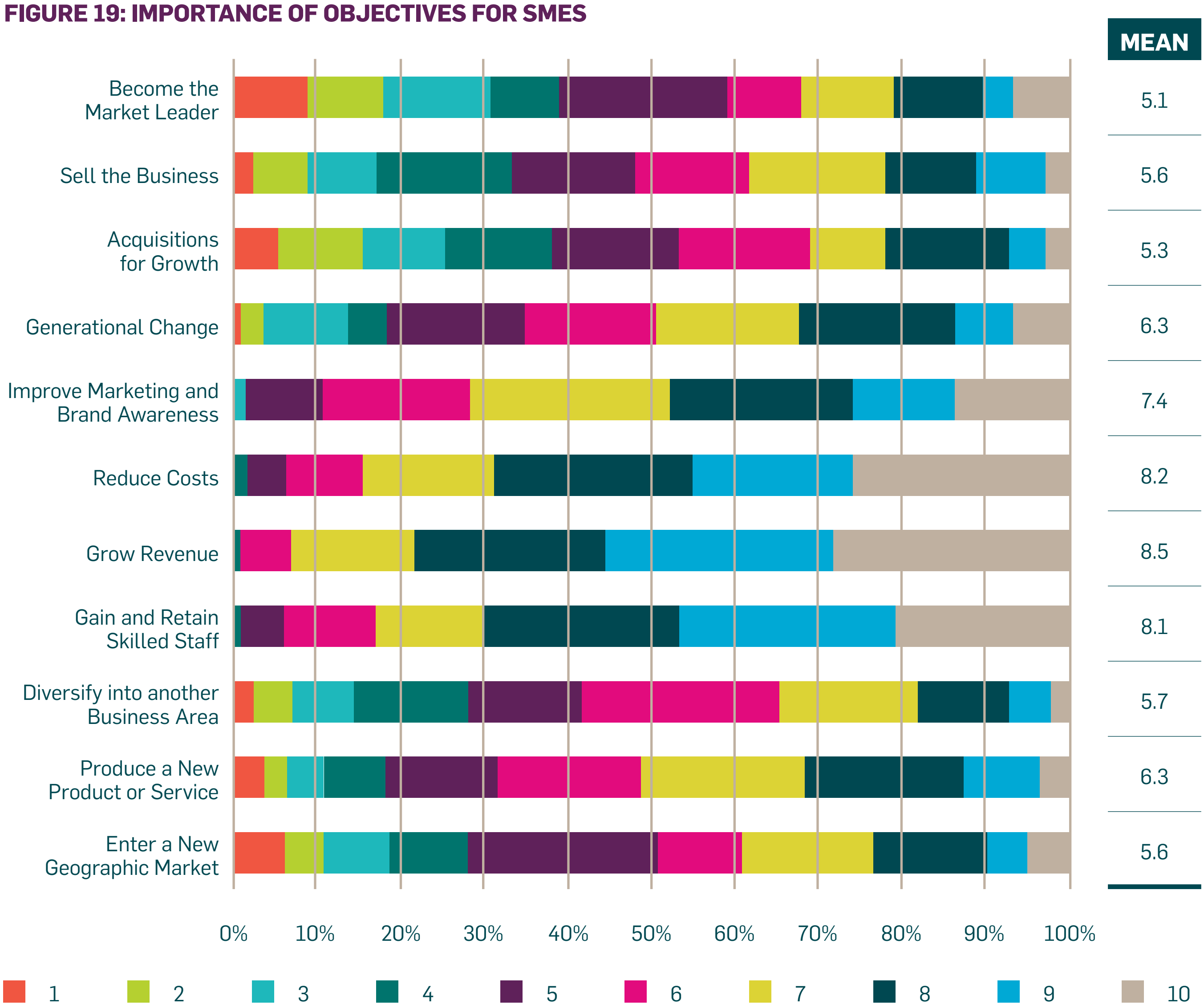
Figure 19 illustrates that growing revenue (8.5) is the most crucial objective according to the advisors and is just below the level of "very important". The impact of COVID-19, Brexit and the war in Ukraine, among others, may result in increasing revenue becoming an objective of higher importance than usual. Fear of the unknown exists in the marketplace, and one method to help firms to survive any hardships or external market changes is to improve their revenue stream. Findings from Ibec (2022) illustrate the importance of revenue growth, with 60% of SMEs expecting to increase their revenue in the next 12 months. Further analysis finds that 55.5% of advisors believe that growing revenue is a very important objective for SMEs, which illustrates the crucial impact revenue can have on accomplishing other goals and objectives. The latest findings from the SME Credit Demand Survey (2023) note that 56% of businesses increased their turnover between October 2021 to September 2022. Among those SMEs that increased turnover, 23% had a slight increase of 1%-9%, while 22% reported an increase larger than 30%.

The next objective of highest priority according to the advisors is reducing costs, which is also just below the level of "very important" (8.2). If this objective is achieved in conjunction with maintaining or increasing revenue, this will result in higher profitability and help ensure the survival of these firms. The impact of inflation has resulted in the consumer price index (CPI) rising by 8.2% between September 2021 and September 2022, with electricity costs up 36.2% and gas prices up 53.1% (CSO, 2022). The ability for SMEs to continue trading in this time of growing expenses can be managed by reducing discretionary costs and perhaps changing opening hours and/or the products/services offered to negate these increased expenses. Another such method is to implement improved energy efficiencies, with the SME Credit Demand Survey (2022) stating that 35% of SMEs will seek to invest in targeted improvements over the next 12 months. Further analysis of the data finds that 45.0% of advisors believe reducing costs is an objective of the utmost importance. In support of this finding, research produced by the SFA (2022) notes that rising business costs is the main challenge (67%) facing micro and small firms. This finding further illustrates the uncertain position SMEs are currently in, with little ability to slow inflation, and the need to reduce costs where possible.

Another objective of high importance is to recruit and retain skilled staff (8.1), as without key skill sets, the current and future goals of the SME will be difficult to obtain. This value relates strongly to previously discussed findings that examined business issues, whereby human capital issues (7.3) were highlighted as an obstacle which SMEs must address. 46.4% of SME advisors believe that recruiting and retaining skilled staff is the most pressing objective. This finding supports previous research, HR Practices in Ireland 2022, produced by CIPD (2022), in which 85% of Irish firms have or will face a skills shortage, while 36% state that they had a notable skills shortage in the past 12 months that would negatively impact their business. When analysed by sector, it is of most importance amongst SMEs based in the Renewable Energy (9.0), Manufacturing (8.3) and ICT (8.3) sectors and of least importance within the Real Estate (7.8) sector.

Improving marketing and brand awareness is found to be an important objective (7.4) amongst SMEs and can relate directly to the previous objective of growing revenue (8.5). The important role that a strong brand plays in customer loyalty should not be undermined or ignored. Previous findings in this survey note that e-commerce and digitalisation (6.5) are business issues that SMEs should address. In a global survey produced by Ipsos (2022), almost 50% of SMEs noted they would seek to develop a greater online presence, while more than 50% stated that personalised advertisements and targeted marketing are more effective than traditional marketing and advertising campaigns. When analysing the results, 27.5% of SMEs deem the objective of improving marketing and brand awareness as very important (9+), which illustrates the importance of customer engagement in times of uncertainty.

FIGURE 19: IMPORTANCE OF OBJECTIVES FOR SMES



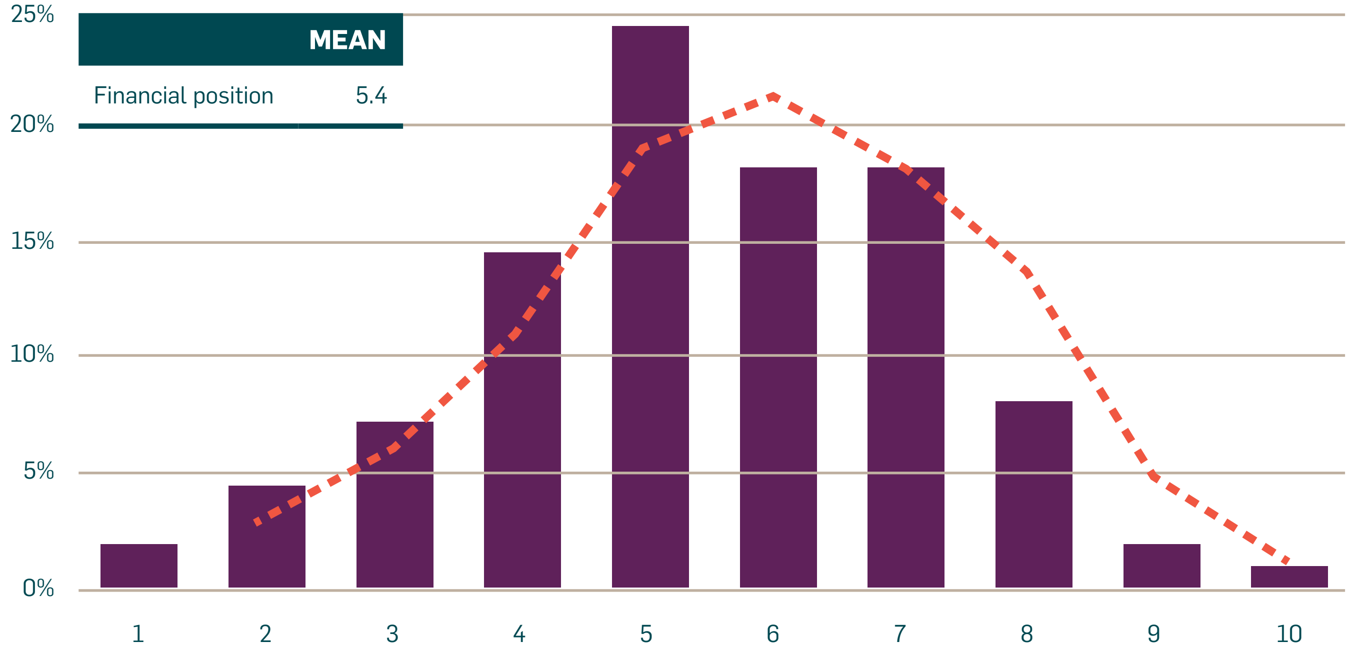
5.3 ECONOMIC SHOCKS AND FINANCIAL POSITION

According to their advisors, SMEs are in a tolerable financial position (5.4), as illustrated in Figure 20, meaning they would be able to survive any financial shocks or market changes, but not without some impact.

COVID-19, Brexit and the invasion of Ukraine, combined with inflation, have affected businesses throughout Ireland with varying degrees of hindrance. 13.6% of SMEs are in a weak or very weak position, which means any further economic shocks will result in many insolvencies and closures. When analysed by sector, the SMEs that are in the strongest comparable position are in the Renewable Energy (6.6) and Agriculture (6.0) sectors, while the Real Estate (5.0) and Scientific (5.1) sectors are in the weakest position. According to PwC (2022), 84,000 Irish firms were availing of the Revenue debt warehousing scheme as of July 2022, accounting for almost €3 billion in outstanding taxes. PwC estimates that the value of insolvencies due to business failures may exceed €2 billion throughout 2022, as business failures remain at historic low levels due to Government supports provided to cushion against the impact of COVID-19. These findings are supported by the research figures, which demonstrate that, while SMEs on average may be in a tolerable position, additional economic shocks could further negatively impact SMEs throughout Ireland. This finding positively relates to the previously discussed main objectives of SMEs in growing revenue, cutting costs, and recruiting and retaining skilled staff. In relation to location, firms based in Clare (4.3) are in a less than tolerable position, while SMEs within Cork (5.8) and Dublin (5.7) are in a more than tolerable position than the national average.

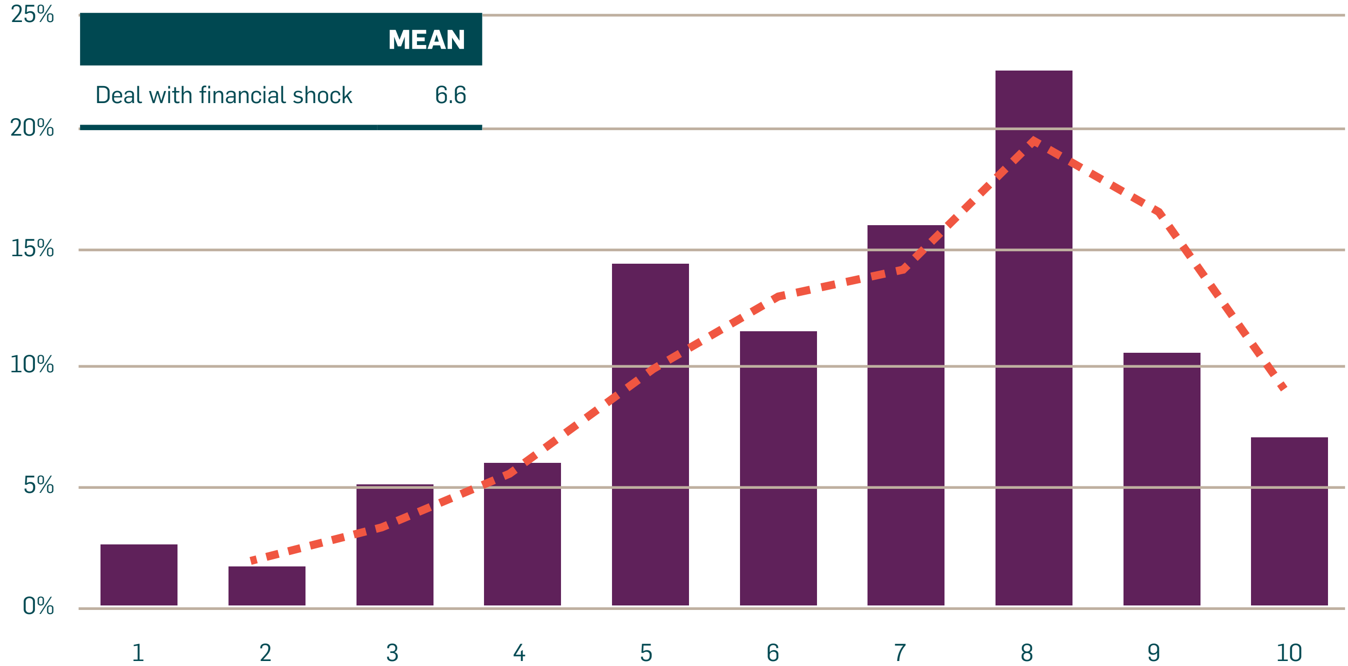
As shown in Figure 21, when advisors were asked to rank how well SMEs were able to deal with a financial shock such as COVID-19, there was an overall positive response (6.6), which resulted in a score of “better than expected”. This is better than the result within the previous version whereby the ability to deal with financial shocks or market changes was viewed as moderate (4.5), demonstrating a significant improvement. Regarding the sectoral analysis, SMEs based in the Renewable Energy (8.0), Transport and Storage (7.1) Real Estate (6.7), Professional Services (6.7) and Agriculture (6.9) sectors dealt better with COVID-19 and Brexit than the overall value (6.6). Further analysis of the data shows that 18.2% of advisors claim that SMEs were able to deal with the impacts of COVID-19 much better than expected, while 83.6% of SMEs dealt with the economic shock as “expected or better”. The financial assistance provided by the Government, such as providing credit support, wage subsidies, unemployment payments, business grants, tax deferrals and payment moratoria, will have played a positive role in this average score.

FIGURE 20: CURRENT FINANCIAL POSITION OF SMES TO DEAL WITH ANY FINANCIAL SHOCKS OR MARKET CHANGES



Note: 1 = Very weak position, 5 = Tolerable position, 10 = Very strong position

FIGURE 21: ADVISORS' OPINION ON THE ABILITY OF SMES TO DEAL WITH A FINANCIAL SHOCK SUCH AS COVID-19



Note: 1 = Very weak position, 5 = Tolerable position, 10 = Very strong position

6

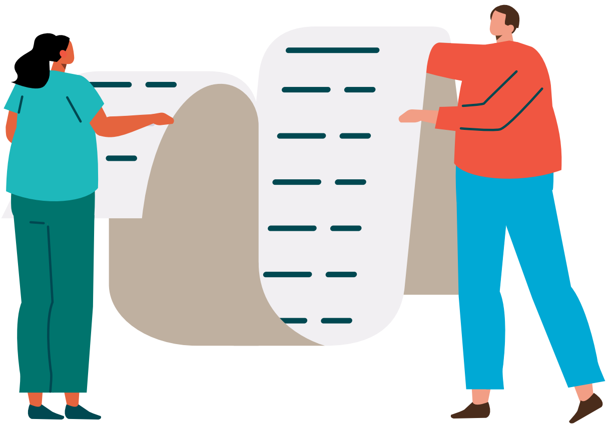
FINANCIAL HEALTH INDEX AND KEY RESULTS BY SIZE

FINANCIAL HEALTH INDEX AND 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 the level of 4.7, which indicates the financial health of the SME market is just below a moderately acceptable position and has scope for improvement.

This is a small decrease from the 2020 value of 4.9 and illustrates how the impacts of COVID-19 and Brexit have not fully damaged the perceived health of the financing market, but this may be due to Government support.

In summary, micro firms find the overall financing market most difficult, with an index value of 4.3, a decrease from 4.5. Interestingly the value among small firms has remained similar at 5.2, an increase from 5.1, while medium-sized firms are at the same level with 5.2, demonstrating a notable decrease from the previous value of 5.6. These results demonstrate that as firms grow and mature, the overall financing market become less of an issue, but the overall values illustrate that it is an area that is not in a generally healthy position. 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.



ANALYSIS TOPIC	2022 SURVEY SME RESULT	MICRO	SMALL	MEDIUM
SME Engage Pay Advice	5.7	5.0	6.5	6.4
Short-Med Invest: Internal Finance	6.4	6.5	6.2	6.4
Short-Med Invest: Bank Loan	6.2	6.1	6.3	6.5
Short-Med Invest: Bank Lease	6.2	6.1	6.2	6.9
Short-Med Invest: Bank Overdraft	5.7	5.7	5.8	5.1
Short-Med Invest: Equity	4.4	4.6	4.5	3.7
Short-Med Invest: Alt Finance	4.3	4.2	4.7	3.9
Short-Med Invest: Non-Bank Loan	4.4	4.4	4.3	4.6
Short-Med Invest: Non-Bank Lease	4.4	3.8	4.6	6.2
Short-Med Invest: Non-Bank Overdraft	3.1	3.0	3.3	3.3
Long Invest: Internal Finance	5.8	6.0	5.8	5.3
Long Invest: Bank Loan	6.6	6.6	6.7	6.9
Long Invest: Bank Lease	5.7	5.8	6.0	4.9
Long Invest: Bank Overdraft	4.7	4.9	5.0	3.2
Long Invest: Equity	5.0	5.1	5.0	5.0
Long Invest: Alt Finance	4.4	4.4	5.1	2.8
Long Invest: Non-Bank Loan	4.4	4.4	4.8	3.5
Long Invest: Non-Bank Lease	4.1	3.9	4.7	3.5
Long Invest: Non-Bank Overdraft	3.2	3.3	3.5	1.8
Capital Structure Strategic Importance	6.0	5.7	6.3	6.2
Demand New Debt Finance	5.8	5.5	6.3	6.2
Financial Literacy - Financial Statements	4.7	4.3	5.2	5.5
Financial Literacy - Cash Flow	5.3	4.9	5.8	5.5
Financial Literacy - Draft Business Plans	3.7	3.3	4.3	4.2

ANALYSIS TOPIC	2022 SURVEY SME RESULT	MICRO	SMALL	MEDIUM
% SMEs that Export	3.4	2.7	3.8	5.7
% Value of SME Export Turnover	3.7	3.2	4.3	4.4
Investment Gap	5.3	5.4	5.3	4.9
Barrier External Finance: Comprehensive Info	5.7	5.6	5.8	5.6
Barrier External Finance: Personal Guarantee	7.5	7.4	7.9	7.1
Barrier External Finance: Inadequate Collateral	7.1	7.3	7.3	5.8
Barrier External Finance: High Proportion Intangible Assets	5.2	5.4	5.0	4.8
Barrier External Finance: Cost of Credit	5.2	5.4	5.0	5.0
Barrier External Finance: Time & Effort to Apply	7.0	7.2	6.7	6.5
Barrier External Finance: Previous Negative Experience	6.6	6.9	6.4	6.4
Current SME Position: Appetite for Borrowing	4.9	4.6	5.1	5.5
Current SME Position: Uncertainty Perception	6.9	6.6	7.0	7.6
Current SME Position: SME Current Investment Level	4.7	4.5	5.1	4.5
Current SME Position: Future Investment Expectation	5.3	5.2	5.4	5.3
Current SME Position: Risk Appetite	5.1	5.1	5.2	5.4
Ability to deal with financial shocks such as COVID-19	6.6	6.3	7.0	7.0
Current financial position post COVID-19	5.4	5.1	6.0	5.1
ESG Investment - Environmental	4.9	4.4	5.5	6.0
ESG Investment - Social	4.7	4.3	5.3	4.3
ESG Investment - Governance	5.2	4.9	5.8	5.1
Calculated Index Value	**4.7**	**4.3**	**5.2**	**5.2**

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GLOSSARY AND ACRONYMS

TABLE I: 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 to increase spending on hiring and creating 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.

TABLE II: LIST OF ACRONYMS	
CIPD	Chartered Institute of Personal and Development
CPI	Consumer Price Index
CSO	Central Statistics Office
EC	European Commission
ECB	European Central Bank
EIB	European Investment Bank
EIF	European Investment Fund
ESRI	The Economic and Social Research Institute
EU	European Union
IBEC	Irish Business and Employers Confederation
MNE	Multinational Enterprise
SBCI	Strategic Banking Corporation of Ireland
SFA	Small Firms Association
SME	Small and Medium Sized Enterprise

NOTES

SBCI

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