A ROAD MAP FOR SME AND ENTREPRENEURSHIP POLICY IN IRELAND

A report by the Centre for Entrepreneurship, SMEs, Cities and Regions of the Organisation for Economic Co-operation and Development (OECD)

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Background to this Road Map

This document presents an OECD-developed Road Map to guide policy for small and medium-sized enterprises (SME) and entrepreneurship in Ireland. It builds on the assessment and recommendations of the OECD's country review of SME and Entrepreneurship Policies in Ireland published in October 2019. Both the OECD country review and policy Road Map were requested by the Irish government's Department of Business, Entrepreneurship and Innovation.

The document aims to highlight and further develop priority recommendations, as identified by the OECD, from the country review report, focusing on those recommendations expected to have the most scope for actionable policy and the greatest benefits. The Road Map discusses the nature of each recommended policy action, its rationale, an international inspiring policy practice example in the area, and proposes key performance indicators and a timeline to measure progress. The priority actions are grouped into thematic policy intervention areas.

This document incorporates comments received from Irish stakeholders during and following a discussion in the Road Map during the Irish government's SME and Entrepreneurship Strategy Conference in Dublin on 12 July 2019.

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Theme 1: SME and entrepreneurship policy framework

What is the issue?

The major public sector SME and entrepreneurship programmes in Ireland are formulated by the Department of Business, Enterprise and Innovation (DBEI) and delivered by entities operating under its purview, namely Enterprise Ireland, the Local Enterprise Offices (LEOs), Science Foundation Ireland (SFI), InterTradeIreland and Microfinance Ireland. Other government departments are also actively involved in creating favourable conditions for SMEs and entrepreneurship, focusing on specific areas of the business environment such as education and taxation.

This overall policy framework is effective. A key strength is the proficiency of the Irish Government in monitoring and evaluation at the programme level. Another good practice is a typically broad and transparent involvement of stakeholders when developing or updating policy documents or proposals related to SME and entrepreneurship issues. Moreover, the Irish Government in general takes a whole-of-government approach to the development and oversight of policy initiatives in order to ensure coherence, co-ordination and streamlining of policy implementation.

Despite these strengths, the framework for policy formulation and delivery would benefit from the addition of a unified strategy document on SME and entrepreneurship policy that refers to all government policy measures supporting SMEs and entrepreneurship. This would improve overall clarity regarding the national SME and entrepreneurship policy, its governance structure, and performance metrics.

The launch of the “Supporting SMEs Online” portal by the DBEI in 2015 was an important innovation to enable start-ups and small businesses to navigate the support measures available from all the different government departments, agencies and initiatives. This online tool covering the range of programme support available could be complemented by the widespread use of an online business diagnostic tool to help SMEs to identify their challenges and steer them to the most relevant policy support.

In addition, some firms may “fall between” the business support offer of Enterprise Ireland, which principally targets firms with export potential, and the LEOs, which principally target local micro enterprises.

Action 1: Draft a unified SME and entrepreneurship policy strategy document

Action

- Draft a single national strategic document for SME and entrepreneurship policy outlining all planned policy interventions in this field in the medium term. Include information drawn from the range of existing national policy statements referencing SMEs and entrepreneurship as well as other Department and Agency plans.
- The strategy should set out the policy vision, objectives, targets, lines of action and performance indicators specific to SMEs and entrepreneurship. It should cover all areas of policy intervention and all SME and entrepreneurship populations.

- The strategy should acknowledge the heterogeneity of SMEs and entrepreneurship by setting out an appropriate mix of generic policy actions – aimed at shared policy challenges – and policy actions aimed at specific target populations. Tailored actions could be highlighted for example for nascent entrepreneurs, start-ups, established SMEs, growing SMEs, international SMEs, and restructuring SMEs. Dedicated action for other targets could also be highlighted, such as entrepreneurs from disadvantaged or under-represented groups, micro firms, or high potential start-ups.

Rationale

SME and entrepreneurship policy actions are included in a range of national policy documents and statements, including the Action Plan for Jobs 2018 and the strategic documents of individual government departments (Enterprise 2025-Renewed; Innovation 2020; National Skills Strategy; National Strategy for Higher Education to 2030; National Policy Statement on Entrepreneurship in Ireland; National Digital Strategy for Ireland). However, there is not a unified cross-government policy statement covering both SMEs and entrepreneurship, detailing support available to SMEs and entrepreneurs specifically rather than for business in general, and covering all policy areas. Government policy thus appears fragmented to SME and entrepreneurship stakeholders.

The creation of a national strategic document for SME and entrepreneurship policy will increase clarity regarding the SME and entrepreneurship policy components in existing policy documents. It will also provide a basis to demonstrate alignment of all relevant policies and schemes and to consider priority areas for adjustments in the overall policy portfolio and mix. By setting out targets and performance indicators, the strategy will also provide a basis to monitor and evaluate the progress of the whole package of Government measures in achieving the national SME and entrepreneurship policy vision and objectives.

International inspiring policy practice

In Malaysia, 16 ministries and over 60 agencies implement SME and entrepreneurship programmes. It proved challenging to co-ordinate policy actions, and policy making lacked an articulated set of strategic long-term goals and ambitions. The National SME Development Council (NSDC) was established in 2004 to reduce duplication of efforts, foster greater synergies across ministries and agencies and optimise funding allocations. The Secretariat to the NSDC is the Small and Medium Enterprise Corporation (SME Corp. Malaysia), located under the Ministry of International Trade and Industry. SME Corp. is the central government agency tasked with ensuring the effective implementation and monitoring of SME policies across various ministries and agencies.

In order to guide policy efforts, Malaysia is currently implementing the NSDC’s first long-term SME Masterplan (2012-20), launched to enhance the contribution of SMEs to Malaysia’s Vision 2020, the national development framework. The Masterplan’s vision is to “create globally competitive SMEs that enhance wealth creation and contribute to the social well-being of the nation” (NSDC 2012, p. 35). The macro targets set for the SME sector in the SME Masterplan are to raise the SME share of GDP to 41% by 2020 (from 32% in 2010), its employment share to 65% (from 59%); and its share of exports to 23% (from 19%).

The plan has four broad strategic goals, covering targets for new start-ups, high-growth and innovative firms, SME productivity, and formalisation, and six focus areas to support achievement of those strategic goals, which, based on evidence, were the major forces driving SME performance. This approach thus takes into account the heterogeneity of the SME and entrepreneurship population and acknowledges that policies need to be sufficiently tailored to the beneficiaries.

Timeline and key performance indicators

Timeline: Introduce the action by 2021.

KPI: Share of government actions for SME and entrepreneurship covered in the strategy document.

Action 2: Implement an online business diagnostic tool

Action

- Implement an online business diagnostic tool aimed at reaching all types of SMEs and entrepreneurs and offering them support to identify their business development challenges and obtain basic guidance.
- Integrate the use of the tool in the public business advice and support system with the aim of helping steer SMEs and entrepreneurs to support that is matched to their challenges.

Rationale

SMEs often overestimate their performance and lack awareness of potential improvements they can make to their practices. They tend to be reluctant to seek external advice, partly reflecting the time and resources required and lack of knowledge and trust in the sources. A publicly-supported online business diagnostic tool is potentially an easily-accessible and attractive method for SMEs and start-ups to identify their areas of strength and weakness and explore where they may have opportunities to adopt established best practice management techniques. It can also help to build demand for business advice among SMEs and start-ups.

Governments in OECD countries are increasingly introducing online business diagnostic tools. They typically include benchmarking of different aspects of business performance against comparable businesses, information on good practice management features across a range of business operation areas, guidance on how to introduce good practices into the enterprise and connections to public and private sources of business advice and support.

There are some tools of this kind available in Ireland, such as the Innovation Health Check, which focuses on improving innovation management in SMEs. However, there is not a generic business diagnostic tool with wide outreach across the full population of SMEs and entrepreneurs.

It should be recognised that a digital tool can provide only basic information. However, it can also serve as an entry point into established public and private business development services that can achieve greater impact. Furthermore, the results of the online self-assessments made by SMEs can be useful in guiding decisions on the most relevant areas of business advice to offer to SMEs as long as a system is established to extract the information and link it to existing provision. Often the issue that an SME initially seeks advice for reveals underlying issues that also need to be addressed. These issues can be picked up in the digital assessments and built on by business advisors.

International inspiring policy practice

The IMPULS Foundation of the German Engineering Federation (VDMA) commissioned the development of an online business diagnostic tool called Industry 4.0 Readiness: Online Self-Check for Businesses. It was designed for manufacturing businesses with more than 20 employees. The self-check enables users to calculate their own Industry 4.0 scorecard. It includes a detailed self-check questionnaire for businesses to identify their strengths and weaknesses. The readiness measurement model assesses companies on six dimensions of Industry 4.0 readiness: 1. Strategy and Organisation; 2. Smart Factory; 3. Smart Operations; 4. Smart Products; 5. Data-Driven Services; and 6. Employees. Benchmarking data were collected by surveys of SMEs. The results of the self-check are used to orientate firms towards key challenges and available support.

Timeline and key performance indicators

Timeline: Introduce the action by 2022.

KPIs: Number of SMEs completing self-assessments using the tool. Number of SMEs progressing to more intensive business advice programmes through use of the tool.

Theme 2: Innovation and R&D

What is the issue?

Irish SMEs are innovative in many respects. For example, approximately one-third practise mix-mode innovation, combining product or process innovation with marketing or organisational innovation. This is above the OECD average.

At the same time, however, there are a number of innovation challenges for SMEs in Ireland. Although the SME share of business expenditure on R&D is fairly high in Ireland, the share of Irish-owned firms performing in-house R&D and the share of their turnover that results from new-to-firm or new-to-market innovation is significantly lower than for foreign-owned firms in Ireland, implying the need to increase the number of R&D performing SMEs in Ireland. However, the share of government funding for business R&D allocated to SMEs is relatively low by international comparison.

Furthermore, Irish-owned technologically innovative firms are far less involved in innovation co-operation with external partners than non-Irish owned technologically innovative firms.

Digital technology adoption in SMEs also needs to be boosted, as reflected for example in low rates of adoption of Enterprise Resource Planning software and industrial robots as well as digital skills deficits and lack of awareness among SMEs of digitalisation opportunities and benefits.

Action 3: Simplify the administration procedure for R&D tax credits

Action

- Introduce a pre-approval procedure for R&D tax credits.
- Reduce the record keeping requirements for firms accessing the credits from four years to three years.

Rationale

The R&D tax credit is one of the Irish Government’s key policy instruments to increase R&D and innovation in the economy. However, its take up is heavily skewed to large enterprises, despite international evidence that the positive impact of tax credits on firm behaviour is much higher for SMEs. Furthermore, whereas the value of R&D tax credits to large firms increased by close to 300% in the period 2011-15 it grew by only 14% for SMEs.

High costs of preparing, filing and defending a claim and the risks of a clawback appear to be discouraging many potential SME beneficiaries of R&D tax credits. Smaller enterprises would gain from a reduction in the administrative burden of the scheme, less stringent audits and clear guidelines on how to file a claim. In particular, a pre-approval process and reduced record keeping requirements would reduce the uncertainty and encourage more take-up by SMEs.

International inspiring policy practice

The Norwegian SkatteFUNN scheme has proved successful in achieving take-up of R&D tax credit by SMEs.

Norway introduced the scheme in 2002 as a volume based tax credit with a headline rate of 20% (which has remained stable since introduction) for SMEs. A ceiling of NOK 25 million (EUR 2.5 million) applies to in-house R&D (inclusive of R&D procured from entities other than approved R&D institutions) and NOK 50 million (EUR 5 million) to purchased (subcontracted) R&D when purchased from approved R&D institutions.

SkatteFUNN's ex-ante evaluation (pre-approval) process provides a high-degree of certainty, notably to smaller firms, about the eligibility of the planned expenditure. It can help them define a feasible R&D project, and leverage additional uptake (and volume of credits) of the R&D tax credit by Irish SMEs.

SkatteFUNN includes a provision to double the maximum eligible costs in case of sub-contracting to a research institute. This could be a further means of increasing SME R&D efforts while strengthening their co-operation within the Irish innovation system.

Timeline and key performance indicators

Timeline: Introduce the action by 2020.

KPI: Increase the share of R&D tax credit flowing to SMEs.

Action 4: Encourage SME involvement in innovation collaborations

Action

- Increase resources aimed at encouraging SMEs to outsource R&D tasks to research and technology organisations.
- Incentivise large firms to undertake R&D in partnerships with SMEs and Irish technology centres.

Rationale

The Irish Government is fostering collaborative innovation in a range of ways. It has created industry-led technology centres to enable Irish companies to work with qualified researchers associated with research institutions. It has also invested in a range of research and technology infrastructures. Incentives directly targeted on financing innovation collaborations between SMEs and research institutions and three-way partnerships between large firms, research institutions and SMEs could leverage these investments in helping to stimulate more SME innovation collaborations.

International inspiring policy practice

In France, competitiveness clusters (*pôles de compétitivité*) aim at promoting innovation collaboration by bringing together companies, public research labs and academia in joint R&D projects. There were 71 active competitive clusters in France in 2014, involving around 8 500 firms, most of them SMEs, and nearly 1 150 public research and training institutions. Subcontracted and collaborative R&D expenses within these entities are eligible up to a limit of EUR 10 million per year and company, and up to EUR 12 million in the case of R&D contracted to approved public research organisations. The government provides direct financial support through the Single Inter-ministerial Fund (*fonds unique interministériel*) and from regional and local government authorities. Over the 2010-15 period, nearly 1 600 collaborative R&D projects were funded for an amount of EUR 6.9 billion, representing an average of 40% of total project funding needs.

Moreover, the new PACTE law for the growth and transformation of enterprises (*plan d'action pour la croissance et la transformation des entreprises*) brings more flexibility for researchers working in the public sector. They will be allowed to participate more intensively in private R&D projects, up to 50% of their time, and with easier administrative procedures. At the same time, BPIFrance, a public financial institution with particular concern for SME and entrepreneurship development, introduced financial incentives to support collaborative innovation projects in disruptive technologies (*projets d'innovation stratégique industrielle*). Support is awarded to projects involving groups of at least three entities including at least two firms with up to 5 000 employees (one of which is the project leader), and one public or private R&D centre. Firms receive support of up to 45% of project costs and research organisations up to 40% of project costs through grants and loans of a value of between EUR 3 million and EUR 10 million.

Timeline and key performance indicators

Timeline: Introduce the action by 2022.

KPI: Increase the number of collaborations in innovation between SMEs, large enterprises and research institutes.

Action 5: Ramp up support for the digitalisation of SME business processes, especially through the LEO network

Action

- Provide co-financing for investment projects in the area of digitalisation under strict eligibility criteria.
- Embed and strengthen business advice and support offered through the LEO network for SMEs to digitise and introduce Industry 4.0 applications.

Rationale

SMEs around the world are lagging behind in the digital transition compared to their larger counterparts. Many of them cannot clearly identify their needs and, if they can, often lack the capabilities or financial resources to access and effectively use digital technologies. This problem is especially marked among the smallest firms within the SME population where resource, awareness and skills constraints are the greatest.

The digital gap between large enterprises and SMEs is mirrored in a widening productivity divide in many countries. Research indicates the importance of investments in skills, organisational change, process innovation, new systems and business models that would enable SMEs to catch up, and many countries have taken initiatives in these directions.

International inspiring policy practice

In Denmark, the Digital Growth Panel raises awareness of the opportunities provided by the digital transformation of the economy, provides expert advice on the government's

'Industry 4.0' investment decisions and a comprehensive set of recommendations for SMEs in Denmark to reap the benefits digitalisation offers.

The Panel's recommendations include appointing a senior minister to lead the digitalisation effort, introducing new education technology, supporting SME digitalisation through the provision of both capital and contacts, promoting innovative business models, and engaging in international cooperation on the digital economy. With regard to manufacturing, the report focuses on digital R&D, digitalisation of production technologies, and supply chain management.

As another example, Bpifrance, the French public investment bank, has introduced a co-financing scheme for digital technology investment projects by firms. It offers SMEs a loan of between EUR 100 000 and EUR 5 million with a duration of 7 years. The loan must be co-financed, on a one-to-one basis, with bank credit (for a period of 5 years minimum) or capital contributions from shareholders or private equity companies. A key feature of this scheme, and essential to ensure an acceptable level of additionality, are the strict eligibility criteria, which limit the support to investments in innovative digital technologies that are relatively unfamiliar to the SME adopting the technology.

Timeline and key performance indicators

Timeline: Introduce the action by 2022.

KPIs: The number of SME participants in business development services focused on the adoption of digital technologies. The number of SMEs benefitting from public co-financing for investments in digital technologies. The rate of digital technology adoption in SMEs.

Theme 3: Fostering enterprise-led networks

What is the issue?

In comparison to large enterprises, SMEs often have limited resources at their disposal for development projects in areas that are vital for their long-term competitiveness, such as innovation, skills development and internationalisation. Such projects are usually time-consuming, costly, and risky, and can require highly-qualified staff and specialist knowledge that may not be available within an individual SME. Integration of SMEs into local enterprise-led networks, grouping SMEs and other network participants offering knowledge exchange and training opportunities, such as research institutions, foreign direct investors, universities and colleges, can help SMEs to get involved in development projects that they would not otherwise undertake, while also promoting peer learning, synergies and spill-overs.

It can be difficult for local enterprise networks to emerge spontaneously, since potential members may not have knowledge of the interests and competencies of others, trust may have to be built and potential synergies and spill-overs may not be obvious. Network managers and management organisations can play an important role in creating knowledge, linkages and trust.

While compulsory membership chambers of commerce are very important in supporting SME networking in several European countries, such as Germany and Italy, chambers of commerce have smaller memberships and resources in Ireland. In this context, Government has taken the lead in promoting a number of industry-led networks in Ireland, such as through Skillnet Ireland (where employers help shape local training) and the Technology Centre Initiative (where networks of firms guide applied R&D). However, direct support of enterprise-led networks is limited at national policy level, notwithstanding examples such as Enterprise Ireland’s Pilot Clustering Programme.

Action 6: Create a national support framework for local enterprise-led networks

Action

- Provide funding for the creation and operation of local enterprise-led network organisations across the country involving SMEs and related actors. These organisations can provide local economic intelligence to LEOs, broker collaboration activities among network members in activities such as innovation, training and internationalisation projects and channel public financial incentives to SMEs and other actors for these collaboration activities.
- Create a national communication platform for local enterprise-led networks aimed at providing information to SMEs and start-ups on available business support in general and opportunities to participate in collaborative activities in local enterprise-led networks in their immediate surroundings and increasing the visibility of local enterprise-led networks.
- Establish a programme to support the professional development of managers of local enterprise-led networks, for example through regular meetings of network

managers, thematic workshops, facilitated cross-network exchanges, benchmarks and training offered by assessors.

Rationale

SME participation in local enterprise-led network initiatives in areas such as innovation, skills development and internationalisation offers several potential benefits.

- SMEs can participate in projects that might require too many resources for a single enterprise.
- SMEs can benefit from knowledge exchange and training opportunities with research and training organisations and foreign direct investors participating in the networks.
- Network participation can stimulate peer learning among SMEs.
- Business support offers may achieve greater efficiency by supplying groups of SMEs and greater effectiveness by delivering policies tailored to local needs as identified by the local networks.

Networks can be co-ordinated, managed and financed by their members themselves. However, it can be important for public policy to support the creation of the network, to help cover some of its operating costs and to provide incentives for specific collaborations in areas of market failure. National policy can also play an important role in providing infrastructures that can be shared by different networks and co-ordination mechanisms for cross-network co-ordination.

Initiatives such as Skillnet Ireland and the Technology Centre Initiative have been successful in building and tapping into enterprise networks in specific fields. However, only a small share of SME and entrepreneurship support in Ireland is currently channelled through enterprise-led networks. National policy could play an important role by offering financial support for collaborative projects, initiatives to support network management, and assistance in raising the visibility of networks.

International inspiring policy practice

The Go-Cluster initiative of the German Federal Government features a multi-layered approach to supporting enterprise-led networks, in the form of local clusters. It involves four components:

1. Support services for cluster/network managers, for example consultancy on financial management and public relations and financing for strategy development and representation at relevant trade fairs.
2. A communication and information platform for networks/clusters, called "*Clusterplattform Deutschland*". The platform aims to increase the visibility of German clusters and the accessibility of relevant information and contact persons.
3. Activities to professionalise network/cluster management, including professional development workshops, individual coaching and support for expenses regarding achieving European Cluster Excellence Initiative certification.
4. Financial support for innovative new projects developed by network/cluster for their memberships.

Go-Cluster illustrates how to build and tap into network structures through support to network managers.

Timeline and key performance indicators

Timeline: Introduce the action by 2021.

*KPI*s: Designate at least six enterprise-led network managers (potentially focused on major existing local clusters in the country), and provide at least one support measure to each of them.

Theme 4: SME internationalisation

What is the issue?

Ireland's levels of direct SME exports are very low by international standards, with only about 6% of Irish SMEs directly trading across borders. Furthermore, a high share of existing SME exporters export only to the neighbouring UK market. Although SMEs may also contribute to exports indirectly, for example by providing multinational firms with components and services, the share of SMEs in total domestic value added in exports is also relatively low.

Internationalisation commonly plays a key role in building the productivity, innovation, income generation and niche specialisations of SMEs. Across the world, exporters have been shown to be larger, more productive, more skill- and capital-intensive, and to pay higher wages than non-exporting firms. Evidence indicates that Irish SMEs "learn by export", i.e. improve their productivity by entering and expanding into foreign markets.

Export development and internationalisation programmes are important for assisting SMEs and entrepreneurs to overcome a range of market failures. However, there is evidence of unmet demand for internationalisation support in Ireland. Whereas high potential start-ups do have good access to forefront schemes, the typical established SME that is not demonstrating export intentions can fall through the gaps in the support offer.

Action 7: Scale up current initiatives to support SME internationalisation

Action

- Scale up the Trading Online Voucher programme, which offers coaching and training support to second-tier management.
- Scale up the Exporter Development Department of Enterprise Ireland, which provides assistance to irregular exporters and would-be exporters.
- Scale up InterTradeIreland's grant support (such as Acumen, Elevate and Fusion) and its Funding Advisory Services.

Rationale

It is important to stimulate more exporting and internationalisation in the SME population, including reducing dependence on the UK market. One of the barriers is lack of 'export-capable' firms amongst smaller SMEs and low management ambition and knowledge in exporting. A number of government initiatives are seeking to meet this challenge. However, certain programmes remain relatively small compared to potential demand.

International inspiring policy practice

Enterprise Singapore is the government agency championing enterprise development. Given the small size of the domestic market, supporting SMEs to internationalise represents a key priority for the institution. It provides a range of support programmes including:

- The Internationalisation Finance Scheme (IFS) providing various financing facilities for Singapore firms with export ambitions.

- The Market Readiness Assistance (MRA) Grant covering up to 70% of eligible costs for small companies that want to venture abroad.
- The Double Tax Deduction Scheme for Internationalisation (DTDi), which provides a 200% tax deduction on eligible expenses for international market expansion and investment development activities.
- The Political Risk Insurance Scheme (PRIS), which offers insurance for investments in overseas markets against political uncertainties.
- The Trade Credit Insurance (TCI), offering protection against non-payment by its buyers, including from international transactions.
- Non-financial support measures for exporters and would-be exporters such as the provision of market information and consultation, in-market entry assistance and advisory, identification of potential local business partners, specialised advisory services, co-working spaces in a number of key export markets and the organisation of overseas trade fairs.

In total, more than 76 000 enterprises, almost all of them SMEs, were supported by Enterprise Singapore in 2018. The organisation estimates that it facilitated 570 overseas projects, up by 25% from 2017.

Timeline and key performance indicators

Timeline: Scale up programmes by 2024.

KPIs:

Increase the proportion of (directly) exporting SMEs from 6.3% in 2016 to 9.6% (the level now observed in France), by 2024.

Double the total value of exports by SMEs outside the United Kingdom between 2015 and 2024.

Increase export sales by Enterprise Ireland clients from EUR 23.8 billion in 2018 to EUR 30 billion by 2024.

Increase the number of Trading Online Vouchers to 2 000 by 2022 (up from close to 1 200 in 2017).

Increase the number of firms supported by the Enterprise Ireland Exporter Development Department to 2 500 firms in 2022 from around 1 500 in 2017.

Double the number of beneficiaries of InterTrade Ireland’s grant support.

Theme 5: Access to finance for SMEs and entrepreneurship

What is the issue?

Ireland is still grappling with the fall-out of the financial crisis. Interest rates charged to SMEs remain high compared to most other EU28 countries, and the interest rate spread between SME and large enterprise loans is widening. In addition, SME demand for credit remains subdued and the recovery in the take-up of credit is weak, possibly because of the prevalence of requirements to provide (personal) guarantees and other forms of collateral and changing attitudes towards the attractiveness of bank debt.

Although internationally comparable data are relatively scarce and not always reliable, Irish SMEs also seem relatively reliant on straight debt as their primary source of external finance and do not take full advantage of alternative finance instruments, especially from external equity providers.

A related concern centres on financial skills and knowledge, which are often found to be lacking among entrepreneurs and small business owners by government stakeholders who provide financial services. This may combine with finance supply constraints, notably in the form of the terms of lending, in leading SMEs and entrepreneurs to shun external finance opportunities that could increase their investment and ability to grow.

Action 8: Scale up current SME credit access initiatives

Action

- Undertake research and evaluation to shed light on the reasons for the relatively low take-up of credit guarantees.
- Increase the number of facilities sanctioned and the total value disbursed by the Credit Guarantee Scheme.
- Provide more loans through the Microenterprise Loan Fund managed by Microfinance Ireland.

Rationale

Comparisons with other credit guarantee schemes (CGS) in the OECD area indicate that the Irish CGS is modest in size and outreach. The relatively low take-up of the CGS in Ireland is surprising given the high collateral requirements imposed by financial institutions and the lingering access to finance difficulties of small firms. Its low reach could in part be a reflection of insufficient awareness of the existence and benefits of the credit guarantee scheme among potential beneficiaries.

Similarly, business demand for micro-credit has been lower than anticipated, with large regional variations, especially in light of the challenging financing environment many micro-enterprises face and the documented underinvestment in fixed capital.

International inspiring policy practice

ParticipatieMaatschappij Vlaanderen (PMV) is an independent organisation owned by the Flemish government, which supports economic investment initiatives in Flanders, Belgium.

Among its main activities is the provision of credit guarantees. A guarantee of up to EUR 1.5 million can cover up to 75% of the underlying loan and a loan above that threshold up to 80%. The organisation also provides loans of between EUR 350 000 and EUR 5 million at long maturities, and a specific loan product for start-ups of EUR 100 000 or less with a fixed interest rate of 3% between 3 and 10 years.

In 2017, slightly more than EUR 300 million of loan guarantees were disbursed (for a total loan amount of around EUR 500 million). In addition, more than EUR 60 million in direct loans to SMEs were approved in the same year.

The regional government also operates other support measures to strengthen the access of SMEs and entrepreneurs to finance. Recently, Flanders Innovation & Entrepreneurship, a regional government agency, concluded multi-annual agreements with two micro-finance providers. MicroStart offers micro loans of between EUR 500 and EUR 15 000, along with professional advice, coaching and training. *Hefboom vzw* offers micro loans up to EUR 25 000 and free coaching over two years. These programmes pay specific attention to young people and second-chance entrepreneurs.

Another strand of the regional government's policy is to stimulate individual investors to invest in SMEs and start-ups. The so-called *win-win-lening* provides a tax incentive for individuals investing in small businesses as well as an insurance of 30% in case of a loan default. The so-called co-finance facility matches investments in SMEs by approved business angels, approved investment funds or financial institutions with a subordinated loan of up to EUR 350 000, an interest rate of 3% and a maturity of between three and ten years.

The example illustrates how a package of measures can channel substantial external finance to SMEs and start-ups.

Timeline and key performance indicators

Timeline:

Conduct an evaluation of the revised credit guarantee scheme by 2020.

Scale up programmes by 2022.

KPIs:

The number of credit guarantee facilities and the total value of guarantees.

The number and value of direct micro-finance loans.

Action 9: Develop an action plan for financial education

Action

- Draft a Government cooperation protocol with the main stakeholders in Ireland involved in financial education.

- Develop a list of core competencies relevant for small business owners and entrepreneurs in the area of financial education.
- Streamline and harmonise the public support currently available based on good practices and the financial core competencies required for SMEs and entrepreneurs.
- Potentially expand the available support.

Rationale

Financial skills and vision are a key element of the competences required by entrepreneurs and small business owners for growing their ventures and appear to be one of the constraints to the greater use of external finance among Irish SMEs. Although government bodies have taken initiatives to develop investor readiness programmes, funding advisory workshops and similar programmes, the take-up has sometimes been disappointing, and Ireland has not adopted a national action plan to coordinate policy efforts.

Many countries have adopted national strategies to improve financial education among entrepreneurs, business owners and the population at large. In 2019, 60 countries across the globe had adopted a strategy or action plan, up from only a handful in 2015.

International inspiring policy practice

In 2015, the financial supervisors (the Central Bank of Portugal, the Insurance and Pension Funds Supervisory Authority and CMVM) and the Ministry of Economy, through the Portuguese Agency for Competitiveness and Innovation (IAPMEI), signed a cooperation protocol for the promotion of financial education of entrepreneurs and business owners and managers of micro, small and medium-sized enterprises in Portugal.

Following the signature of this protocol, the “Core Competencies for Financial Training” was drawn up in November 2016 for the target group of entrepreneurs and business owners, identifying 10 different topics that the training programmes should cover, which translated into 9 distinct training sessions.

This document provides guidelines to all actors that provide support active in the country in this area, thereby helping to harmonise programmes in line with good practice while allowing providers room to adapt the support to different audiences and circumstances. In 2017, the financial supervisors, IAPMEI and TP hosted training courses designed for trainers with the purpose of setting up a pool of trainers to support the implementation of the Core Competencies. Each course ran for a minimum of 32 hours and a maximum of 51 hours of classroom training.

Timeline and key performance indicators

Timeline:

Develop the protocol and a list of core competencies by 2021.

Provide guidelines based on good practices to providers of support and streamline and harmonise the public support offer by 2023.

KPIs:

The number of participants in training programmes aimed to raise financial skills of small business owners and entrepreneurs.

Theme 6: SME workforce and managerial skills

What is the issue?

Ireland has a well-educated workforce. A high proportion of the population has completed tertiary education compared with the OECD average, the share of the population with higher secondary education is in line with other OECD countries, and the Government is making substantial investment in expanding apprenticeship-level training in Ireland, and a National Skills Strategy is in place.

Despite these positive conditions, there are still areas where SMEs and entrepreneurs face difficulties in recruiting and retaining skilled staff, which impinges on their competitiveness and growth prospects. Key challenges lie in the areas of digital and industrial automation skills and in management fields such as sales, marketing and accountancy. Scarcity of digital skills, in particular, is likely to be part of the explanation for lags in their levels of digital technology adoption.

Low levels of adoption of best practice management techniques also hold back SME productivity growth. Data from the World Management Survey, for example, indicate that Irish firms have weak managerial skills when compared with countries such as the United States, Sweden, Germany and Japan. Ireland operates a relatively dense system of business advisory services offering training, consultancy and mentoring support to SMEs and it is important to continue to build demand for these services. One of the potential levers that has not yet been fully explored in this respect is working with SME management on compliance with international industry standards as a vehicle for upgrading management practices.

Action 10: Introduce a tax relief for non-domiciled new hires by Irish SMEs

Action

- Allow new hires to apply for the Special Assignee Relief Programme (SARP).
- Maintain limitations with respect to monthly earnings and/or specific skills and profiles for which there is an identifiable shortage in Ireland.

Rationale

The ability to attract and retain talented individuals increasingly represents a key challenge for SMEs, as evidenced for example by an increase in the number of mentions of difficult-to-fill (DTF) vacancies in the National Skills Bulletin.

The Special Assignee Relief Programme (SARP) was introduced in 2014 to alleviate skills shortages by enabling companies to attract foreign talent. It provides a tax relief for personnel earning at least EUR 75 000 as a base salary who have not been tax resident in Ireland for the five tax years preceding the year of arrival. The scheme increases the attractiveness of vacancies in Ireland to talented individuals. However, it is limited to assignees or intra-group transfers across borders within the same company. It is therefore not applicable to the majority of Irish SMEs and start-ups, which do not have foreign direct investment operations.

International inspiring policy practice

Sweden operates a tax relief scheme to help companies attract top international expertise. Certain key foreign employees may qualify for an income tax reduction and their employers for a lower rate of employer contributions.

Crucially, this scheme is limited to key positions for which there arguably is a skills shortage in Sweden, such as executives, researchers and experts. While there are some guidelines and examples, the Taxation of Research Workers Board has some discretion in its decision making process on who qualifies. The scheme also applies to foreign employees whose monthly earnings in Sweden exceed two statutory basic amounts (SEK 44 500 or around EUR 42 000) in the calendar year during which the work began.

To qualify, he or she must be employed by a company in Sweden or a foreign company with a permanent place of business in Sweden, irrespective of the size of the company. A key difference with the Irish SARP is that it applies to new entrants. In other words, the assignee is not required to have worked for the parent company before being assigned to the company operations in Sweden, thereby opening possibilities for smaller companies without foreign branches to make use of it.

Timeline and key performance indicators

Timeline: Introduce the action by 2022.

KPIs: The number of start-ups and SMEs that make use of the revised SARP to employ key personnel from abroad.

Action 11: Incorporate industry standards adhesion in SME management development programmes

Action

- Collaborate more closely with the National Standards Authority of Ireland (NSAI) when delivering business development services to SMEs in the form of information, advice, consultancy, mentoring and management training on industry standards adoption.
- Include "high potential" SMEs with export ambitions and/or the potential to become part of the value chains of multinational enterprises as a specific target group for this support.

Rationale

Industry standards are requirements, guidelines, specifications or characteristics that firms apply consistently to ensure that products, processes, materials, and services are fit for purpose. Standards play a key role for quality assurance, enhancing interoperability and technology adoption, and facilitating the division of labour. Compliance with industry standards could be a lever to support SMEs to upgrade their management practices more generally. They are also often critical to enable SMEs to meet the quality requirements of multinational firms, thus facilitating their insertion into supply chains and other modes of collaboration. Adoption of industry standards by SMEs can also support the development of Intellectual Property (IP) and enable e-commerce, as illustrated by the example of the European standard on e-invoicing. Although industry standards adoption does form part of the advice that business development services providers will offer to some SMEs, it is not a systematic part of the business development services system and there seems to be a lack of awareness of the benefits of standards within the Irish policy context.

International inspiring policy practice

The Korean Agency for Technology and Standards (KATS), under the Ministry of Trade, Industry and Energy is the government organisation representing Korean industry in terms of International Standards, participating in the International Organisation for Standardization (ISO), International Electrotechnical Commission (IEC), Pacific Area Standards Congress (PASC) and the Asia Pacific Economic Co-operation Sub-Committee on Standards and Conformance (APEC/SCSC) forums. It provides guidelines for SMEs in integrating international standards to their businesses/products, and on-site consulting activities by a team of experts. It also engages in resolving technical barriers to trade (TBT), and operates an online TBT portal where information on overseas TBT regulations are regularly updated. The Global Standardization Support Centre was established in Korea in 2013 and assists SMEs that seek to promote their technology for international standardisation.

In addition, efforts to adopt standards by Korean enterprises have been delegated to a network of sector-specific partner organisations through the Cooperation Organization for Standards Development (COSD). These partner organisations provide specific support measures for standard adoption in different economic sectors. For instance, the Korea Energy Agency provides support in the form of grants to new and renewable energy companies that want to obtain international certification such as UL (Underwriters' Laboratories, Inc., a safety testing and certification agency of the United States) and TUV (*Technischer Uberwachungs Veine*, a quality testing agency approved by the German Government). As another example, the Korea Association of Machinery Industry supports standardisation projects in the field of machinery.

Timeline and key performance indicators

Timeline: Introduce the action by 2021.

KPIs:

Establish a formal collaboration with the NSAI.

Pilot a limited number of business development programmes in which the adoption of standards plays a central role.