

Recent Trends in SME Investment in Ireland

Exploring the Pandemic and the Barriers to Growth

Conor O'Toole[†] Leona Cantillon* Eric Gargan*
Janez Kren[†] Martina Lawless[†]

*Department of Finance

[†]ESRI & Trinity College Dublin

CBI/EIB/ESRI Conference, 21st March 2021

- ① Introduction
- ② SME investments in 2020
- ③ Perceptions of capacity, risk and uncertainty
- ④ Investment financing
- ⑤ Conclusions

- 1 Introduction
- 2 SME investments in 2020
- 3 Perceptions of capacity, risk and uncertainty
- 4 Investment financing
- 5 Conclusions

- ▶ Capital investment of critical importance to long term productivity growth and structural change
- ▶ Not so much research focused on investment patterns for Irish SMEs
- ▶ Past number of years, running an investment module as part of DoF SME Credit Demand Survey to bridge data gaps and learn more about the SME investment activity
- ▶ These data are an extract from our forthcoming SME investment report which captures the first Covid-19 shock.

Questions:

- ▶ How many firms invest, how much and what kind of investments?
 - > Fixed tangible assets (buildings, transport equipment, machinery)
 - > Intangible assets
 - > Staff investment
 - > Investments in digital technologies
- ▶ SMEs' perception of risk, capacity and uncertainty
 - > Demand-side factors (uncertainty or risk appetite)
 - > Supply-side (such as access to financing)
- ▶ How were investments financed and access to credit?

A number of **metrics** used

- ▶ Per cent of firms investing (so how many are purchasing capital?)
- ▶ The euro level of investment for investing firms
- ▶ Provide data across different asset classes (buildings, vehicles, machinery and equipment, intangibles) and firm groups.

1 Background and long-term trends

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- ▶ 2010-2013 aftermath of the financial crisis
 - > Reducing of the debt levels, lowering of investments (Lawless et al., 2013, 2015)
 - > Self-financing becoming increasingly prevalent
- ▶ 2014-2019 Period of growth
 - > Recovery in investment levels, but Irish SMEs continue to have low share of external financing compared to the rest of Europe (Gargan et al., 2018; Lawless et al., 2020)
- ▶ 2020 Initial impact of Covid-19 pandemic
 - > Decline in turnovers, reducing employment (O'Toole et al., 2021)

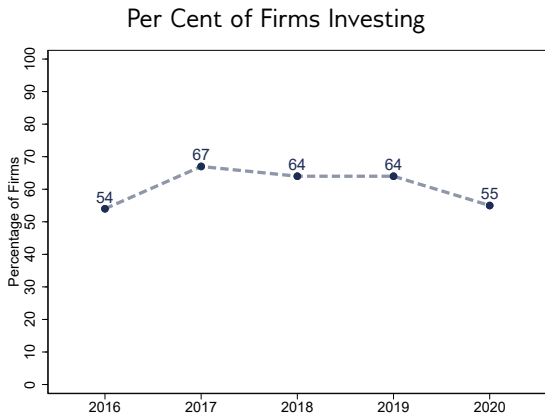
Department of Finance Credit Demand Survey

- ▶ Survey of Irish SMEs (under 250 employees and under €50million annual turnover)
- ▶ Latest investment survey conducted in summer 2021
- ▶ Representative sample of 1500 firms
- ▶ Previous CDS surveys used in the report 2017, 2018, 2020 (autumn) and 2019 (spring). Questions generally referring to the previous calendar year.

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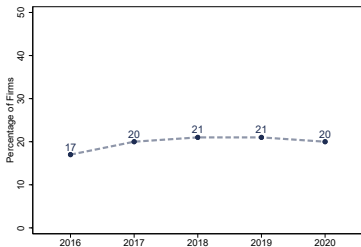
2 Focus first on tangible and intangible capital

- ▶ Before pandemic, approx. 2/3 of firms were investing, in 2020, it was 55% (-14% change)

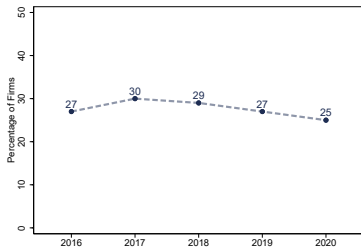


Per Cent of Firms Investing by Asset Type

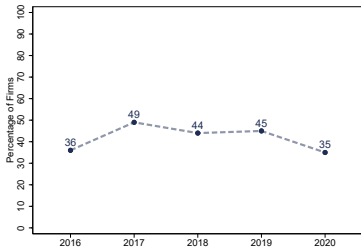
Buildings



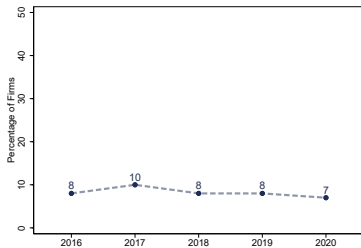
Vehicles



Other Machinery and Equipment etc

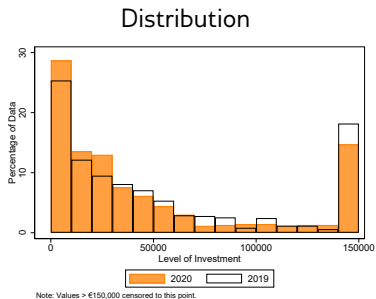
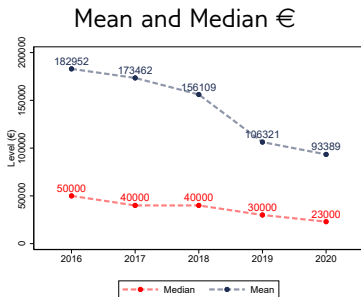


Intangibles



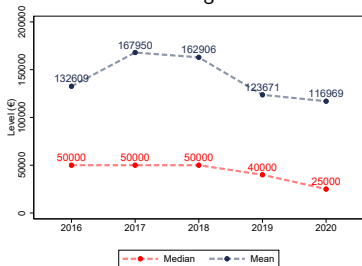
2 Levels of investments

- ▶ The mean investment in 2020 was just over €93,000, down from €106,000 in 2019
- ▶ This represents a drop of -12 per cent.

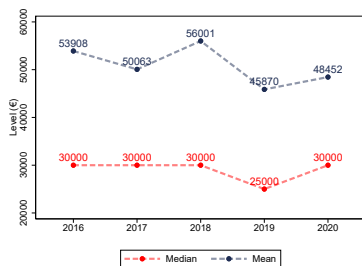


Investment by Asset Type (Level €)

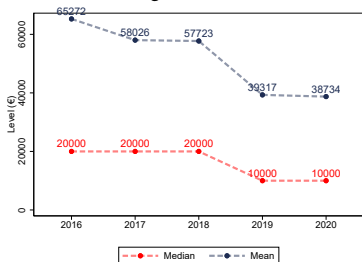
Buildings



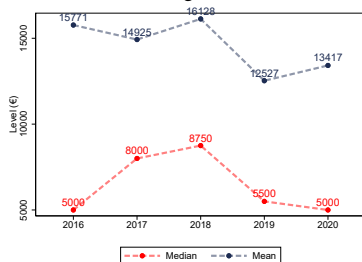
Vehicles



Other Tangible Fixed Assets



Intangibles



2 Difference between sectors 1/2

Per Cent of Investing Firms)

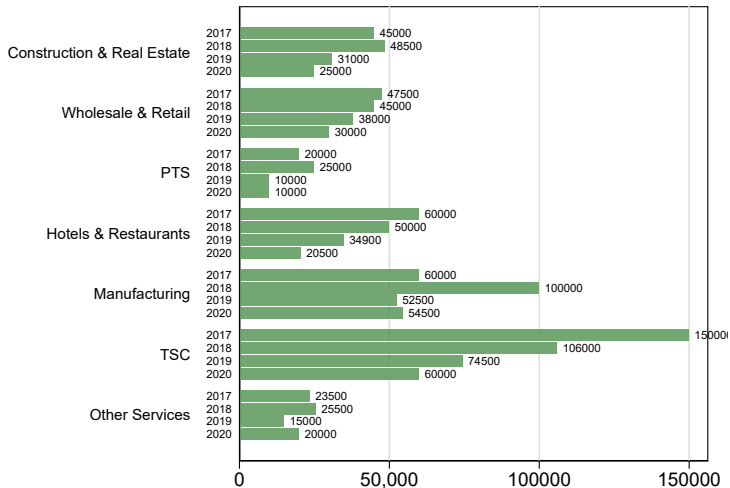


Note:

Professional, technical and scientific (PTS); transport, storage and communications (TSC)

2 Difference between sector 1/2

Median Level of Investment (€)



Note:

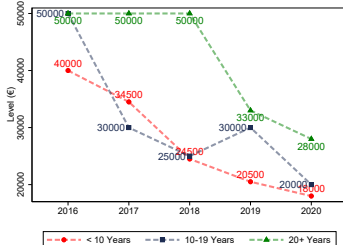
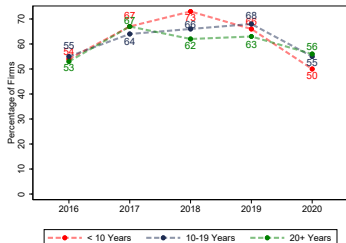
Professional, technical and scientific (PTS); transport, storage and communications (TSC)

Investment by Firm Type (Per Cent and Level (Median (€)) (of investors only))

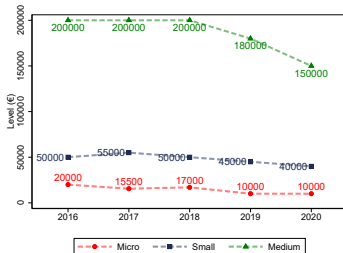
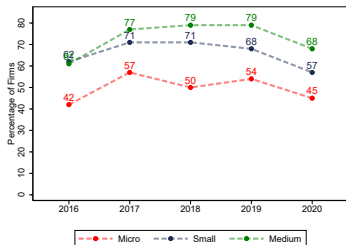
A: Per Cent of Investors

B: Level of Investment (€Median)

Firm Age



Firm Size



2 Digital Investments- A Digital Pandemic Dividend?

	2020	2019	Δ
Share	28	32	-5 p.p.
Mean (€)	20,003	16,439	+22%
Median (€)	7,500	7,000	+7%

- ▶ In 2020, just under one-in-every three firms invested in digital activities, with average investment level €20,000 and median €7,500
- ▶ The proportion of enterprises investing in digital activities was greatest for young firms and for medium sized enterprises
- ▶ Digital investment highest in the transport, storage and communications sectors. Lowest in hotels and restaurants sector
- ▶ The median investment by manufacturing firms increased by 50%

2 Investments in Staff

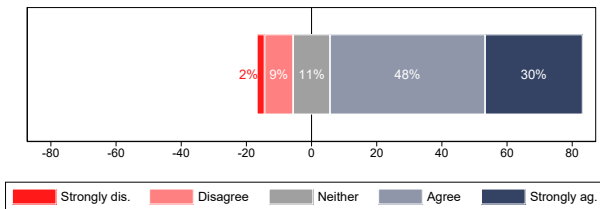
	2020	2019	Δ
Share	23	32	-8 p.p.
Mean (€)	26,854	42,113	-36%
Median (€)	10,000	10,000	0%

- ▶ In 2020, we find that just under one-in-four firms invested in staff, this is a drop from one-in-three in 2019
- ▶ While the median level of investment for investing firms remained constant, there was a large drop in the mean investment: the median spend in 2020 was €10,000 while the average spend was €26,800
- ▶ Driven by larger SMEs (both in shares and mean & median)

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3 Current Capacity Adequacy

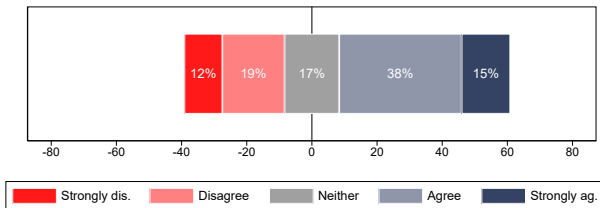
“I am happy with my current capacity”



- ▶ Majority of 78 per cent agreed or strongly while, and only 11 per cent disagreed
- ▶ Similar pattern across all sizes, ages and sectors.
- ▶ 67 per cent of the young firms agree or strongly agree
- ▶ 71 per cent in hospitality sector

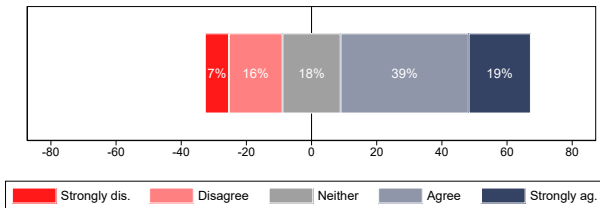
3 Current Risk Appetite

“I am willing to expand my business even if it brings more risk/challenge?”

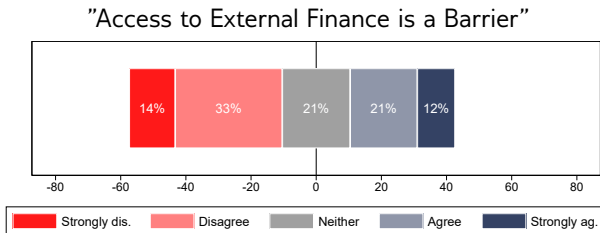


- ▶ Micro firms more neutral (41% disagree, 11% neither, 42% agree) compared to small and medium-sized
- ▶ Hospitality also neutral, other sectors lean towards agree
- ▶ Manufacturing (67% agree or strongly agree), Transport, storage and communications (61%) have most risk appetite
- ▶ Similar pattern found in 2018 and 2019 survey, only a minor reduction in the risk appetite

"Uncertainty is a barrier to investment"



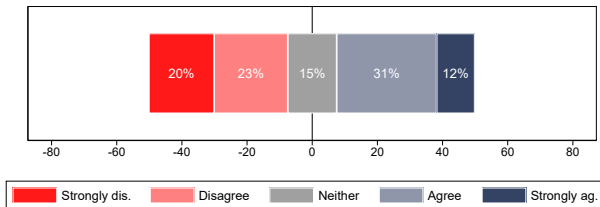
- ▶ 57 per cent of enterprises indicate that uncertainty was an issue, 23 per cent disagreed
- ▶ No clear patterns emerged across the size distribution
- ▶ Notable differences across sector: traditional manufacturing, construction and real estate and PTS sectors had the highest share of firms indicating uncertainty was a considerable factor



- ▶ Close to 1/3 of firms agreed or strongly agreed that access to finance was a barrier to investment and 47% disagreed
- ▶ Young firms more likely to agree that access to finance was a problem (42%) compared to older enterprises
- ▶ Sectors with the highest share of enterprises indicating that credit access is a difficulty: transport, storage and communications, construction, professional, technical and scientific and other services
- ▶ Little difference exists across the size distribution.

3 Willingness to Borrow

“I am willing to borrow from banks to fund an expansion of my business”



- ▶ Relatively balanced in terms of agree/disagree
- ▶ Drop in the borrowing appetite compared to 2019 (-3pp for strongly agree/agree, +5pp for strongly disagree/disagree)
- ▶ Micro firms most unwilling to borrow (half would not be willing to borrow)
- ▶ The highest borrowing appetite in transport, storage and communications, and traditional manufacturing at one-in-every two firms. The lowest borrowing appetite was in other services and professional technical and service firms.

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Three measures:

- ▶ Typical percentages used by enterprises who finance their operations (i.e. the average financing mix)
- ▶ Extensive margin; the percentage of firms that used each type of funding source
- ▶ Intensive margin; amount used if a particular source is chosen as part of the capital structure.

4 Invest financing structure

Average Financing

Sources of funding	Fixed tangible assets				Intangibles
	2017	2018	2019	2020	2020
Internal/Owner	82	80	.	85	84
Bank loans	11	11	.	11	5
External equity	1	0	.	3	2
Other/Refused	3	3	.	2	3
Leasing or hire	3	6	.	1	5
Supplier credit	0	0	.	0	1

- ▶ Finance from internal funds predominant, and has even increased
- ▶ Leasing and hire purchase have dropped from 6 percentage points to 1 percentage point
- ▶ For intangibles, banks' financing share for is half compared to fixed assets

4 Invest financing structure

Proportion using each source

Sources of funding	Fixed tangible assets				Intangibles
	2017	2018	2019	2020	2020
Internal/Owner	95	83	.	89	88
Bank loans	17	16	.	17	5
External equity	3	1	.	3	3
Other/Refused	4	5	.	2	3
Leasing or hire	8	14	.	2	7
Supplier credit	1	1	.	0	1

4 Invest financing structure

Intensity of Use if Chosen

Sources of funding	Fixed tangible assets				Intangibles
	2017	2018	2019	2020	2020
Internal/Owner	87	86	.	95	95
Bank loans	65	70	.	65	97
External equity	26	5	.	80	61
Other/Refused	74	66	.	89	96
Leasing or hire	31	42	.	41	70
Supplier credit	11	6	.	10	100

- ▶ This was 95 per cent for internal funds in 2020, up nearly 10 percentage points from 2018.
- ▶ If bank financing was used for tangible (intangible) assets, the proportion of the total investment funded from that sources was 65 (97) per cent.
- ▶ For equity, the proportions were 80 per cent and 61 per cent respectively.

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- ▶ In 2020, fewer firms investing and lower investment levels than before the pandemic
- ▶ Heterogeneity across assets classes and firm characteristics
- ▶ Pandemic specific effects: staff spend down, digi, intangibles up.
- ▶ Continued strong preference for self-financing
- ▶ Among external financing sources, bank loans are the most prevalent financing type. External equity and other types are used by fewer than 3% of firms.
- ▶ Borrowing appetite lower than pre pandemic and uncertainty remains a factor

Important that firms continue to invest in particular with climate transition requirements. Long term productivity growth likely helped by rising digi spend and hopefully a return to investment in staff.

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