

**3<sup>rd</sup> Quarter Report of 2018 to the Minister for  
Business, Enterprise and Innovation detailing the  
analysis and performance of the SME Credit  
Guarantee Scheme 2017 at 30<sup>th</sup> September 2018**

**The Strategic Banking Corporation of Ireland acting as Operator of the  
SME Credit Guarantee Scheme**

## Contents

<b>1</b>	<b>Credit Guarantee Scheme.....</b>	<b>3</b>
<b>2</b>	<b>Analysis of the Credit Guarantee Scheme .....</b>	<b>5</b>
	2.1 Activity Levels .....	6
	2.2 Activity by Region.....	7
	2.3 Activity by Industry Sector .....	9
	2.4 Activity by Legal Form .....	11
	2.5 Impact on Jobs.....	11
	2.6 Exports.....	12
	2.7 Market Inefficiencies - Pillar 1 and/or Pillar 2.....	12
	2.8 Year of Establishment of Borrowing SMEs .....	13
	2.9 Term of Commercial Facility.....	13
	2.10 Purpose of the CGS Facility .....	14
	2.11 Classification of SMEs.....	15
	2.12 Premium Collection .....	16
<b>3</b>	<b>Summary.....</b>	<b>17</b>

## 1 Credit Guarantee Scheme

The Credit Guarantee Scheme (CGS) provides a State guarantee through the Department of Business, Enterprise & Innovation (the “Department”) to accredited Lenders (Allied Irish Banks, Bank of Ireland and Ulster Bank Ireland) of 80 per cent on eligible loans or Performance Bonds to viable Micro, Small and Medium-sized Enterprises (SMEs). The Guarantee is paid by the State (the “Guarantor”) to the Lender on the unrecovered outstanding principal balance on a Scheme Facility in the event of a Borrower defaulting on the Scheme Facility repayments.

The purpose of the Scheme is to encourage additional lending to SMEs, not to substitute for conventional lending. SMEs are thus enabled to develop a positive track record with the Lender with the objective of returning to standard commercial credit facilities in time. It will also place Irish SMEs on a competitive level-footing relative to other trading competitors who are able to avail of a guarantee in their own countries.

It is important to note that funds provided under the Scheme are neither a grant nor a support for ailing businesses or customers in difficulty. All decision-making at the level of the individual Scheme Facility is fully devolved to the participating Lenders.

The Credit Guarantee Scheme 2017 became operational in July 2018. The Department has appointed the Strategic Banking Corporation of Ireland (SBCI) as Operator.

Year	No. of Facilities Sanctioned	Amount of CGS Facilities Sanctioned
2018	4	€550,000
<b>Total</b>	4	€550,000

As a result of the facilities sanctioned under the CGS to SMEs, 15 new jobs have been created and 87 jobs have been maintained.

As stated above, the purpose of the SME Credit Guarantee Schemes made under the 2017 Act was to encourage additional lending to SMEs.

A review of its operation pointed to the need for reforms designed to ensure that Irish SMEs would have at their disposal the full array of avenues to finance available to their competitors in other countries.

In March 2017 the Minister for Employment and Small Business, Mr Pat Breen TD, announced the launch of the new Credit Guarantee Scheme 2017 using the new possibilities in the 2016 legislation to carry out the following reforms:

1. Increase the level of risk that the State will take (80% of individual loans), so as to make it more attractive for finance providers to lend to SMEs;
2. Extend the scope to cover other financial product providers too, like lessors, invoice discounters etc.; and
3. Extend the definition of loan agreements to include non-credit products such as invoice finance and leasing, and to include overdrafts.

This new legislation also empowers the Minister to give counter-guarantees that will enable the SBCI (in their capacity as a Promotional Financial Institution) to unlock matching guarantee facilities from EU sources and thus better share the risk across the banks, the SBCI, the Minister and the EU sources. It is envisaged that this counter-guarantee would operate in conjunction with optimal leveraging of EU financial instruments in this area, such as the European Programme for Competitiveness of SMEs (COSME), the Horizon 2020 funding earmarked for SMEs; and the European Fund for Strategic Investment administered by the European Investment Bank and European Investment Fund (often referred to as the "Juncker Plan").

Further details on the new Scheme products will be posted on the websites of both the Department and the SBCI.

## 2 Analysis of the Credit Guarantee Scheme

Table 1 Activity Levels

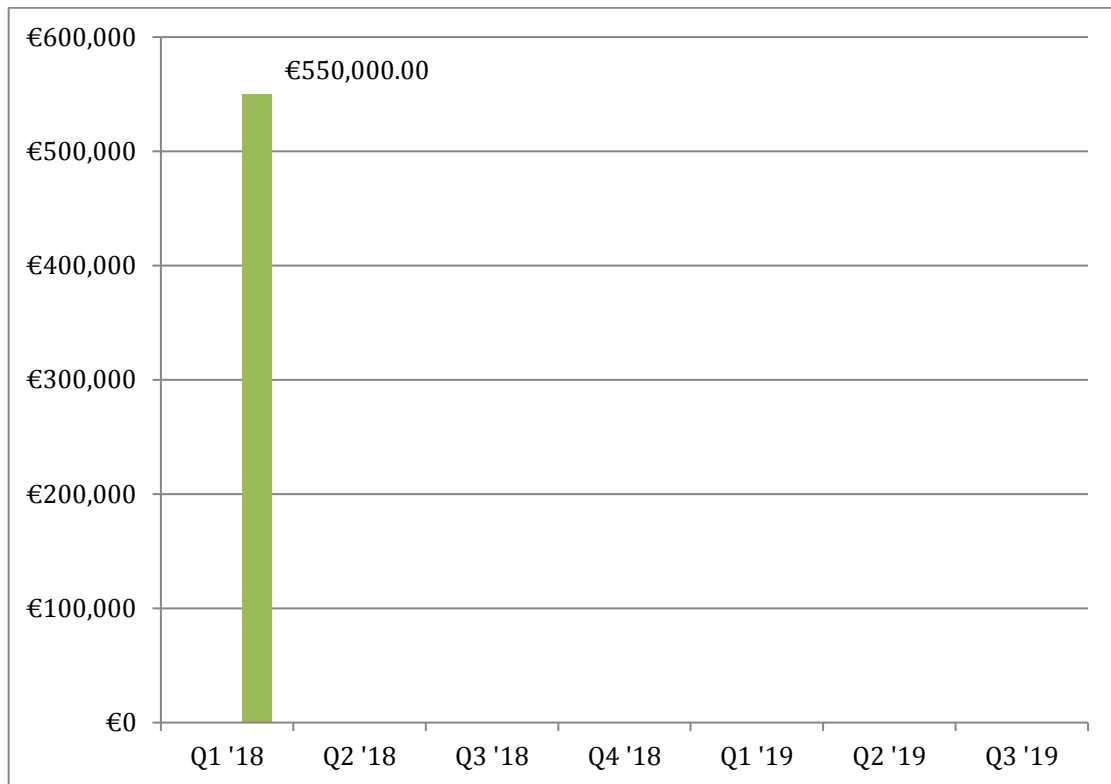
Period	No. of CGS Facilities Sanctioned	Amount of CGS Facilities Sanctioned	Average CGS Facility Sanctioned	Impact on Jobs (Live Cases)	
				Increase	Maintain
1 July - 30 September	4	€550,000	€137,500	15	87

Status	No. of CGS Facilities	Amount of Lending
CGS loans sanctioned by lenders since the CGS launch on 10 <sup>th</sup> July 2018	4	€550,000
Declined or Cancelled by the customer	0	€0
Declined by the lender	0	€0
Ineligible	0	€0
<b>CGS Facilities at 30<sup>th</sup> September 2018</b>	4	€550,000

- Since the launch of the Scheme on 10<sup>th</sup> July 2018 €550,000 has been sanctioned by the participating lenders through four CGS facilities.
- As at 30 September 2018 no claims have been submitted against the guarantee.
- The remainder of this report is based on four CGS 2017 facilities with total lending value of €550,000.

## 2.1 Activity Levels

Figure 1 Value of CGS Facilities



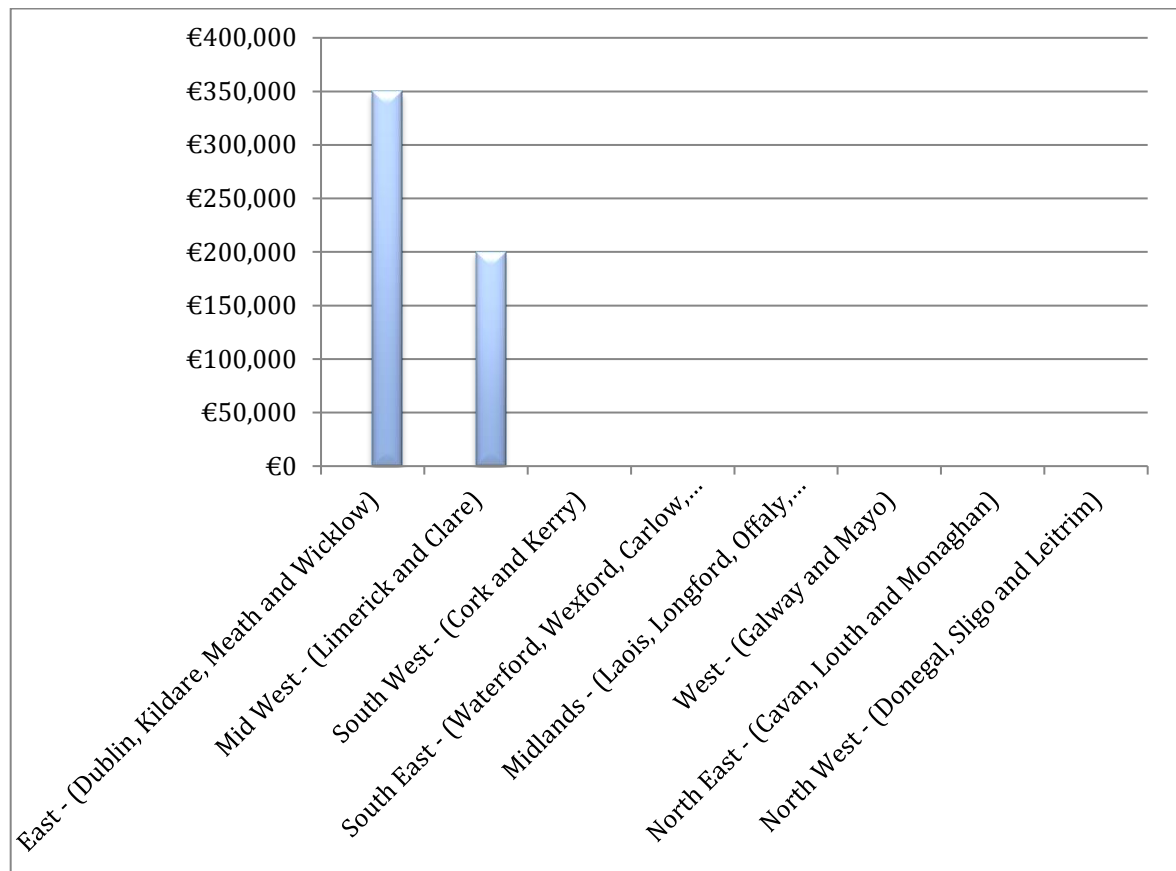
## 2.2 Activity by Region

CGS Facilities were sanctioned to SMEs in the following regions:

**Table 2 Activity by Region**

Region	No. of CGS Facilities Granted	CGS Lending Sanctioned	Percentage of CGS Lending Sanctioned by Region (Monetary Value)	Average Loan Amount Sanctioned
East - (Dublin, Kildare, Meath and Wicklow)	3	€350,000	64%	€116,666
Mid West - (Limerick and Clare)	1	€200,000	36%	€200,000
South West - (Cork and Kerry)	0	€0	0%	€0
South East - (Waterford, Wexford, Carlow, Kilkenny and Tipperary)	0	€0	0%	€0
Midlands - (Laois, Longford, Offaly, Roscommon, and Westmeath)	0	€0	0%	€0
West - (Galway and Mayo)	0	€0	0%	€0
North East - (Cavan, Louth and Monaghan)	0	€0	0%	€0
North West - (Donegal, Sligo and Leitrim)	0	€0	0%	€0
<b>Total</b>	<b>4</b>	<b>€550,000</b>	<b>100%</b>	<b>€137,500</b>

Figure 2 Value of CGS Lending Sanctioned by Region





## 2.3 Activity by Industry Sector

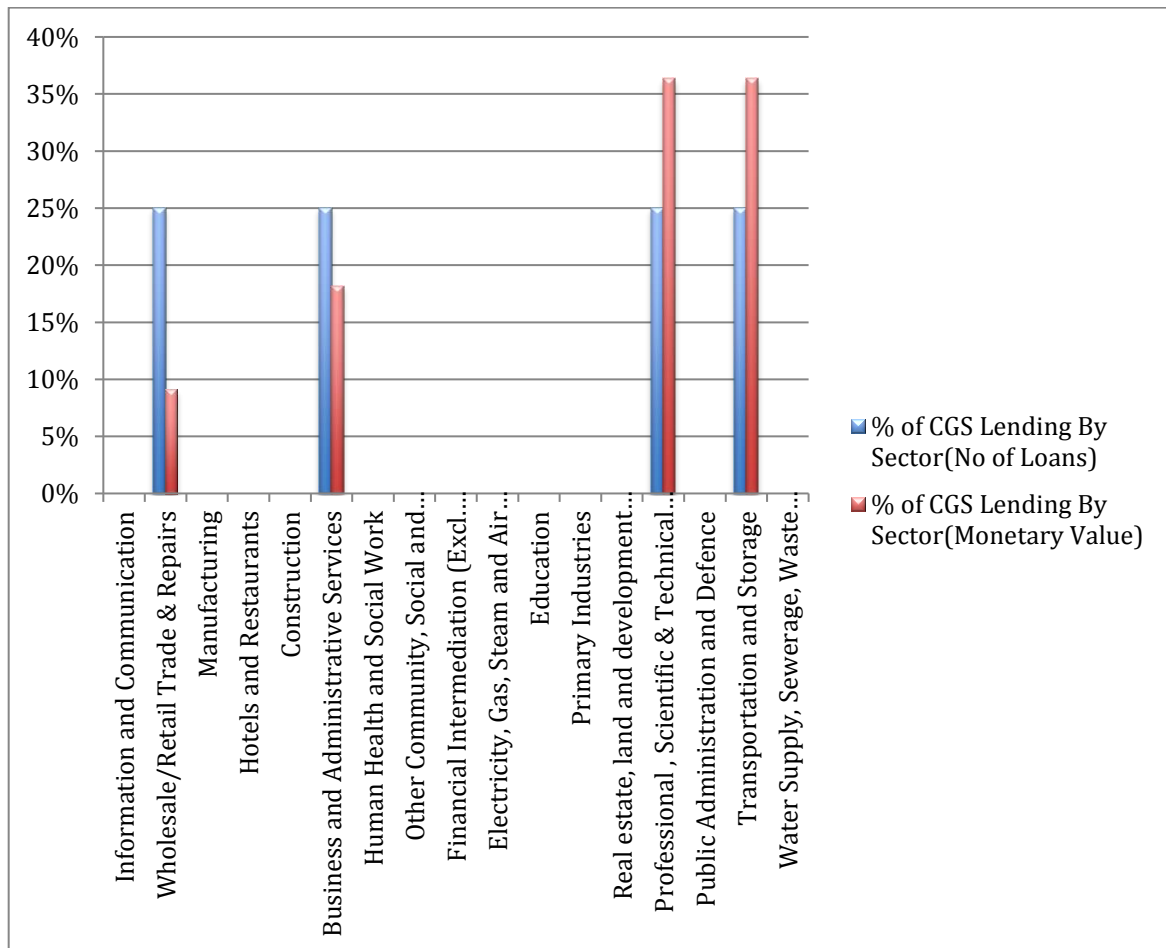
CGS facilities were sanctioned to SMEs in the following Industry Sectors:

**Table 3 Activity by Industry Sector**

Industry Sector	No. of CGS Loans	% of CGS Lending Sanctioned by Sector (No. of Loans)	CGS Lending Sanctioned	% of CGS Lending Sanctioned by Sector (Monetary Value)
Information and Communication	-	-	-	-
Wholesale/Retail Trade & Repairs	1	25%	€50,000	9.09%
Manufacturing	-	-	-	-
Professional, Scientific & Technical Activities	1	25%	€200,000	36.36%
Construction	-	-	-	-
Business and Administrative Services	1	25%	€100,000	18.18%
Human Health and Social Work	-	-	-	-
Other Community, Social and Personal Services	-	-	-	-
Financial Intermediation (Excl. Monetary Financial Institutions)	-	-	-	-
Electricity, Gas, Steam and Air Conditioning Supply	-	-	-	-
Education	-	-	-	-
Primary Industries	-	-	-	-
Real estate, land and development activities	-	-	-	-
Public Administration and Defence	-	-	-	-
Transportation and Storage	1	25%	€200,000	36.36%

Industry Sector	No. of CGS Loans	% of CGS Lending Sanctioned by Sector (No. of Loans)	CGS Lending Sanctioned	% of CGS Lending Sanctioned by Sector (Monetary Value)
Water Supply, Sewerage, Waste Management and Remediation Activities	-	-	-	-
<b>Total</b>	<b>4</b>	<b>100%</b>	<b>€550,000</b>	<b>100%</b>

Figure 3 Percentage of CGS Lending Sanctioned by Sector



## 2.4 Activity by Legal Form

Table 4 Activity by Legal Form

Legal Form	Number of Loans by Legal Form	% by Number of Loans by Legal Form
Private Limited Company	4	100%
Sole Trader	0	0%
Partnership	0	0%
Limited Liability Partnership	0	0%
Other	0	0%
<b>Total</b>	<b>4</b>	<b>100%</b>

## 2.5 Impact on Jobs

As a result of the CGS lending to SMEs as of 30<sup>th</sup> September 2018 it is expected that 15 new jobs will be created and 87 jobs will be maintained.

Table 5 Impact on Jobs

Number of Jobs Increased	2018
Quarter 1	N/A
Quarter 2	N/A
Quarter 3	15
Quarter 4	-
<b>Total</b>	<b>15</b>
Number of Jobs Maintained	2018
Quarter 1	N/A
Quarter 2	N/A
Quarter 3	87
Quarter 4	-
<b>Total</b>	<b>87</b>

## 2.6 Exports

One CGS facility was granted to an SME who is an exporter.

This facility is to an SME that primarily exports to the European Union.

## 2.7 Market Inefficiencies - Pillar 1 and/or Pillar 2

The main purpose of the Credit Guarantee Scheme is to address specific market failures that prevent lending to some commercially viable businesses.

Target groups are commercially viable SME businesses that have insufficient collateral for the additional facilities or in the case where an SME is seeking to refinance due to its bank exiting the Irish SME credit market there is insufficient collateral available to support this refinancing and/or the SME is a growth/expansionary SME and due to its sector, market or business model is perceived to be higher risk under the participating banks' current credit risk evaluation practices.

Based on statistical information relating to CGS borrowers, insufficient collateral remains the primary reason for a viable SME not securing a credit facility through the traditional commercial lending route.

**Table 6 Market Inefficiencies**

Reason for not securing Normal Credit Facilities				
	Insufficient Collateral	Insufficient Collateral and Higher Risk Model/Sector/Product	Higher Risk Model/Sector/Product	Refinancing from departing Banks
Number	4	-	-	-

## 2.8 Year of Establishment of Borrowing SMEs

Table 7 Year of Establishment of SMEs

Year of Establishment	Number of CGS Loans	%
2018	-	-
2017	-	-
2016	-	-
2015	-	-
2014	-	-
2013	-	-
2012	1	25%
2011	-	-
2010	-	-
2000-2009	2	50%
1945-1999	1	25%
<b>Total</b>	<b>4</b>	<b>100%</b>

## 2.9 Term of Commercial Facility

The term or duration of each facility is decided by the participating Lender. However, irrespective of the term of the facility, the maximum period for which the Guarantee is available on the facility is seven years from the date of acceptance of the Lender's offer by the borrower.

Table 8 Term of Facility

Term of Facility	Number of CGS Loans	%
< 1 Year	2	50%
1 < 2 Years	-	-
2 Years < 3 Years	-	-
3 Years < 4 Years	-	-
4 Years < 5 years	-	-
5 Year	2	50%
> 5 Years	-	-
<b>Total</b>	<b>4</b>	<b>100%</b>

## 2.10 Purpose of the CGS Facility

Table 9 Purpose of CGS Facilities

Purpose of Credit Guarantee Scheme Facility	Number of CGS Facilities	%
Working Capital	4	100%
Purchase of Equipment	-	-
Product or Service Development	-	-
Purchase of Premises	-	-
Cost of Acquisition/Business Expansion	-	-
Renovation/Maintenance of Premises	-	-

Purpose of Credit Guarantee Scheme Facility	Number of CGS Facilities	%
To Fit out Premises	-	-
Purchase of Vehicles	-	-
Refinance of Existing Bank Debt	-	-
Purchase of Stock	-	-
Other	-	-
<b>Total</b>	<b>4</b>	<b>100%</b>

## 2.11 Classification of SMEs

Micro, Small and Medium-sized enterprises (SME) are defined according to their staff headcount and turnover or annual balance-sheet total.

- A microenterprise is defined as an enterprise which employs fewer than 10 people and whose annual turnover and/or annual balance sheet total does not exceed €2 million.
- A small enterprise is defined as an enterprise which employs between 10 and 49 persons and whose annual turnover and/or annual balance sheet total does not exceed €10 million.
- A medium-sized enterprise is defined as an enterprise which employs between 50 and 249 persons and whose annual turnover does not exceed €50 million or whose annual balance-sheet total does not exceed €43 million.

**Table 10 Profile of SME**

	<i>Micro Enterprise</i>	<i>Small Enterprise</i>	<i>Medium Enterprise</i>	<i>Unknown</i>
<b>Number as at 30<sup>th</sup> June 2018</b>	1	3	-	-
<b>Total Lending Sanctioned</b>	€50,000	€500,000	€0	€0
<b>Percentage of Total €</b>	9.1%	90.9%	0%	0%

## 2.12 Premium Collection

SMEs availing of the CGS must pay a premium of 1% per annum to the Department of Business, Enterprise and Innovation which partially covers the cost of providing the guarantee. The premium is collected annually or quarterly in advance throughout the, up to, seven year life of the guarantee based on the annual contracted principal balance.

**Table 11 Premium Payments Received**

Premium Payments Received	2018
Quarter 1	N/A
Quarter 2	N/A
Quarter 3	-*
<b>Total as at 30<sup>th</sup> September 2018</b>	<b>€0</b>

*\*Note: Premium payments due on loans advanced in Q3 2018 are due to be collected in Q4 2018.*



### 3 Summary

- CGS 2017 launched on the 10<sup>th</sup> July 2018. This report is based on data received on usage and activity up to 30<sup>th</sup> September 2018.
- Since the launch of the Scheme €550,000 has been sanctioned by the participating lenders through four CGS facilities.
- The East and Mid-West regions account for 100% of lending currently live.
- Approved lending is across four industry sectors.
- Because of the sanctioned CGS lending to SMEs, as of 30<sup>th</sup> September 2018, it is expected that 15 new jobs will be created and 87 jobs will be maintained.
- Of the SMEs currently participating in the CGS, 50% were established during the period 2000-2009.
- The main reason provided by SMEs for seeking finance was for working capital purposes which accounted for 100% of all CGS facilities.
- 75% of the lending sanctioned was provided to SMEs defined as a Small Enterprise and the remaining facility was provided to a Microenterprise.
- The average loan amount sanctioned by the participating lenders is €137,500

***The Strategic Banking Corporation of Ireland (SBCI) are the Operator / Manager of the CGS on behalf of the Department of Business, Enterprise and Innovation.***