# 2nd Quarter Report of 2019 to the Minister for Business, Enterprise and Innovation detailing the analysis and performance of the SME Credit Guarantee Scheme as at 30th June 2019

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

## Contents

# 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 SME's, 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 new Credit Guarantee Scheme became operational in July 2018 replacing the previous CGS 2012 and CGS 2015 schemes that had been collectively in operation since 2012 (the "Legacy Schemes"). Henceforth, all references to CGS will relate to the scheme launched in 2018. The Department has appointed the Strategic Banking Corporation of Ireland ("SBCI") as Operator.

| | Loans Sanctioned | | Loans Drawn | |
|---|---|---|---|---|
| **Year** | **Number** | **Value** | **Number** | **Value** |
| **2018** | 82 | €12,572,062 | 64 | €9,863,000 |
| **2019** | 69 | €13,439,000 | 38 | €7,399,000 |
| **Total** | **151** | **€26,011,062** | **102** | **€17,262,000** |

As a result of the facilities drawn under the CGS, 417 new jobs have been created and 1,805 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 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

| | Loans Sanctioned | | Loans Drawn | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | Impact on Jobs | |
| Quarter | Number | Value | Number | Value | Average loan size | Increase | Maintain |
| **Q3 2018** | 38 | €5,871,562 | 30 | €4,530,000 | €151,000 | 108 | 419 |
| **Q4 2018** | 44 | €6,870,500 | 34 | €5,333,000 | €149,500 | 125 | 794 |
| **Q1 2019** | 30 | €5,949,000 | 20 | €4,146,000 | €211,444 | 88 | 343 |
| **Q2 2019** | 39 | €7,320,000 | 18 | €3,253,000 | €180,722 | 96 | 249 |
| **Total** | **151** | **€26,011,062** | **102** | **€17,262,000** | **€169,235** | **417** | **1,805** |

- Since the launch of the Scheme on 10th July 2018, 151 CGS loans have been sanctioned with a total value of €26,011,062.
- Of these, 102 have drawn down facilites with a total value of €17,262,000
- As at 30th June 2019 no claims have been submitted against the guarantee.
- The remainder of this report provides additional analysis on the portfolio of 151 CGS facilities with total value of €26,011,062.
- The report also reviews the Legacy Schemes. These schemes are no longer open to new customers since being replaced by the new CGS in 2018.

## 2.1 Activity by Region

| | Loans Sanctioned | | Loans Drawn | | | |
|---|---|---|---|---|---|---|
| **Region** | **Number** | **Value** | **Number** | **Value** | **% by value** | **Average loan size** |
| East - (Dublin, Kildare, Meath and Wicklow) | 87 | €14,774,062 | 61 | €9,788,000 | 57% | €160,459 |
| Mid-West - (Limerick and Clare) | 16 | €2,558,000 | 6 | €760,000 | 4% | €126,667 |
| South West - (Cork and Kerry) | 23 | €4,515,000 | 17 | €3,605,000 | 21% | €212,059 |
| South East - (Waterford, Wexford, Carlow, Kilkenny and Tipperary) | 8 | €1,130,000 | 4 | €590,000 | 3% | €147,500 |
| Midlands - (Laois, Longford, Offaly, Roscommon, and Westmeath) | 3 | €608,000 | 3 | €608,000 | 4% | €202,667 |
| West - (Galway and Mayo) | 7 | €1,263,000 | 6 | €1,093,000 | 6% | €182,167 |
| North East - (Cavan, Louth and Monaghan) | 1 | €135,000 | 1 | €135,000 | 1% | €135,000 |
| North West - (Donegal, Sligo and Leitrim) | 6 | €1,028,000 | 4 | €683,000 | 4% | €170,750 |
| **Total** | **151** | **€26,011,062** | **102** | **€17,262,000** | **100%** | **€169,235** |

## 2.2 Activity by County

| | Loans Sanctioned | | Loans Drawn | | | |
|---|---|---|---|---|---|---|
| County | Number | Value | Number | Value | % by value | Average loan size |
| Carlow | 3 | €400,000 | 2 | €340,000 | 2% | €170,000 |
| Cavan | 1 | €200,000 | 1 | €200,000 | 1% | €200,000 |
| Clare | 3 | €500,000 | 0 | €0 | 0% | €0 |
| Cork | 20 | €3,945,000 | 15 | €3,285,000 | 19% | €219,000 |
| Donegal | 4 | €683,000 | 4 | €683,000 | 4% | €170,750 |
| Dublin | 67 | €11,542,062 | 48 | €7,980,500 | 46% | €166,260.42 |
| Galway | 6 | €1,013,000 | 5 | €843,000 | 5% | €168,600 |
| Kerry | 3 | €570,000 | 2 | €320,000 | 2% | €160,000 |
| Kildare | 3 | €712,500 | 3 | €712,500 | 4% | €237,500 |
| Kilkenny | 2 | €430,000 | 0 | €0 | 0% | €0 |
| Laois | 1 | €108,000 | 1 | €108,000 | 1% | €108,000 |
| Leitrim | 0 | €0 | 0 | €0 | 0% | €0 |
| Limerick | 10 | €1,390,000 | 5 | €560,000 | 3% | €112,000 |
| Longford | 0 | €0 | 0 | €0 | 0% | €0 |
| Louth | 3 | €480,000 | 1 | €135,000 | 1% | €135,000 |
| Mayo | 1 | €250,000 | 1 | €250,000 | 1% | €250,000 |
| Meath | 4 | €652,500 | 2 | €325,000 | 2% | €162,500 |
| Monaghan | 0 | €0 | 0 | €0 | 0% | €0 |
| Offaly | 1 | €100,000 | 1 | €100,000 | 1% | €100,000 |
| Roscommon | 1 | €400,000 | 1 | €400,000 | 2% | €400,000 |
| Sligo | 0 | €0 | 0 | €0 | 0% | €0 |
| Tipperary | 2 | €468,000 | 0 | €0 | 0% | €0 |
| Waterford | 1 | €50,000 | 0 | €0 | 0% | €0 |
| Westmeath | 0 | €0 | 0 | €0 | 0% | €0 |
| Wexford | 2 | €250,000 | 2 | €250,000 | 1% | €125,000 |
| Wicklow | 13 | €1,867,000 | 8 | €770,000 | 4% | €96,250 |
| **Total** | **151** | **€26,011,062** | **102** | **€17,262,000** | **100%** | **€169,235** |

## 2.3 Activity by Industry Sector

| | Loans Sanctioned | | Loans Drawn | | | |
|---|---|---|---|---|---|---|
| **Industry Sector** | **Number** | **% by Number** | **Number** | **% by Number** | **Value** | **% by Value** |
| Information and Communication | 7 | 5% | 4 | 4% | €592,500 | 3% |
| Wholesale/Retail Trade & Repairs | 22 | 15% | 14 | 14% | €2,003,000 | 12% |
| Manufacturing | 8 | 5% | 6 | 6% | €1,793,000 | 10% |
| Professional, Scientific & Technical Activities | 36 | 24% | 19 | 19% | €2,965,000 | 17% |
| Construction | 12 | 8% | 12 | 12% | €1,920,000 | 11% |
| Business and Administrative Services | 8 | 5% | 5 | 5% | €1,020,000 | 6% |
| Real Estate | 1 | 1% | 1 | 1% | €150,000 | 1% |
| Human Health and Social Work | 10 | 7% | 7 | 7% | €1,241,000 | 7% |
| Arts, Entertainment & Recreation | 16 | 11% | 13 | 13% | €2,164,000 | 13% |
| Accommodation & Food Services | 15 | 10% | 11 | 11% | €1,623,000 | 9% |
| Other Services | 6 | 4% | 1 | 1% | €250,000 | 1% |
| Education | 1 | 1% | 1 | 1% | €150,000 | 1% |
| Agriculture | 1 | 1% | 1 | 1% | €400,000 | 2% |
| Transportation & Storage | 8 | 5% | 7 | 7% | €990,500 | 6% |
| **Total** | **151** | **100%** | **102** | **100%** | **€17,262,000** | **100%** |

## 2.4 Activity by Legal Form

| Legal Form | Loans Sanctioned | | Loans Drawn | |
|---|---|---|---|---|
| | Number | % of Total | Number | % of Total |
| Private Limited Company | 127 | 84% | 91 | 89% |
| Sole Trader | 14 | 9% | 8 | 8% |
| Partnership | 8 | 5% | 3 | 3% |
| Limited Liability Partnership | 1 | 1% | - | - |
| Other | 1 | 1% | - | - |
| **Total** | **151** | **100%** | **102** | **100%** |

## 2.5 Impact on Jobs

To date the number of jobs increased/maintained on drawn down loans is 417 & 1,805 respectively. In the event that all of the sanctioned loans are drawn down by borrowers it would be expected that 564 new jobs would be created and 2,389 jobs maintained.

** Note: First loans under CGS were received in Q3 2018.*

| Number of Jobs Increased | Sanctioned Loans | Drawn Loans |
|---|---|---|
| Quarter 3 2018 | 115 | 108 |
| Quarter 4 2018 | 140 | 125 |
| Quarter 1 2019 | 116 | 88 |
| Quarter 2 2019 | 193 | 96 |
| **Total** | **564** | **417** |
| **Number of Jobs Maintained** | **Sanctioned Loans** | **Drawn Loans** |
| Quarter 3 2018 | 488 | 419 |
| Quarter 4 2018 | 897 | 794 |
| Quarter 1 2019 | 356 | 343 |
| Quarter 2 2019 | 648 | 249 |
| **Total** | **2,389** | **1,805** |

## 2.6 Exports

Of the 151 SMEs currently sanctioned on the CGS Portfolio, 25 of them are Exporters. The table below outlines the various markets they export to.

| Number of SMEs that Export - Sanctioned Loans | Number of SMEs that Export - Drawn Loans | Primary Export Markets |
|---|---|---|
| 9 | 7 | UK |
| 6 | 5 | USA |
| 5 | 3 | EU |
| 1 | 1 | BRICS |
| 4 | 1 | OTHER |

## 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.

| 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 - Sanctioned** | 151 | 0 | 0 | 0 |
| **Number - drawn down** | 102 | 0 | 0 | 0 |

## 2.8 Year of Establishment of Borrowing SMEs

*Note: 25 facilities sanctioned under CGS were to Sole Traders & Partnerships. As such year of establishment is unavailable.*

| Year of Establishment | Loans Sanctioned | | Loans Drawn | |
|---|---|---|---|---|
| | Number | % of Total | Number | % of Total |
| **2019** | 6 | 4% | 2 | 2% |
| **2018** | 11 | 7% | 8 | 8% |
| **2017** | 11 | 7% | 7 | 7% |
| **2016** | 7 | 5% | 5 | 5% |
| **2015** | 8 | 5% | 3 | 3% |
| **2014** | 9 | 6% | 7 | 7% |
| **2013** | 8 | 5% | 5 | 5% |
| **2012** | 6 | 4% | 4 | 4% |
| **2011** | 15 | 10% | 10 | 10% |
| **2010** | 6 | 4% | 4 | 4% |
| **2000-2009** | 28 | 19% | 24 | 24% |
| **1945-1999** | 11 | 7% | 9 | 9% |
| **Unknown *** | 25 | 17% | 14 | 14% |
| **Total** | **151** | **100%** | **102** | **100%** |

## 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.

## 2.10 Purpose of the CGS Facility

**Sanctioned Facilities:**

| Purpose of Loan | Number of Loans | % | Enterprise Type | Number of Loans | % |
|---|---|---|---|---|---|
| **Working Capital** | 86 | 57% | **Micro** | 42 | 49% |
| | | | **Small** | 41 | 48% |
| | | | **Medium** | 3 | 3% |
| **Purchase of Equipment** | 18 | 12% | **Micro** | 11 | 61% |
| | | | **Small** | 6 | 33% |
| | | | **Medium** | 1 | 6% |
| **Product or Service Development** | 7 | 5% | **Micro** | 5 | 71% |
| | | | **Small** | 2 | 29% |
| | | | **Medium** | 0 | 0% |
| **Purchase of Premises** | 1 | 1% | **Micro** | 1 | 100% |
| | | | **Small** | 0 | 0% |
| | | | **Medium** | 0 | 0% |
| **Other** | 39 | 26% | **Micro** | 21 | 54% |
| | | | **Small** | 17 | 44% |
| | | | **Medium** | 1 | 3% |
| **Total** | **151** | **100%** | | **151** | |

**Drawn Facilities:**

| Purpose of Loan | Number of Loans | % | Enterprise Type | Number of Loans | % |
|---|---|---|---|---|---|
| **Working Capital** | 56 | 55% | **Micro** | 25 | 52% |
| | - | - | **Small** | 28 | 50% |
| | - | - | **Medium** | 3 | 2% |
| **Purchase of Equipment** | 13 | 13% | **Micro** | 8 | 13% |
| | - | - | **Small** | 4 | 31% |
| | - | - | **Medium** | 1 | 8% |
| **Product or Service Development** | 5 | 5% | **Micro** | 3 | 6% |
| | - | - | **Small** | 2 | 40% |
| | - | - | **Medium** | 0 | 0% |
| **Purchase of Premises** | 1 | 1% | **Micro** | 1 | 1% |
| | - | - | **Small** | 0 | 0% |
| | - | - | **Medium** | 0 | 0% |
| **Other** | 27 | 26% | **Micro** | 14 | 23% |
| | - | - | **Small** | 12 | 1% |
| | - | - | **Medium** | 1 | 4% |
| **Total** | **102** | **100%** | | **102** | **100%** |

## 2.11 Classification of SMEs

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

- A micro enterprise 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.

## 2.12 Premium Collection

SMEs availing of the CGS must pay a premium of 1% per annum (2% on the 2012 - 2015 Legacy Schemes) to the Department of Business, Enterprise and Innovation which partially covers the cost of providing the guarantee. The premium is collected monthly, quarterly or annually in advance throughout the, up to, seven year life of the guarantee based on the annual contracted principal balance.

**Note -** *As of 16th July 2019 the Premia rate for CGS will be decreased from 1% down to 0.5% for a period of 12 months*.

| **Premium Payments Received - CGS** | | | | | |
|---|---|---|---|---|---|
| **Year** | **Q1** | **Q2** | **Q3** | **Q4** | **Total for Year** |
| **2018** | N/A | N/A | N/A | €21,072 | **€21,072** |
| **2019** | €20,024 | €30,828 | - | **-** | **€50,852** |
| **Total premium collected** | | | | | **€71,924** |

**Note: Premium payments due on loans advanced in Q3 2018 were collected in Q4 2018.*

| **Premium Payments Received - Legacy Schemes** | | | | | |
|---|---|---|---|---|---|
| | **Q1** | **Q2** | **Q3** | **Q4** | **Total for Year** |
| **2012** | N/A | N/A | N/A | €2,410 | **€2,410** |
| **2013** | €8,852 | €14,306 | €26,935 | €30,555 | **€80,648** |
| **2014** | €30,544 | €35,608 | €42,860 | €45,361 | **€154,373** |
| **2015** | €49,632 | €49,633 | €62,726 | €96,485 | **€258,476** |
| **2016** | €83,094 | €121,749 | €137,738 | €160,521 | **€503,102** |
| **2017** | €138,332 | €159,577 | €160,591 | €138,043 | **€596,543** |
| **2018** | €123,323 | €114,144 | €138,953 | €109,268 | **€485,688** |
| **2019** | €91,031 | €59,759 | €0 | €0 | **€150,790** |
| **Total premium collected** | | | | | **€2,232,030** |

## 2.13 Contingent Liability

**Contingent Liability: CGS**

The Minister's liability under CGS is based upon an 80% guarantee on individual loans and is subject to a 13% portfolio cap with each finance provider. Once a finance provider's defaults have reached the 13% cap, any further losses from loans in that portfolio must be borne by the finance provider and will not be eligible to have 80% of them reclaimed.

| Year | Total Portfolio Value | Maximum Exposure | Total Value of Claims Submitted | Maximum Exposure on Claims against Remaining Live Lending as at 30th June 2019 |
|---|---|---|---|---|
| **2018** | €9,863,000 | €1,025,752 | €0 | €1,025,752 |
| **2019** | €7,399,000 | €769,496 | €0 | €769,496 |
| **Totals** | **€17,262,000** | **€1,795,248** | **€0** | **€1,795,248** |

**Contingent Liability: Legacy Schemes**

| Year | Allocation Request of CGS Legacy Portfolio | Loans Sanctioned | Lending Accepted by the Borrower in respect of 2012 Portfolio Year Sanctions | Maximum Exposure on Claims against Accepted Lending | Total Original Scheme Amount on Remaining Live Loans | Maximum Exposure on Claims against Remaining Live Lending as at 30th June 2019 |
|---|---|---|---|---|---|---|
| **2012** | €5,000,000 | €967,000 | €362,000 | €27,150 | €0 | €0 |
| **2013** | €85,000,000 | €12,345,500 | €6,046,500 | €453,488 | €0 | €0 |
| **2014** | N/A | €8,660,344 | €6,664,344 | €499,826 | €375,000 | €281,250 |
| **2015** | N/A | €20,630,050 | €16,590,050 | €1,244,254 | €7,205,500 | €842,570 |
| **2016** | N/A | €22,217,000 | €16,878,000 | €1,265,850 | €9,471,000 | €1,084,058 |
| **2017** | N/A | €20,411,700 | €15,787,450 | €1,184,059 | €12,825,450 | €1,184,059 |
| **2018** | N/A | €8,614,500 | €5,694,500 | €427,088 | €4,554,500 | €331,434 |
| **Totals** | **N/A** | **€93,846,094** | **€68,022,844** | **€5,101,715** | **€34,431,450** | **€3,723,371** |

The Minister's liability under the Legacy Schemes is based upon a 75% guarantee on individual loans and is subject to a 10% portfolio cap.

Once a finance provider's defaults have reached the 10% cap, any further losses from loans in that portfolio must be borne by the finance provider and will not be eligible to have 75% of them reclaimed.

# 3 Summary

- CGS 2017 launched on the 10th July 2018. This report is based on sanctioned and drawn down data received on usage and activity up to 30th June 2019.
- Since the launch of the Scheme 151 facilities totalling €26,011,062 have been sanctioned under the Scheme.
- Of these, 102 facilities have drawn down by SME's with total value of €17,262,000.
- The East and South-West regions account for 78% of all lending sanctioned.
- 57% of lending was to the industry sectors Professional, Scientific & Technical Activities, Arts, Entertainment & Recreation, Construction & Wholesale. The remaining lending was across a further 10 sectors.
- It is expected that 564 new jobs will be created, and 2,389 jobs will be maintained as a result of loans sanctioned under CGS.
- The main reason provided by SMEs for seeking finance was for working capital purposes which accounted for 100% of all CGS facilities.
- 53% of the lending sanctioned was to SMEs defined as a Micro Enterprise with 44% provided to Small Enterprises.
- The average loan amount drawn by borrowers is €169,235.
- There have been no claims made under the Scheme to date.

# 4 Update on Legacy Schemes

- The Legacy Schemes commenced on the 24th October 2012 and closed for new loans in June 2018 when they were replaced by the CGS. This report is based on data received on usage and activity up to 30th June 2019.
- Since the launch of the Legacy Schemes, €93,846,094 has been sanctioned by the participating lenders through 587 CGS facilities.
- Most of the lending has been sanctioned in the East, South and Mid-West with these three regions combined accounting for 83% of lending currently live or repaid.
- Approved lending is dominated by eight industry sectors accounting for 91% of the total lending.
- 2,338 new jobs were created and 1,328 jobs were maintained.
- Of the SMEs who participated in the CGS, 53% were established during the period 2010-2018.
- The main reason provided by SMEs for seeking finance was for working capital purposes which accounted for 66% of all Legacy Schemes.
- 51% of the lending sanctioned was provided to SMEs defined as a Small Enterprise.
- The average loan amount sanctioned by the participating lenders is €159,136.
- Six claims against the guarantee have been processed and paid since the schemes' inception. The values of these claims are: €61,950 & €26,045 paid in Q1-2015, €367,934 & €39,442 paid in Q2-2017, €169,792 paid in Q4-2017 and €80,654 paid in Q1-2018.
- Premium collection, which partially covers the cost of providing the guarantee, amounted to just under €2.2m from inception in October 2012 to 30th June 2019.

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