

**4<sup>th</sup> Quarter Report of 2017 to the Minister for  
Business, Enterprise and Innovation detailing the  
analysis and performance of the SME Credit  
Guarantee Scheme at 31<sup>st</sup> December 2017**

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

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## 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 75 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 (CGS) became operational on the 24<sup>th</sup> October 2012.

Continuing increased usage of the CGS based on the number and value of facilities sanctioned by lenders is welcomed.

Year	No. Of Facilities Sanctioned	Amount of CGS Facilities Sanctioned
2012	6	€582,000
2013	88	€12,107,500
2014	68	€9,283,344
2015	108	€20,385,050
2016	131	€22,312,000
2017	129	€19,726,700
<b>Total</b>	<b>530</b>	<b>€84,396,594</b>

As a result of the facilities sanctioned under the CGS to SMEs, 2,104 new jobs have been created and 1,186 jobs have been maintained.

As stated above, the purpose of the SME Credit Guarantee Schemes made under the 2012 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.

Two strategic changes were announced by the then Minister of State for Business and Employment Ged Nash TD to the Credit Guarantee Scheme.

On the 23rd February 2015 the then Minister of State announced legislative changes to allow for:-

- the refinancing of loans where an SME's bank is exiting the Irish SME Credit Market and
- the extension of the maximum length of the guarantee from three to seven years.

These changes became operational on 16th April 2015.

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 of 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").

It is intended that the improvements will continue to be rolled out on a phased basis throughout 2018.

The Strategic Banking Corporation of Ireland have been appointed by the Department as Operator.

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

## 2 Analysis of the Credit Guarantee Scheme (CGS)

Table 1 Activity Levels

	No. of CGS Facilities Sanctioned	Amount of CGS Facilities Sanctioned	Average CGS Facility Sanctioned	Impact on Jobs (Live Cases)	
				Increase	Maintain
<i>From 24<sup>th</sup> October 2012 to 31<sup>st</sup> December 2012</i>	6	€582,000	€97,000	33	5
<i>From 1<sup>st</sup> January 2013 to 31<sup>st</sup> March 2013</i>	18	€2,549,600	€141,645	148	20
<i>From 1<sup>st</sup> April 2013 to 30<sup>th</sup> June 2013</i>	23	€2,774,500	€120,630	92	90
<i>From 1<sup>st</sup> July 2013 to 30<sup>th</sup> September 2013</i>	33	€5,285,000	€160,152	81	19
<i>From 1<sup>st</sup> October 2013 to 31<sup>st</sup> December 2013</i>	14	€1,498,400	€107,029	55	102
<i>From 1<sup>st</sup> January 2014 to 31<sup>st</sup> March 2014</i>	16	€1,653,000	€103,313	70	19
<i>From 1<sup>st</sup> April 2014 to 30<sup>th</sup> June 2014</i>	15	€2,099,500	€139,967	22	31
<i>From 1<sup>st</sup> July 2014 to 30<sup>th</sup> September 2014</i>	21	€3,795,844	€180,754	81	47
<i>From 1<sup>st</sup> October 2014 to 31<sup>st</sup> December 2014</i>	16	€1,735,000	€108,438	37	-
<i>From 1<sup>st</sup> January 2015 to 31<sup>st</sup> March 2015</i>	13	€2,206,600	€169,738	27	52
<i>From 1<sup>st</sup> April 2015 to 30<sup>th</sup> June 2015</i>	33	€7,080,950	€214,574	162	133
<i>From 1<sup>st</sup> July 2015 to 30<sup>th</sup> September 2015</i>	32	€5,681,500	€177,547	116	17

#### 4<sup>th</sup> Quarterly Report of 2017 SME Credit Guarantee Scheme

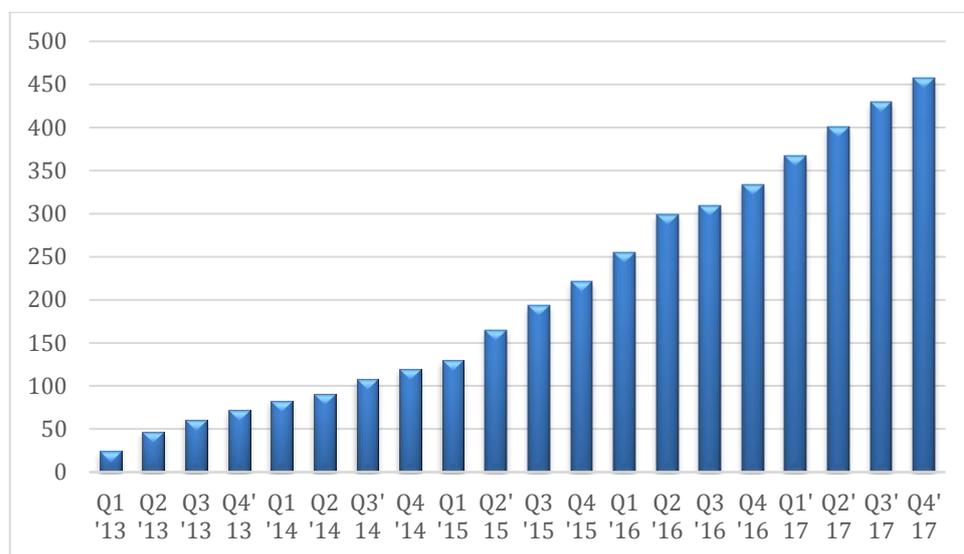
	No. of CGS Facilities Sanctioned	Amount of CGS Facilities Sanctioned	Average CGS Facility Sanctioned	Impact on Jobs (Live Cases)	
				Increase	Maintain
<i>From 1<sup>st</sup> October 2015 to 31<sup>st</sup> December 2015</i>	30	€5,416,000	€180,534	27	204
<i>From 1<sup>st</sup> January 2016 to 31<sup>st</sup> March 2016</i>	34	€6,805,000	€200,147	134	124
<i>From 1<sup>st</sup> April 2016 to 30<sup>th</sup> June 2016</i>	43	€7,261,000	€168,860	186	106
<i>From 1<sup>st</sup> July 2016 to 30<sup>th</sup> September 2016</i>	29	€4,337,000	€149,552	152	36
<i>From 1<sup>st</sup> October 2016 to 31<sup>st</sup> December 2016</i>	25	€3,909,000	€156,360	120	35
<i>From 1<sup>st</sup> January 2017 to 31<sup>st</sup> March 2017</i>	36	€5,131,450	€142,540	189	58
<i>From 1<sup>st</sup> April 2017 to 30<sup>th</sup> June 2017</i>	34	€5,154,250	€151,596	159	64
<i>From 1<sup>st</sup> July 2017 to 30<sup>th</sup> September 2017</i>	31	€4,472,000	€144,258	88	24
<i>From 1<sup>st</sup> October to 31<sup>st</sup> December 2017</i>	28	€4,969,000	€177,464	125	0
<b>Total as at 31st December 2017</b>	<b>530</b>	<b>€84,396,594</b>	<b>€159,239</b>	<b>2,104</b>	<b>1,186</b>

Status	No. of CGS Facilities	Amount of Lending
CGS loans sanctioned by Lenders since the CGS Launch on 24 <sup>th</sup> October 2012	530	€84,396,594
Declined or Cancelled by the customer	67	€11,171,250
Declined by the lender	3	€180,000
Ineligible	3	€467,000
<b>CGS Facilities at 31<sup>st</sup> December 2017</b>	457	€72,578,344

- Since the launch of the Scheme on 24<sup>th</sup> October 2012, €84,396,594 has been sanctioned by the participating lenders through five hundred and thirty CGS facilities.
- Sixty seven CGS facilities with a total lending value of €11,171,250 were declined by the borrower and did not proceed.
- Three CGS facilities with a total lending value of €180,000 were initially sanctioned for approval, however the applications were declined by the lender following the receipt of additional information which negatively impacted the borrower's viability.
- Three CGS facilities with total lending value of €467,000 were initially sanctioned by participating lenders but upon review were subsequently deemed ineligible for the CGS and did not proceed.
- The average loan amount sanctioned by the participating lenders based on the five hundred and thirty CGS loans sanctioned since the CGS was launched is €159,239.
- Four claims against the guarantee for €61,950.16, €26,045.45, €367,934 and €39,442 were processed and paid to participating lenders in quarter two 2015, quarter three 2016 and two in quarter 4 2017 respectively. One claim has been received at the end of quarter 4 2017 and is the early stages of the validation process.
- The remainder of this report is based on four hundred and fiftyseven CGS facilities with total lending value of €72,578,344.

## 2.1 Activity Levels

Figure 1 Number of CGS Facilities



### 2.1.1 Activity by Region

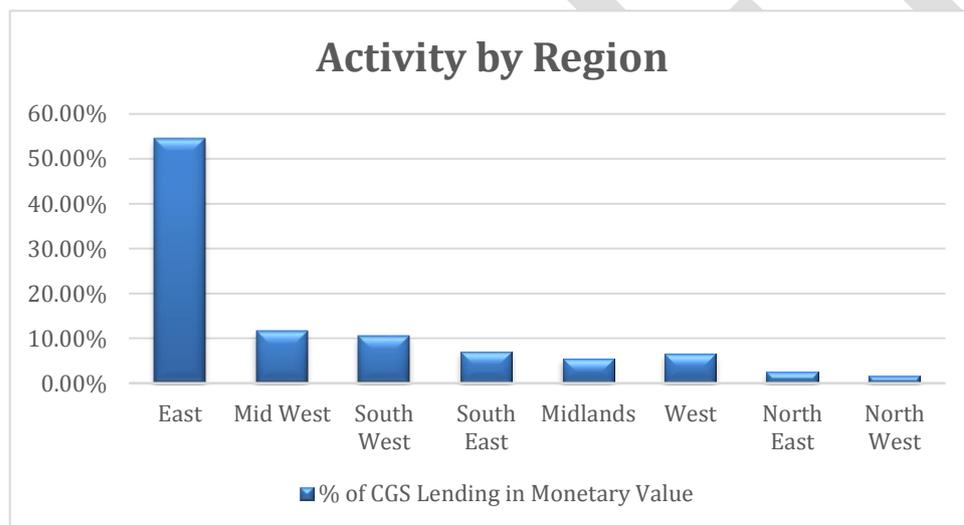
CGS Facilities were sanctioned to SMEs in the following regions:

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)	240	€39,489,200	54.41%	€164,538
Mid West - (Limerick and Clare)	62	€8,372,594	11.54%	€135,042
South West - (Cork and Kerry)	56	€7,686,000	10.59%	€137,250
South East - (Waterford, Wexford, Carlow, Kilkenny and Tipperary)	27	€5,157,000	7.11%	€191,000
Midlands - (Laois, Longford, Offaly, Roscommon, and Westmeath)	24	€3,998,950	5.51%	€166,623
West - (Galway and Mayo)	31	€4,733,600	6.52%	€152,697

Region	No. of CGS Facilities Granted	CGS Lending Sanctioned	Percentage of CGS Lending Sanctioned by Region (Monetary Value)	Average Loan Amount Sanctioned
North East - (Cavan, Louth and Monaghan)	12	€1,887,000	2.60%	€157,250
North West - (Donegal, Sligo and Leitrim)	5	€1,254,000	1.73%	€250,800
<b>Total</b>	<b>457</b>	<b>€72,578,344</b>	<b>100%</b>	<b>€158,815</b>

Figure 2 Percentage of CGS Lending Sanctioned by Region (Monetary Value)



## 2.1.2 Activity by Industry Sector

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

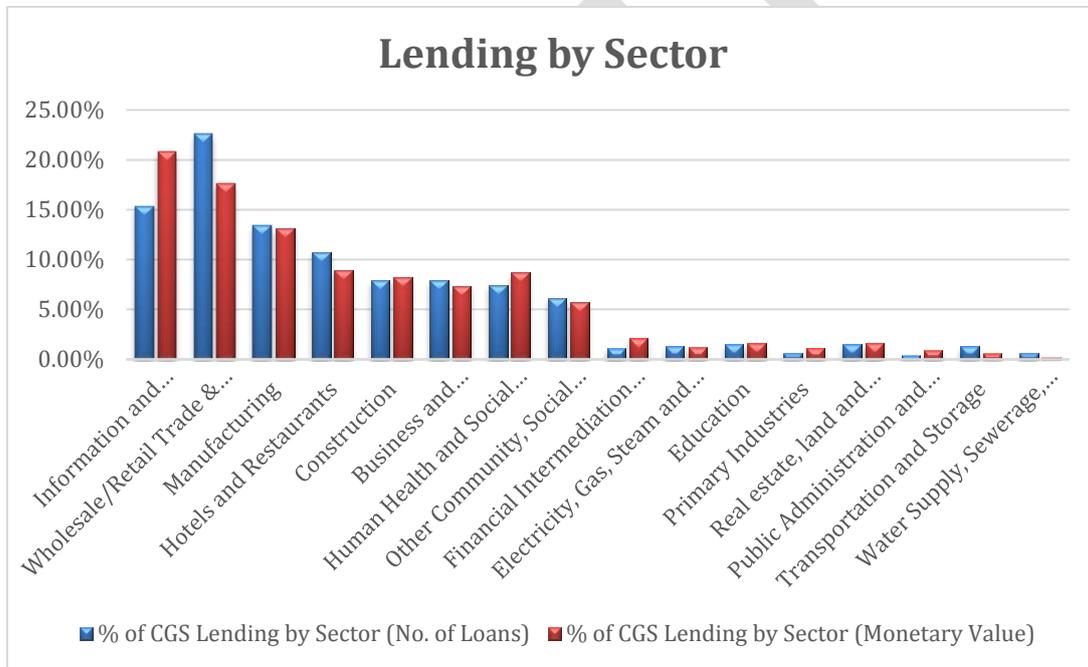
**Table 3 Activity by Industry Sector**

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	70	15.35%	€15,101,000	20.81%
Wholesale/Retail Trade & Repairs	103	22.59%	€12,758,194	17.58%
Manufacturing	61	13.38%	€9,519,000	13.12%
Hotels and Restaurants	49	10.75%	€6,510,100	8.97%
Construction	36	7.89%	€5,997,600	8.26%
Business and Administrative Services	36	7.89%	€5,317,000	7.33%
Human Health and Social Work	34	7.46%	€6,310,450	8.69%
Other Community, Social and Personal Services	28	6.14%	€4,144,000	5.71%
Financial Intermediation (Excl. Monetary Financial Institutions)	5	1.10%	€1,530,000	2.11%
Electricity, Gas, Steam and Air Conditioning Supply	6	1.32%	€870,000	1.20%
Education	7	1.54%	€1,201,000	1.65%
Primary Industries	3	0.66%	€850,000	1.17%
Real estate, land and development activities	7	1.54%	€1,210,000	1.67%
Public Administration and Defence	2	0.44%	€660,000	0.91%
Transportation and Storage	6	1.32%	€435,000	0.60%

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	3	0.66%	€165,000	0.23%
<b>Total</b>	<b>456*</b>	<b>100.00%</b>	<b>€72,578,344</b>	<b>100.00%</b>

\*Due to not receiving all relevant data for a CGS facility the total no. of loans does not add to 457 in the table 3, but lending sanctioned amount remains the same.

Figure 3 Percentage of CGS Lending Sanctioned by Sector



### 2.1.3 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	421	92.1%
Sole Trader	28	6.1%
Partnership	6	1.3%
Limited Liability Partnership	1	0.2%
Other	1	0.2%
<b>Total</b>	<b>457</b>	<b>100%</b>

### 2.1.4 Impact on Jobs

As a result of the CGS lending to SMEs as of 31<sup>st</sup> December 2017 it is expected that 2,104 new jobs will be created and 1,186 jobs will be maintained.

Table 5 Impact on Jobs

Number of Jobs Increased	2012	2013	2014	2015	2016	2017
Quarter 1	N/A	148	70	27	134	189
Quarter 2	N/A	92	22	162	186	159
Quarter 3	N/A	81	81	116	152	88
Quarter 4	33	55	37	27	120	125
<b>Total</b>	<b>2,104</b>					

Number of Jobs Maintained	2012	2013	2014	2015	2016	2017
Quarter 1	N/A	20	19	52	124	58
Quarter 2	N/A	90	31	133	106	64
Quarter 3	N/A	19	47	17	36	24
Quarter 4	5	102	0	204	35	0
<b>Total</b>	<b>1,186</b>					

## 2.1.5 Exports

- One hundred and thirty six CGS facilities were granted to SMEs who are exporters.
  - Ninety of the CGS facilities were granted to SMEs primarily exporting to the United Kingdom of Great Britain and Northern Ireland.
  - Nineteen CGS facilities were granted to SMEs primarily exporting within the European Union.
  - Fifteen CGS facilities were granted to SMEs that primarily export to the United States of America.
  - Three CGS facilities were granted to SMEs that primarily export to Brazil, Russia, India, China and South Africa (BRICS)
  - Nine CGS facilities were granted to SMEs that primarily export to regions other than those listed above.

## 2.1.6 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
<b>Total</b>	<b>414</b>	<b>15</b>	<b>27</b>	<b>1</b>

## 2.1.7 Year of Establishment of Borrowing SMEs

Table 7 Year of SME Establishment

Year of Establishment	Number of CGS Loans as at 31 <sup>st</sup> December 2017	% by year of establishment
2017	18	4.0%
2016	22	4.9%
2015	18	4.0%
2014	42	9.3%
2013	28	6.2%
2012	34	7.5%
2011	39	8.6%
2010	35	7.7%
2000-2009	146	32.3%
1945-1999	70	15.5%
Unknown	5	1.1%
<b>Total</b>	<b>457</b>	<b>100.0%</b>

## 2.1.8 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 as at 31 <sup>st</sup> December 2017	%
< 1 Year	58	12.7%
1 < 2 Years	44	9.6%
2 Year<3 Years	16	3.5%
3 <4years	76	16.6%
4 Years<5years	22	4.8%
5 Year	171	37.4%
> 5 Years	67	14.7%
Unknown	3	0.7%
<b>Total</b>	<b>457</b>	<b>100.0%</b>

### 2.1.9 Purpose of the CGS Facility

Table 9 Purpose of CGS Facilities

Purpose of Credit Guarantee Scheme Facility	Number of CGS Facilities	%
Working Capital	306	67.0%
Purchase of Equipment	46	10.1%
Product or Service Development	36	7.9%
Purchase of Premises	16	3.5%
Cost of Acquisition/Business Expansion	16	3.5%
Renovation/Maintenance of Premises	12	2.6%

Purpose of Credit Guarantee Scheme Facility	Number of CGS Facilities	%
To Fit out Premises	5	1.1%
Purchase of Vehicles	4	0.9%
Refinance of Existing Bank Debt	4	0.9%
Purchase of Stock	2	0.4%
Other	10	2.2%
<b>Total</b>	<b>457</b>	<b>100.0%</b>

### 2.1.10 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 31<sup>st</sup> December 2017</b>	208	207	30	12
<b>Total Lending Sanctioned</b>	€25,867,944	€37,213,200	€8,160,200	€1,337,000
<b>Percentage of Total €</b>	35.6%	51.3%	11.2%	1.8%

### 2.1.11 Premium Collection

SMEs availing of the CGS must pay a premium of 2% 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.

Between 24<sup>th</sup> October 2012 and 31<sup>st</sup> December 2017 €1,595,559 of premium payments were paid by Credit Guarantee Scheme Borrowers into a segregated bank account held in trust for the Minister for Business, Enterprise and Innovation.

**Table 11 Premium Payments Received**

Premium Payments Received	2012	2013	2014	2015	2016	2017
<i>Quarter 1</i>	N/A	€8,852	€30,544	€49,632	€83,094	€138,332
<i>Quarter 2</i>	N/A	€14,306	€35,608	€49,633	€121,749	€159,577
<i>Quarter 3</i>	N/A	€26,93	€42,860	€62,726	€137,738	€160,591
<i>Quarter 4</i>	€2,410	€30,555	€45,361	€96,485	€160,521	€138,043
<b>Total for Year</b>	<b>€2,410</b>	<b>€80,650</b>	<b>€154,375</b>	<b>€258,478</b>	<b>€503,103</b>	<b>€458,500</b>
<b>Total as at 31<sup>st</sup> December 2017</b>	<b>€1,595,559</b>					

### 3 Summary

- CGS commenced on the 24<sup>th</sup> October 2012. This report is based on data received on usage and activity up to 31<sup>st</sup> December 2017
- Increased usage of the CGS has continued since quarter one 2015 and based on feedback from the participating lenders the increase in the number of facilities since quarter one 2015 can be attributed to the improving economic conditions and the expanded scope of the Credit Guarantee Scheme
- Since the launch of the Scheme on 24<sup>th</sup> October 2012, €84,396,594 has been sanctioned by the participating lenders through five hundred and thirty CGS facilities
- Most of the lending has been sanctioned in the East, South and Mid-West with these three regions combined accounting for 84% of lending currently live or repaid.
- Approved lending is dominated by eight industry sectors accounting for 90% of the total lending
- Because of the sanctioned CGS lending to SMEs, as of 31<sup>st</sup> December 2017, it is expected that 2,104 new jobs will be created and 1,186 jobs will be maintained
- Of the SMEs currently participating in the CGS, 52%, were established during the period 2010-2017
- The main reason provided by SMEs for seeking finance was for working capital purposes which accounted for 67% of all CGS facilities
- 51% of the lending sanctioned was provided to SMEs defined as a Small Enterprise
- The average loan amount sanctioned by the participating lenders is €159,239
- Seventy-three CGS facilities, with total lending value of €11,818,250 were cancelled, deemed ineligible, declined by the SME or borrower or the guarantee offer period ceased and did not proceed
- Four claims against the guarantee for €61,950.16, €26,045.45, €367,934 and €39,442 were processed and paid to participating lenders in quarter two 2015, quarter three 2016 and two in quarter 4 2017 respectively. One claim has been received at the end of quarter 4 2017 and is the early stages of the validation process.
- Premium collection which partially covers the cost of providing the guarantee amounted to just over €1.6m from inception in October 2012 to 31<sup>st</sup> December 2017
- Strategic changes to the Scheme came into effect on the 16<sup>th</sup> April 2015 to facilitate:
  - the refinancing of loans where an SME's bank is unwilling or unable to extend credit (as its exiting the Irish SME Credit Market) and
  - the extension of the maximum length of the guarantee from three to seven years
- These changes became operational on 16th April 2015
- Further improvements to the Credit Guarantee Scheme are in place and operational since Q4 2017. This includes:
  - the broadening of the definition of lender to "Finance Provider" to cover additional financial product providers such as lessors, invoice discounters and other non-bank financiers
  - changing the definition of loan agreements to include non-credit products such as invoice finance and leasing, and to include overdrafts

- re-balancing the level of risk between the State and the extended finance providers, with the State taking an 80% share, up from 75% previously and an increased cap of 13% up from 10%.
- The following improvements to the Credit Guarantee Scheme are expected to be in place and operational in Q1 2018:
  - enabling State institutions like the Strategic Banking Corporation of Ireland to work with the Minister to enhance the provision of credit to SMEs
  - empowering the Minister to give counter-guarantees that will enable the SBCI to unlock matching guarantee facilities from EU sources and thus had 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”)
- Some of the amendments will require market failure to be identified and new Finance Providers and products for delivery, so are likely to take longer to bring to market

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