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The Future Growth Loan Scheme

An independent Review by SQW on behalf of Department of Enterprise, Trade and Employment

SQW

Contents

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Executive Summary

Overview of the Future Growth Loan Scheme

1. The Future Growth Loan Scheme (FGLS) was announced in March 2019 to address an identified market failure in long-term lending to small and medium-sized enterprises (SMEs) for investment purposes, and a recognised underinvestment by Irish SMEs in business development. Initially making €300m in lending available, the scheme was expanded in July 2020 to make a further €500m available following a rapid uptake of the scheme.

2. The scheme was established with the support of the Department of Enterprise, Trade and Employment (DETE), the Department of Agriculture, Food and the Marine (DAFM), the European Investment Bank (EIB) and the European Investment Fund (EIF). The Strategic Banking Corporation of Ireland (SBCI) delivers the scheme on behalf of DETE and DAFM and lending to the market is through approved financial providers.

3. The FGLS provides SMEs and Small Mid-Cap enterprises (including farmers and fishers) with loans with terms of 7-10 years, with the finance offer competitively priced and on favourable terms. The key product features of FGLS loans are summarised in Figure 1.

Figure 1: FGLS product features

Customer type	• Micro, small and medium sized (<250 employees and <€50m in turnover) and small mid-cap enterprises (<500 employees and not an SME) • All sectors, including agriculture (with specific exclusions)*
Loan amount	• €25,000 to €3 million per applicant • Loans unsecured up to €500,000 • Applicants for loans above €250,000 must submit a business plan
Loan pricing	• Initial maximum loan interest rate of 4.5% for loans up to €250,000 and 3.5% for loans of €250,000 or above • Optional interest-only repayments available for up to two years over the term of the loan in certain circumstances
Loan term	• Ranging from 7 to 10 years
Loan purpose (non-agriculture)	• Long term investment in: machinery or equipment; research & development; business expansion; premises improvement; process innovation; or people/systems
Loan purpose (agriculture)	• Long term investment in tangible or intangible assets on agricultural holdings linked to primary agricultural production • Excluded activities include loans to support drainage works, the purchase of animals, and acquiring land

Source: SQW based on information provided by the SBCI

** Excluding: Manufacture of Weapons & Ammunition; Retail sale of Tobacco in Specialised Stores; Wholesale of tobacco products; Gambling and Betting Activities*

4. SQW was commissioned by DETE in October 2021 to undertake a Review of the FGLS. The primary objective was to examine how businesses have used the finance secured through the FGLS, including if/how the use of finance varies by firm characteristics; whether this aligns with what was expected and the original policy objectives; and how FGLS finance 'fits' in the wider finance/SME landscape. The Review was also tasked with identifying any emerging benefits, providing an initial assessment of additionality, and assessing delivery processes and future demand for longer-term finance from businesses involved in the scheme.

5. The Review included:

- an online survey of over 400 businesses that had secured a loan from the scheme (known as the Take-Up Group)
- an online survey of over 300 businesses that had confirmed their eligibility but had not secured a loan (known as the Non Take-Up Group)
- qualitative interviews with businesses from the Take-Up Group
- consultations with the approved lenders, industry and policy stakeholders.

6. The Review was overseen by a Steering Group chaired by a senior representative from DETE, and including other representatives from DETE, DAFM, the Department of Finance, the SBCI, the Economic and Social Research Institute (ESRI), and Enterprise Ireland.

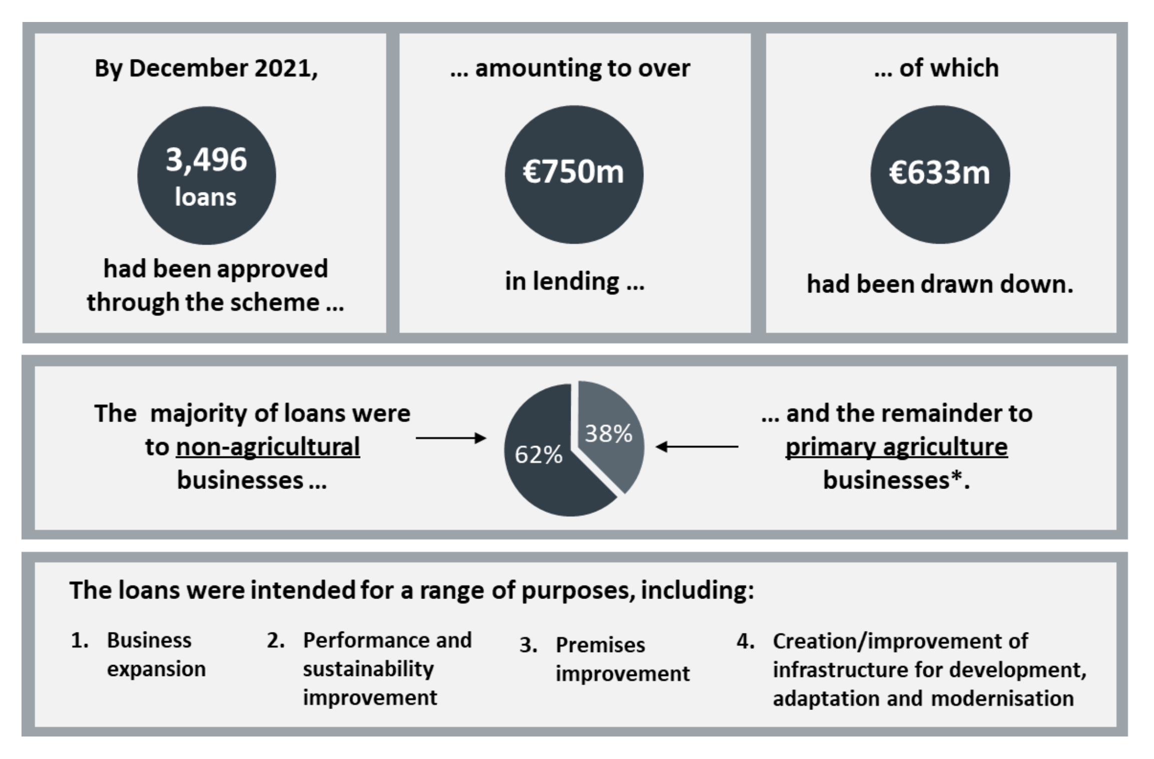
7. The following sections set out the key findings in response to the questions posed for the Review, with further detail and supporting evidence underpinning these findings provided in the main body of the report and supporting Annexes. Case examples from the qualitative interviews with businesses from the Take-Up Group are provided in the accompanying document.

What types of investment activities are undertaken by businesses using the FGLS loan finance?

FGLS loan finance has been used by businesses to address their specific growth aspirations, with no 'typical' activity, and the finance often used to support a range of re-enforcing activities. However, the most common activities supported were investment in buildings/land, and the acquisition of machinery/equipment. The use of the loan finance overall varies between primary agriculture and other SMEs.

8. Figure 2 summarises headline data on the scheme's outputs by December 2021, showing that c. 3,500 loans had been approved at this point (amounting to lending of over €750m). In addition, over 5,200 eligibility codes had been granted but not progressed to a loan.

Figure 2: Overview of FGLS loan activity by December 2021



*Source: SQW based on data provided by the SBCI * includes 1% classified as 'exceptions' mainly fishers*

9. Figure 3 provides an overview of the investment activities undertaken by businesses using the FGLS finance in the Take-Up Group[1] (i.e. based on the Review's survey evidence).

Figure 3: Overview of uses of FGLS finance by the Take-Up Group

FGLS finance used to invest in …	Primary Agriculture businesses: Proportion investing in activity	Primary Agriculture businesses: Share of investment value	Manufacturing businesses: Proportion investing in activity	Manufacturing businesses: Share of investment value	Services businesses: Proportion investing in activity	Services businesses: Share of investment value
Machinery / equipment	48%	36%	51%	30%	35%	11%
Buildings / land	65%	48%	55%	40%	55%	33%
Other activity	27%	16%	49%	30%	62%	56%

Source: SQW based on FGLS Review, Take-Up Group Survey. N-values: Primary Agriculture 143, Manufacturing 87, Services 162

10. As demonstrated in Figure 3, investment in buildings/land and the acquisition of machinery/equipment were particularly common for primary agriculture businesses; these two activities accounted for an estimated 84% of investment from businesses surveyed.

[1] Businesses often invest in more than one activity, hence the total proportion of businesses in the first column in each sector in the Figure adds to more than 100%.

Notably, over a third of primary agriculture businesses used FGLS for investment in buildings/land only, and a fifth for acquisition of machinery/equipment only.

11. Although investment in these activities was also common for manufacturing and services businesses, the FGLS finance was used by businesses in these sectors to support a more diverse range of activities. Around half of manufacturing businesses, and over 60% of services businesses, used FGLS to invest in 'other' activities, with this 'other' activity accounting for over half of the estimated investment for the latter.

12. For example, over a third of services businesses invested in staff recruitment/training, and at least a quarter of both manufacturing and services businesses invested in IT. Investment in developing new or improved products/services/processes was also common for businesses in these sectors.

13. FGLS has often supported a range of re-enforcing and related activities, with combinations of activity tailored to specific growth aspirations, with investment in several different activity types particularly evident for manufacturing and services businesses. The flexibility of the FGLS finance, and how it can be used to meet specific needs across a range of different activity types, appears to be a key characteristic and attraction of the scheme to businesses. This view was echoed in the qualitative discussions with businesses, lenders and policy and industry stakeholders.

How does the utilisation of the FGLS loan finance align with its objectives and the wider policy/economic context?

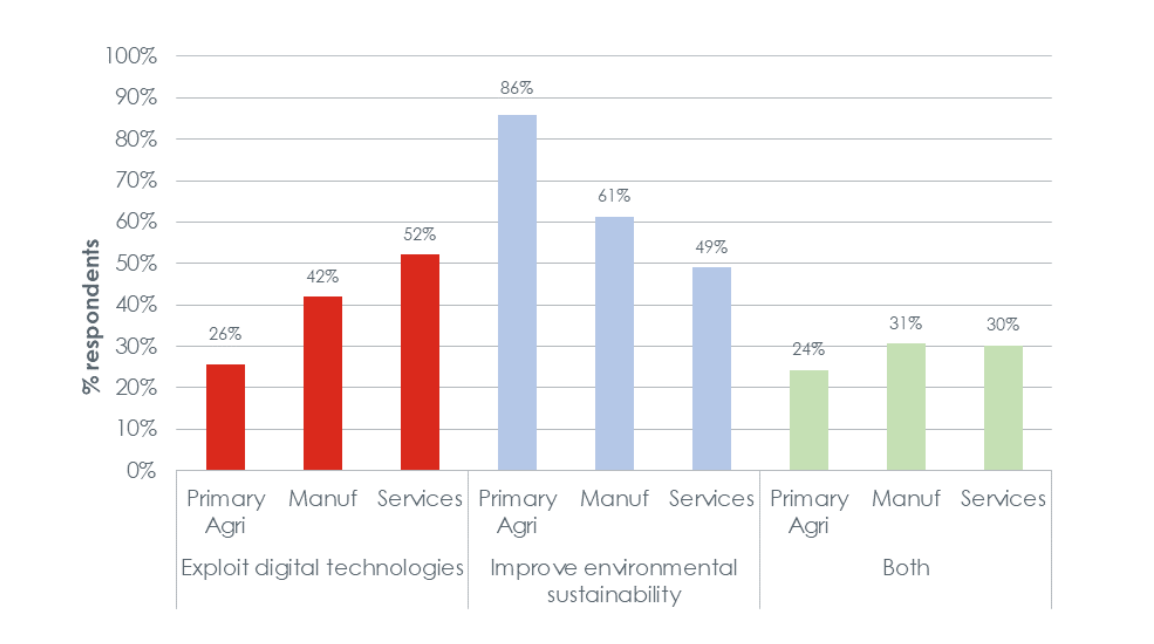
Consistent with scheme objectives, the FGLS finance has been used for strategic investments to support and accelerate business growth. The finance has also been used to help businesses respond to external shocks including Covid-19 and Brexit and support the exploitation of digital technologies and environmental sustainability.

14. Accelerating, or in some cases catalysing, growth was the most cited reason for businesses applying to the FGLS, identified by nearly three-quarters of businesses in the Take-Up Group. Responding to Covid-19 was also common for businesses seeking finance following the scheme's expansion in 2020, particularly for manufacturing and services businesses, and around one in ten businesses applied to address Brexit-related challenges. In turn, businesses have invested in capital schemes, strategic investments in people and business capabilities, and the development of new products and processes as noted above.

15. Over 80% of businesses in the Take-Up Group indicated the activity supported by the FGLS finance in practice was consistent with what they planned when they first approached the scheme (i.e. the basis for loan approval). This suggests consistency in utilisation with the scheme's objectives, and finance has not been used for purposes not originally anticipated.

16. Secondary objectives included helping businesses respond to Covid-19 (in the expansion), supporting enhanced environmental performance, and progressing towards digitalisation. The evidence indicates the scheme has successfully delivered against these intents. Notably, as shown in Figure 4, nearly all primary agriculture businesses invested in environmental sustainability. Further, many businesses (around a quarter of businesses surveyed) considered the activities financed would both improve environmental sustainability and help them to exploit digital technologies, indicating these aims are often complementary.

Figure 4: Proportion of businesses surveyed investing in exploitation of digital technologies and improving their environmental sustainability



Source: SQW based on FGLS Review, Take-Up Group Survey. N-values: Primary Agriculture 183, Manufacturing 88, Services 165

17. Stakeholders perceived the scheme's overall objectives relating to supporting strategic investment for growth to be clear, robust and tailored to market needs. Further, the scheme was seen by both lenders and stakeholders to have filled a genuine gap in the market in relation to the provision of long-term, unsecured lending in Ireland.

To what extent was FGLS lending sought in preference to other schemes or products (and what were the key reasons for choosing the FGLS)?

Survey evidence suggests that FGLS has generally not been sought in preference to other forms of State-backed lending or other public sector funding sources. However, FGLS loan finance has been commonly sought in preference to non-State-backed commercial lending, with the interest rate, loan term and unsecured nature of the finance the key attractions for the scheme to businesses.

18. In both the Take-Up and Non Take-Up Groups, under one-tenth of businesses indicated that the FGLS was sought in preference to one or more of the Brexit Loan Scheme, Covid-19 Working Capital Loan Scheme, or Covid-19 Credit Guarantee Scheme: noting that the Covid-19 Working Capital Loan Scheme and Covid-19 Credit Guarantee Scheme became available only after the first tranche of €300 million in lending through the FGLS had been fully subscribed and the expansion of the FGLS had been launched. Where other sources of finance were considered/applied for to support the proposed activity instead of FGLS, this was most commonly a non-State-backed loan from a bank or other financial institution.

19. The key features attracting businesses to the scheme – generally instead of a non-State-backed loan – were the interest rate, loan term and unsecured nature of the finance (up to €500k). However, it was the combination of these features that was often crucial rather than one factor alone: 65-70% of businesses in the Take-Up and Non Take-Up Groups identified all three of these features as very important/important in their decision to apply to the FGLS.

20. The flexibility of the FGLS product was also important, providing a varied and diverse offer to businesses with different priorities and expectations in terms of longer-term lending. For example, the ability to secure loans at different ranges from €25k to €3m was important for businesses of different sizes, and across different sectors.

21. Looking specifically at businesses that considered or applied for other sources of finance – around half of the businesses surveyed in both the Take-Up and Non Take-Up Groups overall – the interest rate was the most common differentiating factor explaining why the FGLS was preferred. However, a substantial proportion of businesses also highlighted the collateral requirements and re-payment period as key differentiators for the scheme, reflecting the importance of the combination of the features in explaining a preference for the FGLS over non-State-backed loans.

22. The survey evidence points to the importance of external advice in generating demand for the FGLS: around a quarter of businesses surveyed that indicated that they preferred the FGLS to other schemes or products indicated that this was owing (in full or part) to advice from external advisors such as business advisors, accountants and banks.

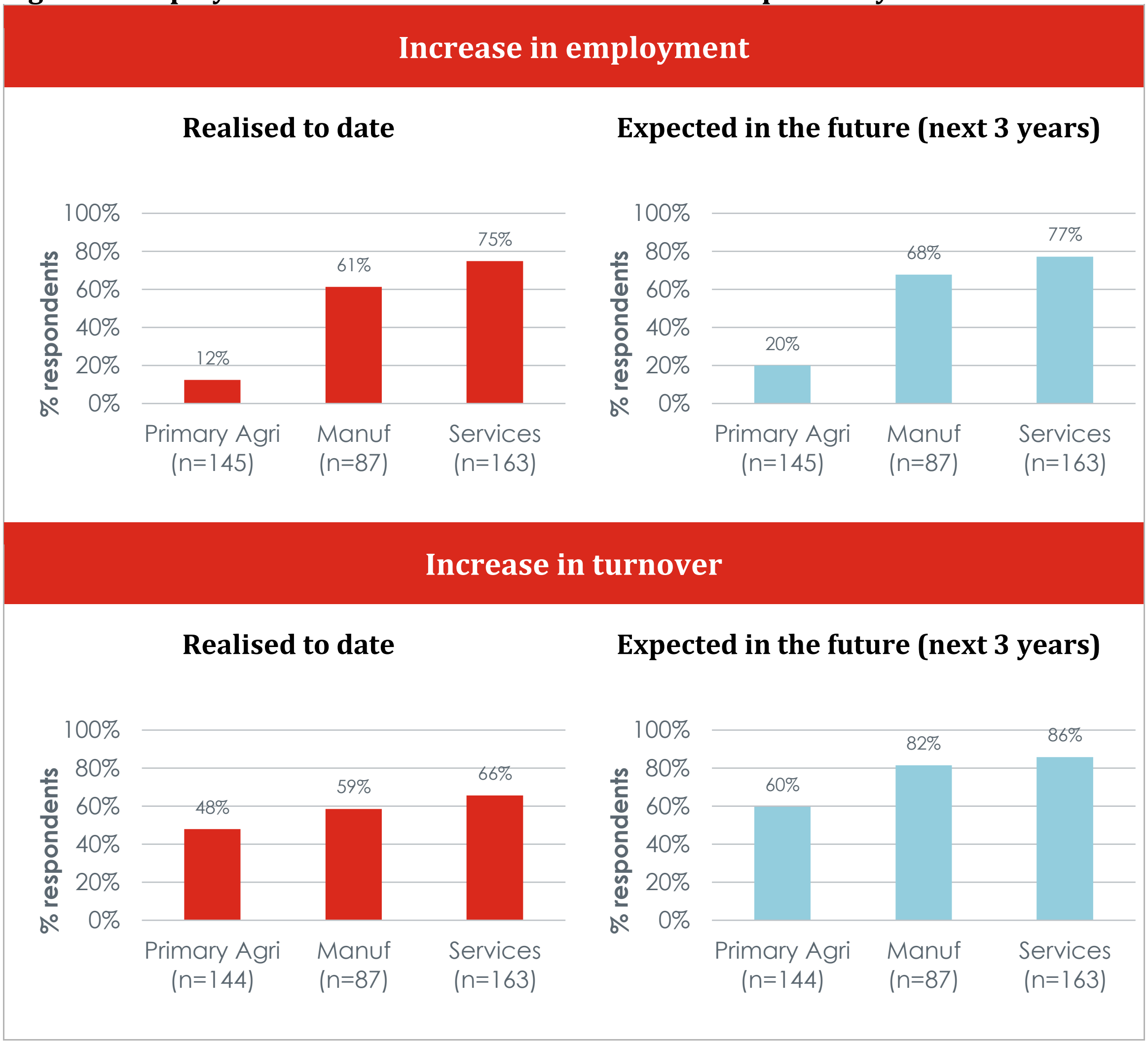
What outcomes have been achieved (or are expected) as a result of the FGLS?

At this early stage, evidence points to material benefits for businesses and the economy. Benefits include employment and turnover growth, self-reported productivity and competitiveness effects, enhanced relationships (including with the finance community), and improved ability to respond to external challenges.

23. The evidence of the effects realised and anticipated in the future is positive at this early stage. Half of all businesses in the Take-Up Group indicated they had introduced new or improved processes as a direct result of the loan finance drawn down through the FGLS, and half of manufacturing and services businesses that they had launched new products.

24. Employment and turnover effects of surveyed businesses are shown in Figure 5. Manufacturing and services businesses commonly reported increased employment effects to date, and between a half and two-thirds of all businesses reported higher turnover.

Figure 5: Employment and turnover effects of the FGLS reported by businesses



Source: FGLS Review, Take-Up Group Survey

25. Wider business capability and performance effects are also evident, notably in terms of self-reported improved energy efficiency/reduced carbon emissions, and improved business confidence, profile and reputation. Qualitative research also highlighted how FGLS has led to improved understanding and recognition of the role of external finance in supporting growth.

26. Within-scheme exploratory econometric analysis provided insight into the characteristics that are associated with outcomes at this interim stage. There is no single business or loan characteristic, or type of activity supported, that explains consistently better (or worse) outcomes at this stage. This is not unexpected given the breadth of the scheme and the varied ways in which it has been used by businesses. However, when controlling for other factors:

- businesses that applied to the FGLS to accelerate growth rather than other drivers (e.g. responding to market pressures) were more likely to report a range of positive outcomes across all sectors

- there is a consistent relationship between investing in activity that involves improving environmental sustainability and realising improved energy efficiency/reduced carbon emissions; this investment also appears to be associated with other positive outcomes
- businesses that applied to the FGLS in response to Covid-19 were consistently more likely to report that the scheme had enabled them to recover from the impacts of the pandemic
- FGLS has generated particular benefits for family-owned businesses in the services and manufacturing sectors, in relation to enhancing their business confidence and profile and building relationships with lenders, which may lead on to sustained economic benefits and business growth over the longer-term.

What is the additionality associated with the FGLS lending and activities? What would have been the implications to businesses, the economy and the State if long-term lending under the FGLS had not been available?

Self-reported evidence from businesses that have drawn down loans, and the experience of businesses that applied but were not approved for a loan, indicate that finance was secured, activity was delivered, and outcomes were realised that would not have been evident without the scheme. Whilst some deadweight is evident, the absence of the scheme would have meant a lower level of benefit for the economy, and a reported gap for longer-term finance for SMEs unfilled.

27. The Review does not constitute a formal evaluation of the scheme, and so the assessment of additionality should be seen in this context. Further, lending decisions are made by lenders reflecting their level of risk, and no monitoring data is available on why the FGLS was used instead of other finance products, and why some businesses were rejected[2] for an FGLS loan. Businesses will also seek to secure the most commercially attractive finance available to them, including via the FGLS.

28. In this context, lenders reported they had supported businesses via the FGLS that they would not have funded without the scheme. No quantitative evidence from lenders is available on this, however, survey evidence from both the Take-Up and Non Take-Up Groups suggests that potentially around half of the activity supported by FGLS would not have progressed without the scheme. Further, where activity would have been progressed, this would commonly have been delayed. This assessment draws on evidence that:

- where businesses applied unsuccessfully for the FGLS, in half of cases the activity was not progressed in *practice*; where it was progressed, the activity was delayed in over two-thirds of cases

[2] A rejected loan implies that the loan application did not meet the lender's criteria, this is distinguished from other reasons that applicants were unsuccessful in securing lending through the FGLS.

- where businesses applied successfully and drew down a loan, around half *believed* they would not have progressed the activity without the FGLS, and where they would, around half thought this would have been delayed; these findings were consistent across sectors.

29. The Review suggests some displacement from existing market provision is evident: around 5% of businesses in the Take Up Group reported they would have secured finance on the same or better terms, at the same scale, and within the same time-frame as through the FGLS, and some unsuccessful applicants secured external finance to progress their activity. However, non-State-backed longer-term lending to SMEs, without the requirement for security, is not typically available in the Irish market, and so where longer term lending is considered to be accessible or has been secured then it is likely that collateral is a condition of the lending. This is consistent with feedback from lenders of some 'opportunistic demand' amongst businesses, where some borrowers would likely have been eligible for other long-term products but chose the FGLS due to its more favourable terms.

30. In terms of *outcome* additionality for the Take-Up Group, a low level of 'deadweight' was evident. Full additionality – where outcomes would not have been realised at all in the absence of the FGLS – was reported by c.20-25% of businesses surveyed. However, for over half of businesses surveyed, FGLS was associated with outcomes being realised more quickly and/or at a higher scale.

31. This 'partial additionality' contribution is important, and reflects that for businesses, the key attractions of the scheme relate to terms and conditions (loan features) of the loans, which have influenced the pace and scale of investment progressed and activity delivered. This may also have wider benefits in the reduced cost of lending enabling investment in other activities, and supporting a commitment to long-term strategic investment.

What is the 'customer journey' experience of businesses accessing (or attempting to access) the FGLS?

Overall, the 'customer journey' experience of businesses appears to have been positive, with the simplicity of the scheme an important feature. Whilst there are opportunities to enhance the experience in any similar successor interventions, including to promote greater continuity and consistency of availability of lending, there appears to be no need for a fundamental change in function or form.

32. There was generally positive feedback on the process of confirming eligibility among both the Take-Up and Non Take-Up Groups. Businesses in the Non Take-Up Group indicated lower levels of clarity on the required 'next steps' in progressing a loan application following eligibility; this may have influenced how quickly they applied for a loan.

33. There were more marked differences in relation to the application stage, with the Non Take-Up Group consistently reporting a less positive experience overall across all aspects of the process. This is expected and is likely to reflect the outcome of applications. Key

recommendations from businesses for improving the delivery related to better communications and interactions with lenders.

34. Both stakeholders and lenders considered scheme delivery to have generally worked well, with the overall simplicity of the scheme and its fit within the lenders' existing portfolio identified as the key strengths. There were some challenges and lessons learned, including in relation to difficulties in co-ordinating delivery; some confusion around eligibility; and managing the high level of demand and oversubscription. Greater consistency and continuity in delivery mechanisms may be appropriate going forward for any successor schemes.

35. The scheme has generated a strong evidence base, and the monitoring system appears to be robust and comprehensive for eligibility codes provided and loans approved. However, no comprehensive data has been collected on (i) what proportion of businesses that secure an eligibility code apply for a loan and (ii) loan application success/rejection rates, including how this may vary by business and loan characteristics. Further consideration should be given as to if this can be addressed – as far as practical and in a proportionate manner.

What is the extent of potential further demand for long-term lending?

The evidence base points to ongoing strong demand for future long-term lending including from those businesses that have secured finance from FGLS to date.

36. The Review has not included a formal assessment of future demand for long-term lending across the total SME base. However, the evidence collected from the subset of SMEs surveyed in both the Take-Up and Non Take-Up Groups – which are representative of the wider population of businesses engaged with the scheme – indicates ongoing strong demand for longer-term lending over the next three years.

37. The key reason for seeking further finance related to business expansion, followed by climate mitigation and adaptation (for primary agriculture businesses), and R&D/innovation. Among the Non Take-Up Group, there was very limited evidence of businesses being discouraged from seeking finance in the future owing to their experience of applying to the FGLS.

38. Stakeholder and lender consultees reflected that the very substantial level of interest in the FGLS has proved that there is considerable demand for long-term lending, and this is expected to remain high going forward. The consistent view was that there remained a significant 'untapped' market for longer-term lending given the long-standing challenge of underinvestment by businesses in Ireland.

39. In response to this anticipated demand, a consistent message from consultations with lenders and stakeholders was the potential benefits from providing a greater continuity and stability of provision going forward, avoiding as far as practical the "peaks and troughs" in demand and significant resource requirements associated with time-limited delivery periods. The concept of the FGLS as a 'facility' rather than a 'scheme' was suggested, and some consultees regarded that a higher level of total financing should be made available (i.e. more than the €800m made available to date) in response to the high level of anticipated demand.

In this context, it is highlighted that around 40% of businesses in the Non Take-Up Group had applied for a loan. Of those that *did not apply*, the most common reason was that their preferred lender(s) had stopped accepting new applications. Further, a common explanation for those that *applied unsuccessfully* was that the lender(s) applied to had reached their allocation. This highlights the case for greater continuity in provision, and potentially making a greater scale of finance available to meet demand.

What is the potential future availability of unsecured loans with terms of 7-10 years?

FGLS was seen to have 'addressed' the market failure of longer-term lending through intervention. However, it has not ultimately 'solved' the problem because the underpinning barriers for financial providers to longer-term lending remain.

40. Although lenders anticipated a high level of demand for a similar product going forward, it was reported that long-term and unsecured lending remains commercially unattractive due to the level of risk involved. Therefore, lenders reflected that this risk, coupled with the capital requirements for lenders under the European banking regulatory framework, means they would still not be able to offer similar lending without a State guarantee in the future (or at least not at a similarly affordable price point for businesses).

41. It was recognised that future supply of any lending will be limited by the reduced number of banks remaining in the Irish market. If a similar scheme were to be introduced in the future, most remaining lenders indicated interest in engaging with this, reflecting generally positive experiences with the scheme.

1. Study purpose and approach

Introduction to the Future Growth Loan Scheme

1.1 The Future Growth Loan Scheme (FGLS) has provided businesses in Ireland with long-term loans of 7-10 years, with the finance offer competitively priced and on favourable terms. A €300 million scheme was announced in March 2019 to address an identified market failure in lending for terms of 10 years for investment purposes and a recognised underinvestment in business development. Following a rapid uptake of the scheme, it was expanded in July 2020 to make a further €500 million in lending available.

1.2 The scheme is open to small and medium-sized enterprises (SMEs) and Small Mid-Cap enterprises including farmers and fishers that meet the eligibility criteria. The scheme was established with the support of the Department of Enterprise, Trade and Employment (DETE), the Department of Agriculture, Food and the Marine (DAFM), the European Investment Bank (EIB) and the European Investment Fund (EIF). The Strategic Banking Corporation of Ireland (SBCI) deliver the scheme on behalf of DETE and DAFM and lending to the market is through approved financial providers.

1.3 With the scheme approaching full subscription in late-2021, DETE and DAFM considered it timely to complete a Review of the scheme with the view to developing a robust evidence base for informing future consideration of access to finance policy development in the area of longer-term lending.

Study objectives

1.4 SQW, supported by Perceptive Insight, was commissioned by DETE in October 2021 to undertake a Review of the FGLS. The Review was overseen by a Steering Group chaired by a senior representative from DETE, and including other representatives from DETE, DAFM, the Department of Finance, the SBCI, the Economic and Social Research Institute, and Enterprise Ireland.

1.5 The primary objective for the Review was to examine how businesses have used the finance secured through the FGLS in practice, including if/how the use of finance varies by firm characteristics; whether this aligns with what was expected and the original policy objectives; and how FGLS finance 'fits' in the wider finance/SME landscape. The Review also sought to gather evidence on any emerging benefits, as well as perspectives on delivery processes and future demand for longer-term finance. The full list of Research Questions are in Table 1-1.

1.6 In this context, it is noted explicitly that the Review does *not* represent a formal evaluation of the scheme, which would include a quantitative assessment of the counterfactual position (i.e. comparing the performance of SMEs engaged with the scheme to a comparison group of SMEs that were not engaged in any way using secondary/administrative data) and value for money. This reflects both the timing and purpose of the Review, as identified by DETE. Further, the Review is *not* intended to assess and comment formally on the rationale of the scheme (for example, testing the validity of the market failure); and it does *not* consider financial performance of the scheme (e.g. repayment/default rates and the associated use of the guarantee provided to lenders) as there had, by that point, been no defaults in this scheme.

Table 1-1: Research Questions

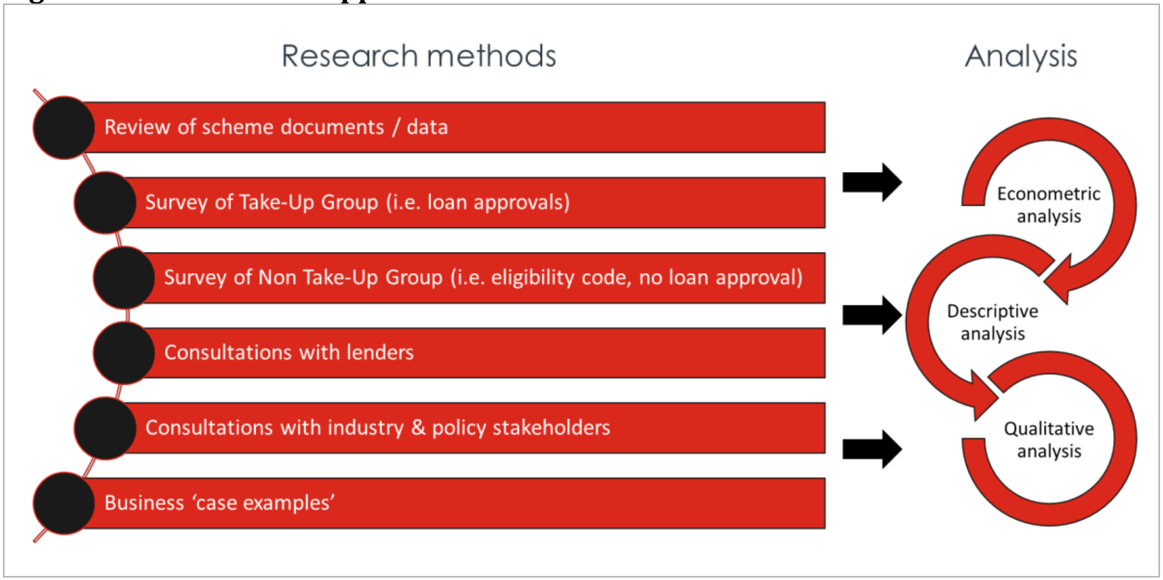
No.	Research Question
1	What types of investment activities are undertaken by businesses using the FGLS loan finance?
2	How does the utilisation of the FGLS loan finance align with its objectives and the wider policy/economic context?
3	To what extent was FGLS lending sought in preference to other schemes/products (and what were the key reasons for choosing the FGLS)?
4	What outputs and outcomes have been achieved (or are expected) as a result of the FGLS, and how do these vary across businesses?
5	What is the additionality associated with the FGLS lending and activities?
6	What would have been the implications to businesses, the economy and the State if long-term lending under the FGLS had not been available?
7	What is the 'customer journey' experience of businesses accessing (or attempting to access) the FGLS?
8	What is the extent of potential further demand for long-term lending?
9	What is the potential future availability of unsecured loans with terms of 7-10 years?

Source: SQW in agreement with the study Steering Group

Study approach and research methods

1.7 The Review has adopted a mixed-methods approach as set out in Figure 1-1.

Figure 1-1: Overview of approach



Source: SQW

1.8 Core to the Review's evidence base were online surveys with two groups of businesses:

- the **'Take-Up Group',** i.e. businesses that had been approved for lending through the FGLS (including those that had drawn down funding when surveyed, and those that had not)
- the **'Non Take-Up Group',** i.e. businesses that secured an 'eligibility code' (i.e. that were eligible/interested) but that had *not* (when surveyed) been approved for lending[3].

1.9 The survey data has been analysed and reported consistently by broad sector grouping (identified using NACE codes) covering: Primary Agriculture (Section A), Manufacturing (Sections B-F) and Services (Sections G-S).[4]

1.10 Both online surveys secured very positive response rates, with over 400 completions in the Take-Up Group (457 in total of which 411 had drawn the loan) and over 300 in the Non Take-Up Group[5]. The samples were well matched to their respective populations by loan characteristics and business characteristics (further detail on the samples is provided in Annex D). This provides a strong evidence base for the Review in relation to business perspectives on the scheme at this point.

1.11 Results from the SME Credit Demand Survey October 2020 - March 2021[6] were used to compare the attitudes to growth and external investment of the survey samples to the attitudes to growth and external investment of the wider SME business base (see Annex D). As may be expected, businesses surveyed that had engaged with the FGLS were more likely to report they were willing to expand their business even if it brings more risk/challenge, and willing to borrow from banks to fund expansion. Businesses in the Non Take-Up Group were also more likely to report that access to external finance is a major barrier to business investment. Put simply, businesses engaged with the FGLS are *not* representative of the wider SME business population. This is consistent with the focus of the scheme in supporting businesses that are seeking to invest to support growth.

1.12 Alongside the online surveys, qualitative research was completed with: representatives from the six lenders involved in delivering the scheme; seven industry and five wider policy stakeholders; a sub-set of 20 businesses from the Take-Up Group as 'case examples' to provide more detailed examples of how the scheme has been used by businesses in practice: see Annex B for the profile of cases, and the write-up in the accompanying document.

1.13 The primary research was complemented by analysis of programme monitoring data provided by the SBCI, which included detailed data on loans approved and eligibility codes. All data provided referred to the position of the scheme as at December 2021.

1.14 Econometric analysis (drawing on survey and programme monitoring data) was also completed with the objective of identifying any key factors and variables that may be associated with the different benefits arising to date for businesses from accessing the FGLS.

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[3] There are different reasons for why eligible businesses had not accessed lending, including that they (i) had not applied to lenders (for a range of reasons, which were explored in the survey); (ii) were unsuccessful in applying; or (iii) were still waiting to hear the outcome of their application.
[4] See NACE Rev. 2 Statistical classification of economic activities in the European Community
[5] The number of respondents can vary as not all respondents answered all questions
[6] Department of Finance, SME Credit Demand Survey October 2020 - March 2021

2. Profile and position of the FGLS

Key headlines

- The €300m FGLS was launched in response to an established gap in the demand and supply of finance for long-term strategic investment in Ireland. Following strong take-up, the scheme was expanded by a further €500m.
- The rationale for the FGLS and its objectives were recognised and accepted by lenders and stakeholders, with the risk profile of long-term lending preventing the market from offering this product without the State guarantee.
- Businesses approaching the FGLS had very varied experience using external finance to support growth. Where difficulties were encountered in securing finance previously, collateral requirements was a common factor identified.
- Accelerating growth was the most commonly cited reason for businesses applying to the FGLS. Responding to Covid-19 was also common for businesses seeking finance following the scheme's expansion in July 2020.
- The interest rate, loan term and unsecured nature of the finance (to €500k) were key features attracting businesses to apply. The combination of all or some of these features was important.
- FGLS finance has not generally been sought in preference to other forms of State-backed lending or other public sector sources; where other finance was considered, this was in most cases a non-State backed commercial loan.
- For businesses that had considered/applied for other sources of finance, the interest rate was the most common reason why the FGLS was preferred, but loan term and unsecured finance (to €500k) remained important.
- The key effect of the FGLS for *lenders* is to make the supply of long-term lending viable, and for *businesses* it is to make the take-up of long-term lending affordable and commercially attractive to stimulate investment.

Overview of the FGLS

Intended rationale and objectives of the FGLS

2.1 **There are long-term concerns on both demand- and supply-side challenges in relation to long-term investment by Irish businesses**. Research by the Economic and Social Research Institute (ESRI) indicated potential underinvestment by businesses in Ireland, showing that only one in ten SMEs had used external finance sources for investment in 2016, and almost three-quarters did not carry any long-term debt.[7] Comparing the use of external

[7] ESRI (2018) Exploring SME Investment Patterns in Ireland: New Survey Evidence

finance across countries, the European Investment Bank found that Irish businesses ranked third lowest in Europe, suggesting that they were more likely to rely on internal funds than their European counterparts.[8] Looking at underinvestment[9], ESRI found that in 2019 the level in Ireland was nearly double the average of countries in North-West Europe.[10]

2.2 The strong reliance on internal finance is in part a legacy of the Global Financial Crisis, leading to risk aversion and a sustained reluctance to take on debt. It is also owing to supply-side challenges, particularly in relation to limited options in the market for unsecured long-term financing of up to ten years which allow businesses to structure repayments to match expected cash flows.[11] Further, as long-term financing carries a higher risk to the lender, it often involves charging a premium to help bear fluctuations in the probability of default and other changing market conditions – making this a costly financing option for businesses.[12]

2.3 Underinvestment by businesses is a significant concern for several reasons:

- **Economic growth and competitiveness:** Access to long-term finance allows businesses to undertake capital investment, which can generate productivity and performance outcomes and support sustainable economic growth. If businesses are underinvesting, growth is slower and the productive capacity of the economy is below its optimal level.
- **Brexit recovery:** To overcome the impact of Brexit, Irish firms need both short-term cash flows to address the initial shock as well as longer term credit instruments for adaptation to structural and market change. Moreover, the Irish economy is particularly vulnerable to Brexit given the relatively high level of trade with the UK.
- **Barriers to finance in agriculture:** Agriculture is reliant on long-term financing options due to cyclical and volatile returns caused by weather and global demand trends; however, it is precisely for these reasons that lenders are often reluctant to provide loan finance to the sector. Indeed, fi-compass has estimated that there is a funding gap of up to €1 billion for the sector in Ireland, primarily in relation to long-term investment loans.[13]

2.4 **The FGLS was announced in March 2019 to address the recognised underinvestment in business development due to financial market challenges, becoming operational in June 2019**. The scheme aimed to provide an appropriate option for access to finance for SMEs (including farmers, fisheries and Small Mid-Caps) for strategic investment purposes. The finance is expected to have a positive impact on business growth through increased jobs, sales and Gross Value Added (GVA), as well as increased firm survival and bank lending.

2.5 Following an initial tranche of €300 million in lending, the scheme was expanded by a further €500 million in 2020. The scheme was expanded to meet the unmet demand for lending

[8] European Investment Bank (2017) EIBIS 2016/2017. Surveying Corporate Investment Activities, Needs and Financing in the EU
[9] Defined as the net balance of firms that perceive to have invested too little versus those that perceive to have invested too much
[10] ESRI (2020) SME Investment Report 2019
[11] OECD (2020) Financing SMEs and Entrepreneurs: An OECD Scoreboard, Ireland
[12] The World Bank (2016) Long Term Finance
[13] fi-compass (2020) Financial needs in the agriculture and agri-food sectors in Ireland

through the initial €300 million capacity, and ensure that there was an appropriate option for access to finance for investment purposes available for those SMEs that were:

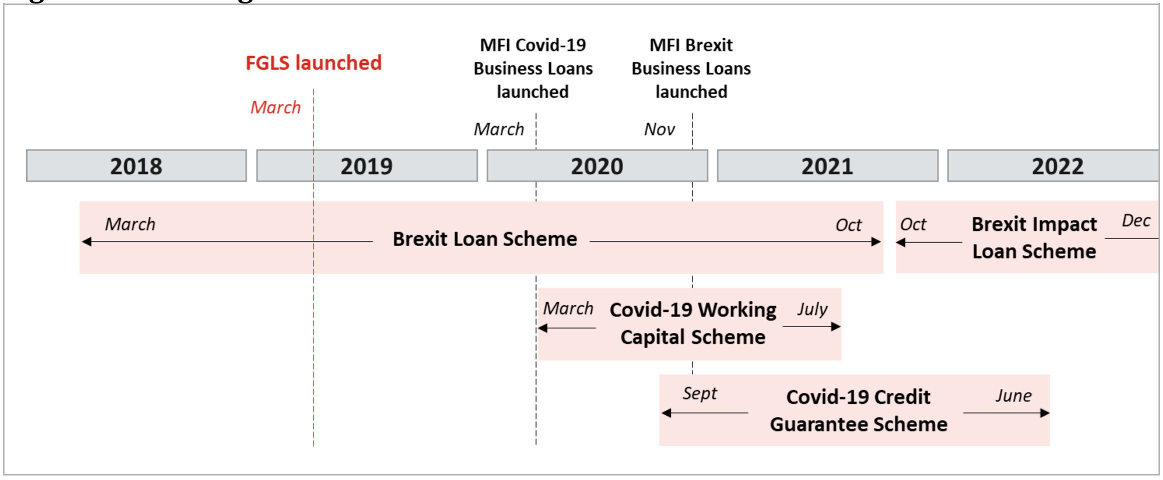
- looking to take swift action in progressing plans for strategic investment as the Covid-19 crisis unfolded
- impacted as a consequence of the pandemic, including those that had identified new strategic opportunities
- preparing to respond to the potential impacts of Brexit.

2.6 The FGLS fits alongside a range of other State-backed loan schemes that have operated over the past number of years, as follows (see also Figure 2-1):

- The **Brexit Loan Scheme** (open to applications from March 2018 – October 2021), a short-term loan guarantee scheme delivered by the SBCI, funded by DETE and DAFM, and underpinned by a counter guarantee from the EIF. This scheme was introduced to provide an option for working capital to SMEs (excluding farmers and fishers) and small Mid-Caps to innovate and adapt in response to Brexit. The scheme provided loans of €25,000 to €1.5m (unsecured up to €500,000) for up to three years.
- The **Brexit Impact Loan Scheme** (open to applications from October 2021 to end of 2022), a successor to the Brexit Loan Scheme. It was introduced to provide an access to finance option for Brexit-impacted businesses in the context of the dual impact of Covid-19. It is a medium-term loan guarantee scheme operated by the SBCI, funded by DETE and DAFM, and underpinned by a counter guarantee from the EIF. Relative to the Brexit Loan Scheme, it allows for: longer loan terms (of up to six years); borrowing for investment as well as working capital purposes; borrowing by farmers and fishers as well as other eligible SMEs and small Mid-Caps; and some elements of refinancing.
- The SBCI **Covid-19 Working Capital Scheme** (open to applications from March 2020 to July 2021), a loan guarantee scheme operated by the SBCI and funded by DETE and DAFM (underpinned by a counter guarantee from the EIF). It was introduced as an immediate response to Covid-19 to provide a finance option for SMEs (excluding farmers and fishers) and small Mid-Caps impacted by the pandemic and requiring working capital finance. It provided loans of between €25,000 and €1.5m (unsecured up to €500,000) with a term of up to three years. Steps were taken to wind down this scheme following the introduction of the Covid-19 Credit Guarantee Scheme.
- The **Covid-19 Credit Guarantee Scheme** (open to applications since September 2020), a loan guarantee scheme funded by DETE and DAFM and operated by the SBCI. This scheme was developed to respond specifically to the access to finance needs of SMEs (including farmers and fishers) impacted by the Covid-19 crisis. Loans of between €10,000 and €1m are available for working capital and investment, with terms of up to five and a half years.

- **Microfinance Ireland** has various schemes for micro-enterprises, e.g. funding of €5,000 to €25,000 through the Expansion Loans (for up to five years), Brexit Business Loans (up to three years) and Covid-19 Business Loans (up to three years).

Figure 2-1: Timings for FGLS and other State-backed loan schemes



Source: SQW based on information provided by DETE and SBCI

2.7 In addition to access to finance schemes, SMEs have been able to access other State support. Two of these have a particular relevance in the context of the FGLS, given the potential use of the FGLS as a source of financing for matched funding:

- **Targeted Agricultural Modernisation Schemes (TAMS)**, comprising seven different schemes, which provide grants for farmers
- **The Sustaining Enterprise Fund** by Enterprise Ireland, which provides support of between €100,000 to €800,000 (through a variety of instruments, including repayable advances, grant aid, equity and loan notes) to businesses operating within manufacturing and internationally traded service sectors that have been impacted by Covid-19.

Delivery and governance of the FGLS

2.8 The FGLS is operated by the Strategic Banking Corporation of Ireland (SBCI), with loans directly provided to eligible SMEs through six finance providers that responded to open calls to lend through the scheme. The scheme-approved lenders are:

- AIB, Bank of Ireland, KBC Bank, and Ulster Bank in both waves of the scheme from 2019
- Permanent TSB and Close Brothers in the second wave of the scheme from 2020.

2.9 Applying for the FGLS involves a two-stage process:

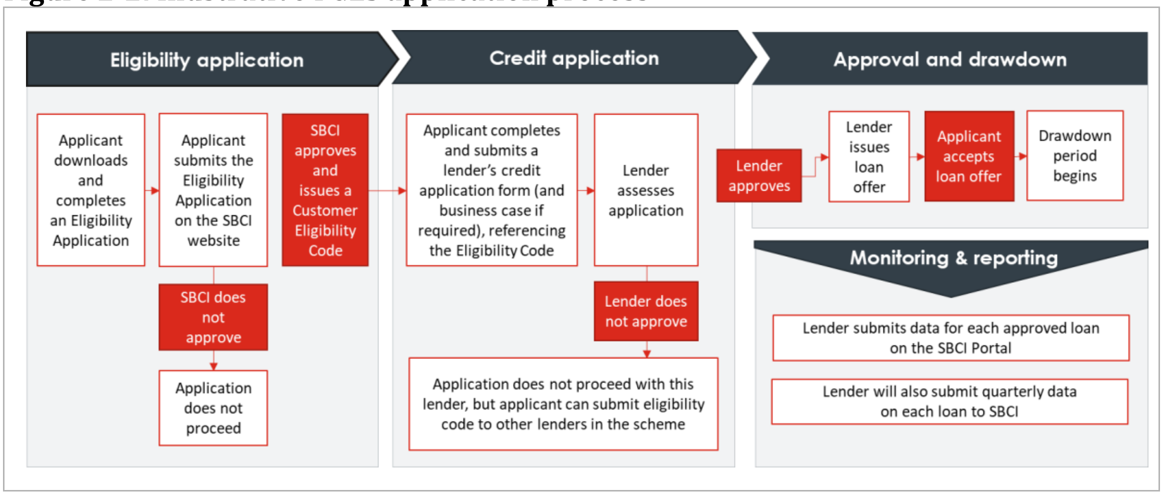
- **Confirming eligibility:** First, an eligibility check is carried out by the SBCI. For the applicant, this involves filling out the SBCI Eligibility Application form. If the application is successful, the applicant will receive a letter with a Customer Eligibility Code.
- **Loan application:** Eligible applicants will then contact one or more of the approved lenders and proceed to submit a loan application (referencing the Customer Eligibility

Code). Each of the loan providers issue their own credit application form. For loan values greater than €250,000, applicants must also submit a relevant Business Plan. The lenders will undertake a number of checks, including that:

- the customer code is valid and logged on the SBCI Portal
- the loan applicant is the same entity as included on the SBCI portal
- the loan purpose meets the scheme criteria
- the loan amount advanced is within the applicant's state aid threshold
- a relevant application (and business plan if required) has been submitted.

2.10 The lender will review the submitted documents and decide whether the application is suitable to proceed. If so, the application is submitted to the lenders' credit assessors who either approve or decline the loan. The lender will then update the SBCI portal with the outcome from the decision and (where approved) issue the applicant with a Loan Offer Letter. If the applicant accepts the offer, a Draw Down Report is issued by the lender and the applicant can proceed to the draw down period. The lenders are then responsible for providing the SBCI with loan data at the outset (including the loan amount sanctioned, interest rate, payment frequency and type of security) as well as on a quarterly basis. Figure 2-2 outlines an illustrative process for the FGLS.

Figure 2-2: Illustrative FGLS application process



Source: SQW based on FGLS documentation

2.11 The SBCI acts as the guarantor of the scheme, supported by funding from DETE and DAFM and underpinned by a counter-guarantee from the European Investment Bank Group (EIBG). The FGLS provides an 80% guarantee to lenders, with losses shared between the finance provider (20% of any losses), the SBCI (16%) and the EIBG (64%). The delivery model is covered in more detail in Section 7.

The FGLS loan product

2.12 Loans provided through the FGLS are long-term (with terms of 7-10 years available), competitively priced (interest rates capped at 4.5% and on favourable terms, including the availability of unsecured loans of up to €500,000). Each eligible applicant can borrow between €25,000 and €3 million. The key product features are outlined in Figure 2-3.

Figure 2-3: FGLS product features

Customer type	• Micro, small and medium sized (<250 employees and <€50m in turnover) and small mid-cap enterprises (<500 employees and not an SME) • All sectors, including agriculture (with specific exclusions)*
Loan amount	• €25,000 to €3 million per applicant • Loans unsecured up to €500,000 • Applicants for loans above €250,000 must submit a business plan
Loan pricing	• Initial maximum loan interest rate of 4.5% for loans up to €250,000 and 3.5% for loans of €250,000 or above • Optional interest-only repayments available for up to two years over the term of the loan in certain circumstances
Loan term	• Ranging from 7 to 10 years
Loan purpose (non-agriculture)	• Long term investment in: machinery or equipment; research & development; business expansion; premises improvement; process innovation; or people/systems
Loan purpose (agriculture)	• Long term investment in tangible or intangible assets on agricultural holdings linked to primary agricultural production • Excluded activities include loans to support drainage works, the purchase of animals, and acquiring land

Source: SQW based on information provided by SBCI

** Excluding: Manufacture of Weapons & Ammunition; Retail sale of Tobacco in Specialised Stores; Wholesale of tobacco products; Gambling and Betting Activities*

Stakeholder and lender views on FGLS profile and position

FGLS rationale and objectives

2.13 **Interviews with lenders and stakeholders indicate that the FGLS is perceived to have filled a gap in the market in relation to the supply of long-term, unsecured lending in Ireland**. A consistent message from the primary research was that since the Global Financial Crisis, the financial markets have responded by providing shorter lending horizons, with very few commercial loans available beyond the seven-year tenure period. This could be driven by lenders' risk appetites and the enhanced European banking regulatory framework introduced post Global financial Crisis including the requirement for adequate capital.

2.14 The lenders engaged in the scheme were aware of unmet demand for long-term lending as a result of this gap, but prior to the FGLS they faced barriers to providing this.

2.15 Crucially, **lenders reported that without the guarantee provided by the FGLS, long-term unsecured loans were regarded as not aligned to acceptable lending risk profiles which drive investment decisions**. Any similar products launched without the State guarantee would have been at a much higher price point which would likely not have been affordable for most businesses. It was noted in this context that agriculture is a particularly challenging sector to lend to, with poorer repayment capacities than other sectors (linked to lower profit rates and volatility of income) – and so it was crucial for the FGLS to have engaged this sector.

> **The guarantee was the key element of the scheme that enables us to realise benefits, largely by enabling reduced credit risk.**
>
> **(Lender consultee)**

2.16 For the lenders, involvement in the scheme was commonly intended to lead to strategic and commercial outcomes, including broadening the product portfolio (and thereby attracting a wider range of customers), ultimately leading to increased competitiveness.

2.17 A secondary, although important, consideration was that the scheme was also expected to enhance the profile and reputation of the lenders within the market – both through association with the SBCI adding to their credibility, and through leveraging SBCI's marketing resources and networks. These objectives were particularly important to lenders new to the Irish market (or to business lending). For those that had previously engaged with SBCI as lending partners, participation in the FGLS was expected to build and deepen these established relationships.

2.18 Stakeholders agreed that the FGLS was well-positioned strategically, addressing a gap in the market for long-term lending. The scheme's overall objectives relating to supporting strategic investment for growth were perceived to be clear, robust, and tailored to market needs. There was some uncertainty in relation to the scheme's ability to help businesses to respond to Covid-19 following the extension in 2020, given the focus on long-term lending rather than investment to support short-term cash flow issues. This said, it was recognised that support for short-term cash flow was not an objective of the FGLS and that other schemes were in place for this purpose specifically (as discussed above).

2.19 There were also mixed perspectives from stakeholders on whether the FGLS was tasked with, and set-up appropriately for, supporting enhanced environmental performance and progress towards digitalisation. However, it is acknowledged that whilst these are eligible activities under the FGLS, and interest to DETE and DAFM from a policy perspective, they were not specific targeted objectives of the FGLS. Indeed, stakeholders welcomed the scheme's flexibility and non-prescriptive nature, providing scope to tailor investments to the need of firms in response to specific growth opportunities. Some exclusions were noted, particularly for the agriculture sector[14], which were regarded by some consultees as not optimal, albeit understandable and necessary under the EU State Aid rules.

[14] Including limitations on the purchase of land and drainage works.

FGLS positioning within the market

2.20 **Lenders consistently reported that the FGLS was positioned effectively alongside other products in their wider lending portfolio.** Lending through the FGLS was also consistently regarded as an important part of the overall portfolio of lending to SMEs in Ireland. The level of this varied substantially, with FGLS comprising a reported 10% in some cases to over half in others of the lenders' overall SME lending over the period since the launch of the scheme.

> **The FGLS fits really nicely within SBCI's offer and provided support exactly where it has been needed for a long time – for both borrowers and lenders.**
>
> **(Stakeholder consultee)**

2.21 **For most lenders, the FGLS lending was targeting the same types of businesses as their other products** (in terms of the size, sector and location of borrowers); the variation was that the guarantee through the scheme was reported to enable lending that would not otherwise have been commercially viable given the level of risk associated with longer-term lending at rates that are attractive to businesses, i.e. the FGLS focused essentially on the same businesses, but with a different product offering.

2.22 There is some evidence of the FGLS being used alongside other products in the lenders' portfolio. For example, where lenders combined FGLS with other loans to increase the scale or extend the timing of lending with other existing products.

2.23 For some lenders, participation in the scheme was reported to have helped in the development of their product offering, enabling them to better support Irish firms to invest in long-term growth activities. It is noted in this context that the FGLS was the first business lending product offered by some lenders in Ireland. In one case there was evidence of further business lending products being introduced subsequently (including another SBCI scheme), in part owing to the positive experience with the FGLS as a State-backed lending scheme.

2.24 Stakeholders agreed that the FGLS was complementary to other SBCI schemes and lenders' own activities. Because the FGLS offered a product that was not seen to be addressed by other schemes (i.e. filling a gap), stakeholders reported limited duplication with other finance products available to SMEs, including other public sector support schemes.

2.25 Other interventions and schemes which were identified as potentially operating in the same broad space as (elements of) the FGLS – as perceived by stakeholders – included loans from Microfinance Ireland – which did increase in value in the short-term owing to the Covid-19 pandemic – and for agriculture businesses (and dairy cattle farmers in particular) the Finance Ireland MilkFlex scheme which provides flexible, low interest rate, unsecured loans over a term of 8 years. However, given the overall modest level of supply of similar finance options, **the consultations did not suggest that stakeholders perceived material duplication in practice with these schemes**. Opportunities for potential further alignment with Microfinance Ireland was identified as an opportunity going forward for successor schemes.

Business Case Example No. 2: FGLS and other finance sources

The loan recipient is a dairy farm. Following a period of strong growth, the business recognised that to continue to grow, investment was required to support essential infrastructure. An FGLS loan was secured to construct new silage pits and a dungstead, and to purchase an effluent tank. This has several important benefits alongside enabling growth, including improved environmental sustainability. Given the necessity of the investment, it is likely the business would have progressed with the investment without FGLS; finance would have been sought from a commercial bank loan or a MilkFlex loan. However, the payment structure of a MilkFlex loan was not seen as appropriate, and a commercial loan would have taken longer to secure and been at a higher cost; further, security would have been required, likely in the form of deeds to the farm.

Business survey evidence on the FGLS profile and position

Access to finance context

2.26 The surveys indicate that **businesses approaching the FGLS had varied previous experience using external finance to support business growth** (Table 2-1). In the Take-Up Group specifically, approximately equal proportions of businesses across the three broad sectors indicated either they did not need/had not sought finance, or they had sought/obtained finance respectively in the three years prior to engaging with FGLS..

Table 2-1: Response to: "In the three years prior to applying for an 'eligibility code' for the FGLS, which of the following statements is most accurate in relation to your external finance needs to support the growth of your business?"

	Take-Up Group			Non Take-Up Group		
	Primary Agri (n=168)	Manuf (n=97)	Services (n=184)	Primary Agri (n=89)	Manuf (n=75)	Services (n=156)
Did not need and did not seek finance	35%	40%	41%	26%	35%	36%
Needed but did not seek finance	6%	12%	8%	18%	8%	11%
Sought and obtained finance	48%	38%	41%	26%	35%	26%
Sought but did not obtain finance	4%	6%	6%	24%	20%	27%
Don't know	7%	3%	4%	7%	3%	0%

Source: FGLS Review, Take-Up Group and Non Take-Up Group surveys

2.27 In the context of subsequent interest in the FGLS, for businesses that sought/obtained finance:

- in both groups, this was most commonly from a bank or other financial institution

- there were very few cases where finance had been secured from other State-backed loan schemes, public sector grants or other public support
- where the finance was secured with some difficulties or not all of the finance sought was secured, the most common factors identified related to the requirement for collateral/assets to guarantee finance and the scale of finance available being less than required; this finding was consistent for both the Take-Up Group and Non Take-Up Group.

2.28 As indicated above, the Non Take-Up Group included a higher share of businesses that had sought finance unsuccessfully prior to the FGLS (n=78). Many factors were identified for this; the most common, cited by 19 was a requirement for collateral/assets to guarantee finance, with 15 indicating a lack of business track record/trading history, and 10 business credit history/status. The terms of the finance that was offered (the interest rate and/or repayment period) were also cited by 10 businesses in the Non Take-Up Group.

Reasons for applying for an 'eligibility code' and key FGLS features

2.29 The surveys indicate that **accelerating growth was the most commonly cited reason for businesses** applying **for an FGLS 'eligibility code'**. This was identified by 66% of businesses in the Take-Up Group (n=435) and 62% in the Non Take-Up Group (n=318). A further 7% of the Take-Up Group and 6% of the Non Take-Up Group indicated they applied because they were not growing at all. A focus on accelerating growth was consistent across primary agriculture, manufacturing and services businesses, and in terms of firm size.

2.30 **This focus on accelerating (and in some cases stimulating) business growth is well-aligned to the objectives of the FGLS, and suggests that the scheme was well-targeted in attracting businesses seeking finance to support long-term investment for growth**.

2.31 In relation to other factors influencing an interest in FGLS, financing strategic investments to respond to external factors (including cost pressures, Brexit, and pressures from the market/customers/competitors) were cited by 5-15% of businesses in both groups. However, seeking FGLS loans to respond to Covid-19 was important to a substantial minority of businesses with projects planned to launch in 2020/2021, particularly for manufacturing and services businesses in both the Take-Up and Non Take-Up Group (see Table 2-2 below).

Table 2-2: Businesses with projects planned to start in 2020/2021 indicating responding to Covid-19 was a reason for applying for an 'eligibility code' for the FGLS

	Take-Up Group			Non Take-Up Group[15]		
	Primary Agri (n=116)	Manuf (n=71)	Services (n=135)	Primary Agri (n=71)	Manuf (n=63)	Services (n=136)
Proportion of businesses	8%	25%	24%	14%	25%	32%

Source: FGLS Review, Take-Up Group and Non Take-Up Group surveys

2.32 The surveys indicate **that the interest rate, loan term and unsecured nature of the finance (up to €500k) were the most important features explaining why businesses**

[15] Includes seven businesses with projects that were planned to start in 2022.

applied for an FGLS eligibility code. The importance of the three principal features (interest rate, loan term and unsecured nature of the finance) was evident across both survey groups and broad sectors, as shown in Table 2-3.

Table 2-3: Proportion of businesses responding 'very important' or 'important' to 'How important were the following features of the FGLS to your decision to apply?'

	Take-Up Group			Non Take-Up Group[16]		
	Primary Agri (n=161)	Manuf (n=95)	Services (n=179)	Primary Agri (n=83)	Manuf (n=70)	Services (n=153)
Capped initial interest rates	82%	89%	89%	79%	83%	84%
Loan terms up to 10 years	84%	87%	86%	81%	82%	90%
Unsecured nature of loans up to €500k	78%	85%	85%	71%	75%	83%
Opportunity to approach a range of lenders	58%	53%	49%	71%	63%	73%
Ability to apply for loans for as much as €3m	33%	52%	65%	31%	49%	51%
Ability to apply for loans for as little as €25k	45%	26%	15%	47%	29%	31%
Opportunity to secure multiple loans (to €3m)	32%	42%	39%	33%	32%	41%

Source: FGLS Review, Take-Up Group and Non Take-Up Group surveys

2.33 However, the survey also indicates **the flexibility of the FGLS product was important, providing a varied and diverse offer to businesses with different priorities and expectations in terms of longer-term lending**. For example:

- Over three-quarters (76%) of businesses in the Non Take-Up Group that had *not* secured external finance previously indicated the opportunity to approach a range of lenders was 'very important'/'important' in their decision to apply (n=206), compared to 65% of those that *had* secured external finance (n=83), and around half of the Take-Up Group overall
- The ability to apply for *smaller* loans was important for half of primary agriculture businesses in both groups; this reflects the size of the businesses, with those with one employee more likely to indicate this was important, which accounted for a higher share relatively of primary agriculture businesses surveyed
- The ability to apply for *larger* loans was important for half or more of manufacturing and services businesses in both groups; again this is linked to business size, with larger businesses (five or more employees) more likely to indicate this was important, which accounted for a higher share of manufacturing/services businesses surveyed

[16] The n-values for primary agriculture and manufacturing vary from 83-86 and 70-72 respectively as some respondents did not provide an answer to all options (including 'don't know'). Minimum values are shown in each case.

2.34 **Consistent with the high level of importance for capped initial interest rates, loan terms up to 10 years, and unsecured nature of loans up to €500k, the survey suggests that it was commonly the combination of these features that mattered, not one feature individually**, when considering all those businesses that applied for an eligibility code. As shown below, 65-70% of businesses in both groups identified all three of these features as very important/important in their decision to apply to FGLS.

Table 2-4: Proportion of businesses reporting that capped initial interest rates, loan terms up to 10 years, and unsecured nature of loans up to €500k were 'very important' or 'important' in their decision to apply to FGLS

	Take-Up Group (n=435)	Non Take-Up Group (n= 311)
All three features	71%	65%
Two features	19%	21%
One feature	6%	7%

Source: FGLS Review, Take-Up Group and Non Take-Up Group surveys

Business Case Example No. 10: Reasons for choosing the FGLS

The loan recipient is a fishing business supplying both domestic and international markets. The business had approached a bank for a commercial loan but was rejected according to the owner because the bank indicated they would not provide funding to the fishing industry. The owner looked at alternative loans, but with the majority requiring security and having higher interest rates, these were ruled out. With FGLS providing unsecured loans with up to a ten year repayment period, it was considered the *"only scheme that met the requirements"*.

Preference for FGLS

2.35 A key question for the Review was the extent to which FGLS lending was sought in preference to other schemes/products[17], and, where it was, the reasons why businesses preferred FGLS. In this context, it is important to note that other sources of external finance could also be sought and progressed *alongside* FGLS, it was not mutually exclusive. As such, the surveys asked businesses specifically whether they considered or applied for various other sources of funding *to support the activity that would be supported by FGLS loan finance* instead of FGLS.

2.36 For the Take-Up Group, a substantial proportion of businesses surveyed – up to 48% in manufacturing – did consider/apply for other sources of finance to progress this activity (Table 2-5). Across both groups, just over a third of primary agriculture businesses considered/applied for other sources of funding, although primary producers were not eligible for several of the schemes covered in the survey which may influence the results.[18]

[17] Specifically, the surveys asked whether businesses had considered or applied for any of the following: Brexit Loan Scheme; COVID-19 Working Capital Loan Scheme; COVID-19 Credit Guarantee Scheme; Credit Guarantee Scheme; Microfinance Ireland Loan; or Non State-backed lending (i.e. Commercial loan from a bank or other financial institution).

[18] Specifically the Brexit Loan Scheme and COVID-19 Working Capital Loan Scheme

Table 2-5: Evidence on other forms of finance considered/applied for planned activity instead of a loan through the FGLS

	Take-Up Group			Non Take-Up Group		
	Primary Agri (n=160)	Manuf (n=95)	Services (n=176)	Primary Agri (n=82)	Manuf (n=69)	Services (n=153)
Did not consider / apply for other sources	64%	52%	56%	61%	39%	48%
Did consider / apply for other sources	36%	48%	44%	39%	61%	52%

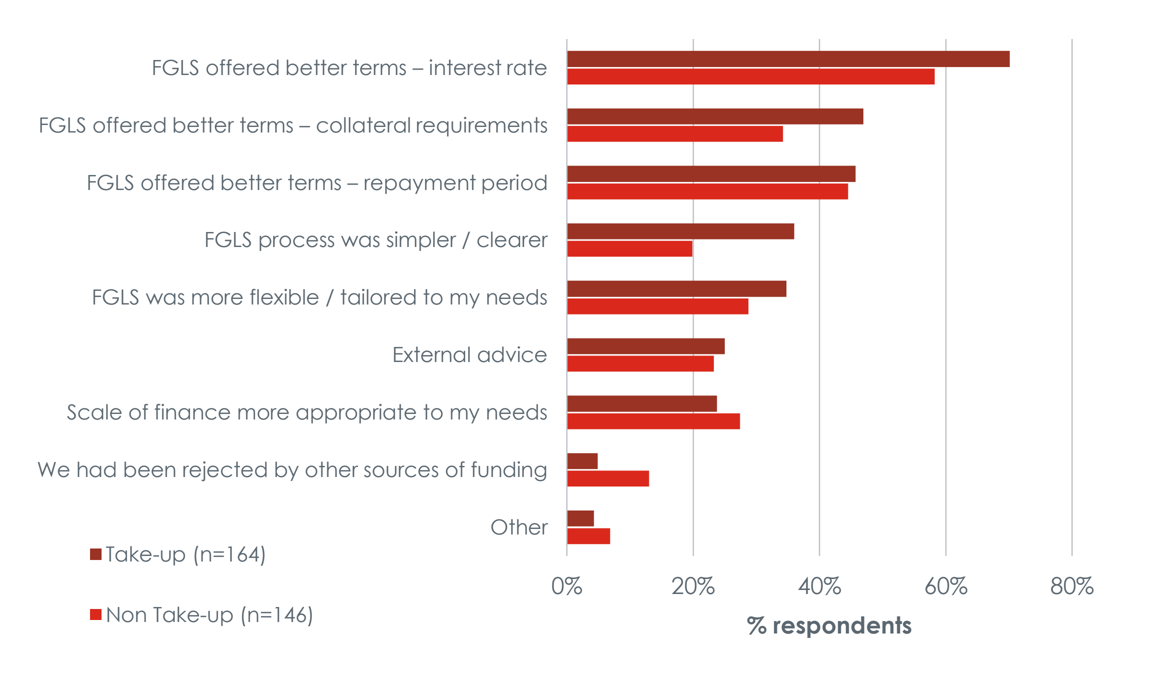
Source: FGLS Review, Take-Up Group and Non Take-Up Group surveys

2.37 **Where other sources of finance were considered/applied for instead of the FGLS, this was most commonly a commercial loan from a bank or other financial institution**. **There was limited evidence that the FGLS was preferred to other forms of State-backed lending or other public sector sources**: under 10% of businesses in both groups indicated that FGLS was sought in preference to one or more of the Brexit Loan Scheme, Covid-19 Working Capital Loan Scheme, or Covid-19 Credit Guarantee Scheme: noting that the Covid-19 Working Capital Loan Scheme and Covid-19 Credit Guarantee Scheme were not available prior to the first tranche of €300 million in lending through the FGLS being fully subscribed. Reflecting the stakeholder feedback, 12% of the Non Take-Up Group (n=304) said they had considered/applied for a Microfinance Ireland Loan; most were businesses with fewer than nine employees and services businesses.

2.38 It was noted above that the interest rate, loan term and unsecured nature of the finance (up to €500k) were the most important features of the FGLS in businesses' decision to apply. As shown in Figure 2-4, for businesses that had considered or applied for other sources of funding specifically, this finding holds. The interest rate was the most cited differentiating factor, but all three loan features remained important. As such, **the survey suggests that for businesses that considered other ways of financing their activity, whilst the interest was the most common reason why FGLS was preferred, it is the combination of the loan features associated with the FGLS that has attracted businesses relative to other sources of finance.**

2.39 The survey evidence also points to the importance of external advice in generating demand for the FGLS with around a quarter of businesses in both groups that preferred the FGLS indicating that this was owing (in full or part) to advice from external advisors such as business advisors, accountants and lenders.

Figure 2-4: Response to 'Why did you prefer the FGLS?' for businesses considering or applying for other sources of funding for activity to be supported by FGLS loan finance



Source: FGLS Review, Take-Up Group and Non Take-Up Group surveys. Note the data has not been aggregated by broad sector owing to sample sizes.

2.40 In this context, the business case examples showed that businesses have approached their existing bank/lender to discuss a potential loan, with the lender advising that FGLS was an appropriate option. This was commonly owing to the lack of security for loans of under €500k, which was seen as preferable by the business (and commonly cited in the survey as an important feature of FGLS). This highlights (i) the process of securing finance may not be linear, given existing relationships between businesses and existing lenders and (ii) whilst the key effect of the FGLS for *lenders* is to make the supply of long-term lending viable, for *businesses* it is to make the take-up of long-term lending affordable and commercially attractive to stimulate investment, including relative to non-State backed lending. Potential displacement effects related to exiting products are considered in Section 5.

Business Case Example No. 8: Bank signposting to the scheme

The loan recipient is an established IT company that supplies hardware and software solutions, and consultancy services. The business was founded in the early-1990s, operating primarily in Ireland but also in the UK, and currently expanding internationally. The business applied to the FGLS as part of its long-term succession planning. As part of several years of planning, the founder had taken advice from their accountant and bank on finance options. The bank recommended the FGLS shortly after the launch of the scheme; it was seen as the only source of loan finance that met the business's requirements, as it would not have been possible to raise sufficient collateral for the security needed for loans provided in the market.

3. Identification of FGLS outputs and activities

Key headlines

- By December 2021, c. 3,500 loans had been approved through the FGLS, to a value of €750m; of this total, over €630m had been drawn down.
- Nearly two-thirds of loans approved (and over three-quarters of loan value) were via the 'SMEs and Small Mid-Caps' component of the FGLS covering sectors excluding primary agriculture, which accounted for the remainder.
- A total of 5,200 eligibility codes had been approved to businesses which, by December 2021, had not progressed to loans. Primary agriculture businesses that had confirmed eligibility were more likely to receive a loan relative to businesses in other sectors.
- Investment in buildings or land and/or the acquisition of machinery or equipment were the most common activities supported, particularly for primary agriculture businesses. There are restrictions on the use of loan finance under the FGLS, for example restrictions on the purchase of land by primary agriculture, arising from provisions in State Aid Regulations.[19]
- FGLS finance has been used by manufacturing and services businesses to support a broad range of activities: over a third of services businesses invested in staff recruitment/training, and at least a quarter of manufacturing and services businesses invested in IT.
- Investment in developing new or improved goods/services and/or processes was also prominent for manufacturing and services businesses.
- FGLS finance has been consistently used to support re-enforcing and related activities, with combinations of activity tailored to specific growth aspirations. The flexibility of the finance appears to be a key characteristic.
- Activities are commonly seen by businesses as helping them exploit digital technologies and/or improve environmental sustainability; over 80% of primary agriculture businesses indicated the latter. A quarter of businesses considered the activities financed would support both objectives, indicating these aims are often complementary in practice.
- For around half of the businesses, FGLS finance was the sole source of investment in the activity/project. Use of internal finance/retained earnings alongside FGLS was common for manufacturing and services businesses whilst primary agriculture businesses regularly used FGLS alongside other lending from banks/financial institutions. There is also some evidence of other public sector funding being used alongside FGLS investment.

[19] COMMISSION REGULATION (EU) No 702/•2014

Headline analysis of FGLS outputs

3.1 This section provides a high-level overview of data provided by the SBCI on FGLS outputs to December 2021. Monitoring data is collected by the SBCI at the loan level (rather than the business level). Whilst some businesses have secured two or more loans, this represents a very small proportion of the total, and there are some instances where the same business has had more than one customer code. Therefore, all analysis presented in relation to the lending is based on the number and value of *loans* (and not *businesses*). Detailed data is in Annex A.

3.2 Table 3-1 summarises headline data on the scheme's position **by December 2021, showing that c. 3,500 loans had been approved at this point. In aggregate, this amounted to lending of over €750m (equivalent to 94% of the total allocation to the scheme), of which 84% had been drawn down**. Whilst lending of up to €3m was available, the average loan was for €215,000; only 76 loans were for €1m or more (2% of all loans in frequency).

3.3 In addition, **over 5,200 eligibility codes had been granted but not progressed to a loan**. This could be for a variety of reasons, including that the businesses were unsuccessful in applying, were waiting for the outcome of an application, or had not submitted an application.

3.4 Agreements for the approved loans were signed between June 2019 and November 2021. The average loan term was nine years. None of the loans were expected to reach maturity before 2027, and for over half (60%) this will be in 2029 or later.

Table 3-1: Overview of loan activity by December 2021

Indicator	Value
Loans approved	
No. of loans approved	3,496
Value of loans approved	€750.8m
Average value of loan	€215k
Average value of loans up to €250k (no business plan required; unsecured)	€103k
Average value of loans between €250k and €500k (business plan required but unsecured)	€334k
Average value of loans €500k or over (business plan and security required)	€851k
No. of loans up to €250k	2,666 (76% of all approved loans)
No. of loans up to €500k	3,353 (96% of all approved loans)
Loans drawn down	
No. of loans drawn down	3,221 (92% of all approved loans)
Value of loans drawn down	€633.3m (84% of all approved loans)
Eligibility Codes	
No. of Eligibility Codes only (i.e. no loan approval)	5,240

Source: SBCI Monitoring data up to December 2021

3.5 The majority of loans approved were to non-agricultural businesses via the 'SMEs and Small Mid-Caps' component of the scheme[20] (62% of loans; 77% of value), and the remainder to primary agriculture businesses[21] (37% of loans; 21% of value). A small number of loans were processed as 'exceptions'; primarily to fishers. A breakdown by sector is provided in Annex A.

3.6 Just over three-quarters of the c.5,200 businesses that had secured an eligibility code but not a loan[22] were SMEs/Small Mid-Caps, and approaching a quarter were in primary agriculture. As such, **primary agriculture businesses were relatively more likely to apply for and secure a loan approval after securing an eligibility code than those in other sectors**.

3.7 **The loan recipients were located across Ireland, though there was some variance across the country in the proportion of all lending by *number* or *value* of loans** (see Figure 3-1). Most notably, businesses based in Dublin accounted for 12% of loans, but over one-fifth (22%) of the total value. This is likely to reflect the variation in the characteristics of loans by firms in different places, linked to regional economic conditions and profiles.

Figure 3-1: Number of loans by region

Source: SQW, based on SBCI Monitoring data from December 2021

3.8 FGLS loans were intended for a range of purposes (as defined in the eligibility application process). The most common purposes cited were business expansion (36% of the number of loans); performance and sustainability improvement (20%); premises improvement (14%); and the creation or improvement of infrastructure for development, adaptation and modernisation (13%). The full breakdown by frequency and loan value is set out in Annex A.

[20] Only nine loans were to businesses classified as Mid-Caps.
[21] The scheme is formally split into two components ('SMEs and Small Mid-Caps' and 'Primary Agriculture'), it is noted that primary agriculture businesses are also SMEs. This is a matter of labelling, and there is no overlap between the two categories.
[22] There are different reasons for why eligible businesses had not accessed lending, including that they (i) had not applied to lenders (for a range of reasons, which were explored in the survey); (ii) were unsuccessful in applying; or (iii) were still waiting to hear the outcome of their application.

How businesses have used the FGLS loan finance

Context

3.9 A key focus of the Review was to provide evidence on how businesses have used the finance secured through the FGLS, including any variation by business characteristic. This was a key priority for the Take-Up Group survey, with 411 businesses in the sample having drawn down their FGLS loan finance (151 primary agriculture, 90 manufacturing and 170 services).

3.10 For these businesses, the survey gathered evidence on the nature of the activity supported, if this was consistent to what was planned, and the use of FGLS alongside other finance. Data has been analysed by broad sector and five cross-tabulations: business size (by employee), business age, client status[23], experience of pre-FGLS finance, and loan value. Detailed findings are presented in Annex D, with the key messages set out below. Evidence from the qualitative business case examples is also presented, to provide further insight into the nature of activity supported by the scheme to date.

Primary evidence from businesses

Activities supported by FGLS loan finance

3.11 **The Take-Up Group survey suggests that investment in buildings or land and/or the acquisition of machinery/equipment were the most common activities supported through FGLS**. These two uses were the most cited by businesses across all three broad sector groups, as shown in Table 3-2. This table shows the proportion of businesses in each group that indicated FGLS had been used to support this activity, it does *not* represent the value of this investment (i.e. 48% of primary agriculture businesses had used the FGLS to acquire machinery/equipment, not that 48% of the FGLS investment was on this category).

3.12 However, the survey also indicates **the varied range of activity supported by the scheme, and the considerable variation across sectors in the way that it has been used**. Notably, activity within primary agriculture businesses does appear to be concentrated in the two main categories noted above: 37% of primary agriculture businesses used FGLS for investment in buildings/land only, and 20% for acquisition of machinery/equipment only.

3.13 By contrast, FGLS has been used by manufacturing and services businesses to support a broader range of activities: over a third of services businesses used FGLS to invest in staff recruitment, training, or development, and at least a quarter of both manufacturing and services businesses used FGLS to invest in Information Technology.

[23] Whether the business was an Enterprise Ireland, Bord Bia or Local Enterprise Office client

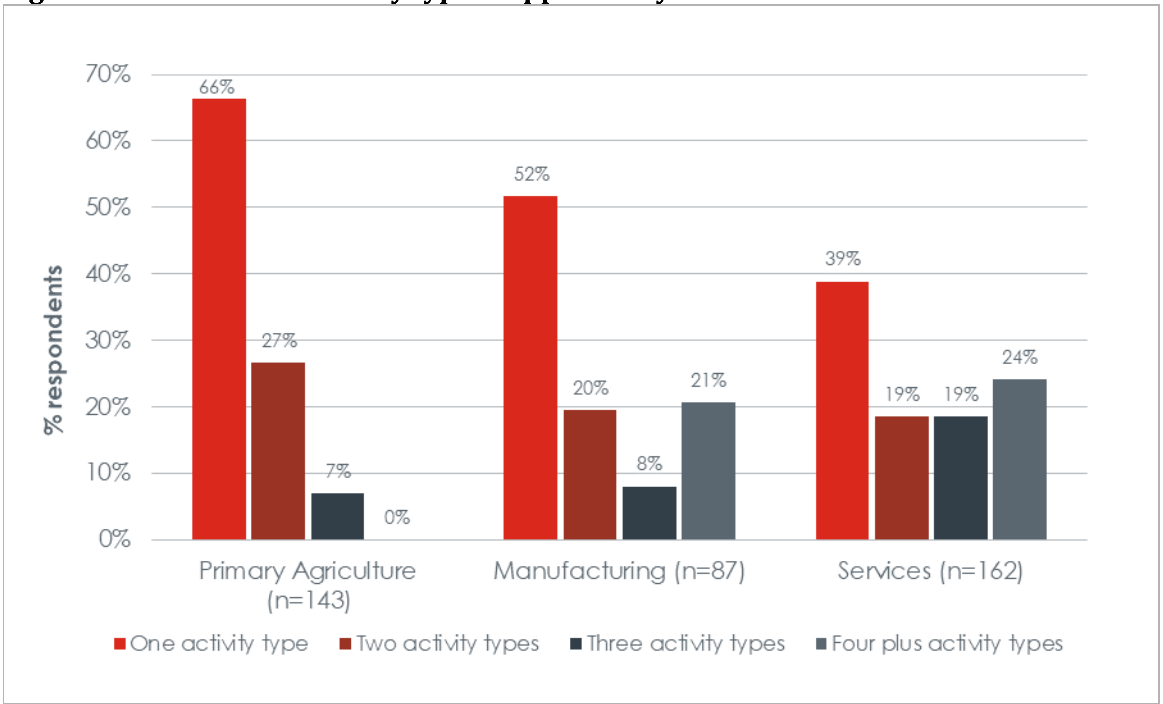
Table 3-2: Activity supported by FGLS loan finance – any investment in category

	Primary Agri (n=143)	Manuf (n=87)	Services (n=162)
Acquisition of machinery or equipment	48%	51%	35%
Acquisition of vehicles and other transport equipment	4%	11%	8%
Investment in buildings or land	65%	55%	55%
Information Technology	6%	25%	30%
Developing new or improved goods and services	3%	17%	26%
Developing new or improved processes	5%	18%	17%
Other R&D	0%	7%	10%
Marketing	0%	11%	20%
Staff recruitment, training, or development	0%	17%	35%
Other investment	10%	10%	16%

Source: FGLS Review, Take-Up Group survey

3.14 Underpinning this data, **for manufacturing and services businesses, investment in more than one type of activity was very common**. As shown in Figure 3-2 below, over a fifth of businesses surveyed in these sectors used the FGLS to invest in four or more activity types.

Figure 3-2: Number of activity types supported by FGLS finance



Source: FGLS Review, Take-Up Group survey

3.15 The varied nature of usage by broad sector is further demonstrated when we consider the *value* of investment. Table 3-3 presents the share of investment accounted for by each of the broad sectors.[24] For services businesses, investment in buildings/land and acquisition of

[24] The analysis assumes 100% of the loan finance principal had been drawn down by each business.

machinery/equipment accounted for under half of total investment (with 'other' investment, and investment in developing new or improved goods/services/processes also prominent). Further data on the proportion of finance accounted for by categories of investment is set out in Annex D.

Table 3-3: Activity supported by FGLS loan finance – value of investment in category

	Primary Agri (n=143)	Manuf (n=87)	Services (n=162)
Acquisition of machinery or equipment	36%	30%	11%
Acquisition of vehicles and other transport equipment	4%	3%	1%
Investment in buildings or land	48%	40%	33%
Information Technology	1%	3%	6%
Developing new or improved goods and services	0%	7%	10%
Developing new or improved processes	3%	4%	5%
Other R&D	-	1%	3%
Marketing	-	2%	5%
Staff recruitment, training, or development	-	4%	9%
Other investment	7%	5%	17%

Source: FGLS Review, Take-Up Group survey

Business Case Example No. 1: Investment in buildings/land

The loan recipient is an agri-tourism business. Although growing *"organically and rapidly"*, the business was seeking to diversify its offering, through developing holiday cottages to support further growth. The FGLS finance was used to purchase raw materials, including timber and steel. Despite some delays due to Covid-19, the cottages were completed by early-2022. The holiday cottages are seen as an important step forward in the diversification of the business, and in spreading the risk from other revenue streams: whilst the agri-tourism and accommodation sides will be complementary, they can also function independently if needed.

3.16 Considering the *combination of activities*,[25] for primary agricultural businesses the most common combination was investment in acquisition of machinery/equipment and buildings/land, with 31 businesses reporting FGLS supported both. This is consistent with the high concentration of investment in these activities in this sector.

3.17 For manufacturing and services businesses, the combinations were more varied, consistent with the broader range of activities supported. For example (see Annex D for detailed data):

- For manufacturing businesses, the acquisition of machinery/equipment was frequently combined with investment in IT (n=15) and buildings/land (n=16). Further, investment

[25] Note the data covers combinations of *two* activities given the small sample sizes for combinations of three or more.

in developing new or improved processes was frequently combined with investment in either IT (n=12), or buildings/land (n=12)

- For services businesses, investment in staff recruitment, training or development was frequently combined with investment in IT (n=28) and developing new or improved goods and services (n=24). Further, investment in developing new or improved goods and services was also frequently combined with investment in IT (n=22). Investment in both buildings/land and machinery/equipment was also common for services businesses (n=28), and investment in IT and land/building (n=23).

3.18 **The data highlights that the FGLS has been consistently used by businesses to support a range of re-enforcing and related activities, with combinations of activity tailored to the specific needs and growth aspirations of the business.** The flexibility of the finance and how this can be used to service specific need appears to be a key characteristic.

Business Case Example No. 3: Importance of flexibility

The loan recipient is a hospitality business. Whilst the loan was primarily spent (as planned) on improving the existing buildings, it also provided a valuable source of income to adapt to and mitigate the impact of Covid-19. Like many hospitality businesses, the loan recipient was directly affected by the Covid restrictions. However, the FGLS funding enabled the business to adapt to the new ways of working. Using some of the money from the loan, they were able to establish an outdoor unit for takeaways and adapt their existing service area to be more 'Covid-secure'. The flexibility offered by the scheme was essential.

3.19 For the nature of activities supported, more detailed *sub-sector analysis* has been completed. The data should be treated with caution owing to the lower sample sizes (particularly for example 'Accommodation and food service activities' and 'Construction'). Headline data on the share of investment accounted for by each of the sub-sectors is set out below.

3.20 **The data highlights the different ways in which FGLS has been used across the business base.** For example, investing in the development of new or improved goods and services and staff recruitment/development appears to be particularly important for 'ICT and financial/insurance' businesses; however, for 'Accommodation and food service activities' the investment for surveyed businesses was largely in buildings/land investment (e.g. buying/leasing or improving premises[26]).

Table 3-4: Activity supported by FGLS loan finance – sub-sector (share of investment)

	Machinery /equipment	Buildings / land	Other	Key detailed 'other' activity types noted
Cattle (n=63)	38%	43%	19%	Acquisition of vehicles / other transport equipment (5%)
Other agriculture (n=80)	34%	53%	13%	Other investment (8%)

[26] FGLS cannot be used to fund property in a speculative manner or to support pure real-estate activity.

	Machinery /equipment	Buildings / land	Other	Key detailed 'other' activity types noted
Manufacturing (n=68)	32%	42%	26%	Developing new or improved goods and services (8%)
Construction (n=21)	24%	31%	45%	Staff recruitment, training, or development (13%)
Human health & social work (n=21)	11%	43%	46%	Information Technology (11%) Other investment (26%)
ICT and financial / insurance (n=23)	2%	4%	94%	Developing new or improved goods and services / Staff recruitment etc. (both 17%)
Professional, scientific & technical (n=31)	14%	36%	50%	Staff recruitment etc. (11%) Other investment (12%)
Wholesale and retail (n=40)	7%	42%	51%	Developing new or improved goods and services (14%) Other investment (24%)
Accommodation and food service activities (n=17)	16%	76%	8%	Samples sizes too small to provide commentary
Other (n=28)	26%	34%	40%	Staff recruitment, training, or development (11%

Source: FGLS Review, Take-Up Group survey

Consistency with planned activities

3.21 **The survey suggests that the activities supported by FGLS were largely the same as planned when businesses first approached the scheme**: over 80% of businesses across all three sectors indicated that the activity was 'exactly the same as planned'. However, this was slightly higher for primary agriculture businesses (at 91%, n=149) than manufacturing (80%, n=89) and services businesses (80%, n=165), which may reflect the greater concentration of investment in major capital categories of expenditure for this group (as discussed above).

3.22 The timing of activity, and particularly the uncertainty associated with Covid-19, does *not* appear to have influenced this: the level of businesses reporting no changes in their activity was similar for projects starting in all three years of the scheme's operation.

Investment in digital technologies and environmental sustainability

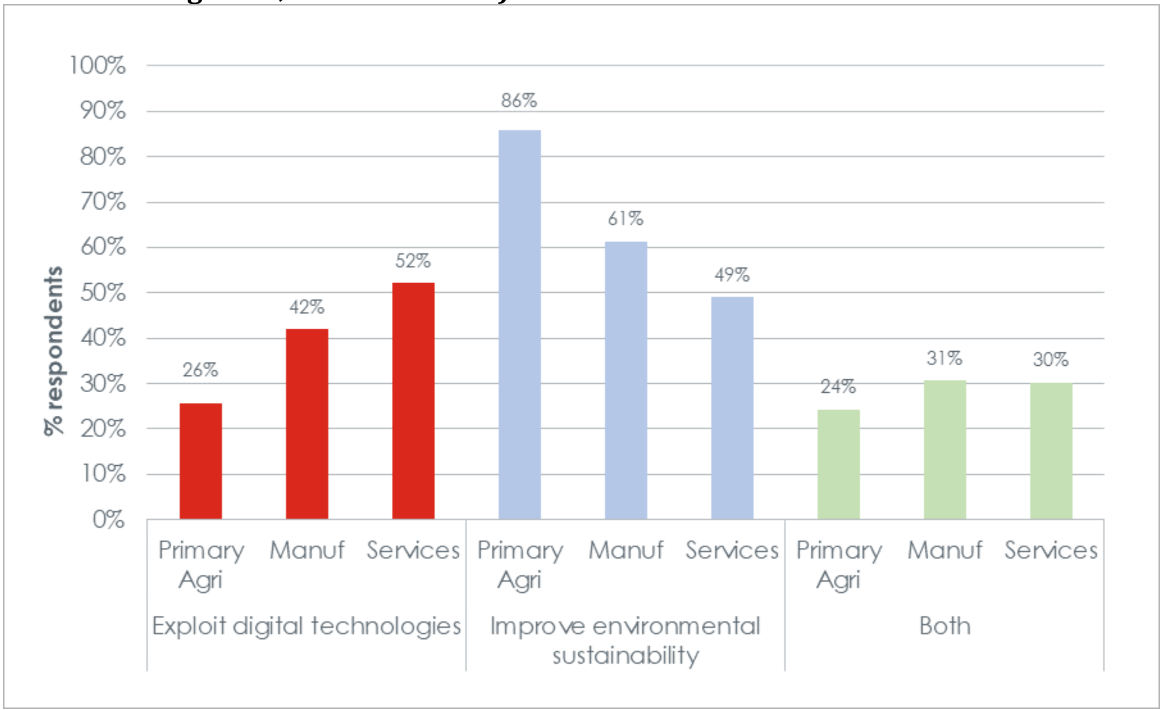
3.23 The survey suggests that **FGLS finance has commonly been used to support activities that would help businesses to exploit the potential of digital technologies and/or improve their environmental sustainability.** Whilst there was no requirement for FGLS applicants to invest in activities to support these objectives, they reflect core policy areas and so it was of interest to DETE and DAFM to understand the extent that FGLS was utilised in making investments in related activities.

3.24 However, **the extent to which activities supported by FGLS were seen to support the exploitation of digital technologies and environmental sustainability varied by sector,** as shown in Figure 3-3. Activities to support environmental sustainability activity was particularly common for primary agriculture businesses, and activity to support the exploitation of digital technologies for services and manufacturing businesses.

3.25 Notably, around a quarter of businesses in all three broad sectors considered the activities financed by the FGLS loan finance would support both digital exploitation and improved environmental sustainability, indicating they are complementary in practice.

3.26 For businesses in the primary agriculture sector that indicated the FGLS-funded activity would improve their environmental sustainability, this was associated with investment in acquisition of machinery and equipment and/or investment in buildings or land. This is not unexpected given these activities are very common for businesses in this group and nearly all (85%) noted that the activity would improve their environmental sustainability.

Figure 3-3: Proportion of businesses investing in exploitation of digital technologies and improving their environmental sustainability (Primary Agriculture n=148, Manufacturing n=88, Services n=165)



Source: FGLS Review, Take-Up Group survey

Business Case Example No. 5: Digitalisation

The loan recipient is a diversified business with a broad product and service offering. Prior to Covid-19, their main focus was the design and distribution of physical products. However, during the pandemic demand for digital services increased substantially. The business therefore sought to diversify its product offering, with the FGLS loan finance used to invest in digital technology, expand business premises, and establish a new product line for its manufacturing operations. The FGLS-supported investment has also helped the business to improve the sustainability of its activities.

3.27 The share of FGLS investment allocated to different activities varied substantially between businesses that did and did not indicate the FGLS-funded activity would help them to exploit the potential of digital technologies. As shown in Table 3-5, investment in buildings or land was less common among businesses that indicated the activity would help them to exploit digital technologies (compared to the average across all businesses). In turn, investment in machinery/equipment was more common for primary agriculture businesses, and 'other' activity was more common for manufacturing and services businesses. For the latter, this included higher levels of investment in IT (for services) and new or improved processes (for manufacturing).

Table 3-5: Share of investment for all businesses and those that reported FGLS would help them to exploit the potential of digital technologies

	All businesses			Businesses with activity to exploit digital technology		
	Primary Agri (n=143)	Manuf (n=87)	Services (n=162)	Primary Agri (n=38)	Manuf (n=37)	Services (n=86)
Machinery / equipment	36%	30%	11%	51%	25%	8%
Buildings / land	48%	40%	33%	34%	28%	19%
Other	16%	30%	56%	15%	46%	72%

Source: FGLS Review, Take-Up Group survey

Business Case Example No. 13: Environmental sustainability

The loan recipient is an equipment manufacturer and supplier. At the time of applying for the FGLS, the business had recognised the need to invest and improve their manufacturing processes, which was inefficient, producing large amounts of waste. The FGLS loan finance enabled the business to invest in new equipment, and new premises including a cleanroom enable the equipment to operate at its maximum efficiency. This investment has led directly to a reduction in the product production time, and production capacity has increased dramatically alongside enhanced environmental sustainability as the new equipment is more efficient, reducing the need for the use of certain manufacturing processes/materials, and reduced the waste generated significantly.

Links to other growth finance

3.28 **The survey suggests that for around half of the businesses drawing down a loan, FGLS finance was the sole source of investment in the activity/project supported**. This finding was consistent across broad sectors.

3.29 For those businesses that had used other forms of finance alongside FGLS (176 of the survey sample), the sources varied by sector. As shown in Table 3-6, **the use of internal finance/retained earnings was very common for manufacturing and services businesses, with primary agriculture businesses more regularly using FGLS alongside other lending from banks/financial institutions**. The use of FGLS alongside other public sector funding was also quite common: for primary agriculture businesses this was principally funding from the Targeted Agricultural Modernisation Schemes (TAMS).

Table 3-6: Other sources of finance used alongside FGLS

	Primary Agri (n=64)	Manuf (n=44)	Services (n=68)
Internal financing/retained earnings	38%	68%	62%
Business loan from a bank or other financial institution	47%	32%	26%
Loan from family/friend/business partner etc.	11%	9%	13%
Public sector	34%	36%	26%
Other	3%	7%	9%

Source: FGLS Review, Take-Up Group survey

3.30 Three points are highlighted in relation to the use of FGLS alongside other forms of finance:

- businesses that indicated at least half of their FGLS finance had been used for investment in buildings or land were *less likely* to have reported using other finance (36%, n=188) than those where buildings or land did not account for at least half of their FGLS investment (50%, n=206); so, FGLS is not generally being used to 'top-up' larger investment in buildings/land, rather the FGLS is most commonly the main source of finance to support this activity, suggesting this activity is being unlocked by the scheme
- the use of other finance alongside FGLS was more common for larger businesses and EI/BB/LEO clients; this may reflect the ability of larger firms to provide internal financing/retained earnings, and EI/BB/LEO clients to access other forms of finance
- there was no consistent pattern in the share of the total costs of activities/project accounted for by the FGLS loan finance in terms of sector and loan size.

Business Case Example No. 4: Links to other finance

The loan recipient is a manufacturing company. The business applied for both the FGLS and a non-state-backed bank loan. This approach minimised the administrative burden on the business as it was able to re-use some of the information in both applications. Moreover, the FGLS loan was agreed first, which then helped the business to secure the other bank loan. The business commented that: *"The FGLS and the bank loan worked well together. The fact that the pillar banks saw we had been approved for the FGLS worked in our favour because they knew the procedure to gain approval for the scheme followed tight guidelines."*

4. Review of emerging benefits

Key headlines

- The FGLS has led to material benefits for businesses in relation to product, service and process development. Half of businesses across sectors reported new/improved processes had been implemented, and half of manufacturing and services businesses reported the introduction of new products.
- Employment effects have been realised. Effects were modest for primary agriculture businesses compared to manufacturing and services businesses, which reflects sector drivers and the reduced role of employment in growth.
- Turnover effects to date are encouraging, with between a half and two-thirds of businesses reporting their turnover had increased as a result of FGLS.
- Self-reported productivity effects are pronounced, reported by over 60% of businesses. Wider benefits include improved energy efficiency/reduced carbon emissions for primary agriculture businesses; and positive effects on business confidence, profile and reputation for manufacturing and services.
- When controlling for other factors, businesses that applied to FGLS to accelerate growth were more likely to report a range of positive outcomes than those applying to FGLS for other reasons.
- The nature of the activity supported does influence outcomes realised at this stage, though this is a complex and varied picture across different sectors and outcomes; no activities consistently lead to better or greater outcomes.
- There is a consistent relationship between investing in activity that involves improving environmental sustainability and realising improved energy efficiency/reduced carbon emissions. This investment also appears to be associated with other outcomes when controlling for other factors.
- Businesses that applied to FGLS in response to Covid-19 (as opposed to those for which this was not a motivation for applying) were consistently more likely to report that the scheme had enabled them to recover from the impacts of the pandemic – highlighting the scheme's ability to deliver on this objective.
- The FGLS has had a positive effect on the ability of at least a half of businesses supported to recover from the impacts of Covid-19 and/or adapt for the post-Brexit environment.
- FGLS has generated particular benefits for family-owned businesses in services and manufacturing, in relation to enhancing their business confidence and profile and building relationships with lenders, which may lead on to sustained economic benefits and business growth over the longer-term.

Context

4.1 A key focus for the Review was to identify the benefits and outcomes from FGLS for businesses that had secured and drawn down finance, including both realised to date and expected. Consideration of expected benefits is important given the timing of the Review, with loan approvals/drawdown from 2019 onwards, and continuing in 2021 and 2022. Indeed, of the 411 businesses in the survey sample that had drawn down their FGLS loan finance at the point they responded, 16% started the project activity in 2021.

4.2 The findings should be regarded as interim only, with the full effects of the loan finance expected to develop over time. In this context, the business survey gathered primary evidence on the nature of effects realised and anticipated in relation to product, service and process development, employment and turnover effects, and business capability and performance.

4.3 Descriptive analysis on the results is provided below on the 411 businesses surveyed that had drawn down their FGLS loan finance at the time of the survey. These results are disaggregated by sector group and supported by qualitative evidence from business case examples. Econometric analysis has also been undertaken on effects realised to date, providing insight into the characteristics that may have influenced benefits, controlling for other factors.

Descriptive analysis of benefits to businesses

Product, service and process development

4.4 **Businesses report that even at this early stage FGLS finance has led to material benefits in relation to product, service and process development**. As shown in Table 4-1, the effects vary by sector. This reflects sector characteristics; primary agriculture, in particular, is different to manufacturing and service, with more of a focus on product/service and process improvement, than new product/service development. This said, across all sectors around half of businesses have introduced new or improved processes through FGLS finance.

4.5 Looking in more detail at the results, it is highlighted that:

- where businesses reported they had or expected to introduce new products or services, this was generally 'new to the firm'; however around a quarter of relevant businesses said this was/would be 'new to the market', particularly in manufacturing and service sectors
- where businesses reported they had or expected to introduce new or improved processes, this was expected to lead to improved product/service quality for manufacturing and services businesses in particular, and save time for primary agriculture businesses (with associated benefits in terms of productivity); further, around half of relevant businesses in all sectors reported that new or improved processes would lead to reduced costs.

Table 4-1: Evidence on product, service and process development[27]

	Primary Agri	Manuf	Services
Improvement of existing products or services			
Experienced already	53%	70%	69%
Expect to experience	27%	26%	24%
Have not and will not experience	20%	3%	7%
n=	*128*	*88*	*160*
Introduction of new products or services			
Experienced already	21%	48%	57%
Expect to experience	30%	42%	28%
Have not and will not experience	49%	10%	15%
n=	*118*	*88*	*156*
Introduction of new or improved processes			
Experienced already	48%	56%	56%
Expect to experience	35%	37%	31%
Have not and will not experience	17%	7%	13%
n=	*129*	*87*	*158*

Source: FGLS Review, Take-Up Group Survey

Business Case Example No. 11: New products

The loan recipient is a construction trades business. Before the FGLS loan, the business had been reluctant to invest in growth. However, after year-on-year growth in sales, the owners took part in a growth focused business support course through a Local Enterprise Office which motivated them to adopt a new growth strategy. Part of this strategy involved the launch of a new product and so a portion of the FGLS loan was spent on commercialisation and marketing activities. The product has been patented and is the only product of its type manufactured and distributed in Ireland. By early-2022, the product was stocked by several retailers, generating an additional revenue stream for the business.

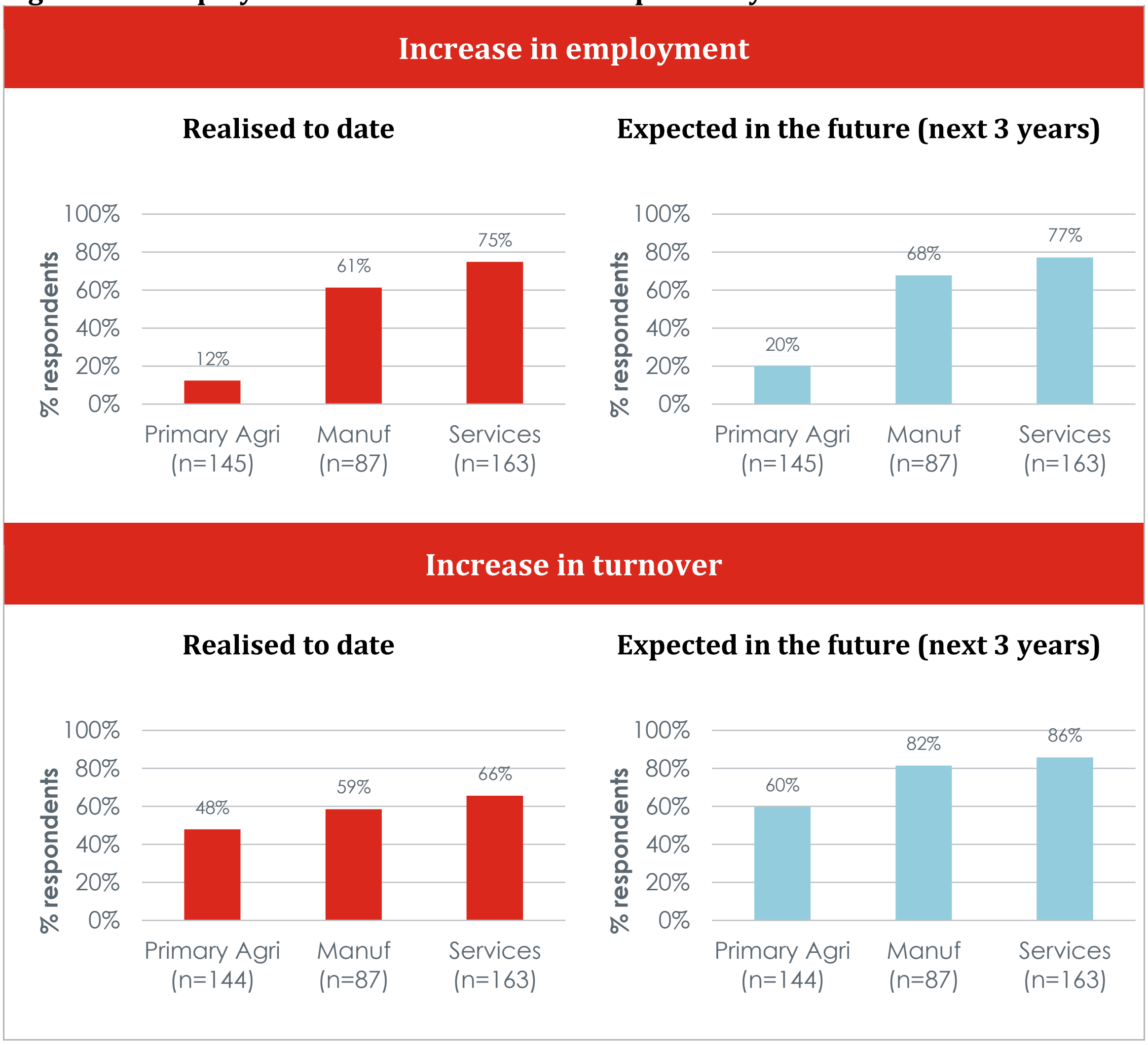
Employment and turnover effects

4.6 Survey responses indicate that **FGLS finance has led to changes in employment and turnover to date, with further effects expected for the future, although the effects vary considerably by broad sector**. As shown in the Table below, the proportion of primary agriculture businesses reporting increased employment (both realised and expected) was modest compared to manufacturing and services businesses. Increased turnover (realised and expected) for primary agriculture businesses was also less common relative to manufacturing and services businesses.

[27] Note that 'don't know' responses have been excluded

4.7 This is not unexpected and likely reflects sector characteristics, particularly in terms of employment where nearly all primary agriculture businesses in the survey were family businesses (95%), and over half had just one employee (and 95% up to four employees), suggesting that employment is not a priority for business growth and may at least be partially attributed to labour shortages in the sector. The manufacturing and services findings are very encouraging, particularly given the short time-paths to impact.[28]

Figure 4-1: Employment and turnover effects reported by businesses



Source: FGLS Review, Take-Up Group Survey

4.8 Detailed data on the scale of employment and turnover effects realised to date is set out in Annex D. In most cases the effects on employment and turnover to date are modest (as can be expected at this early stage):

- for three-quarters of businesses reporting employment increases, this was by one to five employees
- for two-thirds of businesses reporting turnover increases, this was by up to €200k.

[28] The data reported focus on increases in employment and turnover. A small number of businesses reported employment was lower (x5) or was expected to be lower (x3) as a result of FGLS. No businesses reported their turnover was or was expected to be lower as a result of the FGLS finance.

4.9 However, in some cases the effect is more substantial. For example, 25 businesses reported the FGLS had led to over 10 further employees, and 34 that FGLS had led to increased turnover of €1m or more. This highlights the potential longer-term economic impact of the FGLS on business and economic performance. This can be expected to increase over time, including as investment in capital projects starts to generate returns in terms of employment and sales.

Business capability and performance

4.10 The Take-Up Group survey asked businesses that had drawn down FGLS loan finance (n=411) whether effects related to business capability and performance had been realised to date or were expected for the future. Detailed data are in Annex D, with the following highlighted:

- self-reported productivity effects are pronounced, with over 60% of businesses in all three broad sectors reporting improved overall business productivity to date
- approaching half of primary agriculture businesses reported improved energy efficiency/reduced carbon emissions to date, which is consistent with the common investment to support improved environmental sustainability by businesses in this sector
- effects on enhanced business confidence and improved business profile, reputation and credibility are pronounced for manufacturing and services businesses in particular
- over half of businesses in all three broad sectors reported that FGLS has or will lead to securing further external finance for business investment; in most cases this was expected rather than realised, which is not unexpected at this stage
- manufacturing business reported notable effects in supporting exports, with over a third indicating that FGLS had helped or will help them to export for the first time, and evidence the loan finance will help to retain/grow exports for those already exporting.

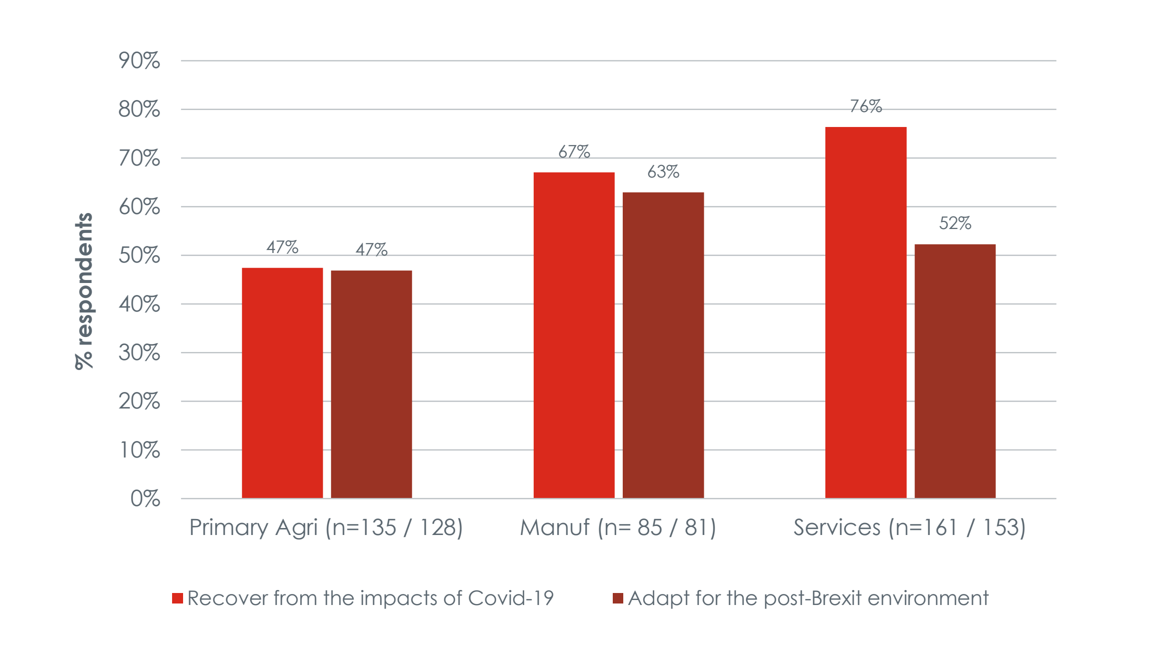
Business Case Example No. 9: Business capability benefits

The loan recipient is a construction business that sought to expand through investing in new and upgraded equipment to improve productivity. New machinery enabling faster handling and movement of materials was purchased using the FGLS loan finance, which has accelerated the rate of project completion. Alongside this, the business also purchased equipment enabling them to accept larger contracts they had previously had to reject. The FGLS has also led to improved business planning and a greater emphasis on strategic growth activities. Further, as the first loan the business secured, the process of applying, drawing down and then investing was reported to have been useful for changing mindsets towards growth. The business commented that: "*The application made us sit down and take an honest look at the business's goals. It forced us to re-think our approach to long-term growth in a more structured manner.*"

4.11 The survey also suggests **the FGLS has had a positive effect on the ability of at least a half of businesses supported to recover from the impacts of Covid-19 and/or adapt for the**

post-Brexit environment. Figure 4-2 sets out the 'net positive'[29] effects of the loan finance on these issues. In relation to Covid-19, the contribution has been most pronounced for service businesses. It is noted that the lower 'net positive' effect for primary agriculture businesses reflects that they were more likely to indicate *no impact* from FGLS on recovering from Covid-19 and adapting to a post-Brexit environment, rather than *negative* impacts.

Figure 4-2: Response to 'Has the loan finance approved through the FGLS had an impact on the ability of your business to ..." (net positive)



Source: FGLS Review, Take-Up Group Survey

Business Case Example No. 7: Responding to Covid-19

The loan recipient is a food producer and retailer. The rationale for seeking external finance was that the business saw a rapid increase in demand from retail customers, largely due to Covid-19. This led to the business out-growing its existing facilities and at risk of being overburdened and unable to supply orders. The FGLS supported expansion, with the loan used alongside internal funds to purchase a new industrial unit. This has delivered a significant increase in floor space for manufacturing and warehousing capacity, and for a new office. Together, this has improved productivity, and enabled R&D to develop new products, leading to a growing order book and the capability to pursue further opportunities. Wider benefits include improvements to working conditions and more sustainable practices due to reduced product damage and wastage, directly enabled by enhanced facilities and storage capacity. The business commented that: "*Being able to move into the new premises has allowed us to unlock our growth potential*."

[29] The proportion of respondents that said the impact was very positive or positive minus those that said it was negative or very negative (don't knows excluded).

Findings from econometric analysis on benefits to businesses

Approach to the econometric analysis

4.12 Within-sample econometric analysis has been completed of the survey data on outcomes for the Take-Up Group, including linking this to further characteristics from monitoring data. The purpose of this exploratory analysis was to provide insight into whether some business and other characteristics are associated with benefits realised at this early stage. The analysis has been completed separately for the primary agriculture and non-agriculture businesses. The full set of tables summarising the econometric findings and variables are in Annex C.

4.13 The results from the regression-based analysis identify whether a characteristic, such as business sector or size, is associated with a statistically higher (or lower) probability of self-reporting achieving a specified outcome due to the FGLS. It is important to note that a positive (or negative) result means that *relative to the sample mean*, businesses with that characteristic have reported better (worse) outcomes, whilst controlling for other factors in terms of the proportion that reported an outcome had been achieved.

4.14 For example, for primary agriculture, the analysis included a variable for sub-sector, specifically 'dairy-cattle' and 'non-dairy cattle', with the latter used as the sample mean. A positive result means that relative to 'non-dairy-cattle' businesses, 'dairy-cattle' businesses were more likely to report the outcome had been realised, controlling for other variables.

4.15 The sample size for each regression varies depending on how many respondents answered the question in the survey related to the outcome (with 'don't know' excluded) and no missing data for any of the variables has been included in the regression. On average, the sample size for regressions is c.120 primary agriculture businesses and c.200 manufacturing/services businesses. Due to the reduced sample available, the primary agricultural regressions focus on fewer variables to maximise the available sample.

Key findings of the econometric analysis

4.16 The key findings are set out below for manufacturing and services, followed by primary agriculture businesses. The findings are structured by business characteristics, loan characteristics, and drivers for and use of the loan. The focus is on the statistically significant findings, controlling for other factors. However, where no significant findings were identified, and this is of interest, this is also noted.

Manufacturing and services businesses

4.17 In terms of **business characteristics**, the following findings are highlighted:

- **services businesses were significantly more likely to report several outcomes than manufacturing firms**, including increased employment and competitiveness and enhanced business profile

- **services businesses were more likely to report FGLS would have a material positive impact on business performance in future**, relative to manufacturing business
- family-owned businesses reported no difference in business and innovation outcomes relative to non-family businesses; however, **family-owned businesses were more likely to have realised capability outcomes** including enhanced business confidence and profile, and improved relationships with finance providers
- **firm size and age are not significant predictors across most outcomes**; the only effects significant at the 5% level or better were that larger firms were *more* likely to have increased employment and *less* likely to have increased their competitiveness due to FGLS; the latter finding is perhaps not unexpected given the relative scale of FGLS finance to the overall financial profile and position of larger businesses.

4.18 In terms of **loan characteristics**:

- for **several outcomes, businesses with loans that were approved earlier (2019 or 2020, vs 2021) were more likely to report benefits, consistent with what might be expected in terms of time-passed to impacts** (and the temporary disruption that may be associated with new investment in capital and people); this included increased productivity and competitiveness for businesses with loans in 2020 (relative to 2021)
- **the size of the loan relative to the size of the business is not a significant factor in outcomes**; the one exception is that businesses with larger loans relative to their size were more likely to report increased energy efficiency/reduced carbon outcomes
- **the lender is not a significant factor across most outcomes**, although businesses with loans from the two largest lenders were more likely to report they had secured further external finance for business investment and were better able to respond to Brexit.

4.19 In terms of the **drivers for and use of the loan finance**:

- **businesses that applied to FGLS to accelerate growth were more likely to report that several business outcomes had been realised, including increased sales, employment and competitiveness,** compared to those that applied for other reasons
- **businesses that applied to FGLS in response to Covid-19 were more likely to report an improved response to the pandemic than those for whom Covid-19 was not a factor in their initial application** (also controlling for the timing of support)
- **businesses where FGLS investment included supporting activity to improve environmental sustainability were more likely to report they had improved their energy efficiency/reduced carbon emissions**; investment in this activity is also associated with the introduction of new processes, an improved response to Covid-19 and Brexit, and an expected material positive impact on business performance in future
- **businesses where at least half of the FGLS finance was invested in land/buildings were significantly less likely to report most outcomes**, and businesses that invested at least half on purchasing new equipment were less likely to report increased sales and

increased staff skills/knowledge (note that here we are comparing against the default of 'any other distribution of investments').

4.20 The findings on activities need to be seen in the context of the time-paths to outcomes for different investment types. It is not unexpected that investment in land/buildings and new equipment have led to fewer outcomes at this point including employment, turnover and competitiveness. This said, the findings highlight that businesses using FGLS to invest in a range of activities (including IT, staff development, and new/improved product/services) have realised more positive outcomes at this point, when controlling for other factors. This may be in part owing to the shorter time-paths to outcomes for these activities, and demonstrates the need to consider the full impacts of the scheme over the longer-term.

Primary agricultural businesses

4.21 For primary agriculture businesses, given sector characteristics and the nature of the sample, variables for size, location and family-owned businesses were omitted from the regressions. Further, as variables in the use of other finance alongside FGLS and lender group were insignificant throughout, they were removed to increase the number of observations.

4.22 Within this context, in terms of **business characteristics**, the following are highlighted:

- **dairy cattle businesses were more likely to report increased productivity and increased competitiveness outcomes,** compared to other primary agriculture business
- sub-sector (dairy cattle and other) was not found to be significant on any other outcomes.

4.23 In terms of **loan characteristics**:

- **the loan size as a proportion of the size of the business is a significant predictor for many outcomes**, with businesses with a large loan relative to their size (by employees) more likely to report a wide range of outcomes including increased sales, increased skills/knowledge, and improved relationships with finance providers; these businesses were also more likely to report increased innovation or R&D
- **timing of activity is also a significant predictor for many improved outcomes**, with businesses with activity starting in 2019, as opposed to 2020 or 2021, more likely to have reported outcomes including increased sales, productivity and competitiveness.

4.24 In terms of the **drivers for and use of the loan finance**:

- **businesses that applied to FGLS to accelerate growth were more likely to report increased sales and increased staff skills/knowledge**
- **there was limited evidence of variation in outcomes for businesses that invested at least half of their FGLS loan finance on new/improved buildings** (land purchase was restricted for primary agriculture) compared to those that did not, with weakly significant positive effects on increased business profile and an improved response to Brexit, and a weakly significant negative effect on increased energy efficiency/reduced carbon emissions

- **businesses that invested at least half of FGLS on the acquisition of new equipment/machinery were significantly more likely to report many outcomes** including increased innovation or R&D, increased business confidence and profile, and improved relationships with finance providers
- **businesses applying in response to Covid-19 was associated with several positive outcomes**, including an improved response to Covid-19 (and Brexit, which may be related), but also improved relationships/partnerships with finance providers and the expectation FGLS will have a material positive impact on business performance in future
- **businesses where FGLS investment included supporting activity to improve environmental sustainability were more likely to report they had improved their energy efficiency/reduced carbon emissions**; nearly all primary agriculture businesses reported their activity included supporting environmental sustainability, and the fact that this outcome is significant is very notable (i.e. it is a statistical association, even though only a small proportion of businesses did not invest in this activity).

Commentary on results of the econometric analysis

4.25 The findings set out above are complex, and suggest **there is no single group or characteristic that explains consistently better (or worse) outcomes at this stage. This may reflect the breadth of the scheme and its varied usage by businesses**. However, this overarching point noted, several key themes do emerge from across the analysis on both the primary agriculture and wider sector data:

- businesses that applied to FGLS to accelerate growth were more likely to report a range of positive outcomes across both primary agriculture and other sectors
- the nature of the activity supported influence outcomes realised at this stage, however, this is a complex and varied picture across different sectors and different outcomes; no activities appear to lead consistently to better or greater outcomes at this early stage
- there is a consistent relationship between investing in activity that involves improving environmental sustainability and realising improved energy efficiency/reduced carbon emissions; this investment also appears to be positively associated with other outcomes
- businesses that applied to FGLS in response to Covid-19 were consistently more likely to report that the scheme had enabled them to recover from the impacts of the pandemic compared to those where this was not a motivation for applying
- FGLS has generated particular benefits for family-owned businesses in services and manufacturing, in relation to enhancing their business confidence and profile and building relationships with lenders, which may lead on to sustained economic benefits and business growth over the longer-term.

5. Assessment of FGLS additionality

Key headlines

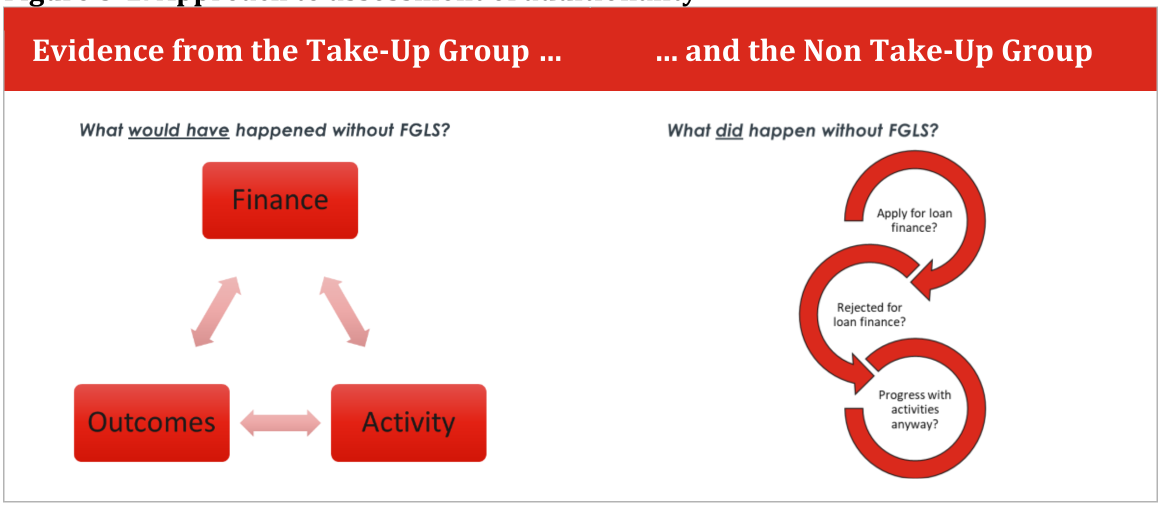
- The assessment of additionality is based on self-reported evidence from businesses and qualitative perspectives from business, lenders and other stakeholders.
- Evidence from both the Take-Up Group and Non Take-Up Group suggests that around half of the activity supported by FGLS may not have progressed at all without the scheme. Further, where activity would have been progressed, this would commonly have been delayed.
- The Review suggests a modest level of displacement from existing market provision. However, non-State-backed longer-term lending to SMEs, without the requirement for security, is not typically available in the Irish market, and so it is plausible that displacement is evident for businesses in which provision of security is not a prohibitive factor to them in accessing finance.
- The evidence from businesses concurs with the lenders' feedback that the FGLS's attractive features has led to some 'opportunistic demand' amongst businesses, with businesses choosing to access FGLS owing to its more favourable terms than non-State-backed longer-term lending.
- Some businesses that were unsuccessful in their application to FGLS did secure finance to progress the planned activity. However, the absence of finance from the scheme has commonly had a negative impact on the timing, scale and quality of the activity undertaken.
- The scheme has made lending affordable (through lower cost interest rates and longer repayment periods) and more accessible due to the lack of requirement for security on loans up to €500k, thus making it a more commercially viable option relative to non-State backed lending.
- The Take-Up Group suggests a low level of 'deadweight' for outcome additionality. 'Partial additionality' (where outcomes were different in terms of timing, scale or quality), was most common across all three broad sectors, with FGLS associated with timing and scale effects in the outcomes realised.
- The 'partial additionality' contribution is important, and reflects that for businesses, the key attractions of the scheme relate to terms and conditions (loan features) of the loans, which influenced the pace and scale of investment.

Context

5.1 A key objective for the Review was to estimate the additionality of the FGLS, and the related question of the implications to SMEs, the economy and the State if long-term lending under the FGLS had not been available. This Review is not a formal evaluation[30], and so it did not include engagement with businesses that did not approach the scheme or quasi-experimental methods, which would be needed to provide a fully robust estimate of additionality. Further, no monitoring data was available on whether loans would have been approved by lenders through other non-State backed products to provide finance for the same type of activity as undertaken by FGLS loans (such information would have provided further insight on any potential displacement effects), or on the reason for any rejection[31] for the Non Take-Up Group by lenders.

5.2 In this context, the main estimates of additionality are based on self-reported evidence from businesses that had secured loan finance, and their reflections on what might have happened without the FGLS in terms of the finance secured and, where relevant, the activity delivered, and outcomes achieved. Additionality evidence can also be inferred from the experience of businesses in the Non Take-Up Group in terms of what in practice did happen without FGLS.

Figure 5-1: Approach to assessment of additionality



Source: SQW

5.3 This evidence is complemented by qualitative perspectives from lenders and stakeholders. The latter are not close to the 'detail', and these views reflect views on additionality as *observed*, based on their engagement with businesses and wider experience of SME finance.

[30] Reflecting the timing of the Review in relation to the tenure of loans.
[31] A rejected loan implies that the loan application did not meet the lender's criteria, this is distinguished from other reasons that applicants were unsuccessful in securing lending through the FGLS.

Business perspectives on additionality

Take-Up Group survey

Business perspectives on finance additionality

5.4 The survey suggests that **finance additionality – as perceived by businesses – is different for primary agriculture businesses, and manufacturing and services businesses, respectively**. When asked whether in the absence of the FGLS they would have been able to *obtain the finance elsewhere*, over 70% of primary agriculture businesses considered that they would have. By contrast, under half of manufacturing and services businesses said they would have been able to (Table 5-1). In nearly all cases across sectors, businesses believed the finance would have been from a bank/other financial institution.

5.5 It is highlighted that this data reflects the perception of Take-Up Group businesses on whether, in their view, they would have been able to obtain the finance elsewhere. It does not indicate that in practice they would have done, or account for lender behaviours and decision-making – in particular at a time of increased credit tightening by lenders associated with the economic uncertainty due to the COVID-19 pandemic and Brexit. Indeed, across all three broad sectors around three-quarters of respondents reported they 'probably' would have or would not have secured the finance, reflecting the uncertainty associated with accessing finance.

5.6 The findings on whether in the absence of the FGLS businesses would have been able to obtain the finance elsewhere were consistent for businesses that did and did not consider other sources of finance to FGLS, and for those with and without previous experience securing external finance pre-FGLS.

Table 5-1: Response to 'In the absence of the FGLS, do you think you would have been able to obtain the finance elsewhere?'

	Primary Agri (n=160)	Manuf (n=95)	Services (n=175)
Yes, definitely	17%	6%	10%
Yes, probably	54%	42%	39%
No, probably not	21%	39%	36%
No, definitely not	3%	4%	9%
Don't know	6%	8%	6%

Source: FGLS Review, Take-Up Group Survey

5.7 **For businesses that said they would have been able to obtain the finance without FGLS, in their view this would often have been on worse terms (loan features), and later**:

- of the 113 primary agriculture businesses that believed they 'definitely' or 'probably' would have secured finance, 88 (78%) said this would have been on worse terms, and 60 (53%) that it would have been secured later

- of the 132 manufacturing/services businesses[32] that believed they 'definitely' or 'probably' would have secured finance, 107 (81%) indicated this would have been on worse terms, and 86 (65%) that it would have been secured later.

5.8 The perceived effect on the scale of the finance was less pronounced: two-thirds of primary agriculture and manufacturing/services businesses thought they would have secured the same amount of finance without FGLS, with a third believing it would have been lower.

5.9 Therefore, **the consistent perspective from businesses was that where alternative finance to the FGLS would have, in their view, been secured – potentially in around half of cases – this would have been less commercially attractive and/or viable**. This is important considering the evidence presented previously that the interest rate, loan term and unsecured nature were all seen as key features of the scheme, and important in differentiating FGLS from other finance where this was considered.

Business Case Example No. 15: Speed effects in accessing finance

The loan recipient is a dairy cattle farm. FGLS loan finance was sought to improve the farm's facilities for two key reasons: to reduce the amount of manual labour needed to enhance efficiency, and to maintain and improve animal health. The loan finance was used to invest in the construction of a small building for rearing calves and to purchase machinery that would be housed in the new building to feed the calves, and monitor their consumption to help manage their growth and health. Without the FGLS, the activity may have been progressed, with finance secured via a commercial loan from a bank. However, this would have taken longer, and the finance would have been more expensive given a higher interest rate and shorter re-payment period. The key factor for the business was the terms and cost of the finance secured, and whether the business could afford this; the FGLS product was very attractive and appropriate to the business for this reason.

5.10 A small proportion of the Take-Up Group, around 5% (22 of 430), believe they would have secured finance on the same or better terms, at the same scale, and within the same time-frame as realised through FGLS. **This suggests there may be some modest displacement in the delivery of the FGLS,** which is not unexpected given the scheme's scale and breadth. However, non-State-backed longer-term lending to SMEs, without the requirement for security, is not typically available in the Irish market, and so it is plausible this small cohort represents businesses where provision of security is not a prohibitive factor in accessing finance.

5.11 It is highlighted in this context, that the Review did *not* involve assessing the case for individual loans, and we cannot and do not comment specifically on whether loans 'should have' been provided to businesses via FGLS over other non-State backed lending products. Further, as noted above, no monitoring data was available on whether loans would have been approved by lenders through other non-State backed products to provide finance for the same

[32] Data for manufacturing and services has been combined owing to the modest sample sizes.

type of activity as undertaken by FGLS loans (providing further insight on any potential displacement), or on the reason for any rejection[33] for the Non Take-Up Group by lenders.

Business perspectives on activity additionality

5.12 Take-Up Group businesses that had drawn down FGLS finance were asked if they would have progressed their *activity* without FGLS. The findings were more consistent across sector groups: **around half of businesses across primary agriculture, manufacturing and services thought they would have progressed the activity without FGLS** (see Table 5-2).

5.13 One interpretation of this is that although agriculture businesses may have been more likely to secure some finance in principle without FGLS, the terms and conditions (loan features) likely to be associated with that finance mean that the finance would not have been taken up. Thus, the project/activity that FGLS supported in the primary agriculture sector was no more likely to have progressed in practice, than for manufacturing and services businesses. Again, this highlights the importance from a business perspective of the terms and conditions (loan features) of the loans offered via FGLS.

Table 5-2: Response to: 'Thinking about the activity or project supported by the loan finance approved through the FGLS, without this finance, would you still have progressed with the activity or project?'

	Primary Agri (n=148)	Manuf (n=88)	Services (n=165)
Yes, definitely	17%	17%	14%
Yes, probably	36%	31%	33%
No, probably not	34%	36%	35%
No, definitely not	11%	9%	15%
Don't know	1%	7%	4%

Source: FGLS Review, Take-Up Group Survey

5.14 Consistent with the evidence on finance additionality, **for businesses that thought they would have progressed the activity without FGLS (around half of businesses across sectors), the absence of the scheme would have impacted on the activity, particularly in relation to timing**. Specifically:

- of the 78 primary agriculture businesses that believed they 'definitely' or 'probably' would have progressed the activity, 37 (47%) thought this would have been delayed
- of the 119 manufacturing/services businesses[34] that believed they 'definitely' or 'probably' would have progressed, 67 (56%) thought this would have been delayed.

5.15 The perceived effects on the scale and nature of the activity for this group of businesses were modest. This perhaps is not unexpected, given that the businesses were clearly committed to

[33] A rejected loan implies that the loan application did not meet the lender's criteria, this is distinguished from other reasons that applicants were unsuccessful in securing lending through the FGLS.
[34] The data have been combined owing to the modest sample sizes.

delivering the activity without the finance from FGLS. However, for both primary agriculture and manufacturing/services businesses, around 70% of businesses that indicated they would have progressed the activity indicated this would have required external finance that had not been secured. As such, the ability of the businesses to deliver this is somewhat uncertain.

5.16 The findings on activity additionality did *not* vary overall when considering: the value of the activity that would be taken forward (based on the loan principal amount); whether the businesses reported the interest rate as a very important feature of the FGLS in their decision to apply (either absolutely or relative to other forms of finance); or the reasons for seeking support (in relation to accelerating growth vs other explanations).

Perspectives on outcome additionality

5.17 The final perspective from the Take-Up Group on additionality was whether the *outcomes* reported in the survey would have been realised without FGLS. In this context, it is important to note that some 'deadweight' (where outcomes would have been realised without support) is likely in all business support and finance interventions. Further, as noted above, there is likely to be a modest level of displacement in the supply of finance which will influence whether the outcomes would have been realised without FGLS.

5.18 Positively, **the survey suggests a low level of 'deadweight' overall, with 'full additionality' (where the effects would not have been realised at all) reported by a higher proportion of businesses than deadweight. However, a perception of 'partial additionality', where outcomes were different in terms of timing or scale or quality, was most common across all three sector groups**. Consistent with the evidence on activity additionality, the findings are similar across sector groups (Table 5-3).

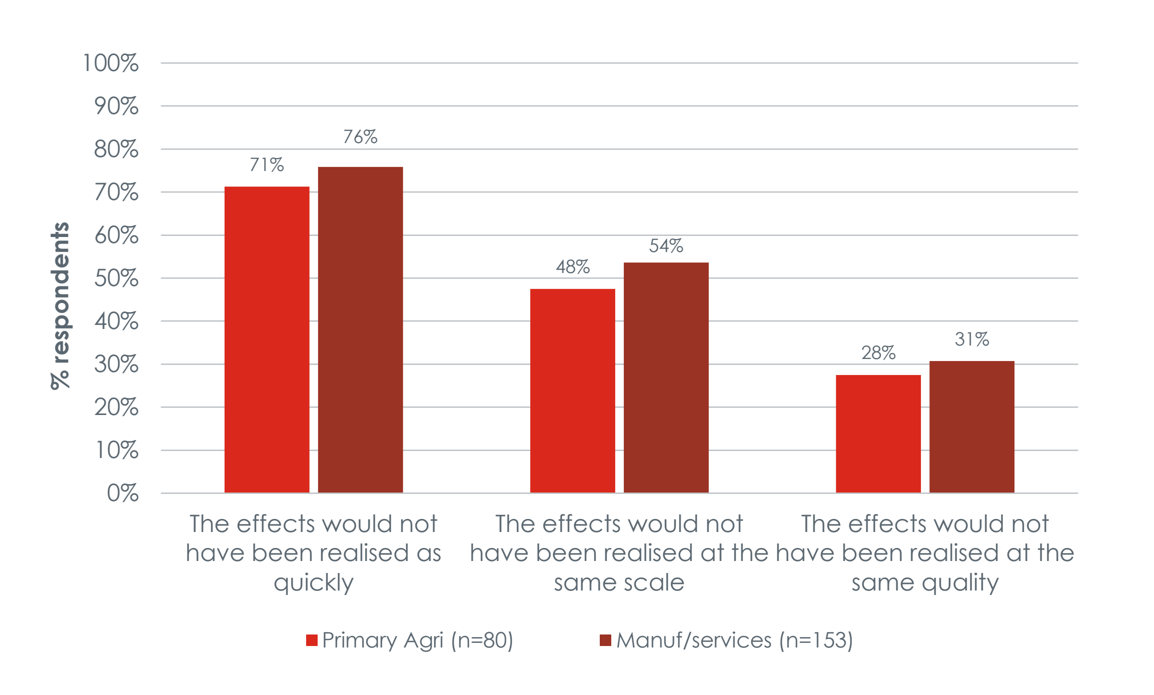
Table 5-3: Response to: 'If you had not been successful in your application for loan finance approved through the FGLS, which of the following do you think would have happened?'

	Primary Agri (n=142)	Manuf (n=85)	Services (n=161)
The effects would have been realised anyway, at the same timing, scale and quality	12%	14%	7%
The effects would have been realised but they would have been different in terms of timing or scale or quality	56%	56%	65%
The effects would not have been realised at all	20%	22%	26%
Don't know	11%	7%	2%

Source: FGLS Review, Take-Up Group survey

5.19 Where businesses indicated 'partial additionality', the effects of FGLS were most associated with timing and scale. This was consistent across the broad sectors, as shown in Figure 5-2 (with manufacturing and services grouped owing to sample sizes).

Figure 5-2: Nature of 'partial additionality' for the Take-Up Group



Source: FGLS Review, Take-Up Group survey

5.20 The implication of this evidence is that **alongside the FGLS enabling outcomes to be delivered at all for between a fifth and a quarter of businesses, the scheme helped to bring forward and/or scale-up business outcomes compared to what would have happened without support for a high proportion of the supported businesses**. This was emphasised in the qualitative case examples, where businesses indicated the more affordable finance over a longer period and without the requirement for security made it feasible to invest at a larger scale and faster rate than would have been possible via other products.

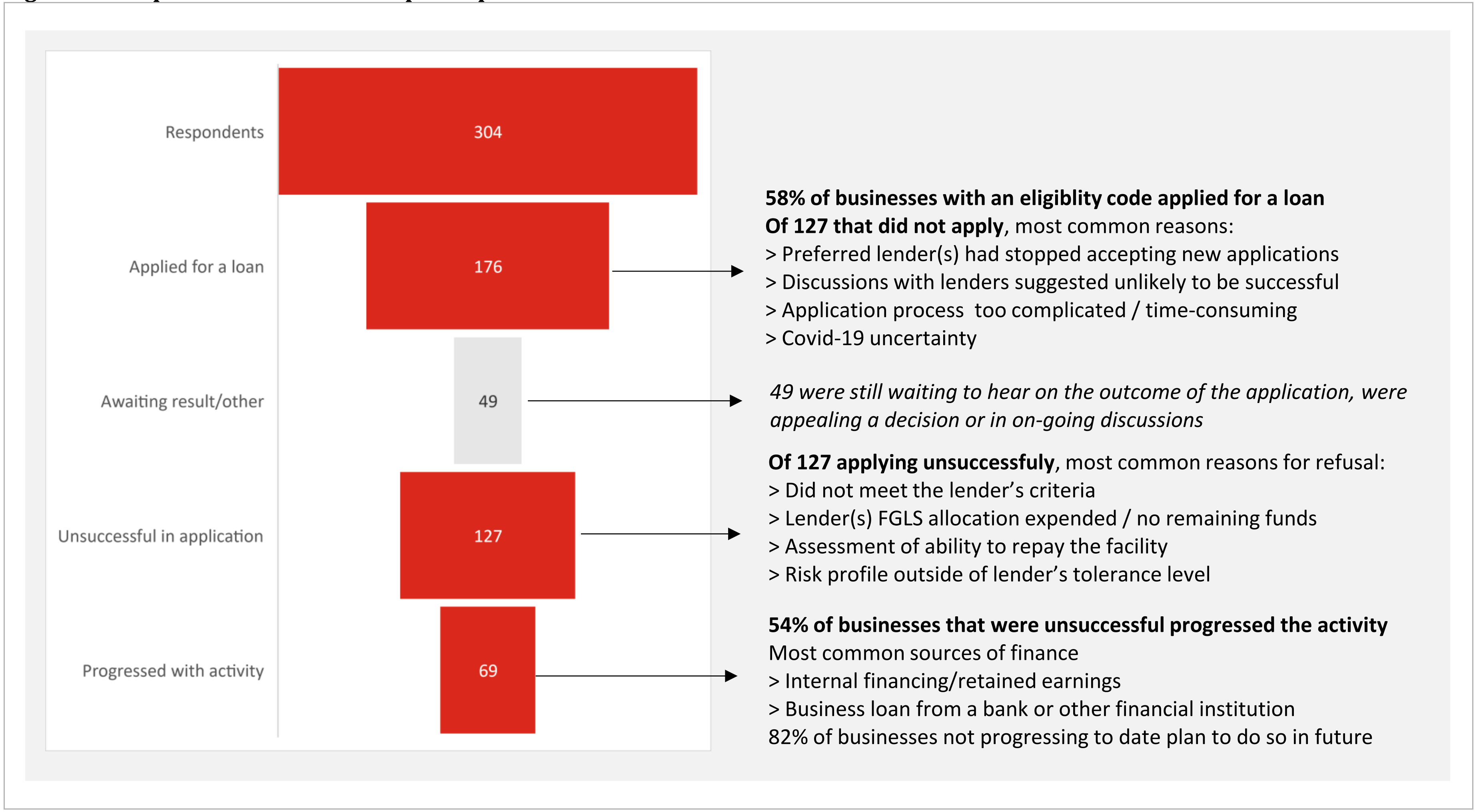
Non Take-Up Group survey

5.21 Further evidence on additionality, can be drawn from the experience of businesses in the Non Take-Up Group in terms of what, in practice, did happen without FGLS. The scheme monitoring data does not provide comprehensive information on the status of businesses that received an eligibility code but do not have a loan approved. Further, lenders were not able to provide data on loan applications and success rates for this Review. The survey of the Non Take-Up Group therefore asked businesses:

- whether they applied for loan finance from the FGLS
  - if they did not, why that was
  - if they did, what was the outcome of the application(s) – to confirm they had been unsuccessful
- for those that were unsuccessful in applying, whether they progressed the planned activity anyway, or intended to do so in the future.

5.22 The headline data is set out in Figure 5-3. Note the data has been aggregated across sectors owing to modest sample sizes.

Figure 5-3: Experience of Non Take-Up Group



Source: FGLS Review, Non Take-Up Group survey

5.23 **Around half of businesses that had applied unsuccessfully (n=127) had progressed with the activity they planned to deliver via FGLS**. This is well-aligned to the evidence from the Take-Up Group where around half of businesses believed that they would have progressed their activity without FGLS. This consistency between the Take-Up Group and Non Take-Up Group provides some confidence in the results, suggesting that perhaps around half of the activity supported by FGLS may have progressed in some form without the scheme.

5.24 The proportion of businesses that have progressed activity without FGLS was consistent for businesses that had been rejected because they did not meet the lender criteria (56%, n=41) and those that did not secure a loan for other reasons (including where lenders had expended their allocation/no remaining funds).

5.25 Further, the evidence from the Non Take-Up Group also demonstrates that **where activity has been progressed without FGLS, the absence of finance from the scheme has made a difference**. Specifically, of the 69 businesses that progressed their activity without FGLS:

- the activity was delayed in over two-thirds of cases (48)
- the level of investment was lower in 40% of cases (29), although it was higher in 11 cases
- the quality or nature of activity was different in around a third of cases (24).

5.26 Interestingly, given Take-Up Group feedback that where activity would have progressed without FGLS this would in nearly all cases have been funded by a non-State-backed commercial loan, the most common finance for activity that had progressed in the Non Take-Up Group was from this source (27 of 69). However, a range of other sources had been used, including internal finance (22), loans from family/friend (13) and/or equity finance (12).

Lender and stakeholder perspectives on additionality

5.27 Lenders were asked for their views on 'market-level' finance additionality, i.e. the extent to which they would have been able to deliver loans on similar terms in the absence of the FGLS. Lenders and stakeholders were also asked for their views on 'borrower-level' finance additionality, i.e. the extent to which businesses would have been able to obtain similar funding from elsewhere without the FGLS.

Market-level finance additionality

5.28 **Market-level additionality was considered high by lenders**. Without the FGLS, the majority of lenders indicated that they would not have been able to deliver long-term loans on terms that would be commercially viable for and attractive to businesses. Without the FGLS guarantee, such long-term, largely unsecured lending would not have aligned with the lenders' risk profile. Agriculture, in particular, was seen as a challenging sector to lend to due to the lower and more volatile repayment capacities.

> **The lending supported by the FGLS was exactly what we were looking to do, and we would not have been able to deliver anything like it without the scheme.**
>
> **(Lender consultee)**

5.29 **The FGLS has provided the banks with a means of "loss-sharing" in the case of defaults, making them more willing to provide long-term lending to businesses that meet certain criteria, but they would otherwise have deemed too risky**. In the two cases where lenders already offered longer-term products (though these were not unsecured and differed in scope), the FGLS guarantee was considered to have lowered the bank's risk profile and therefore still enabled the delivery of loans that would not otherwise have happened.

Borrower-level finance additionality

5.30 Consistent with survey evidence, there were mixed views from lenders and stakeholders in terms of borrower-level additionality. Whilst all lenders were confident they had supported many customers that would not have found funding otherwise (or would have done so on less favourable terms (loan features) for businesses which may have led to delays in progressing activity and/or prevented it being taken forward at all), there were some concerns regarding 'opportunistic demand' amongst businesses. There was a perception (also echoed by stakeholders) that some borrowers would likely have been eligible for and able to afford other long-term products but chose the FGLS due to its more favourable terms (loan features), which was accepted by lenders.

5.31 Managing this 'opportunistic demand' - which is to be expected given business incentives to access the most commercially attractive finance – and therefore minimising potential displacement and deadweight for the State, is ultimately an issue to be addressed by lenders in terms of their systems and processes, and SCBI in terms of the criteria and expectations placed on lenders in the utilisation of the FGLS.

An integrated view of additionality

5.32 Lenders have not collated data or estimated directly the level of deadweight and displacement associated with loans quantitatively. However, the feedback from lenders and stakeholders of 'opportunistic demand' amongst businesses aligns with the feedback:

- from the Take-Up Group survey that around half or more (for primary agriculture) of businesses believed that they would have been able to obtain the finance elsewhere
- from the Non Take-Up Group that where businesses applied unsuccessfully for FGLS loan finance but progressed the activity, this was most commonly funded from a non-State backed loan.

5.33 **Taken together, the evidence does point to a level of deadweight in the supply of finance (i.e. where finance would have been secured without FGLS).** Further, and as part of this, some modest displacement from existing products in the market is likely given the incentives for businesses to seek funding via FGLS rather than a non-State backed loan given key loan features include the interest rate, re-payment period and unsecured nature (under €500k).

5.34 The exact scale of this is not known: lenders report qualitatively that they have used FGLS to support businesses they would not have financed without the improved viability from the guarantee, but this is not quantified or collated consistently i.e. no data is available on reasons for use of the FGLS and whether loans would have been approved by lenders without FGLS, nor the specific reasons why some businesses were rejected for an FGLS loan. For any future similar scheme, DETE and the SBCI may wish to consider putting in place monitoring systems and processes to provide better evidence on the rationale for the use of the scheme to provide greater insight into these issues.

5.35 However, **it is important to recognise that the effects of the scheme are not binary in terms of finance, activity, and outcome additionality. Rather, the survey evidence demonstrates that timing and scale effects of FGLS are important**. The feedback from businesses that have secured finance through the FGLS is that the finance has led to activity and outcomes being delivered more quickly and at a higher level that would have been the case without the scheme. This has been reflected in practice with the experiences of the Non Take-Up Group. This 'partial additionality' contribution is important, and reflects that for businesses, the key attractions of the scheme relate to terms and conditions (loan features) of the loan finance, which have influenced the pace and scale of investment progressed and activity delivered.

5.36 Further, the terms (loan features) associated with FGLS may have wider benefits for businesses as suggested in the qualitative research undertaken with businesses. For example, the reduced cost of borrowing enabling investment in other activities, and supporting a commitment to long-term strategic investment.

6. Potential future demand for long-term lending

Key headlines

- Survey evidence indicates high level of demand for longer-term lending over the next three years in the Take-Up and Non Take-Up Groups. The key reason for seeking further finance relates to business expansion, followed by climate mitigation and adaptation (for primary agriculture), and R&D/innovation.
- Among the Non Take-Up Group, there was limited evidence of businesses being discouraged from seeking finance in the future as a result of their experience of applications under the FGLS.
- In line with survey evidence, stakeholder and lender consultees reflected that the level of interest in the FGLS has proved that there is considerable demand for long-term lending, and this is expected to remain high going forward.
- FGLS is seen to have 'addressed' the market failure of longer-term lending by lenders, but it has not 'solved' it; long-term unsecured lending without the guarantee is not regarded as commercially viable by lenders.
- The majority of remaining lenders would be interested in engaging with a similar scheme in the future, reflecting generally positive experiences.
- Consultees suggested several considerations for a potential future scheme, including greater continuity and stability of provision; more flexibility in loan terms; tailoring the offer to agriculture; and a greater focus on sustainability.

Context for the assessment of future demand for long-term lending

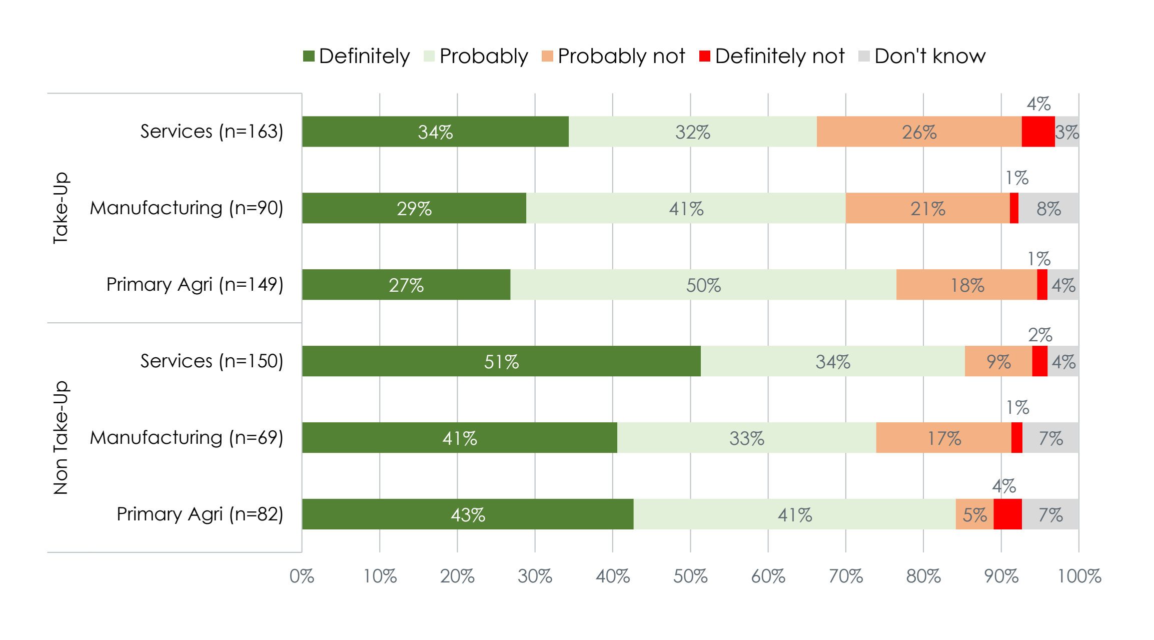
6.1 A key objective for the Review was to assess the extent of further demand for long-term lending, and the (potential) supply of unsecured loans with terms of up to ten years in the future. In this context, the business surveys sought to gather primary evidence on the level of demand from firms for longer-term lending in the future. Descriptive analysis on the results is provided below with the results disaggregated by sector groups. Alongside this, we have provided qualitative evidence on the perspectives of stakeholders and lenders.

6.2 It is noted explicitly that this does not constitute a wider assessment of the demand for long-term lending across the broader business base, which is outside the remit of the Review. The focus is on demand from those businesses engaged with FGLS, the views of lenders and stakeholders in relation to FGLS only.

Business perspectives on future demand for long-term lending

6.3 **The Take-Up and Non Take-Up surveys suggest a high level of demand from businesses for longer-term lending within the next three years**. Figure 6-1 shows the breakdown of responses to each survey by sector group. The level of future demand was slightly higher for the Non Take-Up Group generally across all sector groups; this likely reflects that the loan finance originally sought or planned for had not been secured at the point of the survey. This said, overall demand from the Take-Up Group for further long-term finance remains high, with between two-thirds and three-quarters of businesses in the three sectors reporting that they definitely/probably will be seeking further longer-term lending in the next three years.

Figure 6-1: Response to: "Do you expect to seek further longer-term lending (up to ten-year term) for your business within the next three years?"



Source: FGLS Review, Take-Up Group and Non Take-Up Group surveys

6.4 Two points are noted on this overall depiction, suggesting a consistency in demand:

- **the level of finance secured through FGLS does not appear to be influencing future demand**: the level of demand was similar for Take-Up Group respondents that secured FGLS loans of up to €250k and over €250k respectively
- **the level of future demand for the Non Take-Up Group overall did not vary by experience of applying for an FGLS loan, or the result of an application**: between 80-85% of those that did not apply for a loan (n=125), those that did apply for a loan (n=175), and those that applied unsuccessfully for a loan (n=126) said they definitely/probably will seek further longer-term lending in the next three years.

Business Case Example No. 20: future demand & role of FGLS

The loan recipient is a "digital agency" which provides a variety of web-based services, including website and software design and online marketing campaigns. An FGLS loan allowed the business to purchase and fit out new physical premises to support growth. This was the first time the business had used external finance, having previously not needed it. The business is likely to seek further finance in the future as it recognised the benefits from securing an FGLS loan, commenting that *"We would be interested in engaging in future finance opportunities, as this was the first time that we have borrowed money as a business and we can now see the power of finance, if it is carefully planned to generate growth opportunities."*

6.5 Table 6-1 provides a breakdown of the purpose for any future long-term finance needs among the two survey groups. Business expansion was the most cited reason among both the Take-Up and Non Take-Up Groups across sectors. Climate mitigation and adaptation was also identified as a key reason for seeking longer-term finance, particularly among primary agriculture businesses. There is evidence of interest in longer-term finance for investment for R&D and innovation, notably by manufacturing businesses in the Take-Up Group.

Table 6-1: Response to: "What will you require longer-term lending for?"

	Take-Up Group			Non Take-Up Group		
	Primary Agri (n=114)	Manuf (n=63)	Services (n=108)	Primary Agri (n=69)	Manuf (n=51)	Services (n=128)
Business expansion	77%	94%	93%	84%	94%	88%
Digitalisation / automation	11%	27%	16%	14%	14%	19%
Climate mitigation / adaptation	40%	22%	6%	36%	4%	10%
R&D / innovation	4%	40%	25%	12%	25%	24%
Other purpose	6%	5%	6%	12%	2%	9%
Don't know	0%	0%	1%	0%	0%	0%

Source: FGLS Review, Take-Up Group and Non Take-Up Group surveys

6.6 Table 6-2 shows the reasons provided by businesses that are not expecting to seek longer-term lending in the next three years. For the Take-Up Group, this was most often because existing long-term lending was sufficient to support investment. Among the Non Take-Up Group, the explanation provided were more mixed (which may reflect the small sample size).

6.7 Around a quarter of businesses in the Non Take-Up Group that do not expect to seek long-term lending in the next three years reported being discouraged from seeking investment from their experience of the FGLS. However, in absolute terms, this is very modest, equating to 10 of the over 300 businesses in the Non-Take Group survey sample.

Table 6-2: Response to: "Why will you not be seeking longer-term lending (up to ten-year term) for your business within the next three years?"

	Take-Up Group (n=99)	Non Take-Up Group (n=36)
Existing long-term lending will be sufficient	65%	22%
Have sufficient internal funds/reserves	23%	22%
Can raise finance from non-bank/finance provider sources	4%	3%
Not anticipating the need to fund long term investments	35%	25%
Discouraged from experience of applications under FGLS	1%	28%
Other	1%	8%
Don't know	1%	3%

Source: FGLS Review, Take-Up Group and Non Take-Up Group surveys

Stakeholder and lender perspectives on future demand for long-term lending

6.8 Stakeholder and lender consultees reflected that the level of interest in and take-up of the FGLS to date has proved that there is considerable demand for long-term lending. **The demand for long-term lending is expected to remain high in the future, particularly in the context of post-Covid recovery and growth**. However, supply will be considerably limited by the reduced number of banks remaining in the Irish market.

> **We know that firms are still coming back to banks requesting further availability of the FGLS.**
>
> **(Lender consultee)**

6.9 In this context, the stakeholder and lender consultations suggested that whilst the FGLS was seen to have 'addressed' the market failure of longer-term lending through intervention, it has not ultimately 'solved' it, with the underpinning risks and barriers remain. Although it was still too early to comment on repayment and default rates (and ultimately the extent to which the guarantee will be used), lenders considered that there would be demand for a similar product going forward. However, **long-term and unsecured lending remains commercially unattractive to lenders and inconsistent with lending practices, and so they would still not be able to offer this without the State guarantee in the future (or at least not at a similarly affordable price point for many SMEs).**

6.10 **Most of the lenders that will continue to operate in the Irish market were interested in engaging with a similar scheme in the future, even though the level of defaults that may arise under FGLS is still unclear at this stage**. However, one lender would 'need to think seriously' about participation in any future schemes due to experience to date, with significant challenges reported in relation to the level of SBCI's involvement (e.g. SBCI requesting detailed information on individual lending decisions), and the resource required to accommodate the scheme in relation to monitoring and reporting which was considered by the lender to be disproportionate (see Section 7).

6.11 Consultees identified several considerations for a potential future scheme:

- **Greater continuity and stability of provision:** seeking to avoid the lack of continuity from existing model – with peaks and troughs of demand following the announcement of the finance – and considering establishing the FGLS as a 'facility' rather than a 'scheme'. Given the level of take-up, a greater scale may be required. In this context, it is noted that around 40% of businesses in the Non Take-Up Group that had secured an eligibility code applied for a loan. Of those that did not apply, the most common reason was that their preferred lender(s) had stopped accepting new applications. A common explanation for those that applied unsuccessfully was that the lender(s) had reached their allocation.

> **There needs to be more continuity and stability in the future offer.**
>
> **(Stakeholder consultee)**

- **More flexibility in loan terms:** In some cases, depending on the risk profile of the business and the planned activity, the loans may be paid back quicker (e.g., five years) or, conversely, require even longer timescales (up to 15 years). However, it is important to ensure that the remit of the scheme remains clear and distinctive.
- **Greater tailoring of offer to agriculture businesses:** For example, there was a suggestion to provide specific allocations for young farmers (to avoid lenders preferring larger, more established farms) or allow a wider range of implementation purposes.
- **A greater focus on sustainability:** Given the scale of the challenge, there are additional opportunities in addressing the well-recognised market failure arguments around sustainability. It was noted that sustainability should be considered through a wider lens than just environmental benefits. However, it is important to consider potential perverse incentives (notably in relation to agriculture firms) and implications for the clarity of the FGLS offer.
- **Engaging with other lenders:** In particular, there are opportunities to increase supply by considering potential lenders in the alternative banking sector in addition to traditional banks to increase supply. Exploring the relationship and synergies with Microfinance Ireland may also be appropriate, helping to both ensure there is no duplication in practice at the 'lower end' of the FGLS product offer, and consider how synergies can be maximised including in terms of referrals and sign-posting mechanism which enable the schemes/interventions to respond to the specific issues they are intended to address, and potentially learning and information sharing on marketing, client acquisition and engagement, delivery, and monitoring.

7. Assessment of scheme delivery and processes

Key headlines

- Feedback from the surveys shows generally positive experiences on the process of confirming eligibility among both the Take-Up and Non Take-Up Groups with over two thirds of businesses saying this was 'easy' or 'very easy'.
- The different aspects of the eligibility process were rated highly. Experiences were slightly less positive in the Non Take-Up Group, but the time between application and the eligibility code being granted, and communication with the SBCI throughout eligibility process were generally well-regarded.
- Businesses in the Non Take-Up Group indicated lower levels of clarity on the required 'next steps' in progressing a loan application following eligibility; this may have influenced how quickly they applied for a loan.
- There were marked differences between the two groups in relation to the loan application stage, with the Non Take-Up Group reporting a less positive experience overall across all aspects of the process. This is not unexpected and is likely to reflect the outcome of applications in particular.
- Recommendations for improving delivery focused on communications and interactions with lenders, notably from Non Take-Up Group businesses.
- Both stakeholders and lenders considered scheme delivery to have generally worked well, with key strengths around the overall simplicity of the scheme and its fit within the lenders' existing portfolio.
- There were some challenges, including in relation to managing the high level of demand and oversubscription.

Context for the assessment of scheme delivery and processes

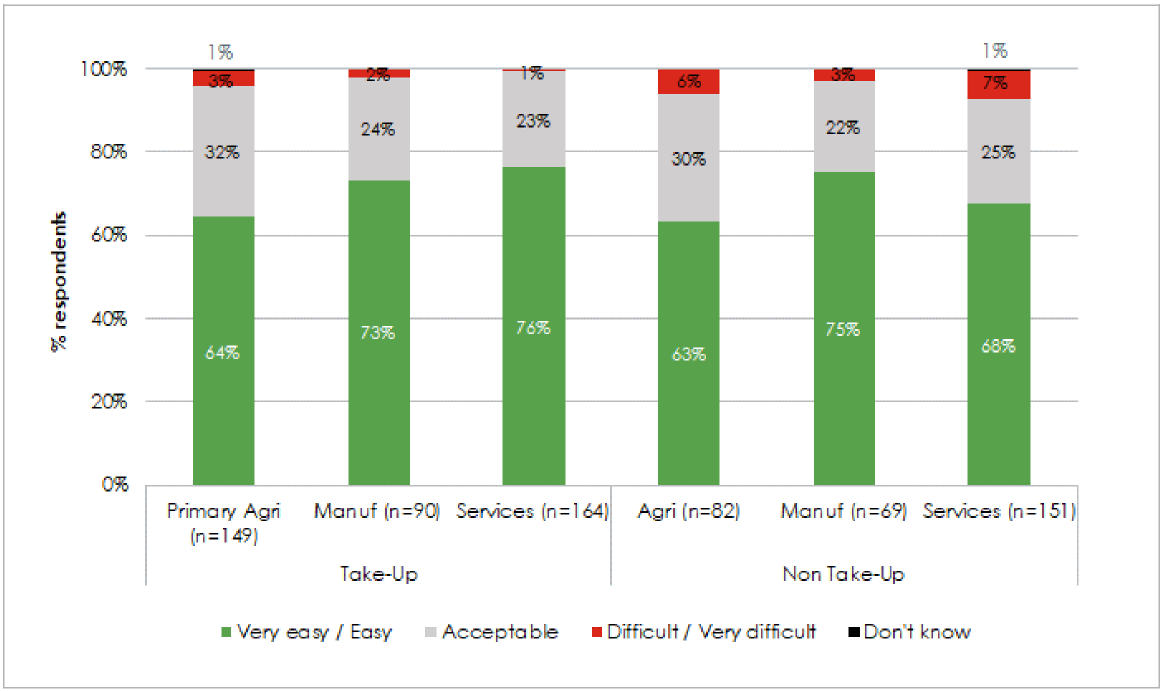
7.1 Another area of interest for the Review was to assess the 'customer journey' experience of businesses in accessing (or attempting to access) the FGLS. The key source of evidence was the two surveys, covering experiences of the process of confirming eligibility and the loan application (though the latter was not relevant to everyone in the Non Take-Up Group). Descriptive analysis of the responses is provided below with the results disaggregated by sector groups. Alongside this, we have summarised evidence from the qualitative interviews which provided further insight into the experiences of stakeholders and lenders involved in scheme delivery.

Business perspectives on scheme delivery and processes

The eligibility confirmation process

7.2 **Feedback from the surveys shows generally positive experiences on the eligibility process among both the Take-Up and Non Take-Up Groups**. Most businesses perceived the process of achieving eligibility as 'easy' or 'very easy' good across the sectors in the Take-Up and Non Take-Up Group (see Figure 7-1).

Figure 7-1: Response to: "How easy or difficult was the process of achieving eligibility for the scheme with the SBCI?"



Source: FGLS Review, Take-Up Group and Non Take-Up Group surveys

7.3 An important factor underpinning this appears to be the information provided by the SBCI (including details of the application process, FAQs and State Aid rules). Specifically, over 85% of businesses in the Take-Up Group across all three sectors and 75% of businesses in the Non Take-Up Group across all three sectors agreed that the information provided by the SBCI covered all of the information needed in applying for the FGLS.

7.4 **For the Take-Up Group, the different aspects of the eligibility process were also rated highly, including the time between the application and receiving the code; communication with the SBCI; and the clarity of the required 'next steps' in progressing to a loan application**. Positive feedback from the Take-Up Group survey was consistent across all sector groups, as shown in Table 7-1.

Table 7-1: Response to: "How would you rate the following elements of the process in confirming your eligibility for the scheme with the SBCI?" – TAKE-UP GROUP

	Primary Agri (n=149)		Manuf (n=90)		Services (n=163)	
	Good/ Very Good	Poor/ Very Poor	Good/ Very Good	Poor/ Very Poor	Good/ Very Good	Poor/ Very Poor
Time between application and the eligibility code being granted	89%	2%	84%	1%	93%	1%
Communication with the SBCI throughout the process of obtaining an eligibility code	86%	1%	87%	0%	93%	1%
Clarity of the required 'next steps' in progressing a loan application with a lender	83%	5%	88%	0%	90%	2%

Source: FGLS Review, Take-Up Group survey

7.5 **Whilst the Non-Take Up Group also rated all these aspects positively, their experiences were slightly less positive overall** (Table 7-2). It is notable that when compared to the Take-Up Group, the biggest difference in perception was in relation to the clarity of the required 'next steps' to progress a loan application (overall, 87% in the Take-Up Group rating this was 'good' or 'very good' vs 64% in Non Take-Up). The feedback on why firms did not apply or did not secure a loan does not suggest this issue impacted on them directly, but it may have influenced the speed of follow-up, and therefore the likelihood of individual lenders reaching their capacity by the time businesses had made an application.

Table 7-2: Response to: "How would you rate the following elements of the process in confirming your eligibility for the scheme with the SBCI?" – NON TAKE-UP GROUP

	Primary Agri (n=82)		Manuf (n=69)		Services (n=151)	
	Good/ Very Good	Poor/ Very Poor	Good/ Very Good	Poor/ Very Poor	Good/ Very Good	Poor/ Very Poor
Time between application and the eligibility code being granted	79%	6%	90%	1%	87%	2%
Communication with the SBCI throughout the process of obtaining an eligibility code	77%	6%	87%	4%	83%	6%
Clarity of the required 'next steps' in progressing a loan application with a lender	65%	16%	74%	16%	60%	20%

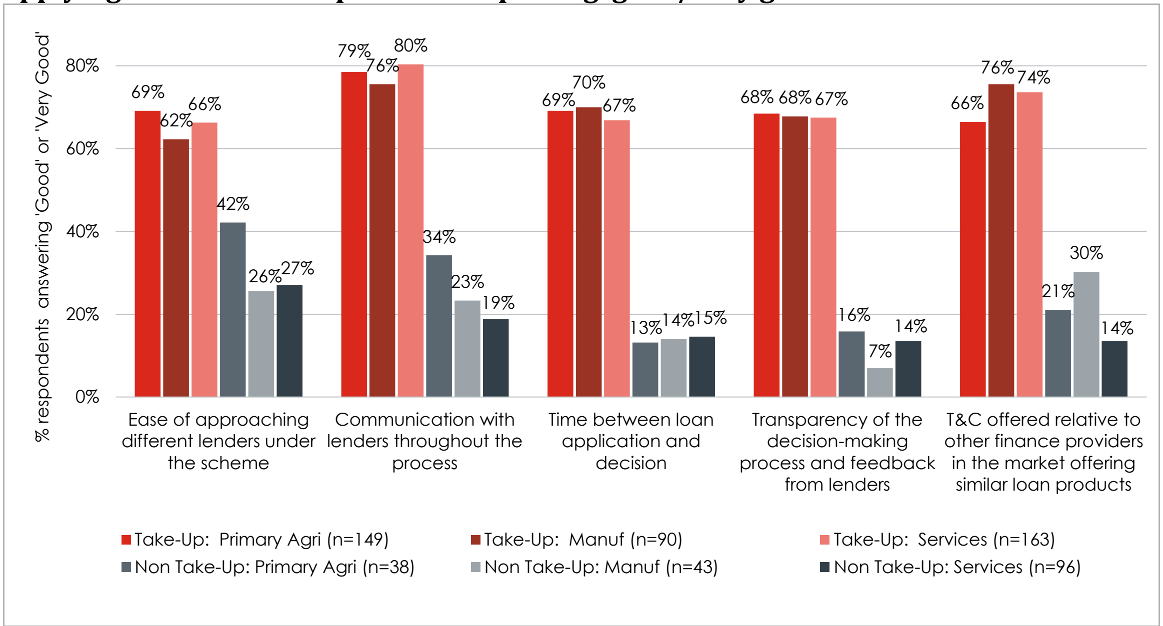
Source: FGLS Review, Non Take-Up Group survey

The loan application process

7.6 **There were marked differences between the two survey groups in relation to the loan application stage, with those in the Non Take-Up Group that had applied for a loan consistently reporting less positive experiences across all aspects of the process** (see Figure 7-2). This is likely to reflect the outcome of the applications: businesses in the Non Take-Up Group that had been rejected owing to not meeting the lender criteria were generally more negative than those that had been unsuccessful for other reasons in securing approval of an FGLS loan (other reasons are outlined in Figure 5-3 and include where the lenders were oversubscribed).

7.7 However, the findings may be useful in informing future intervention design, for example in relation to the time between the loan application and decision, and the transparency of decision-making and feedback from lenders which were ranked the lowest (14% and 12%, respectively, rating these as 'good' or 'very good'). There were no obvious differences in experiences by sector group in either of the surveys.

Figure 7-2: Response to: "How would you rate the following elements of the process in applying for a loan?" Respondents reporting 'good/very good'



Source: FGLS Review, Take-Up Group and Non Take-Up Group surveys (only including those that applied for a loan)

7.8 **Key recommendations for improving the process associated with the scheme related to improved communications and interactions with lenders**; this theme was cited by 38% (n=125) of the Non Take-Up and 9% (n=36) of the Take-Up Group.

7.9 Other recommendations included changes to loan terms (primarily to extend the maximum loan term beyond 10 years); more clarity on eligibility (including suggestions from both survey groups for a role for the SBCI in assessing lending decisions; in several cases reflecting frustration due to an unsuccessful outcome); reducing the time for loan approval (including examples from the Non Take-Up Group where applications were not acknowledged by lenders); and ensuring the scheme is continued going forward (with sufficient allocations).

Business reflections on FGLS delivery relative to other experiences

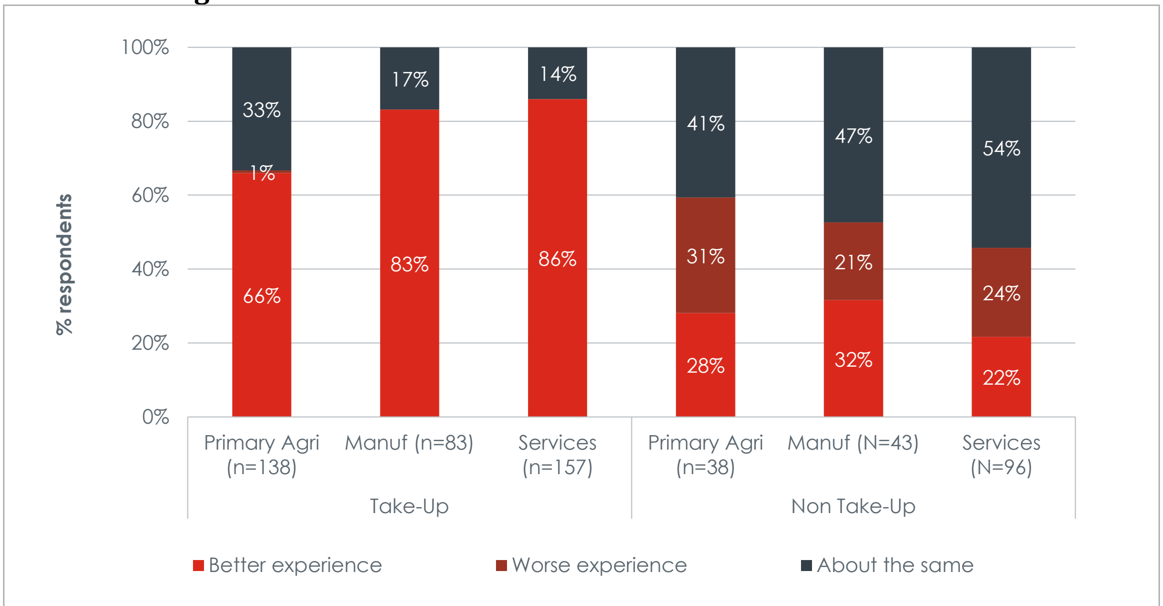
7.10 **For the majority of businesses in the Take-Up Group, where they had experience of applying for non-State-backed lending, the FGLS was a 'better experience'** (Figure 7-3).

7.11 It is notable that compared to other sector groups, primary agriculture businesses were less likely to report a relatively 'better' experience (with a higher proportion saying it was 'about the same'). Conversely, 'better' experiences were more likely to be reported by those with loans of at least €250k than those with less (85% vs 75%, respectively), and those that were *not* clients of EI/BB/LEO than those that were (86% vs 71%).

7.12 The reasons for these variations are not evident in the data, although given the positive evidence on the FGLS process, they may reflect previous experience and systems/process in place for other schemes/interventions, rather than the FGLS itself. It is also noted that the relatedly 'light touch' nature of the FGLS process as perceived by businesses was commonly identified as a positive feature of the scheme in the business case examples.

7.13 In the Non Take-Up Group[35], a lower proportion of businesses indicated the experience was better than applying for non-State-backed lending. This is not unexpected given these businesses had not secured a loan (at the time at which they were surveyed).

Figure 7-3: Response to: "Overall, how would you compare your experience of applying for a loan through FGLS with your experience of applying for non-State-backed lending?"



Source: FGLS Review, Survey (including those with experience of applying for non-State-backed lending that provided an answer)

[35] Including only those that had applied for a loan

7.14 The variation between sectors noted above for the Take-Up Group appears to be driven in large part by the size of businesses. Specifically, **businesses with a single employee were less positive overall on the relative experience of FGLS**, and primary agriculture businesses accounted for most of the businesses with single employees surveyed. The data by business size for the Take-Up Group are summarised below (sectors have been combined owing to modest sample sizes). This might suggest a need to consider how the experience can be improved for the smallest businesses going forward.

Table 7-3: Response to: "Overall, how would you compare your experience of applying for a loan through FGLS with your experience of applying for non-State-backed lending?" by number of employees for the Take-Up Group

	1 employee (n=84)	2-4 employees (n=103)	5-9 employees (n=70)	10+ employees (n=121)
It was a better experience	67%	75%	89%	83%
The experience was about the same*	33%	25%	11%	17%

*Source: FGLS Review, Take-Up Group survey * includes one business that reported 'It was a worse experience'*

Stakeholder and lender perspectives on scheme delivery and processes

7.15 **Both stakeholders and lenders considered scheme delivery to have generally worked well.** Whilst SMEs were recognised as a challenging group to engage, awareness in the market of the FGLS, including agriculture, was reported to be good – as indicated by the high level of demand. There was some evidence of an effective crisis-led approach to promotion, with the FGLS becoming more widely shared as the Covid-19 pandemic unfolded.

> **The effectiveness of the scheme's characteristics and delivery has been demonstrated by the high uptake.**
>
> **(Stakeholder consultee)**

7.16 **The overall simplicity of the scheme (including the application process) was seen as a success factor by stakeholders. For lenders, a key strength was the natural fit within their existing product offering, including the ease of "plugging it in" to existing systems and processes.**

7.17 However, consultees identified some challenges and lessons learned in relation to:

- **Some confusion around eligibility** with a minority of firms reported to have assumed the Eligibility Code would automatically lead to a loan, resulting in disappointment and difficult conversations for both stakeholders and lenders (requiring additional resource)

- **The initial set up process requiring a high level of resources** from lenders with a short turn-around (although the speed of launch was highlighted as a strength by some)
- **Differences in the set-up leading to different experiences for lenders**; for example, one lender set up an online application portal which was used as the first entry-point rather than an informal conversation, which led to a very high response and an overwhelming level of applications to be processed, leading to a reduction in other lending activities to deliver the FGLS.
- **Managing the high level of demand** during the initial release, and subsequently having to **turn customers away once fully subscribed** led to some lost momentum.
- **Some lenders were approved for the scheme earlier than others** which led to oversubscription; some consultees suggested that a more balanced roll-out across all lenders simultaneously would have helped to balance supply and demand. However, it is noted that this was largely due to some legal agreements and IT systems taking longer for some lenders to set up than others; awaiting all lenders to be approved to the scheme would have delayed the launch of the scheme, and therefore access to long-term lending for businesses.
- **Processes for data transfer and reporting** which were considered by some lenders to be labour intensive and *"high maintenance"*; suggested solutions included setting up a shared system between the SBCI and lenders to avoid data duplication (and discrepancies). This said, systems and processes are required to ensure the public funding is managed appropriately, with a need for transparent and robust reporting arrangements, and this needs to be set alongside lender perspectives. Further, the systems were not considered a challenge by all lenders, which reflects potentially the diversity of lenders involved in the scheme and their existing practices and expectations.
- **Some variance in the views on the level of engagement with SBCI;** in one case, the lender reported high levels of involvement from the SBCI which was regarded as unhelpful (though in the majority of cases the close relationship with SBCI was regarded as a strength).

7.18 There were mixed views in relation to the 'two-step' process (i.e. initial eligibility check and then a loan application). Whilst the majority of lenders considered this to have worked well, some did question the requirement for the SBCI to be involved in assessing eligibility. It was suggested that removing this first step (with lenders as the only entry to the scheme) could make the process simpler/more straightforward for applicants. This said, it was also recognised ensuring eligibility is a key imperative, and the profile/credibility offered by the SBCI's prominent role was recognised as important.

7.19 It is worth noting that the two-stage eligibility and application process was not seen as a barrier or issue by businesses. Rather, as noted above, the eligibility process was generally seen to work well, including by businesses that did not ultimately secure a loan. There was somewhat less positive feedback on the clarity of the 'next steps' required from this group in particular, which may suggest seeking to address these concerns through better information and clarity of actions, rather than making fundamental changes in the structure of the model.

7.20 Indeed, notwithstanding the specific learning points noted above, **consultations with lenders and stakeholders suggest that there is not a clear case for any fundamental changes in the structure or process involved with FGLS**. There is room for continuous improvement, particularly in relation to information and data sharing, and arguably the need for a more consistent and seamless approach to delivery, to both avoid "peaks and troughs" in demand and resource requirements and ensure consistency in the 'lender journey' alongside the businesses. However, more radical changes do not appear to be needed.

7.21 One final point is noted. Currently, where a loan is approved a significant level of data is provided to the SBCI by the lenders. However, data is not provided to the SBCI in terms of unsuccessful applications/rejections by lenders, or the reasons for use of the FGLS facility, and engagement with lenders suggests that this data is also not available at an aggregated level. Given the scale of businesses that secure a code but do not secure a loan (around 5,200 businesses by December 2021), and the scale of businesses that have secured loans, this represents a significant gap in the evidence base regarding the scheme. Fundamentally, there is no robust and comprehensive data available on (i) what proportion of businesses that secure a code apply for a loan; (ii) loan application success/rejection rates, including how this may vary by business and loan characteristics and (iii) the reasons why FGLS finance was used rather than non-State backed lending. The survey evidence for this Review provides some insight into these issues, however, at a scheme level, there is a high level of uncertainty. In any future schemes, ways in which this data could be captured should be considered.

8. Key Findings

8.1 In this final section, we have set out the key findings as they relate to the Research Questions posed for the study.

What types of investment activities are undertaken by businesses using the FGLS loan finance?

8.2 **FGLS loan finance has been used by businesses to address their specific growth aspirations, with no 'typical' activity, and the finance often used to support a range of re-enforcing activities. However, the most common activities supported were investment in buildings/land, and the acquisition of machinery/equipment. The use of the loan finance overall varies between primary agriculture and other SMEs.**

8.3 Investment in buildings/land and the acquisition of machinery/equipment were particularly prevalent for primary agriculture businesses; these two activities accounted for an estimated c.85% of investment from businesses surveyed in primary agriculture. By contrast, manufacturing and services businesses commonly used the scheme to support a more diverse range of activities. For example, over a third of services businesses invested in staff recruitment/training, and at least a quarter of manufacturing and services businesses invested in IT. Investment in developing new or improved products/services/processes was also prominent for non-agriculture businesses.

8.4 FGLS has often supported a range of re-enforcing and related activities, with combinations of activity tailored to specific growth aspirations. The flexibility of the finance, and how this can be used to meet specific needs, appears to be a key characteristic and attraction of the scheme; this perception was also echoed in the qualitative discussions with lenders and stakeholders.

How does the utilisation of the FGLS loan finance align with its objectives and the wider policy/economic context?

8.5 **Consistent with scheme objectives, the FGLS finance has been used for strategic investments to support and accelerate business growth. The finance has also been used to help businesses respond to external shocks including Covid-19 and Brexit and support the exploitation of digital technologies and environmental sustainability.**

8.6 Accelerating growth was the most commonly cited reason for businesses applying to FGLS. Responding to Covid-19 was also common for businesses seeking finance following the scheme's expansion, and around one in ten businesses applied to address Brexit-related challenges. In turn, businesses have consistently invested in capital schemes, and/or strategic investments in people and business capabilities, and the development of new products and processes.

8.7 The vast majority of businesses in the Take-Up Group indicated that the activity supported by FGLS loan finance in practice was consistent with that they planned when they first approached the scheme, and the basis for the loan approval. This suggests consistency in utilisation with the scheme's objectives, and that the finance has not been used for purposes not originally anticipated (based on self-reporting from businesses).

8.8 Secondary aims of the scheme included to help businesses to respond to Covid-19 (following the expansion), to adapt for a post-Brexit environment and support enhanced environmental performance and progress towards digitalisation. The primary evidence from businesses suggests that the scheme has successfully delivered against these intents in practice, alongside providing finance to invest in business growth, competitiveness, innovation and productivity.

8.9 Investment in activity to improve environmental sustainability was particularly important for primary agriculture, with the vast majority of primary agriculture businesses surveyed indicating their activity would help them to realise this objective. However, a quarter of all businesses surveyed considered the activities financed would support both improved environmental sustainability and enable them to exploit digital technologies, indicating these aims are often complementary in practice.

8.10 Stakeholders perceived the scheme's overall objectives relating to supporting strategic investment for growth to be clear, robust and tailored to market needs. The scheme was seen to have filled a genuine gap in the market in relation to the provision of long-term, unsecured lending in Ireland.

To what extent was FGLS lending sought in preference to other schemes or products (and what were the key reasons for choosing the FGLS)?

8.11 **Survey evidence suggests that FGLS has generally not been sought in preference to other forms of State-backed lending or other public sector funding sources. However, FGLS loan finance has been commonly sought in preference to non-State-backed commercial lending, with the interest rate, loan term and unsecured nature of the finance the key attractions for the scheme to businesses.**

8.12 In both the Take-Up and Non Take-Up Groups surveyed, under one-tenth of businesses indicated that the FGLS was sought in preference to one or more of the Brexit Loan Scheme, Covid-19 Working Capital Loan Scheme, or Covid-19 Credit Guarantee Scheme: noting that the Covid-19 Working Capital Loan Scheme and Covid-19 Credit Guarantee Scheme became available only after the first tranche of €300 million in lending through the FGLS had been fully subscribed and the expansion of the FGLS had been launched. Where other sources of finance were considered/applied for, this was most commonly a non-State-backed loan from a bank or other financial institution.

8.13 The key features attracting businesses to the scheme were the interest rate, loan term and unsecured nature of the finance (to €500k). It was the combination of these features that was often crucial: 65-70% of businesses in the Take-Up and Non Take-Up Groups identified all three of these features as very important/important in their decision to apply to FGLS.

8.14 However, the survey also indicated the flexibility of the FGLS product was important, providing a varied and diverse offer to businesses with different priorities and expectations in terms of longer-term lending. For example, the ability to secure loans at different ranges from €25k to €3m was important for businesses of different sizes, and across sectors.

8.15 Looking specifically at businesses that had considered or applied for other sources of funding – around half of the businesses surveyed in both the Take-Up and Non Take-Up Groups overall – the interest rate was the most common differentiating factor explaining why the FGLS was preferred. However, a substantial proportion of businesses also highlighted the collateral requirements and re-payment period as key differentiators for the scheme reflecting the importance of the combination of the features in explaining a preference for FGLS over non-State-backed loans.

8.16 The survey evidence points to the importance of external advice in generating demand for the FGLS: around a quarter of businesses surveyed that preferred the FGLS to other schemes or products indicated that this was owing (in full or part) to advice from external advisors such as business advisors, accountants and banks.

What outcomes have been achieved (or are expected) as a result of the FGLS, and how do these vary across businesses?

8.17 **At this early stage, evidence points to material benefits for businesses and the economy. Benefits include employment and turnover growth, self-reported productivity and competitiveness effects, enhanced relationships (including with the finance community), and improved ability to respond to external challenges.**

8.18 The Review provides *interim* evidence on the nature of effects realised so far and anticipated in the future. This reflects the status of the loan finance provided through the scheme, with the majority of loans not expected to reach maturity before 2029, and anticipated time-paths to impact (which can be extended, in particular for capital investment).

8.19 Key benefits identified included:

- product, service and process development, with half of all businesses introducing new/improved processes, and half of manufacturing and services businesses launching new products
- turnover, with between a half and two-thirds of all businesses reporting higher turnover
- employment, with over 60% of manufacturing businesses and 75% of services businesses reporting employment effects to date; employment effects were limited for primary agriculture which likely reflects sectors characteristics and growth priorities.

8.20 Wider business capability and performance effects are also common, notably in terms of self-reported improved energy efficiency/reduced carbon emissions, and improved business confidence, profile and reputation. Qualitative research also highlighted how FGLS has led to improved understanding and recognition of the role of external finance in supporting growth.

8.21 Within-scheme exploratory econometric analysis provided insight into the characteristics that are associated with outcomes at this interim stage. There is no single characteristic that explains consistently better (or worse) outcomes at this stage. This is not unexpected given the breadth of the scheme and the varied ways in which it has been used by businesses.

8.22 However, the econometric analysis suggests that when controlling for other factors:

- businesses that applied to FGLS to accelerate growth rather than other drivers (e.g. responding to market pressures) were more likely to report a range of positive outcomes across all sectors
- the nature of the activity supported influences outcomes realised at this stage; however, this is a complex and varied picture across different sectors and for different outcomes
- there is a consistent relationship between investing in activity that involves improving environmental sustainability and realising improved energy efficiency/reduced carbon emissions; this investment also appears to be associated with other positive outcomes
- businesses that applied to FGLS in response to Covid-19 were consistently more likely to report that the scheme had enabled them to recover from the impacts of the pandemic
- FGLS has generated particular benefits for family-owned businesses in the services and manufacturing sectors, in relation to enhancing their business confidence and profile and building relationships with lenders, which may lead on to sustained economic benefits and business growth over the longer-term.

What is the additionality associated with the FGLS lending and activities? In turn, what would have been the implications to businesses, the economy and the State if long-term lending under the FGLS had not been available?

8.23 **Self-reported evidence from businesses that have drawn down loans, and the experience of businesses that applied but were not approved for a loan, indicate that finance was secured, activity was delivered, and outcomes were realised that would not have been evident without the scheme. Whilst some deadweight is evident, the absence of the scheme would have meant a lower level of benefit for the economy, and a reported gap for longer-term finance for SMEs unfilled.**

8.24 The Review does not constitute a formal evaluation of the scheme, and so the assessment of additionality should be seen in this context. Further, lending decisions are made by lenders reflecting their level of risk, and no monitoring data is available on why the FGLS was used instead of other finance products, and why some businesses were rejected for an FGLS loan.

Businesses will also seek to secure the most commercially attractive finance available to them, including via the FGLS.

8.25 In this context, lenders reported they had supported businesses via the FGLS that they would not have funded without the scheme. No quantitative evidence from lenders is available on this, however, survey evidence from both the Take-Up and Non Take-Up Groups suggests that potentially around half of the activity supported by FGLS would not have progressed without the scheme. Further, where activity would have been progressed, this would commonly have been delayed. This assessment draws on evidence that:

- where businesses applied unsuccessfully for the FGLS, in half of cases the activity was not progressed in practice; where it was progressed, the activity was delayed in over two-thirds of cases
- where businesses applied successfully and drew down a loan, around half believed they would not have progressed the activity without the FGLS, and where they would, around half thought this would have been delayed; these findings were consistent across sector.

8.26 The Review suggests some displacement from existing market provision is evident: around 5% of businesses in the Take Up Group reported they would have secured finance on the same or better terms, at the same scale, and within the same time-frame as through the FGLS, and some unsuccessful applicants secured external finance to progress their activity. However, non-State-backed longer-term lending to SMEs, without the requirement for security, is not typically available in the Irish market, and so where longer term lending is considered to be accessible or has been secured then it is likely that collateral is a condition of the lending. This is consistent with feedback from lenders of some 'opportunistic demand' amongst businesses, where some borrowers would likely have been eligible for other long-term products but chose the FGLS due to its more favourable terms. How this might be addressed is an issue for consideration by the SBCI and lenders in any future similar schemes.

8.27 In terms of outcome additionality for the Take-Up Group, a low level of 'deadweight' was evident. Full additionality – where outcomes would not have been realised at all in the absence of the FGLS – was reported by c.20-25% of businesses surveyed. However, for over half of businesses surveyed, FGLS was associated with outcomes being realised more quickly and/or at a higher scale.

8.28 This 'partial additionality' contribution is important, and reflects that for businesses, the key attractions of the scheme relate to terms and conditions (loan features) of the loans, which have influenced the pace and scale of investment progressed and activity delivered. This may also have wider benefits in the reduced cost of lending enabling investment in other activities, and supporting a commitment to long-term strategic investment

What is the 'customer journey' experience of businesses accessing (or attempting to access) the FGLS?

8.29 **Overall, the 'customer journey' experience of businesses appears to have been positive, with the simplicity of the scheme an important feature. Whilst there are opportunities to enhance the experience in any similar successor interventions, including to promote greater continuity and consistency of availability of lending, there appears to be no need for a fundamental change in function or form.**

8.30 Feedback from the surveys shows generally positive experiences of the process of confirming eligibility among both the Take-Up and Non Take-Up Groups. Businesses in the Non Take-Up Group indicated lower levels of clarity on the required 'next steps' in progressing a loan application following eligibility; this may have influenced how quickly they applied for a loan.

8.31 There were more marked differences between the two survey groups in relation to the loan application stage, with the Non Take-Up Group consistently reporting a less positive experience overall across all aspects of the process. This is not unexpected and is likely to reflect the outcome of applications. Key recommendations from businesses for improving the delivery related to better communications and interactions with lenders.

8.32 Both stakeholders and lenders considered scheme delivery to have generally worked well, with key strengths around the overall simplicity of the scheme and its fit within the lenders' existing portfolio. There were some challenges and lessons learned, including in relation to difficulties in co-ordinating delivery; confusion around eligibility among some businesses; and managing the high level of demand and oversubscription.

8.33 The scheme has generated a strong evidence base, and the monitoring system appears to be robust and comprehensive overall in terms of eligibility codes provided and loans approved. However, no comprehensive data has been collected on (i) what proportion of businesses that secure a code apply for a loan and (ii) loan application success/rejection rates, including how this may vary by business and loan characteristics. Further consideration should be given as to if this can be addressed – as far as practical and in a proportionate manner.

What is the extent of potential further demand for long-term lending?

8.34 **The evidence base points to ongoing strong demand for future long-term lending including from those businesses that have secured finance from FGLS to date.**

8.35 The Review has not included a formal assessment of future demand for long-term lending across the total SME base. However, the survey evidence indicated high level of demand for longer-term lending over the next three years in both the Take-Up and Non Take-Up Groups. The key reason for seeking further finance related to business expansion, followed by climate mitigation and adaptation (for primary agriculture businesses), and R&D/innovation. Among the Non Take-Up Group, there was very limited evidence of businesses being discouraged from seeking finance in the future owing to their experience of applying to the FGLS.

8.36 In line with business survey evidence, stakeholder and lender consultees reflected that the very substantial level of interest in the FGLS has proved that there is considerable demand for long-term lending, and this is expected to remain high going forward. The consistent view was that there remained a significant 'untapped' market for longer-term lending given the long-standing challenge of underinvestment by businesses in Ireland.

8.37 Consultees suggested several considerations for a potential future scheme, including:

- seeking to provide greater continuity and stability of provision, avoiding as far as practical the "peaks and troughs" in demand and significant resource requirements associated with time-limited delivery periods; in this context, the concept of the FGLS as a 'facility' rather than a 'scheme' was suggested, and some consultees regarded that a higher level of total financing should be made available (i.e. more than the €800m made available to date) in response to the level of anticipated demand.
- the potential for including greater level of flexibility in loan terms (possibly spanning 5-15 years), although ensuring that the rationale and remit remains clear and distinctive would be important in this context
- considering how the finance could be tailored further to agriculture businesses, including in relation to the strategic important need to support and incentivise younger farmers
- considering a greater focus on sustainability, addressing the well-recognised market failure arguments and scale of the challenge, whilst balancing the trade-offs between a flexible and open product for businesses with a more policy-oriented approach (and ensuring this does not impact adversely on demand and simplicity of the offer).

8.38 In this context, it is highlighted that around 40% of businesses in the Non Take-Up Group applied for a loan. Of those that did not apply, the most common reason was that their preferred lender(s) had stopped accepting new applications. Further, a common explanation for those that applied unsuccessfully was that the lender(s) applied to had reached their allocation. This highlights the case for greater continuity in provision, and potentially making a greater scale of finance available to meet demand.

What is the potential future availability of unsecured loans with terms of 7-10 years?

8.39 **FGLS was seen to have 'addressed' the market failure of longer-term lending through intervention. However, it has not ultimately 'solved' the problem because the underpinning barriers for financial providers to longer-term lending remain.**

8.40 Although lenders anticipate a high level of demand for a similar product going forward, it was reported that long-term and unsecured lending remains commercially unattractive due to the level of risk involved. Therefore, lenders reflected that this risk, coupled with the capital requirements for lenders under the European banking regulatory framework means they would still not be able to offer similar lending without a State guarantee in the future (or at least not at a similarly affordable price point for businesses).

8.41 It was recognised that future supply of any lending will be limited by the reduced number of banks remaining in the Irish market. If a similar scheme were to be introduced in the future, most remaining lenders indicated interest in engaging with this, reflecting generally positive experiences.

Annex A: Detailed analysis of monitoring data

Table A-1: Approved loans by sub-scheme

	No. of loans		Value of loans		Median loan value
Scheme	**n**	**%**	**€**	**%**	**€**
SME & Small Mid Cap	2,168	62%	580,676,223	77%	175,000
Primary agriculture	1,294	37%	155,525,130	21%	80,000
Exceptions	34	1%	14,651,250	2%	331,500
Total	**3,496**	**100%**	**750,852,603**	**100%**	**125,000**

Source: SQW, based on SBCI Monitoring data from December 2021

Table A-2: Approved loans by sector

	No. of loans		Value of loans	
Intermediate-level NACE code aggregation	**n**	**%**	**€**	**%**
Agriculture, forestry, and fishing	1357	39%	165,074,320	22%
Wholesale and retail trade, repair of motor vehicles and motorcycles	476	14%	135,794,689	18%
Legal, accounting, management, architecture, engineering, technical testing and analysis activities	216	6%	52,009,616	7%
Construction	191	5%	42,453,420	6%
Human health services	143	4%	37,552,500	5%
Accommodation and food service activities	140	4%	34,459,000	5%
Manufacture of food products, beverages and tobacco products	83	2%	29,045,850	4%
Other manufacturing, and repair and installation of machinery and equipment	77	2%	21,937,497	3%
IT and other information services	71	2%	32,799,999	4%
Administrative and support service activities	65	2%	14,397,999	2%
Manufacture of wood and paper products, and printing	64	2%	17,427,035	2%
Other professional, scientific and technical activities	64	2%	16,783,863	2%
Transportation and storage	62	2%	16,060,744	2%

Intermediate-level NACE code aggregation	No. of loans n	No. of loans %	Value of loans €	Value of loans %
Manufacture of basic metals and fabricated metal products, except machinery and equipment	59	2%	16,756,400	2%
Financial and insurance activities	45	1%	12,270,125	2%
Education	43	1%	8,972,790	1%
Other services	41	1%	5,814,500	1%
Arts, entertainment and recreation	36	1%	6,383,400	1%
Water supply, sewerage, waste management and remediation	35	1%	15,001,500	2%
Manufacture of rubber and plastics products, and other non-metallic mineral products	32	1%	12,087,000	2%
Real estate activities	26	1%	5,779,750	1%
Residential care and social work activities	25	1%	5,383,848	1%
Manufacture of machinery and equipment n.e.c	20	1%	3,493,000	<1%
Publishing, audiovisual and broadcasting activities	18	1%	5,152,500	1%
Mining and quarrying	17	0%	4,479,500	1%
Electricity, gas, steam and air-conditioning supply	16	0%	3,379,758	<1%
Telecommunications	15	0%	6,741,000	1%
Manufacture of textiles, apparel, leather and related products	13	0%	4,903,000	1%
Manufacture of electrical equipment	9	0%	2,563,000	<1%
Public administration and defence, compulsory social security	9	0%	1,685,000	<1%
Manufacture of transport equipment	9	0%	4,810,000	1%
Scientific research and development	5	0%	4,000,000	1%
Manufacture of chemicals and chemical products	5	0%	2,830,000	<1%
Manufacture of pharmaceuticals, medicinal chemical and botanical products	4	0%	795,000	<1%
Manufacture of computer, electronic and optical products	4	0%	775,000	<1%

Intermediate-level NACE code aggregation	No. of loans n	%	Value of loans €	%
Manufacture of coke, and refined petroleum products	1	0%	1,000,000	<1%
Total	**3,496**	**100%**	**750,852,603**	**100%**

Source: SQW, based on SBCI Monitoring data from December 2021

Table A-3: Approved loans by region

	No. of loans		Value of loans	
Customer Nuts Code	**n**	**%**	**€**	**%**
South-West	582	17%	112,437,877	15%
Border	562	16%	119,859,891	16%
Mid-West	469	13%	83,413,691	11%
West	465	13%	75,368,268	10%
South-East	435	12%	81,435,495	11%
Dublin	431	12%	162,654,376	22%
Mid-East	284	8%	61,409,705	8%
Midland	268	8%	54,273,300	7%
Total	**3,496**	**100%**	**750,852,603**	**100%**

Source: SQW, based on SBCI Monitoring data from December 2021

Table A-4: Approved loans by purpose

	No. of loans		Value of loans	
Loan Purpose	**N**	**%**	**€**	**%**
Business expansion	1,252	36%	366,689,185	49%
Improvement of performance and sustainability	688	20%	83,596,527	11%
Premises improvement	487	14%	110,835,943	15%
Creation/improvement of infrastructure re development, adaptation and modernisation	447	13%	54,277,074	7%
Machinery or equipment	302	9%	59,635,145	8%
Improvement of environment, conditions welfare standards beyond EU standards	140	4%	11,193,900	1%
People and/or systems	66	2%	18,115,000	2%
Process innovation	35	1%	12,890,950	2%
Investment in Innovation	30	1%	11,216,250	1%
R&D	26	1%	12,510,000	2%

	No. of loans		Value of loans	
Loan Purpose	**N**	**%**	**€**	**%**
Achievement of agri-environmental-climate objectives	12	>1%	907,629	0%
Processing of agricultural products	4	>1%	3,800,000	1%
Restoration/protection against natural disasters	3	>1%	1,750,000	0%
Diversification/ establishment of additional products	2	>1%	1,000,000	0%
New establishment Set up	1	>1%	435,000	0%
Extension of existing establishment	1	>1%	2,000,000	0%
Total	**3,496**	**100%**	**750,852,603**	**100%**

Source: SQW, based on SBCI Monitoring data from December 2021

Annex B: Business 'case examples'

B.1 This Annex sets out the profile of the 20 'case examples' in terms of key business characteristics. Write-ups are provided in accompanying document.

Table B-1: Profile of the 'case examples'

No.	Scheme	Location	Loan value	Primary loan purpose
1	Primary Agri	Mid-East	€250k+	Creation/improvement of infrastructure re development, adaptation and modernisation
2	Primary Agri	South-East	<€250k	Creation/improvement of infrastructure re development, adaptation and modernisation
3	SME & Mid-Cap	Mid-West	€250k+	Premises improvement
4	SME & Mid-Cap	Mid-East	€250k+	Business Expansion
5	SME & Mid-Cap	Dublin	€250k+	Business Expansion
6	SME & Mid-Cap	Border	<€250k	Machinery or equipment
7	SME & Mid-Cap	Mid-West	<€250k	Business Expansion
8	SME & Mid-Cap	Mid-West	€250k+	Business Expansion
9	SME & Mid-Cap	West	<€250k	Business Expansion
10	Exception	South-West	<€250k	Investment in Innovation
11	SME & Mid-Cap	Mid-East	<€250k	Business Expansion
12	Exception	South-East	<€250k	Investment in Innovation
13	SME & Mid-Cap	Dublin	€250k+	Process innovation
14	SME & Mid-Cap	West	<€250k	Machinery or equipment
15	Primary Agri	South-East	<€250k	Creation/improvement of infrastructure re development, adaptation and modernisation
16	SME & Mid-Cap	Border	€250k+	Premises improvement

No.	Scheme	Location	Loan value	Primary loan purpose
17	SME & Mid-Cap	Dublin	€250k+	Business Expansion
18	SME & Mid-Cap	Dublin	€250k+	Business Expansion
19	SME & Mid-Cap	Mid-East	<€250k	Business Expansion
20	SME & Mid-Cap	Dublin	<€250k	Premises improvement

Source: SQW based on FGLS monitoring data from December 2021

Annex C: Econometric methodology and detailed results

C.1 This annex explains the use of econometric techniques in this report. The use of these tools allows us to consider the effects of individual variables (e.g. business characteristics) in ways that descriptive statistics alone cannot.

C.2 We used a **logistic regression technique** to model the probability of a binary event[36] occurring based on outcomes observed among the businesses and a set of proposed explanatory variables (the list of variables used in analysis is discussed in the following section). The following three types of outcomes were estimated (separately for agricultural and non-agricultural businesses):

- **Business outcomes:** The probability that a business achieves an outcome relating to business performance, i.e. whether *due to FGLS,* the business has (1) improved their existing products/services; (2) introduced new products/services, (3) introduced new processes; (4) increased sales; (5) increased employment; or (6) *expects* an overall positive material impact from the loan (a score of at least 9 out of 10).
- **Innovation and productivity outcomes:** The probability that a business achieves an outcome relating to innovation and productivity, i.e. whether *due to FGLS,* the business has (1) increased productivity; (2) increased competitiveness; (3) increased innovation or R&D activity; (4) decreased its carbon footprint and/or increased energy efficiency; or (5) secured additional external finance.
- **'Capability' outcomes:** The probability that a business achieves an outcome relating to human capital, perceptions or relationships, i.e. whether *due to FGLS,* the business has (1) increased the skills and/or knowledge of its staff; (2) increased its confidence; (3) increased the profile of the business; (4) improved their relationships with finance providers; or (5) improved its understanding of finance providers' expectations.
- **Event outcomes:** The probability that a business was able to improve its response to adverse shocks to the Irish economy *due to FGLS;* in particular, whether FGLS helped the client respond to (1) Covid-19; and (2) Brexit.

Selecting explanatory variables

C.3 **In any econometric modelling there is a trade-off between the number of explanatory variables used and the sample size**. The reason for this is that if a business is missing data for any variable in a model they have to be excluded from the analysis, resulting in a smaller sample size overall. Moreover, if the sample is larger, smaller effects will be statistically significant as the 'statistical power' of the model is increased. The larger number of businesses

[36] A binary event is one where there are only two possible outcomes, e.g. whether a business has or has not achieved an outcome so far due to the FGLS.

in the non-agriculture sample meant that we had an opportunity to increase the number of variables for these regressions and so, on average, more variables were statistically significant compared to the agriculture sample.

C.4 **Selecting explanatory variables was an iterative process which involved refinement of the models**. To ensure continuity in the analysis and ease of comparison, all variables described in Table C-1 were initially included in each regression. Several alternative specifications of each model with different combinations of explanatory variables were estimated and tested to arrive at a combination which provided the most robust results (to reduce the level of 'noise' in the models we excluded certain variables which were statistically insignificant[37] across all specifications or highly correlated with other variables[38]). Finally, we tested whether the regression results were sensitive to the exclusion of outliers[39] and businesses with unusually high leverage[40] and found the results to be robust in both cases.

C.5 Table C-1 presents the list of variables used across our analysis, including the 'default' position that each variable in the model is compared against.

Table C-1: List of explanatory variables included in the analysis

Variable name	Description
services	Whether a non-agricultural business is classified as services (default: manufacturing)
large	Firm has 10 or more employees (default: 9 or fewer)
old	Firm was founded in 1999 or before (default: founded in 2000 or after)
dublin	Dublin based business (default: not Dublin based)
lender	Lender is one of two largest lenders (default: no)
dairy	Firm sector is raising of dairy cattle or other cattle (default: no)
finance	Obtained finance in three years before FGLS? (default: no)
equipment	Spent at least 50% of FGLS loan on equipment or machinery (default: no)
buildingland	Spent at least 50% of FGLS loan on buying, renting, leasing or improving building (default: no)
digital	Invested in exploiting new digital tech with FGLS loan (default: no)
environment	Invested in improving environmental sustainability with FGLS loan (default: no)
otherfinance	Used other finance alongside FGLS to deliver project (default: no)

[37] The effect of a variable is statistically insignificant if it is likely to occur by chance. We used the commonly accepted levels of statistical significance of 10%, 5% and 1%, i.e. allowing us no more than a 10% chance to be wrong when concluding that the effect of a variable is on average different from 0.
[38] When variables are highly correlated the estimated confidence interval for the effect of each of them may be too wide (this issue is known as multicollinearity). The degree of the strength of the relationship between individual explanatory variables included into the final specifications of the three models were assessed using variance inflation factor. Where any doubt remained, e.g. we suspected that in fact the variables could be more closely related than the test would suggest, we checked the robustness of the estimates by excluding one of potentially correlated variables.
[39] Data with unusually small or large characteristic variables which might skew the analysis.
[40] Data that drive a disproportionate amount of the regression results due to their unique combination of characteristics.

Variable name	Description
seektogrow	Applied to FGLS because firm seeks to grow (default: no)
duetocovid	Applied to FGLS because of adverse consequences of Covid-19 pandemic (default: no)
loansizebyemp	Principal loan amount divided by the number of employees
paid19	The loan was paid out in 2019 (default: 2021)
paid20	The loan was paid out in 2020 (default 2021)

Source: SQW analysis

Table C-2: Summary statistics

Variable name	Observations	Mean (Fraction of 'Yes')	Standard Deviation	Number of 'Yes' (mean*N)
services	450	0.41	0.49	184
large	450	0.30	0.46	133
old	450	0.29	0.45	130
dublin	450	0.15	0.35	66
lender	450	0.70	0.46	314
dairy	450	0.17	0.38	77
finance	405	0.47	0.50	191
equipment	390	0.26	0.44	103
buildingland	391	0.48	0.50	188
digital	371	0.42	0.49	155
environment	358	0.72	0.45	256
otherfinance	382	0.45	0.50	173
seektogrow	450	0.63	0.48	283
duetocovid	450	0.15	0.36	69
loansizebyemp	450	0.05	0.06	*N/A (not binary)*
paid19	429	0.18	0.38	76
paid20	429	0.56	0.50	240

Source: SQW analysis

Non-agricultural firms

Notes

Firms are either manufacturing (default) or services

*p<0.10, ** p<0.05, *** p<0.01

denotes a negative association

denotes a positive association

Statistically not significant variables:

- *familybusiness*
- *lender*
- *digital*
- *duetocovid*
- *loansizebyemp*
- *paid19*

Business outcomes

Explanatory variables	Improved existing products or services	Introduced new products or services	Introduced new processes	Increased sales	Increased employ-ment	Material positive impact on business perfor-mance
services				*	***	***
large					***	*
old	-*			-*		
dublin		*				
equipment				-***		
buildingland	-***	-***	-***	-***		
environment			*			***
seektogrow				***	***	***
otherfinance	-*	-*				
finance			-***			
paid20	*		*			
N	201	197	185	195	202	196

SQW

Source: SQW analysis

Non-agricultural firms

Notes

Firms are either manufacturing (default) or services

*p<0.10, ** p<0.05, *** p<0.01

denotes a negative association

denotes a positive association

Statistically not significant variables:

- *equipment*
- *digital*
- *duetocovid*
- *otherfinance*
- *paid19*

Innovation and productivity outcomes

Explanatory variables	Increased productivity	Increased compe-titiveness	Increased innovation or R&D	Increased energy efficiency/ reduced carbon	Secured further external finance
services		***			
large		-**			
old				*	
familybusiness					*
dublin	*				
lender					**
buildingland		-*	-***		-**
environment				***	
seektogrow		**			
loansizebyemp				**	
paid20	***	***		***	
N	196	193	179	189	169

SQW

Source: SQW analysis

Non-agricultural firms

Notes

Firms are either manufacturing (default) or services

*p<0.10, ** p<0.05, *** p<0.01

denotes a negative association

denotes a positive association

Statistically not significant variables:

- *large*
- *old*
- *lender*
- *digital*
- *environment*
- *seektogrow*
- *otherfinance*
- *loansizebyemp*
- *paid19*

'Capability' outcomes

Explanatory variables	Increased staff skills or knowledge	Increased business confidence	Increased business profile	Improved relationships/ partnerships with finance providers	Increased understanding of finance provider expectations
services			***	-*	
familybusiness		**	*	**	
dublin					-*
equipment	-**				
buildingland	-***	-**	-**	-**	-***
duetocovid			-**		
paid20			*		
N	192	199	199	175	186

SQW

Source: SQW analysis

Non-agricultural firms

Notes

Firms are either manufacturing (default) or services

*p<0.10, ** p<0.05, *** p<0.01

denotes a negative association

denotes a positive association

Statistically not significant variables:

- *large*
- *old*
- *digital*
- *equipment*
- *seektogrow*
- *loansizebyemp*
- *paid19*
- *paid20*

Event outcomes

Explanatory variables	Improved response to Covid	Improved response to Brexit
services	**	
familybusiness		*
dublin		*
lender		**
buildingland	-***	-***
environment	***	**
duetocovid	**	
otherfinance	-*	
N	198	191

SQW

Source: SQW analysis

Agricultural firms

Notes

Firms are either cattle/ dairy farms or other agricultural firms (default)

*p<0.10, ** p<0.05, *** p<0.01

denotes a negative association

denotes a positive association

Variables omitted from agricultural regressions:

- *dublin, large, familybusiness, otherfinance, lender*

Statistically not significant variables:

- *equipment , buildingland, environment, digital*

Business outcomes

Explanatory variables	Improved existing products or services	Introduced new products or services	Introduced new processes	Increased sales	Increased employ-ment	Material positive impact on business perfor-mance
dairy		-*				
old		-**				-*
seektogrow				***		**
duetocovid						**
loansizebyemp	*			***		***
paid19				***		
paid20		-**	-**	**		
N	117	106	117	123	131	128

SQW

Source: SQW analysis

Agricultural firms

Notes

Firms are either cattle/ dairy farms or other agricultural firms (default)

*p<0.10, ** p<0.05, *** p<0.01

denotes a negative association

denotes a positive association

Variables omitted from agricultural regressions:

- *dublin, large, familybusiness, otherfinance, lender*

Statistically not significant variables:

- *old, seektogrow, duetocovid, digital*

Innovation and productivity outcomes

Explanatory variables	Increased productivity	Increased compe-titiveness	Increased innovation or R&D	Increased energy efficiency/ reduced carbon	Secured further external finance
dairy	**	**			
equipment			**		
buildingland				-*	
environment				**	
loansizebyemp	**	**	**	*	
paid19	***	***			
paid20	***			*	
N	127	111	104	113	106

SQW

Source: SQW analysis

Agricultural firms

Notes

Firms are either cattle/ dairy farms or other agricultural firms (default)

*p<0.10, ** p<0.05, *** p<0.01

Orange: denotes a negative association
Green: denotes a positive association

Variables omitted from agricultural regressions:

- *dublin, large, familybusiness, otherfinance, lender*

Statistically not significant variables

- *old, dairy, environment, digital, paid19 & paid20*

'Capability' outcomes

Explanatory variables	Increased staff skills or knowledge	Increased business confidence	Increased business profile	Improved relationships/ partnerships with finance providers	Increased understanding of finance provider expectations
equipment	*	***	**	**	*
buildingland			*		
seektogrow	***				
duetocovid				**	
loansizebyemp	***	**		***	**
N	109	118	115	108	113

SQW

Source: SQW analysis

Agricultural firms

Notes

Firms are either cattle/ dairy farms or other agricultural firms (default)

*p<0.10, ** p<0.05, *** p<0.01

denotes a negative association

denotes a positive association

Variables omitted from agricultural regressions:

- *dublin, large, familybusiness, otherfinance, lender*

Statistically not significant variables:

- *old, dairy, equipment, seektogrow, loansizebyemp, paid19 & paid20*

Event outcomes

Explanatory variables	Improved response to Covid	Improved response to Brexit
buildingland		*
digital		**
duetocovid	**	**
N	114	110

SQW

Source: SQW analysis

Annex D: Detailed survey results

Sample characteristics (Take-Up Group and Non Take-Up Group)

D.1 The Tables below compare the survey samples to the populations of businesses that were contacted for the surveys, which excludes businesses that opted out of their information being shared with SQW for the purpose of the Review. This included 2,351 businesses that had secured a loan approval for the Take-Up Group population, and 3,564 businesses that had secured an eligibility code but not a loan approval for the Non Take-Up Group population.

Table D-1: Take-up group survey sample overview

	Survey sample (n=457)	Population (n=2351)
Scheme		
• SME & MidCap	64%	61%
• Primary Ag	35%	38%
• Exceptions	1%	1%
Family business (Yes)	70%	70%
EI client (Yes)	12%	9%
Bord Bia client (Yes)	30%	29%
LEO client (Yes)	18%	13%
Av. Employees (mean)	11.5	10.2
Av. Employees (median)	4	3
Av. Loan principal amount (€)	227.8k	209.5k

Source: FGLS Review, Take-Up Group Survey

Table D-2: Borrower location (Take-up group)

	Survey sample (n=457)	Population (n=2345)
Border	16%	16%
Dublin	14%	12%
Mid-East	9%	8%
Midland	7%	8%
Mid-West	12%	14%
South-East (IE)	12%	12%
South-West (IE)	18%	16%
West	13%	13%

Source: FGLS Review, Take-Up Group Survey Note: region was not identified for 6 businesses

Table D-3: Loan purpose (Take-up group)

	Survey sample (n=457)	Population (n=2351)
Business expansion	36%	35%
Improvement performance and sustainability	19%	20%
Premises improvement	14%	14%
Other	30%	31%

Source: FGLS Review, Take-Up Group Survey

Table D-4: Non take-up group survey sample overview

	Survey sample (n=329)	Population (n=3564)
Scheme		
• SME & MidCap	74%	75%
• Primary Ag	25%	24%
• Exceptions	1%	1%
Family business (Yes)	68%	64%
EI client (Yes)	16%	13%
Bord Bia client (Yes)	19%	20%
LEO client (Yes)	24%	18%
Av. Employees (mean)	8.3	11.4
Av. Employees (median)	3	4
<250k loan amount band	64%	68%

Source: FGLS Review, Non Take-up Group survey

Table D-5: Borrower location (Non Take-up group)

	Survey sample (n=329)	Population (n=3564)
Border	17%	14%
Dublin	18%	21%
Mid-East	11%	10%
Midland	5%	7%
Mid-West	8%	10%
South-East (IE)	13%	11%
South-West (IE)	13%	15%
West	14%	13%

Source: FGLS Review, Non Take-up Group survey

Table D-6: Loan purpose (Non take-up group)

	Survey sample (n=329)	Population (n=3564)
Business expansion	47%	45%
Improvement performance and sustainability	13%	12%
Premises improvement	10%	14%
Other	30%	28%

Source: FGLS Review, Non Take-up Group survey

Comparison to wider business base using SME Credit Demand Survey

Table D-7: Proportion of businesses strongly agreeing/agreeing to the following statements

	All SMEs (SME Credit Demand Survey)	Take-up Group (n=401)	Non-Take-Up Group (n=300)
I am willing to expand my business even if it brings more risk/challenge	52%	78%	80%
I am willing to borrow from banks to fund an expansion of my business	41%	86%	81%
Access to external finance is a major barrier to our investment	31%	35%	65%

Source: Source: FGLS Review, Take-up Group Survey & Non Take-up Group Survey and SME Credit Demand Survey – October 2020 - March 2021

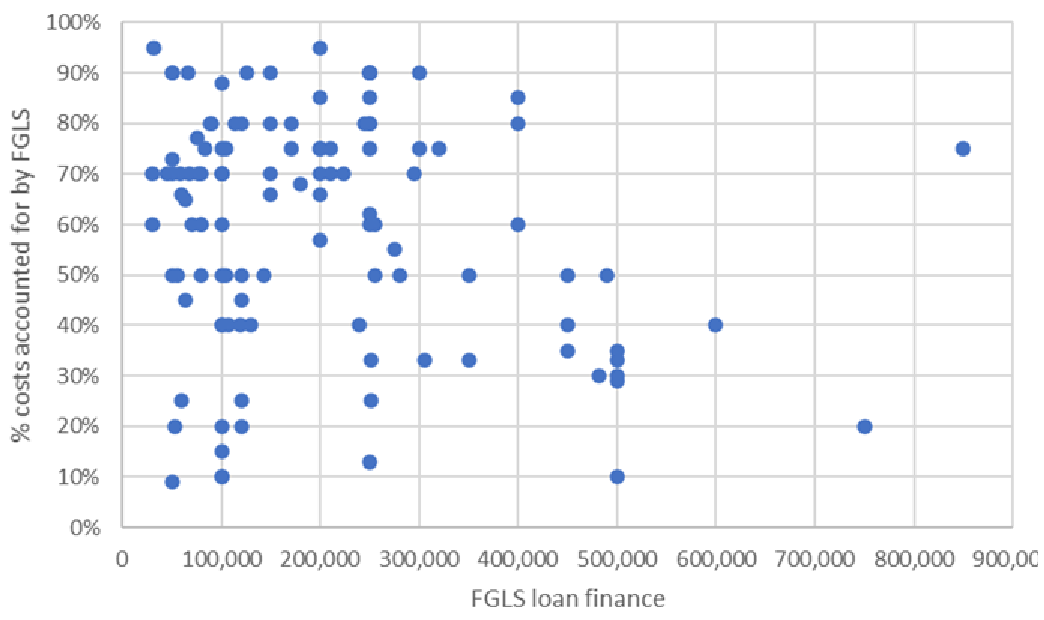
Use of FGLS (Take-Up Group only)

Table D-8: Activities supported by FGLS loan finance: average investment

Activity type	Average investment (€k)	No. firms
Buying, renting, leasing or improving buildings or land	143.8	230
Acquisition of machinery or equipment	105.9	169
Developing new or improved goods and services	101.5	61
Developing new or improved processes	76.8	51
Staff recruitment, training, or development	69.6	71
Marketing	65.7	43
Other R&D	65.5	22
Acquisition of vehicles and other transport equipment	65.4	29
Information technology	50.3	79
Other investment	207.9	50

Source: FGLS Review, Take-up Group Survey

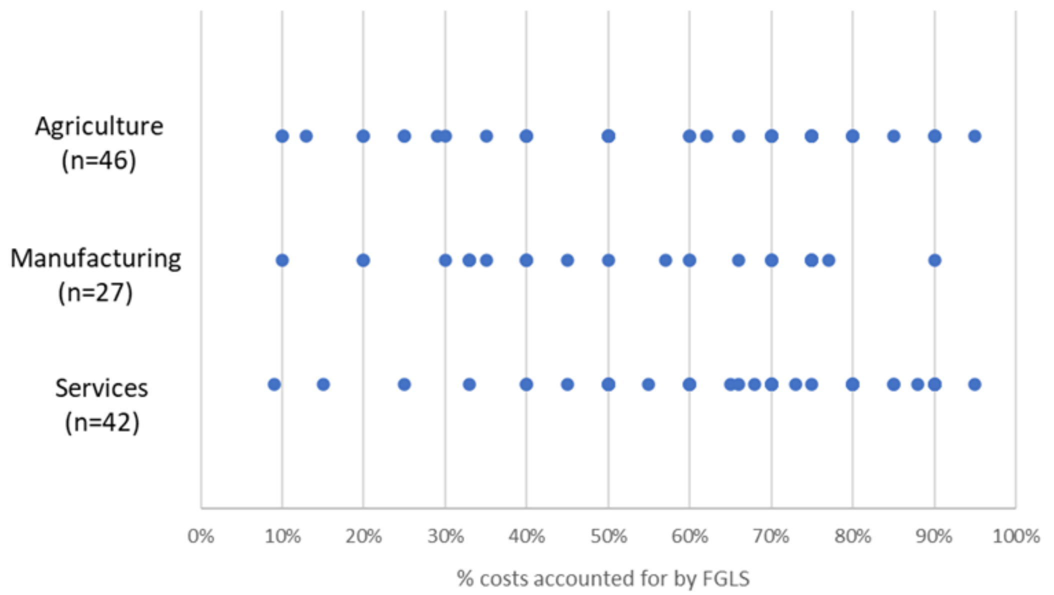
Figure D-1: Share of the total costs of activities/project covered by the loan finance approved through the FGLS by loan size



Note: each dot represents a business; the data cover the businesses that had used other forms of finance alongside FGLS and provided data on the proportion of the total costs of the activities or project covered by the loan finance approved through the FGLS (n=115)

Source: FGLS Review, Take-up Group Survey

Figure D-2: Share of the total costs of activities/project covered by the loan finance approved through the FGLS by sector



Note: each dot represents a business; the data cover the businesses that had used other forms of finance alongside FGLS and provided data on the proportion of the total costs of the activities or project covered by the loan finance approved through the FGLS (n=115)

Source: FGLS Review, Take-up Group Survey

Table D-9: Proportion of FGLS investment accounted for by main activities by cross-tabulations

	Acquisition of machinery or equipment	Buying, renting, leasing or improving buildings or land	Other activities
Size			
1 employee (n=91)	23%	55%	22%
2-4 employees (n=108)	25%	43%	32%
5-9 employees (n=73)	23%	38%	38%
10+ employees (n=120)	18%	32%	50%
Age			
2018 or later (n=48)	12%	54%	33%
2010-2017 (n=149)	20%	32%	48%
2000-2009 (n=81)	20%	35%	45%
Pre-2000 (n=114)	26%	42%	32%
Client status			
EI/BB/LEO client (n=209)	25%	32%	43%
Non EI/BB/LEO client (n=183)	16%	44%	39%
Pre-FGLS finance			
Did not secure external finance (n=199)	18%	48%	34%
Secured external finance (n=175)	24%	31%	45%

Source: FGLS Review, Take-up Group Survey

Table D-10: Proportion of business reporting activity or project supported by the loan finance approved through the FGLS was 'exactly the same as planned' as when they first approached the scheme

	Proportion respondents
Size	
1 employee (n=94)	89%
2-4 employees (n=110)	86%
5-9 employees (n=75)	87%
10+ employees (n=124)	78%
Age	
2018 or later (n=52)	90%
2010-2017 (n=152)	80%
2000-2009 (n=83)	83%
Pre-2000 (n=116)	86%
Client status	83%

	Proportion respondents
EI/BB/LEO client (n=214))	83%
Non EI/BB/LEO client (n=189)	86%
Pre-FGLS finance	
Did not secure external finance (n=204)	87%
Secured external finance (n=179)	83%

Source: FGLS Review, Take-up Group Survey

Figure D-3: Detailed data on combination of activities (figures show the number of businesses reporting investment in both categories)

Primary agriculture

	Acquisition of machinery or equipment	Acquisition of vehicles and other transport equipment	Buildings / land	Information Technology	Developing new or improved goods and services	Developing new or improved processes	Other R&D	Marketing	Staff recruitment, training, or development
Acquisition of machinery or equipment									
Acquisition of vehicles and other transport equipment	5								
Buildings/land	31	1							
Information Technology	6	0	6						
Developing new or improved goods and services	2	0	1	1					
Developing new or improved processes	2	0	4	0	0				
Other R&D	0	0	0	0	0	0			
Marketing	0	0	0	0	0	0	0		
Staff recruitment, training, or development	0	0	0	0	0	0	0	0	
Other	1	0	7	0	0	1	0	0	0

Manufacturing

	Acquisition of machinery or equipment	Acquisition of vehicles and other transport equipment	Buildings / land	Information Technology	Developing new or improved goods and services	Developing new or improved processes	Other R&D	Marketing	Staff recruitment, training, or development
Acquisition of machinery or equipment									
Acquisition of vehicles and other transport equipment	8								
Buildings/land	16	5							
Information Technology	15	7	12						
Developing new or improved goods and services	6	3	6	8					
Developing new or improved processes	9	3	12	12	6				
Other R&D	3	1	3	3	3	4			
Marketing	5	1	5	8	4	6	0		
Staff recruitment, training, or development	9	4	9	11	7	10	1	7	
Other	4	1	3	3	1	1	2	1	1

Services

	Acquisition of machinery or equipment	Acquisition of vehicles and other transport equipment	Buildings / land	Information Technology	Developing new or improved goods and services	Developing new or improved processes	Other R&D	Marketing	Staff recruitment, training, or development
Acquisition of machinery or equipment									
Acquisition of vehicles and other transport equipment	6								
Buildings/land	28	5							
Information Technology	23	9	23						
Developing new or improved goods and services	14	6	9	22					
Developing new or improved processes	7	3	8	18	16				
Other R&D	9	2	2	11	11	8			
Marketing	12	4	9	18	19	13	7		
Staff recruitment, training, or development	24	7	18	28	24	17	11	21	
Other	9	2	7	12	10	5	3	9	14

Benefits (Take-Up Group only)

Table D-11: Other business benefits (Primary agriculture): Have you experienced, or do you expect to experience, any of the following as a result of the loan finance approved through the FGLS?

N = 144	Experienced already	Expect to experience	Have not and will not experience	Don't know
Improved overall business productivity	62%	28%	6%	4%
Improved competitiveness	31%	28%	26%	15%
Enhanced innovation/R&D capacity	14%	20%	45%	21%
Improved energy efficiency/reduced carbon emissions	45%	33%	12%	10%
Improved staff skills/knowledge	29%	24%	30%	17%
Enhanced business confidence	47%	24%	19%	10%
Improved business profile, reputation, credibility	39%	28%	21%	12%
New or improved relationships with finance providers	31%	36%	16%	17%
Improved understanding of finance provider expectations	36%	33%	15%	15%
Secured further external finance for business investment	12%	40%	28%	19%

Source: Source: FGLS Review, Take-up Group Survey

Table D-12: Other business benefits (Manufacturing): Have you experienced, or do you expect to experience, any of the following as a result of the loan finance approved through the FGLS?

N = 87	Experienced already	Expect to experience	Have not and will not experience	Don't know
Improved overall business productivity	61%	36%	1%	2%
Improved competitiveness	40%	52%	6%	2%
Enhanced innovation/R&D capacity	23%	40%	26%	10%

N = 87	Experienced already	Expect to experience	Have not and will not experience	Don't know
Improved energy efficiency/reduced carbon emissions	21%	44%	28%	8%
Improved staff skills/knowledge	41%	32%	21%	6%
Enhanced business confidence	69%	24%	6%	1%
Improved business profile, reputation, credibility	56%	36%	7%	1%
New or improved relationships with finance providers	48%	24%	11%	16%
Improved understanding of finance provider expectations	49%	21%	17%	13%
Secured further external finance for business investment	18%	41%	24%	16%

Source: Source: FGLS Review, Take-up Group Survey

Table D-13: Other business benefits (Services): Have you experienced, or do you expect to experience, any of the following as a result of the loan finance approved through the FGLS?

N = 163	Experienced already	Expect to experience	Have not and will not experience	Don't know
Improved overall business productivity	63%	29%	5%	2%
Improved competitiveness	52%	36%	7%	4%
Enhanced innovation/R&D capacity	25%	25%	36%	15%
Improved energy efficiency/reduced carbon emissions	22%	31%	37%	10%
Improved staff skills/knowledge	45%	31%	19%	4%
Enhanced business confidence	66%	31%	1%	2%
Improved business profile, reputation, credibility	68%	25%	4%	3%

N = 163	Experienced already	Expect to experience	Have not and will not experience	Don't know
New or improved relationships with finance providers	36%	33%	19%	12%
Improved understanding of finance provider expectations	45%	26%	21%	7%
Secured further external finance for business investment	16%	34%	33%	17%

Source: Source: FGLS Review, Take-up Group Survey

Table D-14: Scale of employment increase because of loan finance approved through the FGLS (covers those reporting employment was higher only)

	Primary Agriculture (n=18)	Manufacturing (n=51)	Services (n=120)
Up to 1	39%	22%	9%
Between 2-5	56%	51%	65%
Between 6-9	6%	12%	12%
Between 10-24	0%	16%	12%
Between 25-49	0%	0%	3%

Source: Source: FGLS Review, Take-up Group Survey

Table D-15: Scale of turnover increase because of loan finance approved through the FGLS (covers those reporting turnover was higher only)

	Primary Agriculture (n=67)	Manufacturing (n=48)	Services (n=105)
€1 to €49,999	60%	6%	21%
€50,000 to €99,999	16%	25%	23%
€100,000 to €199,999	13%	25%	18%
€200,000 to €1,000,000	6%	29%	24%
Over €1,000,000	0%	10%	11%
Don't know	4%	4%	3%

Source: Source: FGLS Review, Take-up Group Survey

Additionality (Take-Up Group only)

Table D-16: Activity additionality: Thinking about the activity or project supported by the loan finance approved through the FGLS, without this finance, would you still have progressed with the activity or project?

		Yes	No	Don't know	Base
	Overall	**49%**	**47%**	**4%**	**401**
Sector	Agri	53%	46%	1%	148
	Manufacturing	48%	45%	4%	88
	Services	47%	49%	4%	165
Business size	1 employee	43%	56%	1%	93
	2-4 employees	54%	42%	5%	110
	5-9 employees	49%	47%	4%	74
	10+ employees	50%	45%	5%	124
Business age	2018 or later	52%	42%	6%	52
	2010-2017	53%	45%	3%	150
	2000-2009	41%	55%	4%	83
	Pre-2000	49%	47%	4%	116
Client status	EI/BB/LEO client	49%	48%	3%	214
	Non EI/BB/LEO client	49%	46%	5%	187
Finance status	Did not secure external finance pre-FGLS	46%	51%	3%	202
	Secured external finance pre-FGLS	54%	41%	5%	179
Loan value	<250k	50%	47%	3%	276
	250+	48%	47%	5%	125

Source: FGLS Review, Take-up Group Survey

Customer journey (Take-Up Group and Non Take-Up Group)

Table D-17: Customer journey: Do you agree or disagree that the information provided by the SBCI provided you with all of the information you needed in applying for the FGLS?

	Non Take-up (n=302)	Take-up (n=403)
Strongly agree	26%	44%
Agree	51%	46%
Neither agree nor disagree	15%	7%
Disagree	4%	1%
Strongly disagree	4%	0%
Don't know	1%	2%

Source: Source: FGLS Review, Take-up Group Survey & Non Take-up Group Survey

Table D-18: Customer journey: How easy or difficult was the process of achieving your eligibility for the scheme with the SBCI?

	Non Take-up (n=302)	Take-up (n=403)
Very easy	32%	34%
Easy	36%	37%
Acceptable	26%	27%
Difficult	4%	1%
Very difficult	2%	0%
Don't know	0%	0%

Source: Source: FGLS Review, Take-Up Group Survey & Non Take-up Group Survey

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About us

SQW Group

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SQW

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