

**1<sup>st</sup> Quarter Report of 2019 to the Minister for  
Business, Enterprise and Innovation detailing the  
analysis and performance of the SME Credit  
Guarantee Scheme as at 31<sup>st</sup> March 2019**

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

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## 1 Credit Guarantee Scheme

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

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

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

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

Year	Loans Sanctioned		Loans Drawn	
	Number	Value	Number	Value
2018	83	€12,742,062	64	€9,863,000
2019	30	€5,949,000	18	€3,806,000
<b>Total</b>	<b>113</b>	<b>€18,691,062</b>	<b>82</b>	<b>€13,669,000</b>

As a result of the facilities drawn under the CGS, 3,708 new jobs have been created and 1,484 jobs have been maintained.

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

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

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

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

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

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

## 2 Analysis of the Credit Guarantee Scheme

Quarter	Loans Sanctioned		Loans Drawn				
	Number	Value	Number	Value	Average loan size	Impact on Jobs	
						Increase	Maintain
<b>Q3 2018</b>	39	€5,871,562	30	€4,530,000	€151,000	108	419
<b>Q4 2018</b>	44	€6,870,500	34	€5,333,000	€149,500	125	794
<b>Q1 2019</b>	30	€5,949,000	18	€3,806,000	€211,444	75	271
<b>Total</b>	<b>113</b>	<b>€18,691,062</b>	<b>82</b>	<b>€13,699,000</b>	<b>€166,695</b>	<b>308</b>	<b>1484</b>

- Since the launch of the Scheme on 10<sup>th</sup> July 2018, 113 CGS loans have been sanctioned with a total value of €18,691,062.
- Of these, 82 have drawn down facilities with a total value of €13,669,000
- As at 31<sup>st</sup> March 2019 no claims have been submitted against the guarantee.
- The remainder of this report provides additional analysis on the portfolio of 113 CGS facilities with total value of €18,691,062.
- The report also reviews the Legacy Schemes. These schemes are no longer open to new customers since being replaced by the new CGS in 2018.

## 2.1 Activity by Region

Region	Loans Sanctioned		Loans Drawn			
	Number	Value	Number	Value	% by value	Average loan size
East - (Dublin, Kildare, Meath and Wicklow)	60	€9,334,062	45	€6,868,000	50%	€152,622
Mid-West - (Limerick and Clare)	7	€820,000	5	€610,000	4%	€122,000
South West - (Cork and Kerry)	21	€4,315,000	17	€3,605,000	26%	€212,059
South East - (Waterford, Wexford, Carlow, Kilkenny and Tipperary)	9	€1,418,000	4	€590,000	4%	€147,500
Midlands - (Laois, Longford, Offaly, Roscommon, and Westmeath)	3	€608,000	3	€608,000	4%	€202,667
West - (Galway and Mayo)	7	€1,263,000	4	€670,000	5%	€167,500
North East - (Cavan, Louth and Monaghan)	2	€270,000	1	€135,000	1%	€135,000
North West - (Donegal, Sligo and Leitrim)	4	€683,000	3	€583,000	4%	€194,333
<b>Total</b>	<b>113</b>	<b>€18,691,062</b>	<b>82</b>	<b>€13,669,000</b>	<b>100%</b>	<b>€166,695</b>

## 2.2 Activity by County

County	Loans Sanctioned		Loans Drawn			
	Number	Value	Number	Value	% by value	Average loan size
Carlow	3	€40,000	2	€340,000	2%	€170,000
Cavan	-	-	-	-	-	-
Clare	2	€260,000	1	€200,000	1%	€200,000
Cork	18	€3,745,000	15	€3,285,000	24%	€219,000
Donegal	4	€5,760,500	3	€583,000	4%	€194,333
Dublin	46	€7,299,062	35	€5,660,500	41%	€161,728
Galway	6	€1,013,000	4	€670,000	5%	€167,500
Kerry	3	€570,000	2	€320,000	2%	€160,000
Kildare	2	€362,500	2	€362,500	3%	€181,250
Kilkenny	2	€430,000	-	-	0%	-
Laois	1	€108,000	1	€108,000	1%	€108,000
Leitrim	-	-	-	-	-	-
Limerick	5	€990,000	4	€410,000	3%	€102,500
Longford	-	-	-	-	-	-
Louth	2	€270,000	1	€135,000	1%	€135,000
Mayo	1	€250,000	-	-	-	-
Meath	3	€452,500	2	€325,000	2%	€162,500
Monaghan	-	-	-	-	-	-
Offaly	1	€100,000	1	€100,000	1%	€100,000
Roscommon	1	€400,000	1	€400,000	3%	€400,000
Sligo	-	-	-	-	-	-
Tipperary	1	€288,000	-	-	-	-
Waterford	1	€50,000	-	-	-	-
Westmeath	-	-	-	-	-	-
Wexford	2	€250,000	2	€250,000	2%	€125,000
Wicklow	9	€1,200,000	6	€520,000	4%	€86,666
<b>Total</b>	<b>113</b>	<b>€18,691,062</b>	<b>82</b>	<b>€13,669,000</b>	<b>100%</b>	<b>€166,695</b>

## 2.3 Activity by Industry Sector

Industry Sector	Loans Sanctioned		Loans Drawn			
	Number	% by Number	Number	% by Number	Value	% by Value
Information and Communication	5	4%	4	5%	€592,500	4%
Wholesale/Retail Trade & Repairs	13	12%	10	12%	€1,103,000	8%
Manufacturing	6	5%	5	6%	€1,443,000	11%
Professional, Scientific & Technical Activities	25	22%	17	21%	€2,645,000	19%
Construction	12	11%	11	13%	€1,820,000	13%
Business and Administrative Services	6	5%	4	5%	€800,000	6%
Human Health and Social Work	8	7%	5	6%	€793,000	6%
Arts, Entertainment & Recreation	15	13%	11	13%	€1,914,000	14%
Accommodation & Food Services	11	10%	6	7%	€868,000	6%
Other Community, Social & Personal Services	2	2%	1	1%	€250,000	2%
Other Services	1	1%	-	-	-	-
Education	1	1%	1	1%	€150,000	1%
Agriculture	1	1%	1	1%	€400,000	3%
Transportation & Storage	7	6%	6	7%	€890,500	7%
<b>Total</b>	<b>113</b>	<b>100%</b>	<b>82</b>	<b>100%</b>	<b>€13,669,000</b>	<b>100%</b>



## 2.4 Activity by Legal Form

Legal Form	Loans Sanctioned		Loans Drawn	
	Number	% of Total	Number	% of Total
Private Limited Company	96	85%	73	89%
Sole Trader	13	12%	7	9%
Partnership	4	4%	2	2%
Limited Liability Partnership	-	-	-	-
Other	-	-	-	-
<b>Total</b>	<b>113</b>	<b>100%</b>	<b>82</b>	<b>100%</b>

## 2.5 Impact on Jobs

To date the number of jobs increased/maintained on drawn down loans is 308 & 1,484 respectively. In the event that all of the sanctioned loans are drawn down by borrowers it would be expected that 371 new jobs would be created and 1,741 jobs maintained.

Number of Jobs Increased	Sanctioned Loans	Drawn Loans
Quarter 2 2018	N/A*	N/A*
Quarter 3 2018	115	108
Quarter 4 2018	140	125
Quarter 1 2019	116	75
<b>Total</b>	<b>371</b>	<b>308</b>
Number of Jobs Maintained	Sanctioned Loans	Drawn Loans
Quarter 2 2018	N/A*	N/A*
Quarter 3 2018	488	419
Quarter 4 2018	897	794
Quarter 1 2019	356	271
<b>Total</b>	<b>1,741</b>	<b>1,484</b>

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

## 2.6 Exports

Of the 113 SMEs currently sanctioned on the CGS Portfolio, 18 of them are Exporters. The table below outlines the various markets they export to.

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

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

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

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

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

Reason for not securing Normal Credit Facilities				
	Insufficient Collateral	Insufficient Collateral and Higher Risk Model/Sector/Product	Higher Risk Model/Sector/Product	Refinancing from departing Banks
Number - Sanctioned	113	0	0	0
Number - drawn down	82	0	0	0

## 2.8 Year of Establishment of Borrowing SMEs

Year of Establishment	Loans Sanctioned		Loans Drawn	
	Number	% of Total	Number	% of Total
2018	9	9%	5	7%
2017	9	9%	5	7%
2016	10	10%	5	7%
2015	4	4%	3	4%
2014	9	9%	5	7%
2013	8	8%	5	7%
2012	5	5%	4	6%
2011	10	10%	9	13%
2010	5	5%	4	6%
2000-2009	23	23%	19	27%
1945-1999	9	9%	6	9%
<b>Total</b>	<b>101</b>	<b>100%</b>	<b>70</b>	<b>100%</b>

*Note: 12 facilities sanctioned under CGS were to Sole Traders and Partnerships. As such year of establishment is unavailable.*

## 2.9 Term of Commercial Facility

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

## 2.10 Purpose of the CGS Facility

### Sanctioned Facilities:

Purpose of Loan	Number of Loans	%	Enterprise Type	Number of Loans	%
<b>Working Capital</b>	60	53%	<b>Micro</b>	53	47%
			<b>Small</b>	5	4%
			<b>Medium</b>	2	2%
<b>Purchase of Equipment</b>	15	13%	<b>Micro</b>	14	12%
			<b>Small</b>	1	1%
			<b>Medium</b>		
<b>Product or Service Development</b>	7	6%	<b>Micro</b>	7	6%
			<b>Small</b>		
			<b>Medium</b>		
<b>Purchase of Premises</b>	1	1%	<b>Micro</b>	1	1%
			<b>Small</b>		
			<b>Medium</b>		
<b>Other</b>	30	27%	<b>Micro</b>	25	22%
			<b>Small</b>	5	4%
			<b>Medium</b>		
<b>Total</b>	<b>113</b>	<b>100%</b>		<b>113</b>	<b>100%</b>

**Drawn Facilities:**

Purpose of Loan	Number of Loans	%	Enterprise Type	Number of Loans	%
<b>Working Capital</b>	45	55%	<b>Micro</b>	43	52%
	-	-	<b>Small</b>	-	-
	-	-	<b>Medium</b>	2	2%
<b>Purchase of Equipment</b>	11	13%	<b>Micro</b>	11	13%
	-	-	<b>Small</b>	-	-
	-	-	<b>Medium</b>	-	-
<b>Product or Service Development</b>	5	6%	<b>Micro</b>	5	6%
	-	-	<b>Small</b>	-	-
	-	-	<b>Medium</b>	-	-
<b>Purchase of Premises</b>	1	1%	<b>Micro</b>	1	1%
	-	-	<b>Small</b>	-	-
	-	-	<b>Medium</b>	-	-
<b>Other</b>	20	24%	<b>Micro</b>	19	23%
	-	-	<b>Small</b>	1	1%
	-	-	<b>Medium</b>	-	-
<b>Total</b>	<b>82</b>	<b>100%</b>		<b>82</b>	<b>100%</b>

## 2.11 Classification of SMEs

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

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

## 2.12 Premium Collection

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

Premium Payments Received - CGS					
Year	Q1	Q2	Q3	Q4	Total for Year
2018	N/A	N/A	N/A	€21,072	€21,072
2019	€20,024	-	-	-	€20,024
<b>Total premium collected</b>					<b>€41,096</b>

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

Premium Payments Received - Legacy Schemes					
	Q1	Q2	Q3	Q4	Total for Year
2012	N/A	N/A	N/A	€2,410	€2,410
2013	€8,852	€14,306	€26,935	€30,555	€80,648
2014	€30,544	€35,608	€42,860	€45,361	€154,373
2015	€49,632	€49,633	€62,726	€96,485	€258,476
2016	€83,094	€121,749	€137,738	€160,521	€503,102
2017	€138,332	€159,577	€160,591	€138,043	€596,543
2018	€123,323	€114,144	€138,953	€109,268	€485,688
2019	€91,031	€0	€0	€0	€91,031
<b>Total premium collected</b>					<b>€2,172,271</b>

## 2.13 Contingent Liability

### Contingent Liability: CGS

Year	Total Portfolio Value	Maximum Exposure	Total Value of Claims Submitted	Maximum Exposure on Claims against Remaining Live Lending as at 31 March 2019
2018	€9,863,000	€1,025,752	€0	€1,025,752
2019	€3,806,000	€395,824	€0	€395,824
<b>Totals</b>	<b>€13,669,000</b>	<b>€1,421,576</b>	<b>€0</b>	<b>€1,421,576</b>

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

### Contingent Liability: Legacy Schemes

Year	Allocation Request of CGS Legacy Portfolio	Loans Sanctioned	Lending Accepted by the Borrower re 2012 Portfolio Year Sanctions	Max Exposure on Claims against Accepted Lending	Total Original Scheme Amount on Remaining Live Loans	Max Exposure on Claims against Remaining Live Lending as at 31 March 2019
2012	€5,000,000	€967,000	€362,000	€27,150	€0	€0
2013	€85,000,000	€12,345,500	€6,046,500	€453,488	€0	€0
2014	N/A	€8,660,344	€6,664,344	€499,826	€375,000	€281,250
2015	N/A	€20,630,050	€16,590,050	€1,244,254	€7,205,500	€842,570
2016	N/A	€22,217,000	€16,878,000	€1,265,850	€9,471,000	€1,084,058
2017	N/A	€20,411,700	€15,787,450	€1,184,059	€12,825,450	€1,184,059
2018	N/A	€8,614,500	€5,694,500	€427,088	€4,554,500	€331,434
<b>Totals</b>	<b>N/A</b>	<b>€93,846,094</b>	<b>€68,022,844</b>	<b>€5,101,715</b>	<b>€34,431,450</b>	<b>€3,723,371</b>

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

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

### 3 Summary

- CGS 2017 launched on the 10<sup>th</sup> July 2018. This report is based on sanctioned and drawn down data received on usage and activity up to 31<sup>st</sup> March 2019.
- Since the launch of the Scheme 113 facilities totalling €18,691,062 have been sanctioned under the Scheme.
- Of these, 82 facilities have drawn down by SME's with total value of €13,669,000.
- The East and South-West regions account for 76% of all lending sanctioned.
- 58% of lending was to the industry sectors Professional, Scientific & Technical Activities, Arts, Entertainment & Recreation, Construction & Wholesale. The remaining lending was across a further 10 sectors.
- It is expected that 371 new jobs will be created, and 1,741 jobs will be maintained as a result of loans sanctioned under CGS.
- The main reason provided by SMEs for seeking finance was for working capital purposes which accounted for 100% of all CGS facilities.
- 88% of the lending sanctioned was to SMEs defined as a Micro Enterprise with 10% provided to Small Enterprises.
- The average loan amount drawn by borrowers is €166,695.
- There have been no claims made under the Scheme to date.



## 4 Update on Legacy Schemes

- The Legacy Schemes commenced on the 24<sup>th</sup> October 2012 and closed for new loans in June 2018 when they were replaced by the CGS. This report is based on data received on usage and activity up to 31<sup>st</sup> March 2019.
- Since the launch of the Legacy Schemes, €93,846,094 has been sanctioned by the participating lenders through 587 CGS facilities.
- Most of the lending has been sanctioned in the East, South and Mid-West with these three regions combined accounting for 83% of lending currently live or repaid.
- Approved lending is dominated by eight industry sectors accounting for 91% of the total lending.
- 2,338 new jobs were created and 1,328 jobs were maintained.
- Of the SMEs who participated in the CGS, 53% were established during the period 2010-2018.
- The main reason provided by SMEs for seeking finance was for working capital purposes which accounted for 66% of all Legacy Schemes.
- 51% of the lending sanctioned was provided to SMEs defined as a Small Enterprise.
- The average loan amount sanctioned by the participating lenders is €159,136.
- Five claims against the guarantee for €61,950, €26,045, €367,934, €39,442 and €169,792 were processed and paid to participating lenders in Q2 2015, Q3 2016, two in Q4 2017 and one in Q1 2018 respectively.
- Premium collection, which partially covers the cost of providing the guarantee, amounted to just under €2.2m from inception in October 2012 to 31<sup>st</sup> March 2019.

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