



Here to build business.
Strategic Banking
Corporation of Ireland

A POSITIVE IMPACT ON SME FINANCING

FEBRUARY 2020

Innovative funding for SMEs

The Strategic Banking Corporation of Ireland (SBCI) was set up in September 2014 to ensure that Irish SMEs have access to stable, lower-cost, long-term funding options. As a state-owned promotional financial institution and in common with its more established European peers, the SBCI supports the development of an effective market for SME finance.

"The SBCI has now provided funding support to more than 29,000 SMEs utilising a mix of low cost liquidity and guarantees. The range of products provided by the SBCI expanded during 2019 to include support for long term funding for SMEs in Ireland. The SBCI continues to deliver its supports through a mix of bank and non-bank partners."

Nick Ashmore, SBCI Chief Executive

The SBCI operates three lines of business



Lending

The lending business model of the SBCI is to serve as a wholesale on-lending financial institution. It provides lower-cost, long-term wholesale finance to suitable on-lenders with the benefit of the lower interest cost being passed to SME borrowers. The SBCI's strategy is based on developing a strong pipeline of potential on-lenders to achieve diversity in the market and drive competition while being cognisant of not distorting the market in any lending sector.



Risk Sharing

The risk sharing business model is to provide partial credit guarantees to finance providers to facilitate the advancement of credit to SMEs, including where access to credit is constrained by specific sectoral or economic cycle market failures. The SBCI avails of and leverages risk capacity from State and European supports to design financial instruments which make efficient use of capital and enhance SME access to finance. Examples of risk sharing products include SBCI Agriculture Cashflow Loan Scheme, the Brexit Loan Scheme and the Future Growth Loan Scheme.



Service Provision

In October 2016, the SBCI was appointed as operator and manager of the Credit Guarantee Scheme (CGS) by the Minister for Jobs (now Business), Enterprise and Innovation. This established the SBCI as the primary conduit for risk sharing products (credit guarantees) in Ireland. A revised Credit Guarantee Scheme with enhanced features was launched in July 2018 and is currently on the market.

Key Business Highlights – Progress to Year end 2019

€1,435m

Total SBCI supported lending

29,716

Total SMEs Supported

SBCI Funded Loans progress to year end 2019



SMEs

23,871

SMEs have secured SBCI loans



Loans

€996m

loans committed to Irish SMEs



Loan size

€41,720

average loan size

SBCI Risk Sharing progress to year end 2019 (Agri Cashflow Support Loan Scheme, Brexit Loan Scheme, Future Growth Loan Scheme & Credit Guarantee Scheme).



SMEs

5,845

have drawn down SBCI loans



Loans

€439m

loans drawn by Irish SMEs



Loan size

€34,128

Agri Cashflow Support Loan Scheme average loan size



Loan size

€213,786

Brexit Loan Scheme average loan size



Loan size

€193,338

Future Growth Loan Scheme average loan size



Loan size

€165,093

Credit Guarantee Scheme average loan size

What SMEs use SBCI loans for

(excluding the Agriculture Cashflow Support Loan Scheme)



of loans used for investment in growing the business



used for working capital



5% Admin & Support



5% Accommodation & Food Trade



7% Construction



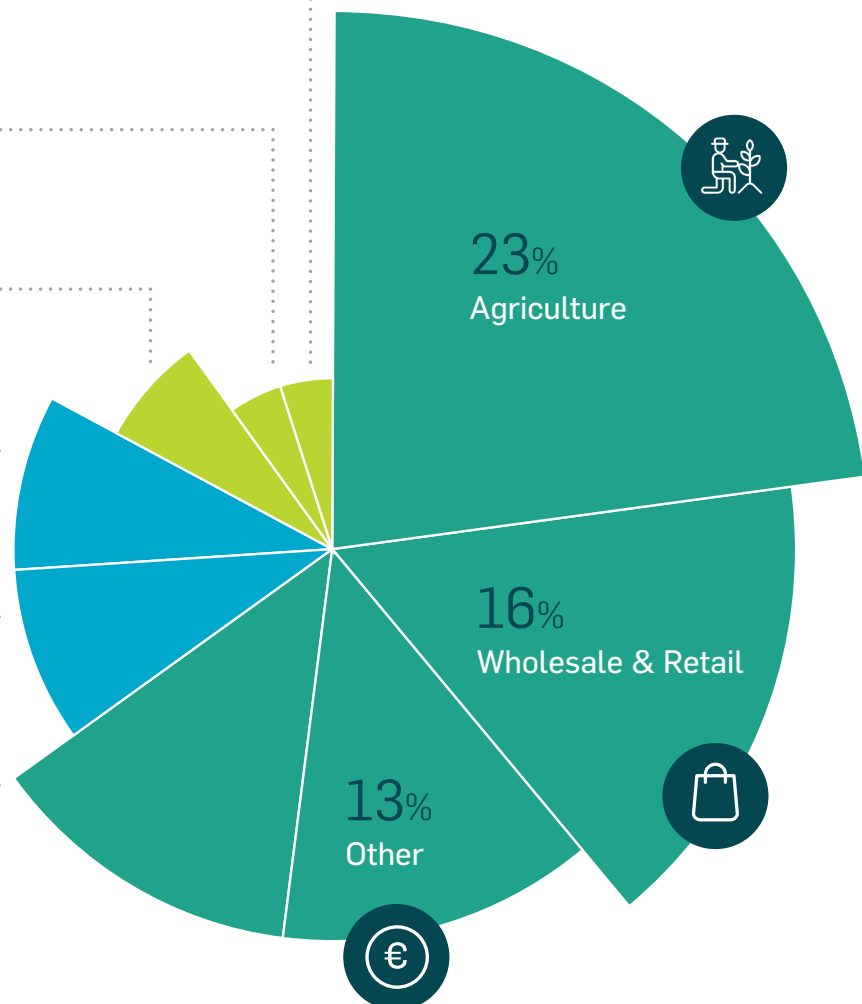
9% Information & Communication



9% Professional & Scientific



13% Manufacturing



Market Overview



Total gross new SME lending for non-financial, non-real estate sectors during Q4 2018 to Q3 2019 was €3.9 billion (CBI)



Internal funds account for 75% of Irish firms' investments, an increase from 69% the previous year, higher than the EU average of 62%. For micro/smaller firms, 82% rely on internal finance for investments (EIB)



Access to finance continues to be of less importance for both Irish SMEs (8%) and Euro area SMEs (7%) (ECB)

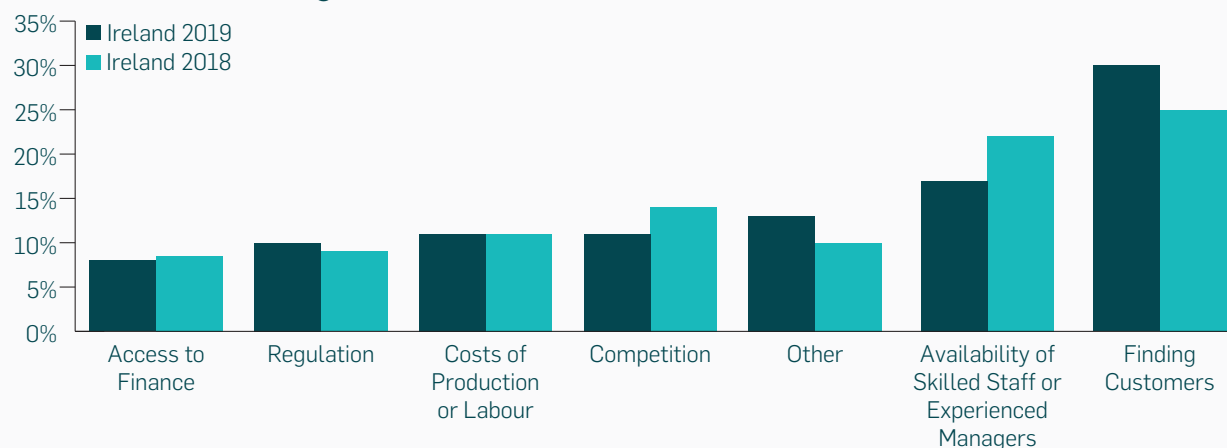


Availability of finance is a significant barrier to investment for Irish (50%) and EU (45%) firms (EIB)



The highest levels of dissatisfaction among Irish firms are due to collateral requirements (12%) and the cost of finance (11%), versus the EU levels (8%) for both (EIB)

Chief concerns facing Irish SMEs in 2019 and 2018



Sources: Survey on the Access to Finance of Enterprises (SAFE) in the Euro Area: Ireland 2019 and 2018 (ECB)



Irish SME interest rates are higher than euro area averages. The average interest rate for SME loans <€250,000 was 5.7% in January 2019, while similar loans for SMEs in the euro area averaged just 2.5% (CBI)



Finding customers continues to be the main concern for Irish SMEs (30%), this has increased from the previous year (25%) (ECB)



The second most important concern is the availability of skilled labour (17%), this has noticeably decreased from the previous year (22%) (ECB)



Ireland is ranked 24th on the World Bank's 2019 "Ease of Doing Business" index (down from 23rd in 2018), scoring well in the areas of regulatory ease of setting up a business, and protection of minority shareholders (OECD)



Compared to the 2019, more firms in Ireland expect the political/regulatory climate and economic climate to worsen in 2020. (EIB)

Central Bank of Ireland, *Statistical Release: Trends in SME and Large Enterprise Credit and Deposits: Q3 2019* – provided in Appendix: Chart 2

EIB, *Survey on Investment and Investment Finance 2019 - Ireland*

ECB, *Survey on the Access to Finance of Enterprises (SAFE) in the Euro Area: April to September 2019*

Central Bank of Ireland, *SME Market Report 2019* - provided in appendix: Chart 11

The World Bank, *Doing Business 2020 - Economy Profile: Ireland*

SBCI Progress to Year end 2019



ACSL
Agri Cashflow Support Loan Scheme

CGS
Credit Guarantee Scheme 2017

BLS
Brexit Loan Scheme

FGLS
Future Growth Loan Scheme

SBCI cumulative finance committed to date (by year)



How the SBCI works

The SBCI supports Small & Medium Enterprises



With these products

Contract Hire

Hire Purchase

Guaranteed Term Loans

Invoice Discounting

Leasing

Working Capital

Partnering with

AIB

Bank of Ireland

Bibby Financial Services

Fexco

Finance Ireland

KBC

Ulster Bank

With funding from

Council of Europe Development Bank

European Investment Bank

European Investment Fund

Ireland Strategic Investment Fund

NTMA

SBCI Loan Schemes



Rialtas na hÉireann
Government of Ireland

Brexit Loan Scheme

Who can apply?

To be eligible, a business must meet the following criteria:

1. Be a viable business with up to 499 employees (SMEs and small mid-caps);
2. Be Brexit impacted;
3. Meet the scheme criteria (Brexit related criteria and InnovFin criteria).

Key features of the Scheme

- €25,000 to €1,500,000 per eligible enterprise;
- Maximum interest rate of 4%;
- Term ranging from 1 year to 3 years;
- Loans unsecured up to €500,000;
- Optional interest-only repayments provided at the start of the loans.

Loans can be used for

Future working capital requirements to fund innovation, change or adaptation of the business to mitigate the impact of Brexit.

Future Growth Loan Scheme*

The €300m scheme is available to eligible Irish businesses including the primary agriculture and seafood sectors to support long-term investments at a rate of 4.5% or less.

Key features of the Scheme

- Loans from €100,000 up to €3,000,000 for eligible SMEs;
- Loans from €50,000 up to €3,000,000 for eligible businesses in the primary agriculture sector;
- Term ranging from 8 years to 10 years;
- Loans unsecured up to €500,000.

* To date there has been very strong demand from SMEs and farmers for this longer term, lower cost finance. This has resulted in a rapid take up of the scheme and consequently there is limited remaining capacity. AIB, Bank of Ireland and Ulster Bank are at their FGLS limits, while KBC Bank continues to have capacity available.

Credit Guarantee Scheme

Who can apply?

To be eligible, a SME must meet the following criteria:

1. Be involved in a commercial activity;
2. Be a sole trader, partnership, franchise, co-operative or limited company;
3. In the lender's opinion have a viable business proposal;
4. Able to repay the facility.

Key features of the Scheme

- Facilities of €10,000 to €1,000,000;
- Maximum 2% annual premium (in addition to the interest rate/fee charged by the bank);
- Term of up to 7 years;
- Term Loans, Demand Loans and Performance Bonds.



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