Strategic Banking Corporation of Ireland

External Strategic Review

Reliance restricted

December 2019 | **Board Approved**

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Transmittal Page

Scope of services and important notice

Scope of Services

In accordance with the terms of the contract dated 9 May 2019 (the Agreement), we have been engaged by the Strategic Banking Corporation of Ireland (the SBCI) to perform an external review of the SBCI in the context of its legislative mandate (the Assignment).

The purpose of the Assignment is to complete a strategic review of the SBCI organisation as a policy delivery mechanism and national promotional finance institution within the context of the Irish State's suite of supports for Small and Medium Enterprises (SMEs). This report contains the output under this Assignment, (the Report).

Our work was performed between May 2019 – August 2019 and the Report was approved by the SBCI Board in December 2019.

To support our analysis this Report has utilised four main sources of information;

i) SBCI internal information,

ii) publicly available information,

iii) benchmarking SBCI against peers based on publicly available information, and

iv) consultation with six key SBCI stakeholders.

A reference list of materials and publications used in performing our review is included in Appendix G. Whilst third party information has been used for which we have not verified the accuracy, we have considered whether such information is, in general terms, consistent with other information that we use. This Report does not make or draw any conclusions on SBCI's future strategic direction but does recommend certain areas or issues to be further explored by SBCI and its Stakeholders that could be incorporated as part of SBCI's future strategy.

The peers selected include the National Promotional Institutions for the four larger European countries and Finland given its similarity in size to Ireland (GDP and population) (together the 'Peers'). Peers selected from the larger European countries have SMEs at the core of their mandate and are longer established than SBCI, these Peers therefore provide benchmarks which can help inform SBCI's potential future strategic direction.

Six stakeholders were selected with the intention of obtaining a balanced view across the different interests in the SBCI, consultation meetings were held with senior representatives from each stakeholder (together the Stakeholders).

Table 1: Peers and Stakeholders selected

Peers	Stakeholders
Kreditanstalt fur Wideraufbau (KfW) - Germany	Dept of Finance (DoF)
Cassa Depositi e Prestiti (CDP) – Italy	Dept of Business, Enterprise & Innovation (DBEI)
BPiFrance (BPiF) – France	European Investment bank (EIB)
British Business Bank (BBB) – UK	Irish SME Association (ISME)
Finnvera (Fin) – Finland	Bank Payments Federation Ireland (BPFI)
	Finance Ireland (FI)

Source: EY

Important notice

The information reflects prevailing conditions and our views as of the dates that the work was performed, which are accordingly subject to change.

This Report is prepared for the purpose set out in the Agreement. Ernst & Young only accepts responsibility to the SBCI on the basis of the Agreement and assumes no responsibility whatsoever in respect of or matters arising out of or in connection with the contents of this Report to parties other than SBCI. If other parties choose to rely in any way on the contents of this Report they do so entirely at their own risk.

Third parties who obtain copies of the Report should be aware that the Report may not be suitable for purposes, other than the specific purpose for which it was designed, and the interests of third parties may not have been anticipated.

Except to the extent that we have agreed to perform specified verification procedures, we will not verify the accuracy, reliability or completeness of the information provided to us. In addition, to the extent that as part of the engagement we use publicly available information or other third party sources, we will not verify the accuracy, reliability or completeness of such information or sources. However, we will consider whether such information is, in general terms, consistent with other information that we use.

Dashboard

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Synopsis

Introduction

The SBCI was incorporated in 2014 pursuant to the 'Strategic Banking Corporation of Ireland Act 2014' and is a State Agency solely owned by the Minister for Finance. Initially the main focus of SBCI was to develop the funding of the SME sector where there was perceived to be a lack of credit and competition in the funding market. SBCI's current business model is to act as an intermediary, providing in-direct funding and funding supports through on-lenders.

As the fifth anniversary of SBCI's incorporation approaches, EY has been requested to perform an an external strategic review of the SBCI organisation as a policy delivery mechanism and national promotional finance institution within the context of the Irish State's suite of supports for SMEs.

To support our analysis this Report has utilised four main sources of information i) SBCI internal information, ii) publicly available information, iii) benchmarking SBCI against peers based on publicly available information, and iv) consultation with six key SBCI stakeholders. This Report does not make or draw any conclusions on SBCI's future strategic direction but does recommend certain areas or issues to be further explored by SBCI and its Stakeholders that could be incorporated as part of SBCI's future strategy.

Synopsis

The SBCI has successfully been delivering its legislative mandate to support the SME sector and help address market failures through promoting credit, product mix and competition:

- improving liquidity available to fund SME credit markets during periods of credit dislocation.
- increasing access to competitive funding for SMEs in the Irish credit market during up-cycles through the use of risk sharing products.
- passing through benefits of improved credit terms to the SME sector such as reduced interest rates and improved commercial terms.
- sourcing on-lenders to ensure a diverse product set is available in the market.
- promoting competition through supporting Non-Bank On-Lenders.

SBCI has become part of the fabric of agencies supporting economic growth in Ireland and is an accomplished conduit for the delivery of Government policy. SBCI has delivered signature Government credit finance schemes for the State including the Brexit Loan Scheme (BLS) and the Agricultural Cashflow Support Scheme.

While SBCI has proven itself as a policy delivery mechanism, intermittently adopting new policy focuses could create confusion in the market as to SBCI's direction and purpose. SBCI should therefore consider, alongside its existing legislative mandate and by agreement with its stakeholders, establishing a mission led mandate which supports State policy objectives and economic direction while providing the market with a clear message of its purpose. Missions adopted by SBCI's Peers and topical for the State include climate change, innovation development and broader export supports.

SBCI has been able to provide support to SMEs through funding sourced from the Government and the EU. SBCI has become an expert conduit for garnering available EU funding supports and should be well placed to continue to access EU funds through new initiatives such as InvestEU. This role was recognised by stakeholders as being valuable.

While the SME market no longer faces the same challenges of credit availability as was the case when SBCI was established, there remain challenges to be addressed such as ensuring access to the right products; promoting competitive credit terms and supporting specific sub-sectors of SMEs. SBCI's role in addressing these challenges could help address stakeholder concerns that SMEs may not be appropriately investing for their future.

SBCI supports the SME sector through an indirect lending model providing low cost funding and risk sharing mechanisms to Bank and Non-Bank On-Lenders that target the SME sector. Low cost funding support has become less relevant for Bank On-Lenders, and while still attractive for Non-Bank On-Lenders (who are an important conduit in the context of promoting competition) they only hold c.8% market share. The risk sharing offering remains relevant to Bank On-lenders but is dependent on their risk governance frameworks to be successful.

The question arises whether SBCI can seek to better address market challenges and deliver on policy goals during a 'normal' functioning credit market with a more robust lending model which has alternative distribution channels.

While SBCI's model to date has not necessitated direct lending, many of SBCI's Peers do have a direct lending capability. On balance, the stakeholder consultation process suggested that there is limited appetite for a new State bank in the market and therefore if the SBCI considers a direct lending model, it should be in relation to a specific scope of activities which do not have negative impacts on the commercial market. There may also be other solutions which could be considered such as developing new forms of direct access to SMEs and/or supporting the development of alternative distribution networks utilising available State distribution infrastructure (e.g. LEOs, An Post and Credit Unions).

SBCI's approach to State Aid was also identified as a potential method of better delivering on policy goals during a 'normal' functioning credit market. All SBCI activities are undertaken within the context of State Aid regulations which, while important, does restrict certain activities and adds administrative burden for on-lenders and SMEs. Considering SBCI's market challenges and comparing SBCI to its Peers across Europe, seeking pre-approval from the EU Commission for certain activities may provide SBCI with greater flexibility in its mandate to develop broader and more tailored products for on-lenders. Seeking pre-approval from the EU Commission may also reduce administrative burden for On-lenders and SMEs which has been identified as a key improvement to SBCI's offering.

Regulation has an impact on the way that the banking and lending market operates. SBCI, in assessing its future strategic direction, should take into account the regulatory environment and the impact on the SME credit markets that any change in regulation may have.

While SBCI has successfully sourced on-lenders to ensure a diverse product set is available in the market, innovation growth credit products has been identified as a product-type which is not readily available and as having the potential to underpin SME growth. There is currently no State Agency providing innovation loans/mezzanine products to the wider SME population. Benchmarking SBCI against its European Peers also highlighted export finance as a product available in other jurisdictions but not available to SMEs from State Agencies in Ireland (with the exception of the specific support available to SMEs through the BLS).

Ireland maintains a devolved approach to its financing support and SBCI operates within a suite of State supports. The opportunity exists to simplify access for SME State supports by developing a single portal to access information online. SBCI should consider the role it could play within this simplification initiative.

Recommendations

It is recommended that SBCI could consider exploring the merits of adopting the following strategic actions as part of its future strategy in consultation and agreement with its Stakeholders:

- Supporting greater alignment between Ireland's financing market support State Agencies
- Analyse the benefits of adopting a 'Mission Led' strategy where certain State economic policy objectives are adopted within SBCI's core strategy as deemed appropriate by the Minister for Finance
- Ensure measures are in place to maximise Ireland's share of InvestEU funding
- Perform a more detailed appraisal of the specific market challenges within the SME credit sector in order to better assess the benefits and method of intervention
- Appraise the cost and benefits associated with delivering innovation growth credit products and broader export financing support
- Consider and appraise alternative approaches to provide a more robust lending model capable of addressing market failures across all potential scenarios
- Further develop capabilities to minimise administrative burden of SBCI offerings to on-lenders
- Explore activities which could be undertaken with State Aid pre-approval from the European Commission to increase flexibility and decrease administration enabling SBCI to better respond to market challenges

Should the SBCI expand its products and operations then its risk management, financial and operational capabilities would also need to be reviewed to ensure they remain appropriate. Any such enhancement of its activities should not impede the SBCI's counter-cyclical mandate and its flexibility to appropriately react and support SMEs in economic down cycles and/or from the impact from economic or market shocks.

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Executive summary

Introduction

The SBCI was incorporated in 2014 pursuant to the 'Strategic Banking Corporation of Ireland Act 2014' and is a State Agency solely owned by the Minister for Finance.

Initially the main focus of SBCI was to develop the funding of the SME sector where there was perceived to be a lack of credit and competition in the funding market. SMEs make a major contribution to economic development and the generation of employment, accounting for the overwhelming majority of enterprises and 68% of persons engaged[1]. It was envisaged that greater access to longer term and affordable pricing for finance by the SME sector would support investment, growth and jobs.

The Irish capital and banking markets have undergone significant change since the 2007 recession with major events impacting upon the competitive landscape, capital requirements and cost of funding. The SBCI is therefore challenged by operating within a continually changing market and landscape for which it must adapt.

SBCI's current business model is to act as an intermediary, providing in-direct funding and funding supports through on-lenders.

SBCI currently utilises two primary offerings to deliver benefits to the SME market:

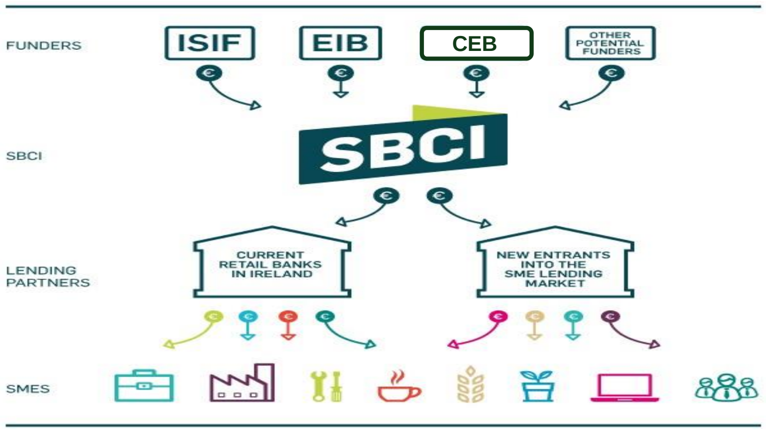
- **Loans**: SBCI sources low cost financing through the use of an Irish Government Guarantee and makes this low cost funding available to on-lenders in the Irish market. The benefit of cheaper finance is channelled through to SMEs along with additional benefits attached to the SBCI loan requirement such as improved terms (i.e longer tenor, repayment flexibility). SBCI has deployed c.€1bn of funding to three banks and five Non-Bank On-Lenders since its inception.
- **Risk sharing schemes**: SBCI provides guarantees to on-lenders to underwrite a significant portion of the SME debt and thus de-risking the loan for the on-lender. This increases access to funding for SMEs by countering any lack of credit risk appetite by lending institutions for certain businesses and sectors. The reduced risk to the on-lender is also reflected in the pricing of the loan along with additional benefits attached to the guarantees (i.e longer tenor, repayment flexibility and no security). SBCI has launched three risk sharing schemes including the i) Agricultural Cashflow Support Loan Scheme (ACSLS), ii) the BLS, and iii) the Future Growth Loan Scheme (FGLS).

SBCI is also a service provider to the Department of Business, Enterprise and Innovation (DBEI) in relation the Credit Guarantee Scheme (CGS). This scheme is a risk sharing product but DBEI remains responsible for any credit loss exposure.

[1] *(CSO, 2017)*

SBCI's product offerings can be used to address specific aspects of the SME market and has therefore been utilised by Government Departments as a method of intervening in the SME credit market to support the delivery of specific policies (such as the Government's Brexit Contingency Action Plan).

Diagram 1: Summary of SBCI Business model



Source: SBCI

This report analyses the SBCI in the context of its legislative objectives across the following areas:

A. SBCI's position within the landscape of State financing supports
B. SBCI's alignment with State policy and Ireland's economic development
C. Ireland's SME credit market
D. SBCI's current offerings to promote credit, product mix and competition
E. SBCI's Lending model and limitations
F. Implications of State Aid
G. Ability to access EU funding and funding supports
H. SBCI's Governance structure, risk management and financial position (high level overview)

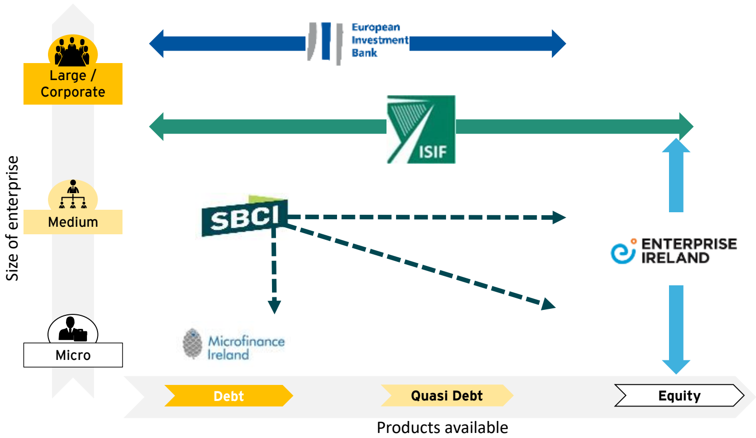
A. SBCI's position within the landscape of State financing supports

Access to affordable and appropriate finance is critical for businesses of any size, at any stage in their development and in any sector. The State requires mechanisms to intervene across the financing spectrum as and when necessary to address market failures and/or support innovations to drive a prosperous economy. Many of Ireland's European Peers have established National Promotional Institutions with a responsibility to address credit market failure.

The SBCI plays an important role within the Irish landscape of State financing supports, providing a credit market intervention mechanism for SMEs which is distinct from, and complementary to, the offerings of other State Agencies such as Enterprise Ireland (EI) and the Ireland Strategic Investment fund (ISIF).

When considering and comparing SBCI to the selected Peers, it is important to note that Ireland maintains a more devolved approach to its funding support State Agencies. The below diagram includes State Agencies operating within Ireland's funding market most relevant to this Assignment and depicts the sub-sectors in which they primarily operate. In addition to these entities, there are other State supports within the financing sector such as the Credit Review Office (CRO), Local Enterprise Office (LEOs), publicly funded investment funds, publicly funded accelerator/start-up programmes and Government Departmental policies/grants.

Diagram 2: Illustrative Landscape of Relevant State Agencies providing funding support



Source: EY analysis using State Agency websites

Concerns were raised during the stakeholder consultation process that confusion could arise for SMEs seeking support due to the number of Agencies and policies within the suite of Irish State supports. SBCI and related Agencies should ensure that there is alignment between them and a combined cross-Agency effort to ensure a 'One Stop Shop' for any SME seeking information and support. This could include developing a single portal to access information online and allocating a primary interface role to a single body.

Diagram 2 also highlights the lack of State support in relation to quasi debt products for the wider SME population. (It is recognised that EI provides a renowned offering supporting SMEs through equity/equity linked funding but only to those enterprises focussed on innovation and export rather than the breadth of SMEs under SBCI's mandate.) This is detailed further on page 12: 'Promotion of product mix'.

B. SBCI's Alignment with State Policy and Ireland's economic development

Recognising the importance of SMEs to Ireland's prosperity, successive governments have introduced and implemented a range of policies to support the sector. The SBCI has proved itself as a policy delivery mechanism having supported a number of signature Government credit finance schemes including the BLS and the Agricultural Cashflow Support Scheme. Government Departments whose policies have benefitted from the SBCI include:

i) Department of Business, Enterprise and Innovation,

ii) Department of Agriculture, Food & Marine, and

iii) Department of Finance.

There is a risk that intermittently adopting new strategic/policy focuses could create confusion in the market as to SBCI's direction and purpose, which in-turn could lead to a decreased awareness of SBCI products and mandate. The benchmarking analysis of SBCI highlights that many of its Peers have adopted 'Mission Led' strategies which support State policy objectives and economic direction while providing the market with a clear message of its purpose.

SBCI should therefore consider, alongside its existing legislative mandate and by agreement with its stakeholders, establishing a mission led mandate. Missions adopted by SBCI's Peers and topical for the State include climate change, innovation development and broader export supports. Of particular relevance for the SBCI is climate change given that SBCI was listed as a State Agency to be explored as a support mechanism within the Department of Communication, Climate Action and Environment's (DCCAE) recently launched Climate Action Plan which includes mobilising private sector investment on a sustained basis over a number of decades as a key action.

C. Ireland's SME credit market

On inception of SBCI in 2014, the cost of wholesale funding was relatively high due to the ongoing legacy of the financial crisis which led to a lack of credit supply in the market for SMEs. It is generally accepted that the SME credit market is cyclical and during periods of recession, credit availability tightens. The Irish credit market has changed significantly since 2014 with liquidity returning and wholesale funding being available at competitive pricing.

This poses the question as to whether a market failure still exists. The capacity of SMEs to access finance can be garnered from the rate of rejection of applications by financial institutions. The SAFE Survey reports the latest rejection rate in Ireland at 6.4%, only slightly above the latest rates experienced in the two groups of EU countries reported on at 5.6% in EA2 and 4.5% in EA1[1]. These market statistics suggest that SMEs can typically access credit when correctly applied for and there is not a general market failure with regards to the supply of credit to SMEs. However, through analysing the SME credit market we have made the following key observations with regards to market challenges:

I. **SME credit demand remains low compared to previous years**

The sustained recovery underway in the economy since 2014 should have supported all businesses in the economy, especially SMEs which make a major contribution to economic development and the generation of employment.

As SME performance is very closely linked with the overall health of the economy, the expectation would have been that firms would take on additional debt in order to take advantage of growth opportunities. However, the total outstanding debt to SMEs has consistently fallen every year since the recovery began in 2014. As of March 2019, the total non-financial, non property related outstanding credit to SMEs was €14.4bn, down from €24.5bn in December 2013[2].

The Department of Finance Credit Demand Survey 2018 (DoFCDS) also reported a consistent decline in the demand for banking finance across SMEs from 39% in September 2012 to the current level of 20% in September 2018[3].

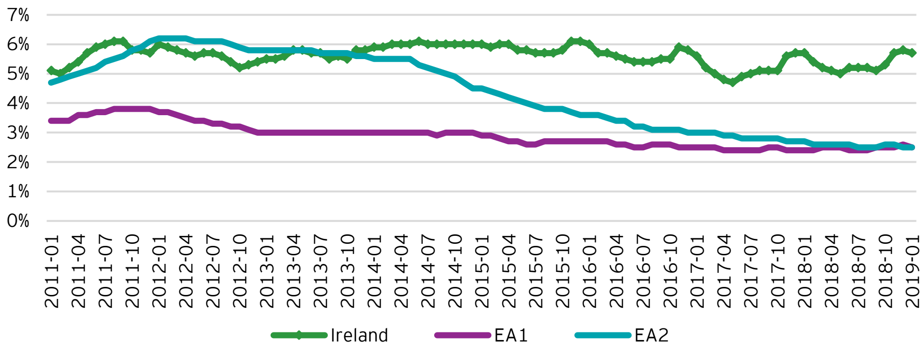
Whilst gross new lending figures indicate a recovery in the last five years (with an annual average growth of 18.7%[3]), the statistics show that SMEs continue to de-leverage. Further analysis is required to determine whether SMEs should be utilising more credit finance to invest in the growth of their business. It is possible that systematic changes to SMEs and the economy (such as efficiencies achieved through technology and a move towards service industries) may result in a lower credit requirement. However, it is a cause of concern for some industry bodies that SMEs may not be adequately investing to ensure their future effectiveness.

II. **Cost of SME Funding has remained comparatively high compared to other EU countries**

The cost of credit for small loans (under €0.25m) has fluctuated in Ireland over recent years, remaining considerably higher than the corresponding rates for EA1 and EA2 countries[1]. While the cost of funding for small loans has come down significantly in other EU groupings over recent years, it remains high in Ireland. At January 2019, the average interest rate for a new small loan was 5.7% in Ireland, compared to 2.5% in both peer groups – difference of 3.2 points[1].

This differential could be due to a number of reasons including i) legacy issues such as the high level of defaults impacting banks capital and pricing models, ii) relative size and characteristics of the SME population in Ireland versus the EU, and iii) the size of the Irish market constraining the level of competition.

Diagram 3: Average Interest Rates on new Small loans (Jan 2011 - 2019)



Source: Central Bank of Ireland

Note: *It is recognised that the difference in interest rate on small loans between Ireland and EU groupings is more significant than on large loans, however this report considers the small loan category as it is closer to SBCI's average loan size.*

[1] *SAFE Survey, EA1 countries comprise Austria, Belgium, Germany, Finland, Netherlands and France; EA2 countries comprise Portugal, Italy, Spain and Greece*
[2] *CBI, SME Market Report 2019*
[3] *DoFCDS, December 2018*

III. <u>SMEs funding mix for investment is weighted towards asset backed products</u>

SMEs invest using different financial instruments depending upon the purpose, circumstance and the range of instruments available in the market. Central Bank data for 2017 (latest available) shows that Ireland's SMEs were most likely to use leasing agreements for the purpose of investment activities, at 40%, followed by bank loans, at 29%. By contrast, across Europe this tendency is flipped – SMEs use bank loans at a rate of 55% and leasing at a rate of 24% for investment activity.

This data suggests that Irish banks are more likely to fund on an asset backed basis compared with their European counterparts. However, the data does not provide insight regarding the reason for the difference in funding mix between Ireland and the EU averages. This difference could be driven by a number of factors including the characteristics of Ireland's SMEs, the risk appetite of lenders or the availability (and terms) of certain credit products in Ireland when compared to Europe. Again, this raises concerns that SMEs may not be appropriately investing which could impact upon their future effectiveness.

IV. <u>Access to funding may be limited for certain categories of SME</u>

The SME sector is broad and includes enterprises across a wide variety of industries, geographic locations and maturity. The stakeholder consultation process highlighted some concerns that certain sub-categories of SMEs are facing challenges with regards to access to funding (such as entities falling outside of specific target sectors and entities without a credit history).

It is recognised that lenders do maintain robust risk management policies and procedures to ensure a quality customer book with an appropriate credit risk profile and therefore it may be possible that certain SMEs may not qualify for credit with a certain bank but could be deemed credit worthy based upon a different credit policy. Ireland's relatively small and concentrated banking market (three Banks continue to service 92% of the SME credit market[1]) may accentuate this issue for certain sub-categories of Ireland's SME population compared to other jurisdictions.

The reasons for the above challenges are complex and requires further analysis which is outside the scope of this Assignment. However, it could be due to a mixture of the following reasons:

- Legacy issues impacting risk lender's appetite for credit risk, reserved capital requirements and capital pricing models
- The risk profile of Irish SMEs compared with other EU countries
- Concentration within the Irish credit market limiting diversity of products and access to credit
- SMEs attitude to credit including recovering from the financial crisis
- Financial literacy of SMEs in Ireland
- Brexit uncertainty and international trade restrictions leading to investment decisions being postponed

Overall the market data suggests that there is no longer a general market failure with regards to the supply of credit to SMEs, but there remains a number of challenges. The extent that these challenges are impacting SMEs and Ireland's economic performance would require further appraisal prior to determining the rationale and extent of any SBCI intervention.

D. Offering

SBCI's legislative mandate is broadly centred around promoting credit, product mix and competition. SBCI's offering and performance was reviewed in this context for the purposes of informing future strategic options:

<u>Promotion of credit</u>

SBCI has evidenced its ability to improve liquidity available to fund SME credit markets during periods of credit dislocation. As at 31 December 2018, SBCI had €626m of funding deployed against a total non-financial, non-real estate outstanding SME credit market of €15.5bn[1] (4% market share) and was reported to have a 10.65% market share of new lending to SMEs[2]. In the current market there is readily available wholesale liquidity for banks at attractive pricing which presents SBCI with a significant challenge as the cost benefit of SBCI loans is less attractive and relevant to Bank On-lenders.

Risk sharing products offered by SBCI are designed to address on-lenders' appetite for credit risk and reserved capital requirement, therefore increasing access to competitive funding for SMEs in the Irish credit market which remains relevant during up-cycles. The ACSLS was generally viewed as a success with full uptake on all of the available funding. Whilst the BLS has seen a lower take-up to date than anticipated, given the delays and uncertainty of Brexit it is too early determine the success of this scheme. The FGLS was only launched in March 2019.

While it remains too early to form a view on the overall effectiveness of the risk sharing offering, these schemes are widely deployed across Europe. The terms available on the SBCI schemes are more beneficial than typically available, as such, these products should

[1] CBI, SME Market Report 2019

[2] The Government of Ireland's 'Local Public Banking in Ireland' , report published in 2018

be attractive to SMEs. It is also reasonable to expect that the effectiveness of risk sharing products will increase over time as SME awareness of the scheme increases, on-lenders further embrace them and product designs are fine-tuned based on experience.

Promotion of product mix

SBCI has sourced on-lenders to ensure a diverse product set is available in the market (term loans for working capital and investment, leasing, hire purchase, contract hire and invoice discounting).

On-lenders utilising SBCI loans and supports must ensure that products meet certain requirements which improve the credit terms for SMEs such as interest rates, tenor, repayment profile, security etc. SBCI funding supports have therefore improved the terms of SME credit available across the spectrum of products available in the market.

While the above products have been successfully delivered, analysis undertaken highlighted products that are potentially not readily available in the Irish market which the SBCI could seek to address:

- The stakeholder consultation process suggested that innovation growth credit products suitable for business development were products not widely available. This may include long-term credit facilities with flexible repayment terms designed around the forecast profitability of enterprises. This may partly address the perceived under investment within the SME sector as set out in "Ireland's SME credit market" section above. This product type is being supported by Governments within other jurisdictions and is a product type supported by the EIB through the Innovfin scheme, however there is currently no State support for this product type available in Ireland for the general SME population.
- Comparison of SBCI against its Peers highlighted the absence of an export financing support agency in Ireland, which would be a key support for SMEs to grow beyond borders and support Brexit strategies. (Ireland does not have an export finance agency, but it is noted that the BLS does provide working capital loans to SMEs importing or exporting to the UK.)

Promotion of competition

SBCI's role to promote competition in the market can be delivered through existing lenders and/or new entrants into the market to compete with the Bank On-Lenders. Five Non-Bank On-Lenders (Bibby Financial Services, FEXCO, Finance Ireland, Merrion Fleet and First Citizen Finance) have benefitted from SBCI lending and SBCI is actively pursuing a pipeline of additional on-lenders, contributing to increased competition in the SME lending market. However, we note that Bank On-Lenders continue to service the majority of the SME credit market and their dominance presents a challenge for new entrants to scale up to the point that they can satisfy SBCI credit risk requirements.

E. Lending model

SBCI's intermediary model results in the State Agency not having direct access to the SME which limits visibility and market intelligence as to challenges and reasons why an SME does not have access to credit. SBCI's intermediary offering is also constrained by the on-lender's appetite and governance policies and therefore accessing specific cohorts of SME may also be a challenge.

The dominance of Bank On-Lenders and the attractiveness of the market presents challenges for new entrants to scale up to the point that they can satisfy SBCI credit risk requirements as a qualifying on-Lender. SBCI therefore remains reliant upon the Bank On-Lenders to significantly impact upon the SME credit market.

In the scenario that SBCI develops broader product types such as innovation growth credit products, the SBCI may need to seek alternative distribution channels as this product type carries a higher risk profile than the core products that its existing on-lenders distribute.

Therefore, the question arises as to how SBCI can seek to better address market failures and deliver on policy goals in 'normal' functioning credit markets whilst not compromising the ability to respond quickly to future market dislocation and execute its counter-cyclical role?

To ensure SBCI can achieve its objectives during a 'normal' functioning credit market (and across all potential future credit market scenarios) the SBCI could consider alternative approaches to provide a more robust lending model to address market failures where the State deems necessary. Alternative approaches could include:

- Direct Access: Direct access to SMEs would develop the SBCI's ability to identify and target specific sectors or cohorts of SMEs who don't have access to credit. It was noted that SBCI has recently brought the eligibility process in-house for the BLS and FGLS, which will enable SBCI to develop more market intelligence and should assist SBCI in making more informed decisions going forward. This capability could be developed further.
- Direct Lending: Creating the underwriting and other capabilities required to provide direct lending to SMEs who don't meet on-lender underwriting criteria. Many of the SBCI's Peers also have a direct lending capability. On balance, the stakeholder consultation process suggested that there is limited appetite for a new State bank in the market and therefore if the SBCI considers a direct lending model it should be in relation to a specific scope of activities which do not have negative impacts on the commercial market.

- Alternative Distribution: Utilising available State distribution infrastructure (e.g. LEOs, An Post and Credit Unions) to help overcome distribution challenges faced by new entrants in the SME credit market.

F. Implications of State Aid

Under its current mandate, the SBCI does not act as a private operator and has not formally notified the European Commission for pre-approval of its activities. The activities of the SBCI must therefore comply with State Aid regulations which is critically important to ensure that competition is not distorted within the private markets. This in turn does place certain restrictions on the SBCI's activities and requires a level of administration.

While the SBCI has become very proficient and knowledgeable in navigating State Aid, the related impacts can have a bearing on the SBCI's ability to timely and effectively support the SME market. The State Aid impacts manifest as follows:

- State Aid can impact the ability of on-lenders to adopt certain SBCI supports and lend to the SME market. For example, risk sharing products have a competitive and State Aid requirement for on-lenders to meet interest rate hurdles; Non-Bank On-Lenders are often challenged to meet this.
- Due to the SBCI's intermediary model the on-lenders are the main point of contact for SMEs and perform a significant amount of the administrative work. Bringing the SBCI products to the market requires a considerable investment by the on-lenders over and above the usual process, both during product launch and ongoing administration of loans. The SBCI has commenced efforts to remove some of this burden from the on-lender by moving the eligibility process in-house. However, this has the potential to add more burden onto the SME.
- SMEs often do not have detailed information available regarding their business and the consultation process suggested they would be willing to pay more for easier access to finance including a shortening of the application process. Therefore, the administrative burden resulting from State Aid requirements may dampen SMEs appetite for SBCI products.

SBCI should continue developing systems which reduce administrative burden from their offerings. A new on-line portal on the SBCI webpage (the Hub), is currently being developed which will streamline the application process further.

Many of the SBCI's Peers utilise a combination of offerings adhering to State Aid regulations and those which have received pre-approval from the European Commission.

If the SBCI were to obtain approval from the European Commission this would both remove a significant level of administration and facilitate the SBCI to develop more flexible and tailored offerings that could be more attractive to on-lenders and beneficiaries. The SBCI could explore what activities could be undertaken with EU Commission pre-approval to develop such offerings.

G. Ability to access EU funding and funding supports

The appetite for EU institutions to provide low cost funding or other financial instruments remains strong. Due to EU policy, institutions have large mandates to deploy capital in Europe and boost the SME market across the European Union. The SBCI is an attractive conduit for this funding. The stakeholder consultation process confirmed that having a single aggregator in the form of the SBCI enables close relationships to be built within Europe and for a cost effective and streamlined delivery platform, when compared to dealing with separate institutions.

InvestEU will run between 2021 and 2027 and will bring together the multitude of EU financial instruments currently available to support investment in the EU across four policy areas: i) sustainable infrastructure; ii) research, innovation and digitisation; iii) SMEs; and iv) social investment and skills. InvestEU will be an important resource which the SBCI should ensure is competitively positioned to access going forward. The SBCI has developed relationships across the EU and National Development Banks (NDB) which should position the SBCI well going forward.

H. SBCI's Governance structure, risk management and financial position

The SBCI has sought to defray its costs through generating interest income from the SBCI loans and fees from the guarantee schemes. As the SBCI loans to on-lenders are repaid due to the changing market, the SBCI's income will reduce. Consequently, the revenues may not be sufficient to cover the costs on an annual basis. The SBCI is well capitalised, but funding ongoing costs does reduce the capital available to support its funding and policy support activities. Consequently, the question arises whether it would be beneficial for the SBCI to be self- financing as a means to become more sustainable as a State Agency to implement State and EU policy.

Whilst a detailed financial review has not been performed, the SBCI's business model appears to be designed to manage its existing risks and activities. No credit losses have been incurred to date but this may reflect the current economic environment and loan lifecycle. If the SBCI expands its products and operations, then it should be noted that its Governance; Risk Management structures & policies and operational capabilities would need to be reviewed to ensure they remain appropriate. In addition, the SBCI would need to have the required financial strength to absorb future risks and costs.

Summary of recommendations

It is recommended that the SBCI could consider exploring the merits of adopting the following strategic actions as part of its future strategy in consultation and agreement with its stakeholders:

- Supporting greater alignment between Ireland's financing market support State Agencies.
- Analyse the benefits of adopting a 'Mission Led' strategy where certain State economic policy objectives are adopted within the SBCI's core strategy to support market innovations and affect the required policy adoption. Missions adopted by SBCI's Peers and topical for the State include climate change, innovation development and export support. Any change to SBCI's mandate or mission requires consultation and agreement with stakeholders.
- Ensure measures are in place to maximise Ireland's share of InvestEU funding support. The InvestEU Fund will run between 2021 and 2027 and mobilise public and private investment through an EU budget guarantee with €11.25 bn being made available for SMEs. The EIB implement 75% of the guarantee and the remaining 25% must come from Financial Institutions and/or National Promotional Banks.
- Better understand the reason behind identified market challenges in order to develop more appropriate products and supports to address:
  - Low level of SME credit demand compared to previous years
  - High cost of SME loans smaller than €250k relative to other EU countries
  - SMEs funding mix for investment being weighted towards asset backed products
  - Level of access to funding across certain categories of SME
- Appraise the cost and benefits associated with delivering the following products:
  - Innovation growth credit products: Products suitable for early stage business development were identified as products not widely available and may partly address the perceived under investment within the SME sector.
  - Export financing support: Comparison of the SBCI against its Peers highlighted the absence of an export financing support agency in Ireland. It is acknowledged that export financing has previously been considered by the SBCI and the BLS provides specific export financing support. However, broader export financing supports may be key for SMEs to grow beyond borders and should continue to be appraised.
- Consider and appraise alternative approaches to provide a more robust lending model capable of addressing market failures across all potential scenarios, including:
  - Direct Access: Improve capabilities regarding direct access to SMEs to develop ability to identify and target specific sectors or cohorts of SMEs who don't have adequate access to credit through existing intermediaries.
  - Direct Lending: Creating the underwriting and other capabilities required to provide direct lending to SMEs who don't meet on-lender underwriting criteria.
  - Alternative Distribution: Utilising available State distribution infrastructure (e.g. LEOs, An Post and Credit Unions) to help overcome distribution challenges faced by new entrants in the Irish SME credit market.
- Work to minimise the administrative burden of the SBCI offerings to on-lenders and SMEs by continuing to develop systems and technologies which reduce the administrative burden such as the new on-line portal on the SBCI webpage (the Hub) which is currently in development.
- Explore activities which could be undertaken with pre-approval from the European Commission, thus facilitating the SBCI to develop more flexible and tailored offerings that could be more attractive to on-lenders and beneficiaries and remove a significant layer of administrative burden.

Should the SBCI expand its products and operations, then its governance; risk management and financial & operational capabilities would also need to be reviewed to ensure they remain appropriate. Any such enhancement of its activities should not impede its flexibility to appropriately react to support SMEs in economic down cycles and/or from the impact from economic or market shocks.

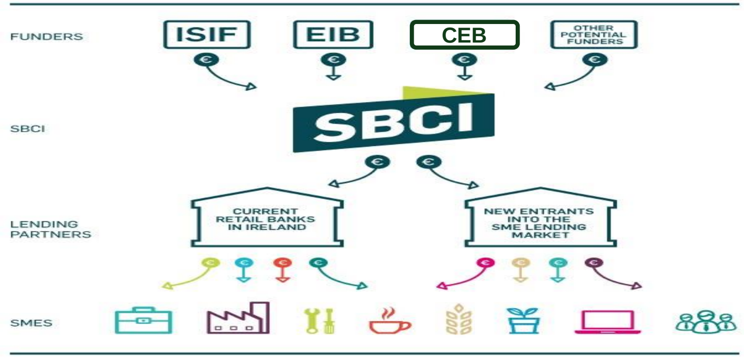
3

Overview

Business Model

SBCI's business model is to act as an intermediary lender, sourcing funding/funding supports and utilising on-lenders in the Irish market to channel benefits through to the end beneficiary.

Diagram 1: Summary of SBCI Business model



Source: SBCI

The model adopted on commencement of operations was to channel competitively priced funding to the market through Bank On-Lenders as this was seen as having the maximum impact in the shortest period of time. As the market has changed with time, SBCI is adapting its business model to focus more on delivering products and services such as risk sharing schemes. These wholesale offerings are described further below:

- **Loans**: SBCI sources low cost financing from State and European sources (such as EIB and ISIF). The State provides a guarantee to the European finance provider in relation to their loan with SBCI which is free of charge.

  SBCI makes the low cost funding available to on-lenders in the Irish market through the provision of loan facilities. The benefit of this cheaper finance can then be channelled through to the SME loan. SBCI has deployed c.€1bn of funding to three banks and five Non-Bank On-Lenders since its inception.

- **Risk Sharing:** In order to counter any lack of appetite for credit risk associated with SMEs or the sectors in which they operate, SBCI can guarantee a significant portion of debt (typically 80%) and thus de-risk the loan for the on-lender. This can improve the availability of funding, reduce the risk profile for the on-lender and pass through this cost benefit to SMEs within the credit margin.

(For further information on SBCI offerings refer to section 7.)

SBCI has launched three risk sharing schemes including the i) ACSLS, ii) the BLS, and iii) the FGLS (refer to Appendix B for further detail).

On-lenders are either responsible for product design (loan offering) or consult with SBCI regarding the product design (risk sharing) depending upon the offering. However, all products must meet certain requirements which include reduced interest rates and more beneficial terms. The credit process remains the responsibility of the on-lender.

SBCI's product offerings can be used to address specific aspects of the SME market and has therefore been utilised by Government Departments as a method of intervening in the SME credit market to support the delivery of specific policies.

SBCI is also a service provider to the DBEI in relation to the CGS. This scheme is a Risk Sharing product but DBEI remains responsible for any credit loss exposure.

Contents of this report

This report analyses the SBCI in the context of its legislative objectives and in relation to its mandate, market and business model. The following sections in this report will cover:

- Section 4. Landscape of state agencies: SBCI's position within the suite of State supports
- Section 5. State and EU Policy Alignment: SBCI's alignment to support the State achieve its policy
- Section 6. SME credit market: The characteristics of Ireland's SME credit market
- Section 7. Offerings: Historical view of SBCI's offering and performance in the context of its legislative mandate
- Section 8. Lending model: The effectiveness and limitations of SBCI's business model in delivering the desired market interventions
- Section 9. State Aid: The implications of adherence with State Aid regulations
- Section 10. Sources of funding: SBCI's capacity to source funding supports
- Section 11. Governance, risk & financial: High level overview of SBCI's governance structure, risk management and ability to self-finance
- Section 12. Peer benchmarking: the results of the analysis of SBCI against selected peers

Identity and structure

The SBCI was incorporated in 2014 pursuant to the 'Strategic Banking Corporation of Ireland Act 2014', to consolidate the Irish economic recovery through the increase in the availability of funding.

SBCI is structured as a Private Limited Designated Activity company, the issued share capital of the company is solely owned by the Minister for Finance.

SBCI is governed by a board of Directors appointed by the Minister for Finance and is subject to the Code of Practice for the Governance of State Bodies.

SBCI operations are split across four divisions: lending, risk, finance & operations, marketing and product development. SBCI is based within the National Treasury Building and its operation is facilitated by a Service Level Agreement (SLA) with National Treasury Management Agency (NTMA) who support a number of functions in the business such as IT, HR, Legal and Finance.

Mandate

SBCI's purpose is consistent with similar public institutions in other EU countries: to support Ireland's credit sector with a focus on SMEs and address cyclical constraints. SBCI's legislative mandate is therefore reasonably broad.

Initially, the main focus of SBCI was to develop the funding of the SME sector where there was perceived to be a lack of credit and competition in the funding market. It was envisaged that greater access to longer term and affordable pricing for finance by the SME sector would support investment, growth and jobs.

It was also envisaged that in the future the SBCI could support other strategic areas of the Irish economy affected by financing constraints through the provision of specific products and services or by acting as a vehicle for delivering State policy.

The SBCI does not act as a private operator participating in the market and has not notified the European Commission for pre-approval of its activities and must therefore comply with State Aid regulations (primarily De Minimis Regulation and Block Exemption Regulations) which places certain restrictions on SBCI's activities and requires a level of administration/reporting to ensure compliance.

Table 2 sets out the main legislative objectives of SBCI in the context of supporting SMEs and the wider Irish economy.

Table 2: Summary of SBCI legislative objectives

Overview of SBCI legislative objectives	
1.	Provide and promote additional credit in the State, in particular to SMEs
2.	Design credit facilities which address financial needs of the borrower
3.	Promote competition in the market
4.	Encourage and increase number of providers and new entrants of finance in the state
5.	Contribute to the mix of products available in the market
6.	Source international funding
7.	Provide funding for projects promoting economic development in the state
8.	Facilitate operation of diverse credit markets
9.	Carry out ancillary functions which are beneficial to its function

Source: EY summary of legislative objectives per the Strategic Banking Corporation of Ireland Act 2014

Market context

The Irish capital and banking markets have undergone significant change since the financial crisis. There have been major events impacting the competitive landscape, capital requirements and cost of funding. There has also been a change in the behaviour of SMEs which has impacted their own appetite for borrowing. The SBCI is therefore challenged by operating within a continually changing market and landscape for which it must continue to adapt.

4

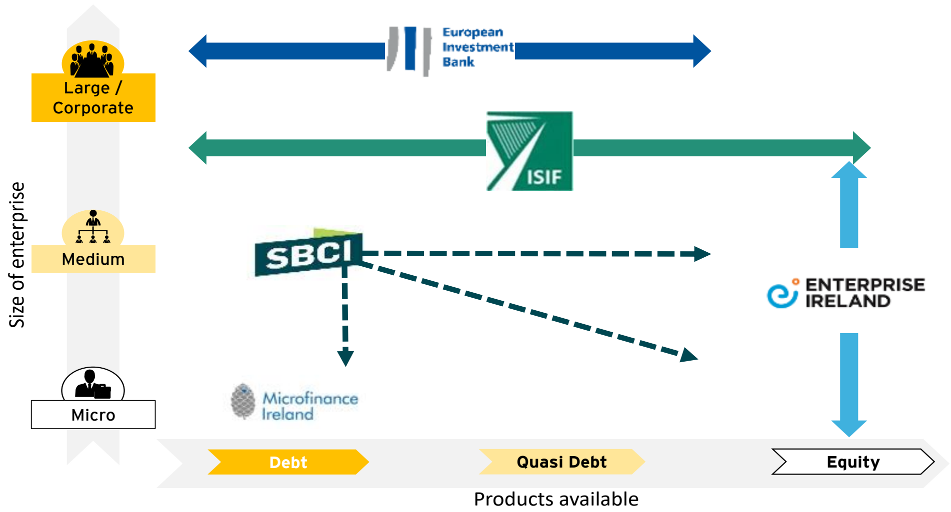
Landscape of state agencies

Introduction

Access to affordable and appropriate finance is critical for businesses of any size, at any stage in their development and in any sector. The State needs the necessary mechanisms available to intervene across the financing spectrum as and when necessary to address market failures and/or support innovations in specific sub-sectors to drive a prosperous economy. The SBCI is one State Agency within the Irish financing market and the analysis within this section provides an illustrative overview of the landscape within which the SBCI operates.

Analysis

Diagram 2: Illustrative Landscape of Relevant State Agencies providing funding support



Source: EY analysis using State Agency websites

***Note:** Diagram 2 includes State Agencies operating within Ireland's funding market most relevant to this Assignment and depicts the sub-sectors in which they primarily operate. In addition to these entities, there are other State supports within the financing sector such as the CRO, LEOs, publicly funded investment funds, publicly funded accelerator/start-up programmes and Government Departments also frequently introduce policies to support the SME sector which include grant and financing aspects.*

Table 3: Description of Relevant State Agencies

Microfinance Ireland (MFI) – MFI provides unsecured loans of between €2,000 and €25,000 to micro-enterprises. It underwrites loans that are higher risk than those underwritten by traditional lenders.

Enterprise Ireland (EI) – EI supports Irish firms, high potential start-ups, mid and large corporates through non-financial supports (primarily grants or equity) and through the provision of venture and development capital to grow businesses with a focus on export and innovation.

Irish Strategic Investment Fund (ISIF) – ISIF is mandated to invest and to support economic activity and employment in the State whilst requiring a commercial return. Its mandate is guided by the objectives of Project Ireland 2040. ISIF invests using both debt and equity in specific opportunities as they present themselves.

European Investment Bank (Direct) (EIB): EIB provides direct loans to large corporates and to midcaps. EIB provides favourably priced and structured loans, typically with planned capex and R&D investments costing over €20m. EIB also provides indirect funding more widely across the spectrum, often utilising National Promotional Institutions.

Credit Review Office (CRO): CRO was established to assist SMEs that have had a credit application of up to €3m declined or reduced by a bank and which believe they have a viable business proposition.

Local Enterprise Office (LEO): LEOs were established as a 'First Stop Shop' for anyone seeking information and support on starting or growing a business in Ireland and offers advice, information and support.

Source: EY analysis using State Agency websites

Table 4: Summary of Relevant State Agency Characteristics

	Mandate	Economic Direction	Instrument
Microfinance	Non-commercial	Micro/Credit refusals	Debt
SBCI	Non-commercial	SME	Debt
EI	Non-commercial	Innovation, Export	Grants/Equity
ISIF	Commercial	Food & Agri, Housing, Climate, Brexit	Equity/Quasi Debt
EIB (Direct)	Commercial	Innovation, Infrastructure, Climate, Small Business	Debt / Quasi Debt

Source: EY analysis using State Agency websites

Implications of analysis

SBCI occupies a defined space within the overall landscape of State Agencies and complements the offering of other related State Agencies such as ISIF, EI and Microfinance Ireland.

While it is recognised that the State has numerous Agencies seeking to assist businesses (including SMEs), each State Agency has a different mandate/mission. Feedback received during the stakeholder consultation process supported a view that the presence of various State Agencies creates some ambiguity and confusion as to the State's overall offering and where the SMEs should go to access supports.

SBCI and related State Agencies should ensure that there is alignment between them and a combined cross-agency effort to ensure a 'One Stop Shop' for any SME seeking information and support. This could include developing a single portal to access information online and allocating a primary interface role to a single body.

There is currently no State Agency providing innovation loans[1]/mezzanine or equity products for the wider SME population. It is recognised that EI provides a renowned offering supporting SMEs through equity/equity linked funding but only to those enterprises focussed on innovation and export rather than the breadth of SMEs under SBCI's mandate. These types of products are growth enablers for SMEs and it was highlighted in the stakeholder consultation process as a product-type which is potentially under served within the Irish financing market. The market analysis in Section 6 also suggests SMEs may be underinvesting in their businesses and utilising less appropriate forms of finance for investment purposes. SBCI could consider adopting a role within this product space which is discussed further in Section 7.

Note: *It should be noted that the Agencies included within this section are those considered to be most relevant to this Assignment and is therefore not an exhaustive analysis. The Agencies administer various schemes and programmes, this report considers their primary purposes and/or skillsets. Whilst MFI is not owned by the State, it has been considered within this analysis due to its similarities with a State Agency. EIB has a broad offering, EIB's direct funding offering has been considered within given the SBCI's role as a conduit for EIB indirect offerings. CRO and LEOs were not included within the illustrative landscape as they do not provide funding support.*

[1] *An example of an Innovation loan being a long term credit facility with equity characteristics such as flexible repayment options which may be tailored to profitability.*

Recommendation

It is recommended that SBCI could consider exploring the merits of supporting greater alignment between Ireland's Agencies supporting the SME market.

5

State and EU Policy Alignment

Introduction

Recognising the importance of continued strong indigenous economic performance to Ireland's prosperity and sustainable growth, successive governments have introduced and implemented a range of policies to realise these objectives. A wide range of EU policies have also been implemented that are directly relevant to supporting SMEs and improving credit. This Report reviews State and EU Policy and identifies where SBCI is recorded as having responsibility or where SBCI has the potential to support the Government in achieving its SME policy ambitions.

State Policy

Department of Business, Enterprise and Innovation policies (DBEI)

DBEI's Enterprise 2025 aims to improve the entrepreneurial ecosystem for SMEs. Implementation of the plan's actions relevant to improving access to finance is stated as primarily being the responsibility of DBEI, the DoF and SBCI.

DBEI's Action Plan for Jobs 2018 sets out a vision for job creation which includes establishing a comprehensive and competitive funding environment which includes SBCI as one of its delivery mechanisms.

DBEI's Future Jobs Ireland 2019 and Innovation 2020 respectively set out long-term ambitions for enterprise growth, job creation, and for integrating R&D into SMEs' day-to-day activities. SBCI is not specifically referenced within these policies, but is well placed to support these objectives.

Department of Agriculture, Food and Marine (DAFM)

DAFM's ten year plan, 'Food Wise 2025', focuses on increasing the sector's rate and level of exports. SBCI is detailed within Food Wise 2025 as a State Agency through which DAFM will explore additional innovative funding mechanisms and financial instruments, specific to the agri-food sector, with a view to improving further competition in relation to credit provision.

Department of Foreign Affairs (DFA)

The Government's Brexit Contingency Action Plan includes SBCI within its 'Government Supports for Business' section in relation to the BLS which provides credit funding supports for businesses whose working capital funding may be impacted by Brexit.

Department of Communications, Climate Action and Environment (DCCAE)

DCCAE's recently launched Climate Action Plan sets outs objectives for supporting SMEs' adoption of known technologies and driving change in their business models. Actions include mobilising private sector investment on a sustained basis over a number of decades for which SBCI is listed as a Sate Agency to be explored as a support mechanism.

EU Policy

A wide range of EU policies have been implemented that are directly relevant to supporting SMEs. This report reviews EU Policy and identified areas where SBCI and its activities are aligned:

- Competitiveness of Enterprises and Small and Medium Sized Enterprises (COSME) makes it easier for SMEs to access finance through the provision of guarantees. This was utilised by SBCI's ACSLS. COSME guarantees apply to loans, convertible loans, leasing, Revolving Credit etc., valued up to €1.5 million with a maturity of five years.
- Innovfin is part of the EU Finance for Innovators programme and includes a guarantee targeted at SMEs investing in the development of innovation, growing at pace and/or have R&D potential. The guarantee applies to loans, bonds and lease financing, for the purposes of investment or working capital, and valued from €25,000 to €7.5m, with a maturity of 1 year to 10 years. This was utilised by SBCI within the BLS.
- EU's Climate Action 2050 Long Term Strategy includes action through its Capital Markets Union with the EU being at the forefront of changes in the global finance industry to enable climate change initiatives. SBCI is well placed to support the implementation of this in Ireland.
- Other fundamental EU policies include: the Small Business Act for Europe, which aims to streamline regulation of SMEs; the Entrepreneurship 2020 Action Plan, which has an entrepreneurial education focus; and the Green Action Plan for SMEs, which emphasises ways for SMEs to turn environmental challenges into business opportunities.

Implications of analysis

The SBCI has proved itself as a policy delivery mechanism having supported a number of signature Government credit finance schemes, including the BLS and the Agricultural Cashflow Support Scheme. The views obtained through the stakeholder consultation process confirmed that the SBCI is an important policy delivery tool for the Irish Government in its role as a credit market intervention mechanism.

The stakeholder consultation process also highlighted that having a single aggregator in the form of SBCI enables close beneficial relationships to be built within Europe and enables a cost effective and streamlined delivery platform when compared to dealing with separate institutions.

It is evident that SBCI is a flexible platform for supporting the delivery of both State and EU policy. However, this could create a risk that new policy focuses are adopted too frequently which may create confusion in the market as to SBCI's direction and purpose.

Having core policies within SBCI's 'Mission' may reduce the risk of confusion in the market as to SBCI's direction and purpose. SBCI should therefore consider, alongside its existing legislative mandate and by agreement with its stakeholders, establishing a mission led mandate which supports State policy objectives and economic direction. Those adopted by SBCI's Peers and topical for the State include climate change, innovation development and export support. Of particular relevance for the SBCI is climate change given SBCI was listed as a State Agency to be explored as a support mechanism with DCCAE's recently launched Climate Action Plan includes mobilising private sector investment on a sustained basis over a number of decades as a key action.

While SBCI has proven itself as a policy delivery mechanism, intermittently adopting new policy focuses could create confusion in the market as to SBCI's direction and purpose. SBCI should therefore consider, alongside its existing legislative mandate and by agreement with its stakeholders, establishing a mission led mandate which supports State policy objectives and economic direction while providing the market with a clear message of its purpose. Missions adopted by SBCI's Peers and topical for the State include climate change, innovation development and broader export supports.

Recommendation

It is recommended that SBCI could consider adopting a 'Mission Led' strategy where certain State economic policy objectives are adopted within SBCI's core strategy to support market innovations and affect the required policy adoption. Missions adopted by SBCI's Peers and topical for the State include climate change, innovation development and export support. Any change to SBCI's mandate or mission requires consultation and agreement with stakeholders.

Table 5: Irish Government policies relevant to SBCI

Policy	Agency	Responsibility
Annual Action Plans for Jobs 2018	DBEI	DBEI, DAFM, SBCI, DOF
Enterprise 2025	DBEI	DBEI
Future Jobs Ireland 2019	DBEI	EI
Innovation 2020	DBEI	DBEI, DPER, DOF, EI
Food Wise 2025	DAFM	DAFM
Brexit Contingency Action Plan	DFA / DoF	No specific Agencies cited
All of Government Plan on Climate Action	DCCAE	Whole of Government

Source: EY analysis of published Government Policies

Table 6: EU policies relevant to SBCI

Policy and objectives	
Competitiveness of SMEs – Europe's Programme for SMEs	Support access to finance, opening markets, supporting entrepreneurs, improving business conditions.
Horizon 2020 SME Instrument - Innovfin	Funding and support for breakthrough innovation projects with a market-creating potential.
Climate Action	EU's 2050 Long Term Strategy includes more sustainable private investments.
Small Business Act for Europe	Facilitating financing, better access to procurement procedures, encouraging start-ups led by women.
Entrepreneurship 2020 Action Plan	Removing existing structural barriers, support in crucial phases of the business lifecycle.
Green Action Plan for SMEs	Actions at European level designed to fit in with - and reinforce - existing 'green' initiatives to support SMEs.

Source: EY analysis of published EU Policies

6

SME credit market

Introduction

The sustained recovery underway in the economy since 2014 should have supported all businesses in the economy, and especially SMEs, which make a major contribution to economic development and the generation of employment. SMEs (employing less than 250 persons) account for the overwhelming majority of enterprises, 68.4% of persons engaged[1], and an estimated 48% of turnover and almost 40% of Gross Valued Added[2]. As SME performance is very closely linked with the overall health of the economy, the expectation would have been that firms would take on additional debt in order to take advantage of growth opportunities. However, structural changes in the economy and the move towards a more services based economy may be giving rise to lower levels of SME borrowing compared to a decade or more ago. That said, the total outstanding debt to SMEs has consistently fallen every year since the recovery began in 2014. This sections analyses the SME credit market and the key trends observed.

Outstanding Credit

As of March 2019, the total non-financial, non property related outstanding credit to SMEs was €14.35bn, down from €24.50bn in December 2013 and the lowest level since the series began in March 2010. Looking at the six main SME sectors, the largest level of outstanding credit was in Primary Industries (largely Agriculture), followed closely by the Wholesale, Retail Trade and Repairs sector[3].

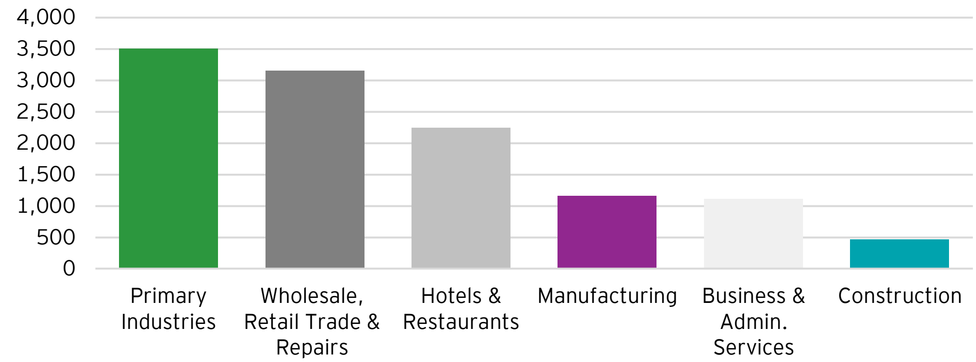
New Lending

The robust underlying growth in the economy over recent years should have begun to positively impact the level of bank lending to SMEs. The level of gross new SME lending across all SME sectors reached €5.12bn in the four quarters to Q1 2019, 5.8% below the recent peak in Q3 2018 (€5.45bn), but well ahead of it lowest level in Q1 2014 (€2.18bn).

Excluding Financial Intermediation and Property related sectors, the level of gross new lending was €3.44bn in Q1 2019, unchanged from the level in Q1 2018 (€3.43bn) but 4.2% below the recent peak in Q3 2018 (€3.59bn).

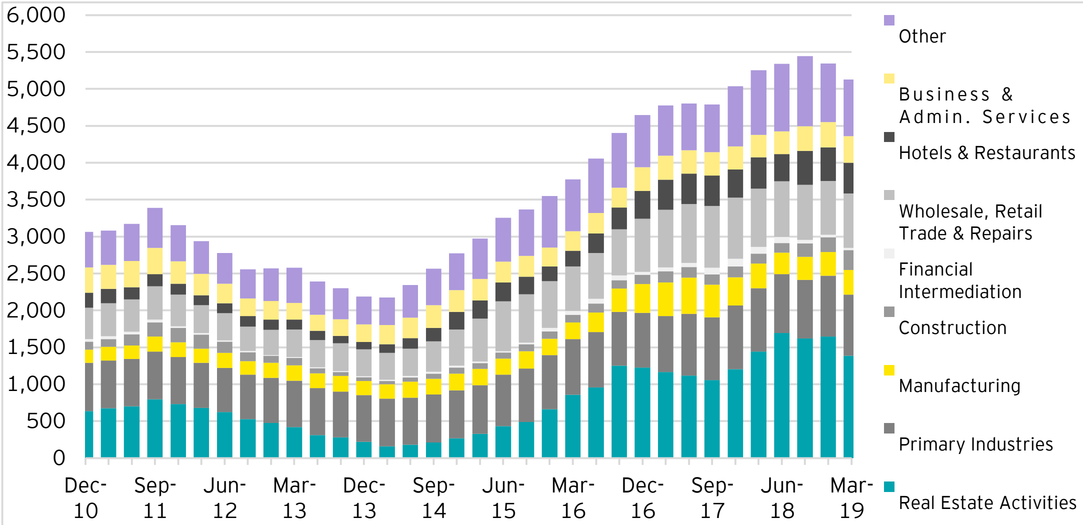
While these figures indicate a recovery in gross new lending in the last five years – an annual average growth of 18.7% - the trend over recent quarters has been downwards and as of March 2019, outstanding credit to SMEs was at the lowest level since the series began in March 2010, indicating that SMEs continue to de-leverage.

Diagram 4: Total Credit Outstanding to SMEs by Sector, Q1 2019 (€m)



Source: Central Bank of Ireland

Diagram 5: Gross New SME Lending by Sector to SMEs Q4 2010 – Q1 2019 (€m)



Source: Central Bank of Ireland.

[1] (CSO, 2017), [2] (EY-DKM est). [3] CBI, SME Market Report 2019

SME demand for credit has been consistently declining since 2012

Trends in SME Lending

Within this section examine trends in the SME lending market using data from a range of sources, notably from:

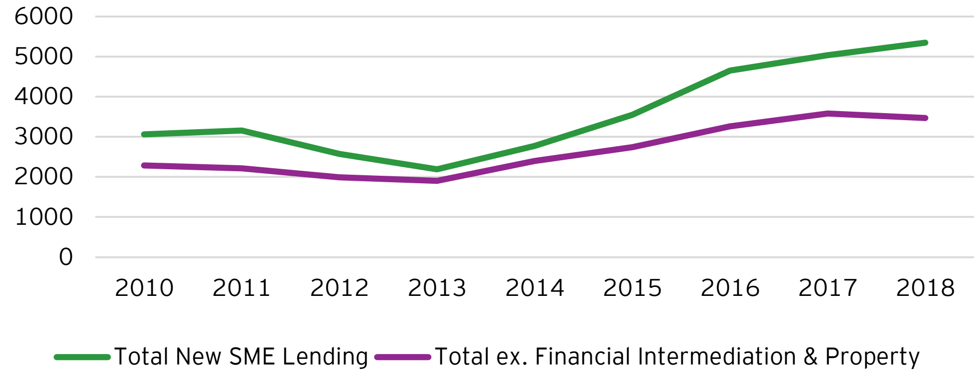
- The Central Bank of Ireland (CBI), which has been reporting quarterly data on SME lending since March 2010. March 2019 is the most recent available at the date of this Report.
- The DoFCDS, which is carried out twice a year, with the most recent published in December 2018, relating to SME lending activity for the period April to September 2018
- The SAFE Survey on the Access to Finance of Enterprises in the euro area (SAFE Survey), is undertaken every six months; the latest survey published in May 2019 relates to the period October 2019 to March 2019

The DoFCDS reports on the trading performance of SMEs, noting that turnover has been improving since mid-2013 and remained favourable in the most recent survey. A total of 86% of SMEs surveyed reported increased or stable turnover in September 2018 (Table 7). Further analysis in the September 2018 survey showed that the improvement is more pronounced amongst indigenous business, while 53% of exporting businesses reported a moderation in the growth in turnover, down from 58% in the previous survey.

However, the DoFCDS also reported a decline in the demand for banking finance across SMEs of all sizes – 20% of SMEs applied in the six months to September 2018 compared to 23% in the previous survey. Indeed there has been a consistent decline in the demand for credit, from 39% in September 2012 to the current level of 20% in September 2018. It is also the case that the proportion of firms surveyed that expected to seek bank finance has been on a downward trend since September 2014, falling from 27% to 19% in the latest survey.

This decline raises concern for some industry bodies that SMEs could be utilising more credit finance to invest in the growth of their business and may not be investing to ensure their future effectiveness. However, it is recognised that the decline in credit alone is not sufficient evidence to conclude that SMEs are under investing. Systematic changes to SMEs and the economy (such as efficiencies achieved through technology and a move towards service based industries) may require a structurally lower credit requirement when compared against historic periods. Further analysis outside the scope of this Report would be required to identify the optimum level of credit funding for SMEs going forward. The historic dataset of comparatives is currently best information available on which views can be formed.

Diagram 6: Total New SME Lending (€m) (2010-2018)



Source: Central Bank of Ireland:

Table 7: Selected Results from the Department of Finance SME Credit Demand Survey

% of SMEs in sample	Sep 2011	Sep 2012	Sep 2013	Sep 2014	Sep 2015	Sep 2016	Sep 2017	Sep 2018
SMEs reporting increased or stable turnover	52	62	72	84	85	88	86	86
SMEs requesting bank finance	36	39	36	31	30	23	23	20
SMEs expecting to seek bank finance in next 6 months	24	27	26	27	27	20	20	19
SMEs for whom credit application declined	23	19	16	12	12	15	14	13

Source: Department of Finance SME Credit Demand Survey, December 2018

Irish rejection rate at 6.4%, is only slightly above the rate experienced in comparator euro area countries

Accessing finance

The capacity of SMEs to access finance can be garnered from the rate of rejection of applications by financial institutions. In the period September 2011 to September 2018, rejection rates in Ireland have fallen, from 23% to 13%. However, much of this decline occurred before the establishment of the SBCI, as by September 2014, rejection rates had fallen to 12% and remained at that level in 2015.

On a firm-size level, the rejection rate in Ireland falls as the size of firm increases – micro-enterprises are rejected at a rate of 20%, small firms at a rate of 13%, and medium-sized firms at a rate of 4% - with the overall rejection rate at 13% for all SMEs in the latest survey. It is noteworthy that the rate of rejection has fluctuated for some cohorts. In the case of micro-sized firms, in the four-year period September 2014 to September 2018, the rate peaked (23%) and troughed (15%) over the period.

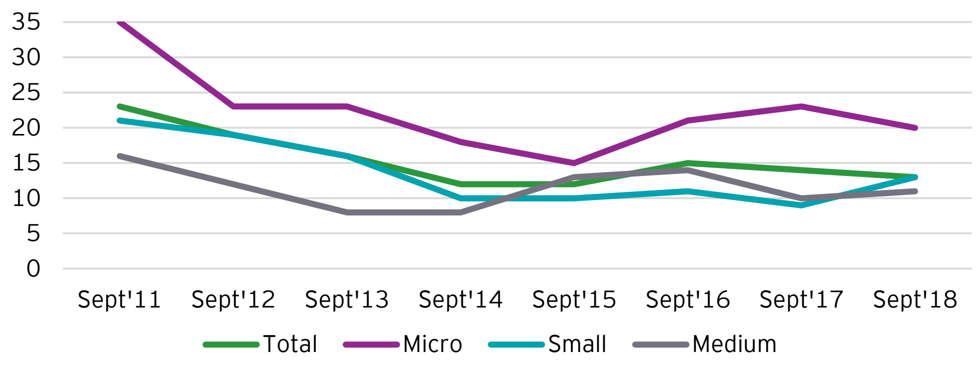
In comparative terms, the SAFE survey shows that rejection rates for loans and overdraft applications have been falling across Europe for several years, having declined by 50% in the period September 2014 to September 2018 (Diagram 8). While the rate fell consistently throughout Europe, the peaks and troughs observed in Ireland appear incongruous. The SAFE survey reports the latest rejection rate in Ireland at 6.4% (versus 13% in the DoFCDS, difference may be due to a different definition), slightly above the latest rates experienced in the two groups of countries reported in the chart opposite, at 5.6% in EA2 and 4.5% in EA1.

It is unclear what drives fluctuations in rejection rates, especially in a buoyant economy in which SMEs may be seeking finance to leverage growth opportunities and in which repayment capacities can be greater. Yet the latest DoFCDS reported that the single greatest reason given by banks for not lending the full amount requested was a failure to meet the bank's lending criteria (38%), followed by the applicant's ability to repay (20%).

These market statistics suggests that SMEs can typically access credit when correctly applied for and there is not a general market failure with regards to the supply of credit to SMEs.

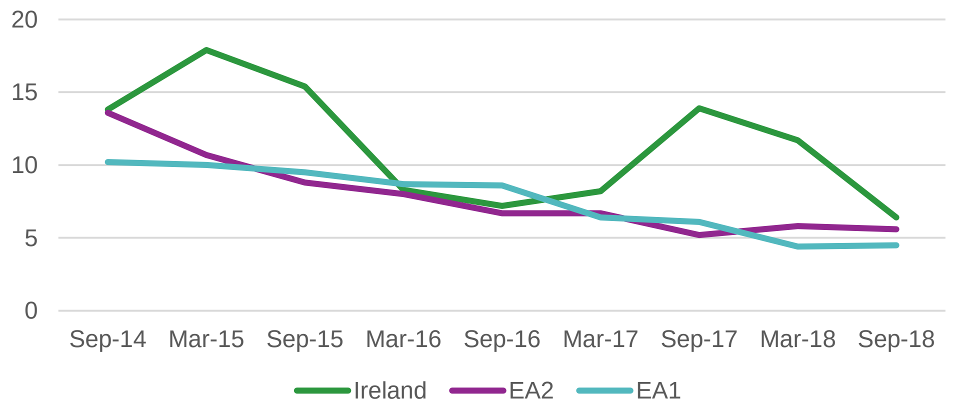
However, the SME sector is broad and includes enterprises across a wide variety of industries, geographic locations and business life-cycle. The stakeholder consultation process highlighted some concerns that certain sub-categories of SMEs are facing challenges with regards to access to funding (such as entities falling outside of specific target sectors and entities without a credit history). SBCI does not have direct access to the SME and this therefore limits its visibility and intelligence as to market challenges and reasons why an SME does not have access to credit. The stakeholder consultation process also highlighted views that refusal statistics may exclude some early inquiries to lenders which do not formally enter the system, and this may impact upon the market data available regarding accessing finance.

Diagram 7: Bank finance rejection rates by firm size (%)



Source: Department of Finance SME Credit Demand Survey, December 2018. The above figures include applications which are still pending – total of 12% in September 2019.

Diagram 8: Rejection rates for loans and/or overdraft applications (%)



Source: SAFE Survey. The data reported by the SAFE Survey may differ from the DoFCDS due to smaller sample size used in the SAFE Survey, the sampling frame and the definitions employed. EA1 countries comprise Austria, Belgium, Germany, Finland, Netherlands and France; EA2 countries comprise Portugal, Italy, Spain and Greece.

Use of finance

SMEs use credit for different purposes – working capital, exporting, investment, etc. During the period of economic recovery, SMEs have been less likely to use credit for the purposes of working capital, yet smaller SMEs are more likely than larger SMEs to use credit for this purpose.

The larger the SME, the more likely it is to apply for credit for growth and expansion, according to the Central Bank – the rate increases from 23% for micro enterprises to 25% and 40% for SMEs respectively. In comparative terms, Irish SMEs are most likely to seek credit for working capital (45%), whereas the rate is lower in central Europe (33%). SMEs on the continent are more likely than SMEs in Ireland to apply for credit for the purposes of investment and for R&D – 66% and 56% respectively. Separate data reported in the SAFE Survey show somewhat different categories for financing, including:

- Fixed investment (43.2% of SMEs in euro area in Oct 2018-March 2019 survey)
- Inventory and working capital (33.7%)
- Hiring and training of employed (22.2%)
- Developing and launching new products or services (20.7%)
- Refinancing or paying off obligations (12.6%)

Diagram 9: Purpose of credit application by firm size (%), September 2018

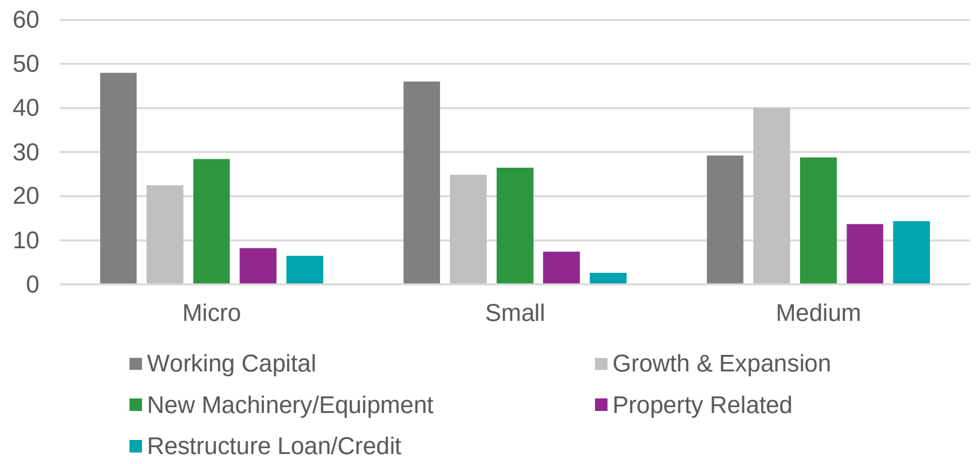


Diagram 10: Purpose of financing (%), September 2018

SAFE Survey. The data reported by the SAFE Survey may differ from the DoFCDS due to smaller sample size used in the SAFE Survey, the sampling frame and the definitions employed. **EA1 countries** comprise Austria, Belgium, Germany, Finland, Netherlands and France; **EA2 countries** comprise Portugal, Italy, Spain and Greece.

Smaller SMEs are more likely to source funding for investment internally, and the rate is marginally higher in Ireland than across the EU

Funding investment

Sources of funds

SMEs may invest in their business to leverage domestic or international growth opportunities, to invest in staff, or to renew existing capital assets and facilities. In most cases, there may be a choice available between internal and external sources of finance.

Irish SMEs are marginally more likely than SMEs across the EU to source finance for investment internally (69% v 62%). This is consistent across all firm sizes, and falls as the size of the firm increases, in both Ireland and across the EU (Diagram 11).

External instruments

SMEs can use different financial instruments for different purposes, depending on their individual circumstances, the range and availability of instruments in the market and the structural nature of a respective country's banking system. Central Bank data for 2017 (latest available) shows that SMEs were most likely to use leasing agreements for the purpose of investment activities, at 40%, followed by bank loans, at 29%. By contrast, across Europe this tendency is flipped – SMEs use bank loans at a rate of 55% and leasing at a rate of 24%. This is consistent across all firm sizes.

The data on the types of external funds used by SMEs indicates that the larger the Irish SME, the less likely it was to finance investment using bank loans. All Irish SMEs are using funds from leasing and other sources[1] as a primary funding source for investment. Does this suggest that Irish banks are more likely to fund on an asset backed basis than compared with their European counterparts? Asset backed products generally have a lower risk profile when compared to cashflow based lending. While further research would be necessary to determine if this is the case, the data shows that there is a different funding mix for SMEs in Ireland versus their counterparts in Europe:

- EU SMEs utilise bank loans for investment to a greater degree than SMEs in Ireland
- SMEs are more likely to use lease agreements for investment in Ireland (44.6%) than across the EU (29.6%)
- With respect to the other1 category, small Irish SMEs use more invoice discounting than their European equivalents (14.9% Vs. 3.9%), while grants from public sources (11.1%) figure prominently for Irish SMEs compared to their counterparts in the EU (2.7%)

Diagram 11: Share of types of external finance used for investment activities (%), 2017

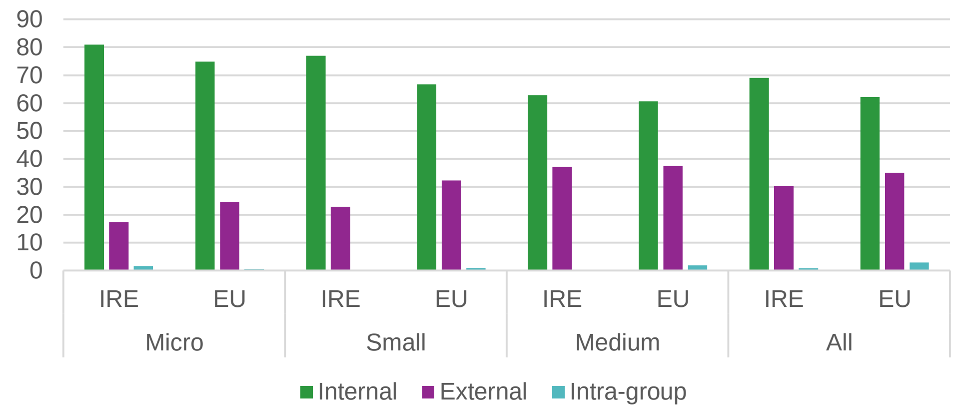
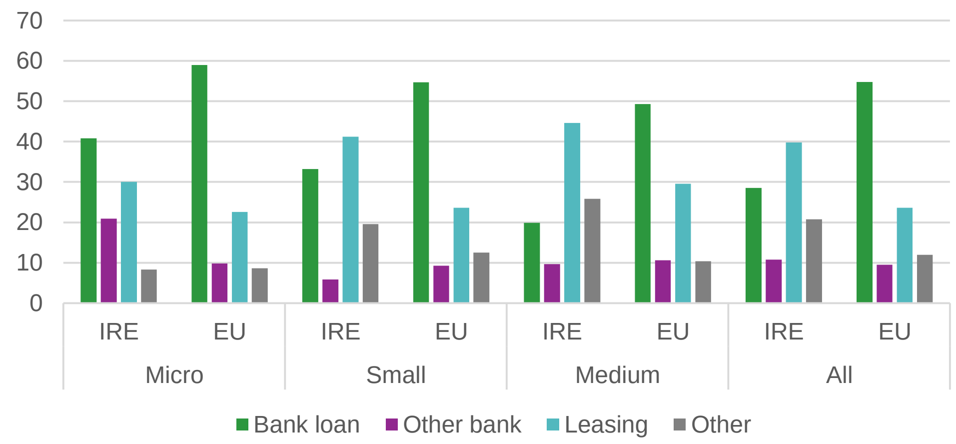


Diagram 12: Source of Investment Finance (%), 2017



Source: Central Bank of Ireland

[1] The 'other' category in Diagram 12 includes the following: Invoice discounting, Grants (support from public sources), Bonds, Equity and Loans from family, friends or business partners.

The interest rate on new SME loan drawdowns has come down significantly in other EU countries while it remains high in Ireland

Interest rates

Data on interest rates can vary depending on the source, the sector, firm size and the quantum of the loan. The level of SMEs' demand for credit from banks can be impacted by the interest rates those banks charge on borrowings. The Central Bank reported that the weighted average interest rate on all new SME loan drawdowns was 4.14% in Q1 2019, above the corresponding average rate on all outstanding SME loans of 3.51%.

Data is reported for the interest rates charged on small loans – valued at less than €0.25m (proxy for SMEs) – and large loans – valued at over €1m (proxy for larger corporates). Both metrics are available from the Central Bank and allow for comparability between Irish and European contexts.

The data shows that the cost of credit for small loans has fluctuated in Ireland over recent years, remaining considerably higher than the corresponding rates for EA1 and EA2 countries[1]. At January 2019, the average interest rate on a new small loan was 5.7% in Ireland, compared to 2.5% in both peer groups – spread of 3.2 points. The rate for small loans in Ireland in September 2014, at the time of the SBCI's establishment, was marginally higher at 6%. In contrast to the market rate, the average interest rate on SBCI-supported loans was 4.5% in 2015, 4.6% in 2016, and 4.4% in 2017, highlighting that SBCI-supported loans incur rates lower than the market average.

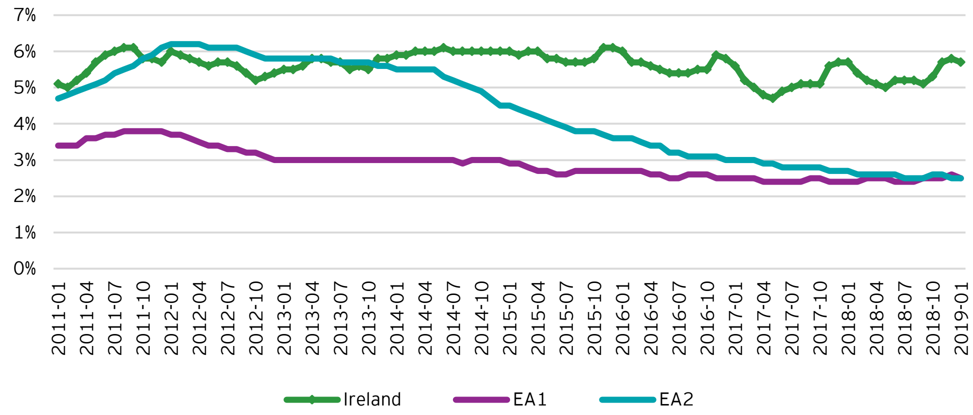
The average interest rate spread between small and large loans in Ireland is also significantly higher than elsewhere in the euro area – at 3.6 points in Ireland and 1.3 points and 1.0 points in EA1 and EA2[1] countries respectively. The difference in interest rate on small loans between Ireland and EU groupings is therefore more significant than large loans, however this report considers the small loan category as it is closer to SBCI's average loan size.

There are a number of potential reasons as to why the differentials between Irish and the EU country groupings may exist, including:

- Legacy issues such as the high level of defaults during the recession (which has since moderated significantly), has impacted banks' capital and pricing models
- The relative size of the SME population in Ireland versus the EU - Ireland's SMEs are smaller relative to the country groupings presented
- The size of the Irish market constrains the level of competition, which limits its attractiveness for a broad range of funders to operate in the Irish market

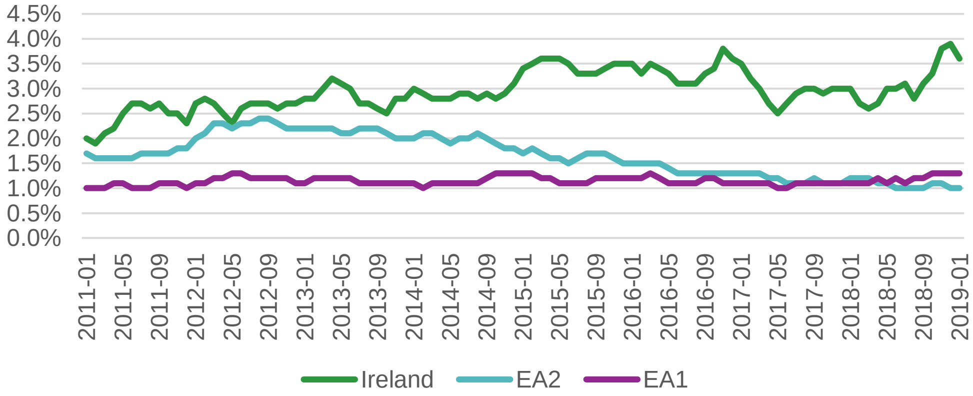
The cost of funding for SMEs has come down significantly in other countries while it remains high in Ireland, and the spread between the cost of small and large loans has widened over recent months. Why this is the case requires additional analysis and is beyond the scope of this Report.

Diagram 3: Average Interest Rates on new Small loans (Jan 2011 - 2019)



Source: Central Bank of Ireland.

Diagram 13: Interest rate spread between small loans and large loans Jan 2011 - 2019



Source: Central Bank of Ireland.

[1] EA1 comprises of Austria, Belgium, Germany, Finland, the Netherlands and France. EA2 countries includes Portugal, Italy, Spain and Greece. 3 month moving average for interest rate on loans under €0.25m.

Loan performance

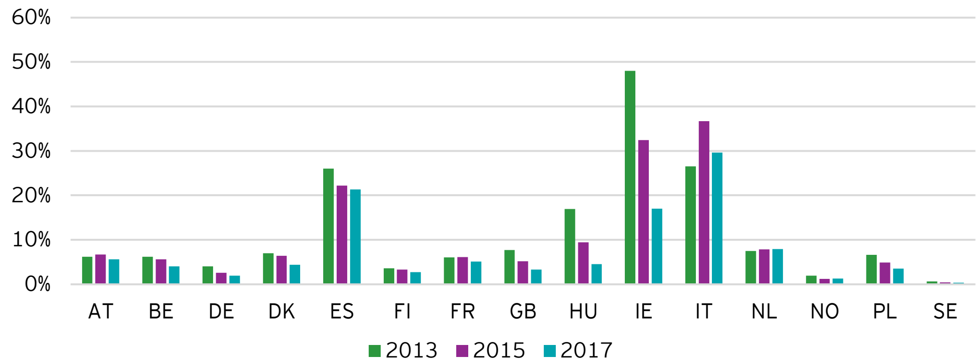
SMEs' capacity to repay loans is captured by default rates – the share of all loans by any banks that are in default. At 17%, Ireland registered the third highest SME default rate amongst EU15 countries in 2017 (latest data - Italy recorded the highest default rate at close to 30%). Although Ireland was one of only three countries to register double-digit default rates in 2017, the proportion of SMEs defaulting in Ireland has fallen considerably since the economy has rebounded, down from 48% in 2013. Analysis by the Central Bank attribute this decline to the improving economy, higher asset quality of new lending, restructuring and resolution of loans and portfolio disposals.

On a sectoral level, SME default rates were highest in the Accommodation and Food and the Construction sector in 2017 (latest data), with 29% and 25% of SMEs having defaulted on their respective loans respectively. By contrast, default rates are well below average in some sectors, such as Human Health (9.1%) and Transportation and Storage (13%).

The variation in default rates across regions is less than across sectors in Ireland, according to Central Bank data. SMEs in the West (23.1%) and Mid-East (20.3%) were reported to have higher levels of default than other regions in June 2018. Default rates were lowest in the Border area (14.7%) and the Midlands (15.6%) .

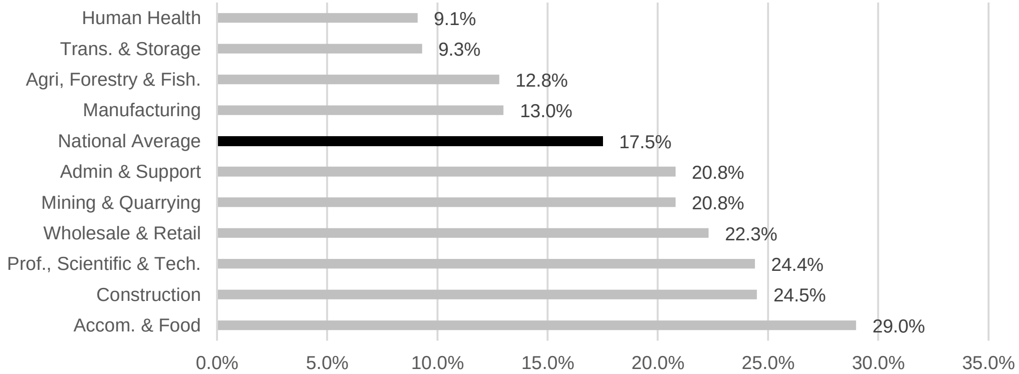
The underlying profile of Irish SMEs compared to their European counterparts and the historic mix of property related lending may provide an explanation for the higher default rates, however this requires analysis before this conclusion can be reached. However, it is likely that these historic default issues impact upon lender's appetite for credit risk, reserved capital requirements and capital pricing models. All of which impact the interest rates to SMEs. We also recognise the potential impacts of both the European Central Bank and CBI continuing to encourage and put in place measures to reduce historical non-performing loans at banks.

Diagram 14: SME Default Rates, country comparison (% of SME loan portfolio)



Source: Central Bank of Ireland Loan Level Data

Diagram 15: Irish SME Default Rates, by sector, June 2018 (% of SME loan portfolio)



Source: Central Bank of Ireland Loan Level Data

Default is defined as loans greater than 90 days past due, or deemed unlikely to repay without giving up collateral in line with the European Banking Authority Implementing Technical standards definition.

Insights from SME lending research

The topic of SME lending has received much attention over recent years. A series of research papers have focussed on understanding topics ranging from the SME investment gap, to SMEs indebtedness and the increasing use of internal funds as an alternative to traditional bank finance.

(Lawless et al, 2013): The earliest piece of research suggested that even as early as 2012, there was evidence of a substitution from bank finance to alternative forms of financing amongst SMEs. In these early years, well into the financial crisis, SMEs might have been required to take on more debt in order to survive, SMEs instead moved away from taking on additional bank debt to using internal funds/retained earnings.

(Lawless et al, 2014): Later research focussed on the negative impact of the debt overhang (measured by the debt-to-turnover ratio) from the economic downturn on SME investment levels. Debt financing was found to have played an important role in facilitating investment, while higher debt burdens had significant negative effects on all measures of a firm's performance, in particular investment, over the period October 2012 to September 2013. Therefore, the need for bank credit was found to have been dampened as a result of legacy debt accumulated during the financial crisis.

(Quinn and McCann (2017): The issue of SME legacy debt and SMEs indebtedness across a sample of Irish SMEs was examined in subsequent research between 2013 and 2017. Their research found that SMEs in capital intensive industries such as Construction, Hotels & Restaurants and Manufacturing recorded the highest debt to turnover ratios during this period. In addition, the share of Irish SMEs holding no debt had increased to a half in September 2017, up from roughly one in four SMEs in September 2013.

The authors speculated whether these trends were due to a combination of changes in the lending appetite from banks or the borrower's attitude to taking on more debt, following the financial crisis. However, building on the narrative from Quinn & McCann that legacy debt could potentially be contributing to the level of credit demand, this may explain why credit demand is less than expected given the economic recovery. This is also likely to be relevant to the broader SME population.

Evidence of an SME investment gap

The lack of demand for credit may also explain why SMEs are not investing as much as they could be; a point which was raised by O'Toole et al (2018). The authors examined whether the investment activity of Irish SMEs was in line with the economic fundamentals. The level of investment in capital assets by SMEs was found to be below what would be expected given how companies were currently performing. The investment gap was estimated at just over 30% in 2016. SMEs were found not to be investing as much as they could be.

The extent to which this gap is explained by financial market difficulties such as access to finance, interest rates, and the availability of collateral was examined. These factors were found to explain around 20% of the investment gap. To what extent the lack of credit can be credited to legacy debt is unknown, but the research did suggest that legacy debt may be having an impact on SMEs investment choices and hence on their reasons not to borrow.

In July 2018, the CBI published the 'Behaviour and Culture Report' which examined the culture of the five main Irish retail banks. It found that all of the Irish retail banks have a distance to travel in achieving a consumer-focussed organisational culture, albeit some of the banks are more advanced than others. More recent report from the CRO (20th Report, 2019) welcomed the steps taken in 2018 by the main banks to increase their relationship managers across the regions.

During the stakeholder consultation process, trade bodies were concerned that SMEs are not investing for the future and may not be fit for purpose in five years, especially around the areas of digitisation and new markets or product lines. SMEs were considered not to be investing in the right areas to maximise the benefit of capital investment. The view expressed was that SMEs need to be pushed to change their thinking about the future. A number of stakeholders noted that there may not be the broad range of funding products or debt to equity products available to SMEs in Ireland that would provide appropriate capital funding mechanisms for SMEs.

The general level of sophistication amongst SMEs was also raised by some stakeholders, who were of the view that SMEs are not financially astute when it comes to producing the required financial information to support the loan application process.

Bank related reasons are not commonly cited as reasons for not applying for bank finance

Why are SMEs not requesting bank finance?

The reasons behind SMEs lack of demand for credit in the previous six months are provided in the DoFCDS and are grouped into business related and banking related reasons. The main reason given is that bank finance is simply not required, with 89% of those businesses who did not apply for credit mentioning this reason. Other reasons include companies stating that they have finance in place (5%), or that they prefer not to borrow (5%). Interestingly, bank related reasons are not commonly cited as reasons for not applying for banking finance in the previous six months. A number of reasons were mentioned during the stakeholder consultation process for the low uptake of bank credit, including the following:

- SMEs are using their own funds to run their businesses and are unwilling to take on debt and the associated risk around it
- SMEs are not looking to take on more debt as they are funding their businesses with cashflow and better management of working capital. Many have also experienced an increase in their turnover and profits which has improved their cash positions
- The majority of SMEs are low margin business and therefore it does not take much to affect their viability, hence a limited desire to take on debt
- Any SME that has survived the crisis has transformed their operations and is generally able to manage the business through overdraft facilities or better debtor/creditor management
- Some SMEs are still recovering from the financial crisis and the deterioration in their relationships with their banks
- Brexit uncertainty and international trade restrictions are leading to investment decisions being postponed.

Table 8: Reasons for not seeking credit in previous six months

	Total %	Micro %	Small %	Medium %
Business related reasons				
Don't need it	89	87	89	93
Prefer not to borrow	5	7	3	3
Existing finance product in place	5	3	6	7
Not the right time given the economic climate	1	1	-	-
Use/raise personal funds when needed	-	-	-	1
Raise finance from grants	-	-	-	1
Bank related reasons				
Possible rejection	1	2	1	-
Too expensive to borrow	1	1	-	-
Belief that banks are not lending	1	1	1	-
Have been turned down before	1	1	1	-
Don't trust the banks	1	-	1	-
Banks take too long to make decision	-	-	1	-
Other	9	9	10	8

Source: SME Credit Demand Survey, April 2018 – September 2018, Department of Finance

Implications of analysis

On inception of SBCI in 2014, the cost of wholesale funding was relatively high due to the ongoing legacy of the financial crisis which led to a lack of credit supply in the market for SMEs. It is generally accepted that the SME credit market is cyclical and during periods of recession credit availability tightens. The Irish credit market has changed significantly since 2014 with liquidity returning and wholesale funding being available at competitive pricing.

This poses the question as to whether a market failure still exists. The capacity of SMEs to access finance can be garnered from the rate of rejection of applications by financial institutions, the SAFE Survey reports the latest rejection rate in Ireland at 6.4%, only slightly above the latest rates experienced in the two groups of EU countries reported on at 5.6% in EA2 and 4.5% in EA1[1]. These market statistics suggest that SMEs can typically access credit when correctly applied for and there is not a general market failure with regards to the supply of credit to SMEs. However, through analysing the SME credit market we have made the following key observations with regards to market challenges:

I. **SME credit demand remains low compared to previous years**

The sustained recovery underway in the economy since 2014 should have supported all businesses in the economy, especially SMEs which make a major contribution to economic development and the generation of employment.

As SME performance is very closely linked with the overall health of the economy, the expectation would have been that firms would take on additional debt in order to take advantage of growth opportunities. However, the total outstanding debt to SMEs has consistently fallen every year since the recovery began in 2014. As of March 2019, the total non-financial, non property related outstanding credit to SMEs was €14.4bn, down from €24.5 in December 2013[2].

The DoFCDS Survey 2018[3] also reported a consistent decline in the demand for banking finance across SMEs from 39% in September 2012 to the current level of 20% in September 2018.

Whilst gross new lending figures indicate a recovery in the last five years (with an annual average growth of 18.7%[3]), the statistics show that SMEs continue to de-leverage. Further analysis is required to determine whether SMEs should be utilising more credit finance to invest in growth of the business, however it is a cause of concern for some industry bodies that SMEs may not be adequately investing to ensure their future effectiveness.

II. **Cost of SME Funding has remained comparatively high compared to other EU countries**

The cost of credit for small loans (under €0.25m) has fluctuated in Ireland over recent years, remaining considerably higher than the corresponding rates for EA1 and EA2 countries[1]. While the cost of funding for small loans has come down significantly in other EU groupings over recent years it remains high in Ireland.

At January 2019, the average interest rate for a new small loan was 5.7% in Ireland, compared to 2.5% in both peer groups – difference of 3.2 points[1]. This differential could be due to a number of reasons including i) legacy issues such as the high level of defaults impacting banks capital and pricing models, ii) relative size and characteristics of the SME population in Ireland versus the EU, and iii) the size of the Irish market constraining the level of competition.

Note: It is recognised that the difference in interest rate on small loans between Ireland and EU groupings is more significant than on large loans, however this report considers the small loan category as it is closer to SBCI's average loan size.

III. **SMEs funding mix for investment is weighted towards asset backed products**

SMEs invest using different financial instruments depending upon the purpose, circumstance and the range of instruments available in the market. Central Bank data for 2017 (latest available) shows that Ireland's SMEs were most likely to use leasing agreements for the purpose of investment activities, at 40%, followed by bank loans, at 29%. By contrast, across Europe this tendency is flipped – SMEs use bank loans at a rate of 55% and leasing at a rate of 24% for investment activity.

This data suggests that Irish banks are more likely to fund on an asset backed basis compared with their European counterparts. However, the data does not provide insight regarding the reason for the difference in funding mix between Ireland and the EU averages. This difference could be driven by a number of factors including the characteristics of Ireland's SMEs, the risk appetite of lenders or the availability (and terms) of certain credit products in Ireland when compared to Europe. Again, this raises concerns that SMEs may not be appropriately investing which could impact upon their future effectiveness.

1. European Central Bank /EC SAFE Survey, EA1 countries comprise Austria, Belgium, Germany, Finland, Netherlands and France; EA2 countries comprise Portugal, Italy, Spain and Greece
2. CBI, SME Market Report 2019
3. The Department of Finance Credit Demand Survey (DoFCDS), December 2018

Whilst liquidity has returned to the SME credit market, it remains imperfect and there are issues which could be addressed

IV. Access to funding may be limited for certain categories of SME

The SME sector is broad and includes enterprises across a wide variety of industries, geographic locations and maturity. The stakeholder consultation process highlighted some concerns that certain sub-categories of SMEs are facing challenges with regards to access to funding (such as entities falling outside of specific target sectors and entities without a credit history).

It is recognised that lenders do maintain robust risk management policies and procedures to ensure a quality customer book with an appropriate credit risk profile and therefore it may be possible that certain SMEs may not qualify for credit with a certain bank but could be deemed credit worthy based upon a different credit policy. Ireland's relatively small and concentrated banking market (three Banks continue to service 92% of the SME credit market[1]) may accentuate this issue for certain sub-categories of Ireland's SME population compared to other jurisdictions.

In conclusion, the market data suggests that at this time there is no longer a general market failure with regards to the supply of credit to SMEs as was the case when the SBCI was established. However, through analysing the SME credit market we have made the following key observations with regards to market challenges:

a) SME credit demand remains low compared to previous years. While further analysis is required to determine whether SMEs should be utilising more credit finance to invest in growth of the business, it is a cause of note for some industry bodies that SMEs may not be adequately investing to ensure their future effectiveness.

b) The cost of SME funding has remained comparatively high compared to other EU countries. Ireland's banks continue to be challenged by legacy issues such as the high level of defaults impacting banks capital and pricing models

c) SMEs' funding mix for investment is weighted towards asset backed products. This raises a question as to whether SMEs have available and/or are utilising the most appropriate products to fund investment.

d) Ireland's SME sector is broad and covers a range of industry sectors, geographic locations and stages of life-cycle. Whilst there is no general market failure with regards to the supply of credit, sub-categories of SMEs may face challenges.

[1] *CBI, SME Market Report 2019*

The reason for the above challenges (a-d above) is complex and requires further analysis which is outside the scope of this Assignment. However, it could be due to a mixture of the following reasons:

- Legacy issues impacting risk lender's appetite for credit risk, reserved capital requirements and capital pricing models.
- The risk profile of Irish SMEs compared with other EU countries
- Concentration within the Irish credit market limiting diversity of products and access to credit
- SMEs attitude to credit including recovering from the financial crisis
- Financial literacy of SMEs in Ireland
- Brexit uncertainty and international trade restrictions leading to investments decisions being postponed

The extent that these challenges are impacting upon SMEs' and Ireland's economic performance would require further appraisal prior to determining the rationale and extent of any SBCI intervention.

Recommendation

It is recommended that SBCI could consider better understanding the reason behind identified market challenges in order to develop more appropriate products and supports to address:

- Low level of SME credit demand compared to previous years
- High cost of SME loans smaller than €250k relative to other EU countries
- SMEs funding mix for investment being weighted towards asset backed products
- Level of access to funding across certain categories of SME

7

Offerings

Introduction

This section of the Report considers SBCI's offerings in the context of delivering its legislative mandate. SBCI's legislative mandate is broadly centred around promoting credit, product mix and competition.

SBCI's current business model is as an intermediary, providing in-direct supports which are complementary to Ireland's commercial lending market. SBCI is utilising two primary offerings to deliver benefits to the market:

- **Loans**: SBCI sources low cost financing from State and European sources (such as EIB and ISIF). The State provides a guarantee to the European finance provider in relation to their loan with SBCI which is free of charge.

  SBCI makes the low cost funding available to on-lenders in the Irish market through the provision of loan facilities. The benefit of this cheaper finance can then be channelled through to the SME loan. SBCI has deployed c.€1bn of funding to three banks and five Non-Bank On-Lenders since its inception.

- **Risk Sharing:** In order to counter any lack of appetite for credit risk associated with SMEs or the sectors in which they operate, SBCI can guarantee a significant portion of debt (typically 80%) and thus de-risk the loan for the on-lender. This can improve the availability of funding, reduce the risk profile for the on-lender and pass through this cost benefit to SMEs within the credit margin.

On-lenders are either responsible for product design or consult with SBCI regarding the product design depending upon the offering, however all products must meet certain requirements which include reduced interest rates and more beneficial terms. The credit process remains the responsibility of the on-lender.

On inception of SBCI in 2014, the cost of wholesale funding was relatively high for Bank On-Lenders and not readily available for Non-Bank On-Lenders. This was due to the ongoing legacy of the financial crisis.

As at 31 December 2018, SBCI has €626m of funding deployed against a total non-financial, non-real estate outstanding SME credit market of €15.5bn[1] (circa 4% of the market) and was reported within a 2018 Government of Ireland report as having circa 10% market share of new lending to SMEs[2]. SBCI has therefore evidenced the important role it can play during periods of low liquidity.

No further funding has been deployed to Bank On-Lenders since 2016. Discussion with SBCI and the stakeholder consultation process confirmed the reason for this is that banks no longer deem SBCI funds as providing a competitive benefit.

Quantitative Easing and growth in deposits has improved liquidity and driven down the overall cost of funds for Bank On-Lenders. Therefore the cost benefit from utilising SBCI funding is no longer attractive to Bank On-Lenders when considering the additional restrictions and requirements attached. Through the stakeholder consultation process it was confirmed that this primarily relates to SBCI's reporting and administrative requirements to ensure that SMEs are eligible under the State Aid regulation and whether they have breached any State Aid thresholds. This reporting is additional to the usual credit process which the SME must satisfy to obtain finance (refer to Section 7 for more information).

The more recent deployment to Non-Bank On-Lenders and feedback received through the stakeholder consultation process suggests that SBCI funding may remain attractive to Non-Bank On-Lenders as they typically cannot access funding on the same terms as the Bank On-Lenders. However, Bank On-Lenders continue to service the majority of the SME credit market, and therefore remain critical to the effectiveness of SBCI's Loan offering for the foreseeable future.

The credit process for SBCI supports remains the responsibility of the on-lenders. Therefore, SBCI supports will not improve access for SMEs who do not meet on-lender credit criteria but may still be credit worthy. Following the economic crisis, lenders have implemented robust risk management policies and procedures to ensure a quality customer book with an appropriate credit risk profile. The stakeholder consultation process highlighted concerns that SMEs falling outside of specific target sectors (Agriculture, FDI, Tech and Fintech) have more limited options to source funding and those entities without a credit history may also find it difficult to obtain credit approval.

[1] *CBI, SME Market Report 2019*
[2] *The Government of Ireland's 'Local Public Banking in Ireland' report published in 2018*

Table 9: Summary of on-lenders (Commercially Sensitive)

Facility	AIB	BOI	Ulster
Facility amounts	€200m in Jan 15 €200m in Dec 2015	€200m in Dec 2014	€75m in Jan 2016,
Use of Funding	Term loan, working Capital, refinance,	Term loan, working Capital, refinance,	Term loan, working Capital, refinance,

Facility	Bibby	Fexco	Finance Ireland
Facility amounts	€45m in Jul 2016, €25m in Dec 2017	€70m in Jan 2017	€51m in Oct 15, €75m in Dec 18
Use of Funding	Invoice discounting	Asset Finance	Asset Finance

Source: EY analysis of SBCI internal information

The risk sharing products offered by SBCI are designed to address the on-lender's appetite for credit risk and reserved capital requirement, therefore increasing the access to competitive funding for SMEs in the Irish credit market.

Given the relatively high cost of SME credit in Ireland Vs EU averages (refer to section 5), these risk sharing schemes should increase the availability of credit in the market at more attractive rates.

The first risk sharing scheme was introduced to the market in 2017 and was an ACSLS in co-operation with DAFM. The scheme was heavily oversubscribed and capacity reached within weeks of launch. In order to assess the success of the 2017 ACSLS, a survey of farmers was carried out (see Appendix A). The survey concluded; '*Overall the scheme was viewed as a success with full uptake on all of the available funding, resulting in potential to work with banks on similar schemes in the future.*"

It is noted that the ACSLS is targeted in nature (sector/product/uses) and offered with an attractive interest rate, therefore alone may not be a general indicator for the success of the SBCI risk sharing offering in promoting credit within the broader SME population. The Agricultural Cashflow Support Scheme was successful in deploying allocated funds to its targeted recipients.

The BLS was launched in March 2018 and the FGLS was launched in March 2019. The BLS has experienced low take-up to date, however, given the delay in the Brexit process it is considered too early to form a view on the success of the scheme.

It is noted that the interest rate on these risk sharing schemes are more in line with EU averages outlined in the 'SME Credit Market' section of this Report and terms more beneficial than typically available, as such, these products should be attractive to SMEs. It is also reasonable to expect that the effectiveness of risk sharing products will increase over time as SME awareness of the scheme increases, on-lender capabilities improve and product designs are fine-tuned based on experience.

As with the SBCI loan offering, the credit process remains the responsibility of the on-lenders, therefore while the schemes address the on-lender's credit risk capacity and reserved capital requirement, they may not improve access for SMEs who don't meet on-lender credit criteria but may still be credit worthy.

Table 10: Summary of risk sharing schemes (Commercially Sensitive)

Risk Sharing Schemes	Agricultural Cashflow Support Loan Scheme	BREXIT Loan Scheme	Future Growth Loan Scheme
SBCI Scheme Guarantee	€145m	€300m	€300m
SBCI Guarantee	80%	80%	80%
SBCI Guarantee fee	0.00%	0.00%	0.00%
Guarantee Cap rate	15% of portfolio	Uncapped	Uncapped
Counter Guarantee	EFSI - COSME	EFSI - Innovfin	EFSI - Bespoke
Counter Guarantee rate	50%	50%	80%
Interest Rate Cap	2.95%	4.0%	> €250k - 4.5% < €250k - 3.5%
Loan size	Max €150k Min €0k	Max€1.5m Min €25k	Max €3m Min €50k
Loan term	1-6yrs	1-3yrs	8-10yrs
Reporting	Quarterly	Quarterly	Quarterly
Eligibility	Agriculture criteria, Working Capital	General Brexit or Innovation criteria, Investment and/or working capital	Non-sector specific Investment criteria,
On-Lenders	AIB (€60m) BOI (€65m) UB (€25m)	AIB (€122m) BOI (€128m) UB (€50m)	Launch in progress

Source: SBCI

Refer to Appendix B for further information regarding the Risk Sharing Schemes and the Credit Guarantee Scheme.

Promoting competition in the market can be delivered through existing lenders and/or new entrants into the market, to act as a competition to the Bank On-Lenders.

SBCI has funded five Non-Bank On-Lenders (Bibby Financial Services, FEXCO, Finance Ireland, Merrion Fleet and First Citizen Finance) contributing to increased competition in the SME lending market.

SBCI is also actively pursuing a pipeline of additional on-lenders and are currently in advanced discussion with two prominent Non-Bank On-Lenders.

Diagram 16: Illustrative overview of change in the competitive landscape in Ireland's SME credit market

Source: EY analysis of market

The first two Non-Bank On-Lenders to be funded by SBCI were Merrion Fleet (€25m) and First Citizen (€40m) both providing asset financing to the market. Subsequently both companies have repaid their original funding as Merrion Fleet were taken over by Société Générale (Dec 2017) and First Citizen funded by Deutsche Bank (Oct 2018) who were able to provide equally competitive funding. In these cases the SBCI funding supported these Non-Bank On-Lenders to the point that private investment was able to replace the State support. This is considered a successful State intervention which has increased competition amongst the private lenders within the market

As mentioned previously, the dominance of Bank On-Lenders and the attractiveness of the market presents challenges for new entrants/lenders to scale up to the point that they can satisfy SBCI credit risk requirements as a qualifying on-lender. SBCI therefore remains reliant upon the Bank On-Lenders to significantly impact upon the SME credit market.

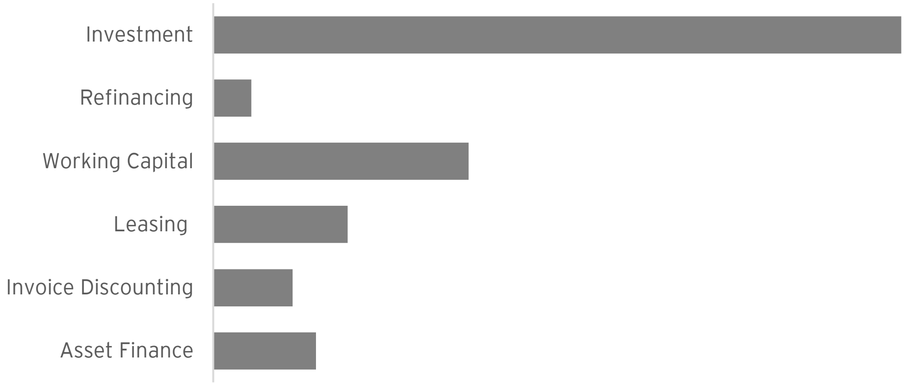
Regulation has an impact on the way that the banking and lending market operates. SBCI, in assessing its future strategic direction, should take into account the regulatory environment and the impact on the SME credit markets that any change in regulation may have.

Due to the lack of attractiveness of the market, it is considered unlikely that a new bank will be attracted into the Irish SME market in the near-term. (This could change over time, particularly if innovations such as open banking begin to remove the barriers to entry.)

SBCI should explore potential methods to impact this dynamic and could consider developing alternative distribution networks (eg. An Post, Credit Unions, LEOs) .

SBCI has sourced on-lenders to ensure a diverse product set is available in the market, finance has been delivered through a mix of term loans for working capital and investment purposes, leasing, hire purchase, contract hire and invoice discounting.

Diagram 17: SBCI supported lending (SBCI loans and Risk Share) value proportions by product as at 31 December 2018.



Source: EY analysis of SBCI data

On-lenders utilising SBCI loans must ensure that products meet certain requirements which includes reduced interest rates and more beneficial terms (i.e. tenor/repayment/security/etc.). However, the responsibility for product design remains with the on-lender. This limits SBCI's ability to ensure that certain sub-categories of products are available in the market. For example, all of SBCI Loan facilities are available up to a maximum of 10 years. Based on discussion with SBCI, on average on-lenders are lending to SMEs across a term range of 2-7 years which is in line with general corporate lending terms. This is due to the amount of reserved capital required to be held by banks being based on type of loan, associated risk and term. In the case of longer term loans (>7years) and those with a higher credit risk, more reserved capital is required which is less attractive to banks.

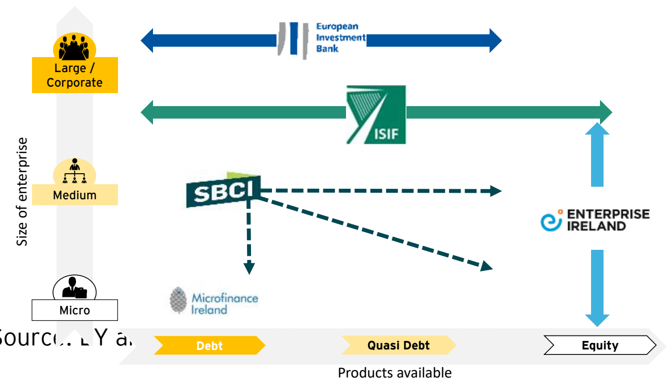
Whilst Risk Sharing products can be designed by SBCI and target funding for specific sectors and products to address market imperfections, SBCI remains reliant upon the acceptance of the product design by commercial on-lenders. The recently launched FGLS (which is offering unsecured 10 year term loan facilities to SMEs) is an example of where, with the co-operation of Bank On-Lenders, SBCI has effectively delivered a specific product which was not considered widely available in the market.

Innovation Growth Credit

Feedback received through the stakeholder consultation process suggests a lack of access to start-up or expansion loans for SMEs which could represent a risk for the future effectiveness. This is supported by the Government's 'Local Public Banking in Ireland' report where innovation growth credit products suitable for early stage business development were identified as products which may address SMEs perceived under investment and are not widely available in the Irish market.

It is acknowledged that EI provides a renowned offering supporting SMEs through equity linked funding to enterprises focussed on innovation and export. There is currently no State Agency providing innovation loans/mezzanine or equity products for the wider SME population and the below landscape suggests that SBCI may be well placed to meet the gap in State support for innovation loans/mezzanine currently available to Ireland's SMEs.

Diagram 2 (repeated): Illustrative Landscape of Relevant State Agencies providing funding support



Source: EY a

EIB also recognises this product type as being required by the European markets as evidenced through their InnovFin scheme which provides financing tools to cover a wide range of loans, guarantees and equity-type funding, which can be tailored to innovators' needs.

SBCI may be challenged to implement a suitable distribution channel for this type of product as it carries a higher risk profile than Bank On-Lenders' core products and therefore SBCI may need to seek an alternative distribution channel.

A recent international example where this product type has been implemented to support SMEs is provided in the below case study.

Case Study: Business Growth Fund (BGF) / Growth Capital

BGF was founded in the UK during 2011 by Barclays, HSBC, Lloyds Bank, Royal Bank of Scotland and Standard Chartered banks, in the wake of the 2008 financial crisis.

The investment company was established to provide small-to-medium sized businesses with financial investment, which were otherwise under-served by the traditional set of finance and private equity firms.

Funding is provided through long term patient and flexible capital with non-controlling interests to support growth across life cycles and industries. The target is not early stage equity but 'growth capital'.

Mezzanine funding was identified as a solution to a lack of equity returns on a proposition where the risk / tenor are above the level that bank lending might operate at. Mezzanine instruments can also help with 'equity aversion' from business owners.

The BGF operates direct origination through a network of offices in the UK, the transaction flow was initially small but has built up over time.

The BGF now operates in Ireland which suggests the need for this type of growth capital support in the Irish market.

Implications of Analysis

SBCI's legislative mandate is broadly centred around promoting credit, product mix and competition.

SBCI has evidenced its ability to improve liquidity available to fund SME credit markets during periods of credit dislocation. As at 31 December 2018, SBCI had €626m of funding deployed against a total non-financial, non-real estate outstanding SME credit market of €15.5bn[1] (4% market share) and was reported to have a 10.65% market share of new lending to SMEs[2]. In the current market there is readily available wholesale liquidity for banks at attractive pricing which presents SBCI with a significant challenge as the cost benefit of SBCI loans is less attractive and relevant to Bank On-lenders. SBCI's loan product offerings may remain attractive to Non-Bank On-Lenders which remains important for promoting competition but only hold a relatively small share of the market.

Risk sharing products offered by SBCI are designed to address on-lender's appetite for credit risk and reserved capital requirement, therefore increasing access to competitive funding for SMEs in the Irish credit market during up-cycles. The ACSLS ("ACSLS") was generally viewed as a success with full uptake on all of the available funding. Whilst the BLS has seen a lower take-up to date than anticipated, given the delays and uncertainty of Brexit it is too early determine the success of this scheme. The FGLS was only launched in March 2019. While it remains too early to form a view on the overall effectiveness of the risk sharing offering, these schemes are widely deployed across Europe and the terms available on the SBCI schemes are more beneficial than typically available to SMEs, as such, these products should be attractive.

For both the SBCI loan offering and risk sharing products, the credit process remains the responsibility of the on-lenders. Therefore, while the schemes may address the on-lender's liquidity or credit risk capacity, they may not improve access for cohorts of SMEs who don't meet on-lender credit criteria but may still be credit worthy.

SBCI has sourced on-lenders to ensure a diverse product set is available in the market, finance has been delivered through a mix of term loans for working capital and investment purposes, leasing, hire purchase, contract hire and invoice discounting. The risk sharing schemes have successfully delivered lending into certain sectors and improved the diversity of product offerings available in the market.

While SBCI has successfully delivered a diverse product set, innovation growth credit products has been identified as a product-type which is not readily available and as having the potential to underpin SME growth. There is currently no State Agency providing innovation loans/mezzanine products to the wider SME population.

Five Non-Bank On-Lenders (Bibby Financial Services, FEXCO, Finance Ireland, Merrion Fleet and First Citizen Finance) have benefitted from SBCI lending, contributing to increased competition in the SME lending market. SBCI is actively pursuing a pipeline of additional on-lenders. However, Bank On-Lenders continue to service 92% of the SME credit market[1] and their dominance presents a challenge for new entrants to scale up to the point that they can satisfy SBCI credit risk requirements as a qualifying on-lender.

Overall, SBCI has successfully been delivering its mandate to support the SME sector through promoting credit, product mix and competition. However, SBCI is challenged by operating within a continually changing market and landscape for which it must continue to adapt to remain effective going forward.

Recommendation

It is recommended that SBCI could consider appraising the cost and benefits associated with delivering the following products:

- Innovation growth credit products: Products suitable for early stage business development were identified as products not widely available and may partly address the perceived under investment within the SME sector.
- Export financing support: Comparison of SBCI against its Peers highlighted the absence of an export financing support agency in Ireland. It is acknowledged that export financing has previously been considered by the SBCI and the BLS provides specific export financing support. However, broader export financing supports may remain a key support for SMEs to grow beyond borders and should continue to be appraised.

[1] *CBI, SME Market Report 2019*
[2] *The Government of Ireland's 'Local Public Banking in Ireland' report published in 2018*

8

Lending model

SBCI's current business model is as an intermediary, providing in-direct support which is complementary to Ireland's commercial lending market. This model was initially adopted by SBCI to have the maximum impact in the shortest period of time and provided many benefits for a timely intervention during a period of credit dislocation.

Throughout this Report a number of observations have been made which could be addressed through reviewing the limitations of SBCI's intermediary operating model:

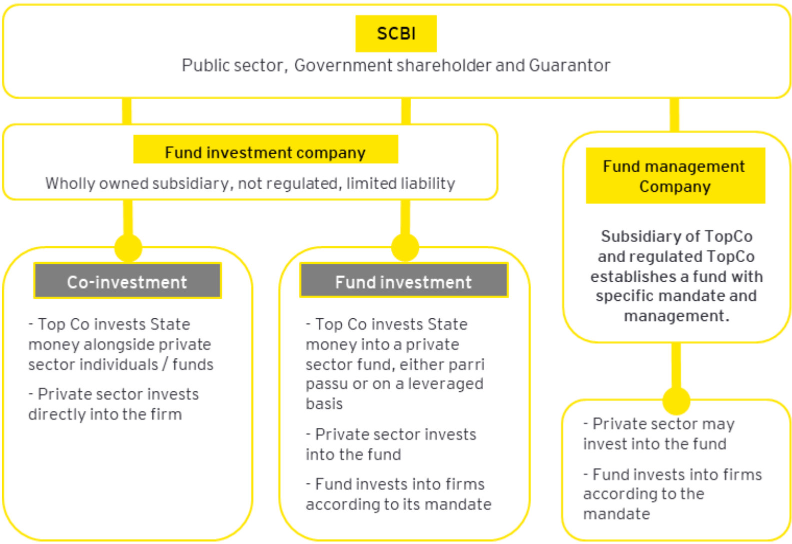
- SBCI does not have direct access to the SME which limits visibility and intelligence as to market challenges and reasons why an SME does not have access to credit.
- SBCI's offering is constrained by the on-lender's appetite and governance policies (including risk appetite and underwriting parameters) which could limit access to specific cohorts of SMEs. The SME sector is broad and includes enterprises across a wide variety of industries, geographic locations and levels of maturity. It is recognised that lenders maintain robust risk management policies and procedures to ensure a quality customer book with an appropriate credit risk profile and therefore it may be possible that certain SMEs may not qualify for credit with a certain bank but could be deemed credit worthy based upon a different credit policy.
- The dominance of Bank On-Lenders and the attractiveness of the market presents challenges for new entrants/lenders to scale up to the point that they can satisfy SBCI credit risk requirements as a qualifying On-lender. SBCI therefore remains reliant upon the Bank On-Lenders to significantly impact upon the SME credit market.
- SBCI may be challenged to identify suitable on-lenders for certain product types such as innovation growth credit products. This product type carries a higher risk rating than Bank On-lenders core products and therefore SBCI may need to seek an alternative distribution channel to deliver this product type to the market.

To ensure SBCI can achieve its objectives during a 'normal' functioning credit market (and across all potential future credit market scenarios), the SBCI could consider alternative approaches to provide a more robust lending model to address market failures where the State deems necessary.

SBCI's model to date has not necessitated direct lending, however, many of SBCI's Peers do have a direct lending capability. If adopted by SBCI, direct lending could address some of the challenges mentioned. There may also be other solutions which could be considered such as developing new forms of direct access to SMEs and/or supporting the development of alternative distribution networks, which is less reliant on a small number of on-lenders.

Examples exist in other jurisdictions where entities have adopted a combination of lending models within a structure which limits risk and exposure. The below diagram provides an example based on an existing precedent of how an organisation could be structured to facilitate the use of subsidiaries for different offerings which limits the requirement for regulation, State Aid notification and risk to an entity with a specific remit.

Diagram 18: Illustrative structural overview for delivering a mix of distribution methods



Source: EY

Implications of Analysis

SBCI's intermediary model results in the State Agency not having direct access to the SME which limits visibility and intelligence as to market challenges and reasons why an SME does not have access to credit. SBCI's intermediary offering is also constrained by the on-lender's appetite and governance policies and therefore accessing specific cohorts of SME may also be a challenge.

The dominance of Bank On-Lenders and the attractiveness of the market presents challenges for new entrants to scale up to the point that they can satisfy SBCI credit risk requirements as a qualifying on-lender. SBCI therefore remains reliant upon the Bank On-Lenders to significantly impact upon the SME credit market.

In the scenario that SBCI develops broader product types such as innovation growth credit products, the SBCI may need to seek an alternative distribution channels as this product type carries a higher risk profile than the core products that its existing On-lenders distribute.

Therefore, the question arises as to how can SBCI seek to better address market failures and deliver on policy goals in 'normal' functioning credit markets whilst not compromising the ability to respond quickly to future market dislocation and execute its counter-cyclical role?

To ensure SBCI can achieve its objectives during a 'normal' functioning credit market (and across all potential future credit market scenarios) the SBCI could consider alternative approaches to provide a more robust lending model to address market failures where the State deems necessary. Alternative approaches could include:

- Direct Access: Direct access to SMEs would develop SBCI's ability to identify and target specific sectors or cohorts of SMEs who don't have access to credit. It was noted that SBCI has recently brought the eligibility process in-house for the BLS and FGLS, which will enable SBCI to develop more market intelligence and should assist SBCI in making more informed decisions going forward. This capability could be developed further.
- Direct Lending: Creating the underwriting and other capabilities required to provide direct lending to SMEs who don't meet on-lender underwriting criteria. Many of SBCI's Peers also have a direct lending capability. On balance, the stakeholder consultation process suggested that there is limited appetite for a new State bank in the market and therefore if the SBCI considers a direct lending model it should be in relation to a specific scope of activities which do not have negative impacts on the commercial market.
- Alternative Distribution: Utilising available State distribution infrastructure (e.g. LEOs, An Post and Credit Unions) to help overcome distribution challenges faced by new entrants in the Irish SME credit market.

Recommendation

SBCI could consider and appraise alternative approaches to provide a more robust lending model capable of addressing market failures across all potential scenarios, including:

- Direct Access: Improve capabilities regarding direct access to SMEs to develop ability to identify and target specific sectors or cohorts of SMEs who don't have adequate access to credit through existing intermediaries.
- Direct Lending: Creating the underwriting and other capabilities required to provide direct lending to SMEs who don't meet on-lender underwriting criteria.
- Alternative Distribution: Utilising available State distribution infrastructure (e.g. LEOs, An Post and Credit Unions) to help overcome distribution challenges faced by new entrants in the Irish SME credit market.

Should the SBCI expand its products and operations, then its risk management, financial and operational capabilities would also need to be reviewed to ensure they remain appropriate. Any such enhancement of its activities should not impede its flexibility to appropriately react to support SMEs in economic down cycles and/or the impact from economic or market shocks.

9

State Aid limitations

Introduction

Under its current mandate the SBCI does not act as a private operator and has not notified the European Commission for pre-approval of its activities. The activities of SBCI must therefore comply with State Aid regulations which is critically important to ensure that competition is not distorted within the private markets . However, it places certain restrictions on SBCI's activities and requires a level of administration/reporting to ensure compliance. The restrictions of State Aid requirements are considered further within this section.

Analysis

Table 11: Key regulation for SBCI products

De Minimis Regulation
The majority of SBCI offerings are delivered under the De Minimis regulation which is a mechanism to grant small amounts of aid to a single entity which cannot exceed €200k over three years. The quantum of aid is such that it isn't deemed significant to distort competition between member states. The calculation is based on the gross grant equivalent of the loan which is the rate of the SBCI funded loan compared to the market priced loan with the amount of State Aid based on the discounted subsidised interest. De Minimis cannot be used for export purposes.
General Block Exemption Regulation
Grant aid can be used for pre-approved business categories and must fit within the associated specific rules which can vary depending on each block exemption. With these regulations, the Commission can declare specific categories of State aid compatible with the Treaty if they fulfil certain conditions, thus exempting them from the requirement of prior notification and European Commission approval.
Agriculture Block Exemption Regulation
Under the ACSLS the aid is provided under a number of qualifying categories for Agricultural e.g., farmer, food production etc. State aid thresholds are €500k per entity per investment project on primary agricultural production and €7.5m per entity per investment project on processing or marketing agricultural products.

Source: de Minimis Regulation (Reg IP/00/1415), General Block Exemption Regulation (reg 733/2013), Agriculture Block Exemption Regulation ABER (Reg 651/2014), SBCI Internal Information

State Aid Restrictions

These State Aid requirements place certain restrictions on SBCI's activities, products and schemes, such as:

- General Block Exemption Regulation have detailed restrictions regarding business sectors and support parameters. This therefore limits the impact a scheme can have on the wider SME population.
- Restricting the benefit that can attribute to the end beneficiary (and ultimately the size/number of loans).
- Requirement for on-lenders to be selected through a competitive process to ensure financial advantage is passed down through a discount on interest rates. It was noted that Non-Bank On-Lenders are not availing of the SBCI Risk Sharing Schemes. Through the stakeholder consultation process and discussion with SBCI, it is understand that Non-Bank On-Lenders are challenged to meet requirements relating to the provision of product rates whilst maintaining a commercial return.
- Product offerings must be available on the same terms to the whole market. This impacts the SBCI's capability to increase competition in the market by tailoring offerings to the on-lender.

Associated Administration/Reporting Requirements for SMEs

There are a number of reporting requirements for SMEs to ensure that they are eligible under the State Aid regulation and that they haven't breached State Aid thresholds. This reporting is additional to the usual credit process which the SME must satisfy to obtain finance. The opinions obtained during the stakeholder consultation process and the review of publicly available literature suggests that SMEs often do not have the required level of information available regarding their business and would be willing to pay more for easier access to finance. The State Aid administration requirements may therefore dampen the demand for SBCI products. SBCI hired RED C Research and Marketing Ltd ('REDC') to perform a survey (refer to Appendix A) of the ACSLS. Within the conclusions of this survey, shortening of the application process was identified as a vital improvement.

Associated Administration/Reporting Requirements for On-Lenders

In relation to SBCI loans, the on-lenders are the main point of contact for SMEs and perform the administrative work. SBCI needs to ensure that all proposals are State Aid compliant and the administrative burden for this therefore falls to the on-lender. On-Lenders upload individual loan data (such as type of business, name, price charged and proposed use of loan and product etc.) through the SBCI portal. This information is reviewed by SBCI and eligibility is either granted or denied. On-lenders are therefore required to develop systems, amend processes and educate staff on how to navigate State Aid requirements including collecting information from SMEs. These requirements are over and above the usual banking information set. The State Aid regulation can also vary between schemes (GBERs) requiring different processes each time.

SBCI must also ensure that a number of ongoing criteria are not breached when funding via on-lenders which requires additional reporting processes, including:

- Ensuring the benefit of low cost funding is passed directly to the on lender and then on to the SME i.e., the benefit is vested in the end user.
- Ensuring no benefit accrues to the on lenders through the manipulation of the final price for SMEs.

Bringing SBCI products to the market therefore requires a considerable investment by the on-lenders, both during product launch and ongoing administration and reporting. This could deter on-lenders from utilising SBCI products and result in a long lead time to launch SBCI products in the market.

Additional credit risk

The ultimate beneficiary is required to comply with State Aid, however in the event of non-compliance the on-lenders also face reputation risk and enhanced credit risk (from borrower ability to repay loan). There is the risk that if a beneficiary applies for more than one State offering the cumulative impact may result in a State Aid breach.

Case Study; British Business Bank (BBB)

Recent EU State Aid regulation introduced a new 'market conform' scheme for State banks which allows an entity to undertake 'commercial' activity through a pre-notification. This was recently adopted by the British Business Bank.

The BBB received this approval for a subsidiary that undertakes 'commercial' activity including co-investment and wholesale lending (on commercial terms).

The Commission approved that the subsidiary of BBB may receive funding from the UK on a non-commercial (subsidised) basis and use these funds to provide SMEs with access to finance where a market failure is demonstrated, either on commercial terms (through so-called "market conform schemes") or on subsidised, non-market terms (as SBCI currently operates).

Market conform schemes grant funding on conditions that a private market operator could have accepted and therefore is not required to seek approval by the Commission because such financing does not involve any state aid within the meaning of EU rules.

Advantages include speed and flexibility of bringing products to market which can be tailored to specific needs. This also improves the ability to intervene if there is a downside risk in the economy e.g. renewed credit crunch conditions.

Implications of analysis

Under its current mandate the SBCI does not act as a private operator and has not formally notified the European Commission for pre-approval of its activities. The activities of SBCI must therefore comply with State Aid regulations which is critically important to ensure that competition is not distorted within the private markets. This in turn does place certain restrictions on SBCI's activities and requires a level of administration.

While SBCI have become very proficient and knowledgeable in navigating State Aid, the related impacts can have a bearing on SBCI's ability to timely and effectively support the SME market. The State Aid impacts manifest as follows:

- State Aid can impact on the ability of on-lenders to adopt certain SBCI supports and lend to the SME market. For example, Risk Sharing products have a competitive and State Aid requirement for on-lenders to meet interest rate hurdles; Non-Bank On-Lenders are often challenged to meet this.
- Due to SBCI's intermediary model the on-lenders are the main point of contact for SMEs and perform a significant amount of the administrative work. Bringing SBCI products to the market requires a considerable investment by the on-lenders over and above the usual process, both during product launch and ongoing administration of loans. SBCI has commenced efforts to remove some of this burden from the on-lender by moving the eligibility process in-house. However, this has potential to add more burden onto the SME.
- SMEs often do not have detailed information available regarding their business and the consultation process suggested would be willing to pay more for easier access to finance, shortening of the application process has been identified as a vital improvement. Therefore the administrative burden resulting from State Aid requirements may dampen SMEs appetite for SBCI products.

SBCI should continue developing systems which reduces administrative burden from their offerings. A new on-line portal on the SBCI webpage (the Hub), is currently being developed which will streamline the application process further.

Many of SBCI's Peers utilise a combination of offerings adhering to State Aid regulations and those which have received pre-approval from the European Commission. If SBCI were to obtain approval from the Commission this would both remove a significant level of administration and facilitate SBCI to develop more flexible and tailored offerings that could be more attractive to on-lenders and beneficiaries. SBCI could explore what activities could be undertaken with EU Commission pre-approval to develop such offerings.

Recommendation

SBCI should continue efforts to minimise the administrative burden of SBCI offerings to on-lenders and SMEs by developing systems and technologies such as the new on-line portal on the SBCI webpage (the Hub) which is currently in development.

SBCI should also explore activities which could be undertaken with pre-approval from the European Commission, thus facilitating SBCI to develop more flexible and tailored offerings that could be more attractive to on-lenders and beneficiaries and remove a significant layer of administrative burden.

10

Sources of funding

Introduction

SBCI's ability to source low cost funding supports is an integral element of its business model. This section considers SBCI's position to access sources of funding to support its ongoing operations.

On commencement of operations, SBCI raised debt funding from a number of providers including KfW, EIB and equity funding from the Minister.

- **ISIF:** €240m loan was sourced from ISIF. In total €25m drawn and subsequently converted to equity by the Minister for Finance.
- **KfW:** Debt funding was sourced from KfW through the use of a partial guarantee from the Irish Government and a further guarantee by the German state on Ireland's ability to meet its obligations.
- **EIB:** Debt funding was sourced from the EIB, in line with its mandate to support SMEs through the availability of low cost financing. As per its funding policy, EIB can only provide up to a maximum of 50% of SBCI's funding requirements. As a result, EIB matched the other sources of capital and finance to the amount of €400m.
- **CEB:** In order to develop strategic relationships and broaden its lending base, additional debt funding was sourced from the Council of European Development Bank (CEB) in December 2016. This new source of funding also lessens the reliance on Irish sourced financing. SBCI availed of a funding facility of €200m. To date only €100m has been drawn on the facility.
- **Funding and Debt management, NTMA:** In December 2015, SBCI created a loan note facility with a face value of €250m. The repayment and interest on issued notes are guaranteed by the Minister for Finance. The rationale for developing the instrument was to source funding which did not have restrictions for on-lending and reporting requirements. To date €85m of loan notes have been issued to NTMA.

Due to EU policy, institutions have large mandates to deploy capital in Europe and boost the SME market across the European Union. Therefore the appetite for EU institutions to provide low cost funding or other financial instruments remains strong. The SBCI currently has limited requirements for additional funding as evident from the €100m of undrawn CEB facilities available to SBCI. As the business is unlikely to be able to deploy the remaining amount pre 30th of June 2019, the undrawn balance will be returned to the CEB. Also, SBCI has €430m of undrawn funding facility available from ISIF and unissued loan notes.

Table 12: High level overview of Funding facilities terms (Commercially Sensitive)

Headings	ISIF	EIB	CEB	FDM
Facility	Convertible Loan	Loan	Loan	Loan Notes
Size	€240m	€400m	€200m	€250m
Start of Facility	2014	2014 and 2015	2016	2015
Tenor	2- 10 years	10years	10years	10 years
Loan Drawn	€25m, Drawn in tranches	Fully drawn	€100m, drawn in tranches	Issued €85m loan notes to date
Collateralisation	None	None	None	None
Guarantee	None	Irish State	Irish State	Irish State
Purpose	Investment, Working Capital, Refinance	Investment, Working Capital	Investment, Working Capital	Flexible

Source: SBCI

SBCI has also introduced risk sharing schemes into the market which increase access to funding by guaranteeing (Capped or Uncapped) a significant portion of the SMEs debt and thus de-risking the loan for the on-lender. In order to partially offset the Irish State guarantee provided under the schemes, counter guarantees have been sourced from the European Fund for Strategic Investments which is a joint initiative between the EIB and the European Commission. The funding supports applied in the Irish Market to date are through European Commissions/European Fund for Strategic Investments (EFSI) COSME, InnovFin and a bespoke guarantee in relation to the FGLS. Risk sharing instruments is a key financial support mechanism available from the EU.

InvestEU will run between 2021 and 2027 and will bring together the multitude of EU financial instruments currently available to support investment in the EU. The InvestEU Programme will further boost job creation and support investment and innovation in the EU supporting four policy areas: sustainable infrastructure; research, innovation and digitisation; SMEs; and social investment and skills. The InvestEU Fund will make €11.25 bn of funding support through guarantee available for SMEs. The EIB implement 75% of the guarantee and the remaining 25% must come from Financial Institutions and/or National Promotional Banks.

It will be important for SBCI to be able to access InvestEU supports going forward.

Exchequer Funding

The SBCI receives Exchequer Funding via the relevant Government Departments in relation to the cost of Risk Sharing Schemes which have been launched to support Departmental Policy. With the exception of the FGLS, Guarantees have been offered to the market without charge as they are a mechanism for specific policy interventions which the Government are dependent upon the on-lenders to distribute.

- DBEI covers the cost to SBCI to administer the scheme on its behalf, potential credit loss liability remains with DBEI. SBCI received €494k in 2018.
- The SBCI received €25m of funding from the DAFM in relation to the ACSLS to cover interest subsidies to participants, operational costs of the scheme and cash to cover the guarantee (estimated to be €8.65m).
- As per the Co Agreement, the ministers of DAFM and DBEI have provided funding to the total of €23m to SBCI in relation to the BLS to cover operational costs of the scheme and cash to cover the guarantee (estimated to be €8.65m).
- The recently launched FGLS will be a co agreement with the Minister for DAFM and DBEI to provide €17m of funding with €9m being advanced in December 2018.

Table 13: Summary of SBCI EU funding relationships

► European Investment Bank: Already a funding partner and the main delivery mechanism for the EFSI. The CEO of SBCI is a member of the EIB's National Promotional Finance Institutions Task Force. Also, the DOF has established the EIB Ireland Financing Group.
► European Investment Advisory Hub: Assist countries in developing advisory services in their home market. SBCI could potentially engage with EIA for on-line tools currently being developed.
► Network of European Financial Institutions for SMEs: SBCI is a member of an informal network of Promotional institutions. The group shares information and experience on activities in individual markets and use of European support mechanism with the view to issuing position papers and identify issues for the sector.
► European Long Term Investors Associations: The group interacts with European commission and EIB in a formal manner on policy issues. SBCI is the representative for small members on the management board.
► European Association of Guarantee Institutions: An association of 42 Guarantee institutions both private and public operating in 26 European countries. They aim to support SMEs by providing guarantees during the whole business lifecycle.

Source: SBCI internal information

Implications of analysis

The appetite for EU institutions to provide low cost funding or other financial instruments remains strong. Due to EU policy, institutions have large mandates to deploy capital in Europe and boost the SME market across the European Union. SBCI is an attractive conduit for this funding and the stakeholder consultation process confirmed that having a single aggregator in the form of SBCI enables close relationships to be built within Europe and for a cost effective and streamlined delivery platform, when compared to dealing with separate institutions.

InvestEU will run between 2021 and 2027 and will bring together the multitude of EU financial instruments currently available to support investment in the EU across four policy areas: sustainable infrastructure; research, innovation and digitisation; SMEs; and social investment and skills. InvestEU will be an important resource which the SBCI should ensure it is competitively positioned to access this support going forward. SBCI has developed relationships across the EU and NDBs which should position SBCI well going forward.

Recommendation

It is recommended that SBCI should ensure measures are in place to maximise Ireland's share of InvestEU funding support. The InvestEU Fund will run between 2021 and 2027 and mobilise public and private investment through an EU budget guarantee with €11.25 bn being made available for SMEs. The EIB implement 75% of the guarantee and the remaining 25% must come from Financial Institutions and/or National Promotional Banks.

11

Governance, risk & financial

Governance and risks

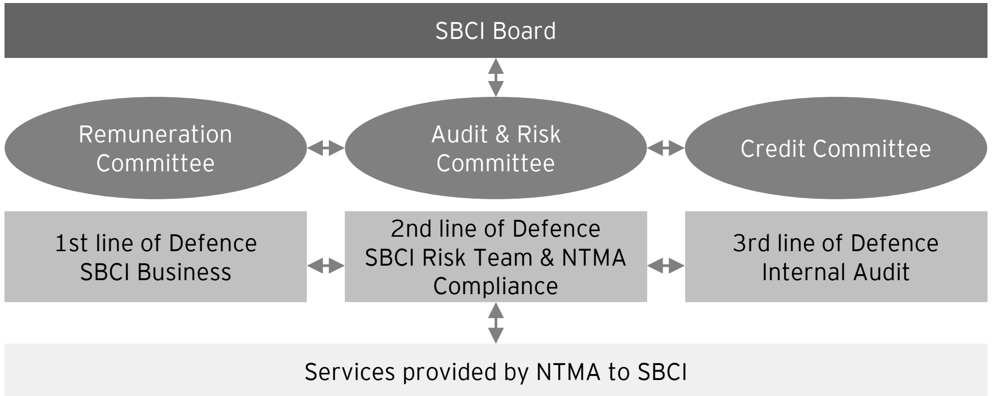
Introduction

This section contains a high level review of SBCI's governance structure and risk management policies.

Structure

SBCI's risk governance structure is overseen by the Board, who set the business' risk appetite and risk management principles. The Audit and Risk Committee, which reports independently to the Board, is responsible for the implementation of the management policy and framework. It is also responsible for reporting all material risks in a timely and consistent manner.

Diagram 19: SBCI Governance Structure



Source: SBCI

SBCI Management team (1st line defence) carries out the day to day management of risk ensuring that controls are in place and working accordingly. The team reports to the Audit Risk Committee. SBCI Risk and NTMA Compliance (2nd line defence) risk function is responsible for providing independent testing and oversight of risk monitoring. Internal Audit (3rd line defence) reports to the Audit & Risk Committee on audits performed on SBCI risk management which includes the assessment of adequacy of internal controls and provides recommendations where applicable. External Audit is carried out by the Comptroller and Auditor General whose findings are reported to the Audit & Risk Committee and the Board.

Policy

SBCI has a risk management policy and framework in place which allows it to manage risk across all of its related business functions. SBCI stated that the framework is in line with international standards for the implementation of risk management. As a state entity, the board is subject to the Code of Practice for the Governance of State Bodies. The SBCI approved Risk Appetite Statement sets out guidelines and limits within which SBCI operates, in relation to risk and provides the basis for creating risk policies. (Refer to Appendix C.)

Procedures

On-Lenders Diligence: On-lenders must meet a number of criteria to qualify as suitable candidates for SBCI funding or products. These criteria include i) Willingness to deploy funds in the Irish market, ii) Distribution capability, iii) Credit risk assessment capability and history, iv) Sufficient risk capital, v) Operational substance, vi) Effective governance and controls. There are a number of reporting requirements for Bank On-Lenders and Non-Bank On-Lenders.

- Bank On-Lenders: The operational reports are submitted on a quarterly basis and include information at a high level on the number of loans written, loan balances, amount lent, interest rates etc. This allows SBCI to determine how much funding the Bank On-Lenders have lent and what is remaining. A key criteria is that on lenders do not sit on cheap capital and must lend to SMEs within six months.
- Non-Bank On-Lenders: In the case of Non-Bank On-Lenders, they have both financial and operational requirements for SBCI. Similar to Bank On-Lenders, reporting is done on a quarterly basis but annual numbers are also required. Financial reporting allows SBCI to monitor the credit risk of the entity. The financial reporting information required includes performance vs budget analysis, level of arrears, net profit, balance covenants/ratios etc. Under the risk sharing schemes, there are no financial covenants but there are a number of operational reporting requirements.

SBCI's model ensures that credit risk remains with on-lenders in relation to loans and at least 20% of credit risk remains with on-lenders in relation to risk sharing. SBCI also seeks to offset their credit risk with EU supports where possible.

Implications of analysis

Whilst a detailed financial review has not been performed, SBCI's business model appears to be designed to manage its existing risks and activities. No credit losses have been incurred to date but this may reflect the current economic environment and loan lifecycle.

Introduction

SBCI is not required to generate a commercial return, but ultimately aims to breakeven over the long term. In line with its objective, SBCI endeavours to keep operational costs and staffing to a minimum. SBCI utilises a SLA with the NTMA to provide a number of services to the business (refer to Appendix D). This section contains a high level review of SBCI's financial position.

Analysis

In the current market environment, net interest income will decrease as the Bank On-Lenders repay their borrowing from SBCI.

As a result of its role as an intermediary lender and the efficiencies which may be reasonably expected to be attained through utilising an SLA with the NTMA, the SBCI operating model is considered to be streamlined, operating its current business with 20 staff and management members.

SBCI's cost base has been increasing over recent years in line with the increase in policies it has been mandated to deliver. If SBCI's offerings were to continue to increase, particularly if SBCI ventures into higher profile risk offerings such as growth products and direct lending, additional resources, scale and risk management would be required.

SBCI may therefore be required to generate additional income going forward or alternatively request Exchequer support to support its cost base.

As of the FY18 year end, the company appears well capitalised with significant undrawn facilities available to it and a sizeable cash balance excluding cash relating to risk sharing schemes for day to day operations.

Implications of analysis

SBCI has sought to defray its costs through generating interest income from SBCI loans and fees from the guarantee schemes. As the SBCI loans to on-lenders are repaid due to the changing market, SBCI's income will reduce. Consequently the revenues may not be sufficient to cover the costs on an annual basis.

While SBCI appears well capitalised, funding ongoing losses will reduce the capital available to support SBCI's funding and policy support activities. Consequently, the question arises whether it would be beneficial for SBCI to be self- financing from a costs perspective as a means to become more sustainable as a State Agency or rely on Exchequer support.

Table 14: Summary SBCI Financial information

	FY 18	FY 17	FY 16
P&L	€'000	€'000	€'000
Interest Income	5,397	5,527	3,498
Negative interest earned	396	401	-
Interest expense	(456)	(523)	(612)
Net interest income	5,337	5,405	2,886
Agri Scheme	2,623	1,711	-
BLS	1,006	-	-
Future growth loan scheme	440	-	-
Credit guarantee scheme	494	366	286
Other income	40	15	-
Total Income	9,940	7,497	3,172
NTMA recharge	(5,275)	(4,847)	(3,847)
NTMA staff costs	*(2,467)*	*(2,271)*	*(1,917)*
NTMA business services	*(2,685)*	*(2,478)*	*(1,607)*
NTMA Other	*(123)*	*(98)*	*(323)*
Agriculture Scheme interest subsidy payments	(2,342)	(970)	-
Other Costs (incl amortisation)	(2,285)	(1,185)	(972)
Total Expenditure	(9,902)	(7,002)	(4,819)
Profit for financial year	38	495	(1,647)
Non-Current Assets	510,244	605,902	600,785
Current Assets	157,799	156,295	78,299
Current Liabilities	(129,521)	(58,618)	(14,461)
Non-Current Liabilities	(508,366)	(673,461)	(660,000)
Net Assets	30,156	30,118	4,623
Loans and Receivables	627,254	686,438	656,444
Secured	151,255	115,236	55,116
Unsecured	475,999	571,202	601,328

Source: SBCI 2018 and 2017 Annual Accounts

Note: The majority of SBCI income is generated from the net interest for margin applied on the cost of funds provided to on-lenders. In the case of the risk sharing schemes, exchequer funding is provided form the relevant Departments to cover the cost of running the schemes and potential losses associated with credit risk sharing.

12

Peer benchmarking

Introduction

In order to drive economic growth and innovation, businesses generally require long term finance which is often sourced from public institutions. Around the world the provision of this type of financing is increasingly being sourced from NDBs. SBCI acts as Ireland's National Promotional Institution, with its role and wider mandate similar to other NDBs across the world.

As part of the Assignment, a high level benchmarking exercise of the SBCI against five of its Peers has been performed. The objective of the benchmarking exercise is to compare and contrast SBCI to identify areas of consistency and areas where SBCI could explore expanding its mandate, strategy and operations.

The Peers selected include, what is widely considered, the four largest European countries (Germany's KfW, France's BPifrance, Britain's British Business Bank and Italy's Cassa Depositi e Prestiti) and Finland's Finnvera given its similarity in size to Ireland (GDP and population) (together being the 'Peers').

A short description of each of the Peers selected is provided below:

Kreditanstalt fur Wideraufbau (KfW)

KfW is Europe's main NDB. It was set up in 1948, to support the reconstruction of post war Germany focusing on the economic development of the German State. In line with its objectives, KfW promotes and supports SMEs. KfW played a key role in the setting up of SBCI by providing funding on its establishment.

BPiFrance (BPiF)

BPiF is a merger of a number of public funds and 'Caisse des Depots' with the primary objective of financing and developing companies in France. BPiF is a single entity which offers multiple services to businesses across sectors. This takes the form of both funding through the provision of debt or debt like structures and equity investment.

Cassa Depositi e Prestiti (CDP)

CDP is primarily owned by the Italian Government and has grown significantly since its establishment in 1850. It has a large mandate delivered across six subsidiaries including a role in the development and adoption of innovative solutions for Italian businesses. CDP operates across a broad range of sectors including SME, real estate, international expansion and infrastructure finance.

British Business Bank (BBB)

BBB was formed in 2012 and is a Government owned economic development bank which aims to increase the supply of credit to the SME sector as well as providing financial support and advice. BBB acts as a intermediary lender in the market backed by a Government Guarantee. As the UK is Ireland's largest trading partner and has a similar business culture, analysis of BBB should provide comparable insights and mechanisms/products which could be adopted in the Irish market.

Finnvera (Fin)

Fin is State-owned and founded in 1999 with the primary objective is to support and improve the availability of finance to Finnish businesses. The company also acts as the official credit export agency for Finland. Fin is predominately an intermediary lender in the market, backed by a Finish Government Guarantee. Finland's population and economy is similar in size to Ireland.

Benchmarking analysis

Comparable headings	KFW	BBB	BPiF	CDP	Fin	SBCI	Commentary
Size							
Assets (recent estimation)	€500bn	€2bn	€70bn	€290bn	€10bn	€1bn	SBCI is managing a smaller asset base when compared to its Peers. This is partly due to the comparative size of the economy and breadth of activities
Ownership and structure							
Wholly owned by the State or Public Institutions	√	√	√	√*	√	√	SBCI wholly owned by the State
Operates both domestically and internationally (incl. export Agencies)	√	√	√	√	√	×	Enterprise Ireland (EI) promotes Irish businesses abroad but Ireland does not currently have a credit export agency
Subsidiaries with designated operations	√	√	√	√	√	×	SBCI does not have multiple subsidiaries with different functions
Mandate and economic role							
Wider objective of economic development and competitiveness	√	√	√	√	√	√	SBCI promotes the provision and competition for credit and subsequently economic development
Counter cyclical role	√	√	√	√	√	√	SBCI role includes providing funding in an illiquid market
Capital development role	√	√	√	√	√	×	SBCI does not have a capital development role with regards to infrastructure and strategic trade. ISIF and EI do both operate within this space
Infrastructure	√	×	√	√	√	×	
Strategic Trade/Export	√	√	√	√	√	×	
Venture capitalist role: provide capital to start-up and innovative enterprises	√	×	√	√	×	×	Other Government agencies like ISIF, EI are involved in venture capital
Mission orientated role: Investing in activities to address key societal challenges and provide targeted economic development	√	×	√	√	×	×	Whilst SBCI does have a specific focus on SMEs, SBCI doesn't have specific missions regarding to the direction of the economic development. SBCI could provide support to target specific sectors and to meet societal challenges
Investment focus							
Climate change and the environment i.e., supporting renewable energies and improving energy efficiency	√	√**	√	√***	√	√	SBCI is currently exploring the development of an energy efficiency scheme for households
Globalisation and technological progress i.e., strengthening the competiveness of state enterprises internationally	√	√	√	√	√	×	Enterprise Ireland is the main body involved in promoting Irish Industry abroad and Ireland has no export credit agency
Demographic change i.e., Investment in areas and sectors to address societal challenges such as aging population, childcare or aging etc.	√	×	√	√	×	×	There is no specific Irish State Agency which deals with societal challenges

Source: State Investment Banks and patient finance: An International comparison – UCL Policy Report February 2018, Peer Websites, www.aecm.eu

** Part ownership by Banking foundations but public control, **Through collaboration with partners, ***New investment platform*

Benchmarking analysis (cont'd)

Comparable headings	KFW	BBB	BPiF	CDP	Fin	SBCI	Commentary
Sources of Funding							
Funding sourced from the Government via the Exchequer and/or state funding	√	√	√	√	√	√	Risk sharing schemes are covered by the Exchequer and funding sourced from ISIF
Funding sourced from EU Institutions	√	×	√	√	×	√	Majority of SBCI funding sourced from EIB, CEB and previously KfW
Funds raised via capital markets i.e., issuing bonds	√	×	√	√	√	×	SBCI has not issued bonds in the capital markets but has issued loan notes to NTMA, limited rationale for capital markets
Funds sourced via commercial banks	×	×	×	√	×	×	Not applicable
Funding is guaranteed by the state	√	√	√	√	√	√	All funding and risk schemes are backed by Government Guarantee
Distribution							
Direct Lending	√	×	√	√	√	×	SBCI does not directly lend to the market
Intermediary Lending	√	√	×	√	√	√	SBCI acts as an intermediary lender
MEOP or EU Commission approved activities	√	√	√	√	√	×	SBCI operates within State Aid regulation
Product Offerings							
Loans (Secured and Unsecured)	√	√	√	√	√	√	SBCI offers unsecured loans to on-lenders
Direct	√	×	√	√	√	×	
In-direct	√	√	×	√	√	√	
Guarantees	√	√	√	√	√	√	Provides guarantees as per the risk sharing schemes
Direct	√	×	√	√	×	×	
In-direct	×	√	√	√	√	√	
Support Export i.e., loans, guarantees, currency derivatives, Factoring, risk protection, credit insurance, surety bonds	√	√	√	√	√	×	Ireland does not have an export finance agency. Any related products are sourced from the private sector. The BLS does provide loan support to SMEs importing or exporting to the UK.
Direct	√	×	√	√	√	×	
In-direct	×	×	×	√	×	×	
Innovation Loans (interest free, seed loans, repayable advances, loans to launch products)	√	√	√	√	×	×	SBCI does not provide innovation loans except for the BLS
Direct	√	×	√	√	×	×	
In-direct	√	√	×	√	×	×	
Equity Investments (Partner funds)	√	√	√	√	×	×	Does not have a mandate to issue equity
Direct	√	×	√	√	×	×	
In-direct	×	√	√	√	×	×	

Source: State Investment Banks and patient finance: An International comparison – UCL Policy Report February 2018, Peer Websites, www.aecm.eu, Questions via SBCI Peer network

Interpretation of analysis

A summary of the observations made during the benchmarking of SBCI against its Peers is provided below:

Ownership and Organisational Structure

Similar to KfW, BBB, BPiF and Finn, SBCI is solely owned by the State. SBCI's organisational structure is reasonably simple when compared to selected Peers. Peers have multiple subsidiaries which focus on different business areas, this does however reflect the breadth of activities undertaken as highlighted throughout this section and should also be considered in the context of the wider suite of State supports (refer to section 5). SBCI sits alongside State Agencies including EI and ISIF which effectively form different arms of Ireland's State supports. SBCI operates only at a domestic level which is in contrast to its Peers. Many of the Peers act as the State's export credit agency or are involved in the promotion of companies abroad. Enterprise Ireland ('EI') is an Irish State Agency with a responsibility to promote Irish businesses abroad but Ireland does not currently have an export credit agency.

Mission, Mandate and Economic Role

SBCI's mandate and economic role is limited when compared against its Peers:

Capital Development: All of SBCI's Peers have a capital development role which includes investing in infrastructure, nurturing knowledge and promoting strategic trade (such as export finance) and nationally important sectors.

Venture Capital: Many of SBCI's Peers have a venture capital role to provide long-term finance for innovation. In Ireland, the venture capital role is performed mainly by EI and ISIF, however, this review does not assess whether there remain any gaps within this sector of the Irish market which aren't currently being addressed. The stakeholder consultation process highlighted some views that there may be a lack of State support within the €1m – €3m range for development capital.

Mission orientated; Certain Peers have missions aligned with the intended economic direction of the State. These missions include climate change, globalisation and technological progress. SBCI has a more general mandate when compared to its Peers, with its primary aim to promote credit, develop SMEs and as a result economic activity in Ireland.

Ireland addresses societal challenges through its many policy making functions and whilst SBCI is utilised as a policy delivery mechanism, specific societal challenges are not currently a key pillar of its strategic plan. It should also be noted that both ISIF and EI also adopt mission orientated strategies.

Focus/Investment Activity

All of SBCI's peers are active in delivering supports around policy which includes climate change and the environment, globalisation and technological progress. This aligns with EU Policies including Innovfin and EU Climate Action.

Source of Funding

SBCI's funding is sourced on the back of Irish government guarantees on a case-by-case basis and predominantly sourced from EU Institutions. Peers such as KfW, BPiF and CDP are able to issue bonds in the capital markets under an institutional level guaranatee, this capability allows them to source funding without restrictions. Fin have also issued bonds as part of the Euro Medium Term Note programme guaranteed by the Finish state. SBCI has issued loan notes to NTMA who in-turn raise funds on the capital markets.

Distribution

SBCI is an intermediary lender to the market whilst many of its Peers adopt a combination of direct and indirect lending. SBCI's on-lending model may be considered efficient and complimentary to Ireland's commercial market. However, SBCI is heavily reliant on two lenders and is therefore dependant upon their co-operation to deliver supports and products to the end-customer.

Many of SBCI's Peers utilise a combination of offerings adhering to State Aid regulations and those which have received pre-approval from the European Commission to undertake commercial activity. If SBCI was to obtain approval from the EU Commission this would remove a significant level of administration, making the offering more attractive to on-lenders and beneficiaries.

Product offering

SBCI only offers loans and risk sharing products to the market. This may be considered narrow when compared against the Peers who also offer:

- Export finance (Ireland does not have an export finance agency but it is noted that the BLS does provide working capital loans to SMEs importing or exporting to the UK.)
- Innovation loans which is longer-term, flexible patient development capital with mezzanine characteristics

This should be considered in the context of SBCI's role within the wider landscape of State supports including EI and ISIF. However, Ireland does not have an export credit agency and the Stakeholder consultation process supports that there may be a role for SBCI within the development capital space, which could be explored.

Implications of analysis

When considering and comparing SBCI to the selected Peers, it is important to note that Ireland maintains a more devolved approach to its funding support Agencies. Typically the selected Peers have all of the activities of SBCI, EI and ISIF consolidated under one organisation, delivered through separate entities, but all linked to ensure consistency. While the current model in Ireland could be re-assessed, this would seem a challenge to resolve in the short term. Notwithstanding the roles of EI and ISIF there are noticeable gaps in terms of what the Peers are undertaking for their countries and what is available in Ireland. Taking this into account, along with the questions and observations raised earlier in this document, a number of issues for further consideration regarding the role and flexibility of SBCI to implement policy arise as follows:

- Recognising the devolved approach adopted by Ireland, there is a potential role that SBCI could undertake to consolidate and act as the conduit for all SME funding (including potentially feeding into and linked to EI). This would be consistent with SBCI broad SME mandate and address some of the confusions raised by Stakeholders regarding the number of agencies and policies seeking to support SMEs.
- There are noticeable gaps in the funding products available to the SME market in Ireland compared to the Peer markets, including capital development, venture capital (outside of those businesses targeted by EI) and Ireland does not have an export financing and support agency. The BLS does provide working capital loans to SMEs importing or exporting to the UK, but Ireland does not have an export finance agency which could provide further supports for SMEs to grow beyond borders and support Brexit strategies.
- Establishing a mission led mandate and strategy could allow greater flexibility to drive policy objectives, including supporting climate change, innovation development and export support. All of these issues are currently topically for the State

SBCI's model to date has not necessitated direct lending, however, many of SBCI's Peers do have a direct lending capability. Direct lending could address market challenges detailed within this Report (such as access, product design, competition). On balance, the stakeholder consultation process suggested that there is limited appetite for a new State bank in the market and therefore if the SBCI considers a direct lending model it should be in relation to a specific scope of activities which do not have negative impacts on the commercial market.

Many of SBCI's Peers utilise a combination of offerings adhering to State Aid regulations and those which have received pre-approval from the European Commission. If SBCI were to obtain approval from the EU Commission this would remove a significant level of administration, making the offering more attractive to on-lenders and beneficiaries.

13

Appendices

Survey of 2017 Agricultural Cashflow Support Loan Scheme

In order to assess the success of the 2017 ACSLS a survey of farmers was carried out to determine the impact of the scheme. SBCI hired REDC to perform the survey. REDC is a UK and Irish based business, specialising in surveys and analysis of quantitative projects for large corporates. In addition to assessing the impact of the scheme, the responses would be used to develop future support schemes which would aim to have a greater affect on the function of identified sectors.

Methodology

REDC carried out a survey of 500 adults responsible for farming in households. Quotas/weighting were set using Farm types, size, region and loan scheme users. The samples chosen were weighted to National sample on farm type and region but differs on size to national population. The survey was biased towards larger farm sizes compared to the national standard.

Participant On-Lenders Involved in the Scheme

Three Bank On-Lenders were the only participants in the scheme as other Non-Bank On-Lenders could not afford to bid in at the capped price dues their cost of funding being significantly higher. The participants were Allied Irish Bank, Bank of Ireland and Ulster Bank.

Conclusion

Overall the scheme was viewed as a success with full uptake on all of the available funding, resulting in potential to work with banks on similar schemes in the future. Key action identified from the survey was the need to improve awareness of future schemes amongst non loan applicants through advertising on TV, trade press and in particular local radio. Any future Agricultural schemes, will require greater focus on specific regions and farm types where up take was low such as Border, Midlands and Western region, small farms and non beef farmers. In relation to applicants and schemes, continued improvement of terms and conditions and shortening of the application process was identified as important.

Table 15: Agricultural Cash Flow Support Scheme Survey Key Stats

Key findings	
1	70% of non users of the scheme were unaware of its existence.
2	There was greater uptake of the scheme amongst larger farms and in the South East region.
3	4 of 5 users accessed the scheme through their main bank without shopping around for better terms.
4	50% of users accessed the scheme through BOI with the majority of farms being small in size and having lower loans amounts.
5	The average length of loans was 3.4 years, with larger farms receiving longer tenors.
6	3 out of 4 users rate the scheme highly and the majority of respondents rate the scheme effective. Key benefit were: interest rate, size of loan available and repayment terms.
7	Most applied for the scheme under finance training category, the other main qualifying areas were improvement in environment, climate friendly farm production methods and promotion of quality and value added production.
8	The main uses of the loans were reducing cost of debt, working capital needs and capital expenditure.
9	Better terms and conditions were identified a key ways to improving the scheme. Also, speed on the application process could be improved.
10	3 in 5 farmers concerned about Brexit felt the loan scheme addressed their financial concerns.

Source: RED C Research and Marketing Ltd

Appendix B: Overview of SBCI Risk Sharing Schemes and CGS

Credit Guarantee Scheme (CGS)

Launched in 2012 under the CGS Act 2012 and targeted at commercially-viable SMEs that are unable to access new or additional facilities from their bank.

SBCI operates the Scheme on behalf of DBEI. The initial 2012 scheme provided a 75% guarantee, and this was replaced by a 2017 scheme with an 80% guarantee, over a three-year period, and borrowers pay a premium of 2% p.a (reduced to 0.5% at the time of this Report).

DBEI remains responsible for any credit loss exposure.

The latest data, from Q2 2018, shows that €94m was sanctioned by the CGS since its inception in 2012, and that over 2,300 new jobs have been created and over 1,300 jobs have been maintained.

Agricultural Cashflow Support Loan Scheme (ACSLS)

SBCI entered into an agreement DAFM to support to support farmers experiencing short-term financial pressure due to price and income volatility with a term loan facility.

A capped guarantee will cover 80% of credit losses on a loan by loan basis to agricultural SMEs, subject to an overall cap of 15% and a maximum portfolio of €150m. SBCI entered into a counter guarantee with EFSI – COSME for 50% of the guarantee exposure while covering the remaining 20%

Based on the cap, SBCI has a contingent liability of approximately €9m (€150m*50% *80%*15%) relating to potential credit losses. DAFM funds SBCI to the amount of €25m to pay interest subsidies to participants, cover operational costs of the scheme and cash to cover the guarantee.

Brexit Loan Scheme (BLS)

SBCI entered into a Co-operation agreement with the DAFM and DBEI to support businesses impacted by Brexit in particular the food sector. The funding provides working capital for SMEs and small mid caps. Whilst the Brexit scheme has seen a low take-up to date, given the delays and uncertainty of Brexit it is too early determine the success of the scheme.

SBCI has provided credit guarantees to participating institutions to cover 80% of credit losses on a loan by loan basis for a maximum portfolio of €300m. Unlike the ACSLS, there is no cap on losses.

The Departments have provided €23m funding. SBCI have estimated a contingent liability of €9.6m which is offset by a counter guarantee with European Investment Fund (EIF) covering €4.8m. The remaining amount of €4.8m and other potential losses plus operational costs .

Future Growth Loan Scheme (FGLS)

The recently launched FGLS is a co-agreement with the Minister for AFM and DBEI to provide long term investment loans to enterprises in Ireland.

An uncapped guarantee will cover 80% of credit losses on a loan by loan basis subject to a maximum portfolio of €300m. SBCI have entered into a counter guarantee with EIF for 64% of the guarantee exposure while covering the remaining 16%

€17m of funding in total has been committed by both ministers of AFM and DBEI with €9m being advanced in December 2018. The funding will be used to cover expected credit losses and SBCI operational costs. The scheme was launched in 2019.

Source: SBCI

The Risk Appetite Statement sets out SBCI treatment and acceptance of certain risks in order to achieve its strategic objectives and is updated to reflect changes to the business strategy. The organisation's appetite for risk is assessed under a number of headings;

Risk capacity: The maximum amount of risk which SBCI can take on before breaching capital, liquidity, borrowing and reputational or regulatory constraints. Key parameters include a maximum borrowing limit of up to €4bn, further callable equity of €215m in addition to the current equity paid of €35m and compliance with relevant legal and regulatory requirements such as State Aid.

Risk appetite: Is the total level and type of risk the organisation is willing to take on within its risk capacity constraints to deliver its strategic objectives. A buffer ensures that a breach of risk appetite does not lead to a breach of Risk Capacity.

Risk tolerance: Accounts for levels of variation in specific performance measures which SBCI will accept i.e., the level of risk which SBCI can accept for each specific risk.

Key risk indicators: Metrics to assess the level of risk exposure with the risk tolerance for each specific risk being the minimum level to warrant a red KRI classification which indicates a breach of the specific limits for each indicator.

Current trading risks

Based on SBCI's operating environment, there is a strategic risk relating to the low demand for SBCIs liquidity amongst Bank On-Lenders and products in particular the slow uptake of the BLS.

The mix of Non-Bank On-Lenders as a percentage of SBCI overall exposure has increased.

In addition to current trading risks, SBCI has a limited number of staff available to manage its workload which has been impacted by recent staff movements and an active employment market.

To facilitate the identification and improvement of capital relief terms for on-lenders from SBCI guarantees, a credit rating is being sought from Moodys. A credit rating will also impact SBCI's risk profile, reporting requirement and systems in place, to ensure a good rating is received and maintained.

Table 16: SBCI risk indicators

Key risk indicators	
1	Maintain Capital (paid + callable) adequacy level of minimum of 15% of its credit exposure: Capital adequacy = capital/ (15% of total drawn credit facilities + 15% of net guarantee)
2	Maintain maximum tolerance for negative variation of 20% of net profit/loss amount approved in annual budget
3a	Cash balance and short term cash management investments (sovereign, T bills) held/invested in counterparties with a minimum credit rating of Baa1/BBB+ (Moody's/Fitch/S&P)
3b	Maximum concentration of 50% of it committed funding from any on lender
3c	Maximum amount of credit facilities committed to Non Bank Financial institutions will be 50% of total committed credit facilities
4	Maximum guarantee liability whether capped or uncapped is 80% of obligors credit risk exposure
5a	Committed credit facilities of a maximum of 100% of the amount of committed funding
5b	Maintain minimum balance of €5m in a designated bank account to meet liquidity requirements
5c	Have sufficient cash, liquid assets and available committed funds at each quarter end to meet its estimated requirements for the next quarter plus a margin of €5m
5d	Maintain a higher weighted Average Term for its loan liabilities compared to its loan assets
6	Match the interest profile of funding and lending where possible and maintain a maximum PV01 exposure of €50k
7	Maintain zero tolerance for deliberate breaches of any laws or regulations and low tolerance for accidental breaches
8	Maintain maximum tolerance within a 12month period of zero high impact, three medium impact and eight low impact operational risk events

Source: SBCI

13 Appendices

Appendix D: SBCI Organisational structure

SBCI's in-direct lending model has removed the need for a number of costly functions (such as loan credit approval and distribution) enabling SBCI to outsource a level of risk to the on-lenders and enable a flexible approach to market intervention. An important part of this model includes the services that are provided to SBCI under a SLA with the NTMA.

Organisational structure

A number of services are provided to SBCI under a SLA with the NTMA. These include legal, compliance, finance, HR and procurement.

- The legal team advice on all relevant legal issues impacting SBCI and agreements entered into by the Bank either with funders or on-Lenders.
- Compliance services include requirements for the business such as money laundering, data protection etc.
- Finance services include the day to day management of cash and execution of transactions plus financial reporting i.e., management accounting and financial statements.
- HR provide training and development in the team and ongoing recruitment. The NTMA IT function develops all of the necessary
- IT software for SBCI such as its core database and data warehouse which aids reporting and provides business intelligence.

This enables SBCI to operate with just four divisions: Lending, Risk, Finance & Operations, Marketing and Product Development each with a divisional head and support team. The senior management team includes the divisional heads and the Chief Executive which is overseen by a Board of Directors. The activities across each of the divisions include:

Lending

The lending division is headed up by Suzanne Sweeney and a supporting team of c. six people. The main functions of the lending division includes i) Managing SBCI funders, ii) Sourcing and managing on-lenders and iii) Treasury Management; Manging funds drawn against disbursements to on lenders, plus repayments flowing back to the providers of funds.

Diagram 20: SBCI Organisational Structure

Source: SBCI

Risk, Finance & Operations

The division is lead by Ray Mangan who is supported by c. four team members. The role of the team is to ensure that an appropriate risk framework is in place and risks are managed in line with SBCI's risk appetite.

Research & Marketing

The Marketing division is headed up by John Madigan who is supported by c. three staff members. The purpose of the marketing division is to ensure that SMEs are aware of the SBCI role in the market and the types of products and programmes which it offers. John Madigan, also heads up the research group which provides feedback on relevant market reports.

Product development

Sean Farrell is head of the division and is supported by c. two additional staff. The team is tasked with identifying market gaps or failures and to research potential new programs and products. The team works in tandem with the lending division to design products which work for on-lenders. The division also, maintains strong relationships with EU institutions and other NDBs ensuring that SBCI is kept up to date with products and policies in the market.

Appendix E: Glossary

Glossary	
Agreement	Contract dated 9 May 2019 between EY and SBCI
ACSLS	Agricultural Cashflow Support Loan Scheme
AIB	Allied Irish Bank
Assignment	External review of the SBCI in the context of its legislative mandate.
Bank On-Lenders	AIB, BOI, Ulster Bank
BBB	British Business Bank
BPFI	Bank Payments Federation Ireland
BPiF	BiPFrance
BOI	Bank of Ireland
BLS	BREXIT Loan Scheme
BGF	Business Growth Fund
CBI	Central bank of Ireland
CDP	Cassa Depositi e Prestiti
CEB	Council of European Development Bank
CGS	Credit Guarantee Scheme
COSME	Competitiveness of SMEs which is Europe's programme for supporting SMEs
CRO	Credit Review Office
CSO	Central Statistics Office
DAFM	Department of Agricultural, Food and the Marine
DBEI	Department of Business Enterprise and Innovation
DCCAE	Department of Communications, Climate Action and Environment
DPER	Department of Public Expenditure and Reform
DOF	Department of Finance
DoFCDS	The Department of Finance Credit Demand Survey
EA1	Ireland compared to a group of countries which Include Austria, Belgium, Germany, Finland, The Netherlands and France
EA2	Ireland compared to a group of countries which include Portugal, Italy, Spain and Greece
EI	Enterprise Ireland
EIB	European Investment Bank
EIF	European Investment Fund

Glossary	
EFSI	European Fund for Strategic Investment
FDM	Funding and Debt Management
FGLS	Future Growth Loan Scheme
FI	Finance Ireland
Fin	Finnvera
GDP	Gross Domestic Product
ISIF	Irish Strategic Investment Fund
ISME	Irish SME Association
KfW	KfW bankengruppe a German state owned development bank
LEO	Local Enterprise Offices
MFI	Micro Finance Ireland
MEOP	Market Economic Operator Principle (State Aid)
NDB	National Development Bank
NEFI	Network of European Financial Institutions
Non-Bank On-Lenders	Bibby Financial Services, FEXCO, Finance Ireland, Merrion Fleet and First Citizen Finance
NTMA	National Treasury Management Agency
Peers	Kfw, CDP, BIPF, BBB, Fin
REDC	RED C Research and Marketing Ltd
Report	The output of this Assignment as contained within.
SAFE Survey	ECB Survey on the Access to Finance of Enterprises
SBCI	Strategic Banking Corporation of Ireland
SLA	Service Level Agreement
SME	Small and Medium Enterprises
Stakeholders	DoF, DBEI, ISME, BPFI, EIB, FI
State Aid	Refers to forms of public assistance, using taxpayer funded resources, given to undertakings on a discretionary basis, with potential to distort competition and affect trade between member states of the European Union
UB	Ulster Bank

Appendix F: Tables and diagrams

Appendix G: Reference list

State Policy
Irish Government Department Websites
DBEI Action Plans for Jobs 2018
DBEI Enterprise 2025
DBEI Future Jobs Ireland 2019
DBEI Innovation 2020
DAFM Food Wise 20256
DFA Brexit Contingency Action Plan
DCACE All of Government Plan on Climate Disruption

EU Policy
European Commission Websites
InvestEU programme 2021-2027
EU Small Business Act for Europe
EU Entrepreneurship 2020 Action Plan
EU Green Action Plan for SMEs
InvestEU programme 2021-2027

EU Commission Regulation
EU De Minimis Regulation - (Reg IP/00/1415),
General Block Exemption Regulation
EU Agriculture Block Exemption Regulation -ABER (Reg 651/2014)

SBCI Internal Information
SBCI 2017 & 2018 Annual Accounts
Verbal questions and answers of the Senior Management team
Non-publically available SBCI Internal Information provided during the Assignment

Other Information
The Credit Guarantee Scheme Act 2012
Strategic Banking Corporation Ireland Act 2014

Public Literature
CBI, SME Market Report 2019
The Government of Ireland's 'Local Public Banking in Ireland' report published in 2018
DoF SME Credit Demand Survey – April 2018 – September 2018
ESRI Measuring the Investment Gap and its Financing Requirements for Irish SMEs 2018
BPFI EY SME Market Monitor June 2018
Central Statistics Office (CSO) SME Statistics
The European Central Bank Survey on the Access to Finance of Enterprises in the euro area (SAFE survey),
CBI Behaviour and Culture Report 2018
Lawless et al 2013 ([https://www.esri.ie/pubs/BKMNEXT262.pdf) and 2014 (https://www.esri.ie/pubs/WP491.pdf)
McQuinn & McCann; The financial vulnerability of Irish SME 2013 to 2017 https://www.centralbank.ie/docs/default-source/publications/economic-letters/vol-2017-no-14--the-financial-vulnerability-of-irish-small-and-medium-enterprises-2013-to-2017-(mcquinn-and-mccann).pdf?sfvrsn=4
O'Toole et al (estimating-an-sme-investment-gap-and-the-contribution-of-financing-frictions)

Benchmarking & Landscape
State Investment Banks and patient finance: An International comparison – UCL Policy Report February 2018,
Peer Websites,
www.aecm.eu,
ISIF website, EI website, Microfinance Ireland website, CRO website, LEO website.

Stakeholder consultation process
Department of Finance,
Department of Business, Enterprise & Innovation,
European Investment bank (EIB),
Irish SME Association (ISME)
Bank Payments Federation Ireland (BPFI)
Finance Ireland (FI)

EY | Assurance | Tax | Transactions | Advisory

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