Opening Statement

by the SBCI CEO, Mr Nick Ashmore

to the Joint Committee on Agriculture, Food, and the Marine

Tuesday, 2nd May 2017

Chairman, Members of the Committee,

Thank you for inviting us today. We welcome the opportunity to talk to the Committee about the Agriculture Cash Flow Support Loan Scheme and to take any questions you have on this or indeed on any aspect of the SBCI's work in the food and agriculture sector. Joining me today is my colleague Suzanne Sweeney, Head of Lending in the SBCI.

To introduce ourselves, the SBCI is Ireland's new promotional finance institution. Between March 2015 and December 2016, working with 8 front line lending institutions, we have supported over 12,500 SMEs with over €540 million in low-cost loans and other forms of finance using our supply of long term low cost liquidity. This includes significant involvement in the agriculture and food sector. Farming has been the largest sector using this form of SBCI finance, representing 23% of total take-up to date, with more than 5,000 farm businesses having drawn down €141m in lower cost SBCI loans up to the end of December 2016. This is in addition to the €150m that has been made available through the Agriculture Cash Flow Support Loan Scheme.

We first became involved in the Agriculture Cash Flow Support Loan initiative in July last year when we engaged with the Department of Agriculture Fisheries and the Marine (Department) on the Minister's priority to address the impacts of changes in the sterling exchange rate and lower commodity prices on the farming sector – impacts that included very significant cash flow challenges for many farmers. This engagement accelerated with the news of the exceptional aid made available by the European Commission. This was confirmed in September 2016 in Commission Delegated Regulation 2016/1613 providing for exceptional adjustment aid to milk producers and farmers in other livestock sectors.

The Department carried out a sector analysis which provided a vital insight into those cash flow challenges. The main findings were that farmers would face a shortage of cash towards the end of the year and into 2017 as a consequence of lower selling prices and or crop yields and that they were heavily exposed to costly trade credit and overdrafts to bridge cash flow requirements.

We also engaged with the banks, who confirmed their interest in working with farmers in terms of converting costly trade credit and other capital expenditure borrowings into more sustainable term loans. However, the challenge in tapping into that appetite was to create a more flexible and competitively priced product than what was available in the market at the time and, critically, to address the 'red tape' that farmers regularly face when applying for loans. Given the outlook on prices, it was also important that the new product be available during early 2017.

We had three overriding objectives when we sat down to the devise the scheme. These were to develop a product that responded to the liquidity problem that farmers were facing, to do so in a manner that achieved sufficient impact for farmers and in a way that achieved the greatest possible economic value add within the parameters that we were working in.

Alongside the Department, we developed what became the Agriculture Cash Flow Support Loan Scheme by leveraging the €25 million available to us from the Department (which includes €11 million from of exceptional aid from the European Commission) alongside the SBCI balance sheet to create a €150 million lending scheme.

Whilst the banks provided the additional cash from their own balance sheets, and without that we would not have been able to maximise the impact of the scheme, the SBCI, along with the European Investment Fund's COSME scheme, jointly provided the guarantee required to underpin both the flexibility of the loans and their lower cost. Using the funding provided by the Department and its own balance sheet, the SBCI is providing an interest subsidy and a partial guarantee on the loans.

The interest rate is 2.95%, which is fixed for the life of the loan. This compares to rates of between 6p% and 14% for alternative products, such as overdrafts, standard variable loans and merchant credit. Loans up to a maximum of €150,000 per farm are available with terms of 1 to 6 years and optional interest only repayment periods. The loans are unsecured, which has the added advantage of allowing farmers greater flexibility to engage with banks other than their main lender.

The loans can be used for future working capital requirements – for example, feed, fertiliser, trading stock or tax. They can be used as an alternative to more expensive trade credit, to replenish working capital already used on the farm to support capital expenditure, and to refinance existing farm creditors. The loans are available to all livestock farmers, tillage farmers, horticulture producers and others involved in primary agricultural production.

The involvement of three major banks with nationwide reach has been a critical factor in the success of the scheme. At a most obvious level, the banks have made significant funding available from their own balance sheets. There is also the fact that most farmers have an existing relationship with one or other of the participating banks which has greatly facilitated the loan application process. And, because of their nationwide spread, the banks have played an important role in promoting awareness of the loans through their respective branch networks.

The significance of the scheme is worth reflecting on for a moment, particularly as a precedent for future use of risk sharing and other financial instruments as a means to deliver new policy measures in this space. This is a ground-breaking policy measure in the Irish market and the first use of the COSME programme, which is also part of the Juncker Plan or European Fund for Strategic Investment. Crucially for the SBCI, it represents the first time that the SBCI itself has taken on risk-sharing with front line lenders – in this case, AIB, Bank of Ireland and Ulster Bank. This complements the SBCI's role as operator and manager of the Credit Guarantee Scheme on behalf of the Minister for Jobs, Enterprise and Innovation.

The SBCI will continue to source other European supports and funding in order to facilitate the delivery of new policy measures in the future as market failures are identified. By building an effective central conduit to the market for risk sharing and other financial instruments, we can also ensure the efficient flow of European SME supports to the Irish market.

Turning to deployment under the scheme, based on loans that have been drawn down by farmers, to date, €60.2m has been advanced. The average loan size is €32,000. The banks advise that all of the remaining €150m is committed and is in the process of being drawn down. Based on progress to date, we anticipate, that c. 4,000 farmers will benefit from the scheme.

In the supporting documentation that we submitted in advance of today's hearing, we have provided a breakdown of the loan drawdowns to date by loan term, sector, and region. This picture will continue to evolve as the data is reported to us by the banks, however as you will see from this, the loans are broadly spread in terms of geographical location and farm sector. I refer you to Slides 10, 11 and 12 at the end of the presentation provided and would like to now briefly talk you through the main information on these slides.

This concludes my opening remarks. We be happy to take your questions.

Appendix 1

Summary of Loan Deployment to 28 April 2017

Loan Term	€	% of funds	No. of Loans	Avg loan size €
6 years	11,174,620	19%	194	57,601
5 years	15,907,697	26%	429	37,081
4 years	5,410,443	9%	159	34,028
3 years	4,148,560	7%	199	20,847
2 years	5,680,557	9%	277	20,507
1 year	17,954,964	30%	601	29,875
Total	**60,276,841**	**100%**	**1,859**	**32,424**
SUMMARY				
>4 years	32,492,760	54%	782	41,551
2-3 years	9,829,117	16%	476	20,649
1 year	17,954,964	30%	601	29,875

The loan profile is still evolving with the percentage of longer term loans increasing as the data is coming through from the banks.

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Sector Split

Agri Sector	€	*% of funds*	No. Loans	Avg loan size €
Dairy	25,566,428	*42%*	693	36,892
Beef	24,488,802	*41%*	887	27,609
Sheep	1,112,000	*2%*	65	17,108
Pigs	560,000	*1%*	7	80,000
Tillage	4,545,000	*8%*	90	50,500
Horticulture	638,500	*1%*	6	106,417
Other	3,366,112	*6%*	111	30,325
TOTAL	**60,276,842**	***100%***	**1,859**	**32,424**
SUMMARY				
Livestock including Dairy	51,727,230	*86%*	1,652	31,312
Non-Livestock	8,549,612	*14%*	207	41,302

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Regional Split

NUTS III REGIONS	Totals €	Totals *% OF FUNDS*
Border	7,991,718	*13%*
Midlands	6,230,956	*10%*
West	7,025,173	*12%*
Mid-East	5,813,736	*10%*
Mid-West	9,645,236	*16%*
South-East	10,314,773	*17%*
South-West	13,255,250	*22%*
TOTAL	**60,276,842**	***100%***
SUMMARY		
Border Midlands and West (BMW)	21,247,847	*35%*
Non-BMW	39,028,995	*65%*

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