



SME Lending - Regional Meeting -
Limerick
2 April 2012



An Roinn Airgeadais
Department of Finance



Introduction

The Department of Finance commissioned Mazars to carry out an independent survey on Irish Small and Medium Enterprises to ascertain the demand for credit between April and September 2011.

The Department had no specific interest in the individual financial affairs of any of the SMEs that participated in this survey. The key consideration was to better inform Government of the volume, nature and demand for credit in this key sector.

Myself and Minister Perry are here today with a view to hearing people's views on solutions for some of the issues and challenges we have identified in the report.

We will be using the “Chatham House Rule” for today’s meeting – “When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.”

We will have a particular focus on the agriculture sector today, and would welcome input from attendees who are involved in that area.



Agri Sector - Key Facts & Figures*

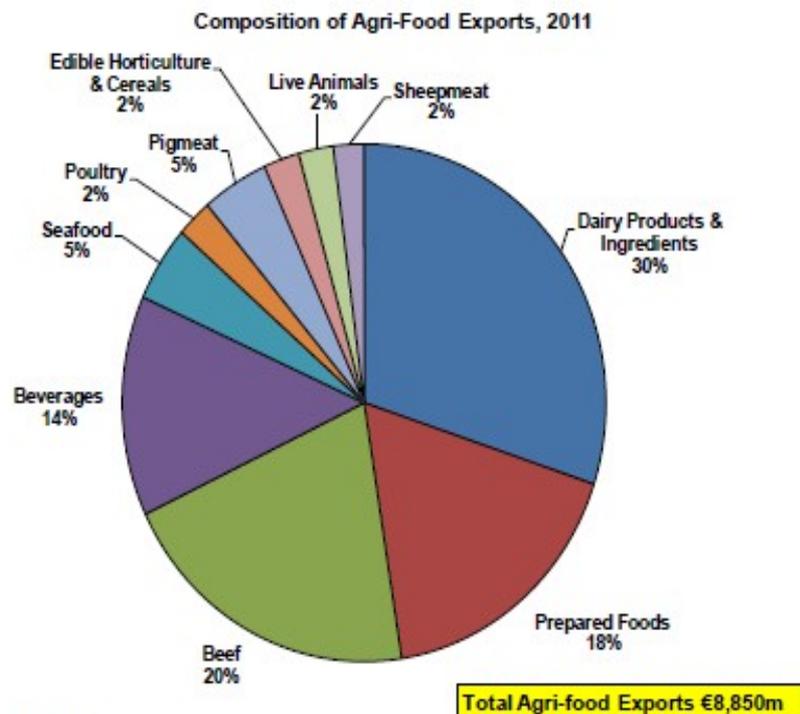
Key Indicators for Primary and Agri-Food Sectors			Employment in the Agri-Food Sector (000s)	
<i>Relevant Year in brackets.</i>	Primary Sector ¹	Agri-Food Sector ²		
% of GVA at factor cost (2010)	2.5%	7.0%	<p>Based on the latest (Q4, 2011) CSO Quarterly National Household Survey data. The CSO has indicated that results of its Census of Agriculture 2010 will provide a more accurate picture of employment in the sector.</p>	
% of employment (2011-Q4)	4.5%	7.7%		
% of exports (2011)	7.0%	10.5%		
Notes: (1) Primary sector taken to comprise Agriculture, Fisheries and Forestry. (National Income & Expenditure A31 sectors AA and BB). (2) Taken to comprise primary production along with food & drinks and wood processing sectors. (NIE A31 sectors AA, BB, DA & DD). Source: CSO and DAFF. All data are estimates.				

Total public expenditure on the agri-food sector by the Department of Agriculture, Fisheries & Food was approximately €2.6bn in 2011. DAFF payments in 2011 totalled €2.1 bn, including Single Farm Payment, Rural Development, Structural and Forestry payments.

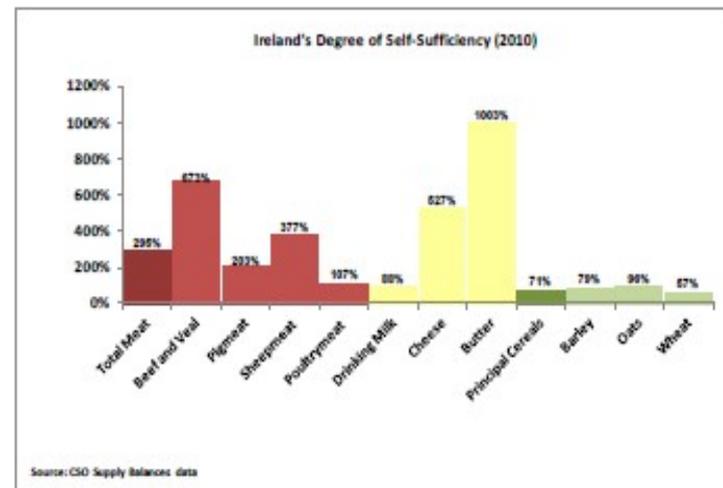
*Source: DAFF



Agri Sector - Key Facts & Figures*



Source: Bord Bia



Bord Bia estimated that in 2011 Ireland exported approximately €8.85bn in agri-sector exports, a result in large measure of Ireland's high level of self sufficiency in many products.

*Source: DAFF



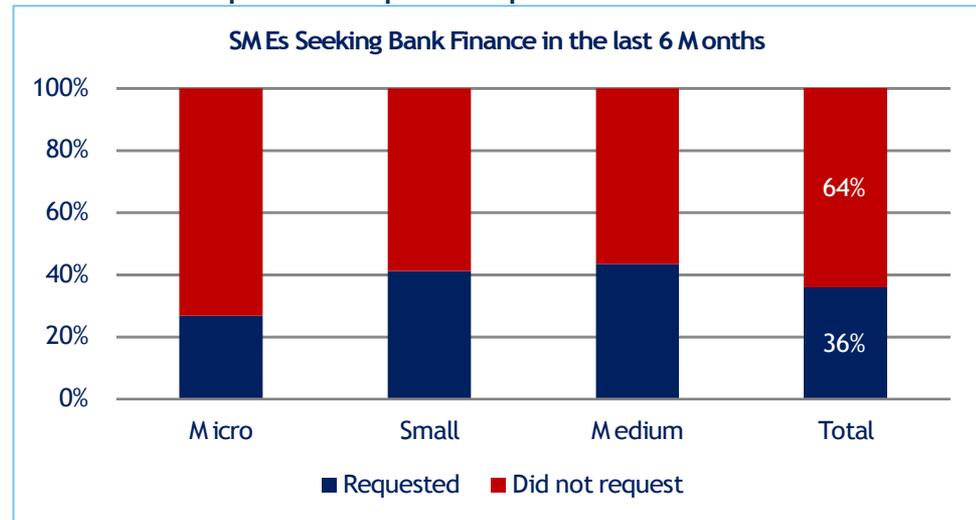
Demand

Current Demand for Credit

36% of the SMEs surveyed demanded credit in the period April–September 2011

The level of demand was particularly low in the micro category with only 27% of Micro SMEs indicating that they had applied for credit

The majority of SMEs did not request non-bank finance with only 6% of Micro, 11% of Small and 19% of Medium companies seeking non-bank finance



78% of companies surveyed requested credit from a pillar bank (AIB/ Bank of Ireland)

How can companies be encouraged to invest in development or expansion?

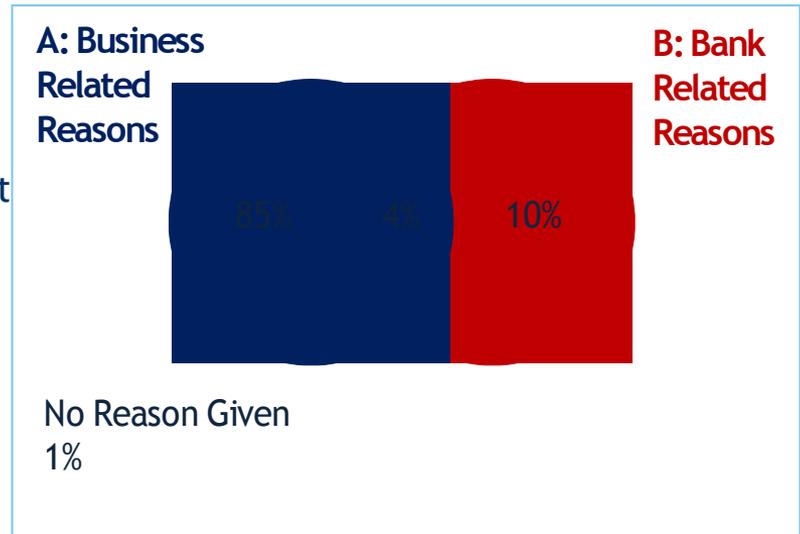


Demand

Reasons for Not Seeking Credit

The reduction in the demand for credit does not necessarily suggest that Irish SME's do not need some form of credit from banks, rather it indicates that they are not making applications to the banks

Bank related reasons for not seeking credit are more apparent amongst micro companies



Principal business related reasons for not seeking credit:

- Didn't Need It/Have Sufficient Internal Funds/Reserves (80%)
- Because It's Not The Right Time Given The Economic Climate (2%)
- Prefer Not To Borrow (6%)

Principal bank related reasons for not seeking credit:

- Because Of Possible Rejection (4%)
- Have Been Turned Down Before (2%)
- Thought/ Believe The Banks Are Not Lending (7%)

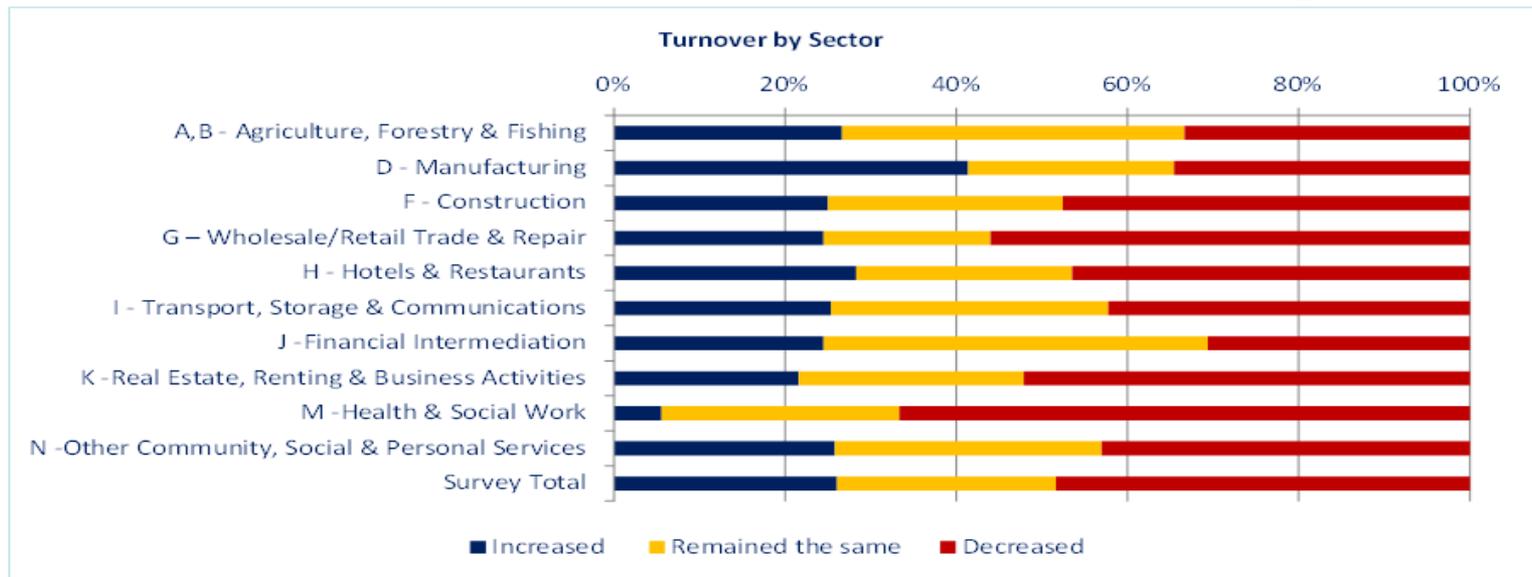
Are the banks doing enough to convince SMEs that they are open for business?



Trading Performance

Turnover by Sector

- All sectors reported decreases in turnover (between 30–70%)
- The Health, Retail and Real Estate sectors included more companies reporting a decrease



- Companies involved in the computer software/hardware industry or exporting companies have fared better than those who only trade in Ireland

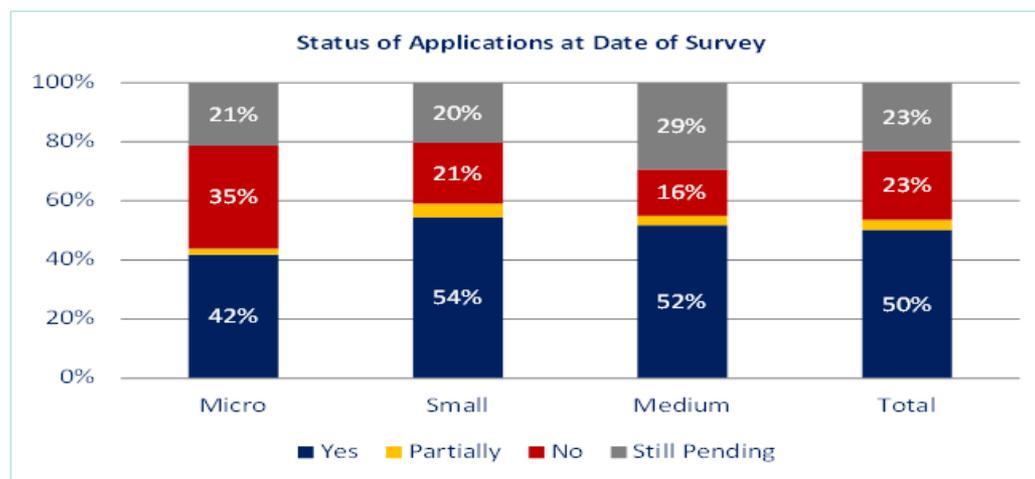
Should the University of Limerick be more proactive in terms of offering mentoring and training to local small businesses?



Application Process

Decline Rate

- 54% of applications were approved or partially approved
- The overall decline rate was 23% (including applications still pending)
- Decline rate highest for micro enterprises at 35%
- A higher decline rate is apparent for overdraft facilities than for loans and a higher decline rate for new lending compared to lending for renewal or restructuring purposes



- 23% of credit applications were still awaiting decision (pending). This has increased significantly as compared to previous studies. Some significant differences are apparent amongst banks

Are the banks knowledgeable about the agri sector and its business models?

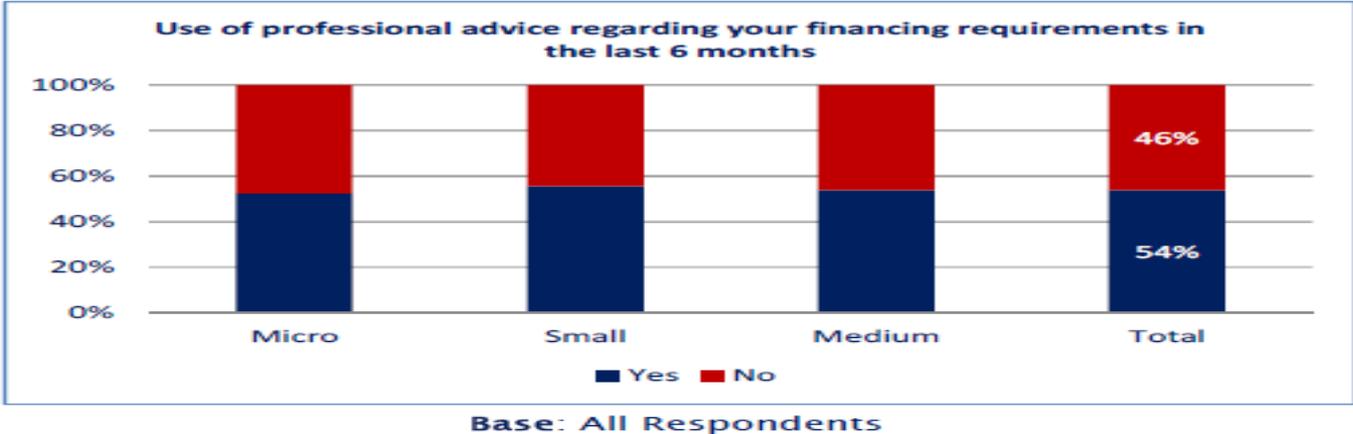
Are the products offered by the banks suitable for the needs of the agri sector?



Financial Management

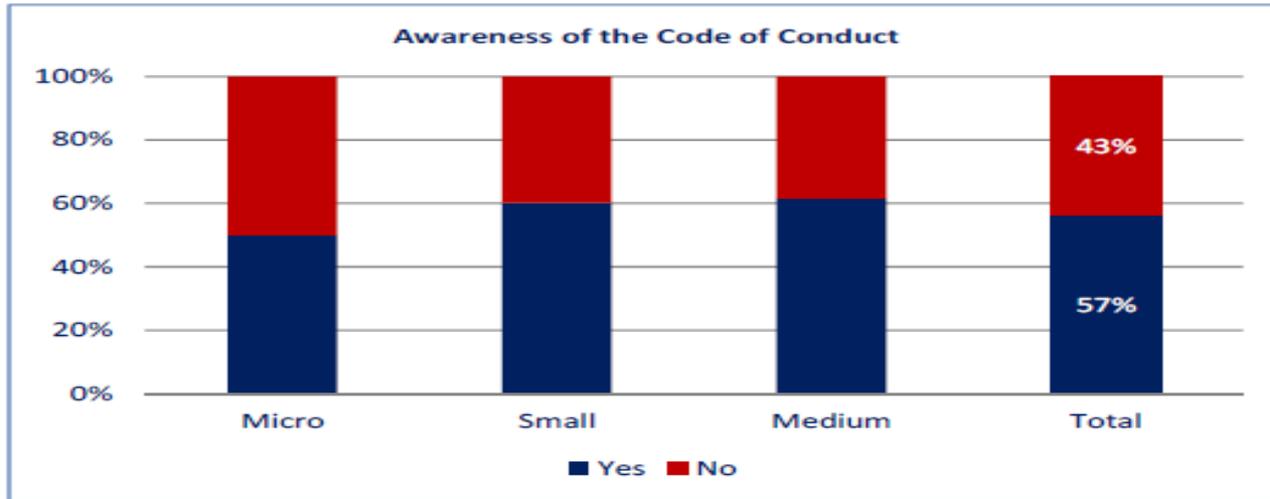
Financial Management Activity	Micro	Small	Medium	Total
Maintain regular management accounts	88%	95%	99%	93%
Maintain an existing business plan	61%	80%	90%	75%
Estimate cash flow requirements for the coming months	63%	81%	92%	76%
None of the above	7%	2%	1%	4%
All of the above	46%	70%	85%	64%

What initiatives could be undertaken at a local level to encourage micro enterprises to conduct more robust cashflow exercises?



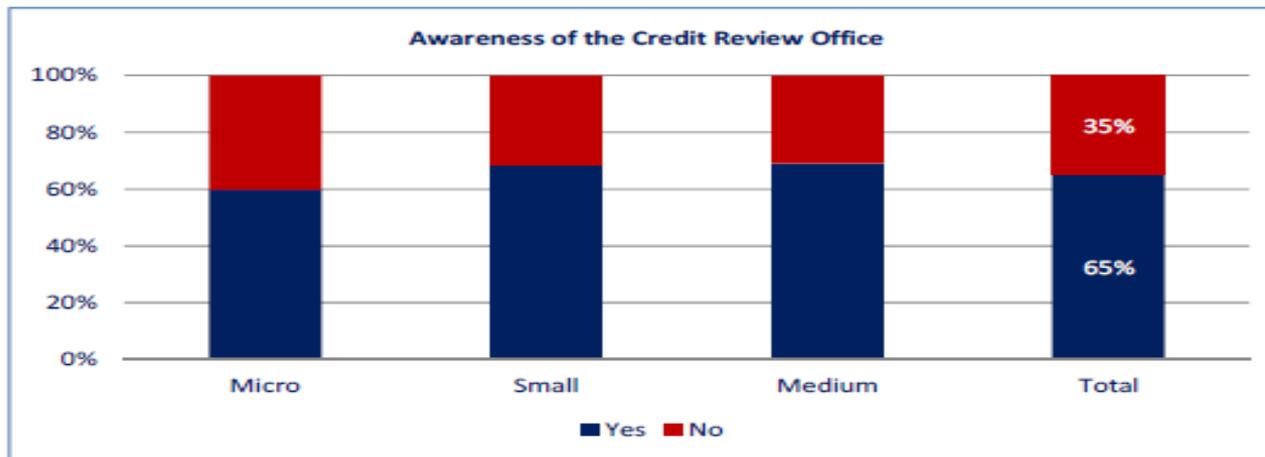


SME Awareness of Support



Base: All Respondents

How can awareness of the Code of Conduct be increased?



Base: All Respondents

Given how high the level of awareness is for the CRO, why are the number of businesses availing of its services so low?

Areas to Explore



Demand

36% of SMEs surveyed requested bank credit, in the main to fund working capital and cash flow.

- How can companies be encouraged to invest in development or expansion?*
- Does this represent a long term risk to these entities, if survival and consolidation rather than development and expansion remain the focus?*

7% believe the banks are not lending.

- Why is this figure so low given frequent media reports that the banks are closed for business?*
- Are the banks doing enough to convince SMEs that they are open for business?*

Areas to Explore



Trading Performance

The survey suggested continued difficult trading conditions. This is very pronounced for micro companies.

- Does this suggest that funding needs are related to working capital?

- Should the University of Limerick be more proactive in terms of offering mentoring and training to local small businesses?

72% of respondents indicated that they either made a profit or achieved a break even position.

- If 7 in every 10 companies are not making a loss, should this be viewed as a sign that the business environment is improving?

- What can be done to instil confidence in companies in the agriculture sector looking to expand to seek credit?

Areas to Explore



Application Process

There is a higher decline rate for new lending compared to lending for renewal or restructuring purposes.

- Are the banks knowledgeable about the agri sector and its business models?*
- Are the products offered by the banks suitable for the needs of the agri sector?*

23% of applications are still awaiting decision (pending).

- Why are the banks taking so long to make decisions in these cases?*
- What can be done to speed up this process?*
- Is this having repercussions for SMEs in urgent need of immediate funding?*

Areas to Explore



Financial Management

The proportion of enterprises performing regular financial or financial management tasks appears to increase as the size of the company increases.

– What initiatives could be undertaken at local level to encourage micro enterprise to conduct more robust cashflow exercises?

– Should there be a compulsory education programme on business planning for micro enterprises?

54% of businesses used professional advice for financing requirements in the last 6 months.

– Why is this figure so small?

– Is there a justification for encouraging local accountancy firms and/or third level institutions to liaise more closely with SMEs?

Areas to Explore



SME Awareness of Support

The level of awareness of the Code of Conduct for Business Lending to SMEs appears to be relatively high at 57%.

– How can awareness of the Code of Conduct be increased?

The level of awareness of the Credit Review Office appears to be high with 60% of micros, and approximately 70% of small and medium enterprises indicating that they were aware of the Credit Review Office.

– Given how high the level of awareness is for the CRO, why are the number of businesses availing of its services so low?

– Does the €500k threshold need to be increased in order to ensure more businesses can avail of its services?