



An Roinn Airgeadais  
Department of Finance

# SME Credit and Funding Newsletter

Summer 2013

Issue 2

## European Investment Bank €200M funding boost for SMEs and Mid-Caps

The European Investment Bank (EIB), through its SME specialist investment arm, the European Investment Fund (EIF), has announced its 2013 round of financial supports for small and medium enterprises and mid-capitalisation companies (mid-caps) in the EU. This support takes the form of discounted credit, which is provided by selected local banks within each Member State. The scheme is administered in Ireland by AIB.



EIB President, Werner Hoyer

The 2013 allocation for Ireland is €200 million. Companies with up to 3,000 employees will be able to apply for credit of up to €300,000 at a reduced interest rate. Loans sourced from the EIF allocation will be available at a 1.25% discount on AIB's usual standard variable business rate (currently 6.5%).

Under the five year scheme, AIB will pass on the financial benefits of the low-cost EIB backed loans for investment projects across all sectors of business. The funding can be used to finance both medium and long-term investment requirements. The EIB loan may only be used to finance investments and expenditures that are incurred in the development of an SME with a Net Connected Exposure with AIB of less than €300,000. The maximum loan amount is €300,000 per borrower. Terms may be negotiated from a minimum of 2 years to a maximum of 5 years, with the loan subject to repayment/refinance no later than 7 May 2018.

*“Ensuring access to finance for small businesses is essential for the Irish economy”*

Speaking at the signing of the agreement in AIB's headquarters in Dublin on the 29 April, the president of the EIB, Mr Werner Hoyer, said that the latest round of funding, the eleventh so far, is the bank's largest allocation for SMEs in Ireland to date. He said that the new funding demonstrated the EIB's commitment to supporting SMEs in Ireland. “Ensuring access to finance for small businesses is essential for the Irish economy and the significant cooper-

ation formally agreed today with AIB, our largest ever engagement in Ireland, demonstrates our strong engagement to support investment by local firms across the country”.



The SME lending programme complements the €80 million Risk Sharing Instrument (RSI) initiative, launched by the EIF and AIB last November. This facility provides loans of up to €7.5 million to SMEs and mid-capitalisation companies undertaking research, development or innovation, and seeking finance for investment and working capital. This enables export and innovation led SMEs to gain easier access to debt finance.

During 2012, the EIB provided nearly €505 million in long-term low-cost loans for key investments in projects across Ireland. In addition to providing dedicated lending to SMEs, the EIB also supported investment in third-level education, renewable energy and water supply projects.

**Owners/managers of an SME who wish to apply for an EIB loan should phone 1890 478 833, visit [aib.ie/business](http://aib.ie/business) or contact their local AIB branch for more information.**

[Additional material courtesy AIB]

## We must use financial crisis to break our reliance on the banks

**Brian Hayes, TD, Minister of State at the Department of Finance**

The recent meeting of EU finance ministers in Dublin Castle saw engaged discussions on non-bank financing of SMEs and infrastructure projects. Non-bank financing, a priority of Ireland's presidency of the EU, is focussed on fostering stability, growth and jobs by looking beyond the traditional banking and state sources of long-term financing. Alternatives to bank financing are essential to our recovery, given our previous over-reliance on banks.

***“Channelling capital from institutional investors to meet long-term investment needs is a priority”***

Evidence of the extent of our over-reliance on bank lending is found in the levels of corporate debt held by banks – 2011 figures show 85pc of the 17 member state Eurozone's corporate debt was held by banks as compared to 25pc in the US. In 2011 €8trn of corporate debt was on the books of European banks compared with €1.3trn worth of debt in the bond markets.

How to open up bond markets as a funding stream for SME development figured prominently in discussions in Dublin Castle. There was consensus around the table that channelling capital from institutional investors to meet long-term investment needs is a priority.

Ireland is recognised as having one of the highest levels of business start-ups in Europe. Government supports provided by Enterprise Ireland serve this purpose well, as do other sources of start-up funding such as venture capital funds and private equity investment. In the last Budget the

Government, via the National Pension Reserve Fund, provided for €850m in funding to stabilise, support and grow this sector.



We are succeeding in supporting new enterprises and protecting viable SMEs in difficulty. Yet more action is required in attracting investment focussed on growing SMEs and keeping them in Ireland.

Recent research by the Central Bank of Ireland found that the greatest amount of job creation occurs when young, small, dynamic companies expand and grow. Contrast this with the fact that 90pc of dynamic Irish start-ups are bought up by US and Asian corporations, and that within five years the ideas and innovation that brought these companies into being – and sold the business case for seed funding – have been absorbed overseas.

I call this enterprise drain, where the job creation potential that flows from the ideas, innovation and drive nurtured by Irish and EU supports is lost for the lack of an SME culture. We are making advances to tap this potential. The Irish Stock Exchange's recently established Enterprise Securities Market aims to support medium-sized enterprises accessing funds by way of a stock market listing.

The most important source of non-bank financing is the institutional investor. Institutional investment funds, such as life insurance

companies and pension funds are particularly suited to the SME sector, given the longer term investment outlook that informs their management of an estimated €13.8trn of assets. The challenge faced by politicians, policy makers and finance professionals alike is to create the conditions of certainty that institutional investors require. There are without doubt significant challenges to regulating for a post-crisis Europe. A balance must be struck to align the needs of a stable financial sector with the need to secure a sustainable and steady flow of long-term investment.

Investor confidence must be fostered. In this regard I was buoyed by the sense of urgency and engagement amongst those gathered in Dublin Castle. I am confident that a similar sense of possibility, pragmatism and solidarity will prevail when this initiative is advanced at the meeting of European finance ministers in Luxembourg later this month.

## The SME State Bodies Group

The Government aims to ensure that all viable businesses operating in Ireland should have the opportunity to meet their enterprise needs in a manner that supports growth and employment. The SME State Bodies Group (SBG) was established in 2012 to both develop key policy initiatives to support SME access to funding, and to ensure their implementation.

The SBG, which is chaired by the Department of Finance, brings together representatives from all interested State departments and agencies and the Central Bank. The Group's primary function is to facilitate the coordination of policy formulation and implementation across all these bodies, with a specific focus on the access to finance commitments in the Action Plan for Jobs. The Group also aims to achieve a consensus position on any policy initiative prior to progressing them by means of the associated SME Funding

Consultation Committee (FCC). The SME FCC brings on board representatives from the main banks and industry bodies such as the IBF, IFA, SFA, ISME and Chambers Ireland.

## The Temporary Partial Credit Guarantee Scheme

The Temporary Partial Credit Guarantee Scheme was introduced by the Government to assist viable SMEs on the margins of commercial lending decisions in accessing credit. It provides a State guarantee to banks against losses on qualifying loans to micro, small and medium enterprises. Permissible loans values are from a €10,000 minimum to a maximum of €1 million.

**Businesses seeking to avail of the guarantee scheme can approach one of the participating banks, Bank of Ireland, AIB or Ulster Bank. Participating lenders will make all decisions on lending.**

The Scheme is in place to facilitate additional commercial lending to Ireland based or Irish owned SMEs, that can demonstrate commercial viability (i.e. repayment capacity for additional credit facilities), but cannot secure credit facilities due to:

- a) Insufficient collateral, and/or
- b) Where SMEs are engaged in sectors, markets or business models which are perceived as a higher risk under standard credit risk evaluation practices.

To be eligible for a guarantee, persons will have been refused conventional bank credit due to either of the reasons set out above.

The lender assesses the ability of the business to make the necessary repayments on the credit, according to its normal assessment criteria. The baseline for determining commercial viability within the Scheme should be no different from the standard viability test applied by each Lender within their normal commercial SME lending procedures.

The borrower pays a 2% annual premium which partially covers the cost of providing the guarantee. The premium is collected annually or quarterly in advance throughout the three year life of the guarantee based on the annual contracted principal balance.

## Small Business Finance: providing information on financing options

Access to finance is a key issue for small businesses. There is a wide range of financing options open to businesses. The IBF and Chambers Ireland have worked together to help businesses overcome that challenge by launching the Small Business Finance website.

[www.smallbusinessfinance.ie](http://www.smallbusinessfinance.ie) is an open resource for SMEs providing information on business planning and financial management. The Small Business Finance website provides easy access to businesses on all types of finance available including credit, equity and government supports.

The website also looks at how a business's financing needs change from looking for start-up finance, opening a bank account and ensuring cash-flow or day-to-day operations to expanding operations or into new markets at home and abroad. The website highlights how businesses can better manage their finances to unlock additional funding or avoid cash-flow problems through late payments or take action when faced with financial difficulties.

Greater information awareness and knowledge will instil greater confidence in businesses and this in turn should lead to the creation of business opportunities and jobs.

## EU takes action on non-bank financing

As part of our planning for the EU Presidency, the Department of Finance hosted on the 8th of December a **High Level Workshop on Non-Bank Funding of Growth and Jobs in Europe**. The Irish

Presidency also proposed that the issue of long-term financing of economic growth and employment be discussed at the Informal Ecofin in April 2013.

Following on from a suggestion made by the Irish Presidency at the Informal Ecofin, the EU's Economic and Financial Committee (EFC) has agreed to establish a High Level Expert Group on Long Term Finance. The work of this Group will focus on developing on concrete capital market instruments to stimulate and diversify the funding of SMEs and mid-cap enterprises and the financing of infrastructure projects. It will also explore the role of multilateral (e.g. EIB) and national public investment institutions in catalysing private finance. The Group will be co-chaired by John Moran (Secretary General, Department of Finance) and Alberto Giovannini (CEO, Unifortune). There will be 18 members on the group drawn from national finance ministries, EU institutions, state investment banks and the financial sector. A final report from this group will be submitted in the autumn.

The report of the High Level Workshop on Non-Bank Funding is available at:

<http://www.finance.gov.ie/documents/publications/reports/2013/nonbankundjobs.pdf>

## Ulster Bank: Speeding up access to credit

**David Thomas, MD, Corporate Banking Division, Ulster Bank**

Much good work has been done by Government and the Credit Review Office to ensure banks are making sensible decisions based on risk appetite however the speed of decision making remains an issue.

In my first few weeks with Ulster Bank in 2011, I attended a very positive meeting with the accountancy bodies to discuss if the provision of common information to banks could ease the flow of credit. The thing that stayed with me was the simple statistic that it takes on average two weeks for a credit application to be approved. That means on the ground many are taking

substantially longer. A quick "yes" is really important to a business but a quick "no" is also vital so that alternative solutions can be explored. Many people advised me that the lack of postcodes and the infancy of credit bureaus were key factors however that shouldn't stop banks responding to their customers' needs quickly.

Today in Ulster Bank we have instant credit decision-making in place for smaller business customers seeking loans and overdrafts. By the end of 2013, we plan that 50% of all credit applications will be sanctioned within 48 hours. We will continue to develop that technology and to make it easier for small businesses. We will also lobby for the introduction of postcodes and the wider implementation of credit bureaus which are important foundations for a functioning credit market. The other key component is the willingness of customers to share information. A better understanding of the business by banks is critical in building trust.

We want to play a leading role in modernising the Irish credit markets using best practice from Europe and beyond. That isn't an overnight transformation but is critical for the future of the economy.

[Article courtesy of Ulster Bank]

### Bank of Ireland completes its eighth National Enterprise Week

From 17<sup>th</sup> – 24<sup>th</sup> May Bank of Ireland hosted its eighth National Enterprise Week which is one of a series of initiatives undertaken by the bank to support Irish businesses.

The theme for this one was **Building Business Momentum** and the objective was to encourage Irish business owners to use the opportunity of improving fiscal and economic conditions to position their businesses for growth. In particular the bank wanted to help build confidence among all business stakeholders that growth momentum is achievable.

During Enterprise Week at least 1,500 small businesses were invited to show their products or services to bank customers and staff across its branches in Ireland. This 'Show Your Business' programme brings huge energy throughout the week and is about supporting business customers and helping them do more business.

Bank of Ireland also hosted almost 80 customer events during the week. These included:

- Sector-specific events: For example an agriculture event in Listowel covered the impact of CAP reform on local farmers.
- Themed events: two events looked at how the use of Social Media can help build business in ways that were unheard of when the National Enterprise week started out in 2009.
- Credit Clinics that offer customer invaluable guidance on developing business plans, cash flow projection and preparing an application for credit. A Credit Clinic specifically designed for the agricultural sector was very successful.



An Taoiseach, Enda Kenny TD, addresses the conference

An Taoiseach, Enda Kenny TD, opened a **Building Business Momentum** conference at the Burlington Hotel on 24<sup>th</sup> May. Attended by almost 1,000 business customers and bank business managers, the conference was also addressed by industry leaders from the Retail, Health, Motor, Hospitality and Property sectors.

For further information on National Enterprise Week see: [www.allaboutbusiness.ie](http://www.allaboutbusiness.ie)

[Article courtesy of Bank of Ireland]

## News from the Credit Review Office

The Credit Review Office continues to perform a vital role in reviewing the decisions of the pillar banks (AIB and Bank of Ireland) to refuse applications for credit from SMEs.

The CRO has recently held a tender process to expand the number of credit reviewers as demand for the Office's services continues to increase. Twelve reviewers will be appointed in the coming weeks, significantly increasing capacity. As well as increasing the number of reviewers, some of the latest recruits will bring additional sector-specific expertise to the process for example in the area of finance for agribusiness.

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**The Department of Finance welcomes all comments and queries on the contents of this newsletter and suggestions for future content.**

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