



An Roinn Airgeadais
Department of Finance

SME Credit and Funding Newsletter

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Crowdfunding: Innovation in Business Lending - Lolly & Cooks Cafés

Crowdfunding offers a viable alternative source of funding for businesses in both the start-up and expansion phases. Laragh Strahan and the team at Lolly and Cooks cafés and bakery recently took a leap of faith and looked beyond the banks for funding their business. The crowdfunding platform LinkedFinance came to the attention of Laragh and her team at a time when they were looking to expand the business.



Lolly and Cooks Café, Merrion Street, Dublin 2

How does it work?

A platform or market place is established, typically online, and those seeking finance submit general business plans as well as accounts information in so far as it is available. These Borrowers set a target for the

amount of funding they would like to raise. Prospective investors or lenders review this information and then decide if they are willing to support that proposal. Lenders can lend as little as €50 hence the need for a crowd to fund each project. Lenders can spread their exposure across various borrowers thus minimising their investment risk and borrowers can reach their target loan amounts even if it is through a conglomerate of small lenders. The platform usually charges a fee for facilitating the loans and also provides certain after-the-event services such as disbursement of repayments to the borrowers. Standardising the application process introduces rigour to requests for finance and makes different proposals easily comparable by the prospective lenders.

How long does it take?

Laragh felt the process went very quickly and smoothly in the Lolly and Cooks case. From initial contact and refinement of the proposal, submitting the information needed to give borrowers a feel for the loan being proposed will vary

depending on the proposal and the age of the business but can be as short as a matter of weeks. When the loan was launched on the platform it took two weeks to reach the targeted amount; in fact interest exceeded demand, with even more lenders willing to contribute than Lolly and Cooks actually needed.

What are the information requirements?

In general, borrowers are asked to submit as much information as they can in the form of a business plan. Laragh found the process very similar to any other funding application that the business had been through previously. Some potential investors also had follow up queries while the bid was awaiting the achievement of the target level. Mostly businesses are asked to submit annual accounts and management accounts if they have them, tax clearance details and data on costs and turnover. The first time a business goes through the process is often the most difficult and as Lolly and Cooks had already had bank funding for the start-up phase, Laragh found the provision of information for crowdfunding a much easier process.

'It took two weeks to reach the targeted amount; in fact interest exceeded demand'

How easy is it to use?

Laragh feels the process can run very smoothly both for established businesses and for first time applicants. Essentially, there are no extra hurdles associated with this particular process for a start-up that they wouldn't face in raising funds elsewhere. More information is available online at:

www.lollyandcooks.com
www.linkedfinance.com

Days of “The cheque is in the post” are numbered

The wearying excuse of “the cheque is in the post” should be heard less often in the near future. From 19 September 2014 the Government will cease writing cheques to or accepting cheques from businesses. This initiative, launched by Minister of State at the Department of Finance, Mr Brian Hayes, T.D., on 26 September 2013, is one of the recommendations in the National Payments Plan – announced by the Minister for Finance last April. The Plan has a target of doubling the number of electronic payments between 2011 and 2015.

Consumers will not be impacted. Businesses will need to prepare for e-Day as follows. If a public sector body currently pays you by cheque, you should ensure that whoever is paying you has your bank account details so that you can be paid electronically. Your bank will be very happy to assist you in setting up this process.

If you currently pay a public sector body by cheque, you will need to check with it what alternatives will be accepted. Electronic funds Transfer (EFT), Direct Debit and Payment Card options are among the alternatives that will be offered by Government Departments, Offices, State Agencies and Local Authorities. These organisations will advise their customers on the available options.

Ireland is one of only a handful of countries that still use a significant

number of cheques. Cheques can be expensive for businesses – bank charges, stamp duty, postage. Bounced cheques are another time wasting and costly annoyance.

According to the European Payment Index 2012, it takes an average of 74 days for businesses to get paid by other businesses in the top 6 cheque-using Member States, whereas the average for the rest of the EU is 44 days. The Government has implemented measures to address this problem – the 15 day prompt payment rule for Government Departments, Agencies and public authorities, the transposition of the Directive on Late Payments and the development of a Code of Conduct between businesses and Government on Prompt Payments.

Minister Hayes noted at the e-Day launch: “The particular focus of ‘e-Day’ is to encourage SMEs to migrate from cheque usage as they are either issuers or receivers of more than 60% of all cheques in Ireland. A shift from cheques to electronic as a preferred method of payment will result in reduced costs and improved cash-flow for the overall business sector.”

While e-Day applies to all Government Departments, Offices, Local Authorities and State agencies it is hoped that its momentum will be embraced by the wider business community particularly SMEs, by choosing to cease the use of cheques for both their inward and outward payments.

As noted in the foreword of the National Payments Plan by NPP Chairman Tony Grimes “Ireland can and should be a leader in the payments

area – we have the youngest population in Europe and have shown ourselves to be very fast adopters of new technology”.

Further information is available at:

<http://tinyurl.com/nhv6jh7>

EU Initiatives for SMEs European Structural and Investment Funds

Following the successful conclusion under the Irish Presidency of negotiations for the 2014 – 2020 Multi-annual Financial Framework (MFF), the new round of European Union structural funding for this forthcoming programming period commences on 1 January 2014. Government Departments and agencies are currently engaged in preparing programmes to maximise the domestic impact of this EU support. Ahead of this new funding cycle, among the key challenges identified by the European Commission for Ireland are:

- High levels of overall and youth unemployment, increasingly long-term in nature and the increasing risk of social exclusion;
- Insufficient commercialisation of basic research;
- Low availability of finance for the private sector, particularly for SMEs.

Accordingly, enhancing the competitiveness of SMEs is seen as a key element of the EU goal of investing in growth and jobs, and as an area where funding will be concentrated in the new national-level programmes currently under preparation. Enhancing the competitiveness of Irish SMEs by promoting entrepreneurship, in particular through facilitating the economic exploitation of new ideas is likely to be one of the structural funding priorities contained within the new c. €600m 2014 – 2020 ¹ Regional Operational Programmes, jointly co-funded by the ERDF and the Exchequer. The following objectives underpin this key, strategy:-



Pictured at the e-Day launch: (Left to Right) John Hogan, Assistant Secretary, Financial Services Division, Department of Finance; Minister of State at the Department of Finance, Mr Brian Hayes TD; Tony Grimes, Chairman and Russell Burke, Senior Advisor (both National Payments Plan)

¹ European Regional Development Fund

- To accelerate the start-up and expansion of micro-enterprises;
- Creation of employment, increasing competitiveness and sustaining economic growth;
- Continued delivery of successful entrepreneurial supports;

There is a clear EU and national policy imperative to support entrepreneurship and innovation among SMEs and to drive new firm creation, expansion and employment in SMEs. Strong support for such an initiative also emerged from submissions received during the public consultation process on ERDF funding priorities. Proposals involving linkages between the EIB and the European Commission to provide financing support for these areas are currently being developed.

EU funding will continue for existing national programmes to support entrepreneurship initiatives for SMEs generally and particularly emerging technology-based start-ups through initiatives such as the New Frontiers Entrepreneur Development Programme in conjunction with the Institutes of Technology.

In parallel to these structural funds, the MFF also includes the COSME programme which has an overall, EU-wide budget of over €2bn for the 2014-2020 period. Its objectives are to provide better access to finance, deliver business support services and promote entrepreneurship for SMEs.

The Department of Jobs, Enterprise & Innovation: Taking Care of Business

The Department of Jobs, Enterprise and Innovation will host the Taking Care of Business one-stop-shop event on Tuesday 22 October 2013 at the Printworks Conference Centre, Dublin Castle from 8.30 am to 2.30 pm.

This event is aimed at owners of small businesses and those who are considering starting a new business. It will help small and start-up businesses to understand and benefit from the services provided by State offices and agencies. Representatives from a wide

range of State bodies will attend the event and will be available to provide information and advice to attendees. Senator Feargal Quinn will open the event and chair the opening session. Ms Heather Ann McSharry of the IDA will chair the second session of the day and Mr Eamonn Kielty, Chairman of ISME, will oversee the third and final series of presentations. The Minister for Small Business, Mr John Perry TD, will deliver the closing remarks.

Attendance at the event is free of charge and details of how to register, the full itinerary, the list of participating State bodies and other information is available online at:

www.takingcareofbusiness.ie

AIB €50 Million Farm Cash Flow Support

Throughout the 12 months of adverse weather from late spring 2012 to early summer 2013, AIB maintained an external information campaign encouraging farmers experiencing cash flow pressure to make early contact with their AIB Branch or Business Centre. A telephone help line was established to provide an alternative flexible channel for farmers to contact AIB. In May 2013 AIB introduced a €50 Million support package for the Agri-sector, to support farmers impacted by weather related cash flow problems, combining both short and medium term finance options including:

- Next day business decision on short term loans up to €25,000 for immediate working capital needs;
- Flexible working capital finance by way of an AIB Farmer Credit Line at a competitive interest rate; and
- A new 'AIB Farm Restructure Loan' to support the restructuring and consolidation of short term debt, where appropriate, at a discounted rate, up to a maximum of €100,000 per business. Repayment terms up to a maximum of 36 months are available. The product will remain available until 28th March 2014.

There has been low demand for the 'AIB Farm Restructure Loan' to date. AIB anticipate that in the general there

will not be a demand for this product until end of 2013 or Q1 2014, if at all. Given the good weather pattern throughout the past summer, significant work has been done to rebuild fodder stock across the country. There remain some farmers who continue to experience cash flow pressure and who have a build-up of merchant credit. AIB continues to advise farmers that are experiencing cash flow pressure to make early contact with the local Branch or Business Centre.

[Article courtesy of AIB]

Bank of Ireland Reports increased lending to SMEs

Lending approvals by Bank of Ireland to the SME sector for the first half of 2013 were up 18% year-on-year at €1.9bn. This figure represents new and increased lending volumes (excluding restructures) leaving the Bank on track to deliver its year-end target of €4bn. The principal sectors where BoI are seeing demand are Agriculture, Manufacturing, Hospitality and export led Manufacturers. BoI are also supplying over 50% of the credit requirements of the Motor franchise market.

There are signs of stabilisation although sectors correlated with consumer spending and property markets remain challenged. However, overall confidence is still on the low side and this is reflected in both usage of available credit and demand for new credit. Loan approval levels remain in the mid 80%'s.

The Bank continues to work collaboratively with State agencies engaged in the SME market including the Credit Review Office, the Credit Guarantee Scheme (CGS) and Microfinance Ireland (MFI). The Bank has met with the external consultants reviewing the Credit Guarantee Scheme and fed back its views on how to broaden the scheme's appeal. The Bank has arranged for loan application decline letters which issue for amounts below 25k to include a reference to the MFI and how it can be accessed as a

possible provider of finance at this level.

So far in 2013 the Bank has hosted over 100 Credit Clinics for small, micro and agri-focused businesses. The Clinics are being well received and are providing support to these businesses in gaining a full understanding of the Bank's lending process and how best to make a credit application.

The Bank's Enterprise Lounge concept in Grafton Street is continuing to support SMEs through its availability for meetings and presentations, whereby space can be booked free of charge, giving small businesses and entrepreneurs access to a bespoke business environment in the heart of the capital. For more details see <http://www.allaboutbusiness.ie/enterprise-programme/enterprise-lounge> or contact the Bank by e-mail at enterpriselounge@boi.com

Overall BoI are seeing an increase in credit demand from some sectors and anticipate a more general lift in activity on the run in to year end as businesses come out of the traditionally slower summer period.

[Article courtesy of Bank of Ireland]

Ulster Bank: Fee-Free Foreign Exchange Payments Service

Ulster Bank is first to market with business-critical free service

Ulster Bank has removed payment transaction charges on standard Foreign Exchange payments for all customers across the island of Ireland. This applies to all standard, outward currency payments across all the Bank's payment channels - electronically in branch, via Bankline and Anytime Banking.

Paul McEnroe, Head of FX & Interest Rates at Ulster Bank said "We are delighted to be able to announce this added benefit of banking with Ulster Bank. We are constantly looking to enhance the way in which we can help our customers and we are the only

established bank to offer this service free of charge to all our customers, across all delivery channels. In addition to being a full clearing Bank, our customers also benefit from the global reach of our parent RBS, which includes straight-through processing for payments."

"This enhanced service will allow customers send funds abroad free of charge, parents with children studying abroad for example will now be able to make payments with no additional charges. Likewise, Irish businesses will now be able to pay foreign suppliers free of charge," he concluded.

[Article courtesy of Ulster Bank]

News from the Credit Review Office

With the welcome arrival of GDP growth figures and a rising level of confidence amongst some SMEs, businesses are now looking towards better times.

Hopefully trading conditions in the domestic economy will now also improve and this will be accompanied by a greater demand for credit. In anticipation of this, and to ensure that viable businesses can access the credit which they will need to grow, the Credit Review Office has recruited twelve experienced lenders to ensure that all appeals for credit from the AIB and BoI customers are held promptly and professionally.

The enhanced Credit Review Office team has very experienced SME lending skills, together with two specialist agri-lenders for appeals from farms. The team have been coming up to speed over the summer holidays and all have now been working on appeals and issuing opinions.

The Credit Review Office continues to invest heavily in advertising to ensure that the service is widely recognised, however we at the Credit Review Office stress that appeals to the office are borrower driven and we would urge any SME or farm that feels that

they have been wrongly declined credit to contact the office on 1850 211789 or www.creditreview.ie

The appeals process is being constantly improved to keep the paperwork in making an appeal as simple as possible. After we receive an appeal, a reviewer will be allocated to the case and will be in contact with the borrower to advise and assist on making the credit application as viable as the underlying business allows.

To date the Credit Review Office has gained access to credit for 55% of the borrowers which have proceeded through the appeals process.

John Trethowan, Credit Reviewer

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Small Business Finance
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National Pensions Reserve Fund
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The Department of Finance welcomes your comments, and queries on the contents of this newsletter and suggestions for future content.

Please send your feedback to smenews@finance.gov.ie