MAPLES GROUP

UPDATE

COVID-19 Ireland: Credit Guarantee Scheme Extended

In our previous industry update[1], we discussed the creation of the COVID-19 Credit Guarantee Scheme (the "Scheme"), how it applied, and how it would operate. Over one year from the outset of COVID-19, we examine the Irish government's recent decision to extend the Scheme from 30 June 2021 to the end of 2021.

Background

Originally envisaged as a temporary measure, the Scheme, the largest state-backed loan guarantee scheme in the history of the Irish state, offers an 80% government guarantee to facilitate up to €2 billion in lending to participating small and medium sized enterprises ("SMEs"). With uncertainty over vaccine availability and rollout, the government's decision to extend the Scheme offers a lifeline to struggling SMEs.

New Lenders

Compared to previous credit guarantee schemes, the Scheme has seen a significant increase in the number of participating 'On-Lenders'. Originally, the Scheme had been limited to just the three 'Pillar Banks' (Allied Irish Banks plc, Ulster Bank Ireland DAC and Bank of Ireland).

As part of the extension of the Scheme, in addition to the three Pillar Banks, nineteen credit unions and three alternative lenders have become On-Lenders under the Scheme, with another three non-bank lenders preparing to enter the fold.

Investment in the Scheme is not just limited to domestic institutions, with foreign investors known to be underwriting certain of the alternate lender's operations.

This wide range of choice is welcome news to ailing SMEs, where ultimately the final decision to lend rests with individual lending institutions.

Uptake in the Scheme

As at the time of writing, over 5,000 SMEs have applied under the Scheme, with the majority of these SMEs having less than 10 employees.

However, looking more closely at the official figures, of the over 5,000 applications only about 4,000 loans (representing 12.7% of the €2 billion fund) have been granted and drawn down to date. In comparison, only 8% of the funds available under the previous credit guarantee scheme in 2018 / 2019[2] were utilised.

The figures reveal that, of the loans drawn under the Scheme to date:

- 20% were to the wholesale and retail sector;
- 14% were to the food services and accommodation sector;
- 11% were to the construction sector;
- 11% were to the agriculture, forestry and fisheries sector; and
- the balance were to, among others, the manufacturing, administrative services and transport and storage sectors.

1 https://maples.com/en/knowledge-centre/2020/5/covid19-ireland--support-extended-credit-guarantee-scheme-and-new-pandemic-fund

[2] The previous credit guarantee schemes of 2012, 2015 and 2018 were launched in the wake of the global financial crisis to assist SMEs to access credit

Though the Scheme offers much needed support for those businesses, global ratings agency Fitch Ratings has sounded a more cautious note saying uptake has been "*extremely low*" at just 0.2% and was "*unlikely to increase significantly*".

The government has said that the continued availability of the Scheme will aid businesses in navigating the challenges of COVID-19 as well as the fallout from Brexit.

Given over 99% of active enterprises in the state are SMEs and they account for around 70% of employment, it begs the question why participation is so poor, given very few sectors of the economy have managed to avoid the fallout of COVID-19.

Despite the low figures, the Minister for Finance Paschal Donohue, believes that the low uptake in the Scheme is in fact a sign of the success of the government's other pandemic supports. He also said that the low demand for debt is a consistent feature of the Irish SME environment and that he expected an increase in applications to the Scheme once restrictions are lifted.

It would appear as though many business are wary of taking on further debt in the hope of riding out the storm. However, with the horizon for reopening the domestic economy by no means clear, many SMEs may be forced to rethink this strategy.

Comparison

In comparison with other state-backed COVID-19 financial supports available domestically and abroad, interest in the Scheme has been limited, but it shows that there is appetite for assistance programs if the terms are right.

For example, the Future Growth Loan Scheme ("FGLS"), offers larger and longer term loans to SMEs. As of the middle of March, the FGLS had provided loans in excess of €668 million out of total available funds of €800 million. The FGLS provides loans of between €25,000 and €3 million for terms up to 7 to 10 years to SMEs in addition to Small Mid-Cap enterprises, being those who have between 250 - 500 employees.

By contrast, under the Scheme, loans of between €10,000 and €1 million are available for terms up to five and a half years. Interest rates vary between On-Lenders and though there is a possibility of capital and interest moratorium or an interest-only repayment period of up to 12 months, again this is at the discretion of each On-Lender.

The Coronavirus Business Interruption Loan Scheme (CBILS), an equivalent UK state guaranteed loan scheme offering SMEs 80% guaranteed loans of up to £5 million, suffered similarly poor uptake from its inception. It was overshadowed by the Bounce Back Loan Scheme (BBLS) which offered SMEs smaller 100% guaranteed loans up to £50,000. Both closed to new applicants on 31 March 2021 and have been replaced by the new 'Recovery Loan Scheme'. With all COVID-19 restrictions set to be lifted in the UK by 21 June 2021, it will be interesting to examine participation in this successor scheme.

Looking Forward

Given the limited uptake of the Scheme to date, Minister for Enterprise, Trade and Employment, Leo Varadkar has said that the government is examining ways to increase participation, including longer terms and initial no-repayment periods. Any proposed changes would have to be carefully considered so as to not contravene EU state-aid rules.

What is certain is that SMEs are not out of the woods yet and only time will tell if uptake in the Scheme increases naturally as lockdown restrictions ease, or whether the government adapts the Scheme to encourage further participation.

Further Information

For further information, please reach out to your usual Maples Group contact or any of the persons listed below.

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