



CREDIT GUARANTEE SCHEME

Finance Providers Frequently Asked Questions

1 Why is the Credit Guarantee Scheme being made available?

The Scheme is being made available to facilitate additional lending to SMEs who are on the margins of commercial lending decisions, thereby enabling SMEs to access sufficient credit to maximise growth potential and job creation opportunities. The Scheme will address two distinct barriers to lending being experienced by specific categories of Irish SMEs.

The Credit Guarantee Scheme is provided by the Government through the Minister for Business, Enterprise and Innovation to facilitate lending to viable Micro, Small and Medium-sized Enterprises (SMEs) which would otherwise be declined by lenders due to insufficient collateral for the additional facilities and/or growth / expansionary SMEs which due to their sectors, markets or business model are perceived as a higher risk under current credit risk evaluation practices.

The Scheme can be used to facilitate refinance (where security is an issue and/or there are sectoral concerns) if related to circumstances where the SMEs finance provider is either (i) unwilling (unwilling where the loans have expired, have been 'called in' or demanded) to extend **OR** (ii) unable (as its exiting the Irish market), to provide the credit sought **OR** (iii) has sold SMEs debt to a 3rd party.

2 Who are the target borrowers for the scheme?

Target borrowers are SMEs — Micro, Small and Medium-sized Enterprises.

They are:

- Viable companies that are unable to offer sufficient collateral, or
- Viable companies involved in specialist products and services sectors, which may be outside the finance provider's existing risk appetite and parameters
- Viable companies seeking refinance where their existing finance provider is either unwilling or unable (as it is exiting the Irish SME market, or the debt is sold to a 3rd party) to provide the credit sought and there is insufficient collateral available to support this refinancing
- The Applicant (or Applicant's group) must have: fewer than 250 employees
- Either a turnover not exceeding €50 million or a balance sheet value not exceeding €43 million.

The source of the turnover figure should be the latest management or statutory accounts, whichever is deemed appropriate according to each lender's normal credit assessment criteria.

For start-ups, or businesses which have traded for less than 12 months, the turnover figure examined should be that forecast for the first 12 months of trading.

Where the Applicant is a company within a larger group, the turnover is treated on an aggregated basis for the whole group of companies. In such instances the latest consolidated group accounts should normally be used (unless the lender's credit assessment process dictates otherwise).

There is no requirement to "group" applications with common directors, but finance providers should follow their normal commercial practices with regard to treatment of such connections.

3 What Industrial sectors are NOT eligible for the Scheme?

3.1 Aquaculture (Fish Farming)

Note that the Scheme is not allowed to be used when the facility would be in support of activity that increases fishing capacity (expressed in terms of tonnage or power), or is for the purchase, construction or modernisation of fishing vessels. The Scheme is allowed, however, where it is directed at improving safety standards - please contact the Operator for clarification in each individual instance, prior to approval.

Activities related to the production, processing and marketing of fisheries products are eligible for the Scheme but because there is a lower State Aid limit for aquaculture of €30k the maximum permissible Scheme Facility value will be significantly lower than the overall €1m maximum.

3.2 Primary Agriculture

Primary production in agriculture is excluded from the scope of the Scheme in the light of particular restrictions under the de minimis State Aid rules and because the specific market failures identified do not apply in these sectors.

Value-adding downstream processing and marketing activities are regarded as being "industrial" and so are eligible.

3.3 Banking, Finance and Associated Services

Any activity that involves granting of finance or a financial service to clients is ineligible, such as: banking, deposit taking and building societies; companies involved in granting facilities, mortgages, hire purchase or credit services; mortgage brokers that are attached to banks; venture capitalists; seed corn finance companies and stockbrokers.

Accountants, auditors, management service companies such as bookkeeping firms, tax advisers, management consultants, business advisers and companies that provide support to small firms on financial matters without actually supplying funds are eligible.

3.4 Coal

All activities in the coal sector are ineligible.

3.5 Formal Education

Formal education is ineligible.

Businesses offering courses that lead to vocational qualifications and skills (i.e. those skills and qualifications directly usable in a job) are eligible, as are nursery schools, day schools and playgroups for young children and sports coaching.

3.6 Insurance and Associated Services

Companies and societies primarily engaged in transacting all types of insurance business are not eligible.

Insurance agents and brokers that do not provide insurance themselves and that are independent of insurance companies are eligible for Scheme.

3.7 Owning and Dealing in Property

Land and estate owners, property investment companies and those that derive their income from owning and letting property are not eligible, nor is dealing in land or property for speculative gain.

Building firms that buy land or property to develop or refurbish and who employ the building workers themselves or sub-contract the work are eligible.

3.8 Public administration, national defence, and compulsory social security

All publicly owned bodies and companies, including their 100% subsidiaries, are ineligible

An exception to this is where the State has a controlling interest (but not 100% interest) in a company in which it holds share capital as result of investment by a venture capital fund, whereby public funds are invested alongside private funds.

3.9 Road Freight Vehicles

There is a prohibition on Scheme use for the purchase of road freight transport vehicles to be used for hire or reward.

4 What is the maximum facility amount that can be accessed under the Scheme?

The minimum facility amount that an SME can access under the scheme is €10,000 and the maximum is €1,000,000. There is a lifetime SME usage limit of €1m for all Credit Guarantee Schemes.

5 What are the State Aid Limits?

The Aid attributable to the provision of a Scheme Facility contributes towards the €200,000 rolling three fiscal year de minimis' limit to which SMEs are subject. Therefore the Aid arising from any Application must be no more than €200,000, or a lower amount in the event that the Applicant has received other de minimis State Aid in the preceding three years or is operating in certain business sectors.

5.1 What Sectors are the exception to the €200,000 State Aid Limit?

A lower limit of €100,000 applies to Scheme Facilities provided for road transport businesses.

A lower limit of €30,000 applies to Scheme Facilities provided to businesses involved in the production, processing and marketing of fisheries products.

5.2 What are the restrictions on Exporting?

As the Scheme will operate under the "de minimis" State Aid rules, it cannot be used to specifically support export-related activities. This is because public support for exporting is particularly sensitive from a competition perspective and so is covered by separate EU agreements. This does not mean, however, that because a business exports it is ineligible from receiving a Scheme-backed facility. It is the purpose to which the funds borrowed will be put which is the determinant.

A Scheme Facility may not be provided to support a transaction where the amount of funding required is explicitly linked to a quantity of goods or value of services being exported. Therefore a facility to provide working capital specifically in support of export sales will be ineligible because working capital requirements are usually driven by sales.

Finance providers need to consider whether the funding is in support of **dedicated export activities** and that the decisive factor is the presence of an **intention to promote exports**. Activities which would be **ineligible** in this context include, for example, the financing of:

- an advertising campaign outside of Ireland
- an individual export order or series of orders
- the manufacture of a product which is only available to customers in an overseas market
- the establishment of a representative office outside Ireland or the appointment of an overseas agent
- the setting up of a distribution network overseas

Activities not directly related to specific exports are **eligible**, including:

- participation in trade fairs
- feasibility studies or consultancy support to facilitate the launch of a new or existing product into a new market
- specific activities (e.g. generic product development, equipment purchase or facilities enhancement activities) within the Irish operations of a business, irrespective of the current composition of market(s) into which the business sells

Note that this spending does not necessarily have to take place in Ireland.

5.3 What if the Application is rejected by the finance provider ?

If the Application is rejected by the finance provider at the viability stage then this is a commercial decision by the lender and should be presented as such to the customer. If the Applicant is unhappy with the decision made, the Applicant should be advised to follow the finance providers normal appeal procedure with the Applicant being advised of their right to escalate to the Credit Review Office.

If rejection is on grounds of non-compliance specifically with Scheme eligibility criteria after the finance provider has advised the Applicant of the intention to consider using the Scheme then the finance provider should explain this to the Applicant and notify the Operator of the details.

6 What must the finance provider do after making the offer?

The finance provider, having made the Offer of the Scheme Facility, must provide the necessary information to the Operator.

Please refer to the Operating Manual for further details.

7 What must the finance provider have before permitting drawdown of the Scheme Facility?

The finance provider must have received the following documents back from the applicant:

- Signed Offer Letter
- Signed Borrower Declaration Form
- Direct debit mandate signed in accordance with the participating enterprise's bank mandate

Please refer to the Operator Manual for specific actions relating to each CGS Scheme.

8 How long does the applicant have to drawdown the Scheme Facility?

The period allowed for drawdown of the Scheme Facility should reflect the finance provider's normal business practice, **subject to a maximum period of six months.**

9 If the Applicant draws down the Scheme Facility in tranches, with only the first tranche drawn within 6 months, is there a time limit for drawing down the remainder of the Scheme Facility?

No. The period allowed for drawdown is subject to finance provider's normal criteria and agreement with the Applicant, as set out in the Facility Letter. **However, the applicant pays the premium based on the annual amount of the guarantee.**

10 Deciding not to make an Offer

If a finance provider is considering providing a Scheme Facility to an Applicant and has indicated that this possibility is being considered, but decides subsequently not to make an Offer, then the Applicant should be informed and the Operator notified of the circumstances.