An Roinn Fiontar,
Trádála agus Fostaíochta
Department of Enterprise,
Trade and Employment

Post Enactment Report

Credit Guarantee (Amendment) Act 2020

July 2021

Credit Guarantee (Amendment) Act 2020

Contents

Purpose of the Act

The purpose of this Act is to make certain amendments to the Credit Guarantee Act 2012 (as amended) in order to support the needs of businesses to access additional finance as a result of the COVID-19 crisis, by creating a specific COVID-19 Credit Guarantee Scheme.

The COVID-19 Credit Guarantee Scheme (CCGS) is addressing the extraordinary impacts of the pandemic and the significant decrease in economic activity. This global, national and local shock to Irish businesses has affected viable but vulnerable firms that employ workers throughout the State.

Policy Objectives

The Credit Guarantee (Amendment) Act 2020 made amendments to the Credit Guarantee Act 2012 (as amended), to facilitate the creation of a €2bn COVID-19 Credit Guarantee Scheme (CCGS). This is part of the provision of additional sources of finance for businesses, to assist their survival and recovery in the context of the COVID-19 Pandemic.

Further to the impact of the COVID Pandemic, Small and Medium Enterprises (SMEs), primary producers, and small Mid-Caps that employ up to 499 people, had an immediate and urgent need for liquidity to meet ongoing expenses, and to prepare for a return to more standard economic trading conditions. The significant and ambitious credit guarantee scheme has assisted lenders in providing liquidity to these companies and gave a strong signal of support and confidence to the market and borrowers. The increase in the portfolio cap resulting in 80/20 percent risk share between the State and lender, was devised to ensure interest rate reductions were provided, while keeping the credit departments of the finance providers active in reviewing the eligibility and viability of participating businesses.

A loan guarantee scheme such the CCGS leverages more of the State's resources and is less costly than a grant-based scheme. It has enabled lenders to provide urgently needed liquidity to SMEs, primary producers, and small Mid-Caps. Which in turn has sustained employment in vulnerable sectors throughout the country. It has also leveraged the knowledge and lending experience of lenders with respect to their customers. Being developed in accordance with the European Commission's State Aid Temporary Framework allowed for greater state aid flexibility and for the inclusion of primary producers and small mid-caps.

As the CCGS is based on the contingent liability associated with the States risk share with finance providers, the upfront costs to the Exchequer have only been the operational costs. The State is liable for 80% of the remaining amount of an individual loan, only after it has gone into default for at least 90 days and the guarantee on the loan has been called by the finance provider. This allows for the costs of defaults to be spread over the whole term of the scheme.

A key long-term goal of State backed lending has been to encourage a wider diversity in the array of finance providers offering loans through schemes. Pillar banks have been well represented in such schemes. Non-banks and credit unions have previously not been in a position to participate in the loan schemes. This diversity would encourage not only a greater choice in lender but also a greater choice of loan products.

Implementation of the Act to date

Section 1 provides that references to "Act of 2012" means the Credit Guarantee Act 2012.

Section 2 amends Section 1 of the Act of 2012 to provide for the inclusion of a new definition of "COVID-19 credit guarantee scheme" in the Act of 2012 that is needed for other changes made elsewhere in this Act.

Section 3 amends section 3 of the Act of 2012 to allow for the extension of classes of enterprises which can qualify for the COVID-19 credit guarantee scheme, to include small mid-caps. Primary producers are also included and this was done through the extension of classes of SMEs which qualify for the scheme through the statutory instrument establishing the COVID-19 credit guarantee scheme.

Section 4 amends section 4 of the Act of 2012 to include the new COVID-19 credit guarantee scheme within certain subsections of that section, thus giving the Minister the power to give guarantees. This section also disallows subsections (3) and (4) of section 4 of the Act of 2012 for the purposes of the COVID-19 credit guarantee scheme, as different provisions were made for those aspects through the new section 4A which was inserted by section 5 of this Act. The existing scheme was subject to a portfolio cap of 13% under the 2012 Act (as amended) but there is no portfolio cap for the COVID-19 scheme; and the existing scheme had a maximum yearly credit amount which can be guaranteed of €150 million whereas the COVID-19 scheme has an overall maximum credit amount of €2 billion.

Section 5 introduced a new section 4A into the Act of 2012, which gave power to the Minister to give guarantees in accordance with the COVID-19 credit guarantee scheme. The COVID-19 scheme is open for guarantees to be put in place until the 31st December 2020, or a later date (no later than 31st December 2021) as Ordered by the Minister with the consent of the Minister for Finance and the Minister for Public Expenditure and Reform. These guarantees will not extend beyond 6 years in duration. The maximum amount of credit to be covered by these guarantees will not exceed €2 billion, and the Minister's liability in respect of those guarantees will not exceed €1.6 billion. Subsection 5 includes definitions relevant to this scheme.

Section 6 amends section 12 of the Credit Guarantee (Amendment) Act of 2016 to ensure that the maximum liability of the Minister in relation to the existing credit guarantee scheme shall remain as not exceeding €15.6 million, and that there will be a separate provision for a maximum liability in relation to the COVID-19 scheme (of €1.6 bn, included through new section 4A (4) outlined above).

Section 7 contains the short title and commencement arrangements.

All Sections have been fully implemented.

The following related Statutory Instruments have been enacted:

Covid-19 Credit Guarantee Scheme 2020 (S.I. No. 325/2020)

Credit Guarantee (Amendment) Act 2020 (Commencement) Order 2020 (S.I. No. 303/2020)

Credit Guarantee (Amendment) Act 2020 (Extension of Guarantee Date) Order 2020 (S.I. No. 633 of 2020)

Credit Guarantee (Amendment) Act 2020 (Extension of Guarantee Date) Order 2021 (S.I. No. 200 of 2021)

Preliminary assessment of the functioning of the Act

The Act has been implemented in full, with the CCGS being launched through three pillar banks on the 7th of September 2020. To date, 19 credit unions and six non-bank lenders have also become finance providers under the Scheme. As of 19th August 2021, €417 million has been drawn by 6,400 businesses. This has assisted these businesses and related employment of over 42,000 jobs.

With the range of lenders participating, the policy goal of diversification has been met with the additionality that these lenders now have greater familiarity and experience in operating loans through a State backed scheme. The non-banks have also increased the range of loan products available, with asset backed loans (e.g. leasing) and invoice discounting being available alongside term loans.

Loans are available in many local areas throughout the country. The reduced interest rates and no requirement for collateral or personal guarantees for loans less than €250,000 has made the CCGS a popular scheme, with the number of businesses drawing loans in its first nine months of operation far exceeding that of any other scheme in the history of the State.

Initially available to 31st December 2020, the availability period has been extended twice in accordance with the European Commission's State Aid Temporary Framework. It is currently available to 31st December 2021, allowing for greater access to the scheme in the context of the uneven reopening across the various sectors of the economy. This State aid basis has also allowed 10 percent of loans to be drawn by primary producers including farmers and fisheries.

Scheme statistics

Below are the key performance indicators for the CGS for the year before enactment and that of enactment, demonstrating the impact of the Credit Guarantee (Amendment) Act 2020.

	Covid-19 Credit Guarantee Scheme	**Credit Guarantee Scheme 2017**
Total Loans/Number of Businesses assisted	6,440	191
Total loan amount	€416,500,748	€40,557,500
Timeframe for Deployment	7 September 2020- 19 August 2021	Active from Q3 2018 - September 2020