



Submission to the Joint Committee on Jobs, Social Protection and Education regarding the Credit Guarantee Bill 2012

Chambers Ireland is pleased to make this submission to the Committee on the Credit Guarantee Bill.

At the outset it is worth noting that Chambers have been calling for this scheme to be put in place since 2009 when we covered this issue in our Pre Budget 2010 Submission.¹

We are pleased to note that Minister Bruton and the Department of Jobs, Enterprise and Innovation has secured Government support for its delivery.

While this scheme will not offer any comprehensive solution to the problems currently being encountered by business —namely a significant drop in activity levels and the velocity of money coupled with major declines in the value of property assets which were often used to support company balance sheets, we believe that this scheme will nonetheless contribute to increasing the supply of credit to a relatively small number of viable businesses that might not otherwise get credit due to the fact that they have bad balance sheets.

These firms which can be described as having ‘good businesses but bad balance sheets’ due to a variety of factors such as having invested in poorly performing property assets can be aided in securing additional working capital to enable them to progress through the current economic cycle.

The Partial Loan Guarantee Scheme can contribute to further economic normalisation with the possibility of funding underpinning the creation of new jobs and further positive momentum. We note that the Government has stuck to its timeline outlined in the Action Plan for Jobs. The key metrics of success will be when the scheme goes live and the cost of the funds made available under the scheme.

Upon enactment of the Bill, the Government must then ensure that the funding made available under the bill, arrives on the wider market as soon as possible. This is a major issue as it will take time for banking institutions to train up staff and produce appropriately compliant documentation and training material for banking staff into how these loans will be processed on the wider market.

We are especially concerned regarding timings for availability given that all indications are that these funds will not be made available to financial institutions until late summer 2012.

¹ We called for the Government to use the UK’s Enterprise Finance Guarantee Scheme as a template for Ireland.

This is our major concern with the scheme. Having been announced in late 2011, it would appear that any funding under the scheme will not get government approval until summer 2012 at the earliest.

We note also that the Government has plans regarding making additional microfinance available in the market during 2012. Given that this will also help businesses it would be worthwhile if there was some co-ordination of the announcements so that business can inform themselves of both initiatives at the same time.

Our other comments on the scheme are as follows:

Section 2: We would urge the Committee to ensure that the compliance requirements for the scheme are set at an appropriate level that ensures that the administrative costs associated with the scheme for either business applicants or lending institutions do not impede its success or worse force the funding costs for the scheme to be set at too high a level. Similarly, any legal costs arising should rest with the party seeking additional legal requirements.

Section 3: We note the criteria are reasonably open and urge the committee to ensure that the criteria are easily understood so that banks and businesses can be sure regarding their potential to qualify for funding under the scheme.²

Section 4: Given the size of the Irish Market vis a vis that of the UK, the proposed ceiling of annual funding made available under the scheme of €150m appears to be appropriate.³

Section 7: We note that that the Bill permits the Minister to appoint an Operator via a commercial contract to administer the Scheme, after consultation with the Minister for Finance and Minister for Public Expenditure and Reform regarding the terms and conditions of the contract. We would urge the committee to seek speedy resolution of the authorisation process involving the three departments as this could result in further delays in the funding arriving on the market.

Chambers Ireland

31st May 2012

² We do not see any case for a third party entity such as a Local Enterprise Office or Enterprise Ireland to be involved in the approval process as it should be a transaction between lender and business.

³ We note that in roll out of the UK equivalent of this scheme in its first year the allocation was approximately £1bn.