SOCIAL FINANCE IN IRELAND

WHAT IT IS AND WHERE IT'S GOING, WITH RECOMMENDATIONS FOR ITS FUTURE DEVELOPMENT.

Study commissioned by

Dublin Employment Pact
Westmeath Employment Pact
Clann Credo
Area Development Management

Completed by TSA Consultancy Ltd
with Lolita Sereleas and Colin Stutt

MAY 2003

TABLE OF CONTENTS

ACKNOWLEDGEMENTS

The researchers would like to thank all those who participated in this study, in particular Anthony P. Quinn (Barrister-at Law), Olive Mc Carthy (University College Cork) and Michael Bradley for their time, and valuable contribution to this research.

PREFACE

This document sets out to examine the opportunities for social finance provision in Ireland. It is written to support and inform the work of those engaged in and supporting local development in Ireland. We wish to generate discussion on the financial support measures necessary to complement, support and nurture a diverse and vibrant social economy. The document provides a comprehensive and detailed picture of current social finance provision and highlights the demands, expectations and potential for its development in an Irish context. It outlines the regulatory, legal, administrative and framework issues that impact on its delivery and development and concludes by suggesting a way forward for its' development based on local, national and international transferable learning, evaluation, reviews and case studies.

The work was commissioned by a joint Steering Group of the Dublin Employment Pact (DEP), the Westmeath Employment Pact (WEP), Area Development Management Ltd. (ADM) and Clann Credo, the Social Investment Fund[1]. The four partner organisations share a commitment to the social and economic advancement of local communities and to supporting innovation at a local level. They recognise the importance of social economy activity as a means of improving the quality of life and opportunities open to people who are working to regenerate their communities. Through their work the four organisations have supported the development of the social economy at both a local and a national level. They came together recognising the need to initiate a co-ordinated approach to advancing social finance mechanisms in Ireland.

Given current initiatives to strengthen social finance provision in Ireland, notably the commitment in *Sustaining Progress – The Social Partnership Agreement 2003-2005*, this document is of key relevance to both practitioners and policy makers. It provides the most up to date and comprehensive information on current and potential practice in the area of social finance development in Ireland and concludes with a series of comprehensive

[1] The Steering Group consisted of Philip O'Connor (DEP), Yvonne Keating (DEP), Larry Fullam (WEP), Patricia Jordan (ADM) and Paul O'Sullivan (Clann Credo)

recommendations on the way forward for the sector. The Steering Group would like to thank TSA Consultancy Ltd for their excellent work.

We commend this document as a strong basis for the development of Social Finance in Ireland.

EXECUTIVE SUMMARY

This report provides an overview of the provision of social finance in Ireland and a possible model for its future development. Social finance is described as *the provision of finance by organisations which seek a social return or social dividend, as well as a financial return* (i.e., repayable finance, for example, loans).

It was commissioned by The Dublin Employment Pact, The Westmeath Employment Pact, Clann Credo and Area Development Management, and it sought to:

- Identify methods and practices of social finance in Ireland
- Consider the relevant legislative, administrative and regulatory issues
- Describe alternatives and a possible strategy for its development and
- Examine models of best practice operating internationally.

Social finance is usually delivered through specialist social finance providers, most of which are located in the third sector (outside of the public and private sectors). The collective term for specialist social finance providers across Europe and the US is Community Development Finance Institutions (CDFI), and the term represents a range of organisations including micro-finance funds; mutual guarantee societies; credit unions; community loan funds; community venture capital funds, and social banks.

Extensive research was undertaken, and social finance providers and CDFIs in Ireland were interviewed and surveyed to establish the extent to which social finance is provided. The report provides a picture of social finance provision, as well as examples of some specific initiatives. Those social finance providers offering finance to the social economy sector believe this sector to have the greatest potential for growth. For many other funds, there has been a reported decrease in demand for finance amongst individuals and micro-enterprises, and a small number of funds have ceased to operate as a result.

The study investigates the relevance of social finance to social economy enterprises. Focus groups, questionnaires and interviews were undertaken in order to establish past experiences of acquiring finance (including social finance); current financial needs, and possible future financial needs of social economy enterprises: 20% have, to date, accessed loan finance, mainly for the purposes of capital equipment, physical infrastructure, set up costs, financing debts and covering short term funding gaps. 83% reported that they would have a need for (repayable) finance in the future. Social economy enterprises believed that specialist social finance providers offered better rates, were more accessible & flexible, and had a better understanding of the sector than other financial institutions. They also felt that social finance providers, located in the third sector, should strengthen and deepen their relationship with the sector. The majority of enterprises reported that mainstream financial institutions were not sufficiently meeting their needs. Social economy enterprises also felt that the state's policies with regard to the sector had mitigated against sustainability and growth.

Sectors (within the social economy sector) with particular potential for use of social finance services are identified in the research as follows:

- Community transport, particularly in rural communities
- Environmental projects
- Training and resources centres
- Eldercare projects
- Childcare projects
- Social and voluntary housing projects.

The study considers the regulatory, legislative and administrative barriers to the development of social finance in Ireland. Key factors identified include:

- Banking sector regulation and changes in the banking sector across Europe, making it harder for new financial organisations to establish. Credit unions are also affected by tightening regulatory structures.

- The need for national and local delivery structures for social finance services, in order to access capital and resources, while at the same time meeting the specific and local needs of projects. Local delivery has cost implications, which can affect sustainability unless additional funds are accessed. Private and state sources of funding are needed in this regard. The report highlights that this support has been critical to the development of social finance in other countries.

- Support from the state to enable the support of the sector. State policies in the US and UK supporting the social finance sector have included the provision of loan guarantee funds; financial support for the development of the sector, and encouraging the banking sector and mainstream financial institutions to support the sector (either through legislation or through incentives). A range of initiatives which could be undertaken by the state are identified, for example, utilising the public-private partnership model; underwriting loans provided by social finance providers; providing tax incentives for investment in the social finance sector, and requiring financial institutions and banks to report on their lending and deposit activities in areas experiencing social exclusion.

- Awareness-raising and promotion of social finance as a sector.

- A policy of support for social economy enterprise development. Current state supports are based primarily on labour market programmes and objectives: these are reported to be inadequate. A range of supports for the sector is identified in the report: these should include project development supports, as well as collaboration with the state sector (particularly local authorities health boards) with regard to delivery of local services on a sustainable basis. The low level of asset ownership in Ireland is also an issue for projects, and the state should transfer physical assets and buildings which are for community use, to local communities. At present, many community groups have the responsibility of maintaining and operating physical infrastructure, while not being able to use them as assets to leverage additional finance and so expand activities.

The report investigates a range of policy measures and initiatives for the support of social finance, which have been implemented internationally. While significant developments have taken place across Europe, the significant differences in mainland Europe's legal and financial infrastructure makes the UK and US models more transferable to the Irish context. Policy measures and best practices in these countries and in Northern Ireland are described in the report.

The research also consulted with policy makers and individuals & organisations from the public, private and third sectors. Arising from these consultations, a possible model for the development of social finance in Ireland is proposed to the sponsors of the research. This model involves the following:

The establishment of national and local structures for the delivery of social finance.
The purpose of the national structure would be to:
- Act as a channel of funding
- Establish a framework for local delivery and provide supports through loan management, administrative support and training in loan assessment

- Invest in local delivery structures and provide financial support to cover operational costs
- Provide loan guarantees for local delivery structures
- Promote the model with local credit unions operating within the areas of the local delivery structure
- Establish a low risk social investment fund

The purpose of a local delivery structure would be to:
- Generate support for the local delivery mechanism
- Assist projects making loan applications
- Assess loans, and make recommendations to the national structure for loan finance
- Provide ongoing support and monitor the performance of projects accessing loans
- Work with local credit unions
- Liase with support and development organisations to seek access to supports for social economy organisations.

Key players identified for participation in these structures included social finance providers and delivery organisations; the state; the corporate sector (in particular the banks) and the community and voluntary sector (including the social economy sector).

A potential source of funding for the delivery of social finance is identified in the Dormant Accounts funds. Disbursement of the fund will be administered by the Department of Community, Rural and Gaeltacht Affairs, through the Dormant Accounts Disbursement Board. Funds are to be targeted at those who have been economically, socially and educationally disadvantaged.

The report identifies that the above model could be developed utilising the public-private partnership model as a tool for delivering social infrastructure through social finance.

The report also proposes the establishment of a national association for social finance providers.

Report Recommendations

- A steering group should be established to consider the recommendations in this report. This steering group should seek the establishment of a tri-partite group, comprising state, social finance providers and the banking sector. The purpose of the group would be explore the recommendations and findings of this research with a view to developing a public-private partnership for development of social infrastructure.

- A range of Government programmes should be examined to ascertain if social investment and social finance could be built into them as a means of enhancing them and of bringing added value to the programmes.

- The Government should ensure that the special status of NGO social finance providers (including credit unions) is recognised and that space is maintained for the development of social finance initiatives by protecting them against, or giving them a derogation on, new finance services and consumer credit legislation.

- The Government should be pro-active in providing incentives to the banking sector for the support of social finance provision.

- The Government should also consider extending tax breaks and incentives for those who donate to Charities to those who invest in specialist social finance providers.

- The Government should finance a guarantee fund for a national scheme for social finance provision as well as supports to social finance providers, through funds obtained via the Dormant Accounts Fund.

- The new Irish Financial Services Regulatory Authority (IFSRA) should include in the remit of its consultative panels issues relating to access to finance by disadvantaged communities and social economy enterprises.

- The Government should require financial institutions to report on their lending activities to disadvantaged communities and social economy enterprises.

- A mechanism for social finance should be developed which accommodates the need for a national support structure and individual delivery mechanisms at local level.

- A local level delivery structure for social finance provision should be piloted in at least two areas in Ireland (at least one rural and one urban area).

- Credit Unions could explore new ways of delivering social finance to social economy enterprises.

- Social finance providers should consider forming an association and network of social finance providers.

- Specialist social finance providers should develop stakeholder consultation and membership.

- Social economy practitioners should consider forming a national network for information exchange and lobbying.

GLOSSARY OF TERMS

Asset Based Development
A development strategy that recognises that the possession of tangible assets – land, buildings or a dedicated income – is the key to achieving the goals of self-sufficiency, independence and sustainability which underpin community based regeneration organisations.

Capacity Building
The use of organisational development models and training to develop a community's skills. The aim is to increase the ability and willingness of community members to initiate projects, programmes, and businesses, to organise these ventures, and to keep them running. This body of talent, skill and experience is known as a community organisational capacity. It is at once the key product, and driving force behind the community's economic development.

Charitable Foundation
Charitable grant-giving trusts and foundations, which usually have a permanent or expendable endowment, and their primary purpose is to fund rather than directly undertake charitable activities.

Common Bond
Credit unions all have a common bond, which determine who is able to join them. There are 4 main types of common bond:
- Community or Residential - anyone who lives within its boundary;
- Live or work - people who work within an area may join the credit union as well
- Employment or Industrial - all employees in a company or group of companies;
- Associational - membership of a trade union, trade association or other group.

Community Development Corporation (CDC)
The term "Community Development Corporation" is used in the USA to refer to locally controlled non-profit organisations that focus on community development, primarily through development of housing and commercial property.

Community Development Finance
The provision of financial services, such as loans and equity, by CDFIs for enterprise in under-invested communities. Such enterprises may be purely for-profit or may be social or community enterprises.

Community Development Financial Institution (CDFI)
The term "Community Development Financial Institution" is used to describe financial services providers (including community development banks, community loan funds and community development venture funds) whose mission specifically requires them to achieve social objectives. They may provide equity, quasi-equity or loan services.

Community Development Venture Capital Fund
A venture capital fund, run for profit, targeted at under-invested communities.

Community Loan Fund
A community loan fund is a CDFI that provides loans.

Community Reinvestment Act
US legislation introduced initially in 1977. One of a series of fair lending laws which created an obligation for banks to address under-served markets by a mixture of disclosure requirements, ratings and penalties for non-engagement.

Company Limited by Guarantee

A company where instead of buying shares, each member provides a guarantee to provide a pre-determined amount if needed when the firm is wound-up, which may be as low as g1. Social economy enterprises frequently use this form of legal incorporation.

Co-operative

An autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.
The international principles of co-operation are:

- Open and Voluntary membership
- Democratic control
- Limited return on share capital
- Disposal of surplus
- Education
- Co-operation amongst co-operatives.

Corporate Social Responsibility

A wide-ranging social agenda that involves businesses looking at how to improve their social, environmental and local economic impact, their influence on society, social cohesion and human rights, and fair trade. CSR is an issue both for large multinationals and for small, locally based businesses.

Credit Union

A financial co-operative, which is owned and controlled by its members. As well as being a good savings option, with successful credit unions paying an annual dividend of up to 8%, the money saved can be used to make low interest loans to other credit union members. Only people who come within the common bond of the credit union can join it and make use of its services. The credit union is directed and controlled by a volunteer Board of Directors.

Development Trusts

Organisations, which are:

- Engaged in the economic, environmental & social regeneration of a defined area or community
- Independent and aiming for self-sufficiency
- Not for private profit
- Community-based and owned
- Actively involved in partnerships between the community, voluntary, private and public sectors.

Equity

A share of the ownership of a business, hence the term "shares" to describe units of equity. These ownership rights give, in particular, a right to a certain proportion of

- the amount of money remaining after paying off debts and any other liabilities when the business is sold or wound up
- the profits of the business (delivered either via a direct payment or by an increase in the value of the business as a result of the reinvestment of profits)
- the governance of the business i.e., the ability to set and supervise its overall business strategy and direction.

Holders of equity own a share of the success or failure of the enterprise. A key issue is how their ownership rights can eventually be converted into money, ie. their "exit route".

Expendable Endowment
Resources held by a charitable foundation that it may, at its discretion, either spend on current beneficiaries or invest for the benefit of future beneficiaries.

Grant
A transfer of resources to a named organisation or individual to be spent to achieve an agreed purpose under agreed conditions. A grant is returnable only if these conditions are not met.

Intermediate Labour Market Projects
Provide training and work experience within the supportive structure of (usually) a social economy enterprise or community group. The work experience is aimed at providing a stepping stone to employment.

Investment
A transfer of resources under agreed terms and conditions in which the transferor retains the right either to the return of the resources or to a benefit such as ownership rights in return for the transfer.

Loan
A loan is a transfer of money in return for a promise of its return at a future time usually with an additional payment for its use.

Micro-enterprise
A very small business, usually defined as "a business with fewer than 10 staff". Sometimes defined as "a business with fewer than 5 staff".

Micro-finance
Small loans; savings facilities with no (or a very low) minimum deposit; other financial services like insurance, money transfer or bill payment designed for people on low incomes.

Micro-loan Fund
A fund providing small loans, i.e. a particular form of micro-finance. A micro-loan fund is a specialised form of financial service based on distinct products specially designed to service micro-enterprises and is not merely the occasional provision of a very small loan.

Mutuals
Credit unions, co-operatives, building societies, employee-owned businesses are all examples of mutual organisations. They are organised, managed and owned by their members, who band together with the common purpose of providing a shared service from which they all benefit (mutual benefit).

Permanent Endowment
Resources held by a charitable foundation that it is required to invest for the benefit of future beneficiaries. Only the income generated by the investment can be spent on current beneficiaries.

Quasi-equity (also referred to as 'The Equity Equivalent' in the US)

An investment that combines the characteristics of equity and loans. In general, a quasi-equity investment is a loan in which the final payment is linked to the financial success of the business.

Social/Affordable/Voluntary Housing
Housing associations and local authorities provide social housing, which is most commonly rented to tenants. Social housing is allocated to those eligible for inclusion on local authorities' housing list. Eligibility is means tested, based on factors such as accommodation, number in family, health, etc. and the amount of rent payable is means tested.

Housing associations, co-operatives and local authorities also provide affordable housing, mainly for purchase by residents, eligibility for which is also means tested. Affordable housing programmes would usually apply to individuals not on the local authority housing list.

Voluntary housing schemes can vary widely: membership may or may not be subject to means testing, accommodation may be rented or purchased, and a range of supports exists.

Social Bank / Community Development Bank
A for-profit CDFI that operates as a regulated commercial bank, but with a specific social mission. In the US, community development banks provide banking services specifically to low-income communities. In Europe, social banks tend to have a broader social mission, for example lending only to projects of social or environmental value.

Social Economy
That part of the economy, which is engaged in economic activity in order to meet social objectives, and which functions through independent, democratic organisations.

Social Exclusion
A term for what can happen when people or areas suffer from a combination of linked problems such as unemployment, poor skills, low incomes, poor housing, high crime environments, bad health and family breakdown.

Social Investment
Financial transactions intended both to achieve social objectives and deliver financial returns to investors.

Surplus
The profit in many social enterprise is referred to as surplus, to reflect their 'not-for-profit' status.

Under-Invested Community
A community that receives less investment than it needs in order to be economically and socially viable.

Wholesale Intermediary
A financial services provider that only makes loans to or equity investments in other financial services providers. In general, a wholesale intermediary will receive large investments and use them to make smaller investments in financial services providers, which in turn directly serve enterprises in other sectors.

1. INTRODUCTION AND SCOPE OF STUDY

This study was commissioned by the Dublin Employment Pact; Westmeath Territorial Employment Pact; Clann Credo and Area Development Management (ADM) to examine the opportunities for social finance provision in Ireland.

The growth of social finance, *the provision of finance for the purposes of securing social as well as financial gain,* has become recognised as an important factor in tackling social exclusion, and across Europe and US, social finance provision has experienced significant growth in recent years, enabled by public policy measures and support for the sector.

In Ireland, Government commitment to support the provision of social finance is copper-fastened in *Sustaining Progress*, the social partnership agreement for 2003-2005:

> The development of social finance initiatives in recent years has contributed to developing social capital in a way that benefits the whole community. Most of the projects assisted by these initiatives support the development of community infrastructure and social provision at local level. Government will examine ways to support expanded activity of new funds in consultation with the relevant interests[2].

The purpose of this research is to stimulate discussion on the relevance of social finance provision in Ireland, to examine experiences elsewhere, and given the acceptance by the Government of the role of social finance, to suggest possible approaches to its future delivery. The report places particular emphasis on the social economy[3] sector, its finance needs and how these needs can be met in a social finance context.

International policies and practices in social finance are considered. While significant developments have taken place internationally, the differences in mainland Europe's legal and financial infrastructure makes the UK and US models more transferable to the Irish context. Researchers from these countries have described policy and practice in these countries.

As a discussion document, the report does not attempt to provide a comprehensive analysis and description of financial sources which yield a social benefit. It does however, attempt to consider what social finance is, what it does, and what conditions are required to enable its successful development in Ireland.

Aims and objectives of the research

The aim of the research was to conduct an evaluation of social finance, which would identify and examine sources of social finance in Ireland,

---

[2] *Sustaining Progress Social Partnership Agreement 2003-2005*, Dublin: Government Publications
[3] The term social economy is used in this document to describe that part of the economy which is engaged in economic activity in order to meet social objectives, and which functions through independent, democratic organisations. It should not be confused with the FÁS Social Economy Programme.

as well as identify particular models of good practice at a local, national and international level, which could be transferable to the Irish context.

The key objectives of the research are to:

- Identify, review and asses methods of social finance in Ireland
- Review the range of social finance opportunities with specific reference to key areas of social economy enterprise development
- Identify the legislative, administrative and regulatory issues relating to the provision of social finance
- Describe alternative models and proposals for generating social finance
- Examine and identify models of good and transferable practice of social finance in selected countries
- Make recommendations on a possible way forward

Methodology

Literature review

An extensive review and analysis of literature and research on the matter of social finance and related activities was undertaken. Sources included available materials relating to national and international policies and practices regarding social finance published by statutory bodies (local, national and European Union), private sector organisations and third sector and community sector players. Use was also made of web-based International, EU and National networks and sources of information.

Primary research

Focus groups: two focus groups were held in Dublin and Limerick at which social economy enterprises and local development and support groups were consulted with regard to their experiences of accessing social finance to date, as well as their expectations regarding future need for social finance provision. Questionnaires were also distributed to social economy enterprises and support organisations at these focus groups, to ensure that both qualitative and quantitative data was gathered. Some groups not in attendance at the focus groups also completed the questionnaires.

Survey administration: Finance providers in the private, public and third sectors were surveyed - questionnaires were distributed to financial institutions.

Interviews were carried out with key individuals who were engaged in the provision of finance, social economy organisations and sectoral based organisations, representative organisations and industry based groups with regard to their views on the relevance and future potential and demand for social finance services. Academics and policy makers were also interviewed.

A full list of participants is included in Appendix 2.

The findings and report recommendations are therefore based on literature and primary research, international best practice, the experience of TSA in carrying out social economy development work throughout Ireland and also specific opportunities arising from interviews and consultations in the course of the research.

Summary Chapter 1 – Introduction and scope of study

This study was commissioned by:
- The Dublin Employment Pact,
- The Westmeath Employment Pact,
- Clann Credo, and
- Area Development Management.

It was carried out by TSA Consultancy Ltd., with Lolita Sereleas and Colin Stutt.

Research Objectives:
- To identify methods of social finance in Ireland
- To review the range of social finance options that exist in Ireland
- To identify relevant legislative, administrative and regulatory issues
- To describe models and proposals for generating social finance
- To examine international models of good practice.

Research Methodology:
- Literature analysis
- Review of international policy and practice with regard to social finance provision
- Web-based research
- Primary research with groups and agencies engaged with social finance access and provision
- Questionnaire survey of finance providers
- Interviews with key individuals in the field.

2. SOCIAL FINANCE, ITS STATUS AND OBJECTIVES

During the last 10 to 20 years a new generation of financial organisations has emerged across Europe. Typically, these organisations are serving groups of people, sectors and regions where there has been exclusion from finance and credit services. This exclusion occurs against a backdrop of consolidation in the financial services industry, and a withdrawal of services in disadvantaged and remote areas.

These organisations include micro-finance organisations helping people to start their micro-businesses and development and community funds serving the local economy, as well as eco and social banks financing small businesses in the emerging environment sector and credit co-operatives financing the social economy in general.

Towards a definition of social finance

It is an assumption of this research that access to finance performs, in itself, an important social function. One of the associated banks participating in this study describe their organisation as a social finance provider. The credit union movement was founded on the

[4] Putman, Robert D. (1995): Bowling Alone: America's Declining Social Capital, *Journal of Democracy*, 6, (1), pp 65-78

basis that access to finance is an important tool for social inclusion and community development.

In this document however, an important distinction is made between finance which has social impact, and finance which seeks and prioritises social impact. Our attention is focused on the latter, and the term social finance refers to this distinction.

Social finance is a term, which will be used throughout this document to describe:

> *the provision of finance by organisations which seek a social return or social dividend, as well as a financial return.*

Social return/ social dividend can be defined as a return which enhances the stock of social capital.

> *By analogy with notions of physical capital and human capital - tools and training that enhance individual productivity - social capital refers to features of social organisation such as networks, norms, and social trust that facilitate co-ordination and co-operation for mutual benefit*[4].

> *social capital is that loose configuration of voluntary spirit, community associations and resources dedicated to the public good*[5].

> *social capital is social because it involves some non-market process which nevertheless has economic effects* [6].

Organisations which provide social finance services are referred to as specialist social finance providers. These are described as:

> *organisations and entities which prioritise social gain, and which facilitate the access to capital by groups, individuals and activities most excluded from mainstream financial sources. Specialist social finance providers are usually located in the third sector, i.e., outside of the public and private sectors.*

Social finance providers seek to support the development of initiatives, which tackle that which undermines social capital, for example, disadvantage, environmental decay or inequalities. In so doing, specialist social finance providers respond to the emerging and changing needs of potential clients and potential sectors.

Features of social finance provision

Social finance is differentiated from mainstream finance provision on several levels by its mission, vision, identity, behaviour and environment.

- The *mission* of social finance is to use the financial tool to achieve

[5] Hurst, A. (1999): *Canadian International Development Agency*
[6] Collier P. (1998): Social Capital and Poverty, *Centre for the Study of African Economics*, Oxford, March 1998.

sustainable and equitable development.

- Its long-term *vision* is to increase social capital.

- It has numerous channels of delivery, each of them with different methods and forms of behaviour, acting in different ways, but together they give rise to *an identity* that is specific to social finance.

- *The profession* of social financier consists in funding activities and people that benefit their communities and societies.

- Social finance operates within *an environment* of poverty, social exclusion or difficult access to financial services.

- Social finance providers prioritise those organisations or individuals which are most excluded from mainstream services, and these are the target groups of the services provided.

The client base of social finance providers will vary according to social need, and so flexibility and adaptability are important characteristics of effective social finance provision. Whereas micro-finance organisations internationally have experienced a loss of clients, a drop in the number of transactions and an increasing number of defaulting payments, specialist social finance provision appears to be a growth area, and in the case of the US and UK, their average default rate tends to be lower than many micro-finance operators.

Micro-finance and enterprise finance as administered by soft loan programmes, usually as part of statutory enterprise support organisations have, internationally at any rate, recorded a poorer performance level than specialist social finance providers, and seemingly do not have the same capacity for consolidation of services.

While many micro-finance and soft loan funds provide social finance and generate social impacts, they often operate within a public sector delivery structure, restricting their ability to operate in as flexible a manner as may be required. Many become instruments of a wider public policy, or are tied to funding programmes, and the delivery of service is time-scaled by public funding programmes, which can undermine sustainability.

Community Development Finance Institutions

The collective term for independently sustainable specialist social finance providers across Europe and the US is Community Development Finance Institutions (CDFIs).
CDFIs covers a variety of types of organisations which share a common goal. They include credit unions, social or community banks, community development corporations, community reinvestment or revolving loan funds and micro-credit providers. They finance local economic development by a variety of commercial, low interest and interest free loans. They obtain their finance from local people

investing funds (sometimes at below market interest rates); charities and faith based organisations; Governments; by issuing debentures; by receiving deposits from regular banks or acting as specialist agents for banks; by receiving gifts from living donors or deceased estates, and so on.

In general, CDFIs represent a range of organisations which seek financial and social returns, and therefore seek to provide loan finance to beneficiaries and recipients, rather than grant finance. These organisations operate in areas of unmet needs, are usually independent, single purpose organisations, separate from public policy programmes and initiatives. They avoid being mechanisms for the delivery of broader public policy objectives and so are sustainable in their independence from time limited funding programmes. The diverse initiatives can be grouped into five models:

- Micro-finance funds make very small loans to micro-entrepreneurs, typically working as sole traders or in business with family and friends. Such initiatives charge borrowers close to market rates of interest and aim to keep costs low without relying on traditional collateral or equity requirements.

- Mutual guarantee societies are formal associations of small and medium-sized enterprises which pool their savings in banks to offer collective guarantees so that they can borrow more and achieve better lending and deposit rates. There is one mutual guarantee scheme in operation in Ireland at present.

- Credit unions are not-for-profit, co-operative institutions for saving and borrowing, where members with a common bond save in the form of shares which are then re-lent to members. While primarily geared to personal finance, credit unions in Ireland have been providing loans for self-employment and micro-enterprise.

- Community loan funds serve community regeneration initiatives by making capital available. Loans are often co-ordinated with or used to lever in other sources of capital as well as subsidy. Community loan funds are generally owned and controlled by a local community. There are two community loan funds which are at pre-development phase in Ireland. Clann Credo works with community loan funds.

- Community Venture Capital Funds operate like mainstream venture capital funds, providing enterprises with equity, but this type lend only to enterprises with a social mission which will benefit the wider community.[7]

- Social banks are for-profit financial service providers dedicated, typically in their constitution, to social or environmental objectives. Triodos bank, a social bank registered in the

[7] Clann Credo provides activities characteristic of both Community Loan Funds and Community Venture Capital Funds, but its activities operate on a broader scale than both, as it provides services on a national level

Netherlands, providing banking services also in the UK and Belgium, operates in Ireland.

The comparisons of these organisations to state initiated funding programmes which are subsidised, or soft loan funds, are presented by the New Economics Foundation in the UK as follows:[8]

TABLE 2.1 CONTRASTING CDFIS AND SOFT LOAN FUNDS

Characteristic	CDFIs	Soft-loan funds
Time horizon	Are long-term; they aim to be in existence for as long as needed	Are short-term; they are usually linked to a funding programme.
Sustainability	Focus strongly on how their operations can be sustained	Are less concerned with sustainability issues.
Funding source	Have multiple sources including banks and government sources and also private foundations and individuals	Are funded primarily by government funding programmes and banks. When programme funding for soft loan funds expire, the fund usually ceases to exist.
Ownership and control	Are independent organisations; they are often owned and controlled by local people and organisations	Are dependent organisations, often part of a local quasi-state regeneration agency that may pay part or all of their operating costs.
Reporting	Make information publicly available; carry out evaluations and make them available	Make little information available; carry out little evaluation.
Governance	Have diverse local stakeholder involvement	Generally, only have business and regeneration agency involvement.

There is a growth in the development and asset base of CDFIs internationally, particularly in the US and the UK, where active policy measures enabling their development and financing have been introduced. According to the Community Development Finance Association[9] in the UK, assets of loan and micro-funds increased 29% since 1998, while two social banks in the UK increased their assets in the same period by 32% and 85%[10].

In the US, the growth in assets in the CDFI industry has been in the order of 250% between 1993 and 2000 (from $2billion to $5billion).

The International Association for Investors in the Social Economy (INAISE) surveyed a sample of social finance providers and tools in Europe in 1997, and found that from a total sample of 48 organisations, 60% were younger than 10 years old, and 80% of them

[8] Collin, S., Fisher, T., Mayo, E., Mullineux, A., and Sattar, D. (2001): *The State of Community Development Finance 2001*, a report for the Joseph Rowntree Foundation. London: New Economics Foundation
[9] The trade association for community development finance institutions in the UK
[10] Community Development Finance Association (2001): *The Power of Association: prospectus for the Community Development Finance Association*

were younger than 20 years old.[11]

The most common form of finance provided across Europe is loan finance (85% of providers surveyed by INAISE), and this is delivered mostly through direct lending but also includes loan guarantee services (which accounted for 8% of surveyed providers). 31% provide equity finance, but only 14.5% of organisations provided equity finance as their primary financial tool.

Many of these organisations have been intrinsic to the development of the social economy sector, and many have specialised in the provision of loans to social economy organisations and co-operatives.

This study focuses on the potential for social finance to support the needs of the social economy sector in Ireland, and suggests a possible way forward for the development of the sector.

[11] INAISE (1997): *Financial Instruments of the Social Economy (FISE) in Europe and their Impact on Job Creation,* Research commissioned for European Commission DG Employment and Social Affairs

Summary Chapter 2 –Social finance, its status & objectives

Social Finance: A Definition

The provision of finance by organisations, which seek a social return or social dividend, as well as a financial return.

Access to finance itself can be seen as having a positive social impact, but social finance is distinguished from mainstream finance in that is prioritises social gain.

Features of social finance:

- Social finance providers aim to build social capital
- Social finance providers, and their clients, prioritise organisations and individuals most excluded from mainstream services
- Social finance providers can offer greater flexibility than mechanisms and instruments operating within statutory enterprise support organisations
- Specialist social finance provision currently appears to be a growth area throughout the EU.

Community Development Finance Institutions (CDFIs) is the collective term for independently sustainable specialist social finance providers. Models include:

- Micro-finance funds
- Mutual guarantee societies
- Credit unions
- Community loan funds
- Community venture capital
- Social banks.

Research shows that the services provided are intrinsic to the development of the social economy sector.

This study focuses on the potential for social finance to support the social economy sector in Ireland.

3. SOCIAL FINANCE SERVICES IN IRELAND

There are a number of existing mechanisms for providing repayable finance to those excluded from mainstream finance in Ireland. Most of these have been originally established as credit and loan services to individuals for personal reasons and for business reasons. Most are located within the public and the third sectors, and have been delivered through the credit union movement, local development structures, religious and voluntary organisations and public sector enterprise support agencies.

Forty-six organisations from these sectors and from the private sector were surveyed as part of this research to establish the extent to which social finance provision was incorporated as part of their activities. Service providers ranging from large scale enterprise investment specialists operating on a national level to small, local based services to sole traders were surveyed. The purpose of the questionnaire was to establish a picture of the range of services that exist; how these are applied for social benefit and whether there exists a consciousness regarding social finance that may reflect in criteria or orientation of services provided. Thirteen organisations responded to questionnaires (a response rate of 28%), and follow on consultations took place with many of these respondents. Twelve of these organisations provided repayable finance as part of their services (either loan or equity finance). These twelve organisations constitute the valid responses, as the survey was concerned with the provision of repayable finance.

Eleven out of the 12 (91%) of the repayable finance providers classified themselves as social finance providers and all but one of these eleven stated that they sought a social dividend, including one of the associated banks, two public sector providers and seven providers from the third sector. One public sector finance provider regarded their services as outside the domain of social finance.

Of these eleven, 6 (55%) provided services to the social economy sector: of these six, two targeted rural areas (West of Ireland); three operated on a national basis and one operated in an urban context.
The remaining 45% were targeted at individuals for business or personal purposes.

Organisations providing services to the social economy sector perceive this to be the sector with the greatest potential for growth, due in part to movement by the sector away from grant dependency. The availability of social finance tends to stimulate its own demand. Many of those who provide services only to individuals and private sector enterprises had not adopted a policy of excluding the social economy sector, but had evolved in such a way that it had not become part of their lending activities – part of the reason for this was that the sector was not viewed as appropriate for lending activities and more suited to grant income.

In the course of this survey and throughout the research process, there was a reported decrease in demand amongst individuals and micro-enterprises for start up support. Reasons for this included dependency and availability of grant (non-repayable) finance, and economic buoyancy (an increase in self-employment in times of unemployment was noted by respondents). This has led to the closure of funds (The Irish Trade Union Trust, which provided finance to those establishing worker co-operatives and the Jesuit Solidarity Fund are no longer providing loans), and an under-use of others (for example the Bolton Trust). In contrast, the reported and anticipated growth of the social economy sector as a recipient of repayable finance has led to plans for the development of two social investment funds in the Mid-West region[12] and Waterford[13], both of which are currently at research and pre-development stage.

The delivery of social finance is described under specific categories – the description is based on responses to questionnaires distributed to finance service providers and interviews with specific organisations, as well as the literature review and reference to the international experience. Information gathered from individual organisations was – for the most part – on a confidential basis, so much of the information is not attributed to individual social finance providers to protect this confidentiality.

Micro-finance

Micro-finance providers typically provide loan and support services to individuals forming their own enterprises. Micro-finance is defined by the European Commission as loan finance to the value of g25,000 or less. Typically micro-finance providers target start-ups (and in some cases business expansion activities). Their objectives are principally employment related: many provide services to individuals who have been unemployed and are seeking to become self-employed. Micro-finance provision is therefore aimed in part at promoting an entrepreneurial culture (mostly in defined geographic areas). Micro-finance operates within a framework of a range of supports for micro-enterprise as part of a local development strategy, and this framework is core to the operation and financing of most of the micro-finance providers surveyed.

This form of finance constituted the single biggest grouping of respondents to the survey of finance providers (7 respondents, 58%, of which 5, or 71% were from the third sector). However, only two of these provided services to the social economy sector. The size of loan provided also varied widely – many loan funds did not specify the minimum and maximum amount and were flexible in their application of funds. The average loan size for the funds was between g3,300 - g4,380 according to those surveyed.

Micro-finance providers access supports from a number of different

[12] Promoted by the Paul Partnership, Ballyhoura Local Development and Eirí Corca Baiscinn
[13] Promoted by the Waterford City Social Economy Community Alliance (SECA)

sources. One small fund relied on voluntary labour, and employed no staff in the direct administration of the fund. Another fund accessed finance in the form of annual subscriptions and donations (in excess of g130,000) and some private sector support. The state was an important support for the majority of micro-finance funds: five out of seven respondents operated their fund as part of a broader enterprise or local development remit, which was funded by the state.

Micro-finance loans incur high administrative and support costs – most of the organisations had access to supports or could refer clients for enterprise supports by virtue of their delivery structure and their links to support structures (for example, Area Based Partnerships, LDSIP[14] Community Groups and County Enterprise Boards). Five directly provide on-going support to clients, and the remaining two either provide some assistance when requested or refer clients to those who do provide support.

Micro-finance has been a key element of the financial supports provided by County Enterprise Boards, some of which provide services to social economy projects. County Enterprise Boards have traditionally offered grant income, but are now providing supports on an equity basis (although County Enterprise Boards typically offer finance on an equity basis in the hope, rather than the expectation of a return). However, it is also linked to a strategy of County Enterprise Boards to generate income and returns as a means of reducing reliance on state subsidies for the Boards.

The default rate varied widely for micro-finance fund providers, and it is interesting to note that organisations which had been specifically established to operate a fund, in contrast to those which operated a small fund as part of an overall support service, reported a lower default rate amongst lenders (though not without exception). The default rate ranged from 0% to 80% in the last year, with the most common default rate being between 20-30%. However, it is important to consider that the smaller number of loans provided will record a higher proportional default rate even if one loan is defaulted on, and that would appear to be reflected in the highest default rate noted. Only two out of seven providers required loan guarantees from clients.

Many micro-finance providers noted that the demand for loan finance had, in recent years, decreased (reasons cited being the availability of grant income and general economic buoyancy). This did not, in general, lead to a provision of services in the area of social economic or community enterprise development, although most did not rule out future finance provision to the sector.

One fund has started to provide some grant assistance to community projects in the area in which it operates (on a non-repayable basis).

[14] The Local Development Social Inclusion Programme **(LDSIP)** is administered by Area Development Management Ltd (ADM) on behalf of the Department of Community, Rural and Gaeltacht Affairs. The overall objective of the Programme is to counter disadvantage, poverty and inequality, and promote social and economic inclusion.

This same fund had recorded such a decline in demand for loans, that they were currently not providing any new loans. It was also expected that the demand for individual business loans would increase, given the reduction in the availability of grants and the increase in unemployment. One fund noted that they adopted a particularly targeted approach, and acted as a lender of last resort, and had not experienced that same drop in demand for services, as their clients tended to be older people, and people most marginalized without having the opportunities to benefit from economic growth in the last few years.

Credit unions and social finance

The first credit union in Ireland was founded in 1958, and the credit union movement has an asset base of €10 billion and a membership of 2.6 million people. There are over 500 credit unions in the country. The credit union movement in Ireland is cited as a model internationally and certainly across Europe, having a success rate that is unrivalled and is unique in international terms.

Enterprise loans and supports are provided to credit union members - McCarthy et al[15] estimated that 10% of all credit union funding is accounted for by small business loans, but in most credit unions, small business lending accounts for less than this, and often as little as 1%. The provision of such supports is therefore fragmented and not widespread.

McCarthy et al surveyed the enterprise lending activities of credit unions, and found that while credit unions were engaged in lending to local businesses, there was no formal enterprise lending policy, and loans were provided on the same assessment criteria as personal loans (need, character and ability to repay). Credit unions therefore contribute to the availability of social finance, but their strategic involvement in community or individual enterprise development as a means of achieving social inclusion and building social capital has not been formally adopted or established.

Irish credit unions have a commitment to community development and social inclusion through the co-operative principle 'Concern for Community', and according to their tenth operating principle:

> Continuing the ideals and beliefs of co-operative pioneers, credit unions seek to bring about human and social development. Their vision of social justice extends both to the individual members and to the larger community in which they work and reside. The credit union ideal is to extend service to all who need and can use it. Every person is either a member or a potential member and appropriately part of the credit union sphere of interest and concern. Decisions should be taken with full regard for the interest of the broader community within which the credit union and its members reside[16] (ILCU 1984).

This interest is reflected in the provision in the Credit Union Act, 1997,

[15] McCarthy, O., Briscoe, B. and Ward, M. (2000): Redesigning the Credit Union for the Next Millennium: A Case Study of Ireland, *The World of Co-operative Enterprise 2000*, Oxford: Plunkett Foundation
[16] *Statement of Credit Union Operating Principles* as adopted at the Irish League of Credit Unions AGM, 1984

for Special funds. Special funds can be established from the operating surpluses of credit unions for social, cultural or charitable purposes, and can be used for the purpose of providing loans or grants (this is given greater consideration in Chapter 6).

McCarthy et al have identified a range of initiatives undertaken by credit unions (mostly on an individual basis) for social and community benefit. While these initiatives tend to be the exception rather than the norm, the Irish League of Credit Unions has expressed an interest in further developing this type of activity within the Credit Union Movement. They include:

Loan venture funds – usually set up as separate revolving loan funds to aid small business ventures, often at start-up or infancy. Recipients of funding are expected to complete S*tart your own business* training, interest rates are usually lower than the credit union interest rate and flexible conditions have been provided by credit unions, through repayment moratoria etc. Loan venture funds usually have a separate assessment committee within the credit union, with assistance provided by agencies, accountants and other professionals.

Enterprise centres – two credit unions have developed enterprise centres as a means of providing accessible and low rent enterprise space for local businesses as a way of fostering and supporting enterprise in local communities.

Training– credit unions have sponsored training programmes and support for members hoping to establish their own businesses.

Youth facilities - One credit union has purchased premises to allow the development of youth projects.

Housing services – credit unions have sought to provide services to communities to enable them to access affordable housing. One credit union is seeking a partnership with a local authority regarding the provision of space for an affordable housing initiative, with the credit union providing loan finance to members for purchasing their own homes under the programme. A number of credit unions have assisted in the development of housing co-operatives through the provision of loan finance to build homes.

Co-operative development - One credit union in the west of Ireland established a subsidiary company to assist in the development of co-operatives and to give on- going advice and assistance.

Community transport – one credit union consulted provided a donation to a community transport project through the purchase of a vehicle.

The Back to Work Loan Guarantee scheme - a Loan Guarantee Fund established by the Government provided for g635,000 to be made available to the Irish League of Credit Unions for use as collateral against loans issued by credit unions to participants in the Back to

Work Allowance Scheme. Loans for up to g6,329 were 100% guaranteed by the programme, and could be drawn down by credit unions in the instance of default. The administration of the funds remained with the Dept. of Finance, and was not controlled by the Irish League of Credit Unions. This was not satisfactory from the perspective of the credit unions, as they remained dependent on the state to clear the loans in the case of default. The assessment and application process of loans would go through the normal structures in credit unions, necessitating in most cases some additional business assessment expertise. The take-up of the programme was quite low; total loans for four years since 1997 is estimated to be 140, and the total value of loans g762,637, with default rates of 20% (claims on the guarantee fund of g151,404).

McCarthy et al consider the obstacles in developing enterprise and social enterprise lending in some credit unions as follows:

- Lack of expertise in assessing applications
- Fear of large lending
- Short repayment schedules and high interest rates, as well as a lack of expressed demand.

Quinn[17] (1999) also considers that lack of expertise in assessment may be a problem for some credit unions, and adds the following considerations:

> It may be difficult to keep credit unions at arms length from local enterprises because in many towns the same personalities tend to become involved in a range of voluntary and community activities. Thus, even though credit unions are legally separate from other community enterprises, the public may associate them because of the common personalities involved. Financial problems in a local community co-op or other project may indirectly cause problems for a credit union. The basis for such problems may be lack of confidence due to the interlocking of personalities in various local enterprises, rather than any real difficulty with credit unions.

Unlike many state funded micro-finance providers, credit unions' first priority is the security of its members' deposits, and consideration for community is secondary to that. Credit unions performance with personal loan finance is extremely good – one credit union surveyed reported a default rate of 0.01%, and a low default rate is a feature of credit union performance across the country.

Individual credit unions which have engaged in social finance services and have supported community projects report that this usually occurs because an individual credit union member or Committee Director has championed and promoted individual initiatives or activities. Credit unions are also autonomous organisations, vary in size and asset base, and operate independently. Communication is reported to be poor between credit unions, and can act as barrier to disseminating information on activities.

Credit unions can only provide services within the confines of the 'common bond[18]'. Individual credit unions can therefore only offer

[17] Quinn, A. P. (1999): *Credit Unions In Ireland (second ed.)*, Dublin: Oak Tree Press

services on a local basis. It is most likely that amongst individual credit unions, those organised on a geographic basis would have the greatest possible involvement in social finance provision, as these credit unions would be more likely to have social economy enterprises active in their area (as opposed to industrial or employment credit unions).

Credit unions are also restricted by the amount that they can loan in finance (the limit on the size of a single loan is in the region of g38,000 or 1.5% of the total credit unions assets, whichever the greater), and while 1.5% of total assets can be significant (up to g1,270,000 in very large credit unions), it is unlikely that credit unions would favour large loans.

Many of the initiatives that credit unions have been involved in have been provided on the basis of grant support and donations (the Credit Union Act providing credit unions with the ability to create Special Funds for community and social benefit).

Credit unions and the credit union movement can be critical partners to the development of social finance in Ireland, due to their co-operative ethos, social objectives, large asset base, location within the social economy and social finance sector, and local and national infrastructure for service delivery.

The Irish League of Credit Unions

The Irish League of Credit Unions (ILCU) is the representative body of the credit union movement in Ireland, has an affiliation rate of approximately 90% of credit unions in Ireland, and provides a range of education and support services to the movement.

The ILCU is probably the most successful credit union league in the world. Its roots in the community and acceptance in the community go far deeper than any other financial institution. At a micro level it is representative of people who care deeply about community values and its success is underpinned, by and large, by a voluntary ethos.

The ILCU created the Chapter structure (local groups of credit unions, of which there are 25 in Ireland), the purpose of which is to foster communication and practical support for credit unions as well as discuss future plans of credit unions. Chapters also provide a key role in delivery of training and education programmes (education being a key co-operative principle).

As well as lobbying and representing its members at national level, the League manages the Central Investment Management Service (CIM), which is a fund of credit union assets invested on behalf of participating credit unions. The League has contracted Davy

[18] Credit unions all have a common bond, which determine who is able to join them. The common bond can be community or residential (geographically defined – for those who live and/or work in a particular community); employment or industrial (employees in a company or group of companies) or associational (members of a trade union, trade association or other group).

Stockbrokers to provide services, information and advice to Chapters and individual credit unions on investment and monetary matters. According to Quinn, the Trustee (Authorised Investments) Order, 1998 permits credit unions to invest in a more diverse manner than previously allowed, but caution is advised especially regarding equities or shares in commercial companies. In all investments, the League is required to ensure the safety and soundness of investments for the purpose of protecting members' deposits.

Loan services of up to g4million are also provided to credit unions for capital and equipment purposes in the main, and for liquidity in times of peak loan requests.

The League operates a worker co-op fund, which provides up to g3,800 to credit union members who are forming worker co-ops, to a limit of g12,697 per worker co-op. In the past few years, this fund has extended eligibility criteria to include community co-ops.

Notwithstanding its commercial remit to protect its members' funds and provide a return on investment, the credit unions have (by way of the establishment of the Special Funds) acknowledged the need to address issues of social finance. Historically however, it has not entered the debate in a pro-active fashion in a general sense, but there is a basis for this engagement in the future and this is an area which could be explored.

The League plans to develop a strategy for developing a range of social investment activities for the movement and promote its involvement in areas of need, for example, housing, which would provide a financial return with a social return, while also having a low risk factor, which is critical in protecting members' assets. Given the size of the asset base of the Credit Union movement (g10 billion), a significant source of capital for social finance purposes could be secured, if a proportion of investments were directed for this purpose.

The League has recently completed a phase of restructuring within the organisation. current priorities include product development; training and marketing; IT development; the question of ATM machines for credit unions; e-banking and its implications for the movement. Presently, there is an opportunity for collaboration between the League and social finance specialists in Ireland, for the purposes of promoting and developing social investment and social finance in Ireland on a national and local level.

Public-Private Partnerships

Public-Private Partnerships (PPPs) are essentially partnerships between public sector and private sector [or non public sector] investors and businesses for the purposes of designing, planning, financing, constructing and/or operating infrastructure projects normally provided…by the State.[19] Typically, in a public private partnership, the public sector seeks a private sector partner to design, build, operate and provide a portion of the finance for a public sector asset (for example, roads, bridges).

PPPs have been pursued by the state as a means of delivering large physical infrastructure projects, as they can:

- Offer value for money and cost efficiencies to the state
- Capture expertise and innovation from the private/third sector
- Transfer risk away from the public sector to the party that can manage the project
- Provide incentives to the private/third sector to deliver services.

While PPPs have most commonly been used as a mechanism to deliver physical infrastructure projects, there are instances of their use as a tool for developing social infrastructure. For example, the collaboration between the Western Development Commission (public sector) and Clann Credo (third sector) is a public-private type partnership, whereby both parties work together in providing loan finance and share costs and risks has characteristics of a public.

Another example of a public-private partnership between the public and the private sector is the establishment of Business Innovation Centres (BICs), of which there are four in Ireland. They include direct participation by the private and public sectors in terms of delivery and funding contributions. They have been established and supported by DG Regional Policy in the European Commission but their function is to support SMEs, focusing on innovation for industry or services to industry. BICs primary enterprise function is to promote entrepreneurship in areas of technical innovation, leading to job creation. However, BICs do not strictly operate as social finance providers.

In social finance terms, the benefits of public private-partnerships include:

- Efficiency
- On the ground knowledge
- The capacity to draw down additional funding other than the state
- International experience
- Building community and social capital at local level.

The contribution of social finance provision to community infrastructure has been acknowledged by Government in *Sustaining Progress*. There is an opportunity, to utilise the model of public-private partnerships for the delivery of social finance in Ireland. A potential application of this method to social finance delivery is outlined in greater depth in Chapter 9.

Mutual guarantee schemes and peer lending

[19] Farrell Grant Sparks/Goodbody Economic Consultants/Chesterton Consulting (1998): *Public Private Partnerships*: A report submitted to the inter-Departmental Group in relation to Public Private Partnerships

Mutual guarantee schemes are funds where individuals and enterprises pool their savings to offer collective guarantees so that they can borrow more and achieve better lending and deposit rates.

This concept of mutual aid emerged at the end of the 19th Century in the urban areas of France and Germany to make it possible for craftsmen, traders and small entrepreneurs to access credit to modernise their working tools. Mutual guarantee schemes have been operating in Italy and France for over fifty years, and are also widespread in Belgium and Spain. Public support is provided for some schemes through augmenting the guarantee amount, or through covering part of cost of defaults.

As well as enabling access to loans and credit, mutual guarantee schemes can enhance the bargaining power of individual members of the scheme, particularly if the assets and finances of the scheme are located in the banking institution where individual members carry out their banking activities. Mutual guarantee schemes also act as a support mechanism for members, through mentoring and assessing loan applications.

In some cases across Europe, networks of guarantee schemes and public guarantee schemes are supported by the banking sector (for example, provision of space and contributions to overheads). This has led to schemes becoming formally linked to single banks, thus undermining the ability of schemes to move funds from banks (thereby undermining their bargaining power). This practice is however becoming less frequent as mutual schemes are re-asserting their independence from banks.

In the course of this research, there was significant interest in mutual guarantee schemes as a tool for enabling social economy enterprises to access finance, as well as collectively seek better banking and overdraft facilities.

Mutual guarantee schemes are not widespread in Ireland. The research identified one scheme in Clones, Co Monaghan (Íarchimí Mutual Guarantee Association) and there is also a Mutual Guarantee Association of Ireland (the Association) in Limerick. One of the difficulties in establishing mutual guarantee schemes according to the Association is the need to support and promote the activity. Schemes are relatively easy to establish – most register as companies limited by guarantee; according to the Association there are no legal constraints to their operation and they can be established by a small number of groups or individuals and developed into larger schemes over time. There are no legislative, institutional or policy supports for mutual guarantee schemes in Ireland.

Mutual guarantee schemes are viewed by the European Commission as an effective tool for enabling SMEs to access credit. Since this policy was adopted in the early 1990s, the Commission has funded information dissemination on schemes and has provided support to the European Mutual Guarantee Association. However, the regulatory system for schemes across Europe varies. In France, they are regulated in the same way as banking establishments and must now bear the same financial and prudential restrictions. In the UK, the use of guarantee funds as a tool for community development finance was halted by the Treasury because of their status – it was viewed by the Treasury that mutual guarantee schemes could come under the regulatory structure of insurance.

Peer lending occurs when a group of individuals, groups or enterprises pool their savings and use the fund for loan activities to members of the peer group. In Ireland, one Area Based Partnership Company in an urban area facilitated peer lending amongst self-employed individuals. A loan fund was established by the Partnership, and its management was assigned to the peer lending group, which took responsibility for assessing loan requests and also repayment of the total loan fund (which was g63,500). The purpose of the fund was to provide lending for individuals for amounts less than g6,350. While this model has been successful in Asia and in parts of the US, its success in this instance was as a general business support and networking group, as the demand for loan finance was low. Reasons for the low take-up in loans included a reluctance to undertake the management of loan finance and responsibility for repayments by the group, and perhaps the stage in development of the individual enterprises was such that they were not ready to embark on this activity.

Social Investment Funds

Social investment funds tend to operate on a regional or national basis; they operate outside of banking regulation and typically offer a mix of loan, equity and - in some cases - grant finance.

CLANN CREDO

Clann Credo is a social investment fund, and was Ireland's first, non-governmental body operating nationally as a social finance specialist. Clann Credo's primary source of finance is from religious charities. It has invested in over 80 projects nationwide in areas such as community infrastructure; community enterprise; employee ownership; social housing; job creation and community loan funds. Since the first investment in 1994, Clann Credo has secured over g8million in private capital for social investment.

Projects receiving social finance must demonstrate that they are providing a social and financial dividend. Clann Credo invests mostly in the form of loan finance to groups, and has worked closely with a number of local loan funds, which deliver social finance services on a local basis. Equity finance is also available from Clann Credo. It operates a joint venture with the Western Development Commission, where it shares the costs of project assessments for loans the risk is shared between the two organisations.

In providing social finance, Clann Credo offers a flexible loan service to groups, and loan guarantees are not necessarily required, depending on the resources available to loan applicants. Clann Credo currently receives no state interventions or funding, and it generates its operating income from interest charged on loans.

Clann Credo and local delivery

Local social finance delivery is a costly exercise, and Clann Credo has recently collaborated with LDSIP Community Groups and Area Based Partnerships in establishing local social finance funds, for access by projects seeking small amounts of finance. This provides a cost effective way of delivering social finance services within local structures which are already core funded, and can therefore subsidise the high costs of project assessment and delivery of services. In most cases, these partnerships for local delivery are carried out by public sector structures, such as Area Based Partnerships, and finance services are usually part of a broader package of support services.

This structure often mitigates against sustainability of local funds, as the structures are not independently dedicated to social finance provision, and are not specifically funded for this activity. Replicating these services throughout the country is not always feasible as skills of assessment and social economy sectoral expertise is not reliably available at local level.

In the UK, social finance delivery either occurs on a regional basis, or if acting locally, combines funding to social economy projects with loans to individuals to achieve critical mass[20].

A local delivery social investment fund is planned for the Mid-West region: this is currently in pre-development phase. A study exploring the development of a social investment fund for Waterford city is also underway. These funds plan to operate on a sustainable basis, as dedicated social finance providers, focusing on social economy enterprises. For these funds, sustainability requires sufficient size of fund and return on investment to cover operational costs. Grant income is expected to be a key element to achieving fund sustainability. The costs of local/regional funds will often be higher than national funds, because they do not have the same capacity to achieve economies of scale, they usually provide loans to a smaller number of projects and provide for smaller loan amounts.

The high costs of service often adds to the cost of repayable finance, and unless supports are provided, these funds can compare unfavourably to commercial finance providers in terms of interest charges and cost of accessing finance.

[20] However, demand may be lower in the UK. Social Enterprise London cites estimates that approximately 4% of social economy enterprises have a demand for repayable finance. Research carried out as part of this study demonstrates that 20% of participating social economy projects had accessed finance, and over 80% predicted future need for repayable finance.

WESTERN DEVELOPMENT COMMISSION

The Western Development Commission (WDC), a statutory body promoting economic and social development in counties Donegal, Sligo, Leitrim, Roscommon, Mayo, Galway and Clare, provides social finance which specifically targets the social economy sector.

Under the auspices of the Western Investment Fund, the WDC has developed a mechanism to fund projects in the Social Economy - the Local Investment Fund. The objective of the Local Investment Fund is to create quality living conditions that will allow western communities to maintain their current population base and to attract business, jobs and workers into the Region.

Finance is mainly in the form of interest-bearing loans of between g25,000 and g125,000. Loans are amortised over a maximum period of ten years with the current rate of interest charged at 5%. Security may be taken on the assets of the community business. Bridging finance and equity may also be considered.

The Local Investment Fund supports circa 10 - 20 innovative community projects each year. These projects must meet the following requirements

- Make a difference to a local community and consequently to the Western Region
- Demonstrate a capacity to repay the loan (all forms of income will be taken into consideration)
- Be commercially sustainable - show revenue which will enable the project to operate long term
- Exhibit a strong community spirit backed by committed personnel
- Be well planned and organised, with a full-time professional executive
- Have a track record of at least two years and a status as a separate legal entity
- Be innovative and tackle a community issue in a holistic manner.

There are no restrictions on the uses of the loans, and the fund is applied flexibly. The WDC and Clann Credo have collaborated and jointly assess applications received under the Local Investment Fund (see Clann Credo above).

Social Banks

TRIODOS BANK

The only social bank currently operating in Ireland is Triodos bank. It was established in 1980 in the Netherlands, where it is registered as a bank, and operates also in Belgium and the UK. Triodos lends and provides equity only to enterprises with clear social and/or environmental objectives, and all lending is social finance related. Sectors which Triodos targets for social investment include organic food and farming, renewable energy, social housing, fair trade and micro-credit for developing countries. Triodos Venture Capital Fund BV (not operating in Ireland) provides private equity to expanding companies in the areas of renewable energy, organic food and environment.

Triodos bank offers savings accounts for individuals and specialised banking facilities including loans, mortgages, overdrafts on current accounts for charities, community groups social businesses and environmental initiatives - current and savings account services have not yet been provided in Ireland. Specialised and targeted accounts (partnership accounts) are offered for clients to target their funds (and track their funds) for particular sectors, such as organic food and farming enterprises; renewable energy and conservation projects; innovative housing projects and micro-credit institutions in developing countries.

The globalisation of banking services across Europe facilitated through European legislation provides opportunities for other EU based social banks to operate in Ireland. The development of banking regulation across Europe is discussed in Chapter 6.

Most social banks do not offer small loans or micro-enterprise loans. They also require some form of loan guarantee or collateral, but this can be flexibly applied and depends on the use of the loan and risk assessment. Social banks can have a high impact with their high lending capacity for projects and their targeted approach to specific sectors – most social banks across Europe specialise in particular sectors (such as environment, agriculture and arts and culture). Because of the need to protect depositors funds, social banks do not have broad latitude for investing in high risk activity, although many across Europe establish separate funds for different activities with varying risks, or develop a portfolio with high return and low return projects to facilitate lending to riskier activity. Social banks cover overhead costs from their banking margin rather than public sector supports; many do not provide services to small start-ups or projects which require intensive support. The establishment of an indigenous social bank in Ireland would require a substantial capital base and given the high entry barriers to the banking sector, the availability of social banking services is likely to be provided by entrants into the Irish market. In Italy, a number of financial co-operatives sought support and shareholding from the state and local authorities to generate minimum capital requirements for forming a social bank (Banca Etica, which was established in 1999). Elsewhere, social banks were developed by organisations with a long involvement in social investment (the Charity Bank, established in 2002, by Charities Aid Foundation in the UK).

Community banks

Community banks differ from social banks in that they are usually formed to meet the needs of a specific geographic community or community of interest, and so their scope of activity will usually be more narrowly defined than those of a social bank.

In Ireland, the state has traditionally engaged in social finance through the support of banks formed to provide services to a particular community of interest. Trustee Savings Bank (TSB); Agricultural Credit Corporation (ACC) and Industrial Credit Corporation (ICC) are all examples of state sponsored financial institutions. These have all been privatised in recent years (TSB was purchased by Irish Permanent; ICC was purchased by Bank of Scotland and ACC by Rabobank of the Netherlands). The state has completely withdrawn from this market, while in other EU countries, such as Germany, the state remains a key shareholder in financial services and banking companies. The withdrawal of the state in the provision of these finance services has created something of a vacuum in the banking sector, which has yet to be adequately filled. There are no indigenous banks in Ireland with a key sectoral or community of interest remit.

An example of a third sector community bank is the Co-operative Bank in Mondragon, Spain. This is the largest and probably best known community bank in Europe. Its principle function is to finance the substantial network of Mondragon producer co-operatives. It was formed in 1959, from seed capital derived from reserves of the co-ops which had been used to fund Mondragon's own independent social security system. The bank drew deposits from community members attracted not only by a competitive interest rate, but by the knowledge that their funds would be lent to the co-operatives to create local jobs.

The Mondragon Bank offers a range of technical services in addition to the normal financial and commercial services. For example, newcomers - workers wishing to join the Mondragon network of co-operatives - are helped to identify and develop products, sometimes from ideas which the Bank keeps 'on the shelf'. Similarly, the Bank plays an important role in aiding labour mobility within the network, ensuring that workers employed in firms with a declining demand for labour are transferred as smoothly as possible (with retraining as necessary) to firms with expanding demand for labour.

It is worth noting that given the current stringent regulatory environment for financial institutions, it is unlikely that community banks such as the Mondragon bank could be established today.

Mainstream Financial Providers

Mainstream financial providers could potentially be a key player in supporting the provision of social finance services, given their asset base, expertise and financial resources – the four largest banks in the state have all recorded an increase in profits since 2001. Allied Irish Banks (AIB) recorded a pre-tax profit for 2002 of g1,375m and Bank of

Ireland (BOI) predicts that its pre-tax profit for the same year will be €1,214m. AIB was the fourth best performer of 2002 amongst the 44 banks featured in the Eurotop 300 index.

The banks have acknowledged and formally recognised the importance of community and social infrastructure through their community initiatives (for example, AIB's Better Ireland Awards, and both AIB and BOI's sporting awards and sponsorship programme). Ulster Bank's parent company, Bank of Scotland, are involved in a number of social finance initiatives in the UK.

The involvement of the banking sector in community activities in Ireland has little impact on the social economy sector, and little impact on the provision of social finance.

Any involvement of the banks in social finance and enterprise support measures as a tool for tackling exclusion and for targeted groups have been developed through public sector support measures, most notably loan guarantee schemes:

- In the 1980s a loan guarantee fund was established with contributions of £100,000 (€127,500) from the mainstream banks, with matching funding of £100,000 (€127,500) from the state. The purpose of the fund was to assist people in debt to money lenders and the fund was managed through the Society of St Vincent de Paul. The fund was a pre-cursor to the Money Advice Bureau Service (MABS).

- In the 1990s, the Dept of Enterprise, Trade and Employment, in recognition of a shortage of adequate loan finance services to start up small businesses and micro-enterprises, established a loan guarantee fund with the banks, which led to the establishment of a soft loan fund provided by the financial institutions.

The most cited example of mainstream financial institutions engaging in finance with a social impact is the joint Bank of Ireland/First Step loan fund, jointly established in 1994, and with equal contributions from both. Supports from the bank included assistance with assessments, secondments from staff and contribution to overhead costs. As part of the arrangement, the Bank of Ireland has subsidised the secondment of experienced bank personnel to assist in the assessment of projects. In addition, the management of the loan re-payments is assisted by the bank through its normal banking procedures, reducing the overhead costs of First Step. The fund is designed to assist projects with loans of up to €25,000 in start up capital.

Social economy projects report mainstream banks as having a poor understanding of the social economy sector, while banks often consider projects as being administratively awkward to deal with. Banks will seek personal guarantees or assets collateral for loans as part of the conditions of funding, often inappropriate for social economy projects and cited as a major barrier to the access of finance. In the main, the banking sector across Europe is moving away from small enterprise lending services as a whole and towards other services and products (investment banking and fee generation activities).[21]

In an international context, when financial institutions do engage in social finance provision, it is usually through intermediaries, rather than direct provision. In the US, mainstream financial institutions are a significant funder of CDFI activities, as a result of the Community Reinvestment Act.[22]. They have mostly used a well established CDFI structure in the US as a means of meeting these needs, where services can be provided on a cost effective basis, and where local expertise and specialist knowledge is already in place. (See Chapter 7 and Chapter 8 for detailed discussion on the engagement of financial institutions and banks and the social finance sector in the US and the UK respectively).

An engagement by financial institutions in Ireland in the social finance sector should include some or all of the following activities:

- Provision of support for the social finance sector as a funder and investor at a local and national level
- Training programmes in social finance could be included as part of bank staff training
- This training could include outreach programmes, for example, secondments of bank staff to community groups and projects and initiatives, to include: legal, enterprise and financial expertise in this context.

Consultations have indicated that at local level, banks may be interested in providing some supports to local social finance initiatives. This could be offered as part of mainstream banks enterprise units and divisions throughout the country, which have significant autonomy in their operation and in the services they provide.

On a national basis, the engagement of mainstream banks in social finance provision will probably not occur, unless state intervention either requires them to do so, and/or provides specific incentives for their involvement in the sector. Such incentives could include tax incentives for investment in social finance. Any incentives could be linked to the relaxation or future removal of the bank levy.[23]
A possible method of engagement between the banking sector and social finance provision is outlined in detail in Chapter 9.

The following examples of initiatives outline how banks are engaging in social finance provision in the UK.

Local Investment Fund

[21] European Commission Working Paper (2001): *Enterprises' Access to Finance*
[22] US legislation introduced in 1977 requiring banks to demonstrate that they are meeting the credit and deposit needs of the communities in which they are located- see Chapter 7
[23] which requires the banks to raise €100m each year for the next three years, collected from banks by reference to the deposits that they hold from customers

The Local Investment Fund (LIF) was set up as a partnership with support from the UK Govt., Business in the Community, and the private sector, led by NatWest, with the aim of overcoming the funding gap often experienced by social enterprises. It has been making loans to economically viable, not for profit community enterprises who have been unable to secure funds from traditional sources.

Since it was set up LIF has offered 35 loans totalling stg£29million (€44.4 million) and has leveraged £15 million (€23 million) into community regeneration.

Portsmouth Area Re-investment Trust

The Portsmouth Area Re-investment Trust (PART) is a partnership of the local authority, housing associations and Lloyds TSB bank. The input of the bank has been in the form of rent-free premises; cash support and staff secondment. Lloyds TSB does not see its role as philanthropy:

> it makes long term commercial sense for us to assist people on the first steps of the ladder towards mainstream finance and in doing so, help regenerate the disadvantaged communities in which we operate

Social Investment Scotland

Four Scottish Banks (Bank of Scotland; the Clydesdale bank; Lloyds TSB and Royal Bank of Scotland) have partnered to establish Social Investment Scotland, which has a €4.6million contribution from the banks, with an additional €3million in state sponsorship. The target group for the initiative is the community and voluntary sector in Scotland, with particular emphasis on social economy enterprises. As well as lending directly to organisations, Social Investment Scotland distributes funds through Community Development Finance Initiatives, and cites its major priority as the establishment of a network of CDFIs throughout Scotland.

The UK government has adopted a voluntarist approach in encouraging social finance provision within the banking sector (see Chapter 8). In the UK, as a result of the UK Govt's *Task Force on Social Investment's* recommendations[24] (see Chapter 8), the British Bankers Association committed to publishing information on bank lending in deprived areas. The mainstream banks' role in social finance has been viewed as part of their responsibility in service provision terms to the communities in which they operate.

However, the UK government has stopped short of introducing legislation requiring compulsory reporting by banks. For the banks, a voluntarist approach is more favourable than legislation – a Community Re-investment Act in the UK as a compulsory measure would have major implications for mainstream banks. It is possible that social finance initiatives have been initiated on a voluntarily basis by banks in order to stave off the introduction of legislation.

[24] Task Force on Social Investment (2001): *Enterprising Communities – Wealth Beyond Welfare*

Summary Chapter 3 – Social finance services in Ireland

SURVEY OF PROVIDERS

Most social finance providers in Ireland were located within the public and the third sector, with some social finance activity within private sector organisations.

Of those surveyed –
- 55% provide services to the social economy sector and perceive this to be the area with the greatest potential for growth
- 45% target individuals for business or personal purposes
- The trend is towards a decrease in demand for individual loans and loans for micro-enterprise and start-up and an increase in demand for funding of social economy organisations.

DELIVERY OF SOCIAL FINANCE: CATEGORIES

- Micro-finance – most respondents were in this category

- Credit Unions – the credit union movement has assets of approx ¤10billion, and while individual finance is targeted, there are some instances of social finance provision amongst individual credit unions. These include:
- Loan venture funds
    - Enterprise centers
    - Training
    - Youth facilities
    - Housing services
    - Co-operative development
    - Community transport
    - The Back To Work loan guarantee scheme.

  The Irish League of Credit Unions and individual credit unions are identified as possible collaborative partners to the development of social finance.

- Public-Private Partnerships – there are some examples of this type of initiative within finance delivery services

- Mutual Guarantee Schemes and Peer Lending – these are not widespread in Ireland

- Social Investment Funds
    - Clann Credo
    - Western Development commission.

- Social Banks
    - Triodos Bank

- Community Banks – there are no community banks in Ireland at present. The state has historically had an involvement in this activity, through the establishment of banks to provide services to a particular community of interest (e.g., ACC, TSB, ICC). These banks have now all been privatised.

- Mainstream Financial Providers – there is little involvement of mainstream financial providers and banks in social finance, particularly in regard to social economy finance provision. Examples of initiatives in the UK where the banks have become involved in social finance are provided.

4. SOCIAL FINANCE PROVISION – THE DEMAND AND EXPERIENCE OF SOCIAL ECONOMY ENTERPRISES

CDFIs have tended to focus on the provision of services to social economy organisations as a tool for combating social exclusion and generating social capital.

In the course of this research, two focus groups were held to establish the views of social economy organisations and social economy development and support organisations regarding social finance provision in Ireland, the experiences of organisations to date and also to consider future needs for social finance and access issues. Thirty-one questionnaires were returned, representing social economy activity in the following sectors. Many organisations provide services in a number of sectors, and the number of organisations providing services in these sectors is included, in order of frequency

TABLE 4.1 NO. OF SOCIAL ECONOMY PROJECTS PARTICIPATING IN FOCUS GROUPS AND THE ACTIVITIES IN WHICH THEY ENGAGE

Sectoral activities		No of projects
-	Training and employment projects	13 of 31
-	Enterprise space/ community infrastructure	9
-	Supports / enterprise development to community sector/ local development sector	9
-	Projects and enterprises serving ethnic minority groups, e.g., Travellers, asylum seekers, etc.	7
-	Environmental projects	7
-	Childcare	7
-	Community and rural transport	5
-	Arts/ culture projects	5
-	Eldercare	4
-	Housing projects	3
-	Youth projects	3
-	Community Radio	2
-	Gay and lesbian project	2
-	Women's projects	1
-	Disability/ Special needs project	1

Many organisations provided services to their local communities as well as development and support services to social economy enterprises.

The focus groups comprised a mix of questionnaire completion (separate questionnaires for development groups and social economy enterprises[25]) and discussion. The focus groups sought to gather information on the past experiences of those seeking/accessing finance and social finance; current needs and future projected needs for repayable finance. Participants were asked for their views on sustainability issues for different activities as well as the possible contribution of finance and social finance to this sustainability.

Most organisations in attendance engaged in several activities and operate in several sectoral areas, as identified in the above table. The average number of activities for each organisation was 2.6 (based on the above table). Typically, social economy organisations develop a range of activities and services for several reasons, which may include meeting emerging needs or generating additional income to subsidise other activities. Assets such as land or buildings enable significant income to be generated (for example, provision of space), as well as provide collateral for projects. However, there remains a low level of asset ownership amongst the sector (this is further discussed below). Projects tend to have various sources of income, including fundraising, grant income and some traded income to sustain their activities. Much of the funding social economy projects generate is agreed on an annual basis, and uncertainty around funding programmes can undermine access to loan finance.

While a minority of projects had accessed social finance in the past, most indicated a need for social finance services within the next three years, and most organisations see their activities expanding in future years.

This section considers the key responses of the sector from the focus groups and the questionnaires. These responses are also used to inform the key sectors with potential for use of social finance in the second part of this chapter.

Use of finance and social finance tools by projects consulted

Six organisations participating in the focus groups had either applied for, or accessed loan finance in the past three years on their own behalf (some others had supported projects in their access to loan finance). Some of the key points relating to these experiences:

- The average size of loan was g43,000
- The maximum loan sought was g150,000 and the smallest was g17,000.

Loan finance was accessed by groups in the following sectors:
- Community transport
- Environmental project
- Community development /community arts and enterprise development group

[25] Copies of the questionnaire are available from the sponsors to the research.

- Community radio
- Local development group.

Loan finance was sought for the following purposes
- Capital equipment and renovation of space
- Set up costs
- Purchase of new vehicle
- Financing debts
- Infrastructure development
- Cover short term funding gap/ overdraft.

Groups, which had accessed or sought loan finance, had all interacted at some stage with specialist social finance providers. The most important aspect of social finance providers for these groups was flexibility – in some cases - around the provision of loan guarantees by specialist providers. Most respondents considered these providers to be very supportive in the application process. Mainstream banks also had a role in financing projects, mostly in cases where a positive banking relationship was already in place, and where enterprises had an asset base to use as collateral.

Not all social economy enterprises had positive experiences with finance providers. One enterprise had difficulty accessing temporary finance and bridging finance from social finance providers (as well as public and private sector providers) and made the comment that specialist social finance providers are particularly beneficial for enterprises in early stages of development. Another social economy enterprise withdrew its application and cited two reasons for this withdrawal: the complex application procedures (these were perceived as more onerous than private sector banks), and a request from the provider for a loan guarantee from the local development group supporting the project.

Social economy enterprises in the main were positive about specialist social finance providers, and viewed the distinction between them and mainstream providers as follows:

- Specialist social finance providers provided better rates
- They were more accessible
- They were flexible around finance provision and repayments
- They had a better understanding of aims and objectives of the enterprises and the conditions in which they operated.

The percentage of groups which had actually sought loan finance was low (20%), and this was spread evenly between urban and rural social economy projects. There were no apparent differences between the experiences and needs of urban and rural projects, other than the fact that rural projects seemed to have a stronger interface with mainstream banks, two having accessed loan finance from mainstream banks. Other rural respondents, commenting on the services provided by mainstream banks, noted that communication is an important factor in the relationship between community groups and financial institutions. This was not reflected in all responses, and one social finance provider consulted noted that in his organisation's experience, rural banks tended to be more inaccessible to social economy projects and displayed a lack of understanding to a greater extent than their urban counterparts.

Sources of income and the State's relationship with the sector

The role of the state in supporting social finance is considered in later chapters of this report. In this chapter, current state policy with regard to the sector as a whole and the impact it has on the access and use of social finance is considered from the perspective of projects. Grants were viewed by projects as a form of contract and traded income, as they are provided to groups in return for the provision of services. However, the use of grants undermines access to loan finance for groups, as grant income re-inforced perceptions of poor viability and high risk from the perspective of mainstream finance providers.

In addition to this, the inability for most groups to project grant income from year to year prohibits planning and the generation of other sources of income.

Projects manage a range of funding sources, all of which contribute to their sustainability. Of six projects which had accessed loan finance in the last five years, one had a traded income (other than grants) of between 70-100% of total income, the remainder having a traded income which accounted for between 0 - 50% of their total income (thus undermining the views of mainstream finance providers that a mix of funding sources undermines viability).

There is a need for a coherent state strategy towards provision of services, and the role the sector plays in this regard. This is also reflected in many support mechanisms for the sector which primarily have a labour market integration objective, and instruments for achieving this objective (for example, Community Employment and Social Economy Programmes) are used by social economy enterprises to achieve service delivery objectives: this tension of objectives can undermine the development and sustainability of service provision.

The flexibility of specialist social finance providers, in terms of understanding these issues, is of key importance for the projects.

The poor level of asset ownership by social economy enterprises undermines the ability of projects to use assets as a means of generating additional finance and expanding services. The poor level of asset ownership is primarily due to the state maintaining ownership of buildings and sites, while allowing social economy projects access to their use and management. In many cases these projects have responsibility of meeting the running, maintenance and in some cases refurbishment costs of these assets. The state is, in effect, is placing a burden on projects to maintain these buildings. The contribution of asset ownership by communities and social economy enterprises to sustainability has been recognised in the UK and has prompted a policy initiative to promote transfer of assets to the social economy sector, and is further discussed in Chapter 8.

The experience of social economy enterprises and mainstream financial providers

The majority of social economy enterprises reported that mainstream financial providers were not sufficiently meeting their needs (52%).

Mainstream financial institutions are reported to have little understanding of the particular features of social economic activity, project development issues, and the funding conditions under which enterprises operate. The view was held that mainstream banks needed to be educated about the sector. Conditions of funding such as personal loan guarantees from voluntary directors are not appropriate for many social economy projects and constituted a major barrier to accessing loan finance for many projects. The lack of organisation within the sector for collective bargaining power with the banking sector was another issue – one mainstream bank in inner city Dublin managed the assets and bank accounts of fifty two community projects, these projects experienced difficulties in accessing banking support, for example overdrafts, in spite of their collective contribution to banking business. In this respect, there was interest in collective arrangements between projects, for example, through mutual guarantee schemes, as a means of achieving a stronger bargaining position with mainstream banks.

Some projects however continued to have a good working relationship with their banks, and report the importance of regular communications as a means of achieving this.

The view was expressed that a lack of accountability of mainstream financial service providers with regard to measuring the social impacts or social contribution of their financial services means that financial institutions have no incentive to provide services to the sector.

Specialist social finance providers

The benefits to groups of accessing services from specialist social finance providers included flexibility around criteria for assistance; repayment flexibilities, moratoria on loan repayments and flexibilities with regard to loan guarantees.

The majority of those projects who responded to questions on their experiences of social finance providers believed them to demonstrate a greater understanding of the community and social economy sector than mainstream financial providers. Similarly, the majority believed that social finance providers focused on the social as well as the financial elements of the organisation; were less conservative than mainstream financial providers and offered more assistance to projects than mainstream financial providers (although a small minority disagreed that this was the case).

Some organisations feel that a greater level of promotion needs to take place – some projects, both urban and rurally based were unaware of the lending terms and availability of finance from the two major specialist social finance providers in the country.

There is a constituency amongst social economy projects who feel ambivalent towards specialist providers. Some felt that there was no significant difference between social finance and mainstream financial providers, particularly with regard to interest rates offered by specialist social finance providers, which were often no more favourable than mainstream providers. Some groups with experience of social finance provision experienced slow processing of loans and complex application procedures, and for others, specialist social finance providers and loan finance had no relevance to their projects. Others held the view that specialist social finance providers should provide grants as well as loan finance, as many projects did not have the capacity to repay loan finance. A view was also expressed that some social finance providers had accessed their funds originally and historically from community sources, and argued that they should be returned to the community as grant income rather than repayable finance. The cost of administration of social finance and the objective of sustainability often precludes this action.

The view was expressed by some that if social finance is to be promoted or developed, the social economy sector should have a key role. It was preferable that control and ownership of the provision of social finance should lie within the sector. Social finance should not be removed from the needs of the sector and there is an ethical requirement on those providing the service to engage in stakeholder reporting. It is recommended that social finance providers engage with stakeholders, and stakeholder participation should be formal and representative if possible.

Models such as credit unions; mutual guarantee funds and peer lending were cited by projects as the most favourable approaches to the delivery of social finance.

Rural and urban projects

Rural projects, operating in areas of low population density, have difficulty in accessing social finance services. For many rural groups, the amount of loan finance required is low, which they believe restricts their ability to access loans from national social finance providers.

Urban projects are likely to have access to a greater number of alternatives than rural projects. In both the US and the UK, the experience has been that despite the growth of CDFIs, rural projects still operate at a distinct disadvantage to urban projects.

Another disadvantage for rural projects is accessing the level of enterprise and financial management expertise required to consider the management of loan products and agree the responsibility and liability. Participants at the focus group ranked a lack of experience in financial management and managing loans within the organisation in third place as a reason for not applying for loan finance (in both an urban and rural context). Corporate sector support can be a short-cut to the development of skills and expertise, but rural projects often don't have the access to such support by virtue of their geographic location.

The impact of an incoherent policy for social economy projects is greater for rural initiatives, because they generally have fewer opportunities to develop ancillary or commercial sources of income to subsidise their service delivery base (though this was not uniformly expressed). In addition, projects accessing supports under the FÁS Social Economy Support Programme in rural areas find eligibility criteria particularly restrictive, with the available pool of people for recruitment very small.

In general, bank branches located in rural areas are perceived to be more conservative than urban banks with regard to lending to social economy projects. In some cases however, the relationship between the bank and project were good, this is mostly based on the individual relationships involved, and knowledge of the individual project.

Future needs of social economy organisations with regard to social finance services

While the majority of respondents had not accessed repayable finance in the past, 83% of participants felt that there would be a need for repayable finance in the future (reflected consistently across urban and rural responses).
The graph below provides a breakdown of the types of finance identified by these groups.

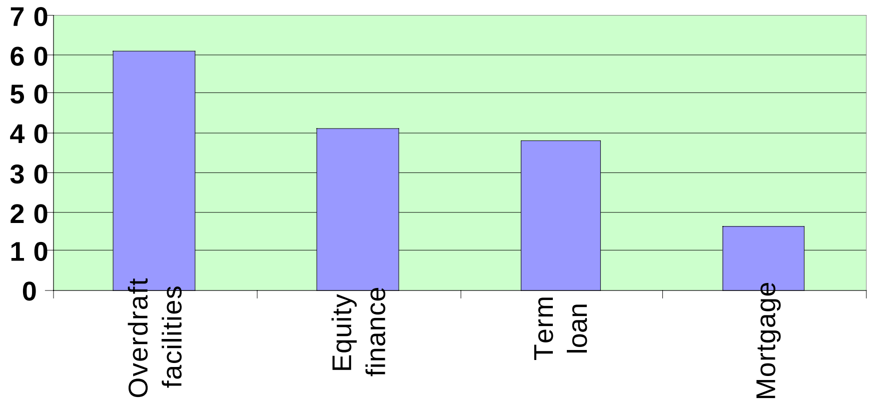

FIGURE 4.1 FUTURE FINANCE REQUIREMENTS (TYPES OF FINANCE) IDENTIFIED BY SOCIAL ECONOMY ENTERPRISES (AS A PERCENTAGE OF THOSE WHO REPORTED A POSSIBLE FUTURE NEED FOR FINANCE)

This is drawn from the table below:

TABLE 4.2 PROJECTED FINANCE REQUIREMENTS FOR SOCIAL ECONOMY ENTERPRISES

Type of finance required	Responses who indicated need
Overdraft facilities[26]	61%
Equity finance	41%
Term loan	38%
Mortgage	16%

However, the consistent view was that for many organisations in the sector, repayments on loans is not an option due to cash flow and traded income requirements – hence the selection of equity finance as the second most important type of finance required. The use of equity finance within a social economy context has raised issues and obstacles in some cases, with regard to ownership structures and this is discussed below.

A specific question included in the questionnaire provides a broader insight into the specific uses for social finance:

> If a social finance provider was to make any amount of money available to your organisation, the only condition being that it was repayable with low interest (i.e., lower than the standard rate of interest of commercial finance providers), would your organisation avail of it now, or in the future, and if so, for what activity? Please also specify how the finance would be repaid?

The responses to this question differed significantly between urban and rural projects, where rural projects reported a greater demand for finance than urban projects.

TABLE 4.3 SOCIAL ECONOMY ENTERPRISES WHO WOULD ACCESS REPAYABLE/LOAN FINANCE WITH LOW INTEREST AND HOW THIS FINANCE WOULD BE USED

Total	Urban	Rural

[26] social finance providers report that the periodic and staged draw down of grants and state funds by organisations in the social economy and community sector requires overdraft facilities and small working capital loans to be sought.

	Mortgage for premises acquisition Equipment Capital expansion - purchase of new buses Purchase of premises	Purchase of land IT and training equipment Premises to provide training Purchase property Development of enterprise units IT equipment Develop facilities Refurbishment; employ new staff Repay existing loan

Projects were asked to list reasons why they would not seek loan finance from social finance providers. The following graph illustrates their responses and the relative importance they ascribed to the categories outlined below. Responses are presented as a percentage of total, urban and rural projects in attendance.

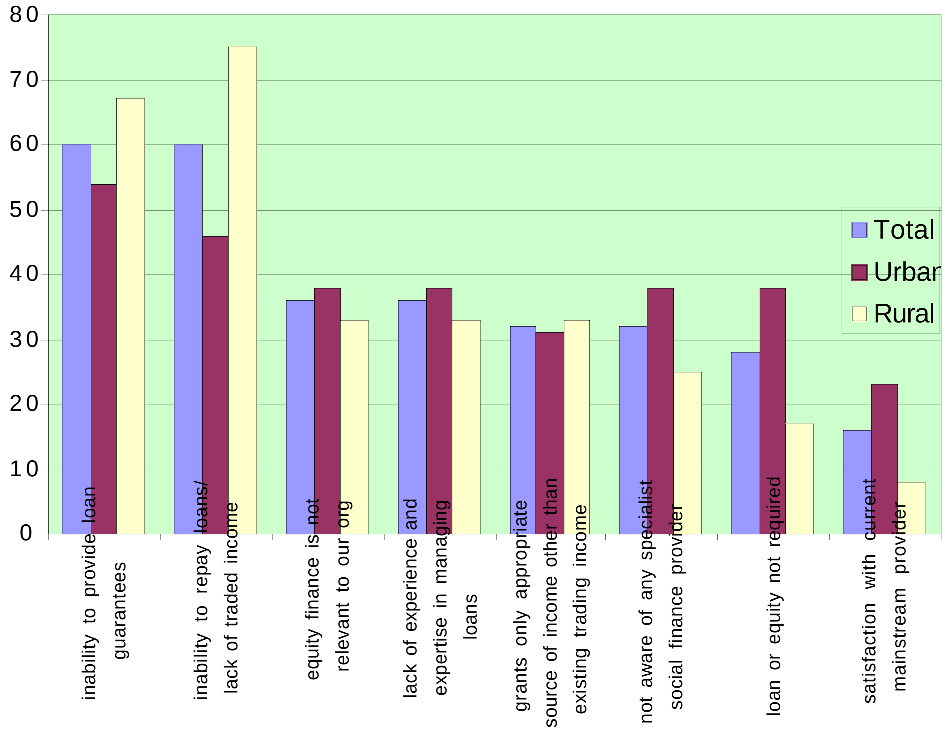

Figure 4.2 Reasons for not applying for loan finance from specialist social finance providers (expressed as a percentage of all participants)

This data is drawn from the table below:

Table 4.4 Reasons why loan finance would not be accessed

Reason for not applying for loan finance	Total/ rank	Urban/ rank	Rural/ rank
Inability to provide loan guarantees	60% (1)	54% (1)	67% (2)
Inability to repay loans/ lack of traded income	60% (1)	46% (2)	75% (1)
Equity finance is not relevant to our organisation	36% (3)	38% (3)	33% (3)
Lack of experience in financial management and managing loans within organisation	36% (3)	38% (3)	33% (3)
Grant income is the only appropriate source of finance other than existing traded income	32% (5)	31% (7)	33% (3)
Not aware of any specialist social finance provider	32% (5)	38% (3)	25% (6)
Loan or equity finance is not required	28% (7)	38% (3)	17% (7)
Satisfaction with current mainstream financial provider (e.g., bank)	16% (8)	23% (8)	8% (8)

There consistency between urban and rural projects in their reporting of the reasons that they would not demand loan finance. It is interesting to note that a lack of awareness of specialist social finance providers ranks high amongst both urban and rural projects, suggesting a need for broader promotion of sources of social finance, and points to a need for a coherent approach to delivery of social finance. Awareness, promotion and access to social finance was noted throughout the workshops, and access to resources outlining available social finance providers as well as marketing of existing ones was noted by several participants (most particularly rural projects). It is recommended that any future structures emerging from this study develop an information and promotional strategy for services of specialist social finance provision, to include the social economy sector.

The findings suggest that any mechanism for the delivery of social finance should consider the following in designing service delivery:

- Exclusion of the requirement for loan guarantees as a criteria for access to loan finance
- Allow for deferral of repayments
- Provide part grant support to accompany loans as a means of overcoming the inability to repay loan finance.
- Provide support to projects (either directly or through specialist social economy support groups) in areas of financial management and loan management
- Provide a facility for small loan amounts to be accessed by projects.

A high proportion of groups noted that equity finance was of no relevance to their organisations, which is inconsistent with the projected demand amongst projects for equity finance. A financial tool which selects some of the characteristics of both loan and equity finance may be relevant to groups and is discussed below.

23% of urban projects consider that satisfaction with current mainstream financial provider might be a reason for not applying for loan finance, as compared to 8% of rural projects.

Tools for social finance provision

Loan finance is the most common form of finance provided by specialist providers, across Ireland, UK and Europe. However, in the research, groups projected a significant future demand for equity finance. There has been a case for finance to be provided with characteristics of both loan and equity finance (quasi-equity).

LOAN FINANCE can be described as finance, which is repaid over an agreed period of time with interest (which ranges from 0% to commercial interest rates). Repayments usually start immediately after the loan is given, sometimes with a moratorium for repayments and/ or a flexible scheduling of repayments. Typically specialist social finance providers will negotiate the terms of repayment with the project, in recognition of the restraints and finance needs of projects. Loan finance can be particularly important for projects as bridging loans, particularly where grant income is drawn down by projects on a quarterly basis.

EQUITY FINANCE is not accompanied by a fixed repayment period. Instead, the finance providers acquire a share of the ownership of a business, hence the term "shares" to describe units of equity. These ownership rights give, in particular, a right to a certain proportion of:

- the amount of money remaining after paying off debts and any other liabilities when the business is sold or wound up
- the profits of the business (delivered either via a direct payment or by an increase in the value of the business as a result of the reinvestment of profits)
- the governance of the business i.e., the ability to set and supervise its overall business strategy and direction.

Holders of equity own a share of the success or failure of the enterprise. Risks are therefore shared by both the investor and the enterprise. Equity relieves projects of the burden of repayment in the initial trading phase.

A key issue is how ownership rights can eventually be converted into money, i.e. the "exit route" for equity investors.

Social economy projects typically operate legal structures (usually a company limited by guarantee) without share capital, and the part ownership of the enterprise by a third party may not be possible or attractive to community projects. In some cases, where equity finance is sought by a project, a discrete and separate entity can be established (Single Purpose Vehicle) to accommodate the social economy enterprise's and investor's shared ownership.

The barriers to equity finance include the need for the project to be sufficient in scale to ensure a return to the investor. The project will also need to be commercially sound. Equity investment is risky finance from the funders point of view. The high failure rate of equity investments requires a significant return from successful investments to compensate for failures, and equity therefore tends to be costly finance. Another contribution to the costs of equity investment and requirement for high returns is the 'deal costs' involved in setting up equity investments, including legal and due diligence costs.

Equity investment can be useful where loan finance for a project covers only a proportion of set up costs, and capital is required to provide for the balance of these costs. However, establishing joint ownership could foreseeably impact upon the ability of projects to attract grant or other income for projects. A project with equity investment must be well managed, and equity participation can lead to the strengthening of the social economy enterprise's business and management skills by having an involvement by other parties on the board of management. However, this in itself can raise tensions, if investors have different objectives and priorities to the social economy organisation. According to social finance providers, equity finance is not usually accessed or sought by projects.

QUASI-EQUITY is a tool of finance, which is geared at meeting the specific needs of the recipient and to comprise characteristics of both equity investment and loan finance in the following ways:

- finance is provided, but there is an expectation on the part of the investor that the finance will not be repaid in the same manner as that of a loan. Quasi-equity can have the same risk/reward trade off as equity
- Return on investment is not in the form of ownership or shareholding in the enterprise, but repayment on the capital provided
- It assumes the investor has the resources and social objective to defer repayment on finance.

Social finance provision needs to secure resources to allow flexibility to accommodate projects' needs, providing for a mixture of tools.

Summary Chapter 4 – Social finance provision – the experience of social economy enterprises

RESEARCH RESULTS FROM FOCUS GROUPS AND QUESTIONNAIRES WITH SOCIAL ECONOMY ORGANISATIONS

20% of social economy organisations had accessed loan finance in the past, mainly for:

- acquiring capital equipment
- renovation of space
- set up costs
- purchase of new vehicle
- financing debts
- infrastructure development
- covering short term funding gap/overdraft facility.

Participants found that specialist social finance providers offered better rates, were more accessible and flexible and had a better understanding of the sector as compared to other finance providers, but felt the specialist finance providers should engage more with their stakeholders and be more accountable to the social economy sector.

Rural projects are at a disadvantage as compared to urban projects in relation to: access to social finance providers; financial and management expertise and access to ancillary supports

Social economy organisations believe that mainstream finance providers need to be better educated and informed about the social economy sector.

With regard to access to finance and social finance, respondents believed current state policy on the social economy was relevant. Social economy projects generally consider themselves to be service delivery organisations, but many held the view that the state viewed them differently (i.e., primarily as vehicles for Labour Market Integration Mechanisms). In addition, the poor level of asset ownership by the community sector as a whole (and retention of infrastructure by the state) prevented projects from using these assets as a means of leveraging additional finance. The difference in objectives needs to be addressed so that shared strategies for social economic development in disadvantaged communities can emerge.

FUTURE NEEDS OF SOCIAL ECONOMY ORGANISATIONS FOR SOCIAL FINANCE SERVICES

83% of projects predict future (repayable) finance needs. Projects listed possible uses of finance, and these primarily included land, property and premises acquisition and refurbishment but also included working capital and repayment of existing loan.

Equity finance is an area that needs special attention and special development measures. Equity is often not appropriate for social economy enterprises, and a new tool, Quasi-equity is considered as a useful alternative to equity, having characteristics of both equity and loan finance.

The inability to provide loan guarantees was ranked first by both urban and rural organisations as a reason for not applying for loan finance.

Rural groups participating expressed a need for promotion and information about social finance providers.

5. SECTORS WITH POTENTIAL FOR SOCIAL FINANCE SERVICES

The assessment of sectors with potential for social finance support is based on experiences and expectations of projects which participated in the research; the literature and web based research on initiatives and funding programmes for the various sectors; interviews with local development organisations providing supports to social economy; statutory funders and national support agencies for key sectors.

As a preface to the consideration of individual sectors, it should be noted that many groups span different activities, and achieve overall sustainability through a mix of services provided. Different enterprises operating in the same sectors achieve different levels of income, determined in part by their relationships with funding bodies and local authorities. Projects in attendance at the focus groups were asked to consider how they saw their organisations achieving sustainability.

The following graph illustrates these projects' responses and the relative importance they ascribed to the factors influencing sustainability. Responses are presented as a percentage of total, urban and rural projects in attendance.

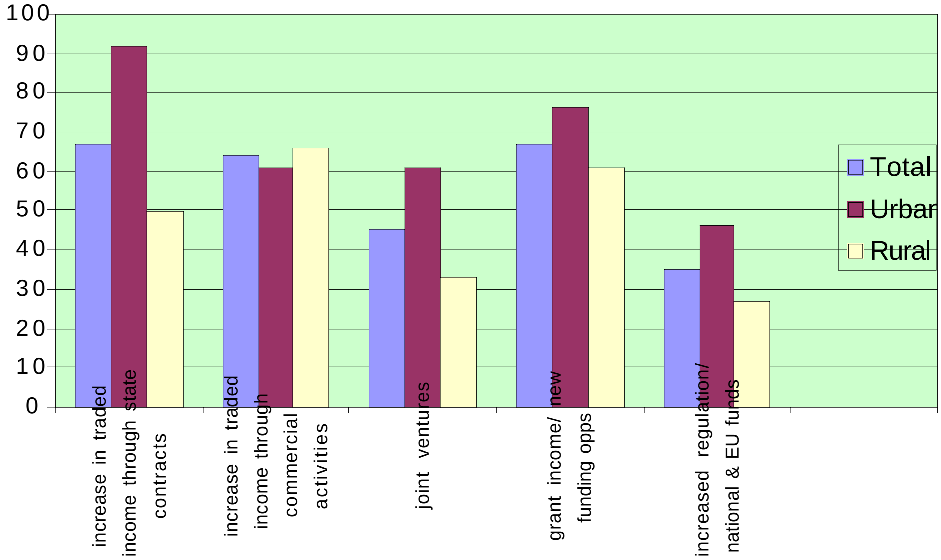

FIGURE 5.1 FACTORS IN ACHIEVING SUSTAINABILITY AS REPORTED BY PARTICIPANTS (EXPRESSED AS A PERCENTAGE OF ALL PARTICIPANTS)

This graph is derived from the table below.

TABLE 5.1 MEANS BY WHICH SOCIAL ECONOMY ENTERPRISES BELIEVE SUSTAINABILITY WILL BE ACHIEVED

How do you see your organisation achieving sustainability	Total%/ rank	Urban/ rank	Rural/ rank
Increase in traded income through contractual relations with the state	67% (1)	92% (1)	50% (3)
Increase in traded income through developing commercial services	64% (3)	61% (3)	66% (1)
Developing joint ventures with other service providers	45% (4)	61% (3)	33% (4)
Increase in income through grant income/ new funding opportunities	67% (1)	76% (2)	61% (2)
New market opportunities through increased regulation / national or EU funding	35% (5)	46% (5)	27% (5)

There is a distinct difference between urban and rural projects' view of the source of future income: rural projects rank commercial activity as the primary factor providing for sustainability; contractual relations with the state achieves a much lower rating amongst rural projects than amongst urban projects (urban projects rated contractual relations with the state as the most important factor for achieving sustainability).

Activities and sectors with social finance potential will be strongly influenced by public policy considerations and funding sources available, as well as the opportunities for social economy enterprises (or individual enterprises operating in the sectors) to generate sources of income from the activity and service.

The link to project development and support

Projects consistently noted that the obstacles in accessing social finance are the lack of expertise and skills to develop activities to expand services and repay loans. A lack of financial management and experience in utilising loan finance is continuously noted by projects, not just in relation to social finance access but project development. The importance of accessing support and advice for projects from social finance providers is crucial, and one of the key distinctions of the sector from mainstream finance providers.
The focus groups and questionnaire considered the views of development organisations. As noted above, many of those in attendance were direct service providers in the key sectors as well as support organisations, and so there was an overlap in response. However, there was a level of consistency which was reflected in almost all areas of enquiry between development organisations and direct service providers, or recipients of development support and advice. Of course, it is not possible to examine the extent to which support was provided, and how critical this is in enabling projects to build capacity and access finance: the analysis is principally quantitative. However,

some development and support groups had initiated the establishment of social economy projects in their area, facilitated their development and continued to provide ongoing support.

Participants in focus groups were asked to respond to questionnaires regarding the relevance of social finance according to the type of organisation they were. Many in attendance represented both social economy service providers and also development organisations (the majority of whom operated in the social economy sector themselves).

The responses of development organisations in respect of the opportunities for social finance can be characterised as follows:

A total of twenty-one questionnaires from development or support organisations were received. Approximately 62% of responses were from organisations operating principally in rural areas, and 38% operating principally in urban areas.

The questionnaire asked respondents to select, from a list of sectoral activities, those to which they provided supports.

Development organisations provided supports to the following sectors in order of frequency:

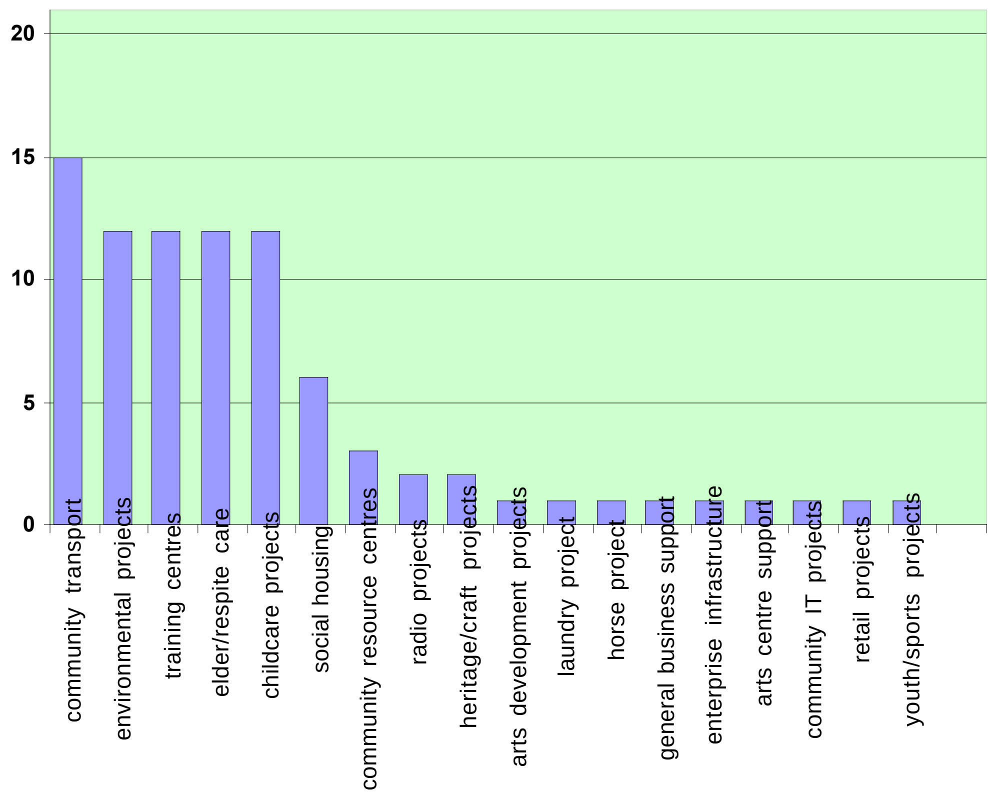

Figure 5.2 Local development organisations (total response = 21 local development organisations) providing supports to key sectors

There is no significant difference between urban and rural development groups in the sectors they provide services to. The highest supported sectors in the table above are also the highest supported sectors in both urban and rural contexts.

The following outlines the areas which were perceived by development organisations to have the greatest need for social finance services:

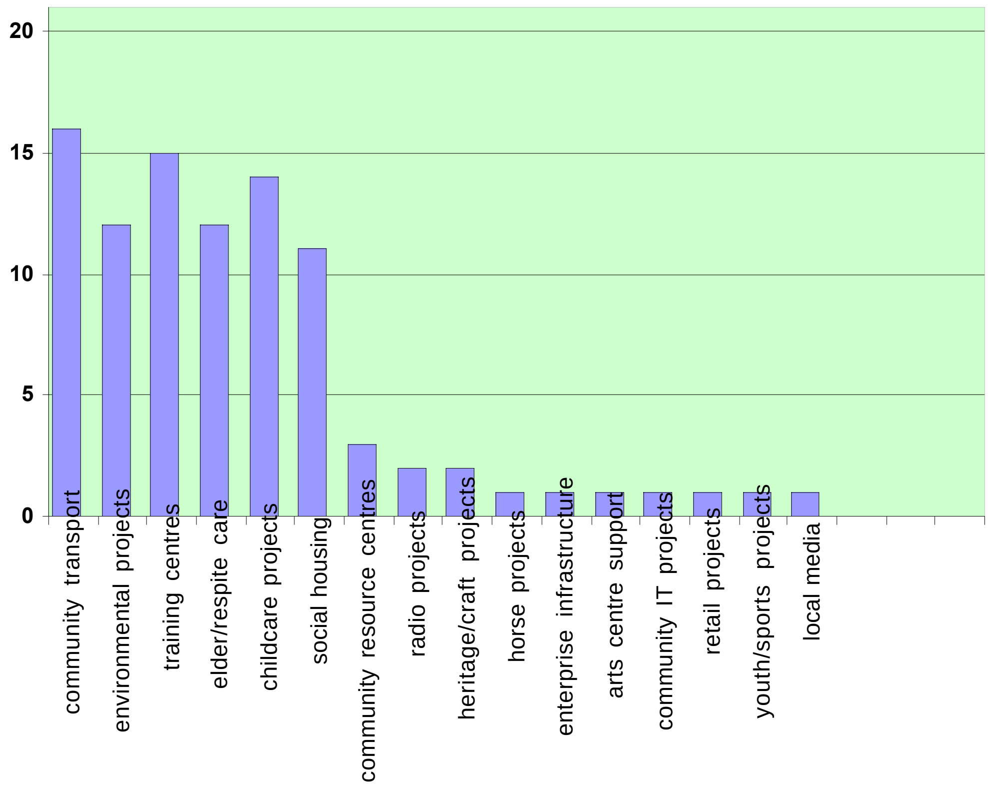

FIGURE 5.3 SECTORS CONSIDERED BY DEVELOPMENT ORGANISATIONS (N=21) TO HAVE A NEED FOR SOCIAL FINANCE SERVICES

Social, voluntary and affordable housing

Social and voluntary housing was an area of activity cited by participants in the research to have a definite need and use for social finance services.

In the UK, a great many CDFIs have focused activities on the housing sector. According to the Forum for Community Finance Solutions in the UK, the provision of social finance to the housing sector in the UK focuses on the following activities:

- Support for housing related enterprise activities which housing associations and groups may engage in
- Housing associations selling their outstanding rent arrears to a Community Reinvestment Trust, which can then negotiate repayment terms with the tenants on a fresh start basis
- Care and repair services.

In Ireland, the state support for social housing, under the Capital Assistance Scheme and the Capital Loan and (Rental) Subsidy Scheme, provides between 95-100% government funding for construction costs

of social housing programmes initiated by housing associations, depending on the target groups for housing schemes (these include low income families and disabled, elderly and homeless people). In addition to this, site acquisition and infrastructure costs are funded to the value of g31,800 per housing unit developed. According to the Irish Council for Social Housing, this provision is usually adequate for housing associations, particularly rural projects (where the costs of site acquisition and construction tend to be lower than urban projects).
Under the National Development Plan, a target of 30,000 units to be built by 2006 is in place (it is projected that by the end of 2003, there will be 18,500 units completed).

Under these programmes, the draw down of funds for construction costs occurs on a monthly basis as the construction of housing programmes takes place, relieving social housing programmes of a need for bridging finance. In cases where 95% state funding is provided, there may be scope for additional loan finance to provide for the remaining costs. One group noted that its local banks refused access to loan support for a social housing group for the additional funding required, in spite of the large asset base and capacity for generating income that the group had. Some social housing associations have access to/ownership of sites, through contributions from local communities and religious/ faith based organisations. The value of these sites can contribute as matching funding to the overall cost of the social housing programme, thereby increasing the value of the state contribution to costs.

The practice by many social housing organisations of engaging in additional activities, for example, community centres and infra-structural centres for elder care and childcare activities, provides for the greatest opportunity for social finance provision within the social housing sector, according to the Irish Council for Social Housing. Finance for community infrastructure for example, is not as comprehensive as that for housing, establishing gaps in the provision of finance.

One of the key strengths of voluntary social housing associations is their strong asset base, which provides additional opportunities for accessing capital. This ownership of assets distinguishes this sector from other areas of third sector activity in Ireland, and provides a strong base to engage in the provision of ancillary services, and achieve long term sustainability.

Affordable housing programmes have a greater need for social finance, as their activities are usually not funded to the same extent as social housing programmes.
Eligibility for affordable housing programmes is based on income levels as a proportion of the value and cost of housing (so it differs from one local authority area to another). Most affordable housing programmes are developed by local authorities and sold directly to individuals and families who meet eligibility criteria. Mortgages can be provided by local authorities. The funds for these programmes are

provided by the National Development Finance Agency to local authorities for housing programmes, repayable through the Dept of Environment.

Self-build affordable housing programmes developed by independent housing co-operatives should have a need for social finance services, particularly the provision of mortgages for construction costs.

Current outline negotiations for a new housing initiative, which are being discussed as part of the current social partnership negotiations, could conceivably have social finance implications. The Irish Congress of Trade Unions has proposed a new housing programme, based on sites currently owned by local authorities, to be provided on an affordable basis for individuals (though not necessarily based on the affordable housing criteria for individuals established by local authorities). The proposal involves the financing of a target of 10,000 (by 2004) new units on sites which are currently owned by local authorities. These units are in addition to existing targets under social and affordable housing targets. The funding would be provided by the National Development Finance Agency and administered through a new agency, which would manage the building programme. It is not envisaged that this programme will apply to third sector organisations, and there is considerable doubt as to whether the targets proposed are achievable.

However, the specific implementation and terms of the programme will be developed, during the implementation of the new agreement, and probably through a working group. At present, only the principles of this programme have been defined.

Community resource and training centres

One of the key issues for groups participating in the research is access to space. The purchase of premises remains a major need for groups. Property ownership is also reported amongst funders and social finance providers as a key element for generating long-term sustainability for the sector. Access to space provides scope for social economy enterprises to develop a range of activities and services, including commercial and ancillary services, which can generate additional income. Community resource centres allow for the delivery of different services (many of which are provided by one organisation) such as:

- Community information services
- Childcare services
- Sporting and leisure facilities
- Training
- Catering and café services
- Elder care
- Enterprise / social economy enterprise space
- Tenancy services to state based services (e.g., community health facilities; local development agencies etc).

Community owned and controlled infrastructure facilitates independence from grant income, as well as service delivery and community regeneration benefits.

Funding programmes for community owned and controlled infrastructure and space have been varied, and have focused in the main on capital costs. In terms of training projects and training centres, funding sources range in provision, depending on purpose and activity. Youth related training and resource centres have accessed significant capital funding under the Young Persons Facilities and Services Fund. Some of these have not been located directly within the social economy, and are agency or local authority led. An emphasis on capital funding for such infrastructure has led to the need for strategies to increase rental income and ring-fence usage of space for commercial activities in order to generate operational finance. Many training projects, particularly specialist youth based projects have operated through community training programmes (funded by FÁS) which contribute to some overhead costs for projects. Single use centres, or centres which are restricted in their use by capital funding conditions encounter difficulties as they tend to depend on state training or youth programmes for sustainability.

By comparison, independent training projects surveyed as part of this study identified commercial activities as a potential growth area for their activities and plans for expansion of services ranks high in priorities. This is particularly the case for IT projects, the growth of which has been facilitated by the availability of the CAIT initiative (Community Application of Information Technology) which has provided for funding for operational, staffing and equipment costs to the value of g125,000 for projects. IT training services are increasingly targeting the private and public sector as well as the community and voluntary sector and individuals for training services. Some IT projects are starting to provide Teleworking services to the private sector. Access and cost of space is a major issue for IT and training projects: expansion of services and future planning can be inhibited if space is often available on a long-term basis. This view is consistent in both urban and rural projects. In some cases community resource centres have developed training programmes (such as IT training programmes) as anchor tenants and as a source of income for funding and supporting ancillary services.

Environmental projects

Environmental activity encompasses a broad range of activities, from waste management and recycling to renewable energy projects, each with different characteristics and capital requirements.

Across Europe, specialist banks and large scale CDFIs target environmentally sound practices and projects. For example, Triodos bank and Hefboom financial co-operative[27], operate a fund specifically for environmental activity, and considers this to be a key area for growth. Environmental activities targeted by Triodos include renewable energy projects, which are viewed as a high growth area. This analysis is supported by National and European policy measures. The renewable energy sector is characterised by high capital costs and low operational and staffing costs, and for this reason, long term returns are anticipated by social investors.

It is also a view expressed that high capital renewable energy projects have been out of reach to many community organisations, and that the sectoral development of renewable energy projects has occurred in the private sector, by consortia or organisations with a well developed asset base. The Western Development Commission are currently undertaking research into community ownership models for Wind Energy projects, and the potential for community engagement in the development of the sector. The availability of specific funds from Triodos for environmental projects should stimulate activity within the sector.

Waste management and recycling services is high on the National and EU policy agenda. Social economy enterprises have traditionally been involved in waste management activities, including household waste; IT and electrical goods waste; plastics, clothes, paper, glass, furniture and aluminium. National and European legislation has emphasised the role of producers in meeting the costs of recycling and re-use, through the subsidisation of re-use and recycling activities (in Ireland, Repak, a voluntary industry association administers funds for recycling of packaging waste). Social economy organisations operating in the environmental sector considered national and European legislation and programmes to be key in the development and sustainability of the sector. European Directives in regard to targets for recycling electronic and electrical waste has stimulated social economy activity in the IT and domestic electrical and white goods recycling sector.

There is a view that the growth of the waste management sector may not transfer to small local projects in all cases, because the activity incurs high operational and labour costs, and economies of scale are critical, favouring the consolidation of large scale recycling operators, squeezing out smaller operators, and encouraging large scale recycling firms to diversify into new waste management areas.

Local authorities and social economy projects are collaborating in environmental services in two areas, i.e.:

- Development of infrastructure for waste management and recycling activities (funded through the Department of Environment).
- Service delivery and collection services for waste management.

[27] A financial co-operative in Belgium which has been credited with the growth and expansion of recycling and environmental projects through finance provision to this sector.

There is also scope for the sector to supply recycling centre management and site services on a contracted basis to local authorities.

Community transport

There are a number of community transport projects operating in both rural and urban communities, providing transport services where gaps arise in public and private sector services. There has been significant state investment in the provision of rural transport, under the Rural Transport Initiative (RTI), a pilot initiative established to promote innovative community transport projects in rural areas, where significant gaps in access to transport exist. The RTI is an initiative of the National Development Plan: funding for this initiative comes from the Dept of Transport, and is administered by ADM. The fund was launched in 2001, with a budget of €3.5m, which has since increased to €6.5m for the 2001-2003 period.

Currently, the fund supports 34 rural transport projects, which are operated by community groups in 25 counties. Thirteen of these groups have secured funding under the FÁS Social Economy Programme. The activities supported range from regional integrated transport projects to small parish based transport projects. The definition of ‘rural’ for eligibility under the programme is based on the Dept of Community, Rural and Gaeltacht Affairs criteria (i.e., population centres of no more than 4,000 people).

The programme provides financial support for

- administration functions (which includes overheads, co-ordination costs including personnel);
- capital functions (which, in particular cases, includes purchase of vehicles but mostly covers alterations to vehicles for accessibility)
- operations (costs covering either sub-contracting or running a bus directly, including salaries for drivers)

Currently, individual contracts for funding range from €40,000 to €571,000 for groups (for up to two years).

The initiative is key to the delivery of rural transport services, but projects continue to rely on additional sources of grant or traded income. However, projects are restricted in the level of commercial activity they can undertake – the initiative is concerned that displacement does not occur as a result the projects they fund. This was noted by one rural transport project as a restriction in the activities of projects.

Sources of funding for community transport projects other than the initiative include:

- FÁS subvention for projects from the Social Economy Programme
- Traded income from local authorities and health boards – the experience of projects has been that once operations have started, agencies have expressed an interest in contractual relations
- Traded income from fares – some groups apply a small fare charge for activities, but there are licensing issues arising from this
- Traded income from contracts from day care centres and groups providing services to those with limited mobility.

The generation of contracts and service agreements with the public sector is viewed as the key element in the growth of the sector by rural transport projects.

Groups providing transport services have their activities and income generation potential restricted by considerations of displacement and by licensing regulations (the acceptance of fares through hail and ride comes under a tighter regulatory framework than transport services provided with no charge). This was noted by participants in the focus groups. Nonetheless, according to ADM which administers the programme, significant opportunities exist for projects, and providing services on behalf of health boards is seen as having a huge potential for the sector, along with the requirement for continued subvention from the state.

The take up of the RTI was greater than projected – the fund originally provided for a pre-development phase for groups (of which there were originally 26), as well as an operational fund for projects which were ready to draw down funding. At present, the fund is completely utilised and there are expectations that additional funds will be added to the initiative in the coming months.

The initiative is due to end by December 2003, and the future funding provision of rural transport is unclear at this stage. Rural transport provision by communities is acknowledged in policy at national level and rural transport programmes are considered to have provided an effective solution to rural transport provision. An interdepartmental group on rural transport has been meeting for over a year and a new policy document is believed to be imminent. There is an expectation that rural transport will continue to be a priority service and that continued subvention from the state will contribute to the growth and sustainability of the sector. However, community transport in urban areas remains under-funded, despite the existence of urban areas with poor public transport provision. These projects usually depend on small contributions to service delivery from users of the service, voluntary labour, donations and fundraising and using FÁS labour market integration programmes. This contrasts with the situation in the UK, where local authorities core fund community transport initiatives, as part of their remit in local transport delivery.

A new regulatory structure for transport is in the process of establishment, which acknowledges the role of unconventional transport. The hope is that this may provide a framework for incorporating and supporting the inclusion of community transport in mainstream transport policy and provision.

Eldercare projects

Eldercare projects do not have a wide scope to generate income from direct users. While services lie within the remit of health boards and local authorities, funding to date from these sources for elder care projects is fragmented and dependent on individual authorities' policies, commitments and practices rather than part of a broader strategy towards service delivery.

However, the contribution of the social economy sector in meeting eldercare needs which otherwise would have significant cost implications for the state is becoming more evident to authorities.

Current reductions in Community Employment (CE) places did not affect eldercare projects, whose provision has been ring-fenced. Labour market programmes have been a key element in the funding supports for eldercare and childcare projects. The mainstreaming of CE within the public sector for childcare and elder care services has been put on hold, pending departmental and agency review of the complexities of service provision. The mainstreaming of CE involved in elder care within the public sector will have major cost implications, and it is within this context that the attention will focus on social economy enterprises delivering services. To this end, some health boards and larger local authorities are currently developing strategies for the provision of eldercare services, and are considering the role the social economy sector will play in this delivery.

Eldercare activities span a range of services from respite care; home refurbishment, meals services and day centres for elderly people. Most eldercare projects will engage with both health boards and local authorities and in some cases the Department of Social and Community Affairs. The experience of eldercare projects has been that the range of services which they offer can span several development agencies.

It is anticipated that relationships and service delivery agreements with health boards and local authorities are the key factors for the growth of the activity.

Childcare Projects

In the case of childcare, the greatest state intervention has been through the Department of Justice, Equality and Law Reform, through the Equal Opportunities Childcare Programme, which has provided for staffing, equipment and capital costs for childcare centres. The provision for childcare spending of €368.8 Million (£290 million) under the Regional Operational Programmes as part of the National

Development Plan (2000-2006) signified an increase in funding for childcare. It is acknowledged by the state that significant resources are required to ensure its provision of childcare.

Childcare services tend to be focused on structured provision of day and after-schools services. Local authorities have a strong interaction with childcare projects through facilities development, although assets are rarely owned by the projects, and remain in the ownership of the local authority, usually provided to the project on a long-term lease basis. Childcare projects are also funded through health boards, though usually on the basis of section 65 grants (grant programmes for community and voluntary groups) as a minor contribution to overall costs, and in some cases, funding of crisis and respite places. Individuals on training courses also access childcare supports, which contribute to the overall cost of childcare provision, although projects usually have difficulties generating additional income to meet the running costs which arise.

While state agencies and educational services do part subsidise some childcare places, service providers regularly have difficulties augmenting these subventions to meet the total cost. FÁS programmes play a key role in meeting the staffing and running costs of childcare projects.

Childcare and eldercare services have few opportunities to expand services, due to the limits of space provision. Some childcare projects are engaging with the corporate sector, for example, through exchanging space for childcare in return for staff childcare places. However, in spite of the shortage of childcare services for employees, there are few instances of concrete agreements between the private sector and the social economy sector.

There are reported cases of health boards and local authorities providing loan guarantees to projects seeking loan finance where guarantees are required.

It would be useful for any structures emerging from this report or specialist social finance providers to engage policy makers, health boards and local authorities in discussion around gaps which arise, for example: mortgages for renovation and building works for centres.

Summary Chapter 5 – Sectors with potential for social finance services

An assessment is undertaken of potential areas for social finance services, based on primary research, literature and web based research, interviews with local development agencies, statutory funders and national support organisations for key sectors.

Support and advice regarding financial management is crucial for all areas, and is the key feature distinguishing specialist social finance providers from mainstream providers.

Areas with most potential for social finance services, as identified by participants, based on those currently receiving the highest levels and frequency of support, and on the experience and practice of the sector include:

- Community Transport, particularly in rural communities
- Environment projects
- Training and Resource Centres
- Eldercare
- Childcare
- Social Housing.

The chapter outlines opportunities and issues with regard to the top six identified.

6. REGULATORY, LEGAL, ADMINISTRATIVE AND FRAMEWORK ISSUES FOR SOCIAL FINANCE DELIVERY AND DEVELOPMENT IN IRELAND

Financial services regulation in Ireland and emerging trends

There are several changes in the banking sector, both at national and European level in recent years, which have significant implications for the banking sector and financial services as a whole, which in turn will impact on the development of financial services delivered at local level in this country.

Issues in financial services at European level

The banking sector at European level is undergoing major change, with potential merging of banking services, and the ability for banking retail institutions to operate on a Europe-wide basis. The globalisation of banking services has been supported by European legislation, e.g., the European Second Banking Co-ordination Directive in 1993, which provided for the EU banking passport, facilitating cross border banking services. Harmonisation of banking practices is a key policy of the European Commission, seeking to keep pace with the market place. An environment of consolidation of banking services, and a series of bank mergers has taken place. Germany, France, Austria and Spain have all experienced mergers amongst their top two banks in recent years. The mergers which have taken place have mostly remained within national boundaries, but it is likely that future mergers will be Europe wide.

According to a European Commission Working paper, *Enterprises' Access to Finance*[28] (2001), a globalised marketplace is placing increased pressures on banks to achieve greater cost efficiencies. Some practices for achieving this include increased commission and fee generation from new services (for example, investment banking); reduction in lending services (and particularly small lending services to enterprises); reduction in branch networks and a greater emphasis on internet banking. Currently Ireland is in 12th place amongst EU countries with regard to the number of bank branches per 1,000 capita[29]. The EC working paper acknowledges that an enterprise's banking relationship is often a long-term one where non-financial aspects play a crucial part, and that enterprises have an interest in a long-term banking relationship as banks are in all likelihood more inclined to lend when they have a long-term understanding of the business the SME is in. In relationship banking, the number and location of bank branches is important. The implications of a decline in relationship banking are evident from the responses of social businesses consulted through the course of this research.

Recent exposure of banks' involvement in illegal banking practices

[28] European Commission Staff Working Paper (2001): *Enterprises' Access to Finance*
[29] Source: European Central Bank (1999): *Possible Effects of EMU on Banking System*

(tax evasion, etc.) may have led to a tightening of regulations regarding protection of consumer interests. Arising from recommendations in the *Report of the Implementation Advisory Group on the establishment of a Single Regulatory Authority for the Financial Services* Sector[30] (McDowell Report) (1999), a single new regulatory structure for the banking sector in Ireland, the Irish Financial Services Regulatory Authority (IFSRA) has been established, which includes consumer protection provisions within its structure. Regulation of banking services focuses on the need for security, soundness and appropriate prudential practices as a means of protecting depositors finances (the primary consumer focus) and ensuring that banks remain solvent. The protection of depositors interest is critical, and in private sector banking, a conflict of interest between depositors (seeking low risk and low returns) and shareholders (operating in a higher risk, higher return investment sphere) (Mayo and Mullineux, 2001) may arise. These issues will not arise to the same extent in mutual banking services, where the interests of the shareholders and the depositors are the same.

These consumer issues also extend to the risk of further exclusion from banking services of disadvantaged, isolated and rural communities. This has received attention from the European Commission and from the Dept of Finance's *Banking Sector Strategic Issues Report* (2002). One of the recommendations in the report:

> The banking industry needs to develop a strategy (whether involving agency arrangements with other non-bank retail outlets, electronic arrangements or otherwise) to address the issue of maintaining appropriate mechanisms for and levels of access (in all regions and by the different social groups) to banking services in the context of possible future developments such as internet banking, closure of branches and rationalization in the branch banking system. The regulatory authority for the financial sector [IFSRA] should monitor and report on this from a customer perspective.

The new IFSRA establishes (and has recently appointed) the role of Consumer Director and will establish consultative panels representing consumer interests and industry interests. The regulating of the banking sector and consumer and access issues has a direct relationship to the provision of social finance in Ireland. It is recommended that the IFSRA makes provision for inclusion of access to finance as an area of particular attention, and that the Consumer Panels establish sub-structures dedicated to reporting on the issue, including access by the community and voluntary sector to financial services that meet its needs, and that this recommendation is pursued by the sponsors of this research.

A requirement on the banking sector to report on their deposit and lending activities in areas in which they operate should also be pursued, as in the UK (The British Bankers Association have committed to publish information on bank lending in disadvantaged areas). In Ireland, banks and financial institutions could report on their deposit and lending activities in designated areas under the RAPID and Clár

[30] (1999): *Report of the Implementation Advisory Group on a Single Financial Regulatory Authority for Financial Services*, Dublin: Dept of Finance

programmes, and Drug Task Force Areas for example.

Regulatory framework for credit unions

In Ireland, credit unions have their own regulatory framework – the Credit Union Act (1997), which is overseen by the Registrar of Friendly Societies. This function will now come within the structure of the new IFSRA, and a position of Registrar of Credit Unions will be established.

While the activities of credit unions come within the scope of the Credit Union Act (relevant regulations within this are outlined below), financial legislation and regulations can still be applied, and there is a view that the tightening of regulations in the financial services sector will be extended to the credit union sector. Exemptions offered to credit unions in the past are no longer being applied (credit unions will no longer be exempted from Consumer Credit legislation, and requirements of this act, in terms of reporting requirements and increased overheads may have serious impacts on small credit unions, according to the Irish League of Credit Unions).

The credit union movement is facilitated by legislation to engage in social finance, principally through two sections in the Credit Union Act (1997):

Section 44 deals with the establishment by credit unions of Special Funds for social, cultural or charitable purposes and allows for payments into a special fund for these purposes out of the annual operating surpluses of the credit union as long as the following conditions are met:

- No more than 0.5% of the value of assets can be paid into the special fund
- No more than 2.5% of accumulated reserves can be paid into the special fund in the year of its establishment.

Section 43 of the Credit Union Act provides for the conditions of investing surplus funds of credit unions as follows:

- Authorised trustee securities, which are wider in scope under the Trustee (Authorised Investments) Order, 1988;
- Shares of or deposits with or loans to a credit union
- Shares of a society registered under the Industrial and Provident Societies Acts, 1893 to 1978
- Such other manner as may be prescribed, being in a manner appearing to the Minister to be beneficial to the credit union.

Regulations for social finance providers – the practice

EU policy on enterprise and the social economy was developed firstly through a broad policy framework for enterprise development; subsequently for social economy enterprise development and currently through a focus on Corporate Social Responsibility.

While there is no specific policy framework dedicated to social finance provision, the sector is impacted by ongoing harmonisation of banking regulations across Europe.

The European Commission regards access to finance for enterprise (as distinct from specifically social enterprise) as a key issue for SME development, and has promoted the development of a range of initiatives and tools, such as micro-finance provision; venture capital and mutual guarantee schemes.

Research conducted on behalf of the European Commission (DG Employment and Social Affairs)[31] into micro-lending across Europe, identifies three distinct approaches
to the regulation of social micro-lending amongst member states:

THE MARKET APPROACH: a voluntarist approach with little regulation by way of banking sector social requirements, such as the case in Ireland and traditionally, in the United Kingdom (although recent policy initiatives have moved away from this approach). Consequently it gives non-banks a wide range of possibilities to act as social lenders but with little state support. This approach provides for a minimum of bank supervision as regards micro and social lending and is inherent in EU legislation on bank regulation.

THE WELFARE STATE APPROACH: Some countries like Germany and the Netherlands still have an important public involvement in banking and provide significant state incentives for social lending. They use guarantee schemes, tax subsidies and their own administration and state-owned banks to further social goals in the financial sector (up to 50% of German banks are state owned).

THE SOCIAL LENDING APPROACH: France and in some respect Italy have a specific attitude towards social lending. It is supported officially and linked to non-profit, employment programmes and social activity. While France directly addresses social lending, sources of finance for local and micro-finance initiatives in France include: public funds (most important source), foundations and individual donations. France provides for tax incentives for investors in social finance organisations (for both individuals and organisations). Belgium has recently established loan guarantee funds for social economy projects. Belgium favours certain forms of lenders which are presumed to engage in social lending. This approach is gaining currency in the UK in recent policy initiatives.

In countries where a strong co-operative tradition and social economy sector exists, such as Italy, Spain and France, the sector has greater scope to operate independently of the state. In Italy for example, co-operative banks are well resourced by the co-operative sector, and have a large asset base.

---

[31] European Commission (1997): *The Social Responsibility of Credit Institutions in the EU – Community Reinvestment and other Opportunities for the Development of Social Economy Banking*, Report presented end 1997 by Institut für Finanzdienstleistungen e.V. (IFF), Hamburg - Germany, Malcolm Lynch Solicitors, Leeds - United Kingdom, EPICEA, Paris – France

For smaller financial co-operatives, operating outside of banking regulation, difficulties arise in generating capital as they are limited in attracting investments.

Tax exemptions are also provided in France for members of investment clubs, for example, Cigales[32], on amounts invested in social economy activities. Mutual guarantee funds are well established in France, and these are also supported by the state, and to some extent, the banking sector. In the Netherlands, exemptions are favoured in specific areas of activity (for example, investors in renewable energy enterprises are provided with significant exemptions).

Many CDFIs (other than credit unions) in Ireland, as in the US and UK, operate outside the regulatory framework, and their regulation occurs through the legal reporting requirements established by their legal structure.

There are three main reasons for the preferred existence outside of financial regulatory structures:

- Many projects funded by CDFIs may be regarded as outside prudence guidelines, and may be considered to be risky due to the various sources of finance and income they utilise

- High entry barriers to the banking sector and costs of compliance and administrative and financial requirements are beyond the scope of CDFIs

- Regulatory provision for credit unions is not relevant for many CDFIs.

According to Pinsky[33] (2000), CEO of National Community Capital Association in the US[34], it is an advantage for providers to operate outside of a regulatory structure, given that meeting the needs of communities excluded from mainstream financial services requires flexibility in service delivery to meet the needs, and to change services to accommodate changing needs, and that this requires challenging traditional notions of risk.

Many (non-bank) CDFIs in Europe are structured as co-operatives or mutual societies. This provides some scope for providers to generate income through equity investment (although co-ops will be restricted in size of investment and co-op principles limit return on investment, and will also be restricted in providing equity investment).

---

32 Cigales –is a network of investment clubs, members savings are collected and invested as equity in small enterprises (Cigales limit their investment to the social economy). In 2001, there were111 Cigale Clubs with three regional structures, and a total investment amount of €1.9 million invested since they were formed in 1986. Cigales receive some state funding and are exempted from regulatory frameworks of mainstream financiers (through the state's recognition in law of the distinct nature of social finance provision). Cigales are characterised by small investments

[33] Pinsky, Mark A. (2000): From the Margins: *Lessons from the US Community Development Finance System*, Briefing Paper for the London School of Economics and Political Science's Community Investment Seminar on Dilemmas in Competitiveness, Community and Citizenship

[34] A national financial intermediary and association of CDFIs in the US

Crèdal is a credit co-operative established in Belgium in 1984, and provides services to individuals and organisations within the social economy sector. It acquires capital from individuals and organisation's shareholding (deposits); not for profit organisations and also donations from ethical funds of mainstream banks. As it is registered as a co-operative, it is not entitled to any state subsidy.

Crèdal provides low interest loans to individuals and bridging loans to social economy organisations (Belgium has recently introduced a loan guarantee scheme for social economy enterprises).

Co-operatives in Belgium are enabled in law to raise capital easily (which is important for a credit co-operative) if the co-op receives certification from the (Belgian) National Co-operative Council. Certification also allows tax exemptions on dividends.

Co-operatives avoid banking or financial institution regulations in Belgium as the deposits are deemed to be own funds, and deposits are also not subject to prudential guidelines, because they are regarded as risk capital.

Crucially, in Belgium, co-ops are allowed to provide credit services to third parties (non-members), which allows great latitude in serving other organisations.

In Ireland, a provider (usually registered as a company limited by Guarantee) can also apply for charitable status, which provides some benefits in terms of accessing tax deductible donations, but registering as a charity may be detrimental in terms of being taken seriously for investments and loans, especially with the corporate sector[35].

Mutual guarantee funds are another alternative for social finance provision. In Ireland, their formation is not restricted by financial regulation (as in other countries), according to the Mutual Guarantee Association of Ireland. They have not been widespread in Ireland, but are in Italy, Spain, France and Belgium.

Operating outside of a regulatory structure provides some constraints, according to Mayo and Mullineux[36]:

- Lack of awareness, information and understanding within regulatory structures and bodies when they are encountered
- Restricted powers (for example, access to funds, particularly individual investors' funds)
- An inability to control or influence regulatory change as a stakeholder.

These constraints are likely to arise in the future development of social financial provision. The operation outside of a financial regulatory structure for most providers is probably a good thing in the sectors current stage of development. According to Guene[37], the different phases of development of social finance services produces different requirements, illustrated below:

---

[35] Mayo, E. and Mullineux, A. (2001): *Bootstraps or Braces: The Regulation of Community Development Finance Institutions,* London: New Economics Foundation
[36] Mayo E., and Mullineux A. (2001) *Op Cit*
[37] Guene, C. (2000): *Freedom to Smallness? Social and Micro-finance: Living in the Legal Framework,* Unpublished paper, New Economics Foundation, cited in Mayo and Mullineux (2001)

Regulatory requirements for community development finance initiatives

Phase 1 Experimentation and innovation	Phase 2 Development and discovery	Phase 3 Stabilisation and mainstreaming
▪ Is simple and cost effective ▪ Has credibility for early backers wanting to pursue a social purpose ▪ Allows for experimentation, such as attracting a mix of funding on different terms ▪ Enables independent lending or investing to start immediately	▪ Promotes financial credibility by enabling the development of internal quality controls and procedures ▪ Allows eligibility for public funding and/or tax exempt donations	▪ Promotes internal control and accounting systems through prudential supervision ▪ Allows risk taking that is appropriate to its activities ▪ Allows for the separation of the business and non-business elements of operation ▪ Allows eligibility by the social component for public funding and /or tax exempt donations ▪ Encourages appropriate disclosure of performance information for investors ▪ Safeguards any depositors

Administrative, institutional and framework issues for the development of social finance in Ireland

A national and local structure for delivery

There are few independent specialist social finance providers or CDFIs delivering services in Ireland. The case for social finance must be made by the sector itself and support for the delivery of social finance must be provided by the sector. A national structure for social finance is required to access capital for social finance; to support delivery of social finance; to engage with the state and corporate/banking sector for support, to promote social finance provision and activities, and to test a model for how social finance can be delivered at local level. A possible structure led by contributors, investors and the social finance sector is proposed in chapter 9.

Social finance is costly compared to financial mainstream provision, and experience in other countries has shown that providers of social finance themselves require external finance to support their activity and to provide access to capital. The demands for social finance reported by the social economy sector - primarily for small amounts of money (overdraft) and small loans - are very costly to administer.

Social finance can also be a high risk activity, and a national structure for social finance should facilitate the development of a range of social investment mechanisms, to facilitate a range of social investors.

Collin et al [38] list factors for the successful development of CDFIs:

Institutional credibility –this allows for access to funds from investors, charitable and philanthropic foundations and other potential sources of income, including the state.

Sound investment guarantees – sound investment guarantees can be assured through loan guarantees, provided by the state as well as establishing a mix of high risk and low risk investment.

Visibility – media attention and profile attracts investors and borrowers.

Conscious growth strategies – growth is required to develop operational sustainability and achieve economies of scale

Consolidation and development – new needs must be met by developing models of support for particular sectors, and involving different players, and replicating these models at local level. In the UK, social finance organisations are expanding their markets, to include social enterprises.

It is crucial that a national CDFI includes the participation by a number of social finance providers, and of particular importance is the credit union movement, which has relevance in national and local delivery of social finance.

Local delivery

Local delivery is a key component of effective and flexible social finance delivery[39]. Local delivery is an expensive component in social finance provision, due to the high administrative costs in supporting and assessing loan applications from social economy projects, particularly given obstacles such as reliance on grant income and lack of financial and loan management in many projects.

In delivering social finance services, consideration must be given to the specific needs of clients – these may relate to difficulties in access to finance, difficulties in access to affordable finance, or both. If access to finance is the key issue for clients (as opposed to the cost of finance) social finance providers can increase the cost accordingly to meet operational costs and cover the risk of investment. For groups consulted in this research, affordability and accessibility are key requirements.
CDFIs in the UK and US are assisted in meeting the accessibility and affordability requirements of clients by financial support available

[38] Collin, S., Fisher, T., Mayo, E., Mullineux, A., and Sattar, D. (2001): *The State of Community Development Finance 2001*, a report for the Joseph Rowntree Foundation. London: New Economics Foundation
[39] Local is not defined by any specific geographic elements in this context – it can be city or county wide or in some cases regionally based. It refers to the need for social finance provision to be accessible to users and to have an in-depth understanding of the local/sectoral context in which clients operate. It also takes into consideration the high costs of social finance delivery and the need to achieve some critical mass, which may require regional based service delivery, particularly in rural areas.

from the state, as well as from philanthropic and charitable organisations.

The research indicated that any tool for the delivery of social finance must consider the following:

- Exclusion of the requirement for loan guarantees as a criterion for access to loan finance
- Allow for deferral of repayments
- Allow for part grant support to accompany loans as a means of overcoming the inability to repay loan finance
- Provide support to projects (either directly or through specialist social economy support groups) in areas of financial management and loan management.

Requirements for flexible loan arrangements, moratoria for repayments and consideration of new tools, such as quasi-equity for projects adds to the costs of social finance provision.

Social finance delivery is also likely to stimulate demand for finance amongst projects, and providers must therefore be prepared to operate in a low demand environment until this demand expresses itself. According to Evers (1997)[40] critical mass is important, but not always achieved.

In addition to this, the development of expertise in local social finance provision requires knowledge of the social economy sector, beyond mainstream enterprise expertise. It also requires knowledge and understanding of the key sectors with potential for social finance as well as mainstream business management expertise; financial management; loan management and assessment of projects. This adds to the high set-up costs. The successful delivery of social finance is dependent on access to support from a national support structure as well as state support.

While costs of social finance provision are particularly high at local level, specialist social finance providers in Ireland experience a low default rate – social economy enterprises are less likely to default on loans when at all possible: it is believed that social economy organisations will be less willing to cease trading than private sector enterprises. In the case of credit unions, they generally experience an extremely low default rate on their loans (one credit union consulted as part of this research recorded a default rate of 0.01%).

State support for the provision of social finance

There is a strong argument for state support of social finance. The provision of social finance can act as a mechanism for achieving of government policy with respect to tackling unemployment, social exclusion and geographic isolation. The social partnership agreement

[40] Evers, J. (1997): Debt financing for small and micro-business clients – how to achieve sustainability, paper produced for Inaise in *Financial Instruments of the Social Economy (FISE) in Europe and their impact on job creation*

Sustaining Progress (2003-2005) makes explicit the Government's commitment to "*...examine ways to support expanded activity of new funds in consultation with the relevant interests.*"[41]

Ireland does not have a social finance infrastructure other than credit unions, and there are no supports for the development of the sector, so the risks and costs of provision of finance are borne entirely by the investor. Across Europe, supports for social finance provision comprise a mix between support for the costs of delivery of social finance in operational terms and an underwriting of the risk of social finance, in the form of loan guarantees to providers to protect investments, as well as incentives for other sectors to engage in the activity (e.g., tax credits in the UK; tax incentives for individuals and organisations in France). The interest for the state in supporting the provision of social finance arises because it can be part of a strategy to reduce reliance on state grant aid. It should be noted however, that social finance provision should not be viewed as a replacement for grant income, but an additional means for groups to engage in a broader range of activities which can build capacity and lead to greater independence from grant income.

State support for the provision of social finance includes a range of measures linked to greater accountability and reporting by mainstream financial institutions. This is often achieved through mandatory reporting (UK) or by requiring mainstream financial institutions to demonstrate how they meet the needs of the communities in which they operate (US). Such a policy could be introduced in Ireland, through the Irish Financial Services Regulatory Authority (IFSRA) – this is further discussed above).

The state has been a significant source of finance for social finance providers in the UK and US. The success of the development of CDFIs in the US has been partly attributed to the wide range of charitable foundations and a strong tradition of personal philanthropy. This source of finance is not widespread in this country, which further emphasises the role of the state in a support capacity.

In the US and the UK, private sector finance has been an important source of finance and capital for CDFIs, and this has been facilitated through tax incentives for funders and investors in CDFIs. Some finance providers in Ireland (for example, First Step) have been included in tax incentive programmes and this should be extended to social finance providers.

Any state support initiatives should take into consideration the culture of grant dependency and the lack of lending and borrowing activities to date within the social economy sector. Loan finance is a new tool for organisations in achieving growth and sustainability. The provision of social finance is expected to lead to a demand for social finance, but this demand will emerge over time.

An effective state participation in the development of social finance

[41] *Sustaining Progress Social Partnership Agreement 2003-2005* Dublin: Government Publications

requires an acknowledgement of the specific benefits of social finance, as well as the social economy sector as a whole, and to provide appropriate interventions and supports therein. These benefits include:

- the specific contribution that social economy enterprises and social finance providers can make towards public policy objectives
- the value that specialist social finance provision can add to existing grant provision
- a reduced dependency on grant income that social finance can foster amongst the social economy sector
- the specialist and flexible nature of social finance delivery
- the potential for social finance providers to lever in funding from private and third sectors in addition to state finance

The state could support the provision of social finance in Ireland through the following ways:
- Engaging with the sector, perhaps through public-private partnership type models, as a means of supporting the development of social and community infrastructure. This would include direct funding for the delivery of social finance, as well as underwriting and guaranteeing social finance loans
- Providing incentives for investment in the sector, through tax incentives and credits, along the lines of Business Expansion Schemes (BES) tax incentives, and property related tax incentives
- Providing incentives to financial institutions to invest in social finance, for example, through tax incentives. For example, a relaxation of the bank levy[42] where investment in social finance has taken place, may act as an incentive for investment and support for the sector from the banks.
- Putting in place reporting requirements for financial institutions and banks with regard to their lending and deposit activities in areas experiencing social exclusion and disadvantage.

Raising the awareness of social finance and promotion of the sector

In both the UK and the US, the development of a trade association for CDFIs has been an important focus for the development of the sector and promoting its needs. The research indicated a need for awareness raising amongst the social economy sector in Ireland, given the extent of a lack of awareness of social finance providers and their services. In Ireland there is a small social finance sector, but a trade association of those providing social finance services could be established with the following purposes:

- Support the growth of the sector, amongst both national and international providers
- Promote the specific nature of the sector, its social impact and its

[42] which requires the banks to raise €100m each year for the next three years, collected from banks by reference to the deposits that they hold from customers

needs,
- Act as an advocate for the sector with the public, private and third sectors
- Disseminate best practice
- Support individual member organisations, offer training and seek to improve the delivery of social finance in Ireland and build capacity within the sector
- Provide guidelines on evaluation and measuring social impact.

A policy of support for the social economy sector

The State does not, in the main, adequately support the social economy sector. Most social economy enterprises rely on the use of labour market mechanisms as part funding for the delivery of services. The tool of labour market programmes and their future application is currently being reviewed by the Department of Enterprise Trade and Employment, with an expected report available mid year.

The policy framework to date within which the social economy sector operates mitigates against the planning, development and sustainability of social economy enterprises. Enterprises frequently mould their activities to fit criteria for funding programmes which are not always appropriate to their objectives. Social economy enterprises provide services in key areas, as well as training and employment to excluded individuals and communities, often on the basis of insufficient grant income. Financial and management expertise is often lacking within projects, and supports are not provided to the extent that they are required. Social finance provision should be accompanied by a range of development supports, provided for social economy enterprises moving away from reliance on grant income. Any delivery structure which is tested should attempt to integrate with existing support mechanisms for social economy development, in order that conditions for projects' demand for loan finance are in place, and follow on support is available to protect the investment.

A policy of support for the social economy sector should consider service delivery at local and community levels, the role of the state in collaborating with the sector to ensure services are delivered on a sustainable and adequate level. This should involve the engagement of local authorities and health boards and other agents of the state with the social economy sector.

The low level of asset ownership by community and social economy enterprises was noted as an inhibition to development by participants in the research. A policy of support should provide for projects to build and develop an asset base, through transfer of ownership by local authorities of assets and buildings which are for community use, to community projects. The practice in Ireland is ad hoc, with varying experiences of community groups, depending on individual policies of local authorities. It is rare for social economy enterprises to have ownership of community resource centres, childcare centres and sporting facilities. The state should establish a policy on the transfer of assets to community groups, and advise local authorities in its implementation. In the UK in particular, an active policy of transfer of assets to the community sector is pursued by the state, and the Active Community Unit in the UK is currently exploring ways in which regulatory and institutional barriers to the transfer of assets to the community sector can take place.[43]

[43] Department of Trade and Industry (2002), *Social Enterprise: A Strategy for Success*. UK

Summary Chapter 6 – Regulatory, legal, administrative and framework issues for social finance delivery and development in Ireland

CURRENT AND EMERGING TRENDS, WHICH WILL IMPACT ON THE SECTOR

At EU level, the harmonisation of banking practices across Europe will probably impact on the sector, through mergers, and new entrants into the market.
The European Commission has noted a shift away from small enterprise lending by mainstream financial institutions.

The newly established Irish Financial Services Regulatory Authority (ISFRA) will regulate this area. The IFSRA establishes a consumer panel, to represent consumers interests, and it is recommended that the sponsors of this research seek the inclusion on this panel, issues relating to access to finance by the community and voluntary sector in Ireland.
A requirement on the banking sector to report on their lending activities in designated areas of disadvantage (e.g., Clar, Rapid and Drug Task Force areas), should also be pursued.

The credit union has its own regulatory framework (the Credit Union Act). This is outlined in the chapter. Credit union regulation will also come within the remit of the ISFRA, which is to appoint a Registrar of Credit Unions.

Many social finance providers across Europe are structured as co-operatives, which enables them to operate outside of a tight financial services regulatory structure. However, this can restrict activities. Most providers tend to favour operating outside of a financial services regulatory structure.

THE ADMINISTRATIVE, INSTITUTIONAL AND FRAMEWORK ISSUES FOR THE DEVELOPMENT OF SOCIAL FINANCE IN IRELAND

- A national structure is required, which also allows for local delivery
- State support is required (through loan guarantees, provision of incentives/ requirements for private sector support of the sector, as well as direct funding support)
- Awareness raising activities for Social Finance are required
- A policy of support for the social economy sector is required.

The delivery of social finance should consider the following:

- Exclusion of the requirement for loan guarantees as a criterion for access to loan finance
- Allow for deferral of repayments
- Allow for part grant support to accompany loans as a means of overcoming the inability to repay loan finance
- Provide support to projects (either directly or through specialist social economy support groups) in areas of financial management and loan management.

The State could engage in a public-private type partnership with the social finance sector, as a means of achieving social inclusion objectives, as well as a means of delivering commitments for the support of social finance in the social partnership agreement *Sustaining Progress*.

7. INTERNATIONAL BEST PRACTICE SOCIAL FINANCE DELIVERY: THE UNITED STATES OF AMERICA

Overview: Public Policy and Social Finance

Against a background of political and social changes in the 1970s in the United States, came the emergence of the Community Reinvestment Act of 1977. The passage of the law was in response to the documentation of "redlining"; the practice by financial institutions of designating certain areas where they would not provide services (it was not uncommon for banks to have drawn red lines on maps delineating those areas in which they would not lend because of the racial or economic composition)[44]. Throughout the 1960s and 1970s, community groups were actively bringing attention to the issue of redlining through advocacy and the publication of studies and materials. By the mid-1970s these community groups had been joined by religious and civil rights groups demanding change. The result was that several states passed legislation requiring disclosure and making it illegal to discriminate in lending practices. The federal government was quick to follow suit with the passage of the Equal Credit Opportunity Act and the Home Mortgage Disclosure Act in 1975. It took only two years of home mortgage disclosure data to convince Congress of the existence and pervasiveness of redlining. In 1977, Congress passed the Community Reinvestment Act (CRA).[45]

CRA established as law the still controversial notion that regulated financial institutions have an obligation to meet the credit needs of communities in which they are chartered and take deposits. Since the passage of the law, these institutions' lending, investment, and service activities in low and moderate income communities have been subject to monitoring by regulatory agencies. Approximately every two years, the regulatory agencies assess the performance of the financial institution in its low and moderate income communities and assign it a grade of either "outstanding", "satisfactory", "needs to improve", or "substantial non-compliance". Those deemed to be in substantial non-compliance face delays and denials in requests for mergers and expansion of service.

The passage of CRA brought significantly more capital into low and moderate communities throughout the United States. However, it was not until a series of reports in the late 1980s documented ongoing redlining practices that community reinvestment reached its current levels. The studies in Atlanta, Detroit, Washington, D.C., and Boston resulted in several federal probes into the activities of the financial institutions. Since then, regulated financial institutions have been more vigilant about complying with the CRA regulations (Leadership).

In 1994, further legislation, the Community Development and Regulatory Improvement Act, created a federal fund to support the work of Community Development Financial Institutions (CDFIs). The

[44] Barefoot, Jo Ann S (2003). *Can Compliance Co-exist With Common Sense*. [Online] Available **http://www.banking.com/aba/compliance_0397.htm**. Jan. 2003.
[45] Leadership Conference on Civil Rights (2000): *Building Healthy Communities: The CRA and the Financial Modernisation Movement*

U.S. Department of the Treasury certifies lending organizations that maintain community development as the primary mission as CDFIs. In addition to its mission, to be certified as a CDFI an organisation must be a financing entity, principally serve and maintain accountability to a target market, provide development services in conjunction with its financing services, and be a non-governmental entity. In short, CDFIs are special types of financial institutions that provide innovative products in distressed and underserved areas and are motivated by the double bottom line (both social and financial return). CDFIs come in several types, among them: community development banks, credit unions, loan funds, venture capital funds, and micro enterprise loan funds. Since 1994, the number of CDFIs in the United States has grown to approximately 550, managing $6 billion in assets.[46]

In order to comply with CRA regulations, banks must pass Investment, Lending, and Service Tests. The Lending and Service Tests pertain to the lending and service activities of the financial institution itself, i.e. that there are no suspicious gaps in lending patterns and that service is both available and effective throughout the charter area. The Investment Test requires financial institutions to make qualified investments throughout its charter area. To fulfil its CRA requirements, financial institutions can make funds available to: Community Development Corporations (CDCs), minority and women-owned businesses, community loan funds, Community Development Financial Institutions, low-income or community credit unions, organisations involved in affordable housing, facilities that promote community development (shelters, drug and alcohol centre, etc.), organisations supporting job training and day-care, and applicable state and municipal revenue bonds.

Rather than develop and administer community initiatives themselves, financial institutions have most often chosen to invest in CDCs, intermediaries, or direct investment vehicles. The next section explores exactly how financial institutions have invested in community development.

Best Practice Examples of Social Finance Delivery

This section looks at some of the most promising ways in which financial institutions have invested CRA funds. This is not a comprehensive list of all investment models or even inclusive of all the leaders in the field, but it is a representative sampling of some of the best examples of community investment.

I. CRA AGREEMENTS: PARTNERING WITH CDCS AND INTERMEDIARIES

Increasingly, financial institutions are entering into documented agreements with either CDCs or intermediary organisations. These agreements tend to be quite specific and set specific targets for numbers of loans and dollar amounts and usually cover a period of

[46] CDFI Fund [online] available http://www.cdfifund.gov/overview/index.asp

several years. The financial institution then proceeds to make the agreed upon funds available to the CDC, which implements the plan or in the case of the intermediary group, distributes the funds to other community organisations.

Case Study: Chicago CRA Coalition

The purpose of the Chicago CRA Coalition is to negotiate agreements with banks to increase lending, investment, and services in low income Chicago communities. The Coalition brokered a landmark CRA agreement with Bank One. The agreement includes the Alternative Banking Program for customers who do not meet traditional creditworthiness, which was rolled out in six pilot sites from 1998-1999. The Program included significant marketing and Financial Literacy classes offered by community groups on behalf of the program. After one year of evaluation, 1,500 accounts had been opened with an 80% retention rate. Workshops continue to be offered and all pilots remain in operation, according to the Woodstock Institute (2000).[47]

What Best Practices made this delivery system work?

- The Chicago CRA Coalition had frequent meetings with Bank One staff members, maintaining open lines of communication and a platform to discuss any controversy.
- The Program used community groups to deliver the workshops and training sessions. This is crucial since local residents have more trust in local community groups than in banks.
- The CRA Coalition established an advisory committee to oversee the development of the agreement. This allowed for the best thinking and a vast knowledge-base to benefit the negotiations.

II. DEVELOPING FORMAL CDFI INVESTMENT PROGRAMMES

As financial institutions have become more knowledgeable about investing their CRA funds, some have begun to develop their own staffed investment programs. In general, the programs have at least one dedicated staff member who implements the corporate plan.

Case Study: Bank of America

Since 1996, Bank of America (BOA) has had a formal CDFI investment program. In 2001, it had 98 relationships with CDFIs representing 135 investments and almost $200 million in funds. Bank of America staff provides support to the CDFIs in underwriting, closing, and monitoring products. BOA's investment strategy includes assessing the market context, the capacity to succeed, and the opportunity to interact with the CDFI on more than one level[48].

What Best Practices made this delivery system work?

- The Program has a clearly defined and measurable strategy.
- The bank makes use of its knowledge about community investing to select effective partners.
- The bank looks for additional opportunities to work with its CDFI partners that will benefit both organisations.
- The bank staffs the Program and provides administrative support to its partners.

[47] Woodstock Institute (2000): *Report Finds Growth in the Community Development Banking Industry* [online] available: **http://www.woodstockinst.org/alert18press.html**

[48] Comptroller of the Currency Administrator of National Banks (2002): *Bank of America's Strategic Approach to Investing in CDFIs* [online] available **http://www.occ.treas.gov/cdd/Summer-11.pdf**

III. INVESTING IN CDFIS

In addition to developing formal CDFI investment programs, banks also invest in individual CDFIs. Commonly they invest in CDFI venture capital funds, credit unions, intermediaries, and loan funds. Several examples of successful partnerships are included below.

Case Study: Boston Community Capital

Boston Community Capital is an intermediary CDFI with two affiliates (also CDFIs), Boston Community Loan Fund and Boston Community Venture Fund. Boston Community Capital uses its role as a CDFI to leverage money from banks, religious organisations, individuals, corporations, and foundations. It then uses this money to finance the Loan Fund and the Venture Fund. Since its founding, it has drawn capital from over 500 entities including a large number of financial institutions. It has loaned out over $40 million to low-income communities in the northeast, financed almost 4,000 units of affordable housing, and created or preserved 1,045 living wage jobs in distressed communities[49].

What Best Practices made this delivery system work?

- The intermediary uses its position to leverage funds from a wide variety of sources, including both public and private.
- The three affiliated CDFIs are able to share knowledge and resources among themselves, but operate along specialised lines, thereby optimising efficiency.

Case Study: National Community Capital Association

The National Community Capital Association (NCCA) is an intermediary CDFI that also serves as a member organisation, in short a trade association for employees of CDFIs. The mission of the NCCA is to serve as a catalyst for social, political, and economic justice. The association provides financing, training, and consulting to member groups and advocacy in the policy arena. Currently the CDFI manages more than $21 million from organisations such as Citibank, First Union National Bank, the Ford Foundation, the CDFI Fund, Providian Financial, and Riverside Church[50].

What Best Practices made this delivery system work?

- The intermediary uses its position to leverage funds from a wide variety of sources, including both public and private.
- The intermediary offers consulting and training to build the capacity of CDFIs.
- The intermediary connects CDFIs to resources and community groups, and investors to CDFIs.
- The intermediary disseminates information of interest to the CDFI community.

[49] Boston Community Capital [online] available: http://www.bostoncommunitycapital.org
[50] National Community Capital Association [online] available http://communitycapital.org

Case Study: Lakota Fund

The Lakota Fund is a not for profit CDFI serving the Lakota people of the Oglala Lakota nation in south-western South Dakota. Since 1986, the fund has made over $1 million in small business loans to approximately 300 tribal members. The Fund was started to serve a population of 22,000 individuals who live on the reservation and are not served by a single bank. The average loan that the Fund disperses is $3,600 and recipients must attend training classes and have access to ongoing technical support. In addition, because many of the small businesses involve arts and crafts production, the Lakota Fund developed a marketing program that includes business classes, a supply bank, and an e-commerce site where loan recipients can sell their products[51].

What Best Practices made this delivery system work?

- The CDFI makes use of its knowledge and connection in and about the local community to design its programmes.
- The CDFI makes use of technology to assist its loan recipients.

IV. CREATING COMMUNITY DEVELOPMENT CORPORATIONS

In addition to CRA Agreements and CDFI Programs, another investment option that the more community investment-savvy financial institutions have chosen is the creation of CDCs. Either independently or in association with other financial institutions, they incorporate independent CDCs that are mission-driven and effective. The financial institutions then funnel their CRA dollars into the CDCs.

Case Study: Native American CDC

The Native American CDC was founded by Valley Bank of Arizona, National Bank of Arizona, Wells Fargo & Co., National Bank of Arizona, Bank One Corporation, Washington Mutual, Inc., M&I Thunderbird Bank, and a few Arizona community banks. The banks founded the CDC in order to meet CRA regulations with the goal of making available to Native American $2.5 million as well as traditional banking services. It was the first not for profit of its kind to be completely funded by banks[52].

What Best Practices made this delivery system work?

- The banks have made lasting use of their money by creating a community resource.
- The CDC will support the needs of the community as determined by the CDC rather than the banks.
- The banks pooled their resources to create a more significant program.

[51] Lakota Fund [online] available **http://lakotafund.org**
[52] National Community Reinvestment Coalition (2002): *Beginner CRA Manual*

V. INVESTING IN MUTUAL FUNDS

Another common way for financial institutions to meet CRA requirements that is becoming increasingly popular is investing in mutual-like funds. Organisations offer these investment funds and market them as qualified CRA investment funds. In this manner, the financial institution is guaranteed to meet its CRA requirements without having to invest time and effort in research of appropriate investment opportunities.

Case Study: CRAFund Advisors, Inc.

CRAFund Advisors, Inc. established the CRA Qualified Investment Fund. Financial institutions invest in the fund and the organisation in turn invests the funds in the purchase of CRA loans in the secondary market. CRAFund Advisors, Inc. is well on its way to booking $300 million of its goal of $2 billion under management. One example of its work: the Fund purchased a bond that offers down payment assistance and mortgage loans to low-income individuals in rural Texas. The bond was issued by the Texas Department of Housing and Community Affairs for $10 million and purchased through investments in the CRA Qualified Investment Fund by eleven Texas banks.[53]

What Best Practices made this delivery system work?

- By reducing the burden on individual financial institutions through the effectual outsourcing of CRA compliance, more dollars are getting out into the low income communities.
- The mutual fund company uses its position to leverage funds from a wide variety of sources, including both public and private.

VI. BANK ENTERPRISE AWARD PROGRAMME

The CDFI Fund offers support to banks through the Bank Enterprise Award Programme (BEA). The programme is designed to complement CRA legislation by providing monetary awards to banks that increase their investments in CDFIs and / or lending, investment, and service activities in distressed communities. The programme serves to put more capital to work in communities where it is needed.

[53] 1999: *CRA creates while Washington Debates* [online] available http://www.crafund.com/news/story08.htm and 2002: *Poor Families in Texas May Finally Own Homes Thanks to Certain Texas Banks* [online] available http://www.crafund.com/news/story04112002.htm

Case Study: Bank of America Community Development Bank

In 1996, the Bank of American Community Development Bank loaned almost $25 million to distressed communities in California (including real estate, multifamily, and business loans), reflecting a significant increase over its previous activity. The loans generated almost 200 units of affordable housing and 300 jobs. As a result of its increased activity, the Bank was awarded a $1.6 million BEA award from the CDFI Fund. The Bank decided to reinvest the entire award amount into the community with the creation of the Bank of America Leadership Academy, which is a nine-month programme providing training for senior management of CDCs. In addition to the award money, the Bank leveraged funds from Bank of America, F.S.B., and a local CDFI, the Local Initiatives Support Corporation, according to Lazar (1998).[54]

What Best Practices made this delivery system work?

- The BEA Programme provides effective incentive for reinvestment in communities.
- The CDC created a community resource that will also be valuable to its own staff.
- The CD Bank leveraged funds from other sources to increase the size and scope of the programme.

In conclusion, there are almost limitless delivery options for financial institutions seeking to invest CRA funds. However, there are some common themes among the successful investment strategies:

MAKING USE OF THE BEST AVAILABLE KNOWLEDGE: The best programmes utilise community groups who are knowledgeable about the target groups, actively solicit input from advisors and partners, and apply lessons learned.
LEVERAGING RESOURCES: The best programmes make the best use of funds by using their funds to leverage other dollars and resources to increase the impact of their work.
PARTNERING: The best programmes partner with other groups to bring together the most effective resources and to broaden the effects of their work.
SUPPORT SERVICES: The best programmes offer useful support services that complement their product offerings.

Issues in Designing and Implementing Social Finance Delivery Systems

This section looks at several pervasive issues in the designing and implementing of social finance delivery systems. In essence, these are issues that must be factored into the structuring of any successful project. While this is not a comprehensive list, it presents a discussion of some of the major themes.

One common issue that community investors face is how to provide services in rural areas. In the United States, 83% of land is located in

[54] Lazar, Ellen W. (1998): *Congressional Testimony*, CDFI Director

rural areas and is home to 21% of the population. Changes in transportation, communication, and technology have fundamentally changed the way that rural residents interact with urban areas and with how they make their livings. Successful social finance delivery systems must account for the current landscape in rural America as well as anticipating its ever-changing nature. Some of the most notable rural issues are that the economy is no longer dominated by a single industry, no discernable pattern of population growth exists, and no improvement or decline patterns in well-being hold for the majority of rural populations. This means that successful social finance delivery systems must take into account the varied economic structure of rural America, i.e. not just focus on farmers. In addition, programmes must be localised in nature so as to account for the unique population and well-being factors that apply to that rural community. For an in-depth discussion of this topic, see *Best Practices in Rural Development* by the Office of Thrift Supervision.[55]

Another issue that social finance providers must deal with is how to build a strong capital base. Some CDFIs which are for profit institutions are able to solicit equity financing, however, the large group of not for profit community organisations are not able to use this capital-building method. Instead, they have traditionally relied upon grants which is a time-consuming and uncertain process. One excellent innovation was the development of The Equity Equivalent or EQ2[56]. This product was developed in 1996 through collaboration between National Community Capital and Citibank. The product is available to CDFIs and its equity-like character allows organisations to strengthen its capital base, leverage additional debt capital, and as a result increase its activities in its community. Unlike a true equity investment, the EQ2 must ultimately be repaid with interest, however, it provides one manner in which a not for profit organisation can solidify its capital base.[57]

Community organisations also frequently encounter low demand for the products that they begin offering in low income communities. Part of the reason is that these communities have been underserved and have no history or tradition of making use of these types of products. In addition, because of this lack of services, these communities have developed not only a mistrust of financial institutions but also their own means of conducting their financial transactions. All too often, this involves the use of services by high-rate check cashing outfits and predatory lenders. Successful social finance projects address this low demand through the provision of support services by local community organisations. Because the local residents trust their community organisations, they will attend events sponsored by them. Once they start attending the workshops or seminars, they will often become consumers of the social finance products. In this manner, successful programmes actually generate demand by reaching local residents through local channels.

---

[55] Office of Thrift Supervision (1999): *Best Practices in Rural Development*
[56] Similar to quasi-equity
[57] Equity Equivalents, *Community Investments* (2002) [online] available
http://www.frbsf.org/publications/community/investments/cra02-2/equity.pdf

This discussion of the major issues facing organisations delivering social finance shows that all projects in this arena face complicated implementation situations. The most successful projects are ones that recognise the challenges and implement strategies that are derived from the local communities.

A Review of Performance Indicators

It is difficult to comment on the social performance of community investment in the United States, and only moderately easier to review financial performance. The industry has been like an octopus, growing very quickly in so many different directions that there has not been any comprehensive or even common effort to evaluate performance. Hopefully, this will soon change as the CDFI Fund is spearheading an effort to organise measurement standards. The PLUM (Performance, Leverage, Underwriting, Management) Rating System is in the pilot stage and will contain an indicator for Community Impact (Performance). However, the task will certainly not be an easy one and will probably take several years to implement. Therefore, in the absence of good quality data on social performance, this section will present some of the data that is available.

- In the year 2002 that saw the stock market drop for the third year in a row and 1-year CD rates fall below 2 percent, investors who had assets allocated to community investing looked very wise. Many community investments offered investors a 2 or 3 percent return or possibly higher. At the same time, since community investments have such a good payback rate, those who participated in community investing in 2002 avoided the minefield of the corporate bond market. Indeed, by helping create affordable housing and new jobs, community investing generated some of the best double bottom line returns of the year, according to Baue (2003).[58]
- In a study, conducted by NCCA, Baue (2003) found that community development financial institutions (CDFIs), which serve low- and middle-income communities, actually have a better payback rate than commercial banks.[59]
- The community development banking industry has grown steadily over the past decade, from 27 community development banks in 1992 to 32 banks in 1996 and to 39 banks in 2001. Deposits have grown strongly, from $1.72 billion in 1992 to $4.22 billion in 2001, an increase of about 245 percent. Lending has increased sharply, from $802 million in 1992 to $2.91 billion in 2001, an increase of 363 percent, according to Baue.
- Community development banks are meeting or exceeding minimum capital adequacy requirements and are growing stronger as the industry matures (Baue, 2003).
- While community development is the primary goal of community development banks, profitability measures indicate that community development banks are doing well by regular banking performance standards (Baue, 2003).
- There are arguably fewer capital gaps now than anytime in the last 30 years. According to Moy (2002), CDFIs are reporting more competition from banks and non-banks in what had been their

[58] Baue, William (2003): *Top Five Social Investing New Stories of 2002* [online] available http://www.socialfunds.com/news/article.cgi?sfArticled=1005
[59] Baue, William (2003) op cit

most dependable lending niches; e.g., business loans too small for a bank to bother with and entrepreneurs with poor credit histories.[60]

- In recent years, banks have been earmarking more dollars for community reinvestment projects. According to The National Community Reinvestment Coalition, bank lending commitments to poor neighbourhoods under CRA have tripled over the last year alone to more than $680 billion.[61]
- "Investors in CDFIs have never lost a penny of investment capital," states the report carried out by Baue (2003). "The 107 surveyed CDFIs had sufficient equity capital bases and loan loss reserves to absorb any losses in their portfolios" (Baue 2002).
- Low-income individuals make up 72 percent of those served by CDFIs, according to the report. Almost half (49 percent) of CDFIs' clientele are women, and just under half (46 percent) of all clients are minorities. The cumulative financing of the 107 CDFIs helped create or maintain almost 180,000 jobs, helped develop about 147,000 housing units, and helped advance 2,500 community facility projects, according to Baue (2003).[62]
- By every measure, CRA loans are not as profitable as non-CRA loans.[63]
- Since 1977, banks and community organizations have made more than 390 agreements worth more than $1.09 trillion.[64]

From 1993 to 2000, mortgage loans to African-Americans increased by 122% and loans to Hispanics increased by 147%. During the same period, mortgage loans to low and moderate income individuals increased by 97%.[65]

The current status of social finance delivery in the US

There are several factors contributing to a very uncertain future for social finance. Perhaps the most important is the significant change in the American political climate which threatens the very existence of CRA and thus the social finance arena. The current administration and Congress are quite hostile to the CRA regulations that were already weakened through legislation in 1999 (limited the frequency of CRA exams for small banks). Many believe that the administration may move towards considering a repeal of the CRA legislation.

Adding to the uncertain situation is the changing nature of the financial services industry itself. In 1999, legislation was passed allowing banks, securities firms, and insurance companies to enter freely into one another's business lines. The result is that insurance

[60] Moy, Kirsten and Okagaki, A. (2002): Changing Capital Markets and their Implications for Community Development Finance, *NFG Reports*
[61] 1999: *CRA creates while Washington Debates* [online] available **http://www.crafund.com/news/story08.htm** and
[62] Baue, William (2002): Community Investing Pays [online] available **http://www.socialfunds.com/news/article.cgi/article945.html**
[63] Silva, John (2000): *Memorandum to the Chairman, Committee on Banking, Housing and Urban Affairs*, [online] available **http://www.banking.senate.gov/docs/reports/cra-sun/frb-cra.htm**
[64] National Community Reinvestment Coalition (2002): *Beginner CRA Manual*
[65] NCRC (2000) op Cit

companies, for example, can now offer all types of loans without having to meet any CRA regulations. In addition, the proliferation of sub-prime mortgage companies in the financial services sector has seriously weakened the link between traditional mortgage lending and receiving deposits in local communities. In short, just because a regulated bank is taking deposits in a certain community does not necessarily mean that local residents will seek loans from the bank. These changes in the sector threaten to undermine both the underlying structure and the effectiveness of CRA, according to Meyer (1998).[66]

This changing of the financial services market presents a challenge to the rapidly growing CDFI industry in particular. On the one hand, the number and volume of CDFI business is growing exponentially and has proven in many cases to be profitable. However, the CDFIs also face serious challenges in today's market posed by the mainstream financial institutions. As a result of CRA and the opening of business lines to all financial institutions, many banks and other mainstream financial institutions have become more focused on innovation and competitiveness. They have made much greater use of technology, grown away from vertical integration, and benefited from economies of scale. In addition, they benefit from an organized, formal financial infrastructure that allows them to connect resources very quickly. For the CDFI industry to thrive it will need to grow several top-tier organisations, develop a common financial infrastructure, and keep pace with innovations in mainstream financial institutions.[67]

Complicating the situation even further is the emergence of Internet banks which solicit deposits and offer credit products. Quite obviously, these Internet banks do not have traditional "communities" in which they can be required to reinvest. In general, Internet banks have limited assessment areas to headquarter cities. While this decision allows them to meet CRA regulations, it also effectively moves capital out of local areas. For example, if someone in Chicago deposits money in an Internet bank headquartered in New York City, that money is no longer covered under any Chicago CRA duty.[68]

All of these factors serve up a very uncertain future for the provision of social finance. However, it is important to note that the concept of community investment has in many respects worked its way into the mainstream and it is hard to imagine it disappearing entirely.

---

[66] Meyer, Laurence, H. (1998): Remarks by Laurence H. Meyer, CRA Conference Mary 1998
[67] Moy, Kirsten and Okagaki, Alan (2002): *Changing Capital Markets and their Implications for Community Development Finance*, NFG Reports
[68] *Current Campaigns* (2003) Inner City Press [online] available
http://www.banking.com/aba/compliance_0397.htm

Summary Chapter 7 – International best practice Social finance delivery – the United States of America

OVERVIEW: PUBLIC POLICY AND SOCIAL FINANCE

The Community Reinvestment 1977 (CRA) established as law that regulated financial institutions have an obligation to meet the credit needs of communities in which they are chartered and take deposits.

The Community Development and Regulatory Improvement Act 1994 established a federal fund to support the work of Community Development Financial Institutions (CDFI).

Bank compliance with the CRA is assessed by means of Investment, Lending and Service tests. Many achieve compliance through supporting CDFIs, who deliver services in disadvantaged communities on their behalf.

CDFIs are certified and the "double bottom line" (both financial and social returns) is recognised within legislation.
There are 550 CDFIs in the US with $6billion in assets.

BEST PRACTICE EXAMPLES OF SOCIAL FINANCE DELIVERY

- CRA Agreements : partnering with Community Development Corporations and intermediaries
- Developing formal CDFI investment programmes
- Investing in CDFIs
- Creating Community Development Corporations
- Investing in Mutual Funds
- Bank Enterprise Award Programme.

ISSUES IDENTIFIED IN THE US IN DESIGNING AND IMPLEMENTING SOCIAL FINANCE DELIVERY SYSTEMS

- How to provide services in rural areas
- How to build a strong capital base
- Low demand (the development of the Equity Equivalent or EQ2, similar to quasi-equity).

The most successful are those that recognize the challenges and implement the strategies derived from the local communities.

Review of performance indicators: PLUM (Performance, Leverage, Underwriting Management), a common evaluation tool for social finance providers, is under development.

THE CURRENT STATUS OF SOCIAL FINANCE DELIVERY IN THE US

The current US administration is quite hostile to CRA regulations and some are predicting its repeal.
Since 1999 Insurance, Companies, Banks and securities firms have been legally permitted to enter freely into one another's business line; thus, insurance companies can make loans without having to meet CRA regulations.

Challenges for CDFIs to keep pace with mainstream services, develop a common infrastructure and grow top-tier organisations.

8. INTERNATIONAL BEST PRACTICE SOCIAL FINANCE DELIVERY: GREAT BRITAIN AND NORTHERN IRELAND

Introduction

Social finance or social investment has received increasing governmental attention in the UK since 2000. This has been widely attributed to the interest which the Chancellor of the Exchequer, Gordon Brown, has in the subject and, more generally, in the application of North American approaches to economic and social development in the UK policy context.

The publication of the report of the Social Investment Taskforce in October 2000 was particularly important. The Taskforce reported to the Chancellor making five recommendations which have in effect been implemented or are in the process of implementation. At the same time the wider interest in the social economy or in social enterprises has become mainstream public policy with increasing support from public funds, reform of charitable and other laws to support the social economy and a new policy focus on the social economy.

This Chapter falls into two main Sections.
Section 1: reviews the UK policy context and the 'big picture' developments there
Section 2: draws on the author's personal experience of the Northern Ireland social economy and social investment context to illustrate some of the practical implications of these developments at the regional level.

While the chapter makes these distinctions, it must be said that the developments in the national regulatory and policy frameworks are important enablers of social investment developments at the regional level and one of the immediate and important lessons for social finance in Ireland is that bottom up local efforts alone may not be effective, or may not be fully effective, if the regulatory or legislative framework within which social finance organisations work is too onerous and if the broad policy framework set by the government is not explicitly favourable to the development of social finance.

Another broad lesson from the UK and, more specifically, the Northern Ireland experience is the importance and value of an asset based approach to development. A major strength of the UK approach is the willingness of government agencies and local authorities to allow community development organisations to develop a significant asset base on the back of grant aid. This enables community based organisations to lever private finance and to approach funding programmes as a partner organisation, not as a supplicant for funding. By contrast, approaches which leave ownership of assets in public authorities and allow community organisations only to lease the assets or use them on licence, prevents such development and makes community organisations dependent supplicants rather than equal partners in development. Section 2 provides some illustrations of the effect the ownership of major assets in the community has had in a Northern Ireland context although the confidentiality of the organisations involved has been respected by changing some of the details in each case.

Overview: Public Policy and Social Finance

Until 2000/2001 the UK policy context in relation to social finance was largely static. Indeed, some of the elements of support which had been put in place in the 1980s were brought to an end – for example the Department of Trade and Industry's support to the national Co-operative Development Agency was terminated, although numerous co-operative development agencies still work at local levels. The European Commission's various third sector or social economy initiatives attracted some policy interest in the UK, but did not become part of mainstream public policies. There was no overall approach to the social economy and no certainty where the locus of policy making in relation to the social economy, and therefore, finance for the social economy lay in Government.

THE SOCIAL INVESTMENT TASKFORCE

The new labour government, with close links to the Democratic Party in the United States and with an interest in '*third way'* approaches, borrowed heavily from the policies introduced in the United States under President Clinton and in opposition had floated ideas such as a Community Re-Investment Act for the UK. The Social Investment Taskforce was the means chosen to bring these issues to a head. The Taskforce reported to the Chancellor of the Exchequer in October 2000 and in the following month the Chancellor responded positively in his Financial Statement. The Social Investment Taskforce report is, therefore, an important document of record for social finance in the UK.[69] The Taskforce report – entitled '*Enterprising Communities – Wealth Beyond Welfare'* – estimated the value of UK community loan and micro-finance initiatives at £80 million sterling compared to £1200 million in the United States[70] and noted that

> 'The strength of the USA community development finance sector owes much to a series of fair lending laws, in particular the 1977 Community Reinvestment Act, which created an affirmative obligation for banks to address under-served markets. The efforts of banks are supported by incentives, in the form of loan guarantees, tax credits and funding for CDFIs that act as partners for banks'.

THE TASKFORCE'S ANALYSIS

69 http://www.enterprising-communities.org.uk/
70 a useful working paper prepared for the Taskforce and which profiles the social investment mix in the UK and internationally is available at http://www.neweconomics.org/uploadstore/taskforcedocs/Scopeandopportunityforsocialinvestment.doc

The analysis in the Taskforce report will be familiar to anyone involved in social finance, being based on the continuation of social exclusion and poverty alongside unprecedented wealth and growth and the need to break the spiral of under-investment and decline. The argument was summarised in the diagram, overleaf, which has been extracted from the Report.

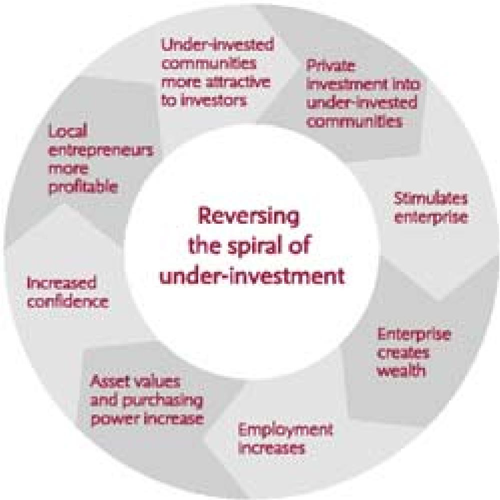

FIGURE 8.1 - REVERSING THE SPIRAL OF UNDER INVESTMENT (SOURCE: SOCIAL INVESTMENT TASK FORCE REPORT)

The Taskforce identified the following key barriers to increased social investment in the UK. The analysis is reported in full because many of the barriers identify apply also to the current position in Ireland.

- SYSTEMIC FAILURE.

  It is clear that in comparison with the US, the linkages between Government policy, banks, venture capital, institutional investors, foundations, business and social and community entrepreneurs fall short of what is necessary. There are major gaps in sources of funds, in the Governmental framework surrounding community development finance and in the current capacity and skills of many community-level organisations to respond to these new challenges.

- PUBLIC SECTOR GRANTS AND CHARITABLE FUNDING.

  Grants from local authorities and other public sector bodies and from charitable sources play an essential role in providing the start-up funds and "social equity" needed to build organisations and support activities that cannot otherwise be funded. However, when they are the sole or primary source of funds they have encouraged a culture of over-dependence, which can stifle enterprise and even crowd out other finance options. At the same time, grants have not focused on building sustainable organisations. There is no consensus among grant-makers on what activities should be grant funded and where debt or equity should be used to fund income generation.

- WEAK INCENTIVES FOR PRIVATE INVESTMENT IN COMMUNITIES.

  At present, CDFIs are unable to offer the rates of return needed to attract large-scale private sector investment and managerial talent. Some under-invested communities are, in effect, no-go areas for private capital.

- Low levels of entrepreneurship.

  Indicated by low rate of small business creation. The Task Force heard evidence about the UK's risk averse culture, deterring entrepreneurs and discouraging voluntary and community organisations from branching out in new directions such as income-generating activities.

- Lack of information about bank lending activities and the potential markets in under-invested communities.

  Small business lending by the banking industry is the major form of private sector investment in under-invested communities. The Task Force expects this to continue to be the case, even as the community development finance industry grows. USA experience suggests that the active engagement of the banking industry in lending to entrepreneurs is critical to wealth creation in those communities. But in the UK there is no public knowledge of the lending patterns of individual banks in specific communities. This makes it harder to ensure that competitive pressures are properly at work and harder to decide what other action should be taken. Lack of information also makes it impossible to measure progress in funding community regeneration and to benchmark one area against another.

- The UK has an underdeveloped community development finance sector, compared with the US.

  It is clear to the Task Force that this is a critical and reversible disadvantage for the UK. The creation of a vibrant range of community development financial institutions including lenders, venture capital funds and the organisations which serve them needs to be a key objective.

- Interpretation of UK charity law as it relates to community development finance lacks clarity.

  Confusion about when community development finance is charitable and when programme-related investment is acceptable for a charity has inhibited the degree to which foundations and charities have supported community development finance. Trustees of many charities take an excessively cautious view in these matters.

- Lack of a coherent approach by different tiers and departments of Govt.

  Social and community entrepreneurs have much experience of dealing with Government. They report that demands from different Government departments frequently contradict each other and they complain about the complexity of paperwork, delays and bureaucracy that goes with many existing funding streams. These entrepreneurs also often find that something which is encouraged by, say, a central Government department is resisted at the local Government level. It is still not clear that all tiers of Government recognise the importance of setting an enabling framework and providing incentives, rather than seeking to deliver services directly.

- Entrepreneurial behaviour in the voluntary sector tends to be fettered by its traditions, laws and established practices.

  Social and community entrepreneurs recognise that they need to take well-judged risks, develop commercial competencies, attract business and management skills and increase management capacity. Risk averse trustees and a culture of "begging and benevolence" are raised as just two factors which work against the voluntary sector promoting and practising entrepreneurship.

- Public policy obstacles to entrepreneurship exist.

  For example, the benefits system must encourage rather than discourage claimants wishing to take the first steps out of poverty into self employment or micro-enterprise.

TASKFORCE RECOMMENDATIONS & THEIR IMPLEMENTATION

The taskforce made five recommendations. They emphasized that the recommendations were intended to provide the platform for a new system of support for social finance.

Recommendation 1

A Community Investment Tax Credit (CITC) to encourage private investment in under-invested communities, via Community Development Financial Institutions (CDFIs) which can invest in both not-for-profit and profit-seeking enterprises.

The tax credit would provide lenders to, and equity investors in, CDFIs with a guaranteed minimum rate of return. Loans would be for a minimum five year term. The Taskforce envisaged that the Tax Credit would work in the following way: if a lender provided a five-year loan to or invested in the equity of a CDFI, the sum of £100,000 (€150,000) for example, the lender would receive a 5% credit against its tax liability in each year. In this way, £50m (€75m) of tax credit in each of five years would support £1 billion (€1.5 billion) of capital investment. The tax credit would cover both equity investment and loans by companies, banks and individuals. Following consultation and legislation, the Community Investment Tax Relief (CITR) opened for the first round of applications in January 2003[71]. Early indications are that CDFIs are confident that they will be able to use CITR to lever significant funds from the commercial banking sector.

[71] Full details are available at http://www.sbs.gov.uk/default.php?page=/finance/citr.php

Recommendation 2

A Community Development Venture Fund - a matched funding partnership between Government on the one hand and the venture capital industry, entrepreneurs, institutional investors and banks on the other.

The Task Force recommended that the successful principles of venture capital, namely long term equity investment, business support to the entrepreneur and rapid growth of the company backed, should be applied to community investment through the creation of Community Development Venture Funds (CDV Funds), to provide equity to businesses in deprived areas. An independent fund called Bridges Community Ventures was launched at 11 Downing Street on May 14th 2002. The government has committed £20 million (€30 million) to the fund, which is being matched by £20 million of investment from the private sector. Bridges Community Ventures invests in companies and community projects in the most disadvantaged 25% of local government wards in England as measured by the government multiple deprivation index[72].

Recommendation 3

Disclosure by banks

The Taskforce found a serious shortage of information about the level of activity of individual banks - at a time when there is a general perception that banks are withdrawing from poor communities through branch closures. This contributed to a pervasive impression that such communities are, in effect, enterprise "no-go" areas.
The Bank of England has now published two Reports on '*Finance for Small Businesses in Deprived Communities*' - its broad conclusion is that commercial bank lending to small businesses in such communities is growing less rapidly in general[73]. The bank has put in place a monitoring system based on post codes and intends to report regularly on the issue. However, a report by the British Bankers Association appears to reach a contradictory conclusion[74].
While the conclusions may not be clear, at least the subject is on the public policy agenda.

Recommendation 4

Greater latitude and encouragement for charitable trusts and foundations to invest in community development initiatives

The Taskforce found that support from charitable foundations and major charities had an important role to play in expanding

[72] For more information on Bridges Community Ventures see **www.bridgesventures.com**
[73] The most recent report is at http://www.bankofengland.co.uk/fin4sm09.pdf
[74] The report can be accessed from **http://www.bba.org.uk/public/newsroom/pressreleases/59928**

community development finance, through grant-funding, guarantees, programme-related investment and investment in CDV funds, but that confusion about when community development finance is charitable and when programme-related investment is acceptable to the Charity Commission has inhibited the degree to which foundations and charities have supported community development finance.
The Charity Commission published guidance in May 2001 on "Programme Related Investments". This emphasises that charities can make investments that do not have to seek the best financial returns, as long as they are in line with the organisation's charitable objects[75].
The Charity Commission is now exploring further the role that charities can play in community development finance and whether there are obstacles to this involvement within the current charitable framework, with a view to publishing further guidance if necessary.
The report was also one of the factors leading to the UK Review of Charitable Law, which is referred to in Section 2.x, below.[76]

Recommendation 5

Support for Community Development Financial Institutions

The Taskforce found that a thriving community development finance sector comprising Community Development Banks, Community Loan Funds, Micro-loan Funds and Community Development Venture Funds - standing between Government, banks and other investors on the one side, and businesses and social and community enterprises on the other - is vital to boosting enterprise and wealth creation in under-invested communities. It recommended the establishment of:

- an effective trade association, capable of assembling reliable information and representing the needs of CDFIs.
- new mechanisms to collect funds at the wholesale level which can be channelled to CDFIs.

The Community Development Finance Association (CDFA) was launched on April 24th 2002 by Paul Boateng the Financial Secretary to the Treasury. The CDFA's mission is to grow, promote and strengthen the CDFI sector. It will do this through the provision of the following services:

- Capacity building, including training, seminars and workshops, an annual conference and consultancy services
- Networking and information exchange, including web-based and other communication services
- Development of benchmarks to demonstrate and monitor the performance of the sector, including the publication of an annual 'State of Community Development Finance' report
- Research and the identification of best practice, including the

[75] See **http://www.charity-commission.gov.uk/supportingcharities/ccpri.asp**
[76] It should be noted that most of the policies referred to here are being implemented in England. Responsibility for this issue in Scotland, Wales and Northern Ireland falls to the devolved administrations there and complementary approaches are being developed. The Charity Commission's remit extends to England and Wales. Taxation law, however, is made on a UK basis and the CITR is available throughout the UK.

production of a 'CDFI Operator's Kit'
- Advocacy to government and other stakeholders
- Building investor and business support relationships, and
- In the medium term, possibly wholesale financial services to members.

The CDFA has received funding from the Small Business Service's Phoenix Fund as well as from Barclays and NatWest/RBS to start up, and will seek further funding from other sources as well as generating its own income from services[77].

Research into the feasibility of a wholesale fund for the sector was finalised in April 2002. The study concluded that the sector is not yet sufficiently credit worthy to attract fully commercial capital, however both CDFIs and banks expressed interest in the concept of a specialised wholesaler. It was felt that an interim or transitional wholesaler, that could become fully commercial as the sector developed, could provide a valuable catalyst towards a more commercially sustainable future for the CDF sector. A partnership, including Social Brokers, the Big Issue and Bank of Scotland, has started to work on the development of such a transitional wholesaler with the expectation of launching it before the end of the year.

UK REVIEW OF CHARITABLE LAW

The UK review of charitable law was, in part, stimulated by the findings of the Social Investment Taskforce but there was a wider perception that the basis of charitable law required revision, despite the addition of both urban regeneration and rural regeneration to the list of charitable causes, which otherwise dated back to Victorian times.

The review is concerned with providing an appropriate legislative and regulatory framework for the charitable, voluntary and wider not for profit sector, including locally based community groups and social economy enterprises. The review included recognition that social economy organisations required a new organisational form.

The following box contains some key extracts from the review of charitable law report '*Private Action, Public Benefit*'[78], which was published in October 2000, in relation to national policies towards the voluntary and community sector.

Charities and the wider not-for-profit sector make an important and growing contribution by:

- Providing vital services;
- Strengthening communities;
- identifying new needs;
- Representing important interests that otherwise risk being marginalized;

---

[77] www.cdfa.org.uk.
[78] Available at http://www.strategy-unit.gov.uk/2002/charity/report

- Contributing to public goods like the environment; and
- Innovating new ways of tackling social problems.

The Government values this contribution, and has already taken a number of measures to support the sector, for instance through improved tax relief on giving. More remains to be done to provide an environment which is conducive to the sector's growth. The Government's strategy should be to help realise the sector's potential, whilst respecting its independence

The report finds that Government's strategy for the sector has four main strands.

1. Helping charities and other not-for-profit organisations play a bigger role in revitalising communities and empowering citizens.

2. Encouraging public support for the sector.

3. Helping the sector to become more effective and efficient.

4. Enabling the sector to become a more active partner with Government in shaping policy and delivery.

The Report explicitly recognises the needs of social enterprises and makes recommendations for the establishment of a new form of incorporation more suited to the needs of social enterprises – the Community Benefit Company (ComBen) – and review of the Industrial and Provident Society legislation. The Report notes that the aims of social enterprises are social, rather than to make profits for owners, that formal governance, structures, and lines of accountability, are less clear-cut than for the public or private sectors, often involving a wide range of stakeholders and that many social enterprises are ultimately accountable to their users, members or staff, rather than – as is the norm with most private companies – their providers of capital.

DTI SOCIAL ENTERPRISES POLICIES

As another strand in the mainstreaming of the social economy and, therefore, of social finance, the Department of Trade and Industry has taken the lead on the development of social enterprise policies.
Two things should be noted here:

- the title '*social enterprises*' rather than social economy. This title emphasises that organisations in the social economy are enterprises, admittedly with a distinctive purpose
- the policy is located in the DTI, not in the Home Office which is responsible for community development or the Office of the Deputy Prime Minister, which is responsible for urban regeneration and renewal. This is part of a wider UK emphasis that enterprise and investment policies should be part of a wider approach to mainstreaming the needs of disadvantaged areas and groups.

The DTI Strategy – '*Social Enterprises – A Strategy for Success'*[79] is based around the following main streams and emphases

- Create an enabling environment
    - Government commitments - consistent across Departments, local government etc.

[79] http://www.dti.gov.uk/socialenterprise/pdfs/strategy.pdf

- Tackle legal and regulatory issues
- Using public procurement and delivery of public services by social enterprises

- Make social enterprises better businesses
  - Business support and training
  - Finance and Funding.

- Establish the value of social enterprise
  - Establish the knowledge base
  - Recognise achievement and spread the word
  - Create trust.

There are a number of features of this strategy which are worth commenting on;

- in relation to the first objective, earlier sections have shown how the legislative and regulatory objectives are being tackled and how a real effort appears to be under way to achieve consistency of government actions across Departments and between local authorities and central government. A 'cross-cutting review' by the Treasury concluded in late 2002 that social enterprises had particular skills which equipped them particularly well to be deliverers of public services – further work is in hand but this again seems to be part of a consistent policy to move the social economy into mainstream policy areas.

- in relation to making social enterprises better businesses, the Small Business Service, the main organiser of business support to social enterprises in England, has undertaken a self-critical review of its support to such clients and is proposing to put in place new, dedicated arrangements for the sector[80] while the DTI Social Enterprises Unit's work programme includes the following actions:

  - Feed in information and provide guidance for the Bank of England's review of finance for the social enterprise sector. Bank of England review to be completed by March 2003.
  - Where there are gaps or barriers identified by the Bank on either the demand or the supply side, take forward recommendations on how best to address them, for example by working with partners to increase the capitalisation of CDFIs specialising in the social enterprise market, and encouraging CDFIs generally to consider how they could improve service to this market.
  - Explore how best to address any real or perceived barriers to the transfer of assets to social enterprises, building on the work already done on asset development and transfer.

- The third objective is related to building public and political knowledge of and understanding of the social economy by means of measuring and communicating its impacts and effectiveness and establishing recognized standards of delivery for the sector.

[80] http://www.sbs.gov.uk/content/research/SE-Report.pdf

Best Practice Examples of Social Finance Delivery

The previous section was concerned with big picture issues at national level in the UK. As noted in the introduction, those big picture developments will have implications for social finance in Northern Ireland by changing key parts of the regulatory and policy regime. However, responsibility for social finance issues in Northern Ireland is devolved to the Northern Ireland Executive, in Scotland to the Scottish Executive[81] and in Wales to the Welsh Assembly.

As in England, there is policy commitment to the social economy. A major review was undertaken in 2000[82] leading to one of the first policy endorsements of the new Northern Ireland Executive, the creation of a social economy network and of a joint social economy/Government Forum, chaired by the Minister for Enterprise, Trade and Investment to set a joint agenda for the development of the sector and to raise its visibility. This Section, however, focuses on some of the organisations involved in social finance in Northern Ireland, and some of the lessons which arise from their development.

It is appropriate to consider Northern Ireland as it has the most developed social finance organisations in the UK and there is an active policy commitment to build on this strength. It is also interesting to consider why Northern Ireland has a strength in this area. Three considerations suggest themselves

- Need – in the context of inter-communal violence in Belfast, Derry and other major urban centres in Northern Ireland in the 1970s and 1980s, community based solutions often provided the only acceptable means of delivering public services to disadvantaged and disaffected communities. This established a tradition of community (social economy) delivery of public services to a greater extent than elsewhere and the necessity for the public sector to build substantial assets in the community

- North America – the strong business and political links between Northern Ireland and North America has led to an awareness of North American community development and community development finance approaches. Both Belfast and Derry have strong civic links with Boston, the centre of the Massachusetts CDFI network. This has led to a development approach with is trans-Atlantic in perspective, rather than European in approach. During a recent visit to Northern Ireland by staff from Social Investment Scotland, the visitors saw this trans-Atlantic approach as the most distinctive feature of Northern Ireland provision

[81] The Scottish Executive has taken a number of initiatives of which the most innovative is the formation of Social Investment Scotland (see **http://www.socialinvestmentscotland.net/**). Like a number of the social finance organisations described in this Section, SIS has deliberately set out to combine the culture of community development with the culture of mainstream banking. As one informant put it '*there are those who golf, there are others who empathise'* but SIS and other organisations have found that it is necessary for social finance organisations of any scale to have credibility in both cultures at staff and board levels.

[82] See **www.colinstutt.com**

- Assets – partly as a result of the need to find innovative ways to address disadvantage in disaffected communities in the 1970s and 1980s, significant assets have been developed in community based organisations. By no means all community based organisations have significant assets, but a significant minority have significant assets – some running to several million pounds. We consider the implications of this later in the Section.

ULSTER COMMUNITY INVESTMENT TRUST

Ulster Community Investment Trust is a community development finance institution establish to make loan and equity investment in community economic development organisations in Northern Ireland and the border counties.

UCIT had its origins in the recognition by leaders of urban and rural development organisations that the grant-driven approach to development that had been successful in allowing many community economic development organisations to come into being was not sustainable in the long term.

UCIT had a long gestation period. Work began in the early 1990s, originally centred on the concept of a community bank. The Shorebank Corporation provided an initial model but it became apparent that Shorebank's success was grounded in the particularities of US legislation and was not suitable for transfer to the Northern Ireland context. After a period of reflection, US supporters of the concept provided support for a scoping study to examine the options and feasibility of different approaches. That study was completed in late 1995 and concluded that there was a basis for moving forward based explicitly on the US CDFI model. That initial study provided the basis for a £100,000 sterling development grant from the EU Special Support Programme for Peace and Reconciliation in Northern Ireland and the Border Counties of Ireland 1994 – 1999. By October 1998 a strategy, business plan and prospectus for UCIT had been prepared, a Board had been formed and the International Fund for Ireland (IFI) had offered support to employ a Chief Executive for a two year period. In 1999 a senior banker was seconded to UCIT and began to operationalise the plan, often working against an atmosphere of suspicion in both the public sector and in the community sector – some of whom viewed the very existence of a loan fund dedicated to the community sector as a threat to continued grant support.

UCIT began the process of loan approvals in the financial year 2000/2001. It has established a substantial fund from two major sources

- receipts from Structural Funds Programmes, particularly the Peace II Programme totalling £5.7 million (g8.55 million)
- transfer to UCIT of the International Fund for Ireland, Department for Social Development and Department of Agriculture and Rural

Development community loan books. These loan books had been built up to support community development approaches. The book value of the loans was transferred as a gift from the IFI and the Departments. The book value of the loans transferred to UCIT was approximately £6 million sterling but many of the loans were not making payments of interest or principle and UCIT wrote the value of the loans down to approximately £3 million sterling. It is interesting to note that since the transfer of the loan funds to UCIT many of those who were unable to repay loans to the IFI and the Departments found themselves able to repay to UCIT – apparently because they know that their repayments will be used to fund other community based projects.

UCIT, therefore, has a total fund of approximately £8.7 million in real terms. This makes it by far the largest CDFI in the UK and UCIT is now focusing on raising new funding from three main sources

- private commercial bank investment driven by the guaranteed minimum return provided by the Community Investment Tax Relief. UCIT has successfully registered for CITR and is entering discussions with banks about their contribution

- the US philanthropic investment market, targeting specific opportunities such as the AFL-CIO Global Investment Fund, and

- further EU Structural Funds support, predicated on the Commission's objective of leaving behind sustainable and viable support structures when EU support to Northern Ireland ends in 2005 and on successfully raising private and philanthropic funds.

Since starting the process of loan approvals, UCIT has offered over 20 loans totalling £3.8 million (€5.7 million) – an average of approximately £190,000/loan (€285,000). However, for much of the period UCIT had relatively modest funds available and was not able to promote its services actively. This has now changed and UCIT has noticed an appreciable increase in demand for loans – rising now to 3-4 loan applications per month compared to 1–2 applications in earlier periods.

Some of the lessons arising from UCIT's early operations include:

- the intensive need for mentoring, support and training for client organisations seeking to make the transition from grant-dependence to a more sustainable funding mix. UCIT has developed proposals for a separately funded mentoring and support team, to help community economic development organisations to strengthen their financial management

- at present relatively few projects proceed with loans alone. A mix of loan and grant is much more common and UCIT has found the long delays associated with grant approvals to be a major constraint on disbursing funds to approved applications

- UCIT has developed an informal advice service to grant giving organisations which need to have an effective and informed intermediary between their bureaucratic procedures and the day to day reality of work at the community level – thus UCIT has been able to act as an advocate for the sector and for the needs of individual organisations.

UCIT's Board and Loan Committee are both made up of a deliberate mix of community leaders and senior bankers. Loan commitments are not made unless both sectors are fully represented at decision-making meetings. UCIT has greatly increased contact and dialogue between the community sector and senior banking figures.

UCIT's Chief Executive is a senior commercial banker on secondment. This has given comfort to other banks in lending to projects. One of UCIT's objectives is to increase commercial bank lending to the sector and commercial banks have been willing to invest alongside UCIT confident that its standards of monitoring are those of commercial banks and that by piggy-backing on UCIT's monitoring procedures they can avoid costs that they would otherwise have to bear.

UCIT is established to serve community economic development organisations in Northern Ireland and the Border Counties. Unfortunately, rigidities in EU Structural Funds rules have meant that UCIT Ireland Ltd has very limited funds available. Despite a lack of promotion in the Border Counties there has been active interest from the area and UCIT is pursuing funding for UCIT Ireland Ltd[83].

ASPIRE MICRO-LOANS FOR BUSINESS LTD

Aspire is another highly successful social finance initiative which has its origins in the strong US – Northern Ireland policy axis. Aspire was an initiative directly sponsored by Hilary Clinton and President Clinton's Special Adviser on Northern Ireland, Mr. Jim Lyons. It drew on the Clintons' experience of micro-finance in Arkansas when Governor Clinton sponsored one of the first applications of US urban micro-finance approaches to rural communities and small towns.

The initial proposal was greeted with considerable scepticism. The strength of the credit union movement in Northern Ireland, the existence of several under-utilised small business loan funds and an absence of identified frustrated demand all led policy makers in Belfast to claim that there was no demand for micro-finance loans and therefore no need for Aspire.

Despite this resistance Shorebank Corporation prepared a business plan for Aspire and since the start of its operational phase Aspire has exceeded all of the targets in that plan.

[83] Further details on UCIT are available from www.ucit-ltd.com

Today Aspire Micro Loans for Business Limited is the UK's leading dedicated microfinance organisation. Featured in national and international publications as representing state of the art in micro-finance development, Aspire has recently provided training for other UK micro-finance organisations.

Combining expertise from international micro-finance in the developing world and the US with Ireland's strong credit union experience, Aspire has developed a structured credit analysis methodology that has proven remarkably successful over the 30 months since its first loan in February 200.

During that time, Aspire has invested £800,000 (g1.2 million) in micro-entrepreneurs in Belfast, a city with a population of only 300,000. Average loan value is approximately £3,000 (g4,500), but most loans are much smaller. The loan criteria are targeted on the smallest businesses in the most disadvantaged areas and almost 80% of loans have gone to the most deprived and under-invested communities (in government-defined "New Targeting Social Need Areas"). Many of Aspire’s customers are unbanked and many do not have a credit union account. Yet those who have completed a loan have seen their turnover rise by an average of 29%, their net profit grow by 87% and employment levels have increased by 21%. 85% of businesses are still in operation one year after they received their loan. Aspire's cumulative loan loss rate in its first two years was 3.5%. Aspire is now extending its services from inner-city Belfast to Derry and is developing a consultancy service to other micro-finance initiatives, nationally and internationally.

While micro-finance has not emerged as a priority for Ireland in this research, this was the case also for Belfast and Aspire has shown that quality of delivery, innovation and a focus on customer service may reveal a strong latent demand which is not amenable to formal research procedures. The early growth of Aspire’s services exceeds that of Accion in New York – not proportionately to population but in absolute terms – yet Accion was serving a population some 20 times greater than that served by Aspire.

Issues in designing and delivering Social Finance Delivery Systems

DELIVERY STRUCTURE IN NORTHERN IRELAND

In each of the 26 District Council areas in Northern Ireland a Local Strategy Partnership has been established to provide a partnership approach to local development. One of the functions of the Local Strategy Partnerships is to administer two measures of the Peace II Programme, relating to the development of the social economy and skills development in the social economy.

Several Local Strategy Partnerships (LSPs) have sought to develop social investment vehicles locally. These proposals immediately face the problem of a lack of scale and, therefore, a lack of sustainability. Two broad approaches have been taken to tackling this problem – collaboration between neighbouring LSPs to achieve sufficient scale for sustainability and contracting with UCIT to provide a service to the local level. None of these arrangements are yet operational, but several are under current consideration.

The proposals for contracting with UCIT are of interest because they could easily be replicated in other areas. UCIT has a considerable investment in staff, systems, software and training. There is no need for this to be replicated in each LSP. Instead UCIT has offered a model in which UCIT provides a secretariat, loan management and other services to local decision-making structures. The LSP would determine the lending criteria and provide the members of the loan committee. After decisions were made UCIT would provide the loan administration services and benefit from the considerable economies of scale which relate to that activity.

Models for this service are still under development but there is the opportunity to apply the broad approach elsewhere. The model offers an opportunity to avoid a proliferation of unsustainable local initiatives, to build up expertise in a regional or national organisation while providing for local decision-making and ownership of social finance structures.

ASSET BASED DEVELOPMENT

We have referred to the benefits of an asset-based approach to development on a number of occasions in this paper. This section provides two illustrations of the benefits of such an approach – the details have been changed to protect the confidentiality of the organisations concerned.

The first example relates to an inner-city organisation which was formed in 1978. It originally provided local social services but needed to develop a more sustainable approach. It took over a derelict mill with 230,000 square feet of industrial space available for small business development. At its peak 600 people were employed in the regenerated mill. This development enabled the organisation to finance a city-centre development in association with a private firm. The income from the two centres and the surpluses from a long period of operation have provided the basis of the independence of the organisation. Most recently the organisation has been able to use its own resources to build the world's largest super-broadband wireless network serving 25,000 people in the inner city and offering community television and a creative industries incubator. The organisation has invested over £1 million sterling of its own resources in this initiative, in close association with universities and other third level institutions. It is now inviting public funding organisations to join as partners in this initiative, from a position of strength and confidence – not as a supplicant for public funds.

The second example relates to another inner city organisation in another city. During the 1980s local shopping, library and other facilities had been destroyed repeatedly as a result of civil strife. This organisation worked with local people to develop a new village centre of shops, post offices, social facilities, library and school. A high degree of local ownership was established with remarkably low levels of vandalism, given the urban context. Following the initial initiative the organisation created a community campus, partnering with a third level institution (as a tenant with a long term tenancy agreement). During the course of this project one public funder dropped out of the scheme and the organisation was able to replace the public funds lost with bank finance in excess of £300,000 (g450,000) on the basis of a single phone call to the bank, on the basis of its asset base and its commercial income. The organisation is now developing a range of enterprise units and sports facilities, levering private and public financial contributions on the basis of its assets.

More generally a number of community economic development organisations have considered selling their asset base to develop a locally based and community centred development fund. In particular cases, the amount which might be raised has been, variously, £7 million (g10.5 m), £11 million (g16.5m), £21 million (g31.5m) and £73 million (g109.5m). This is why – in the long term view – asset development in the community sector provides the only real basis for sustainable local development.

The current status of social finance delivery in the UK

The policy changes that have been introduced in the UK have significantly enabled the development of the social finance sector in the UK.

The characteristics of these developments include:

- Political commitment from the top
- The need to achieve both vertical and horizontal coherence in the public sector
- The ability to learn from other regions
- The need for an honest assessment of the current policy and its delivery
- Partnership working – most of the review processes referred to here have been carried out jointly by Departments working in open forum with those from the social economy
- The importance of communication, and
- The importance of the social economy and social investment vehicles finding a joint voice and acting together for their mutual good – instead of each organisation fighting a lonely battle against the odds at local level.

Policy and delivery changes over the last 2 years can be said to have significantly changed the rules of the game for social finance in the UK – it is now part of mainstream policies which both Ministers and bankers endorse and respect. Within the sector itself, the enabling framework for the development of social finance has been seen to yield significant results, and while the sector is still in early stages of development, particularly in comparison with the US, there are relatively positive indicators of its continued growth and development.

The nature and speed of the changes in relation to social finance in the UK have led to the development of a national association for community development finance institutions (Community Development Finance Association – CDFA); the Local Investment Finance Corporation is providing wholesale funds to the CDFI network; the Community Investment Tax Credit, which has been in place for two years, has leveraged £400 million (g600 million) of investment, with a target of £1billion (g1.5 billion) by 2005. According to the New Economics Foundation[84], high-impact ethical investment funds are allocating 5% of their funds for management by CDFIs, and there are also three dedicated mutual investment funds operating under contract law, and between them, they have £300million (g450million) of investments. It is estimated that the sector has assets of £250million (g375million) in total assets, and there are five community development venture funds with a total of £0.5bilion (g0.75billion) to invest in the sector. In spite of restrictions with regard to banking regulations, a new social bank was established in the UK last year (the CharityBank), and alongside other social banks operating in the UK (Triodos Bank and Ecology Building Society).

[84] 'The future of community development finance' in Collin, S., Fisher, T., Mayo, E., Mullineux, A., and Sattar, D. (2001): *The State of Community Development Finance 2001*, A report for the Joseph Rowntree Foundation. London: New Economics Foundation (updated 2002)

Summary Chapter 8 - International best practice Social finance delivery – Great Britain and Northern Ireland

OVERVIEW: PUBLIC POLICY AND SOCIAL FINANCE

Current practice is based on the Social Investment Taskforce Report published in 2000.
This is closely linked to US practice and to "third way" approaches adopted by US and UK administration at that time.

The Report makes Five Recommendations:

1. Community Investment Tax Credit (for investment via CDFIs)
2. A Community Development Venture Fund
3. Disclosure by banks
4. Greater latitude and encouragement for charitable funds and foundations to invest in community development initiatives
5. Supports for CDFIs.

BEST PRACTICE EXAMPLES OF SOCIAL FINANCE DELIVERY

ULSTER COMMUNITY INVESTMENT TRUST (UCIT)

UCIT is a CDFI established to make loan and equity investment in Northern Ireland and the border counties. UCIT established a substantial fund by means of :

- Receipts from EU Structural Fund Programmes
- Transfer by the International Fund for Ireland, the Department for Social Development and the Department of Agriculture and Rural Development, of their community loan books to UCIT.

UCIT's success indicates the following lessons:

- The need for financial and management training and skills within social enterprises
- A mix of loan and grant funding is desirable
- UCIT acts as an advocate for the sector and for individual organizations.

ASPIRE MICRO-LOANS FOR BUSINESSES LTD.

Aspire is a social finance initiative with its origins in the US – NI policy axis. While this report and Northern Ireland research shows a declining demand for micro-finance, Aspire has had remarkable success. It is suggested that by means of quality of delivery, innovative approaches and a focus on customer care, micro-finance providers can tap a latent demand and stimulate activity.

9. CONCLUSIONS: RECOMMENDATIONS FOR THE DEVELOPMENT OF SOCIAL FINANCE IN IRELAND

The research has indicated the delivery and support needs for social finance in Ireland. Social finance should be delivered on a local and national basis, providing for specialist delivery while allowing for the development of a platform for its support and promotion amongst key players. These key players could include:

- Social finance providers and delivery organisations, e.g. Clann Credo, the Irish League of Credit Unions, etc.
- The state – because of the contribution of social finance and the social economy to government policy priorities and objectives
- The corporate sector, particularly the banks
- The community and voluntary pillar.

The delivery of social finance is fractured, it is poorly supported and there is a general lack of awareness amongst financial institutions and potential clients (e.g., social economy enterprises) with regard to its nature and delivery. This mitigates against the successful development of the social finance sector in Ireland.

On the basis of these outcomes, consultations held throughout the research, and international best practice, the following presents a possible mechanism for delivery of social finance. It is based on the following assumptions:

- Local and national organisation and delivery are required
- Financial support and access to capital for social finance from all sectors, including the public and the private sector are required
- Promotion, awareness raising and advocacy measure are required for the sector.

On the basis of these requirements, the following model is suggested. It is also suggested that the delivery of the mechanism could be achieved through a public/private partnership style arrangement, which would provide for the following:

- cost efficiencies and added value for state funds
- expertise and specialist knowledge in the delivery of social finance
- the ability to lever in funding from a range of different sources
- the development of social capital at local level
- delivery of policy objectives and priorities
- transfer of international best practice.

This could also provide for added value in light of continued and expected budgetary and funding constraints in the current economic climate. We take the view that a public-private partnership could extend beyond physical infrastructure projects currently being developed – social infrastructure is as important to the state as physical infrastructure. This chapter outlines a possible platform and mechanism for the development of such a partnership.

National community development finance institution – Community Development Finance Ireland

The mechanism allows an incremental and experimental development of social finance provision, while drawing from social finance providers - for example, Clann Credo, which has experience of social finance provision in Ireland both at a national level, and through local partnership arrangements. In the development of a national structure the following organisations have been identified as possible partners, or organisations which would be involved in the support of a partnership:

- The Social Finance Sector: Organisations in this sector, e.g., Clann Credo which have undertaken high risk projects, have worked in partnership to develop social finance at local level with existing organisations, and are a source of social investment.
- Irish League of Credit Unions: The researchers perceive that there is a sound basis for an involvement by the ILCU and that this would be of enormous value. The Credit Union Movement is an established movement for delivery of social finance, it is committed to community development and interested in social investment mechanisms, it has a very high asset base for investing in low risk social investment projects, and it has a well established local infrastructure for promotion amongst members.
- The Corporate sector in particular the banks and mainstream financial institutions: through the provision of capital and investment as well as technical support and expertise.
- The state: financing the development of the CDFI structure in operational terms as well as finance for loan guarantees to the national structure to underwrite high risk loans, and providing incentives for levering in additional funds from the private sector. It is proposed that the Dormant Accounts Fund could becomes the mechanism for state interaction and funding. This is outlined below in greater detail
- The community and voluntary pillar – including the social economy sector.

Arising from this partnership, a national structure could be established, with the following functions:

- Act as a channel for social investment, philanthropic organisations and charitable foundations and investors to engage in social finance and seek funding and support from potential partners
- Establish a framework for the delivery of social finance locally through at least two social investment mechanisms, within rural and urban areas (see below). Provide supports to these social investment mechanisms, through loan management and administrative support and assistance and training in loan

assessment. It is proposed that assessments and recommendations for loans would take place locally, with loan management and administrative procedures carried out by the national structure in the pilot phase
- To support local delivery structures, both in terms of investment and provision of finance (as a support to operational costs)
- Provide loan guarantees for loans provided through the local structures
- Promote the model with the credit unions operating within the area of remit of the local delivery structure. Seek establishment of a grant fund to accompany the local structures, which could be part financed through the establishment of Special Funds by credit unions, which would be administered locally.
- Because social finance can be high risk, it would be necessary to establish two separate funds – one providing for high impact, high risk social investment, the other providing lower risk, to provide opportunities for low risk social investment, in sectors such as social and affordable housing, which would have a social impact but low risk. Seek key investors in this entity, which could be the Irish League of Credit Unions, which could divert a proportion of their overall investment budget (Central Investment Management) to this purpose, and Triodos bank. For these organisations, return on investment is crucial in order to protect depositors finances. Establishing a low risk social investment fund will ensure that clients and depositors assets are protected, and a finanicial return can be generated while achieving social impacts.

Local delivery mechanism

The need for a local support framework for the delivery of social finance is critical, and the mechanism draws from planned local delivery structures, in the Mid West region and Waterford regions (ensuring both a rural and urban dimension to social finance provision) but also the engagement of the credit union movement locally, thereby facilitating credit unions' participation in a supported environment. It provides for credit unions and corporate sector involvement at local level, where impacts can be directly demonstrated.

Possible partners would include:
- Credit unions located within the area in which the delivery mechanism would operate
- Representatives of the social economy projects and partners operating locally
- Financial management expertise and representation from the national structure
- Others providing technical and additional financial support, which may include the corporate sector and public sector contributors
- Local development and social economy development and support organisations

- The local banking sector.

Roles would include;

- Generating support locally for the delivery mechanism and levering in additional and matching funding
- Assistance to projects in making loan applications
- Assessment of projects and making recommendations to the national structure for projects to be financed
- Provide ongoing supports to projects and monitoring progress
- Working with local credit union chapters and credit union combines in establishing grant support through Special Funds, with the support of the Irish League of Credit unions and CDFI
- Liasing with support and development organisations locally to ensure supports are provided to social economy organisations.

State support

Direct state participation in social finance and specifically in the development of CDFIs in the UK and US has involved provision for loan guarantees and also contribution to the costs and overheads associated in delivering social finance. Public sector support is required on a national and local level in the above mechanism.

The state directs none of its funding to the support and development of social finance. While the overall expenditure by Government on the community and voluntary sector spans a range of different Departments and activities, a recent Goodbody report estimated this expenditure (for 2001) was in the region of g1.158billion[85]. This estimated figure did not factor in expenditure by the Department of Enterprise, Trade and Employment, which also provides supports to the community and voluntary sector, principally through FÁS (for example, programmes such as Community Employment, Jobs Initiative and the Social Economy Programme[86]), and also through supports provided by some County Enterprise Boards.

The Department of Community, Rural and Gaeltacht Affairs (with specific remit for the sector), has a budget provision for specific programmes (capital and current expenditure) for 2003, which amounts to g155.72 million.[87]

In spite of these estimates of state funding for the sector, no programmes make provision for the support of social finance.

However, the Dormant Accounts Fund is a specific funding mechanism, overseen by the Department of Community, Rural and Gaeltacht Affairs, and it could potentially act as a partner and provide funding to the national initiative. Finance will be disbursed from this fund by the end of 2003.

THE DORMANT ACCOUNTS FUND

In 2001 legislation was passed to transfer Dormant accounts in credit institutions (being inactive for 15 years or more) to the state. The Dormant Accounts Act (2001) provides for the transfer of dormant accounts to the National Treasury Management Agency by end April 2003, if they have not been activated by March 31st, 2003.

It was estimated at the end of 2002, that over g400million was held in dormant accounts, and that a total of g150 million had already been reclaimed.

[85] cited by Deirdre Carroll, Dept of Community, Rural and Gaeltacht Affairs, at the Clann Credo *Common Cents Conference*, April 2003. Breakdown of this figure is in Appendix 1
[86] see FÁS budget for 2003 (for Community Employment, Social Economy Programme and Jobs Initiative Programme in Appendix 1)
[87] Source: Deirdre Carroll, Dept of Community, Rural and Gaeltacht Affairs, at the Clann Credo *Common Cents Conference,* April 2003. Breakdown of this figure is in Appendix 1.

The unclaimed money from dormant accounts will be transferred to the National Treasury Management Agency (NTMA). A proportion of this money will be held in reserve to provide for subsequent claims (there will be no closing date for claims). Because there has been no precedent for subsequent claims, and the final size of the fund is unknown, and will not be known until March 31st, the proportion kept in reserve by the NTMA is unknown. The amount not kept in reserve will be distributed by the Dormant Accounts Disbursement Board, which is administered by the Dept of Community, Gaeltacht and Rural Affairs.

The use of the funds to be disbursed is set out in the Act:

> DISBURSEMENT OF MONEYS FROM FUND
>
> **41**.—(1) The moneys in the investment and disbursements account shall be applied by the Agency[88], on the direction of the Board, for the following purposes:
>
> *(*a) programmes or projects that are designed to assist the personal, educational and social development of persons who are economically, educationally or socially disadvantaged or persons with a disability (within the meaning of the Equal Status Act, 2000) and, in particular, programmes or projects that are designed to assist primary school students with learning difficulties;
>
> *(*b) any other purposes that the Minister may from time to time determine having regard to the plan prepared under section 42[89].

The fund also establishes that an expenditure over the value of g300,000 must be approved by the Minister.

Currently, the Board are completing their three year plan which is due to be completed by May 2003. This plan will outline priorities for areas to be funded. The administration of the fund is not yet established, and may be carried out within existing structures. No decision has been made on assessment procedures. It is estimated that disbursement of the fund will probably start before the end of 2003.

It is anticipated that the size of the fund will not significantly grow from year to year, but a second piece of legislation is currently being prepared to provide for dormant life assurance policies to be transferred in the same way. This is however, estimated to be lower in value than dormant bank accounts.

As there is no precedent for the re-activation of dormant funds over time, it is likely that the reserve on the total fund may alter from year to year, and will probably be very prudent initially.

---

[88] Agency in this case refers to the National Treasury Management Agency
[89] Refers to the three year plan that the Disbursement Board prepares

The dormant account funds' target groups includes those who have been economically, socially and educationally disadvantaged and is a potential source of funding for the establishment of a Community Development Financial Institution in Ireland. It is recommended that funding would be sought for the purposes of underwriting loans to social economy projects (loan guarantee funds) as well as finance to support CDFI and the local delivery structure for social finance. It is particularly appropriate that monies from dormant financial accounts could be used to support community development finance.

It is recommended that the sponsors of this research instigate discussions with the Dept. of Community, Rural and Gaeltacht Affairs for the purpose of exploring the funding potential under the programme.

National Association for social finance providers

The national and local delivery mechanism should participate in the development of a national association of social finance providers, with the role of promoting the development and support of the sector; representing and advocating the interests of the sector; supporting and developing the capacity of social finance providers; disseminating best practice.

Possible mechanism for social finance delivery, development and support in Ireland

Social finance Specialist, e.g., Clann Credo	**Irish League of Credit Unions**	**Dormant Accounts Fund/ the State**	**The banking sector/corporate sector**	**Comm and Vol pillar**

National association for social finance providers

Community Development Finance Ireland

Clann Credo & specialist social finance providers
Irish League of Credit Unions
Dormant funds account (loan guarantees, operational costs and finance for social investment locally, research and development support)
The banking sector and other private sector sources
Includes representation from the social economy sector, and the community and voluntary pillar

Role: support to local social finance funds
Loan administration
Access additional funds and investments to the fund
Source of funds to local social finance funds

Social Investment Fund Ireland

Low risk sound investments
Including affordable housing
Investors could include:
ILCU
Specialist Social Finance Providers
Social Banks (e.g., Triodos bank)
Commercial Banks and the private sector
The state

Grant fund through credit unions special fund	**Social investment fund (rural)** **Assessment of projects locally for loan finance** **Support of local credit unions** **Seek additional funding and support from local corporate sector** **Provide supports to projects locally** **Lever in additional supports (grant support to accompany loans through credit unions special funds)**	**Social investment fund (urban)** **Assessment of projects locally for loan finance** **Support of local credit unions** **Seek additional funding and support from local corporate sector** **Provide supports to projects locally** **Lever in additional supports (grant supports to accompany loans through credit unions special funds)**	Grant fund through credit unions special fund

RECOMMENDATIONS AND NEXT STEPS

Sponsors of this research

A steering group should be established to consider the recommendations in this report. This steering group should seek the establishment of a tri-partite group, comprising state (senior civil servants), social finance providers (including the Irish League of Credit Unions) the banking sector. The purpose of the group would be explore the recommendations and findings of this research with a view to developing a public-private partnership for development of social infrastructure, through the support of social finance provision.

Government

A range of Government programmes should be examined to ascertain if social investment and social finance could be built into them as a means of enhancing them and of bringing added value to the programmes. A number of Government programmes should then be tested with a formal link into social finance measures.

The Government should ensure that the special status of NGO social finance providers (including credit unions) is recognised and that space is maintained for the development of social finance initiatives by protecting them against, or giving them a derogation on, new finance services and consumer credit legislation.

The Government should be pro-active in providing incentives to the banking sector for the support of social finance provision. Tax incentives could be provided, where investment and support of social finance initiatives takes place. These could be linked to the relaxation of the bank levy in cases where such investment has taken place.

The Government should also consider extending tax breaks and incentives for those who donate to Charities to those who invest in specialist social finance providers.

The Government should finance a guarantee fund for a national scheme for social finance provision as well as supports to social finance providers. The finance obtained via the Dormant Accounts Fund could act as an initial source of funding for such a scheme. Private sector finance, particularly from the banking sector should also be pursued.

The new Irish Financial Services Regulatory Authority (IFSRA) should include in the remit of its consultative panels issues relating to access to finance by disadvantaged communities and social economy enterprises. Structures arising from this report should pursue this recommendation with the IFSRA.

The Government should require financial institutions to report on their lending activities to disadvantaged communities and social economy enterprises.

Specialist Social Finance Providers

A mechanism for social finance should be developed which accommodates the need for a national support structure and individual delivery mechanisms at local level. Specialist social finance providers should lead and promote the establishment of a public-private partnership, which would seek to develop a national and local delivery structure for social finance.

A local level delivery structure for social finance provision should be piloted in at least two areas in Ireland (at least one rural and one urban area). This delivery structure should include the involvement of local credit unions within their structure, as well as a range of stakeholders, including the social economy sector; banking sector support and others. The local level delivery structure could include in its operations a grant fund, which would be operated by credit unions as an accompanying support for recipients of loan finance. Local delivery structures could be organised on a county-wide basis. The local delivery structures should also provide soft supports to social economy projects

Credit Unions could explore new ways of delivering social finance to social economy enterprises.

Social finance providers should consider forming an association and network of social finance providers. The role of the association would be to promote the development and support of the sector; represent and advocate the interests of the sector; support and develop the capacity of social finance providers, and disseminate best practice.

Specialist social finance providers should develop stakeholder consultation and membership (where they are not formed as mutual or borrower owned). Stakeholder participation should be formal and representative if possible.

Social economy practitioners

Social economy practitioners should consider forming a national network for information exchange and lobbying. Such a network should link into the Community and Voluntary Pillar, the Small Firms Association and into EU networks. This network should open dialogue with specialist social finance providers, banks and Government on their needs.

Summary Chapter 9 – Conclusions: Recommendations for the development of social finance in Ireland

It is proposed that a platform be developed on which a national structure for the delivery, support and promotion of social finance be developed. A public-private partnership could be the means of establishing this structure. This could provide for:

- Cost efficiencies and added value for state funds
- Expertise and specialist knowledge in the delivery of social finance
- The ability to lever in funding from a range of different sources
- The development of social capital at local level
- Delivery of policy objectives and priorities
- Transfer of international best practice.

COMMUNITY DEVELOPMENT FINANCE IRELAND

It is proposed to establish a national structure under this title, with the involvement of key players in the sector including:
- Specialist Social Finance Providers
- The Irish League of Credit Unions
- The State
- The banking sector
- The community and voluntary pillar.

It is envisaged that the role of the mechanism could be to:
- Channel available funding
- Establish a delivery framework
- Support local delivery structures
- Provide loan guarantees
- Promote the model with the Credit Unions
- Establish a social investment mechanism.

LOCAL DELIVERY MECHANISM

Local level support and delivery structures are seen as critical.
Partners could include:
- Credit Unions
- Social Economy sector representatives
- Financial management expertise from the national structure
- Additional expertise from both the banking and corporate sector, and the public sector
- Local social economy and community development agencies and organisations.

The role of the local delivery structure could include:
- Generating local support
- Levering in funding
- Assistance to projects making applications
- Assessment of applicants
- Recommendations re applicants to national structure
- Supporting and monitoring projects funded
- Working with the Credit Union structures
- Liasing with development agencies in relation to social economy organisations.

Financial support from the State would be critical. It is proposed that finance from the Dormant Accounts Funds be sought for this purpose.

NATIONAL ASSOCIATION FOR SOCIAL FINANCE PROVIDERS

Its role would be to:

- Promote and support the sector
- Advocacy
- Developing the capacity of social finance providers
- Disseminate best practice.

Recommendations

A steering group should be established to consider the recommendations in this report. This steering group should seek the establishment of a tri-partite group, comprising state, social finance providers and the banking sector. The purpose of the group would be explore the recommendations and findings of this research with a view to developing a public-private partnership for development of social infrastructure.

A range of Government programmes should be examined to ascertain if social investment and social finance could be built into them as a means of enhancing them and of bringing added value to the programmes.

The Government should ensure that the special status of NGO social finance providers (including credit unions) is recognised and that space is maintained for the development of social finance initiatives by protecting them against, or giving them a derogation on, new finance services and consumer credit legislation.

The Government should be pro-active in providing incentives to the banking sector for the support of social finance provision.

The Government should also consider extending tax breaks and incentives for those who donate to Charities to those who invest in specialist social finance providers.

The Government should finance a guarantee fund for a national scheme for social finance provision as well as supports to social finance providers, through funds obtained via the Dormant Accounts Fund.

The new Irish Financial Services Regulatory Authority (IFSRA) should include in the remit of its consultative panels issues relating to access to finance by disadvantaged communities and social economy enterprises

The Government should require financial institutions to report on their lending activities to disadvantaged communities and social economy enterprises.

A mechanism for social finance should be developed which accommodates the need for a national support structure and individual delivery mechanisms at local level.

A local level delivery structure for social finance provision should be piloted in at least two areas in Ireland (at least one rural and urban area).

Credit Unions could explore new ways of delivering social finance to social economy enterprises.

Social finance providers should consider forming an association and network of social finance providers.

Specialist social finance providers should develop stakeholder consultation and membership.

Social economy practitioners should consider forming a national network for information exchange and lobbying.

BIBLIOGRAPHY

1999: *CRA creates while Washington Debates* [online] available HTTP://WWW.CRAFUND.COM/NEWS/STORY08.HTM and

Banking Sector: Some Strategic Issues (2002): Report of the Department of Finance/ Central Bank Working Group on Strategic Issues facing the Irish Banking Sector, Dublin: Dept of Finance

Barefoot, Jo Ann S (2003). *Can Compliance Co-exist With Common Sense*. [Online] Available HTTP://WWW.BANKING.COM/ABA/COMPLIANCE_0397.HTM. Jan. 2003.

Baue, William (2002): Community Investing Pays [online] available HTTP://WWW.SOCIALFUNDS.COM/NEWS/ARTICLE.CGI/ARTICLE945.HTML

Baue, William (2003): *Top Five Social Investing New Stories of 2002* [online] available HTTP://WWW.SOCIALFUNDS.COM/NEWS/ARTICLE.CGI?SFARTICLED=1005

Boston Community Capital [online] available: HTTP://WWW.BOSTONCOMMUNITYCAPITAL.ORG

CDFI Fund [online] available HTTP://WWW.CDFIFUND.GOV/OVERVIEW/INDEX.ASP

Colin, S., Sattar, D., Fisher, T., and Mayo, E. (2001): *A Proposed Accountability Framework for Community Development Finance in the UK*. London: New Economics Foundation

Collier, P. (1998): Social Capital and Poverty, *Centre for the Study of African Economics*, Oxford, March 1998.

Collin, S., Fisher, T., Mayo, E., Mullineux, A., and Sattar, D. (2001): *The State of Community Development Finance 2001*, A report for the Joseph Rowntree Foundation. London: New Economics Foundation

Community Development Finance Association (2001): *The Power of Association: Prospectus for the Community Development Finance Association*

Comptroller of the Currency Administrator of National Banks (2002): *Bank of America's Strategic Approach to Investing in CDFIs* [online] available HTTP://WWW.OCC.TREAS.GOV/CDD/SUMMER-11.PDF

Current Campaigns (2003) Inner City Press [online] available HTTP://WWW.BANKING.COM/ABA/COMPLIANCE_0397.HTM

Dept of Trade and Industry (2002): *Social Enterprise: A Strategy for Success*, London: DTI

Equity Equivalents, *Community Investments* (2002) [online] available HTTP://WWW.FRBSF.ORG/PUBLICATIONS/COMMUNITY/INVESTMENTS/CRA02-2/EQUITY.PDF

European Central Bank (1999): *Possible Effects of EMU on Banking System*

European Commission (1997): *The Social Responsibility of Credit Institutions in the EU – Community Reinvestment and other Opportunities for the Development of Social Economy Banking*, Report presented end 1997 by Institut für Finanzdienstleistungen e.V. (IFF), Hamburg - Germany, Malcolm Lynch Solicitors, Leeds - United Kingdom, EPICEA, Paris – France

European Commission Staff Working Paper (2001): Enterprises' Access to Finance

European Commission Working Paper (2001): *Enterprises' Access to Finance*

Evers, J. (1997): Debt financing for small and micro-business clients – how to achieve sustainability, paper produced for Inaise in *Financial Instruments of the Social Economy (FISE) in Europe and their impact on job creation*

Farrell Grant Sparks and Goodbody Economic Consultants in association with Chesterton Consulting (1998): *A report submitted to the Interdepartmental Group in relation to Public Private Partnerships*

Guene, C. (2000): *Freedom to Smallness? Social and Micro-finance: Living in the Legal Framework,* Unpublished paper, New Economics Foundation, cited in Mayo and Mullineux (2001)

INAISE (1997): *Financial Instruments of the Social Economy (FISE) in Europe and their Impact on Job Creation,* Research commissioned for European Commission DG Employment and Social Affairs

Inaise (2000*) Upscaling – social investment 50 case studies* [online] available www.inaise.org

Lakota Fund [online] available HTTP://WWW.LAKOTAFUND.ORG

Lazar, Ellen W. (1998): *Congressional Testimony*, CDFI Director

Leadership Conference on Civil Rights (2000): *Building Healthy Communities: The CRA and the Financial Modernisation Movement*

Mayo, E., and Mullineux, A. (2001): *Boostraps or Braces: The Regulation of Community Development Finance Institutions*, London: New Economics Foundation

McCarthy, O. (1999): *The Role of Women Entrepreneurs in the Irish Credit Union Movement*, Paper from the Centre of Co-operative Studies, University College Cork

McCarthy, O., Briscoe, B and Ward, M (2000): Redesigning the Credit Union for the New Millennium: A Case Study of Ireland, *The World of Co-operative Enterprise 2000,* Oxford: Plunkett Foundation

Meyer, Laurence, H. (1998): Remarks by Laurence H. Meyer, CRA Conference Mary 1998

Moy, Kirsten and Okagaki, Alan (2002): *Changing Capital Markets and their Implications for Community Development Finance*, NFG Reports

National Community Reinvestment Coalition (2002): *Beginner CRA Manual*

Pinsky Mark, A. (2000): *From the Margins: Lessons from the US Community Development* Finance System, briefing paper for the London School of Economics and Political Science's Community Investment Seminar on Dilemmas in Competitiveness, Community and Citizenship

Poor Families in Texas May Finally Own Homes Thanks to Certain Texas Banks (2002) [online] available
HTTP://WWW.CRAFUND.COM/NEWS/STORY04112002.HTM

Putman, Robert D. (1995): Bowling Alone: America's Declining Social Capital, *Journal of Democracy*, 6, (1), pp 65-78

Quinn, A. P. (1999): *Credit Unions In Ireland (second ed.)*, Dublin: Oak Tree Press

Report of the Implementation Advisory Group on a Single Financial Regulatory Authority for Financial Services, (1999) Dublin: Dept of Finance

Silva, John (2000): *Memorandum to the Chairman, Committee on Banking, Housing and Urban Affairs*, [online] available
HTTP://WWW.BANKING.SENATE.GOV/DOCS/REPORTS/CRA-SUN/FRB-CRA.HTM

Starting a business in Ireland (2002): Oak Tree Press

Statement of Credit Union Operating Principles as adopted at ILCU AGM 1984.

Sustaining Progress: Social Partnership Agreement 2003-2005, Dublin: Government Publications

Task Force on Social Investment (2001): *Enterprising Communities – Wealth Beyond Welfare*

US Office of Thrift Supervision (1999): *Best Practices in Rural Development*

Woodstock Institute (2000): *Report Finds Growth in the Community Development Banking Industry* [online] available:
HTTP://WWW.WOODSTOCKINST.ORG/ALERT18PRESS.HTML

FURTHER READING AND WEBSITES

Publications

Duggan, C., Immink, R. Kearney, P. and O Shea, C. (2000): *Enterprise Creation by the Unemployed in Ireland: the Role of Micro-Finance*, London: ILO, available on line at HTTP://WWW.ILO.ORG/PUBLIC/ENGLISH/EMPLOYMENT/FINANCE/DOWNLOAD/IRISH.PDF

Everett, J. (1998): *Community Foundations: An Introductory Report on International Experience and Irish Potential*, Dublin: Combat Poverty Agency

Evers, J., Fisher, T., Foschi, L., Guene, C., Jung, M., Rodriquez, M. and V. Vandemeulebrocke (2001): *Finance for Local development: New Solutions for Public Private Action,* Research funded by the European Commission DG Employment and Social Affairs
Available on line at HTTP://WWW.LOCALDEVEUROPE.ORG

Hackett, K., Ramsden, P. Sattar, D., and Guene, C. (2000): *Banking on Culture: New Financial Instruments for expanding the cultural sector in Europe*, Final Report of the Banking on Culture Action Research Project, Manchester: North West Arts Board. Available on line WWW.BANKINGONCULTURE.COM

INAISE (2000): *Upscaling Social Investment: 50 Case Studies*, INAISE available on line WWW.INAISE.ORG

McLenighan V., and Tholin, K. (1997): *Partners in Community Building: mainstream and community development financial institutions*. Chicago: Woodstock Institute, available on line HTTP://WWW.WOODSTOCKINST.ORG

Think tanks, research organisations and academic institutions

New Economics Foundation
HTTP://WWW.NEWECONOMICS.ORG

HTTP://WWW.LOCALDEVEUROPE.ORG

Centre for co-operative studies, university College Cork
HTTP://WWW.UCC.IE/ACAD/FOODECON/CENTRE_B.HTML

HTTP://WWW.COMMUNITYFINANCE.ORG.UK

Networks, associations and collectives of social finance providers

Irish league of Credit Unions
HTTP://WWW.CREDITUNION.IE/

UK Social Investors Forum
WWW.UKSIF.ORG

UK Community Development Finance Association
WWW.CDFA.ORG.UK/

US Community Capital Association
HTTP://WWW.COMMUNITYCAPITAL.ORG

International Association for Investors in the Social Economy
WWW.INAISE.ORG

Misc resources available on line

joseph rowntree foundation
http://www.jrf.org.uk/knowledge/findings/socialpolicy/731.asp

HTTP://WWW.CREDITUNIONRESEARCH.COM

Funds

Social Investment Scotland
WWW.SOCIALINVESTMENTSCOTLAND.COM

Industrial Common Ownership Fund (ICOF)
WWW.ICOF.CO.UK

HTTP://CHANGEFINANCE.ORG.UK

Triodos bank
WWW.TRIODOS.CO.UK

The charity bank
HTTP://CHARITYBANK.ORG

Aston Reinvestment Trust
WWW.REINVEST.CO.UK

bridges venture fund
HTTP://WWW.BRIDGESVENTURES.COM

ORGANISATIONS PROVIDING SOCIAL FINANCE SERVICES IN IRELAND

Organisations listed below are those who are providing loan and repayable finance services primarily in the third sector, and which target either social economy enterprises, or enterprises and individuals traditionally excluded from mainstream financial services. Some target particular sectors or communities of interest. This is not intended to be a comprehensive list of all organisations in the third sector providing social finance services in Ireland.

ORGANISATION	ADDRESS	TEL.
Guinness Workers Employment Fund	St James' Gate, Dublin 8	01 4535397
First Step Limited	Jefferson House, Eglinton Road, Donnybrook, Dublin 4	01 2600988
Society of St Vincent de Paul	8 New Cabra Road Cabra, Dublin 7	01 8384164
Irish League of Credit Unions	Mount Street, Dublin 2	01 6146700
Bolton Trust	Docklands Innovation Park, 128-130 East Wall, Dublin 3.	01 8552333
Triodos Bank	Kilinarden Enterprise Park, Kilinarden, Dublin 24	086 8399358
Clann Credo	Irish Social Finance Centre, Inchicore, Dublin 8	01 453 1861
Western Development Commission[90]	Dillon House, Ballaghaderreen, Co Roscommon	0907 61441
Tallaght Trust Fund	Partas, Bolbrook Enterprise Centre, Avonmore Road, Tallaght, Dublin 24	01 4145700
Eirí Corca Baiscinn	Community Centre, Circular Road, Kilkee, Co Clare	065 9056611
Inner City Enterprise	56-57 Lower Gardiner Street, Dublin 1	01 836 4073
Blanchardstown Area Partnership	Deantown House, Main Street, Blanchardstown, Dublin 15	01 8209550

[90] Public Sector body

INDIVIDUALS AND ORGANISATIONS THAT PARTICIPATED IN STUDY

Persons interviewed in the course of the research

Liam Berney	Irish Congress of Trade Unions
Michael Bradley	Director Sunflower Recycling and SwITch (social economy enterprises) and Banking and small business consultant
Kieron Brennan	Triodos Bank
Larry Byrne	St Vincent de Paul
George Cantwell	Manager, Ballyphehane Credit Union
Erin Cotter	Rural Transport Initiative, ADM
Anthony P. Quinn	Barrister, founder member of Law Library Credit Union
Sean Gorman	Ass Sec., Labour Market Section, Dept of Enterprise, Trade and Employment
John Hannon	Mutual Guarantee Association of Ireland
Olive McCarthy	Centre for Co-operative Studies, University College Cork
Paul O Sullivan	Clann Credo
John O Dea	Dept of Community, Rural and Gaeltacht Affairs
Liam O Dwyer	Irish League of Credit Unions
Felix O Regan	Irish Bankers Federation
Chris White	Irish Council for Social Housing

Individuals and organisations that participated in Focus Groups and Survey Research

Annette	Barr Jordan	Westmeath County Development Board
Jean	Barry	Southside Partnership
Denis	Behan	CESL
Eamon	Brady	Inner City Enterprise
Kieron	Brennan	Triodos Bank
Adrian	Browne	FÁS Social Economy Unit
Gillian	Buckley	Western Development Commission
Larry	Byrne	St Vincent de Paul
Robert	Carey	North Kerry Together
Pat	Cronin	Obair Newmarket on Fergus
John	Daly	Institute of Social Auditing in Ireland
Margaret	Daly	Obair Newmarket on Fergus
Maura	Farrell	Moate Community Development Assoc
Niamh	Farren	Raidio Corca Baiscinn
Margaret	Fenton	Centre for Co-op Studies, UCC
Des	Geary	Tallow Credit Union
Joe	Hassett	Rural Community Care Network
Cora	Horgan	Ballyhoura Development
Michael	Johnson	Dun Laoghaire-Rathdown CEB
John	Kearns	Partas &Tallaght Trust Fund
John	Kelly	Allied Irish Banks
John	Kelly	County Wexford Partnership
Pat	Kiernan	West Clare Early Years
Gerry	Macken	Dublin City Enterprise Board
Denis	Marnane	Enterprise Ireland
Gerard	McCormack	Westmeath County Development Board
Patricia	McKenna	Westmeath Employment Network
Barney	McLoughlin	Erne Enterprise Development

Marie	Morrissey	Blanchardstown Area Partnership
Brid	O Brien	Pavee Point
Gerry	O Brien	Accessible Community Transport
Pat	O Donoghue	Mullingar Resource Recycling Centre
Tom	O Leary	Partnership Tra Li
Siobhan	O Neill	Cork Social Housing Services Ltd
Eamon	O Reilly	Sliabh Luachra - Kerry Rural Development
Brian	O Sullivan	Southside Partnership
Paul	O Sullivan	Clann Credo
Claire	Pringle	South West Donegal Communities Partnership
Michael	Quilligan	Partas
David	Roche	Cork Gay Community Dev Co
Tina	Roche	Foundation for Investing in Communities
Martina	Rynne	Eiri Corca Baiscinn
Anne	Spillane	Paul Partnership
Rowena	Thornburgh	Guinness Workers Employment Fund
Bernie	Walsh	Sunflower Recycling/ SwITch

THE SPONSORS OF THE RESEARCH

The Dublin Employment Pact (DEP) was established to examine labour market and development issues in the Dublin region. Its Board comprises equal representation of the four key sectors concerned: the Dublin Regional Authority and Local Authorities, the Local development and Community Sector, the Social Partners, and Government and Statutory Agencies. The DEP is funded under the National Development Plan through ADM Ltd.

The DEP has four effective and dynamic Working Groups (WGs) including the Local Enterprise and Social Economy Working Group (LE & SE WG). The LE & SE WG has been involved in a wide range of policy development initiatives, pilot projects and research work including:

- Organising a major seminar on the key issues for a national social economy programme (1999)
- Commissioning a major study of the social economy in Dublin and the needs in relation to its expansion and development (2000-2001)
- Exploring the potential of the social economy.
- Encouraging public authorities and other bodies to resource community organisations in piloting social economy activities.
- Supporting new approaches in local initiatives in this sector.

The LE & SE WG in 2002 proposed further comprehensive research in relation to the area of Social finance following a recommendation highlighted in the Study of the Social Economy in Dublin, by Fitzpatrick Associates Economic Consultants commissioned by the DEP August 2001).

Westmeath Employment Pact (WEP), like the DEP, has its origins in the EU Community Initiative for Territorial Employment Pacts and was launched in 1997. It is funded via ADM under the Social Inclusion Programme. Westmeath TEP has a rural dimension to its work and has grounded its activities in a programme of on-going research.

The WEP has always taken an active interest in the development of the Social Economy, recognising its potential in terms of employment opportunities and enhanced quality of life. While areas such as community transport, childcare and care of the elderly are to the forefront in much of the local debate around the Social Economy; there is a concern that the absence of mechanisms to mobilise social finance is not only hampering progress but may ultimately undermine the potential of the Social Economy to deliver on its promise.

Clann Credo, the Social Investment Fund, is mobilising investment capital as an agent of positive social change. It seeks a social and a financial dividend. It demands that the primary motivation for any investment must be social advancement. For instance: improved services in the community, creating employment or training opportunities.

Credo is pioneering and promoting social investment in Ireland. It is the first indigenous, non-Governmental body in the field. Social investment, as a practical and empowering option for the social sector, is being demonstrated.

Clann Credo broadens the traditional scope of investment by highlighting projects and opportunities that might otherwise not be considered. Capital is made available to projects and enterprises, which yield a social as well as a financial return.

Area Development Management (ADM Ltd.) is a private company established in 1992 by the Irish Government in agreement with the European Commission and manages the funding under the National Development Plan through the Local Development Social Inclusion Programme allocated to Partnerships, Community Groups and TEP's including both the DEP and Westmeath TEP. ADM's mission is to support integrated local economic and social development through managing programmes targeted at countering disadvantage and exclusion, and promoting reconciliation and equality.

APPENDIX ONE

Department of Community, Rural and Gaeltacht Affairs - budgets for specific programmes for 2003:

	2003		
	Current €M	Capital €M	Total €M
Grants for community and voluntary service (mainly national lottery funded)	30.090	-	30.090
Local development/ social inclusion measures	44.662	-	44.662
Drugs initiative	14.967	1.192	16.159
Programme for peace and reconciliation	11.054	0.133	11.187
Youth Services and Facilities Fund	5.744	10.133	15.877
Western Development Commission (Grant In Aid for general expenses)	1.385	-	1.385
Western Development Commission (Grant In Aid)	-	2.013	2.013
Rural Development Schemes	4.566	6.390	10.956
Leader Interreg and Peace Programme	-	13.873	13.873
CLÁR	-	9.517	9.517

The overall expenditure by Government on the community and voluntary sector in 2001 was estimated by a recent Goodbody study at €1.158billion. The bulk of this is broken down as follows:

Source of Funds	Purpose	Expenditure 2001 €M
ADM	Local development	44.9
Dept of Social, Community and Family Affairs	Community development	27.0
Dept of Agriculture, Food and Rural Development	Rural development	22.2
Health Boards	Healthcare	697.5
Dept of Environment & local Govt	Housing	145.4
Dept of Justice, Equality and Law Reform/ ADM	Childcare	54.4
Dept of Education and Science	Personal development of young people	38.8
Dept of Tourism, Sport and Recreation	Sports Facilities	24.3

Department of Enterprise, Trade and Employment - budgeted expenditure for FÁS (community programmes) for 2003:

Dept of Enterprise Trade and Employment	FAS Programme Budget 2003	Budget 2003 €M
	Community Employment (CE);	274.3
	Social Economy Programme (SEP)	31.9
	Jobs Initiative (JI);	45.45
Total		351.65

Department of Social and Family Affairs – budgeted expenditure grants to community and voluntary groups and MABS for 2003:

Grants for community and voluntary sector groups & money and advice budgeting service	€8.91m