IN THE COMMON INTEREST

The Case for Social Finance in Ireland

REPORT AND RECOMMENDATIONS
OF THE STEERING COMMITTEE ON SOCIAL FINANCE
2004

Dublin Employment Pact

WEP
Westmeath Employment Pact

CLANN CREDO
generating inclusive prosperity

Area Development Management Limited

NDP
NATIONAL DEVELOPMENT PLAN

Acknowledgement

Sincere thanks and appreciation is expressed to everyone who participated in the development of this Report and it's Recommendations and who contributed to and encouraged the process.

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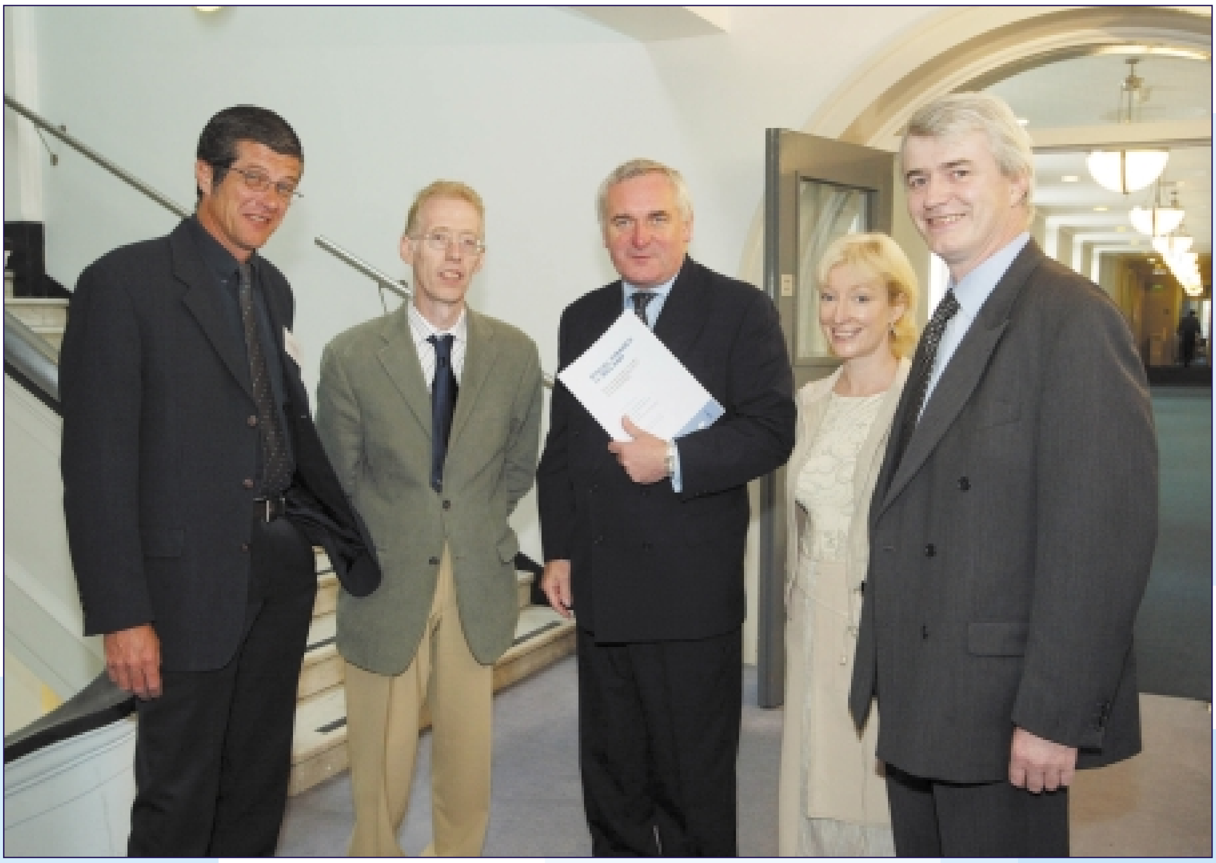
PREFACE

Social Finace is repayable financing made available to voluntary organisations which have as their primary objective the development of social infrastructure at local level, particularly in disadvantaged communities. These organisations, while requiring a financial return on their investments, have the capacity and flexibility to lend to projects which would not satisfy the normal criteria set by financial institutions.

Systems of Social Finance provision are well established and growing in many countries in the European Union and increasingly also in the United States. While the concept is relatively new in Ireland, considerable advances are being made by a number of loan providers and greater awareness of the merits of Social Finance is emerging. The Government and the other social partners are committed to supporting this activity and it is appropriate for specific initiatives to be taken now to implement this support.

The organisations which worked with the Steering Committee on Social Finance to produce this report are ready to enter into dialogue with the Government and social partners towards developing a national framework for the development and promotion of Social Finance.



l-r: *Mr Philip O'Connor, Director, Dublin Employment Pact; Mr Larry Fullam, Coordinator, Westmeath Employment Pact; Mr Bertie Ahern TD, Taoiseach; Ms Patricia Jordan, Liaison Officer, Area Development Management Limited and Mr Paul O'Sullivan, Chief Executive Officer, Clann Credo Limited at the launch of the report 'Social Finance in Ireland' at the Department of the Taoiseach in September 2003*

BACKGROUND

The Government in its ‘Programme for Government’ (2002) expressed its commitment to "the objective of achieving real and sustained social progress". In the Programme chapter, "Building an Inclusive Society" it stated that:

"We will work to promote Social Capital in all parts of Irish life through a combination of research and ensuring that public activity supports the development of Social Capital, particularly on a local community level."[1]

The Social Partners through ‘Sustaining Progress – Social Partnership Agreement 2003 – 2005 ’ committed to the following:

"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]

In 2003, Dublin Employment Pact, Westmeath Employment Pact, Area Development Management and Clann Credo commissioned a study – ‘Social Finance in Ireland’[3] . The study was carried out by TSA Consulting with Lolita Sereleas and Colin Stutt and published in July 2003.

The ‘Social Finance in Ireland’ report was presented to An Taoiseach on 16th September 2003, following which a Roundtable Discussion was held at Government Buildings. There was consensus at this meeting on the setting up of a Steering Committee on Social Finance. This Committee was established in November 2003.

This report presents the work and recommendations of the Steering Committee on Social Finance.

It consists of:

1. A summary of the report ‘Social Finance in Ireland.
2. Updated information on the current status of Social Finance in Europe.
3. Practical recommendations to the Government and other interested parties on implementing the commitments of the current ‘Programme for Government’ and ‘Sustaining Progress’ on the development of Social Capital and supporting the expanded role of Social Finance. These more specific recommendations draw on the general recommendations presented in the report ‘Social Finance in Ireland’.

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[1] An Agreed Programme for Government Between Fianna Fail and the Progressive Democrats, 2002, www.taoiseach.gov.ie

[2] Sustaining Progress Social Partnership Agreement 2003-2005, Dublin: Government Publications

[3] TSA Consultancy Limited with Lolita Sereleas and Colin Stutt,’Social Finance in Ireland; What it is and Where it’s Going’, 2003, Dublin Employment Pact, ISBN 0-9545661-0-6. Also Available online at http:\\www.dublinpact.ie\activities04.htm

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INTRODUCTION

It is generally accepted that where a sense of community is well established there are usually extra dividends in terms of local initiatives and the growth of economic and social structures. There is a better appreciation of the merits of a vibrant democracy and there is usually a marked decline in civic problems.

Robert D Putnam and others, in reviewing the status and role of civil society in the United States at various times and in various regions, have established that an engaged civil society - with progressive activity, organisation, networking, optimism and responsibility - supports active democracy, new social and economic organisations and developing neighbourhoods.

When social trust and responsibility is promoted through co-operation for mutual benefit and a stock of Social Capital is built-up - accessible to and working for local and sectoral communities - there is involvement, personal and community empowerment, growth and a marked decline in civic and social problems.[4]

Social Capital refers to institutions, relationships and norms that shape the quality and quantity of a society's social interactions. Increasing evidence shows that social cohesion is crucial for societies to prosper economically and for development to be sustainable. Social Capital is not just the sum of the institutions which underpin a society – it is the glue that holds them together. Social Capital is "that loose configuration of voluntary spirit, community association and resources dedicated to the public good"[5] and is 'social' because "it involves some non-market process which nevertheless has economic effects."[6]

The added value of Social Capital is that it continually reproduces and augments itself, creating a multiplier effect through the production of community and individual engagement and hence in the wealth and well-being of communities. A strategy for the development of Social Capital supports and greatly increases the resources directly provided by the state to develop communities.

There is increasing agreement internationally that a key tool in the development of Social Capital is a well structured system of supplying Social Finance.

Social Finance is the "provision of finance by organisations which seek a social return or social dividend as well as a financial return and the social return or social dividend in turn is a return which enhances the stock of Social Capital."[7]

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[4] Putnam, Robert D., Bowling Alone: The Collapse and Revival of American Community, Touchstone, 2000 – ISBN 0-7432-0304-6 (pbk)

[5] Hurst, A. (1999) Canadian International Development Agency

[6] Collier, P. (1998) Social Capital and Poverty, Centre for the Study of African Economics, Oxford, 1998

[7] TSA Consultancy Limited with Lolita Sereleas and Colin Stutt,'Social Finance in Ireland; What it is and Where it's Going', 2003, Dublin Employment Pact, ISBN 0-9545661-0-6. Also Available online at http:\\www.dublinpact.ie\activities04.htm

There is thus a major incentive and rationale for the state to play a central role in encouraging support for the development of an autonomous system of Social Finance provision in Ireland. This support can be provided through a variety of mechanisms outlined in this report and its recommendations.

In Ireland there is a uniquely well developed and vigorous community and voluntary sector, which has its roots deep in Irish history. This represents a considerable infrastructure already in place providing the development of Social Capital in communities throughout the country. The role of the community and voluntary sector is recognised by the state and given considerable priority by national policy in the area of community development. There are also already several independent Social Finance providers active in Ireland, notably Clann Credo, the Western Development Commission and Triodos Bank. In addition, the credit union movement is proportionately one of the largest Third Sector ('not for profit') banking systems in existence in any country and offers major potential in relation to the development of a system of Social Finance.

The demand and potential market for Social Finance in Ireland is growing and its inherent multiplier effect will produce steady and assured growth.

RECOMMENDATIONS

In many respects Social Finance has reached a defining moment in its development in Ireland. That it delivers meaningful change is clear; that it represents opportunity to release potential at community level is indisputable. What now needs to be clarified and decided is the manner in which Social Finance is to be further developed in Ireland as an agent for positive change and how the success of Social Finance internationally is to be replicated in Ireland.

Having fully considered the findings of the report on 'Social Finance in Ireland'[8] and its general recommendations and noting the commitment of the Government to promote expanded activity on Social Finance and the necessity to build Social Capital in Irish society as well as the commitment of the social partners expressed in 'Sustaining Progress', the following are practical recommendations to the Government and other interested parties.

1. Support Structures

It is recommended that all the support and development structures required for the delivery, monitoring and support of state assistance in respect of the further development of Social Finance should be undertaken by agencies involved in Local Development, such as (but not confined to) County Development Boards; LEADER Groups; Partnership Companies and County Enterprise Boards.

However, such agencies should be required to devise effective mechanisms for the development of working relationships and local 'joint initiatives' with Social Finance providers for the delivery of Social Finance.

2. Credit Unions

Recognising the unique role of the Irish credit union movement[9], it is recommended that the Irish League of Credit Unions be invited to develop policy and strategy to facilitate their further involvement in developing the Social Finance system in Ireland in partnership with the Government and other Social Finance providers.

3. Financial Supports

It is recommended to the Government that the following supports be provided for recognised Third Sector ('not for profit') Social Finance providers.

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[8] Ibid
[9] www.creditunion.ie

(a) Capital Provision

Funds - for the provision of capital for social investment, supporting community development[10] and building Social Capital.

(b) Operational Capital

Grant aid towards core operational costs and special projects.

(c) Risk Guarantee

The Government should examine appropriate mechanisms for support, indemnities or guarantees, in line with emerging best practices in other European Union states. Such mechanisms should be managed in a structured process of advice and support similar to current practice in credit unions.

(d) European Union – Financial Instruments

It is recommended that government works in partnership with recognised Social Finance providers to access European Union funding under Risk Capital and Financial Engineering instruments[11] in the next round of European Union Structural Funds support, for the purposes of social investment in Ireland. It is noted that the greater use of these instruments[12] is encouraged by the European Commission.

(e) Fiscal Measures

It is recommended to the Government that fiscal policy should incorporate incentives for investors in recognised Social Investment Funds. A precedent for this might be The Green Investment Directive[13] introduced in The Netherlands in 1995 to promote access to finance for environmentally sound and worthwhile projects, which provides tax credits for green investment.

(f) Social Finance Providers - Criteria

Social Finance is understood as the provision of finance by organisations, which as well as seeking a financial return, seek a social return or social dividend to enhance the stock of Social Capital - particularly in marginalised communities.

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[10] Communities may be geographic communities or communities of interest

[11] www.localdeveurope.org/about/fin_eng.html

[12] Financial engineering instruments are support mechanisms offered under the EU Structural Funds which allow for the use of public funds for the capitalisation of venture capital funds, loan funds and guarantee funds. The EU currently provides the incentive of higher aid ceilings for allowable public supports in respect of aids via these financial engineering instruments.

[13] www.eurosif.org/pub/sri/ctry/nl/legi.shtml#3

It is recommended that the Government recognises Social Finance providers which meet the following criteria:

1) Are Third Sector Social Finance organisations established to promote social outcomes. Eligible bodies should include Social Investment organisations (such as Clann Credo Limited), credit unions, social and ethical banks, Community Capital Funds and organisations granted charitable status or operating as recognised community development organisations.

2) Have a capacity in Social Finance provision.

3) Have the capacity to undertake agreed programmes of work.

4) Operate effective and socially responsible corporate governance practices.

5) Adopt transparent decision-making procedures.

6) Use lending and investment criteria which support the building of Social Capital and promote local and community development.

7) Provide loans and equity, backed by various measures of soft support.

8) Use 'double bottom line' accounting procedures - measuring and tracking both commercial and community dividends.

4. Supportive Joint Ventures

It is recommended that government incentives should be extended to include support for joint ventures, joint initiatives and co-operation between approved Irish Social Finance providers and Social Finance providers from other states of the European Union and elsewhere, to help build capacity in Social Finance provision in Ireland.

CASE STUDY

– WHAT SOCIAL FINANCE CAN DO

The early 1990s were a grim time for the necklace of tiny villages that form Dunhill-Fenor parish on the east Waterford coast. Waterford Crystal, one of the main employers in the region, was laying off workers. The amalgamation of Glanbia and Avonmore Foods saw more jobs lost in the company's plant in nearby Kilmeaden.

The writing was on the wall for the villages of Dunhill, Fenor, Boatstrand and Annestown (DFBA). Dunhill GAA Club struggled to field a full team. As Senan Cooke recalls: "It was a time when communities were being challenged to do something about their circumstances – or die."

Senan was one of 10 people who came together to take up that challenge, through the founding of DFBA Community Enterprises in 1993. Initial brainstorming sessions identified the area's strengths and weaknesses and the committee decided to embark on a number of rural development projects focusing on the environment, tourism, heritage and education. But they realised that the future of the community depended on their ability to foster local enterprise and create sustainable employment.

In 1998 the group established Dunhill Rural Enterprises Ltd (DRE), a subsidiary of the DFBA with specific responsibility for managing and developing a rural enterprise park and education centre in Dunhill.

The ten committee members knocked on every door in the parish asking for loans that would be repaid over five years, raising IR£56,000 (€71,120) from 127 separate sources. With this they approached the Dioceses and purchased two acres of church land in Dunhill for IR£10,000 (€12,700).

But the group then hit a roadblock. With no assets, they could not approach commercial financial institutions for further necessary financing. While grants were available, they could only be accessed if they already had a significant amount of financing in place.

DRE approached Clann Credo, Ireland's leading Social Finance provider. As DRE met all the criteria for Social Finance, the committee quickly secured an IR£60,000 (€76,200) loan. After that, the grant aid rolled in with funding from Enterprise Ireland, the Waterford Leader Partnership and the County Enterprise Board. Glanbia made a £20,000 (€25,400) donation to the project.

By the time President Mary McAleese opened phase one of the Enterprise Park in March 2000, the project was already a roaring success. Local manufacturers and craft workers queued up to lease space at rates that were half the cost of similar office and factory space in Waterford city.

Phase two of the project, which opened in October 2000, saw the park expanded to 20,000 sq ft to incorporate an education centre and a multi-media centre with conference facilities.

Tenant businesses are diverse, ranging from a manufacturer of gates to software designers, from glass painting to a specialised tour operator who organises pilgrimages to the Holy Land. The enterprise park is currently operating at 90% capacity, with 50 people working on-site from the local community.

The trickle-down effect of the community's efforts is palpable in the parish. Young people who would have gone to third level and stayed away, found reasons to return home and settle, rebalancing the age profile in the villages. Every Enterprise Park tenant is under 40.

Prior to this, young people who had started businesses tended to migrate to Waterford city, rarely returning. Now this trend of social and economic migration has been stemmed and reversed.

By the early 1990s, the local national school in Dunhill had shrunk to a four teacher school. Between 1992 and 2002 the birth rate in the area soared by 30%, so that by 2003 the school was once again bursting at the seams and eligible for six teachers.

Where once the Dunhill GAA Club's very survival was under threat, now the local community is purchasing a new pitch and its under-age teams are showing great promise. "There's a new and exciting dynamic around the place," according to Senan Cooke, "it's made an outstanding impact on the area."

The DRE example is repeated in many communities across Ireland. Whether it is the creation of a community resource centre in Ballybane in Galway, or the creation of an employment project (Speedpak) in Dublin City, community endeavour and enterprise assisted by Social Finance has made a real contribution to people's lives.

WHAT IS SOCIAL FINANCE?

Social Finance is a new and innovative model of investment which generates positive social change. It responds in a considered fashion to pressing social needs, particularly where those needs have little hope of being met by conventional finance and investment models.

In doing so, Social Finance contributes towards the regeneration or creation of vital social infrastructure: lives are changed; communities are transformed and given hope. Social Finance is a social, financial and political necessity.

However, the very novelty of this model – in Ireland at least – has contributed towards confusion as to what lies behind the concept and, more importantly, to what distinguishes it from traditional investment.

Given that Social Finance has elements in common with other like-minded or similar-sounding concepts, it is important to clearly differentiate it from the outset.

Social Finance is not:

Ethical Investment – investing in bonds or shares that are certified as 'ethical';

Bank lending for community centres – the objective here, as we shall see, is not the same as that of Social Finance;

Socially responsible investment – refusing to invest in certain industries, such as the arms trade.

What all the above share is a prioritisation of profit over social impact. While the social impact of the investment, or indeed the social contribution made is important, it is **not** the primary **consideration**.

Thus, while a bank loan made to renovate a community centre is desirable and will have positive social impact, that is not the intent or motive for the loan. The only consideration involved is whether the loan will return a profit. No more, no less.

Similarly, while ethical and socially responsible investments are worthy concepts, their primary consideration is a financial return, a profit.

Indeed, while these models are important in their own right, their capacity to contribute to longer-term development and lay the ground for fundamental change is seriously limited. This is where they diverge most crucially from Social Finance.

In essence, it could be said that Social Finance works because it adopts the most positive, sustainable characteristics of both the traditional financial model and what may be called the socially aware model. Thus, it demands that its investments make a positive social impact: generating employment, developing a community asset such as a resource centre, improving community services, such as childcare. Equally, it demands that the original investment in these services and resources generates a profit for the investor. A social return and a financial dividend.

If conventional finance can be said to adhere to 'the bottom line' (profit), then Social Finance provides a more holistic model in that it works to the 'double bottom line' – profit and social dividend.

Thus, the Social Finance investor actively seeks an investment opportunity that results in social impact – the positive contribution an investment will make to a given community, in the broadest possible sense. This impact – be it in housing provision, or employment generation – is what the social investor seeks. It is not an accidental or happy by-product. Equally, the emphasis on receiving a financial return clearly differentiates it from a charitable act.

This makes Social Finance unique, innovative and progressive. Social Finance uses capital as an agent of positive social change. Mainstream banks and investment houses are not comfortable dealing with the social sector, making it difficult for the sector to access finance.

Social Finance is sustainable over the longer-term, given that it generates financial returns on investments. Social Finance can provide short-term investment in certain areas and, given its capacity for growth and sustainability, it can also look to the longer term. These are flexibilities that other 'socially-aware' models often lack.

These factors require Social Finance providers to be diligent in their investment policies and strategies, often requiring them to operate to higher standards than pertain in the conventional financial system. The need to comply with the highest standards may contribute to the long-term viability of Social Finance providers and, in some respects, gives them an advantage over conventional lenders.

As an alternative model of development it both highlights the inadequacies of existing systems and challenges the notion that profit and profit alone serves to motivate all human endeavour and economic activity. This is a crucial consideration, given that most people now realise the market alone cannot deliver social development and progress. It cannot serve all human needs.

Social Finance therefore seeks to generate an inclusive prosperity, from the ground up. Its aim is the development and creation of Social Capital that will benefit all, with particular focus on those hitherto excluded and neglected communities.

Social Capital can be as tangible as community infrastructure – shops, resource centres, childcare facilities – or as intangible as ‘community spirit.’ Too often, we recognise the benefits it confers only in its absence. For Social Finance providers a core aim is to facilitate or enable people to participate fully in all decisions and processes that affect them. This inclusive and democratic impulse is at the heart of the initiative. However, equality, in the absence of opportunity, is but a hollow shell.

Participants in the Roundtable Discussion at the Department of the Taoiseach in September 2003 following the launch of the report 'Social Finance in Ireland' by the Taoiseach, Mr Bertie Ahern TD.

HOW DOES IT WORK?

The Social Finance provider will channel investment into communities and projects that cannot otherwise access investment. But that investment must generate a positive social benefit and a financial return.

Of necessity, flexibility and adaptability are necessary hallmarks of the Social Finance provider. As one agency explains:

"We do not have 'off-the-shelf' solutions; rather we tailor bespoke financial products suited to the unique circumstances of each project."[14]

This requirement for flexibility derives from the actual experience and circumstances in which a typical Social Finance provider operates. Excluded and marginalised communities – and the problems they present – are not amenable to conventional solutions, one-size-fits–all packages. Their very presence on the social margins requires innovative thinking and the capacity to discern potential where traditional finance providers cannot, or will not.

Across Europe and in the United States – where the model has proven remarkably successful – the accepted collective term for Social Finance providers is Community Development Finance Institutions (CDFIs). They encompass a range of organisations - credit unions, community banks, community development corporations and micro-credit providers.

In essence, CDFIs provide loan finance as opposed to grant finance, to service unmet needs. In addition, CDFIs are usually independent of state authority, or public policy initiatives. This independence is crucial both to their ethos and long-term sustainability. Were they merely a policy instrument, their lifespan would inevitably be the same as the related policy initiative, or indeed, of a particular government.

They source funding from a wide variety of sources: local investors; charities and charitable foundations; faith-based organisations; governments; banks; bequests and donors. While different CDFIs will often emphasise or adopt one approach over another, their activities can be classed under six distinct headings.

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[14] Annual Review 2003, Clann Credo Limited, www.clanncredo.ie

Micro Finance Funds provide small loans to small businesses, or entrepreneurs. Interest rates are usually close to market rates, without reliance on conventional collateral requirements;

Mutual Guarantee Funds are small associations of small to medium-sized businesses that pool savings to borrow more;

Credit Unions are savings co-operatives - not-for-profit bodies where members save in the form of shares, which are then used for re-lending;

Community Loan Funds make capital available to community regeneration projects. Loans are often used to leverage additional capital. The funds are usually owned and controlled by local communities;

Community Venture Capital Funds are similar to conventional venture capital funds that provide equity to enterprises. In this instance, however, only projects with a social mission can qualify;

Social Banks are not-for-profit bodies dedicated to certain social or environmental objectives.

As noted earlier, CDFIs are characterised by their independence from the state and individual policy initiatives, and by their long-term sustainability. Recent research by the New Economics Foundation in the UK demonstrated how bodies dependent on state funding or grant aid are usually ‘compromised’ by this form of funding, as they become dependent on it, are short-term in character and unsustainable over the longer-term.[15] This is not conducive to ongoing development.

Social Finance provision is established and growing in the United States, the United Kingdom and across continental Europe and is currently being given strong support by the European Commission.

[15] TSA Consultancy Limited with Lolita Sereleas and Colin Stutt, 2003, Dublin Employment Pact, ISBN 0-9545661-0-6

SOCIAL FINANCE IN IRELAND

The Irish Social Finance sector has undergone substantial growth in recent years.

Although still on a modest scale in comparison to international best practice, it has nonetheless, despite its youth, set a remarkable pace and recorded significant successes which is reflected in the level of political support and official recognition given to the sector. At a party political level Social Finance has received the attention of the main political parties.

The Fianna Fáil election manifesto of 2002 contained a commitment to "examine ways to support the expanded activity of new funds, such as the Clann Credo initiative."

This pledge translated into much firmer commitments in the current 'Programme for Government' (2002) and in the 'National Partnership Agreement – Sustaining Progress' (2003-2005) referred to earlier in this report.

On March 27, 2003, the Minister for Community, Rural and Gaeltacht Affairs, Éamon Ó Cúiv, TD, praised the work of Social Finance providers to date and signalled Government interest in facilitating and assisting the development of the sector.[16]

"In this concept we have the solution to many problems. We can create communities out of housing estates."

"We can (go forward) to make community development central, not peripheral."

The Minister went on to stress that the Government was "interested in building partnership with social lenders."

An Taoiseach, Bertie Ahern TD at the launch of the report 'Social Finance in Ireland' on 16th September 2003 welcomed the report's publication and said he believed it would make a major contribution to the development of Social Finance in Ireland, a concept with which he was both familiar with and interested in. He said that the issues raised by the report seemed to indicate that Social Finance is a viable prospect and that he would be "very interested to see it developed further". He remarked that: "Current circumstances were favourable to the development of this idea and to making it work."

Maintaining this pace of development presents a real challenge for the sector in Ireland, not least in ensuring that these very public political commitments are translated into tangible measures.

In the report 'Social Finance in Ireland', the authors identified a range of:

"existing mechanisms for providing repayable finance to those excluded from mainstream finance in Ireland."[17]

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[16] Speaking at 'Common Cents 2003' The Annual Conference on Social Finance held by Clann Credo Limited. A report on the Conference proceedings is available from Clann Credo Limited

[17] TSA Consultancy Limited with Lolita Sereleas and Colin Stutt, 2003, Dublin Employment Pact, ISBN 0-9545661-0-6

These fell into a number of categories:

Micro-finance providers

Credit unions

Public-Private Partnerships

Mutual guarantee schemes

Social investment funds

Social banks

Community banks

Mainstream banks/finance providers

The range of services provided through these mechanisms was quite impressive and the scope of involvement considerable. Services included:

Training & employment

Community infrastructure

Enterprise development

Support for travellers, ethnic minorities

Environmental projects

Childcare

Community/rural transport

Arts and culture

Care for the elderly

Housing

Services for people with disabilities

Youth

Community radio

Gay & lesbian projects

Women's projects

Thus it is quite clear that the Social Finance sector has the potential to become deeply embedded in the social and economic life of this country. Therein lies its strength and remarkable potential for growth. It is rooted in daily life and reality.

One obvious weakness, which the sector has recognised and set about addressing, is the fact that it has, to date, tended to operate in an ad hoc and uncoordinated fashion.

Thus, while the work is being carried out on the ground, on a daily basis, it is occurring in response to need and circumstance, rather than as part of a broader strategic vision for the sector. It is reactive rather than proactive.

Nonetheless, the great majority of those who have accessed Social Finance view the experience positively, certainly in comparison to their experiences with mainstream providers.

They cited accessibility, better rates, flexibility and greater understanding as key factors in its favour. For example, many small or community-run services would not be in a position to provide collateral for a loan, as they operate on tight budgets and do not own the buildings from which they operate. Far too often, experience shows that this has been an insurmountable obstacle, as far as mainstream providers and banks are concerned. Not so for Social Finance providers.

Thus, a full 55% of those surveyed in the TSA report felt Social Finance provision held "the greatest potential for growth." This probably results from a move away from grant aid, which is unsustainable in the long-term, allied with the fact that: "The availability of Social Finance tends to stimulate its own demand."

Like all good services, its very availability is the most potent form of promotion.

The report concluded that: "The trend is towards…. an increase in demand for funding of social economy organisations."[18]

The potential market for Social Finance is substantial and spans all areas where people are working together to provide community service with a social dividend.

Area Development Management works with more than 50 core partnership organisations and community groups in the geographic areas with the highest levels of concentrated disadvantage. Over 5,000 organisations are registered as charities with the Revenue Commissioners: 130 of the largest of these are organised in the Irish Charities Tax Reform Group. The Irish Council for Social Housing has about 200 member organisations and there are many others operating outside the association. There is a huge number of community-based childcare organisations. In the area of services for people with disabilities there are some nine umbrella organisations representing over 400 constituent organisations. There are thousands of community and voluntary sector organisations serving the needs of society in Ireland.

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[18] Ibid, Chapter 3 - For further details of this Survey

A scan of the Irish Fundraising Handbook[19] documents a society organised at official and community and voluntary sector levels around an endless list of socio-economic issues and services[20], almost all of which fall within the market for Social Finance.

Nonetheless, the sector has encountered obstacles.

In the first instance, the sector may be a victim of its own success. The rapid growth experienced in recent years may have appeared to diminish the necessity for greater promotion and marketing of Social Finance itself. In addition, there is a requirement for more coherence within the sector, to afford greater delivery of quality services, achieve economies of scale and ensure that the highest possible standards are maintained.

Simultaneously, the Government must act upon its repeated and reiterated commitments. As Minister Ó Cúiv noted: "In this concept we have the solution to many problems."

The success of Social Finance in the US and elsewhere in Europe bears witness to this observation.

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[19] Irish Fundraising Handbook, 2003-2004, 5th Edition, Dublin, CAFÉ Publications / Clann Credo

[20] Thematic Index Extract: Anti Poverty; Anti Racism; Arts; Asylum Seekers/Refugees; Capacity Building; Children; Community Development; Cross Border; Culture; Development Education; Disability; Drugs; Education & Training; Enterprise; Environment; Equality; Family Support; Gay & Lesbian Rights & Services; Gender; Health; Heritage; Housing; Immigration Support; Civic Information; Language; Older People/Age; Overseas Development; Peace & Reconciliation; Prisoners; Rural Development; Social Inclusion; Sports & Recreation; Student Services; Tourism, Urban Renewal and Youth.

SOCIAL FINANCE IN THE USA

In the United States of America, Social Finance providers work within a framework of positive and enabling Government legislation. The sector manages some $6bn in assets and has grown over 250% since 1992.[21]

The key to success in the United States lay in the passing of the Community Reinvestment Act (CRA), in 1977. This established in law that mainstream financial institutions had an obligation to meet the credit needs of communities in which they operated. Irish banks, by comparison, are under no such compulsion.

The genesis of the innovative CRA lay in public and political revulsion at a banking practice known as 'redlining'[22] – quite literally banks drew red lines on maps to delineate poorer localities to which they would not lend, no matter what the profile of the individual borrower or credit history. The new legislation resulted, over time, in significantly higher levels of capital entering disadvantaged neighbourhoods.

In 1994, US legislators took the next logical step, through the introduction of the Community Development & Regulatory Improvement Act. This effectively created a federal fund to support the ongoing work on Community Development Financial Institutions (CDFIs). CDFIs can be community development banks, credit unions, loan funds and so on. The US Department of the Treasury will certify lending bodies whose primary aim is community development. They must also meet other rigorous criteria involving delivery of services.

The necessity to pass official muster on an ongoing basis ensures that high standards are set and best practice implemented. In addition, banks must also meet the requirements laid down in the original 1977 CRA, to ensure they do not engage in 'redlining' by other means. They are subjected to inspections to ensure there are no 'suspicious gaps' in their lending patterns. If any emerge, it is up to the bank to justify or explain their actions.

The law also provides incentives for the banks to re-invest locally, in the form of loan guarantees and tax credits. Many banks ensure compliance through support for CDFIs, or similar institutions. In some instances, banks have created their own community development bodies, as a vehicle for both investment and compliance with the law.

Nonetheless, the US Social Finance sector faces challenges in the years ahead. Financial deregulation, the growth of e-commerce and prevailing ideology have combined to create an operating and working environment less accommodating than before.

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[21] TSA Consultancy Limited with Lolita Sereleas and Colin Stutt, 2003, Dublin Employment Pact, ISBN 0-9545661-0-6

[22] Barefoot, Jo Ann S, Can Compliance Co-exist with Common Sense, 2003 – www.banking.com/aba/compliance_0397.htm

For example, since 1999, insurance companies, banks, companies and securities firms have all been allowed to enter each other's markets. As a result, insurance companies can now make loans, but as they are not banks they can do so without having to comply with CRA regulations.

In addition, internet banks cannot be compelled to comply with the CRA, as they literally have no community in which they are based or supposed to serve.

Lastly, elements in the current US administration are reported to be deeply hostile to the concept of legislation that places such social obligations on banks.

Yet, it would be alarmist and out of proportion to suggest that the very existence of the sector is under threat in the US. What they face are simply new challenges.

Social Finance providers have become part of the financial furniture in the United States. They are too large, too deeply-rooted and too successful to be overwhelmed by new trends, or simply wished away by unthinking ideologues.

THE EUROPEAN EXPERIENCE

This section describes the development and current status of the Social Finance sector in selected European states.

The United Kingdom

The Social Finance sector in the United Kingdom currently commands assets of about Stg£250m, growing in an environment enabled by supportive legislation dating from 2000.

The report of the Social Investment Taskforce[23] published in October 2000, laid the ground for much of the current growth in the UK's Social Finance sector.

Indeed, official approval and encouragement of the sector appears to have been inspired by the success of the US model. In fact, in opposition, the Labour Party raised the possibility of introducing a UK version of the US Community Reinvestment Act.

The October 2000 Taskforce Report makes for interesting reading from an Irish perspective as it identifies obstacles to the growth of Social Finance in the UK. The comparison with the current situation in Ireland is striking.

Among the most important findings were:

An absence of crucial linkages between government and other existing or potential actors in the sector and "major gaps" in the official policy framework.

An over-reliance on grants to fund community bodies had "encouraged a culture of dependence" and failed to build "sustainable organisations".

A lack of information on bank lending practices in specific communities (the implication being that 'redlining' was also occurring in the UK).

Inconsistency, incoherence and contradictions in the approaches adopted by differing government departments towards the sector.

Commenting on the "underdeveloped" nature of the sector in the UK, the report noted tellingly: "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….needs to be a key objective."[24]

The Task Force went on to make five key recommendations - to which the Government reacted favourably – that were intended to fashion a "new system of support for Social Finance."

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[23] www.enterprising-communities.org.uk
[24] Ibid

Introduction of a Community Investment Tax Credit, to encourage private investment in under-resourced communities using the vehicle of Community Development Financial Institutions. The scheme accepted its first applications in January, 2003.

Community Development Venture Fund – essentially the application of venture capital (investment, plus support) to businesses in marginalised areas. Launched in May 2002, with the Government and private sector each committing Stg£20m.

Bank disclosure – forcing banks to account for lending practices in under-resourced communities. Although no measures have yet been implemented, the issue is at least on the policy agenda.

More latitude for charitable trusts – legislation governing charities is in the process of being reformed and modernised.

Support for Community Development Finance Institutions (CDFI's) – a vital component of the new environment. CDFIs would act as a bridge between Government and investors, on the one side, and social and community ventures on the other. This has led to the formation of the Community Development Finance Association, charged with promoting the sector and supporting its further growth.

The UK experience contains some pertinent lessons for the Social Finance sector in Ireland. For example, the willingness of the UK Government to draw on and learn from best international practice (including the development of credit unions in Ireland) has contributed hugely to the rapid and effective implementation of a coherent policy framework and practical effective action.

Northern Ireland

The policy and actions initiated by Government in the United Kingdom has positive implications for development and expansion of Social Finance in Northern Ireland. Social Finance was one of the first policy endorsements by the devolved Executive in Northern Ireland. This resulted from a comprehensive review of the sector, undertaken in 2000 which led to the creation of a 'Social Economy Network' and a 'Joint Social Economy / Government Forum'[25] chaired by the Minister for Enterprise, Trade and Investment.

One of the key actors in the sector in Northern Ireland is the Ulster Community Investment Trust[26], which was originally established in the early 1990s as a community bank. A 1995 study resulted in the body adapting its role to that of a CDFI, as per the US model. The Trust began processing loan applications in 2000/2001.

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[25] www.colinstutt.com
[26] www.ucitltd.com

Already, it has established substantial funding from key sources: European Union Structural Fund Programmes; the International Fund for Ireland[27] and government departments. The value of this funding to the Trust is estimated at some Stg£8.7m, making it the largest single CDFI in the United Kingdom.

The other organisation of note in Northern Ireland is Aspire – 'Micro-Loans for Business'[28] . Aspire is the leading micro-finance agency in the UK. To date, it has invested some Stg£920,000 in small businesses – with 80% of that targeted at "small business" in the most marginalised communities. Small business means small business: "painters, plumbers, florists and window cleaners" is how the head of Aspire, Niamh Goggins, described Aspire's clients – "We're not looking at the next Bill Gates here."[29] Aspire's mission is to help maintain the provision of services and the creation of employment in deprived areas.

Proactive, constructive and consultative official engagement has laid the foundations for the success of the Social Finance sector, in Northern Ireland and the rest of the UK.

France

Social Finance in France operates within a sophisticated and often complex national framework. In many respects, the French model has established Social Finance as an expression of public will and a tool of social policy. State support and involvement – at all levels - is present and crucial to its operation.

There is a wide array of voluntary associations, state initiatives and state-supported bodies that function at a national, regional and local level. The concept of making finance available to the socially or economically marginalised is embedded in French public life.

Indeed, it was the reality of high unemployment two decades ago; along with the effective withdrawal of the banking sector from areas deemed unprofitable, that largely stimulated the emergence of the microfinance structure.

However, state involvement can be traced further back, with the Ministry of Employment actively involved in finance provision to small enterprises – through ACCRE[30] – since 1977.

In recent years, the Government launched a scheme (PCE[31]) to enable small enterprises leverage larger loans from the commercial banking sector.

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27 www.internationalfundforireland.com

28 www.aspire-loans.com

29 'Common Cents 2003' The Annual Conference on Social Finance held by Clann Credo Limited. A report on the Conference proceedings is available from Clann Credo Limited

30 www.france5.fr/emploi/entreprendre/ W00225/41/104083.cfm

31 www.localdeveurope.org/pdf/case_stu/casestudy9.PDF

Within the Social Finance sector, different bodies serve different functions. Thus, the CIGALES[32] association limits itself to providing finance to organisations, whilst ADIE[33] supports individual enterprises.

The latter body, ADIE – a non-profit organisation – borrows directly from banks, in order to re-lend. It does this by virtue of legislation passed in France 2002. Indeed, ADIE's focus is almost wholly on unemployed individuals – or those in receipt of state social welfare benefits – who wish to start their own businesses. In 2002, ADIE loaned some €17m to such enterprises. It has directly contributed to the creation of 16,000 enterprises and 19,000 new jobs, over the last decade.

The CIGALES association – a network of 'clubs' – has invested some 13 million francs, since 1983.

Most French providers were established to battle social exclusion and unemployment. Their main source of finance is public funding. However, money is also sourced from private foundations, through common investment funds or contributions from the public.

Another notable feature of the French system is its reliance on a large pool of willing volunteers, many organisations keeping salaried employees to a minimum. CIGALES, for example, employs two full time staff.

A characteristic of most Social Finance models is the provision of business development support services to funded projects, ensuring greater success and sustainability for assisted bodies.

Apart from the national associations, such as CIGALES and ADIE, France also has a vibrant network of organisations focusing on specific constituencies (youth, women, ethnic minorities) or on public needs (housing, rural development). Others work at regional and local level – usually with the support of relevant authorities.

In short, the French model actively combats social exclusion through job creation, enterprise creation and through redressing imbalances in the provision of services. Its clear, stated and unambiguous aim is social inclusion and integration.

Belgium

Belgium is perhaps unique in that commercial banks do not provide small loans - this is a growing trend across Europe. Thus, the Social Finance and micro-finance sector tends to be dominated by official, public initiatives. State involvement in the sector dates back to just after World War II and was further strengthened by legislation during the 1970s.

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32 www.inaise.org/EN/txt_01215.html

33 www.inaise.org

Belgium is currently in the process of creating a guarantee fund, for those seeking to invest specifically in the social economy.

The main public scheme is known as the 'Pret de Lancement'[34], an integral part of the social welfare system that facilitates business start-ups by the unemployed. This offers unsecured loans of up to €27,500, repayable over a maximum period of 13 years.

Local and regional authorities are also empowered to provide loans to new businesses experiencing difficulties accessing traditional finance. Apart from official initiatives, there are privately run schemes operated by NGOs and other bodies.

Credal Microcredit[35], for example, styles itself after the example of ADIE in France. Funding was secured through the European Social Fund with the assistance of the Belgian Government and operations began in 2000. The customers are those who cannot access traditional finance. The scheme places strong emphasis on advice, support and peer review. The Credal organisation is itself a savings co-operative with resources of approximately €6m.

Pret Solidaire[36] is a scheme operated in conjunction with Triodos Bank[37] and focuses on people living on state social welfare benefits. Loans of up to €6,250 are made available, with beneficiaries entitled to maintain their state social welfare benefits for a period of three years afterwards. Between 1997 and 1999, the fund enabled 160 people to move from away state social welfare benefit to earn their income by running their own small enterprises.

The Belgian sector is also populated by a plethora of small scale, local NGOs – effectively informal groupings of people pooling savings and offering loans to individuals or organisations within a regulated environment.

Germany

The Social Finance sector in Germany is still in its infancy. This is partly explained by the pre-existing diversity of the German banking sector - a diversity which allowed for greater flexibility in terms of responding to unmet credit needs than in many other European countries. Thus, the German banking sector contains private banks, savings banks with public guarantees, co-operative banks, ethical banks and public banks. Many are driven by a social mission of some sort, over and above the drive to make profits.

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34 www.localdeveurope.org/pdf/country_rep/belgium.PDF
35 www.micro-credit.net
36 www.localdeveurope.org/pdf/country_rep/belgium.PDF
37 www.triodos.co.uk

Germany is no exception in terms of the trend towards greater rationalisation and concentration in the banking sector. Invariably, the impact has been the same as that observed elsewhere, with banks serving the whole community less and less, concentrating instead on major businesses and larger customers. It has become evident that there is a growing need in Germany for creating better access to finance for small enterprises and for organisations and individuals on the social and economic margins.

While some small scale operations have, in recent years, attempted to establish Social Finance schemes, they have encountered a major obstacle in the form of Germany's strict banking laws which allow only incorporated banks to provide credit.

As of yet, there is no official involvement in, or support for the Social Finance sector other than through the mainstream banking system. However, in recognition of a changing society and sector, Germany's state unemployment agency is currently collaborating with Deutsche Bank in the operation of a pilot microfinance initiative.

Sweden

Local savings banks are long-established in Swedish society. Today, however, most appear to have moved closer to the conventional banking model.

During the 1990s – perhaps in response to developments in the banking sector – the credit union movement achieved a revival in Sweden and is now considered a growing force in the financial sector.

There are other actors in the sector, some of whose developments may point towards how the Swedish banking market will develop.

The JAK Members Bank[38], for example, is the country's first interest free bank. It is owned and managed by its 21,000 members, to whom JAK provides interest free loans. Members can allocate their savings to local enterprise initiatives and the bank can channel such funding to initiatives that have been denied credit elsewhere. All savings are protected by the national bank deposit guarantee.

Aiming to encourage more women to start their own businesses led to the establishment of the Natverksbanken[39], in 1994. Inspired by the Grameen Bank[40], the project received initial financing from Sweden's Labour Market Board, but has also received support from the European Union.

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[38] www.globalideasbank.org

[39] www.dalarit.se

[40] www.grameen.com

Ekobanken[41], although smaller, is also worth noting insofar as it is driven by a social mission which sees it providing credit to projects that produce a community benefit. The bank specifically focuses on the social economy.

At a national level, the state has established some organisations to exclusively service and fund the small enterprise creation, for example ALMI Foretagspartner[42] (with funds of some €450m).

The Netherlands

Although in the past the state tended to dominate the sector in The Netherlands, recently private initiatives have achieved approximate parity of presence.

State involvement was driven primarily by ideological and financial considerations, recognising the worth of small enterprise creation and its own role in facilitating their creation and development. Successive governments have introduced and honed a series of legislative measures resulting in the establishment of important (and numerous) official initiatives. It should be noted that social inclusion is afforded a high priority in The Netherlands, both by public and private operators.

The BBZ programme[43], for example, provides self-employed and unemployed people with support for business start-ups through income support and loans for capital investment.

Another noteworthy initiative is the SME Guarantee Fund[44], which aims to stimulate job creation through support for small enterprises, by way of increased loan finance. The system, which traces its origins back to 1915, is widely regarded as very successful.

The Dutch Government has also introduced a tax-based initiative – the Aunt Agaath Facility[45] – to provide easier access to finance for those starting their own businesses, either from private individuals or from banks participating in the scheme.

Although a relatively late entry into the sector – given the predominance of the state – private initiatives and bodies have now established themselves as important providers. Among the best known are 'Werk en Ondernemen', a foundation which focuses on underprivileged entrepreneurs. Another body, 'Dimo', targets socially-marginalised minorities – gypsies, ex-prisoners, etc.

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41 www.ekobanken.se
42 www.eban.org/pays/sue.html
43 www.bbz-charter.nl/b_english.htm
44 www.localdeveurope.org/pdf/case_stu/casestudy4.PDF
45 www.alter.be/pdf/2325_01AuntAgaathNL.pdf

The more high-profile and better known Mama Cash[46] was established to provide ethnic minorities with venture capital. It manages a series of funds and is financed by the state, private donations and development NGOs.

'Stason'[47], a Rotterdam-based organisation aims exclusively to facilitate female entrepreneurs. The organisation provides guarantees through ABN-AMRO Bank.

Triodos[48] is one of Europe's leading ethical banks. Established in 1980 in The Netherlands, Triodos enables money to work for positive social, environmental and cultural change.

It offers a comprehensive range of banking services for social businesses, charities and groups along with a variety of savings accounts for individuals. The bank only lends money to organisations and businesses pursuing positive social, environmental and cultural goals. It is a public bank with thousands of customers and shareholders. Their principle and independence are guaranteed through a special share holding trust which protects the social and environmental aims of the bank. They have offices in Belgium as well as The Netherlands and the UK and are represented in other European countries, including Ireland. Their International Development Investment Unit finances fair trade and micro-credit in developing countries.

The heavy involvement of the Dutch banking sector in such initiatives makes the Dutch experience virtually unique in Europe. Apart from ABN-AMRO, banks such as ING, Rabobank and Fortis all play a key role in the Dutch model and all are listed among the top 40 banks in the world. Doubtless, this is largely as a result of what the European Union has called for and which the Dutch Government has successfully established – an 'enabling environment'.

Spain

The genesis of the Social Finance movement in Spain can be traced to the move to 're-democratise' the country, following the death of Franco. In common with that broader social movement, it was less a sense of creating anew, rather of rediscovering and building on traditions and values that had either been forced underground, or were at a low ebb during the years of dictatorship. This applied in particular to the long-established co-operative and savings banks, which had deep roots in Spanish society.

However, the movement itself only gained real impetus with the European-wide unemployment crisis of the 1980s. Thus, the issue of access to finance and job creation headed the domestic political agenda, with the co-operative sector particularly active in this regard. In addition, Spain possessed a rich network of grassroots and social organisations – community movements, worker associations, unions, and Christian groups.

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46 www.mamacash.nl
47 www.stason.nl
48 www.triodos.co.uk

As the re-democratisation process unfolded and as employment creation became a priority, these bodies were well-placed to take advantage and reposition effectively. Furthermore, their origins ensured that they brought a dual focus to the task – battling unemployment and social exclusion. By failing to address the borrowing requirements of those most in need, traditional banks effectively ensured that new means of doing business would be created.

Interestingly, state involvement in the 1980s appears to have consisted solely of the payment of grants to enterprises. However, as the programme seemed to lack focus and a coherent strategy it was never a huge success. In later years, the state had greater success in pursuing the creation of Public-Private Partnerships, with a focus on development and job creation.

During the 1990s, a number of initiatives came to fruition, with finance being made available to young entrepreneurs, women, social enterprises and co-op members.

Today in Spain, this is a largely grassroots-based movement comprising three distinct groupings:

1. Those promoted by or originating within the co-operative movement (workers co-operatives, credit co-operatives, financial services coops)

2. Those emanating from the Christian grassroots movement (solidarity funds or bonds, micro-credit funds)

3. 'Societies' that operate to a business model, but driven by social goals (providing small loans, or equity to enterprises).

A fourth grouping could be said to be social organisations funded by the savings banks, of which the best known example is the RUFAS network[49]. RUFAS was established in 1999 to co-ordinate existing Social Finance operations in different regions of Spain. It conducts research and shares and disseminates information and experiences among member bodies. It also allows members to pool resources, expertise and skills, while it also acts as the representative body for members at European Union and other levels.

Italy

Here, the sector is still rather underdeveloped and the public perception of microfinance provision is of a tool more suited to the developing, as opposed to the developed world.

However, with social exclusion a recognised and growing phenomenon – along with its ugly twin – credit exclusion - perceptions and attitudes have been shifting.

49 www.localdeveurope.org/pdf/country_rep/spain.PDF

Traditionally, the sector in Italy has been dominated by - but not wholly comprising - ethical investment initiatives, with the Padova Banca Etica[50] perhaps the best known. The bank opened for business in 1999 and finances projects of a social, cultural, environmental and international nature. Banca Etica possesses over €10m in savings and 17,000 members and has approved some 1000 loans to date.

However, the initiative is predated by the Mutue Auto Gestione (MAG)[51], a mutual society as the name suggests, which began using members' savings to finance social economy organisations, in the 1970s.

Among the newer breed are Fondazione San Carlo[52] which has attracted interest as it receives financial support from a large, mainstream Italian bank, and is a sign of changes coming.

In addition, one regional employer's body has initiated a small loans programme that specifically focuses on those on the social margins, especially to pay home rental and other living necessities.

The state's role remains limited, with support in the main restricted to grants and subsidies.

However, new legislation introduced in 2000, created new incentives to facilitate small enterprise creation as a means of tackling employment, with two new statutory bodies established to disburse the monies.

Portugal

The Portuguese microfinance sector has undergone something of a revival in recent years, given that the country had a rich tradition of local and small-scale finance that died out in the second half of the 20th Century.

In 1999 the non-profit ANDC[53] began life. The association was established to provide access to credit for those otherwise denied such access. It provides loans of up to €5000, repayable over three years. Interestingly, the scheme is run in conjunction with a commercial financial institution.

Despite the absence of a broad movement, the state has been active in developing Social Finance, instituting a variety of support measures and programmes.

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50 www.bancaetica.com
51 www.uni.net/gus/convbe.htm
52 www.fondazionesancarlo.it
53 www.localdeveurope.org/pdf/country_rep/portugal.PDF

These variously provide technical and financial support for job and enterprise creation and also assist some in receipt of social welfare to start enterprises.

Some of the programs also specifically target women, people with disabilities and young people.

The European Commission

There is a strong new emphasis on the expansion and development of Social Finance from the European Commission, with encouragement to use existing and new measures to expand the sector throughout the Union, through the greater use of 'Financial Engineering' instruments in social and economic policies and practices.

Regional Policy and Structural Funds

European regional policy is a shared commitment based on financial solidarity. It permits the transfer of over 35% of the Union's budget to the least developed regions. This solidarity is primarily expressed through the four Structural Funds. In combination these funds remain at about €28bn per year from 2000 to 2006.

In addition, there are special moneys - the Cohesion Fund - to assist Spain, Greece, Ireland and Portugal - recognising that their transport and environmental infrastructure remains relatively weak. Whilst the four Structural Funds work 'hand in hand', each has its own thematic focus.

The European Regional Development Fund (ERDF) finances infrastructure, job-creating investments, local development projects and aid to small firms. In practice all development areas are covered: transport, communication technologies, energy, the environment, research and innovation, social infrastructure, training, urban redevelopment and the conversion of industrial sites, rural development, the fishing industry, tourism and culture.

The European Social Fund (ESF) promotes the return of the unemployed and disadvantaged groups to the work force, mainly by financing training measures and systems of recruitment aid. It aims to prevent and combat unemployment, as well as developing human resources and promoting integration into the labour market.

The Financial Instrument for Fisheries Guidance (FIFG) helps adapt and modernise the fishing industry.

The European Agricultural Guidance and Guarantee Fund (EAGGF) support rural development and the improvement in agricultural structures.

It is generally little known that the European Union offers support mechanisms other than 'one-off' grants.

There are a series of aid instruments within the European Union Structural Funds which are known as 'Financial Engineering' (FE)[54] instruments. They enable, through grants, the capitalisation of venture capital funds, loan funds and guarantee funds.

It is clear that these instruments are gaining importance in European Union Structural Funding policy – Structural Funds being the European Union's most important devices for socio-economic development.

Incentives are now provided to member states to use Financial Engineering instruments. Aid accessed via these instruments carries the incentives of greater funding availability (with higher ceilings on allowable supports).

However, whilst the European Commission (EC) may encourage and set favourable incentives for implementing new forms of financial instruments with the European Union Structural Funds, it remains with the national, regional and/or local decision makers whether they will adopt such mechanisms or not.

It is within the 'Operational Programmes' (OP) which are the spending programmes and funding applications by member states that spending on Financial Instruments must be mentioned and programmed to make money available for local development and micro-loan schemes. These should be used.

The integration of new member states from Eastern Europe will inevitably redirect a significant amount of Structural Funds to the accession countries. This requires that the reduced fund, in absolute terms, in Western Europe must be used in more parsimonious and sustainable ways: in forms that have proved to be more effective and sustainable, including banking and investment type instruments, rather than as one-off subsidies.

Financial Engineering for Local Development

Financial Engineering for Local Development[55] is an emerging concept that goes beyond the concept of 'Financial Engineering' typically used by the European Union – which is the use of funds for the development in any form of financial support other than grants.

Financial Engineering for Local Development is concerned not just with the increased use of financial instruments (loan finance, guarantee funds, equity finance) but with the application of those instruments to tackle the social and economic problems of deprived areas. Its interest is in supporting sustainable local development.

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54 www.localdeveurope.org/about/esf.html
55 www.localdeveurope.org/partners/ever.html
www.eversjung.de

Financial Engineering for Local Development is also concerned with how those financial instruments are designed. Experience shows that good design is key to successful implementation and results on the ground.

Local development and job creation are high on the political agendas of most European member states. At the same time there are widely recognised challenges to achieving public goals in an effective, responsive and sustainable manner, including such questions as:

How can market distortions caused by some public interventions for job generation and for stimulating local development be avoided?

How can the SME, micro-enterprise and social enterprise sectors be best supported in an environment of increasing retreat of commercial banks from the local economy?

How can public funding be used in the most efficient and effective ways for lasting impact?

Financial Engineering for Local Development addresses these key questions and refers to the process of designing and implementing financial instruments for local development and job creation in the most effective and sustainable way.

It also helps build local partnerships for local development, as effective implementation of financial engineering tools typically rely on strategic partnerships between local government, the private sector and the Third Sector ('not for profit').

Micro-Credit for SMEs and Social Inclusion

The European Union has paid close attention to the role and operation of Social Finance and acknowledges its importance as a means of providing access to credit to facilitate the growth of small enterprises and more broadly, as a tool of social inclusion.

The report 'Micro-credit for Small Businesses and Business Creation: Bridging a Market Gap'[56] from the Enterprise Directorate General of the European Commission in 2003 contained recommendations pertaining to the development of the micro-credit sector in Europe. These addressed the needs to:

a) Strengthen European and national microfinance partnerships.

b) Create an 'Enabling Environment'.

c) Assess management quality and performance of providers.

The report identified problems with which Social Finance providers everywhere are all too familiar:

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[56] Enterprise Directorate General, Mircocredit for Small Business and Business Creation: Bridging a Market Gap, 2003, European Commission, http://europa.eu.int/comm/enterprise

"Small enterprises, new or existing, face certain problems when they approach finance providers for both enterprise fixed capital investment and working capital. This insufficient supply of micro-loans is a major issue, in particular where business creators are unemployed persons, women, or form part of ethnic minorities. Supporting micro-loan availability is therefore not only an issue of entrepreneurship and economic growth, but also of social inclusion."

The report noted that over the last two decades in particular, Europe has seen the emergence of new, private micro-credit institutions, "primarily serving social inclusion purposes".

Although models differed from state to state, the report found that public support was available in almost all states and also, in a majority of the accession states. This support was expressed in a variety of ways; tax incentives for investors supplying finance to micro-credit retailers; providing funds for specialist lenders; sharing risk with specialised guarantee societies and promoting business support services. The report points out that it is precisely this 'Enabling Environment' that will facilitate the growth and development of the sector with positive consequences for social and economic development across Europe.

The European Commission has moved to build a Union-wide 'Enabling Environment'. Thus, the issue of access to credit was raised and discussed during Council of Ministers' debates during 2000, resulting in the creation of a micro-credit 'guarantee window' in the Multi-Annual Programme (MAP) for enterprise and entrepreneurship, for 2001-2005.[57]

Over 90% of the two million new enterprises created each year in the European Union can be classified as micro-enterprises (less than five employees). However, some 30% do not survive more than three years and 50% close in less than five years. It is noted that "the failure rate is lower in those member states where high quality support services – including those that provide access to finance – are available …"[58]

The same report acknowledged that conventional financial institutions were not in a position to bridge the gap, particularly in the light of the current phase of mergers and rationalisations in the banking sector. It noted the clear necessity to enhance the 'Enabling Environment' by providing direct financial support and/or adopting rules on social protection for micro-enterprises, in particular for 'start ups'.

Regarding Social Finance providers, whose mission provided the specific targeting of social exclusion, the report remarked:

"Micro-credit by NGOs is primarily an efficient tool to fight social exclusion and to reach un-bankable micro-credit enterprises and make them creditworthy, the first step before becoming bank-worthy."[59] It was noted that this was more properly the tool of social policy than enterprise policy; the case for intertwining the two is strong. It may require different providers operating on different levels or with flex to operate on all – but it does require them.

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57 Ibid
58 Ibid
59 Ibid

CONCLUSION
- NECESSITY FOR SOCIAL FINANCE

Social infrastructure is as vital to the life of the nation as its physical counterpart.

Historically, it is physical infrastructure that routinely commands the attention of policy-makers. Physical infrastructure serves to link communities – but what serves to nurture and enhance the communities themselves? What serves to link individuals and local groups in order to foster the very growth of these communities?

The relative lack of investment in the development of Social Capital and social infrastructure is a product of a one-dimensional vision of society. If communities are to be the building blocks of society, their needs must be afforded recognition and given due priority.

The rich diversity of local and community organisations that this country possesses have made a big contribution to Irish life as a whole. As the quiet and often unheralded engines of local development, they have forged and maintained much of the social infrastructure that this country possesses. In some instances, they have brought communities back from the brink of extinction, breathing new life into towns and villages considered beyond recovery. However, too often the very existence of these institutions is precarious and uncertain, and they are forced to expend valuable energy in search of secure funding, in order to finance their future.

As has already been noted, many of these self-same bodies will experience difficulties in persuading banks and other mainstream providers that they are viable, let alone a good investment.

This lack of comprehension on the part of mainstream providers derives from their adherence to a business model that values short-term increases in shareholder value above all other considerations. Thus, without assets for use as collateral – such as a building – community bodies are unlikely to even clear the first hurdle. The vast majority of local and community groups do not possess the wherewithal to provide such collateral. In some instances, lenders will insist on one member of the organisation's board giving a personal guarantee, to obtain a required loan. This is neither fair, nor sustainable.

The 'rationalisation' of the conventional banking sector, which has resulted in a significant decline in 'community contact', has made it more difficult for organisations to access credit.

Quite the reverse applies with Social Finance. While mainstream providers may be reducing their community contact, on a global scale, the growing Social Finance sector places such contact at the very heart of its mission. In many respects, Social Finance providers occupy the space deserted by the mainstream institutions. Naturally, they will have a greater understanding both of the needs and vital roles played by grassroots, community bodies.

A short survey of the range of services provided by such Irish groups illustrates how crucial they are to the very functioning of community life, in all its manifestations:

Community transport; elder care; respite care; social housing; rural childcare; youth projects; training centres; business support; local enterprise; environmental projects – the list is endless. None of these vital services could be said to be transitory or fleeting social requirements. They respond to long-term needs.

Hence, the dilemma faced by the service providers: how to achieve sustainability and therefore ensure long-term service provision, without ready access to capital and ongoing support? In truth, neither the state, society, nor the social economy sector is as well served as it should be and as it deserves to be.

Perhaps the most interesting finding to emerge from the same survey was the crucial role that the service providers themselves believed could be played by Social Finance.

In terms of developing services and maximising impact – of achieving sustainability - the respondents identified a number of key areas that would benefit from the input of Social Finance. These were community rural transport, environmental projects, training centres, elder and respite care in urban and rural communities, childcare and social housing. Once again, services that require planned, strategic delivery - which Social Finance provision facilitates.

Social Finance contributes to sustainable development and enhancement of local capacity, across the social economy generally. It is hardly surprising to learn that while just 20% of surveyed community and voluntary bodies had accessed loan finance to date, a remarkable 83% saw the necessity to draw on it in the future.[60]

Yet, as the majority believed mainstream banks were "not adequately meeting their needs" it is clear that, notwithstanding a dramatic change in banking policy, another source will have to be found.

By comparison with the banks, Social Finance providers were seen to offer better rates, were more accessible and had a "better understanding" of the sector's needs. In this context, the case for Social Finance becomes compelling. It can serve to unleash the untapped potential of 'Social Ireland', so to speak, by providing it with the resources and the means to facilitate long-term development.

It can only do so in partnership with the state and through the establishment of a coherent national framework within which to operate.

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[60] TSA Consultancy Limited with Lolita Sereleas and Colin Stutt, 2003, Dublin Employment Pact, ISBN 0-9545661-0-6

APPENDIX
ROUNDTABLE DISCUSSION

The following persons attended the Roundtable Discussion at the Department of the Taoiseach on 16th September 2003, following the launch of the report 'Social Finance in Ireland' by the Taoiseach, Mr. Bertie Ahern TD, at which the Steering Committee on Social Finance was established.

Catherine Breathnach - Centre for Non-Profit Management, Trinity College

David Brennan - Department of Community, Rural and Gaeltacht Affairs

Kieron Brennan - Area Development Mangement Limited

Senan Cooke - Waterford Crystal

Tony Crooks - Area Development Management Limtied

Padraig Cullinan - Department of Enterprise, Trade and Employment

John Daly - PARTAS

Tom Daly - TSA Consulting

Declan Dunne - Ballymum Partnership

Peter Finnegan - Dublin City Development Board

Magdalen Fogarty - Clann Credo Limited

Larry Fullam - Westmeath Employment Pact

Sean Healy - Conference of Religious of Ireland

Patricia Jordan - Area Development Management Ltd.

John Kearns - PARTAS

Eileen Kehoe - Department of the Taoiseach

John B. Kelly - AIB Bank

Esther Lynch - Irish Congress of Trade Unions

Gerry Macken - Dublin City Enterprise Board

Declan Martin - Dublin Chamber of Commerce

Lisa McAllister - The Wheel

Olive McCarthy - Centre for Co-Operative Studies, University College Cork

Stephen McGivern - BDO Simpson Xaavier

Tom Meally - Bank of Ireland

Antonella Noya - LEED Secretariat

Maurice O'Connell

Joyce O'Connor - National College of Ireland

Philip O'Connor - Dublin Employment Pact

Aileen O'Donoghue - Clondalkin Partnership

Paul O'Sullivan - Clann Credo Limited

Eamonn O'Reilly - National Network of the Community Strand

Liam O'Dwyer - Irish League of Credit Unions

John Quinn - South Tipperary County Council

Brigid Reynolds - Conference of Religious of Ireland

Tina Roche - Business in the Community Ireland

Justin Sammon - Meitheal Mhaigheo

Michael Scanlan - Department of Finance

Jim Stone - Midland Regional Authority

Bernie Walsh - Sunflower Recycling

Maura Walsh - IRD Duhallow Limited

Children’s Indoor Funpark, Kiltimagh Co. Mayo

Support for the development of the Social Finance Sector in Ireland was promised in the Programme for Government and supported in the national Partnership Agreement *Sustaining Progress*.

Social Finance is the provision of repayable capital to organisations involved in community enterprise and community development, whose aims are to secure both a financial return and a social return on investment. Systems of Social Finance have an inbuilt multiplier effect, in that investment in communities leads to growth and hence to further investment. Systems of Social Finance have developed rapidly in recent years in several European countries and also in the United States and have proved to be extremely successful. In Ireland a system of Social Finance provision has begun to develop, but now needs determined support to enable it to expand and reach its full potential.

In this context four organisations centrally involved in community investment initiatives – the Dublin Employment Pact, Westmeath Employment Pact, Clann Credo and Area Development Management – came together to examine current Social Finance provision in Ireland and develop recommendations for its future development. This resulted in the first ever thorough report on the subject – *Social Finance in Ireland: What it is and where it's going* – launched by the Taoiseach, Mr. Bertie Ahern TD in September 2003. Arising from the report leading experts from the financial sector, the local development sector and the social partners met at the Department of the Taoiseach to tease out the implications of the report. This led to the creation of the Steering Committee on Social Finance tasked with developing precise and practical recommendations to government as to how it could act to further promote the development of the sector.

This publication is the outcome of that process. It sets out clearly the case for Government action to assist the development of the Social Finance sector and provides recommendations as to how precisely it should do this.

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