Social Finance Foundation

Submission on behalf of the Social Finance Foundation on the National Social Enterprise Policy for Ireland 2024-2027

Social Finance Foundation History

Social Finance Foundation ("SFF") was established to address the needs of social enterprises and community organizations for loan funding which was difficult to obtain from mainstream financial institutions. Acting as a "wholesaler", SFF provides funding to its lending partners Clann Credo ("CC") and Community Finance Ireland ("CFI") (together "Social Lending Organisations" "SLOs"). Together SFF, CC and CFI operate as the social finance ecosystem in Ireland. See video at: Social Finance Foundation – Finance for Social Good (sff.ie).

Since 2007, SFF has provided over €200mln to CC and CFI who in turn have supported over 2,000 social enterprises / community & voluntary organisations across all 26 counties. See www.sff.ie/customer-stories/ for examples of projects financed.

SFF is a not-for-profit which was established in 2007 under the aegis of the Department of Finance, with donated non-repayable capital of €25mln from the Irish Banking Sector. This capital, along with a loan facility of €72mln from 12 Irish banks in 2009 – 2019 and a subsequent facility of €44mln from AIB, Bank of Ireland and PTSB (the "Irish Banks") has been committed to SFF from 2019 - 2025. Recognising the positive social impact being made by the work of the SFF, both loan facilities from the Irish Banks were and continue to be provided at preferential rates which has allowed SFF to provide funding into the Social Finance sector, including Social Enterprises over the last 17 years.

In 2022 SFF agreed a €20mln loan facility from the Council of Europe Development Bank ("CEB") supported by the European Commission's InvestEU Social Entrepreneurship Portfolio Guarantee Product.

SFF has European guarantees in place especially for Social Enterprises. In 2019 SFF agreed a Credit Guarantee under the European Investment Bank's ("EIF") EaSI guarantee for Social Enterprises for €25mln. These guarantees have allowed the financing of higher risk social finance loans which, often, come with a higher social dividend.

SFF's mandate is to provide wholesale funding to social enterprises / projects for which a mainstream bank may not have a risk appetite and, therefore, many of these projects may not have materialised without the funds provided by SFF and the SLOs.

SFF's ambition is to grow its social finance lending portfolio to €100mln from the current €60mln between now and fye 2028 to Social Enterprises and community & voluntary organisations.

In line with Government Policy, SFF delivers on SDG 17 Directly ('Partnership's for Goals'). Through the SLO's, SFF helps the Community, Voluntary and Social Enterprise sector to deliver across the various goals.

Feedback on Public Consultation Document

Policy Objective 2 – Growing Social Enterprise

1. Promote the availability of the current social finance ecosystem to Social Enterprises

We believe that the availability of Social Finance to Social Enterprises can be both supported and promoted further by Government initiatives.

The availability of social finance is not as well-known and understood as it could be. This is partly due to the current size of the social finance ecosystem (all Social Enterprises) with modest marketing budgets. Any new Social Enterprise Policy can play an important role in the promotion of the benefits of social finance to Social Enterprises. Where a Social Enterprise loan application exceeds the credit appetite of banks, credit unions and other financial institutions, social finance can fill that gap and attempt to meet the needs of the Social Enterprise for finance. Where mainstream financial institutions decline a Social Enterprise, a formal process could be put in place to refer these Social Enterprises to SLOs.

2. Promote the benefits of Social Finance

The advantages of social finance are:

- Social Enterprises may not meet the credit criteria of mainstream lenders and social finance is potentially an alternative source of funding. By providing funding, social finance addresses a credit availability gap for Social Enterprises.
- Social Finance does not seek personal guarantees from trustees and in most cases does not seek collateral. Existing credit guarantees already in place provided by SFF via the EIF are used as an alternative to collateral.
- Social Enterprise Credit Guarantees provided by SFF via EIF (Easi) allow riskier lending where social benefit is often strongest.
- Social Finance recognises the common goal of the borrower and the lender to achieve social impact.
- When repayment difficulties arise, considerable flexibility can be provided and options considered for mutually resolving matters to sustain the Social Enterprise are put in place.
- Bridging loans are an important feature of social finance, as organisations may have State or other grant assistance with their social enterprise but the grant is only paid out when the work is completed. Of the €200mln lent, c. 50% has been to bridge grant funding thereby supporting government policy.

3. Cost of Credit

As wholesaler, SFF benefits from preferential rates from Irish Banks and The Council of Europe Development Bank. Notwithstanding the advantageous rates, in the current interest rate environment, interest rates are higher than desired within the social finance ecosystem. While there is, of course, an importance in grant funding it is also important that Social Enterprises can be self-sustainable.

Various alternative models, including philanthropic funding and/ or government funding, could be considered to reduce the cost of borrowing to Social Enterprises.

4. <u>Growing Lending to Social Enterprises</u>

Recognising the important role that social finance plays in supplementing Social Enterprises in Ireland, access to wholesale funding at low rates should be considered. There are a number of examples in Ireland of Government intervention to provide funding models to support where required: these include Strategic Banking Corporation of Ireland, Home Building Finance Ireland and Microfinance Ireland. Similar support from Government would enable the Social Finance sector to achieve ongoing financial sustainability and growth which in turn would positively impact on Social Enterprises.