



Rethinking Innovation in Social Finance

Project Background

The project “Financing Social Enterprise in Ireland - Models of Impact Investing & Readiness” is a project financed by the European Commission through the Employment and Social Innovation (EaSI) programme. The project is one of 14 similar projects currently being undertaken across the European Union (EU).

The purpose of the project is to contribute to the development of the social finance sector in Ireland by developing financial instruments for social enterprises and supporting the wide range of social enterprise organisations working within any area that falls under the National Social Enterprise Policy definition. At present, there is no tailored financial instrument or specific statutory budget that fits the needs of the growing social enterprise market. Moreover, there is a lack of investment readiness among social enterprises. This project seeks to address these challenges through a participatory approach beginning at the research phase and continuing throughout the project implementation. The outreach, marketing and networking actions will aim to inform and get ‘buy-in’ from stakeholders in the social enterprise landscape.

One of the key outputs of this project will be the identification and development of suitable social financial instruments to support social enterprises at different stages of growth in Ireland. The consortium is uniquely positioned to deliver the aims of the project given the complementary skill set of the partners. EU best practice models will be adapted to the Irish context, enhancing the institutional and financial support from key stakeholders, to pilot and ensure the sustainability of the financial mechanisms beyond the project timeframe.

The results of this action will include:

- 1. The identification of suitable financial instruments adapted to the needs of social enterprises in the Irish context
- 2. Reinforcing the investment-readiness of social enterprises with specific supports
- 3. Enhancing the institutional commitment of key partners to implement the financial instruments, identifying and suggesting future potential funding streams.

Main expected outputs:

- 1. Map and identify gaps and deficiencies in the supply of social finance
- 2. Identify suitable financial instruments or supports for social enterprise
- 3. Design a program of supports tailored to build investment-readiness
- 4. Put forward a memorandum of understanding to pilot the financial instrument/s identified
- 5. Identify and suggest future potential funding schemes
- 6. Disseminate the mapping and consultation research findings
- 7. Build and manage a blog/social media profile for the project

This project was co-funded by the European Union.

Consortium

RETHINK
IRELAND

The consortium consists of three partners: Rethink Ireland, Community Finance Ireland and Dublin City University. All leading institutions operating across the supply, demand and research side of social enterprise. This creates a strong, experienced team with a solid financial and operational capacity. The consortium is complemented by associate partner, the Irish Social Enterprise Network.

Rethink Ireland, lead partner, is a not for profit national organisation that was created to find and back the best social innovations across Ireland and provide them with growth capital and capacity building supports to enable them to scale and maximise their impact. The organisation uses a venture philanthropy model using the tools of venture capital investing, alongside grants to support long-term social and environmental impact. The organisation will be providing investment readiness services to potential investees.

Community Finance Ireland (CFI) are experts in the supply side of social enterprise finance and will play the role of primary developer of the social finance instrument. CFI are a potential investor in the social finance instrument. CFI manages a diverse, high quality loan portfolio. CFI has a track record of excellent credit skills, portfolio management and a genuine understanding of the challenges and struggles being faced by the third sector.

Dublin City University (DCU) play the role of academic and research lead. DCU has a long history of teaching, research and engagement in the area of social enterprise in Ireland. DCU is embedded in the Irish and international social enterprise ecosystems. DCU has played a lead role since the early 1990s in developing and maintaining the relationships and research required to grow and support this ecosystem in Ireland.

The consortium is complemented with associate partner, the Irish Social Enterprise Network (ISEN). ISEN is the longest established network for social enterprises, social entrepreneurs and social innovators in Ireland.



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Desk Research and Literature Review Findings



The research and analysis process involved a number of distinct elements. The research team from DCU carried out a systematic literature review. In conjunction with Community Finance Ireland's analysis of existing social finance instruments, the research findings were used to devise a number of model financial products that might be adapted to the Irish social finance ecosystem. In addition to a substantial user-led/participatory research component, including a preliminary research workshop with the Social Enterprise Committee of the Irish Local Development Network, a survey and four participatory research workshops, the research team engaged on an ongoing basis with the social enterprise sector and with our European EaSI partners.

The work of the research team focused on three strands of activity:

1. Mapping the existing social finance market in Ireland, including sources of social finance and impact investing
2. The identification of relevant emerging trends in social finance
3. A comparative analysis of social finance developments in three EU member states

This work suggested that a key challenge in the social finance ecosystem is designing a complex and broad spectrum of financial tools for social enterprises that are tailored to their diverse needs in the different phases of their life cycles. Potential initiatives included crowdfunding, for example equity crowdfunding and funding from venture philanthropy that has been supported by the EU within the framework the EaSI programme. Additional funding opportunities were also highlighted by the research workshops and the sectoral consultees, for example capital from community shares to provide long-term "patient capital" allowing for investment in infrastructure.

Finally, there was evidence that bespoke hybrid financial instruments present an opportunity to develop the social enterprise sector and build a more incentivised social finance ecosystem. However, there wasn't a single immediately transferable model of hybrid financial instrument identified during the research. There were important differences in the elements of such financial instruments, for example crowdfunding, crowdlending, public (municipal or regional or national state) funds, philanthropic investment, EU investment through a form of loan guarantee and investment from social or co-operative banks.



Survey, Workshops and Participatory Research



A preliminary research meeting was held with the Social Enterprise Committee of the Irish Local Development Network. The meeting offered a forum to discuss the findings of the initial literature review with the key social enterprise support staff in Ireland and request input into the final design of the draft survey. The members of the committee also agreed to disseminate the survey instrument and to advertise the participatory research workshops. Participatory research workshops were held online on 5th, 12th and 26th November 2021. Each of the workshops had a separate theme and each reviewed potential social finance instruments. The workshop themes were informed by responses to the survey conducted by the research team.

The three workshop themes were:

1. Organisational structure, form, status and potential relationships within a group structure
2. Nature and extent of relationships with social finance providers and credit unions
3. Social impact reporting and investment readiness

The workshops commenced with an introduction to the EaSI project and the consortium partners followed by a discussion around the workshop theme. Participants were then divided into three breakout sessions. Each group was introduced to a different 'model social finance instrument'. The model social finance instruments were designed in collaboration with Community Finance Ireland. Each of the model products was a form of repayable social finance. The model products were chosen based on their successful operation in other jurisdictions.

The three model products were:

1. Loan Guarantee
2. Crowdlending
3. Quasi Equity

Within each of the breakout sessions, participants were presented with details of one model product. The precise workings of the products were explained. The means by which the funding might be sourced were explored. The obligations on social enterprise borrowers were outlined. It was made clear to participants that these products were designed for research purposes and did not actually exist in the market. Participant engagement in all workshops was excellent. Many of the attendees were from large well-established social enterprises and all had significant experience and in-depth knowledge of the social enterprise sector in Ireland. However, there was an overriding view that the products were complex, and participants queried whether the Irish social enterprise sector was ready for such products. A key issue emerging was the ongoing reliance of many Irish social enterprises on donations and grant funding. These comments accorded with the findings of the social enterprise finance survey carried out by the research team in 2021. Most participants were of the view that many Irish social enterprises are not investment ready. Many appear to have no experience of debt or investment finance and there is a view that there is limited support available to help these organisations move to investment readiness. In addition to the lack of investment readiness supports, there was also significant discussion about the lack of social enterprise business supports generally. Combining the outputs of all the research the project consortium set about designing a hybrid social finance instrument closely aligned to the needs of the Irish social finance ecosystem. A fourth workshop was held on 5th May 2022 outlining the new proposal.

Project Roadshow

Arising from the research undertaken, the important feedback received, and the tools at its disposal, the consortium constructed a new financial product based on innovation, inclusion practicality and effectiveness.

Through a mix of repayable loans from Community Finance Ireland, non-repayable loans and crucially, non-financial support, both from Rethink Ireland, “Hybrid Social Finance” was explained as primarily targeting first time borrowers from the social enterprise and community space. This innovative product (a first in Europe) aims to introduce those with no security, little by way of trading record, but delivering respectable levels of social impact, to loan finance via a responsible approach.

Thus, the Irish social finance eco-system is now poised to introduce its first new financial product in over 20 years. In advance, the consortium delivered a roadshow across Ireland seeking to engage further with the audience to which hybrid social finance would be primarily targeted towards.

The series of events were delivered at both in-person, and virtual sessions (to maximise accessibility), and sought to pump prime demand among the marketplace for hybrid social finance supports of between €30,000 and €100,000.

Those involved in local authorities and NGOs supporting social enterprise (given their association with the potential end users of the product, as well as early-stage social enterprises themselves) were encouraged to attend.

As importantly, the project consortium used the roadshow to garner further feedback from the market on the generic financial needs of social enterprise, and highlight any potential obstacles that might have remained unforeseen to that point.

The roadshow proved successful in terms of registration interest and positive response to the pending introduction of Hybrid Social Finance.

Roadshow Events:

- Dublin – 19th October 7.30pm
- Cork – 20th October 7.30pm
- Donegal – 25th October 7.30pm
- Galway – 26th October 7.30pm
- Online – 8th November 7.30pm



The Social Finance Instrument

The pilot financial instrument is a blended social finance model (Hybrid Social Finance) which includes:

1. A repayable loan
2. A non-repayable loan
3. Non-financial business supports

Awardees will receive a package of supports which will include:

FUND AWARD	OVERVIEW
Non - repayable loan	A non-repayable loan which will be delivered tied to agreed performance milestones
Non - financial supports	Non-financial supports tailored to the needs of the organisation to improve its investment readiness, develop its capacities and create social impact
Accelerator programme	An accelerator providing training in four core areas: · Impact management · Communications · Sustainability and strategy · Equality, diversity and inclusion
Project management	Continuous support focusing on building capacity and resilience in the first two years

Rolling out the new blended social finance product - A pilot phase

As part of a proposed pilot, social enterprises could apply for a total sum of between €20,000 (€10,000 repayable loan) and €100,000 (€50,000 repayable loan) finance over 5 years. The pilot will run for 1.5 years including two open calls, selecting 10 awardees in each call. Potential learnings from the selection process of the first call will inform the second call.

Proposed criteria:

- Start-up (less than 2 years)/new product/ market
- First time borrower
- New or no trading record, and/or no security, and/or no asset base
- Advantageous criteria: Social enterprises engaging meaningfully with ex-prisoners, recovering addicts, the travelling community, migrants, female led social enterprises
- Measurable social impact

Finance Details (for an example €50,000 of financing):

Rethink Ireland provide

- €25,000 non-repayable loan
- Non-financial support (value €10,000)

Community Finance Ireland provide

- €25,000 repayable loan @ 6.25%
- Unsecured

The Net Result

- The Social Enterprise gets €50,000 of funding
- Non-repayable loan subject to full compliance with business support actions, and adherence to repayable loan schedule
- Non-financial support value at €10,000
- Repays a total of €29,173 over 5 years (assumed variable rate of 6.25% as of Nov 2022). Social enterprise builds a credit rating, opening access to other sources of future finance
- Blended cost of support (i.e. €50,000 at a cost of €4,173) = 3.2%

*Assumes rate of 6.25% as at Nov 2022. Variable and subject to change.

A stylized illustration of a community. It features several green trees of different sizes, people in various poses (some sitting, some standing, some with arms raised), and a small brown dog. The elements are scattered across the white background, creating a sense of a diverse and active group.

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