

Annual Report 2010



## Café Rhapsody/ Gourmet Empire



Café Rhapsody is based in Bawnogue Enterprise Park in Clondalkin and is run by Alexi and Svetlana Nicolenco. This husband and wife team are naturalised Irish Citizens of Moldovan extraction. They are well-educated with a background in catering. Their objective was “to enable them to leave welfare support and grow a reputable and successful business”. The business originally started as a specialist manufacturer of high quality cakes to the wholesale trade and also products made to order for the corporate and personal markets, and has developed into a full service café and outsource catering service. Svetlana is the head chef.

They were originally located in Blanchardstown and moved to new premises in Bawnogue Enterprise Park to expand the business. In accordance with demand, they now provide breakfast and lunch menus. They currently employ 5 people (4 full-time/1 part-time) and are looking at the possibility of developing an upstairs function room in the near future. Their business has been assisted by funding from First Step/Social Finance Foundation.

[www.caferhapsodyireland.com](http://www.caferhapsodyireland.com)

## Speedpak Ltd.



Speedpak, a social enterprise operating in North Dublin, was set up to get long-term unemployed people back to work. It provides work experience and training opportunities to long-term unemployed people and the socially excluded (e.g. ex-offenders, recovering drug users). They get the opportunity to build up a recent work history, accredited training and a reference to help them to return to the work place.

Social finance from the Foundation/Clann Credo has enabled Speedpak develop as a commercial business while maintaining its focus on its mission. It has two main commercial operations: the first manufactures and supplies rosettes (Shamrock Rosettes); while the other provides a contract packing service to business.

Employees receive mentoring support, on-the-job training and assistance with personal development. Over 500 people have worked with and been supported by Speedpak to get back into the world of work. This is much more constructive and cost effective than having people out of work and dependent on social welfare.

According to the most recent figures from the Irish Prison Service, the average annual cost for a staffed prison space is over €92,000. Speedpak supports ex-offenders. Some are awaiting trial or sentencing for crimes, which are often drug-related. In many cases, the person will also have a history of drug or alcohol misuse. Engagement in the programme provides stability and support in readjusting to life after prison; it can contribute to preventing reoffending and from receiving a custodial sentence.

Speedpak's work was recognised in April 2010, when the Arthur Guinness Fund announced a €100,000 award to drive the development of its business model throughout Ireland.



## Annual Report 2010

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# About the Social Finance Foundation

In July 2006, the Government approved the implementation of the Social Finance Initiative. It established a not-for-profit company (limited by guarantee and having no share capital) to act as a wholesale supplier of funding for social finance. Social finance is, inter alia, about the availability of loan finance at affordable interest rates to community-based projects and micro-enterprises. These projects, which generate a social benefit, often experience difficulties in accessing loans from mainstream lending institutions.

In January 2007, the Social Finance Foundation was established. Seed capital of €25m was provided by the Banking Industry through the Irish Banking Federation. The Banking Industry provided further funding support to the Foundation in 2009, through a twelve year €72m Loan Agreement at a rate of interest appropriate to social finance.

As a wholesale supplier of social finance, the Foundation works through Social Lending Organisations (SLOs), which interface with borrowers. Some SLOs have been operating for many years and were pioneers of social finance in Ireland. The primary aims of the Foundation are to support communities and micro-enterprises in Ireland, where social finance is needed to make the project a reality and to promote a vibrant social finance sector.

**Brian Cowen**, then Minister for Finance at the launch of the Foundation.



## Chronology and Highlights

### JUL 2006

Government approves the Social Finance Initiative

### FEB 2007

Minister for Finance publicly launches Social Finance Foundation

### MAR 2007

Banks provide €25m to Foundation

### AUG + OCT 2007

Loan drawings commence with First Step Microfinance and Clann Credo respectively

### APR 2008

Loans approved reaches €5m

### MAY 2008

Ulster Community Investment Trust (UCIT) Ireland and Limerick Enterprise Development Partnership (LEDP) commence operations with Foundation

### FEB 2009

Cavan County Enterprise Fund commence operations with Foundation

### APR 2009

Foundation signs Loan Agreement with 12 Banks for additional funding of €72m

### OCT 2009

Inaugural Stakeholders Meeting

### JAN 2010

Loans drawn reaches €10m

### FEB 2010

Loans approved reaches €20m

### JUN 2010

Foundation requested to work on Financial Inclusion in Ireland



OCT 2009

Foundation Directors at Inaugural Stakeholders Meeting

Left to Right: Felix O'Regan, Sheila Nordon, Peter Quinn (Chairman), Cyril Forbes, Kathleen Prendergast, Gerry McGee

## Chairman's Statement

The Directors of the Social Finance Foundation are pleased to present their third annual report, covering the twelve months to 30th June 2010. With the very difficult national and international economic and social circumstances which have prevailed since our last report, it is not a time for organisations like the Social Finance Foundation to re-trench or 'play safe'. We were established by the then Minister for Finance to fill voids which existed in the availability of finance, for creditworthy projects with the potential to deliver significant social returns, in activities and areas which were not, and still are not, attractive to mainstream lenders. Those needs have not decreased: the balance between social and economic progress is no less important – it has probably become more important; communities need more, rather than less, support; poverty still needs to be addressed; the unemployed, the 'new Irish' and those in disadvantaged areas, who have the courage, the confidence, the willingness and the ideas, still need assistance in moving into self-employment. Our role is to be available for them, where their proposals and projects have the potential to be viable and deserve pump-priming; we must now be braver than ever in fulfilling that role. I am pleased to report that the Directors and staff have taken on this challenge with enthusiasm and brio.

### 'THANK YOU' TO OUR PARTNERS

The Directors realise that without the encouragement of the Department of Finance and the willingness of the banks to support this initiative,

it could never have occurred. We wish to reiterate our appreciation of the banks' support for the establishment of this Foundation with €25 million of capital. Equally importantly, they have continued to support our work since then. We also wish to express our very sincere thanks to the organisations which interface directly with the projects supported by our funding. As effectively wholesale lenders, we rely very heavily on the established Social Lending Organisations. A major conduit to the community and voluntary sector is Clann Credo, which allows us to exploit its nationwide experience in that sector; for that and the tremendous co-operation of their staff, we are immensely grateful. First Step Micro-Finance performs a similar role in their area of expertise; that role has been seriously affected by the deterioration in economic circumstances, but our staff have worked extensively and harmoniously with their staff in addressing the consequential impacts and that is proving a very successful partnership. We have also developed very fruitful relationships with UCIT, Limerick Enterprise Development Partnership and some of the County Enterprise Funds; we thank all of those for their co-operation too.

### SUPPORTING VIBRANT COMMUNITIES

Vibrant communities (rural and urban) are a critically important part of any nation's social fabric and voluntary activity is a core component of such communal vibrancy. We are therefore pleased to report that lending of €21.8m was approved for the community and voluntary sector since we commenced operations and the quality of the loan book remained within our

### BOARD OF DIRECTORS

#### PETER QUINN (CHAIR)

Business Consultant and ex-President GAA

#### CYRIL FORBES

Deputy Chairman of JLT Insurance Brokers Ireland Ltd.

#### GERRY MCGEE

Chairman County Leitrim Community Forum

#### SHEILA NORDON

Exec Director of Irish Charities Tax Research Ltd

#### FELIX O'REGAN

Head of PR and Public Affairs, Irish Banking Federation

#### KATHLEEN PRENDERGAST

Community and Enterprise Development Officer, South Tipperary County Council

expectation during that period. Promotion of the concept of social finance amongst community organisations (where it is clearly not as well understood as we would have hoped) continues to be a shared priority between the Foundation and the relevant Social Lending Organisations.

#### **DIFFICULT ECONOMIC CONDITIONS**

The unparalleled economic conditions in Ireland have taken their toll on micro-enterprises. As a result, the losses on the micro-enterprise loan book have turned out to be higher than we would have expected in 'normal' times. However, the losses are not material in the context of the Foundation's overall remit and full provision has been made for them.

Our funding for Micro-Finance Social Lending Organisations facilitates them in catering for those who have viable business propositions and also allows them to support established, viable micro-businesses, which wish to expand or require working capital to address a temporary cash flow shortage. Through their employment generation and its effects on both personal and communal confidence and cohesion, these micro businesses create a hugely positive social impact. There is a tremendously important role in these challenging times and the Foundation will continue to support them in promoting employment. We are therefore pleased to report that lending of €1.8m was approved for micro-businesses since inception.

#### **OUR STRATEGIC REMIT**

Recognising that the operations of the company were on a sound footing, the Board reviewed its strategic remit at its annual strategy session in January 2010. The Board accepted a request from the Department of Finance for the Foundation to conduct a review of the options available to further financial inclusion in Ireland, drawing on best practice international approaches. The objective of the study will be to identify recommended actions to achieve a substantial reduction in financial exclusion over a 3-5 year period. The work will require the co-operation of a large number of stakeholders and has a target date for conclusion of end December 2010. Such an assignment falls within the broad definition of "social finance" and the Foundation was pleased to be asked to carry it out.

#### **CORPORATE GOVERNANCE**

The Board met on twenty-three occasions since its inception (including three strategy sessions). The Audit and Credit Committees meet regularly and continue to discharge their duties effectively and I thank the members of both committees for their contribution.

In October 2009, an inaugural 'Stakeholders Meeting' took place. The purpose of that session was to be transparent about the workings of the Foundation, highlighting both the progress it has made since inception and its plans for the future. In that regard, it presented a positive and encouraging story in what are difficult times. The meeting was well attended with representatives from, inter alia, the SLOs, Government, the Banking Industry and the Community and Voluntary Sector. It is our intention to conduct such a briefing on a regular basis.

#### **...AND FINALLY**

It has been a privilege to act as Chairman of the Foundation for the past three years. I wish to thank both my fellow Board members and our excellent staff (Brendan, Ken and Celia) for the progress achieved to date. I am only too conscious that without their input, support and energetic enthusiasm, the Foundation would not have achieved what we have managed to do so far. I would particularly want to express my gratitude to Diarmuid Bradley who resigned from the Board in February 2010; during his time as a Director, when he also acted as chairman of the Audit Committee, he made a significant contribution to the Foundation's success, being a strong believer in the concept of social finance.

The role and contribution of the Social Finance Foundation are now well established. I would confidently predict that its contribution to Irish society and the Irish economy will continue to increase in the years ahead.

Peter Quinn  
Chairman  
22nd September 2010



## Chief Executive's Report

The third year of the Foundation's existence was a period of continued economic turmoil, both globally and in Ireland. Unsurprisingly, the impact on the Foundation was reflected in the growth in loan losses, specifically in the original "socially disadvantaged" micro-finance loan book with First Step. Community-type lending is currently proving far more resilient. With continued restricted credit in the economy, the role of the Foundation has never been more relevant. However, demand for social finance has not dramatically increased, reflecting the overall financial caution by individuals and community groups in the economy.

### FINANCIAL RESULTS

The long term financial plan for the Foundation aspires to have expenditure levels covered by income earned, with bad debts being catered for from capital resources. In the three years to date, that has been the case. For the year ended June 30th 2010, net interest income amounted to €800k; administrative expenses totalled €593k; the operating surplus was thus €207k; the charge for bad debt provisions was €716k and a deficit for the year of €509k was recorded. This is an acceptable outcome in the current difficult environment.

### LENDING

The lending activities of the Foundation typically, but not exclusively, take two forms. Firstly, finance for micro-enterprises, where the entrepreneurial individual is generally moving from state dependency to self-employment or a micro-enterprise requires funding for job expansion/protection. Secondly, community finance where there is a shortfall of funds to make a community initiative a reality and Foundation funds bridge the gap. Since commencement of lending in September 2007, loans totalling €23.6m have been approved by the Foundation for the current Social Lending Organisations. Loans drawn down in that period amounted to €11.7m, reflecting delays in drawdowns and cancellation of projects. The current outstanding loans before provisions amount to €7.6m and reflects repayments made.

A bad debt charge of €716k for the year ended 30th June 2010 has been charged to the profit and loss account, giving a total provision, after write-offs, on the balance sheet of €1,007k. Commencing in pre-recessionary times in 2007, we targeted low-income entrepreneurs ("the socially disadvantaged") who were unable to obtain credit from mainstream institutions. Such micro-enterprises were viable then but not so when discretionary spending in the

economy plummeted. As a result, the loan losses on the "disadvantaged" loan book have turned out to be considerably in excess of rates in more normal times. As micro-enterprise lending only constitutes 12% of the Foundation's loan book, the bad debt provisions in respect of the "disadvantaged" loan book do not have a material impact on the Foundation's overall purpose and remit.

Lending through First Step is now focused on the "newly unemployed" individuals and on micro-enterprises requiring funds for job expansion/protection. This lending is performing in line with expectation to date.

Arrangements have been put in place with the main Banks and with the Credit Review Office to refer



credit applications to First Step which do not pass the Banks' credit criteria but which could yet be viable propositions. Lending to communities has proved resilient to date reflecting the nature and commitment of the individuals who typically make up such community project groups.

Given the state of the Irish economy, there will be a continued strong emphasis in the coming year on ensuring credit quality in new loans advanced and on monitoring the existing loan book closely.

*Pictured at the Inaugural Stakeholders Meeting: Ken Slattery, Credit and Operations Director, Celia McCarthy, Accountant and Brendan Whelan, Chief Executive Officer*

## SOCIAL IMPACT

The Foundation ensures that all the loans it funds through the Social Lending Organisations have a clear social impact. Criteria have been established for evaluating the social impact of any loan proposal.

They are:

- Assisting disadvantaged and vulnerable segments of our population
- Building strong local communities (rural and urban) and providing opportunities for individuals, especially those with low to moderate incomes
- Enterprise development, for communities and appropriate individuals, where there is an employment element, particularly for lower income individuals in economically challenged areas, where normal job prospects are difficult
- Enterprise development, where there is an employment element, to deal with the severe difficulties of unemployment arising from the economic downturn
- Funding cannot be obtained from mainstream institutions or comes with onerous conditions

The Foundation is working with the Social Lending Organisations to implement a system of quantifying social impact and it would intend to report on it in the 2011 Annual Report.

## OPERATIONS

Modern IT systems are in place for loan processing and financial accounting. All banking transactions are executed electronically. Operational risk assessments are conducted regularly to ensure that risks are identified and mitigated to the greatest extent possible. The goal is to run a cost efficient, responsive and well-managed organisation.

Finally, I would like to express my appreciation to the Irish Banking Federation and its member banks, Departments of Finance and the Taoiseach, each Social Lending Organisation and Arthur Cox for their support for the Foundation.

Brendan Whelan  
CEO

22nd September 2010

## HomeCall Optical Care Ltd

HomeCall Optical Care is a business that was formed and is being run by siblings Patrick and Teresa Flanagan. The business was created to provide the highest level of eye care to patients within their community. They provide the service particularly to the elderly or disabled who are usually unable to access their high street optometrist. Clinical Director, Patrick, is a qualified Optometrist and Teresa, in her role as Managing Director, brings extensive knowledge of the eye care sector, along with experience in business and accounting (previously an Audit Senior with Ernst & Young). They are delighted to have recently won the County & City Enterprise Boards Dublin City Category Enterprise Award for 2009. They are based in the Terenure Enterprise Centre (Dublin) and currently employ 7 full time staff. Their business has been assisted by funding from First Step/Social Finance Foundation.

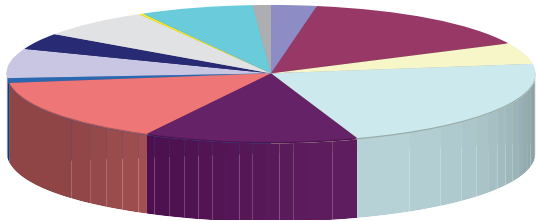
Homecall winners of Dublin City Awards Teresa and Patrick Flanagan



# Lending Information

## SECTOR BREAKDOWN

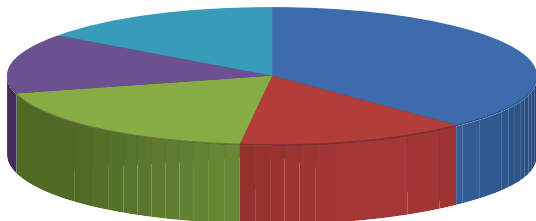
The nature of the Foundation's lending is shown in the table below. The Foundation is very conscious of its obligation to ensure that monies are utilised in areas where they will have a high social impact. The table illustrates that this is being achieved.



Addiction Treatment	3%
Childcare	15%
Community Arts & Tourism	5%
Community Centre	22%
Community Enterprise	13%
Community Sports	15%
Elderly Care	1%
Housing for Homeless	7%
Micro Finance - Expansion	4%
Micro Finance - Startup	7%
Other	0%
Special Needs & Treatments	7%
Voluntary Assoc.	1%

## GEOGRAPHIC BREAKDOWN

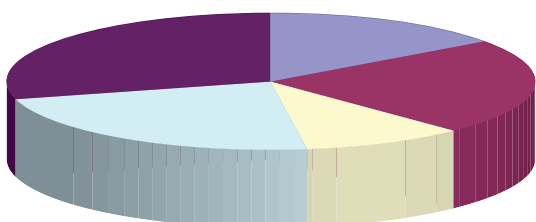
The Foundation strives to achieve a balanced distribution of funds throughout the State and the chart below illustrates that this is being broadly achieved.



Connaught	38%
Dublin	14%
Munster	19%
Rest of Leinster	14%
Ulster	15%

## MATURITY PROFILE

The terms of the loans by the Foundation have turned out to be longer than originally anticipated. This has resulted in the monies being "tied up" for long periods and thus unavailable for re-issuance to others. Hence the twelve year loan agreement with the Banking Industry for the long term funding of the Foundation. Fifty-two percent of Foundation loans are for periods of six years or greater, with 29% for periods in excess of ten years.



<1 Year	15%
1-3 Years	23%
4-5 Years	10%
6-10 Years	23%
11-15 Years	29%

Lending information shown in the pie-charts reflect loan drawings.





## STAKEHOLDERS MEETING

### PICTURED

**1** Peter Quinn, with Pat Farrell, CEO of Irish Banking Federation

**2** Peter Quinn and Minister for State Conor Lenihan

**3** Don Bailey, Chairman Vantastic with Peter Quinn

**4** Gerry McGinn, CEO Irish Nationwide, Peter Quinn and Tom Finlay, Chairman Clann Credo

**5** Minister for State Conor Lenihan with Norma Smurfit, Chairperson, First Step Microfinance

**6** Minister for State Conor Lenihan addressing the Meeting.

**7** Maurice O'Connell, ex-Governor of Central Bank and Peter Cassells, ex-General Secretary ICTU, both Directors of Clann Credo



The first Stakeholders meeting of the Foundation took place on 31st October 2009 in the Alexander Hotel, Dublin. The Board of Directors felt it was important to report on the performance of the Foundation since its inception in January 2007, and to do so, other than merely through the publication of its Annual Report. It was not an Annual General Meeting - the formal AGM of the Foundation had already taken place. It was a broader Stakeholders' Meeting, as the Foundation depends for its success on the support of many individuals and organisations.

The purpose of the Meeting was twofold: a) to serve the interests of transparency, and; b) in these difficult times, provide some good news about individuals, organisations and communities being helped to achieve their ambitions with the assistance of loan finance from the Foundation and the relevant SLO.

The previous Minister for Finance, our Taoiseach, and his department were the original sponsors of the Social Finance Initiative and their continued strong support for the Foundation was evidenced by the presence of the Minister of State, Conor Lenihan opening proceedings, deputising for the Minister for Finance, Brian Lenihan who had to tend to urgent Dail business.

The Chairman reported on the performance of the Foundation since inception and outlined some potential additional areas where the Foundation could play a constructive role under the broad remit of "social finance".

Hugh Harkin, Director of Vantastic, outlined the success of the organisation both financially and socially, and highlighted the key role that social finance played in developing the company.



# Financial Information

The financial information shown does not constitute full accounts within the meaning of the Companies Acts. This information has been extracted from the audited financial statements of the Social Finance Foundation for the periods ended 30 June 2010 and 30 June 2009.

Financial statements for the periods ended 30 June 2010 and 30 June 2009 have been delivered to the Registrar of Companies in Dublin.

The auditors, PricewaterhouseCoopers, Chartered Accountants and Registered Auditors, One Spencer Dock, North Wall Quay, Dublin 1 have given unqualified audit reports in respect of each of the said periods.

Copies of the full audited financial statements can either be obtained by writing to the Credit & Operations Director of Social Finance Foundation at 6-9 Trinity Street, Dublin 2 email - [kslattery@sff.ie](mailto:kslattery@sff.ie) or from the Companies Registration Office at their web site - [www.cro.ie](http://www.cro.ie)

## PROFIT AND LOSS ACCOUNT

PERIOD FROM 1ST JULY 2009 TO 30TH JUNE 2010

	2010 12 Months €000	2009 13 Months €000
<b>Net Interest receivable</b>	800	978
<b>Total income</b>	800	978
<b>Administrative Expenses</b>	(593)	(457)
<b>Loan Loss Provisions net of SLO contributions</b>	(716)	(511)
<b>(Loss) / profit on ordinary activities before tax</b>	(509)	10
<b>Tax on profit on ordinary activities</b>	0	0
<b>(Loss) / profit for the period</b>	<u>(509)</u>	<u>10</u>

## BALANCE SHEET AS AT 30TH JUNE 2010

	30th June 2010 €000	30th June 2009 €000
<b>FIXED ASSETS</b>		
<b>Tangible Assets</b>	6	12
<b>CURRENT ASSETS</b>		
<b>Loans and advances to customers net of provisions</b>	6,580	5,160
<b>Other debtors</b>	283	324
<b>Short term deposits</b>	23,602	19,736
<b>Cash at bank and in hand</b>	9	28
	<u>30,474</u>	<u>25,248</u>
<b>Creditors - amounts falling due within one year</b>	(664)	(105)
<b>Net Current Assets</b>	<u>29,810</u>	<u>25,143</u>
<b>Total assets less current liabilities</b>	29,816	25,155
<b>Creditors - amounts falling due after more than one year</b>	(5,170)	0
<b>Net Assets</b>	<u>24,646</u>	<u>25,155</u>
<b>CAPITAL AND RESERVES</b>		
<b>Profit and loss account</b>	24,646	25,155
	<u>24,646</u>	<u>25,155</u>



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Social Finance Foundation is a company  
(No. 433581) limited by guarantee and  
registered as a charity - No. CHY 17272

**Brendan Whelan**

Chief Executive Officer

**Ken Slattery**

Credit and Operations Director

**Celia McCarthy**

Accountant

