



Opening Statement
for Briefing the Oireachtas Joint Committee on
Enterprise, Trade and Employment
on the
General Scheme of the Microenterprise Loan Fund (Amendment) Bill 2023

**Ms Jean Carberry, Assistant Secretary - European Union, Digital and Access to
Finance Division, Department of Enterprise, Trade and Employment**

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Thank you Chair and members of the Committee for the opportunity to discuss the General Scheme of the Microenterprise Loan Fund (Amendment) Bill 2023.

The purpose of the Microenterprise Loan Fund (Amendment) Bill 2023 is to provide a statutory basis for the transfer of Microfinance Ireland into State ownership within the remit of the Department of Enterprise, Trade and Employment and bring Microfinance Ireland (MFI) fully within the State body governance structure of the Department of Enterprise, Trade and Employment.

Microfinance Ireland

Before commenting on the specifics of the proposed Bill, I would like to provide a general update on the work of MFI. MFI was established in 2012 and lends to viable small businesses with fewer than 10 employees and annual turnover of less than €2m. It provides vital support to start-ups and established microenterprises that do not meet the conventional risk criteria applied by commercial lenders.

MFI provides loans ranging from €2,000 up to €25,000 to businesses and applies interest rate charges for its lending which are far below what the market would charge for the level of credit risk involved. In addition to its lending services, MFI provides post approval mentoring services free of charge to its borrowers, which are delivered through the Local Enterprise Offices.

There is wide regional spread of loans across the country, with 78% of loans approved for microenterprises outside Dublin. To date MFI has approved a total of 4,922 loans to the value of €81.2m, supporting more than 10,300 jobs.

MFI was established as part of an array of measures introduced to improve access to finance for SMEs in the wake of the global financial crisis. While there were a number of microfinance providers across Europe at the time, this was a novel concept for Ireland. MFI's purpose was to generate and retain employment in businesses with less than 10 employees. A sunset clause was built in by way of a limit in the amount of funding of €25 million, so that if the programme was not a success it could be discontinued relatively easily. Although all of MFI's operating

costs (including losses on lending) are met by the Exchequer, MFI is not currently State owned, but was created as a subsidiary of the Social Finance Foundation.

MFI has been an unqualified success since it was first established. An independent Review of the Microenterprise Loan Fund of December 2019 concluded that MFI fulfils a unique role for microenterprises unable to secure finance via other sources, and acts as an effective countercyclical intervention in the market.

The importance of MFI was particularly evident in the early days of the COVID-19 pandemic, when MFI immediately pivoted to providing COVID-19 loans which acted as a liquidity lifeline to small businesses, before most of the other Government supports kicked in.

Reason for Legislation

There is no doubt that MFI has proven its relevance as an essential part of the financing ecosystem for small businesses across the country. In reflection of this, the 2020 Programme for Government includes a commitment to scale up MFI so that it can support greater numbers of small businesses and start-ups in accessing finance. As a first step towards this, the Department conducted a further review of MFI, to assess whether its governance arrangements were consistent with Government's ambition to scale up MFI. The Review recommended the transfer of ownership of MFI from SFF to the Minister for Enterprise, Trade and Employment. This would provide better alignment between the ownership and funding arrangements for MFI. SFF participated in this review, and agrees, notwithstanding the positive operational synergies between SFF and MFI, that it will relinquish parentage of MFI to the State.

The purpose of this legislation is to provide a statutory basis for that change of ownership.

Since its establishment, MFI has been funded by Department of Enterprise, Trade and Employment, by way of capital grants to the Microenterprise Loan Fund. This has equated to an average annual cost to the Exchequer of €3.2 million per annum since MFI was established. SBCI provides a significant portion of MFI financing for on lending and the European Investment Fund provides a guarantee that significantly offsets the cost of MFI loan defaults.

The existing governance structure in place for MFI already contains many of the aspects of governance applicable to State Bodies. However, this legislation is required to give effect to the transfer of ownership of MFI to the Minister for Enterprise, Trade and Employment on behalf of the State and to implement a more appropriate and up to date governance structure. This will underpin the expanding level of MFI activity in the provision of micro finance throughout Ireland as unbankable microenterprises seek to start up, survive and flourish.

Conclusion

Today the Joint Committee on Enterprise, Trade and Employment is being asked to carry out pre legislative scrutiny for the General Scheme of the Microenterprise Loan Fund (Amendment) Bill 2023. This is a short Bill with a narrow scope, with the intention of providing a statutory basis for the transfer of Microfinance Ireland into State ownership within the remit of the Department of Enterprise, Trade and Employment.

Thank you chair and Committee Members. My colleagues and I are available to provide any additional information either now or in the future.

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