

## Chapter 10

# Clann Credo: A social finance provider, Ireland

*Clann Credo is a social-finance provider that mobilises private capital and provides retail loans to social enterprises. It aims to increase access to finance and strengthen the social investment market in Ireland. This chapter describes the organisation's objectives and rationale, and provides an overview of its key activities. It also presents the impact and challenges faced, and features a discussion of the conditions for transferring this practice to another context.*

### Summary

Clann Credo provides retail loans, knowledge and expertise to the community, voluntary and social enterprise (CVSE) sector in Ireland. Clann Credo played a key role in lobbying the Irish government to introduce a social finance<sup>1</sup> initiative. This led to the establishment of the Social Finance Foundation, which provides wholesale loans to community organisations such as Clann Credo. Neither Clann Credo nor the Social Finance Foundation receive any government funding towards their operating costs or capital base.

Prior to 2000, Ireland's growing social enterprise sector was not well understood, and consequently struggled to obtain capital. Many Irish community organisations, particularly in disadvantaged areas, had no access to mainstream bank finance. In response to these identified market failures, the Presentation Sisters,<sup>2</sup> an international Roman Catholic congregation, set up Clann Credo in 1996 as a way to deepen social justice and further its mission of social transformation. Other religious charities also provided capital.

Since its creation, Clann Credo has lent over EUR 82 million (euros) to more than 800 projects. It has also developed other activity strands addressing wider societal issues; for example, it assessed the viability of the social impact bond (SIB) concept through a pilot that secured private capital to help homeless families move into long-term accommodation.

An important pre-condition for transferring such an initiative to other countries would be to identify a market failure in the provision of loans to community organisations and social enterprises. These initiatives are driven by people who are willing to establish one or more non-governmental organisations (NGOs) (including social enterprises) and have the ability to raise capital from investors (e.g. religious charities, philanthropic foundations or private investors). The NGOs require staff possessing a knowledge and understanding of the CVSE sector, as well as the skills necessary to assess both the credit risks and potential social benefits. In Ireland, the government used its influence with the banking industry to obtain private funds to set up a new wholesale social-finance provider, the Social Finance Foundation. In other countries, governments might decide to invest directly in these types of initiatives.

### Key facts

According to Forfás (2013), the social enterprise sector employs an estimated 25 000-33 000 people and posted an annual income of around EUR 1.4 billion in 2009. Social enterprise is a relatively new concept in Ireland. The idea of running a business for social purposes rather than profit can be counter-intuitive and difficult to explain. Accessing funds – whether donations from the general public, loan finance from mainstream lending institutions or government grant aid – can be challenging.

Clann Credo<sup>3</sup> – the Social Investment Fund – is a social enterprise, charity and company limited by guarantee without share capital. It receives no government funding. Its initial sources of finance (EUR 1.9 million) came from the Presentation Sisters.<sup>4</sup> Other religious charities subsequently invested in Clann Credo; their combined investment now stands at over EUR 10 million. Since 2007, the Social Finance Foundation has also provided funding to Clann Credo.

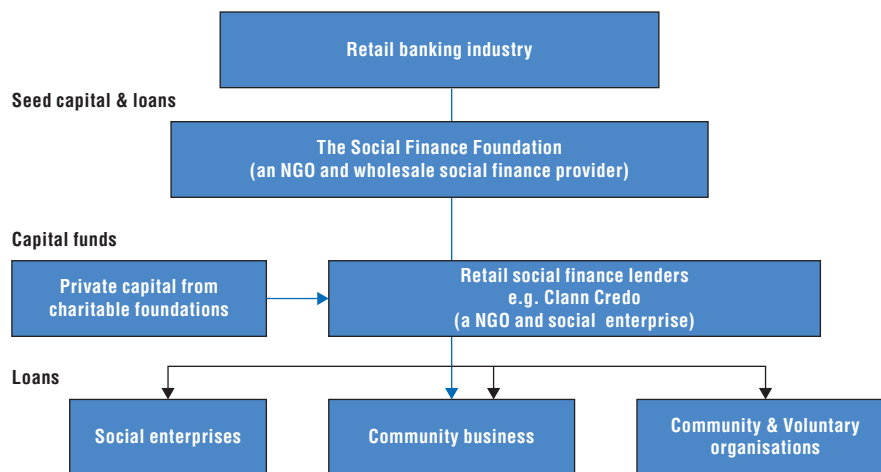
Clann Credo operates at the local, regional and national levels; the Social Finance Foundation operates at the national level.

Clann Credo has lent over EUR 82 million since its creation, supporting more than 800 community organisations and social enterprises. It currently has a retail loan book of EUR 18.5 million (Clann Credo, 2016).

Clann Credo loans span 3 months to 15 years and vary from EUR 10 000 to EUR 500 000; the average loan amount is EUR 120 000. For loans with a term of five years or more, the current typical interest rate is 4.95% per year variable. For shorter-term loans, the current typical interest rate is 6% per year fixed. Conditions include no personal guarantees from project promoters or voluntary board members and no penalties for early repayment, even for fixed-rate loans.

In 2006, in response to advocacy by Clann Credo and others,<sup>5</sup> the Irish government encouraged the banking industry to set up a social finance wholesale provider. The Social Finance Foundation was established as a not-for-profit company in 2007. Twelve Irish retail banks<sup>6</sup> provided seed capital of EUR 25 million, with contributions proportionate to each bank's market share. In 2009, the banks provided an additional EUR 72 million through commitments, at a preferential interest rate, over the following 12 years. This has been implemented through lending EUR 6 million per year.

Figure 10.1. outlines the flow of capital in the Irish social finance model.

Figure 10.1. **Flow of capital in the Irish model**

## Objectives

Clann Credo aims to build stronger communities. It provides social finance to help groups and organisations build their capacity and skills in project/business planning and management; manage and access funds; and identify areas of social impact. It supports organisations that address particular issues of disadvantage, such as drug addiction, early-childhood education, unemployment and housing. It provides loans to develop community infrastructure, e.g. childcare facilities, community enterprise centres, amateur sports facilities and new community-based services.

In addition, Clann Credo performs research on social investment with the potential to strengthen the CVSE sector and explores new financial tools (e.g. SIBs) to develop innovative solutions to social issues. It informs political institutions on the importance and growth potential of the CVSE sector. Finally, it works with the Social Finance Foundation to ensure that the social-finance sector remains viable and has adequate resources to support the CVSE sector independently of government funding.

## Rationale

Created in 1775, the Congregation of the Presentation Sisters traditionally responded to society's needs by sending its members into the field to address the issue. Due to the institution's aging and diminishing demographic, this model was no longer deemed viable; the Sisters decided to use the funds more effectively, by supporting development opportunities for disadvantaged communities. Sister Magdalen Fogarty, the Sisters' Bursar General, was charged with turning this vision of social justice into reality. Clann Credo was the culmination of this work.

Within a few years of Clann Credo's foundation, it became apparent that new sources of funding would be required to meet growing demand. Through roundtable events and commissioned research (TSA Consulting et al., 2013), Clann Credo and other organisations<sup>7</sup> lobbied the government to establish a wholesale social finance provider. Recognising the contribution of social finance to developing social capital and community infrastructure,<sup>8</sup> the government committed to examining ways to expand social finance provision<sup>9</sup> and worked with the banking industry to set up the Social Finance Foundation.

## Activities

Clann Credo provides loan finance to CVSEs that meet its key lending criteria. Clann Credo's social finance executives evaluate the proposals based on the promoters' skills, experience and plans for the organisations' future development; the loan's size and duration, relative to the size of the social enterprise; the enterprise's financial position and repayment capacity; the social issue it aims to address; and the anticipated social benefits. They then submit a detailed report to Clann Credo's evaluation sub-committee, which decides whether to approve the loan.

Once the loan proposal is approved, Clann Credo seeks wholesale funding from the Social Finance Foundation,<sup>10</sup> whose credit-review committee may on occasion decline a loan application: while both organisations have similar assessment criteria, their perceptions of risk and social benefit may differ. Clann Credo pays an interest rate on the loans it receives from the Social Finance Foundation, and consequently charges a margin on the loans it makes to social enterprises and community organisations. In the event of a loan default, Clann Credo and the Social Finance Foundation share the loss equally.

Once the loan is approved, Clann Credo sends a letter of offer to the social enterprise's promoters, outlining the terms, conditions and repayment schedule. When the offer is accepted, the necessary mechanism for drawing down the loan is put in place.

Clann Credo's social finance executives and risk-advisory committee (comprising volunteers with knowledge and experience in banking, risk assessment and the social sector) conduct formal lending reviews. They remain in touch with the promoters throughout the lifetime of the loan, to ensure that any difficulties are recognised and addressed early – e.g. by rescheduling loan payments, extending the loan period, converting bridging loans to term loans, or nominating someone to the social enterprise's board.

Finally, Clann Credo performs research on issues of relevance to social finance provision and the CVSE sector. Clann Credo and the Social Finance Foundation are founding members of the Social Enterprise Task Force, established in 2009 to promote the development of national policy and strategy for social enterprise, including sector financing.

## Challenges encountered and impact

Table 10.1. summarises the strengths, weaknesses, opportunities and threats (SWOTs) for Clann Credo.

### Challenges

In its early years, Clann Credo made a small number of ultimately unsuccessful private-equity investments. A key lesson was that it had insufficient experience and expertise to assess, manage and monitor such investments. As a result, the Clann Credo board decided the organisation would focus on CVSE lending.

Lending prudence dictates that not all social enterprises can be supported. Social enterprises (especially start-ups) that depend substantially on trade have a high risk profile. Statutory and/or EU support – e.g. through implementation of the European Programme for Employment and Social Innovation loan guarantee scheme in Ireland – would enable greater access to social finance for these riskier projects.

Montague and Middlequarter (2015) determined that CVSEs were insufficiently aware of the opportunities provided by social finance. Some organisations that could benefit from social finance are averse to taking on loans – perhaps because they lack borrowing experience, or fear they will be unable to repay the loan, or have a risk-averse culture.

Table 10.1. **SWOT analysis of Clann Credo**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Twenty years' experience in lending to the CVSE sector</li> <li>• Regionally based staff, accessible to prospective customers</li> <li>• Ongoing relationships and provision of non-financial support to customers</li> <li>• Funded entirely by private capital; not dependent on government funding</li> <li>• Engages in prudent lending practices; structures are in place to assess risk</li> <li>• Strong focus on projects' social dividends</li> <li>• Loan terms and conditions tailored to recipient organisations' needs and capacity</li> <li>• Volunteer board and sub-committee members with social and financial knowledge and experience, providing effective oversight</li> <li>• Use of a volunteer recruitment and selection committee, with nominees approved at the annual general meeting, gives Clann Credo access to external expertise from the financial, enterprise and community sectors at no cost</li> <li>• Exploring how best to fulfil the core mission through innovative solutions to social needs</li> <li>• Strong links and good working relationships within the sector</li> </ul>	<ul style="list-style-type: none"> <li>• Greatest individual loan Clann Credo can grant any organisation is EUR 500 000, with a 15-year maximum term, limiting its capacity to fund capital-intensive projects (e.g. social housing)</li> <li>• Early-stage CVSEs unable to access social finance because of their risk profile</li> <li>• Social finance provides insufficient margins to support large public awareness campaigns on availability of social finance</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Cutbacks in government funding may encourage more organisations to seek social finance to develop commercial activity</li> <li>• Collaborating with others to provide non-financial support to social enterprises before and after they receive a loan to reduce the risk of failure</li> <li>• Collaborating with others to provide start-up capital, working capital and term loans to organisations wishing to develop hybrid ventures</li> <li>• Collaborating with other social finance providers to promote the availability of social finance</li> </ul>	<ul style="list-style-type: none"> <li>• Increased competition from mainstream commercial lenders</li> <li>• Mainstream banks "cherry-picking" the best social enterprises, leaving social finance providers with the riskier projects</li> <li>• High failure rate of social enterprise start-ups could result in more loan defaults</li> </ul>

In the longer term, close attention should be paid to nurturing the key relationships between social finance providers (such as Clann Credo) and the organisations that fund them (such as the Social Finance Foundation and charitable foundations), as well as between the Social Finance Foundation and its funders (the banks).

### Impact

Over the years, Clann Credo has commissioned three studies to demonstrate its impact. The first report, a social audit by the National University of Ireland Galway (Curtin, 2006), showed that 80% of respondents decided to proceed with a particular project based on the possibility of funding from Clann Credo; 33% actually set up a business upon receiving such funding. A number of project managers indicated that social finance played a critical role in helping them overcome financial challenges.

The second report, an economic audit by the long-established economic research firm DKM Economic Consultants (2011), found that Clann Credo loans contributed a total EUR 63 million to the Irish economy in 2010. Every euro injected into the economy by a Clann Credo client benefitted the economy by a further 32% (e.g. through wages or purchases of goods and services). In 2011, projects supported by Clann Credo loans employed 820 people full-time and 670 people part-time; the loans helped maintain 630 jobs and create 260 new jobs.

The third report by Clarke (2015), an independent evaluator, focused on the impact of bridging finance provided by Clann Credo to projects seeking LEADER grants. Clarke found that between 2007 and 2013, Clann Credo disbursed EUR 34 million in loans to 319 LEADER applicants, leveraging a further EUR 42 million in LEADER grants. These projects created around 1 000 new jobs and maintained a further 600 jobs; they also supported an additional 1 400 temporary jobs (e.g. related to facilities construction).

The Social Finance Foundation has approved EUR 97 million in lending since 2007, of which over EUR 60 million has been drawn down. Table 35 shows the range of organisations ultimately supported after disbursement by retail social finance providers (such as Clann Credo).

Table 10.2. **Projects supported by the Social Finance Foundation's wholesale lending to social finance providers**

Sector	Percentage of wholesale lending
Community centres	31%
Community sports facilities	25%
Social enterprises and community businesses	14%
Community arts and tourism	11%
Elder care, health care, child care, disability care	9%
Other causes	8%
Total	100%

Source: Social Science Foundation (n.d.), <http://sff.ie/social-dimensions/>.

## Lessons learnt and conditions for potential replicability

Using private capital and the banking industry to provide wholesale and retail social finance to social enterprises is an innovative approach that could be replicated in other countries. Core components of this model include:

- one or several NGOs – which could also be social enterprises – that provide finance to community projects and social enterprises
- an NGO that acts as a wholesaler and intermediary between social-finance providers and private capital sources.

Ireland has made significant progress in addressing the financial exclusion of community organisations and social enterprises. With a population of 4.6 million, Ireland now has EUR 100 million in social finance to lend, thanks to joint work by the government, banks and NGOs.

A number of preconditions need to exist to enable replicability:

1. The first prerequisite is a clearly identified market failure that is not being met by either the government or mainstream financial institutions, with the result that social enterprises are struggling to access funds – specifically loans by mainstream lending institutions. The existence of this market failure enabled Clann Credo and its partners to make a strong case to the government for implementing new mechanisms supporting social finance.
2. Prior to engaging in strategic advocacy, Clann Credo developed a proven operating model over many years before advocating for expanding social-finance provision. It informed the government's decision-making process through its own research and analysis, which it shared in roundtable discussion events.



3. The third prerequisite is the existence of interested individuals or NGOs willing to invest in social finance and establish social finance providers, so as to provide greater choice and competition. Clann Credo's early investors showed patience and commitment to the idea of social finance and believed it could make a difference in providing access to capital. This enabled Clann Credo to explore innovative solutions.
4. Social finance providers need to have or develop core competencies, such as the ability to raise capital from investors (e.g. religious charities, philanthropic organisations or private investors). They also need a knowledge and understanding of the CVSE sector, and the skills necessary to assess both the credit risk and potential social benefit.
5. A fifth prerequisite is the existence of key champions in the political system, the civil service and the banking industry who are committed to expanding social finance provision. In the case of the Social Finance Foundation, the government played a key role as a catalyst in encouraging the banking sector to fund a wholesale organisation at a very reasonable cost. As a result, funds were made available to the CVSE sector at interest rates and conditions that facilitated – rather than hindered – access to finance.
6. Finally, an existing retail distribution infrastructure developed by social finance providers, such as Clann Credo, can benefit/facilitate the development of wholesale providers such as the Social Finance Foundation. Barring that, wholesale social-finance providers would have to hire their own staff to identify potential projects, assess loans and support projects. In effect, they would have to become retail providers of social finance, thereby increasing the cost of providing loans to customers.

### Notes

1. The Government of Ireland (2006) defined social finance as follows: "Social finance applies financial instruments to the task of combatting social exclusion through the provision of repayable finance to community focussed enterprises at all stages of development including start-up. Social finance complements the range of measures in place to promote and assist community infrastructure and local development."
2. For more information, please refer to: <http://www.pbvm.org/>.
3. For more information, please refer to: <http://www.clanncredo.ie/>.
4. Over the centuries since its foundation, the Presentation Sisters' funds accumulated through public donations, property acquisition and the Sisters' donation of the salaries earned when they worked in the publicly funded education system.
5. Dublin Employment Pact, Westmeath Employment Pact and Area Development Management.
6. Bank of Ireland, Allied Irish Bank, Irish Life & Permanent, Ulster Bank, Anglo Irish Bank, Irish Nationwide, EBS, ACC Bank, Danske Bank, Bank of Scotland Ireland, KBC Bank Ireland and Postbank.
7. Dublin Employment Pact, Westmeath Employment Pact and Area Development Management.
8. Programme for Government (2002).
9. Social Partnership Agreement (2002), Social Partnership Agreement 2006-2015 (2006).
10. The Social Finance Foundation also provides wholesale loans to the country's other social-finance provider, Community Finance Ireland.

### References

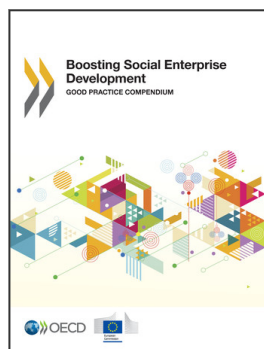
- Clann Credo (2016), *Directors' Report and Financial Statements for year ended 31 December 2015*, Clann Credo Limited, Dublin.
- Clarke, A. (2015), *Breaking New Ground. Assisting Community Organisations to Access LEADER Funding. A Review of Clann Credo's Contribution to the Rural Development Programme 2007-2013*,

- Clann Credo, Dublin, [www.socent.ie/wp-content/uploads/01/CCLeaderReportOct15.pdf](http://www.socent.ie/wp-content/uploads/01/CCLeaderReportOct15.pdf).
- Curtin, C. (2006), *Clann Credo – the Social Investment Fund. Generating Inclusive Prosperity*. Social Audit 1996-2006, National University of Ireland Galway, Galway.
- DKM Economic Consultants (2011), *The Economic and Social Contribution of Clann Credo – the Social Investment Fund*, Clann Credo, Dublin.
- Forfás (2013), *Social Enterprise in Ireland. Sectoral Opportunities and Policy Issues*, Forfás, Dublin.
- Montague Communications and Middlequarter Limited (2015), *Communications Strategy for Promoting Social Finance*, Social Finance Foundation, Dublin.
- Social Science Foundation (n.d.), “Social Dimensions”, webpage, <http://sff.ie/social-dimensions/> (accessed 17 June 2016).
- TSA Consulting et al. (2003), *Social Finance in Ireland*, Area Development Management, Clann Credo, Dublin Employment Pact and Westmeath Employment Pact, Dublin, [www.dublinpact.ie/pdfs/social\\_finance.pdf](http://www.dublinpact.ie/pdfs/social_finance.pdf).

### **Further reading**

- European Commission (2011), *Social Business Initiative: Creating a favourable climate for social enterprises, key stakeholders in the social economy and innovation*, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, 25.10.2011 COM(2011) 682 final, European Commission, Brussels, [http://ec.europa.eu/internal\\_market/social\\_business/docs/COM2011\\_682\\_en.pdf](http://ec.europa.eu/internal_market/social_business/docs/COM2011_682_en.pdf).
- Government of Ireland (2006), *Towards 2016 Ten-Year Framework Social Partnership Agreement 2006-2015*, Stationery Office, Dublin.
- Government of Ireland (2003), *Sustaining Progress. Social Partnership Agreement 2003-2005*, Stationery Office, Dublin.
- Government of Ireland (2002), *An Agreed Programme for Government between Fianna Fáil and the Progressive Democrats (June 2002)*, Stationery Office, Dublin.
- Steering Committee on Social Finance (2004), *In the Common Interest. The Case for Social Finance in Ireland. Report and Recommendations of the Steering Group on Social Finance 2004*, Dublin Employment Pact, Westmeath Employment Pact, Clann Credo and Area Development Management Ltd., Dublin.





**From:**

## **Boosting Social Enterprise Development Good Practice Compendium**

**Access the complete publication at:**

<https://doi.org/10.1787/9789264268500-en>

### **Please cite this chapter as:**

OECD/European Union (2017), “Clann Credo: A social finance provider, Ireland”, in *Boosting Social Enterprise Development: Good Practice Compendium*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264268500-13-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to [rights@oecd.org](mailto:rights@oecd.org). Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at [info@copyright.com](mailto:info@copyright.com) or the Centre français d'exploitation du droit de copie (CFC) at [contact@cfcopies.com](mailto:contact@cfcopies.com).