



Irish Rural Link
Nasc Tuaithe na hÉireann

Irish Rural Link Submission on Local Public Banking

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Introduction and Overview

The impact of the recession and austerity budgets that followed is still being felt in many rural areas and have not seen the same level of economic growth or employment as more urban areas have over the past couple of years. Although unemployment in the state has fallen to just over 6%, in the Border, Midlands and West regions, it still remains an average of 8% and 9.4% in South East Region¹. Small and Medium sized companies are the backbone of rural areas and are a key employer. However, since the financial crash, a lack of credit circulating was the main factor affecting communities as SMEs in particular tried to survive the economic downturn. The closing of many rural bank branches compounded the feeling of abandonment by the banks in these communities.

Although there are slight improvements in lending by pillar banks to SME's, lending market remains highly concentrated with the combined market share of the three main lenders currently at 93%². With these limited options of credit available to SME's, they are extremely vulnerable to any shocks, either within these three main lenders or external factors, such as a financial crisis. The continued closure of bank branches, limited services and opening times of existing branches and more services moving to phone or online banking, it is becoming more and more difficult for SME's, particularly in rural areas, to access banking services. The Ulster Bank recently announced the closure of 22 more of their branches over the next few months, with the majority of these closures occurring in rural towns and villages. A recent report in the Irish Times highlighted the difficulties and frustrations by SME's about the level of interaction they have with their banks and the services they provide to business customers. They feel they no longer get the level of support or can build relationships with the bank, like they used to³.

The impact of Brexit has already being felt among many SME's, especially in the agri-food sector and along the border. They are vulnerable to the uncertainties surrounding Brexit and may find it even more difficult to get the necessary supports from the traditional banking system.

Current Government Strategies

¹ CSO Quarterly National Household Survey Q4 2016

<http://www.cso.ie/en/releasesandpublications/er/qnhs/quarterlynationalhouseholdsurveyquarter42016/>

² Central Bank (2017) SME Market Report 2016 H2

<http://www.centralbank.ie/stability/Documents/SME%20Market%20Report%202016H2.pdf>

³ Irish Times 24th March 2017 *"Banks say SMEs get good service – not so say firms who feel abandoned"*

<http://www.irishtimes.com/business/work/banks-say-smes-get-good-service-not-so-say-firms-who-feel-abandoned-1.3018905>

The Government has developed strategies that aim to improve the lives of people living in rural areas, increase employment and quality of jobs in all regions of the country and develop regions outside of Dublin to ensure that the country grows as a whole.

'Realising Our Rural Potential' Action Plan for Rural Development

In January 2017, the Taoiseach and Minister for Arts, Heritage, Regional, Rural and Gaeltacht Affairs launch a Plan for Rural Development which outlined over 270 actions to help improve the lives of those people living in rural Ireland and encourage others to move or return to live in rural areas. The Action Plan is based around five key thematic Pillars, each of which has a series of objectives and actions namely; support sustainable and vibrant rural communities; support enterprise and employment; maximise our rural tourism and recreation potential; foster culture and creativity in rural communities and improve rural infrastructure and connectivity⁴.

National Planning Framework Plan Ireland 2040

A 20 year National Planning Framework Plan will be developed in 2017. It is envisaged that this plan will provide the framework for future development and investment in Ireland. One of the main aims will be for the development of effective regions to ensure future national growth can reach every person and area in the country⁵.

Regional Action Plans for Jobs

Between June 2015 and January 2016, the Department of Jobs, Enterprise, and Innovation published eight Regional Action Plans for Jobs, aimed at raising employment levels in the regions and facilitating them to achieve their economic potential. The primary objective of these plans is to have a further 10 to 15 per cent at work in each region by 2020 and to ensure the unemployment rate of each region is within one per cent of the State average. One of the main objectives is to increase the number of entrepreneurs/start-ups in each region by a minimum of 25%⁶. The importance of sustainable lending to SME's must be recognised in aiming to achieve this objective.

Local Public Banking can be a vital instrument in achieving the aims and objectives of each of these strategies and IRL welcome that the Government are now going to investigate a local public bank model as stated in The Programme for Partnership Government.

⁴ Dept of Arts, Heritage, Regional, Rural and Gaeltacht Affairs (2017) 'Realising our Rural Potential: Action Plan for Rural Development' <http://www.ruralireland.website/Rural-Ireland-Action-Plan.pdf>

⁵ Dept of Housing, Planning & Local Government 'Ireland 2040: Our Plan' <http://npf.ie/>

⁶ Dept of Jobs, Enterprise and Innovation (2015-2016) 'Regional Action Plans for Jobs' <https://www.djei.ie/en/What-We-Do/Business-Sectoral-Initiatives/Regional-Action-Plans-for-Jobs/>

“We will thoroughly investigate the German Sparkassen model for the development of local public banks that operate within well-defined regions”. (2016)⁷

and Action 23 of the Action Plan for Rural Development will

“Investigate the potential of the German Sparkassen model and the Kiwibank model for the development of local public banks that operate in defined regions”.⁸

Local Public Banking

Irish Rural Link (IRL) is the national network of rural community groups, representing over 1200 community groups and over 25,000 individuals committed to socially, environmentally and economically sustainable rural communities. As a result of decreased funding and credit lending to SME's after the financial crash and throughout the recession, IRL began to investigate whether there were other successful, more sustainable models of banking which could serve communities better. Research was carried out in conjunction with part-time university graduates as well as its own internal researchers during the course of which IRL identified the German Savings Bank (Sparkasse) banking model as being one which had been unaffected by the banking crash. IRL also found this model attractive due to its public mandate and the fact that its success was built on a strict regional principle which ensured the success of local SMEs in each bank's region and created a more uniform economic development across the country as a whole. Subsequently IRL developed a working relationship with the SBFIC to explore how this model could be introduced in Ireland and the SBFIC. The wider Sparkassen Group has expressed support for such a model to be established in Ireland to bring added value for regional development. IRL concludes, following in-depth research, that by incorporating the Sparkassen successes and characteristics including stakeholder values this model would act as a banking force for the “real economy”.

Workings of Banking Model

This model of banking covers the 26 counties nationally and works on a regional basis following key principles of the "Framework for the Development of Regional Enterprise Strategies." The model is not based on a theory but on an existing regional working banking model bringing prosperity by creating a virtuous cycle of money circulating in the local economy. This model of banking invigorates local communities particularly in the area of SME's and the Agri sectors that allow commerce to thrive.

Contribution to Regional Growth and Employment

Focusing on SME lending will have a direct positive influence on the level of regional employment. Finance for working capital and investment will allow local SMEs to grow and attract outside investors to the region.

⁷ Programme for Partnership Government (2016)

http://www.merrionstreet.ie/MerrionStreet/en/ImageLibrary/Programme_for_Partnership_Government.pdf

⁸ Dept of Arts, Heritage, Regional, Rural and Gaeltacht Affairs (2017) 'Realising our Rural Potential: Action Plan for Rural Development' <http://www.ruralireland.website/Rural-Ireland-Action-Plan.pdf>

Farming and SME business is almost by definition local business. The business model of a Regional Public Bank offers the suitable product mix and efficient lending procedures for the rural business. Its credit risk management takes into account relevant local business information, including “soft” information which enables prudent and fair risk management and allows including start-up finance and finance for innovation into the business proposition of the lender.

The level of client information and business expertise due to the decentralised location of each Regional Public Bank are prerequisites for a successful assignment of public promotion funds to support the rural development.

Recommendations:

Irish Rural Link proposes the following recommendations:

1. Nationwide Network

IRL recommends a nationwide network of 8 to 10 Local Public Banks which are managed independently but with an identical business model working under identical management principles. Initially 2 or 4 pilot banks are envisaged with a rollout of the entire network developed over the next 5 years.

2. Centralised Service

A centralised service unit would provide internal services, including risk management and internal audit and will house a self-supervision unit for the new public banking system.

3. Specific Business Model

Local Public Banks will follow a specific business model that is different from traditional commercial banking i.e, stakeholder driven. The new public banks will have to be economically viable but they will not pursue profit maximisation. It will adopt a business model similar to the German Sparkassen model, which is the key promoter of regional development and SME finance in Germany. It will work on the principle “local deposits for local loans” thereby support local development. Like in the German model the regional public banks will mediate public promotion funds, e.g. from EU sources and the Strategic Banking Corporation of Ireland.

At the same time they will be enabled to fulfil a public mandate because they will not be under pressure to make dividend payments.

4. Distribution of funds to the Community

Earnings will partly be retained to strengthen their capital base and partly distributed to social projects, also surpluses will be partly distributed to social funds to benefit the local community.

5. Mentoring Services for SME's

The EIB is seeking to lend directly to Irish Businesses. At present they do not have suitable local partners for doing this with the Pillar Banks proving lethargic in their support for Irish SMEs despite the massive cash injections they have received to do this.

Conclusion

SME's in rural areas continue to face barriers and obstacles when accessing credit, services and supports from traditional banking market. This is hindering their potential to grow and expand.

The hollowing out of regional banking coverage will continue if no alternate structure is established to support regional SME and Personal banking needs. With the publication of the Action Plan for Rural Development and a new National Planning Framework for new Regions being published later this year, an alternate banking structure needs to be part of these strategic plans in order for SME's in rural areas to grow and create employment while at the same time building local communities.

Now we have the chance to engage with a proven successful banking model to establish such an alternate regional pillar and Irish Rural Link strongly believe that the offer of expertise and support from SBFIC and the German Sparkassen Group should not become a missed opportunity. A thorough investigation of this model now needs to happen.

“We will thoroughly investigate the German Sparkassen model for the development of local public banks that operate within well-defined regions”. (Programme for Partnership Government, 2016).

Irish Rural Link the Organisation

Irish Rural Link (IRL), formed in 1991, is a national network of organisations and individuals campaigning for sustainable rural development in Ireland and Europe. IRL, a non-profit organisation, has grown significantly since its inception and now directly represents over 1200 community groups with a combined membership of 25,000.

The network provides a structure through which rural groups and individuals, representing disadvantaged rural communities, can articulate their common needs and priorities, share their experiences and present their case to policy-makers at local, national and European Level.

Irish Rural Link is the only group represented at the national social partnership talks solely representing rural communities' interests.

'Our vision is of vibrant, inclusive and sustainable rural communities that contribute to an equitable and just society'

Irish Rural Link's aims are:

- To articulate and facilitate the voices of rural communities in local, regional, national and European policy arenas, especially those experiencing poverty, social exclusion and the challenge of change in the 21st century.
- To promote local and community development in rural communities in order to strengthen and build the capacity of rural community groups to act as primary movers through practical assistance and advice.
- To research, critique and disseminate policies relating to rural communities including issues such as sustainability, social exclusion, equality and poverty
- To facilitate cross-border networking between rural communities

'Our mission is to influence and inform local, regional, national and European development policies and programmes in favour of rural communities especially those who are marginalised as a result of poverty and social exclusion in rural areas.'

