

## **GENERAL SCHEME**

### **MICROENTERPRISE LOAN FUND (AMENDMENT) BILL 2023**

#### **HEAD 1 - LONG TITLE**

To provide that the Long Title of the Bill is:

An Act to amend the Microenterprise Loan Fund Act 2012 and the Microenterprise Loan Fund (Amendment) Act 2020 in order to transfer the ownership of Microfinance Ireland from the Social Finance Foundation to the Minister for Enterprise, Trade and Employment.

BE IT ENACTED BY THE OIREACHTAS AS FOLLOWS:

#### **EXPLANATORY NOTE:**

It is standard to provide each Bill with a LONG TITLE, giving detail as to its scope and purpose, as well as a succinct SHORT TITLE, providing a convenient reference thereto.

## **HEAD 2 - SHORT TITLE, COMMENCEMENT AND COLLECTIVE CITATION**

To provide that –

- (1) This Act may be cited as the Microenterprise Loan Fund (Amendment) Bill 2023
- (2) The Microenterprise Loan Fund Act 2012, the Microenterprise Loan Fund (Amendment) Act 2020 and this Act may be cited together as the Microenterprise Loan Fund Act 2023.

### **EXPLANATORY NOTE:**

It is standard to provide for a convenient Short Title, by which an Act may be generally referred to and a collective citation, as well as providing for a Long Title giving greater detail as to the scope of the Act in question.

### **HEAD 3 – DEFINITION**

To provide that –

“Principal Act” means the Microenterprise Loan Fund Act 2012-2020

### **EXPLANATORY NOTE:**

This Head provides definitions of key words/terms used in the Act.

## **HEAD 4 – AMENDMENT OF SECTION 2 OF THE PRINCIPAL ACT**

To provide that –

- (i) Section 2(1) of the Principal Act is amended by the deletion of the definition of “subsidiary” and the insertion of the following definition:

*“Microfinance Ireland”* has the meaning assigned to it by section 11.

- (ii) Section 2 of the Principal Act is amended by the insertion of the following:

*“(3) The term “subsidiary” is replaced with the term “Microfinance Ireland” whenever it appears throughout the Act.”*

### **EXPLANATORY NOTE**

Social Finance Foundation (SFF), Microfinance Ireland’s parent, was established in 2007 with finance from the Irish banking sector on the request of the Government to address the needs of community organisations and social enterprises for loan funding, unavailable from mainstream organisations. It was established as a wholesale lender of social finance. As a corporate entity, SFF is a company has a charitable status. Prior to 2019, appointments to the Board of SFF were subject to approval of the Minister for Finance. This is no longer the case and as a private company its Board is appointed independently under the rules of its constitution. SFF has a Memorandum of Understanding both with the Department of Finance and with the Banking and Payments Federation of Ireland. SFF owns the sole share of Microfinance Ireland.

As it is anticipated that the extent of Microfinance Ireland lending will continue to grow, the SBCI has refinanced the SFF loan to Microfinance Ireland. Therefore, the structure, put in place in 2012 with SFF as parent company for Microfinance Ireland is no longer appropriate for Microfinance Ireland.

Legislation is needed to take account of the new role of the Minister of Enterprise, Trade and Employment as the owner on behalf of the State of Microfinance Ireland. This new legislation is to provide for ownership of Microfinance Ireland to pass from SFF to the Minister for Enterprise, Trade and Employment and to put in place the related governance structures.

The existing legislation contains many of the aspects of governance applicable to State bodies, including compliance with the Code of Practice for the Governance of State Bodies, audit by the Comptroller and Auditor General and implementation of a Performance Delivery Agreement. As a fully State funded body, Microfinance Ireland’s current governance structure does not provide for adequate cross agency engagement for service delivery nor does it benefit from governance arrangements for matters such as ICT and certain public financial procedures. SFF owns Microfinance Ireland. Although the State provided the funding for Microfinance

Ireland, the State does not own or control Microfinance Ireland. The extra layer of management at SFF level is no longer merited from a governance perspective. SFF and Microfinance Ireland in recent years have developed more distinct identities and purposes rendering the parent / subsidiary structure obsolete. This new Bill will put in place current accepted State body governance arrangements on a legislative basis.

A streamlining of the structure is merited following the rapid growth in Microfinance Ireland activity since 2020, the change in the reporting relationship between SFF and Department of Finance in 2019, and current practice for the governance of public activities and funds.

State funding has increased significantly and SFF is no longer in a position to provide the required debt funding. (The Strategic Banking Corporate of Ireland (SBCI) has taken over the Microfinance Ireland debt funding in 2021.) In terms of public financial management, a streamlined structure is merited to ensure clarity of accountability and efficient management of resources. The Board of SFF has written to the Department expressing their wish to end its ownership relationship of Microfinance Ireland in the context of the significant growth in Microfinance Ireland lending.

Microfinance Ireland is owned by SFF and had a balance sheet value of €35.7 million on 31 March 2022. This has been funded by the Exchequer for which the Minister for Enterprise, Trade and Employment is accountable. Microfinance Ireland's mandate and the State's role in providing funding need to be reflected in the corporate structure, to ensure appropriate alignment of interest and clear accountability.

## **HEAD 5 – AMENDMENT OF SECTION 7 OF THE PRINCIPAL ACT**

To provide that:

Section 7 of the Principal Act is amended:

- (i) By the substitution, in paragraph 1(a), of “the Fund or” for “the Fund”
- (ii) By deletion of 1(b)
- (iii) By the substitution of the paragraph 2(a) with paragraph 2 (b)

*“(a) a promotional financial institution, any sum the payment of which falls due in accordance with terms or conditions referred to in subsection (1) of section 8A, Microfinance Ireland shall pay the sum due to the promotional financial institution concerned out of moneys for the time being standing to the credit of the Fund.”*

- (iv) By the deletion of 2(b)
- (v) By the deletion of the words “the Social Finance Foundation or” and “, as the case may be,” in subsection (2).

### **EXPLANATORY NOTE**

The Social Finance Foundation (SFF) loans to Microfinance Ireland have been repaid in full. As Microfinance Ireland will no longer be a subsidiary of the Social Finance Foundation, they will no longer receive loans. Microfinance Ireland have entered into an agreement with the Strategic Banking Corporation (SBCI) who provide them with debt funding.

## **HEAD 6 – AMENDMENT OF SECTION 8 OF THE PRINCIPAL ACT**

To provide that:

Section 8 of the Principal Act is deleted

### **EXPLANATORY NOTE**

As Microfinance Ireland will no longer be a subsidiary of the Social Finance Foundation, they will no longer receive loans from the Social Finance Foundation. There is therefore no necessity to give the Social Finance Foundation this power to borrow money.

## **HEAD 7 – AMENDMENT OF SECTION 8A OF THE PRINCIPAL ACT**

To provide that:

Section 8A of the Act of 2012 is amended:

- i) by the substitution of the following for subsection (2)  

*“(2) The aggregate at any one time of borrowings by Microfinance Ireland under this section shall not exceed €100 million.”*
- ii) by the substitution, in paragraph 3(a), of “section 7,” for “section 7 or”
- iii) by the deletion of section 3(b).

### **EXPLANATORY NOTE**

The Social Finance Foundation (SFF) loans to Microfinance Ireland have been repaid in full. As Microfinance Ireland will no longer be a subsidiary of the Social Finance Foundation, they will no longer receive loans and there is no necessity to have provision for the repayment of such loans to the SFF in this section. All references to loans to the SFF also need to be deleted from this section.



## **HEAD 8 -AMENDMENT OF SECTION 9 OF THE PRINCIPAL ACT**

To provide that -

Section 9 of the Act is amended:

- (i) By the deletion of the words “,the Social Finance Foundation” in subsection 3.

### **EXPLANATORY NOTE**

Given that the SFF will no longer be the parent of Microfinance Ireland, there is no need to reference the functions of the SFF in this section.

## **HEAD 9 AMENDMENT OF SECTION 10 OF THE PRINCIPAL ACT**

To provide that:

Section 10 of the Principal Act is amended:

- (i) by the substitution of the following subsection for subsection (1):

*“(1) The Minister may, with the consent of the Minister for Finance and the Minister for Public Expenditure and Reform make a scheme or schemes for the purposes of this Act.”*

### **EXPLANATORY NOTE**

Consultation with the Social Finance Foundation (SFF) will not be necessary as Microfinance Ireland will no longer be a subsidiary of SFF.

## **HEAD 10 – AMENDMENT OF SECTION 11 OF THE PRINCIPAL ACT**

To provide that section 11 of the Principal Act is amended by the substitution of “Microfinance Ireland” for “the subsidiary”

### **EXPLANATORY NOTE**

As explained in the explanatory note to Head 4, a review of Microfinance Ireland concluded that the preferred future arrangement for the body was to transfer the share capital of Microfinance Ireland from SFI to the Minister for Enterprise Trade and Employment to provide a more suitable and robust governance structure in the context of the increasing scale and importance of Microfinance Ireland. Microfinance Ireland will therefore no longer be a subsidiary of SFF as explained in Head 4 and the references to “the subsidiary” are to be replaced with a reference to “Microfinance Ireland”. Microfinance Ireland is defined in Head 4 by reference to section 11.

## **HEAD 11 – AMENDMENT OF SECTION 12 OF THE PRINCIPAL ACT**

To provide that:

Section 12 of the Act of 2012 is amended:

- (I) By the deletion of subsection 1
- (II) By the substitution of the following for subsection 3 “*The authorised share capital of Microfinance Ireland shall be €1 comprising one share of €1 and that share shall be held by the Minister*”.
- (III) By the deletion of subsection 4.

### **EXPLANATORY NOTE**

The share will be transferred from the Social Finance Foundation to the Minister of Enterprise, Trade and Employment. Legal advice may be required from the AGO on this transfer.

## **HEAD 12 – AMENDMENT OF SECTION 16 OF THE PRINCIPAL ACT**

To provide that

Section 16 of the Principal Act is amended by

- (i) The substitution of the following for subsection 5(a) “*Where the Minister is satisfied that a director of Microfinance Ireland has contravened subsection (1), the Minister may, if he or she thinks fit, remove that director from office.*”

### **EXPLANATORY NOTE**

Section 16(5)(b) currently provides that the Minister can direct the Social Finance Foundation to remove a director from office if he/she is satisfied that they have contravened subsection 1. The Social Science Foundation will no longer be the parent of the Microfinance Ireland and so it is necessary to give this power to the Minister in lieu of the SFF.

### **HEAD 13 – AMENDMENT OF SECTION 18 OF THE PRINCIPAL ACT**

To provide that:

Section 18 of the Act of 2012 is amended:

- (i) By the deletion of subsection 2

### **EXPLANATORY NOTE**

Microfinance Ireland will no longer be a subsidiary of the Social Finance Foundation and so this section is not needed.

## **HEAD 14 – AMENDMENT OF SECTION 19 OF THE PRINCIPAL ACT**

To provide that:

Section 19 of the Act of 2012 is amended:

- (i) By the substitution of the following for subsection 2:

*“The Minister may, with the consent of the Minister for Public Expenditure and Reform, make an arrangement in writing with Microfinance Ireland in relation to expenditure of moneys (other than moneys loaned by Microfinance Ireland under section 7) or paid to a promotional financial institution in connection with any loan made to Microfinance Ireland by that promotional financial institution in accordance with subsection (1) of section 8A by Microfinance Ireland in the performance of its functions under this Act.”*

### **EXPLANATORY NOTE**

Microfinance Ireland will no longer be a subsidiary of the Social Finance Foundation. It is therefore necessary to delete all references to the SFF in this section.

## **HEAD 15 – AMENDMENT OF SECTION 20 OF THE PRINCIPAL ACT**

To provide that:

Section 20 of the Act of 2012 is amended:

- (i) By the deletion of subsection 3
- (ii) By the deletion of subsection 4.

### **EXPLANATORY NOTE**

Microfinance Ireland will no longer be a subsidiary of the Social Finance Foundation, so these subsections are no longer needed.