



STATUTORY INSTRUMENTS.

S.I. No. 343 of 2012



MICROENTERPRISE LOAN FUND SCHEME 2012

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MICROENTERPRISE LOAN FUND SCHEME 2012

I, RICHARD BRUTON, Minister for Jobs, Enterprise and Innovation, in exercise of the powers conferred on me by section 10 of the Microenterprise Loan Fund Act 2012 (No. 31 of 2012), and in relation to the said section 10, with the consent of the Minister for Public Expenditure and Reform and the Minister for Finance hereby make the following Scheme.

1. Citation

This Scheme may be cited as the Microenterprise Loan Fund Scheme 2012.

2. Commencement

This Scheme comes into operation on 4 September, 2012.

3. Objective of the Scheme

The objective of the Scheme is to provide loans to newly established or growing micro enterprises across all industry sectors with commercially viable proposals that do not meet the conventional risk criteria applied by commercial banks.

The Scheme is not intended to replace any current bank lending or to address any broad deficiencies in the banks' provision of lending. The banks constitute the first port of call/ lender of first choice for loan applicants. Applicants will be required to confirm that they have been refused finance by a bank before their application to this Fund will be considered.

4. Appointment of Administrator

The Social Finance Foundation (SFF) shall manage and control the Fund on behalf of the Minister for Jobs, Enterprise and Innovation through the establishment of a dedicated subsidiary, Microfinance Ireland (MFI), to run the loan book attached to the Fund and enable full transparency of Fund expenditure.

5. Lending Policy

The objective of the Lending Policy is to lend monies to create the optimum number of jobs in the micro-enterprise sector, commensurate with the agreed credit risk levels. The Lending Policy will be under the control and governance of the Board of Directors of Microfinance Ireland with recommendations for any changes to it coming from its Credit Committee in the light of the quality of loans approved and associated loan loss provisions and write offs. Other inputs will be sought regularly from stakeholders such as Department of Jobs,

Notice of the making of this Statutory Instrument was published in "Iris Oifigiúil" of 14th September, 2012.

Enterprise and Innovation, Banks, City and County Enterprise Boards, EIF etc to ensure that MFI continues to be relevant to the prevailing market conditions and to the overall objectives of the Fund.

The thrust of the Credit Policy will always be focused strongly on the potential sustainability of the business and the creation and maintenance of jobs.

6. Lending Procedures

6.1.1 Loan Eligibility

Microenterprises who have been unable to access bank credit and who want to start or develop their own micro-enterprise.

Microenterprises must possess a business plan and confirm that they have been refused conventional bank credit. A loan may be made to 'top up' bank credit where it is clear that the business will not succeed without it.

To be eligible, the proposed business must be based in Ireland and the applicant must possess a valid, Personal Public Service Number and Tax Clearance Certificate.

6.1.2 Purpose of Loan

Loans will be provided for business start-up costs, expansion costs and working capital.

6.1.3 Permissible Loan Values

Loans will be for amounts less than €25,000.

6.1.4 Calculation of Interest Rate

The directors of Microfinance Ireland will set interest rates to be charged on loans to micro-enterprises taking into account a number of factors including; prevailing market interest rates, economic environment and specific risk factors. In any case, the rate charged will be calculated based on the cost of funds borrowed from SFF plus a margin of up to 5% which will contribute to administrative and overhead costs.

6.1.5 Fees

Appropriate fees may be charged. The Fees policy will be reviewed and authorised by the Board of Microfinance Ireland on a regular basis and the fee and charge structure will be communicated to the borrower in an appropriate manner at the time of application.

6.1.6 Repayment Frequency

Repayments will be monthly but there will be scope for exceptions if such exceptions will aid the sustainability of the project. Moratoriums and rescheduling of loans will be permitted in accordance with Microfinance Ireland's Credit Policy.

6.1.7 Loan Application Process

Loan applications will be made on the 'standard' loan application form, as used by Bank of Ireland and Allied Irish Banks, or an abbreviated version thereof supported by a viable Business Plan indicating repayment capacity.

This Business Plan will include:

- Company/Business description;
- Monthly cash flow forecasts for a period of three years;
- Forecast annual Profit and Loss accounts;
- Market assessment and Sales Plans;
- Funding requirements;
- Applications will initially be paper based and in time there will be an option to apply online. Loan applicants may be referred to the MFI from the Banks, Enterprise Boards, Credit Unions, the Credit Review Office and other organisations.

Applicants shall retain records, books of account and such other documentation as may be required by MFI to operate the Scheme.

6.1.8 Credit Assessment and Security Procedures

Where appropriate, loans will be assessed with local input (e.g. City and County Enterprise Boards or local assessor) to establish:

- the potential viability of the Business Plan including repayment capacity,
- the number of potential new jobs,
- the socio-economic impact, and
- the availability of a CV verified by 2 referees.

The MFI may interview the client to assess:

- viability of plan (the most critical),
- skills,
- business experience,
- character and commitment, and
- motivation to repay and determination to succeed.

A credit bureau check to verify the client's credit history may be conducted. Adverse credit history will not necessarily preclude a loan where there has been full disclosure and where there is evidence that the client has dealt honourably and in good faith with previous debts. 20% own funds input by the client (whether by way of cash, equipment, stock etc.), although not mandatory, is considered desirable in the case of each application. Completion of a 'start your own business' course and/or working with a mentor will be an advantage. Lack of a credit history will not preclude a loan. In general, security will not be requested such as third party guarantees/legal charge. However, there may be exceptional cases where it will be appropriate or necessary to request and hold security.

6.1.9 Recoveries Procedures

Where a loan becomes impaired, all efforts will be directed to supporting the micro-enterprise through its difficulties. A structured collections process will be initiated with the objective of working with the micro-enterprise. The collections process will involve:

- Early identification, categorisation and regular reporting of defaulting loans,
- Early contact with the client by way of letter outlining the default amount and requesting payment,
- Passing over of default cases to a Collections Officer who will request a meeting/update as to how the business is performing,
- Rescheduling of loans to be considered on a case by case basis, and
- In the case of non cooperation or bad faith, the case may be handed over to a debt collection agent or solicitor if it is deemed appropriate.

7. Role of Enterprise Bodies

Where appropriate, the Enterprise Bodies, and City and County Enterprise Boards and their successors will provide assistance with business planning preparation and act as an initial assessor of the quality of the business proposal/loan proposition. They will also assist in the loan recovery/rescheduling process.

8. Operation of Fund

In operating the Fund Microfinance Ireland shall:

- (i) minimize overall management costs consistent with its lending objectives i.e. volumes of loans, jobs supported and loan losses,
- (ii) ensure a clear financial and management information reporting structure,
- (iii) seek European Investment Fund assistance, and

(iv) clearly identify the costs involved in operating the scheme.

Social Finance Foundation as administrator of the Fund shall seek charitable status for Microfinance Ireland from the Revenue Commissioners, exemption from the Markets in Financial Instruments Directive (MiFID) and seek to ensure that it will not be classified as a retail credit firm by the Central Bank of Ireland.

It shall also ensure that the Memorandum and Articles of Association of Microfinance Ireland shall be tailored with the sole focus on Microfinance and aligned with the provisions of the Microenterprise Loan Fund Act 2012.

9. Ministerial and Departmental Oversight

The Administrator, through its subsidiary Microfinance Ireland, shall undertake the following responsibilities, powers and obligations on behalf of the Minister for Jobs, Enterprise and Innovation:

- Control and Management of the Fund,
- Investment of the fund,
- Establishment of lending criteria,
- Obtaining all necessary information from the Micro-enterprise for the purposes of lending,
- Determining the terms of a loan agreement including the variation of such terms,
- Maintenance of documents, information, records and books of account,
- Submission of documents, information and reports to the Minister,
- Conduct of audits, examinations, and accounting procedures,
- Completion of review and evaluation of the impact of the loan fund,
- Maintenance of expenses of the administration of the fund,
- Drawdown of EIF funding to mitigate debts,
- Preparation and timely submission of an Annual Report to the Minister on the operation of the Fund for laying before the Houses of the Oireachtas, and
- Winding Up of the fund if required.

10. Chairman and Board of Directors of the Subsidiary

The Chairman and Board of Directors of the Subsidiary shall be appointed by the administrator following consultations with the Minister for Jobs,

Enterprise and Innovation, and the Minister for Public Expenditure and Reform with key stakeholders being represented on the Board e.g. the Administrator, Banks, City and County Enterprise Boards and other appropriate bodies/organisations. The Board shall meet at regular intervals, at least quarterly. It shall provide Annual Reports to the Minister for Jobs, Enterprise and Innovation and shall publish Annual Reports and Financial Statements which shall be laid before the Houses of the Oireachtas.

11. Internal Governance

The Administrator shall ensure that corporate governance standards will be maintained to the highest levels whilst also being responsive, flexible, efficient and adaptive. Internal governance arrangements shall include two committees to oversee the most critical aspects of the company. The first shall be a Credit Committee, responsible for all aspects of credit ranging from Credit Policy through to Loan Approval and Loan Loss Reviews. A Credit Policy shall be developed which balances the requirement to maximise the number of jobs created with the need to contain bad debts to acceptable levels. The Credit Policy shall comply with the principles of the Code of Conduct for business lending to SMEs. The second committee shall be an Audit and Risk Committee, responsible for financial oversight and risk management (other than credit risk).

12. Management Information Reporting

The Administrator shall establish a cost effective operating system in terms of handing applications, approvals, drawings, accounting, repayments, defaults and interest calculations. Appropriate Management Information to meet the requirement of the Board, European Investment Fund, Department of Jobs, Enterprise and Innovation and the Oireachtas shall be prepared. The IT structure shall incorporate a website which in time will be capable of handling direct applications from individual micro-enterprises. Annual reporting shall be provided by the Administrator to the Department on agreed Key Performance Indicators (KPIs) and Targets to include:

- Expenditure — both capital and current, e.g. operational lending and administrative expenses,
- Volume and number of Loan applications received,
- Volume and number of Loan applications assessed,
- Volume and number of loans committed,
- Number of enterprises assisted,
- Number of jobs created/maintained,
- Debt recovery levels,
- Drawdown from EIF Progress Guarantee Facility,

- Current value of Loan Book,
- Average loan processing times, and
- KPI reports will be disaggregated on the basis of criteria and categories to be determined e.g., sectoral, geographical (county/region), loan size, company age, type of company, start up or existing business, exporters or local traders etc.

13. Audits

The Controller and Auditor General shall conduct the audit of Microfinance Ireland.

14. Staffing and Human Resources

The prime driver of staffing numbers shall be the combination of management, administration and collections support and assessors to deal with the level of demand.

A core group of assessors shall be recruited, supplemented by a panel of additional assessors.

15. Review of Scheme

This Scheme shall be reviewed annually by the Department of Jobs, Enterprise and Innovation and the Administrator to ensure optimal functioning. Any amendment to the Terms and Conditions of this Scheme require the approval of the Minister.

16. Termination of Scheme

The Department of Jobs, Enterprise and Innovation may terminate this Scheme without penalty if the Administrator does not act in accordance with the terms of the Scheme, or if MFI is wound up for any reason. In such an event the Department shall give the Administrator twenty days written notice of intent to terminate, delivered to the Administrator. The Administrator likewise may terminate the scheme should the financial condition of the MFI warrant it. In such an event the Administrator shall give the Department of Jobs, Enterprise and Innovation twenty days written notice of intent to terminate, delivered to the Department.

If the subsidiary is wound up either voluntarily or by the court, any moneys remaining in the Fund after the payment of all debts of the subsidiary incurred in accordance with an arrangement between the Minister and the Administrator shall be paid to the Central Fund.

The Minister for Public Expenditure and Reform consents to the making of the foregoing Scheme.



GIVEN under my Official Seal,
3 September 2012.

BRENDAN HOWLIN,
Minister for Public Expenditure and Reform.

The Minister for Finance consents to the making of the foregoing Scheme.



GIVEN under my Official Seal,
31 August 2012.

MICHAEL NOONAN,
Minister for Finance.



GIVEN under my Official Seal,
5 September 2012.

RICHARD BRUTON,
Minister for Jobs, Enterprise and Innovation.

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