

# **LABOUR PARTY SUBMISSION LOCAL COMMUNITY BANKING CONSULTATION MARCH 2017**

The economic crisis of the past decade has not only inflicted high levels of debt, distress and hardship but also left Irish citizens and businesses with less choice in bank services whether private, public or mutually owned.

The investigation of the establishment of a Public Bank Network in Ireland comes against a backdrop the potential evisceration of the Rural Post Office Network, the continued restriction of the Credit Union movement and the ongoing battle with the existing oligopoly - the so called "Pillar Banks", to ensure they serve Irish Society rather than the reverse. We now also face the overwhelming challenge that Brexit poses to Irish SMEs and the regions.

The problems facing securing credit for SMEs are well documented. The Pillar Banks have been recapitalised and the Strategic Banking Corporation of Ireland is forced to go through the Pillar Banks to provide credit to SMEs. The Credit Unions and the Post Office hold vast amounts of untapped capital that could be used for SME finance. It does not have to be this way and it is not sustainable for Ireland's financial system to be based on an oligopoly of Pillar Banks.

## **PUBLIC BANKING**

The concept of Public Banking is poorly understood in an Irish context. A Public Bank is emphatically not a Nationalised Bank like AIB. A public banking model has existed in Germany for 200 years

German Public Banks, called Sparkasse:

- Are municipally owned – not a nationalised bank
- Would be not for profit and be restricted to lending to the regional economy for its business
- Would fill the gap left by the demise of the Building Societies and enterprises formerly served by the ACC
- Both the Post Office and Credit Unions could earn additional income from selling Public Bank services across the counter in their branches
- Would provide a suitable vehicle for European Investment Bank to lend funds to SMEs
- The annual surplus generated by the Local Public Bank is re-invested in Regional Development Projects

The diversity of sources of credit in Germany is reflected in the resilience of the SME sector during the Great Recession. Furthermore there is already work underway in examining the creation of an Irish version of the Sparkasse model of finance and the Labour Parliamentary Party has repeatedly raised this with Government Ministers.

## **STAKEHOLDERS & PARTNERS FOR AN IRISH PUBLIC BANK NETWORK**

A Local Community Bank network in Ireland should complement and strengthen the following partners work in funding SMEs and Rural Communities

- Credit Unions
- Strategic Banking Corporation of Ireland
- European Investment Bank
- Rural Post Office Network

The Labour Party has consulted with the SBFIC (Sparkasse Foundation for International Co-operation), Irish Rural Link and a number of Credit Union and Rural Development activists.

### **SBFIC (Sparkasse Foundation for International Co-operation)**

Sparkasse Foundation for International Co-operation has a track record of working with and building trust and strong relationships with

- National Credit Union movements
- SMEs and meeting their needs
- Regional Development Agencies
- European Investment Bank

The Sparkasse Foundation for International Co-operation (SBFIC) has done an enormous amount of work investigating the potential establishment of a pilot Local Community Public Bank in Ireland. SBFIC have already met with the European Investment Bank, the SBCI and League of Credit Unions among others regarding piloting the idea in Ireland and suggest it can be a template for financing regional development across the Eurozone.

Labour believes the Department of Regional and Rural Affairs and the Department of Finance need to bring in outside expertise like the SBFIC. Our understanding is that the SBFIC are willing to offer of considerable technical expertise and help mentor an Irish Pilot Public Bank – even to the extent of providing training and mentoring of staff in the pilot until it would be up and running. This would be very much along the model of how the American Credit Unions mentored the embryonic Irish Credit Union movement in the 1950s & 60s.

The development of any Local Community Bank structure in Ireland needs outside expertise. Given that the Irish League of Credit Unions Foundation provides similar mentoring in developing countries to help them benefit from the experience of the success of the Irish Credit Union, the Irish Public Service and State bodies should not be too proud to accept similar advice and mentoring from abroad in adopting a new model of SME and regional development finance.

## **Protecting the Irish Credit Union Ethos**

Labour in Government spearheaded the micro loan initiative between the Department of Social Protection and participating Credit Unions. This was to ensure credit unions could continue to serve people who have difficulties in accessing credit without resorting to loan sharks. Labour is committed to supporting the Irish Credit Union movement grow and meet the challenges of more onerous Central Bank regulation.

The possibility of the introduction of a system of Community Local Banking along the German model has much to recommend it for Irish Credit Unions. In Germany Credit Unions and Local Community Banks often share premises and the Local Community Bank provides a “Central Service Provider” for participating Credit Unions allowing them to meet ever more onerous administrative burdens associated with tighter Central Bank Regulation.

The Central Bank has again reduced the savings limit for Credit Union members and only 26% of members’ shares and deposits are now lent for productive use. The remaining credit union funds are in investments or on deposit in the Pillar Banks. This is not sustainable way forward for the sector. The Irish League of Credit Unions is engaging with the Department of Finance to find ways to ensure these funds can be invested in a vehicle that can lend to SMEs. The ILCU proposition is that Credit Unions would participate in a State backed vehicle that would:

- Enable Irish Credit Unions to act as an efficient distribution network to originate SME loan applications
- Enable Irish Credit Unions to invest in a funding facility that will lend to SMEs in Ireland

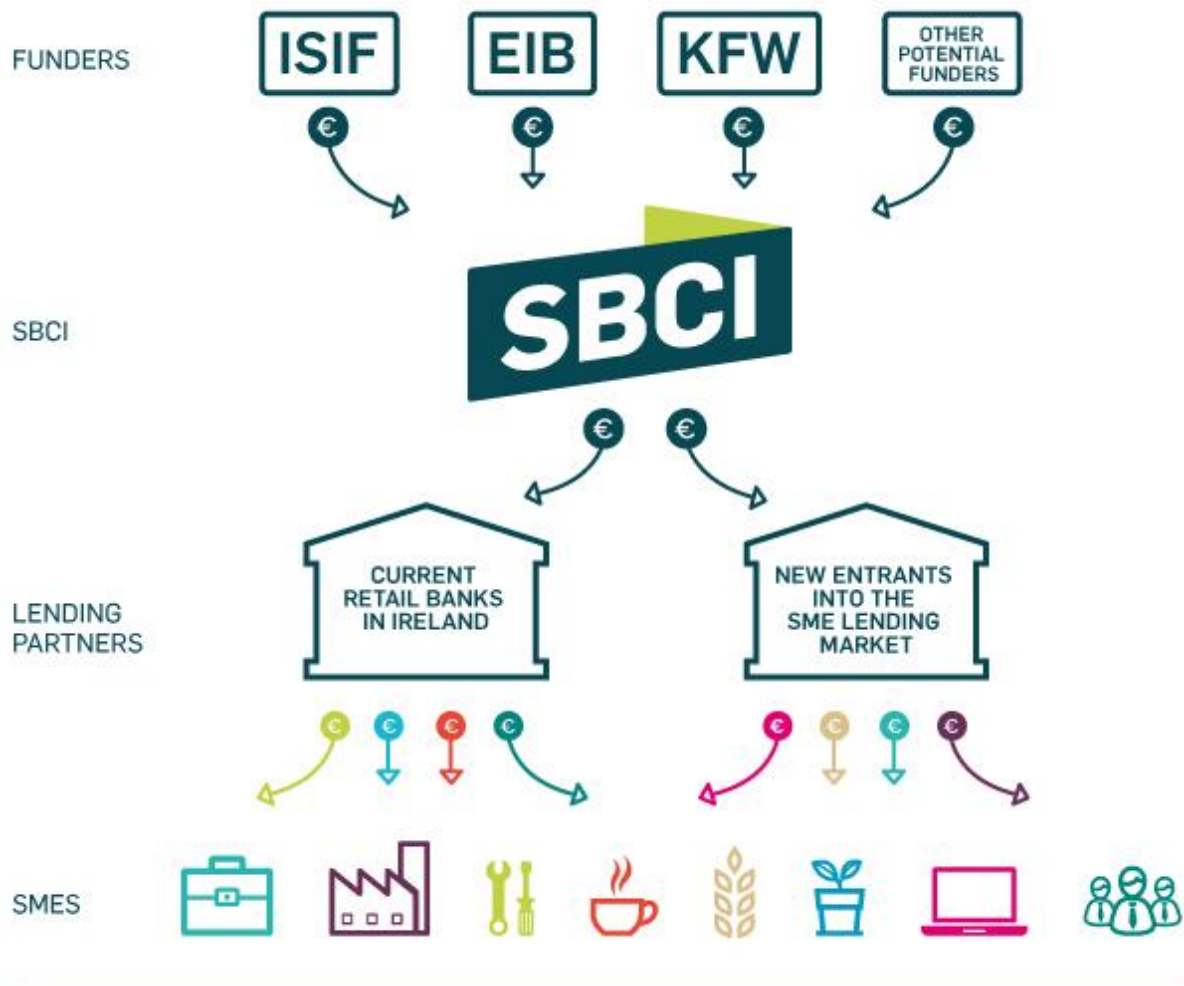
The Labour Party is of the view that any Local Community Banking model developed in Ireland must complement existing credit unions, allow them to extend the range of services they offer members and be able to pool certain back office functions to strengthen their ability to meet ever more onerous Central Bank regulation.

Such a development can be done in a manner that is consistent with and protects the Credit Union ethos if Credit Unions are fully involved in the development of a Local Community Bank structure from its investigation and inception.

## Strategic Banking Corporation of Ireland

Labour called for the establishment of the SBCI in 2010 and subsequently established this during the recent coalition government. SBCI is seeking to expand its support for SMEs.

Below is the original concept for how the SBCI is to support SME finance.



To date the SBCI have only been able to partner with the current Irish retail banks, in particular the Pillar Banks. Part of the SBCI's mandate is to provide market access for new entrants to the SME lending market, however in order to make this possible the government and central bank need to provide the legal structure for a model of Local Community Banking with a focus on SME lending.

The SBCI sources considerable funds from the German KfW State Bank. However it is anomalous that the KfW's funds are not dispersed to SMEs through a Local Community Banking system in Ireland. In other EU member states such Local Community Banks exist to do this.

### **European Investment Bank**

The EIB is expanding its role in lending directly into the economy as part of the EU Investment Plan for Europe which aims to deliver investment to the real economy through initiatives such as The European Fund for Strategic Investments (EFSI) and the European Investment Advisory Hub (EIAH). The aim of these initiatives is to offer opportunities for boosting competitiveness, growth and jobs in the agricultural sector and rural areas.

These EIB supports for the real economy are typically delivered at local level in the European Union through local banks which include Local Community Public Banks like the Sparkasse in Germany. Ireland is missing out on availing fully of these funding opportunities because we do not have an appropriate local community banking network that would help to identify and assist projects that would benefit from this kind of investment.

The EIB are now stepping up their direct involvement in the real Irish economy with the opening of their Dublin office. Ireland needs to have the Local Community Banking structures that are common place in a number of other EU member states to be able to most effectively realise the EIB's expanded mandate to provide funds to support SMEs.

### **Post Office Bank Network**

The Post Office Network Business Development Group concluded that the biggest opportunity for An Post and the Rural Post Office Network lies in the provision of an extended suite of banking/financial services. The Post Office Network remains in serious difficulty and needs additional products and services if it is to remain viable in many rural areas.

The Local Community Banking network on the German model offers a Post Offices a financial service they can sell without having to commit to establish their own bank (this has proved challenging for An Post in the past). A Local Community Banking system could also provide the link between Post Offices and Credit Unions that many have called for to strengthen both institutions.

## **FUNDING OF PILOT AND ROLL OUT OF NATIONAL NETWORK OF LOCAL COMMUNITY BANKS**

From our consultation with the SBFIC they estimate that Ireland has the population to support 8-10 Local Community Banks on the German Sparkasse model. The total initial seed capital for such an enterprise is in the region of €50 million.

The Irish Government published eight regional Action Plan for Jobs between 2015 and 2016 that are scheduled to run over five years. With Brexit, these plans are now need to be revised and updated following extensive economic and exposure analysis for each region. Action is required now to stem, and prevent future losses

State aid rules prohibit strong state action to support and rescue SME's that will be affected by a hard Brexit. A range of stakeholders have called for a temporary suspension of these rules for the adjustment period of Brexit. The Labour Party supports this call, and has already called for the establishment of a Brexit Trade Adjustment Fund that would channel investment and resources to affected enterprises. The establishment of a Local Community Banking network should be developed and initially financed within this context.

## **CONCLUSION**

Labour Ministers fought vigorously to establish the SBCI in the 2011-16 coalition government. Although the SBCI is making a valuable contribution to financing SMEs it was never Labour's intention that it would use the Pillar Banks as a conduit for financing SMEs. Like the SBCI, the European Investment Bank is frustrated that it must go through the Pillar Banks in Ireland and is seeking a more appropriate conduit for SME financing as exists in other EU member states.

The Sparkasse Foundation for International Co-operation (SBFIC) has done an enormous amount of work investigating the potential establishment of a pilot public bank in Ireland. This includes the offer of considerable technical expertise and help to mentor an Irish Pilot Public Bank – even to the extent of providing training and mentoring of staff in the pilot until it would be up and running.

Labour believes there is an opportunity to strengthen regional development with the development of a Local Community Bank network now exists and it urgently required given the serious challenge Brexit poses to the regions.

Labour calls on the government not to miss this opportunity and pull together the relevant stakeholders to develop a pilot Local Community Bank.

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