



SMART FINANCE



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#FarnetSmart

HOW SMART IS FINANCE?



"Thank you, I shall always be in your debt."



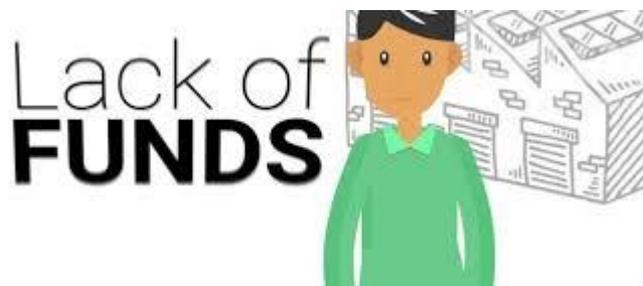
"AS PART OF OUR COMMITMENT TO SMALL BUSINESS, WE ARE WILLING TO LEND YOU YOUR BUS FARE HOME."



KEY ISSUES



- History: Acknowledgement of risk capital as a new opportunity for growth
- Reality: not for micro/small-scale businesses (below € 0.5 million investments)
- Situation: Traditional credit financing remains the preferred plan...



FINANCIAL CONDITION IN FLAG AREAS

- Seasonality of demand
- Peripherality
- Poor levels of financial structure and availability of equity financing
- Lack of understanding by mainstream banking
- **Reliance on public subsidies...**



WHAT ARE THE POSSIBILITIES?

- Peer to Peer (p2P) and Business to Business (B2B) lending
 - *Weakness: Tendency of upscaling; private capital ignores peripheral regions*
- Community financing: local crowd-funding
 - *Weakness: only successful in small communities where there is knowledge of borrowers*
- Banks with strong social enterprise ethos
 - *Weakness: local & community banks are challenged by strong regulatory controls*



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IS ACCESS TO CONTINUOUS AND RESILIENT FUNDING PROBLEMATIC?

- Successful funding appears to be reliant on a local culture of self-reliance and self-sufficiency
- Requires energetic and highly focused local actors
- It may also rely on a culture of local self-help (solidarity commitment, co-operatives)
- Adapted credit assessment systems



OTHER ISSUES?

- **Fisheries communities** (as with small scale agri-tourism) have **problems of reliance on credit financing** (overdrafts or fixed term loans)
- **Loan finance is inflexible** in terms of adapting to trends and shifts in seasonal and market patterns due to repayment structures
- **Equity finance is more flexible** but requires
 - the entrepreneur to pass a share of the business to the “risk taker” investor
 - it also requires the investor to have a method to exit the investment - e.g. sale of equity or listing (official market or off-exchange)

AN IDEA: THE MEZZANINE MODEL

... which blends together

- (a) loan financing and
 - (b) equity financing
- to create a greater degree of flexibility

At the same time, such a model could also connect into IT enabled crowd financing.



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Example 1: East Sardinian FLAG

A micro-credit solution

Advantages:

- Local control, decision-making & development
- Improves localised capital flows
- Assists local co-operatives & underpins mutuality

Disadvantages:

- Requires a reliable local financial partner/intermediary
- Requires a degree of “soft” regulatory control
- Solves start-up and short-term development issues, but not longer term development

Example 2: Ria de Vigo FLAG (ES)

Micro finance in partnership with a regional bank

Advantages:

- Local control, decision-making & development
- Provides a collective loan guarantee structure
- Lending rates are favourable

Disadvantages:

- The ability of an internationally-owned bank to continue local financing over the medium-to-longer term
- Requires a degree of “soft” regulatory control
- Solves start-up and short-term development issues, but not longer term development

Example 3: stöd.me (SE)

Crowd-funding platform

Advantages:

- Easy access to the platform
- Wide coverage in terms of likely investors
- Lending costs reflect risk of investment

Disadvantages:

- The crowd-funder is an intermediary/introducer not a lender
- The ability to meet continually tighter regulatory conditions is a potential problem; where crowdfunding is a “sand box” regulatory operation, the life-scale is limited

A Case Study from our research: The remote island (1)

The problems of peripherality on the peripheral Atlantic coast:

1. Inishbofin (*Inis Bó Finne* - “the Island of the White Cow”) is an island off the coast of Galway in Ireland; the current population is estimated at 210 (up 31% since 2012, but down 85% since 1841)
2. Transport is limited to a passenger-only ferry with a capacity of around 90, so the tourism carrying capacity is restricted by the lack of a car ferry
3. Until 1989, the primary economic activities were seasonal (summer-only) tourism, fishing and agriculture; all-year-round tourism is now the main driver of economic development, although organic fishing and farming is being developed
4. The island community was shocked by the abandonment of a nearby island, Inishark, and the rapid depopulation of four other Galway offshore islands. All had been dependent on subsistence fishing and agriculture
5. As a result, the Inishbofin Development Company (a not-for-profit community organisation) was formed to develop ecological tourism and sustainable local economic development

A Case Study from our research: The ecological island (2)

Building a brand:

1. The island did not wait to receive Irish government and EU grants, but developed a model of financial self-sufficiency to attract tourists on a year-round basis
2. It was the first Irish offshore island to achieve international Eco-Tourism status and has developed a number of out-of-season activities - e.g. arts festival, walking tours, fishing trips, horse riding, Fair Trade festival, organic food
3. These activities resulted in the beginning of a flow of funding from state agencies - connected to tourism, the environment, culture and historical interpretation
4. Inishbofin was also a leader in Ireland in gaining “Leave No Trace” certification - intended to ensure tourism does not have a non-sustainable environmental impact
5. A primary critical success factor was the bottom-up driven community development model - creating a plan from the community perspective, not within the structure of national and regional agencies
6. A second critical success factor was keeping the product small and locally manageable



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Thank you !

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