Financial Mechanisms for Innovative Social and Solidarity Economy Ecosystems

EXECUTIVE SUMMARY
Financial Mechanisms for Innovative Social and Solidarity Economy Ecosystems

EXECUTIVE SUMMARY

Samuel Barco Serrano¹, Riccardo Bodini², Michael Roy³, Gianluca Salvatori⁴

¹ Co-founder and CEO, SOKIO Cooperative.
² Director, Euricse.
³ Professor of Economic Sociology and Social Policy, Yunus Centre for Social Business and Health/Glasgow School for Business and Society, Glasgow Caledonian University.
⁴ Secretary General, Euricse.
The 9th edition of the Social and Solidarity Economy Academy that took place in September 2015 in Luxembourg clearly highlighted the need to look closer at the financial needs of SSE organizations relating to the specificities of SSE enterprises and organizations.

In my view, supporting the ILO research project on Financial Mechanisms for Innovative Ecosystems in the Social and Solidarity Economy and thus exploring the different financing mechanisms that exist is quintessential to fostering the development of the social and solidarity economy.

Financial crises, limited access to affordable credit on the part of SSE organizations and the commercialization of microcredit all point to the need to transform financial systems. SSE organizations still have difficulty in accessing funding which prevents all stakeholders, including governments from realizing the full potential of SSE for the creation of decent jobs, amongst other things.

Luxembourg being the 2nd largest investment fund centre worldwide, global leader in inclusive finance and leading international platform for sustainable finance, I strongly believe that we can play a pioneer role at the European and international level and I will actively contribute to designing and implementing policies and initiatives on social finance to support the SSE enterprises and organizations, and to building new and strengthening existing networks between the world of finance, SSE actors and other stakeholders.

In the upcoming year, I shall remain strongly committed to the social and solidarity economy and corresponding financial support mechanisms.

Dan Kersch
Minister of Labour, Employment and Social and Solidarity Economy
The International Labour Organization (ILO) boasts a long tradition and experience in the social and solidarity economy. In fact, the ILO’s Cooperatives Unit was established in 1920, one year after the ILO’s creation, and the first official document to make direct reference to enterprises in the social economy dates back to the year 1922.

The ILO’s commitment to the advancement of the SSE is grounded on its Constitution, on the 2008 ILO Declaration on Social Justice for a Fair Globalization and on the 2019 Declaration for the Future of Work in which it is indicated that the ILO should concentrate its effort in “supporting the role of the private sector as a principal source of economic growth and job creation by promoting an enabling environment for entrepreneurship and sustainable enterprises, in particular micro, small and medium sized enterprises, as well as cooperatives and the social and solidarity economy, in order to generate decent work, productive employment and improved living standards for all”.

There is growing interest in economic models based on cooperation, mutualism and solidarity. Social and Solidarity Economy consists of enterprises and organizations, in particular cooperatives, mutual benefit societies, associations and social enterprises, which have the specific feature of producing goods, services and knowledge while pursuing both economic and social aims and fostering participation and solidarity.

Alongside the Future of Work Centenary Initiative, the ILO has for several years now organized the Social and Solidarity Economy Academy, a 5-day interactive training event on the Social and Solidarity Economy (SSE) bringing together governments, policy makers, academicians, and SSE practitioners from around the globe. The exchanges undertaken during the sessions are geared towards achieving the Academy’s objectives of contributing to a better understanding of the SSE concept, underlining the relevance of SSE as an alternate/complementary development paradigm, both within the ILO’s Decent Work Agenda and the 2030 Sustainable Development Agenda, building new and strengthen existing SSE networks, facilitating sharing of best practices and knowledge, and creating and fostering a SSE community of practice.

In the IX Edition of the ILO Academy on SSE held in Luxemburg in 2015, a clear mandate was given to look closer at the financial mechanisms fostering the SSE organizations, especially at the ecosystem level.

Therefore, the ILO has decided to look more deeply into how SSE Ecosystems can be fostered and which financial resources can be made available and accessed in order to support the growth of social and solidarity economy (SSE) organizations and their ecosystems.

We would like to take this opportunity to thank the Luxembourg Government and especially the Ministry of Labour, Employment and Social and Solidarity Economy for the continuous support and common commitment in advancing the SSE in the framework of promoting the decent work agenda. Moreover, we would like to thank the authors of the paper Mr Samuel Barco, Riccardo Bodini, Mr Michael Roy and Mr Gianluca Salvatori of the European Research Institute on Cooperatives and Social Enterprises (Euricse), for their work in researching and elaborating this publication, based on eight national case studies.

We wish you a good reading and we hope it can bring you new insights into your work in favour of a human centred future of work.

Vic van Vuuren
Director Enterprises Department
ILO Geneva
# TABLE OF CONTENTS

Forewords .................................................................................................................................................. v
Acknowledgements .............................................................................................................................. 2
Abstract .................................................................................................................................................. 3
1. INTRODUCTION .................................................................................................................................. 4
2. THE SOCIAL AND SOLIDARITY ECONOMY AND ITS ECOSYSTEMS ............................................... 7
   2.1 The ecosystems of the SSE ................................................................................................................. 7
   2.2 The SSE’s role and potential ............................................................................................................... 8
3. FINANCIAL MECHANISMS FOR THE SOCIAL AND SOLIDARITY ECONOMY ............................... 11
   3.1 Main financial suppliers for the SSE ................................................................................................. 12
   3.2 Main financial mechanisms for the SSE ............................................................................................ 13
4. FINANCIAL INSTRUMENTS FOR INNOVATIVE SSE ECOSYSTEMS: OVERARCHING THEMES AND CROSS-CUTTING ISSUES ................................................................. 16
   4.1 A tale of two paradigms: a matter of autonomy from the State and entrepreneurial spirit ............ 17
   4.2 Reconsidering the notion of financial risk in the light of collective entrepreneurial organizations .... 18
   4.3 Beyond the prevailing narrative: the importance of internal sources of capital.............................. 18
   4.4 The lukewarm attitude towards impact investing and other financial innovations ......................... 19
   4.5 The importance of a ‘blended approach’ ............................................................................................ 19
5. CONCLUSIONS AND POLICY RECOMMENDATIONS .................................................................... 20
References ............................................................................................................................................. 23
ACKNOWLEDGEMENTS

The authors are grateful to the Ministry of Labour, Employment and Social and Solidarity Economy of the Government of the Grand Duchy of Luxembourg for its funding and support, and to the ILO for commissioning this project, the latest in a series of initiatives devoted to the important issues surrounding the growth and development of the Social and Solidarity Economy (SSE) around the world. The ILO’s Roberto Di Meglio and Valentina Verze in particular, along with their colleagues Guy Tchami, Valerie Breda and Young Hyun Kim, provided guidance and helpful feedback at various stages of the project, as did Vanessa Schummer, Nadine Muller and Marco Estanqueiro from the Ministry of Labour, Employment and Social and Solidarity Economy of the Luxemburg Government. We are also grateful to all the experts on the topics of finance and SSE who took the time to provide valuable inputs and insights, including in particular Antonella Noya (OECD), Craig Churchill (ILO), Ariel Guarco (ICA), and Nicolas Schmit (European Commissioner-designate for Jobs), along with many others in the eight countries studied by the project.

The work was carried out by a core research team composed of the authors along with Flavio Bazzana (University of Trento), Ivana Catturani (University of Trento and EURICSE) and Chiara Carini (EURICSE), who all made important contributions to the project. The authors are especially grateful to the nine researchers who conducted the national case studies: Juan Fernando Alvarez (Pontificia Universidad Javeriana, Colombia), Mohamed Bazi (Hassan 2 University of Casablanca, Morocco), Jean-Christophe Burkel (ULESS, Luxembourg), Caitlin Mcmullin (University of Montreal, Quebec), Mario Moniz (SOLMI, Cabo Verde), Jonghyun Park (Gyengnam National University of Science and Technology, South Korea), Giovanni Sartori and Ivana Catturani (EURICSE, Italy), and Javier Vaca (Inclusive finance consultant, Ecuador). The important and often challenging research they conducted in their respective countries, compiling and presenting quantitative and qualitative information on the SSE ecosystems and related financial mechanisms, ultimately made this work possible.
ABSTRACT

This document summarizes the results of the “Financial Mechanisms for Innovative Social and Solidarity Economy Ecosystems” project, designed to foster a better understanding of the different ways in which financial resources can be made available and accessed to support the growth of social and solidarity economy (SSE) organizations and their ecosystems. Drawing on a review of the literature on SSE ecosystems and their importance in tackling the challenges related to the future of work and local economic development, and after a careful analysis of the different types of financial suppliers and mechanisms potentially available to SSE organizations, the study looks at the evidence from eight countries around the world to draw a set of conclusions and policy recommendations. Among the key themes emerging from the work is the observation that SSE organizations routinely access many different sources of finance, but also have specificities in terms of aims, sectors of activity, governance and ownership structures that require careful tailoring of financial sources and mechanisms in order to avoid distortions and mission drift. Without taking for granted that SSE organizations have greater difficulties than traditional companies of similar size, and without assuming that the most innovative financial instruments are also the most effective and best suited to the needs of SSE organizations, the project results call into question some of the most widespread (though often unsubstantiated) tenets on access to finance for SSE organizations and highlight the importance of a blended approach that can successfully mix internal and external, public and private, market and non-market financial sources. The aim is to support the growth of SSE ecosystems that can continue to address social problems and provide viable alternatives to their root causes. A full research report, with a more detailed account of the research backdrop, methodology and findings, is available.
1. INTRODUCTION

In a global context characterized by complex and pressing challenges, the Social and Solidarity Economy (SSE) is receiving growing attention for its role and potential to address social issues faced by individuals and communities on all continents. According to the definition proposed by the ILO (2009), the SSE includes “enterprises and organizations, in particular cooperatives, mutual benefit societies, associations, foundations and social enterprises, which specifically produce goods, services and knowledge while pursuing economic and social aims and fostering solidarity”. This universe is comprised both of mutualistic organizations addressing the needs of their members (mutual organisations, traditional cooperatives, some types of associations, etc.) and of organizations addressing the needs of society at large (social cooperatives, foundations, some associations, etc.). It also includes social enterprises, which can take on a variety of organizational forms, including those not typically associated with the SSE (such as shareholder or limited liability companies). What sets all of these organizations apart, in addition to their goals, is their collective ownership and governance structures, which ensure that they respond to the needs of stakeholders that are different from investors.

1 Even if there is not an official definition proposed by ILO, the ILO Regional Conference on Social Economy, Africa’s Response to the Global Crisis (October 2009) defined SSE as a “concept that refers to enterprises and organizations, in particular cooperatives, mutual benefit societies, associations, foundations and social enterprises, which specifically produce goods, services and knowledge while pursuing economic and social aims and fostering solidarity.”
In fact, while there are significant differences in the ways in which these organizations are structured and operate around the world, they all have in common a strong focus on addressing basic human needs and a close alignment with the interests of the communities in which they are located.

As SSE organizations engage in the production of goods and services, the use of financial resources of various kinds has always been an important part of their operations, and SSE organizations around the world routinely use financial mechanisms that in some cases are the same as for all other enterprises and in some cases are tailored to their own unique characteristics. Given the importance of the SSE, some of these mechanisms have been established by governments, while in many other instances SSE organizations have created structures within their ecosystems designed to facilitate access to financial resources from lending institutions (as in the case of guarantee mutual funds for instance) or even created their own funds to support investment and growth (as in the case of the cooperative mutual funds).

At the same time, and perhaps not surprisingly given their governance structures and the economic sectors in which they operate, SSE organizations have always been less well suited to accessing financial mechanisms that entail significant capital gains or that assign ownership rights to the investors. For this reason, many of the financial mechanisms that supply much of the capital to for-profit corporations have been applied scantily to the social and solidarity economy.

With the increase in attention to the SSE as a possible solution to current and emerging social problems, the availability of financial resources for SSE organizations has become a prominent issue in the public discourse. Coincidentally, in the aftermath of the financial crisis of 2008, the financial services sector has been under increased scrutiny and pressure to play a role in supporting national and international development goals facilitating the transition to a more sustainable economy. Probably as a result of the confluence of these two trends, finance has been increasingly linked to ethical and sustainable attributes (‘social finance’, ‘impact finance’, ‘ethical banking’, ‘social and solidarity finance’, ‘finance with a purpose’), in a flurry of new initiatives that have been embraced by a wide range of actors with varied motivations.

In this context, it becomes increasingly important to assess as rigorously as possible what kind of financial resources are (or should be) in fact available to SSE organizations, for what purposes they are being used, and in what ways they can be accessed. Unfortunately there is a generalized lack of reliable data and information on this topic, and while the prevailing discourse portrays SSE organizations as lacking financial resources and having trouble accessing capital, empirical evidence is scant.

The project “Financial Mechanisms for Innovative Social and Solidarity Economy Ecosystems” set out to disentangle this complex set of issues, in an attempt to foster a better understanding of the ecosystems (i.e. the complex sets of relations and interactions between SSE organizations, their stakeholders and their surrounding environment) favouring the SSE, and the financial mechanisms that support and consolidate them. Using a combination of literature review, key informant interviews, case studies and quantitative data from eight countries around the world, the project team proceeded to identify and review a wide variety of potential sources of finance for the SSE as well as the different mechanisms through which these resources could be made available to SSE organizations.

In particular, the project was articulated in three stages. The first stage focused on developing a comprehensive overview of financial sources and mechanisms, analysing the main characteristics of each and their potential application to various needs and at various stages of the life of a social and solidarity economy organization. This work focused both on ‘mainstream’ financial mechanisms available to all enterprises as well as on financial mechanisms that are more specific to the SSE, including for instance internal sources of capitalization facilitated by a constraint on profit distribution, philanthropy and donations, and so forth.

The second stage of the project was designed to reveal how SSE ecosystems are structured and what kind of financial mechanisms SSE organizations actually use, gathering evidence from eight countries across four continents representing a wide variety of social, economic, cultural and political contexts. Based on a shared template and methodology, the research in each country focused on a description of the local socioeconomic context, of the roots and drivers of the SSE in that country, and of the local SSE ecosystem, including the available data on the various SSE actors and stakeholders, on the policy and legal framework, as well as on other more intangible qualities of the ecosystem such as openness, culture, redundancy, resilience, and so forth. The national reports also looked specifically at the issue of access to finance in the country and at the main financial mechanisms used by SSE organizations.
The third stage of the project consisted of a comparative analysis of all the information collected through the national case studies and through several key informant interviews, in order to tease out the main cross-cutting themes and overarching issues that emerged with respect to the key research questions. Based on these observations, the project team then developed a set of conclusions and recommendations.

The work was conducted over 12 months by a team of fifteen researchers, composed of a core project team that included experts in finance, statistical analysis, ecosystem analysis and SSE, and eight national researchers selected in each country based on their expertise. The national researchers, in particular, did an outstanding job, collecting and analysing much more information than could be included in the final report, which presents only a synthesis of what emerged from the analysis in each country.

For the purposes of this document, the project results are summarized in four chapters: the first chapter describes the SSE and its importance with respect to some key challenges such as the future of work and local economic development. The second chapter provides an overview of the main financial mechanisms theoretically available to SSE organizations and proposing some ways in which they can be classified and analysed. The third chapter presents the results of the comparative analysis of the eight country case studies, highlighting the key themes that emerge from a review of the available evidence and proposing some future lines of research. The last chapter then presents the conclusions and recommendations that can be drawn from the work.

A full research report, with a more detailed account of the research backdrop, methodology and findings, is available. ■
2. THE SOCIAL AND SOLIDARITY ECONOMY AND ITS ECOSYSTEMS

2.1 The ecosystems of the SSE

This report tries to overcome the complexity of explaining such a ‘fluid and contested’ (Amin, 2009; Teasdale, 2012) concept such as Social and Solidarity Economy (SSE) by adopting a pragmatic approach. While terms such as social economy, solidarity economy and social and solidarity economy can have different meanings depending on geographical, cultural or political context, for the purposes of this study the SSE was considered as an umbrella concept designating social and solidarity economy enterprises and organizations, in particular cooperatives, mutual benefit societies, associations, foundations, non-profit and social enterprises, which have the specific feature of producing goods, services and knowledge while pursuing both economic and social aims and fostering solidarity. All of these organizations also share governance and ownership structures that prioritize the needs of stakeholders that are different from investors.

“The Social Economy: Africa’s response to the Global Crisis”, ILO Regional Conference on Social Economy, Africa’s Response to the Global Crisis, October 2009
At the same time, it is clear that the SSE is greater than the sum of the economic units that comprise this section of the economy. Any analysis that reduces it to its component parts would be insufficient to address key elements (including the role of financial resources) and satisfactorily convey the complexity of the SSE. In order to start to understand the complex environments in which these organizations exist, metaphors such as ‘ecosystems’ have increasingly been brought to bear.

The term ‘ecosystem’ was first used in studies of mainstream business a quarter of a century ago (Moore, 1993), even if the concept also echoes other lines of research in the field of local development, such as the ‘industrial districts’ studied in Italy by Becattini (1979 and 1987) and Bagnasco (1977), the ‘clusters’ investigated by Porter (1998), and the French ‘local production systems’. In recent years, a stream of literature has emerged in which ‘ecosystem’ has been taken to mean “the union of localized cultural outlooks, social networks, investment capital, universities, and active economic policies that create environments supportive of innovation-based ventures” (Spigel, 2017, p. 1042).

Another concept that it is important to clarify is ‘innovation’, as mentioned in the title of this report. What do we mean when we talk about ‘innovative social and solidarity economy ecosystems’? The question is not trivial, as innovation in this context cannot be reduced to a chronological observation (in the sense of the ‘newest’ or most novel solutions) and not even to the merely technological aspects (in the sense of the solutions that make use of the most up-to-date or ‘fashionable’ financial instruments). In order to be considered innovative, an ecosystem must contribute with new elements that also involve organizational and institutional arrangements, the interactions between the various components, orientation to change, and other social aspects that broaden the definition.

2.2 The SSE’s role and potential

The SSE has shown that it is capable of challenging the ‘upstream’ systemic factors that mould our everyday lives and work through promoting new forms of production, exchange and consumption (see Roy & Hackett, 2017). SSE enterprises can often tap resources that are inaccessible to conventional enterprises and are more equitable in the distribution of the added value they produce. The SSE thus seems to be not just a palliative cure for the symptoms of problems, but also a force for addressing the structural issues needed for genuine and transformative change. There are two broad areas in particular where the SSE can play and indeed is already playing a significant role: fostering more equitable and sustainable local economic development, and providing answers to the challenges related to the future of work. The role and potential of the SSE with respect to these two issues is briefly analysed below.
LOCAL ECONOMIC DEVELOPMENT

With respect to local economic development, the SSE is able to reflect the cultural and social components of local contexts, and provide solutions that are suited to this. Bodini et al., 2017 (p. 3) explain that “local development is not just the outcome, in a given place, of a broader process of economic growth. Rather, it is a place in which specific historical, social and cultural factors interact to generate an endogenous process that depends on the ability of local actors to organize and re-generate responses to their own needs.”

In this view of development, in which people, culture, relationships and social processes play a key role, the osmosis between the local community and the production system is very important. The participatory governance structure of SSE organizations and their attention to social integration make them more open to this type of interaction, and ultimately “better able to identify the demand arising from their communities and to produce the goods and services that are needed at the local level, as well as to leverage resources that would go untapped if they only relied on contractual and monetary relations.”

Since production of “quasi-public goods” and of goods and services of general interest is based on trust and involvement, the collective governance forms that characterize SSE organizations can provide them more efficiently and effectively than more traditional governance forms that are based either on hierarchy or bureaucracy, and sustain endogenous development in the medium-to-long term (Borzaga and Tortia, 2009).

At the same time, the nature of SSE organizations makes it more likely that not only private but also collective objectives are taken into consideration, allowing for a better match between economic growth and the needs of local actors (Borzaga and Tortia, 2009). In short, owing to their characteristics, SSEOs have a beneficial impact on social and economic development, supporting sustainable and inclusive growth, generating employment, combating poverty, and contributing to a more balanced use and allocation of resources.

THE FUTURE OF WORK

There are several reasons why the role of the SSE in the future of work is destined to grow in importance. The most relevant can be summarized as follows:

- The trend of automation replacing manual labour seems to affect less the jobs in which the relational dimension and face-to-face relationships with the user are fundamental. Many of the professions that fall into this category include personal services, social and health care, education, which are all sectors in which the presence of social and solidarity economy organizations is traditionally strong. These sectors are also likely to grow in importance owing to the tendency towards aging and the ever-increasing need for training and education in our societies.

- Many of these services have been provided in the past, especially in countries with a longer welfare state tradition, by the public sector. But the current condition of public budgets, and the less-than-encouraging future prospects, suggest that this model is no longer sustainable. There are long-term structural factors that lead to an increase in the demand for social and general interest services, but the answer to these needs must also be provided through the mobilization of private resources and the SSE.

- The increase in inequality makes the issue of social inclusion ever more pressing. Organisations within the SSE are often specifically organised to provide education and development opportunities and, indeed, job creation for the increasing number of vulnerable people who are disadvantaged or disenfranchised from employment in the mainstream labour market. Work opportunities provided by the social and solidarity economy have been shown to be beneficial for specific social groups such as newly arrived migrants and refugees, people with physical or mental disabilities, etc.

- The integration of disadvantaged workers, though, is by no means the only or even the main area in which the SSE contributes to job provision. In fact, Borzaga et al. (2017) point out that SSE organizations have always helped create and preserve employment in traditional sectors, from agriculture to manufacturing. They can provide quality, stable jobs, facilitate the entry of women into the labour force, and
help workers to transition from informal to formal employment. SSE organizations can also provide more structure and security in jobs in sectors that are at risk of informal or non-standard forms of work. This is considered especially important to the future of work, as a larger share of employment is expected to come from the service sector, particularly personal care and social services. Owing to the rise of the gig economy, work is likely to be far less structured than in the past, often with low pay or with an inability to guarantee the same level of income and security as standard forms of employment (not just in terms of salary, but also in terms of pensions and working conditions).

In addition to these consolidated functions, the SSE has significant potential for the creation of employment in new or emerging sectors, especially where jobs have a high relational content. In other words, in the face of the transformations that are reshaping the world of work, the SSE provides a stronghold for all of those activities that are more markedly social and empathic in nature. For this reason, the importance of the SSE for the future of work is not limited to a residual role that only concerns more disadvantaged people but also shows a way in which the world of work can be transformed, creating new employment based on competences and skills that cannot be replaced by algorithms.■
There is no doubt that finance can play an important role in supporting the SSE and helping it grow and fulfil the potential highlighted above. Unfortunately, however, it is extremely difficult to assess precisely the demand for finance on the part of SSE organizations, for two main reasons. First and foremost, there is a generalized lack of data on these organizations which often makes it difficult to quantify even the size of the SSE in each country in terms of turnover and employment, let alone the demand for and use of financial resources. Where the data is available, as in the case of Italy, it seems to confirm that the needs of SSE organizations are not qualitatively different from those of other enterprises, and that their levels of capitalization are adequate. However, this could also be due to the fact that data tend to be available in those countries where the SSE and its ecosystems are more structured and mature, and thus are also better equipped to access mainstream financial resources or have more time to develop adequate sources and mechanisms of their own. Second, the SSE includes an extremely diverse set of actors, and the variability of their financial needs is as great as their diversity in terms of sectors of activity, size and life-cycle phases.
At the same time, since SSE organizations engage in the production of goods and services, like all enterprises they need money to fund their operations. Financial resources can help SSE organizations cover start-up costs, address cash flow issues, and of course fund the investments that are needed in order to grow and respond to new needs or changing market conditions. Indeed, from a conceptual point of view there is no reason to believe that the financial needs of SSE organizations are inherently different from those of any other type of enterprise. Along with these similarities, though, there are also important differences, and these differences have an impact on the kind of finance SSE organizations can access and how. In particular SSE organizations, unlike shareholder companies, are by and large designed to meet the needs of their stakeholders (workers, clients, volunteers, etc.) rather than to remunerate investors, and their governance structures make it difficult to apply the same financial tools traditionally used for for-profit corporations. Owing to these same specificities, though, SSE organizations can access sources of capital that traditional companies have more trouble tapping. These include, for instance, internal sources of capitalization facilitated by a constraint on profit distribution; philanthropy and donations; collection of capital in the form of loans or equity from their members and other stakeholders; and so forth.

The specificity of the SSE with respect to the issue of finance should therefore not be sought in relation to the distinctive needs that characterize SSE organizations compared to traditional companies. It rather resides in the types of financial resources available to them and in the ways in which these resources can be accessed. In other words, the choice of financial resources and mechanisms does not derive from the specificity of needs, but rather from the constraints and opportunities resulting from the fact that these organizations are by definition not comparable to enterprises that attract capital because their main goal is to remunerate investors.

The full report provides an extensive classification of financial mechanisms, while this document includes only a high level summary of the main suppliers of finance and of the main financial mechanisms for the SSE.

### 3.1 Main financial suppliers for the SSE

Given their nature, SSE organizations can, at least in theory, tap a variety of sources of finance. These include individuals, organizations that belong to the SSE, public sector agencies and programmes, and private for-profit corporations. Moreover, they include organizations that are specialized in financial services for the SSE as well as organizations that provide financial services for all enterprises. Below is a list of the main suppliers of finance for SSE organizations with a short description of each, including individuals (whether as members or shareholders of SSE organizations or as external funders), public sector agencies and programmes, philanthropic organizations, and various types of financial intermediary.

#### 1. Private citizens

Capital supplied by private citizens, mostly in the form of donations or small investments. Recently, new technologies such as online crowd-funding platforms have facilitated more disintermediation of credit and increased the potential for this source of capital.

#### 2. Members, shareholders, other stakeholders

Capital supplied by the members or owners of the company in a variety of ways (shares including co-operative shares, membership fees, donations, loans, etc.).

#### 3. Foundations and philanthropic entities

Traditionally these entities invest the assets in equity and bond markets and use dividends and the payment of interest for social missions.

Recently a shift has been observed towards forms and instruments of venture philanthropy and impact investment that combine a customized financing strategy with non-financial services, organizational capacity-building and performance measurement by applying risk capital techniques to the financing of social enterprises.
4. Financial Intermediaries

Ethical and social banks, solidarity finance and other intermediaries lending only to companies or organizations that fit their mission.

Banks that have, among their various activities, philanthropic projects, or specific product lines for SSE organizations.

Banks which treat SSE organizations as traditional customers.³

5. Public sector

Subsidies and incentives (to SSE organizations and to potential funders)

Programmes providing finance in the form of grants, loans and guarantees

Public-private partnerships (e.g. for lease or transfer of public buildings or other assets)

Initiatives for local development, e.g. schemes to help SSE organisations develop affordable housing, build community facilities, and launch or expand programmes that contribute to the well-being of the community.

It should be noted that for many of these actors financing SSE organizations requires additional competences and functions relative to other types of enterprise. For instance, to issue a financing profile for an SSE project, financial intermediaries are required to understand and value the social aspects of the activities. Financial intermediaries with a social focus should be able to understand the social mission and its implications, including the longer term required to obtain returns and the particular types of risks of the investments.

3.2 Main financial mechanisms for the SSE

The concept of financial mechanisms is broad and includes financial tools of various nature. In general financial mechanisms can be defined as the ways in which financial resources are made available by a supplier to the organizations that need them, which can have very different implications in terms of recovery of capital, expected returns, ownership rights, and so forth.

Figure 3.1: Financial demand, supply and mechanisms

³ As an example, Cooperative banks, while part of the SSE, cannot be considered specialized banks since they offer their products both to SSE actors and to non-SSE clients. Conversely, commercial banks that are not part of the SSE could specialize in working with SSE organizations, as in the case of Banca Prossima in Italy.
Capital raising can take place through two categories of funding sources: internal sources and external sources. The former consist of capital derived from participation in the company; from its social base (lending or donations by members); from the surplus or assets; or from internal financial instruments of a private nature (e.g. minibonds). The latter can take many more forms, such as concessions; equity investments; debt instruments; and real estate. In addition, mixed tools can be developed combining the characteristics of two or more of these basic types. An example is ‘patient capital’ provided either in the form of debt or in the form of equity or loan. The main goal of these hybrid forms of investments is a longer-term reabsorption perspective, not the maximization of financial returns. The term ‘patient’ describes this long-term perspective with a high risk and the possible returns visible only over the years. Hybrid capital is a flexible tool, which does not require interest payments and dilution of ownership (except in the case of the convertible grant). It is available both to investors who press for the achievement of the objective (the incentive to obtain the concession following achievement of the objective) and also to those willing or able to lose the investment in the event that results are not achieved⁴.

In the context of the evolution of enterprises, it is possible to distribute the financing tools along a generalized timeline of the firm’s development. Figure 3.3 links the forms of financing to the hypothetical performance of the revenues obtained during the lifetime of the organization from the first steps of concept design and start-up until the take-off and stabilization phases. In the early phases donations, self-financing, philanthropy and patient capital are predominant; later, more sophisticated capital and debt instruments can be activated.

---

**Figure 3.2: Internal versus External Financing mechanisms**

<table>
<thead>
<tr>
<th>Internal</th>
<th>External</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social base</td>
<td>Grant</td>
</tr>
<tr>
<td>Management</td>
<td>Debt</td>
</tr>
<tr>
<td></td>
<td>Equity</td>
</tr>
<tr>
<td></td>
<td>Mixed Tools</td>
</tr>
</tbody>
</table>

⁴ As an example of a private social venture fund providing patient capital, see for instance Acumen Fund.
The way in which different mechanisms align with the different stages in the life of an enterprise is attributable to several factors, including cost (due to the expected rate of return for the investor), the perceived riskiness of the enterprise, revenue flow and accumulation of assets. In the early stages, when the enterprise has fewer resources, financial mechanisms that do not expect returns (such as grants, donations, and self-financing) are clearly preferable. As revenue flows increase and the enterprise becomes more stable it can access traditional debt and equity instruments. Over time, with the accumulation of assets (which in SSE organizations is often facilitated by profit distribution constraints) and positive cash flows it is also possible to activate internal sources based on management (budget surpluses, proceeds from assets, etc.) which are not available in the early stages of life. Indeed, one of the strengths of SSE organizations is their ability to mix different types of financial mechanisms, including accessing sources of funding (such as donations) that are typically not available to traditional for-profit enterprises.
4. FINANCIAL INSTRUMENTS FOR INNOVATIVE SSE ECOSYSTEMS: OVERARCHING THEMES AND CROSS-CUTTING ISSUES

In order to investigate the actual use of finance on the part of SSE organizations, the project conducted in depth case studies in eight countries around the world (Cape Verde, Colombia, Ecuador, Italy, Luxembourg, Morocco, Quebec, South Korea), compiling data on the SSE ecosystems and analyzing examples of the most relevant financial mechanisms in those countries. These case studies have made available a rather heterogeneous range of experiences and practices, and the varied levels of complexity and maturation of the different contexts provide an interesting cross-section that makes it possible to draw some general conclusions.

Obviously, while the cases have been selected with the intention of having a fairly complete and differentiated representation, they do not cover all the tools and methods of access to finance that characterize the SSE. Therefore, what follows should be considered as a compilation of the most relevant questions, highlighting trends and areas of investigation that require further study. It should also be noted that almost all the case studies are based on fairly limited statistical evidence. In only a few situations the SSE can be understood through the lens of a complete and articulated body of data.
Even countries with more developed systems (Italy, Luxembourg, Quebec, South Korea) present incomplete information. The improvement of quantitative and qualitative knowledge is therefore one of the first needs that emerge from the analysis, including references to policy indications that will be formulated in the recommendations.

4.1 A tale of two paradigms: a matter of autonomy from the State and entrepreneurial spirit

As a first general consideration, it should be recognized that in the past (and still today in some contexts) the SSE was too often associated with activities on the margins of the economy, or exclusively with market failures and non-market social services, reflecting a tendency to view the world through a narrow, capital-based economic lens. Only more recently has a less ‘marginalist’ view of the SSE started to spread. This vision is based on an approach that aims to re-embed the economy in society, designing sustainable approaches to development that respond to the needs and desires of communities.

This shift in perspective, however, generates a dichotomy between two readings of the SSE that reflect different approaches (or ideological underpinnings), one of which is more ‘reparative’ and oriented towards the ‘solidarity’ dimension (Colombia, Morocco, Cape Verde) and the other more focused on the transformative potential that a ‘more social’ approach can play in terms of ameliorating some of the worst effects of the existing economy model and in making the whole economy more efficient, especially in the provision of general interest goods and services (Italy, Quebec, South Korea). Beyond this dichotomy there are also realities – such as in Ecuador and Luxembourg – that fall outside this schema, as they represent further variations or original paths.

While the ‘solidarity’ component of the SSE is more clearly oriented towards the contrast of poverty and social inclusion, with a prevalence of public funding and less stringent constraints in terms of economic sustainability, the ‘social’ one is oriented towards a model of economic action that is at the same time autonomous with respect to public resources and an alternative to the mainstream approach – a model that is not aimed only at marginal and poor people or communities, but rather is characterized by a wider plurality of economic activities, based on the principle of economic means satisfying social ends, and on an entrepreneurial model taking on business risks.

These developments were strongly influenced by the specific conditions of the social, cultural and political contexts in which they occurred. It is not a coincidence that the most innovative experiences – also regarding access to and use of financial instruments – have emerged in areas where the social and solidarity economy system was more characterized from the point of view of cultural and social identity (and in some cases also political, as in the autonomist claims of regions with a high presence of social economy, such as the Basque Country or Quebec). From this point of view public policies that aim to strengthen social and solidarity economy ecosystems meet a structural limitation in the fact that the process of strengthening the SSE cannot depend exclusively on a top-down intervention but is strongly conditioned by the context in which it happens.

Although all the cases examined show that the social and solidarity economy idea has historically insisted on the complementarity between SSE actors and the fundamental importance of the primary regulatory and redistributive role of the State, in those ecosystems where the fight against poverty and the inclusion of the most marginal sectors of the population is more limited tend to reproduce a relationship with public authorities that is less independent. In particular, in those SSE ecosystems which are either less developed or in which public intervention predominates, the action of social and solidarity economy organizations takes the form of public policy ‘interventions’ in the main (Cape Verde, Colombia, Morocco, Ecuador). Meanwhile, where the conditions for a more sustained process of co-construction or co-production of public policy tend to exist and there is a vision for the social economy based on the economic sustainability of SSE organizations (Italy, Luxembourg, Quebec), those collaborative policy processes are aimed at transforming hierarchical relationships between the (top-down) State and (bottom-up) civil society to one of collaboration and co-determination.

The ecosystem structure also has an impact on the issue of finance, as it is the quality of the ecosystem that determines the articulation and the effectiveness of the financial system, and not vice versa. Where the SSE can count on more developed and balanced ecosystems, with a wide plurality of actors used to working together and characterized by a more ‘polyarchic’ structure of power – with less
concentration of the instruments of government in the exclusive hands of public sector institutions – financial mechanisms also tend to be more developed and complex, with numerous reciprocal connections (Italy, Quebec, South Korea).

4.2 Reconsidering the notion of financial risk in the light of collective entrepreneurial organizations

Investors’ perceptions of risk should reflect the dualism reported above, differentiating the risk profile in relation to the type of organization of the SSE in question, which might vary based on the level of dependence on public funding or on the degree of entrepreneurial orientation. This is a topic that should be explored in far greater depth in the future, with a view to countering the tendency to consider generically that all SSE organizations are ‘risky’ from the point of view of financial investors. And it should also entail greater specificity in referring to risk: in the perspective of the SSE, risk cannot be calculated purely in the terms used by a traditional financial intermediary.

Moreover, analyzing the cases of Morocco, Cape Verde, and partially Ecuador, it emerges that the objective of combating poverty and promoting social and financial inclusion, in contexts characterized by fragile SSE ecosystems, often implies a tendency to use financial instruments such as microcredit. In these instances the main purpose appears to be providing support for individual micro-businesses rather than encouraging the creation of complex social economy organizations. The impression given by these cases is that the development of a solid social economy is actually made more difficult by the use of microcredit as the main tool. Its main function seems in fact concentrated on the creation of minimum subsistence conditions rather than on triggering sustainable collective entrepreneurial processes.

The case is different, however, in countries where interventions concern the establishment or strengthening of cooperative systems, in which the development perspective does not only focus on empowering entrepreneurial individuals but seeks to create the conditions for sustainable and inclusive long-term economic prosperity through collective entrepreneurial organizations.

4.3 Beyond the prevailing narrative: the importance of internal sources of capital

From our examination of countries where economic sustainability and greater independence from public policies are two distinctive features of SSE organizations, a picture of financial mechanisms emerges that does not correspond to today’s prevailing narrative, according to which the new tools of social finance would play a decisive role.

Even in more ‘evolved’ systems such as Luxembourg the financial needs of SSE organizations are largely satisfied by internal funding and by more traditional financial instruments (such as bank loans). At the same time the resources needed for covering operational costs are mainly derived – as in conventional enterprises – from revenues generated by the sale of goods and services (based both on private and public spending, the latter often as a subsidy to users in the forms of vouchers and recognition of expenses for services of general interest, such as health and social assistance). The use of newly-developed financial instruments is less relevant in the cases studied for this project.

Therefore, when reviewing all of the possible financial mechanisms that SSE organizations can access, and in order to ascertain which are more or less accessible, it is important to realize that these organizations tend to avoid an excessive imbalance between internal and external financial resources. The reason for this specificity is that SSE organizations require financial products that are delivered not only on the basis of their financial viability, but also aligned with the principles and the social goals pursued by the organization requesting funding. This is the main motivation of the ‘culture clash’ that in many instances has made the relationship between SSE and finance complicated.

Traditional lenders have generally been reticent about investing in the sector because of their inability to analyze social outcomes in their calculations, which has tended to limit SSE organizations’ access to loans, except at fairly high interest rates. For this reason SSE organizations have, over time, developed a capacity to find resources that are different from the mainstream for-profit sector. This capacity includes, for instance, internal sources of capitalization facilitated by a constraint on profit distribution; philanthropy and donations; and collection of capital in the form of loans or equity from members and other stakeholders – in
other words, sources of capital that mainstream for-profit companies have more trouble tapping into.

4.4 The lukewarm attitude towards impact investing and other financial innovations

More recent experiences relating to targeted financial instruments indicate that while they tend to partially correct the inability of traditional lenders to take into account the social impact of their investments, they do not yet seem able to avoid unintended consequences such as commodification of service users or the tackling of those who are more easily helped. Moreover, the measurement of social impact (a key requirement in all forms of ‘impact investing’) is still a controversial subject, not only because there is no unanimous agreement regarding the importance of such an evaluation, but also because in determining the criteria and indicators to be used it is not obvious how to find the right balance between the interests of the investors, of the financed organizations, and of the users.

The alignment of interests cannot in fact be imposed unilaterally by those who make available the economic resources. The risk that must be avoided is that the impact assessment is functional above all to the interests of the investors, very often programmed on a short-term perspective, instead of being a tool for improving the performance of the entire SSE ecosystem.

A further observation that emerges from the analysis is a generally low propensity by SSE organizations, with rare exceptions, to adopt the most recent innovations in financial technology (fintech). This can be read as a consequence of the difficulty for the SSE in placing itself with a proactive role in the field of new trends. Even in the cases where some intermediaries have emerged (e.g. Fiducie in Quebec) with a role that is not only advocacy but also provision of innovative financial services, the adoption of these innovations does not seem to be a priority for SSE organizations. In particular, fintech to date seems to replicate business and governance models that are, in practice, still very distant from the logic of the social and solidarity economy. And attempts to modify this legacy with the adoption of new models inspired by the SSE logic (e.g. Faircoin and other ‘social fintech’ applications) do not yet seem to be of sufficient scale or depth to make a significant impact.

4.5 The importance of a ‘blended approach’

One of the most promising directions for strengthening the financial capacity of SSE organizations will lie in the ability to mix different sources of funding. One of the strengths of SSE organizations is their ability to attract and utilize a resource mix to sustain their activities. It therefore makes sense to think about a hybrid model of funding which reflects their specific nature, that cannot be traced back exclusively to the logic of mainstream finance. But undertaking this successfully means taking note of: i) the prevailing importance that internal or public resources continue to play, and the ways in which they could be strengthened (e.g. through asset lock provisions and by lifting taxes on non-distributed profits); ii) the fact that new tools of social finance still need to be thoroughly tested (and the ‘impact investing’ product family has yet to prove to be truly relevant and important to the development of the SSE); and iii) the need for a ‘blended approach’ capable of integrating different instruments. For example: mixing repayable and non-repayable resources; differentiating loans according to levels of seniority; providing guarantees through public and non-public instruments (such as guarantee consortia created directly by the SSE organizations); or ensuring low-interest loans via first loss pieces obtained thanks to philanthropic grants. It is critical that SSE organizations are able to obtain the financial resources they need, but on such terms that are consistent with, and reflect, their values and mission. ■

---

5 The first loss mechanism designates the amount that is exposed first to any loss suffered on a portfolio of assets, shielding investors from potential initial losses.
Based on the findings of the project, the narrative according to which the development of the SSE necessarily passes through the availability of mainly external financial resources and adoption of the most innovative financial instruments is at least questionable. The issue is rather that the financial instruments most used by SSE organizations are those that are coherent and consistent with their specific aims and pace of development. And this coherence somehow puts them at the margins of the dominant financial culture that has imposed itself over the last two or three decades, a culture for which success is measured almost exclusively in terms of speed of capital recovery and rates of financial return – the polar opposite of the values that inspire the vision of the social and solidarity economy.

Therefore, if up until now the growth of the social and solidarity economy has found a way of financing itself, albeit with non-mainstream methods, why is the issue of ‘finance for social aims’ perceived as extremely topical today? The answer to this question can be found in two factors. The first concerns the growing demand that the SSE faces in a world of profound demographic and social changes, leading SSE organizations to engage in more capital-intensive activities such as urban renewal, waste management, social housing, and so forth. The second factor has to do with what happened to the world of finance after the 2008 crisis, as its responsibility for the disruption that hit the economies of half the world called its entire reputation into question.
To get rid of a predatory image, the financial sector has begun to develop a position on sustainability that could place it at the forefront of a social responsibility movement. And indeed, aside from the phenomena of ‘social impact washing’ or ‘greenwashing’, there is no doubt today that there is a ferment of initiatives concerning the contribution of finance to the objectives of social and environmental sustainability.

It is a fact, however, that this activism, which is embodied in various forms and with a multitude of financial products (sustainable, with a social impact, purpose driven, ESG compliant, etc.) mainly reflects the motivations and metrics of the world of finance. That is, it is rooted in a concept of finance that is still strongly self-centred, and therefore not easily ascribable to the values and aims of an ‘authentic’ social economy. Therefore, the methods of intervention are conditioned by expectations of returns on investment which, although less demanding than when the investment is aimed at other business areas, nevertheless place strict constraints on SSE organizations.

Inevitably, this situation generates pressure on SSE organizations that can result in further ‘cultural clash’ or in a dialogue with totally new and partly unpredictable characteristics. In this context, the space for finance that is at the service of social action must be defined clearly, if it wants to play a positive role as a tool for the development of people and communities.

In an ecosystemic logic, the policy-making process is a shared responsibility among multiple subjects, and depends on mutual and fruitful interaction. For this reason, the indications that follow must be interpreted as themes of engagement of all the actors of the ecosystem, and not as functions attributable exclusively to one or the other of the players in the field. The main recommendations that derive from the analysis presented here can be summarized as follows:

1. **The importance of having a mix of different financial tools.** To address varied needs and institutional arrangements it is important to rely on a variety of financial instruments, based on the characteristics of the different organizations and their relative stages of development. In particular, it is important to have available a set of tools that promotes SSE growth in progressive steps. Finance must be capable of accompanying a path of increasing complexity, from the individual entrepreneur to the collective enterprise and business networks. The recommendation for financial intermediaries and policy-makers is to think beyond the single instrument or product in order to compose a family of interconnected mechanisms that can be suitable for the various stages of the entrepreneurial journey.

2. **Support for internal capitalization.** The analysis of the organizations of the SSE shows how internal sources of capital are at least as important as external sources, and indeed in some phases they are even more decisive as they allow a ‘cooperative pact’ to be cemented between the participants in the enterprise. Therefore, all the measures that favour the capitalization mechanisms that resort to internal resources are especially important. This means, for example, providing for rules that prevent or limit the distribution of profits and assets, offering a favorable tax treatment for their destination for capitalization purposes, or designing policies to incentivize member loans, financing members and revolving funds. The creation of financial institutions for and by the SSE, such as the cooperative mutual funds, should also be incentivized at the international, national and local levels.

3. **Role of guarantee schemes.** Improving guarantee schemes is crucial for facilitating access to credit or investment instruments for SSE organizations. These schemes can be developed in a plurality of forms, ranging from guarantees granted with public funds to the credit consortia created by SMEs and cooperatives on the principles of mutuality and solidarity to reduce the financial risk of the lender and therefore facilitate access to finance.

4. **Strengthening of ecosystems through co-design processes.** The nature of the SSE is strongly linked to the development of territorial systems and endogenous growth processes. The policies to accompany the creation of SSE ecosystems must therefore respect this contextual dimension and help bring out their distinctive elements, enhancing the participation of local actors. This translates into means of social dialogue in which the definition of policies does not take place top-down but opens up to co-planning and co-design methods with the subjects participating in the social action, including involvement in the design of dedicated financial instruments.

5. **Moving beyond finance and legal frameworks.** The analysis yields some examples of the role that governments can have beyond providing funds or regulating access to them. For example, in the case of Korea, the government helped to reduce...
investment risks by providing or improving other key assets for the success of these investments. In the Italian case, the new law reforming the third sector provides for simplified procedures that make it possible for abandoned or under-utilized public buildings, or for assets seized from organized crime, to be made available to SSE organizations under highly facilitated conditions. Beyond a direct role as an investor in public resources or as a regulator, the State has a number of other ways in which it can support a social and solidarity economy ecosystem, which may also include capacity-building and training interventions, or forms of partnership to foster technical assistance.

6. Need for better data and statistics. The knowledge of the phenomena discussed in this study would benefit considerably from systematic and well-structured data collection related to the different aspects of access and use of financial instruments. Better quantitative knowledge would allow not only a better assessment of financial needs but would also allow more accurate measurement of risk, which is decisive for the assessment of creditworthiness.

7. Cultivating the international dimension. The review of cases presented here shows in a clear and evident way the wealth of experience and tools that characterize the SSE worldwide. In addition to local ecosystems, which are the roots of the SSE, there is also a type of global ecosystem in which the circulation of knowledge and practices can significantly benefit individual actors. The resulting policy implication for SSE organizations is to underline the importance of a continuous scouting activity and international comparison, to place ideas and models in comparison with other experiences.

8. Financial mechanisms need to be designed to cope with complexity. Financial mechanisms should also be addressed from an ecosystem perspective with complexity taken into account when designing them. Thus, a mechanism based on the participation of the stakeholders of an SSE organization not only improves the availability of the resources or even the range of financial instruments, it also strengthens ties within the ecosystem and improves its sustainability. Along the same lines, when a financial mechanism is based on the participation of a variety of actors within the ecosystem (either in its design or in its management) this can also enhance the flow of information between them, resulting in a more capable network.

In conclusion, the elements that have emerged from the research presented here confirm that the relationship with finance remains a sensitive issue for the world of social and solidarity economy. There is an objective asymmetry of approaches and values that can create tensions. But there is also an objective need to support the development of the social and solidarity economy in a historical phase in which the demand for services and goods with social purposes is constantly growing. In this context, the search for financial resources to support the SSE goes through a two-way relationship, in which social and solidarity economy organizations are not passive but active in the market for financial instruments, based on their own priorities and values. And financial intermediaries also need to deal sensitively with a sector of economic life that is oriented by a vision in which performance and efficiency indicators cannot be reduced to the rate of return on investment.

The next few years will tell whether this dialogue will develop positively, with forms of collaboration that take into account the respective reasons and specificities. For now, discernment is important so that all the participants in this relationship clearly have all the elements and their respective priorities in play.
REFERENCES


Bagnasco, A. (1977), Tre Italie. La problematica territoriale dello sviluppo italiano, Bologna: Il Mulino


