Innovative Finance for Social Justice

Social Finance for Social Economy

Working Paper No. 67

Nathanael Ojong
Preface

The primary goal of the ILO is to contribute, with member States, to achieve full and productive employment and decent work for all, including women and young people, a goal embedded in the ILO Declaration 2008 on Social Justice for a Fair Globalization, and which has now been widely adopted by the international community.

In order to support member States and the social partners to reach the goal, the ILO pursues a Decent Work Agenda which comprises four interrelated areas: Respect for fundamental worker’s rights and international labour standards, employment promotion, social protection and social dialogue. Explanations of this integrated approach and related challenges are contained in a number of key documents: in those explaining and elaborating the concept of decent work, in the Employment Policy Convention, 1964 (No. 122), and in the Global Employment Agenda.

The Global Employment Agenda was developed by the ILO through tripartite consensus of its Governing Body’s Employment and Social Policy Committee. Since its adoption in 2003 it has been further articulated and made more operational and today it constitutes the basic framework through which the ILO pursues the objective of placing employment at the centre of economic and social policies. The Employment Sector is fully engaged in the implementation of the Global Employment Agenda, and is doing so through a large range of technical support and capacity building activities, advisory services and policy research. As part of its research and publications programme, the Employment Sector promotes knowledge-generation around key policy issues and topics conforming to the core elements of the Global Employment Agenda and the Decent Work Agenda. The Sector’s publications consist of books, monographs, working papers, employment reports and policy briefs.

The Employment Working Papers series is designed to disseminate the main findings of research initiatives undertaken by the various departments and programmes of the Sector. The working papers are intended to encourage exchange of ideas and to stimulate debate. The views expressed are the responsibility of the author(s) and do not necessarily represent those of the ILO.

José Manuel Salazar-Xirinachs
Executive Director
Employment Sector

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2 See the successive Reports of the Director-General to the International Labour Conference: Decent work (1999); Reducing the decent work deficit: A global challenge (2001); Working out of poverty (2003).
4 See http://www.ilo.org/employment.
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## Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>APDF</td>
<td>Africa Project Development Facility</td>
</tr>
<tr>
<td>CAT</td>
<td>Centre for Alternative Technology</td>
</tr>
<tr>
<td>CIC</td>
<td>Community Interest Company</td>
</tr>
<tr>
<td>EPMF</td>
<td>European Progress Microfinance Facility</td>
</tr>
<tr>
<td>ESF</td>
<td>European Social Fund</td>
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<tr>
<td>ILO</td>
<td>International Labour Organisation</td>
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<tr>
<td>KES</td>
<td>Kenyan Shilling</td>
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<tr>
<td>MFI</td>
<td>Microfinance Institutions</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>RISQ</td>
<td>Réseau d’Investissement Social du Québec</td>
</tr>
<tr>
<td>SACCO</td>
<td>Savings and Credit Co-operatives</td>
</tr>
<tr>
<td>SEO</td>
<td>Social Economy Organisation</td>
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<tr>
<td>SFP</td>
<td>Social Finance Programme</td>
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<tr>
<td>SROI</td>
<td>Social Return on Investment</td>
</tr>
</tbody>
</table>
Abstract

The social economy is a reality in many people’s lives because it promotes values and principles that focus on people’s needs and on their communities. In a spirit of voluntary participation, self-help, and self-reliance, and through enterprises and organisations, it seeks to balance economic success with fairness and social justice, from the local level to the global level. Because of their social and economic purposes, social economy organisations are often vulnerable at the financial level; they have difficulty building financial reserves or covering their operating costs. Conventional private investors often see social economy organisations as being unattractive. Social economy organisations often have to rely on public subsidies, which can present challenges for their autonomy. This paper explores the different financing streams (i.e. membership funds, grants, debts, equity and quasi-equity finance) used by social economy organisations by focusing on three case studies from Canada, Kenya, and the United Kingdom. Based on the case studies and on financial literature, the paper proposes what could be the constitutive elements of a good and balanced model for financing social economy organisations.
1. Introduction

There is a growing interest in social economy organisations that pursue a double or triple bottom line - economic, social, and environmental goals (Cheney, Santa Cruz, Peredo and Nazareno, 2014; Defourny et al., 2009; Guerin and Servet, 2005; Hossein, 2013; Laville, 2010; McMurtry, 2009; Peredo and Chrisman, 2006; Mukherjee-Reed, 2015; Mendell and Neamtan, 2010; Novkovic and Brown, 2012; Reed, 2015; Servet, 2007). The social economy refers to enterprises and organisations, in particular co-operatives, mutual benefit societies, associations, foundations, and social enterprises, which specifically produce goods, services, and knowledge while pursuing economic and social aims and fostering solidarity.

The social economy is a reality in many people’s lives because it promotes values and principles that focus on people’s needs and on their communities. In a spirit of voluntary participation, self-help, and self-reliance, and through enterprises and organisations, it seeks to balance economic success with fairness and social justice, from the local level to the global level. In Europe, the social economy represents about 10% of all European companies (i.e. about two million undertakings) and 6% of total employment (Chaves and Monzon, 2007). In Quebec, more than 125,000 people work in the social economy, which generates over $17 billion annually, accounting for about 6% of Quebec’s GDP (Chantier de l’économie sociale, 2009). In the UK, there are an estimated 62,000 social enterprises, contributing £24bn to the economy and employing 800,000 people. In Brazil, co-operatives produce three quarters of the country’s wheat and 40% of its milk, and co-operative exports bring in over US$ 1.3 billion (Fonteneau et al., 2011).

For the ILO, the social economy is a key element in its Decent Work agenda due to its potential for job creation and social protection. The ILO’s Declaration on Social Justice for a Fair Globalization stresses the need for a strong social economy: “convinced that in a world of growing interdependence and complexity and the internationalization of production: [...] productive, profitable and sustainable enterprises; together with a strong social economy and a viable public sector are critical to sustainable economic development and employment opportunities” (ILO, 2008:3).

To guarantee the development of a strong social economy, adequate financial resources are required. However, as profit maximization is not sought at the expense of social and environmental concerns, social economy organisations (SEOs) are relatively unattractive to commercial investors. Additionally, the double or triple bottom line makes it difficult for SEOs to raise capital in the capital market. Clearly, this raises a key question: how do co-operatives, mutual benefit societies, associations, foundations, and social enterprises raise the funds to fulfil their missions in local communities? Here lies the purpose of this paper.

We attempt to answer this question by exploring the different financing streams (for example, membership funds, grants, debt, equity, and quasi-equity) used by SEOs. These financing streams are crucial to SEOs but have received limited

attention in the substance of various analyses. Based on three case studies (from Canada, Kenya, and the United Kingdom) and on financial literature, we suggest that a viable financing model balances institutional (i.e. sustainability, innovation, and growth potential) and societal (i.e. jobs, social protection or integration of marginalized groups) needs.

The remainder of this paper is organized as follows. Section II outlines the research methodology. Section III sheds light on access to finance for social economy organisations. Section IV explores three case studies that illustrate the different financing streams used by social economy organisations, and how these financing streams are combined to ensure better results. Section V explores the demand and supply of funds by examining the legal types and different financing streams. Section VI focuses on the elements that may constitute a viable model for financing social economy organisations. Section VII explores support mechanisms necessary for the proper functioning of social economy organisations. Section VIII provides the conclusion.

1.1 Methodology

This paper is based on a desk review. This approach was motivated by the desire to gain a broad understanding of the field. Secondary data included annual and financial reports (2000-2010) from selected SEOs and their funders.

Three case studies were used to highlight the various financing streams used by SEOs. Several factors were taken into consideration before selecting the three case studies. First, creativity in combining different funding streams. Second, case studies were selected from the Global South and Global North in order to highlight similarities and differences. Third, “traditional” and “contemporary” SEOs were selected to provide a holistic picture. The traditional SEOs illustrate the traditional mix of different financing streams that have been predominant among SEOs with more than 20 years of existence, while the contemporary SEO illustrates innovations in the use of various financing streams. Fourth, consideration was given to the financial health and growth potential of the SEOs. Three countries were selected: the United Kingdom, Canada, and Kenya. Then, SEOs from these countries were selected based on age, types of activities carried out, and financing streams used. Based on the above-mentioned factors, Alimentation Coop Port-Cartier, Githunguri Dairy Farmers Co-operative, and The Wise Group were selected from Canada, Kenya, and the United Kingdom respectively.
2. Social Economy Organisations

The social economy refers to economic activities that, in terms of ownership or goals, cannot be attributed clearly to the public or private sector. The general goal of SEoIs is to balance the satisfaction of social and economic needs. The definition of the social economy adopted at the ILO’s Conference, “The Social Economy: Africa’s response to the Global Crisis”, acknowledges a range of institutional types that make up the social economy:

“enterprises and organisations, in particular co-operatives, mutual benefit societies, associations, foundations and social enterprises, which have the specific feature of producing goods, services, and knowledge while pursuing both economic and social aims and fostering solidarity” (ILO, 2009:3).

A double bottom line is common to the various organisations that make up the social economy.

Table 1: Main characteristics of social economy organisations

<table>
<thead>
<tr>
<th>Co-operatives</th>
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<tbody>
<tr>
<td>• Voluntary and open membership.</td>
<td></td>
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<tr>
<td>• Equal voting rights - resolutions carried by majority.</td>
<td></td>
</tr>
<tr>
<td>• Members contribute to the capital, which is variable.</td>
<td></td>
</tr>
<tr>
<td>• Autonomy and independence.</td>
<td></td>
</tr>
<tr>
<td>• Active players in the agriculture, manufacturing, banking, retailing, and services sectors.</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Mutual Societies</th>
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</tr>
</thead>
<tbody>
<tr>
<td>• Voluntary and open membership.</td>
<td></td>
</tr>
<tr>
<td>• Equal voting rights - resolutions carried by majority.</td>
<td></td>
</tr>
<tr>
<td>• Members' fees based on insurance calculations (where relevant) - no capital contributions.</td>
<td></td>
</tr>
<tr>
<td>• Autonomy and independence.</td>
<td></td>
</tr>
<tr>
<td>• Activities include medical, life and non-life insurance, guarantee schemes, and home mortgages.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Associations / Voluntary Organisations</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Voluntary and open membership.</td>
<td></td>
</tr>
<tr>
<td>• Equal voting rights - resolutions carried by majority.</td>
<td></td>
</tr>
<tr>
<td>• Members' fees - no capital contribution.</td>
<td></td>
</tr>
<tr>
<td>• Autonomy and independence.</td>
<td></td>
</tr>
<tr>
<td>• Service providers, voluntary work, sports and advocacy/representative.</td>
<td></td>
</tr>
<tr>
<td>• Important providers of health care and other social services for children and seniors.</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Foundations</th>
<th></th>
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<tbody>
<tr>
<td>• Run by appointed trustees.</td>
<td></td>
</tr>
<tr>
<td>• Financial resources generated primarily from donations and gifts.</td>
<td></td>
</tr>
<tr>
<td>• Activities include financing of research, supporting international, national, and local projects, providing grants to relieve the needs of individuals, and funding voluntary work.</td>
<td></td>
</tr>
</tbody>
</table>
### Social Enterprises

- No universally accepted definition.
- Have a social and societal purpose, combined with the entrepreneurial spirit of the private sector.
- Reinvest their surpluses to achieve a wider social or community objective.
- Are registered as private companies, co-operatives, associations, voluntary organisations, charities, or mutual societies; some are unincorporated.

**Source:** European Commission, Enterprise and Industry Directorate-General, Unit E3 Craft, Small Businesses, Co-operative & Mutuals.

Terms such as “social economy”, “solidarity economy”, and the “third sector” are often used interchangeably. In Latin America, the term “solidarity economy” is more commonly used, Anglo-Saxon countries (for example, the United Kingdom) refer to it as the “third sector”, while in continental Europe the commonly used term is the “social economy”.  

### 2.1 Access to Finance for Social Economy Organisations

As indicated earlier, SEOs experience several barriers to access finance. Co-operatives, for example, do not have access to capital market financing due to their system of governance. While the system of governance does not categorically prevent co-operatives and other SEOs from obtaining external finance, it constitutes an additional burden and often entails additional capital costs due to the risk premium charged by prudent lenders. Additionally, as not-for-profit organisations, their main goal is to generate social and economic benefits – not to maximize profit – a logic often alien to conventional lenders. These matching problems led to the emergence of social investors who are willing to provide the funds needed by SEOs to achieve their double bottom line.

Additionally, several grant funding programmes do not permit SEOs to generate a surplus, which is generally required to build sufficient levels of working capital or financial reserves. The lack of working capital/financial reserves means that some SEOs are exposed to fluctuations in cash flow and are not protected against the effects of a time lag between funded programmes (Thake and Lingayah, 2009).

The continued dependence of many SEOs on public sector subsidies and grants add to the challenge of securing stable, affordable, and flexible financial resources. Thus, the issue of finance remains a major concern for most SEOs irrespective of the country, legal type, and line of activity.

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6 In the UK, the third sector comprises non-governmental organisations which are value driven and principally reinvest their surpluses to further social, environmental or cultural objectives. It includes voluntary and community organisations, charities, social enterprises, co-operatives and mutuals (HM Treasury, Charity and Third Sector Finance Unit. www.hm-treasury.gov.uk ).

7 Other ILO documents refer to these as Social and Solidarity Economy Enterprises and Organisations (SSEEO).
3. Case Studies Illustrating the Types of Financial Instruments Used by Social Economy Organisations

Rather than exploring each type of SEO or the major financing instruments and how they are a perfect fit for various SEOs, we propose an illustrative presentation based on case studies. This approach lays bare the real-life experiences of SEOs in terms of the usage of various financial instruments. It is expected that an exploration of these case studies will make room for innovation and amelioration.

As indicated earlier, the three case studies - Alimentation Coop Port-Cartier, Githunguri Dairy Farmers Co-operative, and The Wise Group - were selected from Quebec (Canada), Kenya, and the United Kingdom respectively. The United Kingdom provides an Anglo-Saxon perspective of the social economy, Quebec provides a Francophone flavour, and Kenya provides a perspective from the Global South.

3.1 Case Study 1: The Wise Group

The Wise Group was established in 1983 as an energy conservation initiative. Over the past two and a half decades, it has grown from a small SEO in Glasgow to a vibrant social enterprise. Today, with a turnover of £20 million (2009), it is one of the UK’s leading social enterprises providing employment-focused services and support for thousands of people, and employing over 400 staff operating from over 200 premises across Scotland and North East England. It focuses on employment and skills training, community regeneration, and sustainable development. In 2008, it celebrated its 25th anniversary and won the UK Social Enterprise of the Year Award (The Wise Group, 2009).

Currently, The Wise Group does not receive core grant funding from the government. Over the years, it has combined grants from several sources (for example, European Regional Development Fund, local and central government grants) and debt finance to carry out its operations (Table 2).

Table 2: Finance streams used by The Wise Group

<table>
<thead>
<tr>
<th>Grants</th>
<th>Funder: The Big Lottery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount: £2 million</td>
<td></td>
</tr>
<tr>
<td>Time line: July 2008 - December 2010</td>
<td></td>
</tr>
<tr>
<td>Terms and conditions:</td>
<td></td>
</tr>
</tbody>
</table>

8 Information correct as at 30th July 2010.
In the last decade, The Wise Group has had to rely on various financing streams to carry out its operations. It received grants from the government and other sources especially in the nascent stage of its existence. At present, it receives grants from funders such as the European Social Fund and the Big Lottery UK. Such funds are provided for specific projects and restricted to well-defined uses (Table 2). For example, grants from the European Social Fund were used to finance its Transitional Employment project, while funds from the Big Lottery were used to finance the Routes out of Prison (RoOP) project. These grants are for a specific timeframe, which thus necessitates the need for other sources of finance.

To ensure flexibility as well as minimise the negative effects of grants, The Wise Group used debt products such as bank loans, overdrafts (especially between the years 2000 to 2005), and hire purchase.9 It uses hire purchase on land, buildings,

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**Table 2:** Financing streams of The Wise Group

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soft loans</td>
<td>Funder: Scottish Investment Fund</td>
</tr>
<tr>
<td></td>
<td>Amount: £900,000 (June 2009)</td>
</tr>
<tr>
<td></td>
<td>Time line: 10 years.</td>
</tr>
<tr>
<td></td>
<td>Terms and conditions:</td>
</tr>
<tr>
<td></td>
<td>- It is a mix of loan &amp; grant. While the grant is non-repayable, the loan is repayable over ten years at a loan interest rate of 8%.</td>
</tr>
<tr>
<td></td>
<td>Uses:</td>
</tr>
<tr>
<td></td>
<td>- Can be used for almost anything that builds capacity, capability, &amp; financial sustainability, thereby enabling the institution to deliver more contracts &amp; generate a surplus that will be re-invested in the institution to continue its social mission.</td>
</tr>
<tr>
<td>Other debt products</td>
<td>Bank loans &amp; overdrafts: £144,024 (December 2000)</td>
</tr>
<tr>
<td></td>
<td>Other loans falling due after more than one year: £268,000 (December 2000)</td>
</tr>
<tr>
<td></td>
<td>Hire purchase: £113,413 (December 2000)</td>
</tr>
</tbody>
</table>

*Note: Data were gathered from financial statements and other reports (2000 - 2009).*

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9 As security for the overdraft, the Bank of Scotland holds a standard security over its premises at 72 Charlotte Street, Glasgow and a bond & floating charge over the whole assets of The Wise Group postponed to that held by City of Glasgow Council for a debt of £268,000, including creditors falling due after more than one year. Also, the loan from the City of Glasgow Council (in the year 2000) had no fixed period of repayment and was interest free.
and other items. Hire purchase permits the enterprise to make use of what it needs without spending huge sums of money in one go. These operating leases are spread over several years, thus ensuring better management of its financial resources. The last time it used the overdraft facility was in 2006.

To ensure its sustainability, The Wise Group is now focused on generating its own revenue, thus relying less on external sources of finance. This explains why it submitted tenders to deliver numerous programmes and services for the government. For instance, in 2009, The Wise Group, with its partners, won a five-year contract worth more than £120 million to deliver the government’s Flexible New Deal employment programme in Scotland. The surplus generated from these contracts ensures debt repayment and reinvestment in the enterprise. On 31 December 2009, its surplus totalled £66,392. The social enterprise’s track record and solid asset base enable it to continually get the different kinds of finance required to carry out its operations. Its tangible assets increased from £4,375,660 in 2006 to £6,925,326 in 2009. The Wise Group’s efficient combination of grants and debt finance, coupled with its increasing use of contractual funds ensures growth and long-term sustainability. This has also enabled it to establish a steady relationship with funders and attracted fresh investment.

**Figure 1 Capital grants received by The Wise Group**

![Bar chart showing capital grants received by The Wise Group from 2004 to 2007](chart.png)

**Note:** Data was obtained from The Wise Group’s financial report (2005-2008)

In the past decade, The Wise Group has gradually reduced its reliance on grants (Figure 1). Presently, it receives no core grant from the government. In 2000, grants (£14,469,443) constituted a major finance stream. In fact, it made up about 90% of external finance received. Currently, grants constitute a lower percentage of financial resources. It has closed this gap by generating its own revenue through the delivery of various contracts. The Wise Group also experienced a steady

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10 The contract states that The Wise Group is to deliver a fully integrated approach to employment and skills, delivering tailored, innovative and flexible support for each customer in the target communities.

11 Information based on financial statements from 2006 to 2009.
decline in capital grants received from £312,814 in 2004 to £256,738 in 2005, then to £66,780 in 2006, and finally to £10,000 in 2007 (Figure 1).

Table 3 Capital grants expressed as percentage of gross operating surplus

<table>
<thead>
<tr>
<th>Year</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>252.6</td>
</tr>
<tr>
<td>2005</td>
<td>109.8</td>
</tr>
<tr>
<td>2006</td>
<td>14.8</td>
</tr>
<tr>
<td>2007</td>
<td>683.0</td>
</tr>
</tbody>
</table>

3.2 Case Study 2: Alimentation Coop Port-Cartier

In 2004, Alimentation Coop Port-Cartier was established in the Canadian province of Quebec. Many residents of Port-Cartier had been dissatisfied with the goods and services offered by Provigo, a grocery retailer in Quebec with over 300 stores and franchises throughout the province. Alimentation Coop Port-Cartier has over 1,200 members of which 40% is made up of households within Port-Cartier. Its projects realized so far have been done in partnership with various institutions such as the Economic Development Agency of Port-Cartier, the Federation of Food Cooperatives of Quebec, the Fiducie du Chantier de l’économie sociale, Investissement Quebec, the Caisse d’économie solidaire, and the Caisse Populaire Desjardins of Port-Cartier.

In terms of financing, Alimentation Coop Port-Cartier makes use of subsidies, membership subscription, debt finance, and quasi-equity to carry out its activities (Table 4). Therefore, it is an example of a contemporary co-operative that utilizes innovative financing streams.
### Table 4. Finance streams used by Alimentation Coop Port-Cartier

<table>
<thead>
<tr>
<th>Finance Stream</th>
<th>Amount</th>
<th>Time line</th>
<th>Uses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Membership Funds</strong></td>
<td>450,000CAD (2007)</td>
<td>Ongoing</td>
<td>Day-to-day functioning of the co-operative</td>
</tr>
<tr>
<td><strong>Debt Finance</strong></td>
<td>900,000CAD</td>
<td>Repaid after 8 years</td>
<td>Purchase of equipment</td>
</tr>
<tr>
<td><strong>Quasi-equity</strong></td>
<td>750,000CAD</td>
<td>15-year capital repayment moratorium</td>
<td>Purchase of land, building of supermarket, &amp; working capital</td>
</tr>
<tr>
<td><strong>Subsidies</strong></td>
<td>20,000CAD</td>
<td>Receive subsidies for at least 10 years</td>
<td>Operational expenses, purchase of equipment, support for mortgage financing</td>
</tr>
</tbody>
</table>

**Note:** Data based on a report written by the Réseau d’Investissement Social du Québec for the Fiducie du Chantier de l’Economie Sociale (2007).

Alimentation Coop Port-Cartier gets funds from members through subscriptions (i.e. 250CAD per member). In 2007 it collected a total of 420,000CAD. The funds from this source are used towards the day-to-day functioning of the co-operative. Membership funds are flexible, easy to access and manage, and not limited to complicated reporting requirements. These funds permit it to carry out activities related to the sale of its products (for example, bakery products, meat, fish, prepared food, fruits and vegetables, wine, tobacco, etc.).
Additionally, Alimentation Coop Port-Cartier receives subsidies from the Local Development Centre and Sobeys. Subsidies play a significant role by partially covering costs related to its operations. It also uses debt finance. Most of its loans are subsidized and are to be repaid after more than five years. For example, in 2007, it received a loan of 900,000CAD from the Caisse d'économie solidaire Desjardins to be repaid after 8 years at an interest rate of 8.5%. Other loan packages have to be repaid after five or ten years. Long-term loans ensure stability and give the co-operative the ability to conduct long-term planning since it has the financial resources.

Additionally, the co-operative is a user of quasi-equity or patient capital. In 2007, it received 750,000CAD from the Fiducie of the Chantier de l’économie sociale in the form of patient capital with no capital repayment for 15 years. Of this amount, 500,000CAD was offered as real estate patient capital to fund costs directly associated with acquiring buildings or renovating real estate assets while the remaining 250,000CAD was offered as operations patient capital to fund costs linked to working capital, the launch of new products, or the purchase of equipment. The use of patient capital ensures better capitalisation of the co-operative. In that same year, it also received 700,000CAD in the form of quasi-equity finance from Sobeys. Of this amount, 500,000CAD was interest-free and the total amount had to be repaid after 10 years. Debt finance and quasi-equity constitute the main financing streams used by Alimentation Coop Port-Cartier.

### 3.3 Case Study 3: Githunguri Dairy Farmers Co-operative

Kenya has a long track record of co-operative development characterized by robust growth. Co-operatives are active players in the country’s economy. According to the Ministry of Cooperative Development and Marketing, the number of registered co-operatives increased from 9,443 in 2000 to 11,968 at the end of 2008, with about 80% of Kenyans getting their income directly or indirectly via co-operative activities (Ministry of Cooperative Development and Marketing, 2009). In the agricultural sector, co-operatives previously handled over 72% of coffee sales, 95% of cotton sales, and 76% of dairy produce sales (Wanyama, 2009). Kenya has one of the largest dairy industries in sub-Saharan Africa. This also explains why we decided to focus on a dairy-related case study.

Githunguri Dairy Farmers Co-operative was selected because of its long history of carrying out dairy activities in Kenya. It is representative of a co-operative from the Global South that has overcome many challenges over the years, and successfully established itself in the market. According to USAID (2008), it is the most successful dairy farmers’ co-operative in Kenya. It was registered in 1961 with a membership base of 31 smallholder dairy farmers in Githunguri Division, Kenya. It plays an important role in the marketing of its members’ milk, which is processed and packed in the form of packed fresh milk, yogurt, butter, ghee, and cream under the brand name of “Fresha”. In 2004, it set up its own milk processing plant, enabling it to access a wide market through value addition. This transformed it into one of the largest dairy processors in Kenya. Githunguri Dairy Farmers Co-operative has grown to 17,000 registered members with an annual turnover of 3 billion KES (USD $37.4 million).
Githunguri Dairy Farmers Co-operative has access to three financing streams: membership funds, grants, and debt finance (Table 5). Members pay membership fees and buy at least 50 ordinary shares of 20KES nominal value each. It also has redeemable shares paid by members to meet specific needs of the co-operative, which are redeemed to members after an agreed period. Funds from members were used to construct its milk processing plant.

Although the co-operative dates back to 1961, it’s tangible business took shape in 2002 when, in the middle of uncertainty, the Africa Project Development Facility (APDF) — a World Bank small and medium scale support initiative helped in developing a feasibility study and finance sourcing. The APDF-sourced financier, Oiko Credit, a Netherlands-based financial institution, offered a €950,000 soft loan, payable in six years. Since then, the co-operative has been using debt finance on a regular basis. In 2003, Oiko Credit provided another loan package of €880,000 for the purchase of equipment for the milk processing plant. These loans facilitated the expansion of its activities. In fact, due to its unprecedented growth, Oiko Credit, in 2006, disbursed an additional loan of €670,000 to finance the purchase of additional equipment. High capitalisation and revenue generated from the sale of

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12 Oiko Credit provides credit to microfinance institution (MFIs), small & medium-sized enterprises (SMEs), and trade organisations.
dairy products has facilitated continuous expansion of its activities. Revenue generated from the sale of its dairy products is used for loan repayment.

Additionally, the co-operative has benefited from grants provided by the Rotary clubs north of the Netherlands. The Rotary clubs supplied 40 farmers with €2,000 each to upgrade their farming facilities. The Rotary clubs also provide technical and managerial assistance needed for the co-operatives’ sustainability.

These case studies shed light on the different kinds of financing streams used by SEOs, how they are combined, and how sustainable they are. Irrespective of geographical location, SEOs need to diversify their finance base in order to mitigate risk. Also, SEOs must know the types of financing streams appropriate to their needs, and know how best to combine them. These case studies also highlight the fact that SEOs require different kinds of financing streams at various stages in their “life cycle”. Mindful of its stage in the life cycle, Alimentation Coop Port-Cartier went for long-term financing to fund its growth. The $750,000 patient capital provided by the Fiducie du Chantier de l’économie sociale - with a 15-year capital repayment moratorium - ensures the establishment of a solid foundation that is vital for its sustainability.

Funders have to develop an understanding of SEOs in order to provide tailored financial products. This is precisely what the Fiducie du Chantier de l’économie sociale in Quebec has done. Failure to take this into consideration pushes SEOs to survive “hand-to-mouth” and adopt short-term, and, often, expensive stop gap measures. Hence, these case studies illustrate that there is a link between legal types, products, governance system, function, stage of institutional development, and funding needs. We elaborate on these factors in the next section.
4. FINANCING SOCIAL ECONOMY ORGANISATIONS

The social economy is made up of double bottom line organisations that differ in legal type, governance system, function, and funding needs. These factors come into play when analyzing the financing streams of SEOs. Generally, SEOs with a membership base generate some funds from membership fees and shares. The use of membership fees is a very convenient financing stream and it gives the SEO more flexibility in terms of how to use the funds. This is because the SEO is answerable to members who believe in the work of the organisation. However, this financing stream has an Achilles heel. Therefore, other sources of financing such as grants, debt, quasi-equity, and equity are required. The use of these external sources of finance can lead SEOs to lose sight of their original mission and become more inclined to satisfy their funders.

Figure 2 Factors which influence the financing of SEOs

In real life, mismatches in the supply and demand for finance are more widespread than matches. For instance, there is a substantial amount of loan capital available and little equity or quasi-equity, causing disequilibria in both the equity and loan markets for SEOs. The supply of loan capital, especially on market terms, usually exceeds the demand, and in the case of equity, the reverse is true with much unmet demand (OECD, 2009). This raises the need to examine the demand and supply of funds in the social economy by looking at the legal types and types of financing streams.
4.1 The Demand for Funds

As indicated earlier, there is a link between legal type, governance system, the range of services, and funding needs. Specifically, differences in the governance systems of co-operatives, mutual benefit societies, associations, foundations, and social enterprises influence access to various financing streams.

4.1.1 Co-operatives

Co-operatives are owned and operated for the benefit of their members. Democratic governance and collective ownership are crucial to co-operatives. The different types of co-operatives (for example, consumer, producer, financial services, housing co-operatives, etc.) are part of the same governance structure though they perform different activities. Therefore, they have different funding needs. This is apparent when housing and consumer co-operatives are compared.

The principle, “one member one vote”, means that members have no incentive to invest more than their minimum in the co-operative as it would make little or no difference in terms of returns on investment and a voice in the decision-making process. Put simply, the legal form “co-operative” may not be conducive to strengthening the equity position of co-operatives. In some cases, it is a recipe for chronic undercapitalisation. Arguably, the issue of collective ownership also makes it difficult to attribute risk. Questions usually arise as to who is individually liable to repay, hence the link between governance and access to finance. Several co-operatives get a sizeable portion of their funds from members. A study that examined the role of members’ funds in multi-purpose co-operatives in the state of Andhra Pradesh, India, demonstrated that membership funds constituted about a quarter of the overall funds raised by the average co-operative (Rajesh et al., 2002). Funding needs also push several co-operatives to access external financing.  

4.1.2 Mutual Benefit Societies

Mutual benefit societies are institutions whose goal is to protect their members against various economic and social risks. To achieve this, they try to satisfy common needs in the insurance, providence, health, and banking sectors. Members have equal voting rights and potentially equivalent benefits. Mutual benefit societies operate according to the principle of solidarity between the members, who participate in the governance of the organisation.

Mutual benefit societies can be differentiated from co-operatives by the fact that they manage collective and indivisible funds. Put another way, they are not necessarily financed by share capital. In lieu of the purchase of shares, members pay fees (for example, based on insurance calculations). According to the European Commission’s Enterprise and Industry, almost 70% of the total number of insurance companies in Europe are mutual societies. Funding for mutual benefit societies primarily originates from membership contributions. Members contribute to a common fund and are entitled to benefit from it based on prescribed rules.

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13 See, for example, Balkenhol, B (1999), Credit Unions and the Poverty Challenge: Extending Outreach, enhancing sustainability. Geneva: ILO for more details especially relating to credit unions.
Certain kinds of finance are not suited for mutual societies (for example, quasi-equity and equity finance) due to their solidarity nature, legal type, and governance. The mutual form of ownership, for example, means that such organisations are compelled to access finance for growth internally — mutual benefit societies have no shares to sell, therefore no access to equity markets.

4.1.3 Associations/community-based organisations

Unlike mutual benefit societies, associations rely heavily on voluntary work from their members to achieve their mission. Their legal type and function make it difficult for them to have access to different kinds of finance. For instance, they might not be eligible for a loan because their activities might not yield any surplus that could be used to repay the loan. Some investors regard associations or community-based organisations as too risky. It is for this reason that they depend greatly on voluntary subscriptions and donations from members, non-members, and charitable organisations to meet their financial needs.

Organisations in this category are usually not very enthusiastic about getting debt products (such as loans) even when given the opportunity. One reason for this lack of interest by community-based organisations is that they do not want to put community assets at risk by using them as security. If they decide to go for loans, they would prefer terms which include either a capital or interest repayment holiday.

4.1.4 Foundations

Foundations are run by trustees. They do not have a membership base, which means that they do not have access to membership funds. Individuals, companies, and charitable trusts respond to their demand for funds by entrusting the management of their charitable funds to them. Interest earned on endowment funds is then distributed to some SEOs through the foundations’ grant programmes. Such funds are of strategic importance to foundations because as the endowment grows, so does the capacity to expand their operations. Hence, giving to foundations’ endowments ensures an ongoing potential source of grant funding for local SEOs that do not easily have access to external finance.

Once again, we find a link between governance, function, and access to finance. The absence of the principle of collective ownership gives more confidence to investors as there is an individual or group of individuals who can be directly held accountable for the funds.

4.1.5 Social Enterprises

Social enterprises use entrepreneurial skills to accomplish their social mission and are directly involved in producing goods and services for a target market. In terms of ownership, some social enterprises are privately owned, while others are owned by trusts or separate charities. Depending on their legal form and business model, their business know-how, tradable activities, and governance can place them in a favourable position to attract investors. As a result of these factors, social enterprises have a high probability of accessing different financing streams such as

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14 Foundations, as used here, refer specifically to those that are non-profit and adhere to the spirit of the social economy.
quasi-equity and equity finance.\textsuperscript{15} Increasingly, social investors are ready to meet their demand for funds because their profile matches what the investors are looking for.

Clearly, there is a correlation between the stage a social enterprise finds itself and its funding needs. Several social enterprises use grants at the start-up stage as “seed” capital. As they grow, they tend to require long-term finance to ensure stability.

4.2 The Supply of Funds

The various financing streams used by SEOs differ in terms of conditionality, sustainability, cost, reporting requirements, etc. This section focuses on the different financing streams.

4.2.1 Membership funds

SEO\s with a membership base benefit from the financial contributions of their members through membership fees, subscriptions, and other forms of contributions. Membership funds are easy to raise and do not entail an administrative cost. Such funds enable SEO\s to carry out activities in line with the interest of their members with no need for external consultation/interference. The absence of conditionality ensures greater flexibility. SEO\s that depend solely on membership funds for their operations cannot experience mission drift. Additionally, the organisation maintains its autonomy and can undertake long-term planning because of the continuous flow of funds. Also, these funds are, in principle, sustainable since they are not time-bound.

Although membership-based resources hold many advantages, they merely contribute 5\% of the liabilities of a typical SEO. In the case of Alimentation Coop Port-Cartier, out of a total finance package of 5,537,152\,CAD (in 2007), just 450,000\,CAD constituted membership funds. Moreover, members’ shares may need to hold as a form of guarantee by the SEO and cannot be used to finance activities.

4.2.2 Grants

Grants come from governments, charitable trusts, foundations, and other institutions. The “seed” capital for SEO\s is usually in the form of grants. Some grants are “free”, i.e. their use is not restricted, while others come with conditions attached.

Earmarking is a common characteristic of grants. Most grants are usually earmarked for specific projects and have a limited life span. Most grants range from one- to three-year commitments, making it especially difficult for SEO\s that rely heavily on this financing stream to recruit and retain well-qualified and experienced staff. The reliance on grants generally slows down the process of professionalization of

\textsuperscript{15} It is worth noting that this depends on the legal form of the social enterprise, which tends to vary from one country to another. For instance, social enterprises registered as non-profit organisations in South Africa are not allowed to issue shares or pay dividends. In the UK, social enterprises registered under the “Community Interest Company” legal form can issue dividends. However, there is a cap on dividends as well as restrictions on the disposal of shares.
an SEO, and pushes the prospects for financial sustainability into the distant future.

The situation is exacerbated by relying on multiple grant-making bodies. Grant-making bodies have different requirements and deadlines. SEOs that rely on grants have to spend considerable time preparing grant applications, each designed to meet the specific criteria of the funder. Therefore, while grants are non-repayable, the conditions attached render SEOs less flexible and less autonomous.

### 4.2.3 Debt Finance

Debt finance is used by most SEOs, though its combination with other financing streams varies from one organisation to the other. The terms and conditions of debt products depend on the financial institution offering the product and its client. Credit unions, co-operative banks, microfinance institutions, and other social banks offer credit to SEOs on different terms than conventional banks. For example, the conditions attached to debt products provided by social banks (such as Triodos Bank, Unity Trust Bank, and the Charity Bank) tend to take into consideration financial viability as well as the social and economic value.

Co-operative banks are more likely to offer debt products tailored to the needs of SEOs. For instance, co-operatives are the Co-operative Bank of Kenya’s largest customer base. It offers various financial products to co-operatives such as the SACCO Revolving Advance, the cash cover facility, and insurance finance. Additionally, the Co-op Asset finance permits Kenyan co-operatives to finance moveable assets without tying up property/assets as collateral. It has a repayment period of up to 48 months.

Microfinance institutions also play an important role in funding the social economy. In Europe, the European Progress Microfinance Facility (EPMF) provides funds to the social economy in member states through financial intermediaries such as non-bank MFIs, micro banks, and dedicated microfinance companies.

Debt finance has several advantages. First, debt products can be long-term, hence provide ample time for SEOs to plan how to generate their own income. The opportunity to have long-term plans makes it possible for SEOs to achieve some level of stability. Second, debt obliges SEOs to run their operations more efficiently. The entire process of applying for and managing debt demands a certain level of financial rigour and discipline. Third, the numerous debt products made available to SEOs give them a certain degree of flexibility. In other words, SEOs have the liberty to do whatever they desire with the funds, as long as they respect the repayment conditions. This is important because it gives them the

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16 The SACCO Revolving Advance is an overdraft facility made specifically for co-operatives. It helps those members who want to borrow for urgent development purposes. Repayment of the overdraft is done on a monthly basis, on a pre-agreed date. The cash cover facility is another overdraft facility offered to co-operatives in Kenya. But this second overdraft facility is offered to SACCOs that hold deposits they may not wish to withdraw but require quick financing of their members’ needs.

17 The European Progress Microfinance Facility is a new initiative launched by the European Commission and the European Investment Group (made up of the European Investment Bank and the European Investment Fund) to address, in particular, the adverse effects of the global financial crisis on at-risk groups. [http://www.eif.org/what_we_do/microfinance/progress/index.htm](http://www.eif.org/what_we_do/microfinance/progress/index.htm)
ability to make the necessary adjustments when needed without any fear of funds being cut-off by the funder.

On the other hand, debt finance is also constraining. First, to be eligible for credit, SEOs must be able to generate income that ensures regular loan repayment. Second, SEOs must dispose of an asset base as security. Commercial banks are usually reluctant to provide various debt products to SEOs due to their non-profit status.

Some SEOs use overdrafts in addition to other types of finance to deal with funding gaps. The Unity Trust Bank\(^\text{18}\) has a Grant Bridging Overdraft facility which provides cash flow assistance to SEOs that have grants or other confirmed funding delayed. Leasing is also very useful to SEOs performing activities in areas where specific equipment such as vehicles and machinery are required. The advantage of this product is that it is based on the asset supplied and less on the balance sheet or track record of the SEO (Bank of England, 2003).

**Box 1: The Social Stock Exchange in Brazil**

The Bolsa de Valores Sociais (Brazil’s Social Stock Exchange) was launched in 2003 by Brazil’s Stock Exchange (BOVESPA) as a fund-raising initiative. Since its launch, private donors have contributed more than US$5.5 million to 71 not-for-profit organisations. The Bolsa de Valores Sociais has created an environment where SEOs that need funds and social investors ready to support their projects can meet and exchange. Not-for-profit organisations send their projects, stating how much money they need to raise and the intended purpose. Thereafter, a team of specialists analyses the entries and recommends the best programme or project to the board of governors of the social stock exchange. Once approved by the board, Brazil’s Stock Exchange and its brokerage firms in the country put forward the portfolio of projects to investors with the objective of selling the “social shares” of the selected organisations. Investors choose among the listed organisations that match their interests. Funds raised by the Bolsa de Valores Sociais are transferred to the listed organisations without deducting commissions or fees. BOVESPA bears the total cost (advertising, communication, and operation) linked to the offering of the shares. Clearly, the Bolsa de Valores Sociais demonstrates that there can be a true partnership between social capital markets, mainstream financial markets, and SEOs.

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\(^{18}\) Unity Trust Bank is one of the leading providers of banking services to the social economy in the UK. It values the double bottom line. For more information, go to www.unity.co.uk
4.2.4 Equity and quasi-equity finance

Equity finance is medium- to long-term finance - with uncertain returns - provided by an investor in exchange for taking ownership shares in an organisation. Quasi-equity or “patient capital” is a mixture of grant and loan or equity, including social returns usually with flexible repayment terms (SQW, 2007). Equity finance is perhaps the most challenging financing stream used by SEOs due to the complex process of raising and administering such funds.

Equity and quasi-equity finance respond to the long-term investment needs of SEOs but its use means that investors would have a say in the day-to-day running of the SEO. Equity is appropriate to finance growth but the drawback is possible mission drift. First, the acquisition of shares can be part of a strategy for investors to maximize wealth, running possibly contrary to the spirit of the social economy (Nicholls and Pharoah, 2008). Second, investors may want the SEO to adopt strategies that deviate from its original mission.

Some forms of equity finance allow a partial restriction of ownership rights in exchange for a more certain return. In 1990, the UK-based Centre for Alternative Technology (CAT) raised a total of £1 million by offering shares to investors without the right to vote, receive dividends, or sell shares without limitations (Brown, 2008). Similarly, Traidcraft raised close to £5 million via successive share issues over a 20-year period but, up to 2004, had never paid a dividend to shareholders. Until its share issue in 2002, its shareholders had no voting rights. At present, their voting rights are restricted.

Figure 3 Financing streams and their characteristics

4.3 Matching Problems between funders and recipients

There is often a preconceived notion among conventional financial institutions that financial returns must be at the expense of social benefits and vice versa. This lack of understanding is due to the fact that these mainstream financial institutions have well-defined obligations to shareholders and depositors, hence their motivations are different from those of SEOs. The main difference between commercial banks and SEOs is that the former views profit maximisation as its end
goal while the latter does not aim to make profit. Hence, this leads to a mismatch between both parties. Also, SEOs reinforce this misconception by emphasizing funding needs rather than repayment capacity.

Several SEOs in the start-up stage experience barriers to access finance due to the absence of a track record and asset base which could be used as collateral. Most conventional financial institutions require evidence that the SEO is able to repay loans. These factors, coupled with their non-profit status, make SEOs too risky to invest in. This unfavourable risk-reward relationship discourages some investors.

The personal liability issue is another factor that affects some SEOs. Certain SEOs find it difficult to make use of debt finance because it would require an individual, or individuals, to assume the risks. However, since most SEOs are based on equal membership, it becomes unclear which individual(s) should bear the risk. Whilst this does not necessarily prevent them from accessing debt finance, it affects their willingness to consider this financing stream.

Furthermore, the diverse nature of SEOs and their small sizes lead to high transaction costs. This is due to the fact that the social economy lacks an effective infrastructure and a fully developed information exchange system. Intermediaries could play a vital role here by helping to reduce transaction costs.

As a result of these difficulties, SEOs that need patient capital end up using short-term expensive loan capital.
5. A viable model for financing SEOs

Arguably, a viable model for financing SEOs should take into account the factors mentioned below.

5.1 Adherence to the mission

It is necessary for SEOs to get funds that do not lead to mission drift. This is vital due to the tendency of certain funders to intentionally or unintentionally influence the operations of SEOs. The objectives of funders might not be in line with those of fund recipients leading SEOs to gradually deviate from their original mission in order to accommodate the demands of the funder. Generally, equity funders have a say in the running of SEOs, thus constraining them to sometimes adopt strategies that would ensure financial viability over project objectives. On the one hand, it is necessary for investors to accept the original mission of the SEO they are funding or intend to fund and on the other hand, it is vital for SEOs to put in place mechanisms to prevent mission drift. In other words, funders have to be tolerant to the mission of the SEOs, just as SEOs need to respect contractual obligations as in any commercial transactions.

5.2 Partnership Development

Establishing partnerships is vital for the effective financing of SEOs. External funding, in a viable model, does not limit or preclude access to other sources of finance. In the case of Alimentation Coop Port-Cartier, Sobeys - one of its funders - agreed to cover 50% of the additional cost in construction provided that the co-operative receives the remainder from other funders, therefore, encouraging partnership development. So, Alimentation Coop Port-Cartier has access to several sources of finance such as the Caisse d’économie solidaire Desjardins, Réseau d’investissement social du Québec, Fiducie du Chantier de l’économie sociale, etc. The Wise Group’s strong record of establishing multilateral partnerships facilitates access to funds from different sources. For instance, its Cadder Project was financed by the Glasgow City Council, Community Scotland, the European Social Fund (ESF), the government (through the Training for Work and New Deal programmes), and Cadder Housing Association (Figure 4).19

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19 The Cadder Project was a community regeneration project carried out in Cadder, north of Glasgow from 2006 to 2007.
Partnerships among SEOs facilitate the pooling of resources. Similarly, funders need to be tolerant towards other funders by working together to finance the activities of SEOs. Such partnerships would be of great value to SEOs. For example, Githunguri Dairy Farmers Co-operative has benefited tremendously from the Oiko Credit - Rotary partnership. Both institutions have been able to work together to advance the mission of the co-operative.

5.3 Sustainability
Arguably, a viable financing model should be resilient, durable, and stable. Financing streams that push SEOs to survive on “hand-to-mouth” are not sustainable. For this reason, SEOs are encouraged to seek diverse financing streams. The complexity of the different financing streams requires sound financial management skills on the part of SEOs. Additionally, funders need to have the sustainability of SEOs in mind.

5.4 Funding Performance
Performance in the past affects access to funding in the future. Oiko Credit decided to continue to support the activities of the Githunguri Dairy Farmers Co-operative because of its sound financial performance.

5.5 Social Impact
A viable model for financing SEOs ensures that funds channelled to SEOs catalyse social impact.

5.6 Notion of the “Right” Funds
Unfortunately, some measure of heterogeneity of funds is unavoidable. However, it should not alter the operations of an SEO. Having more funds may not always be a solution to the financing problems of SEOs. Knowledge of the financing streams
most suitable to an SEO at a specific stage in its life span, including how and when to mix these financing streams, calls for a sound grip of financial management.

Figure 5. A viable model for financing SEOs
6. Support mechanisms for Social Economy Organisations

Generally, SEOs require a conducive environment that facilitates interaction between actors such as government and the private sector. Support mechanisms ensure flexibility and sustainability. Without such mechanisms, social economies are at risk of being unable to achieve long-term goals.

6.1 Role of Networks & Intermediaries

Networks are fundamental to SEOs. Networks create a platform for the exchange of ideas, information, and experiences among social economy actors. The Brazilian Forum for Solidarity Economy is a good illustration of the power of advocacy. It is the national authority responsible for the organisation and preparation of strategies, as well as the mobilisation of funds for the solidarity economy. The forum has given SEOs a voice and developed their ability to pool resources necessary for the growth of the social economy in Brazil.

6.2 Role of Government

Governments play a central role in the development of the social economy. Through legislation, the public sector creates the enabling environment required for the development of SEOs. Through fiscal incentives, the government could encourage an SEO to reinvest its surplus. In the United States, for example, not-for-profit institutions are exempted from paying taxes on income generated from their public non-profit activities.20

Several governments have a special department in charge of the social economy. In Brazil, the former president, Luiz Inacio da Silva, established a National Secretariat for the Solidarity Economy under the Labour Ministry. In France, there is the Inter-Ministerial Delegation on Innovation, Social Experimentation, and Social Economy.21 In the United Kingdom, there is the Office of the Third Sector within the Cabinet Office.22

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20 Information correct as at 30th July 2010.
21 Information correct as at 30th July 2010.
22 Information correct as at 30th July 2010.
The UK government has been playing a prominent role in the social economy. It had a Minister for the Third Sector (now the Minister for Civil Society) in the Cabinet Office. Between 1997 and 2004, 27 distinct policy initiatives aimed at developing the social economy were implemented. Twelve of these initiatives involved increased funding of existing programmes, the launch and funding of new initiatives, or increased funding of government operations aimed at supporting the social economy. Finally, five involved legislation or changes in regulatory responsibilities, while the others were reviews and strategy papers (Lyons and Passey, 2006).

Over the years, the UK government adopted a series of initiatives to establish a fiscal and legal framework for the development of the social economy. A significant government initiative has been the establishment of an innovative legal form - the Community Interest Company (CIC). CIC addresses key grey areas of the social investment market, namely the “how” and “where” to invest (OECD, 2009). If registered as a company limited by shares or as a public limited company, CIC could provide protection for public or philanthropic assets while also being able to issue shares as well as pay dividends to commercial investors (Nicholls and Pharoah, 2008). The CIC model has its appeal: in the first 18 months after the CIC Registry opened, more than 600 institutions were registered. As of July 2010, 3,962 organisations were registered. This represents just a fraction since the remaining SEOs are registered under other legal forms. The UK coalition government recently announced the creation of the Big Society Bank - part of the government’s Big Society agenda. By expanding the social investment market place and attracting extra private sector investment, it is expected that, over time, the bank will generate hundreds of millions of UK Pounds for SEOs.

6.3 Role of Social Investors

Social investors want their investments to achieve social, environmental, and financial (“blended value”) returns. Some are ready to forego a large part of their financial returns in exchange for evidence of positive social impacts (Harji and Hebb, 2010). Social investors provide funds in the form of grants, loans, quasi-equity, and equity. Their long-term commitment to SEOs ensures a degree of financial stability.

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23 The “blended value” proposition, coined by Emerson (2003), states that all organisations create value that consists of economic, social, and environmental value components, and that investors also simultaneously generate all three forms of value through providing capital to organisations.
6.4 Role of the Private Sector

The private sector offers a new dimension to the activities of SEOs. At best, such relationships could help SEOs gain access to new markets and create fresh income streams while delivering social change. The involvement of the private sector enables SEOs to benefit from their management expertise. Private sector involvement creates the opportunity for SEOs to sharpen their business skills. In the long run, this strengthens the market position of SEOs and makes them more competitive. In sum, collaboration with the private sector could serve as a catalyst for change, as well as provide the means for SEOs to restructure, develop, and grow.

6.4 Role of Learning across Borders Initiatives

Learning across borders is a good way of sharing experiences related to the social economy. Knowledge transfer permits SEOs to be acquainted with the activities of other SEOs by learning about their successes and failures. Regional meetings create the platform for SEOs from different countries to meet and share their experiences. An illustration of such an initiative is that of France and Quebec. Officials from the social economy in France work in close collaboration with their colleagues at the Chantier de l'Economie Sociale in Quebec (Canada). This initiative strengthens the capacity of the social economy in both countries.
7. CONCLUSION

A vibrant social economy requires suitable financial resources. This paper explored the different financing streams used by SEOs to fulfil their mission. These include membership funds, grants, debt finance, quasi-equity, and equity finance. We used three SEOs, as case studies, to illustrate how the various financing streams are combined.

The paper also explored the constitutive elements of a viable model for financing SEOs. We contend that these elements are applicable to all SEOs. We suggest governments have a vital role to play by creating an enabling environment. Additionally, SEOs need to develop effective networks and adopt initiatives (for example, learning across borders) that encourage knowledge transfer. It is very important, however, to understand the local context in which each SEO operates and then adapt the constitutive elements to the local context.
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