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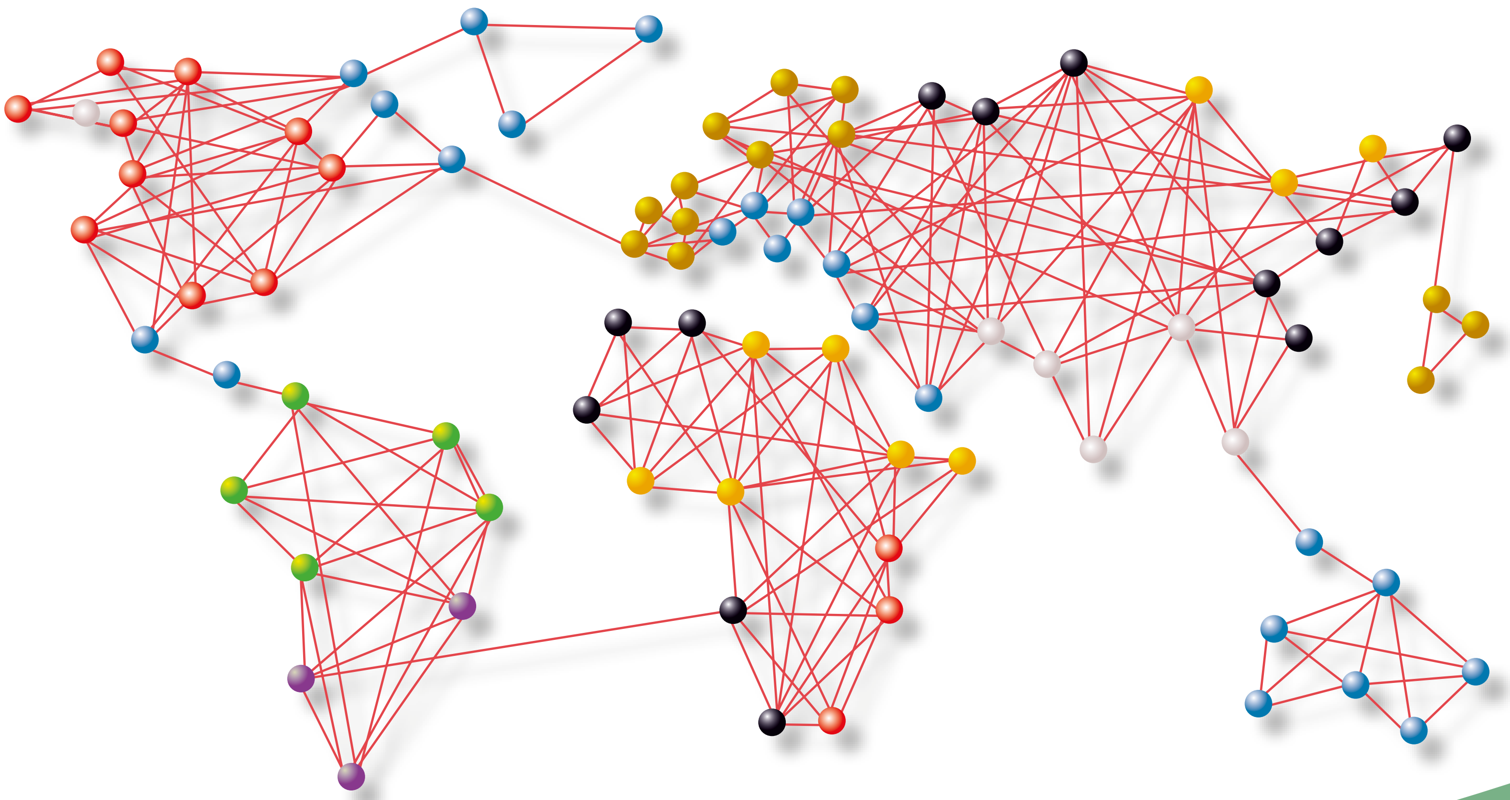

Financial Mechanisms for Innovative Social and Solidarity Economy Ecosystems

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FOREWORDS

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 Luxemburg 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

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ACKNOWLEDGEMENTS

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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, Luxemburg), 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. ■

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ABSTRACT

This report presents 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. ■

1. INTRODUCTION

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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 (2019), 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."[1] This universe is comprised both of mutualistic organizations addressing the needs of their members (mutual organizations, 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. In fact, while there are significant differences in the ways in which these organizations are structured

[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.*"

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.

Indeed, for centuries now SSE organizations have been organizing economic activities for the benefit of particular groups of people (small farmers, consumers, workers, etc.) and addressing both evident needs such as housing, employment, health care, food security, and so forth, as well as neglected issues such as social connectedness, social isolation, and resilience. With respect to the future of work in particular, the SSE has demonstrated its potential to provide solutions to people willing to live and work decently in their communities. It has shown its capacity to address, simultaneously and with a long-term view, different problems such as productivity decline, employment (both quantitatively and qualitatively), skills gaps, income distribution, trade for all, well-being, and the environment, on a global scale. Furthermore, the SSE has shown its capacity not only to provide answers to the above-mentioned problems but also to structurally change the ways in which economic systems can operate in order to generate more equitable and sustainable outcomes.

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. Finance can help SSE organizations (as indeed all enterprises) by supporting their start-up costs, by covering operating expenses, by addressing cash flow issues, by helping fund investments, and so forth. For these reasons, 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). Indeed, entire families of SSE organizations, from cooperative banks to credit unions to solidarity finance and so on, have emerged to provide financial resources to individuals and organizations within and outside the SSE itself.

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, and thus with a growing focus on ways in which the SSE can be supported and developed, 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, with an in-depth analysis of one or two mechanisms deemed particularly important or innovative.

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, including 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 this report, which presents only a synthesis of what emerged from the analysis in each country.

The report itself is structured in five main chapters: following this introduction, the second chapter is dedicated to describing the SSE and its importance with respect to some key challenges such as the future of work and local economic development, defining some of the key concepts used for the analysis in the process. The third chapter presents the results of the first phase of the project, describing the main financial mechanisms theoretically available to SSE organizations and proposing some ways in which they can be classified and analysed. The fourth chapter includes all of the syntheses of the eight national reports, presenting them in alphabetical order for ease of consultation. The fifth chapter then presents the results of the comparative analysis, highlighting the key themes that emerge from a review of the available evidence and proposing some future lines of research. Finally, the sixth chapter presents the conclusions and recommendations that can be drawn from the work. ■

2. THE SOCIAL AND SOLIDARITY ECONOMY AND ITS ECOSYSTEMS

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2.1 The ecosystems of the SSE

DEFINING THE SCOPE OF THE SSE

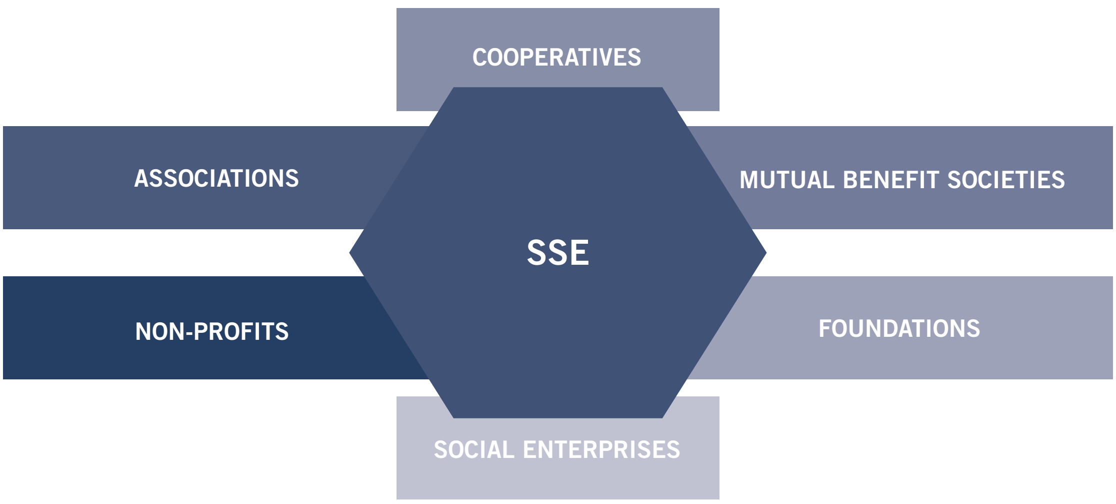
In this report we have tried to overcome the complexity of explaining such a 'fluid and contested' (Amin, 2009; Teasdale, 2012) concept such as Social and Solidarity Economy (SSE) by adopting a pragmatic approach. While we recognise that terms such as social economy, solidarity economy and social and solidarity economy can have different meanings depending on geographical, cultural or political context, for the purposes of our report we consider that the SSE is 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.[2] All of these organizations also share governance and ownership structures that

[2] "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.

prioritize the needs of stakeholders that are different from investors.

The traditions of the 'social economy' and the 'solidarity economy' have grown up quite independently of each other, only coming together fairly recently. The term 'social economy' has been around since at least the early 20th Century with early pioneering work by individuals such as Gide (1905), von Wieser (1914) and Cassel (1923). The term 'solidarity economy' is, however, more contemporary. According to one of the leading theorists of the solidarity economy, the late Paul Singer,[3] the term 'solidarity economy' was first used by the Chilean economist Luis Razeto (1986) who was inspired by a phrase used by Pope John Paul II in a speech made during his trip to Latin America in 1982: "an economy of solidarity is a great hope for South America" (see Poirier, 2014).[4] The idea spread across Latin America from the 1980s onwards (Coraggio, 2010; Coraggio & Arroyo, 2009; Lechat, 2009) and was then brought to prominence in the Francophone world (especially in Quebec) in the 1990s (Dacheux & Goujon, 2011; Laville, 2010, 2013), and then to the rest of the world through the work of several transnational institutions such as RIPESS (the international network for promotion of social solidarity economy)[5] and the various UN agencies. A United Nations Inter-Agency Task Force on Social and Solidarity Economy was established in 2013 in the context of the new development agenda shaping the Sustainable Development Goals (see UNTFSSE, 2015). As a result of such high-profile backing, both the terms 'social economy' and 'solidarity economy' have increasingly been brought together – particularly in policy literature – and so we have the 'social and solidarity economy' (Mendell & Alain, 2015; Utting, 2015) and 'social solidarity economy', the terms 'social' and 'solidarity' both referring to the collective ownership of institutions which aim to transform labour relations, promote participative democracy, and design new wealth-sharing arrangements. The SSE thus incorporates several forms of 'social innovations' (a concept to which we shall return) and organizations such as social enterprises that follow social solidarity principles of pursuing social, environmental and redistributive justice through cooperative, associative and solidarity relations (Defourny & Nyssens, 2010; Galera & Borzaga, 2009). Following the definition put forward by the United Nations Inter-Agency Task Force on Social and Solidarity Economy, **Figure 2.1** explains the scope of the SSE.

Figure 2.1: Social and Solidarity Entities



Source: Authors' adaptation of a figure from United Nations Industrial Development Organization (2017)

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[3] See http://isa-global-dialogue.net/the-solidarity-economy-an-interview-with-paul-singer/

[4] Although there is some evidence of the use of the term, particularly in Hispanophone literature, far earlier.

[5] See http://www.ripess.org/?lang=en

However, it is clear that the SSE is far 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.

DEFINING ECOSYSTEMS

While interest in the SSE has flourished in recent decades, the term is increasingly being employed to describe phenomena which can, as has been suggested, vary significantly depending on the place, space, culture or political or legal frameworks in which they are undertaken. It is considered that variations in the SSE around the world are due in large measure to the specific nature of the context (or 'ecosystem') in which they operate (Amin, 2009; Bacq & Janssen, 2011; Baum, 2009; Di Domenico, Haugh, & Tracey, 2010; Kerlin, 2013). Since 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' – 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).

Despite the explosion in academic and policy interest in the SSE in recent years, however, the literature on SSE ecosystems is still emerging, albeit gaining attention beyond the narrow span of management science: insights from economic geography, economic sociology, political science, urban economics and even behavioural economics have been brought to bear to understand what needs to be in place in order to create the conditions in which activities such as those represented by the SSE can thrive. The term 'ecosystem' has steadily gained salience in key policy documents regarding support for social enterprise and the social economy around the world, particularly in those countries that are leading the way when it comes to policy innovation in this area. According to Lévesque (2016), while the term first appeared in relation to business ecosystems, its biological basis, particularly in contrast to mechanics or physics, denotes several interesting features that helped support thinking, particularly in relation to the importance of interconnectedness, and the advantage it provides in facilitating a 'complexity approach' to both conceptualising the role of the various actors and the interdependencies between them. However, as Levesque (2016) states, even from the outset some elements of its features were not in the original biological concept, such as (translated from the original French):

> The intentionality of the business ecosystem actors, the leadership provided by some of them, the key participants (keystones), the development of shared skills and the opportunity to develop strategies and proceed with the planning of activities, not to mention potentially destructive conflicts

Along similar lines, Stam (2015, p. 3) signals that:

> The biological interpretation of this concept (…) is obviously not to be taken too literally within the context of entrepreneurial ecosystems. The entrepreneurial ecosystem concept emphasizes that entrepreneurship takes place in a community of interdependent actors. More particularly, the literature on entrepreneurial ecosystems focuses on the role of the (social) context in allowing or restricting entrepreneurship, and in that sense is closely connected to other recent 'systems of entrepreneurship' approaches (…) which aim to bridge the innovation system approach and entrepreneurship studies

But research to date has not focused specifically on the intrinsic capabilities of an ecosystem to be friendly or beneficial in terms of the welfare of its community. Up until now, only rudimental analyses exist, with their focus restricted to actors in the network or the legal frameworks in which they operate: that is, the objective and more obvious features of the ecosystems. Beyond the types of actors and the legal framework in which they operate, it is clear that there are also contextual and intangible elements such as social capital, mutual trust, and institutional factors that can foster or hinder the emergence of bottom-up dynamics and organizations aimed in various ways at addressing basic human needs and social problems.

SOCIAL INNOVATION WITHIN ECOSYSTEMS

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. In this sense it may be of some help to use the concept of 'social innovation', while being aware of the ongoing and at times thorny nature of the debate concerning the definition of this term.

The research institute CRISES (from UQAM in Montreal),[6] for example, defines social innovation in terms that enhance the dimension of social transformation, and therefore provides an interpretative key that can support the thesis of the instrumental role of finance with respect to the objectives of the SSE:

> New social, organizational or institutional arrangements or new products or services having an explicit social purpose resulting, voluntarily or not, from an action initiated by an individual or a group of individuals to meet an aspiration to provide need to find a solution to a problem or take advantage of an opportunity for action to change social relations, to transform a framework of action or to propose new cultural orientations....Social innovations thus initiated can lead to social transformations.

In this sense, we can look at the efficient use of the financial resources within an ecosystem, not in purely technical (or maybe 'technocratic') terms (e.g. not by simply channelling more funds to impact actors) but also from the point of view of facilitating (or not) the overall quality or 'health' of the ecosystem. This suggests that innovation can be assessed with reference to its capacity to bring about (social) transformations within ecosystems, on the basis of whether or not they increase the efficiency of the system to (say) facilitate local development, increase welfare or reduce inequalities.

Another concept that reinforces this approach is the distinction between 'strong' innovations (those that are truly transformative which, for example, create markets that never before existed) and 'weak' innovations (those that merely shift or redistribute value among suppliers, competitors or consumers). We can see these differences reflected in the notions of 'strong' and 'weak' traditions of *social* innovation put forward by Ayob, Teasdale, and Fagan (2016) in which they distinguish between social change that involves restructuring power relations through the engagement and empowerment of previously disadvantaged individuals and groups (strong) and social change that is limited to aggregate changes in utilitarian social value (weak). Following Lévesque (see Callorda Fossati, Degavre, & Lévesque, 2018) this should not be taken to mean that all strong social innovations lead to transformative social

[6] https://crises.uqam.ca/a-propos/presentation/

change, nor that weak social innovations cannot subsequently translate into transformative action. In the case studies shown below, both these categories of innovation are present, with a great diversity of results and impact, pragmatically demonstrating how contexts largely determine the type of innovation that can actually be implemented and its eventual effects.

TENSIONS WITHIN ECOSYSTEMS

Another relevant issue is that we should not neglect the political dimension of social innovation. There are inevitably competing interests, and thus tensions, that exist within ecosystems and that can have both creative and destructive potential. Most obviously these can come about due to political or ideological tensions. Many solutions introduced by governments to support the SSE, for example, are shaped or influenced by ideas regarding the capitalist economy. They do not aim to have transformative potential: they are designed to 'go with the grain' of the *status quo* rather than seek to provide an alternative economic system altogether (see Amin, Cameron, & Hudson, 2003 for a full discussion). Discussions on 'social entrepreneurship' are the most obvious focal point of this ideological debate: there is a significant body of evidence to suggest that a highly dominant mode of thinking persists which seeks to celebrate the actions of individual charismatic 'hero' social entrepreneurs to instigate 'system-wide social change' (Drayton, 2011) or innovation for social purpose (Dees, 1998). Such an approach runs counter to the model of collective 'social enterprise' most commonly seen in continental Europe based upon solidarity, mutual organizations and the cooperative tradition (Defourny & Nyssens, 2010). This conceptualisation appears within a context of little or no tradition of (nor, indeed, appetite for) appreciating the role of government in addressing entrenched social problems in partnership with civil society. Uncritical support for market-based approaches to addressing social issues (viz Gerrard, 2015), could be perceived as problematic, not least for the principles of democracy and for an active and engaged civil society (Dart, 2004; Eikenberry & Kluver, 2004; Roy & Hackett, 2017; Sepulveda, 2015).

Roy & Hazenberg (2019) explain that the SSE has often emerged in places as a form of resistance to global economic priorities that have proved to be destructive to social ties and societal well-being, in much the same way as the cooperative movement emerged in the 19th Century in part as a form of resistance to the dehumanizing effects of industrialisation. We see sites of tension and resistance, particularly 'everyday' acts and sites of micro-resistance (see Dey 2014; Dey and Teasdale 2016) within ecosystems, which deserve our close attention. Indeed, all sorts of tensions can arise within SSE ecosystems, such as when products or services are introduced that are designed with too firm a market focus in mind; perhaps introduced into one ecosystem but originally designed for another altogether different context. Innovations such as Social Impact Bonds, for example, have spread around the world, not because they 'work' – there is actually very little evidence that they do – but for ideological reasons (Arena, Bengo, Calderini, & Chiodo, 2016; Maier & Meyer, 2017; McHugh, Sinclair, Roy, Huckfield, & Donaldson, 2013). In fact there have been some visceral reactions to them from some quarters (as we shall see) particularly from some SSE actors who consider them to be inconsistent with the values and ethos of the SSE.

Moving from the organizational level to the level of regional development, it is clear from early entrepreneurship and innovation literature that historically "regions that become major *loci* of invention have always gained much influence, through innovation diffusion, their human capital infrastructures, and their national economic and political projection" (Suarez-Villa, 1993, p. 147). Taking this a step further, parallels can readily be drawn between the idea of innovative regions and influential SSE ecosystems. We know that some countries have been highly influential in spreading ideas, including influential policies relevant to the SSE, around the world (as in the case of Quebec, or Italy with the creation of social cooperatives), and this has the result (intended or otherwise) of projecting a specific political vision and approach. The transfer and mobilisation of policy ideas (viz. Peck & Theodore, 2010) particularly in the context of 'porous boundaries' of ecosystems (see Roy & Hazenberg, 2019) is an area of growing concern to policymakers, practitioners and researchers.

SSE ECOSYSTEMS, INNOVATION AND FINANCE

In much the same light, we can assess the impact of technological innovations such as blockchain[7] (or the more general term of distributed ledger technologies) or financial technologies (fintech) in general from the point of view of their capacity to bring about transformation in the ecosystem. Such technological innovations can often facilitate access to financial services and in some cases improve financial inclusion, but we have also witnessed negative impacts since they also provide access to indebtedness and greater liability (which has parallels with one of the sustained critiques of microfinance on populations at the so-called 'base of the pyramid'). Blockchain can also provide a technological solution to facilitate the liquidity within global value chains of SSE services and goods, but at the same time we should be aware of how financial and political powers can interact and cause unintended consequences. In the same way that code can have an effect in the positive or negative impact of Artificial Intelligence, the key feature of Proof of Work required to validate the ownership of a blockchain currency can have an influence not only in terms of its ecological impact, but also in terms of the impact in the distribution of power within ecosystems, that is, it can further increase unequal ecosystems. Some innovations have sought to prevent or circumvent these: the idea of FAIRCOIN, for example brings about interesting lessons.

The rapid and recent development of this technology has meant that research into its potential application in the context of SSE development has barely been discussed in a measured way. In a recent paper Giménez & Ibáñez (2019) explain that there is a clear need to align the potential of blockchain with the processes and principles of SSE, and also in light of the fact that the blockchain technology is stimulating the interest of the major global financial players, as a tool for further disintermediation with respect to public regulation, further reminding us that the use of a technology can change substantially depending on the motivations of the user.

In the same light, the seemingly positive trend of increasing the financial flow towards SSE organizations has been called into question from a more systemic perspective. In theory, the increasing demand for consideration of socially and environmentally ethical investment could eventually lead to a significant shift in the amount of financial resources available for SSE organizations or the transformative objectives of such organizations. However, as McHugh et al. (2013) point out, there is a mismatch between that potential and the use by SSE initiatives. Moreover, as (Mendell et al., 2018, p. 8) state, "there is no clear indication whether this surge of capital will be available for social economy enterprises."

BOX 2.1: FAIRCOIN

FAIRCOOP is a project aimed at creating a multinational/global cooperative ecosystem and which required an alternative currency or means of exchange. They understood that traditional cryptocurrencies[8] were not suitable because the threat posed by their ecological footprint, their volatility and the need to include consensus and cooperation at all levels (strategic decisions such as change of price decisions or the allocation of specific funds within FAIRCOOP) not only as the technological mechanism acting as 'distributed ledger'. The Faircoin cryptocurrency was thus brought about to address these issues in 2014.

Their main innovations within cryptocurrencies are the mentioned Proof of Cooperation and the so called 'cooperatively validated nodes' (CVNs) which serve to create the blocks. Their stated goal is "to create the conditions for existing coins to be redistributed to amazing social projects worldwide" and to strengthen its capacity to work as "store of value for the solidarity economy, cooperatives and regional initiatives".[9]

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7 According to Wikipedia "A blockchain(…) is a growing list of records, called blocks, that are linked using cryptography". Thus, it is "an open, distributed ledger that can record transactions between two parties efficiently and in a verifiable and permanent way" as stated by Iansiti, Marco; Lakhani, Karim R. (January 2017). "The Truth About Blockchain". Harvard Business Review. Harvard University.

8 As stated by Wikipedia "A cryptocurrency (or crypto currency) is a digital asset designed to work as a medium of exchange that uses strong cryptography to secure financial transactions, control the creation of additional units, and verify the transfer of assets".

9 https://fair-coin.org/sites/default/files/FairCoin2_whitepaper_V1.2.pdf

From this same perspective, we can see that new mechanisms able to divert financial resources towards the SSE can play a relevant role, but only if they are able to overcome systemic bias or inertia (and may need support to do so). Thus the above-mentioned distributed ledger technologies may be a solution, but on condition that they go beyond a superficial technological approach (FAIRCOIN for example). On the other hand, strong innovations, such as the setting up of Labour funds in Quebec, the 90/10 Solidarity Funds in France or the combination of CFI-Legge Marcora and mutual funds in Italy, are able to have impact through addressing structural constraints and facilitating the setting-up of sufficiently relevant funds with a capacity to have an impact in the finance sector.

Furthermore, by adopting an ecosystem approach, we can avoid logical fallacies such as assuming that there are no financial constraints facing the SSE in its ability to grow or access a variety of financial instruments. In other words, the existence or not of financial instruments in an ecosystem does not automatically equate to a 'healthy' ecosystem, particularly if supply and demand are not in balance. The problems faced by platform co-operativism, or by the so-called Zebras,[10] show that even in contexts where the SSE is growing and diversifying, there may be also financial barriers in the form of specific tools suitable for SSE organizations.

Finally, the need for a systemic approach to finance from the point of view of the SSE has recently been stressed by Artis (2017), who points out the necessity of taking into consideration not only the units themselves (whether lenders or borrowers) but also systemic features. Thus Social and Solidarity Finance would be constituted by "a set of interdependent financial and social relationships, and partnerships between individuals and organizations, that mesh into an organized whole" (Ibid p737). The role of finance in the context of the SSE is picked up again in the next chapter in much further detail.

2.2 The SSE's role and potential

The answers provided by the SSE address highly evident needs such as lack of housing, employment, health care, food supply, poverty and so on, but also intangible aspects that are nevertheless key to human wellbeing, including social connectedness and resilience (see Roy, Donaldson, Baker, & Kerr, 2014). Indeed, 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

In the context of local economic development, Bodini, Cicciarelli, Di Meglio, Franchini, & Salvatori (2017) explain that the idea of 'bottom-up' local development arises in reaction to perceived inefficiencies of centrally organized or controlled policy approaches based upon utilitarian perspectives of economic action. As part of the 'human economy' the SSE is "embedded and enmeshed in institutions, economic and noneconomic" (Polanyi, 1957, p. 250). As Peredo (2012, p. 102) explains, economic transactions within the SSE can be

[10] The concept of the Zebra has emerged in contrast with the Unicorn as a reaction to the financing gap of social enterprises in the area of technology. See more in: https://medium.com/@sexandstartups/zebras-unite-to-fix-what-unicorns-broke-f1095a2dc55c

"

undertaken in the context of a web of reciprocal obligations and understandings and/or acceptance of redistributive rights of community authority. They were not determined by market prices or expectations of individual gain, but by notions of community benefit, and one's place in realizing that."

The SSE is thus 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." Their analysis of the interactions within and between various SSE ecosystems highlights the value of such work and the practices in which they are embedded, namely:

- Increasing local division of labour;
- correspondence between growth and the evolution of needs;
- the rise of a network of local markets, for both specialized labour and production;
- training of a sufficient number of actors that can operate as interfaces between different specializations;
- circulation of values and knowledge coherent with the business sectors that are thriving on the market;
- development of local social institutions, both formal and informal, that are necessary for business and production processes;
- the rise and renewal of a 'sense of belonging'.

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."

Consequently, the approach to local and economic development offered by the SSE is broader than traditional top-down strategies and can widen the scope of a local economy by addressing unmet needs and producing new goods and services. This is particularly true with respect to the production of goods and services of general interest and of "quasi-public goods". Since production of these goods and services is also 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.

2.3 The future of work

The future of work is one of the greatest challenges of our time, animating intense debates and sometimes arousing fears. There are rapid and profound changes in the world of work: migration, technological changes leading among other things to the rise of the so-called ‘gig economy’ and the legacy of economic, financial and political crises (Borzaga, Salvatori, & Bodini, 2017) continue to combine to ensure that work has become increasingly uncertain and precarious (Baglioni & Giugni, 2014).

The argument is at the centre of the reflections of many subjects, institutions and actors, with a primary role being played by the International Labour Organization. On the occasion of its recent centenary, the ILO dedicated broad discussion to the subject of the future of work, condensed in the Centenary Declaration for the Future of Work adopted at the 108th Session (21 June 2019).

Quite interestingly, the Declaration points out that it is the shared responsibility of governments and social partners to operate in order “to support the private sector as a source of economic growth and job creation in particular micro, small and medium-sized enterprises, as well as cooperatives and social and solidarity economy, in order to generate decent work, productive employment and improved living standards for all”. The citation of cooperatives and social and solidarity economy is uncommon in the official documents of the ILO, yet in the process of preparation for the centenary celebrations it has emerged repeatedly. Even with a specific document published in 2017 with the title “Social and Solidarity Economy and the Future of Work” (Borzaga, Salvatori, & Bodini, 2017).

Within that paper the role of the SSE is discussed in close connection with the most recent dynamics that are transforming the world of work. The analysis concerns the effects of the economic crisis on employment prospects in the countries that have been most affected, but also the changes induced by demographic trends – with a progressive aging of the population that contributes to a shift in the styles and sectors of consumption – and the natural consequences of the technological acceleration that over the last two decades is affecting businesses and communities globally. In particular on this last theme, which has strongly attracted the attention of public opinion, there are very different positions, which alternate between apocalyptic tones and optimistic perspectives.

On the one hand, there are those who believe that the increasingly massive application of machine learning technologies will make human work less and less indispensable in many sectors, including knowledge-based sectors, which until recently were thought to be safe from substitutability with automatic machines. In this view, not only manual labour but also the sophisticated functions of the service sectors would be affected by this epochal transformation. According to this vision, the difficulty in recovering the jobs destroyed by the crisis that exploded in 2008 would therefore not be cyclical, but would have a structural effect due to an unprecedented technological acceleration, with the consequence of undermining many of the traditional forms of social inclusion which in the past have been mediated through work – and also at the same time shaking up the welfare structures on which our societies have been built in previous decades.

On the other hand, those who believe that history teaches that technological revolutions have forced radical paradigm shifts without actually determining the decline of work, oppose this view. According to this opinion there is no reason why the present time is different, on the condition that we accept the reconsideration of forms of work, accepting and preparing (also with appropriate training interventions) a combination of human skills and artificial abilities. The end of work would be somewhat exaggerated news, and what we should expect instead is a profound transformation of the sectors and ways in which human work will continue to be required.

As argued in the above-mentioned ILO report, both of these positions, although starting from different assumptions, trace scenarios in which the role of the social and solidarity economy is potentially enhanced. 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 social inequality, which is one of the consequences of the political and economic dynamics of the last two or three decades, 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 (Spear & Bidet, 2005; Vidal, 2005). They may seek to combine their mission to address social exclusion with the simultaneous provision of products or services needed by society (Roy, Hill O'Connor, McHugh, Biosca, & Donaldson, 2015; Roy, McHugh, & Hill O'Connor, 2014). 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 (Barraket, 2014), people with physical or mental disabilities (Warner & Mandiberg, 2006), homeless young people (Ferguson, 2016) and people with mental illnesses and addictions (Krupa, Lagarde, & Carmichael, 2003; Lysaght, Jakobsen, & Granhaug, 2012; Lysaght et al., 2018).

- 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, which have to do with work integration of disadvantaged people and with providing decent work, the SSE has significant potential for the creation of employment in new or emerging sectors. This is true in particular – as stated above – of care services, education and cultural services, and in general of jobs with 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.

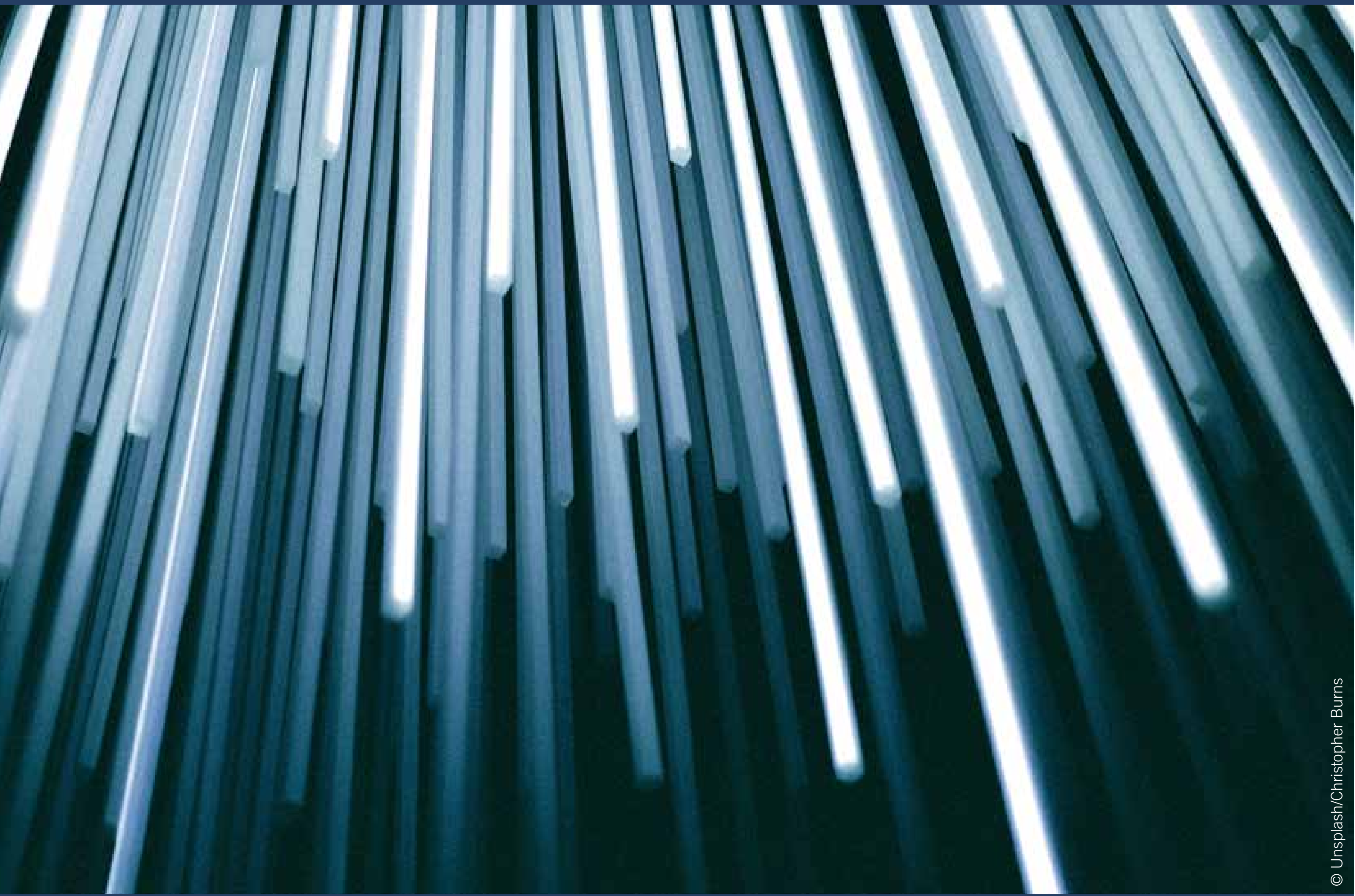
The reasons for the importance of SSE organizations with respect to the future of work can be found in their distinctive features, discussed in the first part of this chapter and summarized in the 2017 ILO report thus:

"As stakeholder (rather than shareholder)-oriented enterprises, they tend to cater more to the needs of their workers and other constituents; as enterprises rooted in their local communities, they are less likely to move in search of cheaper labour and more likely to identify emerging needs at the local level to which address their activities; as not-for-profit enterprises, they can leverage fiduciary relations, volunteer work and donations that enable them to operate in low-profit sectors."

The relationship that binds SSE organizations to the social communities to which they belong, which in most cases is a characteristic that distinguishes them from other forms of enterprise, is particularly relevant, as it makes them less likely to delocalize production activities and more likely to identify new ways of generating employment at local level. Indeed, SSE organizations utilize a local community economic development approach which, it is claimed, neutralizes labour market conditions of individualism, competition and profit, all of which create a climate of disadvantage (Warner & Mandiberg, 2006). Social connection and network development are some of the 'latent and manifest' benefits associated with work, along with increased self-efficacy and self-esteem (viz Jahoda, 1981), and the development of social capital or social connectedness at a local level is a key outcome that has been explored in a number of studies (Bertotti, Harden, Renton, & Sheridan, 2012; Campbell & Sacchetti, 2014; Kay, 2003; 2006).

Ultimately, as the ILO report on Social and Solidarity Economy and the Future of Work argues, "over the past few decades, the SSE organizations have been extremely dynamic, growing faster than the rest of the economy in many countries and demonstrating a good capacity for innovation, as evidenced by their ability to find new solutions to social problems. It has also become increasingly clear that some of the characteristics of these organizations make them well suited to overcoming the difficulties faced by other types of enterprise (public and private alike) in the production of general interest Services, and to creating more flexible forms of employment that give the workers more power to decide how to organize their jobs. In other words, these organizations seem capable of helping to turn the challenges described above into an opportunity to improve living standards and quality of life." ■

3. FINANCIAL MECHANISMS FOR THE SOCIAL AND SOLIDARITY ECONOMY



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As we have seen, the SSE has demonstrated its potential to provide solutions to people willing to live and work decently in their communities; with capacity to manage local resources, making economically viable low-profit but socially important activities, and to address problems such as productivity decline, employment (both quantitatively and qualitatively), skills gaps, widening income inequality, fair trade for all, declining well-being and the needs of the environment, both on a local and on a global scale. The question then becomes how this potential can be fulfilled, and how the SSE can best be supported and grow.

There is no doubt that finance can play an important role in this respect. 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. A social start-up that is just beginning its operations on very limited resources can obviously not be compared with a mature and adequately capitalized agricultural cooperative enterprise, just as a worker integration social enterprise providing gardening services in order to employ disadvantaged workers does not have the same financial needs as a non-profit foundation that manages a hospital, or for that matter just as a century-old mutual insurance company will not have the same profile in terms of financial needs as a community cooperative that manages the neighbourhood pub.

While assessing the SSE demand for finance is difficult due to these limitations, it is still possible to make some general observations, starting with the fact that SSE organizations engage in the production of goods and services, and like all enterprises 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. At the same time, SSE organizations do differ from traditional for-profit enterprises in important ways, and these differences have an impact on the kind of finance they 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. At the same time, however, owing to these same specificities 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.

It is important, then, to review all the possible financial mechanisms that SSE organizations can access, in order to ascertain which are more or less accessible, which can be most useful, and which are more tailored to the specific features of the social and solidarity economy. To this end, this chapter illustrates and classifies the main financial mechanisms that are potentially available to SSE organizations, as a backdrop to the analysis, presented in the following chapters, of which are used in practice, and to what extent, in different national contexts. In addition to the various financial instruments that can be used, the chapter also looks at the main suppliers of finance for SSE organizations as well as at the suppliers of guarantees, which are often critical in enabling access to finance.

3.1 Main financial suppliers for the SSE

Before reviewing the different types of financial instruments that can be used by SSE organizations, it is useful to provide an overview of the main suppliers of financial resources for the social and solidarity economy. 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. These funds typically provide grants, equity investments, or debt instruments that require an economic performance as well as the expected social return.

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.[11]

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 organizations 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. In addition to the traditional administrative procedures, it is necessary to examine the relevance of the idea in a wider perspective, which requires adequate competences. 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.

[11] 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. Converesely, 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.

3.2 Special supporters: the guarantee mutual funds

The evaluation of the investment risks in particular can be more challenging for SSE actors relative to for-profit enterprises. This is due to several factors, particularly including the lack of readily available and standardized data that can be used to assess their creditworthiness. As a result, these organizations are sometimes deemed riskier than they really are. Moreover, in many cases they do not have significant assets that can be used as collateral to access credit. For this reason, the issue of guarantees is particularly important when discussing finance for the SSE, and an important category of actors, in addition to the suppliers of finance, is the providers of guarantees, as in the case of guarantee mutual funds.[12]

Indeed, small and medium-sized enterprises, particularly of a cooperative nature, involved in the SSE might obtain better conditions of access to credit thanks to the creation of guarantee consortia or through access to guarantee schemes ensured by public authorities at national or international level. Of particular interest is the case of consortia established directly by SSE organizations for this purpose.

The creation of guarantee consortia is the product of the spontaneous process developed especially in local production realities, without legislative regulation. From an operational point of view, the guarantee consortium assesses, together with the bank, the creditworthiness of the guaranteed subject. The guarantees provided are almost always subsidiary in nature and are based mainly on special money deposits established with the affiliated banks, which are meant to cover any potential loss. As an alternative, or as a complement to the monetary fund, the consortium might use a surety fund, represented by a set of guarantees issued to the bank directly by the associated companies. A third option is based on the issuance of a bank guarantee by the consortium, following the acquisition by the latter of a similar amount of sureties from associated companies.[13]

In the case of the monetary guarantee fund, the bank – when insolvency occurs – can pledge part of the deposited funds for an amount equal to the amount of the insolvency, pending precise determination of the actual loss and therefore the exact indemnity against the guarantee consortium. In fact, the financial backing is of subsidiary nature with respect to the guarantee provided by the fund. In the case of the surety fund, the bank must always instead first enforce the principal and then proceed with each of the companies associated with the consortium. The use of a surety fund is generally complementary to the existence of a monetary fund. The latter has become the prevalent system of operation, since it requires a faster and cheaper procedure as compared to the surety fund.

[12] What differentiates a Guarantee Mutual Fund (GMF) from the other intermediaries specialized in the release of guarantees is the mutualistic, and possibly solidaristic, element that grounds it. The assets used by the GMF to make commitments to banks are constituted by the contributions of the individual co-operatives that might make use of it. In fact, the GMF can be interpreted as a cooperative itself: the member companies constitute a financial asset to be able to make commitments towards the banking system at more advantageous conditions. In some instances, public contributions might then increase the assets available to the GMF. In comparison, credit surety funds (CSFs) are generated by a broader range of contributors, such as well-capitalized cooperatives/non-government organizations, local government units, government financial institutions, industrial guarantee and loan funds and other institutions/government agencies. The beneficiaries of the CSF are not restricted to the contributors, since the mutualistic principle is not required. Micro, small and medium enterprises, as well as cooperatives and NGOs, might be guaranteed to have easier access to credit from banks despite lack of collateral, regardless of whether or not they contributed to the CSF.

[13] The basic idea behind the guarantee funds is to create a pooled fund that can help individual enterprises. Each member contributes with a quota that enriches the common fund. Once needed, the single member might ask for guarantees to access credit through a bank.

BOX 3.1: THE EASI GUARANTEE INSTRUMENT

The EASI guarantee instrument is funded through the Employment and Social Innovation (EaSI) Programme and is specifically dedicated to microfinance and social entrepreneurship to increase the availability of and access to finance both in the start-up and development phases of social enterprises. Through the EaSI Guarantee Instrument, the European Investment Funds offers guarantees and counter-guarantees to financial intermediaries, providing them with a partial credit risk protection for newly originated loans to eligible beneficiaries. Intermediaries are selected by European Investment Fund (EIF) and they act as EaSI financial intermediaries. Thanks to the risk-sharing mechanism between the financial intermediaries and the European Commission, the EaSI Guarantee Instrument enables selected microcredit providers and social enterprise finance providers to expand their outreach to underserved micro and social enterprises, facilitating access to finance for target groups who have difficulties in accessing the conventional credit market.

EASI Beneficiaries:

Microfinance	Social Entrepreneurship
Portfolios of Micro-loans up to EUR 25,000 for:	Portfolios of debt financing products (including loans, mezzanine loans, subordinated debts, leases and profit-sharing loans) up to EUR 500,000 for:
Micro-borrowers Vulnerable persons who have lost or are at risk of losing their job, or have difficulty in entering or re-entering the labour market, or are at risk of social exclusion, or are socially excluded, and are in a disadvantaged position with regard to access to the conventional credit market and who wish to start up or develop their own micro- enterprises. Micro-enterprises Micro-enterprises in both start-up and development phase, especially micro-enterprises which employ persons as referred to in the above mentioned definition of Micro-borrowers.	**Social Enterprises** Enterprises with either an annual turnover not exceeding EUR 30 million, or an annual balance sheet total not exceeding EUR 30 million which are not themselves a collective investment undertaking.

Eligible intermediaries:

Eligible financial intermediaries are public and private bodies established on a national, regional or local level in one or several EaSI participating countries, authorised to provide microcredit for persons and micro-enterprises and/or financing for social enterprises, such as

1. the field of microfinance: financial institutions, microfinance institutions/microcredit providers, leasing companies, guarantee schemes, guarantee institutions or other institutions authorised to provide microfinance loans/guarantees or risk-sharing structures according to the applicable legislation;

2. in the field of social entrepreneurship: financial institutions, guarantee schemes, guarantee institutions, foundations, family offices, social investment funds or other institutions duly authorised to provide loans/guarantees or risk-sharing structures according to the applicable legislation.

Source: ilo.org

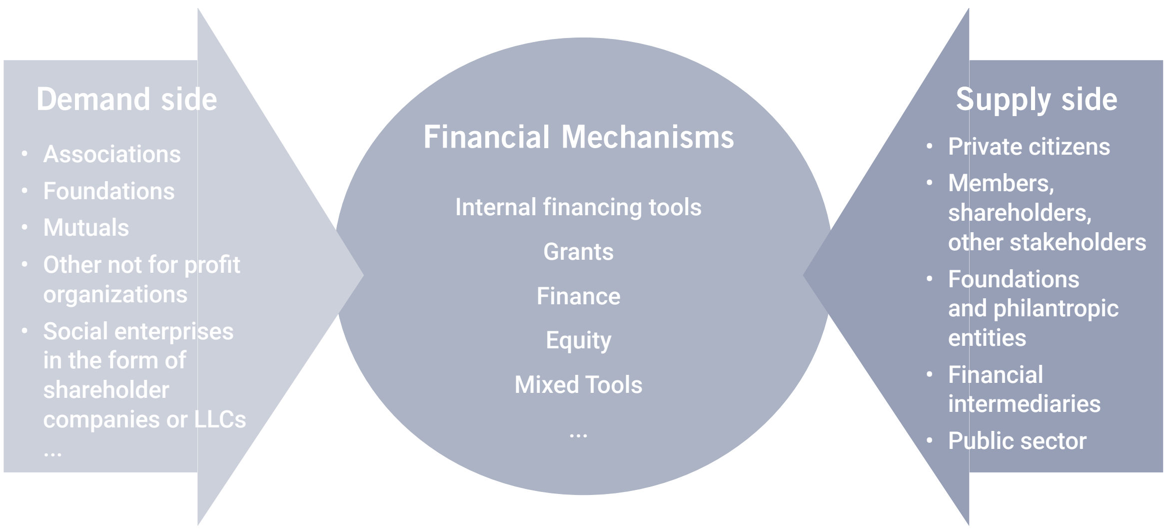
There is a series of possible difficulties in the classification of coverage by guarantees consortia in the Basel regulations, especially in relation to the subsidiary nature of the guarantees that are issued and the lack of the rating required by Basel. It is important to pursue a specific legislative intervention to regulate the phenomenon in order to allow these consortia to:

- facilitate access to credit to SSE enterprises by issuing suitable guarantees for the mitigation of credit risk according to the new management/ regulatory rationale envisaged specifically by the proposal to revise the Basel Accord on banking capital adequacy and, in general, by the best banking practices internationally;
- acquire solvency through a larger dimensional structure, at the same time overcoming the excessive localism and sector fragmentation.

3.3 Financial mechanisms: a possible classification

The concept of financial mechanisms is broad and includes financial tools of various nature. In general we can define financial mechanisms 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. Because of these implications, some mechanisms could be more or less suited to organizations with different features in terms of governance, ownership structure, sector of activity, and so forth. In the following sections we shall list the main financial mechanisms that are, at least in principle, available to SSE organizations, define them and propose some classifications that can help better understand and compare their specificities. As we shall see below, some of these mechanisms are more specific to the SSE while others are the same for all types of enterprise, and some are more suited to SSE organizations while others are more likely to work for profit-maximizing enterprises. However, these issues will be addressed more fully later in the report after the evidence from the eight country case studies has been presented.

Figure 3.1: Financial demand, supply and mechanisms



GLOSSARY OF FINANCIAL MECHANISMS

Financial mechanisms can be grouped in six broad categories: social base, management, grants, finance, equity and mixed. Without any pretence of being exhaustive, the main mechanisms that fall into each of these categories are described in the tables below.[14]

Table 3.1: Social base

MAIN CATEGORY	SUBCATEGORY	DEFINITION
Self-financing mechanisms Social base		Self-financing mechanisms include the act and the practice of using one's own capital to provide funding for an enterprise. It allows the firm to maintain control apart from outside influence and to grow without debt. However, the capacity to expand the business might be constrained by the lack of capital.
	Capital by members	Member's capital is the share account that shows the owner's stake in the business. In other words, this account shows how much of the company assets are owned by the members instead of creditors. In SSE firms each member usually contributes the same amount of shares, since the non-distribution constrains do not give incentive for accumulation of shares.
	Social loan	The social loan is a form of financing typically for cooperatives based on the contribution from members of repayable capital, usually in the medium and short term with the addition of interest rates.

Table 3.2: Management (surpluses) and assets

MAIN CATEGORY	SUBCATEGORY	DEFINITION
Firms resources > Management (surpluses) and Assets		Resource management is the efficient and effective development of an organization's resources. Such resources may include financial resources, inventory, human skills, production resources, information technology (IT) or natural resources.
	Proceeds from assets	When long-term assets are sold, the amounts received are referred to as the proceeds. If the amount of the proceeds is greater than the book value or carrying value of the long-term asset at the time of the sale, the difference is a gain on the sale or disposal, otherwise the difference is a loss.
	Balance sheet assets	Balance sheet assets are listed as accounts or items that are ordered by liquidity. Liquidity means the ease with which a firm can convert an asset into cash. The most liquid asset is cash, followed by short-term deposits and accounts receivable. The most illiquid are assets such as land and buildings, often referred to as property, plant, and equipment.
	Deferred gross profit	The deferred gross profit arises from the instalment sales approach. Under this method, only the gross profits on those sales for which cash payment has been received are recognized. All gross profits associated with uncollected receivables appear on the balance sheet as an offset to receivables, where they remain until customer payments are received. The deferred amount of gross profit is stated on the balance sheet as an offset to the accounts receivable account.
	Physical assets.	The availability of buildings or not used areas assigned to SSE organizations and addressed to the achievement of social purposes can be considered as a financing tool.

[14] The glossary was compiled using a variety of online references as well as the project team's own knowledge. The main sources used for this work were: Law and Smullen (2008); Venugopal and Srivastava (2012); https://www.investopedia.com/dictionary/; https://am.jpmorgan.com; and https://www.wikipedia.org/.

Table 3.3: Grants

MAIN CATEGORY	SUBCATEGORY	DEFINITION
Financial Grant > Grant		A grant is an award, usually financial, given by one entity (typically a company, foundation, or government) to another, often an individual or a company, to facilitate a goal or incentivize performance. Grants are essentially gifts that under most conditions do not have to be paid back. These can include education loans, research money, and stock options. Some grants have waiting periods, called lock-up or vesting periods, before the grantee can take full ownership of the financial reward.
	Donation	A donation is a gift for charity, humanitarian aid, or to benefit a cause, made by an individual or an organization to a nonprofit organization, charity or private foundation. Charitable donations are commonly in the form of cash, but they can also take the form of real estate, motor vehicles, appreciated securities, clothing and other assets or services.
	Tax share donation	The tax share donation is a portion of income tax that the State allocates to support institutions that carry out socially relevant activities, chosen directly by the taxpayer. In Italy, for instance, each taxpayer can allocate 0.5% of his own effective taxes to the institution of his choice.
	Donor Advised fund/Mutual funds	A donor-advised fund is a charitable-giving vehicle established at a public charity aimed at managing charitable donations on behalf of organizations, families or individuals. To participate in a donor-advised fund, the donor opens an account in the fund and deposits cash, securities, or other financial instruments. They retain advisory privileges over how their account is invested, and how it distributes money to charities, even though they renounce ownership rights.
	Donation Crowd-funding	Donation-based crowd-funding is a way of sourcing money for a project by asking a large number of contributors to individually donate a small amount to it. In return, the backers may receive token rewards that increase in prestige as the size of the donation increases. For the smallest sums, however, the funder may receive nothing at all. It can also be used in an effort to raise funds for charitable causes. Funders do not obtain any ownership or rights to the project.
	Foundations	A foundation is a legal category of nonprofit organization that will either donate funds to and support other organizations, or provide the source of funding for its own charitable purposes. Foundations include public foundations to pool funds and private foundations typically endowed by an individual or family.
	Venture Philanthropy	Venture philanthropy is the application of principles and methods of traditional venture capital financing to philanthropic endeavours.
	Financing from public institutions	Government finance addresses the allocation of resources to not-for-profit objectives in accordance with its budget constraint.
	Challenge grant	Challenge grants are funds disbursed by one party (the grant maker), usually a government agency, corporation, foundation or trust, typically to a non-profit entity or educational institution (the grantee) on completion of the challenge requirement(s). The challenge refers to the actions or results that must be achieved before money is released. Challenge grants, by spotlighting the recipient organization through the endorsement from a well-known entity, might enable other donors to trust the grantee. Furthermore they provide the maker the opportunity to garner positive publicity. The challenge could require a new solution to an existing problem that had been ignored. Additional requirements could be specified, from programme certification to member participation.

Figure 3.2: Understanding the functioning of grants

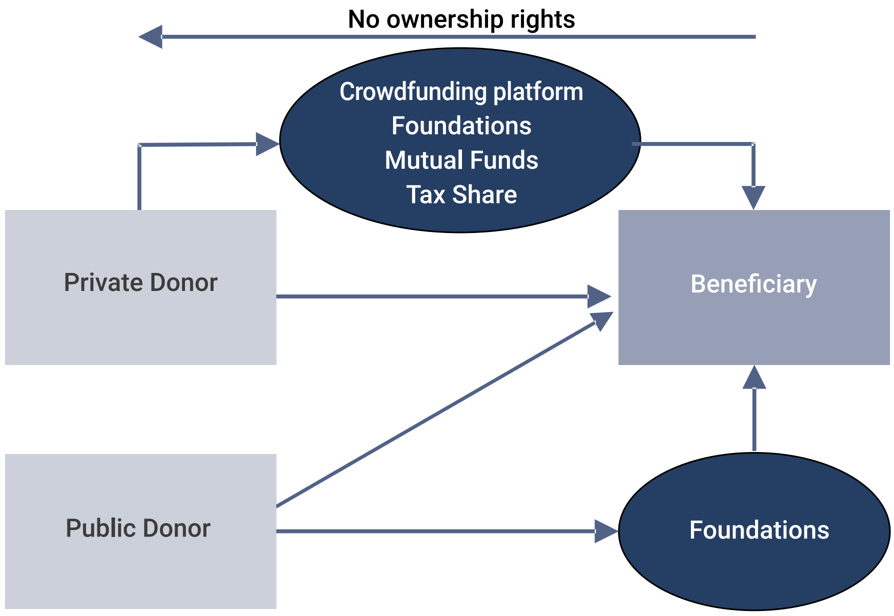


Table 3.4: Finance

MAIN CATEGORY	SUBCATEGORY	DEFINITION
Lending (debt) > Finance		Lending or debt instruments provide borrowers with funding in exchange for repayment of this funding (known as 'principal') along with interest, based on pre-determined timeframes and interest rate terms. The provision of funding might require guarantees.
	Concessional/ Flexible Loans	Concessional and flexible loans include special features such as no or low interest rates, extended repayment schedules, and interest rate modifications during the life of the loan. The public sector typically uses this financing approach provided through financial intermediaries to increase the comfort and awareness of these suppliers in lending to particular markets, such as SSE.
	Debt Funds	Pooled investments in debt or equity of several projects and/or companies. The objective of debt funds is to preserve capital and generate income. The objective of equity funds is investment growth through capital gains or dividends. Both debt and equity funds may invest in sub-funds to further leverage their investment.
	Lending crowd funding or peer-to-peer lending	Crowd lending, also known as peer-to-peer lending, is the practice of lending money through online services that directly match lenders with borrowers. This form of non-intermediated lending, generally based on an online platform, can run with lower overheads and provide the service more cheaply than traditional financial institutions. As a result lenders can earn higher returns compared to savings and investment products offered by banks, while borrowers can borrow money at lower interest rates. However, there is the risk of the borrower defaulting on the loans taken out from peer-lending websites.
	Bond	An IOU—i.e. a document that acknowledges a debt owed, issued by a borrower to a lender.

MAIN CATEGORY	SUBCATEGORY	DEFINITION
	Social Bond	Securities representing debts (e.g. bonds) issued by banking institutions to collect resources for social impact initiatives. They offer a market return and foresee that, with the resources coming from the placed securities, the bank provides sums of money as donations or financing at competitive conditions in support of initiatives that favour social innovation.
	Hedge funds	A hedge fund is an investment fund that pools capital from accredited or institutional investors and invests in a variety of assets, often with complex portfolio construction. The hedge funds have the objective of producing constant returns over time, through financial risk but very fruitful investments. Hedge funds usually use one or more sophisticated investment instruments or strategies such as short selling, derivative instruments, hedging, and leverage.

Figure 3.3: Lending mechanisms for SSE actors

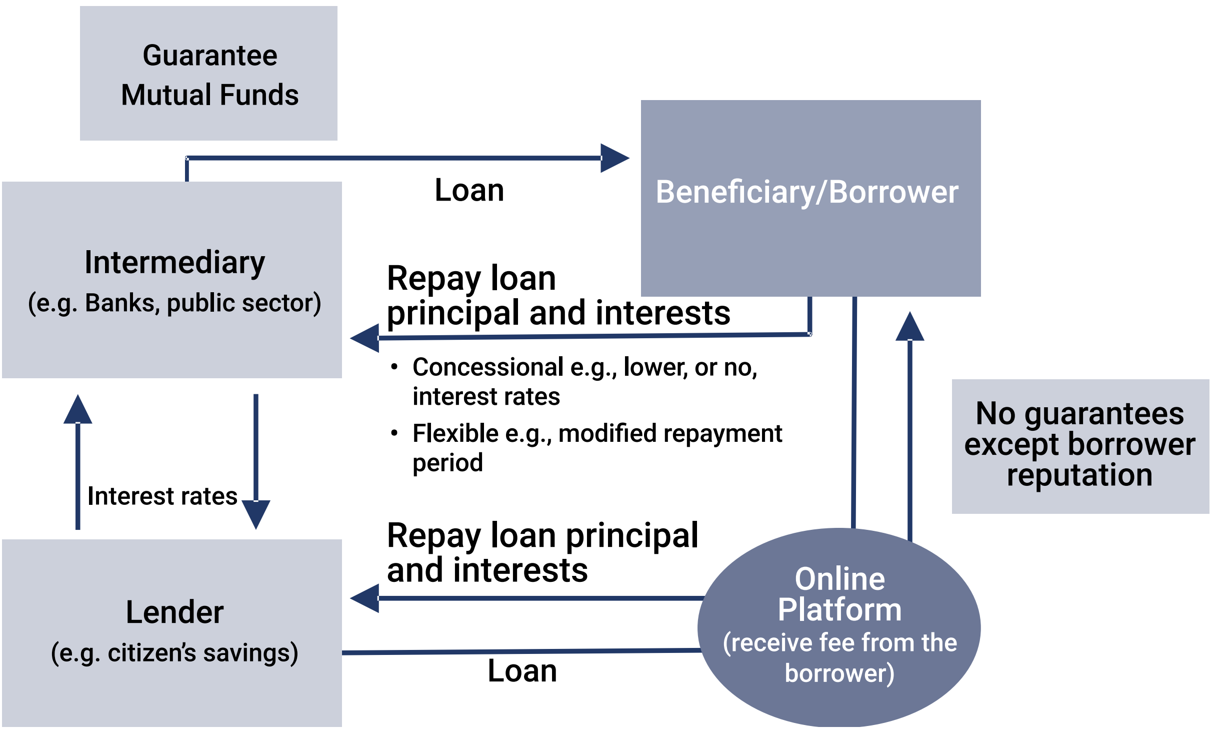


Table 3.5: Equity

MAIN CATEGORY	SUBCATEGORY	DEFINITION
Equity and Quasi-Equity Investments > Equity		Equity investments provide a critical capital base for a company or project to grow its operations, access other sources of finance, and reduce investment risks faced by other project/company investors, especially debt investors who are repaid before equity investors.
	Direct Equity Investment	Direct capital contribution to a project without the guarantee of repayment; the return on a direct equity investment will depend on the performance of a project/company over the investment period.
	Equity Funds/ Mutual funds	Pooled investments in debt or equity of several projects and/or companies. The objective of debt funds is to preserve capital and generate income. The objective of equity funds is investment growth through capital gains or dividends. Both debt and equity funds may invest in sub-funds to further leverage their investment. A mutual fund/collective fund invests money primarily in common and/or preferred stock. Stock funds may vary, depending on the fund's investment objective.
	Quasi-equity	Set of hybrid financial instruments with the nature of debt, but that assume typical characteristics of equity, such as flexible forms of repayment of capital, payments linked to corporate results and subordinated repayment with respect to traditional debt securities (e.g. bonds).
	Financing members	A person or a legal entity that, with a financial contribution, favours the establishment of a company and the carrying out of the social activity. The financing member is of considerable importance in the case of the subscription of the joint-stock company. Particular categories of financing members are banks, special credit institutions and financial companies which subscribe the entire share capital and, once the company is established, resell all or part of the subscribed shares.
	Equity crowd-funding	Equity crowd-funding is a mechanism that enables broad groups of investors (the "crowd") to fund start-up companies and small businesses in return for equity. Investors give money to a business and receive ownership of a small piece of that business. If the business succeeds, then its value goes up, along with the value of a share in that business; the converse is also true.
	Social venture capital	Financing instrument that invests on the basis of criteria similar to those of traditional venture capital, to which impact investing criteria are added, e.g. the target companies pursue measurable and intentional social and environmental impact objectives. Social venture capital can be either 'impact first' or 'finance first' depending on the amount of financial returns pursued. They can be considered as a specific category of social impact funds that invests primarily or exclusively in equity of early stage companies.
	Patient capital	Patient capital or long-term capital allows the investor to make a financial investment in a business with no expectation of turning a quick profit. Instead, the investor is willing to forgo an immediate return in anticipation of more substantial returns down the road. Although patient capital can be considered a traditional investment instrument, it has gained new life with the rise in environmentally and socially responsible enterprises. It may take the form of equity as well as debt, loan guarantees or other financial instruments, and is characterized by the longer time horizons for return of capital. The source of capital may be philanthropy, investment capital, or some combination of the two. Patient capital is not a grant, it is an investment intended to return its principal plus (often below market-rate) interest. It does not seek to maximize financial returns to investors but rather social impact. On the spectrum of capital available to both not-for-profit and for-profit bodies, patient capital sits between traditional venture capital and traditional philanthropy.

Figure 3.4: A comparison between equity and lending mechanisms

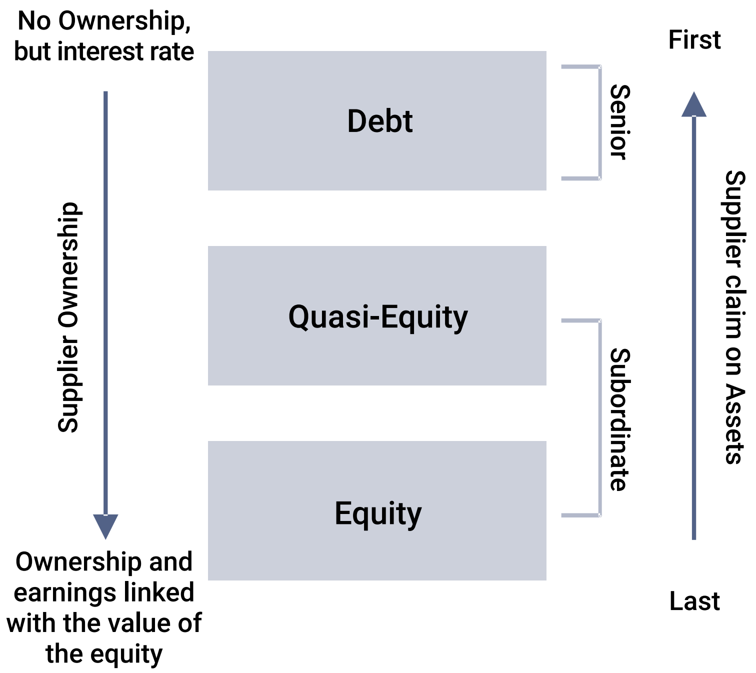
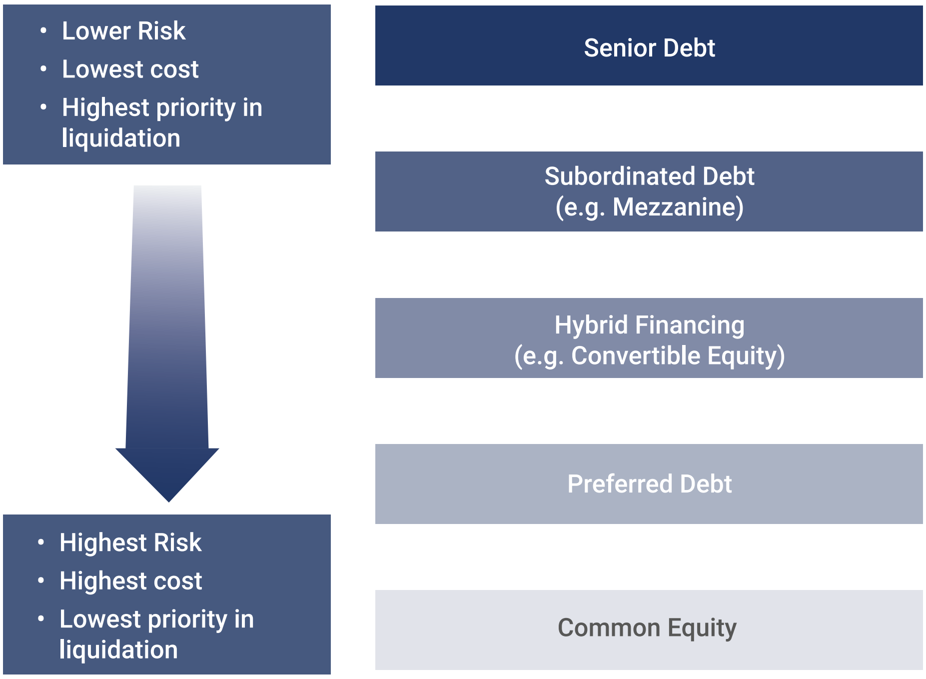


Table 3.6: Mixed tools

MAIN CATEGORY	SUBCATEGORY	DEFINITION
> Mixed		
	Mezzanine finance	Finance, usually provided by specialist financial institutions, that is neither pure equity nor pure debt. It can take many different forms and can be secured or unsecured. It usually earns a higher rate of return than pure debt but less than equity. Conversely it carries a higher risk than pure debt, although less than equity. It is often used in management buy-outs—i.e. the acquisition of a company or a subsidiary by existing management.
	Hybrid capital	A synthetic financial instrument formed by combining two or more individual financial instruments, such as bond with warrant attached. Hybrid capital is a form of debt that has been substituted for equity. This type of capital has both debt and equity features. This covers a variety of instruments, such as preference shares, that are not pure equity but have traditionally been deemed sufficiently similar to count towards a bank's tier one capital ratio – the key measure of financial strength.

Figure 3.5: Mixed financing mechanisms compared to more traditional mechanisms



FIRST CLASSIFICATION: BY SOURCE

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.

Internal Sources

As introduced above, internal sources include capital from the social base and capital from management. The social base finances the enterprise through (i) the payments of capital by members; (ii) social loans,[15] meaning a self-financing at competitive rates (3-5%); (iii) other internal financing tools such as minibonds.[16] Funding sources based on management are (i) the proceeds from the assets; (ii) the balance sheet assets; and (iii) deferred profits.

External Sources

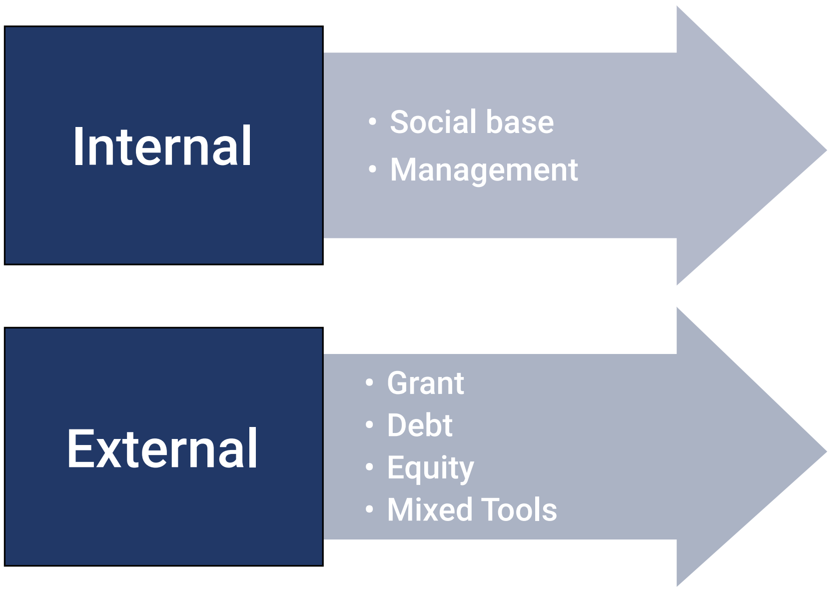
External sources include grants; debt; equity; and investments in real estate (assets). In addition, mixed tools can be developed combining the characteristics of two or more of these basic types.

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

[15] The social loan is provided only where indicated by the statute of the social enterprise (as in the case of social cooperatives) and following an operating regulation.

[16] Minibonds are medium- to long-term debt securities issued to qualified investors for the purpose of self-financing development projects. Given the qualification requests, only more structured SSE organizations are likely to be able to grant this instrument, in particular those with a certain financial soundness and a turnover of at least 2 million euros (Venturi, P. and Rago, S. (2017). "*Analisi del contesto economico e finanziario delle imprese sociali*". FIT4SE Financial Tools for Social Enterprise, Aicon). As an example, in January 2019 Zenit Sgr signs a Minibond issued by Pars "Pio Carosi" Social Cooperative Onlus, for an amount of 4 million Euros. It is the first "Social Minibond" subscribed by a specialized financial operator, whose resources will be entirely used to finance projects of high social utility, with rehabilitative therapeutic purposes and social reintegration of the beneficiaries (*Il sole 24 ore*, 31/01/2019).

Figure 3.6: Internal versus External Financing mechanisms



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 achieved.[17]

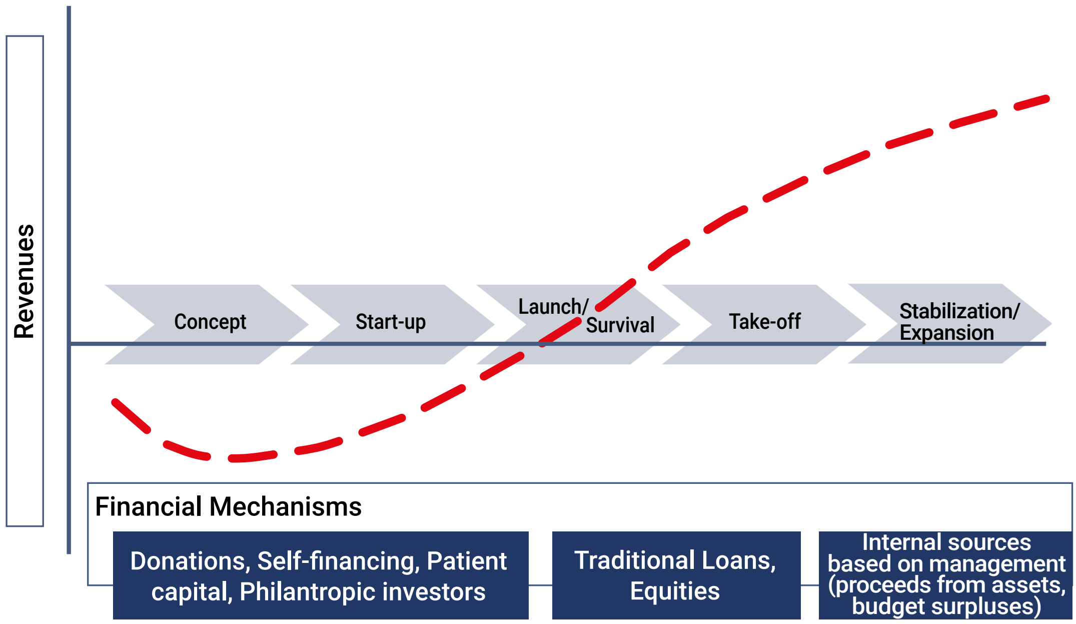
External forms of financing can be further classified according to their nature: private, community or public.

SECOND CLASSIFICATION: BY STAGE

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 3.7 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.

[17] As an example of a private social venture fund providing patient capital, see for instance Acumen Fund.

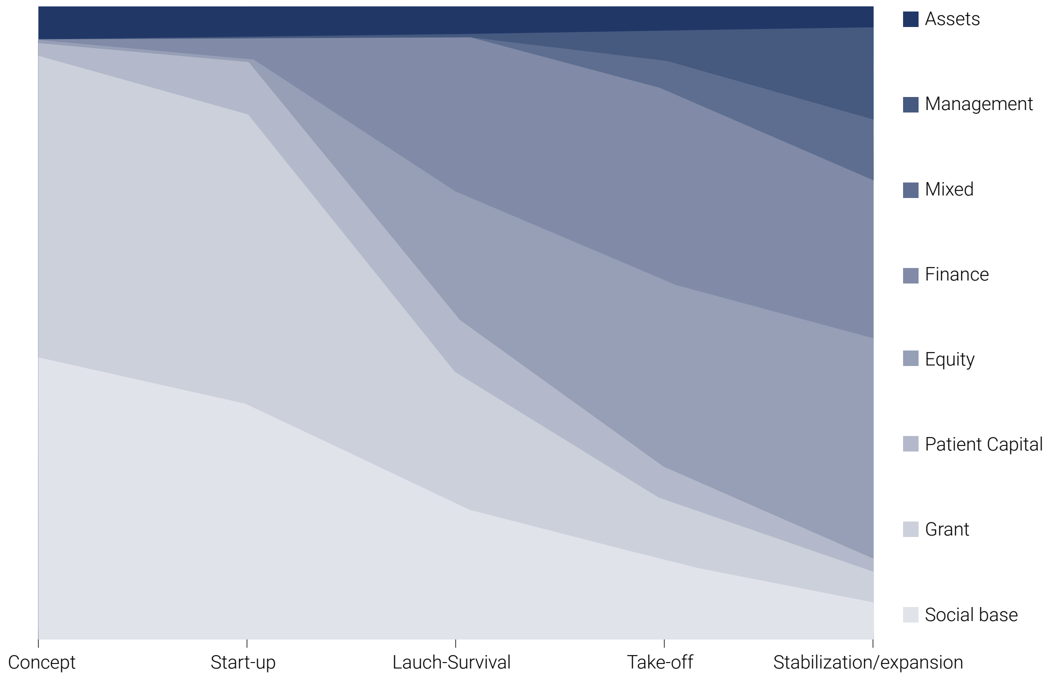
Figure 3.7: The development stages of a SSE enterprises and related financial mechanisms



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.

While some financing instruments are more appropriate in a specific stage of the firm's development, this does not mean that they cannot be activated in other phases as well. Consider grants as an example. They are fundamental in the early stages of enterprise life, and even though they lose relative importance in the following stages, they might continue to support the firm financially. Indeed, one of the strengths of SSE organizations is their ability to mix different types of financial mechanisms, accessing sources of funding (such as donations) that are typically not available to traditional for-profit enterprises.

Figure 3.8: Mix of financial mechanisms over time[18]



For purely illustrative purposes, Figure 3.8 provides an example of what the relative relevance of different financial mechanisms could be for each stage in the life of an SSE organization, underlying how SSE enterprises have access to a composite basket of tools that allow them to diversify their use of financial resources.

THIRD CLASSIFICATION: BY RISK

A key aspect of financial mechanisms is the concept of risk, which can be applied both to an enterprise and to the mechanisms used to finance it. When applied to an enterprise, the concept of risk can have many facets as it could depend on the firm's ability to generate enough revenue to cover its expenses, on the balance between incoming and outgoing cashflows, on the macroeconomic dynamics of the industry in which it operates, and so forth. When applied to a financial mechanism, the concept usually refers to the probability that the investment might result in a loss or not produce the expected returns. Usually, the higher is the perceived risk, the more the investor requires a remuneration, return or premium.

It is thus possible also to classify financial mechanisms based on their riskiness as perceived by the investor. Excluding grants and donations, for which the concept of risk does not apply (as the investor is not expecting any kind of economic return), the classification ranges from the low risks of traditional loans to the higher level of risk of equity and mixed mechanisms. The mix of financing mechanisms that an enterprise uses then determines a particular kind of enterprise risk, known as financial risk, which is related to the company's use of financial leverage and debt financing: a company with more debt financing has more financial risk since there is a greater possibility that it might not be able to repay its debt.

[18] For illustrative purposes only, not based on empirical data.

Table 3.7 provides a classification that relates the risk of each financing mechanism as perceived by the supplier to the type of enterprise based on its revenue structure, on a range from purely philanthropic support to full marketization. This is also correlated with the level of financial risk of the enterprise, as an enterprise at the full marketization end of the spectrum, that can access all of the available market mechanisms, will carry greater financial risk than an enterprise at the philanthropic support end of the spectrum.

Table 3.7: Risk of financial mechanisms by degree of enterprise market orientation

Type of enterprises by main financing tool	Risk of the financing mechanisms according to suppliers			
	Low	Medium	Medium high	High
Philanthropic support: Enterprises that base their financing on donations, grants or any other type of non-refundable source	Capital by members Patient capital Assets			
Partial self-sufficiency: Enterprises with financing partially based on grants, donations or members' capital (non-refundable entries) and partially based on entries from their business (sale of goods or services), loans or other refundable entries.	Capital by members Social loan Patient capital Assets	Mutual funds Foundations Venture philanthropy Crowd-funding Financing from public institutions		
Self-sufficiency of cash flow: Enterprises in which financing comes from their business (sale of goods or services) or loans or other refundable entries. Members' capital and non-refundable capital represent a residual form of financing.	Assets Capital by members Mutual funds Foundations Venture philanthropy Patient capital	Crowd-funding Financing from public institutions Concessional/ Flexible loans	Lending Lending Crowd-funding	
Operational self-sufficiency: Enterprises in which financing is based mainly on refundable financing mechanisms, such as traditional or crowd-funding loans. The financing is mainly directed to the daily operations with a low level of funds directed to investments and innovation.	Assets Capital by members Patient capital	Lending Concessional/ Flexible loans Lending crowd-funding	Deferred profit Balance sheet assets	Proceeds from assets
Full marketization: Enterprises that can finance their business both with traditional form of entries (both refundable and non-refundable) and with more sophisticated financing mechanisms, such as equities. Financing is not only addressed to cover the costs of daily operations, but to invest and innovate in order to be competitive on the market.	Assets Capital by members Lending Lending crowd-funding Crowd-funding	Social venture capital Deferred profit	Proceeds from assets	Equity Social Bond Mezzanine capital Hybrid capital

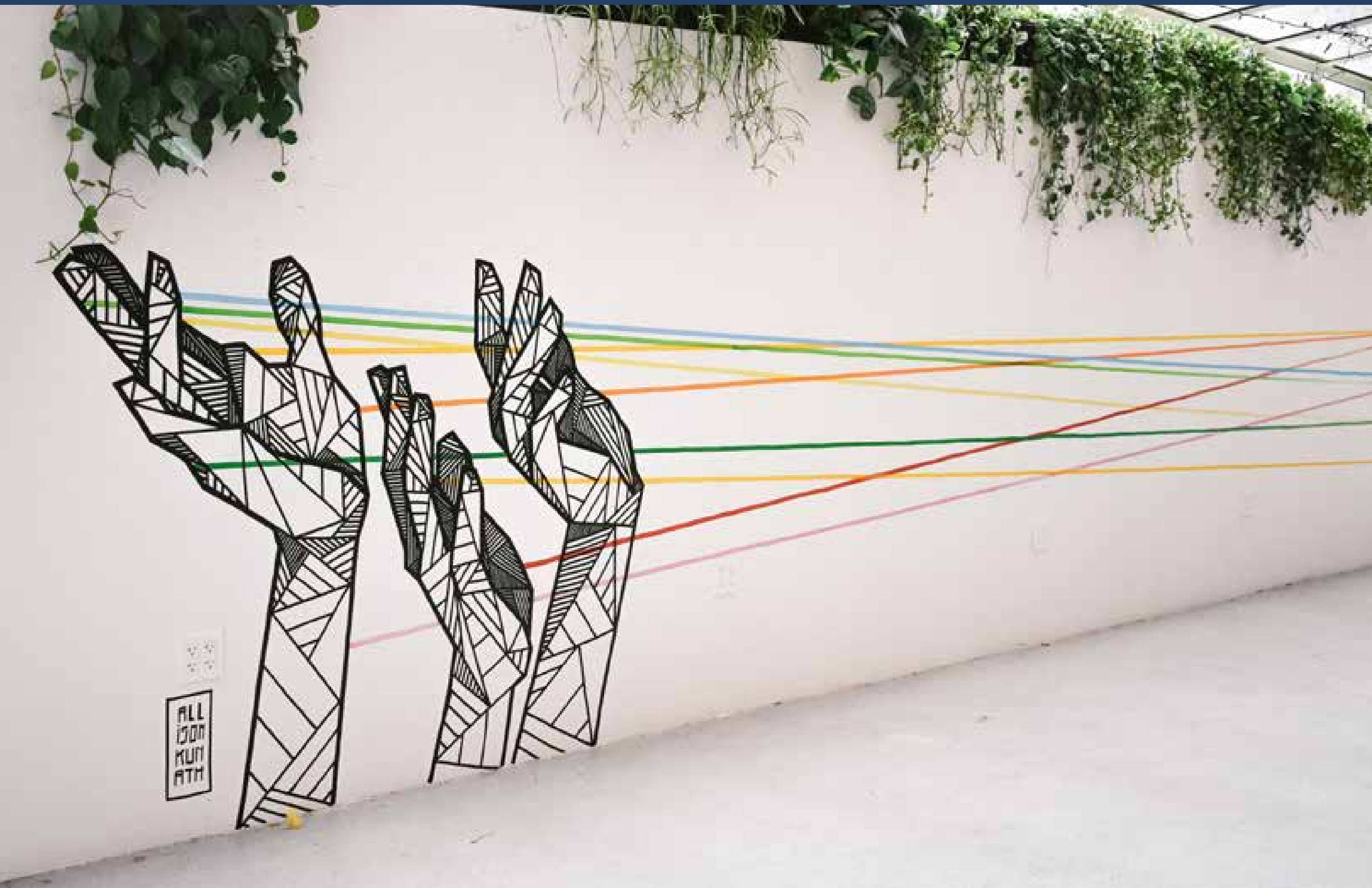
The shaded cells along the diagonal describe the theoretically more appropriate combination of financing mechanisms and type of enterprise according to level of risk. Enterprises that finance their activities mainly on philanthropic support might not have the level of cash flow needed to repay investors, and thus will mainly obtain support from financing mechanisms with a low risks. At the same time, a fully marketized enterprise with a more dynamic flow of liquidity could fund its business with tools that require a higher return to suppliers.

The cells below the diagonal are more populated for SSE organizations than they are for other enterprises because, as we have seen above, these organizations can access a more diverse mix of sources of finance.

To be sure, all enterprises to a certain extent – even profit-making corporations – might have access to grant-like mechanisms particularly in the early stages of their life, or even at maturity if we consider the amount of public funding traditional corporations receive in the form of tax breaks and subsidies. Unlike other enterprises, however, even the more market-oriented SSE organizations might continue to obtain funding from grants or donations from private sources throughout their life, as they can tap the prosocial motivations of their stakeholders. This higher diversity within the set of financial mechanisms allows SSE organizations to reduce leverage risk, which might be one of the reasons why – at least with respect to loans – SSE organizations tend to have a lower non-refund rate than traditional companies.[19] ■

[19] There is ample anecdotal evidence for this observation, and several of the key informants working in the financial services sector who were interviewed for this project confirmed it. As an example, we can cite the case of Banca Etica, an Italian bank specialized in addressing the financial needs of SSE organizations. At the end of 2017 Banca Etica registered a net non-performing loan rate of 0.89% (it was 1% in 2016) and a gross rate of 2.99% (3,04% in 2016). Both figures are much lower than the corresponding non-performance rates for the Italian banking system, which had a 3.7% net ratio in 2017. This trend has been fairly stable over the years: in 2013, for instance, Banca Etica had 2.02% of non-performance loans compared to the 7.7% average of the banking system.

4. EVIDENCE FROM THE FIELD: FINANCE AND THE SSE IN EIGHT COUNTRIES AROUND THE WORLD



This chapter presents a synthesis of the evidence gathered by the project on how the SSE is financed in each of eight countries selected by the ILO (based on several factors, including geographical coverage, diversity of SSE ecosystems and membership in the Leading Group on SSE)[20] and representing a wide range of social, political, economic and cultural contexts around the world. The selected countries are:

- Canada (Quebec)
- Cape Verde
- Colombia
- Ecuador
- Italy
- Luxembourg
- Morocco
- South Korea

[20] The Leading group on Social and Solidarity Economy is an informal platform for discussion and exchanges of best practices relating to social and solidarity economy, constituted in 2014 by a group of governments as members and civil and international organizations as observers. More information available here: http://www.essfi.coop/en/influencer/secretariat-groupe-pilote-de-less/presentation/

Focusing on each country in turn, our synthesis is organized as follows: each local context is set out, followed by a description of each local SSE ecosystem, covering factors such as the various types of actors and the legal framework. We also focus attention on the contextual and intangible elements such as social capital, mutual trust and the institutional environment, on the basis that these are recognized as key aspects that can foster or hinder the emergence of organizations and movements aimed at fulfilling human needs and addressing social problems. We then focus, wherever it could be established, on the demand and supply of finance for the SSE in each local context, i.e. on the financial needs of the SSE organizations we have identified, the key suppliers of finance, and the main instruments in existence. We then provide examples of financial mechanism(s) of particular interest for each country.

4.1 Canada (Quebec)[21]

LOCAL CONTEXT: THE SSE ECOSYSTEM IN QUEBEC

Quebec is the largest province by land area and second largest by population in Canada. With just over 8 million inhabitants, it accounts for 23% of the population of Canada and is the only Canadian province with a majority French-speaking population: 85% of the population speak French as their first language, compared to 3.8% of the rest of Canada. While the SSE remains relatively underdeveloped in the rest of Canada (in terms both of the size of the ecosystem and of the concept itself), a variety of cultural, institutional and political factors in the province of Quebec have coalesced in a way that have supported the development of a particularly robust and institutionalised ecosystem. These key influences include: a strong historical tradition of cooperative and community sector activity; a proactive/activist provincial government that provides both political and financial support for the sector; and the development of innovative cross-sector partnerships and consultations that have facilitated the development of public policy that addresses some of the particular legal and financial needs of SSE organizations.

A strong history of associative activity or ‘autonomous community action’ has been a significant influence in defining the SSE in Quebec. Quebec was historically characterised by the hugely influential presence of the Catholic Church in social and political affairs, which accounts for part of the differentiation between francophone Quebec and the rest of English-speaking Canada. The church was active not only in charities and social service provision, but also in establishing a Catholic union movement and cooperative movement in an effort to instil Catholic moral values into economic activities. In the 1960s – a period known as the Quiet Revolution – the provincial government took control of the monolithic bureaucracy of the church’s health, welfare and education services and took the first steps towards establishing a publicly-run welfare state. At the same time, leftist activists who were suspicious of the increasing reach of the State mobilised for community control of public services and programmes. Community organizations in Quebec have developed into a militant associative sector that vocally advocates for social justice and political and social reform, which contrasts with the community sector in the other provinces of Canada, which are more traditionally characterised by middle-class volunteering and individual philanthropy.

Alongside a militant community sector, Quebec also exhibits an important history of mutual and cooperative enterprises. The *Mouvement des caisses Desjardins* was founded in Quebec at the beginning of the 20th century and was the first – and is now the largest – federation of local credit unions and mutual aid societies in North America. Mutuals and cooperatives have historically maintained an important presence in the agriculture, forestry, funerary, leisure and many other sectors. While many cooperatives trace their roots to very small-scale, local beginnings, some like Desjardins have grown to a size at which democratic representation of members becomes more tenuous. Cooperatives are represented at the provincial level by the *Conseil québécois de la coopération et de la mutualité*, which includes over 3,000 members.

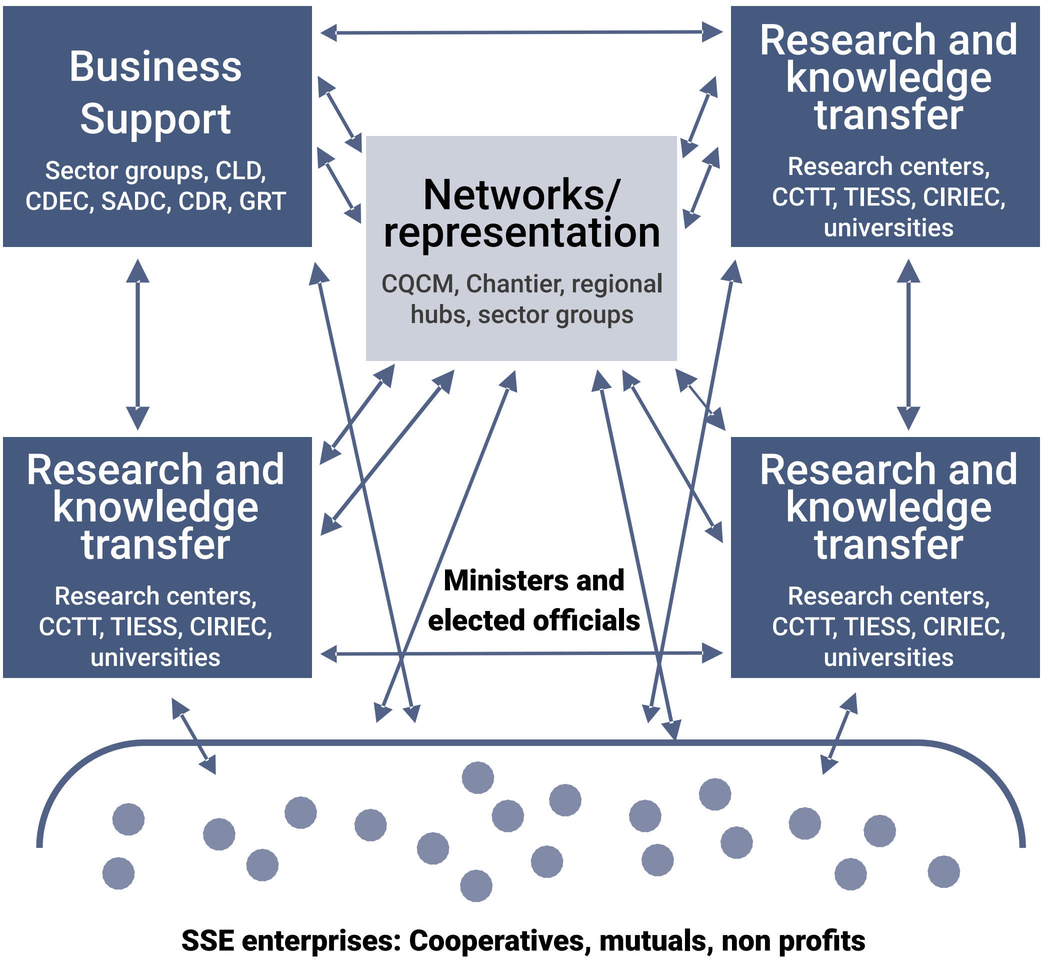
A Conference on the Social and Economic Future of Quebec held in 1996 involved a number of social partners and established three task forces to address differing issues relating to the economy, one of which (the *Groupe de travail sur l’économie sociale* led

[21] Based on research conducted by Caitlin McMullin, Postdoctoral Research Fellow, University of Montreal.

by Nancy Neamtan) was specifically tasked with developing the policy and frameworks necessary to support the SSE in Quebec. This was seen as a key effort in tackling the dual challenges of creating new jobs whilst simultaneously responding to social needs that the State and market were failing to meet. A summit to discuss issues of the economy and employment was convened thereafter, involving stakeholders from social movements, community organizations, trade unions and businesses to discuss the issues facing the province, culminating in an approach to multi-stakeholder dialogue and consensus-building approach to making public policy, which has become known as the Quebec model of social development. The openness of the provincial government to co-constructing public policy involving the SSE has been one of the defining features of its success. Nowadays the SSE accounts for sales of over CAN$40 billion and is responsible for the employment of over 210,000 people. Social economy enterprises have an average annual operating budget of $888,662 (median budget $552,507) with women significantly outnumbering men in the SSE workforce, making up 64% of all jobs (71% of full-time and 57% of part-time employees), although male workers earn on average around 2-6% more than women.

At the provincial level, the social and solidarity economy is represented by two primary organizations, the *Conseil québécois de la coopération et de la mutualité* (CQCM), and the *Chantier de l'économie*

Figure 4.1.1: The SSE Ecosystem in Quebec



Source: Adapted from Lévesque, Benoît (2016) "Social and Solidarity Economy and Social Entrepreneurs: Towards Which New Ecosystems?" Papers in Political Economy 54.

sociale. Both organizations were recognised in the Quebec government's Social Economy Act of 2013 as being the "Government's primary interlocutors where the social economy is concerned", signalling the government's endorsement of these two actors as representative of the sector. The Quebec ecosystem is therefore fairly strictly defined according to the definition adopted in the late 1990s with the creation of the Chantier, as consisting of 'collective enterprises' that use the sale of goods or services to meet a social need of their members or of the community more broadly. More specifically, these enterprises must produce goods or services, have a non-profit constraint or a distribution of profits limited to members, be independent of the State, and be governed democratically.

Because the SSE is strictly defined as organizations constituted as non-profit or cooperative (collective enterprises), private businesses with a social mission (which in other countries might be considered social enterprises) are not considered part of the SSE ecosystem. It is felt that the collective ownership aspect and legal cementation of the social mission are crucial for maintaining the sector. Private businesses with a self-declared social mission therefore do not have access to many of the financial products that SSE organizations have, such as those from Fiducie and RISQ.

The SSE in Quebec includes over 7,000 such enterprises, 3,300 of which are cooperatives and 3,700 of which are constituted as non-profit organizations. Enterprises operate in a wide range of fields: some 25% provide health and social services but as the concept of SSE and the available tools and support have increased over the last 20 years, the range of sectors has diversified. In the rural areas of the province, there is a higher proportion of traditional cooperatives (particularly in agriculture and forestry), while the city of Montreal boasts a wide range of SSE organizations and projects in the fields of social innovation and new technologies, which contribute more broadly to Montreal's reputation as a hub of innovation, including support for the skills and competences needed to support new social economy projects and funding for research and development; support for collective buyout of private businesses; and new ways to invest in digital technologies, crypto currencies and collaborative platforms.

FINANCING THE SSE IN QUEBEC

SSE organizations in Quebec have many financing options beyond government grants and subsidies because financial institutions and the government have taken a collaborative, bottom-up approach to creating financial intermediaries and to ensuring that the supply of financial mechanisms matches demand and supports the development of independent and sustainable businesses. Over the course of the last 20 years, numerous financial innovations have been developed in the Quebec SSE ecosystem to meet the particular needs of non-profit and cooperative organizations as well as to adapt to the changing realities of the marketplace and the sector. In 1996 these needs were primarily 1) the need to take social mission into account, 2) the difficulty in accessing capital for businesses that are collectively owned, and 3) the need for longer-term investment. More recently in 2016, a survey was undertaken of social and solidarity economy actors to determine the main remaining barriers to the growth of socially responsible investment in Canada, and the responses varied according to actors in the realm of solidarity finance and those in development capital. For actors in solidarity finance, the main obstacle was found to be the lack of available information and public awareness, while development capital actors suggested that a lack of opportunity for high-quality investment was a greater issue (Dostie, 2017).

Table 4.1.1: Social investment in Quebec (millions $)

Type of investment	2006	2010	2013	2016
Development capital	3,907	12,191	10,469	14,048
Solidarity finance	387	474	617	812

Source: Portrait 2016 de la Finance Responsable

The social finance ecosystem has developed through a process of co-construction of public policy with SSE actors and government in order to produce the necessary legal and policy framework to facilitate the development of a range of products particularly suited to the SSE. This process of dialogue and collaboration around policy has been a hallmark of the Quebec approach to supporting the social economy. Several working groups were established towards the end of the 1990s tasked with identifying the needs of SSE enterprises and, through this process, financial instruments were developed to address these needs. An important distinction to make in understanding the Quebec social finance ecosystem is that in French (in Quebec), actors distinguish between two different types of investment – *placement*, which refers to investment in the market, whereas *investissement* refers to direct investment in businesses.

In terms of social investment (*investissement*) in Quebec, this is discussed in relation to two areas – *solidarity finance*, meaning the financial institutions that only invest in non-profit organizations and cooperatives; and *development capital*, where an investment is based on both social and economic concerns, but is not limited to the organizations that comprise the social economy.

In Quebec, the term 'solidarity finance' is used to refer to those financial institutions which invest exclusively in collective enterprise, while the phrase 'development capital' is used in Quebec to refer to investments with socio-economic objectives, but not exclusively to those in the social economy. This term is used in order to distinguish such investments from traditional risk or venture capital. As the social economy has developed, the lines between solidarity finance and development capital have become blurred since, over the last 20 years or so, actors in 'development capital' in Quebec have become increasingly involved in investing in the social economy since collective enterprises have proved to perform well and provide impressive returns.

Development capital typically involves venture capital instruments, such as finance without a guarantee (e.g. in the form of equity or quasi-equity, traditional loans or share capital). These mechanisms aim to support the creation of jobs, as well as to support local and regional economic (and social) development. Solidarity finance, on the other hand, aims to respond to the longer-term needs of collective enterprises and comprises loans without guarantee or patient capital (or quasi-equity).

One of the strengths of the Quebec social finance ecosystem is the range of options now available to social economy enterprises that cover the spectrum of short- to long-term loans, small to large loans (over $1 million), and financing for every stage of development from ideation and start-up to scaling up and expansion.

Labour solidarity funds, for example, have existed for many years in Quebec. These funds aim to pursue social and environmentally progressive investments. They did not initially directly invest money in social economy enterprises *per se*, so they therefore tend to be classified as development capital rather than solidarity finance. Many solidarity funds have however begun to invest in the social economy because of the stable returns and beneficial social outcome associated with the sector. Fondaction CSN and Fonds de Solidarité FTQ also invested $8 million and $12 million respectively in the creation of the Fiducie, and both have also created local and regional development funds around the province. Fondaction has supported the development of more than 1,150 SMEs, which includes both private enterprises that practice participatory management as well as collective enterprises of the social economy. In terms of solidarity finance options, Fondaction provides loans or share capital of between $500,000 and $10 million, in the form of patient capital with repayment beginning on a term of between five and eight years.

Following the establishment of the *Chantier de l'économie sociale* (1997), the Québec Social Investment Network (RISQ) was created as the first dedicated structure for providing loans and technical support to emerging social economy enterprises and projects. RISQ was initially capitalized with $10.5 million ($5 million from the Quebec provincial government which was matched by private contributions). The provincial government also injected a further $5 million into RISQ in 2010 in order enable the development of a new financial product that could support the pre-start-up phase of business development; and again in 2016, the province recapitalized RISQ in 2016 with $10 million ($5 million in subsidies and $5 million by means of an interest-free loan). RISQ offers technical support and assistance to social economy enterprises and provides non-guaranteed loans of up to $50,000 to finance developing projects. Since 1997 RISQ has invested $28 million in 841 SSE enterprises, resulting in the creation or maintenance of an estimated 10,000 jobs.

The Government of Quebec, via Investissement Quebec (a State-owned public corporation), offers loans to both private businesses as well as to non-profit and cooperative bodies. The latter are served by *la Financière du Québec*, which was formed in 2001 to offer loans and loan guarantees to the social economy. This programme – *Capitalisation des enterprises de l'économie sociale* (CAES) – offers loans with competitive interest rates to cover up to 100% of project costs, from a minimum of $50,000. Loans are offered for short- or long-term financing (up to 25 years), but principal repayment is required to begin within 24 months. Investissement Quebec's primary purpose is to provide quasi-equity injections to support start-up funding, expansion or consolidation efforts and to complement products available from other lenders, particularly as a tool for credit enhancement in order to reduce the risk to other investors. Investissement Quebec also has a major programme to support the collective buyout of private businesses. The Cooperative Buyout Support Programme has a budget of $50 million to support business succession to collective ownership. The programme offers loans of between $100,000 and $2 million at a fixed interest rate, repayable over a maximum of 15 years, with the intention of minimizing the financial burden on investors and providing a complement to other investments by cooperative buyers.

In November 2018 the Government of Canada announced the creation of a Social Finance Fund with the aim of facilitating access to new financing options to support social innovation and positive social change across the country. The Government has committed itself to making up to $755 million available over the next 10 years to "charitable, non-profit and social purpose organizations" in order to better enable them to participate in the social finance market. This policy was the result of a co-creation effort of a Social Innovation and Social Finance Strategy Steering Group of government officers and experts from the non-profit sector and social economy across the country. In addition to the recommendation to establish a social finance fund, the steering group suggested the need for policies to mainstream support for the social economy across Canada, to raise awareness and to address the legal and regulatory impediments that prevent SSE enterprises from thriving. Many of the report's recommendations reflect the degree to which Quebec's social economy is considerably better developed than the rest of Canada.

Quebec also has a range of local development organizations that are able to provide funding and support to SSE actors. In Montreal PME MTL was established in 2015 following the dissolution of CLDs (Local Development Centres), as a network of six service hubs that offer professional services for both small private sector businesses and social economy enterprises. PME MTL was capitalized with $7.8 million from the provincial government and the City of Montreal, and in 2018 a specific social economy fund was additionally created with a $9.2 million investment from the City of Montreal's Action Plan on Social Innovation. This social economy development fund (*Fonds de développement de l'économie sociale*) offers subsidies of between $5,000 and $50,000 to support the emergence of innovative social economy projects in Montreal.

Community bonds (*obligations communautaires*) are bonds that allow non-profit organizations to solicit donations and loans from citizen investors or members of the community. Unlike most investments, these are not regulated by the A*utorité des marchés financiers*, and there are therefore limited legal and administrative barriers to non-profit organizations in accessing finance from interested community members in this way. Like normal bonds, community bonds are issued with a nominal value, a date of maturity and an interest rate. In 2017, TIESS (Organisme Territoires innovants en économie sociale et solidaire) supported a pilot project of community bonds for five non-profit organizations in Montreal. Other similar tools are types of crowd-funding, where projects and organizations solicit donations from a large number of community members and other interested parties via online platforms. Both community bonds and crowd-funding are growing in popularity but are still quite nascent in Quebec.

Micro-credit or community-based funds are also available in the province to provide small loans to civil society organizations, an approach to social finance that Quebec has borrowed from other international experiences. Microentreprendre (formerly the Québec Network of Community Credit Funds or RQCC) offers loans of up to a maximum of $20,000 at the 'first step' of solidarity financing for Quebecois social economy organizations. These microcredit products are designed to support social inclusion and provide access to finance to potential entrepreneurs who are unable to access traditional banking institutions.

Table 4.1.2 Solidarity finance funds in Quebec

	Assets 2016 (millions $)	Investments 2016 (millions $)
RQCC (now Microentreprendre)	7.8	2.17
Réseau d'investissement social du Québec (RISQ)	15.2	8.9
Filaction	50	40
Fiducie du Chantier de l'économie sociale	52.8	31.5
Caisse d'économie solidaire	830.9	517.8
Produit financier IQ: Financement de l'entrepreneuriat collectif (Government of Québec-Investissement Québec)	-	19.9
Community bonds (TIESS)	-	0.17

Source: Portrait 2016 de la finance responsable

Community-based funds are also intended to act as leverage for projects to receive further funding from other sources, and they often work in collaboration with the provincial government, municipalities and local development agencies to ensure that emerging initiatives are in line with local strategies for socio-economic development.

Besides RISQ and FIDUCIE, the ecosystem also includes labour solidarity funds – the Fonds de Solidarité FTQ, created in 1983, and Fondaction in 1996; the *Caisse d'économie solidaire Desjardins* which has been providing loan capital to social economy enterprises since 1971; the MicroEntreprendre (a network of microcredit organizations originally called the Réseau québécois du crédit communautaire); and Filaction, a development fund that finances both social economy enterprises and other private small businesses.

CAP Finance is a network of responsible/ social financial institutions (including all of the above organizations) that was formed in 2009 in order to develop and promote solidarity finance in Quebec as an alternative vision of economic development, and develop and share expertise among its members and ensure a degree of consistency in terms of measurement and evaluation in the sector.

One type of social investing that is conspicuously absent from the Quebec ecosystem is 'impacting investing', an aspect of socially responsible investment where investors seek out more 'ethical' investment opportunities where the impact on the environment or society can be measured and demonstrated. The idea of Social Impact Bonds, for example, which is becoming increasingly popular in the rest of Canada and which are aimed at leveraging private investment to fund social service providers and financial returns, and are paid to investors on achievement of agreed social and financial outcomes, is unpopular in Quebec. Impact investing is seen as directly conflicting with the widely agreed values of the social economy and social finance ecosystem, which is based on solidarity between members, democratic operations, and a broader goal of democratizing the economy and access to capital. The prevailing approach of Fiducie, for example, is to invest directly in SSE organizations, placing particular value on the aspect of collective ownership of non-profit organizations and cooperatives. The more indirect SRI investment approach is to target particular projects or initiatives. Because the approach of social impact investing is more popular at the federal level, it remains to be seen which of these two approaches will prevail with the announcement of the federal government's Social Finance Fund.

EXAMPLES OF FINANCIAL MECHANISMS IN QUEBEC

Among the most important innovations in the financing of the social economy in Quebec was the establishment of the *Fiducie du Chantier de l'économie sociale* in 2007 (*Fiducie* meaning Trust). For the first 10 years after the establishment of the Chantier in 1997, SSE enterprises had argued that the traditional financial products available to them (loans and grants) were not tailored to their particular needs, and that they struggled to attract long-term capital to their businesses. Fiducie was established in order to act as an intermediary between the financial market and social economy businesses, thereby mutualizing the risk associated with investing in the SSE while simultaneously creating financial products that are better adapted to collective businesses with a social mission. Fiducie was initially created through the injection of $22.8 million from the Federal Government in the context of its 2004 Social Economy Initiative; the fund had initially been part of a larger Canada-wide programme to support the social economy, but owing to political changes only Quebec was successful in bringing it to fruition. The fund was also reduced to $22.8 million from an initial promise of $30 million. Other investors contributed to the establishment of Fiducie including labour solidarity funds (e.g. the *Fédération des Travailleurs du Québec* solidarity fund), as well as Investissement Québec (the provincial government) in the form of a loan, bringing the total initial fund to $52.8 million. The contribution from the federal government enabled the Chantier to offer first-loss protection to subsequent investors, and also symbolically offered the federal government's confidence that the initiative would generate stable financial returns.

Fiducie offers financial products to support social economy enterprises at each stage of their development. The first and most important of these is 'patient capital', referring to loans with a 15-year delay on repayment of capital. Fiducie offers two types of loans: the first of these is Operations Patient Capital (of between $50,000 and $250,000), which is aimed at financing the costs associated with acquiring working capital and the purchase of equipment such as office supplies, machinery, computers and so forth, as well as marketing new products and services. These loans can be used to support start-up or business expansion and must not represent more than 35% of overall project costs. The second type is Real Estate Patient Capital, designed to finance the construction and renovation of buildings and accounting for between $50,000 and $1.5 million (up to 32% of project costs). Both of these types of loans are non-guaranteed, with a fixed interest rate for the duration of the investment, and the possibility of beginning to repay capital before the end of the term with no penalty.

Fiducie is governed by a council and two committees: an Investment Committee (which is composed of members of Fiducie and other solidarity finance stakeholders) and an Audit Committee (comprised of outside members). Fiducie also works closely with RISQ on aligning their product offers and ensuring consistency of approach. All requests for investment by Fiducie are considered by an analyst from RISQ, the report from which is examined by a Fiducie's Investment Committee who then make a recommendation on investment. This committee met 14 times in 2017 and reviewed 24 potential projects for investment. Fiducie's Audit Committee ensures that the organization is operating in compliance with laws and regulations.

Fiducie also maintains two branches of its approach to attracting investment and investing in enterprises. On the one hand Fiducie actively seeks out potential investors and works at developing a comprehensive infrastructure to ensure that it is able to provide attractive investment offers. On the other hand it takes advantage of the highly developed and integrated network of social economy actors to reach SSE enterprises and projects in need of investment. Finally, rather than establishing a network of regional offices, Fiducie is centralized in Montreal in order to reduce running costs and prevent the duplication of already existing networks and local intermediaries. For instance, Fiducie does not advertise but instead relies on local development agencies to this end.

Over the last 10 years since Fiducie's establishment it has authorized the cumulative investment of over $62 million in a total of 236 social economy projects (within 189 enterprises). These investments have resulted in the creation or maintenance of 3,863 jobs and generation of over $422 million (Fiducie Annual Report, 2017). Of the 212 active loans (in 168 businesses), 46% of these are in real estate capital, 33% in operations capital and 21% a combination of both. 63 of the current active loans are made to start-up businesses, while 105 have invested in business expansion. Fiducie's average investment per business is about $300,000. In terms of sectors Fiducie invests in a wide range of industries, the most common being in collective real estate (21% of total investments), recreation and tourism (14%), arts and culture (12%)

and personal services (10%). Regionally, a large percentage (44%) of investments target the Greater Montreal Area (which makes up 20% of the population of the province).

One example of Fiducie's investment is in Batiment 7, a non-profit community project in the Pointe-Saint-Charles neighbourhood of Montreal. This project obtained $150,000 of patient capital loan in 2017, as part of its Real Estate Patient Capital investments, combined with the use of community bonds for a total amount of $50,000 in collaboration with TIESS to secure the use of a building. Located on former railway land, the building is an 8,000+ square metre warehouse that had been abandoned for many years before local residents began a long community campaign to transfer the building to community ownership and transform it into a hub for much needed local services and activities. The campaign for community ownership took almost 15 years, but the community was eventually successful in convincing the owner (a property developer who had acquired the site from Canadian National Railway in 2005 for $1) to not only transfer the building to the community free of charge, but also to decontaminate the site, donating $1 million in seed funding to launch the project. The overall budget of the project (renovation of the building and installation of a range of projects and services) is estimated at about $4 million. Batiment 7 has sought financing *via* several different sources, including long-term loans, mortgages, community bonds and crowd-funding.

4.2 Cape Verde[22]

LOCAL CONTEXT: THE SSE ECOSYSTEM IN CAPE VERDE

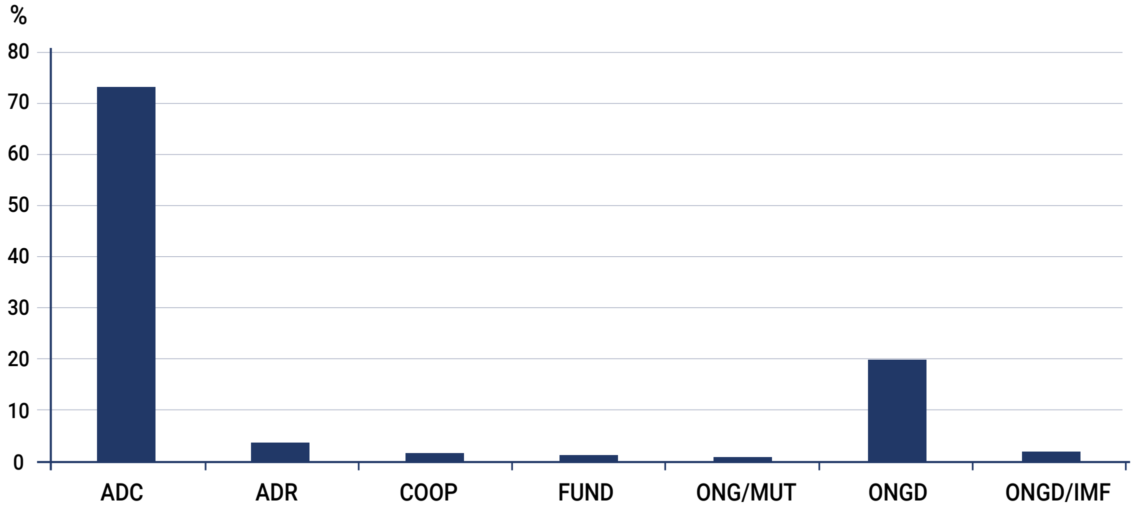
Cape Verde is an island country made up of a dozen islands, divided into two groups, *Sotavento* (Leeward) and *Barlavento*, (Windward) located some 500 km from the west coast of Africa, with a population of 533,464 distributed predominantly in urban centers (61% of the population). Santiago island alone houses 56% of the population, São Vicente 15% and Santo Antão 9%. Despite declining absolute poverty, a significant proportion of the population live in the urban peripheries of the cities of Praia and Mindelo. Poor living conditions are widespread due to ongoing migration from rural communities to urban centers for work. As a result poor sanitation, water supply, electricity, living conditions, lack of social infrastructure, unemployment or underemployment are rife, leading to entrenched and widening social inequalities. Largely dependent upon tourism, transport and services, Cape Verde was officially designated a middle-income country on 1 January 2008 and is a member of the Economic Community of West African States (ECOWAS), a member of the African Union (AU) and of the World Trade Organization (WTO), and a Special Partner of the European Union since November 2007. The life expectancy of Cape Verdeans recently reached the age of 74, surpassing the 71-year world average, but the economy still relies heavily on foreign aid, previously in the form of project financing and today through supporting the country's State Budget.

Cape Verde is poor in natural resources and drought, poverty, famine and general hardship have been recurrent throughout its history. As a result, the Cape Verdean people have been known for their solidarity-based practices from the early days of the country's existence, many of which are still a way of life in rural areas: *'djunta mô'* (mutual help) is expressed in sharing of labour and the cost of agricultural works, the expense of celebrations such as wedding ceremonies, baptisms, popular and traditional festivities in devotion to saints (in a population that is almost 100% Catholic), in the construction of houses, and in moments of severe hardship such as deaths, illnesses, disasters or natural catastrophes.

The principle of *djunta mô* seems to underpin a nascent SSE sector. Under the single-party regime that ruled the islands until the early 1990s, *Central das Cooperativas* was formed by the Central Government, later replaced by the National Institute of Cooperatives, with a central role of informing, sensitizing and mobilizing Cape Verdeans to organize themselves into cooperatives as a means of addressing common difficulties and improving overall living conditions through mutual support. Consumer

[22] Based on research conducted by Mario Moniz, President, *Association pour le soutien aux initiatives d'auto-promotion* (SOLMI).

Figure 4.2.1: Distribution of NGOs by type



Source: Surveys to NGOs 2014/15 – Dep.de M&A

cooperatives were encouraged in all corners of the country to ensure the supply of basic necessities to the population while combating speculation and hoarding. They were also encouraged in order to increase efficiency of production and self-employment in areas of the economy such as agricultural production, fishing, carpentry and woodworking, civil construction, sewing, and agricultural products. Following the establishment of democracy in 1991, these mass organizations were decimated, the only survivors being the Organization of Women of Cape Verde (OM-CV) and unions linked to UNTC-CS – Central Sindical. Out of more than a hundred cooperatives, an overwhelming majority closed their doors, either because of plunder following elections or because of the inability to survive the new economic and socio-political context. The cooperatives thus gave way to Community Development Associations (ACD) which became privileged interlocutors of the Government in the financing and organization of public work and its management through delivering programme contracts. Other categories of organizations in this emerging SSE sector also appeared around that time, such as NGOs focused on development, Cultural and Recreational Groups, mutual funds and Microfinance Institutions (MFIs).

The SSE sector in Cape Verde therefore has to be considered (conceptually) as being broad in scope to incorporate a dominant NGO sector, but there is relatively little evidence of trading activity. The reasons for this are difficult to establish, but given that Cape Verde's Law no. 122/VIII/2016, of March 24, which approved the legal regime of the Social Economy, is almost identical to an earlier Portuguese statute, it is not unreasonable to surmise that this law was enacted due to foreign influence, rather than emerging as a result of pressure from the sector itself. Action under this law to support the sector has been fairly negligible to date.

The vast majority of organizations within the broad scope of the SSE in Cape Verde are community development organizations (73.5%), institutions that by their nature work on social and economic development and for the direct benefit of their communities, creating the basic conditions in infrastructure and social equipment needed to guarantee the integral development of the communities, thus contributing to the reduction of poverty. The remaining 36.5% include specialized NGOs comprising 28% of Development NGOs, including Microfinance Initiatives, the remaining organizations including sporting associations (3%), cooperatives (1%) and foundations (1%). However, it should be noted that a significant number of institutions identified in the registers have been found to be inoperative, due to lack of funding or for organizational reasons including an absence of social bodies necessary for their functioning. It has been suggested that these associations did not officially close, mainly due to the costs and procedures involved in the process and the 'inoperative' rate is considered to be around 15% of the existing CSOs.

The concentration of such organizations is predominant in the islands with highest population density (Santiago, Santo Antão and São Vicente), where there are also greater social inequalities due to difficulties in accessing the labour market and goods and services. A majority of them (83%) are active at the local level, seeking to promote the development of their communities in order to satisfy their needs and improve the community's living conditions as a catalyst for poverty reduction. The remaining 17% are organizations with a geographically broader scope, usually NGOs specialized in several areas including Health Education, Justice, Microfinance and so on with a focus on engaging with local and central government; of these organizations 10% have a national presence while 7% operate in a more regionalized context.

FINANCING THE SSE IN CAPE VERDE

In comparison with other countries we focused on within the scope of this study, political support for the SSE is fairly limited and nascent in Cape Verde. That said, it is notable that despite the economic situation of the country, programmes of successive governments, especially those of the 2016-2020 legislature, highlight the role of SSE actors (and passed the 2016 legislation mentioned earlier). Despite the earlier remark about the negligible impact to date as a result of this legislation, several policy measures have been proposed with a view to their implementation, namely: tax exemptions on imported goods within the framework of the activities of the Social and Solidarity Economy Organizations; interest rate subsidies on loans granted to SSE organizations operating in certain areas, such as microfinance; subsidies to organizations within the SSE that intervene in the social spheres, and more specifically in favour of people with disabilities, through the State Budget; and financing of incentive programmes for small and medium enterprises (SMEs), which include those of the Social and Solidarity Economy ecosystem of the country.

Cape Verde's 'NGO Platform' was founded in 1996 to act as a permanent communication and coordination space for NGOs, with a view to their promoting and reinforcing each other, based on a recognition of their contribution to building a fairer society and addressing poverty in the country. In addition, there are several public entities that exist to support or promote SSE organizations: the *Directorate-General of Agriculture, Forestry and Livestock* (DGASP), within Cape Verde's Ministry of Agriculture and the Environment, is the interlocutor of Community Grassroots Associations, signing programme contracts within the framework of the management of public works financed by this Ministry. Under the auspices of the *Ministry of Family and Social Inclusion*, there is a *Programme for Combating Poverty in Rural Areas* (PNLPR), funded by the Arab Bank for the Development of West Africa (BADEA) and the Government of Cape Verde aimed at addressing poverty and social exclusion in rural areas in order to support vulnerable families in close partnership with community-based organizations in rural areas. This programme aims to contribute to strengthening these organizations, supporting them in providing services for poor families and communities, with a view to promoting self-employment, generating income and improving the quality of life of families and communities.

The *Directorate-General of Family and Social Inclusion* of the Ministry of Family and Social Inclusion offers annual grants to certain categories of NGOs working with people with disabilities. They finance projects and organizations supporting vulnerable people in need of assistance, such as elderly people, homeless people and street children, young people at risk, and children in families with economic difficulties. Under the Ministry of Family and Social Inclusion the Cooperation programme is financed by the Ministry of Labour, Solidarity and Social Security (MTSSS) of Portugal, through its Directorate General of Solidarity, within the framework of bilateral cooperation between Cape Verde and Portugal. An almost 20-year-old programme implemented through seven Social and Solidarity Economy (SSE) organizations intervenes in diverse social areas such as nursing home management, childhood management, social housing, school fees (payment of tuition, transportation and school materials), and vocational or qualification training, among others.

The Municipal Councils work in partnership with SSE organizations that operate in their territories, although the municipalities do not include in their budgets amounts for the promotion or institutional strengthening of SSE organizations from their respective territories, and thus it is difficult to establish the extent of this support. However, through programmes and municipal projects funded by the State budget or through Bilateral or Multilateral Cooperation, partnership between public bodies and SSE organizations has been encouraged. Indeed, the State has assumed the role of promoter and, simultaneously, of partner through programmes and projects implemented through either the State budget or through bilateral and multilateral cooperation although, as stated previously, there is little evidence of market-based activities.

Bilateral cooperation involves a wide range of international partners, including Portuguese Cooperation, Luxembourg Cooperation, the US Embassy, the Embassy of the People's Republic of China, and other embassies of western countries based in Dakar, who all support SSE actors, through either permanent or occasional programmes. Under the Multilateral Cooperation framework, the WHO, UNICEF and various organizations in the United Nations system work in cooperation with the Cape Verde Government, including support to SSE organizations in terms of small project financing and institutional strengthening in general. The European Union also supports the SSE sector through periodic funding of institutional project and programme support. The EU finances projects in the Community of Portuguese-Speaking African Countries (PALOP) of which Cape Verde is a member. For instance the current PRO-PALOP programme works especially with sovereign bodies such as the National Assembly, the Audit Court and the Government through the Ministry of Finance in strengthening the competences of these institutions and promoting good governance. SSE actors benefit through capacity-building, exchanges, and production of support materials and documents, strengthening their capacity to dialogue with governments and other bodies, and developing their capabilities to influence public policy.

The *World Bank* and *Global Fund to Fight HIV/AIDS, Malaria and Tuberculosis* are organizations that develop programmes in partnership with the government, which inevitably include SSE organizations as partners. For example, the Global Fund has been participating in funding the fight against HIV/AIDS, Malaria and Tuberculosis in Cape Verde for more than a decade. The programme has two strands: one for civil society and the private sector and the other for the public sector, the first being managed by a group of social and solidarity economy organizations that intervenes in those areas.

Although there are no institutions that have administrative and financial autonomy with specific responsibility for promoting and supporting the Social and Solidarity Economy Ecosystem, as was the case with the Central of Cooperatives and, later, the National Institute of Cooperatives (INC), in relation to the Cooperative Sector in the post-independence period, some steps have recently been taken in this direction with the installation of specific programmes to strengthen sectors of the SSE ecosystem, such as:

- **BIT/United Nations Project**: A project financed by the ILO and Luxembourg Cooperation and implemented by the United Nations in Cape Verde, where one of the objectives is to contribute to the consolidation of the microfinance sector through the necessary studies and technical assistance to MFIs.

- **POSER – Programme for Combating Poverty in the Rural Areas**, funded by BADEA (the Arab Bank for the Economic Development in Africa) and the Government, with the main objective of empowering poor families and addressing their socioeconomic inclusion. The programme works in close partnership with grassroots community organizations and provides an opportunity for the institutional strengthening of these organizations.

- **ADA/PADIF-CV** – Project to support the Development of Inclusive Finance in Cape Verde. A project of the Government of Cape Verde, financed under the Cooperation with Luxembourg and managed by the ADA (a Luxembourg-based organization specializing in microfinance), this is a programme aimed at boosting institutional competences for MFIs and the microfinance sector, where one of the main tasks is to help MFIs meet the requirements of Law and Central Bank guidelines.

- The **Microfinance Promotion Unit**, located within the Ministry of Finance, monitors the evolution of the MF sector, and serves as an interface between the sector and the Government, proposing measures aimed at the promotion and development of the microfinance sector.

- **Project to Strengthen Resilience in Agriculture and Livestock** – on the island of Santiago through creation of the Box of Resilience – a project that the Food and Agriculture Organization (FAO) of the United Nations has been carrying out, aimed at combating food insecurity through creation of mechanisms to mitigate the effects of drought and bad agricultural seasons that occurred during 2017 and improve the livelihoods of families and of victims of food crises and natural catastrophes.

> The Social and Solidarity Economy Organizations, in particular the Community Organizations, the NGOs of microfinance and other Organizations of the Social and Solidarity Economy, participate in the planning and follow-up of the local activities. These include among other things training, information, communication, as well as support in the implementation of the income-generating activities, through access to microcredit and technical assistance.

In the last thirty years and in the context of Official Development Assistance, associated with innovative policies to fight poverty, the SSE in Cape Verde has experienced a new dynamic due to the emergence of new actors and new practices, in a new context and with the purpose of providing answers to the socioeconomic needs that particularly afflict the less favoured sections of the population, including those considered poor and very poor according to the poverty indicators of the World Bank.

EXAMPLES OF FINANCIAL MECHANISMS IN CAPE VERDE

Owing to widespread financial exclusion within Cape Verdean society, some NGOs that intervene in the fight against poverty and social exclusion have begun to focus efforts on supporting young people looking for their first job or seeking professional training, and people with disabilities. This is to promote self-employment and access to income with a view to improving the living conditions and socio-economic inclusion of people, predominantly through microfinance initiatives. The bulk of funding for this has been under Official Development Assistance (ODA), at both bilateral and multilateral levels. This funding, primarily in the form of grants, has allowed NGOs, with the reimbursement of credits granted, to set up their own funds for the allocation of credits. These Microfinance Institutions (MFIs) develop or plan to develop other microfinance products and services in addition to credit, such as microinsurance, savings, money transfer, health and social protection, and so on. For over 20 years they have operated on an informal basis, but a process is underway to formalize these initiatives with the indication that the majority will choose to create a new entity that could be a Mutuality of Savings and Credit, a Cooperative of Savings and Credit, or a Micro Bank.

The **Association for the Support of Self-Promotion Initiatives (SOLMI)** is a non-profit, national non-governmental MFI (Microfinance Initiative) which, through support for self-promotion initiatives, benefits the most vulnerable sections of society, with emphasis on women and young people. SOLMI aims to be an active partner in the process of combating poverty and social exclusion by acting primarily in favour of young people looking for their first job and female heads of household; and contributing to the reinforcement of support for self-promotion initiatives, through small productive or income-generating units. SOLMI is dedicated to (i) promoting income-generating activities, (ii) basic sanitation through the domestic connection of water and sewage as well as the recycling of waste, (iii) the construction and rehabilitation of social housing and bathrooms, (iv) support for basic education and vocational training and (v) professionally-oriented training. The organization has accumulated much experience through several projects with a strong impact on the population, both for their contribution to minimizing the immediate needs of the population and for their participation in the sustained improvement of the living conditions of the poor economic sectors.

SOLMI has benefited thousands of people, of whom about 80% are women, with micro-credit, short-term training in micro-business management and advice on the development of income-generating activities in different sectors. Thousands of families have benefitted with houses built or rehabilitated, as well as bathrooms built; hundreds of adolescents and young people were supported with school fees and transportation; and hundreds of young people and women were trained in areas of potential employment and self-employment, among other instruments of empowerment and support for individual, family and community development.

4.3 Colombia[23]

LOCAL CONTEXT: THE SSE ECOSYSTEM IN COLOMBIA

Colombia is a country of some 1,141,748 km2 located in the north of South America with access to both the Pacific and Atlantic Oceans. With a population of 45,500,000, almost 79% live in the municipal capitals, with the country's population increasingly concentrating in urban centers over the last 50 years or so. Colombia has transitioned from high fertility rates and high mortality rates to low rates in both cases. Among the principal causes in recent years is the transition to peace after a long period of armed conflict which disproportionately impacted on the rural environment, women and the poorest in society.

However, the armed conflict also had an effect on the urban environment as a result of a high number of displaced persons migrating from the countryside to the cities, accentuating their concentration. According to the United Nations Office for Refugees, forced displacement situations in Colombia between 1985 and July 2018 involved 7,735,240 people, of which 21.2% were Afro-descendants, 6.2% indigenous people and 42 .4% children, youth and adolescents.

Following the signing of the Peace Agreement with the country's main guerrilla forces, the lack of legalization of the land, the continuity of the violence and the low access to basic services are hindering the effective integration of internally displaced persons and the possibility of reaching solutions. However, the social and solidarity economy has been promoted as a potential solution to such issues in the country owing to its ability to interact in the territories on a permanent basis, provide services to large population groups and generate associative initiatives in line with the inclusion and generation of economic and social resources as well as environmental value.

The social and solidarity economy as a concept has its roots in the development of the first cooperatives in 1930s by activists within the Catholic church. In the 1960s the initial surge was evident in a group of cooperative leaders trained by the Social Christian movements and European trade unionism who became agents promoting hundreds of credit unions in many isolated territories of the country. Towards the end of the 1970s and the beginning of the 1980s, the current structure of the integration movements of cooperativism and the institutional structure between public bodies for promotion, supervision, financing and control of the sector (materialized in Law 79) was approved in 1988.

Subsequently Law 454 of 1998 came about, in a context of the deepening of armed conflict, the expansion of drug trafficking activities and deep questioning of the institutional capacity of the State and society to cope. Its aim was to provide answers to security needs, provision of essential public goods, structuring of a sustainable Treasury and expansion of capacities for democratic participation. Also addressed were decentralization and attention to the gaps between the urban environment, the periphery and particularly the rural areas. According to this Law the organizations of the social and solidarity economy were identified as mutuals, cooperatives and employee funds. In relation to its size, we can say that in Colombia (2017) 5,293 solidarity economy companies are reported. Of this total, 3,488 are cooperatives according to Confecoop (2018), 1,653 are employee funds and 152 mutual associations (National Superintendence of the Solidarity Economy, 2019). 7,612,385 people are involved in co-ops, generating direct employment to 182,176 people.

Subsequent to the Political Constitution of 1991, the idea of the solidarity economy gained further prominence in the country. However, there remained a weak institutional structure of supervision which served to cause misuse by some organizations for legalization of money from drug trafficking and other irregular groups. In parallel, the main financial entities carried out campaigns to discredit the cooperative movement that led to the withdrawal of the deposits held by the State, unleashing a financial crisis in which nearly half of the country's savings and credit cooperatives were liquidated. The State sought, through a major reform of the cooperative legislation, to regain confidence in the sector, to regulate the solidarity economy as a constitutional expression, to avoid a new crisis and to lay the foundations for its development. Law 454 of 1998 of the solidarity economy created its institutional architecture of promotion, supervision, financing and control. Despite this, some State development agencies, solidarity economy organizations, and academics defend the relevance of including other non-profit entities such as foundations, volunteers, corporations and

[23] Based on research conducted by Juan Fernando Alvarez, professor of the Faculty of Environmental and Rural Studies of the Pontificia Universidad Javeriana.

associations within the solidarity economy; however, there is no unity in this development or in statistical mechanisms of control, supervision and verification of self-management authenticity (cooperative identity) that allow minimally reliable information to be made available alongside the cooperatives, employee funds and mutual funds.

These two conceptual approaches have served as the structure of State support for the construction of an almost unlimited, diffuse and dispersed social universe of organizations in which organizational forms faithful to the tradition of the social (and solidarity) economy are confused with associations of merchants, informal community action boards and community enterprises, peasant family businesses, indigenous organizations that base their economy on philosophical principles such as good living, union organizations, volunteering activities and even business foundations that serve instrumental ends serving individual personal interests.

The former Special Administrative Department of the Solidarity Economy, today the Special Administrative Unit of Solidarity Organizations (UAEOS), promoted from the period 2006-2010 a notion according to which there are two subgroups of solidarity economy: one formed by solidarity economy companies and another by solidarity development organizations. The entities of solidarity economy correspond to the entities foreseen in Law 454 of 1998 (regulatory of the solidarity economy), while the group of solidarity development organizations correspond to many of the non-profit entities contained in the Tax Statute.

In this context, institutions such as the Confederation of Cooperatives of Colombia (CONFECOOP) seeks, as the highest trade union body of the solidarity economy in the country, to consolidate a comprehensive and transversal public policy for cooperativism and the solidarity economy, which has resulted in a set of proposed public policies which are subject to negotiation with government agencies who do not have a common means of relating to solidarity economy companies. This is due to the diversity of organizations that promote, supervise and control the solidarity economy and its differentiated interests that have an impact on their disarticulation.

As a result, some dissonances can be witnessed between the promotion, supervision and control of various parts of the SSE in Colombia: conceptual differences that are manifested in differentiated treatments under which solidarity organizations are subject both to their promotion bodies and to those of supervision and control. Support structures are aimed at supporting solidarity economy organizations which strengthen local economies through business formalization. They contribute to the empowerment of civil society and the coverage of services such as education, health and housing that are ultimately public goods which the State has not adequately addressed (thus presenting an effect of transfer of public powers). Supervisory and control bodies are interested in creating organizations that have a financial structure that makes them sustainable so that they pay taxes, generate income and jobs and are in tune with the criterion of competitiveness, including business competitiveness.

The shape of the SSE is influenced by the institutional architecture of the State: the solidarity economy promotion bodies are scattered throughout 15 of the country's 16 Ministries (Labour, Culture, Agriculture, Trade, Health, Education, Mines, among others) under project execution units; while those of supervision and control are under five Ministries (Finance and Public Credit, Transport, Health, Defence and Planning), so while on the surface support for the SSE by the State is ostensibly fairly high, in this context it is possible to affirm that the ambiguity in the treatment of solidarity economy organizations results in that relations with the State have been and remain tense.

FINANCING THE SSE IN COLOMBIA

Based on the characteristics of the SSE in Colombia, strongly affected by a long history of social and political turmoil that has hindered the growth of civil society, the primary source of financing for the SSE is the cooperative banking sector. For this reason this section will focus in particular on cooperative banking rather than on finance for the SSE as a whole.

In the mid-1990s a liquidity crisis affected the cooperative sector and the State response, contrary to what happened with the capitalist banking crises, which was to intensify the legal reserves of the cooperatives and the enforceability of deposit protection. Forty-two savings and credit cooperatives were liquidated, which brought on a crisis of confidence that adversely affected the image of cooperativism. With the challenge of generating new public policies that would regain confidence in the cooperative movement, Law 454 of the Solidarity Economy was issued in 1998, which constructed a legal and supervisory framework for financial cooperatives, transferring its supervision from the National Superintendence of Cooperatives. to the Financial Superintendence as a credit institution (similar to any capitalist banking entity) and its registration to the FOGACOOP (Cooperative Sector Guarantee Fund), a government entity that provides coverage and protection to savers.

Considering the three main types of institution within the financial sector (credit, specialized financial advice/administration of resources, and assurance), cooperatives are mainly present yet atomized in the sub-sector of credit establishments, resulting in:

- Two cooperative banks among twenty-two credit institutions (Banco Coomeva S.A. and Banco Cooperativo Coopcentral). The latter is a second-tier institution, also providing integration of services to generate economies of scale, acting as a means of compensation and as a tool to fulfil reserve requirements.
- One cooperative company, among fifteen, named Financiera Juriscoop S.A. CIA Financing.
- Five financial cooperatives: Cooperativa Financiera de Antioquia, Cooperativa JFK, Coofinep, Cotrafa and Confiar Cooperativa Financiera.
- One hundred eighty-one (181) savings and credit cooperatives.
- A fiduciary cooperative society (Fiducoomeva) among twenty-seven.
- Two insurance cooperatives (La Equidad Seguros and Aseguradora Solidaria) among twenty-two.

These dimensions can be summarised in table 4.3.1 below.

Table 4.3.1 Dimensions of the financial cooperative sector in Colombia (Millions $)

Variable	Cooperatives with financial activity	Coop-central	Bancoomeva	Juriscoop CF	Financial cooperative sector	Credit establish-ments	Partici-pation
Assets	$17,236,149	$951,614	$3,895,102	$705,430	$22,788,295	$628,528,771	3.63%
Average Gross Portfolio	$14,782,508	$744,584	$3,435,171	$598,728	$19,560,991	$445,383,608	4.39%
Loan Portfolio	$10,991,799	$50,458	$2,029,488	$525,751	$13,597,496	$131,503,542	10.34%
Microcredit Portfolio	$1,141,910	$18,925	$ -	$ -	$1,160,835	$12,426,060	9.34%
Housing Portfolio	$952,472	$ -	$943,922	$ -	$1,896,394	$60,484,419	3.14%
Commercial Portfolio	$1,696,328	$675,201	$461,761	$72,977	$2,906,267	$240,969,586	1.21%
Deposits	$9,761,235	$697,374	$3,334,603	$556,889	$14,350,102	$468,003,611	3.07%
Net worth	$6,004,950	$196,359	$418,217	$91,013	$6,710,539	$89,318923	7.51%

Made by: Confecoop
Source: Superfinanciera and Supersolidaria

A significant element is that 70% of the portfolio of the cooperative financial sector is represented by consumer loans, linked to household consumption. On the other hand, 55% of commercial loans to other companies are granted by the five financial cooperatives and especially by banks of a cooperative nature.

Moreover, and with regard to microcredit, it represents an important value for the entire Colombian financial sector (6%) despite the fact that cooperatives do not have any stimulus for this line of credit as most entities do. In fact, a particularity of microcredit in cooperatives is that it usually manages interest rates well below the average for the traditional microfinance industry.

It is worth noting that the cooperative financial system presents a sharp imbalance towards providing consumption loans and this relates to:

i. the fact that cooperatives provide credit to finance much higher daily needs;

- regulatory obstacles to the financing of credit lines other than consumption through ESS; this is revealed after analysing the public policy that tends to confine cooperative actions to the financial inclusion of vulnerable populations, where consumer credit is often the only way to access a loan; cooperatives must thus pay the costs for the internalization of market and state failures while fighting a policy framework that hinders the generation of their own economic circuits through integration by means of a series of incentives to promote competitive atomization;

- the notion according to which the objective of the cooperative financial activity is to provide credit facilities to associates as natural persons and not as financial muscle financing the economic activity of the sector has gained relevance. In fact, the business atomization of the cooperative sector that has prevailed in the financial sector responds to the above.

The cooperative financial sector is the aggregation of cooperative credit establishments (composed of entities of a cooperative nature, financial cooperatives (e.g. banks such as COOMEVA and Banco Coopcentral) and savings and credit cooperatives[24]) together with the cooperatives that are part of the financial services companies.

Cooperative insurers (*Aseguradora Solidarias and Seguros La Equidad*) and employee funds are excluded from this sector (1,484 for the year 2018); although not in the cooperative sector, they are considered part of the solidary economy.

Employee funds are business associations made up of workers and employees of the same company, whether from the private sector or the public sector, who join up to access loans through periodic contributions made by discounting their payroll payments. Regularly they arise through the creation of small deposit boxes or employee savings funds to self-finance credit activities and others related to welfare such as education and recreation. These are previously defined by the associates. Other examples of non-fully-cooperative financial actors are corporations of solidarity nature and popular economy such as Fomentamos (founded by Cooperatives such as CONFIAR and Solidarity NGOs and providing microcredit for excluded populations) and mutual associations providing both insurance services but also credit (mostly microcredit too).

The financial cooperative sector in Colombia is continuously monitored by the Confederation of Cooperatives of Colombia, which has an observatory that in practice is a statistical repository of the evolution of its companies. This sector also has a Federation named the Specialized Federation of Savings and Credit Cooperatives & Financial Institutions of Colombia -FECOLFIN.

Besides this, a significant proportion of the population is financially excluded and therefore can fall prey to informal credit options, denominated in Colombia as a daily payment or drop-by-drop. Drop-by-drop credit is a type of informal credit that has a national presence in Colombia, but which occurs more frequently in the rural and urban informal sector. This type of credit consists of informal civil society organizations that offer loans of low or medium size, without bureaucratic backup processes, but with a high interest rates. Moreover, this type of credit is associated with criminal organizations because it is presumed that it is a loan modality to launder money emanating from their criminal activities and maintain violent conflict by

[24] The difference between financial cooperatives and savings and credit cooperatives in their different modalities (only contribution and credit, specialized, multi-active and comprehensive) is that the former can carry out financial activities with non-associated third parties, while savings and credit cooperatives only operate with associates. This brings differentiated supervision policies: the financial cooperatives are regulated by the Financial Superintendence of Colombia and the savings and credit cooperatives by the Superintendency of Solidarity Economy.

having greater incidence in cases of non-payment or delayed payments.

What has been pointed out so far highlights elements of institutional disarticulation that persist in the framework of the Colombian SSE. In the financial sector there is a set of obstacles that are synthesized in growing tax pressure and assimilation of the cooperative companies that exercise the financial activity to the capitalist companies of financial intermediation.

In relation to this, Professor Hernando Zabala (2012) identifies the following restrictions:

- barriers to the reception, collection and administration of State resources, thus preventing the leverage that capital companies enjoy when the administration of State resources deposits their funds in these companies;

- inequality in access to guarantee instruments;

- barriers in key policy to expansion of the banking system (Decree 2233 of July 7, 2006);

- erosion of preferential treatments for cooperatives.

The above barriers and obstacles generate two forces that limit the endogenous development of a cooperative ecosystem in the financial sphere:

- Placement of a glass ceiling to development, understood as the limitation to achieving the rise in market shares of cooperatives within the economy through their assimilation with capitalist companies, without recognizing the internalization of costs that occurs in cooperatives when they allocate a large part of their surpluses to the financing of measures that generate common good and, at the same time, excludes them from the possibilities of enjoying all commercial areas, since only one corporate figure is mentioned in decrees and laws: capitalist companies by shares.

- Removal of the steps of the ladder to the development of the cooperative sector through the induction of corporate atomization and particularly of its financial muscle, which otherwise would allow financial institutions and savings and credit cooperatives to invest their surpluses in the revitalization of the sector itself and its participation in the major national projects of private investment.

EXAMPLES OF FINANCIAL MECHANISMS IN COLOMBIA

In this case, we propose as an example of an innovative financial mechanism for Colombia the case of the CONFIAR cooperative with its headquarters in Medellín (Antioquía, Colombia). This savings and credit cooperative was founded on 3 July 1972. Its stated business mission includes "*the construction of social fabric, thought, culture and solidarity economic circuits, through the operation of financial products and services, fostering ties of cooperation, trust and permanence*". The CONFIAR cooperative managed to optimize its organizational structure, becoming one of the most solid cooperative financial entities in the market in recent years, becoming the fourth largest cooperative in the country by volume of portfolio. Despite its income and assets, CONFIAR is one of the cooperatives of its sector that generates lower surpluses because its strategy is based on the transfer of benefits through credit use and the realization of programmes to guarantee its social impact, with participation by the entity as the leader in housing portfolio in the sector (32% as of June 2018) and, in particular, its contribution in the financing of social-housing. By 2019 the cooperative had 170,934 associates, 134,692 savers (non-members) and 239 third-party debtors totalling 305,865 beneficiaries of the cooperative's activities. An example of its focus on a differentiated approach to financial services can be seen in the differences in relation to other actors in Colombia in Table 4.3.2 (on the following page).

Despite the above-mentioned bias towards the provision of consumption loans, it is noteworthy that a cooperative such as CONFIAR carries out practices to reverse the credit structure of the financial cooperative sector through an incentive policy for the reduction of consumer loans and the increase in other credit lines.

These financial products go hand in hand with an intense educational process that emphasizes the need to save as a means of living well and using credit wisely, including their periodic talks which includes issues such as de-growth, ethical banking and living well based on probity.

In the area of low-income housing, CONFIAR has developed a financing scheme that involves the search for alliances with the Development Bank for infrastructure projects to obtain resources for the assignment of sufficient guarantees in exchange for

Table 4.3.2 breakdown of different financial services in the Colombian SSE

	Colombian credit establishments	Financial cooperative sector	Confiar cooperative
Consumption loans	29.5%	70%	41%
Commercial loans	54%	15%	21%
Housing loans	13.5%	10%	32% (and mostly Social Housing)
Microcredit	3%	5%	6%

financing housing projects, builders and construction providers to seek to reduce costs in the construction of homes and beneficiary families.

In the area of microcredit, CONFIAR offers rates that are ostensibly lower than usurious interest rates of around 50%. Thus, the cooperative identifies ventures based on its contributions to the welfare of the communities, under the condition of accompanying the management of credit at under 24% annual interest. In the area of credit, their credit cards have the lowest quotas of the market (of 1.2% per month).

Besides these actions aimed at serving its associates, and due to legal restrictions for the development of activities different from the primary function of the entity (the provision of loans) the cooperative carries out multiple actions for the benefit of its stakeholders through the CONFIAR Foundation.

Its activities can be grouped into:

- **Actions in the area of culture and the promotion of a solidarity identity**. CONFIAR is a key player in the strengthening of the culture of cooperation and peaceful coexistence in the city of Medellín through cultural actions that favor the inclusion of groups excluded due to economic conditions, place of residence or other factors.

- **Actions for gender equality.** This structural action results in the situation that in all positions within the cooperative women and men presented minimal differences with respect to the salaries they received in 2018. Moreover, of the 720 people employed in the Cooperative, 71.4% are women and 28.6% are men, which places Confiar as one of the institutions that employs the largest number of women in the financial sector. 54% of the Management Committee of CONFIAR is made up of women and in the Assembly they account for 47% of the total. In addition, this body approved, in 2018, a minimum participation of 40% of either gender, men or women, for elections of management and control bodies.

- **Actions for the development of culture** through reading, such as publication and free distribution of books.

- **Actions for the environment,** such as campaigns in the area of water preservation and waste management, which encourage economic and social development in rural areas, facilitating the creation of agricultural production units that contribute to their economic independence and to the transformation of illegal economies into businesses. Finally, the cooperative began the process of transforming the El Paraíso Recreational Center into El Edén Natural Reserve, 12 hectares located in a nearby municipality (Cocorná) of which 4 hectares were allocated for 20 years to the recreational service of its members and beneficiaries.

- **Actions in the area of education**. In this area the majority of activities of the cooperative are supported by the CONFIAR school where they educate, train and do research with emphasis on cooperativism and the solidarity economy. In addition they reward research on cooperative issues through the Jorge Bernal Prize.

Special relevance within this chapter should be given to other innovative elements in the area of SSE. Under this particular approach, CONFIAR, its Foundation and allies aim at the generation of self-employment that, under the conditions of banking in a solidarity entity, end up being inserted into the markets with greater capacities to make their work a generator of local progress and of understanding the cooperative support under the notion of a comprehensive package of services for sustainability.

An example of this is the hundreds of businesses promoted by CONFIAR for the organization of family work for women tailoring workers, construction workers, peasants grouped together for agricultural production and small cooperatives of organic producers whose aim is to reach consumers directly so as to break the poverty trap represented by the offer of their organic products to marketers.

Another example is related to the organization of jobs for environmental preservation and education and the revitalization of the housing market through the accompaniment of associates so that they can acquire their homes through savings, thus sharing benefits for the acquisition of social interest housing as a link with builders and construction suppliers to make housing projects cheaper and create incentives for their financing, such as subsidies.

In the case of microcredit for the organization of informal vendors, CONFIAR ends up unleashing a strategy that affects the creation of decent jobs and self-employment based on the capitalization of their businesses, overcoming glass ceilings and breaking the poverty trap created by usurious interest rates charged by the financial institutions for credits.

The city of Medellín, which has been the epicenter of multiple social changes in the last 20 years, has become recognised globally as an example of transformation and resilience. CONFIAR has been a main protagonist appealing to financial services as means of economic liberation and self-determination of local economies away from violence, the poverty trap that traditional banking entities entail while generating the capacity for innovation.

4.4 Ecuador[25]

LOCAL CONTEXT: THE SSE ECOSYSTEM IN ECUADOR

Ecuador is a middle-income country with about two-thirds of its population living in urban areas. The GDP per capita projected for 2018 was US$6,430 approximately.[26] The economically active population is around 8.2 million people, with an unemployment rate of 3.7%, adequate employment of 40.6%, and inadequate employment of 55.3%. It is estimated that 23.2% of the total population is poor, the rates being15.3% in urban areas and 40% in rural areas. 8.4% of population are in extreme poverty, the rates being 4.1% in urban areas and 17.7% in rural areas. However, there has been a sharp decrease in inequality and poverty over the last decade (16,5% in 2007). Ecuador has a dollarized economy, which means that the currency of national circulation is only the US dollar; this leads to a limited exchange policy but also facilitates low inflation (0.27% in 2018).

In May 2017 Lenín Moreno Garcés was elected as President of Ecuador and a supposed clear shift in policy and several reforms have been made to control the deficit, reduce spending, and facilitate signature of a future agreement with the IMF, needed to cover the sharp increase in public debt.

State policy for the recognition and promotion of the Popular and Solidarity Economy (PSE) was inaugurated in 1937 with the issuance of a set of laws that seek the promotion of social progress, and a Law of Cooperatives was promulgated. After a long process of cooperative development, Ecuador has witnessed the development of Popular and Social Economy over the last 40 years as an instrument in the fight against poverty, unemployment, aging of the rural population, labour migration of women, irrational use of natural resources, and exploitation of merchants and intermediaries, among other factors.

25 Based on research conducted by Javier Vaca, Economist and Inclusive finance consultant.

26 Information from National Institute of Statistics and Census. www.inec.gob.ec

This resulted in its inclusion in the New Constitution. Thus in Ecuador, the term used to explain the Social and Solidarity Economy (SSE) is defined from the Constitution of the Republic. Following this concept, the SSE was identified as one of the four economic sectors of Ecuador (the fourth being a mixed sector).

In 2011, with the enactment of the OLPSE, the Cooperatives Law was repealed, creating a new organization and control of the sector under a new vision of public policy. This Law establishes a clear definition of the PSE as "*the form of economic organization, where its members, individually or collectively, organize and develop production, exchange, commercialization, financing and consumption processes of goods and services, to meet needs and generate income, based on relationships of solidarity, cooperation and reciprocity, privileging work and human being as the subject and purpose of their activity, oriented to good living, in harmony with nature, above appropriation, profit and the accumulation of capital.*"

Based on this definition, and as part of public policy, three institutional levels are established to organize and channel public policy to the sector:

a) **Superintendence of Popular and Solidarity Economy** (SPSE): in charge of the control of the PSE and of the Popular and Solidarity Financial Sector (PSFS).

b) **Institute of Popular and Solidarity Economy (IPSE)**: attached to the Ministry of State in charge of economic and social inclusion. It executes public policy, coordinates, organizes and applies deconcentrated plans, programmes and projects related to the objectives of the OLPSE.

c) **National Corporation of Popular and Solidarity Finance (CONAFIPS)**: its corresponding social statute that must be approved by the Superintendence of Popular and Solidarity Economy. Its main mission will be to provide financial services subject to the policy dictated by the Interinstitutional Committee to the organizations covered by this Law, under second-tier financial and credit service mechanisms.

Other relevant actors in public policy are:

a) **Interinstitutional Committee**: a coordinating body including Vice-Presidency of the Republic and three key ministries: Economic and Social Inclusion; Industries and productivity; and Economy and finance.

b) **Decentralized Autonomous Governments (DAG)**: these are subnational administrative units which according to its attributions and OLPSE have some competences for PSE.

c) **Monetary and Financial Regulation Board (MFRB)**: this organization is responsible for the formulation of public policies and monetary, credit, exchange, financial, insurance and securities regulation and supervision. As such, it issues solvency and financial prudence rules for the Popular and Solidarity Financial Sector.

Although the OLPSE and its regulations provide a legal framework, it was necessary to establish a distinction for the PSFS organizations, given their function of intermediating economic resources. This is how a Monetary and Financial Code was issued in order to govern and regulate the entire financial sector in Ecuador, including the private, public, and popular and solidarity sectors. It focuses mainly on the regulation of savings and credit cooperatives, establishing a distinction between these and the rest of PSE organizations. This Code created the Monetary and Financial Regulation Board (MFRB). OLPSE mentions that PSE is composed of Associative and Cooperative Sectors, Community as well as Popular Economic Units, the latter two being defined as:

a) **Community Sector**: group of organizations, linked by territorial relationships, family, ethnic, cultural, gender, nature care, urban or rural. Communities, people and nationalities that, through joint work, have as their object the production, commercialization, distribution and consumption of legal and socially necessary goods or services, in a solidarity and self-managed manner, under the principles of present Law.

b) **Popular Economic Units:** people dedicated to economy care, single-person, family, domestic, retail and artisan workshops, who carry out economic activities of production, commercialization of goods and provision of services that will be promoted by fostering association and solidarity.

Furthermore, the law mentions those undertakings promoted by Ecuadorians abroad with their relatives in the national territory and with returned Ecuadorians, as well as foreign immigrants, with the purpose of generating work and employment between them in the national territory.

Since the passing of the Law of 2011 there has been a sharp increase in the numbers of both financial and non-financial SSE units. Thus from 5,127 non-financial SSE organizations in 2012 there were 12,313 in 2017 with the following composition:

Table 4.4.1 PSE composition (December 2017)

Sector	Associations	Cooperatives	Community organizations	Total	# people associated
Consumption	109	16		125	2,682
Production	6,454	489	18	6,961	124,691
Services	3,058	86	15	3,159	92,958
Transport		1,852		1,852	82,006
Housing		216		216	33,665
Total	**9,621**	**2,659**	**33**	**12,313**	**336,002**

As regards economic activity of non-financial organizations of PSE, information can be obtained from the National Tax System of Ecuador that reports information on the tax declarations of associations and cooperatives of the PSE, where they record a total of US$565 million on assets, sales of US$423 million and annual revenues of US$872 million, which represent 0.46% and 0.95% of the non-oil value of GDP, respectively.[27]

Estimates made by the Ministry of Economic and Social Inclusion indicate that PSE generates 64% of total employment in Ecuador, and represents 13% of the country's Gross Domestic Product.

In relation to the structuring of the ecosystem, PSE organizations can include organizations of representation and economic integration at local, regional or national levels. However, only the PSFS and Transport enjoy a significant level of second and third tier integration and have developed relevant advocacy capabilities.

Finally, the high poverty rate, especially in rural areas, and the high unemployment (or underemployment) rates, have fostered the search for alternative forms of undertakings which in the country has received the name of Popular and Solidarity Economy. Many of these organizations are based on family, territorial or commercial ties and they are also influenced by indigenous traditions and others from links with European organizations.

FINANCING THE SSE IN ECUADOR

Public support for channelling financial resources towards the SSE has been based on three pillars:

Public purchases (growing from almost US$12 million in 2010 to almost US$90 million in 2016, with a total of nearly US$395 million over this period).

Direct financial support (with mechanisms such as CONAFIPs which placed US$922,430 million over the 8-year period 2008-2016).

Regulatory measures such as the Manual of good commercial practices for the supermarket and similar sectors and their suppliers (2014) which required retailers to have at least 15% of their providers coming from SMEs or PSE. This produced a surge of sales to private actors from PSE organizations from US$1.5 million on 2014 to more than US$12 million in 2016 according to data from PSEI.

In the same way the Constitution declares that the Economy of Ecuador is made up of four components, Art. 311 defining that the popular and solidarity financial sector (PSFS) will be made

[27] Pazos Catalina, Development of the popular and solidary economic sector in Ecuador: before and after SPSE creation, PSE Conference, SPSE, 2018.

up of savings and credit cooperatives, associative or solidarity entities, and communal banks. The service initiatives of the PSFS, and micro, small and medium productive units, will receive differentiated and preferential treatment from the State, insofar as they promote the development of the PSE.

Savings and credit cooperatives and mutual savings and credit associations are one of the most dynamic and numerous groups of the PSE, which has undergone a process of consolidation and adaptation to a new regulatory framework, both with the OLPSE, as well as with the Monetary and Financial Organic Code (MFOC), along with several Resolutions issued by the Monetary and Financial Regulation Board (MFRB). This led to a decrease in the number of institutions from 947 in July 2013 to just over 600 in August 2018; however many cooperatives that disappeared during this period were absorbed by other cooperatives or in some cases bought their portfolios of credit, and so the consolidated volume of the sector continues to grow.

On August 2018[28] there were 617 active organizations from PSFS (612 savings and credit cooperatives, 4 mutual savings and credit associations and one central bank) with assets of US$13,501 million, liabilities of US$11,541 million and equity of US$1,842 million, which represent approximately 7 million of people associated.

The volume of assets of the PSFS represents approximately a quarter of the total national financial system in Ecuador. However, at the level of microcredit, the portfolio of savings and credit cooperatives and mutual associations totals USD. 3,600 million, being 3.2 times higher than the private banking sector, which reveals its vocation for serving other PSE actors.

Regarding the definition of other actors of the PSFS, such as communal banks and other associative entities, there are no accurate figures, due to the fact that some microfinance institutions use so-called 'communal banking' as a methodology for credit access. The registration for these entities is not mandatory and there is no regulation of prudence and financial solvency.

In the following table we can see the significant growth rate of PSFS and its comparison with other actors in the financial sector.

Table 4.4.2: Growth of assets, liabilities and equity in Popular and Solidarity Financial Sector vs Private Banks

Account	Sector	2017	2018	Growth
Assets US$ Millions	PSFS	12,163	14,011	15.2%
	Private Banks	38,975	40,984	5.2%
Liabilities US$ Millions	PSFS	10,393	11,956	15.0%
	Private Banks	34,757	36,372	4.6%
Equity US$ Millions	PSFS	1,770	2,049	15.8%
	Private Banks	4,218	4,612	9.3%

Source: SEPS

28 PSE Superintendency Statistics.

The main financing mechanisms in Ecuador come from the supply of credit by the national financial system, that is composed of public, private and popular and solidarity institutions.

Analyzing the total credit portfolio, the segment that is most oriented to serving the PSE sector is microcredit, defined as "that [which] is directed to a natural or legal person with an annual sales level less than or equal to USD 100,000, or to a group of borrowers with joint and several guarantee, destined to finance small-scale production or commercialization activities, whose main source of payment is the product of the sales or income generated by those activities".[29]

In addition, we can see that the financial sector that has the highest percentage of participation in microcredit is PSFS (savings and credit cooperatives and mutual entities), since around 30% of its total portfolio is oriented to microcredit, compared with the level of the private financial sector that is only 6% of the total of its portfolio.

On the other hand, there is productive and commercial credit, oriented to legal persons obliged to keep accounts, whose sales level exceeds US$100,000, for which those organizations of the PSE would be classified, such as cooperatives, associations and community organizations oriented to the production, commercialization or offers of services. However, the requirements for this type of loan are greater and include the presentation of financial statements, projects, and in many cases, real guarantees, which limits their access.

On the part of public banks, there have historically been financing programmes aimed at fostering productive development through the public bank Banecuador, which on several occasions has been subject to public policy decisions for refinancing, restructuring or debt forgiveness. While it has contributed to the development of certain sectors, the constant changes and political decisions have diminished its potential effect. There is also the National Financial Corporation, which is oriented on one hand to be a second-tier bank for lines of production promotion, and on the other to finance private companies in areas considered strategic. The main requirement for accessing this type of credit is a project presentation and real guarantees.

Other possibilities of access to PSE financing could be participation in the capital market. Although there have been some reforms to the Securities Market Law to open up possibilities for participation on the securities market, the PSE sector has not positioned itself as an investment alternative for private capital. PSE actors are public societies that are not attracted to partners with private capital to be invested because they would also have a vote among all the partners. Therefore, the options should be oriented to the issue of securities as debt.

Other minor instruments include a loan portfolio securitization process for credit unions or the provision of incentives to actors to participate in the issue of electronic invoices that may be subject to being sold with factoring mechanisms in the stock market. However, these seem to have an irrelevant impact on PSE.

At the State policy level, conditional transfer programmes have been created, through the granting of bonds to people considered vulnerable or in extreme poverty, which is how the human development bond (BDH) is awarded. Based on this mechanism (created in 1998), a finance product called credit for human development was derived in 2007, which constituted an advance of the bond for the creation or capitalization of a venture. This consisted of a loan of which the main source of repayment (or guarantee) constituted the monthly bonus that people receive. It included technical assistance for both the financial organization providing credit and for training the microentrepreneurs. It was divided into individual (up to US$600) or associative credits (up to US$1,200), the latter being for setting up a collective type of micro-enterprise.

Another type of finance benefit for PSE is related to tax concessions established in the OLPSE, that establish "*the acts of solidarity economy made with its members by the organizations referred to in this Law, as part of the exercise of the activities proper to its corporate purpose, they do not constitute tax-generating events; on the other hand, the acts and other operations carried out with third parties are subject to the common tax regime....The profits that could come from operations with third parties and that are not reinvested in the organization, will charge Income Tax, both for the case of the organization, and for the members when they receive them*".[30]

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[29] MFRB Resolution, Codification of the Norms that Regulate Credit Portfolio Segmentation of the Financial Sector Entities.

[30] OLPSE, Art. 139.

Other alternatives that have provided some type of financing to PSE come from international financial funds with a social objective, which seek the promotion of the SSE. However, at the moment they do not represent real alternatives in terms of volume. This mechanism has faced difficulties with tax aspects such as foreign exchange tax, and certain restrictions if they come from countries considered tax havens. Funds such as Triple Jump, Oikocredit, Symbiotics, Alterfin, Blue Orchard, among others, are important alternatives for microfinance institutions and producer associations. It is common to request investment impact reports from the institutions that receive these funds, with quantifiable economic and social indicators, and even internationally-recognized tools to measure their social performance management and environmental impact. Priority lines aimed at products in the field of fair trade, organic products, certifications that indicate the origin of the product of small producers and the use of totally organic inputs, and ultimately environmental certifications, are valued at the international level. Green finance, for example, is also undergoing increased availability of funds.

Similar to the above, but linked to larger projects, has been the participation of funds from multilateral organizations such as IADB-FOMIN, CAF, IFC-World Bank, which may have higher amounts, lower interest rates, and longer terms. Many of these have had counterparts in public financial institutions, but in recent years several large private financial institutions have been able to access them. In recent years, even alternatives such as the issue of green bonds have been accepted to generate funds directed to activities that have positive environmental certifications in relation to producer associations.

An interesting alternative was opened up with the establishment of CONAFIPS as a financial institution specialized in the management of second-tier funds for the PSE, which has a certain autonomy and power to develop specialized financial products for the sector and to raise national and international funds for the development of the sector. In a specific section, its operation will be detailed, as innovative mechanisms specialized in the management of second-tier funds for the PSE.

Saving becomes the fundamental factor for the development of the PSE, being – in the case of popular and solidarity financial institutions (savings and credit cooperatives and, mutual entities) – the main source of financing. In an analysis on PSFS for example, a ratio of public deposits to credit portfolio is 99.97%, the loan portfolio thus being practically equal to the total of deposits. In the case of private banks, this index is 104.93%, which means that almost 5% of the resources they put into credit come from sources other than savings.

At the country level, the importance of saving in Ecuador is even more relevant, since it is a country that uses the US dollar as its national currency, so that, having no control over its own currency, the domestic money supply depends on internal and external financial flows. Currently, the level of external debt is around 38% of Gross Domestic Product, a percentage that has been increasing in recent years. Depending on the flow of external dollars that enter the country, it directly impacts on the liquidity of the financial system and on the economy in general.

EXAMPLES OF FINANCIAL MECHANISMS IN ECUADOR

As previously stated, CONAFIPS was formally created as an institution with the promulgation of the OLPSE, but it has important precedents for its creation. The antecedent for its formation was the creation of the National Microfinance System Programme (NMSP) in 2007, focusing as a main concept the second-tier financing mechanism for the promotion of microenterprises, oing to its impact on the generation of employment, distribution of wealth, strengthening of the solidarity economy and social development.

With the enactment of the OLPSE, on 10 May 2011, the National Popular Finance and Solidarity Corporation (CONAFIPS) was created, which began operating on 28 December 2012 with the approval of its Social Statute by the SPES. The operations authorized by its social statute, based on what is stipulated in the OLPSE, are:

a) developing and operating funding mechanisms, financial and transactional services;

b) granting of second-tier financial and credit services;

c) contracting of internal and external loans;

d) issuing of bonds and securities of the CONAFIPS;

e) investing its resources under the criteria of security, liquidity and sustainability;

f) channeling and managing resources from public or private entities, national or foreign, applying different financial management mechanisms;

g) investing in productive ventures driven by people and organizations protected by law;

h) subtracting the portfolio originating in operations with organizations of SFPS; *and*

i) providing credit guarantees in favour of entrepreneurs of the PSE.

According to its legal and statutory framework, CONAFIPS has developed some financial and non-financial products for the promotion of PSE and its PSFS, concentrated in the following areas:

a) **Evaluation of organizations of PSFS**: CONAFIPS has developed an evaluation model for organizations of SFPS, named "Qualification and Inclusive Financial Analysis-CAFI". This model has the purpose of democratizing the access by these organizations to CONAFIPS financial products and services, evaluating their administrative, financial and social performance. Depending on the result obtained in a given instance, a 100% quota is granted if it meets the required standards, otherwise it must go through a strengthening process to make changes that allow it to improve its indicators and access future financing.

b) **Second-tier loans:** CONAFIPS provides second-tier loans to the SFPS organizations (savings and credit cooperatives, mutual funds, savings banks and community banks), so the final destination of these loans are entrepreneurs of the PSE. Among the lines of credit with specific purposes the following can be mentioned: credits for increased liquidity, popular housing, support for migrants, economic reactivation, micro-enterprises of expanded accumulation, inclusion of vulnerable population, credit linked to social projects of the Government, organizations of the PSE, strengthening of SFPS organizations, and reactivation due to natural disasters, among others.

c) **Strengthening:** CONAFIPS offers assistance and support services to SFPS organizations in processes that generate better administrative, financial and social management. The strengthening process includes training, technical assistance in administrative management, and transfer of financial software for management.

d) **Guarantee services:** CONAFIPS has developed a guarantee service to the organizations of SFPS, which seeks to facilitate the delivery of credits to entrepreneurs of PSE that do not have sufficient collateral. With this system, CONAFIPS becomes a guarantor for the organization, thus reaching more final beneficiaries.

e) **Computer system:** A computer system for the popular and solidary economy is a tool that CONAFIPS provides free of charge to the SFPS organizations, as part of the strengthening process. It is a software designed as a computer solution for financial and transactional management, which facilitates its operational management.

After seven years of its formal constitution, CONAFIPS presents in summary the following achievements:

a) 131 qualified SFPS organizations accessing second-tier credits in 2016, 202 in 2017 and 229 in 2018, all thanks to the CAFI evaluation methodology;

b) in 2017 it placed 135 million dollars in 129 savings and credit cooperatives, in 23 of the 24 provinces of Ecuador;

c) in 2017 36,199 direct individual beneficiaries and 104,917 indirect beneficiaries, with average credit received from US$3,734;

d) as indicators of financial inclusion, it can be mentioned that the loan portfolio granted has contributed to financing in 2017 the following groups: 14.9% of young entrepreneurs; 30.6% of women entrepreneurs, 20.4% the agricultural sector, 18% the commercial sector, 45% the rural sector, and 65% poverty zones;

e) its guarantee system allowed in 2017 access to credit for 2,588 people; and

f) its total credit portfolio at August 2018 totalled US$239 million.

Although the CONAFIPS portfolio represents 2.6% of the total portfolio of the popular and solidarity financial system (PSFS), it has contributed to expanding the access of vulnerable sectors to financing, and to strengthening small and medium-sized cooperatives for which the financing received enhances their development. It is also worth remembering that organizations within PSFS have many more problems accessing external funding besides savings from clients or members. The main problems are the informality of many initiatives and (partially related to this) the absence of collateral. Furthermore, in relation to a key actor such as credit unions, the small and medium ones still have an adjustment process to comply with the regulations, since several did not fully comply with the established norm. This results in a perception that they have a greater risk when performing an evaluation, and to address this an external funder would need to make a personalized analysis for lack of secondary information.

4.5 Italy[31]

LOCAL CONTEXT: THE SSE ECOSYSTEM IN ITALY

Italy is the third largest economy in the Eurozone and the eighth largest in the world. It is one of the most industrialized countries worldwide and a leading nation in exports and trade. It also has one of the most developed and historically rooted social and solidarity economy ecosystems in the world, arising in large part from the bottom-up initiative of civil society matched by laws and regulations that over the years have sustained its growth. The Italian constitution, for instance, explicitly acknowledges the freedom of association for non-profit organizations and recognizes the social function of cooperatives, and over the years there have been many important pieces of legislation aimed at the development of the SSE ecosystem, from the legal recognition of social cooperatives in 1991 to the latest comprehensive reform of the Italian '*Third sector'* in 2016.

With regard to this last law, which introduced for the first time in the Italian legal system the concept of "third sector", it is interesting to note that it includes a variety of different organizations belonging to the SSE. According to the new law "third sector entities" include the institutions registered in the "Single national register of the third sector" and take on the status of: (i) voluntary organizations, (ii) associations of social promotion, (iii) philanthropic organizations, (iv) social enterprises (which include social cooperatives), (v) association networks, (vi) mutual aid societies, (vii) recognized and non-recognized associations (with the exclusion of sports associations, trade unions and political parties), (viii) foundations and other private non-profit bodies that pursue civic, solidarity and social utility through the exclusive or principal conduct of one or more activities of general interest in the form of voluntary or free disbursement.

The SSE in Italy thus includes both the vast and variegated universe of the Italian third sector and the traditional cooperative movement, which has a long history and is regulated to guarantee the pursuit of its social functions through stringent constraints on the distribution of profits. The different components that make up the universe of the Italian Social and Solidarity Economy can be seen as an updated expression of the initiatives that, throughout the course of history, have been carried out privately by individuals or by social groups to meet the needs of the community at large (Borzaga & Ianes, 2006).

Among the numerous experiences, all characterized by strong ideological, cultural and often religious connotations, it is worth mentioning the so-called *Opere Pie* and the *Opere Associative* that, along with Mutual Relief Societies and Pawnshops, contributed extensively to meeting the demand for support from consumers and producers, as well as the demand for health services, social assistance and financial resources, which increased rapidly throughout the 19th Century with the industrialization of the country. During this period the cooperative movement started growing, and by the end of the 19th Century cooperatives were involved in most sectors of the economy and had national coordination structures (National League of Italian Cooperatives) with a well-recognized identity.

The beginning of the 20th Century was characterized, in Italy as in many other countries in Europe, by the rise of the welfare state, with increased involvement of the public sector in the fields of health, care and social security, which originally displaced some of the SSE actors that had traditionally provided some

[31] Based on research conducted by Giovanni Sartori, EURICSE, and Ivana Catturani, University of Trento and EURICSE.

of those services. Starting in the 1980s, however, the strain on public finances and the growing difficulty the public sector was having in meeting the emerging and varied needs of the population, resulted in a revived role for civil society, with the birth and diffusion of volunteering organizations and social cooperatives. These new entities, which attempted to build more democratic and inclusive organizational structures, contributed greatly to the development of the Italian SSE. In particular, the use of the cooperative form for the provision of social services and work integration became widespread in Italy, often replacing other associative types of organizations, which instead remained dominant in other countries. Social cooperatives contributed to innovating the provision of social services, which addressed new sections of the population such as young people with problems of socialization, the elderly, the disabled, drug addicts and the homeless, and they also specialized in those activities which aimed to integrate disadvantaged people into the labour r market. In other words they emerged as an attempt to organize and formalize efforts in the social and solidarity economy, with the goal of reconciling the seemingly-distant aspects of enterprise and solidarity.

The SSE ecosystem in Italy today is vast and complex, including the different types of SSE organizations and enterprises, their various consortia, federations and representative bodies, as well as a host of other organizations and institutions that in various ways provide support and resources. The main actors and stakeholders of the Italian SSE ecosystem are summarized in Table 4.5.1.

Table 4.5.1: The actors and stakeholders of the SSE ecosystem

Main actors	• Cooperatives (non-social) • Social Cooperatives • Associations • Foundations • Other non-profit institutions
Public institutions	• Ministry for Employment and Social Policies • Ministry of Economic Development • Regional authorities • Local authorities
Networks and support institutions	• Representative bodies • National, regional and local consortia • Support networks • Forums • Networks running entrepreneurial activities and incubators • Accelerators and workspaces
Financial intermediaries	• Traditional banks • Insurance firms • Banks with a social orientation • Specialized banks • Cooperative Credit Banks • Venture philanthropy funds • Private Debt/Equity funds • Crowd-funding platforms • Financial institutions for local development
Training and research institutes	• Observatories • Research centres • Universities

To give a sense of the size of the SSE ecosystem in Italy, according to the 2016 Census of Industry and Services there are close to 390,000 SSE organizations in the country, employing close to 1.6 million people and mobilizing more than 5.5 million volunteers – almost 10% of the Italian population.

Table 4.5.2: The SSE actors in numbers, 2016

	Entities				Employees				Volunteers (2015)		
	Number	% (1)	% change 2001–11	2011-16	Number(2)	% (1)	% change 2001–11	2011-16	Number	%	% change 2011–15
Cooperatives (non-social)	**43,049**	11.1 (0.98)	5.1	-14.1	**763,586**	48.4 (4.58)	2	-4.9	**--**	--	--
Social cooperatives	**15,600**	4.0 (0.36)	98.5	38.5	**428,713**	27.2 (2.57)	129.4	33.8	**43,781**	0.8	3.3
Associations	**292,174**	75.6 (6.65)	23.3	8.5	**154,908**	9.8 (0.93)	26.3	5.4	**5,020,810**	90.8	13.9
Foundation	**7,509**	1.9 (0.17)	102.1	20.7	**98,164**	6.2 (0.59)	131.3	7.0	**62,211**	1.1	21.3
Other nonprofit institutions	**28,149**	7.3 (0.64)	76.8	96.1	**130,921**	8.3 (0.78)	21.5	7.7	**401,957**	7.3	1.122,9
Total	**386,481**	100.0 (8.80)	24.2	10.0	**1,576,292**	100.0 (9.45)	27	6.2	**5,528,760**	100.0	16.2

Source: 9° censimento generale dell'industria e servizi (2011); Registro Statistico delle Imprese Attive (2016); Censimento permanente delle istituzioni non profit (2016)

(1) In parenthesis the incidence of SSE organizations in the industrial and services sector.
(2) Number of employees is the annual average

FINANCING THE SSE IN ITALY

Within the SSE ecosystem there are organizations that have markedly different aims, institutional arrangements, revenue structures and, consequently, financial needs. Table 4 shows data on the revenue structure of each form of non-profit organization: traditional cooperatives are not included in the table as, for this type of organization, the sale of goods and services represents the quasi-totality of revenues (about 80,8% of total proceeds). The situation is different for non-profit organizations, for which selling goods or services contributes only up to 18.7% of total proceeds. It is worth noting how the contribution of the sources of revenues changes according to the legal typology: contracts with public institutions, both national and international, make up to 65% of the total revenues for social cooperatives, around 35% for foundations and other non-profit organizations, but only 12,34% for associations. The latter rely heavily on annual contributions from members that account for almost 50% of total proceeds. Foundations benefit from the management of finances and assets under control more than any other legal typology (18,85%) and they also receive substantial contributions and donations (11,07%). The sale of good and services is a substantial source of income for all legal forms, ranging from 13% of the total finances for associations to 28% for social cooperatives.

Table 4.5.3: Revenue structure of the Nonprofit sector, 2011

	Social Cooperatives	Association	Foundation	Other Nonprofit Institution	Total
Grants and contributions free of charge from national and/or international public institutions	120,149 (1.08)	1,763,590 (5.58)	645,193 (5.80)	730,974 (7.28)	3,259,906 (5.10)
Revenues from contracts and/or conventions with national and international public institutions	7,264,685 (65.11)	3,900,748 (12.34)	3,832,112 (34.46)	3,648,242 (36.33)	18,645,787 (29.16)
Annual contributions from members	230,156 (2.06)	14,970,283 (47.33)	799,104 (7.19)	810,495 (8.07)	16,810,038 (26.29)
Revenues from sale of goods and services	3,083,853 (27.64)	4,040,043 (12.77)	1,846,551 (16.61)	2,965,106 (29.53)	11,935,553 (18.67)
Contributions, offers, donations and testamentary bequests	135,552 (1.22)	2,586,056 (8.18)	1,230,789 (11.07)	632,149 (6.30)	4,584,546 (7.17)
Revenues from the management of finances and assets	69,212 (0.62)	1,680,966 (5.32)	2,096,626 (18.85)	485,155 (4.83)	4,331,959 (6.77)
Other revenues	253,425 (2.27)	2,680,015 (8.48)	669,258 (6.02)	769,400 (7.66)	4,372,097 (6.84)
Total	**10,903,607**	**28,941,686**	**10,450,375**	**10,041,521**	**59,567,789**

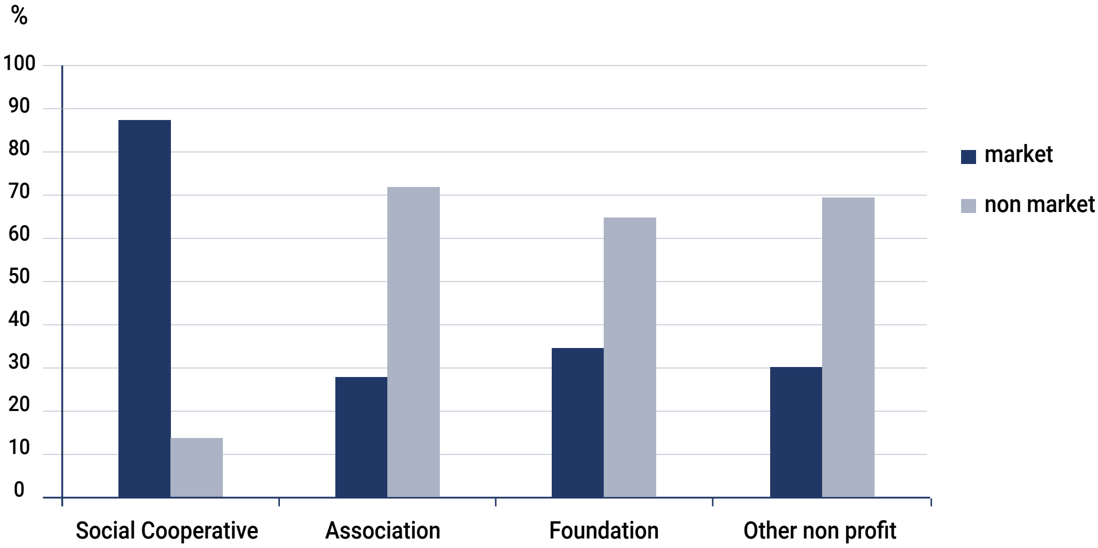
Source: Censimento generale dell'industria e servizi (2011). Revenues are expressed in thousands of euros. In parenthesis the incidence of each revenue-item over the total revenues for each juridical form, by percentage.

Taking a more general perspective, it is possible to split the non-profit sector into two groups: on the one hand there are social cooperatives and other social enterprises, characterized by a strong market orientation, while on the other hand there are associations, foundations and other non-profit entities, which survive thanks mainly to non-market contributions.

These differences notwithstanding, the growth of the Italian SSE and the available empirical evidence suggest that, contrary to popular belief, these organizations have not encountered particular problems in finding financial resources. It is difficult to obtain detailed figures on the financial needs of all types of SSE organization, considering that some of them are not required to make their balance sheets or financial statements available, but the data that is available suggest that they are adequately capitalized and have been able to sustain investments and growth. For instance, Italian social cooperatives have demonstrated over the years their ability to collect a sufficient amount of capital to finance their activities (which are usually more labour- than capital-intensive) and currently have almost €10 billion in investments. Even during the years 2008-2015, when the country was experiencing a harsh economic crisis, social cooperatives increased both their total invested capital and their equity. In fact, their growth rate in this respect was much higher than that of other forms of business (Borzaga and Fontanari, 2018).

Even when one looks at cooperatives as a whole, one does not find significant differences as compared to other types of enterprise. Indeed the analysis of the financial situation of Italian enterprises conducted by

Figure 4.5.1: Non-profits orientation – market vs non-market



Source: Censimento generale dell'industria e servizi (2011)

Fontanari (2018) shows that many of the assumptions on the ability (or lack thereof) of cooperatives to find adequate financial resources to cover production activities and investments are actually unfounded. All of the indicators used in this analysis (and summarized in Table 6) show that Italian cooperatives are, both on average and in most cases, in a situation of good financial equilibrium, in the short term as well as in the long term. They are at least as capitalized as are profit enterprises, and in some cases they outperform them.

At the same time, for some segments of the Italian SSE (particularly those engaged the provision of social services) this outlook might change over the next few years, owing primarily to three interconnected phenomena: (i) the reduction of public expenditure, which constitutes a relevant share of the income for many SSE organizations; (ii) the need to grow in size in order to become more efficient and capable of responding to needs that are growing more pressing and complex; and (iii) the investments in technology that are likely to be needed to remain competitive even in traditionally labour-intensive sectors such as social services. Given these trends, access to finance is likely to become more important for Italian SSE organizations, and might require both strengthening of existing financial mechanisms and finding new ones altogether.

Turning our attention to the supply side, then, it is evident that the Italian context is characterized by a wide range of actors that in various ways supply financial resources to SSE organizations. Some of these are themselves part of the Italian SSE (cooperative banks, cooperative mutual funds, consortia, foundations, etc.), while others belong to the public sector (national and local governments and specialized government agencies) or to the for profit sector (commercial banks). Moreover, owing to their specificities, some SSE organizations (most notably cooperatives) have their own ways of raising capital, for instance through loans or investments from their members.

Traditionally the main suppliers of finance for SSE organizations have been other SSE organizations (including in particular cooperative banks) and the public administration. At the same time we are entering a phase in which new tools and new actors are coming to the fore. The recent reform of the third sector, for example, foresees new forms of financing for social enterprises, such as crowd-funding (donation, rewards, lending and equity), mini bonds and social impact funds. Along with new tools, new providers are challenging the prominent role of cooperative banks and the public administration in sustaining the SSE. In particular two actors are being more active in the field of social finance: the first is for-profit banks, which are starting to provide tailored products for SSE organizations, both as a corporate social responsibility strategy and because they increasingly recognize that the SSE is in fact a dynamic and generally low-risk sector; the second is private citizens, who are increasingly able to provide direct funding to the projects in which they are interested, thanks to new technological platforms. Moreover, over the past few years the field of 'social finance', defined as finance aimed at sustaining projects and organizations with an explicit social goal, seems to be undergoing a phase of growth and experimentation, during which the financial products offered to SSE organizations are multiplying. As a result, the mix of available financial resources is changing, including products and services borrowed from the for-profit financial sector and not specifically designed for enterprises with a social goal.

The main financial mechanisms that are currently being used by the Italian SSE are briefly described below.

1. Donations:

- **Fundraising: fundraising** is a necessary activity for the SSE expressly introduced in the Third Sector Act (Art. 7) as a set of activities and initiatives put in place by a Third Sector body to finance activities of general interest. They include third party legacies, donations and contributions. In 2016 for the first time, donations from citizens to the non-profit sector surpassed €5 billion (Report Giving Italy, Vita Magazine). The main sources of fundraising for non-profit organizations are citizens, followed by organizations, providing approximately €873 million – €200 million of which is from foundations and €673 million from other organizations. Interest in leaving legacies is significant in Italy (11% of Italians intend to make a solidarity testament). A major phenomenon to note is the strong increase in digitization, which conditions the form of donation. In Italy almost three-quarters of the population is online (43 million people), with 34 million active users of social media (Report Global Digital, 2018). 83% of Internet users support a social project at least once a year – with an average annual donation of about €90 (Donate 3.0 – Doxa Duepuntozero with Rete del Dono and PayPal). However, the lack of a fundraising managerial culture in non-profit organizations can negatively interfere with the structural and economic development of fundraising. In fact fundraising skills are very appealing on the job market.[32]

- **Crowd-funding**: In the last semester of 2018 in Italy, €2 million directed to social goals has been collected thanks to crowd-funding. More than a thousand campaigns were active on the Italian section of the GoFundMe website, opened from 1 July. Donations from Rome and Milan are the highest, with €150,000 donated from each.[33]

- **Foundation grants**: Grants are provided to SSE organizations in large part by various types of foundation operating all over the country. Among the most interesting are:

  a) **Banking foundations**: non-profit organizations with legal, private and autonomous forms, the purpose of which is to support social and economic local development. In fact they are closely linked to the territory in which they operate and their governance requires a composite presence of representatives of public, economic and Third Sector institutions. In particular they contribute to the financing of activities promoted by non-profit organizations and other entities, allocating – both through calls and direct assignments – resources and skills in 21 sectors as defined by the Law. In 2016 the donations surpassed €1 billion, and there were more than 20.000 supported projects.

  b) **Community Foundations:** these are non-profit organizations with legal, private and autonomous characteristics, created and developed in a specific territory. They are mainly present in the North of Italy, their purpose being to improve the quality of life of the community in which they are located, and they are usually born through the collective push of a plurality of actors and they use their assets to finance projects of public utility. Moreover, their aim is to encourage the creation of Philanthropic Funds and offer services to donors. Finally, they are structured to preserve and increase the local heritage, thanks to which they improve the quality of life of the communities of reference.

[32] www.vita.it/it/article/2018/03/03/fundraising-come-cambiano-le-donazioni/146109/

[33] www.repubblica.it/solidarieta/2018/12/30/news/raccolti_due_milioni_di_euro_grazie_al_crowd-funrowd-funding_sociale-215525001/

c) **Business or Family foundations:** Business Foundations are constituted of one or more Italian or foreign companies, public or private, aiming to promote the social responsibility policies of certain companies or groups of companies. Family Foundations are constituted by one or more people linked by family ties in order to preserve and give continuity to a part of the family's assets to be used for social and solidarity purposes. These Foundations establish by statute how they wish to address their efforts and which objectives of common benefit to pursue. Based on this choice, they strategically organize their activities: they support the Third Sector, provide resources, promote debates, and realize projects. They are categorized as 'Erogativi' (they generate social, cultural and economic welfare through provision of economic contributions and promotion of initiatives and projects), 'Operativi' (they directly carry out projects of social utility in favour of the territories) or Mixed (they operate on both fronts: delivery of funds and operational). While still not well-known, these foundations have grown since the 2000s, doubling their number. This has been both a national and a European trend, favoured by factors including favourable tax forecasts, reduction of bureaucratic barriers and recognition and greater visibility.

- **Grant and co-financing contributions from public bodies:** public authorities support SSE organizations in a variety of ways and at all levels of government – national, regional and local – both with grants and with co-financing contributions designed to support organizations that provide social or general interest services. One of the most interesting instruments in this respect is the *5 per 1000* donations: taxpayers have the option of allocating 0,5% of their income tax (IRPEF) to support a registered institution or in favour of a specific purpose of social interest. The funds come from the State since they are subtracted from tax payments, but their use is at the discretion of the citizen-payer, underlining the responsibility of the citizen to allocate his or her taxes. The amount of the donation is proportional to the tax effectively paid. As of 2010 the 0,5% contribution can also be allocated to volunteer and non-profit associations of social utility, and to associations and foundations with a social promotion mission. The State imposes a ceiling of € 400 million maximum that can be allocated through this contribution. The number of non-profit associations financed by this mechanism is quite large – in 2018 the volunteer associations alone (including those with social goals) numbered 44.433 (Agenzia delle entrate, 2019).

2. Debt capital tools:

- **Credit / mutual credit / microcredit:** many SSE organizations in Italy have relationships with at least two banks. The most common financing method is credit, especially for small and medium-sized companies (current accounts, credit lines, loans, mortgages, etc.). However there could also be traditional financing tools dedicated to social projects. As an example, the average loans given to social economy organizations by Banca Intesa (one of the two largest commercial banks in the country) is of about €800.000, and social economy organizations represent approximately one-sixteenth of the banks' clients. Banca Prossima, the subsidiary of Banca Intesa specialized in third sector organizations, lends on average a smaller amount, approximately €180.000, but with a higher ratio of SSE organizations as its customers (1 in 5). The investments are smaller in size but the clients are treated in the same way. Moreover, Third Sector loans have a lower default rate compared to other sectors (Morganti, 2018).

- **Solidarity certificates:** the Third Sector Act (Art. 77) introduces these bonds (or other debt securities) or certificates of deposit issued by authorized credit institutions. Issuers are obliged to allocate the collected funds to the financing of Third Sector entities. Furthermore, intermediaries themselves can choose whether to disburse a sum, as a contribution proportional to the nominal amount of securities placed, to the most deserving Third Sector bodies, in order to finance a submitted project.

- **Social Bonds:** Social Bonds (SB): bonds, similar to traditional obligations with earnings directed to financing projects with specific benefits or social impact. In Italy, both social and green bonds can be issued by the State; local authorities; regional bodies; and companies (the so-called corporate bonds can be issued by cooperatives). There are two categories of SBs: grant-based and loan-based. The main advantage of the SB tool lies in its flexibility. It is suitable both for the needs of non-profit organizations, thanks to the grant-based form and for the needs of entrepreneurial non-profit bodies, with the loan-based form with which beneficiaries can obtain loans at more favourable conditions.[34]

- **Investment funds:** funds with medium risk profiles invested in companies sensitive to social issues and not involved in industries such as armaments, tobacco, alcohol or gambling. Banca Etica, for instance, offers this kind of investment vehicle to its clients.

- **Member loans:** this tool is one of the main ways in which Italian cooperatives in particular can raise capital, and its use is so widespread that outstanding cooperative member loans in Italy are estimated to exceed €12 billion. Member loans for cooperatives are a form of short-term debt, in the form of loans from cooperative members to the cooperative. In practice this tool consists of short-term deposits made by members of the cooperative and remunerated by the cooperative at a relatively low rate of interest. Member loans are used primarily by consumer cooperatives, although all types of cooperative resort to it. It should be noted that, while the instrument is meant to be used as a way of raising capital for investments, it is sometimes used by cooperatives as a way of supplementing their revenues. In order to avoid excessive risks for cooperative members, there are strict limitations on the amount of member loans that cooperatives can take out.

3. Own capital

- **Equity crowd-funding:** fundraising through the sale of company shares in exchange for monetary investment to a large number of investors. It is a new tool available to social enterprises as a form of bottom-up investment. In particular, equity crowd-funding is a financing system particularly in tune with social enterprises. The investors are very varied and, on average, for each campaign they number between 50 and 60. They could be family and friends of the entrepreneur, or strangers who consider it interesting to focus on a new project or business model. In 2016 the value of the average loan was around €6.000, but the distribution is unequal, 40% of loans being under €500. However, even though there has been a growth in recent years, the numbers from 2013 to today remain low, with €19.4 million collected with this instrument overall, of which only €4 million was collected in 2017. This tool faces considerable obstacles, including in particular the fact that in Italy there is still a strong resistance to investing online and most people who have significant resources to invest are not digital natives. Still, the Crowd-funding Observatory expects that the expansion of the instrument to SMEs and social enterprises will lead to an increase of 50% compared to 2017.

EXAMPLES OF FINANCIAL MECHANISMS IN ITALY

It could be useful to highlight two financial mechanisms in particular, that are very different in nature but both interesting for their applicability to SSE organizations in various contexts: the FRI Fund (Rotatory Fund for Enterprises) and the 'financing members' mechanism that can be activated by Italian cooperatives.

1. *FRI – Fondo Rotativo Imprese* (Rotatory Fund for Enterprises)

The Rotatory Fund for Enterprises (FRI), with a total fund allocation of €223 million, is the first subsidized systemic lending tool directed specifically to social enterprises in Italy. It aims to promote the birth of cooperatives and other enterprises with explicit social goals and to support their growth. The beneficiaries include social enterprises, social cooperatives and related consortia, and non-profit organizations. The financing mechanism, developed by the Ministry of Economic Development, is based on a double line of financing: a subsidized loan (70% of lending) and market-based financing from one of the banks registered in a specific list at the ministry (30% of lending). The loan can cover up to 80% of eligible expenses. The subsidized rate applied to the subsidized loan granted is equal to a 0.5% nominal annual interest rate, while the rate applied to the bank loan share is negotiated with the beneficiary in accordance with the trend in market rates. The loan is granted for up to 15 years, including a maximum pre-amortization period of 4 years at the subsidized rate of 0.5% per annum.

[34] See Osservatorio Socialis, www.osservatoriosocialis.it/wp-content/uploads/2015/09/I-social-bond-per-il-non-profit.pdf

To access the FRI, firms must first obtain approval of their financing project from the bank and the central body. The bank defines the contract, which will rule both financing lines. The loan can take a duration of between 4 and 15 years, including a pre-amortization period of a maximum duration of 4 years, starting from the date of signing the loan agreement.

The FRI is a promising tool that can support social projects through subsidised capital. It should be addressed to those enterprises whose projects are overlooked by the banking sector because either banking intermediaries are not able to assess the value of the proposal or because the requested interest rate is too high. However, even in the early stages of implementation, some criticisms are emerging, including in particular the length of the process, as the preliminary phase takes a long time since the documents must be approved both by the banks and by central public authorities.

An insight into how the FRI is being used can be gained by consideration of UBI Banca, which is one of the seven Italian banks registered with the Ministry for the FRI Project. It has also been the first bank to submit an application to become a partner. Since November 2017 UBI Banca has evaluated six different FRI projects. Currently (February 2019) not all the applications presented have yet reached effective contractual stipulation, as they are under the scrutiny of the Ministry or, in one case, preparatory in-depth analyses are underway (prior to the first disbursement) after having also received a favourable decision from the Ministry.

Among the six submitted requests, two came from Type B social cooperatives, two came from mixed-type cooperatives, one was submitted by a Type A social cooperative and one came from a social enterprise. All of the organizations that sent their application for the FRI funds at UBI Banca are located in the North of Italy. All the projects concern mainly the acquisition or the renovation of buildings. In one case the project includes the introduction of a new production process. The investments needed range from €750.000 up to €1,8 million, and are partly financed by UBI Banca at a market rate and for the larger share are covered by Cassa depositi e prestiti at a subsidized rate through FRI.

The area of interventions are: (i) social and health care services; (ii) education; (iii) work integration and the training of disadvantaged people. The expected results include an increase in employment especially of people affected by disability or who are otherwise at a disadvantage; environmental requalification; an increase in social and health care services; and the start of a project of social agriculture.

2. *Socio Finanziatore* – Financing member

In addition to the so-called 'socio cooperatore' (cooperating member), who actively participates in the cooperative activities with a mutual exchange of services and goods, Italian law introduces the 'socio finanziatore' or financing member, who contributes to the capital of the cooperative. These types of members are limited in their possibility of participating in the life of the cooperative (limited voting rights, possibility of administering within certain limits, etc.), but can obtain a return on the invested capital within certain legal limits. In particular, the Civil Code (Art. 2526) introduces the possibility of cooperatives issuing 'financial instruments' to support their businesses. Articles 4 and 5 of Law no. 59/92 introduce in the cooperative legislation the option of issuing shares in order either to subsidise a cooperative or to participate cooperatively in its business. The capital supply by financing members is registered in a specific section of the share capital in the cooperative balance sheet. The contributions of the financing members may concern money, assets in kind, or loans.

The goal is to attract financial investments by investors other than the cooperating members and to remunerate them in such a way as to make them attractive to the investment, while at the same time preserving the mutualistic and democratic nature of the enterprise. To this end a ceiling on the remuneration of the financial tools offered to members is required. Furthermore there is a maximum limit to the total number of votes attributable to financing members (no more than one-third of the votes of all the members present or represented at each general meeting). Finally, the privileges given to the holders of financial instruments cannot in any case 'undermine' the indivisible reserves.

In summary:

- the financing member has limited administrative rights (max 30% votes in assembly and board);
- the financing member has greater property rights in the remuneration of capital since the share capital contributed by the financing members can be remunerated to a greater extent than that provided by ordinary members;

- a contract between the cooperative and the financing members sets the minimum duration of the financing;
- a partial withdrawal of the member is possible;
- the financing member facilitates the economic participation of citizens, creating forms of widespread ownership in support of SSE projects, limiting, in part, the patrimonial risks and reducing the costs of the governance;
- the financing member facilitates the participation of investors of various institutional nature.

The financing member option is a tool which expands the possible investors in a cooperative. In particular it allows citizens to become partners in a social project, not only providing support, as in the case of crowd-funding, but as a stakeholder of the project itself. At the same time the checks and balances introduced by law ensure that the impact of financing members on the governance of the enterprise is limited, preserving its original nature.

4.6 Luxembourg[35]

LOCAL CONTEXT: THE SSE ECOSYSTEM IN LUXEMBOURG

The Grand Duchy of Luxembourg is a small country, with a population of around 602,005 residents as of 1 January 2018. The country is an immigration hub, with foreign residents representing 48% of the entire population. In Luxembourg-City 69% of the population come from 143 different countries. Luxembourg therefore has an atypical labour market owing to the cosmopolitan environment as well as the international and multilingual workforce. Around 70% of the country's workforce is composed of foreign residents (immigrants) or cross-border workers (commuters coming every day from France, Belgium or Germany). On workdays, 188,100 cross-border workers from France, Belgium and Germany joining Luxembourg's resident workforce add to this number (2017 figures). Luxembourg can therefore be considered as a centre of attraction for workers living in neighbouring regions. Owing to its size, the Grand Duchy is also heavily dependent on other countries, both as clients for its goods and services and as suppliers of those goods and services not available on the national market. The importance of the financial sector to the overall economy of Luxembourg cannot be stressed enough: this sector alone represents some 26.5% of total gross value added. On 31 December 2017 there were 139 banks in Luxembourg employing 26,111 people. The banking and financial sector in Luxembourg officially represents directly one-third of the economy in terms of national GDP. Since the 1980s the financial sector has expanded considerably. The financial capital market, with all of the associated activities that it involves, is the largest contributor to the Luxembourg economy. Key segments are the interbank market, private banking, and also the administration and distribution of UCITS assets. With more than €4,000 billion in net assets under management in 2018, Luxembourg is the largest investment fund centre in Europe and the second largest in the world after the US.

Luxembourg experiences a comparatively high standard of living: not only in terms of quality of life, as confirmed regularly by international studies, but also in relation to life expectancy at birth which keeps increasing. Moreover, excellent social security coverage, parent-friendly policies and an open, dynamic and emerging technology-oriented labour market enable the majority of Luxembourg's population to participate meaningfully in the workforce and to actively contribute to maintaining this standard of life. This does not mean, of course, that Luxembourg does not face social issues: a sizeable proportion of the population is at risk of poverty due to the high cost of living and the burden of high housing costs.

The idea of the social and solidarity economy is extremely recent in Luxembourg. Despite an extremely high number of organizations active in social related fields (charity, health, care, work integration, etc.), very few used to consider themselves as being part of the social and solidarity economy. In fact, the idea only emerged in Luxembourg approximately 10 years ago and is not the result of a bottom-up approach, but rather the decision of the government to support and rationalize its policies relating to a fast-growing

[35] Based on research conducted by Jean Christophe Burkel, Expert to the European Commission on Social Economy and Social Enterprise and Director of ULESS – *Union luxembourgeoise de l'économie sociale et solidaire.*

part of the national economy. It emerged at the beginning of the century around some major social sector organizations, namely O.P.E. (*Objectif Plein Emploi asbl*) and E.G.C.A. (*Entente des Gestionnaires des Centres d'Acceuil asbl*), pleading for national recognition of the initially so-called 'solidarity economy', which a few years later rapidly became the social and solidarity economy sector as it is currently understood.

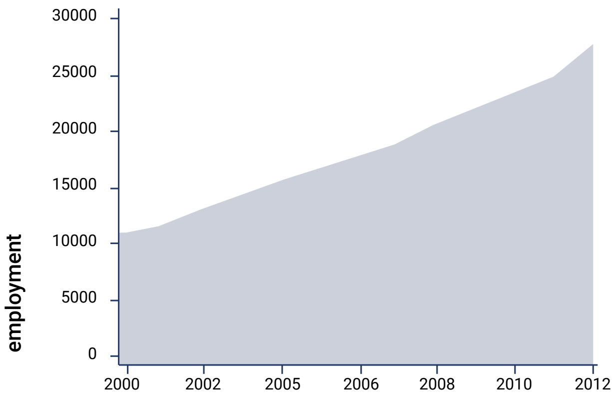
A national action plan for the solidarity economy was the stimulus for the creation of an umbrella organization in July 2013, the *Union Luxembourgeoise de l'Economie Sociale et Solidaire* (ULESS). Despite the official title of the Minister in charge (Deputy Minister in charge of the solidarity economy), the 'solidarity economy' became the 'social and solidarity economy' (using the most common terminology in French). This change did not demonstrate any theoretical or philosophical move in the sector, but rather a strong will to evolve from a strictly solidarity-based environment (mainly linked to work integration solidarity-based enterprises) to embrace larger social economy actors (active in a broader range of activities, including the entire social action domain from childhood to elderly people).

Since 2013 ULESS's mission is to federate, represent, promote and defend the entire social and solidarity economy. Its main purposes are to bring together all the actors of the social and solidarity economy of the Grand Duchy of Luxembourg, to ensure the national representation of the entire social and solidarity economy sector, to promote and to contribute to the development of the sector and to spread "the values and principles of co-operation, association, sharing and solidarity".

The most recent statistical data on the social and solidarity economy in Luxembourg were published in September 2015. According to Statec, social and solidarity enterprises accounted for 7.8% of total employment in 2012, compared to 4% twelve years earlier. With 27,751 jobs in 2012, social and solidarity-based enterprises have almost doubled their share of total employment since 2000.

The main conclusions drawn by Statec were that one-third of social economy enterprises are active in the field of health services and social action and these enterprises account for three-quarters of total employment in the social and solidarity economy. In 2012 1,064 social economy enterprises were identified (3.2% of the total of about 34,000 companies incorporated in Luxembourg). Between 2000 and 2012 the total number of social economy enterprises grew by 3.4% per year. The majority (60.6%) were micro-enterprises with fewer than 10 employees. One specificity of the Luxembourg social and solidarity economy is the very high proportion of associations and the low number of cooperative companies.

Figure 4.6.1 Total number of employees in the social economy sector between 2000 and 2012



Source: Statec

Table 4.6.1: Social and solidarity economy enterprises by legal form in Luxembourg (2012)

Social economy enterprises by legal form	%
Individual companies	0.75%
Public limited companies (S.A)	1.5%
Limited liability companies (Sàrl)	14.47%
Cooperative companies	7.24%
Non-for-profit Associations (asbl)	**66.45%**
Foundations	4.79%
Mutual Societies	0.19%
Mutual Insurance Associations	0.28%
Cultural Associations	1.79%
Sport Associations	2.44%

Source: Statec

A Law of 12 December 2016 contributed extensively to national recognition of the social and solidarity economy by providing substance on what exactly the words ‘social and solidarity economy’ actually mean in Luxembourg, in theory as well as in practice. The definition embodied in this Law defines social and solidarity -based enterprises as private legal entities with a business model that cumulatively meet four conditions: first, that they conduct ongoing’ business in the production, distribution or exchange of goods or services; second, that social and solidarity-based enterprises ‘primarily’ try to achieve – through their business activity – either support for people who are vulnerable (due to their state of health or their need for social or socio-medical assistance) or a contribution to the preservation and development of social ties, the fight against exclusion and health, social, cultural and economic inequalities; achievement of equality between men and women; maintenance and strengthening of territorial cohesion; environmental protection; development of cultural or creative activities; and development of initial or continued training activities. As a third condition, they shall manage their business ‘autonomously’ and in such a way that they freely select and revoke their managing bodies, as well as organizing and monitoring all their activities. Fourth and finally, according to the Law of 12 December 2016 at least half of the profits realized shall be reinvested in the maintenance and development of the company’s business. Limitations on profit distribution is not optional but is considered an essential component of what defines a social economy enterprise.

Whereas this definition could apply to any ‘traditional’ legal vehicle of social and solidarity economy (i.e. associations, foundations, etc.), the Luxembourg legislator decided to embody these four principles into a new legal vehicle specifically designed for social economy enterprises: the social impact company (*société d’impact societal* – SIS), which is a legal form of business specifically designed for businesses active in the social and solidarity economy. The SIS is for both existing actors (currently set up as non-profit organizations (asbl, foundations or mutual companies), and for new project owners who wish to start up their socially innovative businesses with a social purpose.

The SIS present numerous advantages for the business structure such as better legal protection, an appropriate fiscal framework and access to public procurement contracts. This type of business is subject to strict obligations in terms of transparency and governance. It is essential to mention that an SIS is not a distinct legal status, but rather an accreditation that can be submitted by any legally incorporated companies incorporated as public limited companies (S.A.), limited liability companies (Sàrl) or cooperative companies (S.C.). This accreditation as SIS is only open to those companies who apply for it and who meet the requirements of the social and solidarity economy in accordance with the provision of the Law of 12 December 2016. The accreditation file must include the articles of association or the draft articles of association of the company submitting an application. The accreditation as a social impact company allows it to:

- assert the corporate purpose of the company which will be allowed to use the name ‘*société d’impact societal* (SIS)’ on business documents, letter headed paper, mail, invoices, signs, etc.;
- guarantee the genuine and serious objective of the economic activities of the social impact company;
- apply to tender for public procurement contracts;
- apply for public subsidies; the list of domains in which a SIS can apply for public subsidies has recently been extended by a Law of 31 August 2018.

FINANCING THE SSE IN LUXEMBOURG

Social economy enterprises in Luxembourg rely mostly on public funding, whether from national, local or European sources. Besides public funding, other (smaller-sized) financial mechanisms have also emerged, such as ethical finance, extended banking services, public banking investment mechanisms and (perhaps something that will become more popular in the coming years) equity crowd-funding. Despite the variety of financial instruments potentially available to social economy enterprises, the actual demand for private-based financing remains quite limited. That is why, instead of creating incentives for private investors to support the development of social economy enterprises, the Luxembourg government decided to elaborate an extraordinary tax regime for such enterprises. Rather than any particular financial mechanism, this tax regime, applicable to any non-for-profit SIS, is meant directly to support the full reinvestment of benefits within the company. This path is rather unique and the tax regime is applicable to any fully not-for-profit SIS.

The most innovative aspect of funding for the SIS (social impact companies) is that two types of shares can coexist: *impact shares* (which do not give rise to a distribution of dividends) and yield shares (which entitle the shareholder to dividend payments). *Yield shares* may at any time be converted into impact shares, but impact shares can never be converted into yield shares. If the share capital of a SIS is of 100% impact shares only, the partners will never be entitled to any dividend payments. However, in a SIS incorporated with a share capital of less than 100% impact shares, the distribution of dividends is only possible if the social purpose has been achieved. The assessment is made with key performance indicators. The Law of 12 December 2016 clearly states that the share capital shall at all times consist of at least 50% of impact shares. This rule is meant to guarantee the actual respect by the company owners and shareholders of the principle of a limited for-profit purpose of the social impact company. This mechanism is unique in several respects. The first is that the government decided to provide tax advantages not to **any** SIS, but only to those which would decide to legally function as fully not-for-profit SIS (with 100% impact shares). The second is that the tax regime is intended to support the social impact that fully not-for-profit status **claims** to have, rather than providing tax incentives to social impact investors. The last aspect is that there is a clear incentive to provide financial support to fully not-for-profit SIS *via* non-refundable donations rather than through loans or equity investment.

SIS with 100% impact shares benefit from full exemption from corporate income tax, full exemption from communal business tax and full exemption from net wealth tax.

- This exemption includes the following economic activities:
- provision of services and the supply of goods closely linked to the hospitalization of sick or wounded persons and medical care for the person;
- clinical analyses performed by biochemistry laboratories;
- transportation of sick or injured persons using vehicles specially equipped for this purpose;
- provision of services and supplies of goods closely linked to social security, social assistance or public health;
- provision of services and supplies of goods closely linked to the protection of children and young people;
- provision of services and supplies of goods closely related to child or youth education, school or university education and vocational training;
- provision of accommodation, food and drinks by boarding schools and canteens for pupils or students;
- provision of services for personal lessons;
- provision of services and the supply of goods closely connected with them by the State, municipalities and other public-law communities in the management of theatres, orchestras, choirs, museums, libraries, archives and botanical or zoological gardens;
- provision of services and the supply of goods closely related to them by the organizers of theatrical, choreographic and cinematographic performances, concerts, conferences, courses and other events of collective scientific, cultural, educational or social interest;
- provision of services closely related to the practice of sport or physical education.

In addition, given the prominence of the financial sector in the overall wealth and prosperity of the country, it is perhaps unsurprising that it has also started to develop expertise in the field of social and environmental finance. In recent years financial markets have developed instruments that are specifically designed to raise money in order to achieve sustainable development goals. The Luxembourg financial centre has developed a set of tools and instruments specifically designed to raise foreign capital for international sustainable investments. According to *Luxembourg for Finance*, Luxembourg has a long-established track record as the location of choice for sustainable and impact investment funds, with a total market share of 39% of responsible investment funds in European countries, over 60% of European impact funds as well as over 60% of global microfinance assets. Moreover, half the world's listed green bonds are listed in Luxembourg, with the Luxembourg Stock Exchange offering a dedicated platform for green securities as well as social and sustainable bonds (LGX Green Exchange).

Almost all universal banks have developed banking services (treasury, loans, etc.) for social entrepreneurs: some have simply extended their regular banking offer to social entrepreneurs, while others have developed tailor-made banking services specifically designed for social entrepreneurs. Since 1997 Etika asbl has worked in partnership with the Banque and Caisse d'Epargne de l'Etat, Luxembourg (BCEE) to create an alternative saving mechanism designed to support the allocation of loans to environmental projects, to social economy enterprises and to NGOs active in developing countries.

The public-law banking institution specialized in medium- and long-term financing of Luxembourg-based companies (Société Nationale de Crédit et d'Investissement – SNCI) has recently extended its financial mechanisms to social impact companies (SIS). SNCI's financing instruments mainly finance investments in fixed assets.

Beyond institutional philanthropy, the government has also decided to create appropriate tax incentives in support of individual private-based philanthropic behaviour in favour of social economy enterprises.

EXAMPLES OF FINANCIAL MECHANISMS IN LUXEMBOURG

Social impact companies whose share capital consists of 100% impact shares (i.e. those that are fully not-for-profit) can benefit from an advantageous tax regime. Since the entry into force of the Law of 12 December 2016, the government has undertaken many concrete steps – most jointly supported by ULESS – to foster the development of the social economy.

The PLES 2012 action plan highlighted the need for social entrepreneurs to benefit from the existing business support mechanisms. Business Initiative asbl, created in 2000 by the Luxembourg Chamber of Commerce, the Industry Federation (Fedil) and the national agency for the promotion of innovation (Luxinnovation) have had well-established experience in the animation of networks of experts and entrepreneurs known as '1 2 3 go', supporting young entrepreneurs in the drafting of business plans. As part of a pilot project, Business Initiative asbl agreed to extend the skills of the 1 2 3 go network to entrepreneurial projects with social or solidarity purpose under the heading '1 2 3 go social'. Between 2012 and 2015, '1 2 3 go social' offered a new business plan programme supporting the drafting of social business plans. Every year one or more selected projects received start-up financial assistance in the form of prizes offered, among others, by philanthropic sponsors. The laureates also benefited from the expertise of professionals and the opportunity to find partners through international networking activities.

The entire programme is fully sponsored by the Ministry in charge of the social and solidarity economy. Between 2013 and 2015, ULESS acted as a methodological partner in the programme. '1 2 3 go social' was restructured several times. In 2015 the programme was operated by nyuko asbl. Since 2017 it has been directly managed by the Luxembourg Chamber of Commerce under the name 'Impuls'. Defining itself as an accelerator of social entrepreneurship, Impuls still offers training, access to a pool of experts, individual and collective support, networking and a coworking space for social entrepreneurs. The social and solidarity purpose of the projects supported by Impuls became less and less apparent. Whereas at the beginning of '1 2 3 go social', many supported entrepreneurial projects were clearly identified as being part of the social and solidarity economy, in recent years very few entrepreneurs supported by 'Impuls' would qualify as social and solidarity economy enterprises in accordance with the Law of 12 December 2016.

With the entry into force of the Law of 12 December 2016 the Luxembourg ecosystem was clearly missing concrete infrastructures that foster social entrepreneurship. The new regime of SIS was crucial in creating a friendly environment for social and solidarity-based enterprises. Nonetheless this legislation will only be successful if social and solidarity-based entrepreneurs can rely on a permanent support mechanism. The creation of an incubator for social and solidarity-based enterprises was announced in June 2015 by Minister Nicolas Schmit.[36]

On 4 July 2016 the Ministry of Labour, Employment and Social and Solidarity Economy, the Foundation of the Grand Duke and Grand Duchess of Luxembourg, and ULESS jointly launched 6zero1, the first incubator for social enterprises in Luxembourg. 6zero1 became – in March 2017 – the very first company in Luxembourg

[36] MTEESS, *Conférence de presse sur l'économie sociale et solidaire*, 5 June 2015.

to be incorporated as SIS.[37] 6zero1 was meant to foster the development of other SIS, combining the production of social innovations and the economic viability of the entrepreneurial project.

6zero1 offers a fully-personalized support programme combining managerial skills, soft skills and impact measurement. This programme offers a compelling set of services that aim to assist social entrepreneurs throughout the process of developing and launching their businesses. It shall actively contribute to the development of economic activities with a social purpose. Its specificity is that it is meant to host and support exclusively the development of companies with social purpose, which tend to develop economically viable activities while providing support to people in need, by fighting against exclusion and inequality, promoting gender equality, strengthening territorial cohesion, or developing educational, cultural and creative activities. Since 2016 6zero1 has received more than 50 applications. A selection has been made and around 20 social entrepreneurial projects have benefited from the support programme. Among them, 10 companies have been created, of which 5 have been accredited as SIS according to the Law of 12 December 2016.

Since October 2018, 6zero1 moved into the newly created *Maison de l'économie sociale et de l'innovation sociale* (MeSIS). Inspired by Les Canaux (Paris) and La Maison de l'innovation sociale (Québec), MeSIS is a unique hub in Luxembourg for entrepreneurs, organizations and citizens that place the social economy, social innovation, collaborative approaches and the circular economy at the heart of their development. MeSIS is not only meant to be the privileged partner of those who want to create or develop a company with a social or societal purpose (not only 6zero1 and but also other support service providers moved into MeSIS), but also a place of reference aimed at providing greater visibility to the social economy and social innovation.

In a context in which social economy enterprises have access to public finance, there is a relative lack of concrete financial products and services dedicated to supporting the development of the national social and solidarity economy. That said, Luxembourg's financial sector has contributed in other ways.

The European Impact Investing Luxembourg (EIIL) is a think-tank initiated by a group of Luxembourg-based private companies active in the financial services sector – mainly law firms, audit firms and large commercial banks – in order to contribute to the development of the impact investing sector and promote the Luxembourg's financial centre's capacity to support and coordinate international impact finance initiatives.

EIIL is active in crowd-funding, impact measurement, foundations and *Sociétés d'impact societal* (SIS). The readiness of the large Luxembourg-based financial sector to be involved and associated with the recent development of the social and solidarity-based economy induced various sorts of proposals, which in other jurisdictions might have been considered as promising, but which in practice did not raise sufficient attention from the government or the social economy sector.

One example of such was the proposal made by one of the largest Luxembourg-based law firms (Arendt and Medernach) to develop a so-called 'Social Impact Bond'. The proposal was made to the government to finance the structuring of a specific SPV (special purpose vehicle) in order to 'improve' the quality of any social purpose service or activity. The example of the prison in Peterborough (UK) was used as a potential example for suggesting the development of an identical mechanism aimed to reducing reoffending. In Luxembourg, one very specialised social economy enterprise is already active in this field (Defi-Job asbl). The direct financial support from both the Ministry of Justice and the Ministry of Labour for Defi-Job, linked to the high rate of resocialisation of former inmates, made it very difficult for the Law firm to argue in favour of a better output than the existing one through an alternative financial scheme entailing additional intermediary costs (SPVs, banks, lawyers, etc.). Neither did this proposal ever attract adequate support from the social and solidarity economy representatives and it was eventually aborted. Another brand-new financial mechanism was mooted to commence in 2019, around the French firm LITA.CO, which is an online platform dedicated to 'equity crowd-funding' that aims to extend its activities in Luxembourg.

[37] Hence its name, the very first of the SIS ("6" in abbreviated form in French): SIS N ° 01 = 6zero1.

4.7 Morocco[38]

LOCAL CONTEXT: THE SSE ECOSYSTEM IN MOROCCO

With an average annual increase of 1.25%, Morocco's population reached 33.8 million during the last census of 2014. The age pyramid reveals a greater concentration of young people. The absolute poverty rate stood at 4.8% in 2014 on a steady downturn from 16.2% in 1998 (9.5% urban; 24.1% rural). The activity rate of adults (aged 15 and over) shows a steady decline between 2001 and 2017 (from 51.4% to 46.7%). This may have had an impact in unemployment, the rate of which has declined over the last decade from 12.3% in 2001 to 10.2% in 2017 at the national level. However unemployment is more pressing for higher-level graduates (more than the double of the national average and more than six times that for the unqualified), despite its decline at national level. With GDP *per capita* of the order of US$3,368 with an inflation rate of around 1.6%, Morocco's economy is still influenced by weather changes owing to the prominence of agriculture. As regards its relations with foreign countries, Morocco is receptive to the recommendations of international bodies and continues to reform its economy in respect of flexibilization of its currency and other similar measures.

The social and solidarity economy (SSE) in Morocco is the subject of much discussion in economic, political and academic circles. The Moroccan context and the developments in the region, coupled with its demographic and economic characteristics, pose significant social challenges and heighten the importance of SSE organizations, particularly in the light of the population they target.

The first manifestations of the social and solidarity economy in Morocco date from the colonial period. During this period associative and cooperative organizations were not open to all categories of the population. In the aftermath of independence (1956), Morocco began to give importance to the sector of the social and solidarity economy in respect of the role that must be played by the associations as relay institutions or intermediaries between the State and its citizens. Moreover, the year 1962 saw the creation of what later became theOffice for the Development of Co-operation (ODCO, in 1975). In the first half of the 1980s Morocco went through a structural adjustment aimed at the withdrawal of the State and the liberalization of the economy, which exacerbated the social problems. The need to overcome them became relevant again after the attacks in Casablanca (2003), perceived as a warning signal establishing a correlation between poverty, poor social integration and Islamist commitment (Catusse, 2005). This phase ended with the advent of the largest social project ever started in Morocco, the National Initiative for Human Development (INDH).

The social and solidarity economy sector in Morocco is mainly composed of associations, cooperatives and mutuals. Associations have a growing importance in the landscape of the Moroccan SSE, as their objectives are often directly related to the interests of citizens in various fields (religious, cultural, economic, educational, infrastructural, etc.). However, research in this area is not easy because of the lack of data produced by the Moroccan authorities on this subject. According to the High Commission for Planning's 2011 census, membership of associations in Morocco totalled approximately 15 million people. This census revealed that 98.6% of these members were individual persons, more than a third of whom are women. The remaining portion consists of legal persons like companies, associations, etc. (HCP, 2011). As far as paid employment is concerned, Moroccan associations mobilized more than 33,846 full-time equivalent paid jobs (HCP, 2011).

Morocco's mutual entities are dominated by the public sector, and comprise approximately fifty institutions, half of which work in the healthcare coverage sector.

Cooperatives are one of the fundamental pillars of the social and solidarity economy in Morocco, in terms both of number of organizations and of number of beneficiaries. These cooperatives operate in various sectors of activity and actively participate in the professional integration of people in precarious or vulnerable situations. The creation of the National Initiative for Human Development has had a positive impact on stimulating the creation of cooperatives throughout Morocco. Indeed the number of cooperatives tripled between 2006 and 2017, rising from 5,276 to more than 19,035, according to figures collected from the Office for Development and Cooperation (ODCO). The predominant sector in the Moroccan cooperative field is unquestionably agriculture. Indeed 12,747

[38] Based on research conducted by Mohamed Bazi, Professor at the Faculty of Law, Economics and Social sciences (Mohamedia) – Hassan 2 University of Casablanca.

cooperatives, corresponding to 67% of all cooperatives registered by the end of 2017, fall within this sector.

The figures presented here, although approximate because of the lack of reliable and regularly updated statistics, prove that the SSE in Morocco is experiencing an upward trend with increasingly important impact, especially in the most isolated regions of the kingdom, and most notably in the case of young graduates (as an alternative means of employment) and women's cooperatives. The latter are being fostered for cultural or religious reasons (the separation between women and men in workplaces is widespread, especially in rural areas).

At the same time there are significant obstacles to the development of the SSE, relating to shortcomings in terms of human capital development and insufficiently tailored support from public policies. Another issue is the fact that equipment and means of production are sometimes inadequate or obsolete, or inaccessible given the small budgets of social and solidarity economy organizations. Finally, one of the major problems of SSE in Morocco is related to the difficulty of accessing funding, on the one hand, and of having financing mechanisms that are in line with this sector, on the other.

In the landscape of the Moroccan social and solidarity economy, there is a fairly large number of stakeholders that can be divided into four groups: social security organizations, organizations supporting the social and solidarity economy, bodies with wide-scale impact benefiting from significant institutional support; and finally emerging SSE networks. The ecosystem of the Moroccan social and solidarity economy is essentially composed of institutional actors who work collaboratively.

In the first group there is National Mutual Aid (created in 1957) the aim of which is to support the creation of entities, the purpose of which is to facilitate access to work and social integration for the most vulnerable groups (disabled, orphans, etc.), along with National Promotion which was created to "coordinate and implement the realization of full employment of rural populations to promote the development of the national territory" (Dahir of July 15, 1961; Article 1).

In the second group there is the Social Development Agency (ADS) created in 2001 to participate in social development and help reduce unemployment in Morocco. It supports SSE organizations through the following: capacity-building of local actors through the promotion of associations and local communities, social integration through the economy (with the promotion of local ecosystems through the 'Tatmine program'; aid to cooperatives through the 'Mouwakaba programme'; promotion of entrepreneurship through the 'Moubadara Programme'); and Local Support to National Social Programmes (ALPS) through participation in various national social projects targeting the most vulnerable populations. With its experience, particularly in the financing of Income Generating Activities, the agency was one of the key players in the implementation of INDH.

Another institution within this group is the Office of Development and Cooperation (ODCO), the activities of which are mainly geared to supporting cooperatives in the areas of training, information and legal support, as well as registration and control. It also produces and disseminates information on cooperation and has a say in policy development relating to cooperatives.

An interesting case within this group of organizations is 'Maroc Taswiq', a public body created in 1965 which supports internationalization and targets small individual producers organized within the framework of Cooperatives, Unions, Associations, Consortia of Exportation ,and others.

The National Federation of Microcredit Associations (FNAM) represents microcredit as a branch of the voluntary sector and brings together 13 associations. It was created in 2001. The most recent institution within this group is the Agency for Agricultural Development, the mission of which is to participate in implementation of the government's agricultural development strategy.

Other organizations having a relevant impact on the SSE ecosystem are:

- The Mohammed V Foundation for Solidarity (1999) which includes a programme of support for associations.
- The Mohammed VI Center for Support to Solidarity Microfinance within the Mohammed VI Foundation.
- The Hassan II fund for economic and social development which played an important social role by financing more than 600 social projects benefiting farmers and agricultural cooperatives in isolated rural areas.

The National Initiative for Human Development, the most important social project in Morocco, run by the Ministry of the Interior.

Finally it is worth mentioning an emerging network, namely the Moroccan Network of Social and Solidarity Economy (REMESS), the first Moroccan network open to the different components of the social economy. The international dimension was key in its birth (2005) and initial development, thanks to its links with the Intercontinental Network for the Promotion of Social and Solidarity Economy (RIPESS).

In relation to the policy framework one can identify the following issues:

- The social and solidarity economy enjoys special tax measures and other preferential treatments. However, these tax benefits have been somehow diluted in recent years.

- Among other important measures concerning the social and solidarity economy, draft Law N°12.112 should regulate the sector. This eagerly awaited measure (particularly by those who work with cooperatives) includes a number of measures, the most important of which concerns the simplification of procedures for the creation of cooperatives and their unions while removing the approval procedures that make this task difficult.

FINANCING THE SSE IN MOROCCO

Morocco has adopted a set of reforms that have targeted its entire financial system in order to make it more attractive to investments at both national and international levels. This has resulted in a steady development of the financial market in terms of loans, bonds, equities, and so forth, although with uneven results. Moreover the national system of guarantees has been reformed through a development plan of the Central Guarantee Fund (CCG), which has become, since 2009, a unique player in the national institutional guarantee system in which the Moroccan State plays a decisive role. However, the financial system presents structural problems, as confirmed by the OECD which points at shortcomings in bank credit capacity due to its stronger focus on large projects than on entrepreneurship (OECD, 2011).

In this context, and given the contribution of investment in general and especially Foreign Direct Investment in the Moroccan economy, the country adopts a strategy of encouraging entrepreneurship and diversifying aid for its growth through a multiplicity of funding programmes, tax incentives and so on. This has resulted in a series of instruments such as:

- Young promoters' credits with joint measures between banks and the State aimed at national Moroccans aged between 20 and 45, provided that they hold diplomas (higher education, training or vocational qualification).

- A support programme for the creation of small 'Moukawalati' businesses. This is a government programme that targets graduates of vocational training, higher education, and even non-graduates who have project ideas. This programme offers support in three phases in addition to facilitating access to credit.

- Participatory loans such as the Bank Al Amal equity loan.

- Special attention as regards the concept of Islamic finance. This concept has been gaining ground in the country with these new means of financing often described as an alternative. This concept of refers to economic, financial and commercial activities that respect the principles and guidelines emanating from the Qur'an, the instructions issued by the Prophet Muhammad (PBUH) and Islamic jurisprudence. Thus, with the recent authorization of this finance in Morocco, a new banking landscape has emerged in the kingdom with several banks which have started offering new products for a segment of customers who are reluctant to engage in traditional banking practices that may be contrary to their beliefs.

- Finally, Interest-free 'honor loans' can also be contracted under certain conditions in Morocco, such as those offered by the network Entreprendre Maroc (association of business leaders created in 2004) which also receives support from heads of companies.

However, despite the growing diversity of the financial ecosystem and the potential thereof for SSE, there are clear obstacles such as the high level of guarantees required, the rigorous selectivity, the fact that the plurality of funding is open only to graduates with a certain level of equity, and so forth. In addition, certain measures and means of financing are specific to a few sectors of activity that consume capital and require large investments, such as industry.

Another systemic obstacle may be the widespread perception in the kingdom that the SSE is 'the economy of the poor'. In addition to the profile of members of cooperatives in Morocco, the nature of their income-generating activities on the one hand and their scope (both geographically and in terms of growth) on the other systematically excludes them from most means of conventional financing because of their vulnerability. As a result there is a growing competition for costless means of financing, which basically consists of State intervention through subsidies and the micro-finance industry. These combined data highlight the conditions for this sector in the face of a range of structural and financial barriers requiring dedicated financial mechanisms and integrated funding models to provide them with the resources and support necessary for the survival and sustainability of their structures.

The lack of reliable and updated data does not allow a thorough analysis of the financial needs of the main actors of the Moroccan SSE, but according to the Economic, Social and Environmental Council of Morocco (2015), the associations have two main sources of funding: the State budget and international funds. Added to this are membership fees, donations and private sector grants. This report mentions several structural weaknesses in this associative sector despite its dynamism driven by the National Initiative for Human Development, including the difficulty of accessing funding.

Meanwhile, in the case of cooperatives data suggests short-term liquidity needs not revealed in the statistics, including the ongoing funding of cooperatives. Given the financing problems faced by cooperatives as well as other organizations of the social and solidarity economy, microfinance presents itself as an alternative to the traditional means of funding, which exclude the majority of these initiatives from their field of activity. This is in line with special attention to Microfinance from the public authorities in Morocco because of its role in financing the social and solidarity economy sector.

This financial mechanism plays a significant role in the country, and the crisis that hit it in 2009 seems to be over. For example, microcredit had distributed in Morocco 6,992 billion dirhams (US$723,113 million) at the end of September 2018. Moreover, in order to meet the specific demands of its customers, the microfinance sector employed a workforce of 7,680 employees at the end of the third quarter of 2018, an increase of 2.6% as compared to the previous quarter. This number of employees corresponds to 139 agents per customer, a figure which has slightly decreased as compared to the 143 recorded at the end of June of the same year.

However, it emerges that agricultural cooperatives, which are in the majority in the sphere of the social and solidarity economy in Morocco and which operate naturally in rural areas, are not adequately financed.

We can conclude that one of the structural weaknesses of the social and solidarity economy sector in Morocco is related to the low abundance and diversity of its financing. Indeed, the means of financing available for this economy are limited to the contributions of owned funds, love money, State interventions in the form of grants, or through the use of onerous financing mechanisms such as microcredit or even via bank credit for fairly structured organizations that can meet their requirements. Faced with this situation, the cooperators sometimes resort to an old former financing practice but still current in Morocco, the Tontine. The Moroccan tontine 'Daret' literally means a rotation of money.

State intervention to counteract the lack of funding for the social and solidarity economy is provided at various levels, including subsidies. For example, the National Mutual Aid provides funds for the creation of income-generating activities through physical or collective companies (cooperatives, associations).

In this same context, the social development agency launched a programme under the name '*Maroc Moubadarates*' which aims at creating platforms of associations with public and private actors from the targeted territories (generally those that are disadvantaged, landlocked or suffering from pressing social needs). These platforms aim to set up a financial and non-financial support mechanism for small businesses and an orientation and information space for project promoters.

In addition to grants, other support is offered in the context of the social and solidarity economy. Such support includes guarantees such as the 'Mouwakaba' fund of the Central Guarantee Fund (CCG). The purpose of this fund is to guarantee the 'honour loans' granted by the associations to project holders.

Moreover, some private financial institutions are adapting their funding offers to better serve the needs of social and solidarity economy organizations. This is the case of the agricultural credit group of Morocco, which, in partnership with the State, created the financing company for agricultural development 'Tamwil el Fellah' (literally, the financing of the farmer).

Morocco also wants to equip itself with crowd-funding platforms as an innovative means of financing that can be used for its social and solidarity economy. With this in view a draft bill was tabled by the Ministry of

Economy and Finance on 21 March 2018 (according to the official website of the General Secretariat of the Government, 2018).

The main modes of financing for the social and solidarity economy in Morocco are shown in the table below.

Table 4.7.1: Main modes of financing for the social and solidarity economy in Morocco

Type of source	Source of instrument	
	External	Internal
Social base		Love Money Own funds Membership fees Moroccan tontines
Finance	National Mutual Aid Social Development Agency (Maroc Moubadarates) National Initiative for Human Development (INDH) Microfinance Associations Tamwil al fellah – *Groupe Crédit Agricole*	
Credit guarantees	'Mouwakaba' fund of the Central Guarantee Fund (CCG)	

EXAMPLES OF FINANCIAL MECHANISMS IN MOROCCO

The National Initiative for Human Development was launched by His Majesty King Mohammed 6 in 2005. On Royal Instruction a Trust Account entitled "Support Fund for the National Initiative for National Human Development" was created. On 3 August 2005 a note from the Minister of the Interior ordered the establishment of divisions of social action (DAS) dedicated to the INDH in all the prefectures and provinces of the kingdom.

The INDH involves a partnership between the State, elected representatives, associations and international organizations. Furthermore it is backed by international partners such as the World Bank, the Millennium Challenge Corporation (MCC), the United Nations Development Programme (UNDP), the Saudi Fund for Development, Spanish cooperation, and others. To achieve its intended social objective, the INDH supports income-generating activities and capacity-building, improving the capacities as well as the conditions of access to basic services and infrastructures (education, health, culture, road, water, sanitation, environmental protection etc.), and supporting highly vulnerable people.

Thus, the impact of the INDH on the social and solidarity economy is indirect through the implementation of social projects for the poorest regions. The INDH does not distinguish in its actions between organizations belonging or not belonging to the social and solidarity economy; rather it promotes social impact by acting on targeted populations.

In order to achieve the expected social objective, the INDH is articulated around five main programmes:

Programmes targeted territorially:

i. Rural Poverty Alleviation Programme;

ii. Programme to combat rural poverty;

Programmes for all prefectures and provinces:

i. Programme to fight against precariousness;

ii. Transversal programme;

iii. Territorial Upgrading programme.

In his inauguration speech of the INDH of May 18, 2005, the sovereign emphasized that this initiative is "neither a punctual project nor a contingency programme of circumstance". Indeed the INDH is a sustainable social project that started with a priority programme in 2005 followed by a first phase from 2005 to 2010, a second phase from 2011 to 2015 then a third phase from 2019 to 2023.

The different budget of the phases can be seen in Tables 4.7.2. and 4.7.3 below.

Table 4.7.2: Breakdown of the budget of the first phase of the INDH

	2006	2007	2008	2009	2010	Credits in millions of Dhs
State	1,000	1,100	1,200	1,300	1,400	**6,000**
Communities	300	350	400	450	500	**2,000**
Cooperation	200	300	400	500	600	**2,000**
Total	**1,500**	**1,750**	**2,000**	**2,250**	**2,500**	**10.000**

Source: INDH official data releases

The budget of the second phase was broken down into five programmes (rural, urban, precarious, transversal and territorial upgrading) instead of four as was the case during the first phase.

Table 4.7.3: Budget breakdown of the second phase of the INDH (in thousands of Dhs)

Sources	2011	2012	2013	2014	2015	Total
General budget of the State	1,680,000	1,780,000	1,880,000	1,980,000	2,080,000	9,400,000
Local authorities	1,176,275	1,121,931	1,121,931	1,121,931	1,121,931	5,664,000
Public institutions	200,000	200,000	200,000	200,000	200,000	1,000,000
International cooperation	200,000	200,000	200,000	200,000	200,000	1,000,000
Total	**3,256,275**	**3,301,931**	**3,401,931**	**3,501,931**	**3,601,931**	**17,064,000**

Source: INDH Platform (2011-2015)

The third phase of this initiative aims to preserve the achievements of the previous phases with a reorientation of the programmes to the promotion of human capital as well as to support for precarious categories. Thus particular interest will be focused on adoption of a new generation of income-generating and job-creating initiatives. It will mobilize a budget of 18 billion Moroccan dirhams funded 60% by the State budget, 30% by the budget of the Ministry of the Interior through the general direction of local authorities, and 10% by international cooperation.

The impact of the INDH on the social and solidarity economy is indirect through the implementation of social projects for the poorest regions. This intervention involves several interlocutors, including neighborhood associations, all supported by INDH. This support is provided following calls for projects and is mainly aimed at strengthening management capacities, promoting sports and cultural animation associations, school support and others. Through its actions the INDH also aims to strengthen the role of civil society associations and NGOs and promote participatory democracy (in accordance with Article 12 of the Moroccan Constitution).

For direct impact on the social and solidarity economy, the INDH offers grants for the launch or development of income-generating activities (associations and cooperatives for the vast majority), which are an important focus of the programme. For example 40% of the annual allocation to the cross-cutting programme is devoted exclusively to these activities. These grants cover 70% of the total with a possible co-financing scheme for the remainder. The project holder must present a personal contribution of at least 10% and the remainder (20%) can be lent by microfinance associations.

One relevant feature of INDH is its focus on the integration of support into its mechanism. For this reason 5% of the overall cost of the project is intended to cover the support of the project holders.

As a result of this approach, the INDH today has a strong structure including a strategic committee for human development at local level, a steering committee, and national coordination for INDH. At territorial level it has 12 regional human development committees, 83 provincial human development committees and 1,234 local human development committees. In addition, the division of social action at the level of each prefecture and province oversees the work done in the field.

4.8 South Korea[39]

LOCAL CONTEXT: THE SSE ECOSYSTEM IN SOUTH KOREA

South Korea is an exceptional example of an aid recipient turned high-income country. As the world's 15th largest economy, Korea's experience in sustainable development, providing infrastructure and better services to improve the lives of the people, and its transition to a dynamic knowledge economy. Korea has one of the soundest fiscal situations among advanced economies. Korea has also succeeded in maintaining price stability through effective monetary policy.

However, income inequality has become very serious. A significant number of South Koreans remain in lower income brackets owing to a variety of factors: the way tasks are organized, workers' bargaining power, product market conditions, government policies, and social norms on wages are all inextricably interlinked. Previous labour market reform policies, which sought to solve the problem by making the labour market more flexible and competitive, are not likely to be a long-term solution to the problem since although Korea's labour market has continued to be flexible since the Asian financial crisis, the wage gap has widened considerably. In response, the new government that recently came to power in South Korea has started implementing a comprehensive economic programme to address low growth and worsening income inequality, focusing on income-led growth, job creation, fair competition, and innovation.

Moreover the difficulty South Koreans have in accessing high-quality social services is recognised as a key challenge. Demographic changes such as low birth rate, aging, increasing employment for women, and changes in family structure have all led to a significant increase in demand in recent decades.

South Korea's Social and Solidarity Economy has evolved historically through the interaction between the spontaneous involvement of civil society to address social problems, and the active intervention of the State. The historic starting point for South Korean SSE organizations was, as in other countries, support for the self-organization and independence of vulnerable people.

[39] Based on research conducted by Jonghyun Park, Gyengnam National University of Science and Technology.

Various attempts were made to restore democracy following the Japanese occupation, and to improve the lives of people by developing associations from below, the most representative trends being the credit union movement, the ecologically-oriented local community movement and the urban poor's movement. In the late 1980s, when democracy was restored after end of the military regime, many citizens who participated in the democratization movement began to pour their energy into establishing democracy in their daily lives and realizing public interest and the common good with fellow citizens. In this process, the social economic traditions of the past started to be revived in more innovative forms. Various types of civic groups were activated, and new social solidarity economic organizations emerged, most prominently Saeng-hyup (federation of consumer cooperatives), 'Saeng-hyup' meaning 'cooperation in daily life' in Korean.

Korea's three largest consumer cooperative union federations, HanSalim coop union (1986), Doorae co-op union (1996), and the iCOOP co-op union (1997), were all established around then. In addition to meeting the economic need for purchasing quality products at a low price, these consumer cooperatives formed good relationships with producers and devoted themselves to realizing various public values relating to environment, labour, poverty and local regeneration. The civil society movement of the 1980s, which was carried out to solve the poverty of the urban poor, developed into a nationwide movement to provide various social necessities such as medical care, education and welfare through the help of the business experience of consumer cooperatives. As a result, in the 1990s many SSE organizations began to emerge in the education and medical sector, including the establishment of medical cooperatives and parent cooperatives and the opening of alternative schools.

The production community was actively mobilised in the 1990s in redevelopment areas in Seoul, activists focusing on the construction and sewing sectors in the urban poor movement. The movement, which started in the hopes of self-reliance based on their own efforts and cooperation among the poor, has since led to more self-supporting programmes by the government, which has led to full-scale institutionalization. The democratic-era governments were also active in reflecting the diverse needs of civil society.

Recognising that consumer cooperatives needed a legal environment to freely implement activities that would fulfill the needs and aspirations of their members and to carry out economic projects without creating disadvantageous competition with commercial companies, led to the enactment of the Consumer Cooperative Act of 1999. Similar legislation was made in the medical and educational areas such as the revision of the Infant Child Care Act of 2004 and the revision of the Elementary and Middle School Education Act of 2005. The democratic government has also been active in forming policy partnerships with civil society, one of which was support for the production community programme. In 1996 five Self-Help Support Centers were set up nationwide and operated in an attempt to succeed the production community movement. The movement, which started in the hopes of self-reliance and cooperation between poor people based on their own efforts led to more self-supporting programmes by the government, which has led to a full-scale institutionalization.

It is worth noting that after political democratization, the relationship between civil society and the public authority gradually changed: while the State still has a powerful influence, democratization has given citizens a greater voice than ever before. As a result, various activities to address the specific problems faced by citizens have been carried out in the social and economic sphere, and once the performance of those activities was demonstrated, the government has made them partners in policymaking and implementation. The SSE in South Korea has thus come to the fore as a prominent solution for tackling various socio-economic problems, including unemployment, job insecurity, poverty, and lack of social services.

The SSE in South Korea aims to incorporate social enterprises, cooperatives, village enterprises and self-help enterprises, and the breakdown of each category in terms of numbers is shown in Table 4.8.1 on the following page.

Table 4.8.1: Current Status of SSE organizations

Type of organizations	Social enterprises	Cooperatives	Village enterprises	Self-help enterprises	Sum
Number of organizations	1,713	10,640	1,446	1,149	14,948
Number of employed (persons)	37,509	29,861	16,101	7,629	91,100
Characteristics	Job delivery type 69.7%	Small business co-ops 75%	Local agricultural products processing & distribution 58.4%	Five standardization projects 46.9%	Estimation of 8000 Actual Operation Organizations

Source: Coalition of related ministries (2018)

How the various categories of organization receive support, and the definition of each, is discussed in the next section.

FINANCING THE SSE IN SOUTH KOREA

Current South Korean President Moon Jae-in is considered to be very supportive of the SSE in the country. The presidential secretariat has established a position of Secretary for Social and Solidarity Economy and is currently providing various support mechanisms for the SSE.

The Social Enterprise Promotion Act (SEPA 2007) critically regulates the activities of social enterprises and has a significant impact on other SSE organizations. Under this Act a social enterprise is defined as an entity that pursues a social objective aimed at enhancing the quality of life of community residents by providing vulnerable social groups with social services or job opportunities or by contributing to the communities while conducting its business activities, such as the manufacture or sale of goods and services. The Framework Act on Cooperatives (FAC), meanwhile, was enacted in 2012 and freed the establishment of cooperative associations in all areas except for the financial and insurance sectors. While SEPA provides the legal character of social enterprise based on 'certification', FAC provides the legal character of social cooperativse through its 'permission'. Certified social enterprises may be for-profit or not-for-profit, while social cooperatives must be non-profit corporations. SEPA specifies employment subsidies for certified social enterprises, while FAC does not provide subsidies for social cooperatives. In this sense, it is possible to interpret FAC as introducing new forms of SSE organizations that are less dependent on government subsidies. Cooperatives receive no direct government support in the form of subsidies, unlike other types of SSE organizations receiving government certification. In order for a company to be certified as a social company, 30% of people employed have to be classified as 'vulnerable' and there must be a decision-making structure in which interested parties, such as the beneficiaries of services and employees, participate and use at least two-thirds of profits for social objectives. Village enterprises, meanwhile, are neighbourhood-based enterprises that aim to revitalise local communities and contribute to local development by providing income and jobs for local people through for-profit activities which locals lead and engage in, using locally available resources. Village enterprises differentiate themselves from other SSE organizations in that their core mission is to revitalise the local community. The self-help enterprise is an economic organization based on the National Basic Livelihood Security Act and consists of poor people who are beneficiaries of the National Basic Livelihood Security Act. The organization receives support from the government, including support for personnel expenses, free rent of national land, low-interest business loans, and public procurement priorities based on reaching a threshold of vulnerable employees.

Social investors can be divided into various types, including public, charity, mutual aid, civil, and commercial. Their investment purposes, objectives, expected profits, and risk and loss sensitivity differ depending on their type. The most important role in the creation of a financial ecosystem that can effectively assist in the use of funds for SSE organizations is played by social finance intermediaries that connect a variety of fund suppliers and demanders. SSE organizations can be divided into five types depending on the size of their social impact and the degree of structural market failure, and the appropriate means of funding vary for each type.

1. Welfare-oriented types have a large social impact, but their financial performance is low due to high market failure. They can retrieve only a portion of the variable costs from their operating activities, so they can maintain sustainability only when a certain amount of external support is stable. This type includes self-help or social enterprises that employ people with disabilities. In these cases, government subsidies or private donations are the main source of capital.

2. Trust types are those with less than moderate financial performance due to a significant market failure, although the social impact is greater than normal. While variable costs can be recovered through operating activities, it is difficult to recover fixed costs and external support is needed to maintain sustainability. This is the case for most social enterprises that provide various social services on behalf of the government. External funding is required to cover fixed costs, and low long-term loans are required to secure current costs reliably.

3. Sustainable types are socially influential but, owing to some market failures, financial performance is not high. Operating activities allow the recovery of variable and fixed costs to maintain financial sustainability. However, because they do not have sufficient market revenues to recover capital costs, they are only available for low-cost driver-only loans and have difficulty procuring growth capital. Most of the national social enterprises that are regarded as outstanding correspond to this type of sustainability. For these businesses it is common to use loans or patient capital below the market rate.

4. Commercial types are SSE organizations with modest social impact but high financial performance. It is possible to collect all costs and generate sufficient profit through operating activities. They are able to attract commercial capital and are easy to procure growth capital. In this case, it is possible to invest in risky capital.

5. Innovative types are SSE organizations with excellent social impact and financial performance. It is possible to recover capital expenses as well as variable and fixed costs through operating activities. These types can also attract private commercial capital by creating sufficient economic rewards. Various risk capital investments, such as venture capital, convertible bonds, private equity funds and equity are available for such innovative types. Philanthropic investors, such as public investors, provide large amounts of catalyst and first-loss capital to SSE organizations and social financial institutions.

The demand for funds at the start-up stage is mainly met in the form of grants, and funding through social finance intermediaries was mainly focused on meeting short-term operating capital needs. There is a lack of growth capital to expand the scale, and equity investment is rarely undertaken except for some impact investments. In addition, there is no active financing to achieve large projects related to local asset sharing and social housing. The lack of financial means available to SSE organizations in Korea, on the one hand, means that there is a lack of attractive financial products related to SSE for suppliers of funds, especially citizen investors.

To sum up, the sources of funding available to South Korea's SSE organizations today can be divided into grants, loans and equity investments. In the start-up phase, mostly subsidies and investments are made. They are provided with subsidies such as Social Entrepreneurship Fostering Projects and Cooperation Support Projects for small businesses, and investment from impact investment intermediaries such as SOPOONG, and there is a special support project for village businesses in the form of loans. Most of the social finance sector consists of loans, which are mainly focused on the growth phase. The most active activities are the Social Investment Fund by Seoul Metropolitan Government, the KCCSE Solidarity Fund and Social Innovation Fund provided by self-help investors, and the Social Solidarity Bank, and the Joyful Union as SFIs. However, the amount of money provided is not large enough to meet the needs of SSE organizations, and there are not many financial instruments available. Research conducted recently shows that SSE organizations are primarily funded by government grants, special relationship borrowing and loans from traditional financial institutions. It is common for social enterprises to rely much more on loans than on equity. For cooperatives, the most preferred financial mechanism is the expansion of member contributions.

Other types of SSE organizations are primarily funded by government grants, special relationship borrowing and loans from traditional financial institutions. Recently there has been an increase in the use of external funding instruments like crowd-funding, social investment lending, and loans using social finance institutions. But the demand for funds at the start-up stage has been mainly met in the form of grants. Funding through social finance intermediaries has been mainly focused on meeting short-term operating capital needs. There has been a comparative lack of growth capital to expand the scale of investments, and equity investment is rarely done except in the case of some impact investments. In addition there is no active financing to achieve large projects related to local asset sharing and social housing.

Table 4.8.2: The actors and stakeholders of the Korean SSE Ecosystem

Main actors	• Cooperatives (non-social) • Social Cooperatives • Self-help enterprises • Social enterprises • Village enterprises • Associations • Foundations • Other non-profit institutions
Public institutions	• Ministry of Health and Welfare • Ministry of Employment and Labour • Ministry of Public Administration and Security • Ministry of Strategy and Finance • Regional and Local governments • Korea Social Enterprise Promotion Agency
Networks and support institutions	• Federation of cooperatives • Networks at a national level: • Korea Central Council of Social Enterprise, the Korea Social Economy Network • Networks at a local level • Co-governance organization: • Civic-Governmental Policy Consultation Council for Social Economy • Intermediary Support Organizations: • Central Self-help Centre, Seoul Social Economy Centre, various organizations
Financial investors	• Public investors • Philanthropy investors • Mutual aid investors • Civil investors • Commercial investors
Financial intermediaries	• Wholesale financial intermediaries • Support-organization-type financial intermediaries • Region-based financial intermediaries • Self-help-based financial intermediaries • Impact investment intermediaries
Training and Research Institutes	• Research Centres • Intermediary Support Organizations • Universities

EXAMPLES OF FINANCIAL MECHANISMS IN SOUTH KOREA

The Social Investment Fund established and operated by the Seoul Metropolitan Government, which began to take shape in 2013 after the enactment of the ordinance on the establishment and management of Social Investment Fund in Seoul. As of the end of 2017 the Social Investment Fund has secured 55.2 billion won from the city's budget and provided 81.7 billion won in loans to 331 SSE organizations over the past five years since its establishment. At this time, 1,851 job creation projects and 381 social housing construction projects were mentioned as the most representative achievements.

However, the contribution and impact of the Social Investment Fund shine even more in areas that are not readily visible. First, the Social Investment Fund has greatly contributed to the growth of the Social and Solidarity Economy ecosystem by supplying the largest amount of funds among financial institutions targeted on SSE organizations at the lowest rate of interest. The fund provided twice as much money as private social finance intermediaries, and the largest of the total amount of public fund loans. The fund's lending rate was 2%, well below the average lending rate of 3.25% for the SSE organizations. Second, the Social Investment Fund provided growth funds to SSE organizations with a relatively large lending limit. Third, the provision of catalyst capital required for the vitalization of retail Social Finance Institutions (SFIs) and self-help financing is also an important contribution of the Social Investment Fund. The Fund increase the lending capacity of these various financial institutions such as the credit unions (North Seoul, Dong-jak, Non-gol), self-help financial institutions (the Korea Central Council of Social Enterprise and the Social Innovation Fund), support-organization-type SFIs (Joyful Union, Social Solidarity Bank), and crowd-funding platforms (Omycompany, BPLUS) by providing interest-free funds to them. Fourth, the Social Investment Fund contributed greatly to enhancing the effect of Seoul Metropolitan Government's Social and Solidarity Economy core policies by providing funds to the projects from an early stage, the projects having received special attention from the Seoul Metropolitan Government, such as social housing construction.

The Seoul Metropolitan Government has drastically changed the management system of the Social Investment Fund since April 2017, the key to which can be summed up as ending the single-agency private entrustment and encouraging more initiative in private retail SFIs. The new Social Investment Fund projects are largely divided into SSE organization loan business, social housing loan business, SFIs support projects, and creation of impact investment associations and contributions to them.

First, in the case of SSE organization loans, it provides loans to nine SFIs at zero interest, and these financial institutions provide long-term loans at low interest rates of 3% or less to SSI organizations SSE projects. At this time, it is mandatory for retail SFIs to make matching loans of up to three times the size, thereby increasing their lending capacity and lowering the burden of interest rates on SSE organizations. Second, the social housing loan project will lend the necessary funds for the purchase of land and buildings and for construction and design supervision to SSE organizations supplying social housing for up to eight years without interest. Third, the SFI support project provides 1% of loan application amounts to the retail SFIs as grants and allows them to use them for labour or activity expenses. The Social Investment Fund is also working on creating an impact investment association that will provide growth funds to SSE organizations through equity investments rather than loans.

The other relevant example of an innovative financial mechanism is that of iCOOP. This 'self-help' finance is based on a monthly membership dues scheme, a members' project financing loan scheme, various member share systems, a member advanced payment scheme, and other various innovative funding systems. As we have seen, cooperatives prefer insider funding from members or board members rather than external funding from financial institutions. One of the best examples is iCOOP Saeng-hyeob (the iCOOP consumer cooperative), which is a leading cooperative that succeeded in scaling-up and growing through active use of self-help finance. According to the financial statements of the Consumption Sector in 2017, the proportion of equity capital (86.3 billion won) is high compared to the total fixed assets (168 billion won), and debt is mostly borrowed by co-op members (41.7 billion won). This development of self-help financing in the iCOOP has relied heavily on innovative financial mechanisms, which are hard to find in the cooperative sector as well as the entire social solidarity sector. iCOOP created an innovative financial mechanism under the leadership of the union and thanks to the active participation of local member co-operatives it was able to maximize the use of these mechanisms.

The innovative financial mechanisms of iCOOP are largely based on a monthly membership dues scheme, a members' project financing loan scheme, various member share systems, a member advanced payment scheme, and various funding systems. First, members of iCOOP are required to pay monthly dues of about 10,000 won in addition to the basic share paid when they join. About half of the members' dues is used as expenses for the operation of the union headquarters, the price stabilization fund and the store cooperation fund, while the rest is used as expenses on the self-governing activities of the local co-op members. As of 2017, it is estimated that at least 27 billion won has been collected each year, considering that there are 228,221 members paying the dues and that the monthly membership dues exceed at least 10,000 won.

Second, the members' project financing loan scheme is a unique financing arrangement of iCOOP that borrows facility funds for a particular purpose from their members. The iCOOP adopted a way of expanding its business by borrowing money from its members through the creation of a form of project financing loan fund rather than borrowing money from external banks. Members were encouraged to participate through the interest rates provided in excess of the bank's interest rate, and the repayment of principal was smoothly achieved through the successful expansion of the business (Son 2015). In 2017 the loans from members reached 65 billion won.

Third, the iCOOP uses various forms of member share investment schemes such as business investment and responsible investment. The cooperatives union requires members who participate in a member loan to invest at least 100,000 won in an additional business share scheme, and in return provides them with a discount on membership dues. In addition, a responsibility investment scheme was newly established in 2014 to encourage those who want to become core members to invest 1 million won per person, which is aimed at strengthening the co-ownership and accountability of their members. The responsible investment differs from the member loan in that it is not the debt of the company but its own capital. As of 2017 a total of 6012 members participated in the scheme, which accumulated up to 7.3 billion won, and the participation rate was 2.7%.

Fourth, there is also a members' advanced payment system that has been in effect since 2001. This is a system that allows members to deposit certain amounts in cash before purchasing goods and then use the deposit when purchasing goods, so that farmers can secure the necessary funds for production in advance. In 2017 32.4% of union members participated in the members' advanced payment system, and the total amount of the scheme was 117.1 billion won. 2% of the deposit money will be set aside as a kind of virtual currency or reward point, e-CCETS (e-Consumer Cooperative Exchange Trading System).

Finally, the iCOOP has also raised various funds based on monthly membership dues and is using them to achieve the goals of stabilizing prices of agricultural products, enhancing welfare for activists and expanding stores. In 2017 the fund was raised to 3.8 billion won, and 1.5 billion won was used. iCOOP also has created a store cooperation fund to open new stores or to protect existing stores from possible future management risks. The fund, which was created by collecting a part of monthly member dues, set aside 77.9 million won and 519.38 million won was spent in 2017.

However, despite these innovative measures, Korean cooperatives, including iCOOP, have difficulty raising the necessary funds owing to current legal restrictions and limitations. It is not possible to raise funds with the character of equity capital such as preferred stock or investor participation securities other than union member investment, which is in contrast to the experience of other countries that provide investment incentives to union members and non-union members by easing restrictions on ownership of cooperatives to the extent that they do not impair control by union members. And under the current law, corporate bond issue is only allowed to companies under commercial law, so the cooperative is not allowed to issue bonds in principle. In the case of iCOOP, the demand for short-term operation funds is met through the members' advanced payment scheme and the demand for long-term facility funds for business expansion is met through the members' loan system, but the legal mechanism to support the demand is not yet properly equipped. In this regard the Korean cooperative has a challenge in terms of revising laws and regulations relating to financing. ■

5. FINANCIAL INSTRUMENTS FOR INNOVATIVE SSE ECOSYSTEMS: OVERARCHING THEMES AND CROSS-CUTTING ISSUES

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This chapter presents the key points that emerge from a comparative analysis of the case studies presented in chapter 4, in an attempt to extract some elements of reflection supported by the empirical evidence collected. The choice of cases has 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. These observations are also the basis for the definition of some recommendations for the various actors of the ecosystem, which will be presented in chapter 6.

Before moving on to the analysis of overarching themes and cross-cutting issues, however, a methodological point should be noted: 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. For others, the situation is even more deficient (Cape Verde, Ecuador), which in turn affects one's ability to fully capture and comprehend the phenomenon. Moreover, to the extent that some types of organizations within the SSE can rely on a wider coverage of data and information (as in the case of cooperatives in Colombia and Morocco), there is the risk of over-representation of one component of the SSE with respect to the others, with consequent inaccuracy of the general cognitive framework.

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. This aspect concerns both the overall knowledge of the phenomenon of the SSE as well as the issue of access to finance by SSE organizations in particular.

5.1 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 economic 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.

Ecuador aspires to transforming the classic economic paradigm according to the principles of a popular and solidarity economy, and therefore pursues a solidarity economy with a markedly ideological aim. However, while this programme emerges from a legislative initiative – no less at the constitutional level – it is then difficult to translate it into practice due to an SSE ecosystem that is still rather fragmented and insufficiently organized to guarantee its sustainability.

On the other hand, Luxembourg is a country in which, it could reasonably be argued, the push towards the inclusion of the social dimension is driven first and foremost by the needs and requirements of the financial sector, with the aim of improving the reputation of the sector and expanding its sphere of action. In this respect it presents a rather different dynamic from all the other countries, since the role of the organizations of the SSE appears secondary in relation to the 'creativity' expressed by the financial services sector. It is interesting to note that a similar trend can be found elsewhere (see in particular the USA and UK), where the community of financial organizations is highly developed and influential and is looking to reposition itself or to improve its public reputation. In this sense, although misaligned with other case studies, the example of Luxembourg indicates undoubtedly a tendency which the organizations of the SSE will have to address in the near future.

However, for the purposes of the analysis presented here, the most relevant theme seems to be precisely that of the consequences of a dichotomy between the 'solidarity' and 'social' components of the social economy, particularly as it relates to the approach to economic development. The first 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, while the second 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. The case studies are thus representative in varying measure and with the variations mentioned above in both trends.

Of course, we are talking about different trends within a single framework, which is what is synthetically called 'social and solidarity economy'. However, as already noted, for the purposes of this analysis it seems more interesting to reflect on the implications of these differences, as they may contain some indications on future developments, rather than insisting on the common elements which are undoubtedly prevalent.

In the latter concept, the social economy is indebted to various trends, including the citizen-based community economic development organizations that grew in the early 1980s in urban neighborhoods struggling against economic restructuring and the recession (Quebec) or civil society mobilizations in the 1970s and 1980s to meet new social needs not met by traditional public welfare (Italy). In both cases the development of SSE organizations, especially in more recent times, should be seen also as connected to processes of economic democratization, of designing financial institutions and investment tools *by and with* social economy actors.

These developments were strongly influenced by the specific conditions of the social, cultural and political contexts in which they occurred. In this sense the importance of ecosystems is crucial as the degree of leadership and autonomy of the organizations of the SSE depends on their density and articulation. 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.

The social and cultural cohesion of the territorial systems, as well as specific features that concern the history of the identity of a specific community, are decisive elements in the success and evolution of social and solidarity economy ecosystems (e.g. the religious or political substratum that lies at the origins of the cooperative movement in Italian regions such as Trentino or Emilia Romagna, or the influence of the Islamic approach to finance in Morocco, or to the connection with the concept of *Buen Vivir* or *Sumak Kawsay* in Ecuador).

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 they 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. This observation is independent of the type of business forms that are used. It can be applied to both the cooperative model and the social enterprise. The discriminating element is rather that of the degree of autonomy of the SSE organizations as compared to the public sector.

5.2 The crucial role of endogenous development and the polyarchic structure of ecosystems

A second general consideration derives from the analysis of the ecosystem structure. As already mentioned under the previous points, 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). Where ecosystems are younger, less balanced, and conditioned by the decisive presence of public authorities, financial mechanisms instead tend to be less articulated and tend to be organized around the availability of public or international subsidies (see Cape Verde).

This observation leads to a remark about the importance of endogenous development dynamics. Ecosystems of social and solidarity economy begin to develop and consolidate even in the absence of specific public policies. In certain cases public policies can even be the result of an autonomous initiative undertaken by SSE actors. In this regard the case of South Korea can be taken as an example: the 'Civic-Governmental Policy Consultation Council for Social Economy (CGPCCSE)' shows there is not (necessarily) a need for formal institutionalization to strengthen SSE ecosystems. Another example, historically, is that of Italian social cooperation, the beginning of which was due to bottom-up initiatives that only after a long process of experimentation and consolidation – lasting almost twenty years – eventually obtained legal recognition by the State; while on the opposite front the case of Colombia shows that the existence of a social economy law is not sufficient *per se* to shelter SSE organizations from an otherwise unfriendly environment, while the experience of Ecuador indicates that the transition from the constitutional norm to administrative practice can be full of obstacles to the point of compromising the initial approach.

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

Investors' perceptions of risk should thus reflect the dualism reported above, differentiating the risk profile in relation to the type of organization of the SSE in question. It is evident that this varies with respect to the level of dependence on public funding, as well as with respect to 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. Reconsidering the notion of financial risk should be another of the priority tasks of action in support of the SSE, not taking for granted that the organizations belonging to this sector should apply the same logic used to evaluate an investment aimed at maximizing the economic return.

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 (see Cape Verde) 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 (see Morocco, Colombia) through collective entrepreneurial organizations such as cooperatives. However we can see significant differences between these two cases (and also Ecuador):

- In Colombia one witnesses a certain tension between the public sector and the SSE, despite being among the first countries in the world to have a Law on Social Economy.
- In Morocco the decisive role played by the King-led initiative is in line with the socio-political conditions of the country. The pre-existence of a sufficiently developed cooperative system has benefited from the weak innovation of INDH, which seems to be producing results.
- The strong innovations in Ecuador and the existence of a relevant (but unbalanced) cooperative sector has facilitated sustained and significant development of the sector despite its seemingly minor role in the policy formation process.

5.4 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 we see in 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). At the same time the use of newly-developed financial instruments is less relevant in the cases studied for this project.

Indeed the element of particular interest in the Luxembourg case derives from the fact that it represents the only case among those analyzed in which financial innovation emerges through the initiative of intermediaries, in the search for new areas of market and 'investment ready' subjects, rather than from the solicitation of SSE organizations. In all other cases – and especially in those with a longer tradition of social economy, such as Italy and Quebec, and where (unlike Luxembourg) for reasons relating to the history and productive matrix of the country, the SSE ecosystem includes an important presence of cooperatives – SSE organizations rely mainly on tried and tested financial mechanisms such as the use of internal or public resources, or create their own innovative financial instruments (as in the Italian case of the *Cooperazione Finanza Impresa* – CFI, or as in the case of Fiducie / Risq initiatives set up in Quebec by the same SSE actors), rather than resorting to third party financial instruments.

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.

5.5 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, on the other hand 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 (so-called 'creaming' and 'parking'). 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. Also, from this perspective new mechanisms that are able to divert financial resources towards the SSE can play a relevant role, but only if we consider systemic bias or inertias arising from instrumental logic in how the different resources are allocated.

A further observation that emerges from the analysis of the various cases 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 (eg 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 (eg Faircoin) do not seem to be of sufficient scale or depth to modify this scenario.

In any case, the empirical evidence from the study of the cases that are the subject of this report does not indicate this theme as currently a priority in the practice of social and solidarity economy organizations. In this sense we are witnessing a situation that we have already seen with reference to the sharing economy platforms, where some tools that have been created including collaborative values that belong to an SSE approach have in fact been developed according to a radically different logic, with the appropriation of value for the benefit of a few rather than for sharing by many. The 'social fintech' applications are still a niche reality compared to the global strength of the large financial players, and their function with respect to the development of the SSE seems limited to a role that is little more than symbolic.

5.6 The importance of a 'blended approach'

In perspective, 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[40] obtained thanks to philanthropic grants.

[40] 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.

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. An inability to access resources that have a good fit in terms of values may result in them losing sight of the specific nature of their mission and cause 'mission drift', thus undermining the SSE and the wider society that depends on the SSE for support. At the same time it is important to strengthen the capacity of SSE organizations to access those resources that could be available to them, including by improving managerial skills and business planning.

5.7 The role of the international dimension

The fragility of ecosystems can also be reflected in the specific approach taken by international or transnational actors in their development or institutionalisation. Despite providing funds and facilitating certain types of innovation, we see that cooperation for development or multilateral organizations such as the IMF in countries such as Morocco or Cape Verde have had an impact in facilitating the development of microcredit initiatives, while in Colombia and Ecuador this influence is contingent upon the active existence of the cooperative financial sector. On the other hand, in the case of Korea or Quebec, the role of the international dimension has facilitated a more diversified set of innovations (with Korea actively adopting what they see as best practice examples from, for example, Quebec, including the financial innovation seen there, or the transfer of community bonds in Quebec) – and to a certain extent in Luxembourg where, despite the relatively lack of significant impact for local SSE initiatives outside government investment, the SIS idea is evidence of learning from international experience, and providing an example to be taken up internationally through policy transfer. In Italy, however, financial innovations tend to be fairly locally rooted, although SSE organizations there have been actively examining other ecosystems from which to learn, as evidenced by their adaptation of the financing member mechanism (originally developed in France).

What is clear to note, however, is that ecosystems are never closed, but open: they have porous boundaries. Thus, we see evidence of inward flows of ideas and influence dominating in the case of some of the countries studied (particularly those with 'weaker' or less developed ecosystems) and outward flows in the case of many of the stronger countries. That is not to say that the stronger countries are immune from this international influence. Interdependency, both politically and economically, works both ways to enable and constrain the ability of (for example) Ecuador to forge an entire economy based upon the concept of Buen Vivir, since global capitalism and international actors such as the IMF (International Monetary Fund) may in some ways constrain the ability of the country to do so, but support it in others. The international dimension is also relevant to a global financial hub such as Luxembourg, which hosts several impact funds acting outside the country. The key lesson here is that international forces matter, and one needs to be conscious of the constraints they impose and the opportunities they afford when discussing national SSE ecosystems.

5.8 Innovating Financial Mechanisms within SSE Ecosystems

The type of financial innovation that the SSE requires to fulfil its mission in terms of social transformation could be variously aimed at the following: covering certain gaps in the supply (e.g. long term/patient capital, as seen in the case of FIDUCIE); increasing the scale or scope of the demand side (e.g. increasing the financial readiness of SSE organizations, or microcredit with technical assistance, such as is seen in Cape Verde); facilitating self-employment strategies in very poor or excluded communities; providing multi-target public funds, filling gaps either by themselves or as catalyst capital such as the Social Investment Fund by the Seoul Metropolitan Government In Korea or to develop specialized financial products for the SSE; or raising national and international funding for its development by means of a public second-tier fund as in the case of Ecuador (CONAFIPS). For example one can see that the 'strong' innovation of the Labour Funds in Quebec has had a significant and sustained impact over time, but on the other hand that the 'weak' innovation of the INDH in Morocco facilitated its implementation, as did the Civic-Governmental Policy Consultation Council for Social Economy (CGPCCSE) in Korea, the latter showing a significant degree of sustainability.

5.9 Lessons learned from our approach to ecosystem analysis, and future research directions

QUANTIFICATION OF NON-DIRECTLY OBSERVABLE QUALITIES

Ecosystems could, potentially, be assessed from other points of view than have been focused on in this report: internal and external flows of relevant variables such as information, power, organization, resources, for example. From this perspective it would be important to identify the size of the ecosystem (whether there is a sufficient number of participants) but also how it is organized: whether the flow of information and resources is coherent with the goal of producing beneficial social impact or, more specifically, in increasing the capabilities of SSE actors to achieve such impact in the form of local development, the fight against poverty, provision of decent jobs, or facilitation of a fairer distribution of wealth creation. Furthermore, one also needs to recognise that ecosystems are not static systems, but constantly in flux. There are interesting proposals emanating from human ecology, economic ecology and other disciplines which are able to address these flows and which could be suitable for SSE ecosystems analyses.

Of course, in analysing all these elements specifically for SSE ecosystems one is still faced with the obstacle of poor availability of data. Despite an absence of suitable data, as a first step one could signal some initial evidence pointing in interesting directions that may be worth pursuing. For example, the ties between social activist organizations or actors in Quebec prior to the Summit on Employment (1996) or in Korea after the advent of democracy may both be seen as an element of extensive organization of the ecosystem which facilitated an efficient flow of key resources (information, financial flows or a more abstract aspect such as the political capability to bring about permanent or system-wide transformative innovations).

The role of the State also requires to be stressed, and made clearly visible, when discussing the shape and nature of ecosystems. But states are not homogeneous: 'the State' is simply shorthand for a multiplicity of forms of State actors, histories, political realities, trajectories and relationships. The legacy of colonialism can often be seen in the types of actors supported, and the traditions that have become dominant within a system (e.g. cooperatives in Ecuador or Morocco). They have also come about as a key agent or as an expression of civil society on the road to democracy (e.g. the plurality of actors that have emerged in Korea, or those that have emerged after the peacebuilding in Colombia). There are also political realities that one can barely hint at in these studies: for example, the complex relationships between a dominant or dominating State and the principles of co-operativism in Morocco. Are they truly self-governing in this context? In what ways does the relationships between State and citizens challenge our understanding or appreciation of values and principles of the SSE?

Furthermore, this ecosystem approach can also help us understand that threats can come not only from regulation or failure of regulation (and unintended consequences arising therefrom) but also from the centrality of finance or from instrumental logic in terms of how the different resources are allocated. The logic of the market, in other words, is not necessarily (wholly) consistent with the logic of the social and solidarity economy. By adopting an ecosystem approach, we can avoid logical fallacies such as assuming that there are no financial constraints if the SSE is able to grow or access a variety of financial instruments. In other words, the presence of financial instruments in an ecosystem does not automatically make it a 'healthy' ecosystem, particularly if supply and demand are not in balance. For example, in relation to the problems faced by platform cooperativism, or by the so-called Zebras. These show that those financial instruments which are now showing evidence of having an active role to play in the future evolution of the global economy have almost no relevance to SSE organizations and uptake is unsurprisingly almost non-existent.

We should qualify our thinking, however, by stating that using a complexity lens to studying ecosystems does not imply that other more 'traditional' ways of analysing them, such as by studying networks or by assessing policy frameworks, are not highly relevant. However, we maintain that studying nuances in ecosystems requires suitably precise instruments: tools that are designed to retain a level of complexity, rather than (over-)simplifying matters for explanatory purposes.

QUALIFICATION OF FINANCIAL FLOWS

Another potential line of research emerges from the systemic approach to finance beyond the issue of an increase of financial flows towards SSE organizations. The fintech examples mentioned earlier lead us to consider whether it makes sense to analyse the financial dimension of SSE ecosystems without calling into question the social construction of money. Or putting it in another way: does the idea of SSE finance make sense beyond a change in either its use by SSE organizations (whether financial actors themselves, or enterprises)? Considering that all mainstream currencies are fiat-based, and therefore based on trust, could there be an SSE proposal within an ecosystem which also addresses how money is created?

To a certain extent, the proposals to build SSE banks which are able to issue credit are posing such a question, since in most countries money is created 'out of thin air' by bank lending. But mainstream lenders currently play an almost irrelevant role in most SSE ecosystems, so one cannot currently foresee a shift in that situation. However, the increasing demand for consideration of socially and environmentally ethical investment could eventually lead to a significant shift in the quality (and also to some extent in terms of quantity) of the currency being created and circulating in some ecosystems. Again, the problem arises from the point of view of the systemic approach: an imbalance in the relationship between financial resources being channelled and the SSE initiatives receiving them would endanger the sustainability of the ecosystem. These imbalances are reflected in the reaction from SSE actors and researchers towards the growing expectations of impact finance and related initiatives. There is significant mistrust by SSE actors of innovations from the world of 'impact investment' (such as in Social Impact Bonds, for example) which are not seen as emerging as a result of sustained demand from the sector, but from a financial sector keen to capitalise on a lack of investment in social programmes, particularly since the 2008 global financial crash.

It is no surprise that many of these innovations emerged from, or were inspired by, the UK, which has experienced a combination of serious and sustained public service austerity over the last decade (and thus an appetite for new solutions to the funding of formerly public programmes), together with a highly innovative and powerful (and perhaps even remorseful) financial sector which played a significant role in precipitating the crash in the first place. The UK Government has promoted the idea of impact investment around the world, where it has been enthusiastically adopted by governments keen to capitalise on the enticing promise of a win-win-win result for State, society and investors, despite a profound lack of evidence that such innovations actually work. The mistrust of the SSE in such initiatives is perhaps unsurprising given that many of these products simply do not reflect the reality of the SSE: they are often too large, too complex, or too risky for ordinary SSE organizations to be involved, not to mention that in many cases these are not financial resources designed to support the growth of SSE organizations but rather alternate forms of payment for public procurement. ■

6. CONCLUSIONS AND POLICY RECOMMENDATIONS

As indicated in several passages of this report, the assumption on the basis of which the analysis is carried out is that 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 representation of a social and solidarity economy seriously delayed from the point of view of financial supply and instrumentation is somewhat partial. An indication could be that in many countries this is one of the sectors of the economy that has grown the most in recent years, both in number of employees and in terms of turnover, suggesting that the growth of the SSE has not necessarily been lacking the necessary financial means.

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, and finance must not be instrumental to development but rather finds in itself its own ends and centrality, based fundamentally on the maximization of profit – 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 transformations, combined with profound demographic and social changes, traditional solutions provided by the State and the market are not enough on their own to satisfy new needs. The SSE is therefore faced with the need to multiply its commitment, and to intervene in a plurality of new situations, which is often very challenging. Over the last few years SSE organizations have started engaging in more capital-intensive activities such as urban renewal, waste management, management of facilities for cultural activities, cultural heritage management, social housing, and others, and this engagement is expected to increase in the near future. The scales of intervention called for by the change in our societies requires equipment of SSE organizations with new tools and new models that are capable of coping with a more massive demand for goods and services.

Moreover, the nature of social needs is also becoming increasingly complex, and therefore requires more sophisticated solutions that in turn require large investments of an organizational, educational and instrumental nature. This will require the development of an adequate and accessible supply as well as the training of SSE actors to become more 'financially ready'. The trend towards growth in the size of SSE organizations is proof of this evolution, even if most of the time it happens with SSE-specific methods such as the creation of networks and consortia, rather than with the 'merger and acquisition' mode characteristic of shareholder companies. This growth in organizational complexity consequently translates into a need for investments and financial instruments of a much higher order than in the past.

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 companies and the economies of half the world called its entire reputation into question. Since then there has been a constant attempt to restore public opinion, and to regain confidence in the positive role of finance as an instrument of progress. 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. While opened to the rationale of social action, it is still a question of financial rather than philanthropic activity. 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 the SSE sector, some positions still remain strongly resistant to accepting dialogue with these new trends in the financial world. Other positions are instead confident that the contamination can be positive, and the contribution of new capital to the action of SSE organizations should be welcomed. Still others believe that it is a relationship to be managed carefully, with a very firm eye on the specificities which the social and solidarity economy cannot renounce. The space for finance that is at the service of social action must be defined clearly and without ambiguity, if it wants to play a positive role as a tool for the development of people and communities.

As mentioned above, it is fundamental that SSE organizations are able to obtain the financial resources they need, but also on such terms as are consistent with, and reflect, their values and mission. An inability to do so may result in losing their specific nature and mission, thus undermining the role of SSE for the wider society. For this reason, at the conclusion of this report we would like to summarize some of the most relevant implications for designing policies to support the SSE and access to financial instruments that emerge from the analysis, consistent with the approach described so far.

In an ecosystemic logic, the recommendations derived from the analysis presented in this report cannot be drastically distinguished in accordance with the individual actors. In other words, the policy-making process, as a shared responsibility among multiple subjects, 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 following must therefore be translated, according to their respective competences, into recommendations that apply to governments, SSE actors, international organizations, and to all the different subjects that make up the ecosystem of a social and solidarity economy.

The recommendations in which we believe this analysis can be summarized are the following:

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, as described analytically in Chapter 3. Using the ecosystem approach, resources must be capable of being used based on the characteristics of the different subjects 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 different but interconnected mechanisms that can be suitable for the various stages of the entrepreneurial journey. Looking at the case studies, this means that in some countries the focus on microcredit should give way to more complex strategies, capable of offering tools on multiple scales: from the individual entrepreneur to company consortia. And in other countries, where the plurality of financial instruments is already developed, the connections should be improved – that is the link between the various financial mechanisms, given their coordinated action, with the aim of overall growth of the SSE. In practically all the situations analyzed for this project, there is still plenty of room for rethinking the relationship between payable and non-repayable financial resources in an innovative way. Some trends indicate a transformation in progress of traditional forms of philanthropy, which today are increasingly open to the functions of seed-money or patient capital for the creation and consolidation of social enterprises.

2. **Support for internal capitalization.** The analysis of the organizations of the SSE, and of cooperatives in particular, 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 (perhaps more important) of 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. The case studies have shown that the ways of creating and strengthening these schemes can be varied and can be developed in a plurality of forms. They range from guarantees granted with public funds, as in the case of mechanisms such as the EU Programme for Employment and Social Innovation – EaSI (promoted by the European Commission and managed by the European Investment Fund – EIF), up to the credit consortia created by SME and cooperatives on the principles of mutuality and solidarity, which act as a collective guarantee that reduces the financial risk of the lender and therefore lets the banks provide the financing with greater facilities for the customer.

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 reproducibility of an ecosystem cannot follow a preordained model but depends on the composition of the elements present in the specific contexts as a condition of success and sustainability. The policies to

accompany the processes of creating SSE ecosystems must therefore respect this contextual dimension and help bring out the 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 the financial instruments dedicated to it. Where the SSE systems are more developed and have a longer history, this method of dialogue naturally imposes itself because the various social actors have the competences, the reputation, and the negotiating capacity to obtain the desired result. However, it is important that the same method is also adopted in contexts of greater fragility and where the SSE organizations have been more recently established. Appropriate public policies can favour such an approach, assisted by the participation of social actors. Moreover, the interest in a process of co-design should not only be assessed from the point of view of its obvious outcomes (the policy and its impact) but also because the process itself can strengthen the ecosystem. And this will not only result in higher codesign capabilities: a stronger ecosystem that emerges from a codesigned process can also benefit private-to-private collaboration.

5. **Moving beyond finance and legal frameworks.** The analysis of the cases 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.** In several parts of this report it was noted that the availability of data relating to the SSE and financial instruments is lacking in almost all the countries studied. 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 assessment of finance needs but would also allow more accurate measurement of risk, which is decisive for the assessment of creditworthiness. Often the difficulties in accessing credit from SSE organizations arise from a false perception of risk on the part of lenders, which could easily be corrected with appropriate factual knowledge based on data. Integrating indicators to fill this data gap in national statistical surveys is an important policy objective, as well as encouraging SSE actors to develop their own detection and evaluation systems, based on rigorous scientific methodologies.

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. As shown for example by the case of South Korea, where local actors have actively sought dialogue with other international ecosystems for inspiration, international networking has great potential for supporting the growth and innovation of SSE systems. 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. At the same time, this also needs to be 'localized': that is, the international dimension requires to be considered when also developing local strategies, resulting in:

    a) a different approach to internationalization, beyond foreign trade;

    b) realizing that active international engagement results in more sustainable local ecosystems; and

    c) the need also to consider the international dimension from an ecosystem perspective, with all actors therefore engaging in reinforcing the capabilities of that international ecosystem.

To this end, all initiatives are of particular importance (such as the Global Social Economy Forum [GSEF] network – or the international efforts of specific governments such as Luxembourg or Korea, which aim to facilitate this exchange and dialogue). Moreover, all international organizations (such as the ILO) that have the task of keeping the social dialogue alive, as has happened so far, can substantially contribute to this task. Finally, given the potential threats from the international financial ecosystem (Basel Accord, IMF intervention, predatory microfinance promotion, etc.), concerted action to avert the negative impacts of such efforts is needed.

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. Issues as relevant as awareness, and alliances with other key actors such as trade unions or international organizations, also need to be considered at the design stage, as well as their impact on power balances (or imbalances) within an ecosystem.

In conclusion, we have attempted with this report to provide the elements for a critical reflection on the issue of needs and access to finance by social and solidarity economy ecosystems, without taking it for granted that SSE organizations have greater difficulties than traditional companies of a similar size, and without uncritically assuming that the most innovative financial instruments are also the most effective and best suited to the needs of SSE organizations. The elements that have emerged from the research in our opinion 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 agree to deal sensitively with a sector of economic life that is oriented by a vision in which performance and efficiency indicators are not resolved through 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. ■

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