This is a draft of the entry for ***Encyclopedia of the Social and Solidarity Economy*** (forthcoming 2023) published by Edward Elgar Publishing Limited in partnership with United Nations Inter-Agency Task Force on Social and Solidarity Economy (UNTFSSE). This work has been funded by the Government of the Grand Duchy of Luxembourg.

Financing for the Social and Solidarity Economy

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Bibliographic information

Gianluca Salvatori and Riccardo Bodini. Forthcoming 2023. Financing for the Social and Solidarity Economy. Edited by Ilcheong Yi, Peter Utting, Jean-Louis Laville, Barbara Sak, Caroline Hossein, Sifa Chiyoge, Cecilia Navarra, Denison Jayasooria, Fernanda Wanderley, Jacques Defourny, and Rocio Nogales-Muriel. *Encyclopedia of the Social and Solidarity Economy*. Cheltenham and Northampton, MA. Edward Elgar Publishing Limited in partnership with United Nations Inter-Agency Task Force on Social and Solidarity Economy (UNTFSSE).

Or

Gianluca Salvatori and Riccardo Bodini. Forthcoming 2023. Financing for the Social and Solidarity Economy. Edited by Ilcheong Yi et al. *Encyclopedia of the Social and Solidarity Economy*. Cheltenham and Northampton, MA. Edward Elgar Publishing Limited in partnership with United Nations Inter-Agency Task Force on Social and Solidarity Economy (UNTFSSE).

June 2022
UNTFSSE Knowledge Hub Draft Paper Series

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Abstract

SSE organizations and enterprises (SSEOEs), as with every economic actor, have a need for finance dictated by their growth and consolidation objectives. These financial needs can be very different depending on the type of activity, the degree of maturity, the size and other distinctive factors related to the context within which they operate. But, due to their specific nature and mission, many of the financial mechanisms most used by for-profit corporations – having as their main goal the remuneration of investors - are not readily applicable to the SSE. This entails that the theme to focus on should be not so much simply that of access to finance by SSEOEs as that of the specific ways in which this access occurs. The entry presents a list of financial instruments organised according to five broad categories: social base, surpluses and assets, grants, debt, equity. Each group shortly defines financial mechanisms that are, at least in principle, available to SSE.

Keywords

finance for SSE; financing mechanisms; financial resources; access to finance; sustainable finance; tax

Introduction

As is the case with any business, Social and solidarity Economy organizations and enterprises (SSEOEs) have a need for finance dictated by growth and consolidation objectives, which in turn are functional to the type and size of demand and the needs of individuals and communities on which they intend to make a positive social impact. But precisely because finance for the SSE(social and solidarity economy) must also be instrumental with respect to the social objectives that are pursued, the theme of the relationship between SSE and financial mechanisms can be dealt with both from the point of view of demand, by analysing the financial needs that SSEOEs express in order to feed their own development, and from the point of view of supply, by looking at the financial instruments and products that the SSE developed to satisfy its own needs. The two perspectives are mutually independent, and sometimes in conflict. The low weight accorded to the SSE as a financial actor has often undermined the ability to fulfil all its needs with consistent solutions, forcing SSEOEs to use tools and products originally designed for non-SSE entities. But, due to their specific nature and mission, SSEOEs are not well-suited to access financial mechanisms designed to maximize return on capital or to assign investors ownership rights and governance powers proportional to their capital contributions. This means that many of the financial mechanisms most used by for-profit corporations are not readily applicable to the SSE. In other words, the specificities of the SSE are not aligned with the assumptions on which the most widespread forms of finance in capitalist economies are based, and this substantial difference in approach conditions access to the financial instruments. Therefore, when talking about the difficulties of access to finance for SSEOEs, one should never lose sight of the wider frame of reference, since the problem is not so much simply that of access to finance as that of the specific ways in which this access occurs. That is, the theme to focus on should be whether these ways are coherent or in contrast with the nature and mission of the SSE.

As a result, the SSE, over time, has had to develop autonomous forms of finance able to respond, at least in part, to its specific financial needs. For this reason, this entry should be read in close connection with entry “Finance sector and SSE” dedicated to the contribution of the SSE to the creation of its own financial sector, populated by institutions and instruments conceived to satisfy requirements that univocally qualify the SSE and its mission to meet people's needs. Throughout history, the mismatch between supply and demand for financial instruments has often led SSEOEs to generate alternative approaches, as in the case of cooperative credit, mutual institutions, guarantee consortia, or member lending, which developed in parallel to the more traditional systems of for-profit finance.

Over the past few years, the traditional finance sector has increasingly opened up to approaches that value sustainability in its various meanings, including environmental and social. The diffusion of ESG (Environmental, social and governance) criteria - which establish ways of allocating financial resources that are sensitive to environmental, social, and good governance objectives - is a clear sign of this trend. In this sense, SSEOEs today may find it less difficult than in the past to access financing instruments consistent with their own identity. However, even the growing attention by the financial industry to sustainability factors does not imply that the gap between supply and demand of financial resources in the SSE perspective has been satisfactorily closed. In many cases, the new financial instruments that are created with the intention of integrating elements of social sustainability, although no longer exclusively oriented towards maximizing the benefit for investors (as in the case of impact investing), often adopt evaluation parameters and resource allocation criteria that are not fully aligned with the objectives of SSEOEs, or

they in fact privilege selection criteria that favor mainly projects and organizations where the measurability of social impact is more immediate and evident, with obvious distorting consequences. An example of this can be obtained from the literature analyzing the influence on SSEOEs of impact investment funds, social impact bonds, and pay-for-success schemes. Another example can be obtained by the recent taxonomy of sustainable finance being adopted by the European Commission, based on indicators that are clearly skewed toward a notion of sustainability that is primarily concerned with environmental and climate change issues, to the detriment of social issues.

A final aspect to consider in this premise depends on the fact that within the SSE are included organizations of a very different nature, in terms of size, sectors of activity, stage of maturity and financial requirements. Indeed, the SSE includes an extremely diverse set of actors, with their specific financial needs. A social start-up that is just beginning its operations on very limited resources or a community cooperative that manages the neighbourhood pub cannot be compared with a mature and adequately capitalized large cooperative (e.g. in the agricultural or consumer sector), just as a worker integration social enterprise providing low-skills services in order to employ disadvantaged workers does not have the same financial profile as a philanthropic foundation that manages a hospital, or a century-old mutual insurance company with hundreds of thousands of members.

1. A taxonomy of financial mechanisms

The great variety of organizations included within the definition of SSEdetermines, as mentioned above, that financial needs can be very different depending on the type of activity, the degree of maturity of the organization, its size and other distinctive factors related to the context within which they operate. Therefore, what is most specific about the relationship between SSE and finance is not so much the type of financial needs expressed by individual organizations, which often correspond to the needs of for-profit organizations of comparable size or at a similar stage of development, but rather the types of financial resources effectively available to them and the ways in which these resources can be accessed. It is by adopting this perspective that the constraints and opportunities that distinguish the SSE emerge as compared to for-profit enterprises that attract capital because their main goal is to remunerate investors.
With this in mind, the following is a classification of the main financial instruments used by SSEOEs, with greater or lesser frequency. For some, the correspondence with specific characteristics of the SSE is unequivocal - in the sense that they are instruments that are created with the constraints and real operating models of the SSE in mind. In contrast, for others it is clear that they are financial instruments also shared with for-profit enterprises.

The list is organised according to five broad categories: social base, surpluses and assets, grants, debt, and equity. Each group defines and shortly presents a cluster of financial mechanisms that are, at least in principle, available to SSE organizations.

Table 53.1: 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	Members' capital is the share account that shows the owner's stake in the business. This account shows how much of the company assets are owned by the members instead of creditors. In SSEOEs each member usually contributes the same amount of shares, since the non-distribution constraints 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 53.2: Surpluses and assets (management)

MAIN CATEGORY	SUBCATEGORY	DEFINITION
Firms resources (Surpluses and Assets derived from management)		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 unused areas assigned to SSE organizations and addressed to the achievement of social purposes can be considered as a financing tool.

Table 53.3: Grants

MAIN CATEGORY	SUBCATEGORY	DEFINITION
Financial 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. 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 individuals, families or corporations.
	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.

Table 53.4: Debt

MAIN CATEGORY	SUBCATEGORY	DEFINITION
Lending (financial debt)		Lending or debt instruments provide borrowers with funding in exchange for repayment of this funding (known as the '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.
	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.
	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.

Table 53.5: Equity

MAIN CATEGORY	SUBCATEGORY	DEFINITION
Equity and Quasi-Equity Investments		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	A 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 / impact investing	A 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 returning 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.

2. Evidence from the field

This whole spectrum of financial instruments is available to SSEOEs, but each specific mechanism is used in proportion to its ability to comply with the need to not contradict the priority of social purpose over financial return that characterizes the SSE approach. In principle, as a general trend and in line with the distinctive elements of the SSE, various researches highlight a more widespread use of traditional and low-complexity tools, which guarantee organizations' broad control over their own development, rather than experimenting with more risks that involve opening up governance to external investors.

In general terms, and in light of the above considerations, the most commonly used financial instruments can be grouped as follows:

a) the self-financing and surpluses and assets are the financial instruments to which SSEOEs most frequently resort for their development, especially when it comes to organizations that carry out a prevalent entrepreneurial activity (except, of course, in the start-up phase, when activities are not yet consolidated enough to guarantee a constant and programmable flow of revenues);

b) grants and donations are instead used more frequently by SSEOEs whose associative and advocacy dimension prevails, with a markedly non-profit character (although obviously the availability of non-repayable seed money is often a necessary condition also for entrepreneurial start-ups in the initial phase);

c) the cluster of equity instruments is aimed, first and foremost, at social enterprises set up as joint-stock companies, albeit within the limits established by national legislation for the distribution of profits;

d) and finally, the cluster of debt mechanisms is composed of both very traditional and widespread instruments, such as loans and mortgages obtained thanks to the use of the credit system, and more innovative instruments, such as social bonds, crowdfunding or peer-to- peer lending (the latter are more recently introduced mechanisms, used by a still limited number of organizations, whose advantages from the point of view of SSEOEs are still under scrutiny).

Unlike in the world of venture capital, in which logic prevails that rewards the ability of the company to generate - in a short or very short time - a growth in value capable of satisfying the demand for a return on investment calculated in multiples of the initial capital contribution, the use of more traditional financial mechanisms by the SSEOEs implies management of projects, even innovative ones, compatible with a slower, incremental growth perspective and less performing financial results. This approach obviously inhibits SSEOE'saccess to the more traditional capital markets, but conversely encourages the spread of other forms of financing that prioritize the community's social and economic development over individual investor interests. Over time, this has led to the design of some original 'participatory' finance mechanisms, in which the power of collaboration and belonging to an ecosystem of SSEOEs that share the same goals and vision has been widely used (also see the entry "Sustainable investment, production, consumption and SSE").

One example of this was the creation in Quebec in 2007 of the 'Chantier de l'économie sociale Trust', as an intermediary between the financial market and social economy enterprises. The Trust was created with contributions from the federal government and other solidarity finance actors (including a fund created by trade unions). The Trust offers a range of financial products in order to support social economy enterprises at each stage of their development. The first and most important of these is 'patient capital' to support start-up or business expansion. Among the reasons for the success of the Trust is its

function of offering first-loss protection to subsequent investors, symbolically guaranteeing through the federal government's intervention that the initiative would generate stable financial returns.

Switching continents, another financial instrument that arises specifically in a social economy context is that of consumer cooperation in South Korea, where the mechanism is based on monthly membership dues schemes, member loan schemes for project financing, member dues schemes, member prepayment schemes, and other various self-financing systems that can only work within a cooperative and mutualistic relationship. About half of the members' dues are used for expenses for the operation of the union headquarters, the price stabilisation fund and the store cooperation fund, while the rest are used for expenses related to the self-governing activities of the local co-op members (Park 2021).

A third example comes from Italy and concerns a national fund fed by a percentage of taxes that citizens can voluntarily allocate to Third Sector organizations. The mechanism states that taxpayers can allocate 0.5% of their income tax to support a registered institution or in favor of a specific purpose of social interest. The funds are subtracted from public taxation, as they are paid to the State, but their use is at the discretion of the citizen-payer, who exercises direct responsibility in allocating a portion of their taxes for social development purposes. The amount of the donation is proportional to the tax actually paid by each taxpayer, with an overall collection ceiling set by the State.

Conclusion

Faced with an objective need to support the development of the SSE in a historical phase in which the demand for services and goods with social aims is constantly growing, it should not be taken for granted that SSEOEs have greater difficulties accessing financial resources than traditional enterprises of a similar size, nor should it be assumed uncritically that the most innovative financial instruments are also the most effective and best suited to the needs of SSEOEs. The relationship with finance is undoubtedly a delicate issue for the world of SSE because there is an asymmetry of approaches and values that can create tensions. The search for financial resources must see SSEOEs in an active role in the market for financial instruments, based on their own priorities and values. And financial intermediaries must also learn to deal sensitively with a sphere 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. It is within this framework that the issue of financing for the SSE must be correctly placed.

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