INTERNATIONAL
FORUM ON THE SOCIAL
AND SOLIDARITY
ECONOMY
fiess 2011

Working Paper
Solidarity Finance

Prepared by:

Marguerite Mendell
Concordia University

Rocío Nogales
EMES European Research Network

October 2011

Produced by the / Produit par le / Producido por el
Chantier de l’économie sociale

CHANTIER
DE L’ÉCONOMIE SOCIALE

ecosoci@chantier.qc.ca
www.chantier.qc.ca

This work was carried out with support from Canada's International Development Research Centre (IDRC). The views expressed in this paper are those of the authors and do not necessarily reflect the views of IDRC.

Ces travaux ont été exécutés avec le soutien du Centre de recherche pour le développement international (CRDI), organisme canadien. Les points de vue exprimés dans le document n’engagent que leurs auteurs et ne sauraient être attribués au CRDI.

Este trabajo se llevó a cabo con el apoyo del Centro de Investigación para el Desarrollo Internacional (CRDI), Canadá. Las opiniones expuestas en dicho documento son de los autores y no reflejan necesariamente la visión del CRDI.

A Word from Margie Mendell
President, Research Committee FIESS

A Research Committee of the FIESS, made of academics and representatives from Canadian and international organizations, was convened to prepare five working papers on the Forum's themes, one synthesis paper on the broad theme of FIESS and six case studies. These background documents are available thanks to the generous support of three major partners of FIESS: the International Development Research Center (IDRC), the International Labour Organisation (ILO), the Center for International Studies and Cooperation (CECI), and Human Resources and Skills Development Canada (HRSDC).

The objective of the working papers, written by experts on each of the five FIESS themes, is to provide an overview of the challenges and issues raised by each of the Forum's themes (territory and local development; innovation and collective entrepreneurship; solidarity finance; work and employment and food security and sovereignty) and the relations between government and civil society in several countries that are useful illustrations of collaborative approaches to policy formation. These papers document experiences in many parts of the world that have significant heuristic value; they are not presented as best practices or as models to replicate. They situate the discussions in different national contexts and introduce pertinent theoretical debates on the role of the social and solidarity economy today. As the social and solidarity economy continues to evolve, these papers are offered as a "work in progress". Their purpose is to stimulate debate and discussion among FIESS participants.

The case studies are not limited to a single experience within each country. They include a variety of initiatives (national, regional or municipal) and provide an overview of the current and potential partnerships between government and civil society. The case studies document a broad array of experiences in six countries on four continents where the social and solidarity economy has made significant progress (Canada, Brazil, Mali, Bolivia, Spain and South Africa). More specifically, they describe the processes underlying the co-construction of public policy that address one or more of the forum's themes. Each case study was co-authored by practitioners and local researchers and coordinated by the Research Committee, reflecting the commitment of the Forum to develop and nurture an ongoing dialogue between the different actors engaged in the social and solidarity economy and to create opportunities for collaboration.

As President of the Research Committee, I would like to thank all its members for their hard work and dedication. Finally, as you will notice, these papers have been written in several languages. They are available in their original language except for the Brazilian case study which was translated into Spanish. I hope these documents will inspire a rich and constructive dialogue among FIESS participants and contribute to the growth of social and solidarity initiatives throughout the world.

Présentation des activités de recherche
Margie Mendell
Présidente du comité scientifique du FIESS

Un comité scientifique du FIESS, incluant des chercheurs du milieu universitaire et des représentants d'organisations canadiennes et internationales, a été formé pour préparer des documents de travail portant sur les cinq thématiques du forum, une recherche transversale et six études de cas. Ce projet a pu voir le jour grâce à la volonté et au soutien de trois partenaires majeurs de l'événement, soit le Centre de recherche pour le développement international (CRDI), l'Organisation internationale du travail (OIT), le Centre d'étude et de coopération internationale (CECI), et Ressources humaines et Développement des compétences Canada (RHDCC).

L'objectif de ces documents de travail est de dresser un état des lieux synthétique des enjeux et des défis entourant chacun des cinq sous-thèmes du forum, (territoire et développement local, innovation sociale et entrepreneuriat collectif, finance et commerce solidaires, emploi et travail, sécurité et souveraineté alimentaires) et de faire le point sur l'état de la recherche sur ces questions tout en faisant ressortir les enjeux liés aux relations entre les pouvoirs publics et la société civile. Ces textes abordent les différentes problématiques de manière générale en incluant des exemples pertinents mettant en évidence les enjeux et les défis liés aux questions soulevées. Ces exemples sont davantage des illustrations que des modèles à reproduire. Pour réaliser ces travaux, le comité scientifique a invité plusieurs experts reconnus sur chacun de ces cinq thèmes à se pencher sur la pertinence des initiatives d'économie sociale et solidaire comme réponse aux grands défis rencontrés dans ces différents domaines.

Par ailleurs, ces documents n'ont pas la prétention d'imposer une vérité ou d'orienter les échanges qui auront lieu durant le forum, mais bien d'offrir une mise à jour aux participants et de nourrir les discussions et les débats. Ces recherches peuvent être considérées comme des travaux en cours (*work in progress*) qui devront être poursuivi par les participants. Enfin, ces documents permettent également de situer dans un contexte plus large les études de cas nationaux.

Les études de cas ne se limitent pas à une expérience par pays mais couvrent un ensemble d'initiatives (nationales, régionales ou municipales) et donne un aperçu des relations et des éventuels partenariats entre les pouvoirs publics et la société civile dans un pays donné. Plus précisément, les chercheurs ont étudié, en partenariat avec des praticiens, les dynamiques de co-construction de politiques publiques en faveur de l'économie sociale et solidaire et en lien avec un ou plusieurs des cinq thèmes du forum. Les études de cas offrent un large éventail d'expériences à travers l'étude de 6 pays sur quatre continents où l'économie sociale et solidaire a connu des avancées significatives (Canada, Brésil, Mali, Bolivie, Espagne et Afrique du Sud).

Chaque étude est le fruit d'une collaboration entre praticiens et chercheurs locaux coordonné par le comité scientifique. En ce sens, ces travaux s'inscrivent naturellement dans ce forum voué à la construction d'un dialogue pérenne entre les différents acteurs de l'économie sociale et solidaire.

En tant que présidente du comité scientifique, j'aimerais remercier tout ses membres pour leur travail assidu et leur dévouement. Enfin, comme vous pourrez le constater, ces travaux ont été réalisés en plusieurs langues. Ils sont disponibles dans leurs langues originales, sauf l'étude de cas sur le Brésil qui a été traduite en espagnol. J'espère que ces documents vont inspirer un dialogue riche et constructif entre les participants du FIESS et que, de ce dialogue, naîtront des initiatives concrètes en faveur de l'ESS.

Presentación de las actividades de investigación
Margie Mendell
Presidenta del comité científico del FIESS

Un comité científico del FIESS, compuesto por investigadores universitarios y representantes de organizaciones canadienses e internacionales, fue formado para preparar documentos de trabajo sobre los cinco temas del foro, un estudio transversal y seis estudios de caso. Este proyecto ha sido posible gracias a la voluntad y el apoyo de tres de los socios principales del evento, que son el Centro de Investigaciones para el Desarrollo Internacional (IDRC), la Organización Internacional del Trabajo (OIT), el Centro de Estudios y de Cooperación Internacional (CECI), y Recursos humanos y Desarrollo de capacidad Canadá (RHDCC).

El objetivo de estos documentos es proporcionar un resumen general de las cuestiones y desafíos de cada uno de los cinco sub-temas del foro (Territorio y desarrollo local, Innovación y emprendimiento colectivo, Finanza y comercio solidarios, Empleo y trabajo, Seguridad y soberanía alimentarias) y ofrecer un estado de la situación de la investigación sobre estos temas, destacando además las cuestiones vinculadas con las relaciones entre los poderes públicos y la sociedad civil. Los textos tratan los temas de una manera general, mediante la inclusión de ejemplos relevantes que destaquen los asuntos y desafíos relacionados con las cuestiones planteadas. Estos ejemplos son ante todo planteados a modo ilustrativo, más que modelos a replicar. Para realizar estos trabajos, el comité científico ha invitado a varios expertos reconocidos en cada uno de estos cinco temas para examinar la pertinencia de las iniciativas de economía social como respuesta a los grandes desafíos en estas áreas.

Además, estos documentos no pretenden imponer una verdad o dirigir los intercambios que tendrán lugar durante el Foro, sino que representa un intento de proporcionar a los participantes una actualización sobre los temas y alimentar las discusiones y debates. Estas investigaciones pueden considerarse como un trabajo en progreso (*work in progress*) a perseguir por los participantes. Por último, estos documentos permiten también insertar los estudios de casos nacionales en un contexto más amplio.

Los estudios de casos no se limitan a una experiencia por país, sino que abarcan una serie de iniciativas (nacionales, regionales o municipales) y describen las relaciones y las posibles colaboraciones entre los poderes públicos y la sociedad civil en un país dado. En concreto, los investigadores estudiaron, en colaboración con los profesionales, las dinámicas de co-construcción de políticas públicas para la economía social y en relación con uno o más de los cinco temas del foro. Los estudios de casos ofrecen una amplia gama de experiencias a través del estudio de seis países en cuatro continentes, donde la economía social ha experimentado avances significativos (Canadá, Brasil, Mali, Bolivia, España y Sudáfrica).

Cada estudio es el resultado de una colaboración entre profesionales e investigadores locales coordinados por el comité científico. En este sentido, estos trabajos encajan adecuadamente en un foro dedicado a la construcción de un diálogo permanente entre los diferentes actores de la economía social y solidaria.

Como Presidenta del Comité Científico, quisiera agradecer a todos los miembros por su duro trabajo y dedicación. Finalmente, como usted habrá podido notar, estos trabajos se han realizado en varios idiomas. Todos están disponibles en su idioma original, a excepción del estudio de Brasil, que ha sido traducido al español. Espero que estos trabajos inspiren un diálogo rico y constructivo entre los participantes del FIESS y que de este diálogo puedan surgir iniciativas concretas para la ESS.

Abstract

Collective enterprises in the social and solidarity economy are economic actors, engaged in market activity while committed to and meeting larger societal objectives. They are now part of an ensemble of new business forms that are rapidly evolving today calling for financial innovation and enabling public policy. Often referred to as social enterprise or social purpose business to distinguish these enterprises from profit-driven private enterprises, these "hybrid" business forms are emerging in both the North and in the South, yet their needs for capital are not fully met. The diversity of their financial needs is not reflected in the rapidly growing social finance market limited largely to debt instruments. As this paper points out, social and solidarity economy enterprises require investment tools that correspond with the life-cycle of these enterprises, from pre-start up, to start up, consolidation and growth. In many cases, access to small loans prevents SSE enterprises from achieving scale, and so on. This paper presents an overview of solidarity finance in the context of a burgeoning financial market to meet social objectives, referred to today as « social finance » and « impact investment ». Numerous illustrations are provided of innovation in this emergent market and its capacity to meet the needs for capital in collective enterprises in the North and in the South is critically evaluated. As well, the policy measures to regulate this new market and to attract potential investors are addressed. As this financial market continues to grow, it presents many challenges, not the least of which is a common understanding of what is meant by the many new concepts that are currently used.

Résumé

Les enterprises collectives d'économie sociale et solidaire sont des acteurs économiques impliqués dans des activités de marché tout en maintenant un engagement envers des objectifs sociétaux plus larges. Elles constituent aujourd'hui de nouvelles formes entrepreneuriales qui évoluent rapidement et nécessitent à la fois des innovations financières et des politiques publiques de soutien. Souvent appelés entreprise sociale ou entreprise à vocation sociale pour les distinguer des entreprises privées à but lucratif, ces formes « hybrides » d'entreprises apparaissent, tant au Nord qu'au Sud, avec des besoins en capital insatisfait. En effet, la diversité de leurs besoins financiers n'est pas prise en compte par le marché grandissant de la finance sociale qui se limite aux instruments de dette. Comme ce document le souligne, les entreprises d'économie sociale et solidaire requièrent des outils d'investissement qui correspondent à leur cycle de vie, du pré-démarrage au développement, en passant par le démarrage et la consolidation. Dans de nombreux cas, l'accès à de trop petits prêts empêche les entreprises d'ESS de se développer. Ce texte présente un aperçu de la finance solidaire dans le contexte de l'éclosion d'un marché financier répondant à des objectifs sociaux et qui est aujourd'hui nommé « finance social » ou « *impact investment* ». Ce document décrit de nombreux exemples d'innovation issue de ce marché émergent et évalue scrupuleusement la capacité de ce dernier à répondre aux besoins en capital des entreprises collectives du Nord et du Sud. Les dispositions politiques régulant ce nouveau marché et attirant des investisseurs potentiels sont également passées en revue. Au fur et à mesure qu'il continue de grandir, il fait face à de nombreux enjeux dont l'un des plus importants reste la compréhension et l'interprétation des nombreux concepts qui sont actuellement utilisés.

Resumen

Las empresas colectivas en la economía social y solidaria son actores económicos activos en el mercado y a la vez comprometidos con objetivos sociales amplios, a cuya consecución dedican sus esfuerzos. En la actualidad, forman parte de un conjunto de modelos empresariales en rápida evolución que están reclamando tanto innovación financiera como políticas públicas favorables. A fin de distinguirlas de empresas privadas tradicionales cuyo fin último es la maximización de beneficios, estas empresas reciben el nombre de « empresa social » o « empresa a finalidad social ». Consideradas formas de negocio «híbridas», estos tipos de empresa están surgiendo tanto en el Norte como el Sur y aún así, no encuentran respuesta a sus necesidades de atracción de capital. La diversidad de necesidades financieras que las caracterizan no encuentra respuesta en el mercado de finanzas sociales que, a pesar de estar en rápida expansión, se limita en gran medida a los instrumentos de deuda. Como este documento señala, las empresas de economía social y solidaria requieren herramientas de inversión que se correspondan con su ciclo de vida, desde antes de la fase de puesta en marcha a la implantación, consolidación y crecimiento. En muchos casos, el acceso a pequeños préstamos impide que las empresas de economía social y solidaria crezcan y se desarrollen adecuadamente. Este documento presenta una visión general de las finanzas solidarias en el contexto de un mercado financiero en expansión que busca satisfacer objetivos sociales; a este tipo de finanzas se les denomina en la actualidad «finanzas sociales» o «inversión de impacto». Además, el texto proporciona numerosos ejemplos de innovaciones presentes en este mercado emergente, evaluando de forma crítica su capacidad para satisfacer las necesidades de capital en empresas colectivas del Norte y del Sur. Por otro lado, el artículo repasa las medidas políticas que regulan este nuevo mercado y que buscan atraer inversores potenciales. Dado el continuo crecimiento de este mercado financiero, quedan aún muchos desafíos a los que responder, entre ellos el alcanzar una opinión compartida del significado de los nuevos conceptos que se utilizan actualmente.

Table of Contents

Boxes and figures:

1. Introduction

Collective enterprises in the social and solidarity economy are economic actors, engaged in market activity while committed to and meeting larger societal objectives. Contrary to the perception that these enterprises are largely concentrated in service provision, in fact, they represent all sectors of activity, contributing to wealth creation. Indeed, their democratic governance and commitment to social and environmental goals while earning returns, distinguishes this organization model from private enterprise. In certain sectors of activity, collective enterprises complement the private sector while meeting their larger objectives; in others, they have a clear lead in both producing goods and services more effectively and in their contribution to the public good. The goods and services produced by these enterprises respond to new and unmet needs. These introductory remarks are well known but situate the discussion on solidarity finance that follows.

While it is certainly true that the enterprises that make up the social and solidarity economy have grown exponentially in the last 25 years throughout the world and at a rapid rate over the last few years with the rising interest in "social enterprise" and "social purpose business" in the north, the south and in emerging economies, access to capital remains a challenge that has not as yet been adequately met. Indeed, as this paper will discuss, the emergence of a new approach to social investing and the surge in financial instruments to provide capital for these "hybrid" enterprises is responding to this need. Terms such as "social finance" or "impact investing" to describe this new financial market are becoming very familiar and are attracting a great deal of attention within mainstream financial markets. One need but consult the numerous documents on impact investment, for example, by foundations and the private sector, including major investment banks such as J.P. Morgan and consulting firms such as McKinsey. The Rockefeller Foundation has taken a major lead in this area in research and in supporting financial innovation. A strong case is made for the positive returns from such investment that also meets social and environmental goals. In this short paper, we will not provide extensive detail on this work. However, it will be a recurring reference to situate the capital requirements for the social and solidarity economy and where and how these needs are being met in this evolving landscape. Our discussion will refer to this emergent market and also to the various policy tools that are accompanying this process.

The growing number of social economy enterprises (collective) and social purpose enterprises (primarily non-profit but also private) is driving innovation in finance. In this discussion of the social and solidarity economy, we include micro enterprises in the south and community-based enterprises in North America that have not necessarily adopted a collective ownership form. Public policy is accompanying this evolution as governments recognize the need for regulatory mechanisms, fiscal policy, credit enhancement (guarantees) and direct financial contributions (subsidies and/or investment). As this financial market continues to grow, it presents many challenges, not the least of which is a common understanding of what is meant by "social finance". In this paper, we are using this as an umbrella term to include financial institutions, labour solidarity funds, institutional funds (pensions) and social economy financial intermediaries, among others. Investment tools provided by these various actors range from micro credit to equity. They include a wide range of debt instruments such as loans, preferred shares, bonds and debentures and so on. Many of these tools replicate those in conventional financial markets but with clearly distinct objectives demonstrating the elasticity or fungibility of market-based financial instruments and the need to counter the dominant paradigm governing financial institutions and their practices. This alternative or parallel social finance market has grown significantly, complementing the long history of mutuals, cooperatives and credit unions and the more recent history of financial innovation noted above.

2. Context: Situating Solidarity Finance

Social and solidarity enterprises are now part of an ensemble of new business forms that are rapidly evolving today, calling for financial innovation and enabling public policy. Often referred to as social enterprise or social purpose business to distinguish these enterprises from profit-driven private enterprises, this new business form has been codified in many countries through legislation or certification. In the United States, for example, the low profit liability company (*L3C*), the *B Corporation* or the flexible corporation distinguishes these enterprises. For those non-profit organizations engaged in trading activity, a new legal form is necessary to identify their mission-related or mission-driven activity and to set the parameters for potential investors. Within Europe, many countries have passed laws to distinguish these enterprises. Of course, the cooperative has a long history but it has also expanded to include a new form of cooperative enterprise. In Italy, for example, legislation was passed in 1991 to create multi-stakeholder social cooperatives that provide services and integrate unemployed workers into the labour market. This model has been adopted in several countries within Europe and at the European level. In 2006, the European Commission approved the legal form *European Cooperative Society* (*SCE*, for Latin *Societas Cooperativa Europaea*). The *European Social Cooperative* (*ESCOOP*), established that same year, includes several member countries committed to this model at a European level. Within Canada, the Government of Quebec passed legislation creating solidarity cooperatives in 1997. These social cooperatives are in many ways the precursors for social enterprise today as non-profit organizations with a primarily social mission enter the marketplace. In both cases, these are part of the social and solidarity economy. A historical perspective explains why these new business forms now require accommodating legislation or certification to distinguish their ownership and mission. This paper situates "social finance" in the context of this emergent hybrid market actor and the challenges it poses for developing financial tools.[1]

A similar historical perspective is necessary to situate the development of new financial tools, the emergence of new financial institutions/intermediaries/ organizations and the participation of numerous conventional financial institutions in financing social and solidarity enterprises today. The long history of mutual organizations, cooperative financial institutions and the credit union movement has served communities for several centuries. In the Netherlands, the first mutual insurance society was created in 1663; in France the first "caisse de secours" was established in the 18th century.[2] The establishment of the Raiffeisen Bank in Germany in 1864 and the creation of the Mouvement Desjardins in Quebec at the beginning of the 20th century mark the history of cooperative banking. Mutual finance associations emerged in Latin America as well in the beginning of the 20th century.

[1] The conceptual framework selected for this paper draws upon the work carried out by the *Chantier de l'économie sociale* and ARUC-ES in Quebec and by the EMES European Research Network in Europe. According to the latter, social enterprise is a private and autonomous organization providing goods or services with an explicit aim to benefit the community, owned or managed by a group of citizens in which the material interest of investors is subject to limits. Attention to a broad or distributed democratic governance structure and multi-stakeholder participation is also important. In Quebec, for example, where collective enterprise is synonymous with the social economy and with the now more frequent reference to social enterprise, the definition and emphasis moves beyond the "juridical-administrative dimension" related to the organizational form that social economy enterprises (SEEs) adopt, to insist upon the "value-added dimension" or macro dimension to demonstrate and highlight the unique contribution of SEEs to socio-economic development strategies, to constructing democratic economic alternatives and to the public good. More generally, social enterprises, as a specific sub-sector of SEEs, must be analyzed with both micro and macro-economic lenses and from organizational and normative perspectives.

[2] European Commission, 2003.

In the east, Japan adapted the German credit cooperative model at the end of the 19th century to be followed by Korea and Taiwan (ILO, 1995). In 2009, there were almost 50,000 credit unions in 97 countries in the north and in the south.[3] While these are part of the social economy and many were established to exclusively serve their members, today many of these large institutions provide financial services and investment capital to private as well as collective enterprises. Examples of others that are part of the social and solidarity economy and provide financial services and capital to collective enterprises include[4] the *Groupe Crédit Coopératif* in France (1893), *Fondation Macif* (1983), *Banca Etica* in Italy (1994), *CREDAL* in Belgium (1984). Credit unions, mutuals and financial cooperatives are examples of embedded finance; they have always played an important role in serving disadvantaged communities.

The more recent history of solidarity finance includes the creation of labour solidarity funds, community based finance and micro credit over the last thirty-five years. The examples provided in this paper are selected to provide illustrations of investment instruments and solidarity finance institutions in numerous countries and to identify significant challenges or achievements. We do not refer to these examples as best practices; rather they are part of the evolving or shifting social finance landscape in which solidarity finance is embedded today.

2.1 Microfinance

Microcredit or microfinance, a new approach to poverty alleviation adopted by international organizations in the 1990's in developing countries, led to the creation of microfinance institutions (MFIs) in the north as well. It was recently estimated that microfinance currently reaches an estimated 150 million people worldwide.[5] Today, microfinance is recognized as an asset class.

While solidarity finance refers specifically to investment in cooperative and not for profit enterprises, investing in community based or micro enterprises that serve local communities and provide opportunities for social and economic transformation are included in this broad definition. These financial institutions have challenged financial markets with innovations in risk management and the generation of stable returns. The reasons for this are well documented.

Box 1. Microfinance pioneers

Well known pioneers include the *Grameen Bank* established at Chittagong University in Bangladesh in 1976. Today, it serves over 4 million borrowers. *Grameen Bank's* influence on the evolution of microcredit internationally is well known.

Bancosol, the first commercial bank specializing in microfinance was established in Bolivia in 1992. It has since invested $2 billion in more than 1.5 million micro enterprise projects.

The *Montreal Community Loan Association* was the first microfinance institution established in Canada in 1987, influenced by the community loan fund model developed in the US in the 1980's. It has invested approximately $2.7 million since 1990 and spearheaded the development of microfinance/micro credit institutions and networks in Quebec and across Canada.

ACCION, established in 1961, is a pioneer in microfinance. Over the last 50 years, it has helped establish 62 microfinance institutions in 31 countries on four continents. Created as a

[3] Cf. *World Council of Credit Unions* at http://www.woccu.org.
[4] Foundation date included in parentheses.
[5] http://www.accion.org

student-run volunteer effort in the shantytowns of Caracas (Venezuela), *ACCION* launched a division in the United States in 1991 to address the barriers faced by minorities and disadvantaged groups in the US wishing to access finance. *ACCION* delivers full financial services – credit, savings, insurance, payments, remittances, financial education and more – at affordable prices, in a convenient manner and with dignity for clients. *ACCION* is continuously innovating. For example, the *ACCION Latin America Bridge Fund* provides bridge financing from microfinance institutions to local capital markets. This interim financing is used to solidify the clients' position until more permanent financing is available.
Sources: www.grameen-info.org; http://www.bancosol.com.bo/en;
http://www.acemcreditcommunautaire.qc.ca/en;
http://www.accion.org

Today, innovations in microfinance include the *microlending platform* developed by *Kiva* in 2005 that allows individuals from the north to invest in microfinance institutions in developing countries. *Kiva* works with microfinance institutions on five continents to provide loans to people without access to traditional banking systems.[6] *Blue Orchard Finance*, established in 2001, is an important example of mutualisation, greatly reducing risk for investors in microfinance institutions. *Blue Orchard* meets loan and equity requirements of MFIs. By pooling resources through syndication, *Blue Orchard* increases the capacity of MFIs to carry out their objectives and is an example of "co-investment" (CAF, 2010).

Box 2. Blue Orchard, Microfinance Investment Managers

MFIs require access to capital to meet their objectives. It is well known that many if not most MFIs are unable to cover high operating costs. Blue Orchard Finance S.A., established in 2001, provides loans to MFIs; Blue Orchard Investments Sarl, created in 2007, invests equity into MFIs and network funds. Investments in Blue Orchard are pooled, reducing risk to individual investors. For MFIs with few resources, securing the funds for start-up or expansion can be difficult. Stable returns to investors is promoting microfinance as an asset class, increasing access to funding. Investors include individuals, banks and financial intermediaries wishing to diversify their portfolios and to make sustainable and responsible investments. Blue Orchard's partners include MF networks, resource organizations, international financial institutions, sustainable and responsible finance organizations as well as some private financial institutions. Among the MFIs in which Blue Orchard invests is Women's World Banking Colombia de Cali (WWB), the largest microfinance non-governmental organization in Colombia, created in 1982 and Cooperative Rural Bank of Bulacan (Philippines) established in 1975 by 175 cooperatives.
Source: http://www.blueorchard.com

Despite the critical role played by MFIs, it raises a recurrent concern in this summary paper that this market is too often a supply driven approach to social and solidarity finance. The so-called micro-credit, microfinance revolution of the 1990's adopted such an approach by assuming these small loans would address structural poverty and social exclusion, especially in the southern hemisphere, but in the north as well. The capital needs of these institutions as well as the fragility of their clientele were often not well understood. One has only to be reminded of the trenchant critiques of some microfinance institutions that transformed into banks, increasing the vulnerability of their already very vulnerable clientele.

[6] http://www.kiva.orhg and http://mitpress.mit.edu/innovations

2.2. Community-based or Local Finance

Community-based finance includes funds available from community development financial institutions (*CDFIs*). They were created in 1994 in the US, and there are currently over 1,295 *CDFIs* including 400 community development loan funds, 80 venture capital funds, 290 credit unions and 350 development banks. A study in 2008 found that together they managed over $29bn in assets with an average asset size of approximately $60 million for each *CDFI*. Although originally targeting the housing market, today they invest in numerous sectors of activity. *CDFIs* have created 35,524 jobs, financed over 60,000 affordable housing units and provided 116,405 responsible mortgages for new home buyers. *CDFIs* receive direct government funding by the US Treasury. However, for every $1 contributed by the government, *CDFIs* leverage $20 in private and non-*CDFI* public capital, representing billions of additional dollars from the private sector for development activities in low wealth communities throughout the US. Despite their positive track record, the Obama administration increased assistance to *CDFIs* to $245m in 2010 and to $250m in 2011, from $57m in 2007 and $107m in 2009 for these institutions to achieve scale. This is an excellent example of the recognition of returns accruing to government by supporting community-based finance. The revitalization of poor communities, job creation, etc., yield significant multiplier effects, increasing government tax revenues and reducing social expenditures. Today, *CDFIs* are featured as good prospects for impact investors.[7] The *CDFI Coalition* advocates on behalf of the *CDFI* industry and educates the public about community development finance.[8] *Opportunity Finance Network*, a network of financial intermediaries also provides funding for *CDFIs*.[9]

An interesting example of community-based investment, *Community Reinvestment Fund, USA*, (*CRF*) dispels the myth that these funds dispense small loans that are largely funded by government.

Box 3. Community Reinvestment Fund (CRF), USA

CRF is a pioneer in the development of secondary markets, a challenge raised internationally today in discussions on how to construct a social stock exchange drawing upon national experiences where such exchanges exist. *CRF*'s pioneering work in developing a secondary market for community-based investment as early as 1989 is instructive.[10] *CRF* created and operates the leading national secondary market for community and economic development loans by purchasing economic development and affordable housing loans from community development lenders. These are then pooled into asset-backed debt securities and *New Markets Tax Credit* (*NMTC*) investment funds, which are placed with institutional investors.
Source: http://www.crfusa.com

The technicalities of the secondary market created by *CRF* are, of course, important. However, citing this example has greater significance for a variety of reasons that will be discussed further in this overview paper. They are: (1) the capacity to create such a market by community-based loan funds that can be extrapolated to other forms of solidarity finance; (2) the need for enabling policy such as the *New Markets Tax Credit*[11] and (3) adapting vehicles and techniques from mainstream finance to this

[7] J.P. Morgan. *Impact Investments. An emerging asset class*. November 2010.
[8] http://www.cdfi.org
[9] http://www.opportunityfinance.net
[10] *CRF* was estabished in 1988 and issued its first public offering in 1989.
[11] The *New Markets Tax Credit Program (NMTC Program)* was launched by the US Congress in 2000 to attract new or increased investments in businesses and real estate in low-income communities, by

market. In this case, the pooling of loans is a form of "securitization" that is in sharp contrast with its abuse and impact on the financial crisis in 2008 when it enabled speculation. Pooling loans allows *CRF* to generate more capital for community lending.

2.3 Solidarity Finance and Social Banking

Building a social finance market requires numerous approaches that include designing debt and equity instruments for collective enterprises in the social and solidarity economy, creating new asset classes that will attract investors and mobilizing savings by individuals. An instructive example is *SIDI, International Solidarity for Development and Investment*, created in 1983 by *CCFD-Terre Solidaire* (*Committee against Hunger and for Development*, France) to support micro finance institutions and farmers organizations in developing countries through investment, loans or guarantees.

Box 4. SIDI. International Solidarity for Development and Investment (1983)

SIDI's capital is raised both through its solidarity savings programme and its offerings of public shares. In 1983, the *CCFD* launched the first financial investment product directed toward solidarity, the mutual fund "*Faim et Développement*", on the French financial market. Anyone can acquire shares of *SIDI*'s capital at a unique price of 152 €, depending on availability. *SIDI* also provides technical assistance and capacity building support. It has developed partnerships with 47 financial institutions specialised in support to micro and small enterprises in more than 30 countries in Africa, Asia, Latin America and the Middle East. *SIDI*'s total assets were more than 6.5 million € at the end of 2006. In 2009, its partners in Africa, Asia, Latin America, Mediterranean Basin and Eastern Europe provided access to financial services to 2 million people. *SIDI*'s shares have a "*Finansol*" label and "solidarity enterprise" approval.[12]

Social banks were created to serve their communities, to provide full banking services to individuals, households and neighbourhood business. Today, numerous social banks not only compete effectively with mainstream banking institutions, they survived the 2008 financial crisis because of their prudential practices and links to the real economy. Referred to also as sustainable banking, these financial institutions trace their historical roots to 19th century thinkers such as Rudolph Steiner and Silvio Gesell. Within Europe, the influence of Steiner's notion of an "associative economy" informs the history of well established social banks such as *GLS Bank* in Germany, *Triodos Bank* in the Netherlands, *Ekobanken Sweden* and *Merkur Bank* in Denmark. Others, such as *Banca Etica* in Italy, the *ABS* in Switzerland or the growing number of ethical banks, do not necessarily trace their roots to these thinkers, but are committed to social justice as they pursue their banking business. In the United States, well known social banks include *Shorebank* (1973), *Wainwright Bank*, *Trust Cy* (1980's) and *New Resource Bank* (2006).[13] Social

---

offering a tax credit of 39 percent of the investment amount over a period of seven years (five percent for each of the first three years, and six percent for each of the remaining four years) to individuals and corporate investors investing equity in *Community Development Entities (CDEs)*. Since the *NMTC* program's inception, the *CDFI Fund* has allocated a total of $29.5 billion in tax credits to *CDEs* (http://www.cdfifund.gov/what_we_do/programs_id.asp?programid=5).

[12] The criteria for a *Finansol* label are that between 5-10% of savings be directed into solidarity activities and that at least 25% of earnings from savings be donated to solidarity organizations. (www.finansol.org) The solidarity enterprise approval is enshrined in the *SIDI* working code, article L.443-3-1 and decree no 2003-384 (2003).

[13] Benedikter, 2011.

banks include financial institutions established by trade unions such as the *Caisse d'économie solidaire Desjardins* (1971) in Quebec. Social banking is an umbrella term to embrace credit unions and community-based financial institutions in the United States.[14]

Within Europe, the *European Federation of Ethical and Alternative Banks (FEBEA)* created in 2001 is a network of social banks and financial cooperatives engaged in "ethical finance". Ten members of *FEBEA* formed a cooperative, the *Société Européenne de Finance Ethique et Alternative* (*SEFEA*) in 2002 under Italian law, to provide financial aid and consultation to new and existing ethical and solidarity institutions and to support the creation of social and solidarity financial institutions. Its members are credit organisations and institutions, cooperatives and companies that promote socially and environmentally sustainable economic development.[15] At the end of 2009, *SEFEA* had 29 members and 4,177,000 € in capital. Financial tools provided by *SEFEA* include medium-term and long-term loans and investment funds that support social cooperation. An example is the *CoopEst* fund in Eastern Europe that invests in small and medium-sized enterprises. *SEFEA* also finances key players in fair trade or organic farming.[16]

Box 5. CoopEst

CoopEst, established in 2006, represents a collective engagement by several European financial institutions, including *Bank BISE* in Poland, to provide long-term loan capital and guarantees for the social economy (co-operatives, mutual societies, associations, foundations and social enterprises) in Central and Eastern Europe.[17]

Social or ethical banks provide loans to enterprises in developing countries at terms which are better than commercial banks. A recent innovation by *Merkur Cooperative Bank***,** targeting FSC business in responsible forestry, organic agriculture or fair trade, addresses the difficulty that enterprises face in export markets by offering export credits.[18] These "*Sustainable Trade Credits*" provide financing up front to permit enterprises to fulfil orders on export markets. This is an important illustration of the need to take into account the financial constraints faced by local producers (small and large) that have to cover costs in advance of receiving payment for their products. These credits for export markets can apply more generally to producers serving local markets.[19] An example where this need is being met is *Root Capital* (US), launched a decade ago to provide debt financing to businesses and cooperatives in 30 countries. Farmer cooperatives often have cash flow problems at

[14] At the height of the financial crisis, *Triodos Bank's* deposits grew by 15% in barely two months illustrating the confidence that individual depositors have in social and sustainable banks. Shares of these banks are not traded on the open market; they are issued and sold on a "matched bargain market" bringing buyers and sellers together. The price of shares is determined by the value of the businesses financed, the real economy, not by fictitious values driven by speculation. (Peter Blom, CEO Triodos in Benedikter: 82).

[15] *Banca Popolare Etica*, *Consorzio Etimos*, and *Cassa Centrale delle Casse Rurali Trentine e della BCC del Nord-Est*. (Italy); *Crédit Cooperatif, Caisse solidaire du Nord-Pas-de-Calais, Nouvelle Economie Fraternelle* and *Femu Qui* (France); *Crédal* and *Hefboom* (Belgium) and *Tise* (Poland).

[16] http://www.febea.org

[17] The founding members of *CoopEst* are: *Crédit coopératif, MACIF Participations* and *IDES Investissements in France*; *Compagnia Finanziaria Industriale (CFI)* and *SEFEA* in Italy; *Soficatra* in Belgium and *Bank BISE*, Poland. Other investors include the *International Finance Corporation (IFC-World Bank)*, *Crédit Mutuel* (France), *APS Bank* (Malta) and the *Cooperazione Trentina* (Italy). *CoopEst* works through local financial intermediaries.

[18] FSC refers to *Forest Stewardship Council*, a non-profit organization established in 1983 in response to concerns over global deforestation. Cf. http://www.fsc.org

[19] http://www.gabv.org/Banks/MerkurBank.htm

harvest, a "financing gap". So as to be able to pay workers, avoid selling to a middleman at reduced prices, *Root Capital* fills this gap. Over the years, *Root Capital* has worked with 300 agricultural cooperatives and private enterprises, with an impact on the lives of over 400,000 farmers.[20]

Social banks are networked internationally. The *Global Alliance for Banking on Values (GABV)* is a network of 13 of the world's largest sustainable finance institutions founded by *BRAC Bank* in Bangladesh, *ShoreBank* in the US, and *Triodos Bank* in the Netherlands, committed to social banking. *INAISE*, the *International Association of Social Finance Organizations* has a much broader membership including smaller social banks and non-bank support organizations. Members of *GABV* are also members of *INAISE*.[21]

Box 6. International Association of Social Finance Organizations (INAISE)

Members of *INAISE* include social banks and community development banks that promote the fair access to finance in the north and in the south and favour the social economy generally. Non-financial members include organizations that support or work towards the development of the objectives of I*NAISE*, including businesses, organizations, public authorities, and groups of people or individuals that are in the process of launching a financial instrument, doing research, increasing awareness, giving or needing advice to develop initiatives or to support social economy finance as a whole.
Source: http://www.inaise.org

The *Institute for Social Banking* located in Bochum, Germany includes numerous European social banks and the *Charity Bank* in the UK as members. By offering graduate degrees and certificates in social banking, these practices will be perpetuated and promoted by future generations.[22] Similar initiatives could be undertaken elsewhere, promoted by social banks in the north and in the south.

2.4. Socially Responsible Investment

The solidarity finance landscape is transforming rapidly. This not only includes a diversity of instruments and institutions to meet the financial needs of collective enterprises, but a growing number of citizens and organizations wishing to participate more actively in their investment decisions. Institutional investors such as large pension funds are meeting calls for greater shareholder activism; they are considering new investment opportunities that combine social and financial returns in compliance with their commitment to fiduciary responsibility. Individual savers and investors are more pro-actively engaged in managing their personal portfolios, seeking ethical alternatives in the wake of the financial crisis. Socially responsible investment (*SRI*) is shifting from negative screening to pro-active investment by individuals and institutions increasingly aware of how investments can contribute to social well-being while generating financial returns. Institutional investors are greatly assisted by the availability of indicators, frameworks for reporting such as the *Global Reporting Initiative* (*GRI*) and the *United Nations Principles for Responsible Investment* (*PRI*) whose signatories pursue *ESG* criteria. Many businesses are also signatories of the *UN Global Compact* committed to developing sustainability solutions in partnership with governments, civil society, labour and UN agencies. While these global initiatives are predicated on voluntary compliance, strict

[20] *GIIRS* (2011). Impact Investing. Challenges and Opportunities to Scale.
[21] http://www.gabv.org
[22] http://www.social-banking.org

disclosure on environmental, social and governance performance suggest a growing engagement by businesses to social responsibility internationally. Responsible investment is complemented with a growing commitment to responsible and ethical consumption.

SRI presents important opportunities for collective enterprises that meet the objectives of *SRI* principles internationally. For example, *Etimos*, an international financial consortium with its head office in Italy and regional offices in Sri Lanka, Argentina and Senegal, provides short and medium term loans as well as private equity to microfinance institutions, producer cooperatives, rural development initiatives and social enterprises around the world. Investors include banks, consumers' cooperatives, foundations, private enterprise, religious organizations and NGOs. *Etimos* provides investment opportunities for socially responsible investors in Europe to finance "high social impact and financially viable projects" on all continents. It is currently operating in 44 countries.[23]

On the African continent, the *Africa Sustainable Investment Forum (AfricaSIF),* a virtual and independent non-profit pan-African network, was created in 2010 to promote sustainable investment and gain access to the projected $300 billion US investment in initiatives fulfilling *ESG* objectives in emerging markets.

Box 7. Socially Responsible Finance – Quebec, Canada

In Quebec, "socially responsible finance" (*SRF*) is the term used to include both indirect and direct investment in this growing market. This not only distinguishes between negative screening and pro-active or "intentional" investment, but it de-constructs pro-active investment, so to speak, to identify *SRI* operating in secondary markets (indirect) from those investing directly in enterprises (direct). The latter are further separated into organizational forms – private and collective - to distinguish investment in the social and solidarity economy. In all three cases, the enterprises are meeting ESG objectives. Solidarity finance includes debt and quasi-equity, an innovation in Quebec that provides access to long-term capital to collective enterprises.
Source: Bourque, Marchildon, Mendell *et al.* (2011)

[23] http://www.etimos.it

3. Towards Impact Investment

The term "impact investment" was introduced by the Rockefeller Foundation in 2007 to expand the tightly defined roles for philanthropy, private investment and government in addressing social issues.[24] In fact, as the previous examples illustrate, impact investment describes the objectives of the evolving social finance market, with many institutions such as cooperatives, credit unions and social or ethical banks already engaged in this activity. What distinguishes impact investment is its objective to move beyond negative screening in *SRI* and reach out to large-scale private capital including institutional funds, private investors, foundations and financial institutions to invest directly in initiatives with social impact. In fact, this is the "direct" or "intentional" component of *SRI* noted above.

A recent report by J.P. Morgan and the Rockefeller Foundation estimates a potential impact investing market of between $400 billion and $1 trillion with profits of $183-$667 billion in five sectors – housing, rural water delivery, maternal health, primary education and financial services for those earning less than $3000 per year. Those promoting the development of a new impact investment asset class insist that it be embedded in an organizational infrastructure with adapted risk management tools tailored for this market as well as standardized measurement, ratings and benchmarking tools.[25]

Is impact investing compatible with solidarity finance? How does it correspond with or differ from new investment strategies and vehicles developed in the US, for example, where over the last decade, program-related investment (*PRI*), economically targeted investment (*ETI*), mission investing (*MI*) or venture philanthropy are some of the terms to describe the evolving "social finance" market? These terms refer to programs and strategies adopted in the United States that have increased private capital flows into enterprises and/or initiatives committed to job creation, poverty reduction and revitalization of communities and opened the possibilities for foundations to invest in socio-economic and environmental initiatives. These hybrid investments with impact have been codified, so to speak, through enabling legislation, public policy measures and branding. With the exception of venture philanthropy and *PRI*, this also describes the longstanding objectives of financial cooperatives, credit unions, community-based finance, social banks and even some mainstream financial institutions. There are, however, at least two key distinctions between these "historic" experiences and current trends: (1) the increased role of foundations in this market as "investors"; and (2) the growth of an equity and quasi-equity market to complement the numerous debt instruments available until now. But there is a third distinction between the vital and ongoing role of "historic" institutions and organizations and these trends that are now coalescing around impact investment, the most recent and most widely used term to describe this market. The participation of foundations, high-net-worth individuals and institutional funds (pension funds, insurance companies, etc.) is allowing this market to achieve scale.

Impact investment can provide a common terminology and impose coherence on the existing fragmented social finance market, without losing the specificities of those institutions already present in this market. As such, the diverse investment tools in

[24] The term « impact investing » was first used by a group of investors in green technology and institutional investors in microfinance and low cost housing and has been widely adopted. See A. Bugg-Levine and J. Emerson, 2011.

[25] J.P. Morgan, 2010.

this market can be more easily accessed by intermediaries and enterprises, increasing the possibilities for collaboration by institutions and the leveraging of capital by “investees”. Indeed, large networks already exist but a coherent impact investment market offers greater access to larger pools of investment capital – debt, equity, quasi-equity, etc. Challenges include developing an impact investing marketplace and creating a new asset class essential for investors to evaluate prospects, as noted above. The *Global Impact Investing Network* (*GIIN*), a not-for-profit organization is designing the architecture for impact investment through dialogue and “co-construction” with numerous partners representing organizations ranging from networks of community based finance to large pension funds (*TIAA-CREF* in the US, for example).

Box 8. Global Impact Investing Network (GIIN)

Global Impact Investing Network (GIIN) is a large network of impact investors. Members represent numerous social finance actors, from micro finance to large institutional funds and foundations. The *Impact and Investment Standards (IRIS)* created by *GIIN* in 2007 is permitting a much needed international discussion on standardization and measurement tools. It is collaborating with *GIIRS*, a non-profit organization designing a third party rating system essential for this market to develop. This marks a significant turning point in the evolution of social finance in which solidarity finance is embedded. To achieve scale, to compete in financial markets, and to reduce the high transactions costs often associated with evaluating social and environmental objectives by standardizing performance measures and developing ratings, bringing these actors under a common umbrella not only increases their potential access to private capital flows, it presents a major challenge to mainstream finance and its claims. A large international network such as *GIIN* complements the numerous national and international networks of credit unions, financial cooperatives, micro credit organizations, community development financial institutions, etc.
Source: http://www.thegiin.org

4. Innovations in Solidarity Finance

The “landscape of social investment”[26] is transforming rapidly. Impact investment can be interpreted as "mainstreaming" social and solidarity finance by providing new opportunities for private investors seeking ethical markets. Numerous writers warn of "mission drift" as financial imperatives override social and environmental objectives. In some cases, impact investment is associated almost exclusively with the disengagement of governments in social service provision as hybrid enterprises not only assume this role, but must operate in the market to generate reasonable returns for investors. In numerous cases, however, impact investment captures activity that has existed for many years, indeed for many decades, as the examples in this paper reveals. How this is articulated in different national settings will, in our view, be path dependent, consolidating existing practices and increasing the capacity to reach scale, as private capital flows into this growing market. For solidarity finance, the challenge is to create intermediaries and products to conform to the organizational and legal structures of collective enterprises. Indeed, intermediaries are essential for this market to achieve its goals, as for the moment, it is largely supply driven with insufficient attention to the need for a more coordinated and integrated strategy that considers the “demand” for capital – the diverse tools required that include non-market capacity building and strategies to increase access to markets, among others.

Today, social and solidarity enterprises can access finance through numerous means including public loans and grants programs, public refinancing and guarantees, mainstream banks, specialist intermediaries (from micro-credit to equity-type investments), specialist finance (targeting the social economy, sector specific finance and funding for social enterprise) and integrated financial services at the local level (credit and loan cooperatives, community or local development funds, regional venture capital funds) to name a few.[27] Recent innovations in solidarity finance that include debt and equity vehicles respond to needs identified by social and solidarity enterprises. Solidarity finance includes institutions financing initiatives in the north and in the south. We include a few illustrations of recent innovations that are moving beyond boundaries, so to speak, by creating new financial tools and/or responding to new policy challenges. In short, despite the exponential growth in social finance and a growing awareness of impact investment as a viable and ethical choice, the need for capital among social and solidarity enterprises remain.

4.1 Quasi-Equity/Patient Capital

Despite innovations in social and solidarity finance, debt financing dominates. While some loans are extended for longer terms, this does not meet the need for long term or patient capital. Enterprises are faced with short term loans and repayment schedules that can and do limit their capacity to consolidate their activities and to grow. Indeed, even a coherent impact investment market with access to private capital will need to address this challenge if long term investments will, for example, flow through intermediaries that will continue to offer debt financing to enterprises. Two examples of "patient capital" are provided that invest in collective enterprises without giving rights of ownership or control to investors.

[26] Nicholls and Pharoah, 2007.
[27] European Commission, 2001.

Box 8. The Cooperative Capital Fund, New England, USA.

The *Cooperative Fund of New England* created the *Cooperative Capital Fund*, a socially responsible investment fund addressing the lack of start-up capital in new cooperatives established in areas of high need. The Fund provides "patient capital," or equity-like financing pooled from small, social investors without requiring cooperatives to give up control over their own management. Its mission is to generate social and economic return on its investments. Investments range from $10,000 to $150,000 in the form of preferred stock, subordinated notes or similar instruments. Investments range from 5 to 8 years and generate 5% interest annually.[28]

In the province of Quebec in Canada, the *Chantier de l'économie sociale*, a network of networks representing the diversity of the social and solidarity economy, developed a patient capital fund in 2007 to meet the need for long term investment by collective enterprises. As these are non-profit and/or cooperative enterprises, a non-ownership equity vehicle was required. In other words, share capital was not an option in designing the investment tool. The *Fiducie du Chantier de l'économie sociale*, or the *Social Economy Trust* created in 2007, offers patient capital or "quasi-equity" to collective enterprises; investors (trustees) purchase a debenture like instrument. The *Fiducie* is an important example of the capacity to innovate in full compliance with organizational structures that do not permit public share offerings. Moreover, this example is a first step in Quebec for the development of a secondary market, essential to recapitalize the *Fiducie*.

Box 9. Fiducie du Chantier de l'économie sociale

The *Fiducie* offers patient capital with a 15-year moratorium on repayment of the principal. Investments range from $50,000 to $1.5 million, not exceeding 35% of the project's cost. The interest rate is fixed when the investment is approved and remains the same for the duration of the investment. Fees include 3% of the investment to mitigate risk and a 1% annual management fee payable with each monthly interest payment.
Products offered by the *Fiducie* give enterprises greater flexibility to expand or deal with contingencies. Because of the 15-year moratorium on repayment of principal, patient capital offered by the *Fiducie* can be leveraged to obtain more financing. *Fiducie* financing is available for start-up or expansion as well as for the development of the enterprise and the adaptation of its products and services. It does not finance business recovery, refinancing or those initiatives in which there is a transfer of jobs or responsibilities from the public sector. The *Fiducie* has invested a total of $20.2 million in 64 collective enterprises in different sectors and regions of Quebec. These investments have generated a total of $171.8 million, consolidating and creating 1,537 jobs. Projects vary according to the type of organization (NPOs and cooperatives), development stage (mainly start-up and expansion, but also consolidation), sector and region (urban or rural).
Source: http://fiducieduchantier.qc.ca; Bourque, Mendell, Rouzier (2011)

The example of the *Fiducie* is extremely useful in a survey of solidarity finance, especially for the construction of a global market for impact investment. The "core business" of the *Fiducie* is to invest in collective enterprises. Critical to its capacity to carry out "effective investment" is its multi-stakeholder organizational structure that mediates between the supply and demand for long term investment. The *Fiducie* is rooted in the social economy, working with local enterprises and development agencies throughout the regions of Quebec to identify enterprises requiring long term capital, greatly reducing the risk to investors and increasing the capacity of enterprises to meet their goals as they receive support and guidance in

[28] http://www.coopcapital.coop/coopcapital

product/service development and access to markets. An annual province-wide survey of potential "investees" is the first step in identifying potential investment opportunities. This integrated approach to investment is characteristic of other organizations and institutions in Quebec offering loans to collective enterprises, such as the *Réseau d'investissement social du Québec* (*RISQ*). These are examples of how social economy actors are actively engaged in constructing a financial market to serve their needs. They are examples of the critical role of intermediaries in mitigating risk and reducing transactions costs for investors. As this market develops and adopts more sophisticated investment products, locally rooted financial intermediaries will be best placed to carry out effective deal flows.

4.2 Community Bonds

Mobilizing savings through the sale of community bonds increases the capital available for community based initiatives. In Canada, two recent examples are illustrative of the capacity to create such bonds for small local projects. In the US, a major initiative, the *CDFI Bond Program*, will launch its first bonds in 2011.

Box 10. Center for Social Innovation (CSI) and ZooShare Biogas Cooperative Community Bond-Toronto, Ontario

The *CSI* was able to raise $6.5 million to purchase real estate by issuing a 5 year, 4% mortgage backed community bond. Investors must purchase a minimum investment of $10,000. These bonds are also are eligible for tax savings accrued to investment in the public retirement system in Canada (*RRSP*). In today's economic market, this is clearly an attractive and secure investment for citizens wishing to support their local communities. This project inspired the creation of a second community bond in the city of Toronto that could also be purchased through a self-directed retirement savings plan with significant tax benefits. The *ZooShare Biogas Cooperative*, a not for profit community coop is building a 500-kilowatt biogas plant at the Toronto zoo for $5 million. Approximately 75% of this amount will be raised through the sale of community bonds. *Zooshare* plans to offer bonds with a 7 year term and up to 7% annual return. Several cooperatives are exploring community bonds as a vehicle to raise capital and engage local citizens in social and environmental projects.
Source: http://www.socialinnovation.ca

Instruments similar to community bonds exist in other regions in Canada and elsewhere. For example, *Calvert Foundation* has raised more than $200 million with its *Community Investment Notes*. These notes fund projects to revitalize poor communities throughout the US and in over 100 countries. An investment of $10,000 for 5 years at 2% finances 45 micro enterprises and creates 54 jobs abroad or 6 affordable housing units for low-income families in the US.[29]

The current ambitious and innovative *CDFI Bond Program* in the US is referred to as "transformational tool" that will provide low cost capital to CDFIs for up to 30 years increasing their capacity to provide loans to low-income communities. Because these will be 100% federally guaranteed bonds (principal, interest and call premium), CDFIs will be able to access capital markets. While the program will be administered by the US Treasury, it has benefited from the collaboration of practitioners in its design. As a public policy tool to revitalize communities, it provides an important example of the *co-construction of public policy* for other governments. We will return to this below.

[29] http://www.calvertfoundation.org

4.3. Target Populations and Sectors

Social finance and impact investment also target specific economic sectors and distinct population groups. The examples included below include investment targeting the unemployed, the emergent *LGBT* market[30] as well as the new cleantech sector. It is worth noting that in most cases, investors adopt a venture capital approach and are highly involved with their portfolios: they offer access to capital to social purpose businesses complemented with financial education and training, co-investing opportunities, business development support and strategies to increase access to markets.

(a) Financing Worker Cooperatives for Unemployed Workers

The *Compagnia Finanziaria Industriale* (*CFI)* in Italy provides an interesting example of an innovative labour market strategy applied by solidarity finance in collaboration with the state. *CFI* was established in 1986 by three cooperatives – Agci, Confcooperative and Legacoop – and capitalized by the Ministry of Economic Development, to fund new worker cooperatives created by employees laid off due to company closures or downsizing. *CFI* is a pioneer investor in social enterprises in Italy.[31] In its early phases, *CFI* invested approximately 80 million Euros in 160 production and worker cooperatives, stabilizing employment for approximately 6,000 workers. Since 2003, *CFI* has expanded its mission to create jobs by investing in start-ups, development, consolidation and restructuring of cooperatives. *CFI* has invested significantly in small social cooperatives in southern Italy. Its membership includes over 270 cooperatives.

CFI is an important example in this survey of selected initiatives for several reasons, not the least of which is the participation by and support of the Italian government. We include *CFI* because of its innovative approach to unemployment through a strategy of co-investment with laid-off employees to establish worker cooperatives by capitalizing start-ups up to a maximum amount of three years of unemployment benefits, after which workers can purchase shares at face value from *CFI* or sell externally. Other shareholders – cooperatives, private enterprise or the public sector- can also invest up to 25% of the cooperative's share capital. [32] This approach that involves the development of a new financial investment tool with government support, including enabling legislation and financing, is an example of innovation and collaboration in labour market policy.[33]

(b) LGBT population

Galeforce Capital, a philanthropic investment fund, is dedicated to supporting the development of *LGBT* social enterprises internationally.[34] Together with *LGBT Capital*, a corporate advisory and investment management unit of *Galileo Capital Management* focused on the *LGBT* consumer market, it launched a strategic alliance in 2011 to draw attention to the *LGBT* market's capacity to combine sound commercial investment with social impact.[35]

[30] *LGBT* stands for "lesbian, gay, bisexual and transgender" individuals.
[31] In 2006, it changed its name to *Cooperazione Finanza Impresa*.
[32] The *Marcora Law* (1985) opened up the possibility for private companies to invest in cooperatives for the first time.
[33] http://www.cecop.coop/CFI
[34] www.galeforcecapital.com Cf. Lee Davis (2009), *End of the Rainbow: increasing the sustainability of LGBT organizations through social enterprise*, available at www.nesst.org/documents/200905EndoftheRainbowPDFFINAL.pdf
[35] www.LGBT-Capital.com

(c) *Clean energy technologies (e.g. solar and wind power, and natural gas)*

The non-profit organization E+Co makes clean energy investments ranging from approximately US$25,000 to US$1,000,000 in developing countries. Created 15 years ago and with offices in eight locations (China, Costa Rica, Ghana, South Africa, Tanzania, Thailand, The Netherlands and the US), E+Co provides pre-start up and development support for enterprises in which it invests.

5. Networks

In addition to the social banking networks identified earlier, there are now several networks of micro-finance institutions such as the *Opportunity Finance Network* in the United States, the *European Micro Finance Network* or the *Réseau québecois de credit communautaire* in Quebec within Canada. These networks have been key to the innovative creation of secondary markets for microfinance, for example, increasing the capital available for the numerous *MFI*s within these networks.[36] They have also been key to the promotion and adoption of innovative policy tools such as the recently proposed *CDFI Bond* in the United States. In Quebec, solidarity finance institutions recently established a formal network, *CAP Finance,* to benefit from the economies of scale such an organization will generate by creating common resources where possible. Moreover, the presence of such a federation generates important political capital, allowing a single voice to press for enabling policies.

Transversal networks such as the *IRIS*, an inter-sectoral "network of networks" of responsible economy initiatives founded in January 2007, have gone much further in this regard by integrating social finance, social enterprises, fair trade actors and different levels of government – local, regional, national and supra-national - thereby engaging in direct dialogue with public institutions on strategies of social inclusion and poverty reduction.[37] This innovative network of networks also promotes mutual training and support while sharing best practices among members. In many ways, *IRIS* has created the hybrid institutional space that is necessary at local and regional levels. These are more than dialogic spaces; they institute processes of collaboration. How to translate what are often loose networks into institutionalized arrangements remains difficult in this still evolving environment. That said, the need for instituting processes of collaboration is recognized by numerous actors, analysts and observers. It also calls for rethinking roles played by communities, researchers, the private sector and government. The "who does what" needs to be carefully constructed in this new environment. Processes of collaboration must be institutionalized.

Activities organized by these networks provide the opportunity for representatives in the growing impact investment field from advanced, emerging and developing economies to meet face to face and network. One valuable example is *SOCAP*, a multi-platform organization dedicated to the flow of capital towards social good. Their first *Social Capital Markets* (*SOCAP*) *Europe Conference* was held at the Beurs van Berlage in Amsterdam – the site where the first stocks were first traded in 1602. Over 600 participants from more than 50 countries participated in this event.[38]

---

[36] Mendell *et al.*, 2003; Nicholls and Pharaoh, 2007.

[37] The *IRIS Network* (http://www.iris-network.eu) links European and international networks representing different families of responsible economy initiatives: responsible finance (*FEBEA, INAISE*), fair trade (*IFAT*), responsible consumption (*ASECO, URGENCI*) and social integration enterprises (*ENSIE*), with the participation and support of institutional partners (the Council of Europe and the Trento Autonomous Province, Italy.

[38] Cf. http://europe.socialcapitalmarkets.net/ Previous SOCAP meetings have been held in the US.

6. Challenges: Critical Facilitating Tools

6.1 Metrics

The challenge to design measurement tools to enable solidarity finance to evaluate performance has been met over the years by numerous organizations that have developed customized metrics for individual organizations, as well as platforms that serve networks of social and solidarity financial institutions. Measuring complex societal outcomes is critical for this evolving market to attract investors. While the market for "ethical" or "responsible" investing is growing, the need for standardization and evaluation in the many institutions that are now captured under "impact investing" remains a challenge. This implies developing both homogeneous or universal measures with wide applicability, as well as differentiated measures to account for sectoral and national specificities.

There are lessons to be learned from many indicators and measurement tools already in place. For example, a methodology to calculate social return on investment (*SROI*) was pioneered by the philanthropic fund *REDF* (*Roberts Enterprise Development Fund,* San Francisco) in 2000 to evaluate the impact of employment in social enterprises.[39] *REDF's* 2010 *Social Impact Report* focuses on the impact of 'social enterprises' on the lives of over 1,000 people employed in these enterprises who were tracked for 24 months after hire. This is one example of the importance of broad and inclusive metrics that documents or de-constructs and classifies the many dimensions of 'social impact'.[40]

In Quebec, the *Guide for Analysis of Social Economy Enterprises* was developed by the *Réseau d'investissement social du Québec (RISQ)* in 2004 to equip analysts financing social economy enterprises with tools to measure and evaluate social and economic return.[41] In the same year, the *Opportunity Finance Network* in the US launched the *CDFI Assessment and Rating System (CARS*™) to coordinate social objectives and risk evaluation for *CDFIs*.[42]

The *Social Performance Task Force*, created in 2005, representing over 850 international leaders from all stakeholder groups engaged in microfinance, is currently drafting a *Universal Standards for Social Performance*, as well as benchmarks for good performance. While there are no enforcement mechanisms in place, the industry is encouraged to apply these measures.[43] Many organizations are participating in the development of a *Shared Impact Assessment* tool by the *Financial Alliance for Sustainable Trade* to calculate the social returns on investments in sustainable *SMEs* to enable lenders to evaluate the impact of their investments.[44]

---

[39] The *SROI* was influenced by the *OASIS/CICERO* system developed by one of *REDF*'s investees, *Rubicon Programs* in 1999. *Rubicon Programs*, now called *New Foundry Ventures*, provides " sustainable, and systemic solutions to some of the most pressing challenges facing disenfranchised communities in the US by developing "social businesses" that create jobs, provide financial credit, greater access to healthy foods and energy efficiency for low-income communities." See: http://newfoundryventures.org

[40] http://www.redf.org

[41] http://www.fonds-risq.qc.ca

[42] http://www.capitalinstitute.org/forum/metrics/cars-performance-evaluation-tool-both-cdfi-funds-and-their-investors

[43] http://sptf.info

[44] http://www.fastinternational.org

There are numerous challenges facing the solidarity finance market and the wider market for social finance. As this market continues to grow, *GIIN* is responding to the need for coherent metrics, for example, in its development of indicators and a rating system in collaboration with *GIIRS* (*Global Impact Investing System*).[45] Some organizations are combining core and sector-specific indicators with their own customized qualitative indicators; the search for standardization has to be nuanced. That said, the movement towards standardization is welcome in this otherwise fragmented environment. As the movement to create a coherent market continues, these complex issues must be addressed.

Box 11. Impact Reporting and Investment Standards (IRIS)

GIIN's Impact Reporting and Investment Standards (IRIS) project is a partnership with the *Rockefeller Foundation, Acumen Fund* and *B Lab* to develop a common vocabulary and a framework for investors to track and evaluate the social and environmental outcomes of investing projects and vehicles. A pilot version of *IRIS* is posted on an open comment platform at http://iris-standards.org/framework-overview. The current work of *IRIS* is undertaken in dialogue with stakeholders in six sectors: agriculture and artisanal; energy, environment and water; education; community development finance; microfinance and healthcare. Constructing a consensus based framework is a huge challenge; funds and investors may choose to use their own evaluation tools to measure impact both qualitatively and quantitatively. *IRIS* is currently collaborating with 6 investment funds in this early phase working towards a 2.0 version to be launched later this year.
Source: http://www.thegiin.org/cgi-bin/iowa/reporting/index.html

6.2 Matched bargain markets, search engines, portals, platforms, exchanges; towards a social stock exchange

As the plethora of financial terms and investments multiply, discussions to develop a social capital market are gaining ground. There are precedents to guide this process. In the UK, *Traidcraft* launched the first public share issue ever undertaken by an ethical business in 1984. *Tridos Bank* offered a matched bargain market in shares in the *Wind Fund* in 1995, bringing buyers and sellers together. When *Café Direct* issued shares in 2004, *Triodos* created the *Ethical Exchange, ETHEX*, to coordinate ethical public offerings (*EPOs*). In the case of *Café Direct*, tax credits for purchasers of shares were an added incentive to attract investors, demonstrating once again how public policy can enable the development of a market for social finance.

The *Bolsa de Valores Sociais*, *BVS*, founded in Brazil in 2003, a subsidiary of the *Sao Paulo Stock Exchange*, is the basis for a feasibility study on developing a global social capital market in the UK, financed by the Rockefeller Foundation. The *BVS* acts as a clearing house between donors and social organizations. *SASIX,* the *South African Social Investment Exchange*, created in 2006, sell shares to investors online through an intermediary, *Greater Capital*. Asia's first private online platform, *Impact Partners*, was launched in March 2011, linking socially and environmentally mission-driven enterprises with impact investors. This initiative, in partnership with *Mission Markets* in the US is a stepping stone for the launching of the *Impact Investment Exchange Asia* (IIX),[46] Asia's first social stock exchange that intends to target large

[45] http://www.giirs.org/
[46] *Mission Markets* is the first marketplace for sustainability investments regulated by FINRA (*Financial Authority Regulatory Authority*) in the US. The mission of *Impact Investment Exchange Asia*, based in Singapore, is to provide access to impact investment capital to social enterprises across the Asia-Pacific Region. See: http://www.asiaiix.com

institutional investors.

NeXii South Africa is responding to fragmentation in social/impact investment markets by creating a hub for intermediaries in which all stakeholders can participate through information and exchange portals and platforms. It is also creating tiered "marketplaces" to respond to the specificities of different classes of impact investors (impact venture capital; impact opportunities platform and a regulated impact investment exchange board for enterprises wishing to list in mainstream capital markets).[47] The *Financial Alliance for Sustainable Trade* (*FAST*) has created an on-line "*financial marketplace*" platform with the support of the *Aspen Network of Development Entrepreneurs*, to enable sustainable *SMEs* to identify potential sources of funding. This online portal facilitates the capacity of *FAST* to carry out its mission of increasing access for these enterprises internationally to social finance. *ImpactBase*, an online database, created by *GIIN* in collaboration with *Imprint Capital,* is a search engine for impact investors to identify impact investment opportunities and detailed information on participating funds across asset classes internationally.[48]

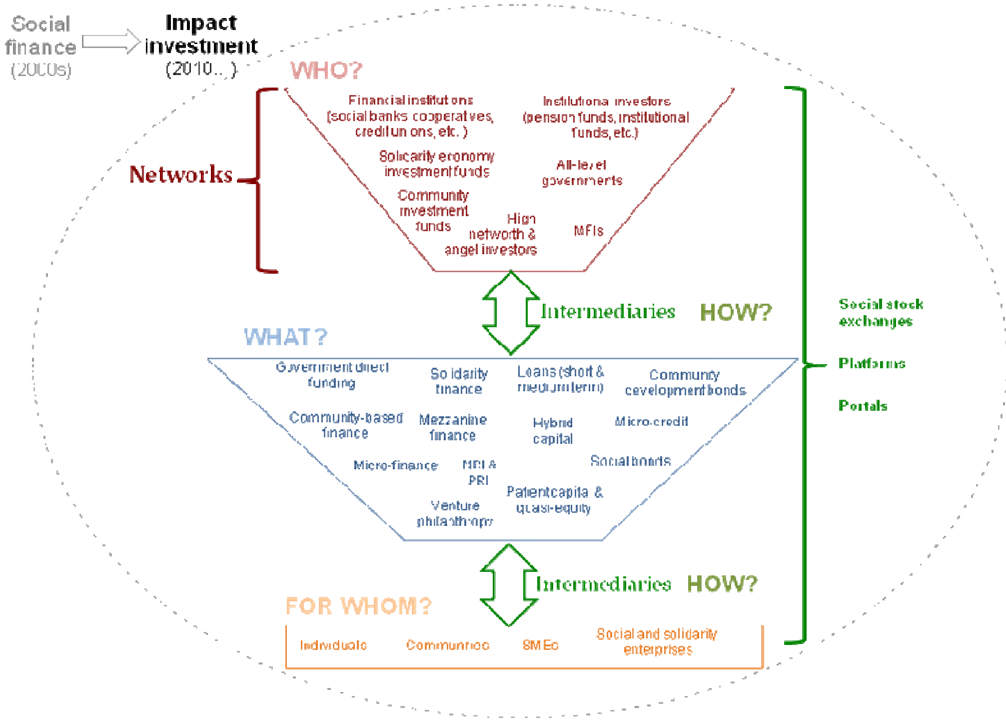
In East Africa, the *Kenya Social Investment Exchange (KSIX)* is a platform to attract foreign investors into the East African impact investment market. The creation of this exchange has inspired the creation of the *East African Social Enterprise Network* (EASEN). This simultaneous formation of a network of social enterprises and the social investment exchange will greatly increase the capacity of investors to identify potential investment opportunities.

The world's first impact investing exchange board to be listed on public capital markets, the *iX*, was launched at the end of May 2011, led by the *Stock Exchange of Mauritius (SEM)* and *NeXii* with full regulatory approval. *SEM* is a member of the *World Federation of Exchanges*, a recognized stock exchange by several world monetary authorities. This represents a critical turning point in this evolving construction of an international social stock exchange with significant, indeed dramatic implications for the social finance market. Will this new market for private investors have important spillover effects for solidarity finance and/or the many institutions and organizations that have been engaged in social finance in which large scale capital has not played the role anticipated in this new impact investment space? What are the possibilities for collaboration and mutualisation? Can this be replicated to apply to smaller, nationally based social finance markets? Many questions are raised by this rapidly evolving innovation in social finance.

The following figure summarizes the evolving social and solidarity finance market. It suggests that impact investment may provide the coherence necessary for this fragmented market. Building the institutional infrastructure is key to this process.

[47] http://nexii.com
[48] http://www.impactbase.org

Figure 1. Mapping Social and Solidarity Finance: A Work in Progress



7. Enabling Public Policy

The role of government in facilitating social and solidarity finance has been important in several countries, including legislation to establish intermediaries to reduce the perceived risk often associated with investing in social and solidarity enterprises, whatever organizational form they take (private, collective). Governments have several policy options available to support the development, consolidation and growth of a solidarity finance sector that can be summarized under the following broad headings. These are, of course, not mutually exclusive:

- Regulation
- Legislation (branding)
- Credit enhancement (guarantees)
- Fiscal incentives for potential investors (tax credits)
- Partnerships with social finance institutions or intermediaries as an investor. This not only contributes to the capitalization of these institutions but it can leverage private investment by reducing perceptions of risk.
- Provision of base funding to social finance institutions either as start-up support or as ongoing, recurrent funding, given the societal objectives of solidarity finance institutions.

To date, public policy to enable greater access to capital by solidarity enterprises has been largely focussed on the supply side, on designing policy measures for solidarity finance institutions and intermediaries. While this responds to a clear need, these measures do not adequately respond to the demand side, to the diversity of sectors in the social and solidarity economy and the corresponding variability of financial support required. Nor do they reflect the life-cycle of these enterprises and the capital requirements that correspond with different phases in the life of these enterprises – from pre-start up to start up, development, consolidation and growth. In some cases, direct financial support by government is necessary at the early stages of development and can be reduced as enterprises/organisations build scale and market capacity. In other cases, recurrent and long-term financial engagement by government is necessary in those sectors that cannot be expected to be self-financing, but reduce the cost to government through their public benefit activities. These include enterprises/organisations providing employment for the disadvantaged (disabled, long term unemployed, etc.) and essential services (day care and home care, for example). These enterprises and organisations internalise social costs otherwise assumed by government. The long-term benefits to individuals and organisations supported will far exceed the immediate costs to government. Government must begin to calculate its social returns on investment to capture the large societal benefits from such engagement.

It is increasingly clear, however, that the returns to government are higher if policies are designed collaboratively with social economy practitioners who are best placed to identify market potential and needs. A few examples that illustrate the increased effectiveness of these policies when they have been co-constructed have been noted in this paper. As governments become more open to supporting solidarity finance, working in tandem with social and solidarity economy practitioners to co-construct appropriate measures is critical.

In an important study published recently on impact investing, the authors separate policy design into: (1) supply development; (2) directing capital and (3) demand development. Together, they constitute the "broader ecosystem of enabling infrastructure" for impact investment.[49] This implies a radical transformation of institutional arrangements within government in order to move from a supply side approach to an integrated approach requiring government to work horizontally across ministries or departments and closely with actors best placed to understand and communicate the needs of social and solidarity enterprises. Intermediaries rooted in communities play this role.

The following examples have been selected to stimulate discussion as they represent different policy measures adopted by governments in several countries. They are only summarized briefly to highlight strategies adopted by governments in the north and in the south to build a social finance market. Once again, these examples are not presented as "best practices" but rather as illustrations of policy initiatives that may be replicable in other regional and national contexts.

Among the most recent innovative policy measures implemented by government include the establishment of the *Big Society Bank* (*BSB*) in the U.K. to develop a social investment market by increasing the supply of investment capital (debt, equity and co-investment with other investors) for community-led social enterprise initiatives. The *BSB* will leverage the development of a variety of "social purpose funds" (UK Cabinet, 2011).[50]

In Australia, the government will contribute $20 million to a *Social Enterprise Development and Investment Fund (SEDIF)* to leverage matched investment from the private and philanthropic sectors. The development of *SEDIF* includes wide consultation with social enterprises to better understand their financial needs as well as collaboration with potential investors in the design of this fund. As a process of co-construction, *SEDIF* is applying a transformative and collaborative approach to innovation.[51] The Government of South Korea likewise announced that it will inject 2.5 billion won into a new fund to support the development of social enterprise. South Korea's third largest conglomerate, *SK Group,* will invest 500 million won (approximately $450,000) in this fund. This government initiative complements its commitment to subsidize the development of social enterprises with policy enabling the creation of investment capital.

As noted earlier, the credit enhancement provided by the US government's 100% guarantee for *CDFI bonds* will mobilize capital. Other current policies in the US include two recent policy measures to catalyze private investment into community based initiatives (intermediaries) and social enterprises. The *Social Innovation Fund (SIF)* launched by the Obama administration in the US (2009), provides $50 million in grants per year to be matched by private investment.[52] *Investing with Impact* (2011) promotes partnership and collaboration between potential social impact investors including government, civil society and the private sector.[53]

---

[49] For example, directing capital also includes procurement policy to increase access to markets for social and solidarity enterprises. Financing must be accompanied by policies that build the capacity of these enterprises to succeed (Wood and Thornley, 2011: 8).

[50] The UK government will contribute 260 million pounds to the *BSB* this year. While this is salutary, it must also be noted that in the UK, social enterprise is assumed to provide many of the social services previously provided by the public sector. This objective has to be critically evaluated in a political economy perspective that assesses the expected role of social and solidarity enterprises in different regional and national contexts. That said, the creation of a national social investment bank is a significant policy measure.

[51] http://www.government-grant.com.au/2011/02/social-enterprise-development-and-investment-fund-sedif

[52] http://www.nationalservice.gov/about/programs/innovation.asp

[53] http://www.state.gov/s/partnerships/impact/index.htm

In Quebec, the provincial government has enabled the growth of solidarity finance through a combination of direct funding, credit enhancement and fiscal measures. *Investissement Québec* invests directly in collective enterprises and provides guarantees for investment in *NPOs*. Investors in labour solidarity funds benefit from attractive fiscal advantages offered by both the federal and provincial governments. The Government of Quebec has also provided funding to the social economy investment fund, *RISQ,* for pre-start ups.

To promote the development of enabling policy at the federal level, a *Canadian Task Force on Social Finance* was established to make recommendations to the federal government on how to collaborate with provincial governments, foundations and institutional investors to mobilize capital and design the public policy infrastructure to enable this process. Among the recommendations of the *Task Force* include the establishment of a *Canada Impact Investment Fund* in partnership with social finance stakeholders.[54]

At the regional level within Europe, the *Małopolskie Social Economy Pact*, a multi-stakeholder intermediary in the Malopolskie region in Poland, includes a *Social Economy Fund* to provide loans and loan guarantees and bridge loans for projects funded by the EU. The *Social Economy Fund* has been constituted as a foundation. Its members include the *BGK* (*Polish Bank Gospodarstwa Krajowego)*, *Krakowski Co-operative Bank*, the *Society for Social and Economic Initiatives SA* and the *Malopolskie Agency for Regional Development* (government). The Małopolskie initiative is an example of the importance of collaboration between government, solidarity finance stakeholders and researchers. University researchers played a critical role in proposing the development of the *Social Economy Fund* and in co-designing its organizational structure. Financial innovation in Quebec has benefited greatly from collaboration between established and new actors in the social economy and university researchers who have developed new instruments and providers together. The *CDFI Bond Program* and earlier *CDFI* initiatives involving government have benefited from collaboration with university researchers.

As the following example illustrates, the European Commission is engaging in transforming its approach to development assistance in cities across Europe.

Box 12. The Joint European Support for Sustainable Investment in City Areas (JESSICA)

The *Joint European Support for Sustainable Investment in City Areas (JESSICA*) transforms European grants to investment in cities. It is a collaborative project between the *European Investment Bank (EIB)* and the *EC* to transform former grants to investments in urban renewal plans with demonstrated triple-bottom line objectives. By providing start-up support, assuming the risks associated with early development and creating longer time horizons for returns, *JESSICA* will leverage private investment for social purpose.
Source: http://ec.europa.eu/regional_policy/thefunds/instruments/jessica_en.cfm and Thornley *et al.* (2011a).

The United States passed the *Community Reinvestment Act* in 1977 to meet the credit needs of communities. Its impact is well known and documented. Similar regulation exists in India where the *Reserve Bank of India* requires all private and public banks to make 40% of all loans to “priority” or underserved sectors, including housing finance, agriculture, small enterprise, retail, education. The minimum

[54] http://socialfinance.ca/taskforce

requirement for foreign banks is 32%. One fifth of this lending must go to the "weaker section" of borrowers. This example is also interesting because of the current proposal to issue *Priority Sector Lending Certificates (PSLCs)* allowing banks to fulfill their lending requirements by purchasing these low-risk *PSLCs* from microfinance institutions, thereby increasing their liquidity and capacity to finance more initiatives.[55]

As noted earlier, numerous countries have passed legislation to distinguish social enterprises from private enterprise, a necessary step for these enterprises to attract investment capital. Examples already noted are the creation of the *B Corporation* and the *L3C* in the US as well as the *Community Interest Company (CIC)* in the UK. The need for capital will be eased as more countries adopt legislation and regulation to identify and codify these hybrid enterprises.[56]

[55] Thornley *et al.* (2011b).

[56] In an earlier paper, we provide a selected list of policy milestones facilitating access to capital by social and solidarity enterprises. This list can now be updated to include numerous policy innovations in the north and the south, a few of which are cited in this overview paper for FIESS (See Mendell and Nogales, 2009).

8. Conclusions

The objective of this paper is not to provide a comprehensive overview of the available sources of social and solidarity finance but to identify the trends in this rapidly growing financial market. Impact investment is propelling this market forward primarily to attract private capital, but it also embraces the many financial institutions and organizations that have invested in what are now referred to as social enterprises or enterprises with “impact”. Solidarity finance has a long history of investment in collective enterprises with demonstrated “impact”. Today, the net has been cast wide as the development of ethical trade and investment is attracting a growing number of individuals and investors and as governments seek new solutions to poverty reduction, environmental protection and social service delivery.

A discussion on the political economy of social and solidarity finance is essential to situate its role in current political and institutional settings in different countries. In some cases, social and solidarity finance or impact investing is assisting governments committed to reducing public provision. Promoting the growth of social finance does not, however, imply a reduced role for government. In fact, as this paper has stated repeatedly, the most successful and replicable examples of social and solidarity finance are those that involve innovative government engagement, away from top down programs and funding formulas, to designing new strategies for wealth creation in collaboration with civil society that mobilizes the knowledge of the many organizations, associations and movements engaged in citizen based socio-economic development strategies. As impact investment develops, opportunities to co-construct this market are growing. Attracting private capital into intermediaries is critical to the development of this market for reasons noted earlier – risk reduction and lower transactions costs. It is also necessary to slow down the tidal wave of supply driven approaches to social finance and/or impact investment. The risks of such an approach are high, including "deal flow constraints" for capital that cannot be invested because of potential mismatching of demand and supply.

The role of government is weak in many countries in the south despite the remarkable openness to new approaches to socio-economic development. Governments that are successfully implementing policy measures to enable the development of social and solidarity finance may collaborate in promoting similar measures elsewhere with full cognizance of the institutional and cultural limits of different national settings.

Solidarity finance, social finance, impact investment are responses to “financiarisation”, to the globalization of financial markets and the need to develop new and hybrid capital markets to combat social exclusion, poverty and environmental degradation globally. Solidarity finance is contributing to the development of a new paradigm as it constructs a financial architecture whose foundations are in sharp contrast with mainstream financial markets today. That said, many challenges remain. Addressing challenges is part of the work in progress as this market develops. Indeed, conditions in the north and in the south vary significantly, including the importance of the informal sector in many countries in the production and distribution of goods and services. While social and solidarity finance and the emergent impact investment market offer great potential for social and solidarity enterprises in the south, their needs are often modest and may not be met if this burgeoning market overlooks small scale investment. Current examples of the impact investment market in many countries in the south are large scale agricultural enterprises, for example. In the case of small scale producers, forming consortia is one possibility of a pre-investment development strategy, among others.

Several other challenges were raised in this paper and are briefly summarized here; others will be identified in discussions with participants at the FIESS.

These include:

- developing a common and well understood vocabulary;
- access to capital markets and suitable financing by all types of solidarity and social economy enterprises;
- developing an integrated approach that addresses both supply and demand;
- advancing the work on evaluation and measurement;
- developing networks and federations (local, regional, national and international);
- training new generations of bankers and investment specialists
- new programs in business schools and the social sciences in universities, training for practitioners);
- promoting research partnerships between universities and practitioners;
- raising awareness within society at large to increase the pool of potential investors.

References

Benedikter, Roland (2011) *Social Banking and Social Finance. Answers to the Economic Crisis*. New York. Springer.

Bugg-Levine, Antony and Jed Emerson (2011) *Impact Investing: Transforming How We Make Money While Making a Difference*. Hoboken, New Jersey. John Wiley and Sons Inc.

Bourque, G., Mendell, M. and Rouzier, R. (2011) "La finance solidaire : histoire d'une nouvelle pratique" in Marie Bouchard (ed.), *Economie sociale, vecteur d'innovation. L'expérience du Québec.* Québec. Presses de l'Université de Québec. Québec Press.

Chantier de l'économie sociale (2006), *Investir Solidairement*. Report prepared by the CAP Financement de l'ARUC en économie sociale for the Sommet de l'économie sociale. Directed by M. Mendell. Available at:
http://www.chantier.qc.ca/uploads/documents/pages_descriptor/rapport-investir-v3.pdf

Charities Aid Foundation (CAF) (2010), *Financing the Big Society. Why Social Investment Matters*. A CAF venturesome Working Paper.

Dalberg Global Development Advisors (2011), *Impact investing in West Africa*, April 2011. Rockefeller Foundation. Available at:
http://www.rockefellerfoundation.org/media/download/ee894ae0-480a-40a0-95b7-8b7f75904f8e

European Commission (2003), *Mutual Societies in an enlarged Europe*, Directorate General Enterprise, Brussels.

Flannery, Matt (2007) "Kiva and the Birth of Person-to-Person Microfinance", *Innovations,* Winter/Spring 2007, Vol. 2, No. 1-2, Pages 31-56.
Available at: http://mitpress.mit.edu/innovations

Hebb, T., Wortsman, A., Mendell, M., and Neamtan N. (2006), *Financing social economy enterprises*. Ottawa: Carleton Centre for Community Innovation.

Howard, L. and Giddens, M. (2004), *Equity-like Capital for Social Ventures*. Bridges Community Ventures. Available at:
http://www.bridgesventures.com/downloads/social_venture_fund.pdf

John, R. (2006), *Venture Philanthropy: The Evolution of High Engagement Philanthropy in Europe*. Oxford: Skoll Centre for Social Entrepreneurship Working Paper. Available at: http://www.sbs.ox.ac.uk/Skoll

ILO (1995), *Using credit unions as conduits for micro-enterprise lending: Latin-American insights*. Working Paper 12.

ILO (2005) "Microfinance in south-eastern Europe: How small business helps to create jobs", *World of Work Magazine*, No. 54, August 2005. Available at :

http://www.ilo.org/public/english/region/eurpro/budapest/employ/socfin.htm

Mendell, M. and R. Nogales (2009), “Social enterprises in OECD Member Countries: What are the financial streams?" in Noya, *Noya, A. (ed.), The Changing Boundaries of Social Enterprises.* Paris: OECD Publishing.

Morgan, J.P. (2010), *Impact Investments. An Emergent Asset Class. Global Research*. New York.

NEF (2008), *Mission Possible: Emerging opportunities for Mission-Connected Investment*, Available at:
http://www.neweconomics.org/sites/neweconomics.org/files/Mission_Possible_1.pdf

Nicholls, A. and Pharoah, C. (2007), *The Landscape of Social Investment: A Holistic Topology of Opportunities and Challenges*, Skoll Centre for Social Entrepreneurship Research Paper. Available at: http://www.sbs.ox.ac.uk/skoll

Social Investment Task Force (2011), *Social Investment Manual: A Guide for Social Entrepreneurs*. Schwab Foundation for Social Entrepreneurship. Available at :
http://www.schwabfound.org/pdf/schwabfound/SocialInvestmentManual.pdf

Thornley, B., Wood, D., Grace, K. and Sullivant, S. (2011a), *Impact Investing a Framework for Policy Design and Analysis.* Case Study 9: Joint European Support for Sustainable Investment in City Areas (JESSICA). InSight, Initiative for Responsible Investment at Harvard University and Rockefeller Foundation. Available at:
http://www.pacificcommunityventures.org/insight/impactinvesting/report/09-JESSICA.pdf

Thornley, B., Wood, D., Grace, K. and Sullivant, S. (2011b), *Impact Investing a Framework for Policy Design and Analysis.* Case Study 12: Priority Sector Lending. InSight, Initiative for Responsible Investment at Harvard University and Rockefeller Foundation. Available at:
http://www.pacificcommunityventures.org/insight/impactinvesting/report/12-Priority_Sector_Lending.pdf

U.K. Cabinet Office (2011), *Big Society Bank Outline Proposal*. May 2011.
Available at http://www.cabinetoffice.gov.uk/sites/default/files/resources/big-society-bank-outline-proposal.pdf

Wood, David and Thornley, Ben (2011) *Impact Investing. A Framework for Policy Design and Analysis*. InSight at Pacific Community Ventures & Initiative for Responsible Investment. Rockefeller Foundation.
Available at http://www.rockefellerfoundation.org/news/publications/impact-investing-framework-policy