

SOLIDARITY FINANCE: AN EVOLVING LANDSCAPE

*Marguerite Mendell and Rocío Nogales**

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.

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, in 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. A strong case is made for the positive returns from such investment that also meets social and environmental goals.

The growing number of social economy enterprises (collective) and social purpose enterprises (primarily non-profit but also private) is driving innovation in finance. 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

* *Marguerite Mendell*, Associate Professor in the School of Community and Public Affairs and Director of the Karl Polanyi Institute of Political Economy at Concordia University, Montreal, Canada.

Rocío Nogales, Director of the European Research Network – EMES; Consultant for international organizations on the resource mobilization of social enterprises, on social enterprises in emerging countries and the contribution of social enterprises to employment creation.

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.

Context: Situating Solidarity Finance

Social and solidarity enterprises are calling today for financial innovation and enabling public policy. 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. Cooperatives have expanded to include a new form of cooperative enterprise such as the Italian social cooperatives (1991) that provide services and integrate unemployed workers into the labour market. 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

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 (European Commission, 2003). 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. In the east, Japan adapted the

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.

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 (Cf. *World Council of Credit Unions* at <http://www.woccu.org>). While these are part of the social economy and many were established to serve their members exclusively, 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 include² the *Groupe Cr dit Coop ratif* 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.

Microfinance

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. 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.

Well known pioneers include the *Grameen Bank* established at Chittagong University in Bangladesh in 1976. Today, it serves over 4 million borrowers. *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. 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 (<http://www.accion.org>). Created as a student-run volunteer effort in the shantytowns of Caracas (Venezuela), *ACCION* launched a division in the

² Foundation date included in parentheses.

United States in 1991. *ACCION* delivers full financial services at affordable prices, in a convenient manner and with dignity for clients.

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 (<http://www.kiva.org> and <http://mitpress.mit.edu/innovations>). *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).

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, micro-finance 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.

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. Given 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. The revitalization of poor communities, job creation, etc. yields significant multiplier effects, increasing government tax revenues and reducing social expenditures. Today, *CDFIs* are featured as good prospects for impact investors. The CDFI Coalition advocates on behalf of the CDFI industry and educates the public about community development finance (<http://www.cdfi.org>). *Opportunity Finance Network*, a network of financial intermediaries also provides funding for *CDFIs* (<http://www.opportunityfinance.net>)

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. *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.³ *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 pooled into asset-backed debt securities and *New Markets Tax Credit (NMTC)* investment funds, which are placed with institutional investors. 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. 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* and (3) adapting vehicles and techniques from mainstream finance to this 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. Pooling loans allows *CRF* to generate more capital for community lending. (See: http://www.cdfifund.gov/what_we_do/programs_id.asp?programid=5)

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.

Social banks were created to serve their communities, to provide full banking services to individuals, households and neighbourhood businesses. 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).⁴ Social 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.

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

³ *CRF* was established in 1988 and issued its first public offering in 1989.

⁴ Benedikter, 2011.

members of *FEBEA*⁵ 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. 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 (<http://www.febea.org>).

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* (<http://www.gabv.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 (<http://www.social-banking.org>). Similar initiatives could be undertaken elsewhere, promoted by social banks in the north and in the south.

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

⁵ Banca Popolare Etica, Consorzio Etimos, and Cassa Centrale delle Casse Rurali Trentine e della BCC del Nord-Est. (Italy); Crédit Coopératif, Caisse solidaire du Nord-Pas-de-Calais, Nouvelle Economie Fraternelle and Femu Qui (France); *Crédal* and *Hefboom* (Belgium) and *Tise* (Poland).

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. (<http://.etimos.it>)

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 market

Towards Impact Investment

The term "impact investment" was introduced by the Rockefeller Foundation in the late 1990's to expand the tightly defined roles for philanthropy, private investment and government in addressing social issues.⁶ 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. 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.⁷

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

⁶ 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.

⁷ J.P. Morgan, 2010.

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 that are now coalescing around impact investment: (1) the increased role of foundations, high-net-worth individuals and institutional funds (pension funds, insurance companies, etc.) 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.

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 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).

Innovations in Solidarity Finance

The "landscape of social investment" (Nicholls and Pharoah, 2007) 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.

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. 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 remains.

Social finance and impact investment also target specific economic sectors and distinct population groups. The examples below include investment targeting the unemployed, the emergent *LGBT* market⁸ 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.

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.

Box 1. 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 (<http://www.coopcapital.coop/coopcapital>).

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

⁸ *LGBT* stands for "lesbian, gay, bisexual and transgender" individuals.

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 2. 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 its duration. Fees include 3% of the investment to mitigate risk and a 1% annual management fee payable with each monthly interest payment.

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.

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 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.

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 by the Obama Administration was the launching of the *CDFI Bond Program* in 2011. It is referred to as a "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.

Box 3. 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 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 (<http://www.calvertfoundation.org>)

The Critical Role of 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 québécois de crédit 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.⁹ 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 intersectoral “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 (<http://www.iris-network.eu>) 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.

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.

(<http://europe.socialcapitalmarkets.net/>)

Challenges: Critical Facilitating Tools

Metrics

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 (<http://newfoundryventures.org>). *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. (see: <http://www.redf.org>)

⁹ Mendell *et al.*, 2003; Nicholls and Pharaoh, 2007.

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 (<http://www.fonds-risq.qc.ca>). In the same year, the *Opportunity Finance Network* in the US launched the *CDFI Assessment and Rating System (CARSTTM)* to coordinate social objectives and risk evaluation for CDFIs (<http://www.capitalinstitute.org/forum/metrics/cars-performance-evaluation-tool-both-cdfi-funds-and-their-investors>).

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 (<http://sptf.info>). 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 (<http://www.fastinternational.org>).

GIIN is responding to the need for coherent metrics, for example, in its development of indicators and a rating system in collaboration with the non-profit *GIIRS (Global Impact Investing System)* that provides a third party rating system essential for this market to develop (<http://www.giirs.org>). Its *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. 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.

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. *Triodos 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*, was the basis for a feasibility study, financed by the Rockefeller Foundation, on developing a global social capital market in the UK. 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),¹⁰ Asia's first social stock exchange that intends to target large institutional investors.

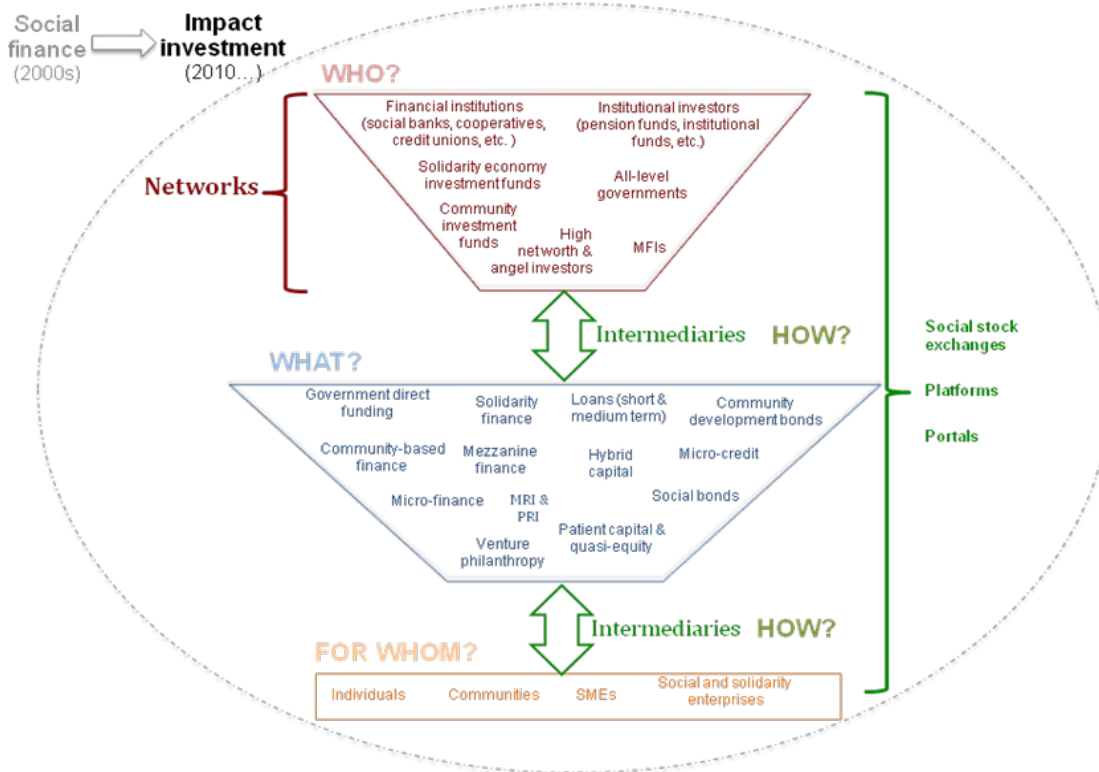
NeXii South Africa (<http://nexii.com>) is responding to fragmentation in social/impact investment markets by creating a hub for intermediaries in which all stakeholders can participate through information and exchange portals and platforms. It is also creating tiered "marketplaces" to respond to the 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). 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* (<http://www.impactbase.org>), 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.

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 spill over 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.

¹⁰ *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.asiaiiix.com>

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



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.

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 lifecycle of these enterprises and the capital requirements that correspond with different phases—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.¹¹ 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

¹¹ 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).

and communicate the needs of social and solidarity enterprises. Intermediaries rooted in communities play this role.

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.

Bibliographic references

- Benedikter, Roland. (2011) *Social Banking and Social Finance. Answers to the Economic Crisis*. New York. Springer.
- Bourque, G., M. Mendell and R. Rouzier. (2011),”Solidarity Finance: history of an emerging practice”, in Marie Bouchard (ed.), *L'économie sociale au Québec*, Toronto. University of Toronto 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., A. Wortsman, M. Mendell and N. Neamtan (2006), *Financing social economy enterprises*. Ottawa: Carleton Centre for Community Innovation.
- Howard, L. and M. Giddens (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 C. Pharoah (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., D. Wood, K. Grace and S. Sullivant (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., D. Wood, K. Grace and S. Sullivant, (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 Ben Thornley (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>