

Social enterprise in OECD Member countries: What are the financial streams?

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SOCIAL ENTERPRISES IN AN EVOLVING ECONOMY.
FROM NON PROFIT ORGANIZATIONS TO SOCIAL ENTERPRISES
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Presentation plan



1. Social Enterprise
2. Demand and supply of finance for social enterprise
3. Sources of Finance Capital
4. Nomenclature
5. Synthetic overview of current sources
6. Evolving financial landscape
7. Solidarity finance
8. Synthetic overview of evolving financial landscape
9. Traditional investment lenses
10. Potential financial sources for SEs
11. Socially Responsible Investment (SRI)
12. The need for new lenses
13. Social capital market: A new framework
14. Social risk capital: Canada, UK and US
15. Development Capital and Solidarity Finance in Quebec
16. The role of government
17. The role of government: selected policy milestones
18. Investment challenges and barriers
19. Challenges ahead
20. Financial innovation system
21. Selected illustrations
22. Conclusions



1. Social Enterprise

Social purpose enterprises with clear objectives to benefit the community

- citizen-based economic activity
- broad based democratic governance structures
- multi-stakeholder participation
- limited profit distribution

Often seen as part of a “new welfare mix” as governments and citizens co-design new forms of service provision

An alternative economic strategy for the production of goods

Contributing to a framework for a sustainable livelihood

Contributing to the development of collective/societal “capabilities”



2. Demand and supply of finance for social enterprise

Demand

Pre-start up
Start up
Consolidation
Expansion

Supply

Grants
Loans
Equity

Structural disequilibrium often occurs

D>S (equity; patient capital)

S>D (loan capital)



3. Sources of finance capital

- ✓ Government (at all levels) via direct involvement
- ✓ Traditional philanthropy (foundations)
- ✓ Banks
- ✓ Credit unions; cooperatives and mutuals
- ✓ Individual investors
- ✓ Growing social investment sector [from micro-finance to new sources patient capital (quasi-equity)]



4. Nomenclature

A brief glossary of selected concepts:

- Social Investment (in French - finance)
- Solidarity Investment (finance)
- Ethical Investment
- Socially Responsible Investment (SRI)
- Community Based Investment
- Program Related Investment (PRI)
- Economically Targeted Investment (ETI)



5. Synthetic overview of current sources

Source	Examples
Government	<ul style="list-style-type: none">- Direct injection (i.e. CDFIs, participation in social investment funds)- Local funds (limited)- Tendering and contracting - procurement (Public markets)
Banks	<ul style="list-style-type: none">- Charity Bank (UK) (partnership with government)- RBC (Canada) (partnership with social investors)- US banks via the <i>Community Investment Act</i>- Alternative banking sector
Credit Unions, Mutuals, Co-operative Banks	<ul style="list-style-type: none">- Raiffeisen Bank (Germany, 1864)- Desjardins' "Caisse Populaire" (Quebec, 1900)- Groupe Crédit Coopérative (France, 1893)- Banca Etica (Italy, 1994)- CREDAL (Belgium, 1984)- Fondation Macif (France, 1993)
Foundations	<ul style="list-style-type: none">- Traditional philanthropy



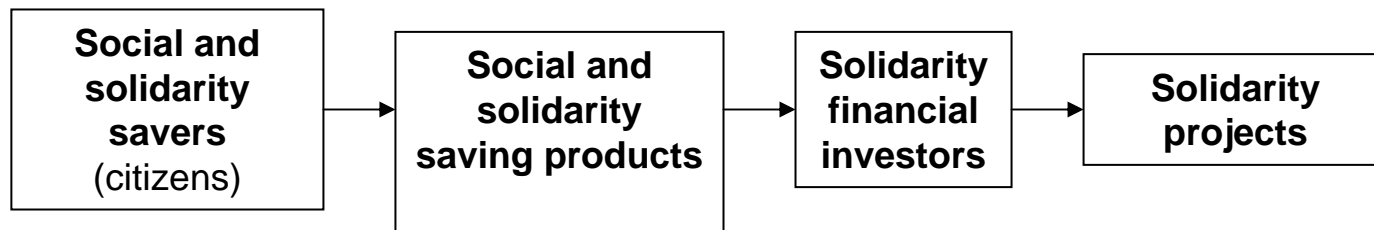
6. Evolving financial landscape

- Solidarity finance
- Venture philanthropy
 - New investment strategies
 - Program Related Investment (PRI)
 - Economically Targeted Investment (ETI)
- Institutional investment
- Social capital market
- Patient capital



7. Solidarity finance

- In Europe, solidarity finance (“finance solidaire”) is defined as the “art of managing money and its various facets - savings, investments, credit, account management... - being aware of responsibility and shared interests resulting in the desire for some to assist the others” (*fineurosol.org*)



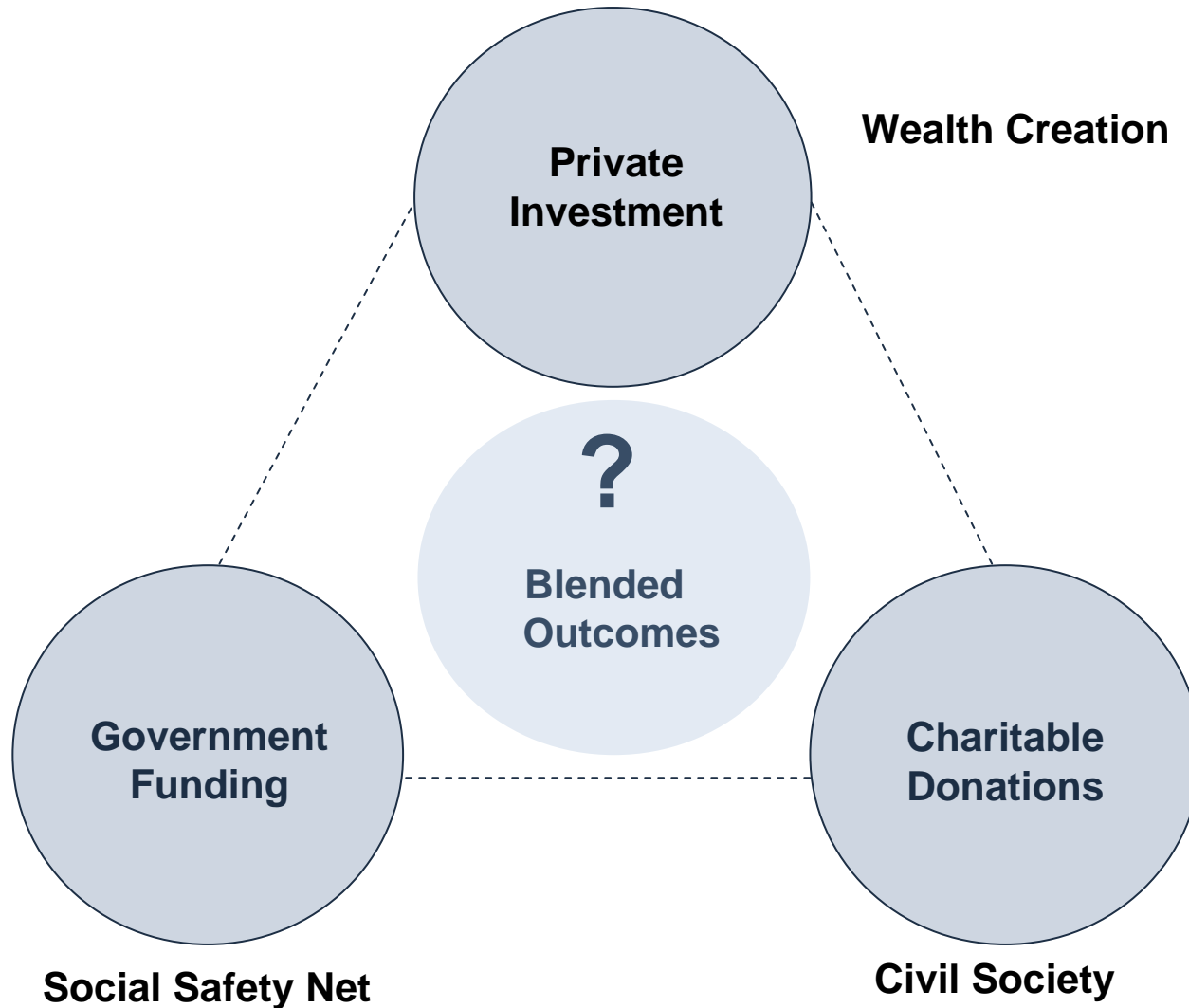
- Two mechanisms of solidarity
 1. Solidarity investment (“produit d’investissement solidaire”)
 2. Solidarity sharing (“produit de partage”):
- In Quebec, solidarity finance refers to all investment activities in the social economy (from micro-credit to patient capital)



8. Synthetic overview of evolving sources of finance

Source	Examples
Solidarity finance	<i>Solidarity finance network</i> (Quebec) <i>Finansol</i> (France, - 30,000 solidarity subscribers in 2001; 200,000 in 2005), <i>INAISE</i> , <i>FEBEA</i> , <i>Réseau financement alternatif</i> (Belgium, 1987), <i>Fineurosol</i> (2006)
Venture philanthropy	Program-related investment and social venture philanthropists (SVP) acting as investors in SEs (<i>Venture Experiment Program</i> by the Rockefeller Foundation, the <i>Acumen Fund</i> , etc.)
Institutional investors	<ul style="list-style-type: none"> - Pension and insurance funds (shareholder activism) - Donor-advised funds (DAFs): Pioneered by <i>Fidelity's nonprofit Charitable Gift Fund</i> (donor activism) - <i>Calvert Community Investment Notes</i> (1995, partnership between the Calvert Group and the Ford, MacArthur and Mott foundations).
Individual investors	<ul style="list-style-type: none"> - Angel investors - HNWIs - Diaspora financing - Individual savers and investors
Social capital market	<ul style="list-style-type: none"> - Generate a market as a means to create scale in the sector and increased capitalization by private investors such as patient capital/quasi-equity: <i>Fiducie</i>. <i>Blue Orchard's Private Equity in Microfinance</i> (expected September 2007) and <i>NEsST</i>

9. Traditional investment lenses



10. Potential financial sources for SEs



	Form	Activity	Actors
Responsible indirect investing ("placement")	Portfolio screening (exclusionary or inclusive)	Investments in financial markets using exclusion or inclusion filters based on environmental, social and governance (ESG) criteria	Ethical funds, foundations
	Shareholder engagement (or activism)	Shareholders that utilize their role to influence the practices of enterprises	Pension funds, awareness raising organizations, some ethical funds
Responsible investing	Development capital	Risk capital with socioeconomic goals (i.e. job creation, local and regional development, the environment)	Investment institutions run by labor unions, cooperatives), sustainable development funds (CleanTech)
	Solidarity-based finance	Financing of community economic development and social enterprises	Micro-credit, financial cooperatives, hybrid financial funds



11. Socially Responsible Investment (SRI)

Ethical Investment

Screening

(not to invest in enterprises failing to comply with environmental criteria and human rights)

EVOLUTION?

Conscious investment

Affirmative financing

(to describe consumers being aware of, and intentional in, how their money is used. More proactive and with the goal of promoting the general interest.)

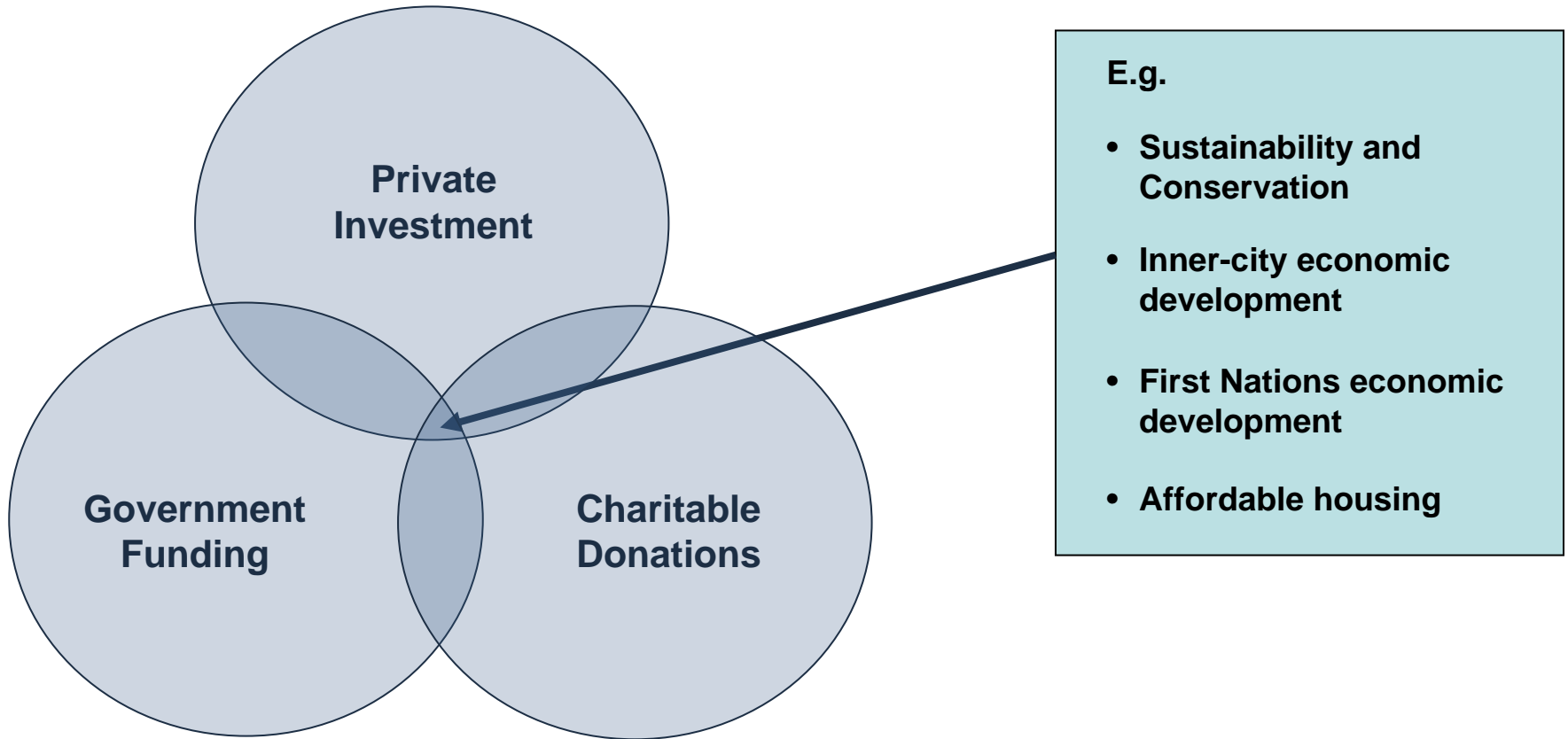
Not investing in SEs yet...

Already investing in SEs

- ✓ Tap CSR from multinationals to finance SEs
- ✓ The conscious investment trend could be led by SEs as they unlock the investment potential of companies and other investors...

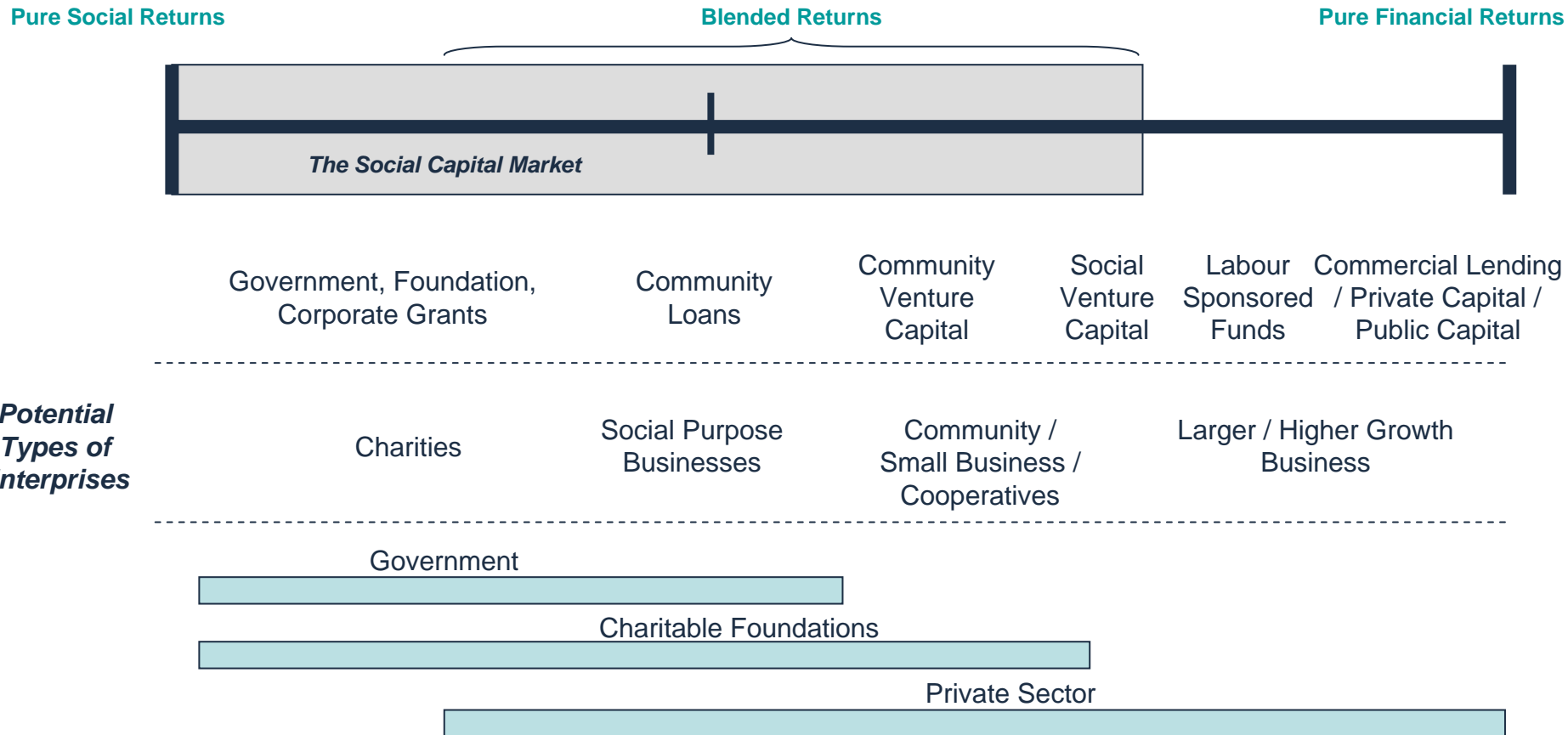


12. The need for new lenses





13. Social Capital Market: A new framework





14. Social risk capital: Canada, UK and US

	Risk Capital					
	Government Grants	Foundation Grants	Venture Philanthropy	Community Loans	Community Development Venture Capital	Social Venture Capital
Canada *	Government accounts for 65% of social funding	Foundations are relatively small and often donor driven	Nascent – used by a handful of innovative foundations	Loan programs exist but are relatively limited	Little venture financing exists. Some Labour Sponsored Funds and others provide limited socially motivated funding	
United Kingdom	Foundations make up a large portion of social funding. Still tend to be donor driven but demonstrate some creativity		VP market is nascent – few players exist in market	Market more advanced - national coordination taking place	Growing market – promotion of social enterprise has been made a government priority with an assigned cabinet minister	
United States	Tend not to be as active as in other markets	Make up large portion of funding. Show significant creativity	Original VP market – several players exist	Several hundred loan funds manage over US\$3bn	Over 50 CDVCs exist across the USA	Dozens of VCs exist that invest in social business

* The portrait for Quebec is different...



15. Development Capital and Solidarity Finance in Quebec

- Mouvement Desjardins - early 20th century
- Caisse d'économie solidaire Desjardins (1976)
- Fonds de solidarité des travailleurs(euses) du Québec (1983) (Labour Solidarity Fund - Quebec Federation of Labour)
- Micro-credit finance (1990) - today networked: *Réseau québécois du crédit communautaire*
- FondAction (1995); FilAction (2001) (Labour Solidarity Fund - Confederation of National Trade Unions)
- Chantier de l'économie sociale (1996)
- RISQ (1997)
- Local development funds (1997)
- Social economy dedicated funds (1997)
- Investissement Québec (la Financière, 2001)
- La Fiducie (2007) Chantier de l'économie sociale
(Hybrid: Development capital and solidarity finance- patient capital
(CAN\$52.8 million- is now beginning its operations))

1996-2005

Direct Investments in the social economy by these actors: CAN\$755 million



16. The role of government

1. Enabling policy

- Tax policy
- Loan guarantees
- Legislation
- Direct injection of funds

2. A need for broad horizontal policy environments

3. A need for multi-stakeholder policy design



17. The role of government: selected policy milestones

United States:

- *Community Reinvestment Act (1976-77)*
- *Low-Income Housing Tax Credit (LIHTC, 1986)*
- *New Markets Tax Credit Program (NMTC, 2000)*
- *Creation of Community Development Financial Institutions (CDFIs, date back to early 20th century but officially recognized by the government agency, CDFI Fund, created in 1994)*

Canada:

- *Labour Sponsored Investment Funds (LSIFs) and other Tax Credit Investment Funds (1980s)*
- *Active participation of the Government of Quebec in the development of solidarity finance and development capital and the Government of Canada most recently in the creation of the Fiducie*



17. The role of government: selected policy milestones

United Kingdom:

- *Community Development Loan Funds and the Local Investment Fund* (1994)
- Recommendations of the *Social Investment Task Force* (October 2000)
- *Community Interest Companies* (CICs, 2005)
- *Community Investment Tax Relief* (CITR, 2002)
- *Futurebuilders England* (2003)

Belgium:

- *Universal Banking Service Act* (2003)

European Commission:

- New Round of Structural Funds (Objectives: Convergence, competitiveness and Employment; European Territorial Cooperation)
- European Employment Strategy (EES) → Programme PROGRESS (2007-2013)
- Complex set of indirect instruments: i.e. European Social Fund (ESF)

18. Investment challenges and barriers



INVESTMENT BARRIERS	→ How to meet these challenges?
<p>Risk</p>	<ul style="list-style-type: none"> • Enabling policy environment • Links with regional authorities (subsidiarity reduces risk) • Pooling of risk (i.e. co-funding strategies) • Credit enhancement • Creation of intermediaries • Partnerships (multi-stakeholder) • Knowledge creation and training environment (organizational cycles, funding logics, etc.) • Technical assistance and support available
<p>Measurement and evaluation tools</p>	<ul style="list-style-type: none"> • Measure the Social Return on Investment (SRoI); Blended value; Double and triple-bottom performance; Social accounting (Enhanced Value Added Statement, EVAS) ; Return on Tax-Payer Investment (RoTI, to measure direct indirect and induce effects of government supported interventions) • The <i>Dow Jones Sustainability Indexes</i> (DJSI, 1999); The <i>FTSE4Good Index Series</i> (2001)
<p>Image of the sector</p>	<ul style="list-style-type: none"> • Supporting federations and networking (credibility, cross-investing, counseling, etc.) • Networking and professionalization • Communication strategies
<p>Recognition of diversity of investment tools</p>	<ul style="list-style-type: none"> • Create investment vehicles that respond to a diversity of needs (from micro-credit to patient capital)
<p>Time</p>	<ul style="list-style-type: none"> • Address the burden of short-term indebtedness • Flexible instruments
<p>Lack of appropriate legislative and institutional frameworks</p>	<ul style="list-style-type: none"> • As SE is a social construction a legal framework is required that recognizes its specificity (it is considered an exception in most laws on corporations) • Fiscal advantages • Horizontal policy environment at national, regional and local levels



19. Challenges ahead

- ✓ Ensuring supportive legal and regulatory frameworks and enabling institutional contexts (considerable political commitment, local actors' international community's support).
- ✓ Avoiding the reduction of SEs to activities for training and enlarge their field of action to also include community based initiatives (to address geographic barriers to employment and wealth generation).
- ✓ A need for a systemic approach in which financial needs are accompanied by supporting structures including training, enabling policy, information sharing, etc.
- ✓ A need for networking and/or federating this sector (examples such as FEBEA and EMA demonstrate the value of a large network of actors)
- ✓ Developing public-private-community partnerships (critical role of banks).
- ✓ Pursuing important work on measurement and evaluation
- ✓ Lack of clarity on the part of SEs in the articulation of social and environmental added value.

For CEE countries:

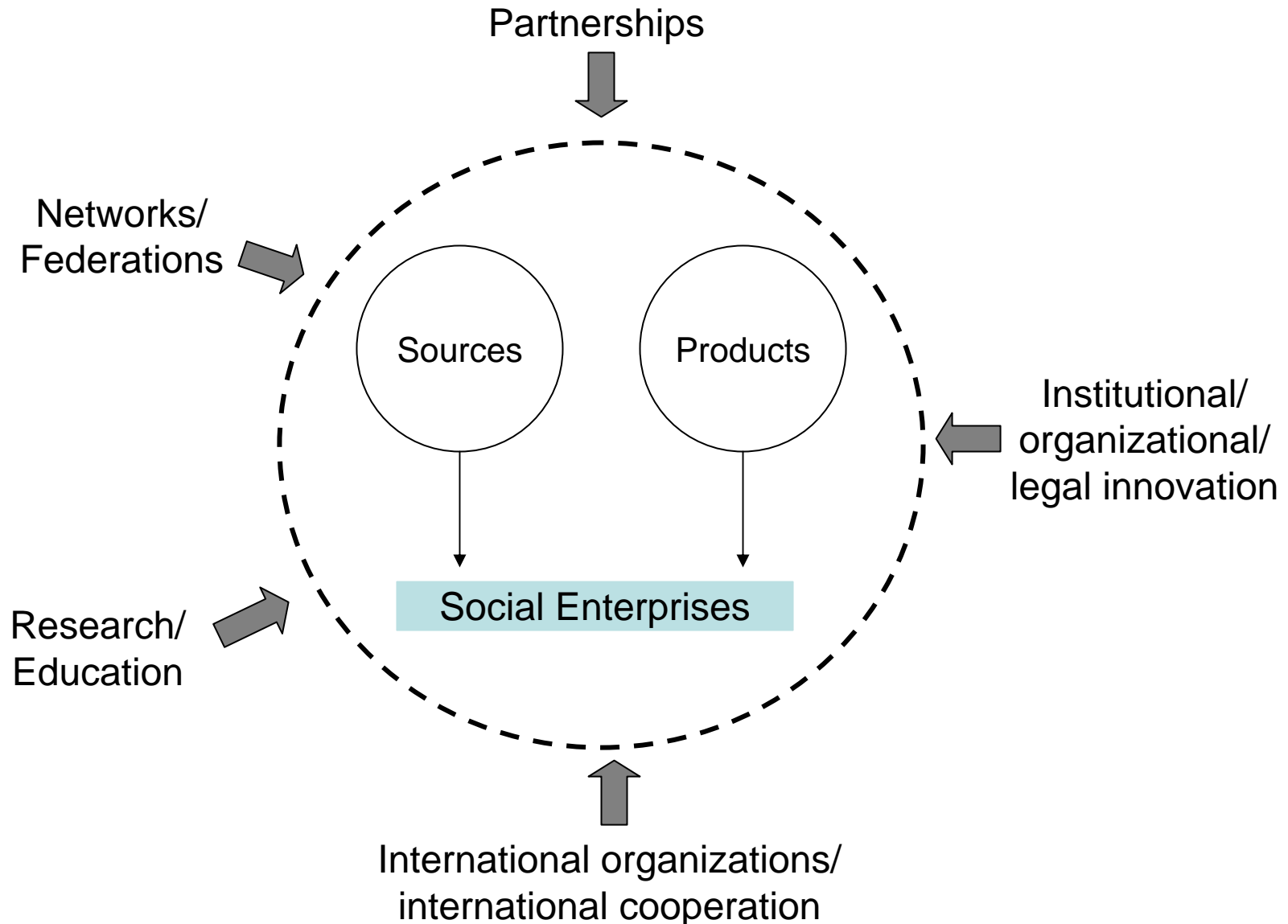
- ✓ Exclusive reliance on micro finance in high risk market conditions can generate a 'debt trap' – role of enabling public policy to prevent this.
- ✓ Philanthropic potential via the growth of wealth in CEE → need for monitoring

20. Financial innovation system



- Diversity of Sources
- Diversity of Products
- Networks/Federations
- Opportunities for Individual, Collective and Institutional Investors
- Enabling Policy and Legislative Environment
- International Cooperation and Knowledge Sharing
- International Organizations

20. Financial innovation system



21. Selected illustrations



Networks and International Federations

Micro Finance/Community Development Financial Institutions (CDFIs)

- Europe – **European Micro Finance Network (EMN)**
- USA – **Opportunity Finance Network** (formerly National Community Capital Association); **CDFI Coalition**
- UK – **Community Development Finance Association (CDFA)**
- Quebec- **Réseau québécois de crédit communautaire (RQCC)**

Solidarity Finance (Social investment; alternative banks)

- Europe – **FEBEA** (European Union of Finances and Ethical and Alternative Banks), **Fineurosol**
- International – **INAISE** (International Association of Investors in the Social Economy)
- Quebec:
 - Informal network of finance actors in solidarity finance, and development capital, including credit cooperatives, labour solidarity funds, regional and local development intermediaries
 - Key role played by the **Chantier de l'économie sociale** (network of networks of social economy actors)

21. Selected illustrations



Networks and International Federations

Individual Savers and Investors

- International – Credit unions, cooperatives and mutuals
- Quebec – Labour Solidarity Funds – retirement savings
- Caisses d'économie solidaire
- Belgium - CREDAL - important cooperative financial institution investing in social enterprise that also provides patient capital
- France – **Finansol** – labeling/branding; attracting solidarity savings
- UK - **Charity Bank** – triple bottom line returns: tax relief of 25% over 5 years - personal return; interest donated to a “charity” -social return; capital return. (potential for social enterprise)
- USA - Investors circles (providing profit social entrepreneurs with patient capital)

Socially Responsible Investment (accessing private equity markets)

- Europe - **Eurosif**
- United States – **Social Investment Forum**
- Canada – **Social Investment Forum**



21. Selected illustrations

Partnerships and Consortia

- International – NESsT (strategic partnerships with venture capital/private equity in Czech Republic, Hungary and Slovakia to promote venture philanthropy)
- France - Finansol, France Active
- UK – Futurebuilders England

Institutional/organizational/legal innovation

- Canada – a variety of provincial tax benefits for investment in community/social enterprise; policy innovation in Quebec
- Quebec – la Fiducie du Chantier de l'économie sociale
- UK – Critical work done by Social Investment Task Force leading to the creation of Community Interest Companies with supporting tax benefits
- Futurebuilders England (includes procurement strategy)
- USA – Community Reinvestment Act

International Cooperation and Knowledge Sharing

Invaluable role played by “mentor: institutions (eg. South Shore Bank and Blue Orchard in Switzerland)

International Organizations

- ILO (Social Finance Unit)
- OECD (LEED – extensive work on social enterprise and the social Economy)
- United Nations Environment Programme Finance Initiative (UNEP FI)

22. Conclusions



- SEs must be recognized for their capacity to create socially inclusive wealth
- Importance of networks extends beyond the actors in the sector to include professional associations (lawyers, accountants, etc.)
- Need for research (cross-national comparisons, best practices, tested models, etc)
- New financial architecture that allows for long-term planning and innovative income generation strategies by SEs
- It is not only about money: knowledge creation and sharing, training environments, guidance, production of toolkits, introducing SEs into higher education curricula...