

Financial Mechanism for Innovative SSE Ecosystems

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FINANCE FOR THE SSE: WHY AND WHY NOW?

- Increased attention to the SSE as a possible solution to current and emerging social problems
- Growing focus on ways in which the SSE can be supported and developed
- Finance as a key lever for expanding the capacity of SSE organizations ➡

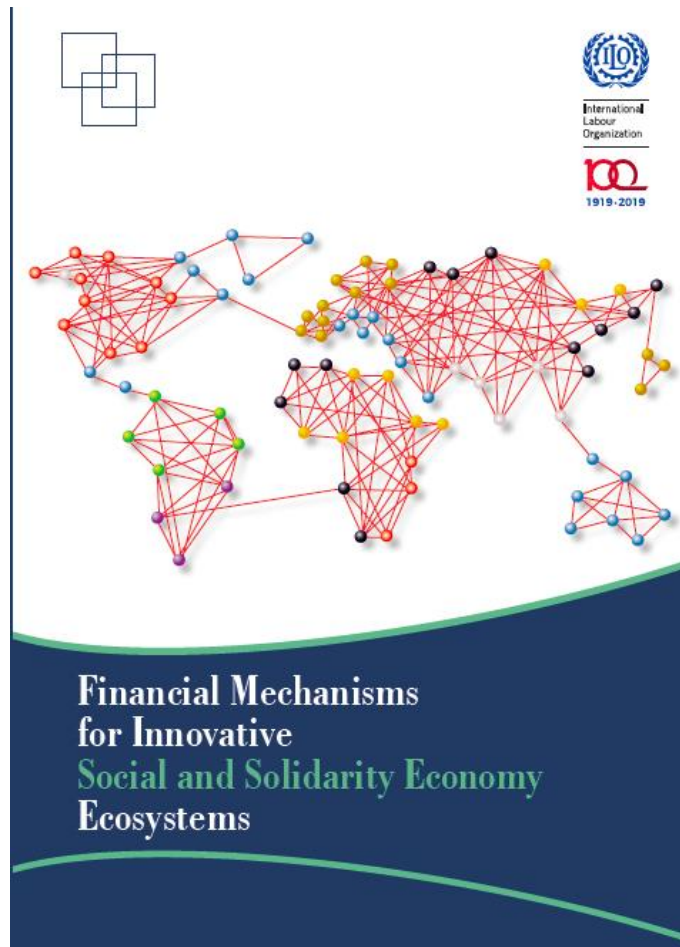
FINANCE FOR THE SSE: WHY AND WHY NOW?

Prominence of finance in the public discourse on SSE due to various possible reasons:

- Importance of finance for SSE organizations (as for all enterprises)
- New and more capital-intensive sectors of activity
- Preconceived notion of non-profit = economically fragile
- Rebranding needs of financial institutions post-2008



«FINANCIAL MECHANISMS FOR INNOVATIVE SSE ECOSYSTEMS»



- Commissioned by ILO, funded by the Government of Luxembourg
- Research question: what kind of financial resources are (or should be) in fact available to SSE organizations, for what purposes they are being used, and in what ways they can be accessed.
- Three stages:
 - developing a comprehensive overview of financial sources and mechanisms (both mainstream and specific, traditional and innovative)
 - how SSE ecosystems are structured and what kind of financial mechanisms SSE organizations actually use (8 country-studies)
 - analysis of the main cross-cutting themes and overarching issues, and related recommendations

KEY CHALLENGE: ASSESSING THE DEMAND FOR FINANCE

- Finding “zero”: generalized lack of data. While the prevailing discourse portrays SSE organizations as lacking financial resources and having trouble accessing capital, empirical evidence is scant (and where we have it, it doesn’t support that view)
- Also, SSE includes a very diverse set of actors, and the variability of their financial needs is as great as their diversity in terms of sectors, size and life cycle phases.



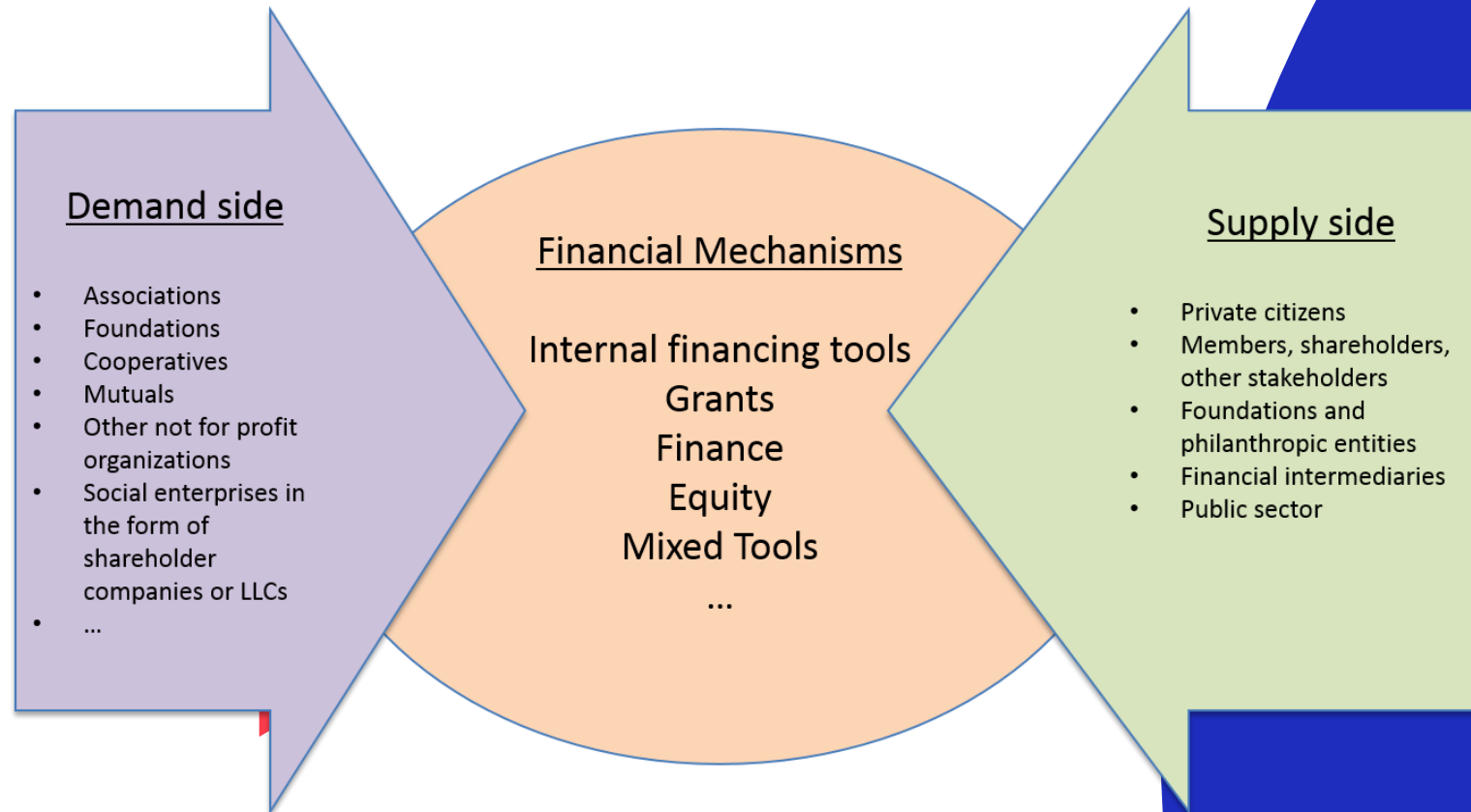
WHAT'S DIFFERENT ABOUT SSEOs WHEN IT COMES TO FINANCE?

- SSE organizations engage in the production of goods and services, and like all enterprises need money to fund their operations.
- Financial resources can help SSE organizations cover start-up costs, address cash flow issues, and of course fund the investments that are needed in order to grow and respond to new needs or changing market conditions.
- Indeed, from a conceptual point of view there is no reason to believe that the financial needs of SSE organizations are different from those of any other type of enterprise.

WHAT'S DIFFERENT ABOUT SSEOs WHEN IT COMES TO FINANCE?

- At the same time, SSE organizations do differ from traditional for-profit enterprises in important ways, and these differences have an impact on the kind of finance they can access and how.
- SSE organizations are designed to meet the needs of their stakeholders (workers, clients, volunteers, etc.) rather than to remunerate investors, and their governance structures make it difficult to apply the same financial tools traditionally used for for-profit corporations.
- The specificity of the SSE with respect to the issue of finance should not be sought in relation to the distinctive needs that characterize SSE organizations compared to traditional companies.
- It rather resides in the types of financial resources available to them and in the ways in which these resources can be accessed.

CLASSIFYING DEMAND, SUPPLY AND MECHANISMS

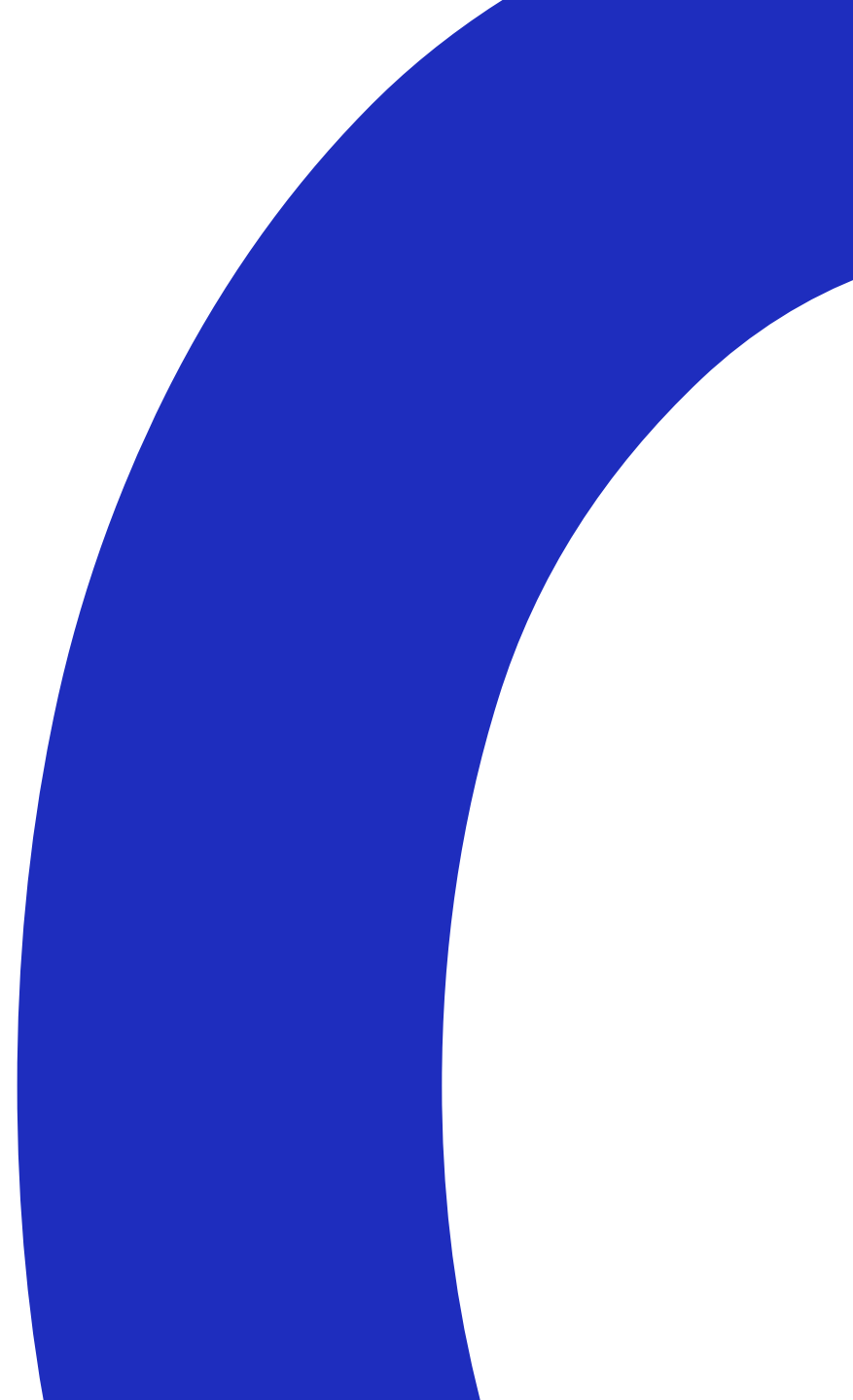


Internal

- Social base
- Management

External

- Grant
- Debt
- Equity
- Mixed Tools



THE ROLES OF THE SSE: FROM MARGINAL TO SYSTEMIC

Different roles and characteristics of the SSE emerge from the national case studies:

- In some contexts, “remedial” role: stronger focus on the contrast of poverty and social inclusion (with a prevalence of public funding and less stringent constraints in terms of economic sustainability)
- In other contexts, “systemic” role: model aimed not only at marginal and poor people or communities, but rather an alternative way of organizing economic activity
- In the first case, SSE action is more driven by public sector, in the second case it is characterized by a wider plurality of economic activities, based on an entrepreneurial model taking on business risks (more autonomous with respect to public resources and an alternative to the mainstream approach).



THE IMPORTANCE OF ECOSYSTEMS

- Where the SSE can count on a more developed and balanced ecosystems, financial mechanisms also tend to be more developed and complex
 - Example: the case of cooperative districts (Mondragon, Trentino, Quebec)
- Conversely, in contexts where ecosystems are more fragile, financial instruments are more limited and in some cases might even hinder the development of the ecosystem itself
 - Example: microcredit supporting individual micro-businesses

It is the quality of the ecosystem that determines the articulation and the effectiveness of the financial system, and not vice versa.

THE IMPORTANCE OF INTERNAL SOURCES OF CAPITAL

- Where SSE ecosystems are stronger, the financial needs of SSE organizations are largely satisfied, primarily by internal funding and by more traditional financial instruments (such as bank loans).
- Internal sources are particularly important, especially where they are incentivized by supportive legal frameworks (profit distribution constraints, asset lock, tax breaks, cooperative mutual funds, etc.): consistent with specificities and values, ensure long term approach, help cement cooperative pact between members and between SSEO and its community
- The use of newly-developed financial instruments is less relevant in the cases studied for this project (except when SSE create their own innovative financial instruments as in the Italian case of the Cooperazione Finanza Impresa - CFI, or as in the case of Fiducie / Risq initiatives set up in Quebec).

THE ATTITUDE TOWARD IMPACT INVESTING

- There is significant mistrust by SSE actors of innovations from the world of 'impact investment' (such as in Social Impact Bonds, for example) which are not seen as emerging as a result of sustained demand from the sector, but from the needs of the financial sector.
- The measurement of social impact (a key requirement in all forms of 'impact investing') is still a controversial subject:
 - No agreement regarding its importance
 - In determining the criteria and indicators to be used it is difficult to find the right balance between the interests of the investors, of the financed organizations, and of the users
 - Potential for unintended consequences: commodification of service users or the tackling of those who are more easily helped (so-called 'creaming').
- Conditions and mechanisms of impact finance not fully compatible with needs and characteristics of SSEOs in terms of timing, expected returns on investment, property rights

THE ROLE OF FINANCE IN THE AFTERMATH OF THE COVID CRISIS

Impact of Covid on SSE likely uneven and still unclear. However, at least three effects are very likely:

- Erosion of assets, as we've seen during the last economic crisis
- Push toward innovation, especially around digitalization
- Likely expanded role moving forward as public sector falls further in debt and social needs increase

All of these trends point to an increased importance of financial resources, especially to strengthen the capitalization of SSEOs and fund new investments

LOOKING FORWARD

Over the last few years SSE organizations have started engaging in more capital-intensive activities such as urban renewal, waste management, management of facilities for cultural activities, cultural heritage management, social housing, and others, and this engagement is expected to increase in the near future.

This, coupled with growing needs and trends resulting from COVID crisis, is likely to increase demand for finance, beyond what has been made available so far.

The scales of intervention called for by the change in our societies requires equipment of SSE organizations with new models and new tools that are capable of coping with a more massive demand for goods and services.

From a financial perspective this means the development of an adequate and accessible supply with a blended approach, mixing different tools and strategies, consistent with the specificities of SSE organizations.

Thank you



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