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SSE Enterprises Specific Needs and Financial Responses in the EU

How to Combine the Transformative Power of Finance and the Development of Member-Based Organisations?

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The social and solidarity economy (SSE) is based on the sharing of objectives and resources within people-centred companies, whereby groups of people develop economic solutions according to their needs.

Throughout history, the role of social economy has above all been to integrate social considerations into political and economic life. While joint stock companies have been the backbone of Europe's business economy since the second half of the 19th century, a number of major crises have led to the development of social economy clusters[1].

Nowadays, SSE is not only considered as a range of solutions built up by citizens to serve their collective future, a means for people who had been left by the wayside to take control of their daily lives, but also as an essential condition to face to a major societal movement, whose pulse beats to the rhythm of digital, energy and demographic change.

Economic commentators now regard these 'hybrid models' as essential factors for sustainable development. This trend is reflected in different ways in the different EU Member States, depending on their cultural, social and political context: utopian socialism, 'labour movement', 'social Catholicism', philanthropy, 'gift economy', "Big society", role of civil society in post-communist countries, "welfare civile"… As national frameworks in which SSE is rooted is faced to global trends, it is very important to understand the different models at stake and in competition with each other.

It is also assumed that the boarders are now blurring between public and private sectors, profit and not-profit, commercial and non-commercial, corporate social responsibility, new 'profit-for-purpose societies', social enterprises, social and solidarity economy[2]. **This socio-economic innovative field is also a market[3], where standards, management and measurement tools are not neutral.**

Very little research has been conducted about SSE hybrid business models and the way they are influenced by international, national and local policies and legal frameworks. Generally, any progress on this matter in the European Union results essentially from case law arising from disputes[4].

As finance and investors whether organized on a local or an international level, have a transformative power on social business models, this paper aims at examining the way SSE model is influenced by global financial trends, either international or European. It presents the financial expectations of SSE and the supply in response, before proposing some potential solutions so that Social and Solidarity Finance can support Social and Solidarity Economy. Both should stay people-centred.

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[1] LEVEQUE Benoît (2011), "Réflexions sur la conjoncture économique et politique : un monde qui se défait, un monde à reconstruire", Dossier conjoncture l'Action nationale, pp.157-175,bp.157-175, 2011.

[2] British Council representative in the Conference "Social Entrepreneurs, have your say », Strasbourg, 17-18 January 2014.

[3] YOUNG Dennis R. (2007), "A Unified Theory of Social Enterprise", Working paper 07-01, Andrew Young School of Policy Studies, Georgia State University.

[4] ALIX Nicole (2012), "Do EU legislation and economic policies act in concert in developing a harmonised business theory for social economy and social enterprise? A European review from 1990 to 2011", CONFERENCE WORKING PAPERS SERIES - VOLUME VIII - Siena, Italy; summary in RECMA 327, January 2013.

I Demand: The Characteristics of SSE Enterprises

SSE financing requirements are contingent upon both the characteristics of the activity (*social* meant as *social and societal arena*) and upon their "not-profit oriented" or "limited profit" or "*member-based"* structure and governance("*social"* governed enterprises). It is crucial not to confuse both.

The European Union seems to aim at promoting private investment in social programmes, and secondly to bring corporate legislation into line with modern trends. In this context, SSE is primarily seen through its "social dimension", in which it becomes possible and desirable to invest.

When analyzing this "social dimension", it is crucial to remind that SSE, at least in the EU, provides goods and services at a cheaper cost or better quality than the commercial sector not only because it involves voluntary work or because it does not distribute its profits, but also because it has partnerships with public authorities to manage "services of general interest" where public fundings range from 0 to 100 %. Bringing equities to hospitals, were they manage by private, public or non-profit sectors, do not provide their users with the ability to pay the full costs. For all people to have access to the service for all, people have to be supported by public fundings or social security. In international studies not to confuse European model with emerging South, where there were no social protection systems.

Making the difference between the financing needed to balance the operating account and the financing needed for balance sheet, equity and debt financing, provision of long-term financing is crucial in "business" models where the operating result (EBIT) is low and not distributed to shareholders.

1 - The "social" dimension of the activity:

There is a large variety in social and solidarity economy and in social entrepreneurship in Europe, which is positive and inspiring.

The social and solidarity economy, championed by social groups seeking local solutions to their needs, has always been both a child of necessity and a motor for social diversity. Social and solidarity economy enterprises are largely prevailing in creating and managing voluntary social protection systems as well as social, health and welfare services, education, etc. Experience shows that foundations, associations and mutuals and, more recently, social cooperatives know how to manage these activities in a socially and also economically satisfactory manner.

The role and place of SSE in social protection and in running social services of general interest in the EU cannot be described in detail here[5]. It is crucial and huge, even if depending of broad national models[6].

- Social services of general interest are often very capital and labour-intensive with a slow and low return on investment: hospitals, social housing, facilities for the elderly and the disabled, etc. The depreciable life of such buildings ranges from 30 to 50 years, which reduces the burden on the public purse and on users. Consequently, assumptions

[5] ALIX Nicole, ISTR Working papers, Sienne 2012.

[6] ARCHAMBAULT Edith . (2000), notamment : "*Perspective internationale sur le secteur sans but lucratif",* revue Projet, 3/12/2000.

that the services provided by social and solidarity economy enterprises require little medium or long-term investment must be strongly denied.

- The research and development needs of SSE are centred primarily on intangible assets, with a different long-term perspective. In healthcare, education, training and culture (more than in other areas), innovation derives from use, innovative service provision and communication between people, not just from technological breakthroughs.

- SSE enterprises are often decentralised. Efficient sourcing supposes gathering information from sources on the ground (social networks and consulting, bank branches for the social and solidarity economy, certified accountants, ..) rather than public agencies or external databases.

- The connection between social business, social and solidarity economy and the management of Services of general interest -Services of General Economic Interest (SGEIs) and Social Services of General Interest (SSGIs)- in the sense of the EU regulation[7] has still not been addressed.

'Hybrid' social and solidarity enterprise models, which attempt to reconcile economic activities with non-economic activities and social objectives with economic objectives, are legal and fiscal objects that are not explicitly recognised by European competition law, which, for 25 years, has been treating the SSE if it was evidence of 'market failures' (regulation of 'services of general interest') or 'governmental failures' (public procurement directives). Even though the crisis has promoted greater flexibility, there is no positive European law relating to 'services of general interest': the market, even though unattainable in reality, is still considered an ideal to be reached, the most appropriate way to fulfil all types of function. Neither is there any specific legal framework for multi-stakeholder initiatives, for public or collective management and proprietorship, or for the hybridisation of resources within the same organisation.

- The result is that public/private partnerships in SGEIs and in SSIGs tend to favour large-scale and commercial operators (in mutual insurance, social housing, health and even social welfare). Small operators and volunteer workers tend to be excluded as they do not have the means to participate in such procedures. They are forced to merge, which affects their performance as campaigning organisations and which may ultimately condemn them to failure.

- "Social" used in the term "social enterprises is more and more connected with the provision of goods and services for general consumption to impoverished persons, even in the EU. In this case, the business model is obviously completely different. Social enterprises are not low-cost companies, they try to outsource their research or their delivery systems to not-for-profit organisations. But their production is sold on a market and not on a quasi-market as in health or welfare sectors.

2 - The "social" dimension of the enterprise

- Social and solidarity economy enterprises are characterised by a "non-capitalist" statutory organisation: there is either no subscribed share capital or no speculative remuneration in the form of dividends and/or the receipt of capital gains. In many cases, organisations such as mutuals and associations do not have in their accounts any provision for the restitution of contributions made by their members. However, this does

[7] ALIX Nicole, ISTR Working paper, 2012.

not prevent them from meeting their economic and financial obligations and financing a sometimes multi-annual, or even very long-term, operating cycle.

- Social enterprises, by definition, view profit making as a secondary objective. Due to their low profit margin, they are generally unable either to deliver any capital gain to their investors or to redeem their original investment. When their investors withdraw, they must be replaced by others. Hence the venture capital or capital-risk approach does not really suit them. This is the reason why, for instance, France has organised a system based on participation through solidarity funds to finance SSE enterprises: it is more suitable and more appropriate for organising liquidity.

- To maximise their profits and therefore reduce market prices, capital companies outsource the management of their negative social and environmental effects. Social enterprises do not or seldom outsource their social and environmental responsibilities. They are therefore penalised by the use of investment selection criteria that consider price effects only.

- On the one hand not-for-profit organisations are encouraged to be financially self-supporting, but, on the other, in the European funds policy, their earnings are automatically deducted from public funds. Instead, social enterprises benefiting from EU subsidies should be allowed to have a "reasonable profit" as allowed by the state aid regulation when they are entitled to for performing a public service duty.

- SSE enterprises are not listed companies, which may be sold and bought on stock exchanges. The financial vehicles available to them should not be exact replicas of those used by capital companies. Where there is a market, liquidity should be managed through platforms designed for non-speculative trading between social investors.

Conclusion: it is crucial to make a connection between the means of (social) production of goods and services (cf 1/ above) and the range of governance methods (cf2/). Failing this, there is no objective reason to promote a set of co-existing/pluralistic corporate models rather than just ONE model, to encourage diversity as opposed to monoculture. Consequently, "business as usual" market solutions are spreading in response to several expectations:

- impoverished and debt-ridden States are no longer seeking just to pass on some of their former prerogatives to private parties, but are also encouraging private investors to become involved in a *social investments market; capitalism* is attempting to overcome the obstacles to its development through *corporate social responsibility* (viewing practices from an ethical perspective) and by attacking the market of the most underprivileged ('*Bottom of the Pyramid*' strategy);
- the failure of socialist countries and bureaucratic administrations is leading to the adoption of *corporate management methods* in an attempt to solve *social issues* more effectively.
- public goods and 'general interest' services, in particular social services, are now regulated within a competitive system controlled by national and European authorities and in the context of a global services market.

Not sure that we prevent crisis rather than just cure it in these conditions.

II Financial Supply: Global Trends in the EU

1 - Long-term investment in the EU:

- The EU has produced a Green Paper (2013) and then a Communication (2014) on Long-Term investment, linked with general interest as follows: "*Long-term investments*

have wider public benefits since they generate greater returns for ***society as a whole*** *by supporting essential services and improving living standards. Their impact can also begin to be felt in the short term. They enable companies and governments to produce more with fewer resources, responding to new economic, social and environmental challenges, facilitating the transition to a more sustainable economy and raising the productive and industrial capacity of the economy."*

But current procedures for selecting future investments are not conducive to either long-term financing (choice of discount rate) or intangible assets (choice of assets to be valued). For a century now, the term "capital" no longer refers to a stock of goods, but to a source of future revenue we have been calculating value on the basis of future returns. This translates as calculating *current net -value using the discounted cash flow method*. The manager-investor – who is supposed to "act rationally" and to implement reporting and rating systems – has an increasingly powerful role.

According to Christian Gollier[8], this method of calculation was not a problem as long as people believed they would be better off in the future. The discount rate acts as an "upholder of peace". It is the price to be paid for "deferred spending". The lower the discount rate, the better it is for future generations. Our shared aversion to inequality (and, it might be added, to risk) drives us to believe in future growth. Gollier believes rates of 2.5% and 3.5% would be more consistent with an intergenerational ethic and with realistic growth forecasts for the next few decades. In practice, he has observed that the discount rate over the last century has been 0% for riskless assets and 4% for risky assets.

These factors, which are applicable to all long-term investments, are even more relevant when it comes to social infrastructures, which often has a greater intangible dimension than other goods. Short-term and long-term risks tend to be managed according to the same rules. But the coverage of health risks (which are short-term risks) through insurance directives (long-term provident schemes or "goods" insurance) increases capitalisation and contributions, as well as the excess payable by the insured. Long-term investments should be treated differently.

- The evolution of the European context owing to the new Basel III and Solvancy II regulations is crucial in this context. Credit crunch may result from its cost in equities requirement. The role of traditional banks is decreasing in financing the economy, in favour of financial market, according to the US model. Up to now, 80% of the economy was financed by banks in Europe, 20% by the financial market, the proportion being the contrary in the US. The operators of the financial market use different channels and tools to invest (lots of intermediaries, distance decision-making according to specific database..). The consequences of these evolutions for SSE and for the whole real economy are very important.

"*The banks' mission is therefore tendentially redefined. The bank is understood more as a firm in which people invest than a firm whose purpose is to distribute funding and enable households and businesses to invest. The calculation method of the credit rate is indeed designed to minimise the level of required capital for the bank to cover its risks, and thus maximise shareholder returns. ... Of course, this conception of the bank also tends to deny the specificities of other types of banks, mutual societies or public credit establishments ...financialisation of valuation methods has transformed financial*

[8] GAULIER Christian, Laboratory of Natural Resource Economics [LERNA] and Director of Research at the Industrial Economics Institute [IDEI] in Toulouse ,http://www.finxchange.org/sites/default/files/files/C_Gollier%20FR.pdf

management and financial indicators themselves, and given priority to the interests of investors on the financial markets, in this case the shareholders of banking companies"[9]

2 – Impact investing as THE solution?

- Impact investing is pushed forward as an emerging conceptual framework, a new way of tackling social questions in a new financial environment: the financial market players will (at last!) meet the financing needs of social players and help indebted states and weaken banks.

The European Union draws on the concept of social impact in the wording of regulations intended to govern financing for social undertakings, and thus seeks to promote measurement of those impacts[10]. G8 has put "impact investing" on its agenda[11] "to leverage this momentum and move the social impact investment market towards global scale and sustainability" and "to change the lives of the poor in developing countries". The aim is to create an international support community, better understand market potential and move towards "transparency and standardisation in impact measurement". In response to this pressure, the OECD is conducting studies to guide public action on these questions[12].

These new wave of impact investors claim that there is no contradiction between "social » and "market" scaling up, on the contrary[13]: social enterprises (which unfortunately are small and have scarce money) should learn from business, especially from 'entrepreneur-led companies/venture capital' tandems, taking on growth risks in order to confront more social problems. They will progress through defining social impact objectives in accordance with 'impact investors'. The sum of these impacts will be beneficial for society and will finance social investments when public funding become rarer. This invention is carried by powerful forces that also support the idea that measuring the "social impact" of organisations is important for planning public action and the donations market (Alix & Baudet, 2013[14]).

The largest investment banks see "Impact Investing" as a new way of investing and social organisations as a new class of assets[15]. Philanthropers and savers, to "make their money meaningful", want to give or invest money where it will be most socially profitable, and States are seeking to attract such funds and make social investment attractive at this time of highly constrained budgets.

Impact investors in "social risk", considered as a cost compared to a "normal" return, may be refunded by public resources or philanthropy. This is why social impact to be measured, according to 'objective' data. New methods, like "Social Return On Investment" (SROI), are promoted so that social organisations should define their social impacts in detail, then measure them in monetary value, and finally, where possible,

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[9] CHIAPELLO Eve (2014), "Financialisation of valuation", Human Studies, 37, n°4, 2014.

[10] Regulation (EU) No 346/2013 of the European Parliament and of the Council of 17 april 2013 on European Social Entrepreneurship Funds**.** "*As the principal objective of social undertakings is to have a positive social impact rather than to maximise profits this Regulation should only promote support for qualifying portfolio undertakings that have the achievement of a measurable and positive social impact as their focus*."

[11] "Impact investment:The invisible heart of the market", Social Impact Investment Taskforce established under the G8 UK presidency, October 2014.

[12] "To respond to the need for a better understanding of the potential of the market, the OECD has agreed to undertake a detailed report on global developments in social impact investment." (ibid. Cabinet Office, 2013:11).

[13] Revolutionising Philanthropy: Impact Investment, Sir Ronald Cohen, Chair of the Social Impact Investment Taskforce established by the G8, The Mansion House, Thursday 23 January 2014

[14] ALIX Nicole & BAUDET Adrien (2013), « *Impact investing: a factor of transformation of the social sector in Europe* », 4th International CIRIEC Conference, Antwerp, www.ciriec-ua-conference.org

[15] JP Morgan (2010) "Impact Investments, An emerging asset class, report", Global Research, 29 November 2010

discount the cash flows to present value, such that an expense can be linked to social gains expressed in monetary terms.

The idea is to make social impact THE new indicator that would enable investors to choose quite simply between a range of proposals[16]. Such is the objective pursued by the Impact Reporting and Investment Standards (IRIS), issued to create a common framework of definitions and management of the performance for "impact investors". Currently, these criteria are gradually becoming established as a benchmark for impact reporting to major investors. All reports prepared in compliance with these specific metrics are collected in an Impact Base, which is a database managed by the Global Impact Investing Network[17].

- The appearance of investors – albeit social investors – in social enterprises is likely to steer the latter towards business models with which their investor-contributors are already familiar, through management tools that have been tried and tested in fully 'commercial' undertakings. In that way, large commercial companies may effectively be imposing their governance methods on social enterprises, unconstrained by any formal limits on extraction of profits.

In Europe at least, banks have not traditionally been involved in the governance of companies: they decide whether or not to grant a loan and lay down their conditions but, unlike equity investors, they do not sit on Boards of Directors. So it seems a paradox of the financial crisis that, in Europe, activist market finance may take over the role of banks in financing businesses, including social enterprises.

3 – Introducing the "social" dimension into a "cost/benefit" approach

I*t does indeed appear that the ideas of "impact investment" are now mature enough to act as a guide for public action that will, through the law, help to speed up redefinition of the scope of social public policies.* The European Commission decided to "develop a methodology to measure the socio-economic benefits created by social enterprises" and "their impact on the community" in order to provide guidance for the European Social Entrepreneurship Investiment Funds (Eusef) **as well as** the Programme for Social Change and Innovation, which are European Structural funds.

In the EU policy context, lots of confusions arise between concepts such as Social Investment, Impact Investing and Social Impact Investing.

The 2013 Social Investment Package recommended to consider some selected social actions as investments and not as mere costs.

But the current tools available to decide and measure the investments in finance may fail in adressing these issues: n*ot all impacts can be measured, especially not in the social sector. Often impact can only be described and not put into absolute figures. Social impact goals defined ex ante to be measured ex post copes to high difficulties concerning human capital, innovation and very long-term investment. Not all social investment requires a social impact measurement in the sense of impact European Investment Funds (Eusef). Social Impact Investing has to be seen in its specific national context and not replace public funding, but rather additional.*

[16] See A Portfolio Approach to Impact Investment, 1 October 2012, JP Morgan, Global Social Finance Research
[17] www.thegiin.org

*Instead of a "one-fit-all-approach" or "comply or explain", a flexible method based on user needs and positive subsidiarity should rather be adopted. One should try to measure the long-term outcome of projects. The impact of governance and non profit aim of the organizations should be considered. Lastly, i*f social impact is higher and rewarded, who should benefit: the social enterprise, the public budget or the investor? If the investor who takes the risk gets the return, he should not speculate on social performance.

Interests of private investors do not necessarily coincide with the public interest or interests of governments. The sum of social impact decided by private investors, as important as they could be, does not correspond to the general interest. Public regulation is required to guarantee that the social added value will be reinvested in social goals. Social impact bonds (which are not bonds but new public private partnerships) are tools which do not replace public policies.

4 – Social and solidarity finance challenged by the financial regulation:

Social and solidarity finance has a long tradition to finance real economy and local development and specially, the SSE.

There is of course a huge range from French Crédit Coopératif where solidarity-based finance was invented in 1984, Terzo Valore the new "Italian way to crowdfunding", the investment approach of Social Stock Exchange in UK and larger cooperative banks groups. Solidarity-based finance in France represents now 6 billions of euros on solidarity-based deposits or accounts, brought by 1 million of savers in all sorts of UCITS, which have generated more than 1 billion of finance for 100 000 social enterprises, social or environmental projects, 6 millions of euros of grants to NGOs[18]. Despite their differences, the various forms of Social and Solidarity Finance face to similar challenges.

- In 2009, a report published by the ILO[19] revealed that all cooperatives, regardless of the sector in which they operated, had better withstood the economic crisis, and the IMF[20] praised the soundness of cooperative banks. Yet they are still having to fight to ensure that, as open stock companies, their equity capital is regarded as such by the accounting standards and not as debts. This fight with the IASB (International Accounting Standards Board) and the US's FASB has been going on since 2002/2003 and has been full of twists and turns. In autumn 2010, when the accounting authorities had finally been persuaded, the prudential authorities in Basel, Brussels and Paris decided to get involved: by narrowing down the definition of equity capital, they have once again penalised the membership shares of cooperative banks. The European commissioners in charge of competition regularly launch attacks against cooperative banks, which they accuse of acting as cartels, and brandish the principle of "*one share, one vote*" as opposed to that of "*one person, one vote*".

Several other factors, deeply rooted in our thought processes, are also an impediment to long-term investment. For example, according to Anglo-Saxon theory, the dispersal of the capital of cooperative banks hampers the efficiency of their governance systems. This theory needs to be revised, since they are able to raise capital at a low cost because

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[18] See Finansol www.finansol.org/fr/nos-publications.html.
[19] ILO (International Labour Organization), BIRCHALL Johnston & KETILSON Lou Hammond (2009), "Resilience of the cooperative business model in times of crisis"
[20] IMF Working Paper (2009), "Cooperative banks in Europe", Policy Issues, Wim Fonteyne

their participants are less concerned about the return on their investment for several reasons: not only is their share in the capital very small, but also they are rewarded by a return on their consumption (in terms of quality and quantity) and they are able to transfer intergenerational capital to their families, communities and professions.

- Moreover, the type of financial tools used in finance to-day are more and more short term oriented. **Standards, management and measurement tools are not neutral.**

Financial system regulation is increasingly adopting models and standards to guard against the risk of default. Into actual practice, risk aversion means diminishing the role of people in institutions. It is more and more reporting and rating against human experience, quantitative data bases against qualitative evaluation, experts against grass roots experience.

This is contrary to the real specificity of cooperative banks and ethic finance, which is able to reduce the information asymmetry by listening to their members and clients experience. One may have some doubts about the possibility to finance innovation with data bases which use looking in the rear-view mirror, measuring what is already known. We should start focusing on the road ahead.

- It is also important to ensure that current measures in Europe concerning financial operators (banks, insurance companies, fund managers, etc.) are not designed on the basis of a theoretical prudential approach. They must "bridge the gap" between the finance sector and the real economy. The introduction of stricter bank capital requirements under Basel III may well be a good thing for other reasons, but it is expected to have the side effect of restricting the lending capacity of banks, including cooperative banks.

With this in mind, it is crucial to promote diversity in the legal statuses of financial operators, while ensuring the presence of financial operators having a mutual or cooperative status. "*By doing this, the regulators will show that they have understood the stabilising function of such financial operators. It is important that the regulators strike a balance between the removal of financial operators that do not offer sufficient guarantees of financial security and the cartelisation of the financial sector, which would be damaging to the real economy and especially to social and solidarity economy enterprises.*"[21].

III An Action Plan for SSE and SSF Useful for the Common Good

The more we produce private goods, the more we need complex public goods that are available everywhere, all the time: healthcare, education, training, housing, digital networks, etc. These goods, which have traditionally been provided and guaranteed by the state, are now taking on a global dimension.

"*Bearing in mind that "bad money drives out good", the progress currently being made in regulating the financial sector and filling the "black holes" in our chaotic financial system should highlight the good sense of investing in companies in the real economy and, in particular, in social and solidarity economy enterprises. In addition, actions*

[21] BANCEL Jean-Louis (2014) « The expectations of SSE entreprises in a context of financial crisis », in « For an economy of trust in Europe: The Contribution of the SSE. From crisis to social change », L'Option n°33, Confrontations Europe, Alix&de Nanteuil eds.

should be taken to promote "patient" investment. In France, "solidarity finance" has developed over the past few years. While it puts relatively little pressure on the public purse, it acts as a kind of quality certification, ensuring traceability between household savings and investments. However, this mechanism, which is good for new and innovative companies in the social and solidarity economy, cannot meet all requirements, particularly those of medium-sized companies in the social and solidarity economy. For bigger social and solidarity economy enterprises, it is important to be able to adjust public lending structures: Public Investment Bank or European Investment Bank" [22]

Social and Solidarity Finance is, as Social and Solidarity Economy enterprises, member-based or at least people-based organisations. "*Social and solidarity finance (SSF) encompasses ethical banking, financial cooperatives, community development banks, solidarity microfinance, crypto- and complementary currencies, community-based savings schemes, participatory budgeting, crowdfunding, social impact bonds and forms of impact investing. SSF mechanisms aim to democratize access to finance; reinsert values and practices of solidarity and reciprocity in the financial sphere and foster local economic development and social cohesion. They operate based on a different rationale from conventional instruments. They do not prioritize monetary returns on investment but rather integrate their profits with the social or environmental objectives of the organizations they finance. Those schemes are often local and small but not always*" [23].

In a global context where private investment is promoted to finance sustainable development, it is crucial to favour SSF to support SSE, because the methods of cooperative banks and ethical finance rely more on their members and clients' experience. Human finance should be promoted, with short supply chains. To create trust, finance must explain where the money comes from that where it goes.

But to increase finance for development, we need not only new and innovative means of finance, but also a sustainable financial regulation. We may destroy with one hand the innovative and cooperative we want to promote with the other, without questioning the relevance of the reference framework. Cooperative banks, ethical finance, local currencies, SSE has a long tradition of new and innovative means to finance real economy and local development. Innovative finance promoted by SSE will not be able to scale up, within the current financial regulation and the type of financial tools used in finance to-day. A way to go forwards is to promote Social and Solidarity-based Finance and finance as a "common".

Therefore, it is important to:

1 – Promote Social and Solidarity Finance:

- *Give European citizens the legal right to demand long-term investment* on the grounds of their fundamental right of access to energy, education, culture, information, etc. ("claim for commons"), or even to buy public goods (for example the water supply in Naples, which gave rise to a petition to manage water as a common good in Europe).

[22] BANCEL Jean-Louis, idem.

[23] UNRISD. 2015. *Social and Solidarity Finance; Tensions, Opportunities and Transformative Potential - An UNRISD Workshop co-organized with the support of the Friedrich Ebert Stiftung and the International Labour Office.* Workshop Concept note. Geneva: UNRISD.

- *Promote "community" support* in the shape of citizen funding for services of general interest, as collectively-managed "commons".

- *Allow some investors to specialise* in certain "societal" projects by adopting "in-house" portfolio management strategies, without them being seen as acting contrary to the risk diversification policy. As social and solidarity economy enterprises are all SMEs, or in any case unlisted companies, and they will continue to rely mostly on bank lending rather than market financing, so how will banks manage their specific needs?

- *Develop Investment funds for social enterprises* which maintain an open perspective on social enterprises in order to meet the needs of those that are both capital and labour-intensive and do not deliver a fast return on investment: hospitals, social housing and facilities for the elderly and disabled. Adjust the targeted mechanism accordingly and, to this end:

- ✓ open up subscriptions to private individuals in addition to institutional investors, via UCITS (see solidarity funds and save-as-you-earn schemes in France)
- ✓ use tools that are more like solidarity funds than venture capital funds

- *Set up guarantee systems*: although "social" investors are not concerned primarily with the potential return on their investment, they do not wish to lose their initial investment, hence the development of public or mutual guarantee systems (the most efficient is often the mutual guarantee fund, to which all borrowers subscribe; it is set up with the help of professionals who are familiar with the risks and comprises a super guarantee provided by a state-owned financial institution or bank). Guarantee systems developed internally by cooperative banking networks also encourage long-term risk taking.

- *Focus on good examples:* the transfer of save-as-you-earn savings to solidarity funds that invest in approved solidarity enterprises, like in France; decentralised response systems (peer to peer, cooperative crowdfunding); partnerships between the EIF and public and cooperative development banks (e.g. the Social Impact Accelerator, a specialised fund of funds set up in May 2013 to raise capital for investment in "social impact" funds, set up by the EIF under the frame of a public/private partnership of which Deutsche Bank and Crédit Coopératif are already members); examples of returns in the form of consumer subsidies and tax breaks (the UK's Green Bank).

- *Allow mixed financing*: combine private and public funds, loans (EIB) and structural funds, while ensuring that "sources of information" on projects requiring financing are close to the grass roots; encourage the use of the ERDF for social infrastructure.

- *Strengthen the link between public, private and cooperative banks*. The cohesion policy and structural funds allow for social infrastructure investment. The European Investment Bank does not have any priorities in terms of social infrastructure, but it is, by definition, the most appropriate instrument.

- *Use the detailed information* that the banks have compiled on the risk and probability of default through standardised processes under Basel II in order to calibrate new risks for all types of investors.

- *Make sure that the prudential and accounting rules treat cooperative banks equally*, and not as exceptions on the grounds that their membership shares are debts rather than capital because their capital is variable; allow them to create cooperative groups (recognised by law) with different functions (venture capital, etc.).

- *Favor long term investors like cooperative finance and mutual societies*, in the North and in the South; on the mutual societies side, think about specific new tools to invest in SSE (not only databases tools).

2 – Develop a new regulation for finance :

- *Allow for experimentation* within public policies and public/private partnerships that leave room for long-term investment. Allocate a certain percentage of "Investments for the Future" funds to "unorthodox" projects[24].

- *Incorporating long-term, "commons" and general interest criteria into investment rating and selection systems, and adjusting the discount rate according to a more intergenerational approach*

- *Think long term to invest long term* [25]: incorporate long-term criteria into the system for evaluating research and education projects, etc. For example, research projects should be evaluated not only on the basis of the number of patents they produce, but also according to their contribution to the public and open-source domain (see Open Knowledge Foundation). This would reduce the cost of education quite quickly. The performance of teachers and universities should also be measured by this kind of yardstick.

- *Choose appropriate discount rates* for the different types of long-term investment and a capital valuation system that promotes intergenerational capital where necessary; challenge the discounted cash flow method by working on concrete examples at European level (see development of genetics)

- *Act on the financial sector and its methods: g*et asset managers interested in the general interest; adapt the rules governing the selection of asset management companies: for example, making it compulsory to change every 3 years shapes the activity of such companies and forces them to maximise their return over the same period.

"Finance for people" or for "sustainable development" can be a cream pie served by just everyone. It is important to encourage research into the link between the doctrinal, philosophical and political foundations of the social economy (in particular its democratic structure), the translation of these foundations into rules, procedures and strategies, as well as their impact on operational management processes.

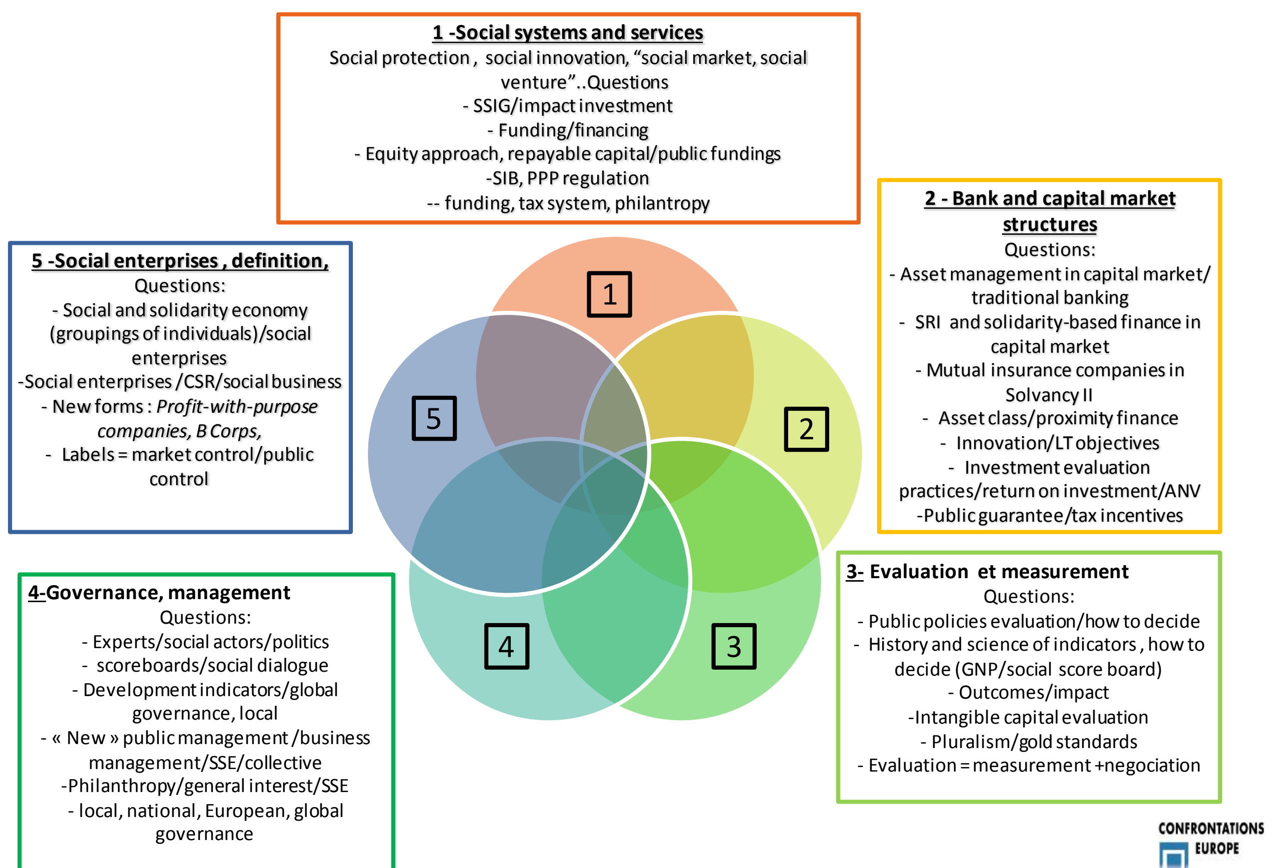
To increase finance for development, we not only need new and innovative means of finance, we also need a sustainable financial regulation. To promote long term and patient capital, we need other ways of valuing than fixing prices where financial prices are not good indicators. In finance also, we need short supply chains and good governance. We should determine an action plan to promote finance as a 'common'.

[24] KAPLAN Daniel (2013), Director General of the New Generation Internet Foundation, Le Monde, 31 May 2013
[25] RIGOT Sandra (2014) "La géographie des investisseurs", Problèmes économiques, septembre 2014.

ANNEX: Social Impact Conferences Organised by Confrontations Europe in February 2015, Summary and Follow-Up

http://www.confrontations.org/en/conferences-english/2015/2348-social-impact-investing-and-its-role-in-the-future-social-public-private-investments-continuing-dialogue

http://www.confrontations.org/fr/conferences/2015/2347-le-role-de-l-investissement-a-impact-social-dans-les-investissements-publics-et-prives



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