United Nations Research Institute for Social Development

Finance for Social and Solidarity Economy Organizations

An Exploration of the Financial Tools Used

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Introduction

There is an avalanche of academic literature on the importance of finance to enterprises in general. The state of research on this theme can be divided into three: studies focusing on the banking institution (e.g., Gwama, 2014; Domeher et al., 2015), research on stock markets (e.g., Alagidede and Panagiotidis, 2009; 2010), and work on micro credit institutions (e.g.,Kotir and Obeng-Odoom, 2009; Oteng-Abayie et al., 2011). For most of these studies, the aims are either to examine how the current institutions work, the challenges they face, and how they can be remedied to improve financial development. How do social and solidarity economy organizations get finance? And how have the different finance mechanisms evolved in the light of the growth in 'financial innovations'? These are important questions that require answers, mindful of the vital role played by social and solidarity economy organizations around the globe.

A major problem with social and solidarity economy (SSE hereafter) organizations is their undercapitalization and limited access to external financing (Karaphillis et al. 2010). The fact that SSE organizations occupy the space between the state and the market (Mendell 2008) is considered both a 'blessing' and a 'curse'. As a blessing, they deal with market failures (for example, widening income gaps, structural unemployment, social exclusion, uneven development, etc). As a 'curse', access to capital is difficult for these organizations due to the fact that they do not have owners to guarantee loans, their legal structure may not allow the sale of shares, do not have assets to use as collateral, and their operations are not singularly focused on generating financial returns. These and several other factors means that mainstream financial institutions are not set up to assess SSE organizations, and the latter are not set up in a way that effectively engages mainstream finance. Current processes and policies to assess credit-worthiness are not always the right tools because returns generated by these organizations are not just monetary; they are also social. Mainstream finance evaluates risks and opportunities based on financial returns, sustainability of the organization and ability to repay. Since they must still pass the same financial hurdles as any other company to access mainstream finance, it is no surprise that many struggle.

Mindful of their unique identity, it is vital to investigate how SSE organizations are financed in practice. Here lies the purpose of this paper. Using case studies from Africa, Europe and North America, it explores the various financial tools (membership funds, grants, debt, equity and quasi-equity) used by SSE organizations.

Access to Finance for Social and Solidarity Economy Organizations

Case studies from Cameroon, United Kingdom, and Canada are used to shed light on the diverse financial tools available and used by SSE organizations.

The case of credit unions in Cameroon

Credit unions – key players in the social economy ecosystem, are pivotal in the delivery of financial services to the population at the base of the pyramid, who are generally excluded by mainstream financial institutions. As of 2012, there were over 218 credit unions in the country, serving over 500,000 members with over 1.5 million people benefiting from their services.

Credit unions in the country are not permitted to use external finance to fund their activities due to their legal status. Thus, these institutions rely on members' savings and shares to finance their activities. In order to mobilize financial resources, credit unions in the country have developed a financial tool that taps into the relatively huge savings reservoir held by informal savings and credit clubs – generally referred to in academic literature as rotating savings and credit associations (ROSCAs) and accumulating savings and credit associations (ASCAs). These informal clubs are generally referred to in Cameroon as njangis. Their pervasive nature in both urban and rural Cameroon justifies why credit unions increasingly turn to them as a source of finance. Some credit unions now have Njangi Security Accounts (NSA) – a product for ROSCAs and ASCAs. For an ASCA made up of twenty-five members, where each member contributes 100 USD per month, the credit union gets 2,500 USD at the end of each month through the Njangi Security Account. At the end of the year, the savings accumulated (30,000 USD) are withdrawn and distributed to ASCA members. According to estimates, there were 26,912 of such clubs having deposit and savings accounts with credit unions in 2011. The fact that credit unions can mobilize financial resources through this channel shows that finance does not always have to come from external sources, it can be generated from the local communities where they carry out their activities. The fact that these informal saving clubs are not a temporary phenomenon means that the NSA is a sustainable financial tool.

The NSA leads to win-win outcomes for both credit unions and informal savings clubs. For the latter, it enables them to earn interest on savings while keeping it in a secure place. For the former, it is an important financial tool since it mobilizes much needed savings, which are subsequently provided as loans to its members. The fact that credit unions are increasingly offering the NSA to informal savings clubs is testament to the fact that it is a viable financial tool. The success of this financial strategy is due to the fact that credit unions like local microfinance institutions constantly adapt to their local environment, thus debunking the economic logic of the separation of economic and social spheres (see, for example, Servet 2015, Servet and Guerin 2011). These local organizations cannot survive financially without embedding themselves in the local socio-economic context. It is this social embeddedness that gives them some form of legitimacy.

The Wise Group (United Kingdom)

The Wise Group was established in 1983 originally as an energy conservation initiative. Over the past two and a half decades, it has grown from a small social economy organization in Glasgow to a solid social enterprise, with a 2009 turnover of 20 million GBP. Today it is one of the UK's leading social enterprises providing employability and skills training services, reducing reoffending, regenerating communities, working to eliminate fuel poverty and trying to create a greener society through its over 200 premises across Scotland and Northeast England. In 2013 alone, it provided employment programs to over 6,000 people and supported 709 people into sustainable jobs. In 2008, it won the UK Social Enterprise of the Year Award.

Over the years, it has combined grants from several sources (e.g. European Regional Development Fund, local and central government grants) and debt finance to carry out its operations. It receives grants from funders such as the European Social Fund and the Big Lottery UK. These funds are provided for specific projects and are restricted to well-defined uses. For example, grants from the European Social Fund were to finance its Transitional Employment project while those from the Big Lottery were to finance the Routes out of Prison project. These grants are limited to a specific timeframe, raising the need to have other sources of finance.

To ensure flexibility and to minimize the negative effects of grants, The Wise Group used debt products such as bank loans, overdrafts (especially from 2000–2005) and hire purchase. It uses hire purchase on land, buildings and other items, and these operating leases are spread over several years, which permits the enterprise to better manage its financial resources. Hire purchase permits The Wise Group to make use of what it needs without spending huge sums of money at one time. The last time it used the overdraft facility was in 2006.

To ensure its sustainability, it now focuses on generating its own revenue, so that it can rely less on external sources of finance. This explains why it prepares tenders for the delivery of programmes and services for the government. For instance, in 2009 The Wise Group and its partners won a five-year contract worth more than 120 million GBP to deliver the government's Flexible New Deal employment programme in Scotland. The surplus generated from these contracts makes it possible for The Wise Group to repay its debts and to reinvest to continue its mission. As of 31 December 2009, its surplus totalled 66,392 GBP.

The Wise Group's track record and solid asset base permits it to continually get the different kinds of finance required to carry out its operations. In 2006, it had tangible assets worth 4,375,660 GBP which increased to 6,925,326 GBP in 2009. Its efficient combination of grants and debt finance, coupled with its increasing use of contractual funds, ensures growth and long-term sustainability. This has also enabled it to establish a steady relationship with funders and attract fresh investment.

In the past decade, The Wise Group has gradually reduced its reliance on grants. At present, it receives no core grant from the government; whereas in 2000 it received 1,032,892 GBP from this source. In 2000, grants (14,469,443 GBP) constituted a major finance stream; in fact, grants made up about 90% of all external finance received. Today grants constitute a lower percentage of financial resources. It has closed this gap by generating its own revenue through the delivery of various contracts, as mentioned earlier.

Alimentation Coop Port-Cartier (Canada)

Alimentation Coop Port-Cartier was set up in 2004 to provide better goods and services to the residents of Port-Cartier. It has over 1,200 members, and 40% of them are from households within Port-Cartier. Its projects so far have been conducted in partnership with various institutions such as the Economic Development Agency of Port-Cartier, the Federation of Food Cooperatives of Quebec, the Fiducie du Chantier de l'économie sociale, Investissement Quebec, the Caisse d'économie solidaire and the Caisse populaire Desjardins of Port-Cartier.

Alimentation Coop Port-Cartier, a 'modern' cooperative with innovative finance streams, uses membership subscription, subsidies, debt finance and quasi-equity finance to carry out its activities. It gets funds from members through a subscription of 250 CAD$ per member; in 2007 it collected a total of 420,000 CAD$. The funds from this source are used for the day-to-day functioning of the cooperative. Membership funds are flexible, easy to access and manage and not subject to complicated reporting requirements. These funds permit it to carry out activities related to the sale of its products (e.g. bakery products, meat, fish, prepared food, fruits and vegetables, wine and tobacco).

Furthermore, Alimentation Coop Port-Cartier receives subsidies from the Local Development Centre and Sobey's. Subsidies play a significant role by partially covering operating costs. In addition to membership funds and subsidies, the cooperative uses debt finance. Most of its loans are subsidized and need to be repaid at least after five years. In 2007, it received a loan of 900,000 CAD$ from the Caisse d'économie solidaire Desjardins to be repaid after eight years at an interest rate of 8.5%. Other loan packages have to be repaid after five or ten years. Long-term loans ensure stability and give the cooperative the ability to conduct long-term planning since it has the financial resources.

In addition to the above-mentioned financial streams, Alimentation Coop Port-Cartier uses quasi-equity or patient capital. Quasi-equity or patient capital is a mixture of grant and loan or equity, most often with flexible repayment terms. In 2007, it received 750,000 CAD$ from the Fiducie of the Chantier de l'économie sociale in the form of patient capital with no capital repayment for 15 years. Of this amount, 500,000 CAD$ was offered as real estate patient capital to fund costs directly associated with acquiring buildings or renovating real estate assets, while the remaining 250,000 CAD$ was offered as operations patient capital to fund costs linked to working capital, the launch of new products or the purchase of equipment. The use of patient capital ensures better capitalization of the cooperative. In that same year, it also received 700,000 CAD$ in the form of quasi-equity finance from Sobey. Of this amount, 500,000CAD$ is interest-free, and the total amount has to be repaid after ten years. Debt finance and quasi-equity constitute the main financial streams used by Alimentation Coop Port-Cartier.

Conclusion

The diverse nature of the social economy means that there can be no one-size-fits-all as concerns the financial tools used by SSE organizations. As the case studies demonstrate, different organizations require different financial tools best suited to their needs. In practice, it is possible for SSE organizations to use financial tools that do not impede the realization of their social objectives. The success of SSE organizations in terms of getting finance requires a complex blend of strategies.

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