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Ministero del Lavoro e delle Politiche Sociali

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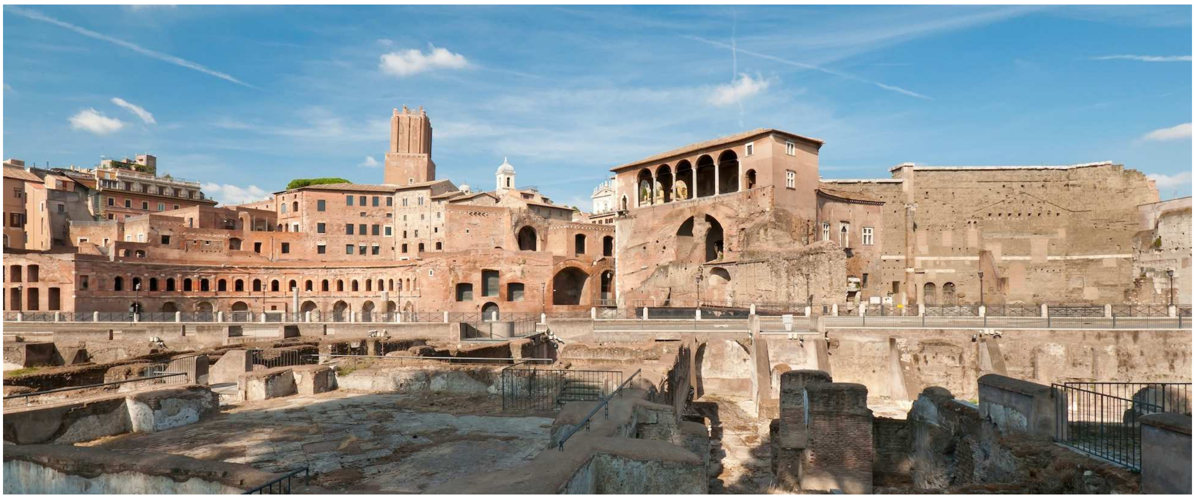

International Conference

"Unlocking the Potential of the Social Economy for EU Growth"

WORKING GROUP REPORT

On the first day of the Conference, November 17th, 2014, a total of 10 working groups (WG) were held to discuss relevant topics that had been previously identified via a public consultation. Rapporteurs and moderators produced individual reports for each WG and they are published as they were received, without undergoing any editing process. The reports are divided into five sections (Main recommendations; Starting point; Main issued discussed; Recurrent issues; and Concrete proposals) although not all of them were completed in all WG.

In addition to individual WG reports, a document highlighting the main recommendations from all of the WG is available at www.socialeconomyrome.it .

Please note that this is a working document, not edited for form or content.

WORKING GROUP 4. FINANCIAL INSTRUMENTS AND INTERMEDIARIES

Moderator: Leonardo Becchetti (University Roma Tre), Italy

Rapporteur: Yiorgos Alexopoulos (Agricultural University of Athens / Euricse), Greece

Speakers:

1. Aldo Soldi (Coopfond), Italy
2. Alessandra Viscovi (Etica sgr), Italy
3. Sergio Gatti (Federcasse), Italy
4. Fabio Salviato (FEBEA), Belgium
5. Sofia Prans (SERUS), Sweden
6. Marco Morganti (Banca Prossima), Italy

7. Mario Calderini (Politecnico di Milano), Italy
8. Mercedes Valcárcel, (GECES/ISIS) Spain
9. Slobodan Cvejic (SeConS – Development Initiative Group), Serbia
10. Aline Fares (Finance Watch), Belgium;
11. James Hopegood, DG Financial Stability, Financial Services and Capital Markets Union, European Commission, EU
12. Davide Dalmaso (Avanzi), Italy
13. Victor Massiah (Ubi Banca), Italy
14. Brigitte Mohn (Bertelsmann Stiftung), Germany
15. David Hutchison (Social Finance), UK

Main recommendations
In light of our work, the following actions are deemed of strategic importance: 1. **Review the most appropriate financial instruments for social economy organisations and promote their dissemination at the national and local level** 2. **Accelerate and strengthen the implementation of the road map for the Social Investment Package proposed by the Commission and endorsed by the Council in March 2013** 3. Secure that **social economy organisations will not be excluded from EU structural funds support financial resources available for SMEs and mainstream entrepreneurial initiatives** developed under the regional and national operational programmes. 4. Empirical evidence and practitioners' experience widely documented that (bank financed) social economy enterprises have a significantly lower rate of non performing loans (lower default rates). Hence **lending to the social business should deserve a social supporting factor (similar to that of SMEs) in Capital Requirement Rules (CRR). Such a measure would not affect sustainability of banks while at the same time will boost lending to social business.** Moral hazard effects from such decision could be easily avoided by conditioning CRR to lenders' performance in extended credit to social economy enterprises. 5. To this end the **development of internal rating models**, which will capitalise on the extensive experience of social economy financial institutions to employ **soft information** and hard data when supporting social economy organisations, **is considered essential** in order **to adequately assess the value at risk** of these transactions/forms of credit. Regulators and banking authorities need to work hand in hand with social economy financial intermediaries in order to introduce risk assessment tools, which will combine the internal rating models with the traditional market approach. Again such a mixed approach, developed, tested and implemented rigorously is expected to increase availability of funds for social economy actors to the benefit of local productive systems and communities, without introducing new elements of risk in the financial system. 6. Forms of **patient and "brother" capital investment schemes** such as those of coop mutual investment funds where a share of members' earnings is invested to finance coop start-ups of new members **are a precious financial support for social economy development**. As this **internal mobilization of financial resources** have been historically an important source of funds in social economy organisations, these self-sustainable mechanisms should be enhanced further or reactivated by reinforcing members confidence in cooperative development. **Sound and transparent governance and excellence in practice are the key**

vehicles to reconfirm members' active participation in their mutually owned organisations.

7. Accumulated experience in the field has proven that **social responsible investors are willing to accept a lower return on their investments when supporting social enterprises**, as they value also their social impact. In this line the **European Investment Fund (and institutional investors in general) should also be financing social economy enterprises at rates that socially responsible investors are willing to pay on the market (and not higher)**.
8. At the same time it is expected that **socially responsible investors ready to accept lower market rates will multiply in the short/medium term, provided that the right institutional solutions are in place to reduce perceived risk**. To this end **guarantee funds** are precious as they **meet investors' high risk aversion, satisfy the sector's needs for long-term capital, and support social innovation start-ups**.
9. **Crowd-lending schemes** (where part of the loans is provided at market rate by traditional lenders, part of it by community members at subsidized or even zero interest rates and the capital provided by community members is guaranteed by the traditional lenders) **may lower significantly the cost of loans that private lenders would be willing to apply**. Crowdlending is expensive in terms of guarantees for traditional lenders, requires extensive community support but brings the advantage of lower lending rates and lower risk of default. **Regulators should take this into account reducing the guarantee costs of traditional lenders to social economy enterprises in this scheme**.
10. An interesting, rather recent, development in social economy refers to **workers buy out** initiatives, which **are considered as potential powerful instruments for social sustainability**. To support the innovative and sound projects in these initiatives a mixed approach that will employ patient equity partners and guarantees to couple own/pooled resources of workers is required.

Starting point

Social economy organisations encounter complex challenges in financing their growth, and many initiatives have been launched in order to analyse the problem and suggest the most promising ways to address it. The Working group, based on the experience of social economy organisations in various countries, discussed the actual demand for financial products, the types of financial instruments that are best suited to the characteristics of social economy organisations, the financial institutions that are most likely to deliver these products, and the potential policy implications.

Main issues discussed

- The working group confirms that there is a good body of knowledge within social economy financial institutions working on the supply side. Discussion held underlined that the new realities that are emerging in social economy are in need of a long-term approach, transparent supporting schemes and committed financial institutions that understand their needs and provide solutions. It is time to develop further small-scale pilot projects and experiment on new socially responsible financial products and services that will meet the needs of social economy actors. These services will also increase the level of self-awareness among social economy actors, and at the same time increase their visibility and highlight their social impact to the society.

- However, it is also time to work with the demand side in order to improve the capacity of social economy organizations to work on well-developed business plans to meet the social and economic needs within their local and societal context. To this end social economy financial institutions should work intensively together, build on their commonalities, in order to keep on differentiating themselves from conventional financial institutions while defending actively the biodiversity in the European banking system.
Concrete proposals discussed
- There is sufficient evidence that social economy financial institutions are not the riskier part of the European financial system. To the contrary their sound knowledge of local needs and their commitment in traditional banking approaches to support their members and local society with simple, transparent and fair-priced products and services were essential in defending the resilience and sustainability of local productive systems and communities. - Biodiversity in the European banking sector should be treasured as an essential element of successful entrepreneurial initiatives at all levels. - To this purpose "one-size-fits-all" rules should be avoided as they distort the playing field level. Regulators and banking authorities should work with social economy financial institutions to develop regulations and tools that will meet the need of their banking models and, consequently, to improve and increase financial solutions to be extended to social economy organisations. - At the same time further steps should be taken to help large banks to refocus on traditional banking activity following recent post-crisis regulatory changes by ring-fencing or separating commercial and investment banking for transparency purposes. - The risk of returning to pre-crises short-terminism approaches that pursue high returns with finance-to-finance activities not connected to the real economy needs should be adequately tackled in all parts of the financial system.

Should you have any questions regarding this report, please contact info@emes.net and socialeconomyrome@lavoro.gov.it