PACT FOR IMPACT

A GLOBAL ALLIANCE FOR A SOCIAL AND SOLIDARITY ECONOMY

#1

Financing of the Social and Solidarity Economy (SSE)

SUMMARY

EDITORIALS

«The development and success of the Social and Solidarity Economy depend on the quality and sustainability of its financing».
Our economies must respond to the climate and social emergency, the deleterious effects of which we see every day. The transformation of our models of society will only be possible if we succeed in increasing confidence in the fact that finance contributes strongly to it. In this sense, impact financing represents a strong and real opportunity for all actors in the SSE. It is our collective responsibility to support the development of efficient financing ecosystems anchored in our territories to support SSE actors in reconciling their objectives of social impact and economic stability. This guide takes stock of the ideas, methods, know-how, good practices, and initiatives developed around the world to support the financing of SSE. It will contribute, I hope, to enriching the work of members of PACT FOR IMPACT to co-construct ambitious commitments and design a fairer and more sustainable world.

Olivia GREGOIRE, French Secretary of State in charge
of the Social, Solidarity and Responsible Economy..

"Social and solidarity finance has always created a positive impact going beyond financial returns by intentionally deploying capital to implement solutions to societal problems. Even if the challenges of financing the social and solidarity economy are numerous, the health crisis has shown that social and solidarity finance has been able to respond positively to help companies affected by the crisis. We must continue to work together so that the values that characterize solidarity finance become examples to follow."

Milder Villegas, Managing Director
Filaction and President of INAISE

«The future of finance is through impact, and this is a promising prospect for SSE players.»
Following the implementation of ESG approaches, which ensure that environmental and social elements are taken into account, finance is now turning to impact. Here the idea is to develop investment theses that while offering a satisfactory financial return, are intended to generate positive social or environmental impacts measurable and to respond to the stated will of the subscribers. Impact financing is experiencing significant development, driven by the strong demand for meaning from savers, who want their money to be mobilized to respond to major societal, social or environmental issues, and that these results be measurable, in order to fight against «green and social» washing. In the impact approach, change is not only a positive externality but is the heart of the investment approach. In this, impact financing has strong affinities with the SSE, which will represent an attractive investment thesis and will therefore be able to benefit from a new influx of capital.

Xavier PLOQUIN, Senior Associate,
Chief of staff of the CEO de Meridiam

PREAMBLE

A. PRESENTATION OF PACT FOR IMPACT

Launched in 2019 at the initiative of France, PACT FOR IMPACT is a global alliance that aims to connect public institutions at the local, national, regional, and international levels with actors in favor of a more just and sustainable world. The Alliance aims to bring the Social and Solidarity Economy (SSE) to the heart of the international political agenda and to accelerate its deployment, by promoting and capitalizing on existing initiatives.

B. OBJECTIVES OF THE THEMATIC PROGRAMS

In line with the first discussions initiated within the International Leading Group on the Social and Solidarity Economy (GPIESS) and extended during the first PACT FOR IMPACT meetings, the Alliance wished to launch a set of thematic programs to highlight the appropriate responses provided by the SSE to the Sustainable Development Goals.

These thematic programs aim to reveal mobilizable levers and propose concrete actions to support the development of the Social and Solidarity Economy (SSE) in response to the social and environmental challenges of the twenty-first century. These challenges have been defined by several international cooperation frameworks adopted by the United Nations, such as the 2030 Agenda for Sustainable Development setting out the 17 Sustainable Development Goals (SDGs), the Paris Agreement to combat climate change and the New Urban Agenda (Habitat III) aimed at the renewal of urban development.

Within the framework of these thematic programs, the PACT FOR IMPACT Alliance will carry out a preliminary inventory of the actors and initiatives of social and environmental innovations at work to respond to these challenges, taking into account the diversity of local, national and regional contexts. It will thus seek to promote the diversity, value, impact and complementarity of the approaches carried out by ensuring that readers and actors are directed towards the resources available to inspire decision-makers and facilitate their reappropriation in the context of innovative public policies.

In addition to this state of play, PACT FOR IMPACT's thematic programs will aim to put into perspective the challenges faced by the actors of the Social and Solidarity Economy (SSE) to develop and increase their impact in response to social, economic and environmental challenges. They will make it possible to identify the development levers to be activated or the obstacles to be removed in the context of measures to support the Social and Solidarity Economy. These avenues can inspire public actors wishing to design, accelerate and/or to evaluate the actions put in place at the scale of their territory.

C. PRESENTATION OF THE DELIVERABLES AND THE METHODOLOGY ON EACH THEMATIC PROGRAM

The thematic programs of the PACT FOR IMPACT Alliance will lead to the development of several deliverables. On each program, will be developed:

- **A thematic guide:** This guide will be based on a review of documentary resources and expert interviews. It will present the main actors, initiatives, mechanisms and innovative tools existing to support the development or scaling up of social, economic, financial and environmental solutions on the given theme. Each guide will propose analysis grids of the development challenges of the SSE in response to the targeted theme in order to feed the discussions of the members of the Alliance and their partners or interlocutors.

- **Proposals for commitment** to inspire local, national, regional, and international public institutions to implement **concrete and measurable actions** in favor of SSE. These proposals will be co-constructed with the members of the PACT FOR IMPACT Alliance. They will give rise to a call for commitment that will be relayed to public and private institutions at the local, national, regional, and international levels.

SYNTHESIS

The Organizations of the Social and Solidarity Economy (SSEO) carry new models of organization, production and consumption based on territorial proximity and dynamics of cooperation. Economic and financial support for these organizations is a powerful lever for transforming our societies and economies. To develop and scale up, SSEO actors need to access and combine various sources of financing to have a resilient and sustainable financing model. These funding models depend on the objectives they pursue and their stage of development, but also on the context, legal status, governance, size and sector of activity in which they operate.

Weakened by the economic consequences of the Covid-19 pandemic, SSEO are facing short-term financial difficulties due to the disappearance of some of their income, the partial or total interruption of their activities, or a more complicated use of volunteer networks. However, their activities are made all the more essential to limit the increase in social, territorial, economic and financial inequalities accelerated by the pandemic, and to rebuild a more sustainable and just world.

The long-term financing needs of the SLE are considerable and still insufficiently covered to meet the objectives set in several major international political agendas such as the Global Agenda 2030, the Paris Climate Agreement or the New Cities Agenda.

Faced with these challenges, public authorities have a role to play in bringing out an efficient financing ecosystem at the territorial level, based on a clear legal framework, a diversity of funding bodies and a wide range of financial tools adapted to the different needs of SSEO at the different stages of their journey. For this, states, local and regional governments, and other public institutions can play on several levers:

- **Regulation:** As regulators, States have the capacity to propose specific legal and financial frameworks to allow SSEO to benefit from tax exemptions, to use internal capitalization mechanisms more easily (participatory securities, associative securities), or to mobilize donations/capital from individuals (crowdfunding and Business Angels in particular).

- **Public investment and procurement:** As buyers and investors of public resources, public actors can direct investments towards achieving the SDGs, particularly in the context of regional, national and local recovery plans incorporating specific criteria, and thus send strong signals to private investors. They play an important role in promoting through public procurement, the responsible purchase of goods and services offered by SSEO.

- **Support for the development of the solidarity finance and impact investment sector** through the clear recognition of the efficiency and resilience of solidarity financial organizations, services and products, and the principles and criteria of impact finance, the funding of research on methodologies in terms of evaluation and impact measurement, or training and spin-off programs on solidarity finance and impact investing.

- **The development and strengthening of local ecosystems:** As bearers of the territorial dialogue between funding actors and SSEO, public authorities can facilitate the linking between funding bodies and impact project leaders around the achievement of the SDGs, and promote the co-design of new mechanisms, financing products and services. They can also build the capacity of SSEO through training and financial awareness programmes (new business models, good accounting practices, hybridisation of funding sources, etc.).

1. UNLOCK AND DIRECT FUNDING TO SSE TO SUPPORT THE ACHIEVEMENT OF THE SUSTAINABLE DEVELOPMENT GOALS.

A. THE INTERNATIONAL COMMUNITY HAS SET AMBITIOUS SUSTAINABLE DEVELOPMENT GOALS TO WHICH THE SSE ORGANIZATIONS (SSEO) HAVE LONG CONTRIBUTED

OSSE contribute through their values, their principles of action and their missions to the realization of projects with a positive impact in a world in profound change. These long-term challenges are embedded in several international political agendas, programs, and global development agreements such as:

- **The «United Nations 2030 Agenda for Sustainable Development»**, adopted in 2015 and focusing on the achievement of the Sustainable Development Goals (SDGs). This Program aims to transform the world by eradicating poverty and inequalities by ensuring its ecological and solidarity transition by 2030.

- **The Paris Climate Agreement**, adopted at the end of the COP 21 in December 2015 and concluded under the United Nations Framework Convention on Climate Change. This Agreement sets the overall goal of keeping global warming below 2 degrees by the end of the century, striving to limit the rise in temperatures to 1.5 degrees above pre-industrial levels.

- **The New Urban Agenda (Habitat III):** This new urban agenda was adopted at the United Nations Conference on Housing and Sustainable Urban Development (Habitat III) in Quito (Ecuador) in October 2016. It highlights the interaction between harmonious urbanization and job creation, between quality of life and livelihood opportunities, principles.

B. THE ACHIEVEMENT OF THE SUSTAINABLE DEVELOPMENT GOALS IS CONDITIONAL ON THE RELEASE OF SIGNIFICANT FINANCIAL RESOURCES FROM THE PUBLIC AND PRIVATE SECTORS.

LThe contribution of SSE to the achievement of these objectives is set to strengthen in the coming years to meet the growing needs for access to essential services and the development of more sustainable production and consumption patterns. This presupposes, however, that public and private funders have the capacity to free up the necessary financial resources and direct them towards the implementation of the objectives set, better targeting the needs of local populations and local economic actors, as well as social innovation promoters.

In the 2014 edition of the World Investment Report, UNCTAD assesses the amount of investment needed to achieve the Sustainable Development Goals (SDGs) in 10 relevant sectors (covering each of the 17 goals) at between $3 300 and $4 500 billions per year. According to these estimates, about $2 500 billions of investment in low- and middle-income countries would be needed to achieve these goals. This dropout is particularly important in sectors related to the fight against global warming, transport, water and sanitation, sustainable energy, health and education.

The Addis Ababa Action Agenda (AAAA), adopted in July 2015, provides a global framework to direct financing for sustainable development within the framework of the SDGs of the 2030 Agenda. Rich countries have recommitted themselves to achieving the goal of 0.7% of gross national income (GNI) dedicated to public development aid, and to devote 0.15% to 0.20% to the least developed countries. The AAAA recalls that financing for sustainable development is everyone's business and stresses the importance of aligning private investment with sustainable development, as well as public policies and regulatory frameworks to create the appropriate incentives. The Paris Climate Agreement clarified the announcements of the AAAA on the financing component for the fight against climate change. It reiterates the need for developed countries to take the lead in providing financial assistance to less well-endowed and more vulnerable countries, while encouraging voluntary contributions from other parties for the first time. It foresees that rich countries will release an envelope of €100 billion each year from 2020, for developing countries. Funding is expected to increase as it happens, and some low- and middle-income countries, on a voluntary basis, could also become donors to help the poorest countries. At the summit on international climate finance held on April 22, 2021, at the initiative of the United States, the US President announced that the United States would double, by 2024, its annual public climate finance in developing countries compared to the average level of the second half of the Obama-Biden administration (FY, 2013-2016).

C. A BETTER ORIENTATION OF SUSTAINABLE DEVELOPMENT FINANCING TOWARDS SSE IS EVEN MORE NECESSARY AS THESE ACTORS ARE CARRIERS OF INNOVATIVE SOLUTIONS BUT EMERGE ECONOMICALLY WEAKENED FROM THE COVID 19 CRISIS

In the short term, access to finance is one of the main concerns of SSEO to maintain their activities in a global context marked by the health crisis and a sharp slump in economic activity. According to the OECD, small and medium-sized structures have been the most weakened by the measures taken to limit the spread of the Covid 19 epidemic. While the economic impact of the pandemic on SSEO is still difficult to measure, some studies put into perspective the difficulties faced by structures as well as their resilience capacities:

- For example, several surveys show that **social entrepreneurs**, especially in low- and middle-income countries, are particularly affected. In April 2020, the Aspen Network of Development Entrepreneurs published a survey according to which 40 percent of social entrepreneurs having responded to the survey felt at risk of bankruptcy. Another survey conducted by Intellecap in June 2020 among social entrepreneurs in India and Africa indicates that 32% of them had permanently terminated their activities and 27% of them had already laid off one or more employees.

- According to the World Cooperative Monitor & the International Cooperative Alliance, cooperatives have been affected by the economic consequences of the Covid 19 crisis, regardless of their size or sector of activity. Agriculture, tourism, transport and culture remain the most affected sectors. However, the annual report shows that **cooperatives have demonstrated their resilience capacities in times of crisis by adapting and contributing to activities of general interest.**

To address these challenges and funding needs, **emergency support measures have been taken by governments at the state and territory levels**. These measures include, among others, the release of exceptional funds; reductions, exemptions, or deferrals of social security contributions; the assumption of part of the remuneration of employees through partial activity schemes; easier access to loans (honor loans, loans guaranteed by the State, direct loans from the State, etc.), or the staggering of the payment schedule of loans. These emergency measures vary in terms of scope and intensity depending on geographical contexts. To improve legibility and facilitate the use of these emergency measures, the Center for the Advancement of Social Entrepreneurship (CASE) and Catalyst 2030 have launched the COVIDCAP platform. Com to help entrepreneurs (whose structures are for-profit, hybrid or non-profit) to find the financial aid and extra-financial resources provided as part of the funds to respond to the global health crisis. This platform represents more than $1.1 billion in financing capacity, on 6 continents and in 62 countries.

To support SSEO in the recovery phase, several international networks focused on impact investing – in particular the Alliance of Social Entrepreneurs in Response to Covid 19 or the *Global Steering Group for Impact Investing* – are calling on public authorities to attract large amounts of private capital by issuing government-backed social bonds to support programs in other critical sectors. Several initiatives have already been launched by donors. For example, the Council of Europe Development Bank (CEB) has issued €1 billion of Covid-19 Social Inclusion Bonds with a maturity of 7 years. The African Development Bank (AfDB) has raised $3 billion in the form of a 3-year bond. These Fight *Covid-19 Social Inclusion bonds* are the largest dollar-denominated social bond on international capital markets6. Solidarity finance networks have deployed new specific banking products and services such as those listed by the *Global Alliance for Banking on Values (GABV)*, which has identified the actions carried out by its 65 members with more than $210 billion in assets under management and present on all continents.

2. ADDRESSING THE DIVERSITY OF FINANCING MODELS AND ADDRESSING DIFFICULTIES IN ACCESSING FUNDING

A. THE SSEO AND SOCIAL ENTERPRISES DEVELOP A WIDE VARIETY OF FINANCING MODELS TO COMBINE SOCIAL IMPACT AND ECONOMIC BALANCE WITH A STRONG TERRITORIAL ANCHORAGE.

The SSE cover a wide variety of actors that operate with various governance rules and economic models. This diversity of economic models is due to the **diversity of resources that can be mobilized and the ability to hybridize them with each other** on the one hand, and the local location of **activities** on the other hand (commitment of members, services provided to the population and provision of amenities, focus on precarious audiences). The funding model for SSEO and social enterprises depends on the combination of several factors such as:

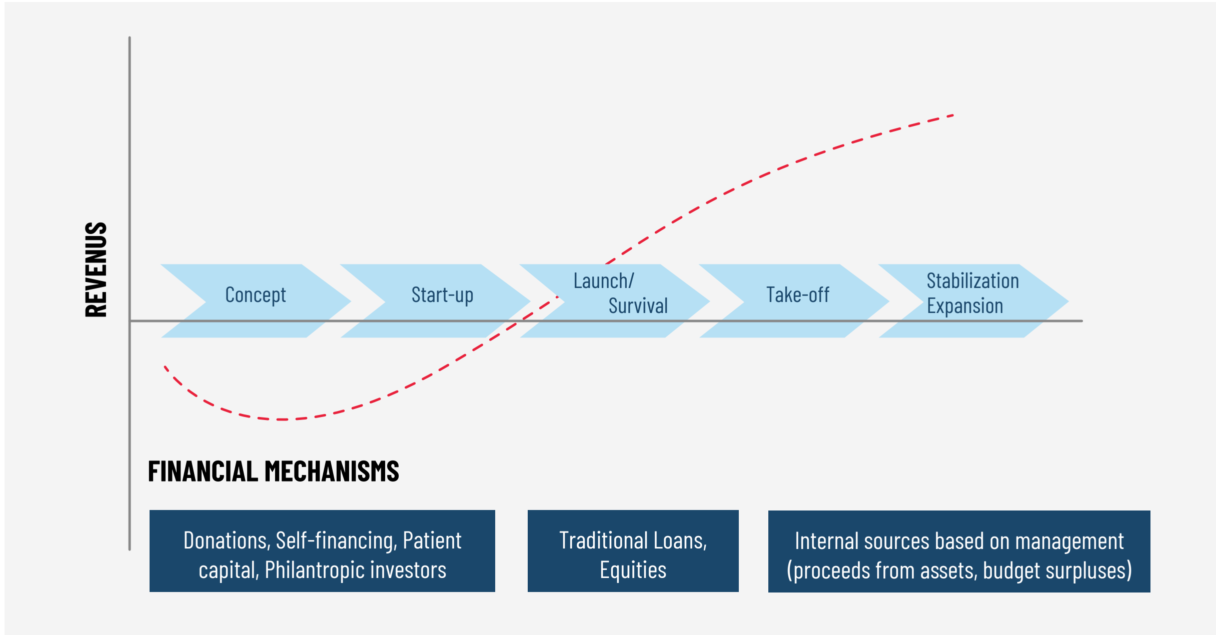
- **The nature and social purpose of their activity:** In some sectors, organizations have the capacity to offer products or services to pubs that generate limited operating surpluses and thus strengthen their internal financing capacity. Thesocial vocation of their projects encourages SSEO to make economic trade-offs that would make no sense for a traditional company: for example, non-mechanization of social integration companies through economic activity, or the choice to develop in markets more identified by their solidarity nature than by their levels of profitability.

- **The legal status** imposes governance rules that have significant financial consequences and make the investment in SSE and its financing specific. They may contain provisions on the capital of the structure (minimum amount or share of share capital taken by members), on the use and redistribution of profits, etc.

- **La taille et le niveau de structuration de l'organisation** ont une influence sur les capacités administratives et comptables de l'organisation, et ainsi sur son aptitude à se positionner sur des mécanismes financiers complexes et à rendre des comptes en respectant le formalisme demandé ;

- **The size and level of structuring of the organization** have an influence on the administrative and accounting capacities of the organization, and thus on its ability to position itself on complex financial mechanisms and to be accountable in accordance with the requested formalism.

- **Stage of development:** It is possible to target funding mechanisms tailored to the phase in which the structure is located, although some can be mobilized throughout the development cycle (such as donations and grants):
  - > In the ideation and creation phases, most structures rely on mechanisms such as self-financing (by the founders and the entourage), donations from individuals (with or without compensation), subscription fees from members in the case of networks of actors (cooperatives, federations, etc.), or subsidies (public subsidies or sponsorship) that do not require financial returns or in a very limited way.
  - > In the take-off phase, the share of grants, subsidies, and sponsorship in the financing structure of structures tends to decline in favor of other more stable sources of financing such as bank loans and the contribution of equity or quasi-equity. These mechanisms are more difficult to access because they require a minimum equity contribution, repayment guarantees, and good financial management capabilities.
  - > **Finally, in phases of stabilization and scaling-up,** structures are beginning to develop their self-financing capacity, by generating or consolidating operating surpluses on the one hand, and/or by bringing in new capital to finance their growth. Income can come from the activity (sale of products or provision of services) or from the products of assets.



International Labour Organization, Financial Mechanisms for the Social and Solidarity Economy, 2019

Unlike for-profit companies, SSEO have the capacity to mobilize sources of financing such as donations and hybridize them with other mechanisms throughout their development cycle. This capacity allows them to mobilize funds on different temporalities and more or less flexible modalities, and thus to build hybrid economic models strongly anchored in the territories.

B. SSE ORGANIZATIONS FACE DIFFICULTIES IN ACCESSING FUNDING:

SSEO businesses face several barriers to accessing finance:

- **The lack of information on the existing financing offer:** the available funding remains insufficiently known on the part of the actors on the ground

- **The weak support of structures,** especially those of small size and those located in rural or more isolated areas.

- **Lack of administrative capacity:** the complexity of setting up dossiers can hinder the use of certain funding that requires good administrative and accounting management

- **The lack of financial guarantees and the difficulty of accessing short-term financing tools** to meet short-term cash flow problems (late subsidies, difficulties in freeing up financial room for manoeuvre to invest, etc.). It is often difficult for SSEO to access bank loans because they have little equity, offer little guarantees on their assets, and sometimes have little visibility into the future.

- **The difficulty of mobilizing long-term financing** that reconciles their social-environmental objectives with a limited level of profitability.

In addition to these barriers, there are **inequalities in access to financing based on the gender, age, origin and socio-economic situation of project leaders or structure managers.** For example, according to a study conducted by AF2Consulting on behalf of the African Development Bank, the financing gap affecting women in Africa is estimated at about $42 billion in 2016. This deficit is linked to a set of legal, cultural and economic factors that limit women's participation in economic life (for example, the lack of measures against gender-based discrimination to open a bank account, obtain credit, sign contracts or register a company). The Women innovators and entrepreneurship study conducted by the European Commission highlights the inequalities in fundraising led by women entrepreneurs in Europe, and the structural obstacles they face (lack of access to networks, lack of knowledge of entrepreneurship models, gender stereotypes, etc.).

3. MOBILIZE ALL ACTORS IN THE FINANCING CHAIN TO DESIGN THIS CONTINUUM OF FINANCIAL SERVICES AND TOOLS FOR SSE

The financing of SSES involves a multitude of actors in the financing chain, with their own logics and financial instruments. In order to boost financing systems at the territorial level, it is important to make an inventory of the forces involved, identifying the organizations, services and financial tools for SSEO at different stages of their development.

A. A DIVERSIFIED ECOSYSTEM OF FUNDING ORGANIZATIONS

In its report on»Financial Mechanisms for Innovative Social and Solidarity Economy Ecosystems" (2019), the International Labor Organization identifies several key actors in financing, including:

- **Individuals** (via donations, the granting of equity, solidarity/ community savings or participatory budgets): Individuals play an increasing role in the financing of SSE thanks to the development of solidarity finance (solidarity savings funds) and community finance (tontine system through rotating savings and credit associations), the rise of crowdfunding, and the use by the public authorities of participatory budgets. The use of local exchange trade systems also allows individuals to guarantee transactions without resorting to formal financing from banks.

- **The members of the organization and the employee shareholders** (via contributions, the purchase of shares, donations, and loans) The SSEO can rely on their members, whether they are volunteers, employees, employee-shareholders /cooperators, for the economic development of their structures. They thus provide a significant part of the capital needed for the organization by paying contributions, buying shares (including shares in cooperatives) or participating in the form of donations. Their presence as funding actors is generally maintained throughout the development of the organization in varying proportions.

- **Foundations and philanthropic organizations** (via interest and dividend payments, or venture philanthropy investments): These organizations usually invest in the stock and bond markets to earn dividends and interest that they then distribute to social organizations in the form of donations or capital investments. They also occur rather at the beginning and in the middle of the life cycle of the social organization.

- **Financial intermediaries** (mainly via the granting of loans). Financial intermediaries play a key role at different scales in the financing system.
  > Community development banks, cooperative banks and other ethical banks, whose activities are entirely dedicated to the financing of solidarity initiatives in a logic of local development of the territory and social cohesion. They are managed by members (or directly by communities) and prioritize social and environmental impact over financial return.
  > Traditional commercial banks can also develop specific philanthropic projects and product lines for SSE/SIE organizations.
  > The guarantee funds dedicated to SSEO, and their solidarity funders respectively allow these structures to access financing or increase their investments while, due to their specific missions, they seem to present a risk profile that does not comply with the requirements of the financing or co-investment body. These funds make it possible to reassure banks and investors and to counter the insolvency of a person or an organization, particularly in global or national contexts of credit crunch, often more detrimental to the actors of the SSE.

- **Impact investment funds** (managed by asset managers) and solidarity investment funds (managed by solidarity savings collectors) provide equity, hybrid (so-called mezzanine) or medium-term loans to the structures of the SSE.

- **The public sector** (via grants, loans, guarantees, public-private partnerships, incentive programs) Public bodies - public institutions of international cooperation, and national and local public institutions - are also important funders of SSE. They can distribute grants, loans, provide guarantees to other investors and create incentives for potential donors. They also have the capacity to create public-private partnerships and initiatives dedicated to local development, such as programs to help SSEO build community facilities, build affordable housing, etc.

B. EXAMPLES OF FUNDING MECHANISMS AND TOOLS

Barco Serrano et al 2019 (Innovative Financing initiative 2014) propose **four typologies of financing of the Social and Solidarity Economy**, Financial mechanisms and instruments can be classified according to the source of financing, the stage of development, the level of perceived risk or the degree of innovation. In order to present a synthetic vision of conventional mechanisms and instruments, 5 major sets are mentioned below:

- **Resources freed up by economic activity:** some organizations generate income through their economic activity of producing goods and services with a social and solidarity vocation by creating new markets or developing existing ones.

- **Private aid and subsidies:**
  > *Membership fees by members of the organization*
  > *Donation:* A donation is a gift for charity, humanitarian aid or for the benefit of a cause, made by an individual or organization to a non-profit organization, charity or private foundation. Donations are generally monetary but they can also correspond to material goods such as food, clothing or real estate.
  > *Donation crowdfunding:* Donation-based crowdfunding is a way to find money for a project by asking a large number of contributors to individually donate a small amount for that project. In return, funders can sometimes receive symbolic rewards whose prestige increases with the amount of the donation. Funders do not obtain any ownership or rights to the project.
  > *Foundation Grants:* A foundation is a legal category of non-profit organization that will either give funds to and support other organizations or provide the source of funding for its own charitable purposes.
  > *Donor-Directed Fund:* A charitable giving vehicle established with a public charity and intended to manage charitable donations on behalf of organizations, families, or individuals. To participate in a fund advised by the donor, the donor opens an account in the fund and deposits cash, securities or other financial instruments into it. In return, he has a right of control over how the money deposited is used.

- **Public aid and subsidies:**
  > *Public funding / Grants:* funds allocated by the public authorities for for-profit or non-profit projects, through calls for projects, or national development programs targeting certain sectors or economic actors, including SSEO
  > *Some tax mechanisms* such as reliefs, benefits and incentives are not strictly speaking financing instruments but may alleviate some of the burdens of SSEO. Illustrative examples include: partial or total exemption from corporate tax on retained earnings; reduction or total elimination of social insurance costs for disadvantaged employed persons; exemption or reduced rate of VAT not only on the basis of the services provided; etc.

• **Debt instruments**

> *Concessional and flexible loans:* Loans that include special features such as zero or low interest rates, extended repayment schedules, and changes in the interest rate over the life of the loan.

> *Retail loans or crowdlending:* the practice of lending money through online services that directly connect lenders and borrowers.

> *Microcredit:* small credit, with interest, granted to micro-entrepreneurs who do not have access to traditional financial services. This low borrowing allows populations excluded from the traditional banking system to create or develop an income-generating activity. Microcredit can be contracted individually or as a group.

> *Bond issues:* Debt securities issued by organizations (public or private) in order to mobilize, through the financial markets, investments made by individual or collective investors (see institutional investors, sovereign wealth funds, investment funds managed by management companies, etc.). There are several types of bonds including Social Impact Bonds that are issued on the market and allow to collect resources for initiatives specifically marked «social impact». These securities provide impact investors with sums of money in the form of donations or financing on advantageous terms of return on investment (high interest) to support initiatives that promote social innovation. Other bonds can be issued on models of issuance of bonds of State or local authorities to the inhabitants of their territories and to direct the funds towards investment in SSEO or support programs for the deployment of the SSE.

• **Equity contribution**

> *Capital contributed by the founders and / or members of the organization* in the form of equity participations and/or current accounts of blocked shareholders.

> *Love money:* corresponds to the capital raised from his entourage and his community

> *Crowd equity:* a mechanism that allows large groups of individual investors (the «crowd») to finance small businesses in exchange for equity.

> *Investments by Business Angels:* individuals or grouped in clubs who wish to provide impact entrepreneurs with their direct financial support, sometimes open their network (and more easily obtain other financing including banking by bringing credibility to the project), as well as their knowledge of the sector of activity. These investments are taking place in the seed phase.

> *Philanthropic investments (Venture philanthropy):* this funding in the form of sponsorship is mainly carried out by Venture Philanthropy organizations. The latter use means inspired by venture capital and pay great attention to measuring the results obtained by the structure. This mechanism intervenes from the consolidation phase of the structure and can continue until its phase of change of scale.

> *Direct equity investments by venture impact investment funds and development capital funds:* once SSEO have reached a certain milestone and demonstrated the sustainability of their business model reconciling a maximization of impact, venture funds come to invest in a new stage of change of scale, then development capital funds take over to support the stabilized growth of the structure.

• **Equity investment and debt instrument: quasi-equity**

> Mezzanine debt instruments are debt tools that are intended to be converted into capital in the short or medium term, according to the agreements decided between the parties. The event triggering the conversion can be a pre-determined date (maturity of a bond issue) or a specific event (next capital raise)

> For organizations whose capital is closed by legal status, association or cooperative type, there are participatory loans that can be considered as capital by banking organizations, such as associative contribution contracts and participatory securities.

• **Patient capital or long-term capital** is an investment approach at the crossroads of venture capital and traditional philanthropy. The investor does not seek to maximize short-term financial return, but rather to maximize social impact. This investment model is based on long time and support for economic development, refocusing finance on its goal of creating real value.

4. LEVERS OF ACTION AT THE SERVICE OF THE FINANCING OF THE SSE

By supporting the emergence or structuring of an enabling financial environment, public policies can help SSEO, explore and secure diverse, stable, affordable, and flexible sources of financing, and thus enable them to balance economic, environmental, and social concerns. Policymakers can facilitate access to different sources of financing mainly through several complementary channels:

- **The establishment of an adapted regulatory framework** - the recognition of a specific legal status for SSEO to propose targeted measures, the removal of certain regulatory barriers to experiment or develop innovative instruments such as crowdfunding.

- **The direct provision of financing or resources** via public procurement; - the granting of subsidies and bonuses; - the granting of loans to the SSE without fixed repayment and without interest; - the rental of public goods such as land, buildings, vehicles, and machinery.

- **The creation of a financing environment conducive to SSE**, for example the provision of information on the different financing instruments available; the strengthening of networks and intermediaries to help SSEO develop their capacity to pool their resources; support for the development of solidarity finance and impact investing; - the establishment of a risk-sharing mechanism to provide guarantees and counter-guarantees to financial intermediaries, etc.

- **Capacity building and the development of the financial literacy** of organizations (support programs) and individuals (awareness of solidarity savings, development of participatory budgets at the local level).

A. ESTABLISH AN APPROPRIATE LEGAL FRAMEWORK FOR SSE ORGANIZATIONS

In different national contexts, the recognition of a specific legal status for Social and Solidarity Economy organizations has made it possible to put in place targeted measures to support their access to finance. This specific status generally includes criteria for regulating the remuneration of members, rules for the redistribution of profits and assets, as well as governance obligations based on transparency and accountability. A review and analysis of these different legal frameworks is being carried out by the OECD.

The recognition of this specific status may open the right to SSEO:

- **The introduction of a specific tax regime or measures** such as a reduction in social contributions, favorable tax treatment to encourage internal capitalization by the members of the organization, etc.

- **The provision of goods or services under facilitated conditions.** For example, in Italy, the new law reforming the tertiary sector provides for the provision of abandoned or underused public buildings, or property seized from organised crime under simplified procedures for SSEO.

- **The establishment of specific mechanisms** allowing structures to strengthen their own funds without changing the distribution of capital through the subscription of solidarity financiers, banks, or even institutional partners at capped rates, for example through the establishment of participatory securities or associative securities,

- **Privileged access** to public procurement procedures (see below)

B. ORIENT PUBLIC PROCUREMENT TOWARDS THE PURCHASE OF SOLIDARITY AND RESPONSIBLE GOODS AND SERVICES

Public markets represent a major lever for the development of SSE. Their economic weight was around 12% of OECD average GDP in 2017. This considerable volume of public procurement is a major opportunity for SSE organizations.
However, the lack of legibility and administrative complexity of public procurement procedures can be a barrier to entry for SSEO. Smaller structures tend to lack the capacity to respond to tenders, especially in larger contracts that have heavier requirements. This tends to compromise social innovation and severely penalize small organizations. In order to remedy these difficulties, several levers can be mobilized by the public authorities such as:

- **The identification and removal of barriers to entry to public procurement for SSEO** by adapting criteria that prevent them from applying or reducing their chances of winning contracts.
- **The introduction of specific social clauses** in public contracts such as social integration clauses which are intended to reserve public contracts for operators employing disabled or disadvantaged workers, or integration through economic activity.;
- **The development of reserved contracts in certain sectors,** such as cleaning services, construction, catering and food services, furniture, gardening services, health care, social services, information, and communication technologies (ICT) or textiles. This makes it possibleto reserve service contracts for SSE companies; or ink favors very small businesses or small and medium-sized enterprises (VSB and SMEs), by reserving certain lots for them

On the other hand, not all public buyers have the necessary tools, processes, and skills internally to design procurement procedures adapted to the challenges of SSEO. In the analysis phase of submitted projects or proposals, public buyers often encourage an evaluation of tenders based on the best value for money, which tends to limit the analysis of the social and environmental impacts of the goods or services offered. Here are some examples of measures to support public institutions in adapting more responsible purchasing practices,

- **Use of responsible purchasing labels and use of CSR** (e.g., application of standards such as ISO 26 000,promoting especially communities and local development).

- **Provision of web platforms for responsible purchasing** and connecting with SSE stakeholders. These platforms make it possible to carry out qualified research and connections oriented according to the type of social and solidarity economy (SSE) companies that interest the buyer.

- **Co-construction of new public procurement processes.** In Quebec: multi-stakeholder consortia of social enterprises and public administrations take the initiative to discuss, negotiate and decide which community needs should be the subject of a contract. In France, a profile of the «facilitator of the social clause» has been introduced to help public administrations design calls for tenders allowing the participation of social enterprises. This facilitator helps the client to identify markets that may contain a social clause, to calculate the number of hours of integration and to provide expertise on the skills available locally.

- **Development of participatory budgets** to reinvest the proceeds of local tax by the inhabitants of a territory in local projects often favoring SSEO.

- **Examples of initiatives**

  > Ecuador, Handbook of Good Business Practices for the Supermarket Sector, and their Suppliers (2014). This manual requires retailers to have at least 15% of their suppliers coming from SMEs or the Social and Popular Economy. Source: ILO study, 2020

  > Malaysia, Perolehan Impak Sosial Kerajaan (PPISK): In early 2021, the Malaysian government launched an impact-focused public procurement program for social enterprises. This program registers social impact companies as suppliers to the Ministry of Finance (MOF), in order to qualify them for public procurement of up to $4.84 million (MYR 20 million). Source: https://www.digitalnewsasia.com/business/govts-social-impact-procurement-programme-open-registration

  > France, Responsible Purchasing Label: The State has set itself a target of 80% of its labeled purchases by the end of 2022. Source: https://www.economie.gouv.fr/files/2021-03/Rapport_MDE_Achats_Responsables_0.pdf

  > OECD, MAPS is a tool that assesses public procurement systems as a whole, regardless of their level of income or development. Source: https://www.mapsinitiative.org/fr/

C. ORGANIZE TERRITORIAL ECOSYSTEMS TO BETTER GUIDE AND SUPPORT SSEO TOWARDS CONVENTIONAL FINANCING TOOLS

Through their ability to network and foster dialogue between actors on their territory, local and regional governments play a crucial role in facilitating the emergence of ecosystems favourable to the financing of SSE.

Structuring of territorial support networks to better guide and support SSEO and economic actors towards financing mechanisms and project engineering

The country case studies, carried out by the ILO in its study on «Financial Mechanisms for Innovative Ecosystems in the Social and Solidarity Economy»(2019), show that the structure and quality of **the SSE ecosystem strongly determine the articulation and effectiveness of the financial system.** In areas where SSE ecosystems are the most developed and balanced, characterized in particular by a large plurality of actors working together according to a so-called «polyarchic» power structure model, financial mechanisms tend to be more developed and complex, as is the case, for example, in Italy, Canada, or South Korea.

Public authorities have a role to play in structuring high-performance local ecosystems that facilitate information sharing and virtuous cooperation between funding bodies, actors, and support networks, SSEO. For example, they can:

- **Make more readable the available offer of financing for SSEO at the territorial level.** They can mobilize financing lines dedicated to SSEO (grants but also bond issuance and loans or guarantee funds) and set up maps or platforms to reference the main funding organizations and existing financing products/ tools or set up one-stop shops to better guide project leaders.

- **Strengthen the financial literacy and capacities of SSEO** through the development of awareness-raising activities, training, and capacity building of organizations on the management of their accounting, their knowledge of financing mechanisms and procedures, assistance with project engineering, etc.

- **Equip and support the territorial network of actors and support networks** specialized in the orientation and support of SSE structures. The aim is to bring out and support a set of public and private actors who provide non-financial support in expertise and economic programming of the territory: local economic development agencies, incubators and accelerators of impact projects, entrepreneurship support centers, federations or associations of professionals, management centers, etc.

- **Facilitate the connection between funders, SSEO and other impact entrepreneurial project leaders** through development programs or specific public policies. These programs make it possible to better source projects that could be financed by investors, or to design tailor-made financial services and products, adapted to the needs of SSEO and social enterprises.

• Examples of initiatives

> Morocco, Moubadarates Program: the social development agency has launched a program under the name of «Maroc Moubadarates» which aims to create platforms of associations with public and private actors based in landlocked territories or suffering from urgent social needs. These platforms aim to set up a financial and non-financial support mechanism for small businesses and a guidance and information space for project leaders. Source: https://www.leconomiste.com/article/1047473-mobadarate-un-reseau-national-pour-federer-les-tpe

> Luxembourg - 6zero1: In 2015, the Ministry of Employment and the Social and Solidarity Economy in Luxembourg supported the design and implementation of a support program called 6zero1 to support entrepreneurs in the process of recognizing their organization as a society of societal impact (SSI). Source: https://evpa.eu.com/uploads/documents/Luxembourg_nugget_final-version.pdf

> France, French Impact: Born from a government initiative, the French Impact brings together all the actors of social innovation and thus accelerates all the innovative social and environmental initiatives present on the French territory. The French Impact supported the structuring of 27 local social innovation ecosystems labeled to solve concrete challenges. This label provides access to a network of privileged partners to facilitate access to financing, simplify the removal of regulatory obstacles and promote relations with the networks of companies and foundations involved. Source: https://www.le-frenchimpact.fr/

Strengthening the system of bank guarantees and supporting the development of solidarity finance

At the territorial level, public authorities can facilitate access to bank loans for SSEO under reasonable conditions that can be reconciled with the social and environmental objectives they pursue, through a strengthening of bank guarantee systems and the development of solidarity finance.

Strengthening the capacity to guarantee financing is essential to create an ecosystem favorable to SSE. Guarantee schemes have the social function and economic role of promoting access to more credit and/or better credit by offering alternative collateral. In doing so, they can overcome various obstacles to bring to credit viable but non-bankable projects, due to lack of collateral or information asymmetry. There are different methods of guarantee depending on the scope of the activity, the distribution channel of the guarantee and the nature of the entity granting the guarantee (mutual guarantee companies or commercial companies, guarantee programs, etc.). Public decision-makers can encourage the emergence and structuring of a guarantee system through several levers:

- **Establishment of guarantee funds** and better communication on the purpose of these funds, their leverage effect, and their use

- **Development of the capacities of financial institutions** to better evaluate and manage portfolios of projects led by SSEO

- **Better integration of guarantee schemes into the financial system** for prudential regulation

Solidarity finance makes it possible to connect savers seeking to make sense of their money to SSEO and projects with strong social and environmental utility, which participate in community economic development. It is based on a range of solidarity savings products such as investment products (where part of the sums saved is directed towards solidarity projects) or sharing products (where only a part of the income generated by savings is diverted). These products are particularly suitable for SSEO in that they enable them to balance the imperatives of economic viability (financial sustainability, innovation, and growth potential) and their social mission (creation of decent jobs, environmental sustainability, social protection, integration of marginalized groups, etc.) while adhering to their principles of autonomy and democratic control of members. Globally, the United Nations Research Institute for Social Development (UNRISD) identified in 2015 more than 51,000 credit unions in 100 countries; 200 million members and more than $1 500 billion in assets. Nearly 100 million users of community savings methods in sub-Saharan Africa.

To facilitate the development of **solidarity finance**, public authorities can, for example,

- **Develop territorial synergies** between solidarity investors or solidarity or impact funders, and SSEO on public policy issues

- **Set up savings books** with a solidarity or sustainable vocation

- **Raise awareness among individuals about the mobilization of their savings on solidarity and community projects,** by conducting information campaigns or by promoting the establishment of labels to distinguish solidarity investments.

• Examples of initiatives

> African Guarantee Fund for Small and Medium-sized Enterprises designed and founded by the AfDB in partnership with the governments of Denmark and Spain, will provide bank guarantees to financial institutions to boost SME financing and unlock their potential to foster growth for young African entrepreneurs

> France, the 90/10 funds: Created in 2001, the solidarity funds, known as «90-10» funds, are required to invest between 5 and 10% of their assets in approved organizations «solidarity companies of social utility» (ESUS). The originality of this system lies in the regulatory indication of part of the savings, made possible thanks to a labeling by the public authority (ESUS). In 2019, 90/10 funds represented €8 billion, or 65% of the total outstanding amount of solidarity finance in France (€12.6 billion).

> France, the Finansol label: this label created in 1997 is awarded to solidarity investments by a committee of independent experts, from a wide variety of backgrounds (associations, financiers, journalists, academics, trade unionists). The award of the label is conditional on compliance with numerous criteria, the main ones concerning the solidarity and transparency of savings products as well as the commercial action policy put in place by the establishments.

Raising awareness and mobilizing individuals on the financing of SSE

Individuals (and local communities) play an important role in financing local development projects with a high social and environmental impact. This mobilization can take several forms: either direct support through donations or the granting of own funds, or indirect support through the mobilization of their savings or citizen participation in participatory budgets. It is particularly important in the field of SSE development since it makes it possible to consolidate the link of territorial proximity and solidarity with actors who are carriers of social and environmental innovation.

The financing released by individuals can represent significant sums. Since the beginning of the Covid-19 pandemic, global household savings have reached nearly €4 500 billion euros ($5 400 billion) or about 6% of global GDP according to the financial rating agency Moody's. In 2019, remittances sent by migrants and diasporas each year exceeded for the first time the total direct investment of foreign companies in low- and middle-income countries. According to the World Bank, they reached $550 billion (€494 billion) in 2019, more than triple official development assistance.

In order to raise awareness and engage citizens in the financing of SSE, local and national public authorities can, for example:

- **Support and/or implement** financial education programs
- **Develop and/or strengthen** the use of participatory budgets to involve citizens in the financing of impact projects anchored in their living area
- **Develop** a welcoming and secure framework for diaspora cash flows, for example by regulating the costs of international transfers for remittances by diasporas to their countries of origin, or by proposing new tools such as diaspora bonds

D. ATTRACTING AND MOBILIZING PRIVATE INVESTMENT TOWARDS SSE

Putting the SDGs and the needs of local communities back at the heart of investment policies

Investment policies are an important component of the fight against COVID-19 and the achievement of the Sustainable Development Goals. However, the amounts invested remain insufficient, particularly in developing countries, and there is a lack of real measures to give a real impetus to public and private investments in favor of the SDGs. According to UNCTAD's Investment Report 2020, more than 150 countries have adopted national sustainable development strategies or modified their development plans to reflect the SDGs. However, according to national investment policy reviews, less than half of UN Member States have put in place instruments to encourage investment in the SDGs. On average, the regulatory provisions of these countries target no more than three sectors or activities related to the SDGs. Several key SDG sectors such as health, water and sanitation, education and climate change adaptation are rarely covered by special investment promotion measures.

A more systematic approach is needed to include investment promotion in national strategies for **achieving the SDGs, and to integrate the SDGs into national investment policy frameworks and the IFI regime**. In its Investment Policy Framework for Sustainable Development, UNCTAD proposes various measures to mobilize more resources, direct investment and maximize its impact on the achievement of the SDGs.

The right direction of investments in support of the SDGs also requires changing the governance of national and international sustainable development funds, to make more room for civil society, SSEO. This integration into decision-making processes is necessary for community and local ownership of the sustainable development agenda.

Developing results-based financing mechanisms

Different results-based financing mechanisms (RBF) – social impact bonds or development impact bonds, social impact contracts, outcome funds, etc. – have been experimented and deployed in the health, education, socio-professional integration sector in recent decades. These mechanisms make it possible to finance impact programs by relying on public or private investors who are remunerated in proportion to the achievement of previously contractual objectives.

The adoption of these RBF mechanisms has several advantages. First, they make it possible to attract public or private investors on long-term projects, and thus to promote the development of virtuous partnerships between actors with diversified skills. In addition, they operate on a principle of financial incentive aiming to encourage an efficient use of resources and a constant improvement of the actions carried out based on systematic impact studies.

The first feedback reports indicate several issues for these RBF mechanisms to be able to constitute a real lever of financing in the service of impact programs:

- **The success of these programs** depends heavily on the governance chosen, such as the definition of clearly defined and shared objectives by the various stakeholders, a clear division of roles and responsibilities or the obligation to report on results in a transparent and reliable manner. Depending on the sector of activity and the territories targeted, it can be complicated to set measurable objectives due to the lack of data or their unreliability. On the other hand, there may be problems of alignment between the objectives pursued by the principal (e.g., professional integration, via return to employment, training, or entrepreneurship) and the financial incentives given (for example, a flat-rate remuneration for the number of hires over a given period).
- **The use of RBF mechanisms** presupposes the use of reliable technical means (data collection system, existence of an efficient information system) and methodological means (process of monitoring, verification, and validation of data with or without the support of independent experts) to evaluate the results of the program, and thus remunerate investors in proportion to the achievement of the results obtained.
- **The uncertain or changing operating environment** can weaken operators in achieving predefined target objectives. It is important that FBR mechanisms integrate these constraints to best assess and update the intended objectives.
- **Access to RBF mechanisms** is still largely reserved for large organizations due to the technical complexity of contracts and the sometimes long delays in processing applications by the principal. To open these mechanisms more widely to small or intermediate organizations, there is an important issue of simplifying procedures.
- **More broadly, the deployment of RBF mechanisms presupposes a transformation of the culture and practices of public funders.** The shift towards results-based financing implies a shift in accountability, with a greater focus on the expected results of public spending. It requires governments and stakeholders to think more holistically, finding contextual solutions to the whole problem, and encouraging a data-driven approach to policymaking.

Faced with these challenges, the Global Steering Group for Impact Investment (GSG) has proposed several levers to facilitate and accelerate the adoption of results-based financing mechanisms:

- **Involve «business» ministries in the deployment of these innovative mechanisms**, to facilitate political support and stimulate a real dynamic at the national level
- **Promote the emergence of good governance practices for projects financed based on the result**, around some key themes and mechanisms, in particular on the justification of costs, the calibration of the modalities for triggering reimbursements, the practical modalities of collection of information feeding the indicators of achievement of the objectives, the post-program indicators in coherence with the scenarios of exit from the program
- **Simplify and standardize legal procedures** for the implementation of RBF mechanisms at different territorial levels, and reduce barriers to entry for smaller actors
- **Developing new data and evaluation** frameworks are also essential for monitoring and verifying results
- **Better document and showcase** projects funded through RBF mechanisms.

• Examples of initiatives

> Social Impact Contract (CIS) in France is a new mode of partnership between the public and the private sector designed to promote the emergence of innovative social and environmental projects. The private and/or public investor pre-finances the project and takes the risk of failure in exchange for a pre-planned remuneration in case of success. The State reimburses only based on the results obtained and objectively established by an independent evaluator. These impact contracts are not intended to replace traditional financing of activities of social or environmental utility, but they provide a complementary mode of financing to facilitate the development of new activities or an innovative program of existing activities. Sources: Methodological guide for financing by social impact contract and Feedback on social impact contracts in France

> Development Impact Bonds for physical rehabilitation in Mali, Nigeria, and the Democratic Republic of Congo: Developed in 2017, this program worth 18.7 million Swiss francs aims to build three centers specializing in physical rehabilitation with the objectives of increasing the skills of staff in the care of beneficiaries as well as better integration of beneficiaries into the school system and the market. work. This program was deployed by the International Committee of the Red Cross (ICRC), and brought together several funders (Governments of Switzerland, Belgium, Great Britain and Italy, and the Caixa Foundation) and investors (Munich Re, Lombard Odier Pension Fund, and several philanthropic actors). Source: https://fondationlafrancesengage.org/development-impact-bonds-lapplication-du-paiement-au-resultat-dans-le-domaine-du-developpement-et-de-laide-humanitaire/

> Green Outcome Funds (GOF) in South Africa: The GOF makes results-based twin (concessional) funds available to local investment funds to support investments in local SMEs specializing in the green economy. It aims to encourage a better allocation of capital to green companies by local fund managers, and to catalyze consistent and better-quality reporting of green impacts. The pilot phase of GOF is funded by the Jobs Fund of the National Treasury of the Republic of South Africa, as well as the RMB Fund. The GOF has generated a total of R92.6 million in grants, catalyzing R395.5 million in investment capital from local investment funds, called GOF Catalytic Finance Partners (CFP). Source: https://thegreenoutcomesfund.co.za/

> World Bank, Performance-Based Finance Toolkit (2015) https://openknowledge.worldbank.org/bitstream/handle/10986/17194/9782326000728.pdf?sequence=5&isAllowed=y

Developing impact investing

In its 10th edition of the Annual Investor Survey published by the Global Impact Investing Network (GIIN) in 2020, the global impact investing market is estimated to be worth $715 billion in 2019 compared to $500 billion in 2018. Impact investing refers to all investments that aim to generate measurable social and/or environmental impacts in parallel with a financial return. It presupposes the intentionality of investors to generate impact, the coexistence of impact indicators and financial returns, as well as an impact assessment approach. Impact investments can be made in both developing and developed countries, and target a wide range of returns, whether market return or lower, depending on the circumstances. In doing so, impact investing can be an effective tool for more patient finance whose environmental, social, and societal utility is more easily perceptible to all stakeholders.

In its roadmap, the Global Impact Investing Network identifies 6 major transformation levers to support the development of impact investing

- **Define the characteristics and guiding principles of impact investing** based on a review and pooling of the different professional practices of impact investors. This work of definition makes it possible to avoid a dilution of the concept in a «portmanteau word» covering ambiguous, incomprehensible, fragile, even misleading realities («impact washing»)

- **Support the standardization of impact assessment and management practices, based on common aggregate** indicators and the sharing of reference methodologies. Impact investors are looking to be able to better aggregate impacts at the level of their project portfolio, and thus better qualify and manage them. Standardizing impact indicators would ensure greater consistency and comparison between impact investments and even between funds

- **Spread an impact investing culture** to sustainably transform investment practices (including more traditional)

- **Diversify impact investment products** so that these products are tailored to all investors (from individuals to institutions) and to the different capital needs of different types of beneficiary companies (including innovative start-up companies operating)

- **Develop tools and services to support the integration of impact** into investors' day-to-day analysis, allocation, and transaction activities. The core services provided by investment banks, credit rating agencies and data providers need to be expanded to incorporate impact considerations and meet the needs of all impact investors

- **Provide training programs** for financial professionals to increase awareness of impact investing, maintain the integrity of the practice, and attract talented human capital to the sector.

- **Creating a regulatory environment** favoring impact investing, through tax incentivesSoutenir le secteur philanthropique dans le financement de projets de changement systémiques

• Examples of initiatives

> The Inter-American Development Bank's (IDB) Opportunities for the Majority (OMJ) initiative in Latin America and the Caribbean supports impact investments that are market-based, commercially viable, replicable, and scalable. It seeks to generate social and economic benefits for the base of the pyramid (BoP) in Latin America and the Caribbean. The IDB Group aims to catalyze additional capital in projects that advance long-term economic development in the region.

> The Global Islamic Finance and Impact Investing Platform (GIFIIP) initiative established by the Islamic Development Bank (IsDB) and UNDP's Istanbul International Center for Private Sector in Development (IICPSD) in 2016 in Jakarta: The objective of the platform is to position Islamic finance and impact investing as one of the main enablers for the implementation of the SDGs globally through private sector engagement. To do this, it wants to stimulate the development of a commercial ecosystem of Islamic finance and impact investing through a range of impact investment tools and instruments in accordance with Sharia law, and to improve the access of impact companies to Islamic financing. Source: http://www.gifiip.org/

> Creation of the Impact Investing Institute in the United Kingdom, an independent non-profit organization, established in 2019: Its aim is to accelerate growth and improve the efficiency of the impact investing market in the UK and internationally. Its creation was influenced by the United Kingdom Government's Taskforce for growing a culture of social impact investing in the United Kingdom and the United Kingdom National Advisory Board on Impact Investing. The team works alongside experts who provide specialized and volunteer support in their respective fields. The Board of Directors and Advisory Board include leaders with experience in the financial services, social investment, and policy development sectors. The organization manages a series of research, education and advocacy programs aimed at creating the market conditions necessary for impact investing to flourish. It is also part of the global network of national advisory boards, the Global Steering Group for Impact Investment (GIIN). Source: https://www.impactinvest.org.uk/

> The SDG Impact initiative created by UNDP in 2018 focusing on generating and mobilizing private sector capital for the achievement of the Sustainable Development Goals (SDGs): aims to provide investors with the unified standards, tools and services needed to authenticate their contributions to the achievement of the SDGs and to identify investment opportunities related to these SDGs in emerging economies and countries in development. The initiative focuses on experimentation, innovation, and partnerships, focusing on the development of product and service prototypes that will be tested, refined, and then brought to market. In addition, to make information on the impact investment market more readable, SDG Impact organizes investor forums. Public-private policy dialogues are also facilitated to identify recommendations to improve the environment and make it more conducive to investments aligned with the SDGs. Source: https://sdgimpact.undp.org/

Supporting the philanthropic sector in funding systemic change projects

Philanthropy is an important lever of financing for projects with high social and environmental value. According to the OECD Research Centre, the total volume of philanthropic financing for development was $24 billion over the period 2013-2015.

Philanthropic practices are constantly evolving to support scale-up projects and drive sustainable system change for society and the environment. Venture philanthropy corresponds to this growing consideration of the principles and methods of private equity and in particular venture capital in philanthropic practices. It is characterized by a long-term approach where the philanthropist supports a non-profit organization with the aim of sustainably building its capacity. The purpose of the donation is not to support a specific project, but to develop the capacities of the structure in a logic of structural financing. The development of venture philanthropy is leading to a real paradigm shift for philanthropy actors and donation-receiving structures:

- It presupposes **establishing a common understanding of the problem and its ecosystem, through a multi-stakeholder approach.** This process is essential to design and support an approach that aims for systemic change.

- **Support for systematic change projects requires the allocation of philanthropic funding «tailor-made» adapted to the needs of each structure, over a long-term period and accepting course corrections**

The Audacious Philanthropy study published in the Harvard Business Review (2017) puts into perspective the conditions for the success of 15 philanthropic initiatives that have successfully scaled up in the United States. It shows that 90% of initiatives took an average of 20 years to fully develop (the median being 45 years), and that 66% of them benefited from philanthropic investments of more than $10 million.

- This change in the scale of philanthropic funding leads to a **deepening of the selection process for funded projects.** In particular, it requires additional capacity and training time for both project structures and philanthropic funders.

- The development of venture philanthropy must be accompanied by a strengthening of the capacities of **analysis and support** of philanthropic actors so that they can design tailor-made financing but also provide extra-financial support (via the provision of strategic advice to the dirigeant.es of beneficiary structures, impact assessment, etc.).

- **The use of data by philanthropy actors** can be useful to better analyze the needs of beneficiary structures, adapt responses and solutions, and improve impact assessment.

• Examples of initiatives

> Embracing complexity: towards a shared understanding of funding system change: This report was produced by Catalyst 2030, Shwab Foundation, Skoll Foundation, Ashoka, Co-Impact, Echoing Green with the support of Mc Kinsey and Systematic to share the best practices for funding systemic change initiatives. Source: https://catalyst2030.net/wp-content/uploads/Embracing-Complexity_Report_2020.pdf

> The Chandler Foundation's «Systems Change Philanthropy Landscape» provides a first landscape of actors, initiatives, and resources at the intersection of systems change and philanthropy. Source: https://assets.website-files.com/5ed9601e4ab04f00c016af46/60058162d9c4da3bfe6c92c9_Systems-Change-Philanthropy-Landscape%202021.01.14_v_15.1.pdf

> EVPA's Impact Investor Charter and Investing for Impact toolkit aim to help early-stage impact investors by giving them an overview of «what works in the European impact ecosystem and equipping them in the implementation of their activities". Source: https://evpa.eu.com/knowledge-centre/publications/investing-for-impact-toolkit; https://evpa.eu.com/knowledge-centre/publications/charter-of-investors-for-impact

> Toolkit for African Philanthropist, The African Philanthropy Forum: This toolkit gives targeted advice to philanthropic actors wishing to support local development projects in Africa. In May 2020, the APF also launched a systems change program in partnership with Dahlberg and the Bertha Centre for Social Innovation and Entrepreneurship at the University of Cape Town Graduate School Of Business. Source: https://www.africanpf.org/resources/toolkit/

> EPIC Foundation is experimenting with the implementation of philanthropic donations on part of the carried interest or management fees of private equity individuals. The percentage of donations is set freely by the signatories and generally ranges from 1% to 33% of carried interest or management fees. Source: https://epic.foundation/

ANNEXES

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