

Enriching the social finance ecosystem: the design of a Social Mutual Fund

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Abstract

The main theme of this paper is the design of a new social finance tool, namely the Social Mutual Fund. A Social Mutual Fund is an innovative social finance tool aiming at providing sustainable investment alternatives to a range of stakeholders and at complementing the current ecosystem of other social finance schemes in Europe (i.e. social impact bonds, social venture funds, sustainable banking etc).

Preliminary research shows that nearly all social entrepreneurs in Greece are in need of financial tools and a clear cut environment for operating.

The suggested model of a Social Mutual Fund as a new social finance instrument and the role of complementary currencies could be important to this process by linking social with monetary innovation.

Key words: social innovation, social entrepreneurship, social finance, social mutual fund, monetary innovation

Introduction

The main theme of this paper is the design of a new social finance tool, namely the Social Mutual Fund. A Social Mutual Fund is an innovative social finance tool aiming at providing sustainable investment alternatives to a range of stakeholders and at complementing the current ecosystem of other social finance schemes in Europe (i.e. social impact bonds, social venture funds, sustainable banking etc).

The idea behind this is to combine the well established collective investment vehicles, namely the mutual funds or UCITS of the mainstream economy with the ecosystem of social (cooperative) enterprises and investors. A Social Mutual Fund is not a socially responsible Mutual Fund¹, but rather a scheme for transforming the social finance sector, utilizing

¹ “As the name suggests, socially responsible mutual funds invest exclusively in socially responsible investments. Securities from companies that adhere to social, moral, religious and/or environmental beliefs are a few examples”, Investopedia <http://bit.ly/19XWFZ9>

collective investments while providing alternatives and profit options for social enterprises and other stakeholders.

This paper is comprised of four parts. In part 1, we look into the literature on social finance, social innovation and monetary innovation and the collective investment schemes.

In part 2 we delve into the practice of social finance, social innovation and monetary innovations. Part 3 provides the rationale of the Social Mutual Fund Model and finally in part 4 we present the results of a preliminary research on Social Enterprises, Financial environment and social innovation in Greece.

1. Literature Review

Social investment is defined broadly as the group of resources (i.e. financial, social and human capital) required for empowering social and environmental change (Nicholls, Pharoah, 2007) or “money that blends financial return with social return” (Cabinet Office (2011)).

Social Finance has various applications in the financial ecosystem, ranging from sustainable banking to social impact bonds and from micro-finance to pension funds investments and social capital markets. A whole set of new tools, methods and approaches, and metrics are used with the aim of establishing a new market, taking into consideration not only profits but also society, environment and economy.

The forms of “interactive” and “transactive” social capital are of main importance (Emerson & Spitzer 2007) as they create the integrated social capital market. Although the contribution of the parts of social markets (demand, supply and intermediaries) is yet a fractal of the mainstream markets in volume, its qualitative characteristics are important for the design of a new society, more friendly to the environment and the people, and certainly more sustainable and resilient.

The presence and practice of social banking offers a new aspect on bank money and social impact. Social Banking is defined as banking that aims to have a positive impact on people and the environment by means of banking (Weber & Remer 2011).

In regard to the social innovation sphere a functional definition could be “A novel solution to a social problem that is more effective, efficient, sustainable, or just than existing solutions and for which the value created accrues primarily to society as a whole rather than private individuals.” (Phills et al., 2008). A social innovation can be a product, production, process, or technology, but it can also be a principle, an idea, a piece of legislation, a social movement, an intervention, or some combination of these.

The pioneering work in social finance and social innovation finds its equal in the field of complementary currencies. This field started initially at a praxis level and continued within an academic environment of scholars and researchers dealing with these currencies once claimed to be marginal and exotic. Lietaer et al. (2012) claim that a “blind spot” with regard to the money perception within the economy and the social system lies in three layers, namely the hegemony of the single currency thinking, the capitalist versus communist ideological war, and an institutional status quo.

According to Senft, Silvio Gessel offered the alternative paradigm of free economy currencies, a model that found practical ground before World War II and continued after its end. J.M Keynes and contemporary monetary streams on environmental and development policies confirmed rather than refuted Gessels’ theories in relation to scientifically oriented political economy (Senft 2008).

Théret and Kalinowski (2012) suggest a way in which, while preserving the Eurozone, each state would put into circulation in its own territory a complementary currency guaranteed by tax revenue and pegged to the euro, what we call a “fiscal currency”. This parallel currency would be a “popular” currency, issued as bills in small denominations and intended for day-to-day purchases. The euro would continue to be used for large transactions, transactions occurring at the European level, and for savings.

Kalinowski (2013), claims that while financial crises and sovereign debt are on everyone's lips today, there is not enough discussion of the specific role that currency plays in our economy. The euro-zone crisis has offered little in the way of new perspectives. What the debate is sorely lacking, with a few exceptions, is the concept of currency plurality, understood as the coexistence of several currencies on one territory i.e. local currencies used in specific cities, national currencies used in particular states, and the European currency used at the level of the European Union.

2. The Social Finance Ecosystem in Greece

Social finance refers to the *deployment of financial resources primarily for social and environmental returns, as well as, in some cases, a financial return* (Moore 2012).

The social financial ecosystem in Greece is regulated mostly by the 1st law on Social Economy and Social Entrepreneurship Law 4019/2011. Profits of the Social Cooperative Enterprises (SCE) are not distributed to the members unless they are employed in the SCE. Profits are distributed as follows: 5% for deposit, 35% to the workers of the SCE as a productivity bonus, and the rest are given to operations or for new posts' creation.

With regard to the SCE assets, these can be drawn from cooperative equity, private donations, income from business activities, state grants from the national Public Investment Programme, the European Union, national or international organizations, Local Governments, trustee funds, etc.

Social Cooperative Enterprises, as well as Limited Liability Social Cooperatives, may have access to state funding from the Social Economy Fund as well as from the National Fund for Entrepreneurship and Development (both still inactive institutions). They also may apply for funding from Investment Incentives Law. Apart from national/EU funding, social cooperatives have the chance to receive capital from various private funding schemes and banks.

Regardless of the source of funding, it is not easy for operational capital or other type of capital to reach the social cooperative enterprises or other types of social economy organizations.

So far, the social finance ecosystem in Greece is underdeveloped in comparison with other countries and there is a long path ahead.

A lack of tax support, high transaction costs, legal risks, and a lack of infrastructure supported by knowledgeable investors with experience in social finance, all contribute to creating conditions that limit society's investment in, and capacity for, social entrepreneurship and innovation. Additionally, the lack of agreed social performance metrics, a lack of capacity building support in the social finance ecosystem, a lack of deal flow and pipeline building institutions, a lack of absorptive capacity on the demand-side of social investees indicate the current market status (Nicholls and Pharoah 2007, Freireich and Fulton 2009, Canadian Task Force on Social Finance 2010). Reviewing the current situation of the social finance sector in Greece we may say that it is still underdeveloped and decisive steps have to be taken by the public, the private and the third sector.

Monetary Innovation

The term of monetary innovation describes the process of inventing, developing and using new forms or other-than-conventional forms of money. Monies can be either people's or organizations' initiative. During the last years an expanding literature, following practitioners' initiatives has been produced (Lietaer 2012, Kennendy 2012, and Greco 2009). The main trigger for these approaches is the cultivation of a new healthy, sustainable and resilient ecosystem of financial and economic environment. Conventional money and banking along with their financial tools create instability, perpetuating the vicious cycle of a bubble economy in global terms. The ongoing financial crisis in Europe and elsewhere is a result of an old money system's creation and allocation. Monetary Innovation is indeed a social innovation bearing these fundamental characteristics that delineate innovation as a term and as a practice. Collaboration, creation of an active support system, change agents and

use of new technology are but a few triggers for (social) innovation that can be found inherently in monetary innovation schemes. More than 5,000 large and small schemes are operating globally both developing and developed countries through a permacultural economic ecosystem (Martignoni 2012).

Conceptual frameworks evolving from New Science (i.e. Complexity Theory, Systems Thinking, Fuzzy Logic) explain the dynamics and nexus of monetary innovation and social finance with social innovation (Lietaer 2012, Moore 2012). Systems are everywhere and the interconnections between nature's and human environment are so complex, dynamic and adaptive that they can no more be understood as Newton's pendulum working in a vacuum. Economic agents of all kinds cannot be seen as parts of homo economicus individualistic tribe but as knots and dots of a mega system following the sensitive dependence on initial conditions. Linearity is not actually the case for rational economic decisions, and cooperation instead of competition is nature's main pattern.

According to Lietaer (2012) the five negative systemic effects of conventional money and finance (growth pressure, built in instability, income disparity, short-terminism, impact on social capital and procyclicality) lead to an unsustainable future of people and communities. A new economic paradigm (Complementary Currencies movement), though marginalized for the moment, has to play a crucial role in resetting the game.

From small neighborhood currencies and local exchange economic networks to globally designed TERRA TRCTM and electronic currencies, monetary innovations seem to trailblaze experimental, optimistic alternatives to money as we know it. All of them address different problems of localities or major global issues aiming at matching unmet needs with unused resources. Scarcity as we know it is redefined in favor of sufficiency. It is the mental barrier that has to be overpassed and a new frontier to be reached, for the process by which banks create money is so simple that the mind is repelled, as J.K. Galbraith put it.

Investment in time, effort and money can be either an individualistic or a collective decision. Financial tools have emerged over all these years giving the opportunity to small and big investors to put their money on the so called collective investment vehicles. In

Greece a handful of complementary currencies have emerged, most notably the *TEM* in Volos and *Ovolos* in Patras, surrounded by various local exchange networks all over Greece based mostly on LETS system. Academics have started to argue on the necessity of Complementary Currencies and Social Impact Bonds as financial tools².

Collective Schemes – Mutual Funds

A mutual fund is a company that pools money from many investors and invests the money in stocks, bonds, short-term money-market instruments, other securities or assets, or some combination of these investments. The combined holding the mutual fund owns is called Portfolio. Each share represents an investor's proportionate ownership of the fund's holdings and the income those holdings generate.

In Greece, according to updated information (28/6/2013), the total mutual fund market assets have increased to 6.177 billion € from 5.974 billion € as of 1/1/2013. There are 19 Mutual Fund Management Companies S.A managing 278 mutual funds. Of those, two are established and operated by Hellenic Pension Mutual Fund Management Company S.A (ΑΕΔΑΚ Ασφαλιστικών Οργανισμών in Greek) as UCITS (Undertakings for Collective Investment in Transferable Securities) that can be freely marketed across the EU. The two UCITS are namely a) Pension Balanced Fund Domestic and b) Pension Fund European Bonds with aggregated funds under management of 690,822,306.02 € and 254,377,574.92 units.

The global/European principle of Mutual Funds or UCITS is that they offer no guaranteed return and past performance does not guarantee future results.

² The charm of ignorance and complementary currency (for Social Impact Bonds), Professor Dimitris Mardas, To Vima newspaper, article 8/8/2013, retrieved in <http://bit.ly/16B465b> (in Greek)

3. The Social Mutual Fund³

The philosophy lying behind the model is the establishment of a social mutual fund (SMF) in order to fund social enterprises in Greece at an initial stage and scaling it if successful in other EU countries. SMF would act as an attractor for additional social investments.

At present, funding opportunities for Social Enterprises in Greece are limited (as is the case for SMEs or larger companies). The money drainage from the real economy due to continuous economic and financial crisis in Greece is astounding. Mainstream banks do not funnel liquidity to business. The unemployment rates break one record after another. European funding through NSRF 2007-2013 has not reached the social enterprises yet.

Simultaneously with the launching of new schemes as a strategic approach to social entrepreneurship ecosystem, we expect that the investors' ecosystem and the banking ecosystem (or just a fraction of it) will respond positively. It is expected that a Social Bank will start to operate in the near future. The experience of complementary currencies in Greece (digital or physical) would act positively to the understanding of the utility of SMF. We propose a mutual clearing system like C3 (STRO Foundation) creating money liquidity and business transactions among social enterprises at the initial stages.

A Social Mutual Fund Scheme could function as a social attractor for connecting the stakeholders sustainably.

A. Stakeholders

The stakeholders of the model are as follow:

1. **The Social Enterprises:** The social enterprises are the main trigger for the development of the model. Due to inadequate funding since the launch of the Law 4019/2011 and the general condition of the Greek economy, social enterprises face difficulties in their working capital. Additionally, there is no reporting/auditing framework for assessing their

³ The "Social Mutual Fund" is a proposed social innovation in author's PhD research. First presentation in EBS-Intel Summer School 2013, Frankfurt.

operations. To that extent, a venture capital, a potential donor or even a bank cannot easily assess their business volume and their quality of work. A business plan is usually inadequate at this stage. Social enterprises' role is twofold, as constituent parts for the SMF (shares in the SMF basket, through social audit, transparent procedures) and as receivers of the value of the other customers' investments portrayed in their shares profits. The Social Enterprises ecosystem has to be populated with various business activities: Alternative Energy, recycling, upcycling, organic farming, forest preservation, sustainable tourism, complementary currencies networks (under the framework of a social enterprise).

2. The **Social Audit/Reporting Steering Committee**: it evaluates, according to the model design, which Social Enterprises will populate the Social Mutual Fund. The Steering Committee will be comprised of representatives of all stakeholders' parts in close cooperation with the Capital Market Commission.
3. The **Social Mutual Fund** is presented analytically in the next section.
4. **Cooperative Banks** are the counterpart of the mainstream banking institutions. The Association of Co-operative Banks of Greece (ACBG) was founded on 1995 upon the initiative of Co-operative Banks of Lamia, Ioannina, Pancretan and Achaia as well as of the Credit Co-operative of Corinth "HERMES". Today ACBG consists of 19 members 13 of which are Co-operative Banks, 5 Credit Co-operatives and 1 Financial Institution. An active participation of the Cooperative Banks in the field of social economy and social entrepreneurship has to emerge and solidify. Their main role, so far, is to manage funds either from NSRF (along with the mainstream banks) and the EQUAL EU funding program and to channel them to loan receivers.

“The growth of Inter-cooperative partnership and the promotion of Social Economy in our country” is one of the operational axes of ACBG and should be adhered to drastically in order to assist the suffering economy. The CSR banking strategies that are followed by the majority of the Greek banks are not sustainable banking strategies and the Greek Coop Banks should take a lead in that field by altering this approach.

5. In the model, the establishment of a **Social Bank** is also proposed, an innovative banking institution as a potential catalyst for the social finance ecosystem and national economy in general. In Greece there are no social banking operations offered, either by a Greek estate or by a branch of an established Social Bank from abroad. So far, and by experiencing the restructuring of the Greek banking sector from 2010 onwards, the majority of the mainstream banks have been merged or acquired by bigger ones leading to 3 major “systemic” as they are called banking groups. To date there is a lack of social sector or sustainable banking institutions that can offer their products and services to a growing number of social businesses and other socially, environmentally and ethically oriented enterprises. A Social Bank could enrich the banking ecosystem in the country, filling in the gaps from the other banks and offering liquidity to businesses that are not entrusted to receive loans from the mainstream banks due to their philosophy on money and lending.
6. The **individual investors** will have the opportunity to participate in such a collective scheme in case they want to diversify their investing strategies and opportunities.
7. The **institutional investors**, especially the Public Pension Funds (PPFs), could diversify their portfolio opportunities by adding a long term sustainable investment vehicle. The role of PPFs is very important especially at this time.
8. The **role of Ministries of** a) Labour, b) Finance, c) Development (legal framework) is important for the legal and financial environment for the operation of such a mutual fund. In particular, the Ministry of Labour through the HMPF could develop further the Social Economy and Entrepreneurship in Greece.
9. **The C3 Mutual Clearing System:** Strohalm’s Foundation monetary innovation stands for Consumer and Commerce Circuits. According to the monetary innovators⁴, “C3 is a hybrid of the internal administration and integrated bank-accounts that large companies use to diminish their financial costs, and the 'negative interest' or 'Liquidity-Tax' experiments realized in 1956 in Lignières en Berry in France and of course in the famous Wörgl

⁴ Henk van Arkel, Jaap Vink and Camilo Ramada, Methods for successful complementary currencies, available at <http://bit.ly/19YfLOK>

experience. These experiments showed that forced local spending because of the use of a local currency, combined with accelerating the local circulation by charging the possession of currency, results in significant economic growth”. The C3 model does not require new legislation or government approval according to Strohalm Foundation.

The opinion of Henk van Arkel on C3 in relation to social enterprises’ usage is that *“The social enterprise market might have many existing relations as supplier and client. That is good because it is easier to organize them. That is bad because only through complex relation one can expect enough depth in a C3 to get some robustness. The social enterprise market might find some investors more willingly and many others more scared for specific risk. To many people choosing for social enterprising refuse to think businesslike in moments that they really should. The type of companies forming the 100% cannot carry a viable transaction system, let alone one that generates income, because they have too few relations of customer/provider, compared with the overall commercial transactions they perform.*

Creating a strong C3 is not easy. Excluding most businesses because they are not social enterprises makes it much harder. Of course if it brings a lot of start-up capital that otherwise would not be available”⁵.

C3 System implementation would save lots of money to the participating social enterprises and other cooperating companies on their daily business transactions, providing them with capital to operate, saving money from interests, increasing employment etc. A low commission fee is fair (i.e. 0.5% on the volume of exchanges). That money would be funneled into a current business account. Additionally, more money would be funneled if an Energy currency account were established (via Renewable Energy, and/or upcycling activities, forest preservation and tree implant activities currency).

1. The ecosystem

Let us now briefly portray the evolved financial ecosystem for a Social Mutual Fund which is a subsystem of a greater financial ecosystem. It contains three distinctive but interwoven areas of stakeholders. A) The demand side, that contains the social enterprises, b) the

⁵ personal communication with Henk van Arkel

intermediaries' side, which is comprised of the Social Mutual Fund itself, and a potential established Social Bank as well as existing institutions like cooperative banks and the Mutual Fund Management Company of the Ministry of Labour (AEDAK). Finally the system is integrated with c) the supply side, hitherto the individual and the institutional investors. Schematically the model is presented below:

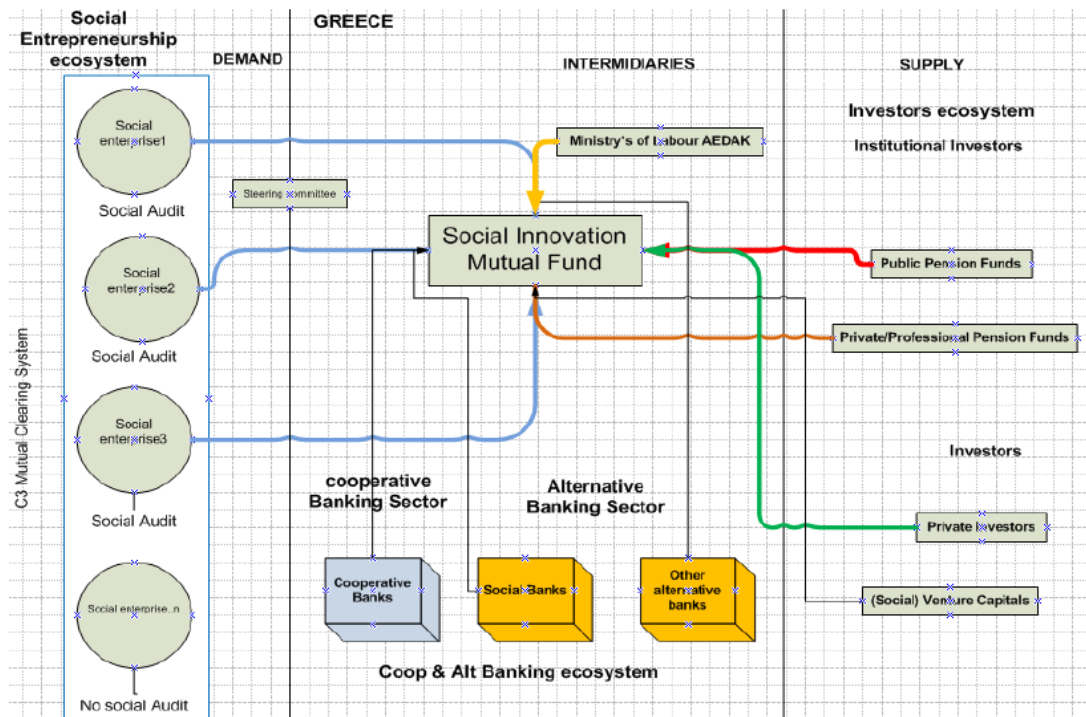


Figure 1: The Social Mutual Fund Model

The Social Mutual Fund could be registered as a UCIT. UCITS (Undertakings for Collective Investment in Transferable Securities) are investment funds that have been established in accordance with UCITS Directive (adopted in 1985). Once registered in one EU country, a UCITS fund can be freely marketed across the EU⁶. In that way the Social Mutual Fund could be incorporated in the Greek market through Hellenic Pension Mutual Fund Management Company S.A and freely marketed across the EU.

⁶ The EU Single Market, Investment Funds, http://ec.europa.eu/internal_market/investment/index_en.htm

The **Social Mutual Fund** (either a new scheme from scratch in terms of organizing - privately or in cooperation with the state- or set up by the Ministry of Labor's Hellenic Pension Mutual Fund Management Company, HPMF Asset Management). The Custodian will either be the National Bank of Greece, in the case that the SMF has been set up by HPMF, or otherwise by another accredited bank.

The vision of the SMF is to provide social enterprises with a powerful financial tool.

The Reference or Base Currency will be the Euro and consequently currency risk is minimal. Valuation is daily and the suggested investment horizon is from 2 to 4 years. The amount of the minimum initial investment should be reasonable enough for individual investors and social enterprises within the range of 1,500.00 – 2,000.00 €.

Subscription and redemption fees will be null in order to make the SMF attractive to small investors and social enterprises whenever they want to purchase or sell shares. Management fees are calculated at 0.5%.

The investment objective of the Fund is to invest its assets primarily in Social Enterprises and other types of sustainable social business that will be a boost to the social sector of the economy. The liquidity of the fund is daily. As for the investors profile, the SMF is suitable for investors with short & medium term horizon who seek to combine returns above money market rates, low volatility and immediate liquidity.

The Benchmark will be the Athens Stock Exchange and later, upon launch, the Social Stock Exchange. The Market Cap (Capitalization) ranges from small to medium.

Profits and revenues of the SMF will be reinvested.

1. The **value architecture** of the SMF is to empower social and monetary systemic change through socially innovative finance tools and institutions.

2. The steps taken to serve the customer

Step 1a: Training members & employees of the social enterprises in applying Social Audit & Accounting

Step 1b: Running for a whole year with Social Audit & Accounting methodology

Step 1c: Discussions & pitching Social Enterprises on C3 System

Step 1d: Implementing the C3 System

Step 2: Pitching strategically various stakeholders (investors) nationally and in the EU in regard to the S.M.F

Step 2a: Pitching strategically various stakeholders (investors) nationally and in the EU in regard to proposing actively the establishment of a Social Bank in Greece.

Fundraising & deposit in bank account of a trustee scheme.

Step 3: Discussion in depth with legislators, Ministries, of Labor, Finance, Development & Competitiveness, along with members of the Capital Market Commission.

Step 4: Follow-up with comments; objections; enhancing the S.M.F. model.

Step 5: Setting up a virtual SMF e-platform (with formalities and processes) to screen its operations for 6 months under the eye of the Capital Market Commission. (Virtual investments in dividends, purchases and redemptions etc).

Step 5a: Final feedback and fixing deficiencies, promotional campaign.

Step 6: Setting up the Mutual Fund Management Company and finalization of all the necessary formalities.

Step 7: Initial stage organizational preparations.

Step 7a: Launch of the SMF.

(From step 2 onwards continuous pitching and prospect agreements on receiving funds for the SMF. Selection of a Bank as a Custodian, preferably one with experience in Mutual Funds at the beginning, later a Social Bank or a cooperative one).

3. **The created value for customers:** Collective investments raising social capital, a new scope and paradigm on investment (ethical, alternative, sustainable), will probably act as a catalyst for creating other Social Mutual Funds in Europe (to begin with) and a European Social Stock Exchange.
4. **The cost-structure of SMF:** Costs according to Regulations and legislation in regard to mutual funds, plus taxation.
5. **Revenue model:** The revenues of the model come from management fees, and reinvested profits.

6. **Impact:** The impact of the Social Mutual Fund is to empower social and monetary systemic change through socially innovative financial tools and institutions. During the first year of operations the aim is to incorporate 15-20 social enterprises in the Social Mutual Fund: also to attract two Cooperative Banks nationally, enlist 500 SMF unit-holders, and enlist 3 Public Pension Funds as institutional investors. Introduction of complementary currencies in an official financial tool (C3 System in SMF) will lead to the development of Social Capital.

7. The **proposed SMF portfolio composition** would contain businesses on organic farming, sustainable tourism, waste recycling, waste upcycling, Social R & D, social innovation and other types of activities. In full scale operation the SMF could contain social businesses shares, cash in Euros (€), cash in complementary currencies from various productive sectors such as alternative energy, organic farming, sustainable tourism.

This social innovation has been designed so as to be scaled in the future.

The approach is distinctive in that the combination of a long tested, proved financial tool (Mutual Fund) with social impact investment makes it attractive to investors.

Essential to its success is the understanding of the need to create and operate a financial tool that will provide profits to its stakeholders and social value not only individually but collectively to society as well. The SMF social innovation will be set up as an organization either from scratch or operating through an existing scheme, ideally by the HPMF Assets Management in Greece or by others.

In the following table (Table 1) the reader may clearly see the system's stakeholders, the current and evolved status of the system, the changes that have to be initiated, the cases that require governmental approval and possible hindrances. It is obvious that when the new ecosystem evolves, new institutions and tools will be created, public revenues will increase, unemployment will fall and social impact will start to be differentiated from the current, non important status (column 2). In the field of legal framework, new institutions will emerge (column 4), government approval will be required for the establishment of the Social Mutual Fund and the Social Bank. In column (8) the hindrances of the initialization of new institutions are depicted and their effects on revenues from taxes, unemployment and social

impact. If these tools and institutions do not emerge due to the unwillingness of the potential market to participate and of the state's unwillingness to regulate this new market then the observed actual market dysfunctions will continue to undermine social economy and social entrepreneurship in Greece.

In brief, existing structures/stakeholders include the following participants: Social Cooperatives, Social Enterprises, Cooperative Banks, Individual Investors, Institutional Investors (Pension Funds), HPMF Asset Management, Custodian (bank), other Mutual Funds Management Companies, Venture Capitals (VC) expanded as Social venture Capitals; all could play an important role on condition of cooperating and examining tangible solutions, whereas **new structures/frameworks** contain the Social Mutual Fund, the Social Audit/Reporting Committee, the Social Bank and the C3 Mutual Clearing System.

In Figure (2), the model stakeholders' correlations are depicted and from this matrix the reader can grasp the positive correlations that are evolving within this new ecosystem.

Table 1: Social Mutual Fund's Stakeholders and system status (Greece)

System's stakeholders	status	status	legal framework		government approval		hindrances	
	Current (1)	New (2)	Current (3)	New (4)	Current (5)	New (6)	Current (7)	New (8)
Social Enterprises	√	√	√		√		√	
Cooperative Banks	√	√	√		√			
Individual Investors	√	√	√					
Institutional Investors (Pension Funds)	√	√	√		√			
Custodian (bank)	√	√	√		√			
Mutual Funds Management Company	√	√	√		√			
Social Mutual Fund	∅	√		√		√	√	√
Social Audit/Social Reporting	∅	√		√			√	√
Social Audit Steering Committee	∅	√		√			√	√
Social Bank	∅	√		√		√	√	√
C3 Mutual Clearing System	∅	√		√		no need	√	√
public revenues (taxation)	< , (-)	> , (+)					√	√
unemployment	> , (+)	< , (-)					√	√
Social Impact	little	average to big					√	√

	Social Enterprises	Cooperative Banks	Individual Investors	Institutional Investors (Pension Funds)	Custodian (bank)	Mutual Funds Management Company	Social Mutual Fund	Social Audit	Social Audit Committee	Social Bank	C3 Mutual Clearing System
Social Enterprises		.+	.+				.+	.+	.+	.+	.+
Cooperative Banks	.+		.+	.+			.+			.+	.+
Individual Investors	.+	.+					.+			.+	.+
Institutional Investors (Pension Funds)	.+	.+					.+			.+	.+
Custodian (bank)		.+					.+			.+	
Mutual Funds Management Company		.+			.+		.+		.+		
Social Mutual Fund	.+	.+	.+	.+	.+			.+	.+	.+	.+
Social Audit	.+						.+		.+	.+	.+
Social Audit Committee	.+						.+	.+		.+	
Social Bank	.+			.+	.+	.+	.+	.+		.+	.+
C3 Mutual Clearing System	.+	.+					.+			.+	
public revenues (taxation)	.+						.+				.+
unemployment							.+				
insurance services		.+							.+	.+	
social impact	.+	.+	.+	.+			.+	.+		.+	.+

.+ = positive correlation

Figure 2: Social Mutual Fund stakeholders' correlations

4. Empirical work and survey results

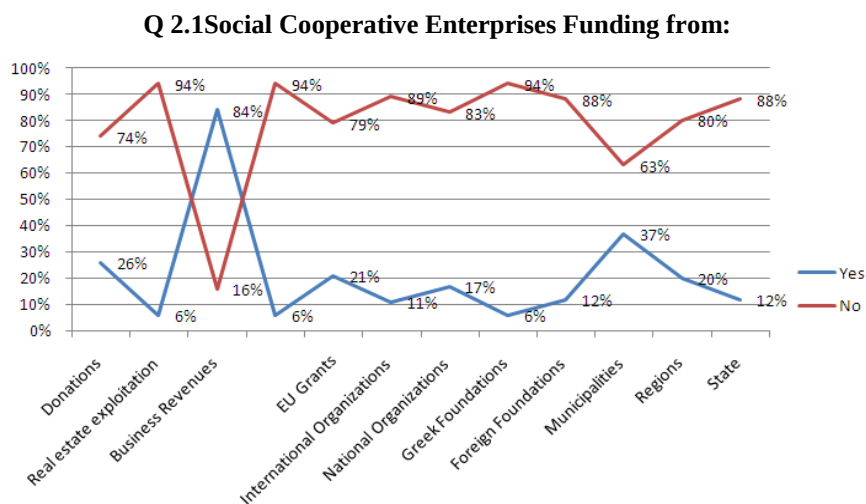
For the purposes of this research an electronic survey was conducted in July and August 2013. The objective was to discover the current situation of social entrepreneurship and economy ecosystem in Greece towards social innovations, the problems they face and to understand the sector's appetite for social finance tools, and barriers to social innovations. It was fully targeted to the social enterprises and individuals either holding a public post or an influential post in the third sector in general.

The survey was conducted in one round –initially via Google Drive. In total, 31 respondents shared their knowledge and opinions on social innovations and means of funding. After the collection of the responses, the data was transferred to an *IBM SPSS 20* statistical software package, rewritten in suitable variables in order to continue with the quantitative analysis. Effort was put for conducting in-depth interviews afterwards, but that was not possible and that was a research limitation. Research will be continued within the

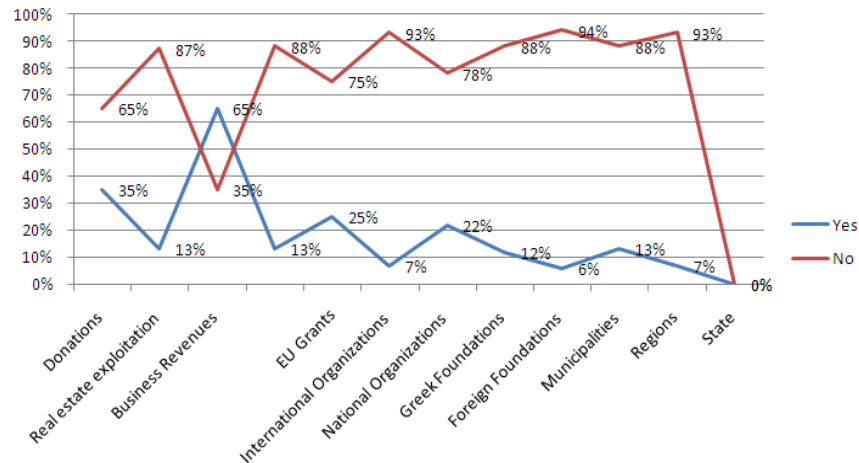
doctoral thesis framework, offering more insights and understanding on the agents' views, expectations, and solutions to their problems.

The questionnaire was sent to the registered social cooperatives in the General Registry of Social Economy (Ministry of Labor), Not-For- Profits, social business in general, and other forms of institutions in Social Economy. In total 31 replied electronically; 70 % of these are social cooperatives, 7% social enterprises, 17% are non-profit and 7% other legal entities. Of the respondents, 61% have been operating from 0 to 1 year, 19 % from 1 to 3 years and only 16% for more than 5 years. Of these entities 85% employ from 1 to 15 persons and only 15 % provide work to more than 16 people.

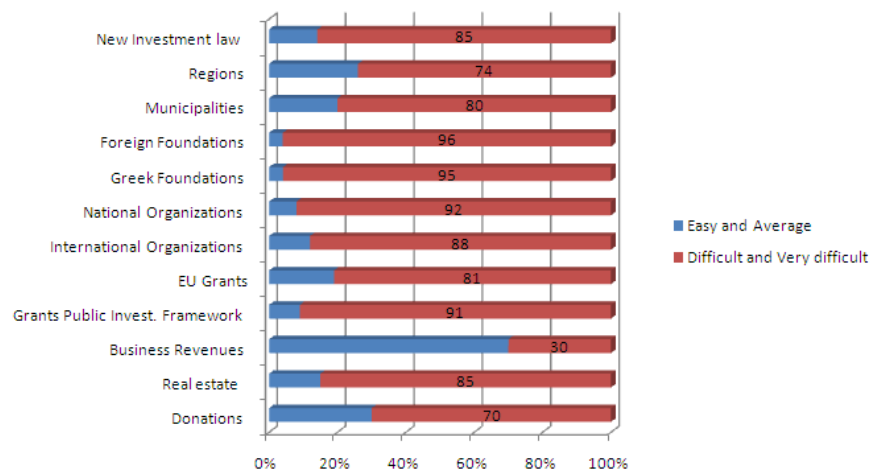
The empirical analysis shows that the extent of actual funding alternatives is still very limited for social cooperatives (question 2.1) and for other social enterprises and other entities (question 2.2). Responses in question 2.3 –concerning all business types- depict clearly the difficulty for raising funds and working capital. Business revenues count for 70% as easy and average and that shows the business activities importance.



Q 2.2 Social Enterprises and other entities funding from:



Q. 2.3 Ease for funding (all respondents)



Key findings

1. Social Enterprises demographics

The majority of the respondents are Social Cooperatives (70%), of which 71% are of Collective/productive Cause, and 61% have been operating for one year. Only 5 of the respondents have been operating for more than 5 years. The majority (71%) of the respondents offer employment to 1-5 persons. A percentage of 15% offer employment to more than 16 employees.

2. Financial Resources

In this section it is apparent that regarding “means of funding”, 84% of the respondents have revenues from their business activities, whereas donations (26%), real estate (6%), Public Investment Framework (6%), European Union Programs (21%), Programming Agreements with Municipalities (37%) complete the list of funding opportunities.

Considering “ease of funding” the respondents also answered that it is “difficult” and “very difficult” to receive funding from donations (70%), real estate exploitation (85%), business revenues (30%), Public Investment Framework (91%), European Union Funds (81%), International Organizations (88%), Greek Foundations (95%), Municipal Programming Agreement (80%).

Combined answers of the respondents on the three main state funding schemes, namely Social Entrepreneurship Fund, National Entrepreneurship & Development Fund and the new Investment law, count from 80% to 85% with negative answers.

3. Annual Revenues

Annual Revenues of the participating entities counted for up to max 20.000 € for 85% of them, and only a weak 15% produce revenues of more than 20.000 € per annum.

A collection of relative terms was uploaded in the researcher website in order to be sure that the respondents would understand the terminology in use and avoid common pitfalls from misunderstanding. From this subsection of the query, 97% scored their positive awareness on Social Economy, Social Entrepreneurship and Social Innovation (87%) definitions. A surprising score has been that awareness on Social Finance was (73%), whereas on the term of Social Accounting/Reporting one out of two answered “No” (57%) and 10% gave no answer. Similar results were observed on Social Audit terms.

On the monetary innovation field, only 28% answered positively, whereas on complementary currencies there was a 57% response. This is strange because these terms are used interchangeably.

4. Financial Institutions – tools

In the 3rd section there were similar scores for collective investments (66%) and mutual funds (76%), a staggering 100% for philanthropy, 62% for social or sustainable banking and 74% for venture capital. With regard to microfinance an established 75% responded “yes”.

In the subsection on which the main difficulties faced with are, the respondents responded: with liquidity (38%), money capital (26%), bank loans (13%), and other 19%. Only a mere 4% claimed that lack of experienced personnel is an impediment to operation.

With regard to a set of questions about experiencing operations environment and institutional framework support the answers are as follows (in Figure 3):

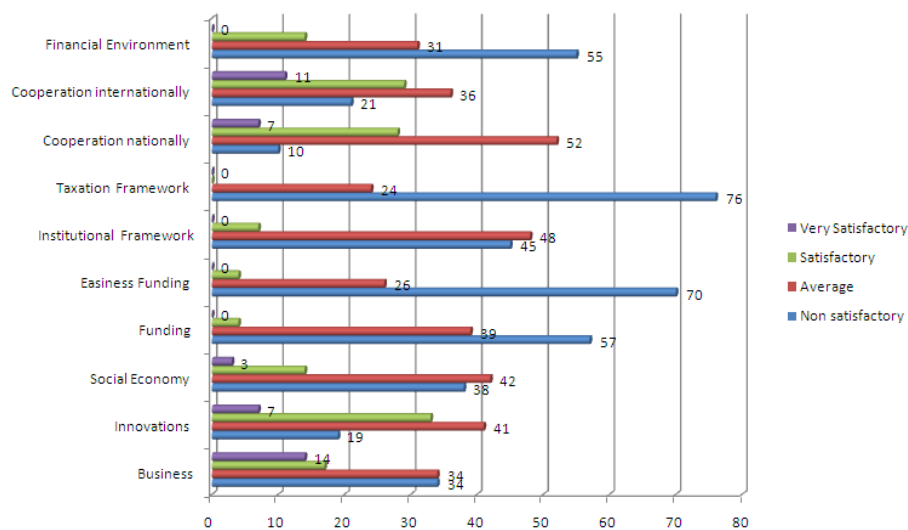


Figure 3: Experiencing macro operating environment

The main findings from this question pinpoint the taxation framework, thus the lack of tax incentives for the social cooperatives, the difficulties in raising funds from the market or from other sources and the negative financial environment.

Finally in the 4th section, with regard to Social Innovation, 100% of the respondents thought of a social innovation that could help solve a societal problem and 87% of them claim that their organization innovates socially in a practical manner. An astounding 81% are in need of help for sustaining their innovation, 16% say they might possibly need help and only 3% do not need aid on their innovation. Of those that answered “yes” and/or “possible”, the source of help is considered as help from: Funders (24%), Expert Social Enterprises from

abroad (19%), and Expert Social Enterprises from Greece (17%), Universities/Researchers (15%), Business Consultants (15%) and Mentors (10%).

The section with qualitative analysis showed that in relation to the previous question, [organizations which can actively help] the respondents answer that the problems of the Greek economy is not academic (aligned with the low score for universities/ researchers) but rather practical, and help from expert Social enterprises, either from abroad or from Greece, would assist them best.

Conclusion

Seminal theoretical work has been conducted during the past years in the field of social finance as a means of funding social business and the third sector, with the aim of a social impact. Along with the theory, national (UK, Canada, Australia etc) and supranational policies (i.e. the EU) have been implemented and through an ongoing process, social finance tools have been proving their utility and scope (i.e. social bonds, social funds, microfinance etc.) in the short run and are anticipated for the long one.

In this paper we have presented the theory and the design of a model of a social mutual fund (SMF) as a complementary tool to the social financial instruments already functioning.

The primary focus has been on Greece due to a less developed social economy and social entrepreneurship sector. The social finance market in Greece is still at a very initial level, virtually nonexistent.

Designing and implementing a social mutual fund as an additional function for social innovation and social finance, along with social bonds, venture funds, micro-finance, is not an easy case. Prerequisites have to be fulfilled and institutions have to be established. Ideally, a Social Stock Exchange has to be founded, complementing the Athens Stock Exchange where stocks of social enterprises would be traded providing funds to these companies.

The target groups of this SMF are a) social enterprises b) potential investors, either individual and or institutional that want to diversify their investment options, mutual fund

managers and pension funds that want to diversify their investment portfolios by investing in a new type of social impact oriented business. Pilot SMFs would be established mainly in Euro with the experimentation of the use of complementary currencies.

Furthermore, if national SMF pilots are successful, a next stage would be the design and formation of a European Social Mutual Fund that would include “baskets” of social enterprises of different legal frameworks and activities from all over the European Union. UCITS provide the necessary legal and financial framework.

By offering alternatives to social enterprises, socially responsible companies for strengthening their funding pools, and investors who want to participate in the evolution of the social capital market and social finance in general in Europe, the essence of the European ideal would become more tangible to its citizens, providing increasing social impact on the continent. Additionally, in that way investors, as well as members of social enterprises and social cooperatives, can purchase shares and participate actively in the formation of a new type of social capital as Robert Putnam defines it.

Thus, by providing this solution of social investment, society would benefit, due to a larger pool of capital for social enterprises to fulfill their scopes and targets. A long-term-developed economy would emerge apart from the mainstream financial sector that places emphasis on profits and non-viable-short-term investments. We dare to predict that businesses of the future will be either social or nothing, and their financial tools from micro to macro level would be those of the social finance ecosystem.

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