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Social financing as a driver for sustainable local development in EU Mediterranean countries. Spain, Portugal, and Greece in perspective.

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Abstract. *In the post-crisis EU landscape, EU Mediterranean countries are making steps in alleviating the burdens that citizens have carried at the individual and collective level by restructuring their economies and re-designing social protection measures. Social and solidarity economy (SSE) is also a sector that has also seen several impediments in its development, most notably regulatory and financial obstacles and uneven development of the sector despite its growth and positive impact towards vulnerable groups during the crisis among the EU countries. In this new landscape, endogenous local development and the sustainability of the sector relies not only on active social networks and generation of social capital but also on stable and recurring funding sources, as it is necessary to respond to the financial needs of social economy actors and operators, so as to sustain the emerging dynamic of SSE in the EU. This article's scope is to provide evidence-based on a literature review regarding the development of the field both in practice and in scientific discourse with a special focus at the EU Mediterranean countries of Spain, Portugal, and Greece. Among the findings is that Spain and Portugal have been mobilized and adapted faster in including and developing social investment and innovation strategies and consequently the development of supporting frameworks for their social economy sectors, contrary to Greece where despite the move towards advancing its legal framework, there is still lack of sufficient social financing instruments, as well as, little use of the EU financing and supporting framework towards financing its social economy sector. The article addresses the pivotal role of social financing in supporting social economy organizations endeavors and presents an overview of the different forms of development of the social financing initiatives that are taking place in Spain, Portugal, and Greece.*

Keywords: social entrepreneurship, social finance, social investment, social financing instruments, social finance market

JEL Codes: L31, O35

1. Introduction

According to the European Economic and Social Committee, there are 2.8 million social economy enterprises (SEE) and organisations in the European Union, which employ about 13,6 million people and account for 8% of the European Union's (EU) Gross Domestic Product (EESC, 2017:2). They operate and use market and non-market resources (human, land, financial, energy, services, capital) at the local level, generating growth and employment and "their financial viability depends on the efforts of their members and workers to secure adequate resources" (Defourny & Nyssens, 2010:239). The conceptualization of social finance in terms of supporting social enterprises (SEs) initiatives and local development in this paper, concerns SE "whose purpose is to achieve a social mission through the use of market mechanisms" (Ebrahim et al., 2014:82) and their distinguishing characteristic is the "primacy of the social mission" (Defourny &

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Nyssens, 2010:18) and the creation of social value than the generation and maximization of profit and the creation of economic value.

By the onset of the crisis onwards, SEs which are also known as "social business", "social-purpose business" or "social-driven business" organizations (EASME, 2018:15) are promoted by the EU as a response towards correcting social and regional imbalances throughout Europe, whereas the social economy sector as a whole has been recognized as one that "has weathered the economic crisis much better than others and is gaining increasing recognition at European level" (Council of the EU, 2015:2) for its output. However, like all market operators, SEs need liquidity, financial support, and access to capital, so as to finance and sustain their commercial activities, production of services, and goods. In order to meet the increasing demand for financial support and services by SEs and their difficulty in accessing external finance sources, together with the shortage on the supply of debt and investment finance observed during the crisis, the EU has embarked during the last decade on a concerted effort to strengthen the operation of its internal market by setting up a regulatory framework together with the development of financial mechanisms and instruments, which target directly and specifically the social economy sector (SEE) and SEs in particular.

This paper aims at discussing the emergence of a social finance market in Europe as an outcome of the need, at the EU and member-state levels, to support sustainable local development as a coherent alternative in addressing the economic crisis, with a specific focus on the adopted initiatives and the development of financial instruments in EU Mediterranean countries that were hit hard by the crisis such as Portugal, Spain, and Greece. In doing so, the paper will, in the first part, review and address the theoretical underpinnings of the concept of social finance. At the second part, it will proceed by elaborating and providing evidence of the emergence and structuration of a social finance market providing a brief overview of the main social finance instruments that have been deployed, while in the third it will present the different instruments and social finance endeavors that have been utilized and implemented in the EU Mediterranean countries in perspective.

2. Research Elaborations

The main research question that this article aims at addressing is whether the development of social finance initiatives has supported the economic sustainability of social economy sector organizations and of endogenous development in EU Mediterranean countries that were hit mostly by the financial crisis, namely Spain, Greece, and Portugal. Overall, the article aims to provide evidence on the progress achieved regarding the development of social finance markets and instruments and whether that progress was also reflected in terms of the development and sustainability of social economy ecosystems. One of the issues, surfaced from this review is that few studies and papers, especially in English, covering the broader EU area and the EU Mediterranean countries address in scientific discourse the development of social finance as a concept, as well as, the development of social finance instruments and initiatives in the EU Mediterranean countries presented in this article. The article is based on a literature review, limiting searches in English speaking and Greek literature regarding the state of play of social finance initiatives and the development of social finance markets in the EU Mediterranean countries in perspective. The review elaborates data from 47 bibliographical sources out of 138 that were initially selected for review and which were found in various academic research databases covering social finance, social economy, social entrepreneurship, and social innovation, including 21 additional internet resources.

2.1 Financing Social Enterprises. The emergence of the concept of Social Finance.

Social Enterprises (SEs) have a landmark feature, an outstanding capacity to combine the social with the financial element (Noya & Clarence, 2007). What distinguishes them especially from private sector organizations and firms is that they aim at generating revenue, so as to use it for social causes, rather than to maximize it (distribution towards their target groups, share among members, reinvestment in further projects

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or resources such as equipment or premises) for their stakeholders. Despite the fact that SEs may find themselves "at risk of losing sight of their social missions in their efforts to generate revenue, a risk referred to as mission drift"[1] (Ebrahim et al., 2014:82), they may also find themselves in conditions of "losing customers, selling at prices not covering the(*ir*) costs", (Defourny & Nyssens, 2010:238, *parenthesis added*), "confronted by a decrease of public grants" (*ibid*, 2010:238) and "public subsidies and to the limits of private grants from foundations"(*ibid*, 2010:231).

In other words, they may experience severe and unexpected shortages of resources either financial or human and their overall activity and mission are at great risk to fail, especially in "times of fiscal constraint, *(where)* these sources may become more limited than in the past" (Moore et al., 2012:117, *parenthesis added*), as was the case witnessed during the recent economic crisis, where many SEs have ended or down-sized their operation, due to lack of resources and the non-existence of an enabling environment supporting their operation. Considering the identified gap in the financing of social enterprises' activities, together with the rising demand for financial resources, as a result of the growth of the SEE and the emergence of new business models (functional/circular economy, sharing economy) during the last two decades and especially since the onset of the economic crisis, the EU has introduced a number of programs and mechanisms, in order to **i)** establish a supporting institutional and financial framework for SE and to **ii)** promote social entrepreneurship as a field which advances social innovation, active citizenship, employment (focusing particularly in vulnerable and marginalized groups) and sustainable development.

In fact, it may be argued that the difficulty that SEs have been witnessing in accessing capital and development finance from traditional financial institutions such as commercial banks and investment companies (demand side), together with the constrains on government-based funding especially during the crisis, has given rise to the so-called in the literature 'finance gap' of SE from the supply side of finance institutions, whereas at the same time the concept of *social finance* has emerged together with alternative funding initiatives and "social enterprise investment" (Nicholls, 2010:82)[2]. The idea and practice of channeling financial resources towards the attainment of social goals isn't a new phenomenon and may be attributed to numerous cases in modern history, which involve a form of lending organization from the one side (religious institutions, foundations, and non-profit institutions) and organizations or persons as beneficiaries on the other. However, financing social enterprises consist of a young field of research[3] And no universal definition exists for the concept of social finance; it seems that most definitions stress and have in common the principle of the attainment of social, environmental and financial returns through the use of investment capital and financial resources.

Based on finance theory principles, social finance signals a notable departure from the traditional notion of allocation of capital to achieve profit maximization and financial return. According to Rizzi et al., *social finance* refers to "a set of alternative lending and investment approaches for financing projects and ventures, requiring to generate both positive impacts on society, the environment, or sustainable development, along with financial returns (Rizzi et al., 2018:805). On the other hand, Perilleux defines *social finance* as the domain of "financial institutions, products, or practices whose goal is not solely profit maximization but seeking other benefits such as social, ecological, or ethical outcomes. It involves a wide spectrum of initiatives ranging from large institutions such as social or alternative banks to small informal initiatives such as savings groups, and includes microfinance as well as collaborative finance (social crowdfunding)"

[1] Defourny & Develtere refer that, "co-operatives in the industrialised countries have in many instances changed so much that they are practically indistinguishable from mainstream private enterprises and that their ties with not-for-profit associations seem to have completely disappeared" (Defourny & Develtere, 1999:20). Their observation point out that mission drifts in social economy organizations isn't a new phenomenon and maybe according to Conforth, the outcome of "market pressures and resource dependences" (Conforth, 2014:9), 'commercialization' of activities or even "through less visible changes to working practices or the nature and quality of the services the organisation provides (ibid, 2014:4).

[2] According to Torfs and Lupoli, rough estimates of the financing demand from the side of SEs in Europe, may rise up to 513, 1 million Euros per year (EIF, 2017:10).

[3] or even a "sub-field of social entrepreneurship" (Kickul & Lyons, 2015:83).

(Perilleux, 2015:285). On the same ground, Moore et al. conceptualize *social finance* as "the deployment of financial resources primarily for social and environmental returns, as well as in some cases, a financial return" (Moore et al., 2012:116), which "addresses three separate but interconnected aspects of what we call the social capital market – the supply of capital, the demand for that capital, and the intermediaries that link the two" (Harji & Hebb, 2010:2). Heyman too, stresses the fact that social finance, in contrast with mainstream finance, set the realization of social and environmental goal as a priority (Heyman, 2013).
Social finance encapsulates the notion of the investment of capital for the generation of social and financial value (*social investment*) and concerns capital raising towards social enterprises, impact investment funds and private sector companies and operators, as long as they aim at generating positive and measurable social impact, along with financial gain (*social impact investment*). It fundamentally encompasses the demand and supply functions and dimensions of the market, and it can thus be "demand-driven, growing out of the capital needs of social enterprises" (Harji & Hebb, 2010:3) or "supply-driven, with a focus on the investor as the primary actor" (*ibid*). Under the lenses of economic geography and cultural economy research, it might also be seen as "a relatively discrete and hybrid modality of marketization that makes possible the valuation and capitalization of the social economy to address collective social problems" (Langley, 2018:11).
It might be quite early to discuss the establishment of a new 'finance paradigm' (Heyman, 2013). However, Rizzi et al. suggest that two forms of social finance, "social impact investment and ethical banking, guide the institutionalization and paradigm building process" (Rizzi et al., 2017:805) of social finance. What may possibly come out of the different understandings and meaning of social finance is that although it is a young field of research, it provides a new realization and conceptualization of the relations and the transactions of economic actors and organizations, challenging the traditional notion "whereby financial, social and environmental goals need be achieved independently" (Heyman, 2013:9). In post-crisis Europe and amidst the recent pandemic, social finance has a pivotal role in the promotion of social economy as it supports "social entrepreneurship and innovation directly throughout its development, adoption, and implementation stages" (Moore et al., 2012:116) and supports development that has at its core the promotion of society and the environment together with better living conditions and economic well-being.

2.2 The development of an EU social finance market and the EU financial framework for Social Enterprises

Among the key actions that the EU Commission has proposed in its 2011 Communication on the "Single Market Act. Twelve levers to boost growth and strengthen confidence" (Commission, COM/2011/0206, final) was the establishment of a European framework that will support the development of social investment funds and the channeling of funds towards the social economy sector. As mentioned in the previous section, a social capital market involves three inseparable and interconnected domains:
a) The demand for capital,
b) The supply of capital and
c) The Intermediary organizations or "Intermediation"
(Harji & Hebb 2010, Nicholls 2013).
Despite the lack of intermediaries in the EU social finance terrain (Spiess-Knafl & Scheck, 2020:19), intermediation is a key function of the market, which "bring lenders and borrowers closer together and stimulate reciprocity in lending relationships based on social values" (Perilleux, 2015:297).
During the last decade, the demand/supply gap of social enterprises has been among the main issues in the EU policy agenda[4]. It is roughly estimated between 514M to 1.388B per year across the EU (Spiess-Knafl &

[4]. Access to finance, access to markets, Better framework conditions, new technologies, and social innovation are the five pillars identified by the *'Groupe d'experts de la Commission sur l'entrepreneuriat social'* – GECES, when it was first established as part of the EU Commission SBI on 2011, and its work continued from 2018 onwards. Improve access to finance and EU funding for social economy enterprises and organisations is the 5th among the 10 proposals included by Social Economy Europe organization in their Memorandum, towards EU political parties in May 2019 EU elections.

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Scheck, 2020:21). Through its landmark, Social Business Initiative (SBI) that was implemented on 2011, the EU Commission "has placed the social economy and social innovation at the heart of its concerns" (Commission, COM/2011/0682 final) and set the foundation for the establishment of an institutional and regulatory framework that would efficiently support social economy organizations. SBI included eleven (11) key actions; however, special significance for the development of the social financing market are the following:

Action 1: It forwarded a European regulatory framework for *social investment funds* to facilitate access to the financial markets for social enterprises.

Action 2: It encouraged the development of *microcredit* in Europe, through the Progress Microfinance Facility, during the programming period 2007-2013[5].

Action 3: It has set up the *EU programme for Employment and Social Innovation (EaSI)*, so as to provide easier access to funding for social enterprises.

Action 4: It fundamentally put social enterprises in the map of EU Structural Funds, by establishing the financing of social enterprises as an '*investment priority'* of the European Regional Development Fund (ERDF) and European Social Fund (ESF)[6] (Commission, COM/2011/0682, final).

Despite the fact that "social investment markets are still under-developed in most EU Member States which lack a specific policy and a regulatory framework for supporting social enterprises" (EIB, 2016:7), evidence regarding the development of an EU-wide social financing infrastructure is in place. On the demand side for finance and support services are primarily social economy and third sector organizations such as Social Enterprises, Mutual Societies, Cooperatives, Associations, Foundations, Social Start-ups, and Charities[7] (as well as enterprises and on the supply side are social, financial institutions such as Social Investment and Social Impact Funds, Cooperative and Ethical Banks, Venture Philanthropy Funds, Social Banks, Crowdfunding Platforms, and Community Development Financial Institutions. Supply-side institutions may also act as intermediary organizations, and they "focus on a social mission or include a social mission among other commercial activities" (*ibid*, 2016:14). The main function of financial intermediaries is the linking of "investors and final recipients and balance the trade-off between social responsibility, financial returns and sustainability" (IFISE, 2019:23) and may include Commercial banks, Credit unions, Savings Banks, Foundations, Social Equity Fund providers, specialised microfinance intermediaries and Government bodies or agencies (ibid, 2019:24).

There are substantial differences, however, both in theory and in practice regarding the financing of social economy organizations and enterprises. Modern portfolio theory assumes that an investor will take on increased risk only if compensated by higher expected returns; however, in a social investment, "investors might be willing to reduce their financial return expectation as they wish to support the social services provided by the social enterprise" (Spiess-Knafl & Jansen A., 2013:27). Besides and according to Spiess-Knafl & Jansen, 'traditional pecking order theory' might also not be applicable to social enterprises due to the conflicts in internal financing, occurring when public funding "lead to a reduction of private funds which is called the crowding-out effect" (*ibid*, 2013:28) or because of grants may be considered as 'not repayable' in terms of financial returns.

The supply side of social financing market in the EU has seen an expansion especially during the last decade, despite the slow-down of the economic activity due to the economic recession, both in terms of new supporting mechanisms, as well as, on the development of new financial instruments for financing SE

[5] Support for finance through microcredit, continued in the framework of the EASI programme in the 2014-2020 period. However, the Interim Report of Progress Microfinance revealed that, while it "has clearly been effective in increasing access to and availability of microfinance for microenterprises, it has been less effective in doing so in the social economy" (Commission, 2015:55) with only 4% of participating micro-borrowers identifying their organizations as 'social enterprises' and with 14 participating intermediaries referring that "social enterprises represent less than 25 % of their portfolio" (Commission, ibid:54).

[6] https://ec.europa.eu/growth/sectors/social-economy/enterprises_en, accessed 10/11/2019.

[7]. It is estimated that "early-stage social enterprises wishing to scale" their impact require funding between 100.000 to 500.000 Euros (Commission/OECD, 2016:12)

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operations. A Financial Instrument is "a *form of support* that incorporates the use of the selected product, its combination with other forms of support such as grants, and the chosen implementation option" (IFISE, 2019:13). Main financial instruments established under the SBI and during the present 2014-2020 programming period include:

- **The EU programme for Employment and Social Innovation (EaSI)**

The EU programme for Employment and Social Innovation (EaSi) is managed by the European Investment Fund (EIF) and is an EU level financing instrument "founded in the context of the Europe 2020 strategy, to support the EU's objective of high-level employment, guarantee adequate social protection fight against social exclusion and poverty and improve working conditions" (EIF, 2017:12). Through its Microfinance/Social Entrepreneurship axis (3rd Axis), which accounts for 21% of the total budget of 919M€, that is 193M€ of the programme, it supports: **i)** the development of social enterprises by facilitating access to finance, **ii)** vulnerable groups who want to set up or develop their business, **iii)** micro-enterprises through loans and **iv)** microcredit providers (financial intermediaries) through guarantees. During the period 2015-2018, EaSi funded 13 projects with the specific task of supporting Member-States in strengthening their social finance markers by enabling, among others, "social enterprises to take on repayable finance for developing and scaling-up their innovative business model" (Commission, 2019:57).
Particularly for micro-credit providers, EaSI has developed the *EaSI Guarantee Instrument*, which is specifically dedicated to microfinance and social entrepreneurship. One of its key objectives is to increase the availability of and access to finance for vulnerable groups wishing to launch their own enterprises, micro-enterprises, and social enterprises, both in their start-up and development phases.[8] By the end of 2016, twenty-five (25) guarantee agreements have been signed by financial intermediaries for social entrepreneurship for a total amount of 43,4 million, so as to cover subsequent loans towards SEs, for up to 500,000 (EIF, 2016:5). Until October 2019, 31 EaSI social entrepreneurship guarantees and counter guarantees have been provided to banks, involving 16 countries (Spiess-Knafl & Scheck, 2020:15).

- **European Social Entrepreneurship Funds (EuSEF)**

The European Social Entrepreneurship Funds (EuSEF) have been established so as to facilitate access to funding for social entrepreneurs. Regulation (EU) No 346/2013 prescribes uniform requirements and conditions for managers of collective investment for the marketing of qualifying social entrepreneurship funds to eligible investors across the Union. However, "as of April 2016, only 5 EuSEF funds were notified to ESMA[9]" (EVPA, 2018:1) and this led to two consequent amendments of their regulation[10].
According to the central database of managers of Social Entrepreneurship Funds, from May 2014 until November 2018, eleven (11) EuSEF European Social Entrepreneurship Funds have been established channeling funds towards the EU Member States, and they are based: 2 in the UK, 2 in France, 3 in Germany, 2 in Finland, 1 in Spain, 1 in Netherlands[11].

- **Social Impact Accelerator (SIA) instrument**.

The Social Impact Accelerator (SIA) is the first pan-European public-private partnership addressing the growing need for equity finance availability to support social enterprises. It operates as a fund-of-funds, managed by EIF, and invests in social impact funds, which strategically target social enterprises across

[8] https://www.eif.org/what_we_do/microfinance/easi/easi-guarantee-instrument/index.htm, accessed on 10/11/2019.
[9] European Securities and Markets Authorities
[10] 1st Amendment: Regulation (EU) 2017/1991 of the European Parliament and of the Council of 25 October 2017 amending Regulation (EU) No 345/2013 on European venture capital funds and Regulation (EU) No 346/2013 on European social entrepreneurship funds.
2nd Amendment: Regulation (EU) 2019/1156 of the European Parliament and of the Council of 20 June 2019 on facilitating cross-border distribution of collective investment undertakings and amending Regulations (EU) No 345/2013, (EU) No 346/2013 and (EU) No 1286/2014 (Text with EEA relevance).
[11] https://registers.esma.europa.eu/publication/searchRegister?core=esma_registers_eusef, accessed on 12/10/2019.

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Europe. The SIA has managed to raise until 2015, 243m Euros[12] and is principally channeling funds towards social impact financing aiming at achieving a measurable social and/or environmental impact.

- **EFSI Equity Instrument**

The European Fund for Strategic Investment Equity Instrument provides access to financing for SMEs, Social Enterprises, and Social Sector Organizations established or engaged in entrepreneurial activity in EU Member States during their entire lifecycle, from the pre-commercial phase up to their expansion and growth stage of development. Through EFSI, the European Investment Fund provides, for the first time, investments with the intention to generate a social impact, targeting social enterprises and social sector organisations, whereas the EFSI Equity Instrument is deployed in the form of the Expansion and Growth windows[13].

The contribution of Investment Funds (EIF, EFSI) and instruments in the development and growth of SEs is becoming more evident during the last years. Beyond the emergence of new financial instruments and institutions in the social finance market, the Structural Funds of ESF and ERDF are pivotal in the channeling of funds and the development of financial instruments supporting social entrepreneurship and the development of the “social finance space” (Branch, 2019)[14]. ESF and ERDF support local development, social investment at the government level, and social entrepreneurship by providing financing and channeling funds through member states National Operational Programs (OP). They have achieved a substantial contribution of funding and development of financial instruments for social purposes amounting by the end of 2017 to "557 million Euros of Operational Programs in funding agreements in 7 Member States, of which 361 million of ESF come from ESF" (Commission, 2018:112).

ESF is also funding the landmark for research and innovation Horizon 2020 program, which channels funding for social innovation[15], financing public, private and social entrepreneurs and third sector organizations. Another EU program, the Programme for the competitiveness of enterprises and small and medium (COSME) has also recently engaged in financing social endeavors. Following the European Social Economy Regions Pilot (ESER) in February 2018, aimed at raising awareness and build networks of social economy stakeholders, the EU Commission, through its Executive Agency for Small and Medium-sized Enterprises (EASME) has launched the "Social Economy Missions” calls for funding projects, that will accelerate the development and acknowledgment of particular aspects of social economy at a regional and local level and enhance its inter-regional dimension.

It can be argued that the social finance instruments and the institutions of a social finance and investment market that emerged in the European Union as a response to the ever-increasing demand and need for alternative finance methods brought up by international economic crisis and the emergence of new social business models are here not only to stay but running in parallel to the traditional finance market, to support new investment cultures and markets. "In most European countries, there is already a social enterprise and social finance market, however nascent or young" (Commission, 2016:6), with different social finance instruments, markets, cultures (TEPSIE, 2012) and social economy traditions (Spiess-Knafl & Scheck, 2020:7) and legal frameworks. It may be argued that the efforts for the establishment of an EU-wide common institutional and regulatory framework for the financing of social enterprises and social economy organizations through the deployment of social, financial institutions and instruments have led to the development of an EU "social enterprise financial ecosystem” (EIB, 2016:11) with actors (including all non-governmental and specialist support networks and organizations) along the demand/supply spectrum interacting and creating social and economic value, generating growth and employment and promoting sustainable development.

[12] https://www.eif.org/what_we_do/equity/sia/index.htm?lang=-en, accessed on 12/11/2019.
[13] https://www.eif.org/what_we_do/equity/efsi/index.htm, accessed on 12/11/2019.
[14] https://www.pioneerspost.com/business-school/20191028/accelerating-change-eu-policy-maker-s-perspective-of-social-finance, accessed on 9/11/2019.
[15] https://www.socialchallenges.eu/en-GB/community/4/About, accessed on 10/11/2019.

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2.3 Social finance and investment initiatives in EU Mediterranean countries

The proliferation of social financing instruments and mechanisms doesn't automatically imply neither that the supply/demand gap has been effectively encountered in the EU nor that social economy organizations have sufficient access to appropriate information about social finance opportunities on the one hand and the capacity to become recipients of the financing products (*investment readiness*) and services available on the other. Although EU regulations and establishment of financial instruments in the framework of the European Social and Investment Funds (EFSI) are common for all EU member states, there's diversity among the instruments and mechanisms used and deployed among EU countries, partly depicting the different regulatory frameworks, social policies, and the various social enterprise business models and forms of social economy organizations operating in each country. Particularly, regarding the three countries in concern, there's also a marking difference regarding the use of the available financing instruments such as the EaSI or the focus on certain aspects of social entrepreneurship such as social innovation. Whereas in Portugal, social innovation has seen a substantial focus and financing; in Greece, it is underfunded as most of the social economy sector.

Although the first laws establishing social economy organizations were enacted in countries of southern Europe and the Mediterranean, such as Spain[16]Portugal[17], Italy[18], and Greece[19], "European countries where social investment markets are seeing the strongest emergence include Belgium, Germany, Netherlands, and the UK" (Commission, 2015:90), with another study placing France and Italy among the leading countries (Rizzi et al., 2018:805). In the following section, a brief reference on the different instruments and programs used in financing social enterprise activities in three European Mediterranean countries will be presented, namely Spain, Portugal, and Greece, in order to highlight the variations of methods and mechanisms of financing SEs and provide an overview of the development of the social finance markets in Southern Europe.

Spain

According to the Spanish Social Economy Employers' Confederation (CEPES), there's as of 2018, about 42.140 social economy organizations in Spain, of which 281 are Social Integration Enterprises, 670 Sheltered Employment entities, and 19.954 cooperatives, which undoubtedly consists a strong feature of Spanish economy[20]. It is estimated that the social economy sector accounts for 10% of Spain's GDP. However, despite the fact that there's a growing number of impact investment funds in the country, the "supply of capital for impact investment in Spain is still limited and as a result, the financing needs of social enterprises are often left unfulfilled" (Ruiz de Munain, 2019:11), and the use of instruments such as "Social Impact Bonds and Pay-by-Results are (*also*) limited" (*ibid*, p.12, *parenthesis added*).

Although social economy organizations have during the crisis "faced a drastic reduction of 11 percent on average in public subsidies" (Lopez-Arceiz, 2017:2) and the finance gap for "microfinance and social entrepreneurship combined has been estimated at about 700-750million Euros" (de la Mata, 2019:4), initiatives and the development of financial instruments form the supply side confirm the emergence of a rising social finance and investment market. According to de la Mata, "Spain is the EU member state where the EaSI Guarantee Instrument has been most used, with 6 transactions signed with 4 intermediaries, 3 in the field of microfinance and 3 focusing on social entrepreneurship" (de la Mata, 2019:4). In addition to the EaSI Guarantee Instrument, other social finance tools and programs employed in the Spanish social finance market include:

[16] 'Social initiative cooperative' (1999)
[17]'s Social solidarity cooperative under Cooperative Code (Law No. 51/96), adopted in 1997
[18] 'Law on social cooperatives' (381/1991)
[19] 'Law 2716/99 (article 12) creating Limited Liability Social Cooperatives' (Koi.S.P.E.)
[20] https://www.cepes.es/social/statistics&e=number_institutions_evolution, accessed on 13/11/2019.

♦ **Solidarity Mutual funds (SMFs**)
Solidarity Mutual funds **(**SMFs) are financial products that have as an investment goal of their savers and investors, the implementation of a specific social mission or fund a social impact project, together with the generation of profit for them and the facilitating bank or credit union. There are at present eight (8) SMFs in Spain, which support the economic and social activities of 951 social economy organizations (Lopez-Arceiz et al., 2017:7).

♦ **The Project "MARES -** Resilient urban ecosystems for a sustainable economy" is a 5.999.509million Euros project, with the EU's European Regional Development Fund contributing 4.799.607million Euros, through the "Urban Innovative Actions" Initiative for the 2014-2020 programming period. The project is deploying the models and values of the social economy to generate economic activity, create jobs, and improve employability among the unemployed and people at risk of social exclusion[21].

♦ Cooperative banks such ***Caza Laboral Popular- CLP,*** supporting the Mondragon Network[22] funding needs and the development of new cooperative organizations and **Cajamar Caja Rural** as the largest agricultural cooperative bank in Spain with more than 40.000 employees, providing and contributing at local development in Spain's regions are key players in channeling funds and enable the development of the Spanish social economy sector.

Portugal

Despite the fact that in Portugal, the "Social Economy Law" (June 2013), excludes market-oriented organizations and thus social enterprises, from being considered part of the Social Economy Sector, there are significant developments regarding the deployment of social finance instruments providing financing solutions to social economy organizations (SEOs). There's an estimate of "55.000 SEO's in Portugal with around 216 social entrepreneurship (until February 2015) initiatives" (IES-Social Business School, 2016:16)[23], whereas the funding needs of the social economy sector in Portugal is estimated at net 750m Euros (Portuguese Social Investment Taskforce, 2015:4). In December 2014, Portugal pioneered "in the use of ESF for financing the full life cycle of social innovation and social entrepreneurship projects" (EIB, 2018:7), and the establishment of the Social Innovation Initiative (SIB). The Portuguese SIB is "allocating 150 million (*from*) ESF with two main goals: to finance social innovation and social entrepreneurship projects and to promote the necessary ecosystem for its future sustainability, creating a social investment market" (EIB, *ibid:9, parenthesis added*). It includes the development of four social finance supporting instruments:

♦ **Capacity-building for Social Investment**
It is a financing instrument that aims to improve the organisational and management competencies of organisations and teams directly involved in social innovation and social entrepreneurship projects. It provides grant support up to EUR 50 000 (in the form of vouchers) to finance small capacity-building plans. (EIB, *ibid:11*).

♦ **Partnerships for Impact**
It is an ESF grant structured as venture philanthropy financing, leveraging other social investments to support high potential and high impact projects. It provides grant support of at least 50.000 Euros to finance, during the first one to three years, projects that intend to further develop proven social innovation concepts – innovative products, platforms, or services to help to solve societal problems (EIB, *ibid:13*).

♦ **Social Impact Bonds (SIBs) program**
Portugal is the first country in the Mediterranean that utilized a Social Impact Bond. In February 2015, the first SIB pilot was launched by Calouste Gulbenkian Foundation so as to tackle primary school retention in

[21] https://ec.europa.eu/regional_policy/en/projects/europe/supporting-growth-in-madrids-social-economy, accessed on 13/11/2019.
[22]**,** comprise the largest worker cooperative in the world (102 cooperatives and 261 companies in total). It has 67.000 employees in Spain, about 82.000 in Europe in sum (2018), and has invested about 28m Euros towards activities with a social impact (2018).
[23] Law No 18/2015 4 March, relating to 'Venture Capital, Social Entrepreneurship and Specialised Investment (Venture Capital Law)' made it possible "for the first time in Portugal to use retail social investing to catalyse private funding towards social enterprises", https://evpa.eu.com/nexus/portugal accessed on 13/11/2019.

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Lisbon (Portuguese Social Investment Taskforce, 2015:18). The Social Impact Bonds program consists of grant support to pay for *validated* outcomes achieved by specific social innovation projects in an area of public policy - Employment, Social Protection, Justice, Health, and Education (EIB, *ibid:14*).

♦ **Social Innovation Fund**

Portugal is one of the first countries in the world to set up a fund for Social Innovation[24]. SIF provides "access to finance for Social Economy organisations (SEO) and social start-ups involved in social innovation and social entrepreneurship projects" (EIB, *ibid:16*) Debt finance and Equity [25].

Other programs and instruments in the Portuguese social finance market include:

♦ **Social Investment Lab**

The Social Investment Lab is the first social finance intermediary in Portugal, founded in October 2013. It is a social investment intermediary that brings together social organizations, investors, and the public sector towards finding innovative solutions for social problems (Miguel, 2016:13).

♦ **Social Invests program**

The Social Invests program[26] is 12,5 million Euros program funded by ESF and implemented by CASES - António Sérgio Cooperative for Social Economy and addressed to:

i) Private institutions of social solidarity, ii) Mutuals, Cooperatives, iii) Local development associations and iv) Other social economy non-profit entities.

It provides up to 100.000€ with up to 1,85% interest rate.

Greece

Like many EU countries, there is a supply/demand gap concerning financing the social economy sector in Greece and SEs in particular. Lack of finance is considered "one of the main hindering factors for the development and growth of social enterprises in Greece" (Commission, 2016:17) and of the social economy sector, as well as a fragmented and disorganized civil society, where the private non-profit sector operates as the 'shadow economy' (Tsobanoglou, 2012:109). However, indications of an emerging social finance market for SEs are evident. According to the General Registry of Social and Solidarity Entities, as of October 2019, there are about 1.303 active social enterprises in Greece[27], which having in mind the recent economic turbulence that hit the country, they find it extremely hard to scale and grow their activities. Beyond the very limited development of financing mechanisms and instruments in the country, SEs find themselves "also largely excluded from access to mainstream public support schemes (*which is*) aimed at SMEs in general" (*ibid*, 2016:17, *parenthesis added*). According to a British Council survey, financing for social enterprises is more likely to come "from the private sector than the state or local authorities" (British Council, 2017:62). In contrast, Greek social enterprises "are more likely to receive donations, project-based grants or in-kind donations than receive repayable loans and mortgages" (*ibid*, 2017:63).

Recent developments in establishing supporting financial structures and instruments for the financing of social economy organizations and SEs in Greece include:

♦ A 7,5million Euros **Microfinance Guarantee Agreement** signed on May 2016, between the European Investment Fund (EIF) and the Cooperative Bank of Thessaly (CBT) under the EaSi program, facilitating financing in the form of loans for up to 25.000 Euro micro-entrepreneurs, including cooperatives and social enterpizes[28]. EIF is also supporting the **SEE GR project,** whose main objective is "to develop and establish the Greek Social Enterprise Guarantee Fund that suits the needs of social enterprises in Greece"[29].

♦ **EU Structural Funds**

[24] https://www.fis.gov.pt/en/what-is-the-sif/, accessed on 13/11/2019.
[25] https://www.fis.gov.pt/en/sif-debt-how-it-works/, accessed on 13/11/2019.
[26] https://www.cases.pt/programas/social-investe/#, accessed on 14/11/2019.
[27] https://kalo.yeka.gr/(S(asmyz4b1qbfgvkflsbbpfkaj))/login.aspx?ReturnUrl=%2f, accessed on 10/11/2019.
[28] https://ec.europa.eu/commission/news/eu75-million-eu-financing-micro-entrepreneurs-greece-under-juncker-plan-2018-jul-04_en, accessed on 13/11/2019.
https://bankofkarditsa.com/site/index.php/el/proionta-ypiresies/easi, accessed on 13/11/2019.
[29] http://www.see-gr.eu/site/index.php/en/, accessed 13/11/2019.

Through the ESF and ERDF about 164,5million Euros have been assigned and channelled towards social and solidarity economy organizations for the period 2014-2020, for the provision of grants, the development of supporting structures, and establishment of financial instruments and institutions (Commission, 2016:72). According to Law 4430/2016 (article 10), a 'Social Economy Fund' has been instituted, whereas the ESF funded action "Centres Supporting Social and Solidarity Economy", will channel 11,3 million Euros towards social enterprises for in 2019-21[30].

♦ **Third sector microfinance initiatives**

- Action Finance Initiative is a microfinance provider organization in Greece targeting the combat against social and financial exclusion, providing loans up to 10.000. It was founded in 2014, by Action Aid Hellas and Adie[31].

- The People's Trust is a non-profit organization, which supports entrepreneurs who do not have access to other sources of funding. It provides micro-grants to entrepreneurs who wish to either create a new business or grow an existing business, with grants up to 10,000 Euros as starting capital[32].

♦ **Crowdfunding**

Give and Fund is a crowdfunding initiative with a substantial record of funded projects through its OneUp platform[33]. It is an online hub for individuals, start-ups NGOs, and companies active in CSR initiatives who wish to raise capital in an economical, safe, and transparent way for people and organizations with a social cause.

♦ **Cooperative Banks** in Greece consist of key actors for local and regional development providing solidarity financing and loans towards entrepreneurs. Chania Cooperative Bank recently became a member of the European Federation of Ethical and Alternative Banks and Financiers (FEBEA)[34]. The seven (7) operating Cooperative Banks in Greece, despite their rapid development, only hold a small percentage of the Greek credit market.

♦ Establishment of the **Hellenic Development Bank,** (replacing the National Entrepreneurship and Development Fund)**,** Law 4608/25.04.2019, where in Article 1, par. 3 among its 10 goals, goal no (9) is "the promotion of social and solidarity economy".

♦ The **Hellenic Fund for Sustainable Development (ETVA)** is the only mutual fund in Greece dispensing investment funds based along with financial, social, and environmental criteria.

3. Results and Discussion

Recovering from an economic crisis hasn't been an easy path, regardless of how strong or weak one's economy was during its outbreak and evolution. For countries that have sought for external funding and support, as was the case for the three EU Mediterranean countries in perspective, reversing high poverty (including child poverty and material deprivation), unemployment and youth unemployment rates[35] (including NEETs rates)[36] And reducing social inequalities has and still is an ongoing challenge that needs to be met. During the crisis, SEOs have conduced to "preserve employment in traditional sectors, create new employment in emerging sectors, and provide structure to new professions that are at risk of informality and exploitation" (ILO, 2017:16). However, the institutional arrangements and the development of supporting

[30] https://www.espa.gr/el/Pages/ProclamationsFS.aspx?item=4009, accessed on 14/11/2019.
[31] https://www.afi.org.gr/en/funding, accessed on 14/11/2019.
[32] https://www.thepeoplestrust.org/en/what-we-do, accessed on 14/11/2019.
[33] https://www.oneup.gr/giveandfund/homepage?request_locale=en, accessed on 14/11/2019.
[34] http://www.epixeiro.gr/article/127835, accessed on 14/11/2019.
[35] Greece has the highest youth unemployment (under 25ys) rate among the EU 28 member states rising to 33,2% during the 2nd quarter of 2019, followed by Spain 32,8% and Italy 28,7%, while in Portugal it is 19,4% (Eurostat).
[36] As of 2018, among the three EU Mediterranean countries, Spain's 16,7% NEETs rate has a 7,3% reduction since 2013, where it has reached each peak during the crisis with 24%. Respectively, Portugal 9,9% NEETs rate has a 7,2 reduction from 17,1%, while Greece has the highest reduction of its 30,8% rate in 2013, with 8,5% ranging at 22,3% (Eurostat).

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mechanisms for their financing differ from country to country and lead to the development of an EU social finance market with no homogeneity and easy access to finance, where it is needed more: towards the small and medium-sized SEOs.

In this paper, beyond the analysis on the emergence of social finance in scientific discourse and its practical application at the EU setting, a brief overview and reference to social financing initiatives and tools was displayed, which included three EU Mediterranean countries that were hit by the crisis and implemented measures to support their social economy sector especially regarding its financing. Among the three countries reviewed in this paper, in Portugal and Spain, there is a larger use and deployment of EU instruments than in Greece, as well as a larger number of financial tools developed in funding SEOs. The state and the EU are the main social finance providers, with private investors and institutional actors such as commercial banks, increasing the volume of their participation. It seems that during the crisis, both Spain and Portugal have been mobilised and adapted faster in including and developing social investment and innovation strategies and consequently, the development of supporting frameworks for their social economy sectors, contrary to Greece where despite the move towards advancing its legal framework and public procurement procedures for SEs[37], there is still a lack of sufficient social financing instruments, as well as little use of the EU financing and supporting framework. It is noted that in Spain, "the job losses in the social economy have been 6,5% lower than the rest of business", in the midst of the crisis (European Parliament, 2016:103), signifying at a large degree the resilience of the SE sector in large systemic financial crisis.

During the last decade, a great rise in numbers and proliferation of social financial instruments, as well as a significant volume of allocated capital for ventures with social objectives and impacts, has been witnessed across the EU, signifying an institutional and structural change both in terms of the functioning of the EU internal market and in terms of a change in the EU socio-economic model of development. Since the establishment of the SBI in 2011 and during the current 2014-2020 programmatic period, the EU, through the European Structural and Investment Funds, has unfolded its strategy for a more inclusive EU, by specifically supporting the growth and development of the social economy sector. Social enterprises (SEs) and social business organizations have been at the center of the EU efforts for promoting sustainable development, where the cooperation among corporations and private firms with social enterprises and non-governmental organizations has been consolidated as a feature in this new era of development, which has at its core the attainment of a social and environmental goal, along with financial benefits.

Although social finance markets follow a different pace and path of development in EU countries, with marking differences in scope and breadth even in crisis-hit EU Mediterranean countries, which are generally considered as nascent social investment markets, it is evident that they contribute towards the establishment of enabling conditions for SEs to grow and expand their activities and operations. The rapid development of social finance instruments and institutional framework for social investments in the EU has, among others, surfaced the growing concern of the lack of alternative measures and mechanisms in cases of public fiscal constraints in leveraging and supplying funding and private sector reluctance to invest. In this framework, the response at the EU level is conducing to evidence of an emergence of an EU social finance ecosystem that provides enabling conditions for sustainable development, balancing between the public and the private interest in favour of the general interest and well-being.

4. Conclusions

Despite the rising volume of capital and services that they distribute and provide, social finance markets are nascent markets. Both the concept and the field of social finance are considered young in their epistemology and theory formation. In every part of the world, social finance initiatives develop in different socio-economic conditions forming different models, practices, and traditions. Among the findings of this review is that social finance institutions and market formation differ from one setting to another, even within an EU single market perspective, and that also applies to the EU Mediterranean countries under review. Even

[37] Law 4412/2016 "Public procurement of works, supplies, and services

within the EU, different social finance markets develop depending on each member-state's regulatory status and capacity to use and promote the instruments provided, as well as the financial needs of its social economy sector and the degree of its embeddedness in the EU member-states social and public policies.

Social finance is linked to knowledge-based entrepreneurship and social innovation and contributes to sustaining local development and social economy endeavours. During the recent pandemic, the need for social interventions rises significantly, and so does the need for facilitating the distribution of resources for addressing social needs. Further research is required, particularly for interdisciplinary analyses, in order to surface more aspects of social finance, both in the EU and the EU Mediterranean countries, as well as for contributing to the framing of the worldwide mosaic of social finance. Despite the research limitations in this review, the paper has identified the recent development of social finance markets both in Europe and in part of the EU Mediterranean countries, as well as their contribution in supporting local development, especially in Spain and Portugal, when compared with Greece, together with evidence on the establishment of social finance as a young field of research, which conceptualizes that financial, social and environmental goals could be achieved all together and not independently, as the traditional finance paradigm presupposes.

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