Focus :

FUNDING OVERVIEW

SOME EXAMPLES OF INNOVATIVE FUNDING TOOLS

CONFERENCE

[FIN2]
Room Wangari Maathai
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MAIN FINDINGS

Finance has shown the ability to be very innovative in creating financial wealth, but can it do the same to respond to the needs of the social and solidarity economy? The four speakers presented innovative tools which aim to give a helping hand to sectors and social and voluntary organisations which have had a positive impact on society and/or the environment. They show that through regulation and financial instruments, certain financial sector problems can be solved. The diversity of tools and countries which are experimenting (United Kingdom, France, developing countries, United States) shows that many different routes to financial innovation coexist to help the social and development economy. The involvement of lawmakers and public institutions in bringing change to financial/banking regulations, the creation of new markets (carbon emission trading, for instance), but also creating a shift in all actors' mentalities (banks, NGOs, etc.) are important factors in helping innovative forms of finance emerge, which aim to favour the social and sustainable economy.

SPEAKERS

Kent Hudson

Founder and CEO, Khnet Inc. Management Consulting

Denis Loyer

Vice-president, Etc Terra

Jane Newman

International Director, Social Finance UK

Pierre Valentin

Deputy Managing Director in charge of Finance, Crédit Coopératif

MODERATOR

Jean-Marc Boni

Chairman of the Board, Société financière de la Nef

Summary of interventions

Regulations which favour financial inclusion: the example of the CRA and the HMDA in the USA

Kent Hudson presented the positive impact on access to credit which was brought about by two American laws: the CRA (Community Reinvestment Act, 1976, evaluation of banks' ability to provide credits of quality; this evaluation is taken into consideration particularly regarding the services assigned to banks by federal authorities) and the HMDA (Home Mortgage Disclosure Act, 1977, the requirement obliging banks to publish the data for all successful and unsuccessful loan applications). These laws have allowed for bank exclusion areas to be identified, whilst at the same time reducing credit risks and helping banks to gain full access to these markets thanks to the fact that more information is available. The upshot is that for the 1996-2001 period, 1,400 billion dollars of extra credit was granted; 68.5 million dollars was invested, 16 million of which in housing, social assistance, etc.; and 6,000 social stakeholders saw an impact (businesses, associations, NGOs, etc.). Effective implementation of these regulations is ensured by all stakeholders involved, working in close cooperation. Similar regulations have been put in place in India, Brazil and South Africa.

Forests and carbon emission trading: opportunities for local development

Denis Loyer introduced the REDD+ programme (Reducing Emissions from Deforestation and Forest Degradation) which sprouted from the realisation of the triple importance that forests represent: environmental, social and economic. The programme aims to provide funding for projects of social and environmental value, particularly through the use of carbon credits (certified credits that can be traded on the voluntary carbon market). In India, Action Carbone has funded biogas digesters, which are fermentation tanks that produce energy in the form of methane for cooking. The project has been able to expand thanks to an advance provided as a loan by the French Development Agency (AFD), which is then paid back by selling carbon credits. In Madagascar, a local development and forest conservation project was funded by Air France to the tune of 5 million euros. Follow-up on this project could be funded in the medium term by the carbon credits generated by reducing deforestation. In Central Africa, 15 million hectares of logged forestland is certified, 5 million hectares of which to the highest global quality standard (FSC). A vast project will aim to bring together protected areas and logged forestland, which are vital carbon sinks and unique reserves for biodiversity. Carbon credits will provide funding for local projects. Endowing forestland with greater value in this way while enhancing its impact is therefore a new way of justifying increased funding. This broadened approach which encompasses social, economic and environmental aspects, also attracts diverse competencies, helping them to be put to work together. The use of carbon credits allows for expansion which could hardly be considered with conventional loans. Finally, synergies between social, environmental and agricultural aspects are beneficial to the economic wellbeing of the populations of these areas.

Tools for developing the social economy: the example of charity bonds in France

Pierre Valentin notes that the EU is working on setting up specialised investment funds for investing in social enterprises (European Social Entrepreneurship Funds). One of the main constraints of associations in France is the difficulties they face in creating equity. During Michel Rocard's time as French Prime Minister in the 1980s, two tools were set up for tackling this issue: perennially redeemable bonds and charity bonds. Scarcely made use of nowadays, they can still be helpful for the social and solidarity economy, since in order for it to develop, it needs and benefits from receiving the large sums of money created by investment funds. In France, employee solidarity savings account for 2.5 million euros, 5-10% of which is set aside for investing in social enterprises, a sum which adds to the specialised investment funds which are entirely set aside for investing in the social economy. Charity bonds have the added advantage of being considered equity under French law, which reassures investors and creates leverage for bank loans. The rate is regulated (government bond yield rate + 2.75%). In 2012, Crédit Coopératif invested in 8 million euros of perpetual bonds (3% yield) and charity bonds (4-6% yield) in ACTED, one of the largest French NGOs, which is focusing heavily on developing its microfinance activities. Social investors, banks and funds underwrote the first tranche in the summer of 2012, and a second tranche is set to be released in autumn 2012. Suggestions for improving bond regulations have been put forward in order to allow for the sector to be developed, including: offering holders of these bonds the same tax breaks as those enjoyed by investors in SMEs; raising the interest rate in order to attract more investors and specifying that the bond will be redeemable as soon as the association that has issued it has accumulated enough profit to pay the yield.

Social Impact Bonds: investing in social profitability

Created in 2007, Social Finance has a team of 30 people with a background in banking, the public sector and the social sector. The International Director is **Jane Newman**. They are launching the Social Impact Bonds (SIB) project: bonds that aim to bring about precise and measurable social change. Investors are paid in accordance with the extent to which this objective is reached. This project brings together three types of stakeholders: NGOs (who have a real social impact), the public sector (which has a budget set aside for social affairs without always having the capacity to bring about change) and investors. The foundations of this economic model are based around the idea that social change will allow money to be saved (in this case for public authorities). The first pilot project that was set up raised 5 million pounds. The social objective at the time was to bring about a minimum 10% reduction in repeat offenders through follow-up work carried out by five NGOs over the 12 month period following an inmate's release from prison. If this objective is reached, the government will reimburse the investors. This strategy responds to the growing need that investors (donors, foundations, public authorities, etc.) have of ensuring that resources are put to optimal use in order to achieve a certain social outcome. Experiments of this type are being carried out in New York, Australia, Ireland and Scotland. Social Finance also has other projects: work is underway to create a similar tool which could also be put to use within multinationals in developing countries; a fund grouping together other funds is to be created (Global Social Impact Fund) as well as the Social Impact Capital Venture, which is to be set up in 2012-2013.

SUMMARY OF DEBATE WITH THE AUDIENCE

How can crises be prevented (such as the microfinance crisis in India)?

Kent Hudson answers by speaking about his experience in the United States. Banks should shoulder their responsibilities and offer quality loans, particularly for consumer credit. Thanks to regulations such as the CRA and HMDA, there is greater transparency. However, despite the information available, these regulations were not able to prevent the subprime crisis because in the United States there is still a deficit in information sharing between retail banks and securitised financial products – a significant flaw in the American regulatory system.

Which investors were interested in investing in Social Impact Bonds?

Jane Newman explains that the first pilot project was carried forward thanks to 17 social investors (foundations and private individuals), but that the objective is to later attract conventional investors as the model is further developed.

What were the strong points and difficulties of seeking funding through carbon credits?

The main advantage of using carbon credits is that they drew in investors able to fund development projects. The main difficulty continues to be correctly incorporating local populations in to such projects.

How is the social impact of SIBs measured?

The social objective assigned to the pilot project was that of bringing about a 10% drop in the number of reoffending prisoners, a figure which is statistically high enough so as not to create controversy. The main difficulty was that of instilling associations with the concept of performance and follow-up indicators, since this does not at all fit in with their current working strategies.

REPORTER

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More on this topic

- **Social Finance:** www.socialfinance.org.uk
- **Etc terra :** *Voir la présentation de Denis Loyer*et www.etcterra.org