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***Sotnyk Iryna***

*sotnyk@econ.sumdu.edu.ua*

*Doctor of Economics, Professor,  
Professor at the Department of Economics,  
Entrepreneurship and Business Administration,  
Sumy State University, Sumy*

***Turchenko Anastasiia***

*a.kirilieva@biem.sumdu.edu.ua*

*Postgraduate,  
Sumy State University, Sumy*

***Melnyk Leonid***

*melnyk@econ.sumdu.edu.ua*

*Doctor of Economics, Professor,  
Professor at the Department of Economics,  
Entrepreneurship and Business Administration,  
Sumy State University, Sumy*

***Nikulina Maryna***

*maryna.nikulina@student.sumdu.edu.ua*

*Student,  
Sumy State University, Sumy*

## **MECHANISMS OF SOCIAL AND SOLIDARITY FINANCING IN THE MODERN ECONOMY<sup>1</sup>**

**Abstract.** *The article studies the essence and peculiarities of using social and solidarity financing mechanisms in the modern economy. The development of the social and solidarity economy, which balances the goals and priorities of sustainable development with the goals and values of the market economic system, raises the issue of financing organizations in this sector that do not always adhere to economically sustainable business models. Companies of the social and solidarity economy are a tool for forming a new and efficient system of the national economy, providing environmental protection, cultural development, education, healthcare, social security, implementation of civil society initiatives, etc. However, as they pursue primarily social rather than economic goals, the issues of their financial support and achieving financial sustainability in the long-term context are being raised. The article analyzes the transformation of social and solidarity financing mechanisms, defines their essence in the current context, and identifies the primary sources of social and solidarity financing by potential providers. The latter include individuals, participants, shareholders, other stakeholders, foundations and philanthropic organizations, financial intermediaries, and public authorities. The next stage of the study systematizes the main types of social and solidarity financing mechanisms in the modern economy, including traditional (donations, grants, loans, subsidies, etc.) and innovative forms (ethical, impact investing, tolerance capital, social stock exchanges, etc.). Based on the analysis, the authors substantiate the reasons for the growing role of social and solidarity financing in the modern business sector, which include an increase in demand for qualified personal and social services as a result of the long-term*

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*COVID-19 pandemic and Russian aggression in Ukraine; and the actualization of social inclusion issues due to the growing social inequality and uncertainty of specific population groups and the need for their social adaptation.*

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**Сотник І. М.**

*sotnyk@econ.sumdu.edu.ua*

*д.е.н., проф.,*

*професор кафедри економіки, підприємництва та бізнес-адміністрування,*

*Сумський державний університет, м. Суми*

**Турченко А. В.**

*a.kirilieva@biem.sumdu.edu.ua*

*аспірант,*

*Сумський державний університет, м. Суми*

**Мельник Л. Г.**

*melnyk@econ.sumdu.edu.ua*

*д.е.н., проф.,*

*професор кафедри економіки, підприємництва та бізнес-адміністрування,*

*Сумський державний університет, м. Суми*

**Нікуліна М. П.**

*maryna.nikulina@student.sumdu.edu.ua*

*студент,*

*Сумський державний університет, м. Суми*

## **МЕХАНІЗМИ СОЦІАЛЬНО-СОЛІДАРНОГО ФІНАНСУВАННЯ В СУЧАСНІЙ ЕКОНОМІЦІ**

**Анотація.** *Стаття присвячена дослідженню сутності та особливостей використання механізмів соціально-солідарного фінансування у сучасній економіці. Розвиток соціально-солідарної економіки, яка урівноважує цілі та пріоритети сталого розвитку із цілями і цінностями ринкової економічної системи, актуалізує питання фінансування організацій цього сектору, які не завжди дотримуються економічно сталих бізнес-моделей. Компанії соціально-солідарної економіки є інструментом формування нової та ефективної системи національної економіки, забезпечуючи захист навколишнього середовища, розвиток культури, освіти, медичне обслуговування, соціальний захист, реалізацію ініціатив громадянського суспільства, тощо. Однак оскільки вони переслідують насамперед соціальні, а не економічні цілі, загорюються питання їх фінансового забезпечення, досягнення фінансової сталості у довгостроковому контексті. У статті проаналізовано трансформацію механізмів соціально-солідарного фінансування, визначено їх сутність у сучасному контексті, ідентифіковано основні джерела соціально-солідарного фінансування за потенційними суб'єктами надання коштів. Останні охоплюють фізичних осіб, учасників, акціонерів та інших стейкхолдерів, фонди та філантропічні організації, фінансових посередників та державні органи влади. На наступному етапі дослідження систематизовано основні різновиди механізмів соціально-солідарного фінансування у сучасній економіці, які включають як традиційні форми (пожертви, гранти, позики, субсидії, тощо), так і новітні механізми (етичне, імпактне інвестування, капітал терпимості, соціальні фондові біржі тощо). На основі проведеного аналізу обґрунтовано причини зрос-*

*тання ролі соціально-солідарного фінансування у сучасному бізнес-секторі, до яких належать збільшення попиту на кваліфіковані особисті послуги та послуги соціального характеру внаслідок довготривалої пандемії COVID-19 і російської агресії на території України; актуалізація питань соціальної інклюзії через загострення соціальної нерівності та невизначеності певних груп населення, необхідності їх соціальної адаптації.*

**Ключові слова:** джерело фінансування, капітал, механізм, соціальна та солідарна економіка, соціально-солідарне фінансування, сталий розвиток.

**Formulation of the problem.** The economic, environmental, and social challenges of recent decades have demonstrated the existence of a range of systemic problems in developing national economies and social and economic relations. Empirical evidence in the form of unpredictable economic crises and serious social issues of nations that have remained unresolved for many generations, natural disasters, climate change, and wars demonstrate the inability of market economy mechanisms, as well as autocratic societies, to ensure sustainable economic, environmental, and social progress. The current exacerbation of poverty and social marginalization, the increasing number of depressed regions, rising unemployment, the growing negative socio-economic and environmental impacts of globalization, and migration processes have all led to the emergence of the social and solidarity economy (SSE). Today, the latter acts as a trigger for the emergence of new forms of solidarity in the areas of environmental protection, cultural development, civil society initiatives, education, health care, social security, etc. [1], and complements the traditional market economy, correcting its shortcomings. Businesses and organizations operating on the SSE principles contribute to economic progress and solve many social and environmental problems, such as poverty alleviation, improved access to education, healthcare, clean drinking water, etc. [2].

However, in a market environment where the primary criterion for success is profit maximization, SSE organizations are not always able to maintain a sufficient level of competitiveness and are vulnerable. Since they pursue primarily social rather than economic goals, the issues of their financial support and achieving financial sustainability in the long-term context are being raised.

**Analysis of recent research and publications.** Leading scientists, experts, and practitioners keep trying to find ways to build a type of socio-economic formation that would balance the goals and priorities of sustainable development with

the goals and values of the market economic system. The principles and mechanisms the SSE operates with can help us get closer to this goal. At the same time, there is no consensus among scholars and experts on the methods and tools for implementing the SSE principles in national economic systems [2–8]. In particular, in the post-Soviet space, the SSE concept is beginning to revive after decades of neglect, as evidenced by scientific publications on these issues [6–11]. In addition, many researchers have different points of view on implementing this type of economic model (timing, methods, compatibility with existing economic laws and principles, etc.). Given this, further research into the nature and tools of the SSE, as well as the experience and prospects for implementing its principles in national economies, are relevant issues.

Financial inclusion creates more opportunities for SSE companies to realize their powerful potential in solving urgent social problems [12]. Therefore, social and solidarity financing (SSF) is one of the components that form the basis of the SSE. Thus, Petrushenko Y.M. [8] notes that SSF can become a powerful and effective tool in addressing the development of local communities, as it allows them to obtain financial resources on more favorable terms than from commercial institutions. A. Artis points out that the wide variety of organizational forms of using the SSF and the diversity of the target audience makes it a driving force in transforming the economic sector and leads to introducing new rules for all financial system actors [3]. Despite the significant potential of the SSF as a tool for social and other transformations, studies of the features and mechanisms of its use are fragmentary and require further scientific substantiation.

**Setting the task.** The article aims to study the essence and peculiarities of using SSF mechanisms in the modern economy.

**Summary of the main research material.** In pre-industrial society, the social security of people who required special treatment was provided by family members and the

corporation to which the individual belonged (church, workshop, peasant community, etc.). With the rapid development of industry in the second half of the nineteenth century, social security gradually passed into the hands of the state, which today intervenes in economic relations through social legislation and requires employers to provide social protection for employees in case of illness, disability, old age, etc. Over time, new forms of social protection emerge that require regulation and control. Currently, social protection means not only assistance in difficult life situations but also various methods of supporting and developing business entities that contribute to achieving the Sustainable Development Goals, locally and globally. Given the rapid pace of development in all areas of economic activity in the twenty-first century and, accordingly, the intensification of competition, there is a need to improve the competitiveness of companies constantly. It can be done in many ways, but each requires some funding. Since the state's financial capabilities are limited, business entities are forced to look for other sources of funds. In this context, it is essential to use the mechanisms of the SSF to obtain financial and resource assistance in implementing new social projects and ideas.

The SSF is considered a complex system of financial transactions that aims to support promising and cost-effective projects with social aspects, balancing social and economic performance. A vital component of the SSF is the social vector aimed at implementing socially necessary and socially valuable activities. Mutual assistance and trust-based relationships are also essential elements of the SSF.

Since the SSF focuses on people and social relations, it is an instrument of human and social development. Various SSF mechanisms and forms attempt to reach the poor and marginalized, promote the creation of «decent» jobs by supporting small businesses, tailor services to consumers, increase benefits for them and their families, and ensure that solidarity financial institutions are responsible for their employees, clients, communities, and the environment. The SSF is a particularly effective type of financing because it responds to local social needs, strengthens community stability, and is less vulnerable to changes and crises, which is a significant advantage in the modern world [2]. Thus, the SSF is not just about commercial transactions that are anonymous and uncertain; it

is about subordinating economic processes to the interests of human development [6].

The SSF affects the stages of financial decision-making and various forms of socialization that contribute to establishing trust-based relationships.

The openness and timeliness of comprehensive information should also help borrowers understand the terms of project financing. It is especially true for Ukraine, whose economic environment is contradictory and unbalanced [1–2; 7; 10].

The SSF's effectiveness depends on clear rules and, most importantly, their observance, which is the key to the successful implementation of SEA projects. It is the social component of financing that determines the key role and gives a special status to the SSE. Strict adherence to all the rules makes it possible to create platforms for financing various needs, reduce the borrower's debt burden, and facilitate access to resources [2; 6]. It should be emphasized that the SSE is based on partnerships between all actors in the financial process, which is a good trigger for the development of the economy as a whole. The SSF involves the interaction of various structures: public organizations, associations, mutual aid societies, cooperatives, foundations, etc. Their functioning is characterized by joint management and limitation of profits to meet social needs (preservation of social values, promotion of the principles of solidarity and cooperation). Recognition and widespread use of the SSF is due to its fundamental ideas that reflect the human desire for social justice, equality, preservation of environmental quality, etc.

At least theoretically, SSF organizations can use different funding sources. They include funds from individuals, companies engaged in the SSF, non-governmental agencies, private commercial corporations, government funding programs, etc. Table 1 provides a list of the main sources of funding for SSE projects and organizations.

For many entities listed in Table 1, the SSF requires acquiring additional competencies and performing other functions, considering the characteristics of different borrowers – the SSE organizations. For example, to develop a financing profile for an SSE project, financial intermediaries must understand and assess the social aspects of the borrowing company. The SSF entities should adequately assess the social mission of the SSE organization and its

Table 1

**The main sources of SSF**

Source.	Characteristics of the source
Individuals	Capital is provided by individuals, mostly in the form of donations or small investments. In recent years, new technologies such as online crowdfunding platforms have facilitated the broader distribution of credit and increased the potential of this source of capital.
Participants, shareholders, and other stakeholders	Capital is supplied by members or owners of a company in various ways (shares, including cooperative shares, membership fees, donations, loans, etc.).
Foundations and philanthropic organizations	The capital these entities supply is generated from the income they receive from investing assets in the equity and bond markets and is used to pay dividends and interest to fulfill social missions. Recent trends in the sector include a shift toward venture philanthropy and impact investing, which combine a customized funding strategy with non-financial services, organizational capacity building, and performance measurement through risk capital methods to finance social enterprises.
Financial intermediaries	Capital is supplied by ethical and social banks and other financial intermediaries that provide loans only to those SSE companies that meet the intermediaries' social missions. As a rule, along with their core business, banks implement charitable projects, develop and offer specific product lines for SSE organizations.
Public authorities	Capital is provided by the government as part of social and economic development programs in the form of subsidies, grants, loans, government guarantees, and other forms of public-private partnerships (e.g., leasing or transferring government buildings or other assets to the use of SSE). These schemes help the SSE organizations build affordable housing and local infrastructure facilities and launch or expand programs contributing to the community's well-being.

Source: developed by the authors based on [1–2; 6; 8; 13]

implications, including the longer timeframe required to generate profit, as well as the specific risks of the investment [6; 14]. This evaluation of social projects is closely related to the choice of the SSF mechanisms described in Table 2. The selection of a specific form of SSF from their variety should be based on an analysis of the advantages and disadvantages, specifics of application in project implementation, stakeholder aspirations, and expectations, etc.

Summarizing the results of the analysis of the SSF essence, the characteristics of funding sources, and the features of various SSF mechanisms, it is advisable to identify the following reasons for the growing role of the SSF in the modern business sector:

- a tendency to increase demand for qualified personal services. For many professions and sectors of economic activity based on direct communication with users and associated with providing personal social, medical, educational, and other services, the presence of SSE organizations has traditionally been vital. In the future, these sectors will become increasingly

important in the context of the development of the service economy. That is why new public organizations and alliances are being created to support the high level of qualification of workers in the field of SSE, which requires special funding [8; 26];

- many SSF services have been provided in the past, especially in countries with long-standing welfare state traditions and a robust public sector. However, the current crisis of state budgets and their pessimistic prospects for development, given the effects of the COVID-19 pandemic and the global impact of Russian aggression in Ukraine, indicate that the model of public SSF is no longer sustainable. There are long-term structural factors that lead to an increase in demand for social services, and these needs should be addressed by mobilizing private resources in the context of the SSF;

- the growth of social inequality in modern society exacerbates the issue of social inclusion. SSE organizations that use the mechanisms of the SSF are often specially created to provide education and development opportunities,

**Main types of SSF mechanisms**

<b>SSF mechanism</b>	<b>Characteristics</b>
Crowdfunding	technology for attracting micro-investments through specialized Internet platforms for the implementation of various projects [10; 13]
Crowdfunding	an alternative financial instrument for attracting capital to startups and small businesses from a wide range of micro-investors [9]
Fundraising	fundraising by non-governmental organizations for charitable purposes, support for socially vulnerable groups, people in difficult life circumstances, etc. [15]
Venture philanthropy	applying or redirecting the principles of traditional venture capital financing to achieve philanthropic efforts [16]
Impact investing	investments made with the intention of creating a positive, measurable social and environmental impact, along with financial returns [13; 17]
Ethical investing	the practice of using the investor's ethical principles as the primary filter for choosing investments in securities [13; 18]
Patient capital	equity or debt capital that its owners invest to obtain benefits typical of long-term investments. At the same time, investors do not withdraw their assets even in the event of unfavorable short-term conditions for the company [13; 19]
Social financing	investments in projects necessary to achieve social goals, such as those included in the Sustainable Development Agenda. By influencing the cost of capital, social finance can incentivize firms to follow business models that better meet social goals [20].
Public (cooperative) shares	non-transferable share capital; a form of share capital unique to cooperatives and public companies [21]
Social bonds	revenue bonds that raise funds for new and existing projects with positive social outcomes [20]
Donations	is a gift for charity, humanitarian aid, or to benefit a cause [22]
Grants	financial resources provided as a gift from the grantor [13]
Loans	funds provided by financial institutions on a repayment basis [13]
Subsidies	direct (e.g., cash payments) or indirect (e.g., tax benefits) benefits provided to a person, business, or institution, usually by the government, to relieve a burden in the public interest or to promote social goods or economic policies [23]
Microfinance	a type of banking service provided to unemployed or low-income individuals or groups who would otherwise have no other access to financial services [13; 24]
Participatory budget (public budget)	the share of the local budget used directly by the city community to implement the initiatives of their residents on a competitive basis [9; 11]
Social stock exchanges	electronic trading platforms that allow social businesses to raise capital through ethical investors willing to invest in enterprises with a dual corporate and social mission [25]
Public-private partnerships	building business relations between the state and private entities, which involves combining efforts to meet social needs, combining the capabilities of state regulation and the private sector to implement joint projects aimed at solving social, environmental, and other problems of communities [9]
International loan and grant programs	financial resources of global organizations that are provided to the SSE agents on a repayable (loans) or non-repayable (grants) basis for the implementation of socially significant projects [9]

Source: systematized by the authors

new jobs for a growing number of socially disadvantaged groups, the population in difficult life circumstances, or deprived of the right to work in the general labor market. Employment opportunities provided by the SSF help solve the social adaptation problems of migrants and refugees, people with physical or mental disabilities, etc. It is especially relevant for internally displaced persons in Ukraine due to the war on its territory and for the European Union, which in 2022 received a multi-million flow of Ukrainian refugees.

In addition to its consolidated functions, the SSF has significant potential to create jobs in new sectors of the economy, especially where jobs have a high level of socialization and impact on social relations. In other words, in the face of transformations that are changing the world of work, it is the SSE that ensures the formation of the foundations of a social culture of interconnections at different levels of economic, social, and environmental relations.

**Conclusions and prospects for further research in this area.** Thus, the SSF is a relevant tool for formulating a clear strategy for establishing and developing a social and solidarity economy due to its principles and mechanisms. The mechanisms of the SSF are designed to maintain relationships that ensure the achievement of the expected social, economic, and environmental results based on mutual trust, flexible and adequate monetary and non-monetary terms of the contract for financing the organizations.

SSE is an alternative to traditional economic mechanisms for ensuring continuous and efficient economic, social, and environmental activities in combination with various areas of development of business entities. In the context of the SSE, ordinary people play an active role in shaping all dimensions of human life: economic, social, cultural, political, and environmental. The SSE exists in all sectors of the economy – production, finance, distribution, exchange, consumption, and management. Accordingly, SSF mechanisms, as a key component of SSE development, should be used not only to support people with low incomes but also to help overcome inequalities that affect all classes of society. Through these diversified mechanisms, the SSF can use the best practices (such as efficiency, technology, and knowledge) that exist in the modern economy and transform them to ensure the well-being of communities based on different values and goals.

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