Social Finance Structures: Identification of the Current Trends and Future Challenges

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Abstract

In order to bring new innovations for real issues for social organisations and initiatives new approaches are required. This research paper desires to describe the current trends of social finance structures and their potential future challenges. Social finance is a kind of investment that is also identified as a creative financial instrument that is able to provide service reliable, accessible, and flexible to handle complex social issues. The main motive of this financial instrument is to bring the two parties of financial service into a “contractual agreement”. This paper is engaged to explore both opportunities and challenges in social finance structures to support social innovations. A “secondary qualitative data collection tool” has been adopted by the researcher to conduct the research paper by collecting relevant data and information. Interpreting the collected raw data, the researcher has used “thematic analysis” which made this paper appreciated and valuable. The paper concludes by understanding the impact of investment finance methods and tools to support social sustainability. Evaluating current trends as well as future challenges of social finance structures, the proposition and measurement of its sustainability has been discussed in this below section. Moreover, the readers will recognize the efficiency and sustainability of this mentioned financial instrument to balance social issues throughout this research paper.

Keywords

current trends, future challenges, investment, social finance structures, social issues, social innovations.

INTRODUCTION

Background

In this current era, social finance structure is a beneficial financial tool that is engaged in closing the funding gaps for the process of investments. It is considered the leading key to fulfilling the social goals that are helpful in generating sustainable development of the social finance market. This financial structure is generally adopted by the finance organisation to increase transaction costs and secure positive growth. Implementing several financial resources this structure is applicable to influence the process of financial returns but also impacted the governmental, social, and environmental factors. Establishing “contractual agreement” between the two parties of financial service this approach is highly effective.

The social finance process is a spending percentage of social innovation but provides a share in the GDP of the specific country. Based on the overall global record, France is identified as the country that is most magnanimous in terms of its social profits. The financial spending in France is 31% which indicated the highest rate [1]. In addition to that, Finland, Belgium, Italy, Germany, and other countries are also included in this list. Compared to the highest social spending countries, Anglo countries rank a little bit lower at 20%. According to the graph, Mexico has the lowest rate of social spending at 7.5%. All the social spending has been constructed for mitigating the social issue and create positive future growth.

Figure 1: Social spending rate (Source: 1)

Aim and objectives

The study aims to analyse the current trends and future challenges associated with social finance structures. The research objectives are:

- To identify the driving factors of social finance structures
- To evaluate the impact of social finance structures on the social economy
- To understand all the current trends in social finance
structures

- To find out the potential future challenges of social finance structure

METHODS

Research design

An “exploratory design” has been used for this research paper as it has helped in identifying the gaps between the research processes and predicting the potential outcome in advance. This design is applicable in gaining insights and similarities for later examination [2]. However, it helped the researcher to understand the way the research process needs to be led.

Research approach

In this study paper, the adoption of an “inductive approach” has made the paper able to make a powerful conclusion. This approach is naturally associated with the observation of reasoning that is connected with the real world [3]. It has helped the researcher to find out the appropriate rule for conducting the research paper.

Research philosophy

An “interpretivism philosophy” has assisted this research paper by going through the potential principles that is connected to the real society. Based on the researcher’s interest this philosophy is able to deal with the research gaps to make the paper valuable [4]. Accompanied by the adoption of this research philosophy the researcher has become able to deal with the real factors to generate the information.

Exclusion and inclusion area

During the conducting process, the researcher has included all the authentic journals, newspaper articles, websites, books, and other reliable online sites related to social finance structures. All the journals from Google scholar have been selected from 2015 to 2023 to serve fresh data and information. In addition to that, all the dissertation articles have been excluded as those could provide incorrect and invalid information.

Data collection process

Depending on the research topic, the researcher has found that the “secondary qualitative data collection process” is an appropriate key to collecting the relevant data and information. It is one of the most cost-effective and time saver techniques to gather resources [5]. It has assisted the researcher to make out more specific information about the research topic from the resources of existing research papers. It has provided authentic and already proven data which made the paper reliable.

Data analysis process

The “thematic analysis” has helped this research paper to interpret all the collected raw data and information in an understanding manner. It is able to offer a more appreciative form of analysis that has become easy to understand by all the readers. Based on the research objectives the researcher has made all the themes under the raw data to make the research paper valuable.

RESULTS

Social finance structures

“Social finance” refers to a type of financial service that desires to anchorage private capital to convey challenges in the sections of environmental and social requirements. It is an approach that is generally associated with the process of financial management, especially in the area of investments that bring about financial returns [5]. In order to secure private and public relationships, this kind of bond of social finance is very effective. Observing the level of work and quality of work, the investors are generally investing their money in an individual financial sector. Sustainable finance includes preparing investment decisions that identified not only influence the process of financial returns but also impacted the governmental, social, and environmental factors. Basically, this financial instrument provides the financial management process a middle ground between traditional charity and traditional business. The main aim of traditional charity is to achieve social value and on the contrary, traditional business is the main driving tool to achieve social value.

The structure of social finance is a trend to establish the business sector that will be self-financed rather not hand on any kind of governmental charity. Business organisations are following and implementing social finance structures, and are slowly develop is employee structures to achieve the potential goal. It never depends on government charities or grants [6]. The social finance structure provides access to a wide size of potential investors compared to the other existing traditional investors. It is highly effective to present a positive partnership and generate a large amount of revenue. This type of financial instrument aims to settle down social issues by observing social objectives. In this current era, the usage of social and financial bonds has become increased and it resulted in extraordinary revenue growth rates.

Drivers of social finance structures

The term, social finance, involves a wide range of methods and strategies regarding investment. It has been observed effective social interactions have the potential to influence investment-related decisions among people. The main driving factor associated with “social finance” is the changing preferences of the investors, customers and shareholders that are shifting towards the SDGs or Sustainable Development Goals. “Social finance” involves shaping economic outcomes through social procedures and activities [8]. The contemporary generation, known as Generation Z, has shifted its core focus toward improving environmental sustainability by transforming investment and other economic activities. On the other hand, another key driving factor of “social finance” is the benefits and
effectiveness of this structure and strategies. Focusing on “social finance” enables marketers to mitigate risk factors associated with financial issues in society as well as improve social sustainability. Incorporating “social finance” also provides effective economic opportunities to survive in severe market shocks including global health risks, legal conflicts and financial crises.

These are the main driving aspects regarding “social finance” and besides these, there are several other driving factors. The emerging focus on “social finance” has introduced an alternative way to develop value and finance in society [9]. In this regard, it can be stated that “social finance” involves maintaining social responsibilities through investment and financing. Managing these activities effectively enables an organisation to improve its value, customer base and capital. Apart from this, the prevention of social conflicts, especially socioeconomic issues is a major advantage of “social finance” that has been regarded as a driving factor influencing progress and acceptance of “social finance structures”. Considering the approaches and importance of the driving factors of “social finance”, it can be stated that the main benefit of tapping “social finance” is to combine social and economic sustainability and prevention of potential issues associated with these areas.

**Correlation between social finance structures and social economy**

“Social finance” has a major impact on influencing positive societal changes by shifting the financial motives and purposes of people. Additionally, “social finance structures” enables marketers to gain profit and consider social and environmental responsibilities. Social economy has been identified to be vital for social progress as it involves promoting value and managing responsibilities through maintaining effective disciplines [10]. “Social finance structures” or SFS maintains an efficient impact on the social economy and ensures the maintenance of the needs and responsibilities toward society and its communities. On the other hand, “social finance” influences the formation of an enterprise which is self-dependent, self-financed and focused on fulfilling societal needs and responsibilities.

SFS involves maintaining a balance between social sustainability and economic benefits as well as increasing profitability by attracting investors and customers. Apart from this, the main purpose of incorporating “social finance” strategies is to gain business profitability through maintaining a constant focus on social and environmental sustainability. It has been observed that the emergence of “social finance” has provided effective opportunities to upgrade the social economy and prevent the impacts of financial crises [11]. Additionally, the main factors correlating SFS and social economy are the efficient advantages, opportunities and strategies that have emerged as “alternative financial solutions”. The “social economy organisations” which have incorporated traditional approaches have become quite unattractive and due to these aspects, the need for incorporating “social finance” strategies in these enterprises has become vital. Moreover, the “social economy” mainly relies on different types of “financing streams” such as debts, grants, equity and quasi-equity finance and funds.

Primarily, “social financing” has been introduced through a social movement that appeared in the 1990s, though the relevance and acceptance of these structures have increased since the emergence of global financial crises and changing economic conditions of society and the business market. On the other hand, “social finance” mediates between society, “social impact bonds” and the economic gains of business organisations [12]. “Social financing organisations” indulge in various types of financial activities that are closely associated with the progress and development of the “social economy”. These activities include charitable banking, social banking and impact banking along with implementing effective strategies and solutions for gaining profitability and using the profit regarding environmental and social needs. Therefore, it can be stated that social finance holds an efficient correlation with the social economy and is focused on improving social and economic sustainability.

**Current trends of social finance structures**

In the contemporary era, financial and economic conditions along with social structures are transforming rapidly. Regarding this, various trends associated with “social finance structures” or SFS have emerged in recent years, such as debt issuance, capital aggregation and funding vehicles. SFS mainly involves ensuring business profitability and improving business performance by maintaining social value and socioeconomic sustainability. Additionally, social performance, corporate responsibility and sustainability consist of a direct correlation with economic performance and sustainability [13]. It has been observed that in recent years, the main focus of social enterprises has shifted from gaining only profitability to achieving profit through ensuring sustainability.

Debt issuance has emerged as a major trend associated with “social impact investing” which is considered to be a part of SFS and in recent years, this sector has emerged to develop a more complex framework for accessing funding or loans. The global financial crisis in 2008 emerged as the major market trend regarding social finance which has enhanced opportunities along with changing disciplines [14]. Apart from this, the crisis has changed market demands, and concerns of the customer, investors and shareholders regarding sustainability and social impacts of business organisations. These trends have transformed the core focus of marketers as well as developing a “new asset class” for shareholders and investors. Another trend associated with “social finance” is funding vehicles which have emerged in recent years and this approach has the potential to enhance costs and complexities. Funding vehicles can enhance the flexibility and efficiency of social enterprises regarding finance and time and have the potential to provide more effective strategies and solutions for further improvements.

The most impactful market trend which has emerged in
recent years is capital aggregation and it involves outcome funders, who have been financed by other financing arrangements. Along with that, as the main purpose of integration, SFS is to ensure socioeconomic sustainability; *ethical banking* and “social impact investment” have emerged as the major approaches [15]. Therefore, it can be stated these are the main approaches and trends that emerged in recent years associated with SFS and several trends among these, have been observed to enhance complexities and conflicts regarding financing. Effective management of these trends and approaches has the potential to enhance the popularity and acceptance of “social finance” in business markets.

**Future challenges of social finance structures**

The main intention of “social finance” is to prevent socioeconomic issues and “social economic enterprises” have been formed with the aim to reduce the prevalence of social challenges and issues through investment and funding. Additionally, in the contemporary era, several market trends have emerged associated with social finance which has increased complexities and challenges. The main issue that can emerge to be a challenge in the future regarding “social impact bonds” is the complexities associated with contracts [12]. Apart from this, social enterprises indulge in various activities, including *charity*, social purpose business, and “revenue-generating not for profit” and “revenue generation*. It has been observed that returns in these areas are comparatively low due to the emergence of various trends and instruments in recent years.

“Social enterprises” and SFS involve mitigating social issues as well as managing social and environmental needs and in this regard, funding and effective returns are highly required for these organisations. Changing demographic preferences and concerns of customers, shareholders and investors have created new conflicts regarding “social finance” and comparing the impacts of social enterprises on society and economic sustainability can emerge to be a challenge [16]. In addition, the lack of potential training and knowledge of “social finance” is another issue which has the potential to develop into a major challenge in the future. “Policy inconsistency” and insufficient funding are crucial issues impacting the activities regarding investing for social sustainability [17]. Poor maintenance, inadequate infrastructure, funding and neglecting these issues have the potential to emerge as destructive challenges in the future.

The main reason behind these challenges is the changing demographics, economic and societal contexts and these transformations have enforced “social enterprises” to adapt to new emerging trends and approaches for surviving and improving SFS. Lack of potential data, as well as lack of proper infrastructure for measurement of the impacts and influences, is other issues of SFS. on the other hand, the growing concern regarding social and environmental sustainability has emerged as the major challenge for business organisations in the contemporary era [18]. Neglecting these issues has the potential to emerge to crucial challenges in the future. Therefore, in order to improve socioeconomic sustainability through upgrading SFS, “social enterprises” have to focus on preventing these issues and monitoring the activities and procedures more effectively.

**DISCUSSION**

In the following study, a secondary qualitative data collection approach has been followed and the collected data has been evaluated in the Results section. The results indicate that “social finance” can be referred to as a type of financial structure that aims to incorporate social and economic means to influence and improve sustainability. Business organisations involve maintaining several types of environmental and financial responsibilities toward the surrounding society [19]. These requirements have influenced the emergence and acceptance of the “social finance structure” or SFS which directly involves “financial management” and fulfilling societal needs and requirements by using profitability. Apart from this, in these structures, investors and shareholders are core components as the procedures regarding fulfilling social and environmental needs and ensuring sustainability require suitable funding.

Various business organisations and markers have adopted the principles and approaches of “social finance” which influences these organisations to become self-dependent, organised and self-financed. These organisations are regarded as “social enterprises” that focus more on social and environmental aspects than financial gains. Additionally, there are several types of activities in SFS, including “social impact investing”, “charity” and “social banking”. “Social impact investing” has shifted the availability of funding and private investment for “social enterprises”, whose main motto is “non-profitability” [20]. Consequently, the adaptation of SFS enables business organisations to access more potential shareholders and investors for improving business procedures. SFS has become inevitable in the contemporary era as consumers and investors are increasingly concerned about social and environmental impacts as well as the socioeconomic sustainability of business organisations. Additionally, this structure has also introduced new and innovative financial instruments for resolving socioeconomic conflicts and issues in contemporary society. It has been observed that these instruments are more effective and influential than traditional financial instruments.

Several key driving factors associated with SFS have been identified and illustrated in this study, including an increasing focus on achieving Sustainable Development Goals or SDGs. It has been observed that in recent years, consumers’ and investors’ concerns regarding the social and environmental impacts of business organisations are increasing and this factor has influenced the expansion and progress of “social finance”. Integrating sustainability practices poses a vital influence on ensuring financial success and profitability for business organisations [21]. In the contemporary era, investors and marketers have been focused...
on shifting business practices and activities including economic approaches and investment areas. Apart from this, the efficient advantages and benefits provided by SFS are also driving factors which have influenced the progress and acceptance of these strategies. The adaptation of “social finance” in business organisations has opened an efficient alternative pathway to invest in social aspects and aims.

Effective management of the activities and principles regarding SFS helps to ensure fostering of social and environmental sustainability by transforming financial activities and approaches. The adoption of this structure is aimed to resolve socioeconomic conflicts and invest in achieving social sustainability by fulfilling the needs and requirements. Non-profit business organisations have embraced “social finance” as their investment philosophy to create value and benefits for the surrounding society [22]. In addition, this investment philosophy has raised concerns regarding capitalism, poverty and the financial activities of business enterprises, which have influenced the formation of social enterprises. SFS has enabled marketers to access a wide range of financial instruments for establishing positive changes in the surrounding society. The social enterprises have, therefore, integrated efficient financial approaches and instruments to resolve socioeconomic conflicts with the aim to improve social and economic sustainability. These activities involve maintaining a balance between socioeconomic and environmental sustainability and the profitability of business organisations. Therefore, it can be regarded as a vital financial approach for business organisations that aims to focus on social and environmental sustainability more than financial gains.

It has been observed that though the term, social finance has been introduced in the 1990s in recent years, after the emergence of the global financial crisis in 2008, its acceptability and importance have increased far more. On the other hand, several market trends have emerged in the contemporary era, which have changed the approaches and perceptions of SFS. With increasing focus and concern toward sustainability issues, marketers have started to integrate effective approaches to achieve economic and socio-environmental sustainability at the same time. The constantly changing context of the business market has influenced marketers to accept and integrate sustainable methods and approach for financing [23]. Along with that, the complex procedures and activities associated with contracts and investment issues have been identified as major issues that can emerge into major challenges in future. Therefore, resolving these issues and improving the approaches is vital for the proper maintenance of SFS.

**CONCLUSION**

This study has been aimed to explore the context of social finance and address its current trends as well as future challenges. In order to evaluate these aspects, a secondary qualitative methodology has been used and the findings revealed that social finance has become inevitable in the contemporary era as customers, investors and shareholders have been increasingly concerned regarding socioeconomic and environmental sustainability. Constantly changing consumer and investor preferences and their concern for sustainability have been identified as the main driving factor of “social finance structures” or SFS along with the benefits and advantages. Effective economic opportunities and other advantages for fostering social and environmental requirements and gaining profit at the same time are also influential factors driving the progress of SFS.

SFS consists of a vital correlation with social economy and social enterprises are focusing on fulfilling the socioeconomic and other environmental needs of surrounding communities. Thus, this structure maintains a balance between financial gains, environmental needs and social sustainability. Capital aggregation, dent issuance, funding vehicles and changing concerns of investors, consumers and shareholders have been identified as the current trends impacting SFS. Several issues have also been identified which have the potential to emerge as destructive challenges in the future, including lack of potential knowledge, lack of proper funding and comparatively less return on investment. Investment and proper optimisation of the procedures and activities can help to prevent these issues and improve the influence of social finance.

**REFERENCES**


