

## THE INSTITUTIONAL STRUCTURE OF SOCIAL ENTREPRENEURSHIP IN THE USA, UK AND GERMANY WITHIN A CONTEXT OF MARKET-BASED VS. BANK-BASED SYSTEMS

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### ABSTRACT

*Since the beginning of the world economic crisis the level of unemployment across different countries increased significantly and so did social and welfare polarization of people. Under these conditions the emergence of social entrepreneurship could be viewed as an additional opportunity for the disadvantaged people to enhance their welfare and improve their living quality. As all the phenomena of such kind its activity should be coordinated by some special institutions in order to develop successfully, thus enhancing its aggregate performance. The paper reviews different kinds of economic systems inherent to certain types of integration between financial and industrial resources. So, the system of industrial development of the USA relies in most part on the stock market, while that of several European countries, such as the United Kingdom and Germany prefer to use credit resources, or the loan capital. The main purpose of the paper is to find out whether such trends hold true for the institutional structures of social entrepreneurship in these countries and whether that is the case for Russia as a country with a transitional economy. The paper contains some implications for such countries suggesting them to consider some opportunities of evolving their market-based institutions and bank sector to create a more suitable institutional system to support the development of social entrepreneurship.*

**KEY WORDS:** social entrepreneurship, institutions, market-based systems, ethical markets.

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### 1. INTRODUCTION

Social entrepreneurship has become a very popular phenomenon among different scholars nowadays. It presents a great interest not only because of its extraordinary nature, but also due to the paradigm crisis of the neo-liberal economic model, whose features are becoming increasingly evident for the recent times. The events which happened on 17 September 2011, when the protest movement 'Occupy Wall Street' began in Zuccotti Park, were impressionable by their scale and impact. The wave of protest movements all over the world that followed this action showed that the social discontent with economic inequality of people has been growing. According to the U.S. Census Bureau data, the proportion of overall wealth—a measure that includes home equity, stocks and bonds and the value of jewelry, furniture and other possessions—held by the top 10% of the population increased from 49% in 2005 to 56% in 2009 (Morin, 2012). At the same time the share of economically excluded people is growing steadily, which is evidenced by the recent data on the high rates of unemployment in Portugal and Spain.

As A. Badulescu points out, “social entrepreneurship aims at being an effective approach, even if it does not follow the personal profit of the entrepreneur but the fulfillment of social objectives with broader community impact; maximizing money invested for the good of the community or for solving social problems remains a priority”. Some examples of social entrepreneurship emerged in the first half of the 19<sup>th</sup> century, though they were unique and not a mass phenomenon. For the recent decades, this sector has flourished greatly penetrating to the developed as well as developing countries.

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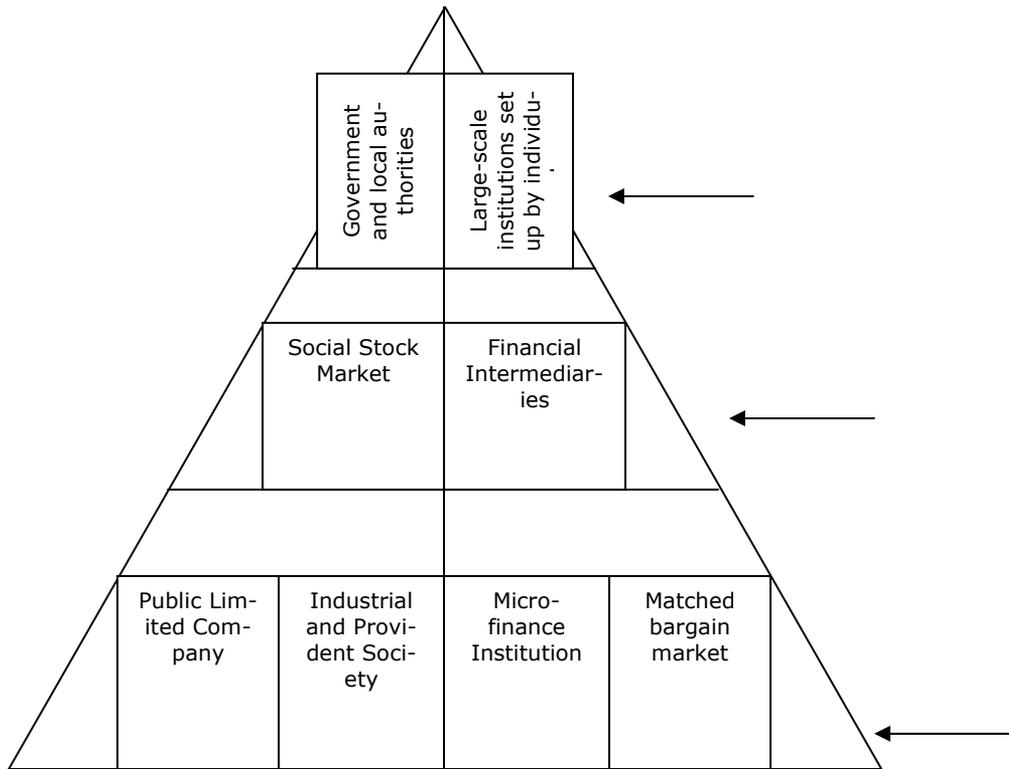
It's interesting to note that the left movement ideology has attracted lots of new followers which reflects, in particular, in the Marxism revival. 'Why Marx was right?' by T. Eagleton proved to be a bestseller since lots of problems, connected with the system peculiarities of the paradigm being criticized by the contemporary scholars, were efficiently elaborated in the Marxist' terms and some disturbances in the social and economic system resulted from the current trends of the mainstream policy were emphasized against the same disturbances the world economy faced more than a century ago (Eagleton, 2011). Such analogies have become of a great importance allowing for the crisis of methodological tools in the modern economics. Besides, the legitimacy of the left political movement in Europe is increasing, which is evidenced by the victory of the social-democrats at the last parliamentary elections in Italy and the presidential in France. These are, in turn, the signs of poverty growth, labor migration, social exclusion and the failure to solve such problems by means of traditional ways of applying market mechanisms. Such challenge suggests to think about social entrepreneurship as a possible way to mitigate the distortions stated above. It can be viewed not only as an economic or social phenomenon, but also as a political movement, as it challenges the dominating paradigm at all the levels of its pervasion, forcing the governments to introduce some important radical measures aimed at supporting its development.

## 2. HIERARCHY OF SOCIAL ENTREPRENEURSHIP INSTITUTIONS

The available literature on social entrepreneurship allows us to argue that there were several attempts to classify this phenomenon, though they were based upon a certain criterion, regardless of the fact that it might have different scales of development. In this context the classification provided by A.Nicholls (2007) seems to be successful, as it challenges the dominant paradigm at different dimensions. According to it, social enterprises challenge the dominant paradigm at three levels, micro (the enterprises), meso (new markets; intermediaries) and macro (socio-economic impact; policy implications). These refer to social enterprises that (1) respond to market failure and/or "institutional void" by developing new products and services, (2) contribute to the reconfiguration of markets to generate new or increased social value and (3) challenge institutional arrangements through political action. From Nicholls' point of view, the third level of institutions should be presented by social enterprises. Though it is rather an excessive assumption, as in addition to social enterprises they should also involve the ways of mitigating social problems at the micro-level, which become embedded into an original institutional form. Thus, in order to enable an adequate reflection at micro-level, different ways of eliminating social cataclysms within a given micro-environment should be included into this concept, which don't necessarily have the form of social enterprises.

So, if we imagine the hierarchy of social entrepreneurship institutions, we'll get the picture as that presented in Figure 1. It's an improved version of Nicholls' classification as a pyramid with three levels, the first of which should present the macro-level institutions, the second deals with the activities of intermediaries and markets, e.g. social capital markets, and the third one presents the myriad of the local country- and region-specific institutions which are inherent to the particular place shaping its origins and nature, while contributing in some way to forming the relative institutions at the meso-level. The intermediaries presenting a nexus of some financial institutions designed to support social enterprises can be viewed as meso-level structures coordinating the activities of those from the bottom level. So, Community Development Financial Institutions (CDFIs) in the United States can exemplify this kind of institutions, as they present a network of special innovative financial mechanisms embedded in the current institutional structure surrounding communities. The macro-level institutions are those which influence much the dynamics of social entrepreneurship as a socio-economic phenomenon in the given country or worldwide. They can be embedded in certain regulations, laws, policies or some original institutions, which are capable to change the existing status quo at the level of a given country, not within certain communities or districts.

Figure 1: Three levels of social entrepreneurship institutions



Notes: The concept is a modified version of that presented by Nicholls (2007).

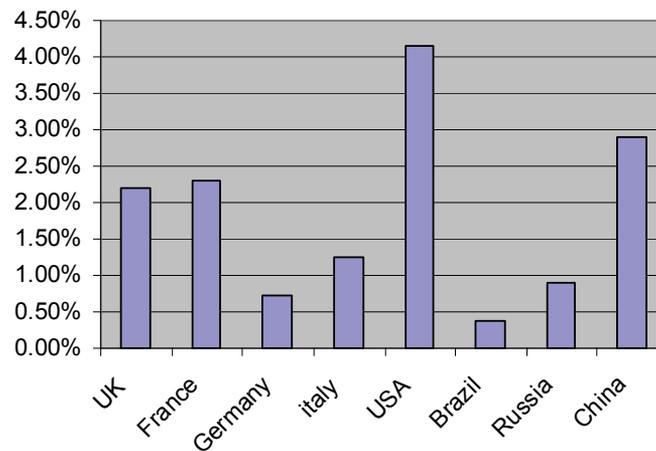
### 2.1 Social reforms as macro-level institutions

The macro-level institutions are hard to specify, as the impact executed by a politician or a public figure, can be formalized into the system of certain institutions, as well as be realized within a certain political strategy. The first case can be exemplified by a famous public figure Elena Panaritis, who initiated the property rights reform in Peru, which improved significantly the life quality not only of the residents, but of the immigrants as well. Allowing for that the system of regulating property rights was rather disorderly and hazardous in this country, as the houses of people were not secured properly against any fraud, she undertook a special reform designed to improve the situation in this area and to fill the institutional gap with a special agency called “Registro Predial”. It was a special registry designed to refine the system of securing and enforcing the property rights. In 1996 Peru’s government agreed to extend the property rights reform nationwide, with funding from the World Bank. The government created a new commission, Copri, which would work in tandem with “Registro Predial”, sharing the process of transforming Peru’s property market, which Panaritis called transforming the “Unreal” to Real. The reform did more than change perceptions, however. The security created by the new property rights system generated tangible social and economic benefits for formal property owners that were not available to informal owners and the formal property rights led to the increasing of entrepreneurial activity in those communities as the formal documentation enabled significant increasing in private-sector loans (Panaritis, 2007). It is not surprisingly that due to such action Panaritis is called “a social entrepreneur”.

Another case of social entrepreneurship, implying the adherence to a specific strategy that modifies greatly the position of certain local communities, but at the same time has a nationwide

effect, is connected with some political measures introduced by the former US president Bill Clinton. As Figure 2 shows, the rank of early stage social entrepreneurial activity (SEA) in the United States is the highest, as compared with those of other countries, according to the data provided by the Global Entrepreneurship Monitor (2009). SEA is the social equivalent of the total early-stage entrepreneurial activity index (TEA) which is measured as the percentage of a country's working-age population who are actively trying to start a new business (nascent entrepreneurs) and those who at least partially own and manage a business less than 3.5 years old (a baby business). Its highest rate in most part can be explained by the longevity of charity traditions in the United States which would be of the same force as the entrepreneurship ones. Numerous examples mentioned by Clinton (2009) in his book "Giving/How Each of Us Can Change the World" suggest that. Besides, he is known as a person launching several charity initiatives, but that is not why he should be called "a social entrepreneur". He managed to force the financial institutions to provide loans for the low-income communities, while most of them refused to do that before. According to the amendment of 1995 to the Community Reinvestment Act of 1933, they might be closed in the case of refusal. Such measure can be treated not only as social, but also as entrepreneurial, as it had the same effect as that implemented by Panaritis. The highest rate of early stage entrepreneurial development can be explained in part by the environment encouraging people to engage in business of such kind, that was formed under the period of Clinton's presidency. We can't help but mention emergence of the Community Development Financial Institutions which shaped greatly the institutional structure to support social entrepreneurship at that time.

Figure 2: Early-stage social entrepreneurial activity (SEA) rate in different countries, 2009



Source: GEM (2009) "United Kingdom 2009 Monitoring Report", [online] Global Entrepreneurship Monitor, [http://strath.ac.uk/media/departments/huntercentre/research/gem/GEM\\_UK\\_2009.pdf](http://strath.ac.uk/media/departments/huntercentre/research/gem/GEM_UK_2009.pdf).

## 2.2 Social stock market and loan stock institutions at the meso-level

The meso-level institutions present the intermediary level in this structure. Marking this group of institutions as a specific category is of great importance because it is not only a superstructure over that beneath, but is also a factor which shapes and determines the behavior and performance of the micro-level institutions. So, for instance, the social capital market which is coordinated by a network of international financial organizations, such as the International Association of Investors in the Social Economy which was thoroughly investigated by Mendell and Nogales (2009), can be viewed as a cluster which originated from the bottom of this pyramid, but it can influence significantly the subsequent trends of development of micro-institutions worldwide. In this context the emergence of a social stock market should be mentioned.

For the recent decade there were several attempts in the world aimed at constructing some mechanisms to enable social enterprises to act as conventional business enterprises – that is to provide them with the opportunity to issue shares, but allowing for the high-level risk connected with their trading at an ordinary stock exchange, it should be advisable to let them trade at a special stock exchange designed for that. So, the United Kingdom and Germany can play a pivotal role in installation and deployment of such mechanisms. Whereas the former belongs to the market-based countries range, the latter belongs to another group, consisting of bank-based countries, but it didn't miss the chance of adopting such mechanisms which seem to be effective. A special meso-institution, such as the Social Stock Exchange Association (SSEA), has been operating in Germany for the recent 5 years. It is designed not only to ensure forming the social stock market within this country, but also expands its influence abroad to help other countries which are engaging in such difficult and controversial process.

Though this institution is implementing a pilot project in Germany, it is also engaged in similar activities in Portugal, where the processes of launching a social stock exchange are well underway. Moreover, it organizes different events for similar initiatives to get involved, collaborate and learn from each other's experience (SSEA, 2013). The initiators of such project are deemed to be aware of the financial risk connected with the assets of social enterprises, implying the low return rate on the capital invested. The main task of SSEA project in Germany is to create a platform that will offer investors some clear comparability on the social and technological impact on their investments, which will yield a slightly lower (single digit) financial return. Though this platform is not launched yet, it has a preliminary stage which expressed in the meeting which was held on 25 March 2011. At this meeting five social ventures were pitching to a dozen investors for a financing volume of roughly € 20 million (Kuhlemann, 2011). We should think that taken such event as the first indicator characterizing the activity of social stock market in Germany nowadays, we can make a conclusion that in any case Germany leaves behind the UK where the total sum raised from the ethical issue shares amounted £ 50.1 million by 2005 (Hartzell, 2007) that equals € 58.6 million which is about three times as many as this value.

Table 1: Number of Ethical Share Issues and Total Raised and the turnover at LSE in the UK in the period 1984-2005

Period	Number of issues	Total raised (£ million)	Total turnover at LSE (£ million)
1984-1990	6	3.35	1,899,136.4
1991-1995	8	4.17	2,610,621.9
1996-2000	13	10.55	6,097,414.2
2001-2005	16	32.03	7,931,012.52
Total	43	50.1	18,538,185.02

Sources: Hartzell J. (2007) "Creating an ethical stock exchange", [online] Skoll Centre for Social Entrepreneurship, [www.sbs.ox.ac.uk/Skoll/Ethical\\_Stock\\_Exchange.pdf](http://www.sbs.ox.ac.uk/Skoll/Ethical_Stock_Exchange.pdf). and the data derived from the website: <http://www.londonstockexchange.com> .

Though this table suggests that the link between these variables is evident, we should seek to find out it more accurately. So, if we try to calculate the link between the time series of all these variables for the period from 1984 to 2005, we'll get the values as those presented in table 2. These findings suggest that the strongest link exists between the total turnover at LSE and the number of issues. As for others, they are less, but it doesn't mean that we should neglect them.

The process of launching the social stock exchange in the United Kingdom is also still ongoing, as well as in Germany. Nevertheless there are several ways of executing such operations beyond such exchange. Such operations are possible due to a three-step system of ethical share investment in the UK which presents a way for social enterprises to adopt their abilities within a less stringent environment than that for the existing business enterprises. So, these steps are: the Off-Exchange (OFEX), the Alternative Investment Market (AIM) and the London Stock Exchange

(LSE). All of them can be considered as a hierarchical tree, in which companies graduate from one level to the next as they grow in size. Indeed, AIM was established by the LSE for companies being at their earlier stages of development. The markets which are higher up the tree offer greater liquidity, but are more expensive to list on and the listing requirements are more stringent in terms of disclosure of the price sensitive information.

**Table 2: Pearson correlation matrix of the variables featuring the linkages between the activity of the social stock market and that of the mainstream stock market in the UK**

	Total turnover at LSE (£ million)	Total raised (£ million)	Number of issues
Total turnover at LSE (£ million)	1.000		
Total raised (£ million)	0.899	1.000	
Number of issues	0.997	0.895	1.000

**Notes:** The correlation indices are calculated by the author using the figures stated above.

Thus a company might first choose to list on OFEX, where the cost of listing is only around £ 10,000 a year or less, but trading there can be deceptive, as some OFEX shares are not traded at all for long periods. The share price then remains static and may not reflect the value that a share might achieve in a more liquid market. The lack of competition and the absence of due confidence among investors cause the fall in the share price. Although many companies go straight to AIM, a listing on OFEX is often a first step towards an AIM listing. But AIM is a very important step for social enterprises, as it is a chance for them to attract some major institutional investors. However, fees for listing on AIM are likely to be between £ 300,000 and £ 500,000 even excluding marketing costs (Hartzell, 2007). For a social enterprises, where a high profit level is not to be expected, share issues therefore need to be in the range between £ 10 to £ 20 million to stand a chance of covering the costs of fees. Raising this level of investment is often unrealistic, allowing for the financial condition of social enterprises. The larger of the AIM companies move to the London Stock Exchange. Some of them have a balance sheet as small as £ 10 million, but most are much larger. However there is a threat of a hostile takeover for the enterprises seeking to attract large amounts from the institutional investors or venture capitalists. That is also the reason which prevents social businesses from being the actors on the mainstream market.

While the UK demonstrates an example of enhanced activity in the field of social stock operations, Germany appears to be one of the leaders on the development rate of microfinance institutions (see Table 2) and in this sense matches its position as a bank-based country absolutely. In most part Germany's successes in the development of microcredit system can be explained by the effective performance of such meso-institution as the German Microfinance Institute, as it provides a wide range of different services, in particular, counseling and training for MFIs (e.g. their loan officers), designing electronic loan processing tools and accrediting MFIs for the risk capital fund which is called "Microfinanzfonds Deutschland" (El-Zoghby, Gähwiler, Lauer, 2011).

**Table 3: Main microfinance indicators in selected European countries**

Country	Microfinance Indicators			
	Number of loans disbursed	Total value of loans disbursed (EUR M)	Average Loan Size (EUR)	Average Interest Rate (%)
Germany	4,625	52,276,375	11,303	6.92
Italy	3,223	22,451,418	6,966	5.80
Spain	8,773	97,800,000	9,943	5.00
UK	1,252	13,420,000	10,718	13.40
Romania	2,496	18,847,296	7,551	-
Bulgaria	68,348	432,890	6,334	-
Czech Republic	-	-	4,500	-
Slovakia	982	155,000,000	157,841	6.50

France	121,000	852,500,500	7,045	0.5
Poland	130,888	-	2,024	11.00
Netherlands	43,508	739,636,000	17,000	-
Hungary	104,754	371,876,700	3,550	-

Source: Kraemer-Eis H., Conforti A. (2009) Microfinance in Europe. A market overview, [online], European Investment Fund, [http://www.eif.org/news\\_centre/publications/EIF\\_WP\\_2009\\_001\\_Microfinance.pdf](http://www.eif.org/news_centre/publications/EIF_WP_2009_001_Microfinance.pdf).

As for the situation in the microfinance industry, let's investigate the positions of German microfinance sector to find out whether the environment of banking sector shapes the microfinance development in this country. As we can see, according to the data presented in table 4, the trends of development of both variables are not so parallel as those for the social stock market and London stock exchange in the UK, but the link is also positive: the correlation index is 0,725. It is weaker because of the relative stability of the microfinance industry in the beginning of its development, while the total banking sector experienced a short decline caused by the worsening of the macroeconomic situation in the country. Nevertheless we can conclude that the linkages between the financial mechanisms of social entrepreneurship and the environment they evolve in exist. So it would be advisable for different countries to consider the opportunities of developing those institutions which match the type of their financial systems. That means that path dependence is a very important thing for the development of financial mechanisms of social enterprises.

Table 4: The dynamics of profits of commercial banks and the average-weighted growth of assets of microfinance institutions in Germany in the period 2004-2009

Year	Profits of commercial banks (Billions of Euros)	Average-weighted growth of assets of MFIs (%)
2004	5	38
2005	20	31
2006	10	35
2007	18	45
2008	-5	15
2009	5	22

Sources: Germany. Banking Sector Structure. Technical Note, July 2011, International Monetary Fund / <http://www.imf.org/external/pubs/ft/scr/2011/cr11370.pdf>; Microfinance in evolution. An industry between crisis and advancement / Current Issues. Global financial markets. Deutsche Bank (DB Research), September 13, 2012 / [http://www.dbresearch.com/PROD/DBR\\_INTERNET\\_EN-PROD/PROD0000000000294314.pdf?kid=dbr.inter\\_ghpen.headline](http://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000294314.pdf?kid=dbr.inter_ghpen.headline).

### 2.3 Matched bargain market in the UK as an example of micro-level institutions

As in the United States and Germany the social capital market is only at the stage of installation, while in the United Kingdom it is at the stage of deployment yet, we'll focus only on the English institutions as having settled fundamentally and providing a very valuable experience on this point. In this country a company not listed on the mainstream markets can usually only trade its shares through a matched bargain market. This is usually run by a broker or a recognized financial institution, and involves holding a list of buyers and sellers of the shares and matching them at the price they both wish to pay. So the matched bargain market for a certain enterprise can be viewed as a micro-level institution. Matched bargain markets usually operate for one company in isolation rather than for several companies. Moreover, the Financial Services and Markets Act limits the extent to which the investment can be marketed. Price-setting on a matched bargain market is usually a haphazard affair. Quite often it is left to buyer and seller to agree, but if any price at all is recommended, it is usually the broker running the market who would recommend a price, based on information provided by the company. Thus in a matched

bargain market, the company itself has much more control over the share price. This is usually regarded as an unsatisfactory situation open to abuse, as two conditions necessary for an efficient stock market are not met. The first one is that the market is sufficiently liquid for expectation of value to be quickly reflected in the current price. The second is that investors have all and equal information available to them surrounding the situation of a company. When these conditions are not met, anomalies occur and some individuals can benefit over others due to the drop in the share price as stated in the previous subsection.

Speaking about matched bargain markets, it's interesting to note that those companies which didn't list on OFEX and AIM have achieved wonderful results. To approve our suggestion derived in the previous section that the division of countries according to the criteria, whether it is a market- or a bank-based system, coincides with the development of the same kind institutions for social enterprises in these countries, we'll provide some data concerning the growth of capital amount raised as a result of share issues by three most successful social enterprises of the United Kingdom: Traidcraft, Shared Interest and Wind Fund.

Table 3: Three leading social enterprises in the amount of shares issued

Company	Year	Legal form	Type of investment	Amount raised (£M)
Traidcraft	1984	PLC	Share	0.3
	1986	PLC	Share	1
	1991	PLC	Share	0.4
	2002	PLC	Share	3.25
Shared Interest	1995	IPS	5 Year Loan stock	0.65
	1996	IPS	5 Year Loan stock	0.85
	1997	IPS	5 Year Loan stock	1.2
Wind Fund	1995	PLC	Share	1
	1998	PLC	Share	1.3
	2005	PLC	Share	4.75

Source: Hartzell J. (2007) "Creating an ethical stock exchange", [online] Skoll Centre for Social Entrepreneurship, [www.sbs.ox.ac.uk/Skoll/Ethical\\_Stock\\_Exchange.pdf](http://www.sbs.ox.ac.uk/Skoll/Ethical_Stock_Exchange.pdf).

Thus, according to these indicators, we can conclude that all the three companies achieved such great results, having issued their shares beyond the mainstream market, but whereas Traidcraft and Wind Fund are public limited companies (PLCs), Shared Interest is an industrial and provident society (IPS) which has a limited ability to attract funds. Moreover, the redemption period for the bonds issued by IPSs is rather short. So, the investors usually have less opportunities to buy and sell such bonds, as they would have dealing with bonds issued by a conventional business enterprise. Wind Fund happened to be the most successful among these companies, as it managed to raise its capital from £ 1 million in 1995 to £ 4.75 million в 2005, which is comparable with AIM in its scale. Though Traidcraft managed to have even 2,400 shareholders, while the average number of the AIM company' shareholders is around 800 (Hartzell, 2007). This fact suggests that a matched bargain system presents something like an economic miracle which is developing along with its immanent laws and has an ability to outachieve the existing formal markets.

### 3. THE SYSTEM OF MICROCREDIT INSTITUTIONS AND SOCIAL STOCK EXCHANGE IN THE USA, GERMANY AND THE UNITED KINGDOM

The model of institutions presented here is a sophisticated version of Nicholls' classification which enables us to make it clear what kind of financial institutions are best developed in a particular country at the particular level. So we can compare the respective institutions of social entrepreneurship in these countries with their profiles – whether it is a market-based or a bank-based system, according to the classification presented by Demirguc-Kunt and Levine (2003). In

bank-based financial systems such as Germany and Japan, banks play a leading role in mobilizing savings, allocating capital, overseeing the investment decisions of corporate managers, and in providing risk-management vehicles. In market-based financial systems such as England and the United States, securities markets share center stage with banks in terms of getting society's savings to firms, exerting corporate control, and easing risk-management. Table 3 presents three countries, two of which are market-based (the United States and the United Kingdom) and the third is bank-based (Germany). The distribution of the respective institutions for social entrepreneurship looks like that for the commercial sector in these countries.

Table 3: The loan capital and social stock institutions in the USA, Germany and the United Kingdom

	USA		Germany		United Kingdom	
	Loan Capital Institutions	Social Stock Institutions	Loan Capital Institutions	Social Stock Institutions	Loan Capital Institutions	Social Stock Institutions
Macro-institutions	Community Reinvestment Act of 1977 as amended further	The United States Securities Act of 1933	The Act amending the German Investment Act of 2003 (the Amendment Act, 2007)	The Stock Exchange Act of 1896 as amended further	Community Investment Tax Relief, Credit Unions Act	Financial Services and Markets Act; AIM Rules for Companies
Meso-institutions	Community Development Financial Institutions	Green Stock Exchange (launch in 2014)	The German Microfinance Institute (Deutsches Mikrofinanz Institut); The Microfinance Fund Germany (Mikrofinanzfonds Deutschland)	Social Stock Exchange (launch in 2013)	Community Development Loan Funds	OFEX, AIM, LSE, Social Stock Exchange (launch in 2013)
Micro-institutions	Web-resource 'www.kiva.org	New York Stock Exchange	GLS Bank	NExT SSE	FINCA UK	Triodos mated bargain market

Notes: The table is composed by the author using the data derived from: SSEA (2013), Kuhlemann, A.K. (2011), Clinton, W.J. (2007) and some other reference bases.

Different laws, regulations and standards coordinating the activity of the respective fields of social investment systems presented here are treated as macro-institutions. Community Reinvestment Act of 1977 with the amendment of 1995 which resulted in increasing the opportunity window for the low-income households is worth mentioning first. The Act amending the German Investment Act of 2003 (also known as the Amendment Act of 2007) played a major role in forming an environment for the development of microfinance institutions in Germany. It enabled the emergence of two meso-institutions in microfinance area: the German Microfinance Institute and the Microfinance Fund "Germany". As for the system of regulating social stock exchange, it should be stressed once more that the most successful pattern of it is represented by the UK financial system which is, in turn, a market-based country. Maybe that is the reason of its leadership among all the other European countries. In addition, the system of regulating transactions in AIM is simplified so that AIM companies are supervised by a nominated adviser (referred to as a "nomad") rather than by a securities regulator (in the UK, this is the Financial Services Authority (FSA)). All the transactions of AIM companies are subject to the AIM Rules for Companies (AIM Rules). AIM's simplified admission procedures generally result in savings in time and cost for an

AIM admission as compared to a main market or other listing. In most part the creation of such institution was predetermined by the increased activity of matched bargains, which was, in turn, caused by the traditions of using stock exchange as a leading mechanism to support industrial development in this country.

#### 4. IN CONCLUSION

The main result of the paper is a modified version of Nicholls' classification of challenges against the dominant neo-liberal paradigm. It is modified so that it might include the main institutions orienting the activities of social enterprises which proved to be effective. Such model would help us to assess the completeness of coverage of the relevant aspects in the system of institutional regulation of the subject in issue. Its application allowed us to answer the question, what institutions are more developed in the countries observed and whether it matches the widespread opinion on the separation of countries between market-based and bank-based. The result is that such trends hold rather true for the financial streams of social enterprises in the UK and Germany. Consequently, it should be advisable to recommend those countries having strong traditions of stock market development to put a special emphasis on the development of relative financial institutions to support social enterprises, whereas those relying upon a strong system of bank institutions would be reasonable to develop the microfinance sector to achieve the competitive advantage for their social enterprises. As E. Panaritis argues, to build an "enabling environment" seems better than to adopt paternalistic policies by the government, as it "would create the conditions for economic growth" (Panaritis, 2007, p. 91). So, it's difficult to disagree with such suggestion.

Besides, one should say some words about the way of attributing these implications to the analysis of the situation in developing countries. For instance, Russia might be subsumed under the group of bank-based, rather than market-based countries because of its path dependence connected with long traditions of bank monitoring system which originated in the Soviet Union and was performed by the State Bank. To speak about Russia as a market-based country presents a great difficulty, because it lacks the established class of social investors which is well represented in such countries as USA and UK thereby contributing to their image as market-based countries. Moreover, Russia has one of the lowest positions in the ranking of social responsibility of business across different countries, occupying the 37<sup>th</sup> place (Belova, 2011). Only Turkey has a worse position being at the bottom of the list. The implications derived in the paper could be valuable when planning the strategy of development for different countries. The link between the kind of economic system and the respective institutions of supporting social entrepreneurship should be taken into account when projecting the strategy of development of financial mechanisms for social enterprises in the respective countries. As the amount of the paper is rather limited we hadn't the opportunity to reinforce our implications by an empirical research. This task faces a problem of collecting data on the development rates of bank and market institutions in the respective countries, but it seems rather realistic to perform. So, maybe further it would be possible to construct a regression model showing the link between the level of development of market- and bank-based economies and the respective rates of social entrepreneurship' institutions in those countries.

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