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Social and solidarity finance: A conceptual approach

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ABSTRACT

An analysis of the social- and solidarity-finance system of relationships, which has characteristics that differ from those of other financial intermediaries, underpins the conceptual approach of this article. Social and solidarity finance constitutes a set of interdependent financial and social relationships, and partnerships between individuals and organisations, that mesh into an organised whole.

This article makes use of institutional economics to understand those mechanisms of interaction between individuals, organisations and institutions that are not strictly economic. First, we offer a new conceptual framework on social and solidarity finance from an institutional point of view. Then, based on this framework, we outline the sustainability of alternative finance and its ability to respond to specific entrepreneurship needs. Finally, we present the French situation regarding social and solidarity finance to highlight the main characteristics of alternative finance.

1. Introduction

Social and solidarity finance (SSF) collects savings (both private and public); receives subsidies and donations; allocates loans; and brings capital investments to businesses. It finances businesses that rate highly on the social-utility spectrum (environment, education, social welfare, and social insertion through economic action) or are aimed at specific, often vulnerable, publics (women, job-seekers and businesses creators). The main aim of SSF is to facilitate access to financing for those who create, develop or take over an income-generating activity. Only productive financing is eligible for SSF, as the business generated is what makes reimbursement possible. Unlike traditional banking relationships, SSF does not stop at an anonymous commercial exchange. It is part of a paradigm that differs from the capitalist logic: making profit is not the be-all and end-all of the business, and solidarity and reciprocity values lie at the fulcrum of the relationships between lenders and borrowers.

SSF finances borrowers who are often excluded from standard banking channels because of their specificities and their informational opacity. It constitutes a research field that can bring a wealth of information on the financial system as a whole (Artis, 2012). Furthermore, SSF remains insufficiently studied in view of its marked dynamism.[1] Indeed, it is a fast-expanding

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[1] Research on management practices is scarce. Nevertheless, Becchetti and Garcia (2011) look into SSF collateral requirements. Becchetti et al. (2011) study credit rationing in one case of SSF. Cornée et al. (2012) provide an experimental comparative analysis of the behaviour of conventional and solidarity bankers. Cornée (2014) compares the performances of different credit-rating models. Finally, Cornée and Szafarz (2014) study the rates policy of a solidarity bank.

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section of the credit market, even though its overall contribution to the financing of the economy remains marginal.[2] In the current financial environment, the founding principles at the core of its operation can explain its significant growth. These principles include the implementation of key values such as responsibility, transparency and cooperative governance, as well as the financing of the 'real economy' and a fair allocation of profits (Becchetti et al., 2011; Cowton, 2002; San-Jose et al., 2011).[3]

SSF is based on several organisations that are of a small size, with few hierarchical levels and strong territorial implantation through local branches (Cornée, 2012; Glémain et al., 2010;). The projects financed are highly specific: they do not have a long-term banking relationship (Rivaud-Danset, 1996) and do not fall within established banking standards (Lebossé, 1998). For example, the collective governance of cooperatives and associations is often deemed complex and leads to financing difficulties if the financial intermediary is not already an integral part of the local system of relationships (Fedele and Miniaci, 2010; Gagliardi, 2009).

In light of the great diversity in the action, organisational forms and target audiences of solidarity-finance organisations, this contribution aims to provide a conceptual approach to SSF in order to understand its place and specificities compared with those of other financial intermediaries. Like social and solidarity economy (McMurtry, 2013), SSF can be used as the Trojan horse of capitalism and of liberalism: in fact, SSF develops inclusive banking for the poor and increases monetisation around the world. But SSF can also support transformation of the banking system by including new rules and behaviours, as we will demonstrate.

The originality of this conceptualisation is underpinned by the study of SSF's system of relationships, which has characteristics that differ from those of other financial intermediaries. As we shall demonstrate, SSF constitutes a set of interdependent financial and social relationships, and partnerships between individuals and organisations, that mesh into an organised whole.

This article[4] makes use of institutional economics to understand those mechanisms of interaction between individuals, organisations and institutions that are not strictly economic.

First, we develop a new conceptual framework on SSF from an institutional point of view. Then, based on this framework, we outline the sustainability of alternative finance and its ability to meet specific entrepreneurship needs. Finally, we present the French SSF situation in order to highlight the main characteristics of alternative finance.

2. A new framework of SSF

Solidarity finance differs from other – capitalist or profit-seeking – financial-intermediation systems, and criticises the individualist logics that result from these. As such, it reaffirms that individuals are linked with one another, with the word 'solidarity' conveying the same meaning it had in the 18th century: a form of mutual dependency between individuals within a horizontal conception of social relationships (Ould Ahmed, 2010). 'Solidarity finance' expresses a mutual dependency that also occurs in the field of economic activities and is based on a deliberate, voluntary choice by individuals to help each other. Among the ways in which SSF turns its commitments into reality are the implementation of specific processes of allocation and remuneration of capital (such as financing non-capitalist activities, and donating capital interests), the mutualisation of risk, and the consideration given to non-financial criteria when making decisions on financing.

2.1. SSF: a system of socio-economic relationships

The conceptual unity of solidarity finance revolves around three major elements:

- Adherence to a single goal (financing economic activities) – the objective of solidarity financing is to create a business that will generate income in the future so that reimbursement obligations can be met. As a consequence, solidarity finance focuses solely on financing productive investments, thus excluding the financing of consumption or habitat.
- A complex system of relationships between individuals and organisations – these include both financial relationships conveyed through money and forums of socialisation (such as the support relationship) that trigger the activation of social links.
- Several players who associate to meet that common goal and implement those relationships – these include solidarity savers, solidarity borrowers/entrepreneurs, partners (banks and public authorities) and intermediary organisations.

SSF differs from other financing channels on a number of levels:

[2] In 2009, the combined assets of SSF reached over 20 billion euros in Europe, and its balance-sheet growth rate over the period 2007–2010 was 53.41%, compared with 8.37% for conventional banks (Global Alliance for Banking on Value, 2012).

[3] SSF commits to taking into account the non-economic consequences of its financial activities, by selecting the projects it finances on both financial and social criteria (Benedikter, 2011).

[4] A preliminary version has been presented at 'Social and Solidarity Finance: Tensions, Opportunities and Transformative Potential', workshop made by the United Nations Research Institute for Social Development (UNRISD), 11–12 May 2015.

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