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Author: Sophie des Mazery
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More Than a Million French Using Their Savings for Social Good: A Novel Approach to Impact Investing in France

By Sophie des Mazery

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The French are increasingly becoming more socially engaged: in how they trade, sustain themselves, and get around. This movement is exemplified by the 13 million volunteers who have become involved with non-profit organizations, the development of social entrepreneurship, the rise of the collaborative economy, the growth of shorter food supply chains, and the emergence of citizen movements.

This movement is making waves in the finance world too, with the development of ethical banks, microfinance, socially responsible investing, the crowdfunding boom, evolution of local currencies, the spectacular growth of solidarity-based finance, and the emergence on the international stage of impact investing. It confirms that citizens are becoming major players in the field of finance while also being conscious of the issues that they support: ecological transition, reducing poverty, and combatting unemployment.

When it comes to social impact finance, France is not only particularly active in the field but also a leader in terms of innovation. “Solidarity-based finance” allows citizens to use their savings to finance activities that help support social and/or environmental initiatives (access to the labour market and housing for people who are typically excluded, development of ecological activities with organic farming and renewable energies, entrepreneurship in developing countries, etc.).

Today, more than one million citizens have invested their money in socially responsible initiatives — this investment totalled 9.76 billion euro at the end of 2016. The number of these socially responsible savers has continued to grow since the initial investments by civil society actors in the ‘80s.

Solidarity-based finance: where it all began

The ‘80s are synonymous with the acceleration of the phenomenon of economic and financial liberalization. The decade was marked by Margaret Thatcher’s ascension to power in the United Kingdom in 1979 and Ronald Reagan’s in the US in 1981 — two fierce supporters of a deregulated market economy with much less state intervention in society. Financial market players, who were gradually less subject to state regulation, developed highly profitable activities that were increasingly less linked to the productive economy.

This move to “financialize” the economy marks the end of a compromise that dates to the aftermath of the Second World War. The ‘80s saw considerable wealth being built in financial markets, but rarely did the capital invested support a productive activity.

Although it wasn’t until 1983 that the liberalization movement gained popularity in France, the country’s leaders committed to this new path throughout the next decade, which was also marked by the development of another phenomenon: mass unemployment. While it had barely reached 3% in the 1970s, the rate of unemployment rapidly progressed to just above 8% in 1985 before surpassing the symbolic threshold of 10% in the early 1990s. This phenomenon brought into question the ability of the economic and financial spheres to contribute to a social model that would generate social progress. It was within this context that the first solidarity-based finance initiatives were implemented, in particular the citizen capital fund (*la collecte de capital citoyen*).

Then, the CIGALES movement appeared on the scene in 1983. A CIGALES (*Club d’Investisseurs pour une Gestion Alternative et Locale de l’Epargne Solidaire*[1]) groups together individuals (between five and 20) who pool a portion of their savings and invest in small local businesses. They decide on investments collectively and the “cigaliers” — or investors — become involved with the selected businesses and support them throughout the period covering the club’s financial commitment. Like CIGALES, other solidarity-based businesses rely on networks of activists and supporters to finance their development and strengthen their own funds. This is called socially responsible shareholding. By making a public offering, due to increases in regular capital, members of social housing organizations like Habitat et Humanisme, international solidarity organizations like Oikocredit or even environmental ones like Terre de Liens, ensure that socially responsible shareholding is a powerful tool to finance their shares in favour of marginalized people and support their political projects. Incentive tax schemes — tax reductions of up to 50% of the subscription amount — are particularly significant in the development of socially responsible shareholding.

It was also in 1983 that the Crédit Coopératif and the Comité Catholique contre la Faim et pour le Développement (CCFD) created the first socially responsible banking firm — the Fonds Commun de Placement (FCP) “Faim et Développement” (Hunger and Development Mutual Fund). Unlike many savings vehicles, this investment was not created off the back of market studies, detailed monitoring of the competition, or consumer tests. Its origins coincided with the Cold War and can be traced back to August 1980 and the creation of the Polish trade union Solidarnosc (known in Canada as Solidary) — a popular movement opposed to the then communist regime. At that time, the CCFD, the first development NGO in France, was sending humanitarian convoys to Poland. Faced with growing needs, the CCFD, however, reached the limits of its traditional operating means and thus came up with a financial structure. With the assistance of Crédit Coopératif, the partnership between these two associations gave rise to a mutual fund (FCP).

More than ten years after the creation of this sharing fund, the main federation of union employees (the

CFDT) launched the first collective investment fund to support the financing of solidarity actions: the FCP Insertion Emplois (now renamed as FCP Insertion Emplois Dynamique).

The project was entrusted to Patrick Savadoux, fund manager at Caisse des Dépôts et Consignations (CDC), a French public financial institution that finances activities of general interest on behalf of the state and local authorities. He remarked that he and his team “. . . were practically starting from scratch. We weren’t sure whether we would be able to manage unlisted securities in an FCP. We did, however, have a precedent at the CDC with the North South Development (Nord Sud Développement) SICAV [investment company with variable capital], which invested part of its assets in microfinancing institutions abroad. All we knew was that we could invest in other kinds of structures.”

To provide technical support to organizations responsible for creating jobs by integrating activities, the Caisse des Dépôts et Consignations teams found a regulatory solution: the derogatory ratio (*ratio déragotoire*). This allows up to 10% of the fund’s assets to be invested in all nature of products, such as unlisted securities or currencies.

“At the beginning, only 1% of assets were used to finance solidarity activities,” says Savadoux. “Across the management committees, this seemed insufficient compared to the CFDT’s initial request. We had to find a happy medium, which is how we settled on a goal of 5% to 10%.” Solidarity funds, called “90-10 funds”, had just been created (a breakdown of assets between a maximum of 10% of solidarity securities and a minimum of 90% of listed securities). These “90-10” funds quickly became the main tool for collecting solidarity savings.

Designed and managed by asset management companies, they are currently marketed:

- ***Via an employee saving scheme:*** all for-profit companies with more than 50 employees must share some of these profits with their employees. In this context, employees can either directly receive this extra remuneration in addition to their taxable income or place it in corporate savings schemes and benefit from a tax exemption on the investment. These funds are called Social Company Mutual Investment Funds (FCPES). This exposure of solidarity funds has led to a spectacular increase in the total amount invested as it jumped from 500 million euro in 2007 to 6.2 billion euro in 2016. Today, some 800,000 employees have opted for an FCPES.
- ***Via a bank or a mutual insurance company*:** savers, be they natural or legal persons, may choose to invest all or part of their savings in a “90-10” fund, which is either an FCP (mutual funds), a SICAV or an FIP (local investment fund).

Solidarity-based finance today

Totaling close to ten billion euro on December 31, 2016, solidarity-based saving continues to evolve and innovate, and represents a wide variety of players and products.

Almost all financial institutions (banks and insurance companies) now offer solidarity-based savings products. Bank savings (regulated savings books, mutual funds, life insurance, etc.) have seen their total amount increase by 130% since 2010, representing almost one third of total savings at the end of 2016 (3.06 billion euro on December 31, 2016). More than half of the total bank investments are concentrated in the solidarity savings booklets.

Employee savings plans, for their part, are the main driver of growth in solidarity-based savings.

Indeed, of the eight to ten million employees who have the option of saving via their company, 800,000 chose to invest their money in a solidarity-based savings plan. On December 31, 2016, employee solidarity-based savings amounted to 6.2 billion euro (63.5% of the total savings), up substantially since 2015 and representing an increase of 325% since 2010.

Solidarity-based shareholding – i.e. savings collected directly by solidarity-based companies via capital increases – has also increased, exceeding 500 million euro on December 31, 2016. This method of collection has developed continuously, particularly because of the reduction of public funding but also because of citizens' willingness to be more involved in social change.

Finansol: promoting solidarity-based finance for 20 years

Finansol was founded in 1995 with a view to accelerating the dynamics of solidarity-based savings initiated ten years earlier with the creation of the first solidarity-based investments. The ambition of the founders of the association was "to create more collective means in order to become known to savers and communicate with public authorities. Each one of them was indeed too small to become known by themselves," recalls Jean-Paul Vigier, Finansol's first president. "Finansol's ambition was to achieve a solidarity-based total saving of ten billion francs [about 1.5 billion euro, excluding inflation] over ten years. So, it became necessary to help savers gain confidence," says Vigier.

Soon after the emergence of Finansol came the idea of creating a label that could be awarded to solidarity-based savings products that respected certain transparency and solidarity criteria. This initiative was thought up to help savers recognize solidarity-based investments. In 1997, the Finansol label was created, and today it remains the only solidarity-based finance label in France.

Beyond the promotion of the Finansol label, the association itself informs savers of the role they can play in establishing useful, fair and reasoned finances, via awareness actions and various communication tools. The association offers educational guides, organizes various events such as Solidarity Finance Week (which is held each year in November to raise public awareness of solidarity-based savings), and develops multiple relationships with the media.

In addition, it works with the support of its members to create new products, or a solidarity-based version of existing savings products, such as solidarity-based life insurance, a regulated savings account, or a more attractive solidarity savings plan, etc.

Because a political impetus is necessary and decisive in encouraging, reinforcing, and developing this type of saving, Finansol also communicates with public decision-makers in order to create the kind of legal and fiscal framework that most favours the development of solidarity-based finance.

Lastly, the *Observatoire de la finance solidaire* is Finansol's principle measurement and analysis tool. It collects sector data annually and produces indicators that provide a comprehensive overview of the solidarity-based finance sector. The association then publishes all the data in its studies.

French business sector evolves to incorporate social good

Solidarity-based finance's main objective is to favour the development of companies that are socially and/or environmentally beneficial thanks to the commitment of savers. In 2016, solidarity-based finance represented a stream of financing that amounted to 280.3 million euro. Part of this helped support socially and physically vulnerable people — the immediate effect of which led to the creation and consolidation of 49,000 jobs.

When it comes to issues such as rising rents, increasingly difficult access to property, and a growing lack of social housing, solidarity-based finance plays a role in ensuring that marginalized people can find housing. In 2016, 5,500 people were housed or relocated to decent housing. A percentage of solidarity-based financing has also been invested in ecological activities (organic farming and renewable energies) which has led to the production of the equivalent of the energy consumption of 20,000 French households.

In 2016, more than 100 development actors received support for entrepreneurship in developing countries.

If solidarity-based finance's role in the resolution of current societal issues is to continue to progress, it must continue to mobilize savers to respond to rapidly increasing social and environmental needs. Mass unemployment remains a structural issue and poverty continues to rise in France (the number of homeless people increased by 50% in 12 years (2001-2013) according to a 2017 report by the Abbé Pierre Foundation). In addition, environmental issues are dramatically increasing, and France has fallen behind its European counterparts. For example, the share of renewable energies represents only 14% of electricity production even though the French largely favour energy transition. Financing of development in the Global South also requires significant contributions in solidarity capital.

At the same time, the various ways of undertaking and consuming are evolving. A new generation of social entrepreneurs has emerged, whose capacity for innovation is already being noticed (e.g. La Ruche, who support the valorization of systems with few intermediaries and shorter distances between the producer and the consumer, or Simplon.co, who support integration into the labour market). This movement of entrepreneurs wanting to create value-based companies or enterprises is supported by universities and business schools that now offer training in social entrepreneurship and philanthropy. The need for scale is also an issue for the social and solidarity-based economy: the aim is to foster the emergence of champions with the capacity to respond massively to social needs (integration enterprises, health, and social sectors, etc.).

Faced with these social and environmental needs, solidarity-based finance is a concrete and decisive response. Despite its continuous annual growth of more than 20%, solidarity-based saving is still marginal as it makes up only 0.2% of the financial wealth of the French population (the latter was valued at 4,765 billion euro in 2016 according to the Banque de France).

The objective of solidarity-based finance players is that, by 2025, 1% of French savings will be devoted to solidarity-based investments. Projects with the public authorities on the one hand and financial institutions on the other are thus initiated in order to develop the range of solidarity investments, the channels for collecting these savings, and to attract new subscribers.

[1] Investor Club for Alternative and Local Management of Socially-Responsible Savings.