# Financing the Social Economy in Québec

## *A Work in Progress*

By Marguerite Mendell

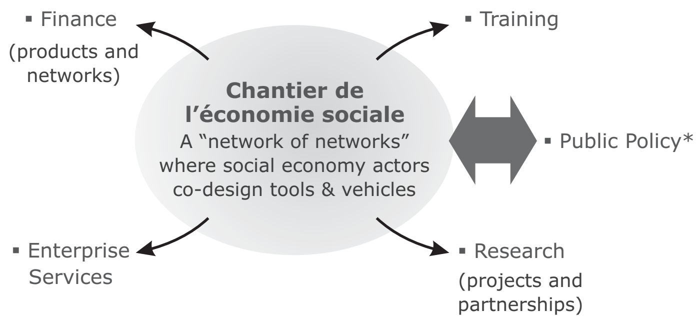
The history of the social economy in Québec has attracted the interest of practitioners, researchers, and governments around the world. Despite the growth of the social and/or solidarity economy, social enterprises, and social purpose businesses[1] internationally, the Québec experience continues to be a critical reference for many new initiatives in countries in the North and in the South.

For those privileged to work with social economy practitioners in Québec, this widespread interest is not surprising. In Québec, the social economy is embedded in a vision of social and economic transformation that requires working across boundaries. This means designing new instruments, such as enabling finance. It means proposing new legislation, to overcome the legal barriers that limit the economic capacity of nonprofit organizations and their ability to access finance, for example. It also means experimenting with new and more effective approaches to the design of public policy.

These challenges in Québec are met by the Chantier de l'économie sociale, a network of networks in the social economy, that is well known to readers of *Making Waves*.[2] Because of its broad membership, including many sectors of activity in the social economy as well as social movements – labour, women, the environment – and local development agencies across the province, the Chantier has established a *multi-stakeholder institutional space* that increases its capacity to identify the needs of the social economy and to develop enabling tools. The Chantier is engaged in an ongoing process of social innovation or what is sometimes described as *co-construction*, because it cuts across sectoral "silos" to facilitate dialogue, collaboration, and creativity. This also applies to the role played by the Chantier in the *co-construction of public policy* for the social economy. New and enabling policies introduced by both the provincial government and the City of Montréal are the result of this process.[3]

Diagram 1 depicts the integrated, systemic approach that we are taking in Québec to address in concert all the factors instrumental to the growth of social economy enterprises: labour market training, enterprise services (including the development of markets or commercialization strategies), research, public policy – and, of course, finance.

**Diagram 1: The Social Economy in Québec – An Integrated System of Social Innovation**




* Public policy affecting each of these four areas, and cutting across all aspects of the social economy.

### The Co-construction of Solidarity Finance in Québec: A Systemic Approach

In Québec we find it useful to distinguish between what we call "development capital" and "solidarity finance." In both cases, investment decisions are taken on the basis of socio-economic or triple bottom-line objectives. Development capital, however, invests primarily in private enterprise; solidarity finance refers to those financial institutions that invest primarily in social economy enterprises. Socially responsible finance encompasses the total investment represented by both development capital and solidarity finance in Québec. If we extrapolate finance from Diagram 1, what I call the *co-construction of solidarity finance* applies the same, organic process to designing new financial tools for the social economy, enabled by local and regional multi-stakeholder institutional spaces.

Multi-stakeholder institutional spaces are vital to identify the financial/capital needs of social economy enterprises, develop financial instruments to meet these needs, and design financing opportunities in which many different types of investor can collaborate. Much as the Chantier plays this role for the many sectors of the social economy, territorial intermediaries such as community economic development corporations (CDECs) and local development centers (CLDs) across Québec are also multi-stakeholder institutional spaces best able to work with social economy enterprises and providers of finance capital. They provide "one-stop shopping" opportunities across Québec where social economy enterprises can access mixed financing and support. Close relationships are formed in these spaces between social economy financial institutions and the organizations and enterprises in which they invest, and with different levels of government as well. These relationships make financial innovation possible.[4] Most important, this collaborative approach contributes to the viability of social economy enterprises/organizations, considerably reducing the risk for investors.

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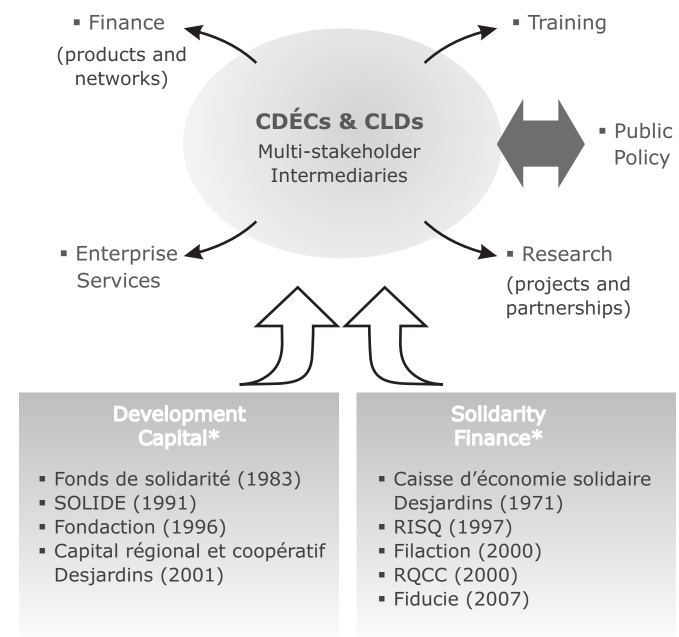
Mainstream financial institutions generally overlook social economy enterprises. Their decisions are based primarily on individual business plans and marketing strategies. By contrast, co-construction integrates the financial needs of social economy enterprises into strategies of local and regional development. It is a process that works against pure "market logic," whereby buyers and sellers meet only in the marketplace, whether for investment capital or for goods and services. As a result, information asymmetries between the demand for and supply of finance capital are considerably reduced. Much of the current literature on "social finance" addresses the problem of excess supply. As many have noted, because the need for a diversity of financial products has not been met, there is a risk that the increasing availability of social finance will outpace the absorptive capacity of social economy enterprises.[5]

While this rapid growth confirms the urgent need for capital, the supply of social finance is fragmented, all too often disembedded from local development strategies, and focussed on loan capital. The inadequacy of equity or equity-type products, for example, denies social economy enterprises the long-term investment they require in order to consolidate their activities and grow. For the private sector, the need for equity is obvious. It is also understood for the social economy, but because of the legal grey zone these enterprises inhabit, financial products are largely limited to debt instruments. While in many cases a range of repayment schedules is available, heavy debt loads confine social economy enterprises to short-or medium-term time horizons. Unable to sell shares, social economy enterprises require a financial product that provides long-term capital but does not confer ownership.

Diagram 2 depicts the co-construction of solidarity finance and the constellation of financial institutions that are challenging mainstream investment behaviour in Québec.

Diagram 2: Solidarity Finance in Québec – A Systemic Approach




* Development capital actors (Fonds de solidarité, SOLIDE, and Fondaction) are also taking part in solidarity finance.

## The Fiducie du Chantier de l'économie sociale

The Caisse d'économie solidaire Desjardins was established in 1971 and provided loan capital to social economy enterprises. But in 1996, following the socio-economic summit convened by the Bouchard government, it was clear that new financial instruments specifically for social economy enterprises had to be designed with distinct investment criteria. Conventional financial institutions considered these enterprises high risk and were not able to comprehend or incorporate social returns into their calculus.

In a survey of solidarity finance in Québec, we found that together, these institutions invested over $750 million in social economy enterprises over the period 1996-2006.[6] Annual investments increased exponentially from approximately $28 million in 1996 to $115 million in 2005. However, as already noted, this was largely in the form of debt finance. A vehicle and an instrument for the investment of long-term capital was still missing.

This was the context in which in 2007, the Chantier launched the Fiducie du Chantier de l'économie sociale, a $53.8 million patient capital or quasi-equity fund to enable collective enterprises to embark on long-term planning, invest in real estate, and move out of a vicious cycle of debt. The new "product" in which the Fiducie specializes is a form of debenture, an unsecured investment repayable after 15 years. This patient capital is intended to support the operations of social economy enterprises and contribute to their real estate investments. Loans are available for between $50,000 and $1.5 million. They must represent no more than 35% of project-related costs.

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The founding of the Fiducie is in itself an excellent illustration of the process of co-construction. Funding originated in the Social Economy Initiative launched by Paul Martin's federal Liberal government. In 2004, Ottawa announced a commitment of $132 million to the development of the social economy, of which $100 million, following a recommendation of the Chantier, was allocated to capitalization, and the remainder to capacity-building and research. Québec was awarded $30 million of the capital funding. Stephen Harper's Conservatives were prepared to honour $22.8 million of that commitment after the fall of the Martin government in 2006. This initial grant was very important for leveraging additional investment.

Nevertheless, the impetus for the Fiducie and its design were the work of social economy actors. They explored innovations in financial markets in partnership with researchers in the Community University Research Alliance (CURA) on the Social Economy. Sizeable investments were made in the Fiducie by Québec's two large labour solidarity funds. The Fonds de solidarité of the Fédération des travailleurs du Québec (FTQ) invested $12 million and FondAction of the Confédération des syndicats nationaux (CSN) $8 million. Thanks to this leverage, the Government of Québec agreed to participate in this initiative by giving its public investment arm, Investissement Québec, the mandate to invest $10 million in the Fiducie. No direct policy measure was necessary to make that investment. Both the FTQ and the CSN are members of the Chantier.

Today the Fiducie is an innovative and important financial intermediary. By March 2010, it had already invested $15.7 million in 53 projects (75.7% in real estate). The average investment is $296,226. These investments have leveraged a total of $121.9 million and created or consolidated 1,323 jobs. No enterprise that employs more than 200 people can receive loans from the Fiducie. Childcare centres, home care, perinatal, educational service, housing, and any enterprise that replaces the public sector are also ineligible.

The Fiducie is embarking on numerous new investments. A recent one is the Regroupement de Lachine. On March 10, 2010, the Fiducie announced an investment of $204,000 that will permit eight community organizations to purchase a common building from which to offer their services: local job creation, entrepreneurship, support for sustainable development, poverty reduction, and youth-school retention. The building will also house a new daycare centre, a local development centre, youth employment services, and a community economic development corporation (CDEC-Lachine), an environmental research organization, a community action committee, an organization that promotes early reading, and a local business network. The Fiducie's partners in the investment are the local development centre and the CDEC. It is another example of the strategic investments that a coherent approach to social economy development can generate, with benefits to local people that will far exceed those from conventional, isolated investments, however salutary these might be.

In addition to making available an innovative financial product, the Fiducie is building the infrastructure necessary to promote and support this type of investment activity in the current growing but deeply-segmented social investment market. A co-ordinated strategy has avoided the *bricolage* so characteristic of this sector, however large the potential capital pool within many regions and countries.

The Fiducie has two arms. One reaches out to potential investors (the supply side), the other to potential investees (the demand side). It does not passively wait for opportunities to present themselves either. As part of its ongoing efforts to provide detailed, up-to-date information and analysis of the social economy in Québec, the Chantier has created an internet portal and a *veille* ("observatory") that not only provides a mapping of the social economy enterprises and sectors, but identifies potential clients for the Fiducie.

The observatory includes a profile of the regions in which these enterprises are located. In Québec, as elsewhere, many manufacturing industries are struggling or have disappeared; forestry and fishing, mainstays of the regional economy, have been hit very hard. The observatory has been designed with this in mind. What is the potential for new industries, new sectors in the social economy? What is the current landscape? What is the investment readiness of enterprises at the moment? Which enterprises need support to be able to benefit from the capital offered by the Fiducie? Again, this is not the work of the Chantier or its regional poles alone. It requires close collaboration with the CLDs and CDECs across Québec – in short, it requires adopting the co-ordinated and integrated approach that characterizes the development of the social economy in Québec.

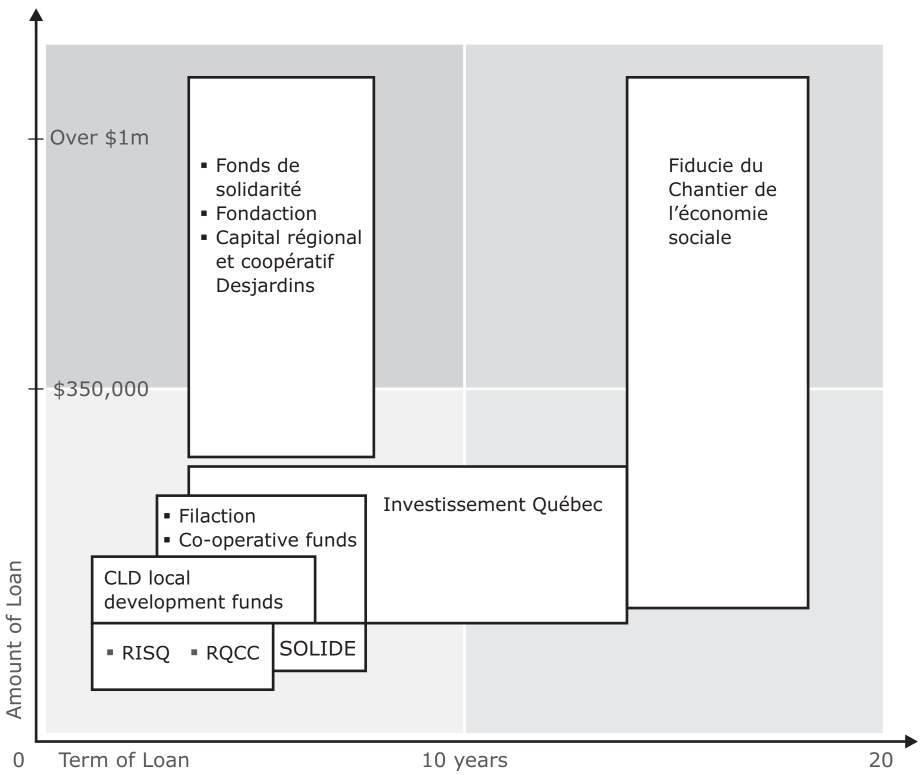
Diagram 3 summarizes the range of financing now available through the main providers of solidarity finance. The right-hand quadrants that once were vacant, indicative of the scarcity of debt capital over terms longer than ten years and especially in amounts over $350,000, have now been occupied by the products of the Fiducie. Note that these providers work in partnership and not in competition with each other, however. The manner in which they design their investment portfolios or financial packages reflects their ongoing dialogue and collaboration.

Solidarity finance in Québec is a work in progress. Networking and/or federating of intermediaries is required in order to harmonize measurement and evaluation tools (metrics). This is key as we move into hybrid, long-term capital investment tools and the assurances necessary to create incentives for potential investors. But even more important, it dispels the myth that this is an "alternative" and marginal financial sector.

In Québec, such a network was established in December 2009: CAP Finance. In addition to the large labour solidarity funds, the Fonds de solidarité and FondAction, the founding members of the CAP include the Caisse d'économie solidaire Desjardins, the Réseau québécois du crédit communautaire (a network of microcredit organizations), Filaction (local development funds), the Réseau d'investissement social du Québec (RISQ), and the FIDUCIE. This is a significant achievement. Formalizing this network increases the capacity to develop common tools while maintaining the autonomy of each founding member institution.

The Fiducie is also exploring the creation of secondary markets in which social enterprises and investors can meet and together build a stronger sector while providing returns on investors' capital. Inspired by the experience of the Bolsa de Valores Sociais (or "Social Stock Market") in Brazil's largest stock exchange, the Rockefeller Foundation is developing a framework for such a market internationally.[7] The Government of Québec is currently financing research requested by the Chantier on developing a secondary market in Québec.

Diagram 3: Range of solidarity financing now available

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One of the products featured in such a marketplace would be performing loans, whose sale would accelerate the redeployment of capital in support of other initiatives. This work has not been affected by the recent financial crisis. On the contrary, "selling" investors on the Fiducie's long-term stable rates of return has become easier amidst the debris of speculative financial markets. It is one more sign of the attractiveness of a new "ethical" or "socially responsible" financial market in which investors are contributing to the public good.

## References

[1] Those are just a few of the many terms applied to citizen-based hybrid enterprises that combine social, economic, and environmental objectives.
[2] See for example the articles by Nancy Neamtan, "A New Beginning for Social Economy in Québec? The Governmental Action Plan for Collective Entrepreneurship," 19,4 (Winter 2008),8-10 and "The Political Imperative: Civil Society & the Politics of Empowerment," 15,1 (Spring 2004),26-30.
[3] See M. Mendell and N. Neamtan, "The Social Economy in Québec: Towards a New Political Economy" in L. Mook, K. Quarter, and S. Ryan, eds. *Why the Social Economy Matters* (forthcoming; Toronto: University of Toronto Press, 2010), pp. 32-58.
[4] The federal government is present in the CDECs, and the government of Québec in the CLDs (created in1997). Municipal government is present in both. The CDECs and the CLDs also administer local development funds that form part of the financial architecture of the social economy. See Gilles L. Bourque, M. Mendell, and Ralph Rouzier, *La finance responsable au Québec : portrait, enjeux et défis d'une finance au service d'un développement durable et solidaire* (Montréal: Éditions vie économique, 2009).
[5] I use the term "social finance" here to capture the panoply of new financial products that have emerged to meet the investment needs of social purpose businesses. The focus of this article is the social economy and "solidarity finance," but the issues raised and the challenges apply whatever term we wish to use.
[6] M. Mendell et al, "Investir solidairement : Bilan et perspectives," Rapport du Comité investir solidairement (Montréal: Alliance de recherche universités-communautés en économie sociale, Sept 2006). 31 March 2010 <http://www.chantier.qc.ca/userImgs/documents/root/documents_gen/rapport-investir-solidairement.pdf>. This survey was prepared for the Social Economy Summit in 2006 to mark the tenth anniversary of the 1996 summit that established the Chantier de l'économie sociale. For the numerous local development intermediaries (CLDs) that exist throughout the province and have financial investment tools for the social economy, the data came from the Ministry, MDEIE (Québec). For 2004-2005, we consulted the annual reports of these CLDs.
[7] M. Mendell and Rocío Nogales, "Social enterprises in OECD Member Countries: What are the financial streams?," in Antonella Noya, ed., *The Changing Boundaries of Social Enterprises* (OECD, 2009), p. 114. March 31 2010 <http://browse.oecdbookshop.org/oecd/pdfs/browseit/8409011E.PDF>.

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