

Democratizing Capital: Solidarity Finance in Quebec



**MARGUERITE MENDELL
CONCORDIA UNIVERSITY, Montreal**

**INTERNATIONAL FORUM.
*RETHINKING ECONOMY: SOCIAL AND
SOLIDARITY ECONOMY IN CHINA AND
THE WORLD.***

**PEKING UNIVERSITY. BEIJING, CHINA.
APRIL 27-28, 2013.**

Plan

2

1. *Introduction*
2. *Co-operative funds*
3. *Workers funds*
4. *Community based funds*
5. *State funds*
6. *Hybrid funds*
7. *Private funds*
8. *Institutional and Financial Innovation “Hybridity” in social finance in Quebec*
9. *Enabling Policy for Social Finance*
10. *Conclusion*

1. Introduction

3

- **Quebec at a glance :**

- *The only majority French-speaking society in North America*
- *101 Regional County Municipalities or equivalent territories*
- *17 administrative regions*
- *Québec has the most diversified economy in Canada. Each of its regions has a distinct economic base, some depending largely on their natural resources*
- *The largest of the 10 provinces in Canada by surface area (1,667,441 km² – three times the size of France)*
- *In Canada, Québec ranks second with a population of 8 million people (2012)*
- *Half of its inhabitants occupy less than 1% of the territory in the most highly urbanized areas*
- *Unemployment rate for Quebec – 7.7 % (2013); variability across and within regions*
- *Unemployment rate for Canada – 7.2% (2013)*

Introduction (cont'nd)

4

- *The place of “social” finance today in Quebec and other regions of the world*
 - *A response to the financial crisis?*
 - *A new model? Palliative, residual, marginal? Filling a gap?*
- OR
- *Re-embedding finance in the economy?*
- *Re-embedding the economy in society?*
- *Growing interest in social enterprise/social entrepreneurship*
- *How to situate this in the context of the social and solidarity economy*

Introduction (cont'nd)

5

- *Today's financial markets are disconnected from territory; disconnected from the real economy; disconnected from political regimes*
- *“Social innovation” in finance*
 - *Previous and ongoing innovations to create access to capital*
 - ✦ *Long history of credit unions/cooperative financial institutions; social banks*
 - ✦ *Micro-credit/microfinance, community development loan funds, etc.*
 - ✦ *Legislating the banks – the USA – Community Reinvestment Act (1977)*
 - *Access to capital is still not adequately met*
 - *Today, innovations respond to a search for “ethical” alternatives*
 - ✦ *Socially responsible investment*
 - ✦ *The new role of foundations as investors*
 - ✦ *Eg. the fast growing “impact investment” market*

Introduction (cont'nd)

6

- *In Quebec :*
 - *Socially responsible finance*
 - ✦ *Development capital that uses venture capital to achieve socio-economic objectives (triple bottom line; “impact”)*
 - *Job creation, local and regional development, environmental protection or training of workers*
 - ✦ *Solidarity finance includes various financial institutions, actors, tools available for collective enterprise (NPOs and cooperatives) and the financing of community economic development*
 - *Governed by actors in the community*
 - *Loans with or without guarantee*
 - *Contributes to rebuilding social capital within communities*
 - *Co-construction of demand and supply*

Financial and Institutional Innovation : A Quebec Model

7

● *Democratizing Capital: Solidarity Finance*

● *THREE PILLARS*

- *(1) Mobilization:*
 - *cooperative movement; labour movement; social economy; social movements; private sector*
- *(2) Concertation (collaboration; co-construction):*
 - *New institutional spaces (intermediaries); dialogue; negotiation; co-design of new financial tools/products/instruments; co-design of new policies to enable their emergence, consolidation and growth; financial innovation to respond to local needs/potential*
 - *Integrated vs. sectoral approach*
- *(3) Enabling public policy*

Key historical moments in the evolution of social finance in Quebec (*cooperative, labour, community, hybrid, state, private*)

1900	1970's	1980's ⁸	1990's	2000 +
<ul style="list-style-type: none"> • <i>Mouvement des caisses d'épargne et d'économie Desjardins (1900)</i> 	<ul style="list-style-type: none"> • <i>Caisse d'économie solidaire – Caisse d'économie des travailleuses et travailleurs (Québec) (1971)</i> 	<ul style="list-style-type: none"> • <i>Fonds de solidarité (FTQ) (1983)</i> • <i>Sociétés d'aide au développement des collectivités (SADC) (Community Futures) (1986)</i> • <i>Fonds de développement de Montréal (FDEM) (1987)</i> 	<ul style="list-style-type: none"> • <i>Montreal Community Loan Association (1990)</i> • <i>SOLIDES (1991)</i> • <i>FondAction de la CSN (1995)</i> • <i>RESO Investissements Inc. (1995)</i> • <i>Réseau d'investissement social du Québec (RISQ) (1997)</i> • <i>Fonds d'investissement de Montréal (FIM) (1997)</i> • <i>Investissement Québec (IQ) (coops and the social economy) (1998)</i> • <i>Local Development Centers (CLDs) FLI and FES (1998)</i> 	<ul style="list-style-type: none"> • <i>Filaction (2000) (Fonds de financement coopératif – partnership with RISQ)</i> • <i>Capital régional et coopératif Desjardins (2001)</i> • <i>Fiducie du Chantier de l'économie sociale (2007)</i> • <i>CAP Finance - network of solidarity finance in Québec (2010)</i> • <i>FIRM (Montreal) (2009)</i> • <i>SOLIDE (2010 Fonds locaux de solidarité)</i> • <i>IQ-IMPLIQ- patient capital (2012)</i> • <i>Co-investissement coop (2012)</i>

2. Co-operative funds

9

- *Mouvement des caisses d'épargne et d'économie Desjardins (credit unions)*
 - *First credit union (1900)*
 - *Creation of la Fédération de Québec des unions régionales des caisses populaires Desjardins (1932)*
 - *397 credit unions in Québec and Ontario (2012)*
 - *5.6 million members*
 - *44,942 employees and 5,268 elected leaders*
 - **Assets of \$196,7 billion**
 - *First cooperative financial group in Canada*
 - *Sixth international cooperative financial group*
 - ✦ *Despite its size, it is internationally recognized as a community based financial institution*

Co-operative funds (cont'nd)

- *The Caisse d'économie solidaire (the Caisse d'économie des travailleuses et travailleurs [Québec] established in 1971) , which was the only institution dedicated to financing social economy enterprises until recently*
 - ✦ *Its members are largely unionized workers, associations and individuals who share common objectives*
 - ✦ **Assets of \$690 million (2012); invested \$442 million in more than 2,500 socially engaged enterprise**
- *Capital régional et coopératif Desjardins, established in 2001, is managed by Desjardins Capital de risque*
 - *Because it is a publicly traded company, offers attractive tax benefits, and is managed by Desjardins Capital de risque, this is a hybrid fund serving socio-economic objectives*
 - **Assets of \$1.3 billion (2012); invested \$672.2 million in 206 enterprises, cooperatives and funds**

Co-operative funds (cont'nd)

11

- *Co-investissement coop*

- *Announced last October*
- *patient capital fund*

\$30 million in capitalization (hybrid-state participation)

- ✦ *Government of Quebec (ministère des Finances et de l'Économie) – \$4 million*
- ✦ *Capital régional et coopératif Desjardins – \$10 million*
- ✦ *Conseil québécois de la coopération et de la mutualité – \$1 million*
- ✦ *Capital Réseau SADC et CAE – \$5 million*
- ✦ *Business Development Bank of Canada – \$10 million*

3. Workers funds

12

- *The Quebec National Assembly passed legislation in June of 1983 to create the Fonds de Solidarité des travailleurs et des travailleuses du Québec (now the Fonds de solidarité FTQ)*
 - ✦ *The Fonds de solidarité is considered one of the most important sources of risk capital in Canada and the most important worker solidarity fund internationally*
 - ✦ *The Fonds de solidarité is a trustee (investor) in the Fiducie du Chantier de l'économie sociale, the first patient capital (quasi-equity) fund established in Quebec*
 - ✦ **Assets of \$8.5 billion (2012); invested \$5,7 billion in 2,239 enterprises; created or maintained 168,577 jobs**

Workers funds (cont'nd)

- *In 1991, the Fonds de Solidarité and the Union des municipalités régionales de comté created SOLIDEQ to establish SOLIDE (Société locale d'investissement pour le développement de l'emploi) throughout the province*
 - *The creation of the SOLIDE was in response to the need for small local funds. SOLIDE are situated within local intermediaries (community economic development corporations, local community centers) across Quebec*
 - ✦ *While the Fonds de solidarité was key in the initiative to develop SOLIDE, it may be considered “hybrid” given the partnerships between SOLIDE and the Union des municipalités régionales de comté*
 - ✦ *Recently, the SOLIDE were given the mandate to invest in social economy enterprises (cooperatives and not-for-profit enterprises/organizations). They are now called Fonds locaux de solidarité*
 - **Investment of \$91 million (2011); created or maintained 27,418 jobs since 1991**

Workers funds (cont'nd)

14

- *In 1995, the Confédération des syndicats nationaux, the second largest labour federation in Quebec, established Fondation de la CSN pour la coopération et le développement de l'emploi*
 - *Fondation prioritizes those enterprises committed to participatory governance, self-management, social economy enterprises and enterprises engaged in environmental protection*
 - *Fondation is a trustee (investor) in the Fiducie du Chantier de l'économie sociale, the first patient capital (quasi-equity) fund established in Quebec*
 - **Assets of \$940,8 million (2012); invested \$619,9 million in SMEs; more than 100 SMEs and funds; maintained or created, directly or indirectly, 27,848 jobs**

Workers funds (cont'nd)

15

- *In 2000, Fondation created Filaction*
 - *Filaction is a non-profit organization which invests in SMEs in Quebec in all the branches of industry, particularly in culture, the environment and the social economy*
 - *Filaction partners with other organizations to increase the capital available to these enterprises*
 - ✦ **\$29 million invested in 180 SMEs and 40 funds (2011) : 5,452 jobs created or maintained**

4. Community based funds

16

- *In the 1990's a variety of community based funds including loan circles and loan funds, were created to respond to the persistent unavailability of small loans*
 - *The Montreal Community Loan Association (MCLA) was established in 1990 : the first community based loan fund in Canada*
 - *MCLA distinguished itself from a financial institution in that its objectives were to serve a marginalized population unable to access loans from banks and to support only those projects that could demonstrate both economic viability and social utility*
 - **Since its founding, the MCLA has issued \$2.9 million in loans; created 358 jobs and maintained 712 jobs (2011)**
 - ✦ *Reimbursement rate (average): 94%*

Community based funds (cont'nd)

17

- *In 2000, the Réseau québécois du crédit communautaire was created to develop and promote community credit for well being and elimination of poverty*
 - **\$10 million invested (2000-2012); created or maintained 4,210 jobs**
 - ✦ *Reimbursement rate (average): 91%*
 - **In 2012, more than \$1.3 million invested by 13 community funds and 10 loan circles**

5- State funds

18

- *Since the end of the 1990's Investissement Québec, a public fund, offers finance for social economy enterprises (co-operatives and non-profits La Financière – \$15 million reserved in 2001)*
 - *Financement IMPLIQ (co-operatives and NPOs)*
 - ✦ **\$30,1 million invested in 2012 (loan or loan guarantee). During a maximum of three years, will contribute to creating or maintaining 307 jobs**
 - *Capitalization of Social Economy Enterprises Program (Programme pour la capitalisation des entreprises de l'économie sociale)*
 - *New tool of capitalization (2003). Maximum amount of financing varies between \$ 25,000 and \$ 500,000, according to the nature of the project*
 - *Provides access to a moratorium on the repayment of the capital and interest for 2 to 5 years*
 - ✦ **\$3 million invested in 2011 (capitalization loan or, in some cases, purchase of preferred shares). During a maximum of three years, this will contribute to creating and maintaining 244 jobs**

6. Hybrid funds

19

- *In 1987, the federal government embarked on a program to support community based initiatives in low-income regions across the country*
 - *The Community Futures Development Program is the result of the merger of several earlier programs designed to revitalize poor rural regions*
 - *These corporations, known as Sociétés d'aide au développement des collectivités (SADC) in Québec, are under the responsibility of Economic Development Canada*
 - ✦ *Each SADC has a development fund which is available for investment in local enterprise development, including the social economy*
- **57 SADCs and 10 centres d'aide aux entreprises – assets of \$250 million (2012); create 3,700 jobs and maintain 22,500 annually**

Hybrid funds (cont'nd)

20

- *The first community based development fund, le Fonds de développement emploi-Montréal (FDEM) was formed in 1988 and funded by a partnership between:*
 - *Montréal CEDCs (Community Economic Development Corporations)*
 - *the City of Montreal*
 - *Fonds de solidarité*
 - *Société de développement industriel du Québec (now Investissement Québec)*
 - *Governments of Canada and Quebec also participated in its financing*
 - ✦ **Investments from \$25,000 to \$100,000 (\$2,965,790 in 2012)**

Hybrid funds (cont'nd)

- *The Réseau d'investissement social du Québec (RISQ) established in 1997*
 - *It is considered a hybrid fund because of the multi-sectoral composition of its principal investors, its board of directors and partners, an extraordinary mix of social actors in Quebec society committed, by this engagement, to the promotion of social economy enterprises*
 - ✦ *Initial contributors in RISQ include the Royal Bank of Canada, the Confédération des caisses populaires et d'économie Desjardins, Banque Nationale du Canada, Bank of Montreal, Alcan Aluminum Ltd., Groupe Jean Coutu (PJC) Inc., Fondation Marcelle et Jean Coutu and the Quebec government*
 - *It provides both loans and loan guarantees up to \$50,000 (since 1997, 354 projects for a total of \$14 million; has created 1,583 jobs and maintained 2,921 jobs). In addition, RISQ offers technical assistance (341 projects; \$1.5 million) (2011)*
 - *As part of a National Action Plan to support the social economy (2009), the Quebec government designated \$5 million for RISQ to provide **pre-start up loans** for social economy enterprises (21 projects for a total of \$1.4 million) (2011)*

Hybrid funds (cont'nd)

- *The CDECs and the SADCs inspired the establishment of Local Development Centres (CLDs) by the Quebec Government throughout the province in 1998*
 - *to promote local entrepreneurship, including social economy enterprises.*
 - *In Montreal, the CDECs are mandated to carry out the activities of these CLDs*
 - *They have funds to support local initiatives, Fonds locaux d'investissement (FLI) and the Fonds d'économie sociale (FES), designated for social economy enterprises*
 - ✦ *Total investment of \$4 billion in 10 years*
 - *CEDECs and CLDs are multi-stakeholder intermediaries with a mandate to implement collaborative 'integrated development strategies'*
 - ✦ *Social innovation: governance; objectives; integration of finance*

Hybrid funds (cont'nd)

23

- *La Fiducie du Chantier de l'économie sociale created by the Chantier de l'économie sociale in 2007 is the first « patient capital » fund in Quebec*
 - *The Fiducie responds to the unmet need for long-term capital in the social economy by creating a new investment product (form of debenture) repayable after 15 years*
 - *The fund was initially capitalized by Economic Development Canada (grant of \$22.8 million)*
 - *Investors (trustees) in the Fiducie include the Fonds de solidarité (\$12 million), Fondation (\$8 million) and the Québec government (Investissement Québec) (\$10 million)*
 - ✦ **Investment of \$30 million in 106 enterprises (2013); creating 1,689 jobs**

7. Private funds

24

- *Fonds d'investissement de Montréal (FIM) in 1997*
 - *Purchase and renovation of real estate for cooperative and non-profit housing*
 - ✦ *Initial investments:*
 - *Fonds de solidarité (\$2.5 million)*
 - *la Fédération des caisses populaires Desjardins de Montréal et de l'Ouest du Québec (\$1.25 million)*
 - *Banque nationale du Canada (\$400,000)*
 - *Royal Bank of Canada (\$400,000)*
 - *Hydro-Québec (\$400,000)*
 - *Claridge Investments Ltd. (\$100,000)*

8. Institutional and Financial Innovation

“Hybridity” in social finance in Quebec

25

● **Financial Innovation**

- ✦ *Mix of investors*
 - *Public, private, collective*
 - *New forms of “hybridity”*
- ✦ *New products*
- ✦ *Working beyond barriers set by mainstream capital markets*
 - *Engaging mainstream investors (FIM, RISQ, etc.)*
 - *Venture/risk capital market – ESG/Triple Bottom Line Objectives*
 - *Challenge to expand this potential and create a hybrid “secondary market” – exit strategies to increase liquidity; no ownership*

Institutional and Financial (cont'nd)

26

- **Institutional (Social) Innovation**
 - *Intermediaries : CDECs, SADCs, CLDs, Chantier de l'économie sociale*
 - ✦ *Integrated development strategy – “embedding finance”*
 - ✦ *Co-construction of demand and supply*
 - ✦ *Reduced information asymmetry*
 - ✦ *Design of new financial products/instruments*
 - ✦ *Risk management tools (better knowledge/communication between investors and projects; increased capacity to manage risk)*
 - ✦ *“One stop shopping” – “montage financier” (several sources of investment capital):*
Collaborative processes
 - ✦ *Development of markets : **Increased viability of enterprises in the social economy***
 - ✦ *New means to evaluate investment potential: evaluation tools metrics*
 - *Eg. RISQ Guide for Social Economy Enterprise*
 - *Fiducie du Chantier de l'économie sociale – “Observatoire”*
 - *Chantier de l'économie sociale – training manuals*
 - ✦ *Ongoing process of “disruptive” innovation*
 - ✦ *Collaborative multi-stakeholder governance*

Institutional and Financial (cont'nd)

27

- *CAP Finance – solidarity finance network (2010)*
 - *Network of actors in solidarity finance and development capital*
 - *Formalization of collaboration*
 - *Presents an alternative to financial investment market in Quebec*
- *Founding Members:*
 - *Fonds de solidarité; Caisse d'économie solidaire; Fiducie du Chantier de l'économie sociale; Fondaction; Filaction, RISQ, Réseau du crédit communautaire*
- *Total solidarity finance investments (2010) of over \$1,6 billion (study conducted by CAP members and researchers)*

9. Enabling Policy for Social Finance

28

- **Numerous policy measures over the years**
 - **Financial injections by government**
 - ✦ *RISQ (1997)*
 - ✦ *Local development funds (eg., FLI, FES, SADCs)*
 - ✦ *Co-funding with civil society organizations (SOLIDES and MRCs)*
 - ✦ *One-off grants (eg 2005- federal government \$30 million; reduced to \$22.8 million by the Conservative government)*
 - ✦ *Investments by government [eg- Investissement Québec - \$10 million in la Fiducie du Chantier de l'économie sociale (2007); Financement IMPLIQ – \$30 million (2012); Capitalization of Social Economy Enterprises Program - \$3 million (2011)]*
 - ✦ *Fonds d'initiative et de rayonnement de la métropole (Plan d'action gouvernemental pour l'entrepreneuriat collectif) : \$850,000 from 2009 to 2014 for collective enterprise*
 - **Legislation**
 - ✦ *1983 : creation of the Fonds de solidarité FTQ (federal and provincial)*
 - ✦ *1985 : Régime d'investissement coopératif (RIC) – tax advantages for cooperatives*
 - ✦ *1995 : creation of Fondation, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi*
 - ✦ *2001 : Investissement Québec - loans for collective enterprise (la Financière); capitalization loan or, in some cases, purchase preferred shares*
 - ✦ *2001 : Capital régional et coopératif Desjardins – legislation to permit public offerings and tax advantages*

Enabling Policy for Social Finance (cont'd)

29

○ **Credit Enhancement**

- ✦ *Investissement Québec. Loan guarantees for non-profit organizations*

○ **Fiscal measures**

- ✦ *Fonds de solidarité FTQ (federal and provincial; 15% tax credit plus additional tax credits assigned to retirement funds)*
- ✦ *Fondation, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi (federal and provincial; 15% tax credit plus additional tax credits assigned to retirement funds))*
- ✦ *Régime de crédit coopératif (125% tax credit on investments in cooperatives by members)*
- ✦ *Capital régional et coopératif Desjardins (50% tax credit on investments)*

Enabling Policy (cont'nd)

30

- *Institutionalized Collaboration*
- *Multi-stakeholder governance*
- *Co-construction of Public Policy*
- *Ongoing process of co-construction*
 - *Regulatory environment*
 - *Standardization*
 - *Metrics*
 - *Development of a secondary market*

10. Conclusion

Financial and Institutional Innovation : A Quebec Model

31

- *Three pillars*
 - *(1) Mobilization:*
 - *cooperative movement; labour movement; social economy; social movements; private sector*
 - *(2) Concertation (collaboration; co-construction):*
 - *New institutional spaces (intermediaries); dialogue; negotiation; co-design of new financial tools/products/instruments; co-design of new policies to enable their emergence, consolidation and growth; financial innovation to respond to local needs/potential*
 - *Integrated vs. sectoral approach*
 - *(3) Enabling public policy*

Conclusion (cont'nd)

Socially Responsible Finance Architecture in Québec

Development capital

32

Solidarity finance

Absence of institutional funds such as the Caisse de dépôt et placement du Québec

Capital régional et coopératif Desjardins (2001) - \$672.2 M invested in 2012

Fiducie du Chantier de l'économie sociale (2006) - \$26 M invested in 2012

Fondation - le Fonds de développement de la CSN pour la coopération et l'emploi (1996) - \$619.9 M invested in 2012

Réseau québécois du crédit communautaire (2000) - Assets of \$10 M invested in 2012

Fonds locaux de solidarité (1991) - \$91 M invested in 2011

Filaction - CSN (2000) - \$29 M invested in 2011

Fonds de solidarité FTQ (1983) - \$5.7 G invested in 2012

Intermediaries, CDÉCs, CLDs, Chantier, etc.

Réseau d'investissement social du Québec (1997) 15.5 M\$ invested in 2012

Caisse d'économie solidaire Desjardins (1971) - \$672.2 M invested in 2012

Conclusion (cont'nd)

Socially Responsible Finance

33

*Development capital
actors
(Builders)*

**New Financial
Architecture**

*Solidarity finance
actors
(Builders)*

Socially Responsible Finance

Intermediaries

Multi-sectoral spaces of proximity

Co-construction of supply and demand

State

**Partnership/Co-construction
of public policies**

Conclusion (cont'nd)

- *Impact on local development*
 - *Investment decisions are taken on the basis of socio-economic or triple bottom-line objectives.*
 - *Role of local community*
 - *Thousands of jobs created or maintained every year.*
 - *The intermediaries 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.*
 - ✦ *This collaborative approach contributes to the viability of solidarity finance enterprises/organizations, considerably reducing the risk for investors.*
 - *Challenge: How to attract private investors into this market*
 - ✦ *Institutional funds*
 - ✦ *Socially responsible investment*
 - ✦ *Impact investment*
- capture these trends for the social and solidarity economy*

Conclusion (cont'nd)

35

- *Theorizing social finance – The work to be done*
 - *Document the growing number of financial players involved*
 - ✦ *Social rates of return contest mainstream investment models*
 - *Contribute to the important work on metrics*
 - ✦ *Too many and too fragmented at the moment*
 - *Document the role of the state*
 - ✦ *As investor; as regulator; as facilitator*
 - *Document the role of “intermediaries”*
 - ✦ *Co-construction of demand and supply*
 - ✦ *Integrated development strategies – distributed governance*
 - *Better risk management; better chances of success*
 - *Social, economic and environmental outcomes*

The Components for a New Model Exists