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New Forms of Financing Social Economy Enterprises and Organisations in Quebec

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INTRODUCTION

This paper examines new forms of financing social economy enterprises and organisations. Before turning to the case of Quebec, we begin with a more general discussion in which we identify the issues involved in funding the social economy. These differ from the private sector and present new challenges. The examples we will present include those funding initiatives that are themselves part of the social economy, despite a diversified clientele that may or may not include social economy enterprises. The funds range from community based funds to state funds, and include hybrid funds and workers funds. Still, they may all be considered part of the same social dynamic and institutional context.

Compared to the other Canadian provinces, Quebec's cultural, political and economic situation is distinct; it stems, among other things, from the fact that over 75% of its population speaks French and that its government has always demanded greater autonomy in areas that come under its jurisdiction. The Quebec economy is also characterised by the strong presence of collective enterprises: state-owned corporations such as Hydro-Quebec, and co-operatives such as the *Mouvement Desjardins*. In the area of economic and industrial policy, Quebec has promoted an approach that calls for dialogue among social actors, especially between unions and management (Bourque, 2000).

In 1996, the Government of Quebec, under the leadership of the Parti Québecois, convened a social and economic summit. Representatives of different sectors of Quebec society were invited to debate how to simultaneously reduce the deficit and create employment, two objectives which were generally seen as contradictory. In contrast to previous summits, this included community groups and women's groups for the first time. A variety of civil society initiatives, some of which date back to the early 1980s, such as the *Forum pour l'emploi* (Forum for Full Employment) and others that were more recent, such as the *Marche des femmes contre la pauvreté* (Women's March on

Poverty) in June of 1995, had already laid the groundwork for the participation of new actors at the Social and Economic Summit of 1996. This not only increased the public visibility of the social economy, but it permitted those socio-economic actors not normally engaged in the social economy, to position themselves on this issue.

These new participants in the Social and Economic Summit of 1996 were particularly active in a committee called the *Chantier de l'économie sociale* (Forum on the Social Economy) whose president, Nancy Neamtan, was recognised as one of Quebec's leading figures in the field of community economic development. This Forum helped establish the conditions for institutionalising inter-sectoral collaboration. Among the key steps that were decisive for the future of social economy initiatives, the creation of special targeted funds, deserves special mention. These include the *Fonds d'économie sociale* (FES), under the aegis of the *Centres locaux de développement* (local development centres, or CLDs), the social economy development fund (the RISQ, *or Réseau d'investissement social du Québec*) whose objective was to accumulate $23 million primarily from the private sector ($19 million). At the same time, reforms proposed by the government of Quebec in the field of regional development - especially in the field of health and social services paved the way for recognising the importance of community based initiatives and the social economy.

Since 1999, the Forum on the Social Economy has become an independent and permanent organisation for the promotion and the development of the social economy in Quebec. As a non-profit organisation, it is a national network of social economy actors and those working to develop the social economy. Its organisational structure consists of a general assembly and a 29-member board of directors, representing various sectors in the social economy (environment, social services, communications, recreation, housing, natural resources, child and family services, culture, etc.), local development participants (the *Association des Centres locaux de développement*, *Réseau des Sociétés d'Aide au développement des collectivités-SADC*, *Inter-CDÉC*, etc.) and major social movements (unions, community groups, co-operatives and women's organisations). The Quebec government, however, covers the operating costs of the Forum. To carry out its mandate, the Forum has established a permanent and close relationship with the *Comité sectoriel de la main-d'œuvre de l'économie sociale et de l'action communautaire* (sectoral labour market committee for the social economy) and with RISQ (the fund for social economy enterprises) and co-manages the *Alliance de recherche universités communautés en économie sociale* (a consortium of universities in Quebec) (Lévesque et al, 2000).

1. The Challenges of Financing the Social Economy

In recent years, there have been competing definitions of the social economy which vary between and within countries (Lévesque and Mendell, 1999, OECD, 1999). In Anglo-American countries, for example, it is most commonly associated with the non-profit or third sector. In continental Europe, the social economy has, until the 1970s, referred to the co-operative and mutual organisation, almost exclusively (Defourny and Monzon, 1992). In 1997, the European Commission designated the "third system" to include the panoply of co-operatives, associations, voluntary organisations, non-profits, etc., thereby recognising both market and non-market elements of the social economy. In France, a new *Secrétariat de l'économie solidaire* was recently established. Among its objectives is to promote dialogue and exchange with colleagues in Quebec.[6] This initiative marks an important step in France as it bridges what was a long standing division between the "old" social economy – co-operatives, mutual associations, etc. and the so-called "économie solidaire" – civil society associations, non-profits, etc.

Increasingly, all countries are focussing on the third sector or on non-profits as solutions to problems of social exclusion and unemployment and to respond to unmet social needs that the market economy is unable to fulfil. While the non-profit sector does indeed represent the social economy, it is too restrictive a designation. Despite the growing recognition that the social economy *includes* the non-profit sector, it is still considered

[6] This is an important initiative as it is taking place in the policy domain. The critical work by Jean-Louis Laville and others on "l'économie solidaire", which referred primarily to associations and non-market activity, has inspired the establishment of the Secrétariat (Laville, 1994; Laville and Sainsaulieu, 1998) This marks a recognition that associations providing primarily non-market services, and co-operatives, mutual associations belong together and require a policy environment.

the principal location for most social economy activity. As such, the social economy is perceived as synonymous with the social service sector, especially by its detractors. [7]

In Quebec, the increasing provision of social services by non-profit enterprises opens up important debates and controversies regarding the transfer what were formerly public responsibilities onto civil society organisations. These debates must take place, as, indeed, there is an ongoing reconfiguration of state responsibilities. However, there are ways in which the displacement of many social services from the public to the non-profit sector, as well as the provision of new social services, can maintain the commitment of the state and result in better social provision and generate new jobs in the process. For this to occur, the non-profits in the social economy providing services in the public interest, must be redefined as a new *hybrid organisational structure* with significant public participation. In most cases, these non-profit organisations, when limited to social services, cannot be self-financing. If the services are to be provided by well paid employees at low cost and offer high quality services, financing this component of the social economy calls for recurrent public support. We will return to this later in our discussion.

In our view, the social economy is broader still. It includes the production of both goods and services. Moreover, it not only includes co-operatives and non-profit organisations, but also, in some cases, private enterprises with shareholder agreements[8] that oblige majority *shareholders* to agree to social objectives undertaken by the firm. What distinguishes the social economy is the decision-making capacity of *stakeholders* in contrast to the dominance of *shareholders* in private enterprise. Those firms in which the role of shareholders is reduced, should also be included in a broad definition of *social enterprises*.

2 The Quebec government defines social economy enterprises as fulfilling the following objectives: (1) financial viability; (2) capacity to create stable employment; (3) responding to social needs; (4) produce goods and services which correspond to unmet needs; (5) contribute to improving the quality of life of workers in local communities.

8 For example, worker funds may invest as a minority shareholder in a capitalist enterprise and by virtue of a shareholders agreement, apply certain social conditions on the enterprise in question. A group of

These introductory remarks summarize, no doubt too briefly, some of the important debates and discussions in recent years concerning the social economy throughout industrialised countries. Fortunately, there is a growing literature which documents these debates and experiences. Whatever our selected nomenclature to capture the firms engaged in the social economy, they are all *social enterprises*, subject to different laws governing their behaviour, which vary from country to country. Company law, governing private enterprise, is itself complex, permitting the socialisation of firms required to comply with non-market criteria.· In our view, there is insufficient research in this area because until now, the private sector has been excluded from any definition of the social economy.[9] This is still controversial among social economy actors; however, if we interpret the increasing pressures placed on some firms to operate under different principles as the outcome of the successful experiences in the social economy, we need to have a closer look.

A great deal of effort has been placed in demonstrating that contrary to common belief, social economy enterprises are, for the most part, less risky and, in some cases, potentially more profitable than private sector firms. The role played by *stakeholders* in the social economy contributes additional resources which are not easily accountable in financial terms, but which greatly diminish risk and increase profitability. Major difficulties result less frequently in bankruptcy than in the private sector, due to *non-market* factors operating within these enterprises[10]. In some cases, investment in the social economy is as profitable, if not more-so, than in the private sector.[11] In other cases, as noted above, financial contributions by the state are warranted given the nature

individuals may, likewise, invest in a firm and accept a shareholders agreement which complies with a variety of what we may call "social" objectives on the firm.

9 The participation of the private sector in the social economy in Quebec has been largely in the context of partnerships in social economy enterprises or in partnerships with the state and local actors in new local and regional political intermediaries created by the Quebec government.

10 A comparison of co-operatives and private enterprises by the Ministry of Industry and Commerce in Quebec (1999) has found that the survival rate of co-operatives after five years of existence is six out of ten in comparison to four out of ten for the private sector.

11 In Quebec, the Caisse des travailleurs et travailleuses du Québec, a credit union, which has financed social economy enterprises for almost twenty years is more profitable than over 1200 credit unions in the province which are not necessarily dedicated to supporting the social economy. (LeBossé, 1998)

of the service offered by a social enterprise. These are offered at low cost as an ongoing commitment to the availability of affordable services. For this commitment to remain, public subsidies are essential. This said, the problem of financing the social economy remains, because many of the enterprises concerned are very small, new and engaged in less profitable activities. The increasing complexity of the social economy requires, however, that a full portrait be available so as to dispel the prevailing view that all is new and high risk in this field.

In this article, we have identified four difficulties faced by social economy enterprises.

1. For the most part, social economy enterprises do not generate competitive rates of return on investment. This is not their primary objective. The first difficulty, therefore, relates to the commitment to social goals, thereby compromising purely economic returns. This reduces the number of individual or institutional investors who seek high rates of return, generally in the short term.

2. A second difficulty arises for most social economy enterprises, especially for the new generation of small non-profits or co-operatives. For financial institutions, the banks in particular, the transaction costs for what are generally small loans are too high. Moreover, these enterprises are considered high risk due in large part to a misunderstanding of the nature of these enterprises and their long-term potential.

3. A third difficulty in social economy enterprises is the presence of new actors unknown to the business and financial communities. Many of these individuals have extensive experience in community activism but little exposure to the market economy. This contributes to the difficulty in attracting investment or in securing loans from traditional financial institutions.

4. A fourth difficulty relates to those firms in the private sector that we have included as social economy enterprises. The complex shareholder agreements in these enterprises which limit, by definition, the participation of individual and/or institutional investors

whose primary interest is the rate of return on their investment, poses complications for financing.[12]

Traditional sources of financing those social economy activities more closely associated with social objectives have included donations, gifts, government grants and program funding, loan guarantees and self-financing. Donations have come largely from foundations, religious communities and charitable organisations. Government funding has supported both social service provision as well as economic activity in those social economy enterprises deemed in the public interest. This support has most often reflected the priorities of governments in power and not necessarily the social objectives of the enterprises involved. Loan guarantees have included mortgage guarantees on housing, leasing arrangements or government guarantees on loans. Self-financing has relied on three sources: individual savings, love money and community fund raising activities. These traditional sources of funding are, in fact, not generally available to those individuals and enterprises that are part of the new social economy. They are considered high risk and therefore have very limited access to these sources of finance. For these reasons, the co-operative sector and non-profit enterprises have tried to develop non-traditional sources of finance over the last twenty years, that includes, in some cases, combining traditional and new sources of funding to accumulate the necessary capital. This often requires a great deal of time and effort as the eligibility, amounts available, etc., vary for each of these funding sources. This seems to be the fate for non-profit organisations, accustomed to investing much time and energy in fund raising. The stakes are different today as these organisations in the social economy

[12] We will not, in this paper, discuss the importance of the ethical or social investment movement . Some of these firms, may, indeed, be attractive to those investors whose portfolios consist largely (or exclusively) of so-called ethical or social investment. We are, in a sense, pushing the boundaries even further by suggesting that we look closely at those firms which may not as easily be included in those selected by ethical and social investment analysts, but, indeed, should be, given the nature of the restrictions placed on their shareholders. In Canada, there is an Ethical Guide to Investment which lists all firms considered eligible for this designation. More work needs to be done in this area to look at all aspects of the firm, not only what it is producing, the more typical manner in which its social engagement is evaluated, but also to the roles given to majority and minority shareholders on issues of social concern. We must add a caveat here. It is also true that today the list of firms with so-called ethical objectives is very extensive and sometimes so broad as to make it difficult to distguinish them from other firms.

participate in the market. It is also the fate of many newcomers in the social economy who learn very quickly that multiple sources, new and old, must be tapped to mount the necessary finance.

In recent years, new financial instruments have emerged to meet the growing needs of small enterprises, not only in the social economy. In particular, we refer to venture capital and local development funds that are distinct from the speculative capital market. In the best cases, these instruments include some and/or all of the following characteristics:

1. long term and/or equity finance (financial intermediation)
2. counselling and follow-up (social intermediation)
3. partnerships (financial and social intermediation)
4. leveraging (permits entry into traditional capital markets)
5. integration in community, local or regional planning
6. democratic participation; innovative governance

These characteristics vary according to the nature of the financial instrument. In our research in Quebec, we have identified five principal types, all of which provide finance for the social economy:

- community based funds
- hybrid funds
- worker funds
- co-operative funds
- state funds

In the following section, we will evaluate the capacity of these funds to meet the financial needs of the social economy.

2. Community based funds

A clear distinction between community based funds and those which are state supported is difficult to make because the state intervenes either directly with financial support or indirectly through employability programs, that enable these funds to hire their personnel. Therefore, our understanding of community based funds are those which were initiated by civil society organisations. In Quebec, the community economic development corporations established in the mid-1980's[13] are among the most important in this regard. Today, many community based financial instruments are located in these corporations; autonomous loan circles and community loan funds have also emerged, especially in the last decade to serve the growing need to develop initiatives to counter poverty, unemployment and exclusion. They include a large variety of financial instruments, established to fill the gap created by banks unwilling to serve this clientele.

Community economic development was initiated and consolidated in Quebec by the first generation of CDECs established in the city of Montreal.[14] The objectives of these corporations were three fold: job creation, local economic development and urban renewal. In order to respond to this new socio-economic mandate for what were previously community based organisations engaged primarily in social intervention, it was necessary to create financial instruments. The first community based development fund, *le Fonds de développement de l'emploi de Montréal* (FDEM) was formed and funded by a partnership between the municipal and provincial governments and the *Fonds de Solidarité des travailleurs et des travailleuses du Québec* (worker fund). At

[13] There are currently 9 such community economic development corporations in Montreal (CDECs) and 14 throughout the province.

[14] For a history of community economic development in Quebec, see Favreau and Lévesque (1996). The role of community activists in Quebec is critical to the recent history of the social economy. See also Mendell (2000) and Lévesque and Mendell (1999).

the time, the focus was not on the social economy, per se, but on the revitalisation of neighbourhoods hard hit by the recession in the early 1980's and economic restructuring.

In important ways, these events set the stage for the emergence of community based initiatives, including new financial instruments. For the labour movement, the involvement of the *Fonds de Solidarité* in the FDEM signalled the need for small investment funds; in 1993, in partnership with civil society actors, the *Fonds* created SOLIDEs throughout the province.[15] In their early phases, these initiatives responded not only to economic decline but also to a growing dissatisfaction with clientelist approaches of government. In the 1990's, however, these initiatives also had to respond to the savage cuts in public spending. The history of community economic development in Quebec over the last twenty years provides a backdrop for much of the socio-economic innovation under way today in Quebec in regions and localities, especially in the social economy. For those familiar with this history, it was not always harmonious, as social movements, the women's movement in particular, which is recognised for putting the social economy on the political agenda, collided head-on with community activists engaged in economic initiatives. The historic separation of social and economic concerns and strategies, with community organisations and women's groups primarily involved in social intervention, was played out in this period when, in fact, the opportunity to capture control of economic decision making at the local level and integrate social needs into economic development, became possible for the first time. We might say that this struggle is now being played out in the social economy, where economic actors - business, banks - have to be persuaded that investment in the social economy is a good thing.

In the last decade, Quebec has witnessed the emergence of a variety of community based funds including loan circles and loan funds, to respond to the persistent unavailability of small loans. The best known among these is the *Montreal Community Loan Association*

[15] In 1993, the *Fonds de Solidarité* diversified its investment portfolio to establish the SOLIDES, which are now located in local development centres (CLDs) throughout the province of Quebec. We discuss these in Section 4 of this article.

(MCLA) which was established in 1990.[16] Among its early initiatives was support for the first loan circle in Quebec. The activities of these two instruments are limited. The MCLA and loan circles provide *micro-credit*: in the case of loan circles, we are speaking of loans between $500 and $2000, in the case of the MCLA, the maximum loan is $20,000. The capitalisation of the MCLA has reached approximately $650,000 in ten years; for loan circles, the amount available for loans is approximately $20,000 per loan circle. These funds are themselves part of the social economy, given their broad socio-economic objectives; however, they provide finance not only to social economy enterprises. Until recently, these funds have not been part of any established network. Today they are represented by *le Réseau québecois du crédit communautaire*.

2.1. Montreal Community Loan Association

The MCLA was the first community based loan fund in Canada. Its influence has been very important in this area; its ongoing challenges reveal a great deal about the changing environment in Quebec, where unlike other provinces in Canada, or for that matter, unlike many experiences elsewhere, the government has embarked on a program of decentralisation that includes the establishment of local development funds throughout the province.[17] The verdict is not out yet, as these events are unfolding as we go to print, but the situation has become extremely precarious for organisations such as the MCLA, which struggle in this new political environment.

From the beginning, the MCLA distinguished itself from a financial institution in that its objectives were to serve a marginalised population unable to access loans from banks and to support only those projects that could demonstrate both economic viability and social utility. The Association recognised the vulnerability of its clientele; still, it insisted that its role was not to manage poverty, but to leverage loans so that those excluded from bank finance could approach financial institutions once they had been

[16] For a history of the MCLA, see Mendell and Evoy (1997)

[17] In 1998, the ministère des Régions established local development centres (CLDs) . There are currently 115 such centres in the province each with funds dedicated to economic development and the social economy. While we will discuss these in this article, we note this here to illustrate how the political environment we are observing is very new.

given an opportunity by the Association. To achieve this, all loans include training, counselling, technical assistance and follow-up as part of a loan package, thereby greatly reducing the risk associated with small loans. While the commitment of the MCLA was to promote the establishment of co-operatives, non-profits and community enterprise, many of its clients are small private firms. Of the almost 50 projects which have been financed by the MCLA, only sixteen are non-profit organisations, including two loan circles. However, all enterprises must comply with the socio-economic criteria established by the Association.

Investors in the MCLA include foundations, religious organisations, individuals, the labour movement and the private sector. Government support for the Association, at all three levels - municipal, provincial and federal - has been scattered at best. In addition to three full-time employees, approximately 40 volunteers assist the Association in its daily operations. Its volunteer board of directors has, over the years, included individuals drawn from the community, private and academic sectors. The governance of the Association is broad-based and democratic.

We begin with this example because of the important role the MCLA has played not only in Quebec, but across the country as well. Also, its ongoing work and difficulties captures the challenges faced by those involved in the community sector and in the new social economy in Quebec. And so, in some ways, the MCLA is a prototype for community based finance from which we continue to learn. Its capacity to finance social economy enterprises is only limited by the strange place it finds itself in, as the political deck gets reshuffled in Quebec. The support of the Quebec government for social economy initiatives, is, perhaps, too focussed on institutional responses, at the expense of community based organisations with the experience and knowledge to undertake this activity as well. Rather than a mixture of state-based and community-based initiatives, the pendulum is leaning towards more structures created by the Quebec government, for better or for worse.

The MCLA would not yield on its principles to serve a marginalised population, who, in most instances, despite the numerous funds around, could still not access loans. Instead, the Association formed partnerships with existing organisations that shared its objectives, to establish new funds. These partners include a community economic development corporation, the co-operative movement, a youth fund created by the Mayor of Montreal.[18] Despite these attempts to remain autonomous and grow through partnerships, the Association suffers the fate of most non-profit organisations; it is not yet self-financing and therefore, struggles to meet its operating costs. At approximately $150,000 per year, this represents almost 25% of its loan capital.

If we return to the characteristics we set out to describe what might be the best case scenario for new financial instruments, the Montreal Community Loan Association scores very high in all six categories. In the first case, it provides debt finance over a three year period, in some cases. With respect to leveraging, the Association will extend a second loan to a client still unable to get bank funding despite good credentials, in the hope that it will succeed in the next round. The repayment rate, 94%, is also high. The Association has convened three national conferences and has recently initiated a national network of community loan funds that met for the first time this year. Together, they may find a solution to the ongoing difficulty many such funds face. Together, they may be able to lobby their respective provincial governments and the federal government to **subsidize** operating costs and to introduce fiscal advantages to attract more investors.

2.2. Loan Circles

The loan circles here and elsewhere have been inspired by the Grameen Bank in Bangladesh. In general, they provide small loans to groups of four to seven individuals who collectively share the responsibility for repayment. While we cannot say that they provide funding to social economy enterprises, the circles themselves are part of the social economy; their objective is to assist those who have been left behind by

[18] FACILE (Fonds ACEM CDEC CDN/NDG pour les initiatives locales d'entrepreneurship), is a partnership between the MCLA and a community economic development corporation in Montreal; FONCO-OP is a partnership between the MCLA and the *Regroupement québecois des co-operatrices et co-operateurs du travail* (RQCCT) and works in partnership with the Fondation du Maire de Montréal , a fund established by the Mayor of Montreal. In this latter case, non-financial resources are shared - personnel, locale - with the MCLA.

mainstream institutions.[19] The social culture of the loan circle model is certainly an influence on future business development by those involved in circle training programs before a loan can be issued. Training is an essential component; members of a loan circle agree to ongoing training sessions for up to two months before the loan is issued to the group. In most instances, the individuals in a loan circle do not know each other; establishing confidence in strangers is the first challenge. The **socializing** process here is innovative; a financial need is addressed in an environment which brings individuals into contact with larger objectives and common concerns. In this light, the values of the social economy are potentially transferred into the work environments these people subsequently find themselves in.

In Quebec, there are 22 organisations in which loan circles are located, some of which belong to the *Réseau québecois du crédit communautaire*. In all, close to 1500 individuals have participated in loan circle training sessions throughout the province. Of these, 406 have set up small enterprises and another 344 are in a pre-start up phase. Over 160 individuals have found a job, 76 have returned to school and just over 350 individuals have been referred to further training and assistance programs in their communities. A total of $478,708 has been invested in 750 enterprises by member organisations, for an average of $638 per enterprise.

In many cases, the success of the loan circle model is also due to the support it receives from other community organisations. As stated above, the MCLA has provided funding for loan circles. As well, the credit union movement in Quebec has been involved (Malo et Ignatieff, 1999). Training is also offered according to need, by individuals and groups outside the immediacy of the loan circle. Without government support, however, these loan circles cannot exist. Once again, it is impossible to cover operating costs, which greatly exceed the loan portfolios of these circles. Loan circles in Montreal recently succeeded in renewing their government funding for the next three years. The uncertainty surrounding this reminds us how precarious these alternatives sources of

[19] Loan circles are not considered part of the social economy; although they operate in group setting, they promote individual entrepreneurship. Still, for the reasons we state above, they are broadly part of the social economy, in our view.

funding are. They do not fit into the current restructuring in Quebec; they must continuously renew their request for financial support.

3. Hybrid Funds

We have designated a number of funds as hybrid in that they are either quasi-public - the state finances the operating costs of these funds but transfers management and decision-making to organisations and/or public intermediaries - or the state is a partner in the capitalisation of the fund. Examples of such funds serving the social economy involve both the federal and provincial government. In this section, we introduce the role of the *Société d'aide au développement des collectivités (SADC)* which were created by the federal government in rural communities, the *Centres de dévelopement local (CLD)* established by the government of Quebec in 1998 (the CLDs manage two local development funds, one dedicated to the social economy) and the *Réseau de d'investissement social du Québec (RISQ),* a fund in which the capitalisation comes from both the private sector and the state.

3.1. Société d'aide au développement des collectivités (SADC)

In the mid-1980's, 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 revitalise poor rural regions. These corporations, known as *Sociétés d'aide au développement des collectivités* (SADC) in Quebec, are under the responsibility of Economic Development Canada. In Quebec, there are 96 *Municipalités régionales du comté* (MRCs) which are regroupings of small municipalities. Of these, 54 are considered eligible for an SADC.

SADCs have become of great interest as a model of local governance. They are financed by the federal government but the state support they receive is arms length, permitting a great deal of autonomy. As well, the operating costs of SADCs are assumed by the federal government. In 1999, the operating costs for the SADCs in

Quebec were $12 million. The operating costs per SADC is approximately $230,000 per year (about 12% of their capitalisation). This resolves the hurdle which we raised above, with respect to community based funds. Each SADC has a development fund which is available for investment in local enterprise development, including the social economy. The boards of directors of the SADCs consist of representatives from all social and economic sectors - business, labour, community organisations and the community itself. The SADCs belong to a provincial network which provides non-market resources to its members.

Each SADC has a development fund which is available for investment in local enterprise development, including the social economy. The investment may reach $125,000 but rarely exceeds $75,000**.** Approximately 3000 files are examined each year, representing approximately 60 projects per SADC, 50% of which are new requests. According to one study, 75% of the requests involve technical or financial assistance; 25% are concerned with what might be called the collective interest of the community concerned (ÉvaluAction, 1999). The average loan issued by the SADCs is for $32,800. Two-thirds of these loans are issued without guarantees. The sectoral distribution of the loans and/or technical assistance is as follows: 63% in the service sector, 29% in manufacturing, 5% in the primary sector and 3% in the so-called *secteur quaternaire* or social services. Between 1995-1998, the SADCs created or maintained a total of 14,850 jobs. The average investment per job was about $6,600. Together the SADCs in Quebec employ approximately 300 individuals and mobilise 900 volunteers.

SADCs play several critical and innovative roles in the regions in which they are located. In addition to the services and funding they provide, the SADCs are strategic locations for economic planning, in collaboration with local socio-economic actors. The presence of a variety of such actors, also permits the transfer of knowledge and expertise to personnel employed by the SADCs, an important externality that contributes considerably to the long term social benefits provided by the SADCs. SADCs also provide financing and counselling for projects that may not necessarily receive immediate funding. Although the majority of enterprises supported by the SADCs are in the private sector, the objectives and broad mandate of the SADCs place them firmly within the social economy in Quebec. They do, however, also fund social economy enterprises.

Table 1 : Les Sociétés d'aide au développement des collectivités (SADC)[20]

Name	*Réseau des Sociétés d'aide au développement de collectivités (SADC)*
Status	Non-profit organisation
Capitalisation	\$98m (1.8m\$ per investment fund) and \$1.35m (youth fund)
Source of capitalisation	Government (federal)
Objectives	Creation or maintenance of jobs; economic development
Clientele	Small enterprise
Eligibility	Local development, educational projects, economy projects, health, environment, cultural projects
Nature of investment	Shares, equity loans, negotiated interest rate, conventional loans etc. up to \$125,000 (investment fund) or \$5000 to \$15,000 (youth fund)
Number of projects	3000
Jobs created or maintained	14,850

[20] These figures refer to 1999.

3.2. The Centres locaux de développement (CLD) and their funds

The CDECs and the SADCs have inspired the establishment of local development centres (CLD) by the Quebec government throughout the province. In effect, these centres have the same objectives as the SADCs but do not distinguish between urban and rural areas or between regional disparities. The mandate of the CLDs, created in 1998, is to promote local entrepreneurship, including social economy enterprises. Each CLD is obliged to develop a strategic plan for its region within the context of the strategies, oientations and objectives adopted at both regional and national levels. (Assemblée nationale, 1998: 258).

There are currently 115 CLDs in the province of Quebec.[21] In Montreal, the CDECs are mandated to carry out the activities of these local development centres. In effect, the CDECs now find themselves with greater responsibilities, but also with new political and economic legitimation as local intermediaries between the state and civil society, with clear responsibilities and accountability. This institutionalisation of the CDECs, which is by and large positive, as they now have greater resources at their disposal, also implies a loss of autonomy. In our view, the availability of these additional resources and policy instruments at the local level, however, is a radical break with top-down program funding, the legacy of community based organisations. The CDECs and the CLDs now have funds to support local initiatives, including the *Fonds d'économie sociale (FES)*, designated for social economy enterprises – co-operatives, non-profits, associations. With the availability of these *FES* across Quebec, the CLDs/CDECs will not only assist the social economy financially, but they will play a decisive role in how the social economy evolves in Quebec. The governance of the CLDs and the CDECs, its board and its many committees, requires broad representation of the community. Decisions are, therefore, undertaken by groups of individuals who reside in the territory represented by the CLDs/CDECs who understand the potential and limits of initiatives

[21] The Quebec government has dedicated \$60 million to the CLDs throughout the province. The municipalities were expected to invest an equal amount; to date, they have contributed approximately \$30 million.

in their communities, including those in the social economy, The *Fonds d'économie sociale (FES)*[22] provides support for start-up and more important, for pre-start up or feasibility studies. This is critical, as pre-start up funding is generally very difficult to secure. While social economy enterprises must produce goods and/or services with demonstrated social utility, they must also demonstrate the capacity to become self-financing. As we noted above, this is currently the subject of much discussion, as some social enterprises are less able to achieve this status than others, especially those providing low cost services. The *FES* provide subsidies of $9,000 per job created, up to a maximum of $75,000 per social enterprise. Each CLD/CDEC also manages a *Fonds local d'investissement (FLI)* which extends micro loans between $1000 - $50,000. Access to the *FES* makes it possible to seek further finance from the *FLI*, which is available for social economy enterprises as well.

3.3. Réseau d'investissement social du Québec (RISQ)

The *Réseau d'investissement social du Québec (RISQ*), a non-profit organisation, was 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 which is an extraordinary mix of all social actors in Quebec society committed, by this engagement, to the promotion of social economy enterprises[23]. The original objective of *RISQ* was to raise $23 million in capital; to date, it has not increased its initial capitalisation of $7.3 million, $4 million of which comes from the government of Quebec. Raising this additional capital remains a challenge given the necessity to convince the private sector, the financial institutions, in particular, to increase their participation. Among the current

[22] The total amount available for the FES across Quebec is approximately $11 million. This includes the administration costs of the fund.

[23] Investors in RISQ include the Royal Bank of Canada, the Confédération des caisses populaires et d'économie Desjardins du Québec, la Banque Nationale du Canada, Bank of Montreal, Alcan Aluminum Ltd., le Groupe Jean Coutu (PJC) Inc., la Fondation Marcelle et Jean Coutu and the Quebec government. Its partners include, alphabetically, the Association des CLDs (the network of CLDs in Quebec), the *Caisses d'économie des travailleurs du Québec*, the *Chantier de l'économie sociale*, the *Comité sectoriel de la main d'oeuvre en économie sociale et de l'action communautaire*, the *Co-operatives de développement régional* (CDR), the *Corporations de développement communauaire*

partners are major corporations, banks and the *le Mouvement des caisses populaires et d'économie Desjardins,* Quebec's large credit union which has financed the offices of *RISQ* until now.

For the time being, *RISQ* is the only investment fund designated exclusively to social economy enterprises, co-operatives and non-profits. It provides both loans and loan guarantees up to $50,000. In addition, *RISQ* offers technical assistance, often in the form of pre-start up support. The amount designated towards this assistance is added to the loan; only if a social enterprise is unable to launch its activities, is this amount written off.

Since 1998, *RISQ* reviewed 117 projects of which 50 were retained. Of these, 20 projects received funding immediately; 30 received technical assistance. In the first case, a total investment of $964,500 subsequently leveraged $7.9 million, significantly multiplying the initial investment in these enterprises. Similarly, the total investment in technical assistance, $180,520 leveraged additional investment of $345,000. The investments by *RISQ,* in this short period of time, have created or maintained 760 jobs; as well as 150 individuals have been placed in training businesses. The average investment per job created or maintained, is approximately $12,355. (RISQ, 2000)

(CDCs), *Corporations de développement économique communautaire* (CDECs), *Fondaction*, *Investissement Québec, Réseau des* SADC.

Table 2 : Le Réseau d'investissement social du Québec (RISQ) [24]

Name	*Réseau d'investissement social du Québec (RISQ)*
Status	Non-profit organisation
Capitalisation	$7,3 M
Source of capitalisation	Mixed
Objective	Fund social economy enterprises
Clientele	Non-profits and co-operatives
Eligibility	Start-up, expansion, consolidation
Nature of Investment	Unsecured loans (up to 50 000 $) Pre-start up repayable technical assistance up to $5 000
Number of projects	20 loans and 30 technical assistance loans
Amount invested	$964 500 in loans and $180 520 in technical assistance
Jobs created or maintained	760

[24] 1998-99

4. Workers Funds

The *Fédération des travailleuses et travailleurs du Québec (FTQ*), Quebec's most important labour federation, established a workers fund in 1983 to respond to the loss of jobs during the recession in the early 1980's. The Quebec National Assembly passed legislation in June of 1983 to create the *Fonds de Solidarité.* The remarkable performance of the *Fonds de Solidarité* has become a model for other worker funds established throughout Canada and for a second such fund in Quebec, *Fondaction, le fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi* established by the *Conféderation des syndicats nationaux (CSN)***.** The *Fonds de Solidarité* is considered one of the most important sources of risk capital in Canada and the most important worker fund internationally.

Today, the *Fonds de Solidarité* has 384,188 subscribers, 60% of whom are unionised workers whose pension funds are invested in the *Fonds*; 40% of its investors are from the general public. The total assets of the *Fonds de Solidarité* have reached **$3.3 BILLION**. From its inception, the growth of the *Fonds* has been greatly assisted by extremely attractive fiscal advantages offered to investors from both the federal and provincial governments.[25]

[25] If investments in the Fonds are folded in registered retirement savings plans, for example, the savings ar very high. An investment of $1000, can, in fact, cost as little as $200.

Table 3 : Le Fonds de Solidarité des travailleurs du Québec (FTQ)[26]

Name	*Fonds de Solidarité des travailleurs du Québec (FTQ)*
Status	Venture capital fund
Capitalisation	$3.3b
Source of capitalisation	Worker contributions (facilitated by fiscal incentives)
Objectives	Protect workers' retirement income while financing the growth of small and medium sized enterprise and create permanent jobs
Clientele	Small and medium sized enterprise in almost all sectors except retail. Investment in both unionised and non-unionised enterprises.
Eligibility	Pre-start up, start up, expansion, consolidation, mergers and acquisitions, public offerings, sectors with high value -added
Nature of investment	Minority equity investment from $750,000; membership on board of directors
Number of projects	127[27]
Amount invested	$593m
Jobs created or maintained	78 525 (since 1983 including direct, indirect and maintained)

26 1998-99

27 An additional 1,277 projects are added if we include all those supported by the different funds controlled by the *Fonds de Solidarité* – regional funds, the SOLIDE, technology funds, etc.

Why do we include the *Fonds de Solidarité* in this discussion on the social economy? In our view, the objectives of investment funds *themselves* must be evaluated, not only the clientele they serve. If, for example, investments by funds in the private sector are conditional on compliance with *social goals*, an inventory of funds in the social economy must, in our view, include those funds which, in important ways, commit firms to socio-economic objectives. This not only increases the inventory of social economy funds, but it demonstrates the capacity of social actors, the labour movement in this case, to influence private enterprise to pursue both economic and social objectives, without compromising profitability. That the *Fonds de Solidarité* subjects its clients to a social audit before investing, and insists that firms adhere to a series of practices - these may include participatory management, employment practices, environmental considerations, etc. - that ties investment decisions to non-market criteria in the private sector. The *Fonds*, has, in fact, done more than this. It has been an active player in economic development and job creation strategy in Quebec for almost twenty years. The *Fonds de Solidarité* was a partner in the FDEM, which, as we noted above, was the first community based investment instrument targeting job creation and economic development in local communities. It has also responded to the critical need for job training and re-skilling by developing innovative educational programs. Employees of the *Fonds de Solidarité* and investors have access to a learning environment promoting public understanding of financial markets. As such, the *Fonds* is recognised for the democratisation of knowledge, de-coding complex financial and economic phenomena, often inaccessible and therefore intimidating.

The *Fonds* has created over 70,000 jobs and has provided education and training in all firms in which it invests. As we noted above, over the years, the *Fonds* has been instrumental in economic planning, both sectoral as well as territorial. Its role is respected in Quebec as it is increasingly seen to be acting in the general interest of Quebec society, while always supporting the collective interests of unionised workers and the individual interest of investors.

In response to the growing need for small investment funds, in 1991, the *Fonds de Solidarité and the Union des municipalités régionales de comté (UMRCQ)*[28] created a holding, *SOLIDEQ*, to establish *SOLIDE*, a new financial instrument providing investments between $5,000 and $50,000. The initial capitalisation of $30 million (today it is $40 million) came from the *Fonds de Solidarité*. *SOLIDEQ* would match every dollar invested in a *SOLIDE* by the milieu (civil society) in the form of a gift or a loan with no interest, with an unsecured loan at 5% interest, up to $250,000 for a period of 10 years (at least in the first round).

To launch a *SOLIDE* requires a resolution passed by the board of the Municipalités *régionales* de *comté (MRC)* or an eligible municipality as well as a business plan. These must themselves be preceded by the establishment of a *Corporation de développement de l'économie et de l'emploi (CDEE).* The delegate from this *CDEE* will subsequently become a member of the board of directors of the *SOLIDE* which consists of a minimum of five administrators (one each from the *Fonds de Solidarité*, the *MRC* and the *CDEE*) and which sets the objectives and orientation for the *SOLIDE*. Local intermediaries are contracted to manage the daily affairs of the *SOLIDE*.[29] Finally, the *Fonds de Solidarité*, through *SOLIDEQ*, assists the *SOLIDE* not only with financing but also with ongoing support.

SOLIDE provide primarily equity loans for start-up, purchase of equipment, consolidation of enterprises, etc. Only those enterprises in the primary, manufacturing and the new economy located in a given *MRC* are eligible. There are currently 86 *SOLIDE* in Quebec, located in *MRCs*. In the 76 *SOLIDE* for which we currently have data[30], 797 projects were supported in 1999. The average investment per project was

[28] Since October 1999, the UMRCQ has been replaced by the *Fédération québécoise des municipalités* (FQM).

[29] In May 1999, these consisted of: 46 managed by CLDs (54.7%); 24 by SADCs (27.9%); 6 by MRCs/municipalities (7%); 4 by MRCs in partnership with either a CLD or an SADC (4.6); 2 by a partnership between a CLD and an SADC (2.3%); 2 by a community economic development corporation (2.3%) and one by a credit union (1.2%).

[30] Information provided by SOLIDEQ.

$28,621. These investments permitted the creation or maintenance of 6,784 jobs, for an average investment of $3,362 per job.

These *SOLIDE* added to the many socio-economic innovations emerging in the early 1990's in Quebec. In particular, the partnership between social actors, on which many of these innovations were based, and continue to be, mark what we consider to be important steps in developing an alternative financial market in Quebec, that does not correspond with the behaviour of capital markets, certainly as they have developed in the last twenty years.

Table 4: SOLIDE

Investments	**June 30 1998**	**June 30 1999**
Number of SOLIDE	75	76
Number of projects	616	797
Authorized finance	$17 561 679	$22 810 684
Average investment per project	$28 509	$28 621
Total value of project investment	$148 962 103	$195 137 507
Jobs maintained or created	5 172	6 784
Number of jobs per project	8.4	8.5
Average investment per project	$3 396	$3 362

The *SOLIDE*, in our view, are also part of the social economy, not only because they are non-profit organisations, but also because they are responding to needs not met or inadequately met by existing financial instruments, namely the need for micro credit. As well, the *SOLIDE* are also embedded in local economic development strategies. We have provided a great deal of detail regarding their decision making structures to demonstrate the innovation in democratic and participatory governance. All sectors are represented in various governing bodies; the capitalisation of the *SOLIDE*, likewise, must come from the public sector and the milieu as well as from *SOLIDEQ.* Finally, the links between the *SOLIDE* and the municipalities, again demonstrate their commitment to the wider general interest of the community in which they are located. This said, it is also true that to date, the *SOLIDE* have not invested directly in the social economy.

4.2. *Fondaction, le fonds de développement de la Confédération des syndicats nationaux pour la co-opération et l'emploi (CSN)*[31]

In 1995, the *Confédération des syndicats nationaux*, the second largest labour federation in Quebec, established the *Fondaction de la CSN pour la co-opération et le développement de l'emploi*[32]. Although the experience of the *Fonds de Solidarité* was certainly influential, the initial mission of *Fondaction* was to invest only in the social economy. The actual involvement of *Fondaction*, however, in the last few years, has been in the private sector and only indirectly in the social economy, by investing in intermediaries that finance the social economy. This does not compromise the objectives of *Fondaction*; on the contrary, it will only invest in those enterprises which practice some form of participatory management and whose objectives are linked to sustainable development. It is obliged to invest 60% of its total assets, more than $133 million, in this type of enterprise.

[31] We thank *Fondaction* for some of this data before the publication of its 1999-2000 annual report.

[32] See the website:http://www.fondaction.com

Fondaction is fully controlled by the *CSN*; similar to the *Fonds de Solidarité,* the capitalisation of *Fondaction* is largely drawn from worker pension funds. Subscribers receive the same fiscal advantages as those investing in the *Fonds*.[33] Firms in which *Fondaction* will invest, are subject to an extensive evaluation concerning their potential to create or to maintain jobs, the competence of management, governance and decision making, working conditions, as well as a full evaluation of the market for the goods and/or services produced by these firms, including, obviously, its financial situation and its profitability. It is too early to evaluate *Fondaction* in terms of the social economy. Its potential collaboration with community funds such as the *MCLA* or with *RISQ*, or with the eventual creation of a fund dedicated to the development of co-operatives, will determine the extent to which *Fondaction* will become a partner in community-based or social economy finance. For now, its willingness to explore these possibilities and its presence in many social economy networks and organisations affirms its initial commitment to support, promote and consolidate the social economy in Quebec[34].

[33] In Quebec as in Canada, workers retirement programs consist of two parts. One is a universal retirement plan administered by the State (*la Caisse de dépôt et de placement* in the case of Quebec); the second is complementary and voluntary and is in the private sector. *Le Fonds de Solidarité* seeks this portion of discretionary retirement savings from workers and from the general public. In a way, the Fonds de Solidarité socialises this private component of retirement funds.

[34] Such a fund was recently announced by the Director and President (CEO) of *Conseil de la coopération du Québec*. See, Pierre Théroux, "Création d'un fonds de développement pour les co-ops", *Les Affaires*. 26 août 2000, p. 22.

Table 5 : Le Fondaction (CSN)

Name	*Fondaction, le fonds de développement de la Confédération de syndicats nationaux pour la co-opération et l'emploi*
Status	Social investment fund
Capitalisation	$133,4 M
Source of capitalisation	Worker savings (26 762 subscribers)
Objectives	Protect worker retirement income and invest in enterprises to maintain or create jobs
Clientele	Small and medium enterprises demonstrating participatory management, social economy enterprises and those which protect the environment
Eligibility	Expansion of production, development of new products and/or new markets, consolidation, mergers, acquisitions, increased participation of workers in management
Nature of investment	Shares, unsecured loans, guarantees, from entre $ 250 000 to $1 750 000
Number of projects	36 (from June 1, 1998 to May 30, 2000: Of which 11 in environment, 10 in the social economy, and 7 in co-managed enterprises
Total invested	$30,2m (1999)
Jobs created or maintained	940

5. State funds

The Government of Quebec, as part of its economic development strategy, created a number of public or state funds to respond to the need for risk capital, for example, *la Société générale de financement du Québec* and *la Caisse de dépôt et de placement du Québec*. Currently, *Investissement Québec,* is the one public fund which offers finance for social economy enterprises – co-operatives and non-profits. *Investissement Québec* was first established in 1971 (as the *Société de développement industriel*) to finance small and medium sized enterprise. While *Investissement Québec* falls within the mandate of the *ministère de l'Industrie et du Commerce (MIC),* it is governed by an independent board on which the social economy and the labour movement are represented. Its current assets are $1.6 billion.

Table 6 : Investissement Québec (investments only in the social economy)[35]

Name	*Investissement Québec (vice-présidence au développement des coopératives et de l'économie sociale)*
Status	Division of a public (state) enterprise
Capitalisation	$113 M
Source of Capitalisation	Investissement Québec (State enterprise)
Objectives	Develop the social economy
Clientele	Co-operatives and non-profit organisations
Eligibility	Collective enterprises or those with a collective vocation
Nature of investment	Loans or loan guarantees from $50 000 (Garantie co-op et Garantie OBNL)
Number of projects	68 : 45 in co-operatives, 23 in non-profit organisations
Amount invested	$32 M ($28 M for co-operatives and $4 M for non-profit organisations
Jobs created or maintained	3,138

Investissement Québec offers both loans and loan guarantees to social economy enterprises. There are two programs designated for social enterprises. "*Garantie co-op*" provides loans and loan guarantees to co-operatives - producer, consumer, worker - worker shareholder co-operatives, solidarity co-operatives. *"Garantie OBNL économie sociale"* provides funding for all non-profit enterprises considered part of the social economy.

In 1998-1999, of the 68 enterprises receiving financial assistance, $28 million was invested in 45 co-operatives (*Garantie co-op*) and $ 4 million in non-profit enterprises performing commercial activities (*Garantie OBNL, économie sociale*). These investments must, according to the by-laws of *Investissement Québec* be in those enterprises that "promote participation as well as individual and collective responsibility" (Investissement Québec, 1999:25). The total investment allocated to social economy enterprises is $113 million; the objectives of the fund is to invest a total of $71.5 million and create or maintain 3,614 jobs over the next three years at an average cost of $19,784 per job (Investissement Québec, 1999).

The government of Quebec also facilitates the promotion of the social economy indirectly, through a series of fiscal advantages targeting social economy enterprises. We have already noted the significant tax benefits associated with investments in the *Fonds de Solidarité* and *Fondaction*. We now add to these, fiscal incentives to encourage investment in co-operatives.

In 1985, *le Régime d'investissement co-opératif (RIC)* was launched to permit co-operatives to benefit from the same fiscal advantages offered by the *Régime d'épargne action (REA)* **[36]** to those investing in Quebec-based firms. As in the case of the *REA*, additional advantages accrue to those who fold their *RIC* into a registered retirement savings plan. This demonstrates the commitment by the Quebec government to direct capital into co-operative enterprises through state subsidised private investment. In addition, *Investissement Québec* finances the formation of worker shareholders' co-operatives. Worker shareholders' co-operatives are formed by workers who collectively

[35] Financial year 1998-1999.

[36] In Quebec, the government offers a tax credit for the purchase of shares in Quebec owned firms. This is called the *Régime d'épargne action* (REA). The objective of the REA is to provide equity finance in those firms that are undercapitalised and demonstrate potential. The REA was not previously available for social enterprises, because they do not have shareholders.

own shares in the enterprise in which they are employed (Comeau and Lévesque, 1993). This appears to be a unique arrangement which exists only in Quebec. It is distinct from the better known *ESOP* model, in that purchased shares are managed exclusively by these worker co-operatives and not by an independent trust or holding. Moreover, the shareholders agreements in such firms require the presence of workers on the boards of these enterprises as well as a right to purchase additional shares in the event that the enterprise is sold. Finally, *Investissement Québec* may also provide funding for the purchase of a block of shares. In all cases, loan repayments are deducted directly from workers' salaries over a period of five to ten years. However attractive, this model is not as widespread as it could be; there are currently 50 such worker shareholders' co-operatives in Quebec (some in large enterprises).

6. Co-operative Funds

The *Mouvement Desjardins* is recognised as the most important financial institution in Quebec (Lévesque, 1997). Moreover, with its 5.3 million members, 18,000 volunteers and 1150 *caisses populaires* (credit unions), the *Mouvement Desjardins* plays a significant social and economic role throughout the province. Although not all of the local credit unions support social economy enterprises directly, the accounts of the majority of non-profit organisations in Quebec are held here. Certain *caisses* have created so-called social or community funds from non-distributed surplus. Others have initiated specific programs, such as "Sois ton propre patron" (STPP), launched in 1989, which provides capital for young entrepreneurs (Van Kemenade, 1999). In 1996, 196 out of 312 *caisses populaires* which belong to the *Fédération des caisses populaires de Québec* (regional federation of caisses populaires), inspired by the STPP, launched "Travailleur autonome", a program offering assistance to the self-employed (van Kemenade, 1999).

There is one exceptional credit union within the *Mouvement Desjardins,* the *Caisses d'économie des travailleuses et travailleurs de Québec*,[37] which has specialised in the financing of social economy enterprises. In fact, it is easily the single financial institution in Quebec that has been involved in supporting these enterprises. Its members are largely unionised workers, associations and individuals who share common objectives. Among the 5000 members of the *Caisses*, 1000 are associations which hold 60% of the current liabilities. With total assets of $118 million, the *Caisses d'économie des travailleuses et travailleurs de Québec* is the third largest "caisse d'économie" among 120 in Quebec. After two decades of financing the social economy, it has certainly demonstrated the financial viability of this "clientele". From 1985-1995, the *Caisses d'économie des travailleuses et travailleurs de Québec*, was one of the most profitable within the Mouvement Desjardins (Lebossé,1998:100). The many projects which it has financed over the years include, co-operative housing, the renovation of buildings to house training centres, a co-operative association in the North, funeral co-operatives, recycling enterprises, cultural enterprises (theatre, circus schools, etc), day-care centres, etc.

[37] The distinction between a caisse d'economie and a caisse populaire is that the former serves a prescribed territory; the latter serves a collective – for example, a trade union, an ethnic community, etc.

Table 7 : La Caisse d'économie des travailleuses et travailleurs de Québec [38]

Name	*La Caisse d'économie des travailleuses et travailleurs (Québec)*
Status	Credit and savings co-operative
Capitalisation	$128 M
Source of capitalisation	Labour unions
Objectives	Support economic and community development and social entrepreneurship
Clientele	Labour unions, co-operatives, community and cultural groups and organisations
Eligibility	All projects associated with social entrepreneurship
Nature of investment	Secured term loans, lines of credit
Number of projects	220
Total invested	$52 M to the community sector (économie solidaire); $200M invested in social enterprises since its establishment

[38] Financial year 1998.

Jobs created or maintained	unknown

CONCLUSION

In this paper, we have introduced the many sources of finance available to meet the increasing needs for investment capital in the social economy. We have classified these as community based, hybrid, worker, co-operative and state funds. We have acknowledged the vital role played by the state in all these funds, and the vulnerability of small community based funds that lack the necessary state support to operate. However, we have gone one step further in our analysis to include in our list, several funds that may not necessarily finance the social economy directly, but are themselves part of the social economy. And we have included fiscal advantages offered by the Quebec government that contribute to the accumulation of risk capital in the social economy. This may invite controversy, but as we have pointed out, an accurate picture of the social economy must include both the *direct* and *indirect* engagement in the social economy. It must, therefore, also include those economic actors who have challenged the way in which business can or must be conducted.

For those interested in supporting social economy initiatives, demonstrating the success of social economy enterprises financed by some of the funds we have identified, should dispel the myth that investing in non-profit enterprise and/or co-operatives implies only high risk. That being said, we have also insisted on the necessity for mixed funding for those social enterprises which will not be self-supporting.

As we examine the many initiatives under way in Quebec and elsewhere, it is increasingly evident that the post-war social contract which many governments have buried, is in fact, being reconstructed in new ways. Within the interstices of the market economy is a great deal of social innovation and experimentation that can be interpreted as an *emergent social contract,* in which civil society actors are playing a decisive role. This has no resemblance to neo-liberal strategies to disengage the state and transfer responsibility onto citizens. Quite the contrary: it represents the re-engagement of the state as a partner in socio-economic development strategies. Part of this re-engagement includes the financial participation in new debt instruments to respond to a gap that neither financial institutions nor private investors, are willing to fill, for the most part. The growing need for small long term investments has forced the creation of new debt and equity instruments. For the banks, the transactions costs of small loans are considered too high; for capital markets still focussed on short term and largely speculative activity, this is out of their reach.

Although the financial market for small loans and investments is considered part of the larger market for venture or risk capital, the instruments and the institutional settings in which they reside, represent, in our view, more than simply a new source of finance. In every respect, the funds we have identified must be considered innovative and distinguished from typical financial institutions. Whether we examine these funds from the perspective of (i) their target clientele - eligibility criteria, the selection process, the technical assistance and support provided, *or* (ii) from the perspective of the investment “product” - the various types of debt/equity instruments available, *or* (iii) if we look closely at the governance of these funds - the composition of its boards of directors, *or* (iv) the institutional context in which these funds are located - the CDECs, the CLDs or the SADCs, for example, these are all innovations. In many cases, these funds are integrated into strategic plans at local and regional levels. Their influence is clearly demonstrated by the current negotiations in Quebec, between actors in the social economy and the government, to introduce new funding sources for the consolidation of social economy enterprises. This is a critical step as it recognises that enterprises in the social economy need three phases of financing: pre-start up, start up and consolidation, before they can subsequently approach financial institutions.

To summarise, funds which may be considered part of the social economy fall into two broad categories:

1. the first includes those that rarely invest directly in the social economy, but impose social criteria on the enterprises in which they participate;

2. the second are designated for social economy enterprises – non-profits and co-operatives.

In Quebec, these two types of funds maintain close ties and share certain characteristics. These common characteristics include:

1. a strong commitment to partnership, in particular, with the state, but also with the private sector;

2. a focus on long term investment reflecting the priorities of the local development plans of intermediary organisations;

3. financial investment combined with technical assistance and follow up;

4. a leveraging effect of approximately 8.5 for small loans, demonstrating the capacity of social enterprises to approach financial institutions;

Quebec presents a particular case because of the extensive involvement of civil society and the state and especially because of the existence of a national network, the Forum on the Social Economy (*Chantier de l'économie sociale*). Still, the financial needs of the social economy are far from being fully met. Finally, we must recognise that the small investments sought by many social economy enterprises are costly, given the necessity for non-financial support and technical assistance that accompanies these investments in most cases. For example, the operating costs of a loan circle may represent from 150% to 200% of the loans issued; this amount falls sharply in a community based fund such as the MCLA, but still represents 25%. In the case of an intermediary such as the SADCs, this falls to 12% and to 2% for worker funds, where the volume of activity is substantial. This clearly demonstrates the fragility of small community based funds and their incapacity to be self-financing.

We have been following the evolution of this alternative financial market in Quebec for several years now and continue to chase a moving target. As we noted above, there are currently discussions in the National Assembly to create a "consolidation fund" for the social economy. Earlier this year, the Minister of Finance announced his commitment to finance the creation of sectoral networks in the social economy.[39] The many funds available in different Ministries, are not as visible to the public[40]. Moreover, they are generally in the form of program funding. Still, they increase the possible sources that can be tapped by social enterprises.

We wish to end with a few final observations. Since we began our research in the early 1990's, there is a great deal more collaboration among social economy actors, no doubt largely because of the existence of the *Chantier de l'économie sociale,* but not only because of this critical institutional location. We have discussed the importance of partnerships among different social actors within existing social economy funds and particularly within new intermediaries, such as the CDECs, SADCs, CLDs, in which economic strategies are conceived and implemented. But we did not talk about another form of partnership that has also emerged and is not, as yet, institutionalised.

Increasingly, those involved in financing the social economy collaborate to assist social economy enterprises in mounting investment capital, drawing on several sources of finance. This is not necessarily to accumulate larger investments; it is more often done to pool the risk involved and to share the expertise of many investment providers in considering the viability of projects. In some cases, for example, RISQ will require the

39 In April 2000, Bernard Landry, Minister of Finance, Quebec, committed $3 million to a program to achieve this objective "Program de soutien en regroupements sectoriels en économie sociale" (Document distributed by the Chantier de l'économie sociale, 2000)

40 Among the many programs, we note only example among many. The Ministère de l'environnement will provide financial support for the development and consolidation of social economy enterprises involved in the recovery, enhancement, recycling and resale of waste material, and the expansion of existing firms through the development of new projects or niches. The assistance is in the form of non-repayable grants.

participation of the MCLA or a FLI or the FES or some combination of these funds, before agreeing to go ahead. This does not only reflect caution in undertaking an investment. A bad investment is a bad investment and is recognised as such, rather quickly. Rather, an informal partnership has emerged between a new group of social economy actors, who are fast developing a collective expertise. And, if we recall the partnerships on which all social economy funds are themselves based, including, in some cases, the financial community, and the large number of volunteers present in these funds, the cast of characters is large, indeed. The transfer and exchange of knowledge sharply contrasts the closed environment in which financial institutions operate. A new financial sector has emerged in Quebec in which principles of competition have been replaced by those of collaboration. We continue to watch these events unfold.

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