

# **2010 National Summit on a People-Centred Economy**

## **Issue Paper #1: Finance and Investment**

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### **Background**

From May 30 to June 1, 2010, the National Summit on a People-Centred Economy is an unprecedented gathering of leaders and representatives of the community economic development, cooperative and social economy sectors to build a common agenda and mobilize action for a secure, sustainable economy that puts people and the planet first. The Summit seeks to mobilize networks and organizations by building on the best research, agreeing on a common action plan, and increasing awareness of this sector among politicians, policy makers, non-governmental sector leaders and the mainstream media.

As part of the preparatory process for the Summit, six issue papers were drafted on themes which outline the key strengths, challenges and proposals for action to further reinforce this movement. These issue papers were subject to an engagement and outreach process for feedback and revisions by Summit participants and other stakeholders between March 1 and May 15. The revised papers are being presented at the Summit, where a common declaration and action plan will be developed.

To view the latest versions of the other papers and for more information on the Summit, visit: <http://www.ccednet-rcdec.ca/en/summit>

### **Finance and Investment: Summary**

This paper outlines current social finance and investment in the social economy followed by identification of opportunities and challenges for the social finance marketplace in Canada. In the Social Finance Debrief by Causeway, the stage is set to provide a clear understanding of social finance sector and the current legal and financial obstacles for social enterprises. In Financing Quebec's Social Economy, Goldsborough highlights success of the Responsible Investment sector – a comprehensive finance sector that supports the growth and development of the social economy in Quebec. This paper also highlights innovative community investment models that are supporting social economy activity leading to significant job creation and economic growth. This includes investment in social infrastructure not only as a viable economic alternative to solely investing in traditional infrastructure, but a critical investment in job creation, a powerful economic engine in Canada, and a driver of future economic growth.

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## 1. Current State of the Field

### 1.1 Social Finance

Social Finance is a new and emerging tool for social enterprises to succeed in a world where Corporate Social Responsibility (CSR) and double and triple bottom line returns are becoming increasingly necessary to business success. This paper highlights key discussions of the meaning of Social Finance and its importance within our Canadian landscape to both Canadians and policy makers. It also identifies critical barriers and important financing opportunities in Canada’s growing and evolving social economy.

***How can Canada use social finance and community investment to meet increasing demand by Canadians for Social Economy programs and services?***

We will begin our discussion with an overview of *Jump Math* to emphasize the various obstacles social enterprises face within Canada. We will then define social finance, explain its importance to the economy, show case examples of social finance investments and how they work, describe current government involvement, and outline key action steps for successful implementation of social finance in Canada.

As the Case Study (next page) illustrates, JUMP Math’s legal structure (i.e. Charity), limits its ability to gain access to the necessary funding it requires to provide vital services to vulnerable populations, particularly youth. New options for legal structures and

new financial tools aimed at the social sector would increase the ability of social enterprises to attract investment and reduce dependency on government funding.

#### *A. The Case for Social Finance<sup>1</sup>*

The aim of social finance is to transform the third sector's ability to respond to society's changing needs by enabling greater access to a variety of investment instruments.

This section is an introduction to social finance and social enterprise for policy makers. It defines key terms, highlights success stories, frames the opportunity for Canada, and sets out next steps in a course of action that will enable us to realize this opportunity.

Canada's social and environmental sectors are significantly underfinanced and undercapitalized relative to the needs and opportunities before them. They lack both donation and grant revenue to sustain subsidized charitable services and investment capital to expand entrepreneurial models of mission delivery.

Enabling access to new sources of capital is critical to their ability to innovate, scale up successful solutions, and extend their services/programs and impact. Government and philanthropy are limited in their capacity to meet this need, particularly in light of current economic conditions, which make the need to find new ways to finance social and environmental innovation even more imperative.

Social finance, and the enterprises it supports, is proving internationally to be a successful way to leverage private capital to generate large-scale public benefits, giving enterprising non-profit organizations the resources and flexibility they need to innovate and expand their impact. As governments in Canada contemplate significant new infrastructure investments to stimulate the economy and regulatory reforms to our capital markets, institutions and practices, this is an opportune time to consider how we can make parallel investments in our social infrastructure through policy, regulatory, and institutional changes that enable the growth of an effective social capital marketplace that is attractive to institutional and private investors and

<sup>1</sup> Excerpts from: Causeway, *The Case for Social Finance*, 2009.

#### **Case Study:**



JUMP Math helps children fulfill their academic success potential through resource-development and research. The JUMP Math program provides resources and training to teachers to help them minimize the differences between, and engage, students.

The JUMP Math program is incredibly effective at raising children's learning confidence and improving math skills. This innovative program has helped tens of thousands of children globally; studies have shown a 100% increase in children's ability to pass math tests.

In addition to receiving charitable donations, JUMP Math is an emerging social enterprise using the proceeds from the sale of educational resources to financing program delivery to vulnerable learners and conduct research.

SiG@MaRS helped JUMP Math identify that despite a strong sales record, poor cash flow and charitable status prevent JUMP Math from meeting increased demand by securing a line of credit or short-term loan for cost-effective higher-volume printing. JUMP Math could finance its own organizational growth if traditional lenders did not raise barriers to social enterprise sustainability.

The Executive Director identified securing a line of credit as JUMP Math's most pressing issue in the next six months.



connects them efficiently to social enterprise investment opportunities.

### *B. What is a Social Enterprise?*

With respect to Canada, a social enterprise is an organization or business that uses the market-oriented production and sale of goods and/or services to pursue a public benefit mission. Social enterprises take many forms, located on a spectrum between traditional grant-funded charitable or non-profit activity at one end and pure for-profit business at the other.

One of the most common forms of social enterprise in Canada is that of the otherwise traditional non-profit organization or charity that operates a mission-related business to generate revenues to support its programs and provide employment/job training opportunities for disadvantaged individuals. While business profits account for a portion of their overall revenues, these organizations also rely heavily on government and philanthropic grants.

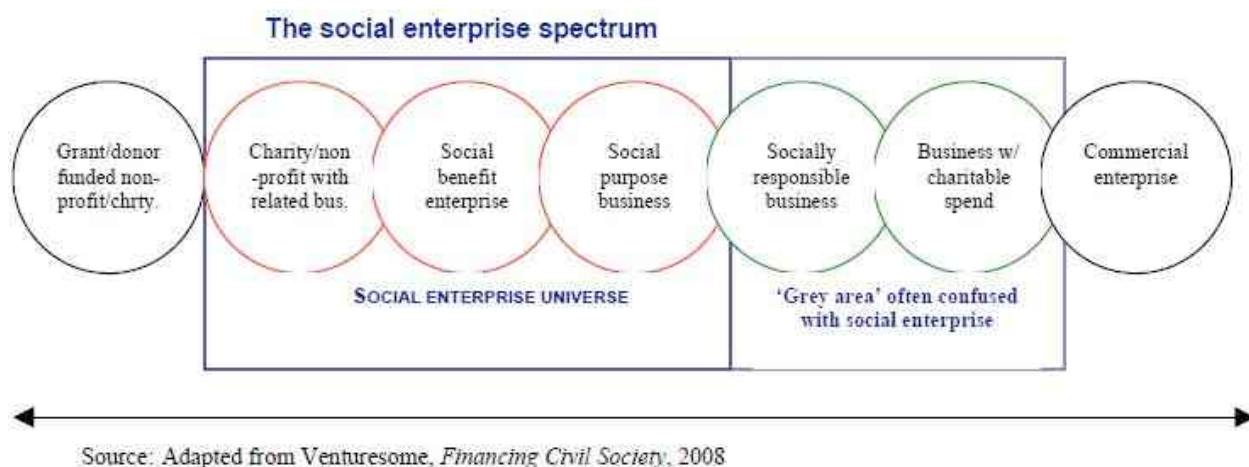
Further along the spectrum are non-profit or limited-profit collective enterprises established for public benefit that rely primarily on a business enterprise for their sustainability, while still benefiting from some measure of public and/or philanthropic subsidy. These may return a limited profit to investors, but the assets of these businesses are not tradable and governance structures are democratic and member or stakeholder driven, not tied to capital ownership. These include cooperatives aimed at public benefit (e.g. beyond their own membership), micro-finance institutions, and new hybrid company structures such as the community interest company (CIC)<sup>2</sup> established in the UK or low-profit limited liability companies (L3Cs)<sup>3</sup> recently established in some U.S. states.

At the far end of the spectrum lies the social purpose business, established to pursue in equal measure a defined public benefit and economic profit. These are often referred to as double or triple bottom line businesses because they measure their performance in terms of positive social and/or environmental impacts as well as economic profit. Investors deriving positive market-rate or below-market returns from their investments primarily capitalize these. However, in some cases these ventures may enjoy some public or philanthropic subsidy, particularly during the start-up and early growth phases.

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<sup>2</sup> Community Interest Companies (CICs) are limited companies, with special additional features, created for the use of people who want to conduct a business or other activity for community benefit, and not purely for private advantage. This is achieved by a "community interest test" and "asset lock", which ensure that the CIC is established for community purposes and the assets and profits are dedicated to these purposes. Registration of a company as a CIC has to be approved by the Regulator who also has a continuing monitoring and enforcement role.

<sup>3</sup> Low profit limited liability companies (L3Cs) are for-profit ventures that, by legislation, must have a socially beneficial purpose as their primary goal. Legislation creating L3Cs was specifically designed to make them eligible vehicles for Program Related Investments (PRIs) by foundations. L3Cs facilitate layered or 'tranching' investing with PRIs usually assuming the most risk, thereby lowering it for other investors and making investment in the L3C more commercially attractive by improving the capital rating and lowering capital costs.



### *C. More Flexible and Sustainable Financing to Support Social Innovation*

The limited fiscal capacity of both governments (especially when faced with aging demographics and increased budget share devoted to health) and of philanthropy to keep pace with the increasing scope and complexity of Canada's social, environmental and economic challenges, means that Canada's voluntary sector must increase its capacity to innovate and find more sustainable ways to tackle programs and services (i.e. through expanded programs, or improved effectiveness and efficiency of delivery models).

Social enterprises are critical to meeting this goal because they are:

- **Innovation driven** – Highly entrepreneurial, flexible, and therefore able to test, adapt, and refine novel solutions that can be taken to scale
- **Focused on impact** – Possessing clearly defined mission goals and accountable for social/environmental impacts as well as profits to a broad base of stakeholders; employing new tools and metrics
- **Sustainable** – Leveraging substantial private and volunteer capital using only limited public/philanthropic investments
- **Collaborative** – Often employing cross-sectoral partnerships and relying on non-profit sector collaboration.

Canada has a long and successful tradition of social enterprise in this respect, in its cooperative movement and non-profit sector. Governments have played an important role in enabling this activity through supportive grant programs, tax incentives and regulatory frameworks. More deliberate and comprehensive action is needed, however, to remove ongoing barriers to this kind of activity and to enable more organizations to adopt social enterprise approaches and scale up successful initiatives.



## Challenges facing the evolution of the social finance landscape

Issue	
<b>Lack of Capital and Experienced Investors</b>	<ul style="list-style-type: none"> <li>• There are limited sources of capital for entrepreneurs to approach. Many of the funds are considered to be demonstration vehicles and have a community focus.</li> <li>• In Ontario, there are some community development funds and a very limited number of venture capital funds that provide either equity capital or loans to social ventures.</li> </ul>
<b>Fund Structure</b>	<ul style="list-style-type: none"> <li>• The current rules for charities in Ontario and Canada are very restrictive to scaling revenue-generating activities within a charitable entity.</li> <li>• The United States and the United Kingdom have developed “hybrid” corporate structures that allow not-for-profit (eg. foundations) and for-profit (eg. corporations) to invest side-by-side in a venture.</li> <li>• In the US, the L3C model provides a vehicle that is uniquely suited to accepting Program Related Investments (PRI's) from foundations: investments from the foundation's endowment capital that correspond with the mission and programs.</li> <li>• In the UK, the community interest company (CIC) is a distinctive corporate entity that describes a company working for the benefit of the community. It has the advantage of the “company” legal form, which is familiar and well understood by the business community and is flexible enough to adapt to most organizational structures.</li> </ul>
<b>Developing the Skills of the Social Entrepreneur</b>	<ul style="list-style-type: none"> <li>• Many of the opportunities for social ventures come from the non-profit sectors where traditional business skills are not necessarily embedded in education and experience. Many community-based entrepreneurs have managed smaller businesses that have not historically achieved significant scale.</li> </ul>
<b>Early nature of marketplace</b>	<ul style="list-style-type: none"> <li>• There are a limited number of examples of local social ventures: if we borrow a thesis from the early history of the venture capital industry, with more capital available to social ventures delivering reasonable financial returns and solid evidence of social impact, then more entities will emerge to absorb the capital.</li> </ul>
<b>Lack of metrics</b>	<ul style="list-style-type: none"> <li>• Social impact measurement is costly to do with analytical rigor and needs to be analyzed on a case-by-case basis.</li> <li>• There is a tension for funders: they want metrics but are realizing there is a significant cost to achieve the quality metrics they would desire.</li> <li>• Broad measures of social impact have limited value and can create inappropriate targets.</li> <li>• Investment-first investors in the social capital market require impact measurements that are simple and easy for the average investor to understand, while impact investors (philanthropic grantors) will require more sophisticated social measurement tools to quantify the impact of their investment.</li> </ul>

### *D. Leveraging Private Capital Investment on a Large Scale for Public Benefit*

More recently, a convergence of social and economic trends has opened up the prospect of social enterprises mobilizing private capital investment to tackle public challenges on an unprecedented scale – if the appropriate enabling environment can be put in place. Investors seeking to diversify their portfolios, the rise of values-driven investors and consumers, growing social inequity and environmental crises, an emerging track record of social enterprise successes, talent opting for more values-driven careers, and

proliferating policy experimentation have together set the stage for a new wave of private investment for social and environmental impact. U.S. estimates indicate that, with appropriate regulatory, tax and capacity building measures, social/ environmental impact investment has the potential to reach 1% of all managed assets making \$619 billion in capital available to U.S. public benefit enterprises.<sup>4</sup> The magnitude of this opportunity is apparent when compared to total philanthropic spending in the U.S – \$3.1 billion.<sup>5</sup> There is every reason to believe a comparable shift can take place in Canada where 1% of total assets under management would amount to approximately CDN\$25.7 billion available for public benefit enterprises.

### *E. Financing Social Enterprise*

Financial institutions, governments, foundations, and other investor groups are creating new sources of capital for social enterprises, often called social finance. Social finance is investment in social enterprises operating in the non-profit or public benefit universe that delivers blended social/environmental and economic returns.<sup>6</sup> Social finance's most visible and successful example is global microfinance (sustainable micro-lending to low-income entrepreneurs unable to access mainstream lending), but it actually embraces a broad continuum of investment activity between traditional investment vehicles (high financial and no social return) and government/philanthropic granting (no financial, but high social returns).<sup>7</sup> Currently, the two primary streams of social finance are venture philanthropy and social venture capital.

#### **1. Venture philanthropy**

Venture philanthropy<sup>8</sup> combines long-term grant support with management assistance for nonprofit social enterprises. This approach is well developed in the U.S. where foundations can use their endowment capital to make Program Related Investments (PRI) and Mission Based Investments (MBI) to advance a diverse range of philanthropic goals, at varying rates of risk and return. These investments are accompanied by active involvement and support. Charitable endowments in Canada represent a significant potential source of capital investment for social enterprises. While the Canadian government does not track total charitable endowment assets in Canada, private foundation endowments are estimated to be \$10 billion<sup>9</sup> and universities a further \$11 billion.<sup>10</sup>

#### **2. Social venture capital**

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<sup>4</sup> Katherine Fulton, Monitor Institute, *The Future of Social Capital Markets*, Oct 2008. PowerPoint presentation delivered by Bill Young, Social Finance Summit, MaRS Centre, Toronto November 18, 2008.

<sup>5</sup> Ibid

<sup>6</sup> Tim Draimin, *Innovation & Social Enterprise: Building Financial Capacity*, PowerPoint presentation AFP.

<sup>7</sup> Tim Draimin and Ted Jackson, *Social Finance – An underdeveloped but essential aspect of sustainable investing in Canada: Building Social Finance Momentum*, Presentation to Social Investment Organization Conference, Montreal, May 29, 2007.

<sup>8</sup> Prominent venture philanthropy groups include: Ashoka, Atlantic Philanthropies, The Blue Ridge Foundation, Draper Richards Foundation, Echoing Green, Edna McConnell Clark Foundation, Great Bay Foundation, New Profit Inc., Robin Hood Foundation, Roberts Enterprise Development Fund, Skoll Foundation, Venture Philanthropy Partners, and Wallace Foundation.

<sup>9</sup> Scotia Private Client Group, *Overview of Private Foundations*.

<sup>10</sup> Amanda Shendruk, *Market crash crushes university endowments*, Macleans OnCampus Nov 24, 2008.

Social venture capital makes debt and equity investments in for-profit organizations focused on both social/environmental impact and financial return. Social finance products in this zone include insured and uninsured deposits, senior and subordinated loans, debt with equity features, loan guarantees, fixed income securities, real estate mortgages, stock purchases and private equity. This approach is well developed in the UK, with the introduction of CICs and a range of initiatives to develop a more vibrant social capital marketplace. In the U.S., the recent introduction of L3Cs and the New Markets Tax Credit are also significant enabling measures.

Venture philanthropy and social venture capital borrow heavily from private sector venture investments are made on the basis of an organization's history, leadership, and business plan and typically run for 3-5 years. Organizations that meet their business targets can expect follow-on investment for continued growth. Financing is for an overall plan, rather than a specific program, and is consequently completely unrestricted.

Canada's non-profit sector is economically significant and growing. It currently represents \$120 billion in annual expenditures – more than Canada's retail, mining, or oil and gas sectors. With government and philanthropy reaching their expenditure limits, however, engaging private capital represents our best strategy for growing this sector further to meet new and expanding public needs or to be more innovative in how we respond to current challenges. The sector currently has very limited access to financial tool kit available to the private sector.

**Typology of social finance instruments**

	Grants	Patient Capital	Pure Equity	Equity-like	Loans
Expected loss - %	100%	20-50%	10-20%	10-20%	1-8%
Return on investment	0	-50%-c. 10%	No limit	Variable up to 30%	Fixed 5-18%
Term of investment	Often short periods	Repayment holidays	Undefined Depends on success	5-7 yrs Depends on success	Fixed term
Involvement in business	Low (except venture philanthropy)	Some (through partners)	High (through board)	High (through board)	Low
Exit of investment	n/a	Repayment	IPO, sale, buyout	Royalty, repayment or APO	Repayment
Liquidation rights	None	None/subordinate	Residual	Subordinate	First priority
Voting rights	No	No	Through ownership	Structured in loan agreement	No

Adapted from : **Bridges Community Ventures, UK**

At present, however, Canada lacks a smoothly functioning social capital marketplace to enable this investment. Many non-profit organizations do not seek alternative forms of capital because they lack business expertise, are wary of the associated risks of borrowing, or do not have a business model to support debt financing.<sup>11</sup> Regulatory barriers also prevent charities and non-profit organizations from structuring and financing social enterprises on an optimal basis and foundations from investing in non-traditional ways in these enterprises.

<sup>11</sup> Natasha van Bentum and Maggie Leithead, *Strengthening Organizational Capacity - Social Finance Survey Report*.



***What models exist that have demonstrated success and could be scaled up to support the Social Economy Sector to meet the needs of Canadians?***

Private sector investors face additional challenges. The absence of effective intermediary institutions makes it difficult to classify social enterprise investment opportunities into asset

classes and to accurately assess the potential risks and returns without incurring excessive transaction costs. Lack of tax incentives or other government-sponsored approaches to mitigating risk also discourage institutional investors from participating in this market.

#### *F. Creating an Enabling Social Finance Environment*

To make this transition successfully, we need to create an enabling social finance environment that:

1. **Removes regulatory barriers** to establishing and operating social enterprises
2. **Builds capacity** in public benefit organizations to participate in social enterprise
3. **Creates an effective social capital marketplace**
4. **Offers incentives for investors to participate**
5. **Provides a locus for ongoing policy dialogue and development.**

This process is already underway in other jurisdictions, most notably the United States and the United Kingdom. Experience in these jurisdictions has shown that governments play a central and critical role in facilitating these changes.

The challenge in Canada is to create a similarly enabling social finance environment here, building on our own institutions and strengths while adapting innovations that have proven successful elsewhere.

### **1.2 Community Investment**

Community investment describes the provision of financial and technical assistance to underserved communities. Typically, communities themselves identify a lack of accessible capital as a barrier to development. Community investment funds, often

#### **Case Study:**



***Ethnicity Catering*** is a catering social enterprise that sells authentic multi-ethnic catering and provides employment experience and training for immigrant women.

For many participants EthniCity provides a first job in Canada, and crucial experience that leads to additional employment.

Qualifications for working in the enterprise are deliberately what Newcomers typically experience as barriers to employment: no Canadian work experience and low level of English communication skills.

Since 1997 the business has experienced many successes. During their first year in operation, sales of the business were \$8,000. In 2004, sales were \$88,000. As a social enterprise, they have managed to leverage \$1 for every \$1 in sales earned to support their social objectives. Almost one-half of their revenue comes from the United Way of Calgary.

Each year, 3,550 hours of paid work for 40 newcomers is generated through sales at the enterprise. 70% of participants secure full-time jobs as a results of their experience while 30% go on to take English language instruction or other studies.

EthniCity Catering is ready to expand. However, it faces multiple barriers including (i) lack of access to financing for capital and leasehold expenditures, and (ii) the charity's board of directors is reluctant to jeopardize charitable operations by taking on entrepreneurial risk.

community-specific, have different structures and lending methodologies based on community needs and goals<sup>12</sup>. All community investment mechanisms intentionally return social and economic benefits to investors and communities.

While traditionally used to describe direct investment in geographic communities, community investment also describes investment in the Social Economy sector – a support for underserved communities. In excerpts from the paper ***Financing for Quebec's Social Economy***, Goldsborough describes community investment in Quebec's Social Economy. The direct benefits of such investment for members of underserved communities include<sup>13</sup>:

- More jobs, increased earned income, and longer periods of earned income
- Strengthened and retained local businesses serving underserved communities
- Lower household debt
- Increased participation in civic affairs and community decision-making
- Enhanced food security
- Improved quality of housing

#### *A. Financing Québec's Social Economy<sup>14</sup>*

Conventional financial institutions are generally not interested in the Social Economy (SE) because they associate it with low rates of return, increased risk and high transaction costs. Social Economy actors, on the other hand, are generally unfamiliar with the traditional financial communities and practices, are many times reluctant to finance their activities through debt instruments and, sometimes, due to their alternative forms of governance, have limited space for mainstream investments. The result is a SE sector financing its activities mainly through donations, gifts, government grants and program funding, loan guarantees and/or self-financing. The problem is that these traditional sources are not sustainable, not always available and by no means sufficient.

During the 1996 *Sommet sur l'économie et l'emploi*,<sup>15</sup> Quebec's SE main stakeholders not only recognized these challenges, but the need to establish a comprehensive finance sector for the development of the SE movement in the Province. More than ten years have passed and the Responsible Investment<sup>16</sup> (RI) landscape in Quebec has changed dramatically: new actors and networks have emerged, unique partnerships and forms of collaboration have been established, and innovative investment products and technical support services have been designed and implemented.

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<sup>12</sup> <http://www.communityinvestment.ca/cominv.html>

<sup>13</sup> Leviten-Reid, E. & Torjman, S., Caledon Institute of Social Policy, *Evaluation Framework for Federal Investment in the Social Economy: A Discussion Paper*, January 2006.

<sup>14</sup> This section contains excerpts from: Goldsborough, A, *Financing Quebec's Social Economy*, 2009.

<sup>15</sup> The objective of the Summit on the Economy and the Employment was to enable a broad consultation on the economic and fiscal crisis in Quebec at the time. It brought together CEOs of large corporations, employers associations, labour federations, institutions, municipalities and representatives of social movements.

<sup>16</sup> In Quebec, 'Responsible Investment' refers to the direct and pro-active investment in activities that contribute to the well-being of society. It is different to 'Responsible Indirect Investment', a screening and rejection of enterprises engaged in activities perceived as negative. For a detailed classification of Socially Responsible Finance refer to Mendell and Nogales, 2009.

Responsible Investment organizations differ from conventional financial institutions in that, besides financial objectives, they also explicitly pursue socio-economic goals. Quebec's RI sector is an intertwined architecture of diverse institutions and practices. Even though boundaries are blurred and non-static, it can be generally divided into two broad groups: Development Capital (DC) and Solidarity Finance (SF). However, it is also important to distinguish a third category, one that represents DC and/or SF funds supplied by the state.

### *B. Development Capital*

Known in the US as 'Economically Targeted Investment', Development Capital uses venture capital instruments (un-guaranteed equity or quasi-equity) to, besides obtaining financial yields, achieve social, economic and environmental objectives. These 'multi-purpose' funds impose social criteria (local development, job creation, worker training, environmental protection) on the business in which they invest. DC can take the form of capital shares, collective loans or traditional loans. Its agencies do not necessarily invest directly in the social economy but often establish effective partnerships with those who do.

<b>Development Capital</b>			
<b>Name</b>	<b>Fonds de Solidarité</b>	<b>FondAction</b>	<b>CRCD</b>
<b>Objective</b>	Protect Workers' retirement income while stimulating Quebec's economy through strategic investments	Protect worker retirement income while investing in enterprises to maintain and create jobs in Quebec	To contribute to Québec's economic development and to further the growth of its resource regions
<b>Total Assets</b>	\$7.3 billion	\$635.6 million	\$733 million
<b>Source of Funding</b>	Worker Contribution, Private	Worker Savings, Private	Private Investments
<b>Demand/ Clientele</b>	Large Companies and SME in almost all sectors, except retail	SE enterprises and SMEs demonstrating participatory management and commitment to the environment	Cooperatives or enterprises located in Québec's resource regions
<b>Total Investments</b>	\$4.1 billion in the Quebec economy	\$385.4 million in the Quebec economy	\$470 million
<b>Impact</b>	126,135 jobs created or maintained	Over 8,000 jobs created or maintained	30,000 jobs
<b>Website</b>	<a href="http://www.fondsftq.com">www.fondsftq.com</a>	<a href="http://www.fondaction.com">www.fondaction.com</a>	<a href="http://www.capitalregional.com">www.capitalregional.com</a>

### C. Finance

Solidarity finance refers to the direct financing of community economic development and social economy enterprises. It is governed by actors in the sector, uses a variety of financial instruments (secured or unsecured) and serves a very specific clientele, mainly collective enterprises and disadvantaged groups. In the United States and Great Britain, it is usually referred to as 'Community Investment', and the institutions specializing in this area are known as Community Development Financial Institutions (CDFIs).

Solidarity Finance			
Name	Caisse d'économie solidaire	RQCC	RISQ
Objective	Support the development of the social and solidarity-based economy in Quebec	Develop and promote the community credit approach in Quebec while ensuring individual and collective well-being	Provide financing to the Social Economy in Quebec
Total Assets	XX	\$3.2 million	\$10.3 million
Source of Funding	Labour Unions	XX	Government, Private Investments
Demand/Clientele	Cooperatives and Non-Profit Organizations	Partner Organization (community loans and loan circles)	Social Economy Enterprises
Total Investments	XX	\$5 million	\$8, 325,867
Impact	XX	2,330 jobs created or maintained	4,412 jobs created or maintained
Website	<a href="http://www.cecosol.coop">www.cecosol.coop</a>	<a href="http://www.rqcc.qc.ca">www.rqcc.qc.ca</a>	<a href="http://www.fonds-risq.qc.ca">www.fonds-risq.qc.ca</a>
Solidarity Finance			
Name	FilAction	Fiducie du Chantier de l'économie social	
Objective	Meet financing needs of small enterprises and finance community-based funds	Meet the capitalization needs of collective enterprises and give them the support they need for their start-up and expansion projects	
Total Assets	\$7 million	\$53.8 million	
Source of Funding	FondAction	Government, Labour funds	
Demand/Clientele	Small enterprises and community-based funds financing the Social Economy	Social Economy Enterprises	
Total Investments	\$5 million	\$6,447,335	
Impact	XX	524 jobs created or maintained	
Website	<a href="http://www.filaction.qc.ca">www.filaction.qc.ca</a>	<a href="http://www.fiducieduchantier.qc.ca">www.fiducieduchantier.qc.ca</a>	



#### D. State Finance

State finance can take the form of Development Capital or Solidarity Finance; this means that they can invest directly or indirectly in community economic development initiatives and the social economy. The only difference is that these capital pools come entirely, or in its majority, from government sources.

State Finance				
Name	FLI	FDEES	Investissement Québec	FIER
<b>Objective</b>	Stimulate local businesses and entrepreneurship at the local level	Promote the emergence of viable projects within social economy enterprises	Promote the growth of investment in Québec and contribute to economic development and job creation	Finance enterprise start-up and development, as well as support the creation of sector funds
<b>Source of Funding</b>	Government	Government	Government	Government, labour Funds, private investments
<b>Demand/ Clientele</b>	Traditional and social economy enterprises	Social Economy Enterprises	Companies, cooperative businesses and non-profit organizations	Traditional and social economy enterprises
<b>Investments</b>	\$130 million (1998-2002)	\$80 million (2004)	\$642.3 million (2008)	\$90 million
<b>Website</b>	<a href="http://www.mdeie.gouv.qc.ca">www.mdeie.gouv.qc.ca</a>	<a href="http://www.acldq.qc.ca">www.acldq.qc.ca</a>	<a href="http://www.investquebec.com">www.investquebec.com</a>	<a href="http://www.investquebec.com">www.investquebec.com</a>

This new financial architecture is the result of an attempt to satisfy the real needs and overcome the obstacles faced by a growing SE sector in Quebec. It is characterized by its innovative responses to the financing challenges of the SE and by the collaborative, horizontal and inclusive means it utilizes to address such challenges. This is what makes the Responsible Finance sector in Quebec unique and what allows it to grow and thrive.

#### E. Responsive and Innovative Financial Services

The *Fiducie's* patient capital product is a good example of financial innovation in Quebec. Since SEEs cannot sell shares, they exclusively rely on short term debt for their financing. It is very difficult for them therefore to finance growth and invest in capital equipment and real estate. The growing need for equity required a new financial product. The *Fiducie du Chantier de l'économie sociale* responded to the need to capitalize social economy enterprises with an innovative long term financial product, a quasi-equity hybrid

form that falls somewhere between venture capital and traditional financing, a patient loan with a 15-year capital repayment moratorium.<sup>17</sup>

#### *F. The State as a Partner*

The government's role in the development of Quebec's Social Economy is indisputable. Its involvement as a partner and facilitator has been, and still is, a determining factor in the development of its social finance architecture, either directly, through financial contributions, or indirectly, through enabling policies.

Between 1996 and 2006, the Government of Quebec's support for the Social Economy totaled \$4.2 million. The portion of government program expenses earmarked for social economy increased during this time from 0.5% to 2.7%<sup>18</sup>. In 2001 it created *La Financière*, an investment fund with a \$15 million envelope allocated for the SE. In 2006, the public investment arm of the provincial government, *Investissement Québec*, invested \$10 million in the *Fiducie du Chantier de l'économie sociale*, topping the \$23 million already allocated by the federal government.

The government of Quebec has also facilitated the promotion of the SE and its financial architecture through a series of policy instruments. In 1983 it established a tax credit for the creation and growth of labour funds in the Province. Two years later it created the *Régime d'investissement coopératif*, a measure allowing cooperative members and employees to invest in their organization through preferred shares; and in 1997, it modifies the law on cooperatives to include Solidarity Cooperatives and modified Quebec's loan guarantee program for SMEs and cooperatives to include non-profits<sup>19</sup>.

#### *G. Collaboration and Co-Construction*

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<sup>17</sup> The Case Study on the *Fiducie du Chantier de l'économie sociale* is cited from: Mendell, M., "The three pillars of the social economy: the Quebec experience (1998-2007)", in Amin, A. (Eds), *The Social Economy, International Perspectives*, Zed Press, London, 2008.

<sup>18</sup> Mendell, M. and Rouzier, R., *Quelques initiatives ayant permis l'institutionnalisation de l'économie sociale au Québec : Rôle central de la société civile et rôle essentiel de l'état*, CAP Financement de l'ARUC-ÉS, 2006.

<sup>19</sup> Mendell, M. and Neamtan, N., *The Social Economy in Quebec: Towards a New Political Economy, 2008*, and Mendell, M. and Rouzier, R., *Quelques initiatives ayant permis l'institutionnalisation de l'économie sociale au Québec : Rôle central de la société civile et rôle essentiel de l'état*, CAP Financement de l'ARUC-ÉS, 2006.

### **Case Study**

The Chantier de l'économie sociale Trust was created in 2006 to provide long term capital for social economy enterprises. It is a \$53.8M patient or quasi-equity fund enabling collective enterprises to embark on long-term planning and invest in real estate.

Contributors to the trust's initial pool of capital were Canada Economic Development (\$22.8M), FTQ's *Fonds de solidarité* (\$12M), CSN's *Fondation* (\$8M) and the Government of Québec (\$10M). The contribution from Canada Economic Development is non-repayable, whereas the other three investors received a debenture for their investment. With this initial capital pool and an additional \$30M expected in investment revenues, the trust expects to invest approximately \$80M in social enterprises over a 15-20 year period.

The trust invests exclusively in social enterprises; cooperatives and nonprofit enterprises with assets less than \$100M or capital less than \$50M, preferably with less than 200 employees. It offers long term loans for business start-ups/expansions or real estate acquisition between \$50,000 and \$1.5M repayable after 15 years. Except in the case of real estate projects, loans are unsecured. Loans are granted on the basis of financing packages in which the loan represents no more than 35% of project related costs.

As of September 2008, The *Fiducie* had invested \$6,447,335 in 19 projects (\$1.7M for operations and \$4.7M for real estate). These investments have leveraged an additional \$31,907,375 permitting the consolidation and creation of over 524 jobs since July 2007.

One of the unique features of the SE in Quebec is that it is intensely embedded in its larger social, economic and political context. As a result of this, it has evolved into a multisectoral movement, one that has realigned the traditional roles and responsibilities of its different stakeholders and the types of relationships between them.

Quebec's Responsible Investment architecture is represented by a diverse group of actors: the federal and provincial governments, labour unions, private investors and SE enterprises and networks; all working towards the socio-economic development of the Province. The partnerships and relationships among these different social actors are important, not only because they are able to pool capital for more and larger investments, but also because they divide risk and share knowledge and expertise. In general, a "new financial sector has emerged in Quebec in which principles of competition have been replaced by those of collaboration."<sup>20</sup>

The different actors within the SE have transformed their traditional roles; they have become investors instead of donors, facilitators instead of beneficiaries. These new roles and partnerships, in turn, have required new types of relationships, new forms of collaboration. In Quebec, this has involved the design and implementation of intermediary inter-sectoral dialogic spaces; horizontal spaces that represent the numerous actors involved in the social economy, and that foster coordinated and decentralized processes of co-construction, not only of financial instruments, but also programs, policy and know-how<sup>21</sup>.

#### *H. Social Infrastructure*

Traditional economic investment, especially during times of economic crisis, is focused on developing hard infrastructure such as building and improving roads or expanding and renovating buildings and facilities. Although equally economically viable, it is seen as a far less legitimate economic stimulus to invest in social infrastructure, for example education and training, health care, child care, and community and social programs. In the Government of Canada's 2009 Economic Stimulus package, there was clear focus on hard infrastructure investment and little attention paid to the potential economic growth generated by investing in social infrastructure.

***Why is investment in social infrastructure necessary to a vibrant economy at the community, provincial and national levels?***

There is ample evidence of confidence in the economic benefits of investing in social infrastructure. The Canadian International Development Agency invests in social infrastructure in the Caribbean<sup>22</sup> including investments in education and health care, while the UK 2009 Budget featured investment in 100,000 youth jobs that offer high social value

<sup>20</sup> Mendell, M., Lévesque, B. and Rouzier, R., *New Forms of Financing Social Economy Enterprises and Organizations in Quebec*, Cahier I-03-2001, ARUC-ES, 2000.

<sup>21</sup> To further explore the notion of Co-Construction in Quebec's Social Economy refer to: Mendell, M., "The three pillars of the social economy: the Quebec experience (1998-2007)", in Amin, A. (Eds), *The Social Economy, International Perspectives*, Zed Press, London, 2008.

<sup>22</sup> <http://www.acdi-cida.gc.ca/cidaweb/cpo.nsf/vWebCCEn/F55FFEA70386AE1F852572F700371100>

through local authorities and voluntary sector partners and creation of an extra 54,500 student places in the next academic year<sup>23</sup>. In addition, multiple groups in Canada's Social Economy and Voluntary sectors have outlined the importance of Government of Canada investment in social infrastructure. The Ad Hoc Coalition for Women's Equality and Human Rights states that a national child care program would stimulate the economy by supporting the participation of Canadian parents in paid employment as well as creating jobs in a traditionally female-dominated employment sector<sup>24</sup>.

The 2009 Alternative Federal Budget outlines multiple opportunities for Government of Canada investment in social infrastructure to stimulate the economy, create new jobs, and protect vulnerable Canadians from further economic marginalization.

*I. Excerpts from the Canadian Centre for Policy Alternatives' 2009 Alternative Federal Budget<sup>25</sup>*

The global economic crisis — by all accounts the most dangerous since the 1930s Great Depression — is making its entry into Canada as the grim statistics now rolling in attest. In the final two months of 2008, the Canadian economy lost over 100,000 full-time jobs. Consumer bankruptcies are rising, the housing market is beginning to sag, and the worst is yet to come.

While the situation is in great flux, and Canada's future relies on many unknowable factors, a few things are becoming clear. Most notably, the way nations have been governing their economies is undergoing rapid change. The economic orthodoxy that pushed governments to the sidelines and revered the wisdom of uncontrolled free markets is officially yesterday's ideology.

The immediate challenge for government is to stabilize the credit markets and inject sufficient aggregate demand into the economy to compensate for the collapse of private consumption and investment until the recovery begins. It is becoming clear, however, that governments cannot go back to the way things were before. The paradigm is shifting: Governments are now widely accepted as a vital part of the solution to the world's crumbling economy, to prevent similar fiascos in the future.

International bodies are encouraging governments, especially those with relatively strong fiscal and external balances such as Canada, to loosen the purse strings, invest in their people, and dispense serious amounts of public funds quickly to counteract the shrinking private economy.

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<sup>23</sup> [http://www.direct.gov.uk/en/N11/Newsroom/Budget2009/DG\\_177692](http://www.direct.gov.uk/en/N11/Newsroom/Budget2009/DG_177692)

<sup>24</sup> <http://womensphere.wordpress.com/2009/02/04/womens-groups-in-canada-urge-social-infrastructure-spending-and-ei-reform-and-warn-against-pay-equity-rollbacks-in-upcoming-budget/>

<sup>25</sup> This section contains excerpts from: Canadian Centre for Policy Alternatives, *Alternative Federal Budget 2009: Beyond the Crisis: A Budget for a Strong and Sustainable Future*, 2009.



Alternative Federal Budget 2009 addresses the economic crisis on two fronts: an immediate jolt via a two-year fiscal stimulus package to help bring about economic recovery, and a plan to put the country on solid economic ground for the long term. The federal budget should unleash a sizeable, effective job-creating economic stimulus plan for the short term. Secondly, it should implement measures to protect vulnerable Canadians from the worst effects of recession.

And finally, it should lay a foundation for a more equal and inclusive, more environmentally sustainable, and more diversified high-value economy in the years to come (pp. 5-6).

***Invest in public infrastructure:*** The federal budget should include a bold program of job creating infrastructure investments. It should include both physical and social infrastructure investments. It should improve Canada's bridges, sewers, community facilities, etc., and include green infrastructure: home retrofits, water treatment facilities, community energy systems, etc. A strong stimulus plan should also contain a major social infrastructure component: health care, post-secondary education, child-care, and social housing. A broad range of infrastructure investments will ensure balanced job creation between male and female-dominated professions. The assets so created should be owned and operated by the public or non-profit sector. A Federal Budget that lacks such public infrastructure initiative should be rejected (pp. 6-7).

***Child Care:*** In addition to being a key component of the eventual achievement of equality for women in the workforce, child care is critical to the social and economic security of *all* Canadians. Quality child care services promote healthy children and families, stronger, more inclusive communities, and a productive, well-performing economy (p. 36).

***What additional investments are key to supporting strong Canadians, strong communities, and a strong Canadian economy?***

The long-term plan that has been developed by child care advocates recommends funding that builds to 1% of GDP, which is consistent with the benchmark recommended by international organizations such as UNICEF and achieved by many of our counterpart developed nations. This level of funding would provide a quality, affordable child care space to all children under six in Canada on either a part-time or a full-time basis (p. 39).

Research tells us that investment in a quality, universal child care system provides at least 2:1 economic returns. It's also interesting to note that an analysis of the Quebec child care system indicates that \$0.40 out of every \$1 invested in its child care services is returned to the provincial economy the following year, primarily in increased taxes arising from higher labour force participation. This analysis helps paint a convincing picture of the economic benefits of child care, and the increased labour force attachment is particularly meaningful as it reflects the increased ability of women to play a larger role in their own economic security and well-being (p. 39).

**Housing:** There are two important dimensions to Canada's housing crisis: affordability (housing that is too expensive for household incomes); and supply (not enough homes to meet the need). Some Canadians also need support services to help them find and maintain their housing. A comprehensive national housing strategy needs to include affordability, supply and support measures and also requires three other components: Repair and energy retrofit (to ensure existing housing meets proper standards); emergency relief (services and transitional housing for people who are homeless); and an on- and off-reserve Aboriginal component that ensure that Aboriginal housing is under Aboriginal control (p. 64).

For the past decade, housing advocates and others have been calling on the federal government to invest an additional \$2 billion annually in housing. This is called the "One Percent Solution" and is based on the observation that in the mid-1990s, federal housing spending of \$2 billion represented about 1% of the overall federal budget. The AFB plan calls for spending to be ramped up to an additional \$2 billion annually over the next three years. Affordable housing is among the most effective ways of providing stimulus to the Canadian economy in the face of the upcoming recession (p. 68).

The AFB plan would allow for:

- 10,000 new affordable homes (or more) in year one; 15,000 new affordable homes (or more) in year two; 20,000 new affordable homes (or more) in year three;
- Permanent and enhanced funding for the federal homelessness strategy;
- Permanent and enhanced funding for the federal housing rehabilitation program;
- A national energy retrofit program to allow low and moderate-income households to conserve home energy (p. 68).

**Department of Communities:** The AFB will establish a federal Department of Communities with a senior minister, as was outlined in AFB 2008. This Department will be responsible for administering programs to: 1) reinvest in and renew Canada's community public infrastructure; 2) develop a national communities strategy to coordinate federal urban initiatives in Canadian communities; 3) support and promote a community economic development approach to help provide communities with the resources and tools they need; and 4) provide communities with a single point of access to the federal government on municipal and community issues (p.44).

**Positive Procurement:** The AFB will put in place a federal procurement strategy to maximize the environmental, economic, and social benefits of federal government procurement...The AFB will start by putting teeth in the federal government's now largely voluntary "Policy on Green Procurement" by requiring government departments and agencies to take account of and report on the environmental costs and benefits of their procurements. Minimum standards and requirements standards for many products will be set.

The AFB will also put in place strategic procurement policies to increase these economic and social benefits. This will include policies to maximize local and social benefits

of procurement, modelled on successful programs at the provincial and municipal level. It will also involve strategic policies to lever the economic benefits of federal government procurement and infrastructure investments (pp.44-45).

***Community Economic Development Programs:*** The AFB will introduce new community economic development (CED) programs by restoring and expanding funding for the Social Economy Initiative that was cancelled by the Conservative government. These programs are even more necessary now, and so the support will be almost doubled from the \$132 million that had been allotted previously. The following CED programs will be funded through this initiative:

- **Community Development and Neighbourhood Renewal Corporations:** Funding will be provided to establish and support a national network of Community Development Corporations (CDCs) and Neighbourhood Renewal Corporations (NRCs). These non-profit community-run organizations will provide resources and funding for community projects to develop local communities, create jobs, build capacity, and promote community wellbeing.
- **Local Employment Development Agencies:** Funding will include support for employment programs that provide broad-based support — including life skills, hard skills, placement, child care, and transportation — as well as training for the unemployed. These will help to develop the foundation for jobs and conservation corps-type programs that could be rapidly expanded if unemployment increases significantly.
- **Social Enterprise Trust:** The AFB will create a long-term capital fund to finance non-profit and cooperative community enterprises in Canada. This funding will be used to leverage additional investments from foundations and other investors to grow social enterprises
- **Cooperatives:** The AFB will increase support for cooperatives by expanding the Cooperative Development Initiative.<sup>26</sup> This will support the development of worker and producer cooperatives to combat economic decline in communities, promote a more democratic economy, and strengthen community ownership of economic assets (pp. 45-46)

## **2. The Key Players**

Social Finance and Community Investment comprise multiple strategies for supporting community economic development. Some of the key financing and investment players in Canada and Quebec are:

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<sup>26</sup> Since the 2009 AFB was released, the CDI has been renewed for another term. However, the demand for resources has greatly exceeded the financial and technical assistance available. It is further recommended that the CDI be designated as a permanent program with resources commensurate with sector demand.

- Arctic Co-op Development Fund, <http://www.arcticco-op.com/co-op-acdf-services.htm>  
Arctic Co-operatives Limited is the vehicle for service to, and co-operation among the multi-purpose Co-operative businesses in Canada's north. Arctic Co-op Development Fund was capitalized with \$10 million by the federal government in 1986 and is now worth \$30 million. Arctic Co-op Development Fund has helped to develop the network of over 30 cooperatives in Nunavut and the Northwest Territories.
- BC Social Venture Partners, <http://bctsvp.com>  
BC Social Venture Partners (BC SVP) is a network of senior business leaders that takes an innovative approach to philanthropy, leveraging their dollars, networks and professional skills to support Grantees. Their support is focused on three main areas of need: helping women at risk, brighter futures for children and youth, and social enterprise.
- Canadian Alternative Investment Co-operative (CAIC), <http://www.caic.ca>  
This cooperative of faith-based charities was formed in the early 1980s to provide an alternative source of financing for community-based projects. Its borrowers are creating alternative economic structures, supporting worker cooperatives, empowering disadvantaged peoples and building affordable housing.
- Fiducie du Chantier de l'économie sociale, <http://www.chantier.qc.ca>  
The *Fiducie du Chantier de l'économie sociale* was created in 2006 to provide long term capital for social economy enterprises. It is a \$53.8 million patient or quasi-equity fund enabling collective enterprises to embark on long-term planning and invest in real estate. The trust invests exclusively in social enterprises; cooperatives. It offers long term loans for business start-ups/expansions or real estate acquisition between \$50,000 and \$1.5 million repayable after 15 years. Except in the case of real estate projects, loans are unsecured. Loans are granted on the basis of financing packages in which the loan represents no more than 35% of project related costs.
- Caisse d'économie solidaire Desjardins, <http://www.cecosol.coop>  
Originally launched in 1971 as the *Caisse d'économie des travailleuses et travailleurs de Québec*, the *Caisse d'économie solidaire* (Desjardins Solidarity Savings Fund) was for many years the single financial institution in Quebec supporting the Social Economy. Today, the *Caisse* finances mainly cooperatives and non-profit organizations, including community and social housing initiatives. It offers financing in the form of loans and loan guarantees.
- Canadian Community Investment Network Co-op, <http://www.communityinvestment.ca/>  
Established in 2004, the Canadian Community Investment Network is a national co-operative dedicated to bringing together the voices of community investment in Canada. Their mission is to strengthen the capacity of members to expand access to capital and support services for social economy enterprises and



economically and socially excluded individuals and communities across Canada.

- Community Futures Development Corporations  
Across Canada, many Community Futures Development Corporations invest in the Social Economy including specifically social enterprise in order to support community economic development by assisting communities to strengthen and diversify their economies.
- FilAction, <http://www.filaction.qc.ca>  
FilAction, *Fonds pour l'investissement local et l'approvisionnement des fonds communautaires*, was created in 2001 to preserve and maintain jobs in Quebec by financing enterprises, particularly those that are worker-controlled or operating in the social and solidarity-based economy, and by contributing capital to microcredit funds. FilAction has \$7 million in assets. In five years, it invested more than \$7 million and made commitments of over \$5 million with Québec cooperatives and non-profit organizations.
- Le Fonds de développement des entreprises d'économie sociale (FDEES)  
Created in 1998, the *Fonds de développement des entreprises d'économie sociale* (Social Economy Enterprise Development Fund) are managed by the CLD of each regional municipality. These funds are dedicated specifically to the social economy and provide financial assistance in the form of a grant for the realization, expansion or consolidation of business projects within this sector. The amount of assistance is determined by each CLD, but rarely exceeds \$50,000. Combined financial assistance from the provincial and federal governments and the CLD may not exceed 80% of the eligible expenses. In 2004, more than \$80 million were invested in 117 CLDs in Quebec.
- Les Fonds local d'investissement (FLI),  
[http://www.acldq.qc.ca/ACLDQ/index\\_f.aspx?DetailID=131](http://www.acldq.qc.ca/ACLDQ/index_f.aspx?DetailID=131)  
*Les Fonds local d'investissement* (Local Investment Funds) are part of the Local and Regional Development Program of Quebec's *Ministère du Développement économique de l'Innovation et de l'Exportation* (MDEIE). They are managed by Quebec's Local Development Centres. The objective of these funds is to stimulate local businesses and entrepreneurship at the local level by facilitating access to start-up and expansion capital for traditional and social economy enterprises.
- Fonds de Solidarité, <http://www.fondsftq.com>  
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. It is basically a pension fund, made up of voluntary contributions by members of the Federation and ordinary citizens, that invests in small and medium-sized businesses (although as of 2005 it began to invest in larger companies). The *Fonds de Solidarité* (Solidarity Fund) is obliged by law to invest a minimum of 60% in enterprises in Quebec. Over the years, it has invested close to \$4.1 billion in the Quebec economy and has created over

100,000 jobs.

- MaRS Discovery District (Toronto, ON), <http://www.marsdd.com>  
MaRS drives social and economic prosperity by fostering and promoting Canadian innovation. MaRS provides resources — people, programs, physical facilities, funding and networks — to ensure that critical innovation happens. MaRS measure its success through the companies that emerge after receiving help from MaRS.
- Investissement Québec, <http://www.investquebec.com>  
*Investissement Québec* (Investment Quebec) is a publicly owned corporation that administers various programs to finance enterprises. While *Investissement Québec* falls within the mandate of the *Ministère de l'Industrie et du Commerce*, it is governed by an independent board on which the social economy and the labour movement are represented. In 2008, it authorized financing of \$642.3 million in support of projects (88% of which are regional) that are expected to create 9,723 jobs and retain another 8,395. In 2001, it created a new subsidiary, *La Financière du Québec*. Of the \$100 million allocated for the financing of enterprises, the subsidiary earmarked \$15 million for non-profit organizations and cooperatives.
- Public and Private Foundations  
Foundations such as Vancity Community Foundation, the Ontario Trillium Foundation and the Canadian Women's Foundation provide direct investment in the Social Economy to enable community organizations to operate social enterprises, enhance individual employability skills including financial literacy, and connect individuals with sustainable employment.
- Réseau d'investissement social du Québec (RISQ), <http://www.fonds-risq.qc.ca>  
RISQ was established in 1997 by the business sector and the *Chantier de l'économie sociale* as a response to the lack of financing for the social economy in Quebec. It is a non-profit organization managed by a board of directors comprised of representatives from the shareholders and various sectors of the social economy. RISQ is a \$10.3 million venture capital fund (60% of which comes from the Quebec government) devoted strictly to social economy organizations. Financing takes the form of loans, loan guarantees and equity investments. RISQ offers loans up to \$50,000 to its clients. If necessary, prior to receiving these loans, an enterprise, cooperative or non-profit organization may be granted up to \$5,000 for technical assistance.
- Réseau québécois du crédit communautaire (RQCC), <http://www.rqcc.qc.ca>  
RQCC's mission is to develop and promote the community credit approach (micro-credit, micro-finance, solidarity funding) in Quebec, in the context of ensuring greater individual and collective well-being. In 2008, it had 22 members, including twelve community loan funds and ten loan circles. It supports its members by providing access to equity (\$20,000 for community loans and 5,000 for loan circles) and by offering localized mentoring and coaching for the implementation of economic initiatives. Since its inception, its members have granted \$5 million in

loans. The repayment level is 90%. Its investments have contributed to the creation or preservation of 2,330 jobs ([www.rqcc.qc.ca](http://www.rqcc.qc.ca)).

- Social Capital Partners (Toronto, ON), <http://www.socialcapitalpartners.ca>  
Social Capital Partners (SCP) is a national, non-profit, social finance organization, established in 2001. SCP arranges for growth financing and provides advisory services to successful businesses that integrate a social mission into their HR model and expand career opportunities for disadvantaged populations. SCP works with all types of corporate structures - for profit, non profit, charitable - and provides loan capital based on the borrower's commitment to hire an agreed upon number of employees over a certain timeframe from employment programs serving people with barriers to employment.
- Social Venture Partners (Calgary, AB), <http://www.svpcalgary.org>  
SVP pools Partner (donor) funds and uses them to provide grants to Investees (grant recipients) and support SVP's programs and operations. Grant funds are used for general operating support and capacity-building projects. Building upon the programmatic expertise of the Investee, SVP helps the organization strengthen its management practices, strategies and systems.
- Social Venture Partners (Toronto, ON), <http://www.svptoronto.org>  
SVP Toronto is a unique partnership that brings together a broad group of professionals to invest time and money in the most pressing challenges facing the city. It is based on a proven "venture philanthropy" model. The partners believe that by pooling their money, time and expertise, they can maximize their positive impact on Toronto. SVP Toronto is a fund at Tides Canada Foundation and a chapter of Social Venture Partners International.

Prominent venture philanthropy groups include:

- Ashoka, <http://www.ashoka.org/>
- Atlantic Philanthropies, <http://atlanticphilanthropies.org/>
- The Blue Ridge Foundation, <http://www.brfny.org/>
- Draper Richards Foundation, <http://www.draperrichards.org/>
- Echoing Green, <http://www.echoinggreen.org/>
- Edna McConnell Clark Foundation, <http://www.emcf.org/>
- Great Bay Foundation, <http://www.greatbayfoundation.org/>
- New Profit Inc., <http://www.newprofit.com/cgi-bin/iowa/home/index.html>
- Robin Hood Foundation, <http://www.robinhood.org/home.aspx>
- Roberts Enterprise Development Fund, <http://www.redf.org/>
- Skoll Foundation, <http://www.skollfoundation.org/>
- Venture Philanthropy Partners, <http://www.venturephilanthropypartners.org/>
- Wallace Foundation, <http://www.wallacefoundation.org/Pages/default.aspx>

### 3. Top Questions or Issues

We need to create an enabling social finance environment that:

1. **Removes regulatory barriers to establishing and operating social enterprises**
2. **Builds capacity in public benefit organizations to participate in social enterprise**
3. **Creates an effective social capital marketplace**
4. **Offers incentives for investors to participate**
5. **Provides a locus for ongoing policy dialogue and development.**

The challenge in Canada is to create a similarly enabling social finance environment here, building on our own institutions and strengths while adapting innovations that have proven successful elsewhere.

### 4. Propositions

The policy environment in Canada leaves ample room for increased support to the Social Economy sector – in the forms of social finance, community investment, and investment in social infrastructure. This section of the paper details best practices from the United States and United Kingdom, policy recommendations from the Canadian Community Economic Development Network including formal recognition of and support for social enterprise as a driver of economic revitalization as well as investment in a National Anti-Poverty Plan that includes investment in social infrastructure, and policy recommendations to support CED initiatives for and by Aboriginal women and communities including investment in the valuable resources of Aboriginal women’s knowledge and CED practice.

#### 4.1 Legislative Innovations and Social Enterprise: Structural Lessons for Canada

With project support from Coast Capital Savings, the BC Centre for Social Enterprise and charities lawyer Richard Bridge undertook to gauge whether there is a need for a separate legal structure for social enterprise, in Canada.

Inspired by the Community Interest Company<sup>27</sup> (or CIC) in the UK, and the Low-Profit Limited Liability Company<sup>28</sup> (or L3C) in the US, the researchers first generated a paper outlining the features of the US and UK models, then undertook the creation of a second paper, called ‘Legislative Innovations and Social Enterprise: Structural Lessons for Canada’. Below is a summary of the second paper.

The paper argues that governments should modernize the organizational infrastructure that applies to social enterprise to better enable it to flourish. A relatively modest start would be new legislation enabling the creation of a legal structure specifically for the purpose of social enterprise.

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<sup>27</sup> See <http://www.cicregulator.gov.uk/>

<sup>28</sup> See <http://www.americansforcommunitydevelopment.org/supportingdownloads/CWVBrief-Updated.pdf>



“Social Enterprise” and “Community Enterprise” are not legal expressions in Canada. There is no national or provincial social enterprise act or regulation that defines it or gives it legal form or structure. It is not addressed in the federal Income Tax Act as something distinct and worthy of unique treatment. Currently, social enterprises in Canada adopt existing forms such as corporations and cooperatives, or they operate social enterprises as ‘projects’ of the parent charity or non profit.

Operators of social or community enterprises have been creatively working with the available legal structures. But in Canada, there has been virtually no corresponding legislative or regulatory innovation.<sup>29</sup> The organizational infrastructure has not kept pace with the growing sophistication of community enterprise.

The existing legal infrastructure utilized by Canada’s community enterprises is a patchwork. The quality of the relevant legislative and regulatory systems varies from province to province. Most are badly dated, incomplete, and inadequate. By adopting relatively modest and low-cost legislative and administrative reforms that draw lessons from innovations in the UK and the US, Canada can improve its supportive infrastructure for social enterprise.

This important incremental step forward could be part of a broader strategy to encourage more social enterprises to help communities adapt to change, and address the challenges and opportunities that they face.

### ***Recommendations***

1. That the Government of Canada enact a Community Enterprise Act, which draws upon the best of the recent legislative innovations in the UK and the US.
2. That this Community Enterprise Act incorporate by reference the modern governance, accountability, and administrative provisions that have been built into Bill C-4, the existing replacement for the inadequate Canada Corporations Act.
3. That this Community Enterprise Act enable new organizations to incorporate as “Community Enterprises” – organizations similar to Community Interest Companies in the UK. They should have the capacity to issue shares to investors, subject to limitations on scope of activities and on investment returns, and a capital lock to ensure that assets remain primarily for community benefit.
4. That this Community Enterprise Act create an option for existing social enterprises incorporated under the Canada Corporations Act to “migrate” either to Bill C-4 as non-profit organizations or charities, or to the Community Enterprise Act to become Community Enterprises.

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<sup>29</sup> Regarding charities, the Canada Revenue Agency has produced helpful policy statements regarding “Community Economic Development Programs” <http://www.cra-arc.gc.ca/E/pub/tg/rc4143/rc4143-e.html> and “Related Business” <http://www.cra-arc.gc.ca/tx/chrts/plcy/cps/cps-019-eng.html>, but these are interpretations of existing (sparse) legislation and infrequent and conflicting case law.

5. That this Community Enterprise Act should define “community benefit” and provide a mechanism for entities incorporated under other federal or provincial legislation that meet that test to be eligible for favourable tax treatment and other incentives the Government of Canada may decide to establish.
6. That specific legislative authority be granted to charitable foundations to invest in Community Enterprises and other organizations that meet the community benefit test and that have purposes similar to the investing foundations.

#### **4.2 Recommendations for the Federal Government on Community Economic Development and the Social Economy<sup>30</sup>**

Five major networks - the Canadian Co-operative Association, the Canadian Community Economic Development Network, Chantier de l'économie sociale, Conseil québécois de la coopération et de la mutualité, and the Conseil Canadien de la Coopération et de la Mutualité - representing thousands of co-operatives, community-based organizations, and non-profit enterprises across the country, propose a new partnership between communities and the Canadian government to build a stronger economy, invest in sustainable communities, and tackle poverty.

With our economy under stress from the growing downturn in the United States and the continuing pressures of globalization, we believe that now - more than ever - Canada needs stronger policies for community economic development (CED). A commitment by the Government of Canada to support CED and the social economy will allow Canada to join the growing number of countries around the world that have adopted policies to support this rapidly growing movement.

Through our networks rooted in every region of Canada, we have seen how community economic development can help to create resilient communities. Social

***What policy and regulatory changes are required to fully enable the Social Economy Sector to meet the needs of Canadian families and communities?***

economy enterprises and organizations, both co-operative and non-profit, have been successful in responding to local needs, including housing, health, environment, agriculture, culture, recreation, tourism, and childcare.

People working together to deal with common economic and social problems can have a powerful positive impact on rural, urban and Aboriginal communities. In many communities, businesses are closing down or moving away while community-led social economy organizations remain rooted, delivering valuable services, creating opportunities, and maintaining jobs.

Our impact is far-reaching. Canada's co-operative sector has assets of \$250-billion. Canadians have more than 17 million memberships in co-operative organizations and the sector provides over 150,000 jobs. In 2001, the GDP of the core non-profit sector amounted to \$25.4-billion, representing 2.5% of the overall economy. This share increases to \$80.3-billion or 6.8% of GDP when hospitals, universities and colleges are

<sup>30</sup> Canadian Community Economic Development Network, 2009.

included.

### ***Recommendations for Federal Policy***

#### **1. A Greater Role for Social Enterprise in Economic Revitalization**

Federal policy and programs need to ensure a greater role for non-profit organizations, social enterprises and co-operatives in economic development. Mechanisms can be developed to include social enterprises and social economy organizations in all industrial development strategies. Social enterprises can play a crucial role in creating employment for residents of inner cities and rural areas, newcomers, persons with disabilities, Aboriginal Peoples and other founding cultures.

A first essential step is to examine existing programs for small and medium enterprises to ensure their accessibility to co-operative and non-profit social enterprises. Another initiative proposed is the extension of the Business Development Bank of Canada's loan guarantee program for co-operatives and non-profit organizations. The implementation of a procurement policy that encourages social enterprises is a further avenue to be explored.

#### **2. Support for New and Emerging Co-ops**

New and emerging co-operatives need assistance to get up and running. A key priority is to renew and expand the federal Co-operative Development Initiative (CDI). The CDI and the Agricultural CDI have helped fund co-op advisory services, started over 200 new co-ops and assisted more than 1,500 emerging ones. The CDI has been extended for only one year while its sister program, the Agricultural CDI, which provides assistance to new value-added agricultural co-ops, comes to an end on March 31, 2009.

#### **3. Sustainable Support for Community Economic Development (CED) Organizations and Community Capacity Building**

CED organizations deliver training and development services in hundreds of communities across Canada. Taking an integrated approach to economic and social development, they patch together funding from a variety of sources, but need access to sustained government funding to enable them to create and maintain jobs and businesses. Federal government departments must develop coordinated approaches in order to ensure access to sustained government funding.

#### **4. Support for Technical Resources and Expertise for Enterprising Non-Profits**

Presently there are no programs at the federal level which can help new enterprising non-profits through the start up phase or facilitate a transition from the traditional non-profit model to a more enterprising one.

#### **5. Access to Capital**

Since co-operatives and non-profits cannot access investment capital through traditional stock offering mechanisms, they need fiscal measures or other means to access patient capital and financing. This would include the creation of patient capital development funds with seed money from the federal government. The

implementation of a federal Co-operative Investment Plan (which exists in Québec), where members of worker or agricultural co-ops receive a tax credit for investing in their co-operative, is another measure which would encourage new investment.

6. **A Canadian Anti-Poverty Strategy with Targets, Timetables and Resources.** Three provinces – Québec, Newfoundland & Labrador and recently Ontario – are now committed to provincial anti-poverty strategies. Poverty remains too high in our prosperous country and particularly affects women, Aboriginal Peoples, and new immigrants. The federal government should work with each of the provinces in a spirit of co-operation to develop accords that could form the basis of a pan-Canadian anti-poverty strategy. Within this strategy, there is an urgent need for federal investment in social housing, through the non-profit and co-operative model.

In a new federal anti-poverty strategy, non-profit organizations, social enterprises and co-operatives can play a crucial role alongside the expansion of place-based poverty reduction initiatives<sup>31</sup>.

#### **4.3 Funding Women-Centred CED: A Successful Poverty Reduction Strategy<sup>32</sup>**

Women-centred CED programs help thousands of Canadian women to break the cycle of poverty each year. Innovative programming includes lending circles, social enterprise, skills training and co-operative development. Investment in women-centred CED organizations such as EthniCity Catering and Neechi Foods Co-op is investment in job creation, improved economic security and financial independence for Canadian families, and small business development

Despite years of success across Canada, women-centred CED organizations do not receive funding adequate to support the high numbers of individual women who need services. As the Women's Economic Council outlines, adequate support for women-centred CED programming includes:

1. Putting women's issues back on the federal and provincial policy agendas, investment in gender-based analysis of all departmental budgets, and program development and evaluation partnerships with women's organizations as part of governmental transparency and accountability.
2. Flexible, longer-term funding horizons and core funding for women's CED organizations, enhancing practitioners' ability to support long-term gains in assets and livelihoods.
3. Funding support for holistic programming including a continuum of employment and pre-employment services based on the realities of women's lives.

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<sup>31</sup> For more information, please visit: the Canadian Co-operative Association: [www.coopscanada.coop](http://www.coopscanada.coop), The Canadian Community Economic Development Network: [www.ccednet-rcdec.ca](http://www.ccednet-rcdec.ca), Chantier de l'économie sociale : [www.chantier.qc.ca](http://www.chantier.qc.ca), Conseil québécois de la coopération et de la mutualité : [www.coopquebec.coop](http://www.coopquebec.coop), Conseil canadien de la coopération : [www.ccc.coop](http://www.ccc.coop).

<sup>32</sup> Women's Economic Council, Fact Sheet: Women-Centred CED, 2008

4. Funding for child care as part of employment programming budgets in recognition of the fact that cost-free programming is not enough to support women with young children.
5. Recognition of women-centred CED programs as a legitimate employment strategy for women, and not penalizing women who participate through income support reductions.
6. Implementing Canada's international commitments to women's economic security including the Beijing Platform for Action and the Agreed Conclusions of the 53<sup>rd</sup> United Nations Commission on the Status of Women: Financing for Gender Equality, particularly:
  - a. Design and **strengthen poverty eradication strategies**, with the full and effective participation of women, that **reduce the feminization of poverty** and enhance the capacity of women and empower them...;<sup>33</sup>
  - b. Undertake and disseminate **gender analysis of policies and programmes related to** macroeconomic stability... **taxation, investments, employment...**and all relevant sectors of the economy and **support and facilitate research in those areas ...**;<sup>34</sup>
  - c. Establish and fund active labour market policies devoted to the promotion of full and productive employment and decent work for all, including...**the creation of more and better jobs for women...**;<sup>35</sup>
  - d. Take measures to develop, **finance**, implement, monitor and evaluate gender-responsive policies and programmes aimed at promoting **women's entrepreneurship** and private initiative, **including through microfinance, microcredit and cooperatives...**;<sup>36</sup>
  - e. Create and enhance a supportive environment for the **mobilization of resources by** non-governmental organizations, in particular **women's organizations and networks**, to enable them to increase their effectiveness and to contribute to gender equality and the empowerment of women, including through assisting in the implementation of the Platform for Action and **participating in policy processes** and programme delivery.<sup>37</sup>

#### 4.4 Aboriginal Women's Community Economic Development: Measuring and Promoting Success – Conclusion<sup>38</sup>

Mainstream fields of inquiry and action are being challenged from many fronts, exposing the historical privileges of First World capital and economic individualism. Although conventional measurement frameworks have undermined indigenous peoples

<sup>33</sup>United Nations Commission on the Status of Women, *Agreed Conclusions on Financing Gender Equality and Empowerment of Women*, 2008. (para (c)).

<sup>34</sup>*Ibid.* (para (n)).

<sup>35</sup>*Ibid.* (para(z)).

<sup>36</sup>*Ibid.* (para(aa)).

<sup>37</sup>*Ibid.* (para(ll)).

<sup>38</sup> Both this section and the Neechi Foods Case Study are excerpts from: Findlay, Isobel M. & Wanda Wuttunee, "Aboriginal women's community economic development: Measuring and promoting success", IRPP Choices 13 (4), 2007.



and communities, the aboriginal renaissance (the political, cultural, legal and economic resurgence of Aboriginal peoples since the 1960s) and growing Aboriginal participation in the economy (increasingly on Aboriginal people's own terms) are changing the ways to do business and measure success.

...New measures need to recognize Aboriginal rights and relevant laws and build on the Maori successes in making treaty obligations auditable.<sup>39</sup> They need to account for the value of women's enhanced roles in cultural and political revitalization; in resistance and radicalization; in healing and health, as well as economic development; in the traditional, treaty and social economy; and in land claims agreements, selfgovernment and self-determination. Indigenous knowledge can expand the accounting discourse, so that Aboriginal enterprises and decision-makers can "see" opportunities and value hidden from sight when viewed from a mainstream perspective. Aboriginal measures rightly value relationships and local and experiential knowledge, and work to reconnect what has been disconnected or fragmented by colonial thinking. In developing indicators that will better serve policy-makers and communities making CED choices, we have worked to unpack and displace outmoded conceptual boxes by entering the circle of respect for Aboriginal ways of knowing and doing, for the visions and values that count in the lives of communities. That means learning from and promoting the work of the First Nations Development Institute, the First Nations Statistical Institute, Alberta's GPI Sustainability Circle, and Genuine Progress Index Atlantic, among others.

Through our work in and with Aboriginal communities and institutions, it is clear that many of the valuable human resource practices, features of organizational culture, Aboriginal traditions and relationships with their broader communities need to be brought to the heart of the measurement toolbox to support and not subvert their vision. It nevertheless needs to be recognized that refining and using those tools effectively will, in the short term, add to the burdens faced by Aboriginal women who juggle responsibilities inside and outside their CED enterprises — unless they are adequately resourced to evaluate and document performance by these measures.

As Yalnizyan<sup>40</sup> has argued, women have agitated, increased their education and workforce participation, created businesses, worked longer hours and entered non-traditional professions; yet many of them still live insecure lives, earn less and receive fewer rewards than men. In this context, reframing policy that will make a difference in Aboriginal women's CED means recognizing the responsibilities of mainstream Canada and economic globalization for disadvantaging and impoverishing Aboriginal communities. Expanding policy-making capacities means the following:

- Using a gender lens
- Respecting and internalizing in policy and programs Aboriginal world views in all their diversity and engaging Aboriginal people in decision-making

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<sup>39</sup> Jacobs, K., "Evaluating Accountability: Finding a Place for the Treaty of Waitangi in the New Zealand Public Sector", *Accounting, Auditing & Accountability Journal* 13 (3): 360-80, 2000.

<sup>40</sup> Yalnizyan, Armine, "The Ask", Keynote address, Preconference Forum, 2006 National Conference on CED and the Social Economy, March 15, 2006, Accessed February 16, 2007.

- Recognizing and supporting CED organizations as key players in employment and economic development
- Learning from Maori successes in making treaty obligations auditable and thus increasing the visibility of Aboriginal actions and perspectives
- Exposing the overinvestment in outside expertise and the underinvestment in the valuable resources of Aboriginal women's knowledge and CED practice
- Supplementing quantitative measures with qualitative measures of success that put community values at the heart of things
- Recognizing that improving Aboriginal quality of life will require political commitment<sup>41</sup>

Attending to what quality of life means for Aboriginal women is integral to rebuilding relationships, to following their leadership and learning about the needs they regard as fundamental to sustainable, healthy communities. Drawing on the lessons learned from Aboriginal women supporting CED innovation across the country, we recommend that policy-makers address the following to enable further capacity building, recognize barriers specific to women's experience (including access to financing) and help share their stories in order to promote further successes:

- Coordinate Aboriginal economic development programming; streamline application and reporting procedures
- Ensure legislative and regulatory requirements are sensitive to the broad range of CED outcomes
- Ensure long-term core funding rather than short-term project support
- Support network building and infrastructure sharing beyond silos such as urban-rural, cultural-economic
- Amend employment insurance and welfare policies that bar training or asset building and impede the transition to independence
- Remove legal barriers to charitable organizations engaging in advocacy
- Support accessible, affordable child care and elder care

#### **4.5 Summary of Recommendations**

The policy environment in Canada leaves ample room for increased support to the Social Economy sector – in the forms of social finance, community investment, and investment in social infrastructure. This section of the paper details best practices from the United States and United Kingdom, policy recommendations from the Canadian Community Economic Development Network including formal recognition of and support for social enterprise as a driver of economic revitalization as well as investment in a National Anti-Poverty Plan that includes investment in social infrastructure, and policy recommendations to support CED initiatives for and by Aboriginal women and communities including investment in the valuable resources of Aboriginal women's knowledge and CED practice.

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<sup>41</sup> Salée, Daniel, with the assistance of David Newhouse and Carol Lévesque, "Quality of Life of Aboriginal People in Canada: An Analysis of Current Research", IRPP Choices 12 (6), 2006.

**Recommendation 1:** Increase both public and private direct investment in social enterprise capacity, jobs and social support, as well as to provide flexible, sustainable support for impact-focused social innovation.

**Recommendation 2:** Implement appropriate regulatory, tax and capacity-building measures for the Social Economy sector including:

- a. The development of a federal Co-operative Investment Plan
- b. Patient capital development funds for co-operatives and non-profits
- c. Coordinated and sustainable government support for community economic development, and the recognition of CED organizations as key players in employment and economic development
- d. That the Government of Canada enact a Community Enterprise Act, which draws upon the best of the recent legislative innovations in the UK and the US
- e. The development of a national network of Community Development and Neighbourhood Renewal Corporations
- f. The development of a Social Enterprise Trust
- g. The implementation of a federal procurement strategy to maximize the environmental, economic, and social benefits of federal government procurement
- h. The Co-operative Development Initiative become a permanent program with resources commensurate with sector demand

**Recommendation 3:** Recognize the unique economic situations of underserved communities including women, youth, Newcomers and Aboriginal Canadians and implement policies and provide financial and technical assistance to the social economy sector to ensure equitable access to economic security including:

- a. Respecting and internalizing in policy and programs Aboriginal world views in all their diversity and engaging Aboriginal people in decision-making
- b. Gender analysis of every dollar spent to ensure effective and equitable support for women
- c. Investment in holistic programming including a continuum of employment and pre-employment services based on the lived realities of women, youth, Newcomers, and Aboriginal Canadians.

**Recommendation 4:** Develop a Canadian Anti-Poverty Strategy with targets, timetables and resources. Include investment in the Social Economy and Women-Centred Community Economic Development as effective and sustainable poverty-reduction mechanisms.

**Recommendation 5:** Invest in and sustain a national, universal, accessible, affordable, quality child care program.

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