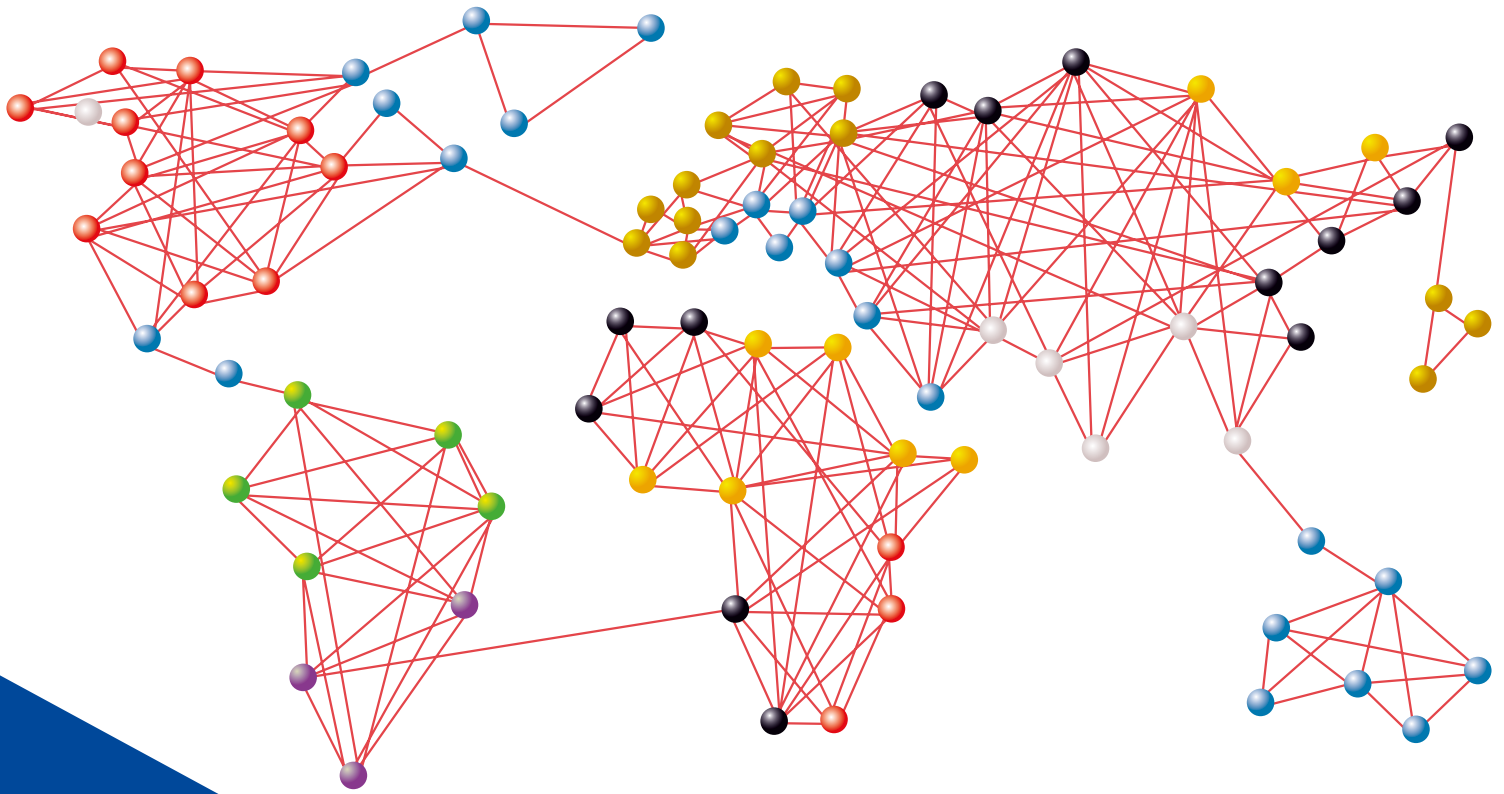




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► **Financial mechanisms for innovative social and solidarity economy ecosystems: The case of Quebec**

Financial mechanisms for innovative social and solidarity economy ecosystems: The case of Quebec



Caitlin McMullin

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► Abstract

This case study examines the financial mechanisms that support the social economy in Quebec, Canada. Quebec's innovative social economy ecosystem is rooted in strong associative and cooperative traditions, well developed networks, and strong partnerships between the social economy and government. Among the key themes that emerged were the value of a large range of financial mechanisms available to meet the needs of SSE enterprises at different stages of development, and in particular, the development of 'patient capital'

which has facilitated broader investment in collectively owned enterprises that operate for social and community benefit. In responding to COVID-19, the provincial government and other financial institutions have instituted relief efforts to support the SSE, and the SSE will form an important component of recovery efforts in terms of providing key services, helping integrate people into the workforce and facilitating the transition towards a more sustainable and socially responsible economy in the province.

About the author

Caitlin McMullin is an Associate Professor in the Department of Politics and Society, Aalborg University, Denmark. She previously held Research Fellowships at Concordia University and the University of Montreal, and specializes in comparative third sector studies, organisational theory, and co-production of public services.

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► Foreword



Vic Van Vuuren
Enterprises Director
International Labour Organization (ILO)



Gianluca Salvatori
General Secretary
European Research Institute on Cooperatives
and Social Enterprises (EURICSE)

The social and solidarity economy (SSE) is receiving increasing attention due to its role in addressing various economic and social challenges, ranging from the future of work to the provision of social services. This role is particularly important in light of the COVID pandemic, which has aggravated existing social problems, generated a major economic crisis, and generally brought in sharp relief of the need to reimagine many of the underpinnings of our economy and way of life. In this context, the organisations that compose the SSE, characterised by a strong focus on addressing basic human needs and a close alignment with the interests of the communities in which they are located, can be a major asset and one of the pillars on which to build a post-COVID recovery effort.

As public and private institutions seek out ways in which the SSE can be supported and developed, the availability of financial resources has been identified as a key lever for expanding the capacity of SSE organisations. Indeed, as SSE organisations engage in producing goods and services, finance is important for them as it is for many other types of enterprises: it can help cover start-up costs, address cash flow issues, fund investments, etc. What is less clear is the extent to which SSE organisations have more difficulties than traditional enterprises in accessing financial resources, what kind of financial resources should in fact be available to them, for what purposes these resources are being used and in what ways they can be accessed. While there are many discussions on these topics, empirical evidence remains scant.

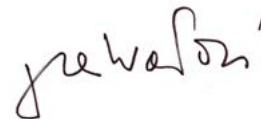
To answer some of these questions, in 2018, the ILO commissioned to Euricse a study on 'Financial Mechanisms for Innovative Social and Solidarity Economy Ecosystems'. The project, funded by the Government of Luxembourg, was structured in three stages. First, it developed a comprehensive overview of possible financial sources and mechanisms through which these resources could be accessed, both traditional and innovative, generic or tailored to the specific characteristics of SSE organisations. Second, assisted by national researchers, it investigated how SSE ecosystems are structured and what financial resources SSE organisations actually use in eight countries globally. Finally, it conducted a comparative analysis of the

findings to tease out cross-cutting themes and overarching issues and to develop a list of policy recommendations.

The national case studies developed regarding the 'Financial Mechanisms' project, in addition to being instrumental in developing the insights presented in the final report (ILO, 2019), were valuable pieces of research in their own right and are now available as free-standing documents. This report in particular presents the analysis conducted in Quebec, updated to reflect the latest trends and data, and with the addition of a set of observations on the impact of the Covid crisis and the role of the SSE in the post-Covid recovery.



Vic Van Vuuren
*Enterprises Director
International Labour Organization (ILO)*



Gianluca Salvatori
*General Secretary
European Research Institute on Cooperatives
and Social Enterprises (EURICSE)*

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► Introduction

This case study report presents an analysis of the social economy and the various financial mechanisms that support the creation and development of an innovative social economy ecosystem in the province of Quebec, Canada. Drawing on a review of policy papers, academic literature, government documents, and interviews with key stakeholders in the sector, the report discusses the unique confluence of factors that have supported one of the most innovative social economy ecosystems in the world.

The report is structured in four sections: the first section describes the social and solidarity

economy ecosystem in Quebec, looking at its roots and drivers, the main actors and stakeholders that compose it, and the policy framework that regulates it. The second section looks at the main financial mechanisms available to SSE organisations in Quebec, analysing their features and providing specific examples. The third section then looks at the impact of the Covid crisis, both in terms of its effect on SSE organisations and for the potential role of the SSE in the recovery effort. Finally, the fourth section provides some policy recommendations on the issue of finance for the SSE in particular and for strengthening the SSE ecosystem overall.



▶ 1. The Quebec Social and Solidarity Economy Ecosystem



1.1. Quebec: Main trends and issues

The province of Quebec is the largest by area of land and second largest by population in Canada. With just over 8 million inhabitants, Quebec accounts for 23% of the population of Canada (Statistics Canada, 2021). It is the only province of Canada that is majority francophone, where 85% of the population speak French as their first language, compared to 3.8% of the rest of Canada (Statistics Canada, 2017a). A large percentage (45%) of Quebecers report being fully English/French bilingual, and only 5% of the population are unable to conduct a conversation in French. Over the last 20 years, the demographics of Canada as a whole and Quebec in particular have changed due an increase in immigration supported by government policy to attract skilled migrants, but in an effort to protect the distinctive linguistic and cultural identity of the province, Quebec maintains its own immigration programs that prioritize francophone migrants. According to the 2016 census, the percentage of Quebec residents born outside of Canada was 13.7%, which is considerably lower than the national average of 21.9%. Being the only large francophone community in North America has meant that Quebec has developed a distinct identity that has differentiated it in terms of social, cultural and political development from the rest of Canada.

Politically, the province of Quebec has traditionally been further left of centre than the rest of the country, with power alternating for many years between the Liberal Party or the social democratic sovereigntist Parti Québécois (PQ). The issue of declaring independence from Canada has been the dominant question

of Quebec politics, and in 1980 and 1995, the governing PQ along with the national level Bloc Québécois spearheaded independence referendums – the second of which was defeated by a margin of only 50.58% to 49.42%. Sovereignty has until only recently continued to dominate Quebec politics, rather than traditional left-right cleavages, with most political parties taking a fairly centre-left to left-wing position and with a general political consensus around the notion of a strong welfare state. In October 2018, the Coalition Avenir Québec (CAQ) became the first centre-right political party to take power since 1970. The CAQ is a young party (formed in 2011 by former PQ members), and is nationalist rather than sovereigntist (with some anti-immigration views expressed), economically conservative, and pro- small business and entrepreneurialism.

The Quebec economy has experienced relative economic growth since 1980, with two recessions (from 1989-1993, and 2008-2009) over this period. The first recession in the 1990s, during which unemployment hit a high of 13.2% and almost one in five households were below the poverty line, can be seen as the critical juncture at which citizens (especially women) began to demand the investment in social welfare that led to the development of the social economy ecosystem. Prior to the COVID-19 pandemic in 2020, economic growth had slowed somewhat in Quebec and unemployment was the lowest in two generations at 5% (between November 2019 and February 2020) (Institut de la statistique du Québec, 2020). However, like in most territories worldwide, the COVID-19 pandemic hit the economy hard and Canada fell into recession, although there were some signs of economic recovery towards the end of 2020.

1.2. Social and solidarity economy: roots and drivers

Social economy and social enterprise ecosystems have developed in diverging directions in different countries, as a result of a range of interrelated economic, political and cultural factors (Hazenberg et al., 2016; McMullin et al., 2021). While the social and solidarity economy remains relatively underdeveloped in the rest of Canada (both in terms of the size of the ecosystem as well as the concept itself), a variety of cultural, institutional and political factors in the province of Quebec have coalesced in a way that has supported the development of a particularly robust and institutionalized social economy ecosystem. Strong territorial dynamics around local/regional development and community economic development have also favoured the integration of social and economic goals. As numerous scholars have analysed, these key influences include: a strong historical tradition of cooperative and community sector activity; a proactive/activist provincial government that provides both political and financial support for the sector; and the development of innovative cross-sector partnerships and consultations that have facilitated the development of public policy that addresses some of the particular legal and financial needs of social and solidarity organisations.

1.2.1. Associative and cooperative traditions

The third sector (i.e. independent organisations that are neither run by the state nor are they for-profit businesses) has developed different characteristics in each province in Canada because the federal structure of the country devolves responsibility for health, education, welfare, and training services to the provinces (i.e. the vast majority of the sectors in which

‘third sector’ organisations, broadly, operate). In Quebec, a strong history of associative activity or ‘autonomous community action’ has been a significant influence in defining the social economy of today. This associative tradition has gone through several phases of transition over the last 50 years. Quebec was historically characterized by the hugely influential presence of the Catholic Church in social and political affairs, part of the differentiation between francophone Quebec and the rest of English speaking Canada. The church was active not only in charities and social service provision, but also in establishing a Catholic union movement and cooperative movement in an effort to instil Catholic moral values into economic activities.

In the 1960s, a period known as the Quiet Revolution, the provincial government took control of the monolithic bureaucracy of the church’s health, welfare and education services and began the first steps to establishing a publicly-run welfare state. At the same time, leftist activists who were suspicious of the increasing reach of the state began to mobilize for community control of public services and programs. Community organisations in Quebec have developed into a militant associative sector that vocally advocates for social justice and political and social reform, while the community sector in the provinces of Canada are more traditionally characterized by middle class volunteering and individual philanthropy. Community organisations became increasingly active and involved in contributing to urban community and economic development efforts over the course of the 1980s and 1990s. These autonomous community organisations explicitly differentiate themselves from non-profit organisations that are directly contracted by government to provide services, and the collective enterprises that employ economic activities to promote social purposes.

Alongside this militant community sector, Quebec also exhibits an important history of mutual and cooperative enterprises. The *Mouvement des caisses Desjardins* was founded in Quebec at the beginning of the 20th century, and was the first – and is now the largest – federation of local credit unions/ mutual aid societies in North America. Mutuals and cooperatives have historically maintained an important presence in the agriculture, forestry, funerary, leisure and many other sectors. While many cooperatives trace their roots to very small scale, local beginnings, some like Desjardins have grown to a size at which democratic representation of members becomes more tenuous. Cooperatives are represented at the provincial level by the Conseil québécois de la coopération et de la mutualité (Quebec Council for Cooperatives and Mutuals, CQCM), which includes over 3,000 members.

1.2.2. Public policy and partnerships with government

Several key events over the course of the late 1990s mark the development of the Quebec ‘model of social development’, an approach of critical dialogue and co-construction that has favoured the development of the necessary political and legal frameworks to facilitate the institutionalization of the social and solidarity economy ecosystem.

In 1995, a social movement called the Women’s March Against Poverty marked a critical moment for the development of the Quebec social economy. At a point when unemployment and poverty were at an all-time high, women marched from Montreal to Quebec City to demand that the provincial government

increase investment in social services, housing, and programs to reduce poverty (*Fonds de lutte contre la pauvreté*). Due to the political climate of the time (several months before the government was set to hold a referendum on Quebec independence), the provincial government was particularly receptive to the demands of this social movement in an effort to keep the women of Quebec on its side.

This social movement, combined with the historical strength of the autonomous community movement and cooperative movement, led to a popularization of the concept of social economy, and coincided with the Quebec government taking action to investigate the necessary steps to support this project.¹ A Conference on the Social and Economic Future of Quebec early in 1996 involved a number of social partners and established three task forces to address differing issues relating to the economy, one of which (the *Groupe de travail sur l’économie sociale* led by Nancy Neamtan) was specifically tasked with developing the policy and frameworks necessary to support the social economy. This was seen as a key effort in order to tackle the dual challenges of creating new jobs whilst simultaneously responding to social needs that the state and market were failing.

Following this conference, in October 1996, the Premier of Quebec Lucien Bouchard convened a summit to discuss issues of the economy and employment, and invited stakeholders from social movements, community organisations, trade unions, businesses to discuss the issues facing the province. The summit launched an approach of ‘*concertation*’, or multi-stakeholder dialogue and consensus-building to making public policy, which has become known as the

¹ Although some, e.g. Arsenault 2018a, argue that the women’s march did not directly impact the government’s decision and instead served to raise awareness.

Quebec model of social development. Prior to this summit, the province had focused on consulting with labour and business interests alone, and had not included community organisations and social movements. As numerous researchers have documented, the openness of the provincial government to co-constructing public policy regarding the social economy has been one of the defining features of its success (Arsenault, 2018b; Mendell and Neamtan, 2010; Laforest, 2009). In 2013, the Government of Quebec passed the Social Economy Act to recognize the sector in Quebec and delineate the role for the government in supporting it. This will be discussed in further detail in section 1.4.

1.2.3. Social economy today: Contribution to Quebec economy and society

The social and solidarity economy comprises 11,200 businesses, accounts for sales of almost \$48 billion and is responsible for the employment of over 220,000 people across the province of Quebec (Chantier de l'économie sociale). According to a survey from the CSMO-ESAC (an organisation that represents workforce interests of both the social economy and community sector), social economy enterprises have an average annual operating budget of \$888,662 (median budget \$552,507) (Binhas, 2015). Women significantly outnumber men in the social economy workforce, making up 64% of the SSE enterprise workforce (71% of full-time and 57% of part-time employees), which reflects the motivation to both respond to increasing demand for social services, and to create jobs for women. In regard to salaries, however, male workers make on average about 2-6% more than women (Binhas, 2015). Social economy enterprises have proven to fare better than their traditional private sector

counterparts, with cooperatives demonstrating a survival rate of 62% after five years (compared to 35% of private businesses) and 44% after 10 years (compared to 20% of private businesses) (Gouvernement du Québec, 2015).

An important and unique property of the Quebec ecosystem are the organisations/enterprises that are explicitly *not* part of the ecosystem. This includes, first and foremost, autonomous community organisations which are guaranteed government grants to support their mission of social development and advocacy and therefore intentionally reject pressures (as seen in other contexts) to become involved in market activities. This means that, despite their similarities, the differences in ideology regarding the market have meant that there has traditionally been a lack of crosspollination of ideas between social economy enterprises and autonomous community organisations (D'amours, 2002), although in recent years collaborations have increased through initiatives such as a Centraide fund to support community organisations to become owners of their buildings. In addition, because the social economy is strictly defined as organisations constituted as non-profits or cooperatives, social *enterprises* (private businesses with a social mission) are not included as part of the SSE ecosystem. These businesses therefore do not have access to many of the financial products that SSE enterprises do, such as those from the Fiducie and RISQ (discussed in section 2).

1.3. Main actors in the SSE ecosystem

The SSE ecosystem in Quebec is characterized by a high degree of institutionalization and by multiple networks, as well as some networks of networks. While the structure of the ecosystem is complex, the existence of networks to represent enterprises

by region, by sector of activity and by type of enterprise (non-profit or cooperative) ensure that a wide range of interests are represented and supported. Lévesque (2016) categorizes the ecosystem into four main components – business support, research and knowledge transfer, networks, training and education, and finance (see Figure 1), but government bodies also form an important component through the co-construction of public policy with these actors.

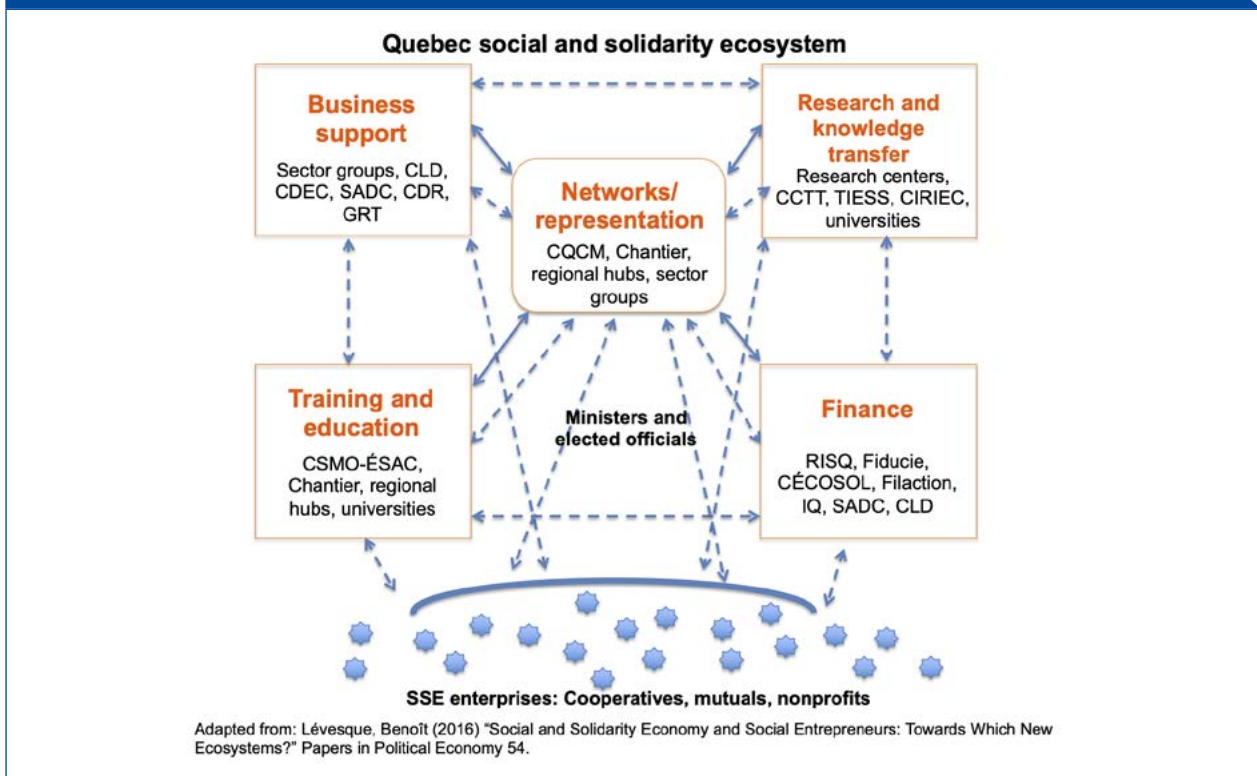
1.3.1. Networks/ representative bodies

At the provincial level, the social and solidarity economy is represented by two primary organisations, the Conseil québécois de la coopération et de la mutualité (CQCM), and the Chantier de l'économie sociale. Both organisations were recognized in the Quebec government's Social Economy Act of 2013 as

being the "Government's primary interlocutors where the social economy is concerned" (Gouvernement du Québec, 2013), signalling the government's endorsement of these two actors as representative of the sector. The CQCM has existed since 1940 and represents the cooperative and mutualist movement. Chantier, on the other hand, was formed as part of the establishment of the modern social and solidarity economy at the end of the concertation process of the late 1990s, and represents the social and solidarity economy from a broader perspective, including non-profit organisations that sell goods or services/ engage in market activities.

Chantier has acted as a key actor in representing and promoting the development of social finance and the SSE ecosystem in Quebec. Their role as the main umbrella organisation of the SSE has

► Figure 1.



been to promote a vision of the SSE and raise awareness, facilitate networking of members and the sharing of best practices, lobby the government on behalf of the SSE and participate in the development of tailored financial tools to support SSE enterprises. The establishment of Chantier represents an institutional innovation, in the sense that it covers the range of issues and elements that the social economy faces, including finance, training and policy, as well as connecting with public policy-makers and researchers (C.I.T.I.E.S., 2018).

The sector is also organized around regional networks, or *pôles d'économie sociale*, which represent 22 regions of the province. Because of the diversity of Quebec, the regional networks have the role of consulting with their member organisations but also promoting the social economy model locally in a way that reflects each region's particular economic needs, capacities and characteristics of present SSE enterprises. For instance, there are important differences between the City of Montreal (the second largest city in Canada, which has over 20% of both the population of the province and 22% of SSE enterprises) and the rest of the province, which is primarily rural or small towns. While Chantier has a role of promoting and acting on behalf of the social economy at the provincial level, the regional networks focus more on consultation and supporting local SSE enterprises, as well as representing regional interests at the provincial level. The SSE ecosystem is also organized into sectoral networks that represent the areas of activity in which SSE enterprises work, such as housing, work integration, day-care, and agriculture.

The Quebec SSE ecosystem prides itself on a culture of dialogue and knowledge sharing. This is evident in the creation of TIESS

(Innovative territories in social and solidarity economy) in 2013, which is a network that links together SSE enterprises, public policy-makers and academic researchers interested in the social economy and social innovation. Many of the networks and financial intermediaries discussed above (Chantier, TIESS, RISQ, Fiducie, and others) base their offices in the Maison de l'économie sociale in Montreal, allowing for ease of collaboration.

The fact that there is such a large degree of structure and institutionalization to the SSE networks in Quebec could suggest a degree of overlap in functions and representation. For example, many (if not most) of the members of TIESS are also members of the Chantier, and most SSE enterprises are members of their regional SSE network (*pôle*), the sectoral network that represents their interests, and Chantier, if not other networks as well. However, the individuals interviewed for this project universally expressed a belief that this network of networks represents a strength of the ecosystem, due in part to the fact that there is a general understanding of the differentiated roles of different members/ networks. This also allows for information to transfer quickly and for consultation and dialogue to be effective. Roles and responsibilities are fairly clearly defined between the various actors in an effort to avoid duplication, although as some stakeholders suggested, like in any networks, there are occasionally disagreements if one actor feels their territory is being infringed upon.

Beyond Chantier's important role as a representative of SSE enterprises' interests, its centrality in driving the agenda regarding the social economy in Quebec cannot be underestimated. From its very origins as the

working group with the Government of Quebec to determine the potential for development of the social economy to its mention in 2013 as a 'primary interlocutor' of the government regarding any issues related to the social economy, Chantier is recognized by most actors as *the* voice of the SSE ecosystem. This can be seen as both a strength and a weakness of the ecosystem. On the one hand, Chantier has solidified its role vis-à-vis the government in a way that is unlikely to be challenged. On the other hand, however, Chantier has historically depended on the strong and charismatic leadership of individuals such as Nancy Neamtan, Patrick Duguay and Margie Mendell, which could have detrimental consequences in regard to the long-term resilience and innovativeness of the ecosystem. After a certain period of repositioning following Ms Neamtan's departure as CEO of the Chantier, the organisation has been able to reposition itself as a key socioeconomic actor in Quebec under the leadership of Béatrice Alain. As a long time member of the Chantier team, Ms Alain's work is in continuity with the approach that allowed the Chantier to gain the recognition it benefits from today.

1.3.2. Government

While Canada is a federal system with power vested in the national and provincial governments, it is primarily the provincial government that plays an important role in the Quebec SSE ecosystem, as discussed in relation to the historical development of the SSE. The government of Quebec produces policy that recognizes and supports the contribution of SSE enterprises to the economy, the creation of jobs and the delivery of social programs, and the provincial Ministry of Economy and Innovation has created a Collective Entrepreneurship

directorate dedicated to this purpose. At the more local level, different municipalities play varying roles in their local ecosystems. The City of Montreal, for instance, is active in supporting local intermediary networks and social innovation initiatives, but the primary actors at this level are intermediary networks (the regional poles) and organisations such as PME Montreal, which offers support and training to both private sector business and social economy enterprises. Likewise, the City of Gatineau adopted a ground-breaking social economy policy in 2020.

The federal government has, at various points since the late 1990s, demonstrated an interest in the social economy. This was notably the case in 2004 when the federal government invested \$100 million towards social finance initiatives, which facilitated the creation of the Fiducie de l'économie sociale (discussed in more detail in section 2). This investment was intended to be rolled out across the country, but went no further than Quebec when Stephen Harper took office as prime minister and cancelled the initiative. However, Prime Minister Justin Trudeau has expressed more willingness to engage with the notion of the social economy, reflected in the announcement of a new Social Finance fund in November 2018.

1.3.3. Types of enterprises and sectors of activity

The Quebec social and solidarity ecosystem is fairly strictly defined according to the definition adopted in the late 1990s with the creation of the Chantier, as consisting of 'collective enterprises' that use the sale of goods or services to respond to needs or aspirations of their members and/or the community more broadly. More specifically, these enterprises

must produce goods and/or services, have a non-profit constraint or distribution of profits limited to members, be independent of the state, and be governed democratically (Bouchard et al., 2011). From a legal framework perspective, this means that the social economy consists of mutuals, cooperatives and non-profit organisations – but solely those non-profits who aim for business viability, which therefore excludes the community organisations who philosophically reject participating in market activities.

Of the 11,200 such enterprises in Quebec, 2,400 are cooperatives, 350 are mutuals and financial cooperatives, and 8,400 are constituted as non-profit organisations. Most SSE businesses in Quebec are relatively small – 65% have fewer than 10 employees and 64% have revenues under \$500,000 (Institut de la statistique du Québec, 2019). Enterprises operate in a wide range of fields. The greatest percentage operate in the fields of training, childcare and social assistance (23%), followed by housing (14%), arts, culture and media (10%), and leisure/tourism (10%). As the concept of social economy and available tools and support have increased over the last 20 years, the range of sectors has diversified. In the rural areas of the province, there is a higher proportion of traditional cooperatives (particularly in agriculture and forestry), while the city of Montreal boasts a wide range of SSE enterprises and projects in the fields of social innovation and new technologies.

1.3.4. Financial intermediaries

The process of co-constructing policy regarding the social economy in the late 1990s illuminated the fact that social economy enterprises often

struggle to find financing options from traditional institutions that they were eligible for or that could meet their specific business needs. The creation of financial intermediaries to develop financial products specifically targeted at SSE enterprises took place alongside the process of institutionalizing social economy networks in the late 1990s. RISQ (*Réseau d'investissement sociale du Québec*, or Social Investment Network of Quebec) was created by Chantier as the first of these in 1997, and was capitalized by the Quebec government and private contributions. RISQ offers financing options primarily focused on the start-up and early stages of business development.

The Fiducie du Chantier de l'économie sociale was established in 2007 to further diversify the range of financing options available to social economy enterprises, with the introduction of innovative 'patient capital', allowing SSE enterprises to have access to finance that allowed them to grow longer term. The Fiducie acts as an intermediary between investors and social economy enterprises and is able to pool the risk of investing in SSE enterprises, thereby reducing the cost of financing for them. The Fiducie will be discussed in greater detail in section 2.

In addition to these, the ecosystem also includes labour solidarity funds – affordable retirement savings options for Quebecers that invest in Quebec businesses, support training of workers and aim to both stimulate the economy and support worker solidarity². The Fonds de Solidarité FTQ was created in 1983, and is the largest development capital network in the province with 15.6 billion in net assets. A second labour solidarity fund, Fondation, was created

² See also: https://www.ilo.org/global/publications/world-of-work-magazine/articles/WCMS_081343/lang-en/index.htm; https://www.ilo.org/global/about-the-ilo/mission-and-objectives/features/WCMS_075614/lang-en/index.htm.



in 1996 and identified the social economy as one of its priorities. Other social finance institutions include the Caisse d'économie solidaire Desjardins which has been providing loan capital to social economy enterprises since 1971; MicroEntreprendre (a network of microcredit organisations originally called the Réseau québécois du crédit communautaire); and Filaction, a development fund financing both social economy enterprises and other private small businesses.

Finally, CAP Finance is a network of responsible/ social financial institutions (including all of the above organisations) that was formed in 2009 in order to develop and promote solidarity finance in Quebec as an alternative vision of economic development, develop and share expertise amongst its members and ensure a degree of consistency in terms of measurement and evaluation in the sector. CAP Finance also

periodically publishes the *Portrait de la finance responsable au Québec* (Profile of responsible finance in Quebec) report, which presents statistics and an analysis of the socially responsible financial market in the province. This three to four yearly publication is the key reference for the sector.

1.4. The SSE and policy framework

In terms of legal status, SSE enterprises must be incorporated as either non-profit organisations (with a prohibition on distributing profits to owners or members), or cooperatives. NPO status (*organisation à but non lucratif*) exempts organisations from income tax. For cooperatives, there are four different categories: consumer co-ops, producer co-ops, work co-ops and solidarity co-ops. Solidarity co-ops are cooperatives the include at least two groups

of members – users (i.e. consumers), workers, and/or ‘supporting members’, meaning any “person or partnership that has an economic, social or cultural interest in the pursuit of the objects of the cooperative” (C-67.2 - Loi sur les coopératives). This type of multi-membership cooperative, introduced into Quebec law in 1997, was the first of its kind in North America. One of the benefits of non-profit or cooperative status is that SSE enterprises are then eligible to apply for investment from the Fiducie du Chantier, which will be discussed in further detail in section 2.3.

The Government of Quebec has established a number of robust policies that 1) define the social economy and signal the government’s support in principle for its development and growth, 2) contribute to the creation of innovative financial mechanisms and 3) develop an action plan to produce concrete programs to support these ends. The Collective Entrepreneurship Government Action Plan (2008) initially increased the recognition of the sector and embedded the process of co-construction of public policy, paving the way for the 2013 Social Economy Act. This was passed in order to formalize the legislative framework that defines social economy enterprises and the role of the provincial government in continuing to support and value the contribution of the SSE to the economic development of the province. This Act includes a provision that ministers must take account of the potential role and contribution of SSE enterprises when developing or modifying government programs. This provision also stipulates that ministers should, when possible, “promote the social economy initiatives carried out in Québec.”

This Act was followed by an initial government action plan on supporting and developing the

social economy for 2015-2020 which prioritized six key objectives: 1) finding ways to equip SSE enterprises for success with capacity-building, specialist support and the development of tailored financial tools; 2) improving access to markets; 3) promoting the work of SSE enterprises in tackling the issues related to an aging population; 4) encouraging work integration activities of SSE enterprises; 5) supporting collective enterprise as a solution of the transfer of business ownership, particularly as a way to keep jobs and businesses supporting local economies; and 6) contributing to the development of SSE enterprises across the province.

This action plan was evaluated by the Ministry of the Economy and Innovation in March 2019. The evaluation found the achievement of the six key objectives to be progressing as planned, with implementation generating investments of \$543 million, which far exceeds the goal of \$500 million. In addition, the evaluation estimates that the action plan contributed to the creation of \$310 million for the Quebec economy through the businesses it supported. One concern raised by the evaluation report was the potential overlap of available investment funds (e.g. RISQ, Fiducie and the Program Promoting the Capitalization of Social Economy Enterprises (CAES) managed by Investissement Québec), which was an area highlighted to be addressed for the future. However, the target of creating/maintaining 30,000 jobs was found to be overly ambitious, as only 16,051 jobs were created during the period during which the evaluation took place. Despite this setback, overall the action plan was found to have effectively met the needs of the social economy. For the future, the evaluation recommended taking measures to ensure that investment funds are complementary, and potentially reconsidering

the measures from the original plan that have not achieved the desired impacts/results.

In November 2020, the Government of Quebec released a new action plan for 2020-2025 (Gouvernement du Québec, 2020) which was updated with three new strategic objectives: 1) supporting SSE businesses to respond to the needs of individuals and communities, 2) innovating and investing by building on the strengths of the SSE, and 3) highlighting and celebrating the value of collective entrepreneurship as a means of benefiting society. More specifically, these objectives are supported by a raft of 20 measures, including initiatives to support employee collective takeover of private businesses, support and technical assistance for SSE enterprises and various network organisations, and funding to enhance innovation and new investment. In total, the action plan anticipates outcomes of 3,500 business support and financing activities

and \$520 million of investments (which is an increase from the original action plan's aim of \$500 million, but lower than the \$543 million that was generated in the first five years). In order to support these interventions, the provincial government committed to investing \$137 million from 2020 to 2025 in the social economy, with significant funds allocated to Investissement Québec (\$14 million to extend the Social Economy Enterprise Capitalization Program), Fiducie (\$10.76 million to extend interest leave and invest the recapitalization amount of 2019), RISQ (\$11.5 million to support the start-up of new initiatives and the development/transformation of existing enterprises), and experimentations with crowd funding. Although this action plan was released in November 2020, it did not include any specific measures relating to mitigating the Covid-19 crisis.



▶ 2. Financial mechanisms
in Quebec

2.1. Main financial mechanisms for the social economy in Quebec

The social and solidarity ecosystem in Quebec has developed to such an extent thanks to the concerted efforts of the government and members of the ecosystem to co-construct policies and develop financial mechanisms to support SSE enterprises at their various stages of growth and development. Unlike in some countries, SSE enterprises in Quebec have many financing options beyond government grants and subsidies because financial institutions and the government have taken a collaborative, bottom-up approach to create financial intermediaries and ensure that the supply of financial mechanisms matches demand and supports the development of independent and sustainable businesses.

2.1.1. Specific needs of the social economy

Prior to the Social Economy Working Group in 1996, SSE enterprises in Quebec were unable to access many financial products that were suited to their particular structures and needs. The three key particularities of the SSE identified at this stage were 1) the need to take social mission into account, 2) the difficulty in accessing capital for businesses that are collectively owned, and 3) the need for longer term investment.

First, SSE enterprises require financial products that are able to evaluate not only their financial viability but also consider their triple bottom line of economic, social and environmental aims. Traditional lenders generally perceived lending to SSE organisations to be higher risk and were reticent about engaging in investing in the sector because of their inability to analyse social mission in their calculations, which limited SSE organisations' access to loans at an often very

high interest rate. Second, SSE enterprises, which are constituted as non-profit organisations and cooperatives and are therefore collectively owned, are therefore unable to sell shares. This creates a difficult legal grey zone in regard to equity. The need was thus established for longer-term investment that would enable SSE enterprises to better plan for long-term growth, invest in real estate and break out of a cycle of debt. Having established these baseline needs at the end of the 1990s, multiple actors worked together to create financial products that could address these needs, which are discussed in greater detail in section 2.2.

More recently in 2016, a survey was undertaken of social and solidarity economy actors to determine the main remaining barriers to the growth of socially responsible investment in Canada, and the responses varied in relation to actors in the realm of solidarity finance and those in development capital. For actors of solidarity finance, the main obstacle was found to be the lack of available information and awareness of the public, while development capital actors suggested that a lack of opportunity for high quality investment was a greater issue (Dostie, 2017).

2.1.2. Overview of main financial mechanisms

Over the course of the last 20 years, numerous financial innovations have been developed in the Quebec SSE ecosystem to meet the particular needs of non-profits and cooperatives as well as to adapt to the changing realities of the marketplace and the sector. The social finance ecosystem has developed through a process of co-construction of public policy with SSE actors and government in order to produce the necessary legal and policy framework to enable the development of a range of products

particularly suited for the SSE. This process of dialogue and collaboration around policy has been a hallmark of the Quebec approach to supporting the social economy. As discussed in the previous section, several working groups towards the end of the 1990s were tasked with identifying the need of SSE enterprises and through this process financial instruments were developed to address these needs.

An important distinction to make in understanding the Quebec social finance ecosystem is that in French (in Quebec), actors distinguish between two different types of investment – *placement*, which refers to investment in the financial market, whereas *investissement* refers to direct investment into businesses.

In terms of social investment (*investissement*) in Quebec, this is discussed in relation to two areas – *solidarity finance*, meaning the financial institutions that only invest in non-profit organisations and cooperatives; and *development capital*, where an investment is based on both social and economic concerns, but is not limited to the organisations that comprise the social economy. Making the distinction between these two types of social investment can be understood as it relates to the long history of cooperatives and mutuals

in Quebec, but as the social economy has developed, the lines between solidarity finance and development capital have become blurred, especially as more investors are becoming interested in triple bottom line objectives (financial, social and environmental). Over the past 20 years, actors in development capital have become increasingly involved in investing in the social economy because collective enterprises have proven to perform well and provide impressive returns. In the sectors of local and regional development, financing of the SSE and environment, both development capital and solidarity finance actors are often very active, while there is a higher amount of development capital investment in the employment sector, and considerably more solidarity finance invested in community development.

Development capital typically involves venture capital instruments, such as finance without a guarantee (e.g. in the form of equity or quasi-equity, traditional loans or share capital). These mechanisms aim to support the creation of jobs, as well as to support local and regional economic (and social) development. Solidarity finance, on the other hand, aims to respond to the longer term needs of collective enterprises and comprises loans without guarantee, with patient capital (or quasi-equity).

► TAB. 1 Social investment in Quebec (millions \$)

Type of investment	2006	2010	2013	2016	2019
Development capital	3,907	12,191	10,469	13,236	35,553
Solidarity finance	387	474	617	812	1,189

Source: Portrait 2020 de la Finance Responsable

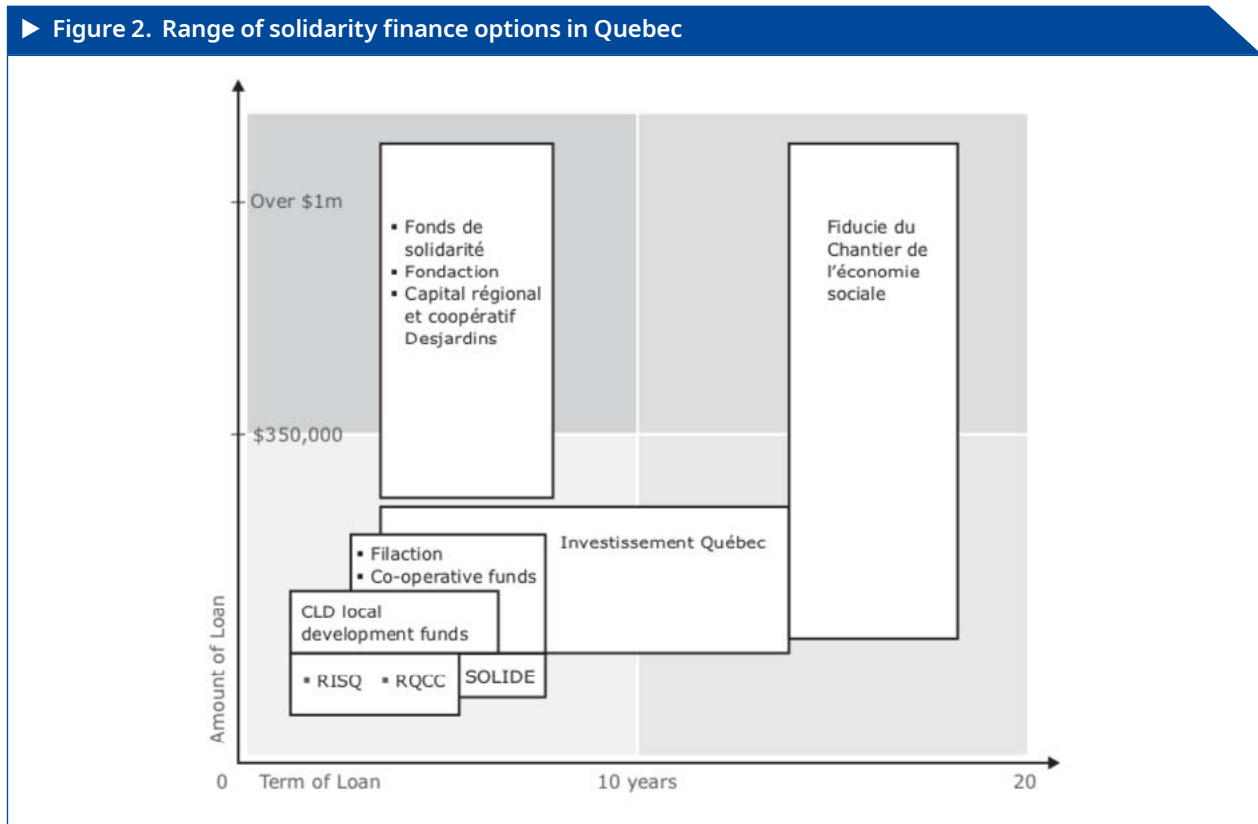
2.1.3. Primary financial mechanisms

One of the strengths of the Quebec social finance ecosystems is the range of options now available to social economy enterprises that cover the spectrum of short to long term loans, small loans to large (over \$1 million), and financing for every stage of development from ideation and start-up to scaling up/ expansion. The range and scale of solidarity finance options is displayed in Figure 2.

2.1.4. Labour solidarity funds

Labour solidarity funds have existed for many years in Quebec. In 1983, the Quebec Federation of Labour (*Fédération des travailleurs et travailleuses du Québec* or FTQ) established

the Fonds de Solidarité FTQ, a union-controlled investment fund, and similarly, the CSN (*Confédération des syndicats nationaux*) union established Fondation CSN in 1996. The Fonds de Solidarité FTQ and Fondation were initially intended to create competitive returns on investment for workers' retirement income while creating and maintaining local jobs. These funds aim to pursue social and environmentally progressive investments, but did not initially directly invest money in social economy enterprises per se, so they therefore tend to be classified as development capital rather than solidarity finance. Many solidarity funds have however begun to invest in the social economy because of the stable returns and beneficial social outcome associated with the sector.



Source: Mendell, 2009

Fondaction CSN and Fonds de Solidarité FTQ also invested \$8 million and \$12 million respectively in the creation of the Fiducie (discussed in section 2.3), and both have also created local and regional development funds around the province. Fondaction has supported the development of more than 1,150 SMEs, which include both private enterprises that practice participatory management as well as collective enterprises of the social economy. In terms of solidarity finance options, Fondaction provides loans or share capital of between \$500,000 and \$10 million, in the form of patient capital with repayment beginning on a term of between five to eight years. In November 2020, Fondaction became the first institutional investor to create a dedicated impact investing team. The proportion of Fondaction's investments that focus on the fight against climate change, sustainable food production and sustainable communities was already 40%. The impact investment team focuses on financing and mentoring SMEs that create positive and measurable social and environmental impact.

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

Following the Quebec Summit on the Economy and Employment in 1996 that led to the establishment of the *Chantier de l'économie sociale*, the Québec Social Investment Network (RISQ) was created in 1997 by the Chantier and private partners as the first dedicated structure to provide loans and technical support to emerging social economy enterprises and projects. RISQ was initially capitalized with \$10.5 million (\$5 million from the Quebec provincial government which was matched by private contributions). The provincial government also injected a further \$5 million into RISQ in 2010 in order enable

the development of a new financial product that could support the pre-start-up phase of business development; and again in 2016, the province recapitalized RISQ in 2016 with \$10 million (\$5 million in subsidies and \$5 million by means of an interest-free loan). In 2021, the Quebec government announced an additional contribution of \$11.5 million to RISQ to support the contribution of social economy enterprises to the post-COVID recovery.

RISQ offers technical support and assistance to social economy enterprises and provides non-guaranteed loans of up to \$50,000 to finance developing projects. RISQ's mission is to "contribute, with our expertise, to the development of social economy enterprises in Québec by providing accessible financial tools adapted to their specific characteristics and phases of development" (RISQ website, <http://fonds-risq.qc.ca/a-propos/mission/>). Since 1997, RISQ has invested \$28 million into 841 SSE enterprises, resulting in the creation or maintenance of an estimated 10,000 jobs (Inclusive Innovation, 2018). RISQ has also managed the rollout of the Canadian Cooperative Investment Fund (CCIF) since October 2020, a Canadian-wide initiative which offers flexible loans from \$50,000 to \$1.25 million. The CCIF was launched in 2018 and its investors include credit unions, cooperative associations and other institutions. RISQ is responsible for analysing applications to this fund that come from cooperative projects in Quebec.

2.1.6. Investissement Québec

The Government of Quebec, via Investissement Québec (a state-owned public corporation), offers loans to both private businesses as well as to non-profits and cooperatives. The latter are served by the *Financière du Québec*,

which was formed in 2001 to offer loans and loan guarantees to the social economy. This program – *Capitalisation des entreprises de l'économie sociale* (CAES) – offers loans with competitive interest rates to cover up to 100% of project costs, from a minimum of \$50,000. Loans are offered for short or long-term financing (up to 25 years), but principal repayment is required to begin within 24 months. Investissement Québec's primary purpose is to provide quasi-equity injections to support start-up funding, expansion or consolidation efforts and to complement products available from other lenders, particularly as a tool for credit enhancement in order to reduce the risk to other investors.

Investissement Québec also has a major program to support the collective buyout of private businesses. The Cooperative Buyout Support Program has a budget of \$50 million to support business succession to collective ownership. The program offers between \$100,000 and \$2 million loans at a fixed interest rate, repayable over a maximum of 15 years, with the intention of minimizing the financial burden on investors and providing a complement to other investments of cooperative buyers. Importantly, Investissement Québec also acts as a partner with other SSE financial players.

2.1.7. Federal Social Finance Fund

In November 2018, the Government of Canada announced the creation of a Social Finance Fund with the aim of facilitating access to new financing options to support social innovation and positive social change across the country. The Government committed to making up to \$755 million available over the next 10 years to “charitable, non-profit and social purpose organisations” in order to better enable them

to participate in the social finance market. The first portion of this investment (\$200 million) was announced in the federal budget for 2021-22. This policy was the result of a co-creation effort of a Social Innovation and Social Finance Strategy Steering Group of government officers and experts from the non-profit sector and social economy across the country. In addition to the recommendation to establish a social finance fund, the steering group suggested the need for policies to mainstream support for the social economy across Canada, to raise awareness, and to address the legal and regulatory impediments that prohibit SSE enterprises from thriving. Many of the report's recommendations reflect the degree to which Quebec's social economy is considerably better developed than the rest of Canada.

2.1.8. Other financial mechanisms

Local development funds

Quebec has a range of local development organisations that are able to provide funding and support to social economy enterprises. Between their establishment in 1998 and abolishment in 2015, local development centres (or CLDs in French) received public funds that they used to provide support for local entrepreneurs, with some projects that focused particularly on SSE enterprises. Although CLDs no longer exist, many municipalities have decided to absorb their responsibilities while some have created a new non-profit organisation to do the same. The importance of CLDs was in promoting the importance of the role of the SSE, in identifying the social investment needs of the sector, facilitating local collaborations, and demonstrating the importance of local intermediaries in taking on this role. CLDs also employed local development agents whose role was to support entrepreneurs to write business

plans and become investment ready. Many CLDs employed multiple such agents, with one specifically dedicated to the social economy. The abolishment of this function has meant the loss of specific skills and expertise necessary to support the development of social economy projects in some areas.

In Montreal, PME MTL was established in 2015 following the dissolutions of the CLDs, as a network of six service hubs that offer professional services for both small private sector businesses and social economy enterprises. PME MTL was capitalized with \$7.8 million from the provincial government and the City of Montreal, and in 2018, a specific social economy fund was additionally created with a \$9.2 million investment from the City of Montreal's Action Plan on Social Innovation. This social economy development fund (*Fonds de développement de l'économie sociale*) offers subsidies of between \$5,000 and \$50,000 to support the emergence of innovative social economy projects in Montreal. Other funds have also been announced to support organisations to recover from Covid-19, which will be discussed in section 4.

Community bonds and micro-credit

Community bonds (*obligations communautaires*) are bonds that allow non-profit organisations to solicit donations/loans from citizen investors/members of the community. Unlike most investments, these are not regulated by the *Autorité des marchés financiers*, and there are therefore limited legal and administrative barriers to non-profit organisations in accessing finance from interested community members in this way. Like normal bonds, community

bonds are issued with a nominal value, a date of maturity and an interest rate. In 2017, TIESS supported a pilot project of community bonds for five non-profits in Montreal (see section 2.4 on Bâtiment 7). Following this pilot, TIESS produced a guide on how to issue community bonds and more and more collective enterprises are using this as a development tool. Another similar tool are types of crowd funding, where projects/ organisations solicit donations from a large number of community members and other interested parties via online platforms. Both community bonds and crowd funding are growing in popularity but are still quite nascent in Quebec.

Micro-credit or community-based funds are also available in the province to provide small loans to civil society organisations, an approach to social finance that Quebec has borrowed from other international experiences. MicroEntreprendre (formerly the Québec Network of Community Credit Funds or RQCC) offers loans of up to a maximum of \$20,000 at the 'first step' of solidarity financing for Quebecois social economy organisations. These microcredit products are designed to support social inclusion and give access to finance to potential entrepreneurs who are unable to access traditional banking institutions. Community-based funds are also intended to act as leverage for projects to receive further funding from other sources, and they often work in collaboration with the provincial government, municipalities and local development agencies to ensure that emerging initiatives are in line with local strategies for socio-economic development. They also work collaboratively with other actors, such as RISQ, in structuring finance and thus leveraging additional capital.

► Solidarity finance funds in Quebec (all in millions \$)				
	Assets 2016	Investments 2016	Assets 2019	Investments 2019
Caisse d'économie solidaire	830.9	517.8	1097	659
Investissement Québec and Fonds du développement économique (FDE)			380.5	380.5
Fiducie du Chantier de l'économie sociale	52.8	31.5	58	58
Filaction	50	40	36	18
Réseau d'investissement social du Québec (RISQ)	15.2	8.9	18	9
Réseau MicroEntreprendre	7.8	2.17	12	8
Community bonds (TIESS)	-	0.17	-	1.5
Produit financier IQ: Financement de l'entrepreneuriat collectif (Government of Québec-Investissement Québec)	-	19.9		

Source: Portrait 2016 de la finance responsable and Portrait 2020 de la finance responsable

Social impact investing

One type of social investing that is conspicuously absent from the Quebec ecosystem is impact investing, a type of socially responsible investment where investors seek out more 'ethical' investment opportunities where the impact on the environment and/or society can be measured and demonstrated. As part of this SRI market, social impact bonds – which are becoming increasingly popular in the rest of Canada – leverage private investment to fund social service providers, and financial returns are paid to investors upon achievement of agreed social and financial outcomes. This approach to social finance is unpopular in Quebec. Impact investing is seen as directly conflicting with the widely agreed values of the social economy and social finance ecosystem, which is based on solidarity between members, democratic operations, and a broader goal of democratizing the economy and access to capital. The prevailing approach of the Fiducie, for example, is to invest directly in social

economy enterprises, placing particular value on the aspect of collective ownership of non-profits and cooperatives, while the more indirect SRI investment approach is to target particular projects or initiatives. Because the approach of social impact investing is more popular at the federal level, it remains to be seen which of these two approaches will prevail with the announcement of the federal government's Social Finance Fund. In preparation for the deployment of the federal social finance initiative, CAP Finance has been collaborating with both the Canadian and the Quebec government public administration to assure that the federal investment in social finance in Quebec will respect the existing ecosystem and build on its strengths.

2.2. Case study: La Fiducie du Chantier de l'économie sociale

Amongst the most important innovations in the financing of the social economy in Quebec was

the establishment of the Fiducie du Chantier de l'économie sociale in 2007 (Chantier de l'économie sociale Trust). For the first 10 years after the establishment of the Chantier in 1997, SSE enterprises had argued that the traditional financial products available to them (loans and grants) were not tailored to their particular needs, and that they struggled to attract long-term capital to their businesses. The Fiducie was established in order to act as an intermediary between the financial market and social economy businesses, thereby mutualizing the risk associated with investing in the SSE whilst simultaneously creating financial products that are better adapted to collective businesses with a social mission.

The Fiducie was initially created through the injection of \$22.8 million from the Federal Government in the context of its 2004 Social Economy Initiative. The fund had initially been part of a larger Canada-wide program to support the social economy, but due to political changes, only Quebec was successful in bringing it to fruition. The federal contribution to the fund was also reduced to \$22.8 million from an initial promise of \$30 million. Other investors contributed to the establishment of Fiducie including labour solidarity funds (e.g. the *Fédération des Travailleurs du Québec* solidarity fund and Fondaction), as well as Investissement Québec (the provincial government) in the form of a loan, bringing the total initial fund to \$52.8 million. The contribution from the federal government enabled the Chantier to offer first-loss protection to subsequent investors, and also symbolically offered the federal government's confidence that the initiative would generate stable financial returns.

2.2.1. Products

The Fiducie offers a range of financial products in order to support social economy enterprises at each stage of their development. The first and most important of these is "patient capital", referring to loans with a 15-year grace period/delay on repayment of capital. The Fiducie offers two types of loans: the first of these is Operations Patient Capital (of between \$50,000 and \$250,000), which is aimed at financing the costs associated with acquiring working capital and the purchase of equipment such as office supplies, machinery, computers, etc., as well as to market new products and services. These loans can be used to support start-up or business expansion and must not represent more than 35% of overall project costs. The second type is Real Estate Patient Capital, which are to finance the construction and renovation of buildings, and are for between \$50,000 and \$1.5 million (up to 32% of project cost). Both of these types of loans are non-guaranteed, with a fixed interest rate for the duration of the investment, and a possibility of beginning to repay capital before the term ends with no penalty.

2.2.2. Governance and approach to investment

The Fiducie is governed by a council and two committees: an Investment Committee (which is composed of members of the Fiducie and other solidarity finance stakeholders) and an Audit Committee (comprised of outside members). The Fiducie also works closely with RISQ to align their product offer and ensure consistency of approach. All requests for investment by the Fiducie are evaluated by an analyst from RISQ who makes a recommendation to the Fiducie's Investment Committee who then make a recommendation for final approval



of the investment by the Fiducie's board. The Fiducie's Audit Committee ensures that the organisation is operating in compliance with laws and regulations.

The Fiducie also maintains two branches of its approach to attracting investment and investing in enterprises. On the one side, Fiducie actively seeks out potential investors and works at developing a comprehensive infrastructure to ensure that it is able to provide an attractive investment offer. On the other, it takes advantage of the highly developed and integrated network of social economy actors to reach SSE enterprises and projects in need of investment. Finally, rather than establishing a network of regional offices, the Fiducie is centralized in Montreal in order to reduce running costs and prevent the duplication of already existing networks and local intermediaries. For instance, the Fiducie

does not advertise but instead relies on local development agencies and other partners within the ecosystem to promote the Fiducie's financial products.

2.2.3. Impact

Over the first 10 years following the Fiducie's establishment, it authorized the cumulative investment of over \$62 million in a total of 236 social economy projects (within 189 enterprises). These investments have resulted in the creation or maintenance of 3,863 jobs and a generation of over \$422 million (Fiducie Annual Report, 2017). Of the 212 active loans (in 168 businesses), 46% are in real estate capital, 33% in operations capital and 21% a combination of both. 63 of the current active loans are made to start-up business, while 105 have invested in business expansion. The Fiducie's average investment per business is about \$300,000.

In terms of sectors, the Fiducie invests in a large range of industries, with the most common being in collective real estate (21% of total investments), recreation and tourism (14%), arts and culture (12%) and personal services (10%). Regionally, a large percentage (44%) of investments target the Greater Montreal Area (which makes up 20% of the population of the province).

2.3. Experiences/ Examples of Fiducie's investments: Batiment 7

Batiment 7 is a non-profit community project in the Pointe-Saint-Charles neighbourhood of Montreal. The building, located on former railway grounds, is a warehouse of over 8,000 square metres that had been abandoned for many years before local residents began a long community organizing campaign to transfer the building to community ownership and transform it into a hub for much needed local services and activities. The campaign for community ownership took almost 15 years, but the community was eventually successful in convincing the owner (a property developer who had acquired the site from Canadian National Railway in 2005 for \$1) to not only transfer the building to the community for free, but the developer also agreed to decontaminate the site and donated \$1 million in seed funding for the project to get started. The overall budget of the project (renovation of the building and installation of a range of projects and services) is estimated at about \$4 million. Batiment 7 has sought financing via several different sources, including long-term loans, mortgages, community bonds and crowd funding.

2.3.1. Patient capital - Fiducie

The Fiducie invested \$150,000 of patient capital into Batiment 7 in 2017, as part of its Real Estate Patient Capital investments. These investments target SSE enterprises' need to finance building construction and/or renovation costs, for a 15-year loan term with no capital repayment obligation before the end of this term. The Fiducie's investment served to support the beginning of renovations of Batiment 7's building, in order to be able to create office/workspaces to rent to community groups and to create collaborative workshops for artists. The Fiducie's \$150,000 loan represented one of many investments in the project, and the 15-year term allows the project the much needed time to develop stability before beginning repayments.

2.3.2. Community bonds

As part of a pilot project of TIESS in 2017, Bâtiment 7 elicited \$50,000 in community bonds in order to contribute to the pre-start-up phase of the project. Financing via community bonds responded to an immediate need for short-term liquidity and allowed the organisation to test its feasibility ahead of a future, larger campaign. The bonds took a nominal value of \$1,000 with a rate of 2% interest paid off at maturity (5 years). Because of the 10 years that community activists had committed to organizing around the project, 100% of the bonds were easily sold within two months to a total of 20 citizens and one non-profit organisation.

2.3.3. Impact on local development

The first portions of Batiment 7 were opened in 2018. Currently, Batiment 7 houses a grocery store, microbrewery, recreation room, art studios and collaborative bike repair spaces. There are further plans to open a health centre, family services and food production hub in the other two thirds of the building that has not yet been renovated. Although much of the building was closed as a result of COVID-19, some initiatives remained open including the grocery store and take-out from the microbrewery. As of early 2021, plans continue

for the renovation of the remaining portions of the building which includes the creation of a nursery, as well as community garden projects in the outdoor areas. The amount of interest generated and citizen mobilization around the Batiment 7 project has demonstrated not only the need for local services in a fairly disadvantaged neighbourhood of Montreal, but also the potential for an ambitious community-managed social economy project to support new initiatives, local development and the creation of new jobs.



▶ 3. The SSE and COVID: Impacts and Outlook



3.1. The impact of COVID on SSE organisations in Quebec

During the first wave of COVID-19, the province of Quebec was the epicentre of the pandemic, accounting for 34% of the total cases in Canada and 49% of deaths by January 2021 (Public Health Agency of Canada), although Quebec's case numbers were comparatively lower than other provinces during the second and third waves. Particularly early in the pandemic, staff and residents of long-term care facilities were especially hard hit, with the majority of COVID related deaths in the province occurring amongst the population over age 80. Over the course of March 2020, the provincial government progressively shut all day cares, public schools, bars, restaurants and all but essential businesses in order to stem the spread of the virus. For the social economy, this therefore impacted the large percentage of the sector operating in social assistance, arts, leisure, and retail. According to a survey in June 2020, 50% of community organisations and social economy enterprises had lost some of their income since the beginning of the pandemic (Binhas, 2020).

After a summer with limited business re-openings (with new restrictions and requirements regarding social distancing, decreased capacity for bars and restaurants, and improved disinfecting and mask wearing), a second wave of the pandemic began in September 2020, forcing the government to again clamp down on higher risk businesses and activities. At this point, the government also introduced a regional alert and intervention system, designed to institute different degrees of restrictions between territories with lower levels of infection (primarily the sparsely populated northern areas of the province) and higher risk areas (with the City of Montreal a

particular hot spot for community transmission). As the second wave brought record high daily numbers of new infections, Premier François Legault instituted an extension of provincial lockdown restrictions after Christmas with the addition of an 8:00 pm curfew.

As a result of business closures, the economy of the province took a hit and many businesses were forced to lay off staff. The unemployment rate reached a high of 17% in April 2020; though this subsequently stabilized to around 7% by the end of 2020, this is still higher than the pre-pandemic average of about 5% (between November 2019 and February 2020) (Institut de la statistique du Québec, 2020). According to Statistique Quebec, in August 2020, almost one third of businesses in the province indicated that they were unsure if they would be able to continue operating at their current level of income and expenses. At an operational level, organisations have also had to adapt their working arrangements (moving to working from home when possible) and the way they deliver services (i.e. online when possible, or adhering to social distancing guidelines in person). For social economy organisations that provide services for people experiencing poverty, homelessness or health challenges, the move to online service delivery has unearthed particular challenges relating to the digital divide (McMullin, 2020).

3.2. The role of the SSE in post-COVID recovery

3.2.1. Measures to support SSE enterprises through COVID-19

Several streams of emergency financing have been made available to SSE enterprises to help

them through the pandemic, both from the government as well as private funders. These measures have come in the forms of new funding, increased flexibility in loan terms, and other non-financial support measures.

Government relief efforts

The Federal Government of Canada introduced several measures to help individuals and businesses through the pandemic which, while not targeting social economy enterprises specifically, have been made available to cooperatives and non-profit organisations. The Canada Emergency Business Account offers interest-free loans to small businesses and non-profits of up to \$60,000 to cover operating costs and support them through financial hardship. SSE organisations are eligible for the Canada Emergency Wage Subsidy, which covers up to 75% of an employer's wages and is available until June 2021.

Second, with the Emergency Community Support Fund, the Government of Canada invested \$350 million in grants via Centraide (United Way), The Red Cross and community foundations to support community organisations across the country. It also offered financial support to organisations that provide social and community services, including \$100 million for women's shelters and gender-based violence organisations, and \$1.18 million in projects to develop accessible technology programs for people with disabilities, and an Indigenous Community Support Fund (Canada's COVID-19 Economic Response Plan, February 2021).

At the provincial level, the Government of Quebec pledged \$15 million to support its 2020-2025 action plan, which bolsters the previously announced \$137 million over five years, in

order to support SSE organisations through the challenges of the pandemic. For direct COVID related business assistance, the Emergency Assistance to SMEs program offers loans of up to \$50,000 for working capital so that businesses can maintain, consolidate or relaunch and help compensate for a lack of liquidity.

Other measures

In March 2020, Desjardins Group announced that they would offer relief measures to support businesses through the challenges of the pandemic. These include tailored solutions such as loan refinancing, temporary changes to line of credit terms, and advice for accessing government support programs. Similarly, the Fonds de Solidarité announced a six-month payment deferral on loans (including principal and interest) as a temporary relief measure for organisations facing financial difficulties as a result of COVID-19, and Fondation announced in March 2020 that it would postpone loan payments for three months.

PME Montreal, which offers support and training to private businesses and SSE enterprises in Montreal, revised its eligibility criteria for their Fonds de développement de l'économie sociale, which offers subsidies of up to \$50,000. Previously, the Fonds had required a capital outlay of 20% but this was reduced to 10% to support businesses to consolidate and deal with the COVID-19 pandemic. Business advice is also offered by the City of Montreal (15 hours of free advice) and CSMO-ESAC for those companies impacted by the pandemic.

3.2.2. SSE role in COVID-19 recovery

In moving beyond the initial shocks of the COVID-19 pandemic in 2020 and into longer term recovery, there are several areas where

the social economy will be able to provide an important contribution. In particular: promoting collective business models as a means to support economic recovery, promoting the circular economy and environmental sustainability, supporting buy local initiatives and new online shopping platforms, and bolstering social services and the welfare state.

Quebec, and Canada more broadly, face immense challenges in recovering from the long-term impacts of the COVID-19 pandemic, in terms of recovery of both the economy as well as health and social welfare systems. In addition, voices in the social economy sector have called on leaders to rethink their approach to economic growth. Indeed, there seems to be a high level of support in the population of Quebec for a shift in the way that economic growth is approached. According to a poll taken in June 2020, 67% of Quebecers would like health, the environment and quality of life to be prioritized over economic growth as the province emerges from the COVID-19 crisis (Alain, 2020). Béatrice Alain, Director of the Chantier, argued in an op-ed in November 2020 that, “The social economy must be considered as a solution for a better economy recovery in Quebec – because it generates direct economic and social benefits in the communities where it is present; because it strongly contributes to local development; because it is resilient and better adapts to changing societal challenges; because it meets the immediate needs of consumers without compromising those of the future; because it is responsible and respectful of all elements of its environment and its community; [and] because its ultimate goal is not profit, but rather the wellbeing of communities” (Alain, 2020).

Each year, the Chantier promotes November as the “Month of the social economy” and in

November 2020, this initiative focused on five themes of sustainability, locality, prosperity, inclusion and participation. The purpose of this social economy month is to raise awareness promote the SSE and collective ownership as a viable economic model and level for social and environmental progress in the province. Normally, this month involves a series of meetings, events and seminars across the province, but due to the COVID-19 pandemic many of these were rescheduled or translated to webinars and other online events.

3.2.3. Providing essential services

While social economy organisations in Quebec provide a range of products and services in different sectors, a large percentage of these are frontline essential services, which were allowed to remain open during the strictest periods of lockdown. According to CSMO-ESAC, 43% of organisations surveyed provide services that have been declared essential (although some of the organisations responding to the survey are non-profit community organisations rather than social economy). Given the multiple, intersecting impacts of the COVID-19 pandemic on communities – in terms of health and social services, unemployment, increased mental health challenges, among many other things – social economy organisations are facing much greater needs in communities for their services.

For example, Bouffe-Action de Rosemont, an organisation focusing on food security in Montreal, has continued to provide a range of services throughout the pandemic, as communities face the dual challenges of poverty and lack of access to fresh and healthy food. These services include directly providing prepared meals for vulnerable individuals and



supporting other food security organisations to do the same by providing transport via their fleet of refrigerated trucks. Social economy organisations have been able to rapidly mobilize their resources to respond to these increased needs because of the large and well organized networks of the SSE ecosystem across Quebec.

3.2.4. Supporting collective takeover of SMEs

Another area where the social economy will be key is in the potential to transfer traditional private businesses to collective ownership by employees as a means to prevent closure and save jobs. The 2015-2020 Government Action Plan for the Social Economy listed collective take-over of businesses (either to become cooperatives or non-profit organisations) as a key priority, and planned to dedicate a budget of \$1 million to develop a support system to enable workers to take over ownership of their workplace and

to increase awareness and promote this as an option. Prior to the pandemic, evidence showed that the collective takeover of small businesses was increasing in Quebec – 125 such cases took place between 2009 and 2019, 55 of which took place between 2017 and 2019 (Gouvernement du Quebec, 2020).

In order to continue this acceleration, particularly in the post-COVID context, the 2020-2025 Social Economy Action Plan pledges to renew the support program for collective takeover (which primarily focuses on helping workers to assess the financial viability of their proposed takeover). In addition, the provincial government plans to relax terms associated with the support program (such as eligibility criteria) and is assessing the feasibility of the creation of a fund to further support collective takeover.

3.2.5. Offering employment for younger people and those furthest from the job market

Like during other previous recessions, the unemployment rate for younger people has increased more than the general population and has been slower to recover. Similarly, a scarcity of jobs further disadvantages the long-term unemployed and those furthest from the job market. Given that the social economy aims not only to benefit society but to be a source of quality employment, the recovery from COVID offers an opportunity for SSE organisations to attract these populations into their workforces. The social economy is potentially an attractive avenue for younger people seeking employment in particular – according to the Chantier, one third of the people employed in the Quebec social economy are 35 years old or younger, and 82% of younger people indicate that working for an organisation that seeks to improve society and operate democratically is an important value to them.

3.2.6. Buy local initiatives

One of the key concerns in recovery from the pandemic is in the devastation that was wrought on local commercial small businesses. With the continuing prevalence of working from home, the absence of tourists and the prolonged

closure of bars, restaurants and shops, town and city centres are likely to take a long time to recover. The social economy is being promoted as one element in the effort to reinvigorate these areas. Several initiatives have been put forward to encourage Quebecers to support small businesses, including initiatives aimed at encouraging consumers to support local shops and buy locally produced products. In April 2020, the Government of Quebec, supported by Desjardins, launched le Panier Bleu (“the Blue Basket”) – initially an online directory of local Quebecois businesses, which was augmented in October 2020 as an online marketplace for these businesses to be able to compete more effectively with large multinational companies such as Amazon. Another initiative started by two Quebecois entrepreneurs, Ma Zone Québec was launched in May 2020 as a similar online marketplace to promote Quebec small businesses and products. Ma Zone Québec also allows users to search for products from businesses in their particular region of the province. While neither of these initiatives are social economy enterprises themselves, they offer a clear opportunity for smaller SSE organisations to promote themselves, and also demonstrate how the SSE values of local economic scale, solidarity and community support influence the government and private sector businesses.



▶ 4. Conclusions and policy recommendations

4.1. Gaps in access to finance and support

Although Quebec has an effective and well-functioning social finance ecosystem, there are still some gaps and weaknesses. In addition, there are some sectors of activity where the current model of financing is less suited to the changing realities of increasingly innovative and complex projects, new technologies, and non-traditional business models.

First, social economy enterprises often struggle to attract funding for research and development, which disadvantages them in relation to private sector companies. In particular, private sector companies are able to benefit from reimbursable tax credits which allow them to leverage private capital and invest in research and development. SSE enterprises, however, are not eligible for these tax credits and find it difficult therefore to invest in R&D. The Government of Quebec has recognized this difficulty, and pledged to invest \$500,000 in supporting research and innovation in the social economy in its first Social Economy Action Plan (Gouvernement du Québec, 2015).

Creating investment opportunities is also a challenge for the social finance ecosystem because of a lack of awareness and familiarity by traditional investors with the particular mechanisms used in the social economy, such as patient capital and quasi-equity. Many investors continue to try to evaluate investment opportunities against traditional criteria, but because social economy enterprises are not driven solely by the drive for financial profit, and because they cannot be sold on the open market, these types of investments are often

less appealing to traditional fund managers. However, evidence in Quebec has proven over the last 20 years that social finance has a low loss rate and SSE enterprises have lower rates of failure than traditional private businesses, so actors continue to raise awareness of the potential of investing in this sector when investments are properly understood and classified.

One area for potential future development is in succession planning for business owners hoping to retire (or sell their company for other reasons) in order to support employees to take collective ownership of their business. Currently, Investissement Québec offers support for collective buyout of private businesses. However, actors have indicated that there is a need for more dedicated support or financial funds to facilitate the creation of these kinds of employee owned cooperatives, as workers would need not only financial support but training and skills development in order to become owners. There is scope for the development of a fund, modelled after similar programs in Spain and the US, which could buy companies from retiring owners and institute a process of progressively selling the company to staff over the course of several months/years, in order to allow staff the time to learn how to manage a cooperative and raise the necessary funds. Such a fund/program would also assist in assessing the health of the business to ensure that collective ownership would be viable. There have been some examples of private companies changing to collective ownership (for example, Cinema Beaubien in Montreal), but there is a need for this type of support and a dedicated fund to expand these opportunities.

4.2. Opportunities for future development and policy recommendations

4.2.1. *The need for better data and a mix of financial tools*

Several SSE stakeholders suggested that one of the primary challenges going forward in terms of finance is in finding new ways to invest in digital technologies, crypto currencies and collaborative platforms. These types of projects require larger amounts of capital at the start-up phase in order to develop their products or services, and the current financial tools are unsuited for being able to analyse these businesses. For example, one interviewee gave the example of a taxi company that has the technology to be able to compete with Uber, but has chosen the cooperative model. This model proves difficult to finance because the company has no hard assets and the technology is open source, and it is nearly impossible to compete with private companies which have access to much larger sums of venture capital. Collaborative platforms present particular challenges for social investors because the value of a platform is in the number of its users, rather than the value of the technology/software itself, which makes analysis and commercialization difficult. Furthermore, competitors may extract value from these metrics, while social economy organisations may not.

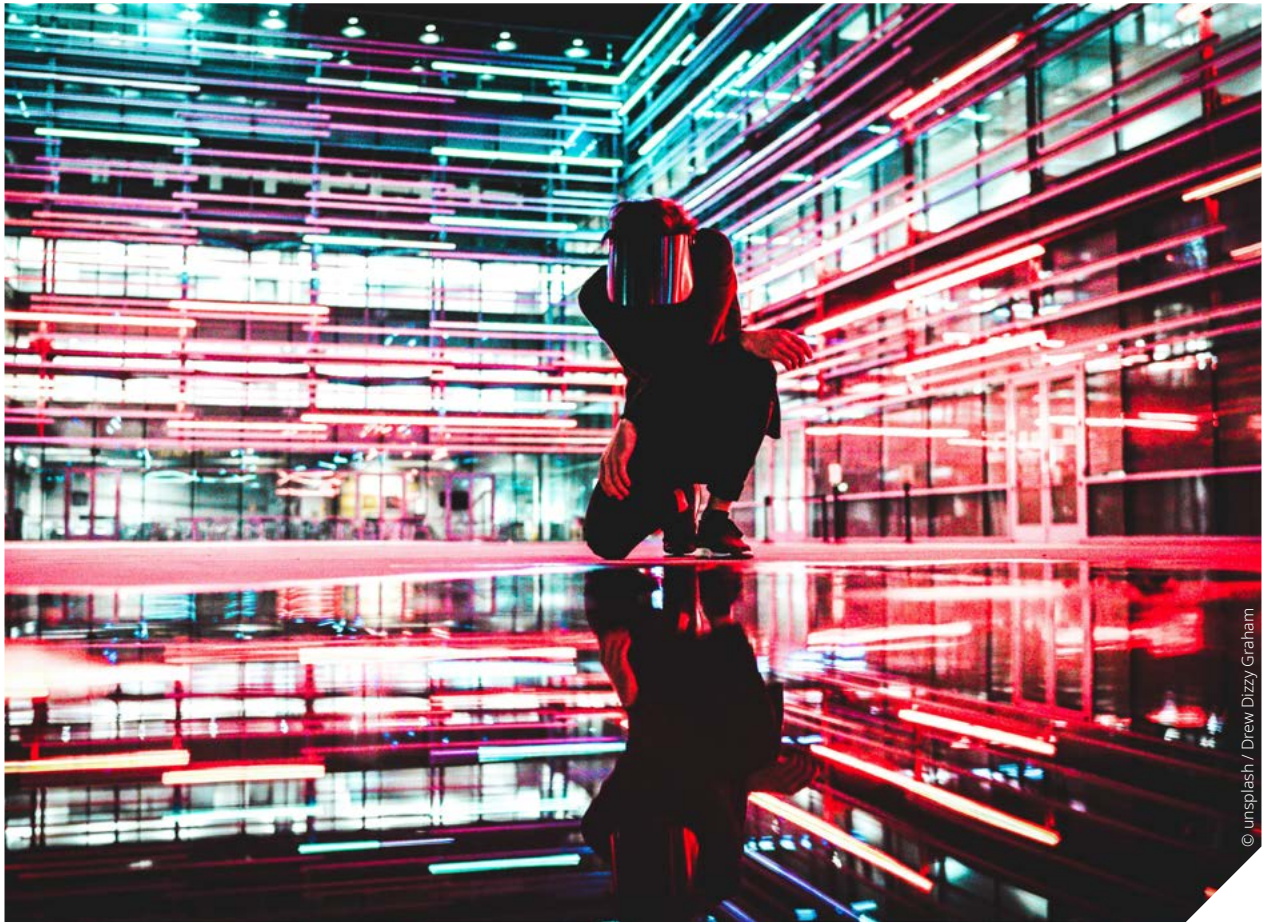
Investing in digital technologies and collaborative platforms will require a different approach to analysing business plans and risk that is more agile and quicker, because unlike traditional projects, digital innovations quickly become obsolete as technology moves on. The number of these types of projects is quickly increasing and several social finance actors suggested that

it was important to find a way to be ahead of the curve in offering targeted financial products to these actors, as there currently is something of a ‘chicken and egg’ situation where there are a limited number of social economy collaborative platform projects seeking funding because of the lack of products available, and a limited number of products available because of a perceived lack of potential projects.

Finding ways to invest in larger scale projects is also a challenge and will require more capital from the current financial intermediaries. One of the crucial aspects of the Quebec social economy is that the definition of a “social mission” can include the creation of quality, desirable local jobs, and the notion of a redefining of the model of economic development. This means that SSE enterprises operate in sectors far beyond the traditional “social”, so long as they operate as collective enterprises. As such, there is scope for SSE activities in sectors such as, for example, energy, large-scale manufacturing, or construction (a sector that has been plagued by corruption and mismanagement in Quebec), but there is a need for more expertise and options for financial tools to enable these types of projects. Other sectors such as renewable energy, manufacturing and community housing do feature players from the social and solidarity economy, but similarly require greater quantities of capital in order to scale up and develop their projects sufficiently quickly.

4.2.2. *Financial mechanisms need to be designed to cope with complexity*

Similarly, as the social economy has developed, the complexity and innovativeness of the projects that have emerged has increased. This presents challenges for local development agents who are tasked with supporting



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projects through the first stages of pre-startup, business plan writing and readiness to apply for investment, especially in regions where the functions of the local development centres (CLDs) were not absorbed by another body when the CLDs were abolished. Many areas now have gaps in terms of the support skills and competences needed to support new social economy projects. Even when local development agents are well versed in the particularities of the social economy, innovative emerging projects that cross traditional boundaries (for example, the conversion of an old church into a space with offices, co-working, housing and childcare facilities) can prove to be particularly challenging for accessing the necessary business planning support, legal advice and financial tools.

4.2.3. The future of the social economy in Quebec

While the impact of the Quebec social economy and its degree of institutionalization is often perceived as a strength, due to the strong networks and partnerships between actors, there are also some potential downsides. Institutionalizing the social economy can also mean limiting the spaces for innovation, and bureaucracy and regulations can limit the development of projects that span traditional boundaries. For example, while the establishment of a network of universally accessible non-profit and cooperative childcare centres across the province was no doubt an innovation, these centres are also highly regulated and structured which has prevented

a cross-fertilization with other projects (e.g. co-locating a childcare provider, day service for older people and other non-profits in the same centre). The strong leadership of the Chantier de l'économie sociale is seen by most actors as an advantage, but there remains a question of whether more dispersed and decentralized interest representation would foster or inhibit further innovations.

As the social economy develops and evolves based on changes in demographics, the economy and the profile of entrepreneurs interested in the social economy, the question of the place for social enterprises – or lack thereof – in relation to the social economy has become more important. Unlike other contexts (such as France) social enterprises, e.g. private businesses that express a social mission, but are not constituted as collective enterprises (non-profits or cooperatives) remain outside of the ecosystem of the social and solidarity economy. This has concrete implications for social finance and access to the financial products that target social economy businesses. Because the social economy is defined by law as cooperatives and non-profits that undertake market activities, organisations such as RISQ and Fiducie are easily able to determine who is and is not eligible for their financial tools. As social needs and the workforce evolve, so to have the solutions put forward by the social economy and the structures of SSE businesses. Several stakeholders suggested that they were

opposed to reconsidering the definition of social economy to include social enterprises with other legal forms. They felt that the collective ownership aspect and legal cementation of the social mission are crucial for maintaining the sector, but they also conceded that this may have to evolve in the future.

4.2.4. Policy recommendations for supporting the SSE in the post-COVID recovery

Many of the challenges facing the social economy prior to the pandemic will only be further complicated, accelerated or heightened. COVID has brought to the fore some of the weaknesses of the traditional capitalist economy and as discussed in Section 3.2, social economy enterprises offer a potential transition to a new model of economic development that focuses more on sustainability, and social and community benefit over short-term profits. While the 2020-2025 Government Action Plan on the Social Economy provides a strong framework of policies to support the sector, there is the potential for other more targeted policies that address the unique challenges of the recovery from the pandemic and opportunities to rebuild the economy in a more just and sustainable way. In particular, these policies could focus on supporting local economies and rebuilding town/city centres, promoting digital inclusion and digital literacy, and prioritizing environmentally sustainable practices across both the SSE sector and economy more broadly.

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