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Financing Social Economy Organizations

George Karaphillis, Seth Asimakos, and Stephen Moore

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ABOUT THE OCCASIONAL PAPERS

The Canadian Social Economy Research Partnerships (CSERP) will periodically publish research papers on the Social Economy. These papers will be by both scholars within the academy and by practitioners. CSERP hopes these publications will increase understanding of, and discussion about the Social Economy – past, present and future.

ABOUT THE CANADIAN SOCIAL ECONOMY RESEARCH PARTNERSHIPS

The Canadian Social Economy Research Partnerships (CSERP) is a collaborative effort of six regional research centres across Canada, their community partners, and the national facilitating research hub. CSERP reaches out to practitioners, to researchers and to civil society, and undertakes research as needed in order to understand and promote the Social Economy tradition within Canada, and as a subject of academic enquiry within universities.

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ABSTRACT

The paper examines the challenges facing Social Economy Organizations (SEOs) that pursue external financing, on the basis of a recent Atlantic Canada research study. It reviews results of a comprehensive survey of the financing needs of organizations in the Social Economy and a survey of lending and investing practices of financial institutions and government agencies in the sector.

The project includes a survey of both providers of financing and SEOs as users of financing. Past research has looked at programs available, the importance of the social economy to the Canadian economy, and theoretical attempts to prove that a financing gap exists. In our research, we have confirmed that there is a gap between demand and supply of finance in the social economy. The existence of this gap threatens the sustainability of the social economy and all levels of governments have a responsibility to enact policy that will help close the gap. The policy recommendations relating to legal structure, removing obstacles to start-ups, easing financing for expansion, and support capacity building are based on empirical analysis. The majority of these policies require legislative and tax changes; not grants.

FOREWORD

The Canadian Social Economy Research Partnerships is a research program funded by the Social Science and Humanities Research Council to strengthen knowledge, policy and action for a vibrant social economy in Canada. Six regional community university research partnerships across Canada, together with a national HUB co-led by the University of Victoria and the Canadian Community Economic Development Network, have been managing the research since 2006, involving over 300 community and university based researchers, including faculty, students, and practitioners.

This paper is one of five commissioned by the Canadian Social Economy Hub through a competitive proposal call to mobilize knowledge arising out of the research across all of its partners in key thematic areas: governance and movement building; social enterprise and social innovation; procurement; financing, and; new business models for sustainable development. These papers were funded by a Knowledge Mobilization Grant from the Social Science and Humanities Research Council to engage stakeholders and citizens in learning from ground breaking and informative research across the program. Each paper has involved significant public events to share findings and incorporate feedback. At a time when society, governments, citizens and stakeholders of all kinds are seeking new and innovative ways of addressing inter-related social, economic and environmental challenges we hope that these papers contribute to informed debate on how we can strengthen the social economy as a means to a more sustainable approach to our futures.

On behalf of the Board of the Canadian Social Economy Hub we thank our authors, contributors, participants in engagement events across the country, and representatives of the university and practitioner organizations who helped with the development and implementation of this knowledge mobilization initiative.

Rupert Downing, Co-director, Canadian Social Economy Hub

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Introduction

In the last few years Canadians are recognizing the great impact Social Economy organizations (SEOs) have in their communities. The Social Economy grew out of necessity in the 1980s as employment in primary industries collapsed (Shragge and Toye, 2006). Recently, SEOs took on a larger role in their communities as local economies were swept in the deep global recession. Canada is a mixed economy, with the private sector, the public sector, and the Social Economy co-existing and complementing each other. The Social Economy is an essential component of the Canadian system and it consists of innovative, resourceful, and entrepreneurial organizations that can efficiently deliver job creation, re-integration, skill development, affordable housing, accessible childcare and eldercare, health promotion, and sustainable development during both good times and bad times.

The Social Economy is often spoken of as filling a void; it addresses the needs and demands not met by traditional organizations in the public and private sector. It developed as a response to the social issues created by the mainstream economy and the limitations of the state to address inequalities through traditional public sector organizations. As economies have become more liberalized there have been increased instances of market failures, making society to consider SEOs and the support and stability they have been offering to their communities. Canada has a larger Social Economy than most OECD countries. Quarter, Mook, and Richmond (2003) report the Canadian Social Economy includes an estimated 175,000 to 200,000 non-profits, including 78,000 with a charitable status that generate revenues of more than $90 billion a year and employ 1.3 million people (not including volunteers)… [and] about 10,000 cooperatives that generate more than $37 billion a year and employ about 150,000 people". The Social Economy has the potential to lead to increased employment and economic growth in the future!

An overarching problem with the Social Economy is that it is severely undercapitalized and has limited access to external financing. SEOs are structurally handicapped in accessing financing. Access to capital is hard for SEOs because they do not have owners to guarantee loans, do not have assets to use as collateral, their legal structure may not allow sale of shares, their operations are not singularly focused on generating financial returns, and they do not have exit strategies. Major financial institutions are hesitant to lend to SEOs and there is not a large or diverse enough supply of social finance to help the Social Economy attain a level of self-sufficiency. Without access to capital, the Social Economy cannot invest, innovate and grow. In response to the financing gap, practitioners have turned to both the market and the state.

The major policy response came from the Government of Canada in 2004: the Government of Canada made several commitments to the Social Economy that amounted to tens of millions of dollars (Neamtam, 2005; PRI Project, 2005). However, Quebec was the only jurisdiction that had a well developed environment for the Social Economy and was able to take advantage of the multimillion dollar intervention, creating capital pools for SEOs among other offerings. Other provinces had not established an ecosystem for the Social Economy and were not able to access this program before it was terminated by the new government.

On an ongoing basis, state policy responses to the funding gap will arise more slowly than market responses and there is a debate within the sector that is trying to determine the proper role for the government in the Social Economy. Policy responses will inevitably differ from region to region as SEOs are rooted in their communities and each provincial government is operating in a specific context that is not necessarily similar to those experienced by other provinces. Any effective and successful discussion around policy will first have to acknowledge limitations, define roles and then develop policies that can be applied within the current socio political system. Without effective market and policy responses to the funding gap faced by the Social Economy, its very sustainability is threatened.

This paper will examine definitions of the Social Economy and SEOs, examine the scope of the Social Economy and the current state of external financing in the sector. The paper will also present results of a comprehensive research study of demand and supply of finance in the Social Economy of Atlantic Canada and analyze the funding gap. Finally, this paper will discuss policy recommendations that will help close the current financing gap and create a more sustainable Social Economy.

Defining the Social Economy

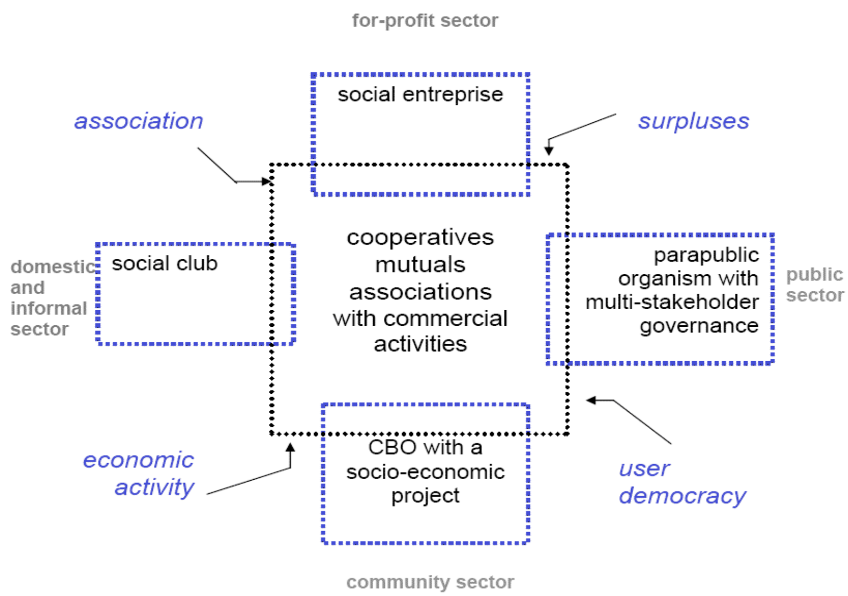
The Social Economy is a response to market failures (Mendell, 2008; Neamtam, 2005). Market failures include uneven development, widening income gaps, social exclusion and structural unemployment. The Social Economy is generally considered to occupy the space between the state and the market (Goldenberg, 2004; Mendell, 2008; Neamtam, 2005; PRI, 2005). Mendell argues that the Social Economy began as a utopian movement in theoretical thought and had regained importance and attracts renewed interest after market crashes. The organizations that compose the Social Economy are generally referred to as the Social Economy organizations (SEOs). There are many different forms of SEOs; for example, non-profits, not-for-profit, social enterprises, community interest companies and community development corporations are all different types of SEOs.

PRI (2005) argues that, "[SEOs] involve a diverse collection of stakeholders in decisions and reinvest annual profits to advance the mission of the organization, instead of redistributing them to owners/shareholders" (p. 2). The report adds that, "The missions of [SEOs] are based on a combination of common interest and public service objectives". Goldenberg (2004) argues that even with the varying definition of SEOs there are come commonalities among all organizations that are part of the Social Economy. Goldenberg (2004, p. 5-6) writes that SEOs:

- SEOs are non-governmental. This means that SEOs are "institutionally" separate from the government, but that they can still receive funding from the government.
- SEOs are autonomous. Autonomy is defined as being self-governing and having the ability to control their own activities.
- Profits or surpluses are not distributed to owners or members, but instead are reinvested back into the organization
- SEOs are voluntary. This does not mean that SEOs are staffed completely by volunteers. Instead, it means that SEOs rely on volunteers and that they have an easy time finding volunteers because their mission is community based.
- Finally, SEOs operate for the public or community's benefit.

Bouchard, Ferraton, and Michaud (2006) have combined criteria used in defining organizations in civil society and in defining organizations in the economy and have proposed a set of four qualification criteria for Social Economy Organizations: economic activity, limited distribution of surpluses to members, voluntary association with legal and decisional autonomy, and democratic governance. The multi-dimensional spectrum of organizational types is illustrated in Figure 1, with the 'hard core" of SEOs placed in the central rectangle. For the sake of our research we decided to adopt Bouchard's definition of the Social Economy.

Figure 1: Characteristics of Social Economy organizations (Bouchard, Ferraton, and Michaud, 2006).



If the Social Economy is going to attract attention from policymakers it will have to be large enough to justify the attention. The size of the Social Economy will also be important in determining appropriate policy measures to assist it in its journey towards financial sustainability. Goldenberg (2004) states that, based on his definition, "Almost a million Canadians (over 900,000) are employed in [the Social Economy]. This represents about 8 percent of all paid employees in Canada" (p. 7). He adds that, "Total payroll expenditures by [SEOs] are over $22 billion a year, representing a very significant contribution to our economy". PRI (2005) contends that the Social Economy accounts for 4.7 percent of real growth in GDP (p. 25). Neamtam (2005, p. 73) argues that the Social Economy in Quebec "…accounts for over 10,000 collective enterprises and community organizations that employ over 100,000 workers and have sales of over $4.3 billion." As mentioned above, Quarter, Mook, and Richmond (2003) estimate the Canadian Social Economy employs over 1.3 million people, not including volunteers. This is higher than the number employed in retail, mining, or oil and gas sectors. In our region, the Atlantic Provinces, the Social Economy is bigger than the fishery and forestry sectors.

External Finance

Small businesses rely on accumulated profits (retained earnings) to finance their expansion; some businesses seek external financing, as in taking a bank loan, leasing equipment, selling shares, etc. However, SEOs typically do not have significant operating profits and they rely almost exclusively on external finance for any planned expansion. They rely on grants and loans to finance their expansion.

There is a special type of finance available for the Social Economy sector, known as 'social finance'. Social finance is a combination of tools and strategies that allows capital to intentionally seek out a combination of economic, social or environmental return. A more nuanced definition comes from Quarter et al (2009). They state that, "Social finance is distinct from others forms of financing in that its intention is to support organizations in developing a social impact, as well as financial ones" (p. 248). Foundations and philanthropists are the main suppliers of social finance.

Hebb et al (2006) point out that on the supply-side there are several sources or forms of financing for SEOs: government grants, donations from individuals and organizations, tax credits, fees, loans and investments. Governments are important suppliers of external finance (Hebb et al, 2006; Quarter et al, 2009) to the sector and provincial governments supply more external finance than any other level of government (Hebb et al, 2006; Quarter et al, 2009). Neamtam (2005) argues that many of the sustainability issues facing the Social Economy originate from their over-reliance on government funding. This supply gap is threatening social innovation in Canada (Goldenberg, 2004) and threatening the ability of Social Economy organizations to start up new ventures and enterprises. While governments, foundations, and philanthropists are important sources of funding for SEOs, the amount of capital they supply is not sufficient. This means that Social Economy organizations are forced to turn to credit unions and banks to access the necessary levels of capital. While some credit unions practice flexibility when they lend to community-based businesses; the commercial banking sector is unable to make concessions (Quarter et al, 2009).

There are additional issues that lead to a gap between demand and supply of external finance also.

Some of the common issues mentioned are low awareness of social financing opportunities, risk and return discrepancies, high transaction costs for suppliers, and unclear public perception of social enterprise. (Strandberg, 2008). In a thorough examination of sector financing Quarter et al (2009) point to three other problems faced by SEOs: "…they do not generate a competitive rate of return on investment," "Banks consider most Social Economy organizations as too small or too risky," and, "Many individuals running Social Economy organizations have little experience dealing with the market economy" (p. 247).

Several of the above findings agree with the findings of our own Atlantic Canada research study. We discovered that, lending officers of banks and credit unions overwhelmingly indicated that repayment capacity, security/collateral, credit history, management experience and quality of the business plan are the most important factors considered in assessing loan applications in general. They also pointed that low profitability, lack of security, reliance on grants, low financial expertise and incomplete business plans made it difficult for them to approve financing for Social Economy organizations. The overall rejection rate for our surveyed SEOs was quite high: 42 percent of SEOs have experienced rejection on their financing requests.

Our research led us to conclude that there is a heavy reliance on government grants; 60 percent of SEOs received grants in the last 12 months and 74 percent of SEOs are planning to rely on government grants to finance a planned expansion. The current state of finance for the Social Economy creates a problem for the sector: an over reliance on government grants threatens the sustainability of the Social Economy; government grants are short term and repeat offerings are not guaranteed.

Considering the noted importance of the Social Economy to society (Hebb et al, 2006; Neamtam, 2005; PRI, 2005) and for social innovation (Goldenberg, 2004) the financial sustainability of the Social Economy is a deeply troubling issue. To some extent, governments at all levels have taken note of this problem and of the importance of the Social Economy (CCEDNet, 2009; Hebb et al, 2006; Neamtam, 2005; PRI, 2005; Quarter et al, 2009).

Current Role of the State

Quebec has been the most proactive government in Canada for creating policies and initiatives that support the Social Economy in Quebec (Mendell, 2008; Neamtam, 2005). Neamtam (2005) writes that, "The Social Economy has been part of the Quebec reality for over one hundred years, but it officially entered the public policy discourse only in 1996 when the Quebec government convened the 'Summit on the Economy and Employment' in which a wide range of civil society organizations ... participated" (p. 72). In 1999, the Quebec government gave control of the Social Economy portfolio to the minister of finance. Five years later the federal government formally acknowledged the importance of the Social Economy in Canada, with a commitment of over $100 million to the Social Economy (Neamtam, 2005) and Quebec was ready to implement the necessary programs to dovetail with the federal funding.

A 2005 study conducted by the Policy Research Initiative (PRI) found several commonalities among the various forms of state action. These include:

- Changes to regulatory frameworks in which SEOs operate
- New funding approaches have emerged over the last 15 years
- Increasing the number of organizations that can serve SEOs

The federal government supplies most of its funding to the Social Economy through various regional development authorities and Aboriginal development agencies. It also leverages the Business Development Bank of Canada (BDC) to provide venture capital to Aboriginal projects. One way in which provincial governments support the development of social finance is through tax incentives for investors who purchase labour sponsored venture capital funds or community investment funds. Quarter et al (2009) mention that there have been some issues surrounding labour sponsored venture capital corporations (LSVCCs). However, they argue that, "Nevertheless, among those that are functioning as were intended, there is evidence of support for organizations in the Social Economy" (p. 263). Int he early 1980s the Quebec Federation of Labour created the province's first LSVCC. In British Columbia there is the Working Opportunity Fund that is owned by seven trade unions. The Community Economic Development Investment Funds (CEDIFs), in Nova Scotia, are another outlet for Social Economy organizations and SMEs in that province; however, the legal structure of the vast majority of Social Economy organizations does not allow sale of shares and therefore they cannot take advantage of CEDIFs. A few, like New Dawn Enterprises and Just Us Coffee

Co-Op for example, have used CEDIFs repeatedly to finance their expansion.

While there has been increased attention paid to the Social Economy by government (Neamtam, 2005; PRI, 2005, Quarter et al, 2009), our research shows that the resources provided are insufficient. In 2009, the Canadian Community Economic Development Network (CCEDNet) authored a report (2009) that made policy recommendations in three categories:

1. Create a greater role for social enterprise in economic revitalization
2. Provide sustained support for community economic development organizations and community capacity building
3. Improve access to capital

The report's authors write that, "A key barrier hindering the potential of CED and Social Economy organizations is access to long-term capital," they continue, "...[SEOs] need fiscal measures or other means to access patient capital and financing" (p. 4). The CCEDNet report makes three policy recommendations relating to financing the Social Economy. CCEDNet recommends:

- The Canadian government create further community investment capital funds that are available for non-profit organizations (NPOs)
- A CED tax credit that will encourage further investment in community based funds
- The creation of a federal Co-operative Investment Plan, similar to what exists in Quebec

The role of financing in enabling entrepreneurial activity and general economic growth has been well recognized for years. It has also been recognized that financing gaps are detrimental to the creation and growth of SMEs and governments have sponsored significant research on SME financing. However, although the relative size of the Social Economy is larger in Canada than in other developed countries, governments in Canada have not shown comparable interest in SEO (Social Economy Organization) financing issues.

In a 2008 study of community investment in Canada conducted by the Canadian Community Investment Network Co-operative (CCINC) a total of 487 organizations reported having $1.5 billion in assets. Collectively these organizations also saw a demand of a minimum of $750 million over the next two years. Some of the greatest growth areas as projected by these organizations included alternative energy, social enterprises and affordable housing. The key policy recommendation from the study was for Canada to develop a comprehensive community investment (aka social finance) strategy, similar to the one used in the U.S., that incorporates tax incentives to leverage private capital; capacity building dollars for project proponents; research and development dollars for community investment organizations; and research dollars for better mapping and profiling of the sector. (CCINC, 2009)

The national study conducted by CCINC gave an estimate of the size of the opportunity and funding gap in the sector and also indicated the lack of insight on the drivers of this gap. Up to this point, discussion around public policy has been at a high level and has lacked the detailed empirical data necessary to support its requests. It was to fill this void that we launched our study into the financing of the Social Economy in the Atlantic Provinces.

Atlantic Research Study

As we noted above, the role of financing in enabling entrepreneurial activity and economic growth has been well recognized for years. Although the relative size of the Social Economy is larger in Canada than in other developed countries, governments in Canada have not shown comparable interest in Social Economy financing issues. There is agreement in the literature that the issues surrounding the financing of the Social Economy and how SEOs utilize and access external finance are central to the sustainability of the sector and the organizations therein. There has been some research on the financing options and instruments available for SEO, but there is little research on the demand for external finance and the uses of financing; for Canada in general and for Atlantic Canada in particular. There is also little research on the criteria used by financial institutions and government agencies in providing financing.

The Atlantic research node of the Social Economy research suite believes there is great value in gaining insights on the financing issues affecting local SEOs. This research initiative was spurred by community partners, such as the Canadian Community Investment Network and the Saint John Community Loan Fund. We conducted the study at Cape Breton University over a period of 18 months, starting in the fall of 2008. Its intended goal was to develop an accurate picture of both the supply and the demand side of external finance for the Social Economy in Atlantic Canada.

The study used samples of Social Economy organizations and financial institutions within five geographical areas sufficiently restricted that we could enumerate the population of Social Economy organizations within it, namely Saint John NB, Cape Breton Island, Halifax regional municipality, Prince Edward Island, and Newfoundland. The first phase in the research included a of Social Economy organizations in an attempt to understand the current demand for social finance. A sample was drawn that included representatives of each organizational type of Social Economy organization, representatives of each sub-sector, and a variety of organizational size and age. The second phase concentrated on surveying the financial institutions and granting agencies in each community.

The National Survey of Non-profit and Voluntary Organizations reported that 13,000 incorporated organizations and registered charities operated in Atlantic Canada and they generate revenues of $5.7 billion (Rowe, 2006). When deciding which Social Economy organizations the research would target, we used the four generally accepted characteristics: economic activity, limited distribution of surplus to its members, voluntary association and legal and decision-making autonomy (Bouchard, 2006).

There is no comprehensive database of SEOs in each of the five geographical areas and we spent a lot of time in assembling lists from different sources. In Saint John we benefited from the resources of the Human Services Council Saint John and the support and direct help of the Saint John Community Loan Fund. In Newfoundland we benefited from the support and direct help of the Community Services Council. Our compiled list included 5,036 organizations. By applying the four criteria described above, this listing was reduced to 1,142 SEOs, resulting in 281 completed surveys. The surveys include self-screening questions to ensure the respondent SEOs met the four qualifying criteria. Out of 281 responses, 206 met all four SEO criteria.

Profile Summary

The majority of SEOs surveyed are small organizations: three quarters have fewer than 20 employees, with forty six percent having fewer than 5 employees. However, six percent of SEOs employ over 50 people! One third of organizations have a budget below $100,000, but half of the SEOs have an annual operating budget over $250,000, with one third surpassing the $500,000 level.

The majority of organizations surveyed are well established: fifty nine of respondents have been established for over 20 years. SEOs mentioned sales of goods and services, grants, and donations as their primary sources of funds on an ongoing basis. The majority of SEOs (seventy seven percent) have pursued external financing. SEOs predominantly use grants, loans, and lines of credit for financing. The primary reason for external financing cited is to expand services, purchase a building, and purchase equipment

Financing Assessment

The second phase of the study focused on the supply of finance and surveyed the financial institutions and granting agencies in each of the five geographical areas. Researchers compiled a list of 224 branches of financial institutions, government granting agencies, foundations etc. in the five study areas. Surveys were completed by 56 agents and officers of financial institutions and government agencies.

Lending officers of banks and credit unions overwhelmingly indicated that repayment capacity, security/collateral, credit history, management experience, and quality of the business plan are the most important factors considered in assessing loan applications in general. The survey also indicated that low profitability, lack of security and personal equity, reliance on grants, low financial expertise, and incomplete business plans were often encountered in loan applications from social enterprises.

Only a quarter of bank officers indicated they could relax their lending criteria for community-owned organizations, as did fifty percent of credit union officers. However, seventy seven percent of CBDCs indicated they could relax the criteria for community organizations and apply preferential terms! Only a quarter of bank officers and forty five percent of financiers in general were aware of the term ‘Social Economy’; an even smaller minority were aware of the correct definition.

Findings Summary and Policy Recommendations

Our study in Atlantic Canada suggests there are a few gaps in financing organizations in the Social Economy, especially for startups. Rejection experienced for SEO financing is fairly high at forty two percent. There is heavy reliance on government grants: sixty percent of respondents had received grants in the previous twelve months and seventy four percent of SEOs planning an expansion are pursuing grants to finance the expansion! Interestingly, forty percent of SEOs are pursuing public/corporate fundraising for expansion also.

This particular set of issues has been raised by a number of other researchers and practitioners in the past. However, there is now a raised awareness of the impact of the Social Economy in Canadian society and there appears to be some political will in making interventions. Mainstream political personalities, like former minister of finance and former Prime Minister Paul Martin, are now actively involved in the Social Economy and the recent Speech from the Throne hinted that Canada is open to a bigger role for social enterprises. Policy interventions have the potential to make transformational improvements.

Research finding #1: Majority of SEOs need to pursue commercial activity and external finance to grow, but restrictions in their legal organizational form are an impediment.

NFPs are not share-based and cannot access equity financing. The sector has to resort to dual organizational structures to be able to generate revenue and operate social enterprises in a sustainable manner.

A few charities and NFPs have operated social enterprises as projects without fully understanding that they may be in default of their legal status: only 7% of our survey respondents mentioned that legal restrictions did not allow external financing. Similar findings have been reported in the literature (Corriveau, 2010). Social Enterprise is not a legal expression in Canada.

Recommendation

The time is now ripe for evaluating and introducing a legal form for SEOs that is similar to the UK's Community Interest Company (CIC) or the US's L3C; two different approaches, with UK's CIC offering the advantage of the well known "company" legal form and the US's L3C making the organization attractive for investments by foundations. A new legal form will allow SEOs to become more entrepreneurial without having to create multiple cumbersome corporate structures.

This issue has attracted a lot of attention recently and it is recommended that the Government of Canada enact a Community Enterprise Act enable that will enable organizations to incorporate as "community enterprises"; with the capacity to issue shares subject to limitations on scope of activities and investment returns, a capital lock to ensure that assets remain in the community, and favourable tax treatment (Bridge and Corriveau, 2009). This will bring organizational efficiencies and savings and will facilitate growth. A recent report by the MaRS Centre is recommending this for the Province of Ontario (Hewitt, 2010). The Canada Revenue Agency has recently stated that their policy people are working on the concept of social enterprise (Winggrove, 2010).

Research finding #2: SEO start-ups face major obstacles in accessing capital.

Rejection experienced for SEO financing in general is fairly high at forty two percent of the Atlantic SEOs surveyed. The survey of financiers indicated their concern over security/collateral, personal guarantees, and lack of personal equity, in SEO financings. More than sixty percent of the financiers stated that typically SEOs' low collateral, profitability, and revenue are very problematic.

Reliance on donations and government grants and contracts also make SEO start-ups risky prospects for debt financing by mainstream lenders. More than thirty percent of financiers stated that SEOs' heavy reliance on grants and government contracts was problematic; Twenty four percent of SEOs mentioned they were unsuccessful in obtaining financing because financial institutions "do not finance social enterprises".

Mainstream SMEs face similar obstacles in securing start-up financing; organizations in the Social Economy face a much bigger challenge, as they do not have owners to guarantee loans and their multiple bottom-line mandates usually means low profitability.

In Quebec the presence of RISQ, a $10 million capital pool dedicated to Social Economy ventures fills this need to a great extent. Although there are some government-backed lending programs in the rest of Canada that cater to the Social Economy for small loans (CBDCs, Community Futures, etc.), there is a gap for financings over $100,000.

Recommendations

- Federal and provincial governments have a responsibility in enabling lending to SEOs. There is no SEO loan-guarantee program, like the federal CSBF program that is available to SMEs. A few provincial loan programs operate similar to the CSBF but most are not available to SEOs either. There is no lending institution, besides the CBDCs, that accommodates the difficulty of securing personal guarantees on SEO loans, like the CSBF program does for SMEs. Studies indicate that the federal loan guarantee program has resulted in substantial total and incremental job creation in the mainstream economy (Riding, 2001) and will most probably have a similar, if not larger, effect in the Social Economy. Co-author Seth Asimakos is the General Manager of the Saint John Community Loan Fund which has a small pool of $200,000 built on private investments. He adds that a guarantee and tax incentives would help place capital in communities. "A social enterprise guarantee similar to CSBF would bring the risk down for our committee and enable lending to more innovative projects. Tax incentives would leverage more private investment into pools devoted to community development. We recently invested $35,000 in a housing initiative that in fact leveraged the credit union to mortgage the rest. The fact is, these projects demand greater capital and we need a way to create better flows"

- Experiment with offering generous tax incentives to corporations and investors who wish to invest in start-ups in the Social Economy. Mainstream mid size businesses, corporate Canada, mutual funds, and wealthy investors may be interested in investing in venture capital pools that fund SEO start-ups; especially if they can benefit from tax credits similar to the ones offered to investments in junior exploration companies. This is an idea mentioned by a few potential investors, including Paul Martin, former minister of Finance and former Prime Minister. This development indicates that the concept is becoming acceptable to mainstream policy makers and it has the potential to create a sizeable venture philanthropy sector in Canada.

- Evaluate the feasibility of ensuring that the instruments used for financing SEOs are fully compliant and registered with Canada's electronic capital markets. Enabling community funds (ex. CEDIFs) and venture capital pools to be listed in Canada's electronic fund system will provide enhanced credibility, make such investments mainstream, and increase accessibility to investors. Canada is one of the few jurisdictions where the capital markets and investment instruments are entirely electronic and it is prohibitively expensive for community funds to register their instruments electronically. A national approach to this project will most likely make it self-sustaining over a five-year period.

- It is well known that mainstream large national financial institutions do not invest/lend proportionally in the periphery. SMEs and SEOs located in peripheral regions find it more difficult to obtain financing. Canada should consider introducing legislation similar to US's Community Reinvestment Act (CRA). This legislation would require that financial institutions do lend/invest to SMEs and SEOs in each community they operate in. CRA has been criticized as contributing to the financial meltdown of 2008, but Canada has a mature and conservative banking sector that knows how to manage risk; the likelihood that the minimal community investments would weaken the banking system is very small.

Research finding #3: Many SEOs have expansion plans that require sizeable financing.

A large percentage of the Atlantic SEOs surveyed (forty two percent) plan to expand or start a new venture. They are reporting that they require large amounts of financing: a quarter of the growing SEOs require funds in excess of $500,000 for expansion. It is understood that projects in the housing, real estate, healthcare, green energy, and hospitality sector are capital intensive and require large size investments, However, lass than twelve percent of SEOs have raised this level in the previous twelve months, indicating a funding shortfall is in the offing.

Recommendations:

- There is need to develop stable patient capital pools, that could operate like bond funds and will lend to mature SEOs for expansion. Should support the concept of a community capital program, with assistance for regional loan pooling and a government guarantee. Regional capital pools may work better as they offer some geographic and company diversification to the investors. Both individual and institutional investors understand fixed income instruments like bonds and these capital pools could attract significant investments. They may appeal to foundations and other Socially Responsible Investment (SRI) organizations as a good investment vehicle also. The Canadian Alternative Investment Co-Operative, Toronto, is an example of a pool that invests nationally, but the concept would evolve into faster growing regional pools with the help of a partial government guarantee.

- Provincial governments should initiate discussions with labour unions and consider partnering with labour on a capital pool dedicated to funding social enterprises, in the model of the Fiducie du Chantier de l'Economie Social. This is obviously not easily duplicated: the creation of the Chantier has been in the making since 1996 and Quebec has a unique socioeconomic culture and a labour movement that is committed to the Social Economy and the environment. The Chantier has assets exceeding $50 million and has invested over $6 million in social enterprises. Some provinces may have the right climate in place for such collaboration. Regarding housing investments, unionized labour funds have collaborated on a real estate development company, Concert Properties, aimed at providing low priced rental housing; they have constructed over 8,000 units since 1989 in BC, Alberta, and Ontario. It is conceivable that a small public investment may leverage large investments for expansion of social enterprises that target sectors favoured by the labour pension funds.

- Tax incentives should be offered to all Canadians who wish to invest in the Social Economy, especially through the convenient and popular RRSP vehicle. The RRSP eligibility of Nova Scotia's Community Economic Development Investment Funds (CEDIFs), coupled with the 35% Nova Scotia tax credit makes it a successful model: it facilitates the use of equity financing by SEOs, from investors using their RRSP savings. Considering the risk-averse nature of RRSP investments, this route would be best used by mature SEOs. Over $33 million have been raised to-date by CEDIFs, with a sizable portion being invested in SEO and green energy start-ups and expansions. The Province of PEI is adopting this model and it is expected that CEDIFs will be available to PEI citizens next fiscal year. Seth Asimakos, General Manager of the Saint John Community Loan Fund, adds: "In Saint John, the idea of having a CEDIF as part of our fund would be put to good use in leveraging mixed use housing and commercial non-profit space. Capital can get used up quickly in projects of that sort. I think we would really see a boom in activity. The built-in RRSP eligibility of the CEDIF model would be a major draw for investment from individuals in the community. Ideas are bubbling to the surface. With some guarantees and tax incentives to move capital, the ideas can become reality"

Research finding #4:

Community organizations typically have low financial and management expertise and submit incomplete business plans.

Fifteen percent of surveyed SEOs mentioned) that the quality of their business plan document was one of the reasons they did not succeed in obtaining financing. In addition, over forty percent of the surveyed providers of finance stated that SEOs typically submit incomplete business plans and have low financial expertise. Thirty one of the surveyed providers also stated they had concerns over the management of SEOs.

There is obviously a gap in management capacity within the SEO sector. The federal government has provided support for capacity building in the co-operative sector, through the Co-operative Development Initiative. In Quebec, Labour has partnered with the provincial government and offers extensive capacity building services to the Social Economy via CSMO-ESAC; an organization mandated to the development of human resources for the Social Economy. There is no systematic programming to build human resources for the whole Social Economy in the rest of Canada. The federal government understands the importance of the social infrastructure as it focuses on social infrastructure and capacity building, ahead of physical infrastructure, in CIDA's international development projects. It is expected that the federal government would see the wisdom of social infrastructure for domestic development also.

Recommendations:

- Federal and provincial governments should consider investing in SEO capacity building by: Investing in human resource development and training programs; Subsidizing salary of business professionals seconded to help growing SEO
- Governments should provide business support, customized to the needs of the Social Economy. This will help increase investment readiness and create demand for external financing. Government agencies mandated for economic development should offer support for professionals; to work with SEOs in developing business plans. Governments should also support feasibility studies on SEO business plans and should fund 'proof of concept' projects. Mainstream businesses can use after-tax dollars for such innovation projects, but Social Economy organizations cannot use such tax advantages to take risks.

Conclusion

There is no doubt of the impact and importance of the Social Economy to the overall Canadian economy (Shragge and Toye, 2006, Neamtam, 2005; PRI, 2005; Quarter et al, 2009). There is also no doubt about the importance of external finance to the overall growth and success of the Social Economy in Canada. Past research has looked at programs available, the importance of the Social Economy to the Canadian economy, and theoretical attempts to prove that a financing gap exists. In our research, we have provided proof that in Atlantic Canada there is a gap between demand and supply of finance in the Social Economy.. The existence of this gap threatens the sustainability of the Social Economy and all levels of governments have a responsibility to enact policy that will help close the gap. The policy recommendations relating to legal structure, removing obstacles to start-ups, easing financing for expansion, and support capacity building are based on empirical analysis. The majority of these policies require legislative and tax changes; not grants.

We presented these recommendations in March at the ACCSE regional conference, attended by 120 people in Dartmouth, Nova Scotia; with a panel of representatives from government and the sector. We also held a country-wide teleseminar in April and we have incorporated all received feedback in this report.

A concentrated effort to enact several of these policy recommendations will make a long-lasting contribution to the health of communities in Canada.

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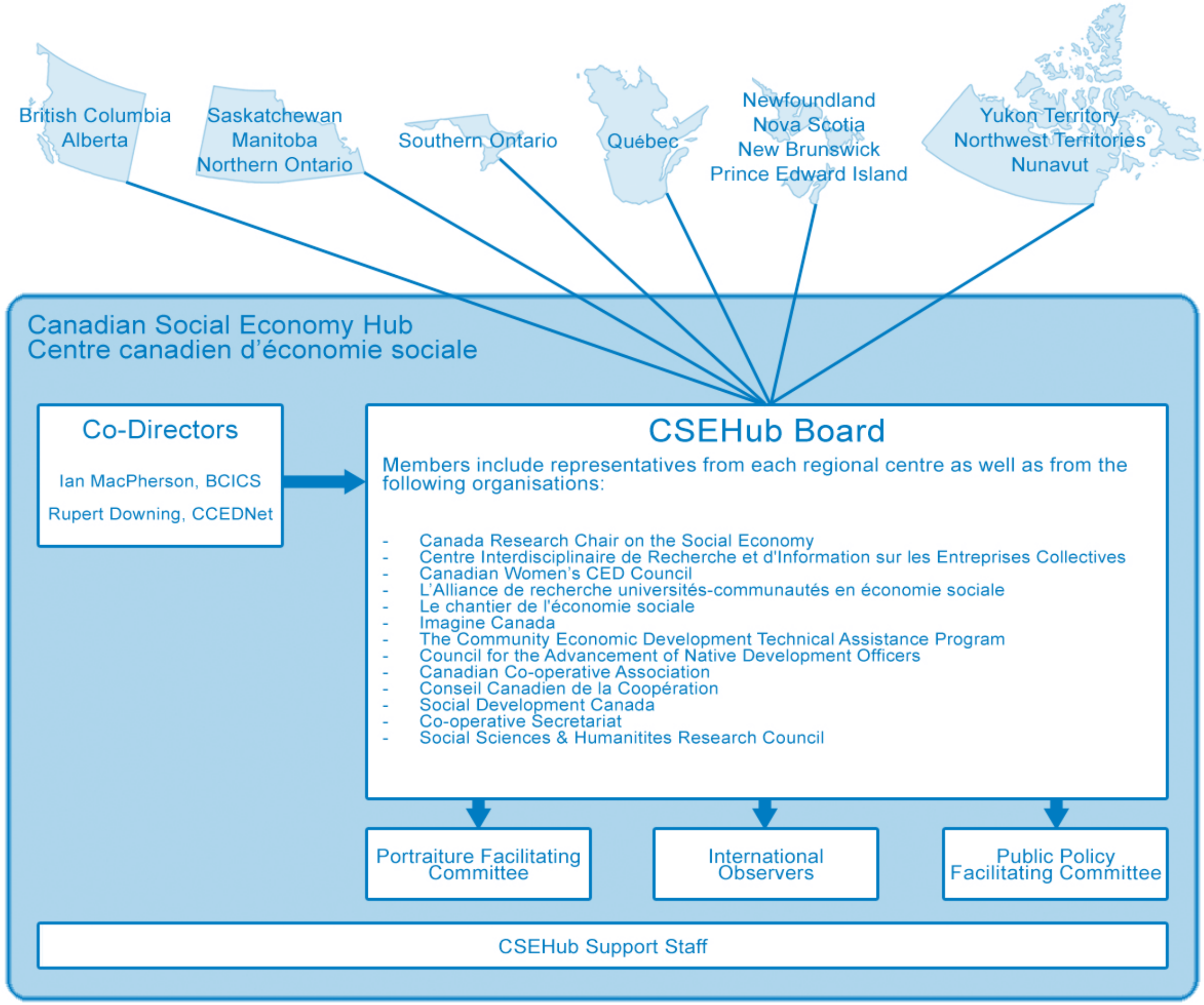

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