Investment Readiness Program

Impatient Readiness:

The State of Social Finance in Canada 2021 by the Table of Impact Investment Practitioners. (TIIP)

A summary prepared by Co-operatives and Mutuals Canada

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Introduction

The TIIP report provides a portrait of social finance in Canada: a colossal task considering the complexity of the subject and the diversity of actors, issues, and structures. The ecosystem in question is composed of multiple players. It's an environment in which the co-operative model and its legal structure have a preponderant role and a rich history, especially among credit and/or financial co-operatives. Three of these actors include investors, intermediaries, and investment beneficiaries. Co-operatives, to date, are more often beneficiaries of investment than intermediaries, a role that has the potential to evolve. As part of the investment readiness program, Co-operatives and Mutuals Canada (CMC) notes several elements of this important report from the Table of Impact Investment Practitioners (TIIP). This synthesis will focus on the co-operative sector in each province, its importance in the social finance ecosystem, as well as the opportunities and obstacles identified by social finance experts regarding intermediaries of the social and co-operative economy.

As the laws and regulations surrounding finance being a provincial legislative power, the structure of the TIIP report was composed. This report describes the situation in each of the provinces based on the sector's history, its successes, its opportunities, and its barriers, in addition to paying particular attention to certain themes, namely popular initiatives, marginalized communities, and concepts of inclusions, equity, and diversity. This synthesis will be structured in the same way.

Atlantic Provinces (N.B., P.E.I., N.S., N.L.)

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As mentioned earlier, each province is unique and has its own legislative framework, despite the amalgamation of these provinces. "Some parts of the region have a long history of co-operative endeavour that remains vital today, while other parts remain relatively underdeveloped when it comes to alternative and community-based finance." (TIIP, 2021, p. 31) In Nova Scotia, the co-operative sector, generating $5.2 billion, and having more than 11,000 employees, reaches a membership rate of 33 per cent of the population. One of the programs that has been very successful in terms of intermediary in Canada is the Community Economic Development Investment Fund created in 1999, commonly named CEDIF (Community Economic Development Investment Fund). A recent study shows the positive economic impact of this program where for-profit co-operatives play an important part. Several examples of small investments in successful co-operatives that have had a major impact in a wide variety of sectors are cited, such as the Cape Breton Food Hub Co-operative, the Bus Stop Theater Co-operative, Co-Pharm, and Coastal Community Radio Co-operative. What sets these programs apart is the possible RRSP eligibility of investments combined with an investment tax credit. One of the barriers is related to the perception of risk by investors and the government, a barrier that can be found across the country.

Quebec

Quebec is a province with a healthy social economy and co-operative environment, and acts as a leader in the sector. There are around 2,464 non-financial co-operatives and 336 financial co-operatives and mutuals, which represent 25 per cent of the social economy. "Collectively, […];of which (the Quebecois) 2.4 million are members of non-financial co-operatives, […], and 5.6 million are members of financial co-operatives .» (TIIP, 2021, p. 42) There are several reasons that lead to the success of the social economy in the French-speaking province. One of those reasons is the «Framework legislation recognizing the social economy as an integral component of Quebec's socio-economic infrastructure was adopted unanimously by Quebec's National Assembly in 2013.» (TIIP, 2021, p. 42) Another is the use of a bottom-up approach where the actors of the environment intervene in a "process of co-construction and co-ownership among diverse partners has been the basis for a dynamic and successful ecosystem approach." (TIIP, 2021, p. 45). Some of the successes include the QFL Solidarity Fund, Fondaction, the Fiducie du Chantier de l'Économie sociale, the Coop Carbone and Capital régional et coopératif Desjardins. The latter has helped grow 530 businesses, co-operatives and funds across Quebec by investing more than $1.3 billion. Among the challenges that generate opportunities is the diversification of sectors and possible and accessible financial tools.

Ontario

Despite its rich history and the expertise emanating from its social finance intermediaries, the Ontario co-operative sector is experiencing some difficulties in the area of social finance. Among these challenges, they found strong regional differences in access to capital between the northern and the southern regions of the province, as well as between rural, urban, and suburban areas. There is also a lack of access to capital in communities of people of color, including black and indigenous communities. Unlike its neighboring provinces, the provincial government plays a limited role in the facilitation or advancement of social finance and the co-operative sector. Indeed, "Public policy frameworks in Ontario have lagged behind the development of the social economy sector." (TIIP, 2021, p. 54). The barriers lie in the lack of public incentives, barriers inherently indebted in the legislative framework, a lack of education by investors in social finance, and a lack of access to capital. Despite these significant challenges, renewable energy co-operatives is a sector that has proven to be very successful. The opportunities are as numerous as the challenges and social issues. Community investment co-operatives are structures that need to continue to be explored.

Manitoba and Saskatchewan

Manitoba and Saskatchewan are discussed together as they are two prairie provinces where the co-operative sector has been long established in the agricultural sector and which have several similarities in terms of the development of social finance. However, "The Manitoba Co-operative Community Strategy was launched in 2009, renewed in 2015, and defunded in 2018. A key component of the document was a focus on enabling equity financing for co-operative models, and how the government could support community lending organizations to better support co-operatives." (TIIP, 2021, p. 58) In these two provinces "a significant proportion of the Prairies social innovation ecosystem focuses on urban and First Nations poverty, whether through training and workforce development, early childhood development, child and family services, food banks, and housing." (TIIP, 2021, p. 61) As such, there is very little support for co-operatives and economic development. In addition, there is some push back against for-profit social economy enterprises in both of these provinces.

Alberta

Despite its short history related to social finance, Alberta has a strong co-operative environment that is deeply rooted in the rural areas of the province. "Along with the credit union system, retail grocery, and agricultural producer co-operatives, Albertans used the co-operative model to invest in rural infrastructure." (TIIP, 2021, p. 63) Inspired by the success of the British Columbian investment co-operative movement, the Opportunity Development Co-operative (ODC) model was founded in 2009 and has thus far experienced success with the flagship example of an ODC in Sangudo. It is therefore a vehicle for investing in one's own community and "these investment entities will harness local knowledge and entrepreneurship to guide their investments, in an effort to ensure the health and longevity of the communities in which they operate. The idea is to create a network of ODCs across Alberta…" (TIIP, 2021, p. 63) A major challenge for the success of these initiatives is one of scale, with small organizations having difficulty surviving. Indeed, the small funds are successful thanks to the hard work of volunteers. However, work undertaken by volunteers is not always carried on over the long term, which can jeopardize the viability of these initiatives. "Small loan funds face the challenge of covering business costs from small revenues. Operating grants are difficult to find and at odds with an ethic of self-sustaining solutions.» (TIIP, 2021, p. 65)

British Columbia

In British Columbia, co-operatives have also historically been important in social finance, by «supporting a range of community initiatives including housing, food production and distribution, and fisheries." (TIIP, 2021, p. 69) As a historical and current success, we can highlight the multitude of credit unions including the Sunshine Coast Credit Union, The First Credit Union, the Summerland Credit Union, Aldergrove Credit Union, and the Interior Savings Credit Union, as well as the Vancouver City Savings Credit Union (Vancity). The latter, which has 500,000 members, occupies a very important place in the development of social finance "with over $3.1 billion in business lending counting towards its "triple bottom line assets". Vancity's social finance activity includes extensive impact-guided business and community-focused lending, in addition to grant-making, mostly through its community foundation. Vancity also has an active fund-of-funds with a social impact focus." (TIIP, 2021, p. 69) Another success is the Community Investment Co-operatives emanating from the BC Community Impact Investment Coalition. The model developed in British Columbia succeeds in providing a means for residents of various communities to invest where they live and gives them the chance to increase the quality of their living environment. Co-operatives play an important role in the social finance of the province. There are many opportunities and challenges, especially in remote areas across the north of the province. Access to startup capital is very limited for both the development of remote communities and for First Nations communities. Despite the growing sector having many successes, a lack of investment incentives and knowledge about new initiatives and opportunities, as well as a misunderstanding of risks, similarly to other provinces, creates barriers limiting access to the capital of these investment co-operatives.

Pan-Canadian Themes

The pan-Canadian themes that the report touches on Indigenous links, intermediaries and broader societal themes, such as inclusion, diversity, equity and access. Co-operatives as intermediaries in social finance meet several criteria and fundamental principles that allow the various communities that make up the Canadian population to take their destiny in hand and allow minorities to make their voices heard on the issues that directly affect them as individuals and as a community. The Indigenous social economy « is also part of a broader national response to the work of the Canadian Truth and Reconciliation Commission (TRC).» (TIIP, 2021, p. 79)

Conclusion

It is clear that the co-operative environment and social finance go hand-in-hand and are very broad concepts with aims that have every right to be ambitious. There is a great disparity between the provinces when it comes to advancement in the co-operative sector and/or social finance. Some provinces are advanced on both fronts while in others everything needs to either be built or rebuilt. In many provinces and territories, co-operatives and social finance are still limited and hampered by the legal framework too rigid in terms of social finance.

The main barriers are in the perception of risk, a lack of investment incentive, a lack of education on possible models, and a lack of investment readiness in existing organizations. Other barriers, such as racism and xenophobia, limit access to capital in many Canadian communities. In some provinces, the legal framework regarding co-operatives and social finance is a marked barrier. It is important that the co-operative sector and its actors see an opportunity in each of the challenges they face. This is because beyond each barrier, lies a sea of opportunity to have a positive impact: the most notable opportunities to make a real impact lie in spaces where everything still needs to be built. Important models that merit to be studied and implemented by the co-operative sector are community investment co-operatives, opportunity development co-operatives and Community Economic Development Investment Funds (CEDIF). These are models that can act on a multitude of social, environmental and economic issues. Co-operative values, with people being at the center rather than capital, give these organizations a head start in terms of aligning their vision and mission. They also give them a head start in understanding the issues experienced by their members and thus the objectives linked to the needs by virtue of to this community proximity. A community, in this case, that is able to wear the hat of actor, beneficiary and investor at the same time. Ultimately, these models give organizations a chance to give a voice to First Nations and diverse individuals, as well as greater equity between men and women. Despite the many challenges, the co-operative sector is doing well. Co-operatives, by virtue of their founding values and principles, seem to by their inherent nature a response to several different social challenges (inclusion, reconciliation, and equity). Furthermore, co-operatives are an important vector of economic, social and environmental development across Canada. The union of social finance and the co-operative community will occur, among other things, through accessibility to financial products emanating from the social economy, as well as through education on social finance. This includes understanding the risks involved and understanding that return on investment is an aggregate of financial return and social impact.