Low Income Entrepreneurs and their Access to Financing in Canada, especially in the Province of Québec/City of Montréal

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1. Introduction

Those who have heard of the great successes, limited failures, and some controversy which surrounds the practice of microfinance have likely been exposed to the industry in a developing-country context. However, there have been many organizations committed to local economic development and poverty alleviation in developed countries.

This paper attempts to illuminate the practice of microfinance in Canada with special attention to low income entrepreneurs and their access to finance in the Province of Québec and the City of Montréal by reviewing the history of the industry, national and local entrepreneurship statistics, demand and supply of payday loans, and active microlenders.

2. Microfinance in Canada

2.1 Beginnings of Microfinance in Canada

Although credit unions are not explicitly microfinance institutions (MFIs), they have been very successful in providing formal financial services to the poor and other communities neglected by most banks. In the early 20th century, two branches of credit unions were developed as a response to the difficulty certain populations had encountered in accessing financial resources. In late 1900, Alphonse Desjardins initiated the provision of savings and credit services to the francophone population in Québec who previously lacked access. Some 30 years later, Father Moses Coady introduced credit unions in Antigonish, Nova Scotia. By the 1950s, "cooperative activists from around the world were traveling to Québec in addition to Antigonish to learn about the principles and operations of cooperative organizations[1]." These cooperatives were eventually turned into credit unions, which were the prototype of the modern institutions still present in Canada. Although Dr. Mohammed Yunus would popularize it much later, Father Coady and M. Desjardins were already practicing a type of microfinance in Canada.

i. Credit Unions and Microfinance

As of the third quarter of 2010, Canada had approximately 11 million members of 887 credit unions and *caisses populaires* out of a total population of 33.7 million[2] – one of the highest ratios in the world. Furthermore, Québec has the highest rate of provincial membership (approximately 67%).

The defining feature of credit unions and *caisses populaires* is their ability to take savings deposits, which allows them to expand credit at a low cost. As most NGOs are not licensed to engage in such activity, they rely on community-enforced methods of responsibility such as rotating savings programs to enforce repayment. Recipients of microcredit loans tend to be small

[1] Coyle, M., and Wehrell, R., *"Small is Beautiful, Big is Necessary; Canada's Commercial and Cooperative Answers to the Global Challenge of Microfinance Access,"* Presentation to the Global Microcredit Summit, Halifax, Canada, November 2006.
[2] Credit Union Central of Canada, "*System Results: Credit Union – Caisse Populaire*," November 2010.

entrepreneurs who need credit to implement or expand their business but lack credit because the loans required are too small for conventional institutions, they have poor credit histories, lack necessary collateral, or are recent immigrants. Although, in general, credit unions have no poverty alleviation mandate, there are several institutions that participate in microfinance. Internationally, Développement International Desjardins (DID) has been able to impact credit recipients in almost 25 countries with their technical assistance and financial investment programs. It partners with 34 cooperatives, networks and community finance institutions which manage assets of nearly $1 billion and serve more than 3 million members and clients, approximately 40% of which are women.

Several credit unions also engage in microfinance domestically. Most notable are the Alterna Savings program in Toronto, and the VanCity program in Vancouver, both of which were acquired from a nation-wide initiative called Calmeadow. The Calmeadow programs will be discussed in more detail in Section 2.5.

Alterna Savings[3]

Loan Amounts: $1,000 - $15,000
Interest: prime + 6%
Fees: 6% of disbursement
Default Rate: approx. 9%

Alterna Savings is a member-owned provider of financial services serving nearly 120,000 members with an asset base now exceeding $2 billion. Their Community Micro Loan program has been in existence since July 2000, when it was purchased from Calmeadow (to be discussed in Section 2.5). Participants of the program generally have poor credit ratings or no credit history, and the majority has a personal annual income or assets of less than $30,000 a year. Loans offered range from $1,000 to $15,000 and the average loan disbursed is about $5,000. Alterna charges borrowers an interest rate equivalent to 6% over their prime lending rate and an administration fee of 6% of the total amount borrowed.

To date, Alterna has granted over $1.5 million in loans to more than 340 entrepreneurs with an average default rate of a little over 9% per year. To complement their loans, Alterna partners with community institutions such as the YMCA of Greater Toronto, the Toronto Business Development Centre, Community MicroSkills Development Centre, and the Centennial College Centre of Entrepreneurship to provide training and assistance.

A 2010 study by the Carleton Centre for Community Innovation revealed that 60% of Community Micro Loan recipients were denied loans from one to three other financial institutions before applying to Alterna[4]. Sixty seven percent of incorporated business owners and 52% of unincorporated business owners noted an increase in their income as a result of the program. Furthermore, since receiving their loan and developing their business, almost 20% of participants in the program became home owners.

[3] www.alterna.ca
[4] Alterna Savings, "*Strengthening Our Community by Empowering Individuals: Showcasing our Success, Alterna's Community Micro-Loan Program*," 2010.

VanCity[5]

Loan Amounts: $1,000 - $70,000
Terms*: 3 – 24 months
Interest*: prime + 4%
Fees*: $25

*all for circle lending

VanCity is Canada's largest credit union with assets of over $14.4 billion and serves more than 414,000 members throughout Greater Vancouver, the Fraser Valley, Victoria and Squamish through 59 branches. In 2009, their "Community Leadership" portfolio, consisting of personal and business loan products and socially responsible mutual funds and real-estate development was valued at $1.15 billion, 4.7% of total assets/funds under administration in that year[6]. The $1.15 billion of Community Leadership products is comprised of personal banking ($22 million), business banking ($780 million), socially responsible mutual funds ($292 million), and socially responsible real estate development ($58 million). Unfortunately, VanCity has not published the size of the microloan portfolio.

VanCity offers several different microfinance programs: small business loans through the Be My Own Boss program, circle lending for startups, microloans for artisans and trades people through the With These Hands program, Back to Work loans for recent immigrants, and Advice and Business Loans for Entrepreneurs with Disabilities (ABLED).

Be My Own Boss has assisted more than 800 British Columbia (BC) entrepreneurs with over $13 million in small business financing through startup and expansion loans. Startup loans or lines of credit are available for up to $35,000 for businesses with a strong business plan and indication of imminent sales. Expansion loans or lines of credit up to $70,000 are available for businesses that are showing promise and have growth in mind. To assess readiness for the Be My Own Boss program, VanCity looks closely at four business aspects: market research, management, business strategy and financial plans.

Circle lending, also known as peer lending, harnesses the power of group enforcement to provide very small loans for home-based businesses. It requires monthly meetings and regular contact with VanCity's community animator. Loans are advanced in stages based on the entire group's successful and timely repayments of their individual loans. Initial loans, known as Level One, are for $1,000. Subsequent loan amounts increase to a maximum of $5,000. Self-Employment Program graduates have a first loan level of $2,000, subject to the completion of a business plan and support of self-employment benefits. Terms range from 3 to 24 months and interest rates are based on prime plus 4%. There is a $25 application fee for the first and subsequent loans.

VanCity's loan product, called With These Hands Loan, is designed to help meet labour market needs in the areas of service and construction. The loan is specifically designed for equipment and tools to outfit the individual to enter a trade or profession. Loan structures can be flexible in this case: payments can be delayed for a period of time while the new labourer enters the field and gets ahead with their personal finances. Once the loan payment schedule begins, skip payments will be tied to market fluctuations.

[5] www.vancity.com
[6] Vancity, "*We Can All Be Wealthy: 2008-2009 Accountability Report*," 2009.

Back to Work loans are designed to support individuals who, for lack of upgrading or certification, are not able to work in fields in which they already have some training. Primarily supporting recent immigrants, these loans are provided on the strength of the past employment experience (in their countries of origin) and VanCity's assessment of the labour market. Loans from $2,000 to $5,000 are advanced on the completion of a quick application. Borrowers must show an income stream to support the loan payments, either a current job (proved through paystubs) or Ministry of Employment and Income Assistance (MEIA) benefits. In some cases, a letter from an employer guaranteeing a better paying job will assist with the loan review.

VanCity also partners with local community business advisory services such as Small Business BC, Women's Enterprises Society of BC, Community Futures Development Corporations and Canadian Bankers Association to ensure well-defined business plans and future viability.

ii. Sustainable Microfinance?

Alterna Savings and VanCity programs are examples of what may result when MFIs are taken over by formal financial institutions (see 2.5 Operating Challenges: The Experience of Calmeadow) and their experience is not unique. Many commercial banks are developing new products for the low-income entrepreneurs' sector; however, of Canada's four major chartered banks, only Scotiabank has been directly involved in microfinance and its activities are concentrated exclusively in the developing world.

Domestically, the federal and provincial governments continue to support community lending and loan guarantee schemes. For example, as with credit unions and *caisses populaires*, Community Business Development Corporations (CBDCs) in Atlantic Canada do not focus exclusively on microenterprises or underserved populations, but they can loan as little as $200 at a time. During 2009 – 2010, CBDCs advanced more than $63 million and assisted in the creation of over 5,000 jobs[7]. There are also several similar programs in Québec which will be explored in the following section.

A sustainable initiative independent of government has yet to emerge for other microfinance institutions to emulate. Most microfinance institutions still operating today are alive at the grace of government subsidies. Therefore, Canadian microfinance ventures still have the opportunity to learn from the mistakes of their predecessors and to conceive an alternative program which provides a sustainable response to the poverty of access and opportunity.

2.2 Entrepreneurship in Canada

In order to understand microfinance in Canada, it is necessary to study the general business climate and demand for small loans. As microfinance targets low-income entrepreneurs, it is interesting to determine what their needs are and whether they feel they are underserved.

A 2010 study[8] of current and future entrepreneurs in Canada noted that 63.4% of venturers cite current financial obstacles as one of their main obstacles to creating or taking over a business. The fear of future financial obstacles, such as going into debt or losing regular income, was also

[7] Atlantic Communications Committee, "*The Atlantic Association of CBDCs 2009 – 2010 Annual Report,*" October 4th, 2010.
[8] BDC and la Fondation de l'Entrepreneurship, « *Canadian Entrepreneurship Status 2010*, » July 2010.

cited by 35.2% of respondents as a major obstacle. According to this study, the "Anatomy of the Canadian Entrepreneur" is a man between 35 and 54 years who is well off financially and more educated than the general population. Only about 20% of respondents declared their personal income to be below $20,000 (the approximate Canadian poverty line for a family size of 1-2). It is this 20% that microfinance should target, and although The Anatomy of the Canadian Entrepreneur is generally outside this range, it is helpful to recognize that access to financial resources is a problem among small and medium-sized entrepreneurial population. A demographic breakdown of serial entrepreneurship (those involved in more than one entrepreneurial phase: venture, ownership, closure), reveals that younger entrepreneurs have a higher demand for financial resources to grow their business as well as greater intent to grow.

2.3 Analysis of Underserved Populations

In 2005, the Financial Consumer Agency of Canada (FCAC)[9] conducted a survey to determine reasons individuals may not have a chequing or savings account and their experiences in being rejected an account from a financial institution. Of the 5,000 people surveyed, 4% said they have been refused an account by a financial institution in aggregate.

This probability is highest among:

- those with lower educational attainment (peaking at 8% among those with an education level below a high school diploma)
- those with lower household incomes (peaking at 8% among those who earn less than $30K annually)
- younger Canadians (peaking at 6% among those between the ages of 18 and 34)
- men (5% among all surveyed men) relative to women (4% among all surveyed women)
- residents of Alberta (6% among all surveyed Alberta residents), BC (5%), and Ontario (5%), compared to those in Saskatchewan/Manitoba (3%) and Québec (3%)

When posed the question "which of the following types of accounts is closest to the kind you were rejected?" with the ability to cite more than one account, the most common responses were credit cards (41%), followed by chequing accounts (24%), lines of credit (18%) and savings accounts (18%). Another ten percent of those who were rejected an account by a financial institution have been applications for a mortgage while 6% have been for a loan.

The most common justification for account refusal was "poor credit rating/had declared bankruptcy" is, with 35% of total refusals on this basis. Other reasons given include: "not employed/inadequate income" (13%) and "don't have proper identification/driver's license" (5%). Almost one in ten (9%) say they were given no reason for being refused an account at a financial institution while the remaining 28% cited "other" and "don't know."

Once an individual has exhausted the options offered by traditional financing institutions, in the absence of microcredit programs, many must turn to loan sharks to meet their financial needs. Payday loans are short-term consumer loans for small amounts. The client's next paycheck is treated as collateral. Borrowers give payday loan companies a post-dated check for the amount of the loan plus any associated fees and interest. The average loan in Canada is approximately $300

[9] Financial Consumer Agency of Canada, "*Public Experience with Financial Services and Awareness of the FCAC*," March 24th, 2005.

for a term of two weeks. As payday lenders do not check credit history, and as clients are typically financially vulnerable, loans often result in a perpetuation of debt and increased risk of insolvency. For every loan to a new customer, payday lenders make approximately 15 loans to repeat customers across the country. [10]

According to a 2007 Association of Community Organizations for Reform Now (ACORN) report,[11] "ten years ago payday lending was almost unheard of, and even five years ago payday lending played only a marginal role in the economy. Now it is a $2 billion a year industry." For example, Rentcash, Inc., a leading payday lending company, grew from 25 stores in 2002 to 432 stores in 2006. It also operates under the names The Cash Store, Instaloan, and Insta-rent. Similarly, in 2003, Money Mart made $248 million in payday loans in Canada. By 2006, this number had more than doubled to $554 million. More than half of the 1,350 payday loan storefronts in Canada are located in Ontario.

In order to obtain payday loans in Ontario, the borrower must generally present pay stubs proving three months of continuous employment, supply proof of address and have an active chequing account in order to ensure the loans do not target populations receiving social assistance. However, since providers in Manitoba however are less likely to impose these requirements, the province has enacted legislation that requires a lower borrowing fee for vulnerable groups. This makes it unprofitable for payday loan companies to serve these clients, effectively reducing the supply.

Section 347 of the Criminal Code states that annual effective interest rates (APR) may not exceed 60%, including associated fees. However, Bill C-26 exempts payday lenders from criminal prosecution if the loan is for $1,500 or less with a term of 62 days or less and the lender is licensed by a province designated by the federal government. In order for a province or territory to be designated by the Governor in Council, the province or territory must enact legislation that protects recipients of payday loans and provides a limit on the total cost of borrowing under payday loan agreements.

Several provinces have passed, or are in the process of passing, such legislation. The fee limit in Ontario, for example, is $21 for every $100 while in Alberta it is $23 for every $100. Many provinces also stipulate limitations on rollovers (repeat loans), a cooling-off period (whereby borrowers have 1 – 2 days to cancel their loans without charge), and specific contractual disclosure requirements such as expressing loan fees as an Annualized Percentage Rate (APR). The province of Québec has the most stringent regulations, currently limiting APR to 35% and effectively rendering all payday loan activity illegal.

The above cited 2005 FCAC survey[12] also analyzed the use of and experience with cheque-cashing and payday loan companies. Approximately 7% of Canadians say they have used the services of a cheque-cashing or payday loan outlet.

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[10] Robinson C., "*Regulating Payday Loans and the underbelly of Canadian Society*", p. 4.
[11] ACORN, "*A Conflict of Interest:How Canada's Largest Banks Support Predatory Lending,*" 2007.
[12] Financial Consumer Agency of Canada, "*Public Experience with Financial Services and Awareness of the FCAC,*" March 24th, 2005.

This probability is highest among:

- younger Canadians (peaking at 13% among those between the ages of 18 and 34)
- residents of British Columbia (11% among all surveyed BC residents), Alberta (10%), and Saskatchewan/Manitoba (10%) compared to those in the Atlantic provinces (3%) and Québec (5%)
- those with lower household incomes (peaking at 11% among those who earn less than $30K annually)
- those with some post-secondary education (10%) compared to those with university degrees (4%) or high school graduates (7%)
- men (8% among all surveyed men) relative to women (6% among all surveyed women)

Recent industry-sponsored surveys[13], both in Ontario and Canada-wide, have found that the average payday loan customer is 39 years old, 68 per cent are employed full-time, and 51% have post-secondary education. These statistics in isolation paint a much more positive picture than the Statistics Canada Survey of Financial Security in 2005.[14] About 5,300 families were interviewed regarding their demand for payday loan services in the previous three years and some of the key findings were:

- Low-income families were twice as likely to have taken out payday loans as those above low income (4.6 per cent compared with 2.3 per cent)
- More than half of families who used payday loans were in the bottom fifth of the net worth distribution
- Families who had been refused a credit card were more than three times as likely to have taken out a payday loan
- 15 per cent of payday loan borrowers were two or more months behind in rent or mortgage payments
- One-fifth of payday loan borrowers had dealt with a pawnbroker
- Families behind in loan or bill payments were more than four times as likely to have used payday loans
- Four in 10 families who borrowed through payday loans had spending that exceeded income, more than double the proportion of families who had not used payday loans

A contributing factor to the prevalence of payday loans is the lack of understanding on the part of the consumer regarding the cost of such services. Only 48% of respondents were able to identify that the costs of payday loans were greater than those of a credit card. Twenty-five percent of respondents believed the cost was lower, 12% believed costs to be the same and the remaining 16% either didn't know or refused to answer. Convenience is the most common reason for using cheque-cashing or payday loan services. About half (48%) of respondents cited using such services less than once a year while 20% used them once or twice a year, 9% every few months, 12% about once a month and 10% more than once a month. Based on the above discussion, it should be clear that payday loan services target, and are demanded by, lower-income populations.

[13] POLLARA telephone survey, Aug.-Sept. 2007; Environics, *"Understanding Consumers of Canada's Payday Loans Industry,"* June 2005.
[14] Perspectives, April 2007, Statistics Canada – Catalogue no. 75-001-XIE, pp. 5 – 13.

2.4 Active Microfinance Organizations

Many institutions (non-credit unions/cooperatives) have emerged in the past 25 - 30 years to address populations underserved by traditional financial credit. A 2003 study[15] identified 57 non-governmental community investment funds and 54 Aboriginal financial institutions in Canada. The study was able to survey 34 of the funds, one of which represented all 54 Aboriginal Financial Institutions (AFIs) under the umbrella of the National Aboriginal Capital Corporation Association (NACCA). Since this study, some funds have closed while others have opened or expanded; however, some of the results are still interesting and help paint a picture of microfinance in Canada. In particular, it is interesting to note that:

- half of surveyed loan funds receive capital from private investors
- 85% of community investment funds surveyed lend for micro or small business development, 50% of which are for co-operative development, 29% for housing and 18% for training (note: funds lend for more than one activity)
- 65% of funds lend directly to clients, while 35% provide loan guarantees for loans issued by a financial institution, in most cases a credit union
- 91% of community investment funds offer term loans with fixed regular payments, 35% offer a line of credit, 15% do equity investing

When the conclusions of this study were coupled with those of a separate survey in the same year by the NACCA of AFIs, Strandberg Consulting noted the following trends[16]:

- Governments play a significant role in supporting the viability of community investment vehicles
- Whether provided by government or other community investment partners, community investment organizations need ongoing operating subsidies and affordable capital in order to fulfill their community development mission
- Community investment organizations have a limited track record with private investment capital
- In spite of the many challenges faced by community investment intermediaries, they are nonetheless significant job creators, helping reduce poverty, financing environmental regeneration, building affordable housing, and supporting economic restructuring of resource-based communities.

2.5 Operating Challenges: The Experience of Calmeadow

Before dismantling in 2000, Calmeadow was the largest domestic micro-lending institution in Canada. During its operation, Calmeadow disbursed more than $4.6 million in 2,558 loans to Canadian microentrepreneurs[17].

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[15] Social Investment Organization and Riverdale Community Development Corp, "*A National Study of Community Investment in Canada,*" 2003.
[16] Strandberg, C. "*The Emergence of Community Investment as a Strategy for Investing in Your Community,*"delivered at the Saskatchewan "Investing in Your Community Conference," March 2004.
[17] Frankiewicz, C. "*Calmeadow Metrofund: A Canadian Experiment in Sustainable Microfinance,*" April 2001.

Their activities began in 1987 by launching the Native Self Employment Program in three aboriginal communities in Ontario. Their initial success led to the creation of the First People's Fund in 1990 which was subsequently followed by similar peer group and individual lending programs in rural Nova Scotia, Toronto, and Vancouver in the early 1990s. Peer lending programs were generally groups of 4-7 people who would evaluate each other's business plans then recommend and morally support the loans from Calmeadow. No additional loans could be approved while one of the members was delinquent. This enabled Calmeadow to offer loans without collateral, instead using the group's interests as a guarantee. The goal of these programs was to support small, self-employed entrepreneurs lacking access to credit and to find a financially sustainable or commercially viable means of doing so.

Despite their initial success, Calmeadow experienced significant difficulties operating in the Canadian context. Such difficulties are best exemplified with the experiences of two of their programs, Calmeadow Nova Scotia and Metrofund in Toronto.

i. Calmeadow Nova Scotia[18]

The earliest version of the Calmeadow Nova Scotia program, known as Peer Assistance for Rural Development, or PARD, began in May 1991 and was located in the town of Lockeport in Shelbourne County. Here, Calmeadow served as an intermediary for loans with the Royal Bank of Canada (RBC), charging a standard fee for their services. The business activities of Calmeadow clients were concentrated in general sales (22% of total clients), arts and crafts (16%), construction (10%) and general services (10%), with a wide range of other activities comprising the remaining 42%. Entrepreneurs were primarily male (57%) and Caucasian (76%). Twenty-one percent were African Canadians, 2% were landed immigrants, and 1% were Native Canadians. Twenty-four percent of recipients were 19-30 years old, 35% were 31-40, 29% were 41-50, and 12% were over 50.

Calmeadow loans were offered on an ascending scale: first loans of up to $1,500, second loans of up to $2,500 and third loans of up to $5,000 with an average loan term of 18 months. Initially, their clients were targeted from social assistance and anti-poverty agencies. Their programs did not contain a training component and thus were primarily a method of financial assistance for clients without much entrepreneurial experience. However, in 1994, Calmeadow was formally incorporated and the focus shifted towards creating a self-sustainable program for many communities throughout Nova Scotia.

By July 1999 they had planned to establish 10 separate loan funds which would reach 850 borrowers, however, by their deadline, only six funds were operational, with only 163 active borrowers combined and a loan portfolio of approximately $395,000. This lack-luster performance was the result of many factors. Firstly, the local community funds took longer than expected to raise their capital. Secondly, fund coordinators answered to their local board of directors, rather than to Calmeadow, thereby creating conflicting objectives. In 1996, they restructured and centralized their program in Halifax, now charging a percentage of the loan amounts in addition to their service fees. They also approved loans themselves rather than including the decision-making process in the group lending environment as well as instituted an individual loan program of up to $15,000, designed to offer assistance to those entrepreneurs who have already had business experience of not less than one year. It was preferred that users of these individual loans be graduates of the peer-lending program.

[18] Nick Friendly and Robert Wright, January 2001

Despite these changes, Calmeadow Nova Scotia encountered many of the same problems the Metrofund discussion below, and grew at a "stubbornly modest pace."[19] Effective January 1, 2001, Calmeadow Nova Scotia ceased lending activities and closed its doors and all existing, paid up clients are now dealing directly with RBC.

ii. Metrofund

A 1993 survey of 363 microentrepreneurs in the Toronto area indicated that there was a need for microfinance loans. Eighty six percent of those with existing businesses and 76% of those with start-ups were interested in the peer group lending product[20]. Almost 10 years later, Calmeadow decided to spread their operations into Toronto. However, in March 2005, about a year after Metrofund opened its doors, 30% of its client base was delinquent and only one group had agreed to repay the loan of its defaulting member. By the end of that month Metrofund had made a $20,000 provision for write-offs, which amounted to 13.5% of the loans it had issued to date[21].

As a response to this problem, Calmeadow initiated "The Davenport Project" to survey entrepreneurs and estimate their needs, their latent demand for credit, and the size of the market for Metrofund's services. The survey indicated that nearly one third of the microentrepreneurs had a latent demand for credit; in other words, they cited the inability to access credit as an impediment to the operation of their businesses. It is interesting to note that this ratio is lower that the most recent statistics compiled for Canada as a whole cited above. The Davenport Project found that microentrepreneurs with a latent demand for credit tended to own businesses that had been in operation for more than one year but less than five years and were frequently members of an immigrant community. Twenty-one percent of those surveyed indicated an interest in microcredit, but only 2.5% of the total actually applied for a Metrofund loan[22].

According to one estimate, Metrofund would need a portfolio of approximately $24 million and more than 5,000 active clients to break even at current productivity levels. After struggling with more product offerings and financing strategies, it was decided in December 1999 that Metrofund was not sustainable as a stand-alone, microloan fund. Given the size of the market, the high operational costs and the limited possibilities for generating revenue, the model proved too expensive to maintain in the North American context which led Calmeadow to gradually sell off its loan portfolios. In 1996, VanCity bought Calmeadow's Vancouver program where individual microcredit programs were covering their costs and peer group lending was sustainable through cross-subsidization from their other credit union activities. In 2000, Alterna bought Calmeadow's individual lending program in Toronto, but shut down the peer group lending program due to an inability to secure funding.

2.6 Factors Affecting Microfinance Sustainability in Canada

Although it appears that achieving scale and self-sufficiency are much more difficult in a developed-country context, the large scale networks and information sharing that have developed

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[19] Frankiewicz, C. "*Calmeadow Metrofund: A Canadian Experiment in Sustainable Microfinance,*" April 2001, p.14.
[20] Burnett, J. *"Toronto Loan Fund Report,"* December 1993, p 21.
[21] Frankiewicz, C. *"Calmeadow Metrofund: A Canadian Experiment in Sustainable Microfinance,"* April, 2001. p. 14
[22] Ibid. p. 37

in the past ten years, particularly in Québec, are providing a means to share expertise and financial resources. The Réseau Québécois du Crédit Communautaire (RQCC) for example, has created a network of local service providers and loan funds which will be explored in greater detail in the following section and will hopefully provide a more optimistic forecast of sustainable microfinance in Canada.

A 2006 study[23] summarized the factors effecting microfinance sustainability in Canada as follows:

External Factors:

- The micro-enterprise market is much smaller and not necessarily low-income
- The market is better educated but less experienced in business
- Demand for credit is not as great. People may have other options
- Market demand is both latent and suppressed because there is a regulatory environment which discourages micro, and in particular, home-based businesses and there are often disincentives built into the social assistance system
- Businesses are often more complex and operating in a more complex marketplace
- Delivery costs are higher due to human resource expense
- There are no relevant, fully-sufficient microfinance models to look to in North America
- More limited latitude on interest rates due to usury laws and public attitudes
- Most focus exclusively on small scale credit because of restrictions on savings mobilization

Internal Factors:

- Vision – many were and still not are striving for self-sufficiency
- Many take on a short-term project approach instead of a more long-term institutional approach
- Many suffer from a confusion or lack of clarity on who the client is

3. Microfinance in Québec

As previously mentioned, Alphonse Desjardins began the first credit unions in Québec in 1900 to serve French-speaking Canadians with insufficient access to financial resources. Community credit organizations, however, took much longer to emerge. In 1987, the Montréal Community Loan Fund (ACEM) was one of the first to emerge. Several other private institutions were developed in and outside of Montréal to promote job creation, financial independence and social development through entrepreneurial activity such as the Regroupement Economique de Sud-Ouest (RESO) in 1984 and le Corporation de Development Economique Communautaire Rosemont – Petite-Patrie (CDEC RPP) in 1990.

With the exception of ACEM, such institutions were integrated as public services in 1998 when the government of Québec created Local Development Centres (CLDs) throughout the province modeled after CDECs to support and train local entrepreneurs as well as to facilitate access to

[23] Coyle, M., and Wehrell, R., *"Small is Beautiful, Big is Necessary; Canada's Commercial and Cooperative Answers to the Global Challenge of Microfinance Access,"* Presentation to the Global Microcredit Summit, Halifax, Canada, November 2006.

financial resources. Existing private community entrepreneurial development centers were transformed to CLDs and given government funding provided they pursue certain mandates. One of their most important mandates is the development of a local economic and labour development plan every three years for their respective boroughs.

In 2003, Bill 34 entrusted the City of Montréal with the responsibility of local economic development and Article 91 of the bill gives CLDs the following mandates:

1. offer, possibly in partnership with other persons or organizations, including the private sector, all front line services to businesses, including their consolidation or coordination, and ensure their funding;
2. develop a plan of action for the local economy and employment, taking into account the particular development plan prepared by the regional conference of elected officers in its territory, to approve the plan by the local municipality and regional county and to ensure the realization of the local action plan;
3. prepare, taking into account the orientations, strategies and national and regional objectives, a strategy for development of entrepreneurship, including social economy entrepreneurship;
4. act as advisory committee to the local employment center of its territory

It is clear that this bill ignores many social objectives of entrepreneurial development, most notably poverty alleviation, and doesn't specify any target populations for CLD activities. Directors of CLDs and CDECs are free to define and pursue social objectives as they define them for their regions. A presentation by Pierre Morisette, the director of RESO, to the World Conference on the Development of Cities in 2008, argues that the government saw CDECs as a model that works and spread them widely "without taking into accounts the necessary adaptation to local and specific contexts…with the result that, despite the good intentions, many of those CLD were just a private club for local elites.[24]"

The CLDs integrated a variety of existing services such as the Québec network of Support Agencies for Youth Initiatives (OSIJ). Outside of CLDs, The Service to Support Young Companies (SAJE) and the Self-Employed Worker Support (STA) is funded by the government of Québec to provide training services to new entrepreneurs including business plan development and financial planning. Once business plans are completed, entrepreneurs are encouraged to present them to CLDs, Community Economic Development Corporations (CDECs) and other community credit organizations to apply for financing. The performance objectives of these institutions are largely related to job creation, entrepreneurial development, and financing rather than poverty alleviation and provision of support services to marginalized populations. The SAJE model, for example, boasts that it has contributed to the implementation of 18,542 enterprises which have created almost 40,000 jobs for project investments estimated in excess of 800 million dollars[25] without any mention of demographics or ability to generate incomes above the poverty line. Statistics published by CLDs/CDECs tend to reference the same achievements.

CLDs/CDECs do not have their own funds; rather they manage the grants and financing programs of other agencies. The loan funds generally allocate pre-determined amounts of financing to different regions based on the needs of local industries so that there is no competition between regions for access to funds. CLDs /CDECs also differ in the loan grating process. CDEC RPP and

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[24] Morrisette, P., "*Social Economy and Local Development in Montréal: A contribution for a more inclusive and sustainable city*," Presented at the World conference on the development of cities in Porto Alegre, Brésil February15, 2008.

[25] http://www.sajeenaffaires.org/mission.php

the Society of Economic Development in Ville-Marie (SDEVM), which is also a CLD, helps promoters develop their business plans before a member of their staff presents it to their granting committee. The Economic and Social Grouping of the South-West (RESO) however, follows a similar training and coaching procedure but has the promoter present the business plan, in part as a method of building their business skills to facilitate potential presentations to formal financial institutions. The frequency of granting committee meetings are also highly variable (4 to 12 times a year) thus the loan application process experiences different lags between CLDs/CDECs.

Another point of variation between CLDs/CDECs is in the industries they target. For example, in addition to having a much higher portfolio ($3 - $4 million), the SDEVM tends to finance larger scale projects as they target knowledge-based industries such as software, gaming, and telecom. This is largely due to the downtown neighbourhood they serve. Self-employed workers in that region are generally of higher income and higher education. Knowledge-based industries also tend to be male dominated so a very large portion of their clients are men (approximately 98%).

The analysis of CLD and CDEC targeting will be explored in greater detail in Section 3.2: Analysis of Underserved Populations and Section 3.4: Operating Challenges.

3.1 Entrepreneurship in Québec

A survey[26] of 830 Canadian business owners with 1 to 499 employees revealed that a much higher proportion of Québec SMEs (47%), relative to Canada as a whole (29%), noted securing the necessary financing as a main obstacle to making their intended investments. Lack of funds as an obstacle to innovate was also a much larger problem in Québec. These findings were drawn from a sample demographic which includes a higher personal income than microfinance would hopefully target; however, it is interesting to highlight the relative scarcity of financial resources in Québec.

This is especially interesting given the previous FCAC statistic which determined that a smaller percentage of Québec residents relative to the rest of Canada have been refused an account by a financial institution. It may be, therefore, that the type of account matters for the interpretation of financial accessibility. Those surveyed who cited experience with account refusal claimed to have been refused a credit card more often in Ontario (51%) than in Québec (25%). However, residents of Québec (46%) were more likely than residents of Ontario (19%), Alberta (19%) and British Columbia (23%) to say that they have been refused a chequing account[27]. Surely refusal of a chequing account would be more limiting than a credit card.

The perceived lack of financial resources in Québec is unfortunately coupled with a weaker entrepreneurial spirit relative to the rest of Canada. Only 7.8% of Québecers intend to undertake entrepreneurial activity (an increase of 10% year over year), versus 14.1% in the rest of Canada (an increase of 88% year over year)[28]. This disparity is due in part to the financial crisis, which was much more challenging for businesses in Ontario and Western Canada, in that a more entrepreneurial spirit was a response to the challenging job market. In other words, citizens would

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[26] BDC, "*Survey conducted among Angus Reid's Forum Panel for the October 2010 Small Business Week*," June 2010.
[27] Financial Consumer Agency of Canada, "*Public Experience with Financial Services and Awareness of the FCAC*," March 24th, 2005.
[28] Indice Entrepreneurial Québécois 2010, la Fondation de l'Entrepreneurship, « *Qu'est-ce que* ***les entrepreneurs québécois*** *ont dans le ventre?, »* April 2010.

rather create their own business than struggle with the increased labour competition, lay-offs, and lower wages in many industries.

The report differentiates the concentration of entrepreneurial activities in Quebec and the rest of Canada:[29]

Québec is relatively dominant in:

- personal, professional, and business services (9.1% of total ventures in Québec versus 4.8% in the rest of Canada)
- education and social services (7.4% of total business owners in Québec versus 3.6% in the rest of Canada)
- culture (6.6% of total business owners in Québec versus 2.2% in the rest of Canada) and,
- transport, communications and public services (4.8% of owners in Québec versus 2.1% in the rest of Canada)

While the rest of Canada is relatively dominant in:

- construction (5.6% of total business owners in Québec versus 9.1% in the rest of Canada)
- information technology (6.4% of total business owners in Québec versus 8.7% in the rest of Canada) and,
- health services (2.8% of total ventures in Québec versus 6.0% in the rest of Canada)

Perhaps the most important disparity between entrepreneurship in Québec and the rest of Canada is in terms of income. Table 1 lists entrepreneurial phases by income groups. The study in question defines each group as follows:

- Intention – alone or with others, the surveyed individuals have the intention of creating a new enterprise or buying an existing enterprise
- Venture – in the course of the last 12 months, alone or with others, the surveyed individuals have begun to create a new enterprise or to overtake an existing enterprise (ex. Sought equipment or offices, organized a team, created a business plan, begun to accumulate capital or other activities that aid in creating an enterprise)
- Ownership – alone or with others, the surveyed individuals are currently the owners of an enterprise
- Closing – the surveyed individuals have already closed or ceased activities of an enterprise in the sales of goods and/or services of which the individuals were the owner and manager

According to these definitions, more than one in four (25.4%) Québec residents with the intention of creating a business earn less than $20,000 annually. This statistic is almost halved in the rest of Canada (13.8%). Furthermore, almost half (47.6%) of Québec residents with the intention of creating a business earn less than $40,000 annually (versus 35.2% in the rest of Canada)[30]. Thus, it is clear that entrepreneurship in Québec may be

Table 1

	Intention		Venture		Ownership		Total	
	QC	RoC	QC	RoC	QC	RoC	QC	RoC
Revenues	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
< 20K	25.4	13.8	16.2	16.7	11.3	9.5	20.3	19.1
20K - 39.9K	22.2	21.4	24.3	15.1	18.8	17.2	22.6	18.2
40K - 59.9K	14.3	16.3	18.9	14.3	21.3	15.1	18.3	13.6
60K - 79.9K	14.3	11.6	16.2	10.3	12.5	10.1	11.3	11
80K - 99.9K	4.8	8	5.4	7.9	6.3	8.6	6.7	6.8
100K - 150K	3.2	8.3	5.4	9.5	5	8.9	3	5.6
150K <	3.2	4.3	2.7	8.7	5	8.6	1.5	3.7
Refused to answer	12.6	16.3	10.9	17.5	19.8	22	16.3	22

[29] Ibid, p.11.
[30] Ibid, p.14.

perceived as a means to escape poverty rather than as a lucrative method of earning a living, as we see that entrepreneurial activity is relatively concentrated among the lowest income group.

It is also interesting to note that Québec residents are more than twice as likely to use government services to finance their business both in the start-up and management phase. This may be due to a wider array of provincial services as will be discussed below, as well as a greater need for such services given the lower income of those who intend to start a business.

3.2 Analysis of Underserved Populations

Although a study of access to finance in Québec has not been published, analysis of various factors - available programs, demographics of loan and grant recipients, and conversations with financing and management counselors at CLDs and CDECs - helps delineate the potential needs of microentrepreneurs with regard to financing. Furthermore, analysis of the payday loan industry in Québec is relevant to studying the demand for microfinance in the province and to identifying populations that traditional finance is missing.

As Section 2.3 noted, the highest legal APR in Québec is 35%, the lowest in the country, which makes it very difficult to provide payday loans in the province. The Canadian Payday Loan Association (CPLA) represents 21 companies with 535 point of sale outlets across the country; however, none of the represented organizations have outlets in Québec. The CPLA supports provincial regulations of the industry and strictly abides by best practices; therefore any organizations acting outside of this association are particularly dubious.

Strangely, residents of Québec have the highest likelihood to use cheque-cashing or payday loan services in Canada (17% among all surveyed Québec residents) despite their having the most stringent regulations in the industry.[31] This must mean that this frequency is related to cheque-cashing services rather than payday loans, or the survey has been exposed to some misreporting. In fact, of those who have used either a cheque-cashing or payday loan service, Québecers are the least likely to have used a payday loan service (19% among all surveyed Québec residents who have used cheque-cashing or payday loan services). Payday lending clearly has a much smaller market in Québec than elsewhere in Canada. It is thus of great importance that CLDs/CDECs and other community credit funds are able to access the lowest-income citizens.

Section 3.3 will describe provincial funds in greater detail, most of which are issued by CLDs/CDECs. However, it is important to remain cognizant that the primary objective of CLDs/CDECs is job creation and entrepreneurial development rather than poverty alleviation.

Although CLDs/CDECs officially state that they will manage loans as low as $5,000, these small loan amounts are rarely the most demanded and granted. Practitioners argue that successful business plans tend to come from more educated clients, which may be positively correlated with their income level. For example CDEC Rosemont-Petite-Patrie manages $1 million a year and can loan anywhere from $5,000 to $350,000; however, most loans fall in the range of $30,000 - $150,000 with an average of approximately $80,000.

The Fonds de Solidarité FTQ, to be described in greater detail in the following section, has $100 million of available financing for SMEs through their local solidarity fund; however, only $79

[31] Financial Consumer Agency of Canada, "*Public Experience with Financial Services and Awareness of the FCAC,*" March 24th, 2005.

million has been disbursed since 1983. This signifies a lack of outreach to the populations who may benefit from this program either on behalf of the fund or on behalf of the government programs that should be ensuring the training of entrepreneurs and the development of viable business plans.

Although such programs are well-intended, many encounter difficulty supporting populations which are most at risk. The Fonds de Jeunes Promoteurs (FJP), a grant for young entrepreneurs, imposes stipulations which are difficult to adopt, such as the maintenance or creation of two full-time jobs within two years. The Soutien au Jeunes Entrepreneurs (SAJE) refuses to support a long list of business activities[32], many of which tend to be owned and/or managed by low-income individuals, women and immigrants: restaurants, hair salons, home daycares, culture-related businesses, etc.

Therefore, although the programs to be outlined in Section 3.3 appear numerous, they may not be targeting the most at-risk populations. Furthermore, because CLDs are tasked with job creation instead of poverty alleviation, demographic statistics are not compiled or if so, are not published publicly.

3.3 Active Organisations

i. Centres Locaux de Développement (CLDs)

As mentioned in the introduction to Microfinance in Québec, CLDs provide many entrepreneurial services including training, workshops, business consulting and financing. They administer loans through several federal, provincial and municipal funds. The funds in the non-exhaustive list below have been included because they are active in Montréal, although they are managed at the federal and/or provincial level.

a. Fonds de Solidarité FTQ[33]

Portfolio: $100 million
Loan Amounts: $5,000 - $50,000
Term: up to 5 years
Fees*: 2.5% of the loan, plus $125 (<$25,000) or $250 (>$25,000)
Interest*: 9% - 14% depending on risk
*conditions of RESO, fees are generally paid upfront but may be broken into an opening and closing installment

The Fonds de Solidarité FTQ was created in 1983 as a development capital fund that uses the solidarity and savings of Québecers to help fulfill its mission to create and save jobs in Québec by investing in small and medium-sized businesses in all spheres of activity. The Fonds provides training for workers in order to increase their influence on the economic development of Québec. The Fonds also seeks to encourage Québecers to save for retirement and to offer their shareholders a reasonable return over and above the outstanding tax benefits they receive by purchasing Fonds shares. Contributions to the Fond are treated as RRSPs and contributors to the fund receive two tax benefits: tax credits (30%) and tax deductions (30-48% depending on the

[32] The complete list of excluded sectors can be found in Appendix 1.
[33] http://www.fondsftq.com/

bracket). The maximum amount eligible for tax credits is $5,000 per year, which translates into tax savings of $1,500 ($750 on Québec taxes and $750 on federal taxes).

As of May 2010, Fonds de Solidarité FTQ financed $4.784 billion investments in 2,052 partner companies which created, maintained, or protected 150,133 jobs. They have over 577,500 shareholder-owners who contribute to their net assets of $7.3 billion. Loans in excess of $2 million are administered through their head office while 16 regional funds are administered through regional offices and are available for loans from $100,000 to $2 million. The lowest levels of financing available are through their Fonds Locaux de Solidarité FTQ, which was incepted in 1991 as SOLIDE and now provides equity and conventional loans through the 16 regional funds as well as through 87 local funds administered through CLDs and CDECs.

The local funds are designed by FTQ to meet the needs of small businesses requiring financing between $5,000 and $100,000. Equity loans have an investment horizon of 5 to 10 years. Conventional loans are unsecured – they do not require collateral, have a competitive risk-based interest rate adjusted based on performance and custom terms.

Through the local solidarity funds, SMEs have over $100 million in available funding. Local partners invest $24 million while $76 million comes from the Fonds de Solidarité FTQ to support local economies. To date, the fund has authorized 2,477 projects, $79 million in financing for a total project value of $1 billion which has created or maintained 23,001 jobs. Eligible activities depend on the local action plan and development priorities.

b. Fonds Local d'Investissement (FLI)[34]

Loan Amounts: max $350,000
Terms: generally 5 years
Interest: prime + 2%, plus an additional 0% - 8% depending on the risk assessment from the Joint Investment Committee (CIC)

FLIs are administered though CLDs which determine eligible business activities and the amount of support allocated to the company. The objective of the fund is to stimulate local entrepreneurship by facilitating access to capital for the implementation and expansion of businesses in the traditional or social economy.

Financial assistance takes the form of a loan, equity loan, a loan guarantee, acquisition of bonds or other debt securities and equity-shares, capital or otherwise. Combined financial assistance from the Federal, Provincial or CLD may not exceed 50% of the value of the project costs with the exception of social economy enterprises which may be granted up to 80% of eligible expenses. The support granted may not be used for the operation of an organization, to finance its debt service, to repay future loans or to finance a project already completed. As with Fonds de Solidarité FTQ, eligible activities will depend on the authority of the CLD.

The Joint Investment Committee (CIC) may apply a reduction of the risk premium, ranging from 0.25% to 2% under one or a combination of the following three conditions:

- The company is implementing an internship program in the workplace for young people (16-35 years) unemployed residents
- The company is implementing an environmental management program
- The company sets up a participative management program

[34] http://www.formulaire.gouv.qc.ca/cgi/affiche_doc.cgi?dossier=7131&table=0

c. Fonds Jeunes Promoteurs (FJP)[35]

Grant Amounts: $5,000 - $8,000
Combined financial assistance from provincial and federal governments may not exceed 35% - 75% of the project cost

This program aims to help young entrepreneurs create a first or second enterprise by offering them technical and financial support in the form of a grant. In order to be eligible for the program the applicant must be:

- A Canadian citizen or landed immigrant and permanent resident of Québec
- Between the ages of 18 and 35
- In possession of experience or training pertinent to the project

The financial contribution will generally cover one or more of the following components:
Component 1: Initiating your first or second business:

- Build a business plan covering the first two years of operation to show that the company has good potential for sustainability and profitability
- Lead the creation of at least two permanent employees within two years of the start of the project
- Include capital expenditures
- Be funded through a capital outlay of the applicant
- The financial package should include resources from the applicant, CLD, and at least one more financial partner (financial institutions, government programs)

Component 2: Relief

- The young entrepreneur must work full time in the company
- The project must maintain the equivalent of at least two full-time jobs within the company, including that of the young entrepreneur
- The young entrepreneur must acquire at least 25% of the value of the company in order to ensure succession
- The business must be in operation and have a good financial position
- The acquisition must be funded in part by an investment made by the young entrepreneur

Component 3: Innovation and Development/Entrepreneurial Training

- Aimed at young entrepreneurs whose companies are 2 to 5 years old and have not received aid in the other two components
- The young entrepreneur must work full time in the company
- The project must maintain the equivalent of at least two full-time jobs within the company, including that of the young entrepreneur
- The project must have a concept of value added
- The business must be in a good financial position
- Build a business plan that demonstrates that the company has real sustainability and profitability

Restrictions:

- The expenditure on a project, but prior to the date of receipt of the official request for assistance by the LDC are not eligible.
- The funding can not be used for the operation of an organization, to finance its debt service, to repay future loans or financing of a project already completed.

[35] http://www.acldq.qc.ca/ACLDQ/index_f.aspx?ArticleID=131#jp

- The same business plan cannot receive financial assistance for more than two applicants

These are general guidelines and subject to change. The issuing CLD has ultimate discretion with respect to eligible activities and issuance of funds.

d. Fonds de développement des entreprises d'économie sociale (FDÉES)

Grant Amounts: max $5,000 - $50,000 depending on the CLD/CDEC
Term: one year with possibility of renewal

The objective of FDÉES is to stimulate the emergence of viable projects within the social enterprise sector and to support the creation of sustainable employment by providing financial support. Eligibility criteria may vary from one CLD to another but must generally pursue a social purpose, respond to social needs identified by the community, and pursue goals consistent with any existing local employment strategies.

Eligible Expenses:

- Capital expenditures such as land, buildings, equipment, machinery, incorporation fees and other similar expenses, excluding goodwill expenses.
- Acquisition of technologies, software packages, patents and other similar expenses but excluding research and development.
- Working capital needs pertaining strictly to business operations calculated for the first year of operation.
- Expenditure on a project but prior to the date of receipt of the official request for assistance by the LDC are not eligible.
- Funding can not be used for the operation of an organization, to finance its debt service, to repay future loans or financing of a project already completed.

Funding will be paid as a subsidy and the amount of financial assistance will be determined by the CLD. Moreover, the combined financial support from the governments of Québec and Canada and the CLD may not exceed 80% of eligible expenses. Each CLD/CDEC also reserves the right to impose more restrictions – many stipulate that the project must create at least two jobs.

e. Soutien au Travail Autonome (STA)

Grant Amounts: base salary of $380/week
Terms: maximum 52 weeks of support

The objective of the Self-Employment Support (STA) fund is to provide financial and technical support to people wishing to acquire or create a micro business or become self-employed and to help create sustainable jobs in the region.

It aims to:

- Support individuals who have a viable enterprise in the implementation of their project
- Promote job creation through entrepreneurship
- Provide individuals the opportunity to consolidate their business activity or achieve self-employment so they gain financial independence
- Diversify local economies in a context of strategic economic development
- Help people to regain their financial independence

Eligibility may be different from one CLD to another but generally should meet at least one of the following conditions:

- Be the provider of the income security
- Be receiving employment insurance
- Have been unemployed within 36 months
- Have received maternity benefits for the past 60 months (without returning to work)
- Be unemployed and without financial support
- Be a worker at risk.

In addition, candidates must:

- Demonstrate the motivation to become an entrepreneur
- Have experience or skills related to the project
- Make a financial contribution of the project at least 20% of project cost
- Commit that its main activity is working to start a business
- Agree to be monitored by the coordinator throughout the development and implementation of the project (2 years)
- Not receive income replacement benefits from the CSST or the SAAQ
- Not have a significant liability potential
- Not have in the past put an end to the operations of a project developed under STA
- Not be in default of payment of government debts or may not be in default of a repayment agreement
- Not be involved in any litigation or legal proceedings

The assistance will consist of technical support and financial assistance. Technical support, divided into two parts, will be given to entrepreneurs and may contain advice on topics such as developing the business plan, accounting, marketing, computer use, access to capital and funding working capital.
Part I (Maximum of 12 weeks):
Support and consulting services to develop the business plan. If the contractor has already built his business plan and is ready to start his business, Component I is not necessary.
Part II (maximum 40 weeks):
Support, advice and monitoring services to aid business start-up or self-employment activities.

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

RISQ is a capital risk fund that works only with the social economy and has a mission to provide accessible finance adapted to the reality of social economy enterprises. Eligible companies must be established in Québec and must be non-profit organizations (NPOs) or cooperatives. RISQ aims to support the development of collective enterprises in the phases of startup, consolidation, expansion or recovery through three methods of intervention.

Technical Assistance Component: financing offered to entrepreneurs, which allows them to hire consultants and specialists to undertake the necessary studies for the development and realization of their projects.

Amount of the loan: between $1,000 and $5,000
Refundable only if the project is realized
No interest until the realization of the project
Down payment of 10% by the applicant group (may come from the applicant, a grant from a CDEC, CLD etc., or a donation)
RISQ does not finance the refundable portion of taxes (GST and/or QST)
Fees for opening a file: $50

Admissible projects are limited to business plans, market studies, and feasibility or prefeasibility studies. Projects must be well defined and responsive to a need. They must have a social objective with support from and an anchor in the neighbourhood. Experience and expertise of the promoters and quality of the consultant employed are also essential.

Path of application:

1. Receiving the request and sending the acknowledgement
2. Analysis of the file, after receiving the cheque of $50 to open the file
3. RISQ approval and dispatch of the investment officer
4. Receipt of documentation necessary for the first disbursement which must be 50% of the investment
5. Receipt of the final report of the consultant hired by the company
6. Final disbursement of the remaining 50% of the investment
7. Loan repayment to RISQ upon implementation of the project

Startup Component: aimed to support enterprises in the preparation and implementation of their startup or development project. Projects must be well defined and feasibility studies must have been completed.

Maximum investment of $100,000 made in the form of patient capital without a guarantee and without repayment during the startup period
The startup period generally lasts 2 years
No interest will accumulate until the startup period is complete
Fee for opening a file: $100 (deductible from the commitment fee)
Commitment fee: 1% of the authorized amount payable on the disbursed investment

Evaluation criteria:

- Social objective, support, and anchor in the neighbourhood
- Board of Directors
- Presence of an entrepreneurial team and expertise of the applicants
- Identification of a business opportunity, demonstration of commercial potential and anticipated competitive advantages
- Evaluation of the capacity of the promoters to bring their project to term in regard of the planned expenses during the startup period and the sources of financing available
- Anticipated economic viability and possibility of generating significant operating revenues
- Presence of financial partners desired, but not obligatory
- Project may get funding from donors during startup
- Creation or maintenance of at least one job for project development
- Supervised by a local technical resource

Reimbursement after startup:

- The loan is repayable after startup, upon the first round of financing or upon the first sales
- If unable to repay the loan upon the first round of financing and/or first sales, the terms of repayment are as follows:
    - Term up to 10 years after the startup period (usually a maximum of 2 years)
    - Fixed interest rate of 8% for the duration of the loan
    - Reimbursement usually by fixed payments (principal and interest)
    - Possibility of moratorium on the repayment of capital not exceeding 5 years

- Advance repayment without penalty with 90 days notice

Path of application:

1. Receiving the request and sending the acknowledgement
2. Validation of the admissibility of the application and file analysis
3. File presentation to the investment committee and investment decision
4. Investment offer (if accepted) and disbursement
5. Reimbursement at the completion of the financing or reimbursement by monthly fixed payments (principal and interest) and followed by RISQ
6. Receipt

Capitalization Component: consists of financing in the form of patient capital for the stages of startup, consolidation, expansion or restructuring. Investments can take the form of loans, loan guarantees, or equity investments. The value of investments range from $20,000 to $50,000 and have the following features:

Flexible repayment terms
Possibility of moratorium on repayment of principal up to 5 years
Low interest rates combined with a minimum risk premium
Term investments of 2 to 10 years

Evaluation Criteria:

- Social objective, support, and anchor in the neighbourhood
- Experience and expertise of the promoters (management team and Board of Directors)
- Supervised by a local technical resource
- Human resources (training programs, job quality and sustainability)
- Economic viability and financial structure
- Market, production and asset quality

Other funds which focus on the social economy include la Caisse d'économie Solidaire, Investissement Québec, fonds de capital patient du Chantier d'économie sociale. Their products, services, and loan terms vary but their conditions are similar. Some of these funds are administered through CLDs while others are applied to directly by the promoter. Promoters may also apply directly to the funds below.

ii. Separate Funds

a. Réseau Québécois du Crédit Communautaire

Loan Amounts: max $40,000 - $50,000
Terms: 12 – 36 months in loan circles; 2 – 5 years in community loan funds

In the ten years since its inception in the year 2001, the Réseau Québécois du Crédit Communautaire (RQCC) has accumulated 21 active members, distributed more than $7.8 million in 1,322 loans, achieved a 90% repayment rate, and created or maintained 3,688 jobs[36]. 298 enterprises were created in 2009-2010 alone. The RQCC targets the unemployed as well as those with low-income, social assistance, or poor credit to enable entrepreneurial activity through

[36] Réseau Québécois du Crédit Communautaire, *«Rapport Annuel 2009-2010. »*

support, training and flexible financial resources. Their clientele is concentrated among youth (57% of the total clientele is between 18 and 35), women, immigrants and visible minorities (71%), and impoverished populations (29% with revenue below 20K).

The RQCC is comprised of eleven loan circles and twelve community loan funds present in twelve administrative regions of Québec. Each regional branch tailors their operations to respond to the specific needs of their community but all branches provide individual support and training. Financing rarely exceeds $20,000 but was increased to $40 - $50 thousand in extreme situations due to the financial crisis in the past year. In 2009 – 2010, the average loan in the loan circles was $2,286 with a term between 12 and 36 months while the average community loan fund was $7,794 with a term between 2 and 5 years.

Loan circles are groups of individuals who want to work independently or start a micro-enterprise and are comprised of several components:

- The mobilization of savings and capital
- The support and training of the individual and the enterprise
- The collective responsibility of the group and access to credit

Members of the RQCC include ACEM and Compagnie F, both of which will be described in greater detail in the sections to follow.

b. Créavenir

Loan Amounts: $5,000 to $10,000 (50% loan, 50% grant)

Créavenir is a program available through Desjardins for youth entrepreneurs between the ages of 18 and 35 who either would like to either start a business or have owned a business for less than two years. Their products include start-up grants for up to $5,000 and interest-free loans repayable progressively from the second year up to $10,000. Their financing is generally comprised of 50% grant and 50% loan. Their criteria is very similar to the Fonds des Jeunes Promoteurs but more flexible. Créavenir is active in several *caisses* in Abitibi-Témiscamingue, Bas St-Laurent, Estrie, Haute Côte-Nord, Kamouraska-Chaudière-Appalaches, Richelieu-Yamaska, Saguenay-Lac-St-Jean and Montréal.

The entrepreneur must :

- Have permanent residence for at least six months in the territory of the issuing *caisse*
- Be the developer of an enterprise in the pre-startup phase, startup phase, or active for less than two years
- Be a member of one of the participating *caisses* Desjardins or commit to become a member once financial support is confirmed
- Demonstrate that the granting of financial support does not result in layoffs
- Submit the business plan produced at the launch of the company and that of the current year
- Submit the financial statements and budget for the current year
- Be legally incorporated or in the process of becoming so

With the exception of CDEC Rosemont-Petite-Patrie (CDEC-RPP), entrepreneurs submit their applications to the caisse directly. CDEC-RPP, however has unified the activities of 6 *caisses* to streamline loan and grant requests through their office. As of February 2010, they have been allocated $150,000 to support youth entrepreneurial initiatives over the course of three years.

c. Filaction

Filaction was born through the initiative of FondAction with whom it shares the same objectives of economic democratization, participation, solidarity and sustainable development. Filaction, however, targets SMEs in Québec which may be from all economic sectors but focused in the cultural community and the social economy. They work directly with entrepreneurs and stakeholders in local development, in tandem with their respective financial contributions, financial institutions. Filaction hopes to produce a ripple effect facilitating the involvement of traditional financial institutions. Filaction participates in prudent investments in viable projects based on the potential of the enterprise.

Their mandate is comprised of two components:

- *Component 1*

Make development capital available to SMEs in Québec for projects to maintain and create jobs, particularly with social enterprises and the cultural sector.

- *Component 2*

Contribute to the capitalization of funds dedicated to financing micro-enterprises, offering support services to a clientele particularly targeted to women entrepreneurs, young succession, emerging cooperatives, "Afro-Québec entrepreneurs", artists and craftsmen, etc.

Filaction offers multiple forms of financing:

- Equity loans
- Loans, secured or unsecured
- Acquisition of bonds
- Convertible debentures or participatory
- Loan guarantee - Security representing 80% to 100% of a loan made by a Caisse d'économie Desjardins or any other financial institution.
- Equity investment - Acquisition of common or preferred shares, acquiring shares or preferred shares. They are generally minor and can represent from 10% to 49% of the capital stock or share capital issued by the company.
- Funding Flash - Only two weeks for amounts less than $150,000; up to four weeks for financing a higher amount.
- Simplified procedures for disbursement - A maximum period of two weeks after agreement and signing of contracts. Funding is paid on your account.
- Additional loans from our financial partners - Filaction is very involved with multiple agencies that make funding available for micro-enterprises. In this context, it can provide from $25,000 in 15 days or less.
- Other forms of atypical financing such as bridge loans, advances on accounts receivable, grants and tax credit, for example.

Enterprises: Filaction offers development capital in all stages of entrepreneurial activity with special considerations for enterprises in the social economy or cultural sector. Depending on the nature of the activity, form of ownership, cooperative or nonprofit Filaction is attentive to the parameters that characterize a collective enterprise:

- Primacy of the individual capital
- Individual and collective support
- Democratic decision-making
- Production of goods and services that are socially useful and/or commercially viable and sustainable
- Internal organization of human resources, operations, and finances
- Creation of employment

The financing rates vary with each investment, and include a base rate supplemented with a risk premium. Different combinations are available: Classic Rates are fixed and variable rates indexed to market changes while Combined Rates are baseline performance expectations complemented by premium linked to the prospects of success on the calculated expected revenue. There is no fee for opening a file for enterprises in the social economy whereas rates vary with the level of investment in other sectors. Commitment fees are collected at the closing of financing and the Monitoring Committee charges an annual fee on the principal investment.

Repayment terms are adapted to each situation and can be adapted to cash flows with a possibility of no payment until 24 to 36 months. The term of the intervention can last up to seven years.

How to apply: Specify the amount of investment required and provide documentation relevant to the project including:

- A business plan
- The detailed elements of the holding company, namely its customers, markets, products and services, its key people, etc.
- A market study or a paper detailing the nature of goods or services and demonstrating that they correspond to one or more needs
- The history, aims and objects of the organization, its strategic directions, the origin of its financial resources, policy loans, etc.
- A copy of financial statements for the last three years and the current fiscal year
- A copy of the financial forecasts for the current year and two fiscal years thereafter
- The presentation of the shareholders of the company, indicating their participation in class actions
- A brief description of major contracts, including those linking the company with its customers, suppliers, managers and employees (collective agreement)

<u>Fonds de Finance Dediées</u>
These funds are generally dedicated to micro-enterprises at the startup or early development stage with loans in the range of $5,000 to $25,000.

The intervention is threefold:
- *Patient Capital* – capital contribution can go up to 50% of total capitalization and in certain partnerships, especially with the government of Québec, the intervention can rise to 66% of capitalization.
- *Complementary Loans* – typically capped at $25,000 per additional loan but can reach up to $75,000
- *Coaching, consulting services and operational support*

Filaction can implement and monitor almost all the operational elements of the following loans:

- *Fonds de développement dédiés à l'entrepreneuriat Féminin:* Since 2002, Fonds de Finance Dediées has collaborated with the Ministry of Economic Development, Innovation and Export (MDEIE) to increase access to financing for women entrepreneurs. Regional agencies to support women's entrepreneurship (ORSEF) already present in eleven (11) regions of Québec, are intended to promote and support enterprises initiated by women entrepreneurs. They offer them loans ranging from $5,000 to $25,000. The ORSEFs are independent bodies to which Filaction provides support and technical assistance. Filaction is engaged with three levels of intervention: establishment of the fund; mentoring and skills development agency managers, and; capitalization of start-up funds.

- *Fonds de développement dédiés aux Afro-entrepreneurs du Québec:* This fund was founded in 2008 in collaboration with the Ministry of Economic Development, Innovation and Export (MDEIE) and the Department of Immigration and Cultural Communities (MICC) to improve access to credit for entrepreneurs from the black communities of Québec. It helps create businesses and jobs in all sectors and intervenes in the form of loans and loan guarantees to businesses with less than five years.

- *Fair Trade Capital:* The Fair Trade Capital Fund aims to strengthen the development of the supply of fair trade products in Québec. It provides mainly short-term capital, tailored to specific needs of companies importing goods fair in Québec.

- *Cooperative Development Fund:* In collaboration with several regional development cooperatives (CDR), the Funds of Dedicated Finance provides short term and long-term financing according to the projects needs.

3.4 Operating Challenges

There is a general displeasure among community credit/financing providers with the training provided by SAJEs and the STA. These providers are evaluated based on the quantity rather than the quality of their services, given that they are government agencies. As a result, they often create promoters who have underdeveloped business plans with the expectation that they will instantly receive a loan and their business will be immediately profitable.

In many instances, CLDs/CDECs do not exhaust all their available financing. This appears to be due to the lack of viable business presented and the high degree of coaching and training required before business plans can be presented to a financing committee. Furthermore, in the lag time between application and disbursement, SDEVM and RESO both stated that the promoters tend to lengthen the process by taking a long time to produce the required documentation or to polish the business plan. This is another signal that there may be a large deficit in training before the promoter approaches CLDs/CDECs.

All these programs depend on government financing - there is no independently sustainable business model in this sector.

4. Microfinance in Montréal

Microfinance (or more specifically, community credit) emerged in Montréal as the city was experiencing a sharply rising unemployment rate after the passing of Bill 101 in 1976. Bill 101, known as the Charter of the French Language, declares French as the only official language of Québec. This, in combination with the uncertainty surrounding the looming 1995 Québec referendum, resulted in a large amount of business flight from Montréal to Toronto. Most markedly Sun Life, the Royal Bank of Canada and the Bank of Montréal all moved their major operations. The unemployment rate in Montréal went from 6.7% in 1975 to 16.7% in 1992 (while it was 10.1% in Toronto, for example). In 1993, poverty was still prevalent in Montréal, affecting 22% of citizens.

In 1984, the first community development center in Montréal, which is now known as

Regroupement Économique et Social du Sud-Ouest (RESO), was created in the impoverished neighbourhood of Pointe Saint-Charles. In 1985, the Plateau also saw the birth of community development centers. What is now known as CDEC Plateau Mont-Royal-Centre Sud and the Centre of Local Innovation and Economic Development (CIDEL) were both created in that year. In 1988, ACEM became the first community loan fund and they created the first loan circle in 1990.

Community credit thus emerged in Québec at the same time as CDECs and SAJEs. The initiation of CLDs by the government of Québec at the end of the 90s was largely inspired by the success of economic and community development organizations.

4.1 Entrepreneurship in Montréal

Independent workers are defined as workers who exercise a profession or a commercial activity, with or without employees, who exercise complete discretion in choosing the organization of work and methods of execution. In 2009, independent workers in Montréal account for 25.7% of all independent workers in Québec[37]. Montréal also has one of the highest rates of independent workers divided by their total job market in the province (15.8%), following Laurentides (18%), Estrie (17.6%), and Québec City (17.5%).

Unfortunately, Montréal is also the only region of Québec with a rising unemployment rate. From 1999 to 2009 the unemployment rate rose 1.4 percentage points from 9.7% to 11.1% while the province of Québec dropped 0.8 percentage points from 9.3% to 8.5%. Similarly, there is a problem with the employment rate in Montréal. The employment rate is defined as the percentage of people employed among the population over 15 years of age. It measures the capacity of an economy of a region to provide jobs to its population of working age. Montréal is just below the provincial average (57.5% and 59.7% respectively). Although the growth of the employment rate from 1999 to 2009 is positive in Montreal, it is also lower than the provincial average (2.5% in Montréal and 2.8% in Québec). Furthermore, among the ages of 15 to 29, Montréal is the only region of Québec with a decrease in the employment rate (-0.3% versus 4.9% in the province).

4.2 Analysis of Underserved Populations

A memo released conjointly by ACEM and Compagnie F[38] (both to be described in greater detail in the following Section) specifically highlights women and immigrants as marginalized populations who currently lack access to traditional financial credit. Immigrants currently account for 31% of the population of Montréal, and 57% of them are classified as impoverished. The study of the Québec Statistics Institute published in December 2010 indicates that the unemployment rate of immigrants has climbed 2.6 percentage points from 2008 to 2009, versus only one percentage point among workers born in Canada. In 2009, the average unemployment rate of Québecois immigrants climbed to 13.7%, though it was 10.7% in Ontario and 10% in Canada overall.

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[37] « *Portrait socioéconomique des régions du Québec* : *Édition 2010,* » Ministère du développement économique, innovation et exportation.
[38] « *Le crédit communautaire à Montréal : Enterprendre avec les personnes à faible revenu,* » Mémoire déposé au MDEIE by ACEM and Compagnie F, January 2011.

ACEM and Compagnie F note that, in principle, the programs of CLDs and CDECs should be accessible to the populations they serve; however, in practice, they are often overlooked. As mentioned previously, SAJEs exclude business activities which happen to be highly concentrated among women and immigrants from training. For example, "in 2009 alone, 40% of the business projects supported by ACEM were in excluded sectors.[39]"

Furthermore, recent immigrants may have less access to liquid capital for a down payment on their business. CLDs and CDECs generally require at least 20% of capital from the promoters although some are more flexible with whether this capital must be liquid or in the form of material assets. They may also experience difficulty interpreting North-American standards and requirements with regards to entrepreneurial practices and drafting of business plans. ACEM and Compagnie F spend more time with these clients as their language skills develop. A representative of CDEC-RPP identified this kind of client as one with whom it is very difficult to work. For example, a recent *scéance d'information* included a participant from Dominican Republic who had a successful business in his country but his lack of French fluency will limit him from receiving training and support services.

ACEM and Compagnie F also highlight the difficulties in accessing finance by women. STA programs are reserved for people receiving welfare or employment insurance and certain promoters can't receive support because their husband already works, although at minimum wage, and their spouse's income puts them outside the poverty threshold.

As previous sections have analyzed, the payday loan industry is also a good way to measure the demand for microfinance and the characteristics of potential clients. However, this method is limited in Québec, and hence Montréal, as the highest legal APR in the province is 35%, effectively prohibiting payday loans. Nonetheless, a journalist for *Le Journal de Montréal* released a series of articles[40] uncovering some of the organizations operating in the industry. In particular, the activities of APX, Crédit Yamaska, Courtage Expert and Axevia are delineated.

a. Express Pay Advance (APX)

Maximum loan available: $200 (30% of the net salary of the borrower)
Loan Fees: $50 ($25 for each $100)
Amount to be repaid on the next pay date: $250
Annual cost of the loan (APR): 651%

APX has a permit from the Consumer Protection Office (OPC) of Québec which has been invalid since November 2004. A complaint was filed to the OPC against APX in December 2006.

b. Crédit Yamaska

Fixed loan for all clients, regardless of salary: $500
Loan Fees: $150
Amount to be repaid: $750
Method of repayment: six installations of $125 or 12 installations of $62.50 through direct bank withdrawal
Annual cost of the loan (APR): 782%
Fees in case of non-payment: $40

[40] Roy, C., "DOSSIER: l'équivalent de taux jusqu'à 650%," *Journal de Montréal*, October 29th, 2007.

If the loan hasn't been repaid in two to three weeks, the representative will initiate judicial proceedings. Crédit Yamaska does not have a permit with the OPC.

c. Courtage Expert

Fixed loan for all clients: $490
Loan Fees: $260
Amount to be repaid: $750
Method of repayment: six installations of $125 every two weeks
Annual cost of the loan (APR): 459%
Fees in case of non-payment: $100

Courtage Expert is registered as a brokerage firm in the Québec business registry, therefore it doesn't need a permit as a money lender from OPC.

d. Axevia

Maximum loan available: $300
Loan Fees: $60
Amount to be repaid in two weeks: $360
Annual cost of the loan (APR): 521%

The representative of Axevia didn't want to indicate whether there are any non-payment fees. Axevia does not have a permit from OPC.

Unfortunately, none of these companies were responsive to emails or phone calls inquiring about their products/services, potentially due to the negative press they have received. Jean-Jacques Préaux, the spokesman for the OPC, quoted in the Journal de Montréal dossier that payday loan companies exist despite their illegality because consumers have not filed complaints. Regrettably, individuals are dissuaded from reporting these organizations since in some cases they are the only financing options available to young, low-income clients. However, as previously mentioned, these organizations are much less active in Québec than the rest of Canada and one would hope that the availability of financing from CLDs/CDECs helps to fill the financing gap.

4.3 Active Organizations

i. Centres Locaux de Développement (CLDs)
Municipal-level funds administered through CLDs include:

a. Budget d'Initiatives Locales (BIL)
The Local Initiatives Budget (BIL) is issued by the Labour Market Development Fund (FDMT) which is managed by Emploi-Québec. The program aims to support non-profit organizations (NPOs) in the development of innovative local development initiatives which facilitate the return of unemployed workers to the labour market. Specifically, it enables NPOs to:

- Initiate new development projects, employment and employability for unemployed customers to rounding
- Develop the skills of the unemployed

- Undertake studies or research in order to promote the development of new interventions in employability

Projects submitted to the BIL should address clients outside of the labor market who are currently excluded by Emploi-Québec programs. These clients are experiencing difficulties in all spheres of life, social, professional and economic. Priority will be given to projects aimed at clients of welfare recipients, visible minorities, immigrants, women and single-parent households. Projects aimed at young customers will not be prioritized. Projects should also complement current local activities and be in accordance with the Local Action Plan for the Economy and Employment (PALÉE) of the CLDs in the region in question.

Admissible Promoters:

- NPOs in the region of the CLD through which it applies that have been active for at least a year
- Those with specific experience and expertise in their project and the capability to put it into action
- Those who are clearly able to outline their ability to create jobs

Emploi-Québec requires the promoter to enroll in one of the following programs:

- Services d'aide a l'emploi (SAE) – services to develop CVs, search for employment etc.
- Projets de preparation a l'emploi (PPE) – general competency development, self knowledge, etc.
- Mesure de formation de la main-d'oeuvre (MFOR) – professional or technical training, internships, etc.

BIL will not fund infrastructure.

b. Fonds de Développement Emploi-Montréal (FDEM)[41]

Loan Amounts: $25k - $100k for startups; up to $150k for expansions
Term*: up to 5 years
Fees*: to open a document: $200 and 2% of the loan; to close the project: 1.5% (<$75,000) or 1.75% (>$75,000)
Interest*: 9% - 14% depending on risk
*conditions of RESO, fees are generally paid upfront but may be broken into an opening and closing installment

FDEM is a development capital fund put in place with collaborations by Montréal CDECs, Fonds de Solidarité FTQ, Investment Québec and the City of Montréal. The governments of Canada and of Québec have both participated in its financing. FDEM's mission is the economic development of each region of Montréal through investments in viable and profitable small enterprises, particularly those which demonstrate a presence in the local community and an impact on the creation or maintenance of local jobs.

The FDEM works in complement with financing tools currently offered by financial institutions and government agencies. The investments range from $25,000 and $100,000 per company (for startups) and can reach up to $150,000 (for expansions).

[41] http://www.fdem.qc.ca/

In addition to the funds listed above and administered through CLDs, are the various self-managed funds below.

ii. Separate Funds

a. ACEM

Portfolio: $500,000
Loan Amounts: $1,000 - $50,000
Terms: bridge loan: 3 months; direct loan: 3 years
Interest: 10%

The primary goal of ACEM is to fight poverty and economic exclusion via community credit. This differs from many of their peers (CLDs/CDECs) who charge themselves with creating employment or promoting and developing entrepreneurial activity. ACEM has been in existence since 1987 and became a non-profit organization (NPO) in 1990. ACEM works with low income individuals, social economy initiatives and community organizations that don't have access to credit for the startup or expansion of their business plan. The populations targeted by ACEM are low income individuals, immigrants, visible minorities, women and youth. Outreach programs target these programs but the recipients of financing are largely determined by "who knocks on the door" and the quality of their business plans[42].

In 2010, 76% of people who came to ACEM were immigrants and 67% visible minorities. Moreover, of the 120 cultural communities in Montréal, the population welcomed and supported by ACEM had at least 40 different native languages (other than French and English). Gender was equally split and 47% of clients were young people between the ages of 18 and 35. By family status, 53% were single, 38% were couples and 9% were single parents. By source of income, 20% were welfare recipients, 21% received employment insurance, 18% were low income workers, 21% had no revenue and 20% were self employed.

ACEM

- Finances projects which wouldn't be able to start or develop without financial support
- Prioritizes the emergence and development of enterprises which have a social as well as economic impact
- Maximizes the chances of success of enterprises thanks to an approach of global support
- Proposes an innovative solution to socio-economic problems (lack of startup funds, lack of working capital)
- Democratizes credit to make it accessible to the less fortunate and has a leverage effect, permitting the entrepreneur to access other financing or financing levels

To be eligible for ACEM services, the business plan has to be on Montréal Island and the promoters must be low income (according to the Statistics Canada definition) or an NPO. To submit a request for an ACEM program, one must respond to one or many of specific criteria such as:

- Create jobs
- Promote the interest of the community
- Promote the protection of the environment and sustainable development
- Have a social dimension

[42] Interview with Anne Kettenbeil February 17th, 2011

Support: Each of the projects submitted to the ACEM receives personalized assistance, both in the development phase that precedes the funding throughout the repayment period if a loan is granted. Training and coaching is mandatory in the provision of loans. The objectives for the coaching and technical support projects:

- Maintain a personal approach in providing support and technical assistance projects to meet the specific needs of each project;
- Maintain a database of volunteers composed of persons competent in supporting projects ranging from small enterprises, social economy projects or nonprofit organizations;
- Ensuring the sustainability of projects funded by the ACEM.
- Developing entrepreneurial skills of people

Loan Products:

Direct Loan

- 3 year loan
- $1,000 to $20,000 per project
- Economically viable, the project must rely on a good market study and 3-year financial plans in the business plan

Bridge Loan

- Interim financing during the waiting period anticipated CIP or CIF (tax credits provincial and federal)
- Financing working capital for the extra start-up period and / or during production of this project and pending the entry of a grant or scholarship.
- Project and budget must be accepted and recognized by government or funding agencies (SODEC, Telefilm Canada, Canada Council, etc.)
- Loan Guarantee only available with another financing partner (investor, funder, distributor, distributor, etc.)
- Short-term loan (3 – 6 months)
- Loan of $ 1,000 to $ 20,000 per project (exceptionally up to $ 50,000)
- 1% administration fee

Bridge loans are secured by an entry "on" income such as the payment of an employment contract or, in the case of social economy or cultural enterprises, a grant, a scholarship or a credit tax.

The Loan Process:

- Potential clients attend an information session
- If they self-identify as eligible, they participate in meetings with a councilor/analyst
- ACEM holds weekly staff meetings to present and discuss projects
- Coaching sessions to finalize the business plan/evaluate the promoter's understanding of their project
- Approval from staff
- Presentation to loan committee with the promoter present
- Board approval

ACEM offers a 10% flat rate of annual interest without risk premiums/assessment. The interest is reinvested in the fund and is viewed as a contribution by the entrepreneur to their future peers. The operating budget of approximately $225,000 a year is funded by the government and donations. The fund is a combination of investments from NGOs/NPOs (26%), individuals (23%), religious institutions (22%), foundations (11%), trade unions (10%) and corporations (8%). Investments typically receive a 1% to 2% dividend per year.

In 20 years, ACEM has loaned $2.7 million, which has generated $14.3 million in investment, supported 250 business projects, and created or maintained 1,123 jobs with a repayment rate of 94%. Last year ACEM fielded approximately 1,200 calls, hosted 350 potential clients in information sessions, met with approximately 150 of those clients and disbursed about 30 loans. About 3 loans are rejected for every 1 accepted. It is important to ACEM that their clients establish viable businesses and will not give loans that they fear they will not be able to pay back. It is for this reason that 75% of community credit ventures are still open after 3 years relative to 35% of ventures financed by a traditional banking institution.

b. Compagnie F[43]

Compagnie F is an NPO founded in 1998 with the aim to coach women of every origin, with precarious income, who would like to attain financial autonomy through entrepreneurship. Since its foundation, more than 3,000 women have created or consolidated their enterprise or reoriented their career thanks to appropriate support at the right time.

Compagnie F has always counted on the support of Emploi-Québec, the fight against poverty fund, the Fund to help the labour force (FAMO), the Canadian foundation of Women and the school board Marguerite-Bourgeoys. The first programs offered were *Femmes Entrepreneures* and *Coaching d'Entreprises*.

Femmes Entrepreneurs is a 13-week training program for women without income who are recipients of employment insurance or employment assistance to hone their business plan. In 2006, this program was implemented in three groups which supported 48 women. 6 of the women were accepted for Self-Employed Worker Support (STA) for investments totaling $90,000, 35 women found a job and one returned to school.

Coaching d'Entreprise is a training program to support female entrepreneurs in every stage of the startup of their business. In 2006, it was implemented in 8 groups which accompanied 130 entrepreneurs and prepared 50 business plans. 10 of the women participated in a contest which enabled the entrepreneurs to access over $150,000 in investment.

In 2001, seeing the need for women to network, the Board of Directors of Company F decided with the support of the CDEC Centre-Nord and the fight against poverty fund, to equip themselves with a business center, Cafe Network. This social economy project has become a platform for the promotion of female entrepreneurship (incubator, start-ups, lunch meeting place for networking and sharing of experience), especially with the creation of the Shop and Gallery Art.

In 2002, facing a growing clientele of autonomous workers, Compagnie F, the Ministry of Municipal Business of Sport and Leisure (MASML) and the Canadian foundation of women financed the training program Circuit F. This program addresses female autonomous workers and prioritizes the participation of expert volunteers in business to solve marketing difficulties of micro-entrepreneurs.

In 2003, Compagnie F developed d'Art-affaires, a specific training program for emerging artists, in order for more youth to create professional viable projects, taking account of their talents and

[43] www.compagnie-f.org

values. The program is offered in partnership with the Youth Forum of the Island of Montréal, the School Board Marguerite-Bourgeoys, l'ACEM and SACO-CESO.

Always wanting to improve its services, Company F created a program to strengthen women's capacity to promote itself and developed the Promotion F in 2004, offered in partnership with the Canadian Women's Foundation. This program of support to micro-entrepreneurs helped equip women in their promotional strategies to achieve financial independence. Company F has developed another service, in partnership with Canada Economic Development, the *Programme of monitoring* to enhance the survival of new businesses, which often faces difficulties in the first few years.

In 2006, Company F took over the Aurora project for Anglophone and allophone women from the YMCA. Aurora is comprised of a 12 week training program that costs $125 and provides access to a loan circle which can finance up to $5,000 of microcredit. This project is financed through a partnership with the YMCA of Greater Montréal and the Ministry of Economic Development and Export Innovation (MDEIE).

Compagnie F has also initiated the creation of the Investissement- Femmes Montréal (IFM) program in 2008 through partnerships with the YWCA, ACEM, the Regional Conference of Montréal Elected Officials (CRÉ) and Filaction. IFM has a capitalization fund of $600,000, one-third of which is financed by MDEIE while the remaining two-thirds are financed by Filaction. IFM aims to promote economic development and job creation through female entrepreneurship. Their 2009-2010 annual report highlights the following accomplishments:

- Coaching of more than 150 entrepreneurs
- Analysis of more than 60 business plans
- Injection of $434,500 in 24 businesses
- Participated in investment projects totaling approximately $3 million

Of the 24 businesses funded, more than 60% were in the startup phase. The most common sector was clothing and accessories (37.5%). Health and beauty services, food fabrication and/or distribution, decorating services, business services and education materials each accounted for 12.5% of the businesses funded. Of all the businesses supported through training and coaching, 54% were in manufacturing/transformation/production, 33% in services and 13% in commerce.

c. Cercles d'Emprunt de Montréal (CEM)[44]

Loan Amounts: $1k, $2k or $5k for loan circle members; up to $10k through ACEM and Desjardins

Montréal Loan Circles (CEM) is an NPO established in 1990 with the mission of developing financial autonomy for people with an entrepreneurial or self-employment project. With the financial support of the Ministry of Economic Development, Innovation and Exportation (MDEIE), it supports such activity by creating loan circles for entrepreneurs, and by providing access to financial credit, adaptive services, and a broad network of resources.

Specific training programs for business plan development and agreements with a wide range of partners permits CEM to support the realization of promoters' business plans. Loan circles are generally created following training. They consist of a group of 4 to 7 people who meet regularly

[44] www.cerclesdemprunt.com

to consolidate their gains and to help each other in their business efforts. A management counselor supports the participants as they exchange information, contacts, and support. Following the completion of a business plan with the help of the group, members may receive a microloan.

When the microentrepreneur needs a loan, he or she makes a demand to the loan circle which analyzes the request and if accepted, endorses it. Credit applications over $2,000 are the responsibility of the individual borrower.

Training:
Training is obligatory. Business plans and creation of an enterprise is a training program offered to entrepreneurs and to self-employed workers. Training programs involve theoretical workshops, conferences and meetings with the circle and individual work, based on the management of the enterprise and the microcredit. Working from the business idea, training helps to hone the mission of the enterprise, to produce a profitable business plan, to adjust activities to the market, to develop management competencies and sales techniques, and finally to finance the project. Training may also help participants discover non-entrepreneurial methods of achieving financial independence such as returning to studies or changing their sector of employment.

Financing:
- Access to credit up to $10,000 from organizations such as ACEM and Desjardins
- CEM Microcredit of $1,000, $2,000 and $5,000 for loan circle members
- Support for the preparation of STA and other programs
- Information, analysis and research funding
- Scholarships with the Fondation du maire de Montréal pour la jeunesse (FMMJ)
- Participation in competitions in entrepreneurship.

4.4 Operating Challenges

A recent memo[45] by ACEM and Compagnie F, cited above, outlines several recommendations[46] to the MDEIE in order to facilitate the operations of community loan funds. Some of the recommendations relate to broad challenges in the industry and can be re-interpreted as such. For example, one of their recommendations is, “that the Government of Quebec extends the Self-Employment Support (STA) program to clients during the process of coaching by community credit agencies.” This implicitly references the complaint by several practitioners that even post STA or SAJE training many of the promoters looking for financing require a large degree of coaching to polish their business plans with realistic market studies and financial forecasts. During this process, however, the entrepreneurs are no longer receiving monetary support from the government which may limit their time to make the necessary adjustments while receiving invaluable coaching.

Essentially, the recommendations are a plea for more funding based on salient facts which demonstrate that community credit funds are targeting populations currently severely underserved by government programs. As argued in Section 3.4, because CLDs/CDECs are not specifically tasked with alleviating poverty, and because the labour cost of serving immigrant, low-income,

[45] « *Le crédit communautaire à Montréal : Enterprendre avec les personnes à faible revenu*, » Mémoire déposé au MDEIE by ACEM and Compagnie F, January 2011.
[46] The complete list of recommendations can be found in Appendix 2.

and less-educated clients is generally higher, these populations are more likely to find government services inaccessible.

5. Conclusions

Based on the above exposition, several important points emerge:

- *Caisses populaires* and credit union membership is very high in Canada (almost 1/3 of the Canadian population and more than 2/3 of the Québec population), which helps serve the needs of low-income entrepreneurs.

- Most support for entrepreneurial development is provided through government programs such as CBDCs in Atlantic Canada and CLDs/CDECs in Québec; however, they are more focused on job creation than poverty alleviation.

- Of Canada's four major chartered banks, only Scotiabank is active in microfinance activities and only in developing countries.

- Relative to the rest of Canada, there is less entrepreneurial spirit in Québec (measured as a % of the respective populations with intentions to start a business, 14.1% vs. 7.8% respectively).

- Intention of entrepreneurial activity in Québec tends to be concentrated among the lowest income population. Below income of $20,000, 25.4% of Québecers intend to start a business versus 13.8% of respondents in the rest of Canada.

- Relative to the rest of Canada, a much higher proportion of Québec SMEs noted securing financing as a main obstacle to intended investments (29% vs. 47% respectively).

- Québec has a much lower legal APR (35%) relative to the rest of Canada (60%), effectively banning payday lending activities

- Montréal is the only region of Québec with a rising unemployment rate

Given these facts, it is clear that although there are strong entrepreneurship and community credit networks in Montréal and Québec, there continues to be a large portion of the population underserved by microfinance. Although there may be less entrepreneurial spirit, it is much more concentrated among the lowest income population. Furthermore, a higher proportion of existing SMEs note difficulty in securing traditional financing while immigrants and those with less education may also have trouble accessing government programs. However, the exact demand is difficult to quantify.

This quantification problem is made more difficult by the inexistence of a payday loan industry in Québec. However, its prevalence elsewhere in the country coupled with the high relative poverty and unemployment rate in Montréal could reasonably lead to the conclusion that there are many who would demand such a service.

Unfortunately, there are currently no privately-owned MFIs that are self-sustainable and with extensive reach. While government programs targeted at low-income entrepreneurs are well-intentioned, their involvement unfortunately does not reach the most vulnerable populations, leaving the riskiest investments for private MFIs or completely unfinanced.

Annex 1 – Sector excluded from SAJE financing

- Travel agencies
- Bars, clubs etc
- Video store/ Convenience store
- Fashion design, except for the creation of products made from textile techniques used by specific clientele
- Physical or mental health domain, whether recognized or not by a professional designation
- A business which receives a portion of its revenues from subsidies
- Franchises
- Art galleries
- Daycares and home daycares
- Artistic management (authors, composers, interpreters, musicians, artists)
- Building management
- Businesses of a sexual, religious, or political nature, or other controversial businesses such as dating services, war games, tarot, astrology, personal growth courses, pawn shops and others
- Production companies
- Non-profit organizations and cooperatives (besides labour cooperative)
- Event organizations (coordination, production)
- Photography studio
- Project demonstrating that the relationship is maintained between ex-employer/ex-employee
- Financial service and insurance brokerage project
- Liberal designated professions (lawyer, accountant, architect, notary, engineer) unless the project involves the creation of goods
- Research and development projects that haven't been rendered to the commercialization phase
- Psychotherapy and massage therapy (Association members)
- Hair and esthetician salons
- Recording studio (sound)

Annex 2 – ACEM/Compagnie F Recommendation

RECOMMENDATIONS # 1:
That MDEIE encourages regional bodies to include representatives of community credit organizations in the consultation bodies on entrepreneurship, such as committees and working sessions.

RECOMMENDATION # 2:
Recognize and financially support organizations that have accumulated experience and expertise to support impoverished populations and immigrants.

RECOMMENDATION # 3:
Promote the training of personnel of various departments of economic development on the approach to coaching, and follow the entrepreneurial path of impoverished populations as well as immigrants.

RECOMMENDATION # 4:
That the Government of Quebec extends the Self-Employment Support (STA) program to clients during the process of coaching by community credit agencies.
It is desirable that an envelope for community credit is established and managed by the Réseau Québécois du Crédit Communautaire.

RECOMMENDATION # 5:
That MDEIE facilitates accumulation of loan funds and other community financial products tailored to the needs of businesses in the growth stage.

RECOMMENDATION # 6:
That MDEIE recognizes the contribution of community credit in the coaching and financing of businesses in the growth stage by better funding of their activities.