STRATEGY FOR KNOWLEDGE TRANSFER OF SOCIAL FINANCE

Best practices of Québec and strategy for adaptation to Seoul

Centre international de transfert d'innovations et de connaissances en économie sociale et solidaire

C.I.T.I.E.S.

Montréal, 2018

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ET DE CONNAISSANCES EN
ÉCONOMIE SOCIALE ET SOLIDAIRE

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FOREWORD

In 2016 the Global Social Economy Forum held its third international meeting in Montréal. This major event, that brought together 1,500 people from 62 countries, was an important manifestation of the growing international mobilization for a more inclusive and sustainable growth of cities, that now encompass over 50% of the world's population. The GSEF meetings in Seoul (2013, 2014) and Montréal (2016) have represented significant opportunities to allow an increasing number of people that work on a daily basis to improve the lives of their communities through the social economy, to come together to present their best practices and better understand the challenges that we are all facing. However, this process cannot be limited to bi-annual events. These exchanges must become an on-going and dynamic process in the building of the social economy movement.

In response to this clear need to learn more and to learn faster from all the incredible work being done across the planet, local governments, civil society networks and researchers from several key territories came together at GSEF2016 to create CITIES, an international organization based in Montréal, Canada. Working hand in hand with GSEF, based in Seoul, South Korea, CITIES supports processes of knowledge transfer across borders and networks in order to accelerate and improve the development of the social economy worldwide. Together, the founding partners identified public policy for the social economy, social finance, citizen participation and the commons as subjects susceptible to answer local needs on their territories.

In this context, it is a great pleasure to present the first formal publication of CITIES, and to have been part of its inception and production. What better way to illustrate the true purpose of CITIES than to come together to reflect on the success factors of a best practice in Québec, namely social finance, with our colleagues from Seoul interested in developing these practices?

The fact that CITIES' first major project has focused on social finance is significant. The internationalization of social finance is a central pillar for the construction of the social economy and, more globally, of a sustainable and equitable development model for our cities and our nations. As we all know, the current economic model is based on the internationalization of the economy in which international finance plays a dominant role. It is abundantly clear that the goal of the traditional financial sector is not the building of healthy and sustainable cities. On the contrary, too many decisions taken according to the priorities of international finance have brought harm and hardships to many people and communities. By according a priority to knowledge transfer that supports an ecosystem of social finance, CITIES is making a clear statement in favor a new approaches and innovations in the heart of the economy. Hopefully this will be the beginning of a long process of bilateral and multilateral exchanges and, more globally, the beginning of a realization that social finance must not only flourish locally and nationally, but also can contribute to transforming the overall functioning of our financial systems. Our international financial and economic development model must be made to address the needs of people, not those of capital. Social finance is a key component of this process.

For CITIES, this publication is a first experience in documenting in detail the realities of one ecosystem and examining how the lessons learned can be transferred to those who share the same aspirations, but are evolving in a very different context. It offers information on what is happening in Québec and Seoul and proposes certain elements of analysis on how the Québec experience can illuminate the development of social finance in Seoul and South Korea.

It also raises questions related to the very process of knowledge transfer and the challenges related to these processes in an international context. In and of itself, it is a promising example of knowledge transfer, both between researchers and practitioners and between colleagues from Seoul and Québec. The resonance of this partnership research will surely inform future collaborative endeavors.

This CITIES publication targets primarily actors and partners of the social economy in Seoul, who have expressed a keen interest in learning from the Québec experience in social finance. Still, it would be far from surprising that in adapting these practices, improvements will be made and innovations developed to better address local needs in Seoul and to harness local potential. The rapid progress of the social economy in South Korea over the past years confirms that this potential is real. Whether it's the important public policies that have been implemented in Seoul and recently at the national level, the scale of the projects that have emerged, or the new sectors in which initiatives have developed, Seoul is today a hotbed of innovation and a source of inspiration with regards to the social economy. The odds are the new practices of social finance which will be developed in Korea as a result of these exchanges will be of interest to actors of the social economy in Québec and beyond. We will be counting on CITIES to monitor and transfer these practices, confirming that the learning process supported by CITIES will be a dialectical one in which everyone will be, at the same time, teacher and student, mentor and apprentice, in the development of the movement.

After many study missions, conferences and exchanges, the production of a written document that gathers a wealth of information and analysis is an important event. Not only does it allow those who have been involved in these exchanges to have a permanent reference tool, it also opens up the possibility to share this knowledge more widely in South Korea, in Canada and elsewhere. It is especially relevant as a tool to help orient the next generation entering this movement in search of economic justice and democracy. We have worked hard to do the best job possible. We are also aware that there is always more to learn. We hope that those who read and use this document will share their comments and reactions with CITIES in order for the organization to constantly improve its work and carry out its mission more effectively. We consider this initiative as a first step in building an efficient and effective methodology for knowledge transfer in an international context. It will succeed if we are able to learn from our experience and benefit from the collective wisdom of social economy actors and their partners from around the world.

In conclusion, we would like to thank the entire CITIES team for their efforts in this dynamic process to create this tool for knowledge transfer. We hope that their combined efforts will contribute to a stronger social finance system and a stronger social economy in South Korea and around the world.

June 2018
Nancy Neamtan and Beatrice Alain

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Chapter 1

Introduction

Marguerite Mendell

INTRODUCTION

C.I.IT.I.E.S. was established to "support the gathering, sharing and transfer of knowledge and best practices in the field of the social economy. It believes that the social and solidarity economy is key to the "harmonious development of territories" and brings together local governments and civil society to achieve this objective through collaboration. But the first step in collaboration, knowledge sharing, and transfer is to acknowledge the diversity and distinctiveness of institutional and cultural contexts that, in most instances, requires adaptation. As the following chapters point out, at the heart of knowledge sharing and transfer is the *role of institutions* and *the process of learning*.

Knowledge acquired from experiences in one context can rarely be fully replicated elsewhere. That said, institutions do not erect impermeable barriers; rather, they set the stage for any process of knowledge sharing and transfer. This is also true within individual countries. In Canada, for example, the experience of the social economy and social finance in Québec is unique, and while it is cited as an important model to replicate elsewhere in the country, this has not occurred. Regional diversity has shaped the history and specificities of social finance in Canada. Still, the Québec experience is an important reference throughout the country, and at the national level as well.

Knowledge sharing and transfer are processes of "social learning" and most often require iterative adaptation. Indeed, there are exceptions, such as the election of political parties more open to learning about experiences elsewhere that resonate with their priorities and their wish to implement change more quickly. However, as the following chapters point out, even in a receptive political environment such as Korea today, culturally and historically rooted practices may still set limits or slow the pace of adaptation.

We know that the social and solidarity economy is not homogeneous across regions and countries. For example, juridical definitions may differ, as they do between Korea and Québec. That said, the knowledge and lessons that can be shared and transferred are embedded in common objectives. The need to learn from other experiences, to identify development tools that have been created elsewhere to enable the SSE to grow and to continue to emerge in all sectors, is recognized, as is the need to document innovations in policy in regions that have broken through seemingly rigid institutional boundaries with success, thereby increasing the capacity of all levels of government to act. Documenting innovative practices adopted by social movements, old and new, that can influence movements elsewhere to move beyond traditional practice without compromising their mission, is also needed. This is certainly true of the important role played by the labour movement in Québec and which is of great interest today in Korea. And so on. This also means building alliances between social movements that have represented distinct groups until recently, often with little interaction between them, despite shared values and commitments. Likewise, for public and private institutions with defined mandates that operate in silos with few possibilities to work beyond sectoral goals. These introductory remarks frame the discussions in the following chapters on social finance in Korea and in Québec.

C.I.T.I.E.S provides a space to identify key needs of the social economy that can be met by learning about and adapting experiences from elsewhere. Its first project was to meet Seoul's request to learn more about the social finance landscape in Québec. Social finance is underdeveloped in Seoul and throughout Korea, despite the availability of primarily publicly funded tools, micro finance and a history of credit unions, for example. What was especially interesting for social economy actors in Seoul was the existence of customized financial tools within the social economy itself in Québec. For the most part, these tools have the support of government through various policy measures and/or financial contributions, but they were designed by practitioners who could best identify the needs for capital by social economy enterprises and develop financial products to correspond with these needs.

The *social finance ecosystem* in Québec is the result of a careful alignment of demand and supply such that the supply of finance capital meets the identified needs of enterprises and organizations in the social economy. Collaboration with government distinguishes the Québec experience; social economy enterprises are not passive recipients of government subsidies. It is also at the heart of its success in including private partners as in the case of collective housing, for example, (cooperative and community) and in the invaluable partnership with the labour movement and its solidarity funds, created over 30 years ago.

This C.I.T.I.E.S project provided the opportunity to identify the distinctiveness of the social economy in Seoul and Québec and address the reasons why the needs for investment have not yet been fully met in the Korean context, despite significant commitment on the part of institutions, government and private actors, to meet these needs. And so the dialogue has begun and it continues.

This document outlines the foundations of this dialogue, by providing an overview of social finance in Seoul and in Québec, and the outcomes of a process of knowledge sharing and transfer. As noted above, co-learning and knowledge transfer are iterative processes; they require time. And they require learning "*how*" to best transfer knowledge by equipping actors to work effectively through the process. In other words, the users of knowledge will glean the elements from other experiences that reflect their realities and generate dialogue within their own regions and countries.

Chapters 2 and 3 provide brief historical overviews of the social economy in Québec and in Seoul as the foundation for a detailed discussion on social finance in both regions. While both Korea and Québec share a common history of civic activism, the turn to economic democracy in Québec by community activists, especially in the 1980's, distinguishes the two experiences. A developmental state model is also common to both regions; however, in Québec, this shifted towards a partnership state in the 1980's and while there are still publicly funded programs and initiatives, the history of the social economy and social finance in Québec, is embedded in such a partnership model. That said, the role of the Seoul Metropolitan Government in promoting and supporting the social economy in Seoul is emblematic and is now certainly a model for Québec and elsewhere. And it was, to a large extent, itself inspired by the social economy in Québec. Knowledge sharing and transfer is not unidirectional nor formulaic, mechanically transposing experiences from one place to another. In the case of Seoul, a municipal government dedicated to the social economy established an infrastructure that now exceeds government involvement in Québec. But even in Seoul, it is now apparent that more devolution to social economy actors at the municipal level would ease their capacity to design enabling financial tools in collaboration with government at all levels.

The results of the recent national election in South Korea bodes well for the social economy and the creation of social finance. Thus far, however, the more accustomed top-down approach is being applied, according to Chapter 3. Chapters 2 and 3 provide invaluable information and analysis for social economy practitioners, policy makers and researchers. They are the basis for understanding institutional realities in two distinct contexts, their permeability, and so on. What is deeply shared by social economy actors in both Québec and Seoul, is their commitment to build and consolidate a strong and coherent ecosystem with public recognition for its achievements and contribution to societal well-being.

Chapter 4 proposes a strategy to develop a knowledge transfer methodology based upon a summary review of processes of knowledge transfer and the need to codify knowledge for it to be effectively transmitted. This chapter includes a few case studies of social finance in Québec with high potential for transfer to Seoul and an evaluation of an onsite workshop on social finance held in Seoul in the spring of 2018, where social finance and social economy practitioners in Seoul were able to benefit directly from several days of discussion with their counterparts in Québec. This chapter identifies the essential need for ongoing training and adaptation of experiences.

The objective of this C.I.T.I.E.S project was to equip Seoul practitioners and policy makers with tools to begin to co-construct a comprehensive and coherent social finance ecosystem, which is at the heart of the Québec experience. And for this process to be "generative" and empower other regions across Korea to do likewise. With the current commitment of the national government to develop social finance in South Korea, this political will provides a welcome opportunity for practitioners to work with local and national governments to develop a partnership framework that will permit the national government to achieve its goals and commitments.

There are sufficient lessons around the world today to confirm the limitations of a supply driven, top-down approach and its frequent misalignment with the financial needs of social economy enterprises. The Québec experience provides numerous lessons, the most important of which is the need for a diversity of financial tools – loans, equity, quasi-equity – to correspond with the life cycle of all enterprises. It also highlights how government can best work with practitioners to explore, co-design and implement new policies to enable social finance to meet the needs of social economy enterprises and communities.

This first C.I.T.I.E.S project demonstrates the value of collaboration and co-learning. The mandate of C.I.T.I.E.S is to generate ongoing dialogue. In some cases, clear recommendations may emerge from this dialogue and sharing of knowledge. In others, raising awareness of initiatives across national boundaries will empower social economy actors to better identify best practices and to press public authorities at all levels of government to engage more effectively with social economy actors. Collaborative planning has a long history in municipal government in many regions of the world; cities have long been recognized as complex spaces of intersections. Separating social, economic, environmental challenges is impossible. Such an approach is a sine qua non for the development of the social economy. But as this project on social finance reveals, collaboration has to extend beyond institutions to include practitioners with invaluable knowledge and experience. Effective knowledge sharing and transfer requires working beyond boundaries. This is not always easy nor is it as "tidy" as well defined roles for different social actors. The methodology underlying this project challenges many established norms in how to bring about change. As the authors of this document strongly suggest, at the root of social finance is the need for policy innovation, cultural change and adaptation, within public institutions and within social movements themselves, in many cases.

Many individuals have contributed to this document as co-authors. Others have been indispensable to the organization of this project and to seeing it through to completion. Knowledge sharing is an ongoing process; this document will invite reaction and further questions and create more opportunities for dialogue.

Chapter 2

Developing an Ecosystem of Social Finance: Québec's Experience

Marguerite Mendell and Nancy Neamtan

INTRODUCTION

1.1 ELEMENTS OF CONTEXT: SOCIAL FINANCE AS A COMPONENT OF A BROAD ECOSYSTEM FOR THE SOCIAL ECONOMY

Interest in the social economy in Québec continues to grow across Canada and internationally, especially in the development tools it has created, including finance. Because it is embedded in the socio-economic landscape of Québec and is recognized as a significant economic actor, the Québec social economy is considered a model or a "template" in many regions and countries. The long history of the cooperative movement and its presence in numerous sectors of activity as well as the strong and expanding presence of non-profit organizations that are meeting social needs with economic means, including the provision of public services not previously provided by the state nor by the private sector, has attracted attention of civil society actors, governments and researchers around the world.

The experience of the social economy in Québec, especially over the last 20 years, allows for bold statements about its capacity to contest the dominant paradigm through practice. Its resilience in the face of the post-2008 economic crisis is testimony to the viability of collective enterprises supported by a community based social infrastructure.

In Québec, the social economy includes more than 7,000 collective enterprises, both cooperatives and non-profit organizations and enterprises in many sectors producing both goods and services.

In the past decades, the social economy in Québec was too often associated with activity on the margins of the economy or exclusively with non-market social services. A long process leading to the adoption of framework legislation, coupled with increased visibility, has resulted in the wide recognition of the role of the social economy and its important contribution to inclusive growth, certainly in Québec and increasingly across Canada. During this period, the Québec experience has been characterized by *institutional innovations, deliberative processes*, and alliances between a wide range of actors engaged in designing democratic strategies of socioeconomic transformation. Alliances between social movements, labour, the cooperative movement, and community organizations have been at the heart of this movement. The construction of an institutional context for *multi-stakeholder partnerships* and *distributed and democratic governance* has been critical to its development.

Social economy actors are engaged in *institutional innovation* at several levels, not the least of which was the creation of a network of networks, the *Chantier de l'économie sociale* in 1997 and the development of enabling instruments – finance, training, enterprise services, public policy and research. Practitioners are *re-embedding the economy in society*, designing sustainable approaches to development that respond to the needs and desires of communities and the appropriate tools to achieve this.

The institutional architecture, or what is increasingly referred to as the *ecosystem of the social economy* in Québec, includes old and new social movements, collective enterprises, and territorial development intermediaries. The strength of the social economy is grounded in the capacity of its practitioners to work inter-sectorally and collaboratively and to negotiate with different levels of government.

The legacy of the social economy in Québec has deep roots in cooperative and social movements. However, the recent history of the social economy is indebted to the citizen-based community economic development organizations that grew out of the early 1980's in urban neighbourhoods struggling against economic restructuring and the recession. The strategies for economic revitalization proposed by these organizations planted the seeds for what we refer to today as "*place-based strategies*" and *comprehensive public policy* to meet the needs of communities devastated by mass layoffs, plant closures and accompanying urban decay. They successfully pressed for the integration of policy: labour market, enterprise services and business development, social integration through economic initiatives and local revitalization, insisting upon the limits of homogeneous and undifferentiated programs designed in ministerial silos. They successfully pressed for *multi-stakeholder dialogue* with all social and economic actors – community organizations, the labour movement, the private sector and the government – prefiguring a *process of co-construction of public policy* that would be applied more broadly, transforming the top-down relation between the state and civil society to one of collaboration and co-determination. This period marks a watershed in the recent history of the social economy and its commitment and capacity to *work across boundaries* – inter-sectorally and with different levels of government. The *comprehensive and coordinated approach* that characterizes the social economy in Québec today is rooted in the collective actions of community movements in the 1980s.

The social economy movement in Québec has historically insisted on the complementarity between social economy actors and the fundamental importance of the primary regulatory and redistributive role of the State. It has been active in calling for a *new sociopolitical architecture*, for more *horizontal policy settings* to address the hybrid needs of the social economy within the government, and for a *process of collaborative policy formation* situated in new institutional dialogic spaces. This captures the history of social finance in Québec, of how government has worked collaboratively, for the most part, in co-designing policy to enable the emergence and growth of financial institutions and tools adapted to the needs of the social economy.

1.2 SOCIAL FINANCE IN QUÉBEC: A HISTORICAL PERSPECTIVE

Social finance is a term used to capture the many financial institutions and organizations that in today's terminology seek blended value or triple bottom-line returns – economic, social, and environmental. Too often, this is presented as a new phenomenon overlooking centuries of cooperative finance and social banking, for example. In Québec, we speak of *solidarity finance* to refer to those financial institutions that invest exclusively in collective enterprise and *development capital* to refer to investments with socio-economic objectives, but not only in the social economy to distinguish this from traditional risk or venture capital. Together, this represents *socially responsible finance* in Québec (Bourque, Mendell, & Rouzier, 2009). Today, *solidarity finance* and *development capital* frequently overlap, demonstrating the perceived investment worthiness of collective enterprises previously associated with high risk and low returns by development capital institutions. The boundaries between *solidarity finance* and *development capital* are now permeable, which allows for collaborative financial structuring by several institutions and, thus, greater opportunities for substantial investment.

Québec shares a long history of mutual aid societies, cooperative financial institutions, and credit unions with other parts of the world. The *Mouvement Desjardins* in Québec, created at the turn of the twentieth century, was influenced by European experiences, in particular, the *Raiffeisen Bank* in Germany, established in 1864. Long before, mutual societies were created in Europe in both Québec and Europe. Mutual finance associations emerged in Latin America as well at the beginning of the twentieth century. These roots are embedded in *solidarity finance* in Québec, notwithstanding the growth of the *Mouvement Desjardins* today into a global financial institution.

Québec has been an important innovator in the field of social finance, but it has also borrowed from international experience. Micro-credit inspired the creation of a network of community-based local funds while insisting, contrary to many international experience, on the importance of (1) enabling public policy measures and (2) raising the capacity of micro credit to leverage larger sums with the availability of diverse financial tools, thereby increasing its transformative potential. This capacity exists in Québec, for example, but in many contexts, it does not.

As impact investing gains visibility internationally, Québec is also in the process of integrating this concept while maintaining a certain critical distance. Given its long history of investment with social impact and the creation of numerous innovative financial tools and institutions since the beginning of the twentieth century, there is no clear indication whether this surge of capital will be available for social economy enterprises. Because Québec has a closer affinity with Europe and Latin America, the American and British influence shaping the impact investing market is not as present as it is in other parts of Canada. A strong labour movement and the role of social movements and community organizations in Québec, political alliances between diverse movements, an entrenched welfare state culture that limits the disengagement of government, and a history of dialogue among principal social actors – labour, government, business and, more recently, social movements and community organizations – all distinguish Québec from the political culture of the USA and the UK and from other regions across Canada.

In sharp contrast to this growing trend, the development of social finance in Québec continues to be a *process of economic democratization,* of designing financial institutions and investment tools by and with social economy actors.

THE RENEWAL OF SOCIAL FINANCE AND THE SOCIAL ECONOMY: A turning point in 1996

Québec has several distinctive characteristics that provided fertile ground for the development of its social economy and social finance. The long history of the cooperative movement and credit unions was foundational in its development. The aspirations of a majority francophone population and the provincial government for greater autonomy, the strong presence of the state in economic development, and a tradition of dialogue between government, unions, and employers all shaped the history of the social economy in Québec. Its recent history has been marked by its success in addressing the acute challenges of increasing employment without worsening the accumulated deficit in the mid-1990s. The fiscal and employment crisis of the Québec economy marked a turning point for the social economy. We briefly review this important period.

In October 1996, Premier Lucien Bouchard, the prime minister of Québec at the time, convened a summit, on the economy and employment, calling upon government, employers, trade unions, community organizations, and social movements to discuss how to address the dilemma of an urgent need to create jobs without worsening the fiscal deficit. This was the first time that community organizations and social movements were convened to such a summit, which in the past, had been limited to participation from the labour movement, employers, and government. Pressure on the government to act and produce results came from two directions: The Women's March Against Poverty in 1995 and a confidential brief that Standard and Poor's would downgrade the credit rating of Québec. It was clear to Premier Bouchard that increasing public spending on social programs in conventional ways would not be possible. The Women's March called for investment in "social infrastructure" to reduce poverty. Increased spending to meet this need was not feasible, according to the government, and creative solutions were required.

A Conference on the Social and Economic Future of Québec several months prior to the summit created task forces to propose new strategies to boost employment without increased public spending. The objectives of these task forces were to recommend strategies to: 1) create jobs and new enterprises, 2) promote regional development and urban revitalization, and 3) develop the social economy. This third objective marked a turning point in the history of the social economy in Québec. The task force dedicated to developing the social economy presented several innovative solutions to create new jobs while responding to needs that the market and the public sector could not meet. It identified 20 social economy projects that would create 20,000 jobs in two years, including urgently needed social services such as childcare, perinatal services, home care, social housing, and programs for workforce integration and local development. In fact, the task force initiatives exceeded these objectives.

This success led to the creation of an independent non-profit organization in 1999 to continue to promote and develop the social economy. The *Chantier de l'économie sociale*, a network of networks, is now a non-profit organization representing all social economy actors. Its members include sectoral networks of collective enterprises, social movements, and local development intermediaries.

Critical to the recent development of the social economy has been the creation of social finance tools and institutions. Based on a proposal presented at the Summit on Economy and Employment in 1996, the *Réseau d'Investissement social du Québec* (*RISQ*; Québec Social Investment Network) was established in 1997 to provide loans up to $50,000 for social economy enterprises and technical support loans for emerging projects. Initial capital was provided by the government and donations from the private sector. In 2007, the *Chantier* created the *Fiducie du Chantier de l'économie sociale* (*Fiducie*; the *Chantier* Social Economy Trust), a patient capital (quasi-equity) fund capitalized by both the federal and provincial governments, and two labour solidarity funds, *Fondaction CSN* (CSN ActionFund) and the *Fonds de Solidarité FTQ* (FTQ Solidarity Fund) to meet the needs for long-term investment in social economy enterprises.

Over the past two decades, social finance has diversified and expanded as more and more collective enterprises have emerged and existing enterprises undertake increasingly ambitious projects. New approaches to financing traditional sectors such as housing or community real estate have also enriched the development of the Québec social finance ecosystem.

KEY MILESTONES IN THE EVOLUTION OF SOCIALLY RESPONSIBLE FINANCE IN QUÉBEC

The construction of the social finance ecosystem is an ongoing process that continues to evolve. The following table provides a selection of key milestones in the evolution of *socially responsible finance* in Québec. The table is colour coded to distinguish cooperative, labour solidarity funds, state and private funds, as well as hybrid funds with multi-stakeholder capitalization. This table demonstrates the diversity of actors and types of investment capital available for the social economy and for small community-based initiatives. It also includes development capital, as defined earlier.

Table 1

Key historical moments in the evolution of solidarity finance and development capital in Québec; selected examples

mutual · cooperative · labour · community · state · hybrid · private

1800	1900	1970's	1980's	1990's	2000 +
Sociétés de secours mutuels (1840)	*Mouvement des caisses d'épargne et d'économie Desjardins* (1900)	*Caisse d'économie solidaire (Caisse d'économie des travailleuses et travailleurs – Québec)* (1971)	*Fonds de solidarité (FTQ)* (1983)	*SOLIDE* (1991)	*Filaction* (2000)
			Community Economic Development Corporations (CDEC) (1984)	*Fondaction de la CSN* (1995)	*Réseau québécois du crédit communautaire* (2000)
			Régime d'investissement coopératif (1985) *Réseau des sociétés d'aide au développement des collectivités (SADC) et des centres d'aide aux entreprises* (CAE)/Community Futures (1986)	*Société de développement des entreprises culturelles* (1995)	*Capital régional et coopératif Desjardins* (2001)
				Fonds régionaux de solidarité (1996)	*Fiducie du Chantier de l'économie sociale* (2007)
				Fonds locaux de solidarité (1996)	*Plan d'action gouvernemental pour l'entrepreneuriat collectif* (2008)
				Réseau d'investissement social du Québec (1997)	*Fonds d'initiative et de rayonnement de la métropole* (2009)
				Fonds d'investissement de Montréal (FIM) (1997)	Cycle Capital Management (previously the *Fonds d'investissement en développement durable*) (2009)
				Fonds d'investissement pour la culture et communication (1997)	Local solidarity fund – social economy (2009)
				Investissement Québec (1998) – cooperative, social economy, *Fonds du développement économique*	*Fonds d'investissement pour la relève agricole* (2011)
				Local Development Centers (1998) – Local investment fund, Social economy enterprise development fund	*Financement IMPLIQ* (2012)
					Capitalization of Social Economy Enterprises Program (2013)
					Social Economy Act (2013)
					Plan d'action gouvernemental en économie sociale 2015-2020
					Fonds Essor et Coopération (2013)
					An Act mainly to implement certain provisions of the Budget Speech of 4 June 2014 and return to a balanced budget in 2015-2016
					PME MTL, SDE, etc. (2015)
					PUSH Fund (2016)
					Fonds INNOGEC (2017)
					Community Bonds (2017)

SOCIAL FINANCE IN QUÉBEC TODAY: An overview

Since 2006, a portrait of socially responsible finance, or social finance, has been produced approximately every four years in Québec. This is based on a questionnaire sent to numerous financial institutions and intermediaries managing financial investments across Québec, follow-up interviews in many cases, and organizations' annual reports. As the following table indicates, social finance, including both solidarity finance and development capital, has grown considerably in the last decade. Between 2013 and 2016, *solidarity finance* grew by 32 percent, and *development capital*, by 26 percent. This is the only methodical assessment in this field in Québec, and it contributes to the visibility of social finance.

Table 2 – Table 2 Growth of social finance between 2006–2016, in millions of $ [1]

	2006	2010	2013	2016
Responsible Investment (Social Finance)	4,294	12,665	11,086	14,048
Development Capital	3,907	12,191	10,469	13,236
Solidarity Finance	387	474	617	812

The following two tables provide data on total assets and investments from several solidarity finance and development capital institutions in 2016 Québec.

[1] All the statistics are from 2016; hereafter, they are based on IREC (2017) and Mendell (2017).

Table 3 – Solidarity finance as of 2016 (Portrait, 2017)[2]

	Assets 2016 (M$)	Investments 2016 (M$)
RQCC (Micro-credit network)	7.8	2.17
Investissement Premières Nations (First Nations)	8	6
Réseau d'investissement social du Québec (RISQ)	15.2	8.9
Filaction	50	40
Fiducie du Chantier d'économie sociale	52.8	31.5
Caisse d'économie solidaire	830.9	517.8
Bâtir son quartier	–	9.5
Fonds d'investissement pour la culture et communication (FICC)	35.3	3.5
Produit financier IQ: Financement de l'entrepreneuriat collectif (Government of Québec-*Investissement Québec*)	–	19.9
Programme de capitalisation des entreprises d'économie sociale du gouvernement du Québec (IQ-capitalization of social economy enterprises)	–	2.35
Fonds FIRA (*Fonds d'investissement rural*; rural investment fund)	75	15.5
Fonds locaux de solidarité (Labour solidarity fund local investment fund)	--	122
Capital Essor et coopératif	85	26.6
Fonds d'aide à la rénovation d'habitation communautaire (Fund to renovate community housing)	32.5	4.1
Obligations communautaires (*TIESS*) (community bonds)	–	0.17
Fonds communautaire pour le logement étudiant (CLE) de l'Université Concordia (PUSH Fund-student cooperative housing initial fund)	1.85	1.85
Total	**1194.4**	**811.8**

Table 4 – Development capital as of 2016 (Portrait 2017)[3]

Types of Institutions	Assets (M$)	Investments 2016 (M$)
Fonds de travailleurs (labour solidarity funds)	13 240	8 574
Investissement Québec (Government of Québec)	8 467	3 292
Structures régionales et locales (Intermediaries)	407.3	238.6
CRCD (Desjardins et al.)	1 905	989.4
Cycle Capital Management	230	142
Total	**24 249.3**	**13 236**

[2] For details on these funds, see the PowerPoint presentation (Mendell, 2017). The survey sent to numerous actors in Québec includes several that are not represented in the PowerPoint presentation that principally covers the major actors.

[3] Please see the previous footnote for information pertaining to this table and with reference to the PowerPoint presentation for detail.

A CLASSIFICATION OF SOCIAL FINANCE INITIATIVES, TOOLS AND INSTITUTIONS: A brief synthesis

5.1 COMMUNITY-BASED FUNDS

Community-based funds refer to small loan circles and local funds created by civil society organizations. *Le Réseau québécois du crédit communautaire* (*RQCC*; the Québec Network of Community Credit Funds) represents community-based funds including loan circles, small micro-credit organizations, and loan funds across Québec that provide loans between $500 and $2,000. Larger loan funds, such as the Montréal Community Loan Association (MCLA), will lend up to a maximum of $20,000. The mission of community-based funds is to serve a marginalized population denied access to conventional loans. Community-based funds either provide individual loans and/or work in close partnership with other social finance actors and institutions to structure larger investments. As such, these community-based funds act as important leverage for further funding. They also collaborate with the government, at times either through direct financial support or indirect support through employment promotion programs. In Québec, unlike elsewhere, many community-based funds were established in close collaboration with local development organizations to provide financial opportunities for initiatives embedded in local development strategies.

5.2 CO-OPERATIVE FUNDS

The *Mouvement Desjardins* (Desjardins Group) was the first savings and credit cooperative established in North America. From a small local credit union created by Alphonse Desjardins and local stakeholders in December 1900, it achieved legal status in 1906 with the adoption of legislation for cooperatives by the Québec Legislative Assembly. Today, it is a large federation of many independent institutions and a major international financial institution. It has played a fundamental role in the development of the social economy in Québec, and in particular in the creation of social finance tools. In what follows, we highlight two examples of credit unions and cooperative funds in Québec.

The *Caisse d'économie solidaire Desjardins* (formerly the *Caisse d'économie Desjardins des travailleurs et travailleuses*) was created in 1971 by the labour movement. Its mission is to contribute to social justice and solidarity by supporting collective and social enterprises and the cooperative movement. The *Caisse d'économie solidaire Desjardins* provides guaranteed loans to social economy enterprises and organizations. With other social finance actors, the *Caisse* contributes to the financial structuring of social economy enterprises across Québec. Since it was established by unionized workers affiliated with the *CSN* (*Confédération des syndicats nationaux*; Confederation of National Unions) and because it is dedicated to the social economy, this *Caisse* is distinct from other members of the federation.[4] In 2016, the total assets of the *Caisse* were $831 million; it invested a total of $513 million in collective enterprises and social housing as well as $5 million in private enterprises.

The second example, *Capital régional et coopérative Desjardins* (*CRCD*; Desjardins Capital for Regional and Co-Operative Development), was created in 2001 by the *Mouvement Desjardins* to promote employment in Québec. The *CRCD* is not a member of the federation; it is a fund managed by *Desjardins Capital* with other partners. The *CRCD* does not invest exclusively in the social economy, but its founding mission prioritizes cooperatives and regional development. In 2006, this was formalized in the "Act Constituting *Capital Régional* et *Coopératif Desjardins*," obliging the *CRCD* to invest at least 60 percent in Québec co-operatives or organizations promoting local development. Investors in the *CRCD* fund are eligible for a 40 percent provincial tax credit, but they must invest for at least seven years.[5] The *CRCD*'s investments include *Capital croissance PME S.E.C.* (SME Growth Capital) for small and medium enterprises, *Innovatech S.E.C.* for businesses with innovative technology, and *Société en commandite Essor et Coopération*, to capitalize co-operatives. The *CRCD* and its partner funds have contributed to the growth of 417 companies, cooperatives, and funds across Québec, investing a total of approximately $1 billion. As of 2016, it has created or maintained 71,300 jobs.

5.3 LABOUR SOLIDARITY FUNDS

The *FTQ* (*Fédération des travailleurs et travailleuses du Québec*; Québec Federation of Labour) established the first union-controlled investment fund, *Fonds de Solidarité FTQ*, in 1983 to create and maintain employment. Inspired by the successful management of *Fonds de Solidarité FTQ*, the *CSN* (*Confédération des syndicats nationaux*) established the second labour solidarity fund, *Fondaction CSN pour la cooperation et l'emploi* (CSN ActionFund for cooperation and employment), in 1995. The original mission of labour solidarity funds was to create and maintain employment in Québec and to generate competitive returns on investment in these funds for workers' retirement income.

The creation of the *Fonds de Solidarité* was made possible by the establishment of a tax credit by the Québec government, followed by the federal government. The tax credit was offered to encourage workers to put aside money for their retirement while contributing to job creation within the local economy. Since their creation, their performance and competitive returns have attracted investors throughout the province of Québec, in addition to its worker members. The two labour funds play an important role in the Québec economy and are widely supported by all economic actors. Following the Conservative government's March 2013 announcement of the federal tax credit phase-out, over 110,000 Québecers wrote to the finance minister or signed a petition calling on him to rescind his decision. This sentiment was echoed by over 200 entrepreneurs and employer representatives who publicly recognized the *Fonds'* significant contribution to the Québec economy, as well as by all the parties represented in the Québec National Assembly. The Liberal government elected in 2014 immediately reinstated the tax credit.

[4] Mendell (2017).

[5] *Capital régional et coopératif Desjardins* (2017). "Demand for shares of Capital régional et coopératif Desjardins has once again outstripped the $135 million issue limit."

Because they do not invest exclusively in social economy enterprises but pursue socio-economic and environmental objectives, *Fondaction CSN* and *Fonds de Solidarité FTQ* are classified as development capital. However, as investment in the social economy has proven to be low-risk and offers stable returns, an increasing proportion of these funds are invested in the social economy, often blurring the distinction between development capital and solidarity finance.

In 1991, the *Fonds de Solidarité FTQ* participated in the creation of the *Fonds d'Investissement de Montréal* (*FIM*; Montréal Investment Fund) for social housing. In 2007, *Fondaction CSN* and *Fonds de Solidarité FTQ* invested $8 million and $12 million respectively to create the *Fiducie*, the first patient capital fund for the social economy.[6] In 2016, the total assets of the *Fonds de Solidarité FTQ* were $12.2 billion; it invested $7.6 billion in 2,636 enterprises, creating or maintaining 187,414 jobs. The total assets of *Fondaction CSN* in 2016 were $1.5 billion. It has invested $1 billion in SMEs, directly supporting 365 SMEs and complementary funds. *Fondaction CSN* has created or maintained 32,103 jobs.

Over the years, both labour solidarity funds have established local, regional, and sectoral funds, contributing extensively to the financial architecture of Québec and to regional and local development and job creation. Many of these funds now invest in the social economy, most often with other partners, including the government.[7]

Table 5 – Contributions by trade unions to social finance

Initiatives	Mission & Contribution of Labour sector
Caisse d'économie solidaire (Economic Solidarity Savings Fund) (1971)	*Unionized workers* established this ***co-operative fund***. Its mission is to contribute to social solidarity and social justice by supporting the development of collective enterprise, social entrepreneurship, and collective action.
Fonds de Solidarité FTQ (FTQ Solidarity Fund) (1983) *Fondaction CSN* (CSN ActionFund) (1995)	With the mission to maintain and increase employment and promote local and regional economic development in Québec, ***labour solidarity funds*** are increasingly investing in the social economy in partnership with various social economy funds.

[6] This is but one example of how social finance actors collaborate to respond to the needs of new investment tools. Other contributors were federal and provincial governments, as noted earlier in this paper.

[7] Details on these funds can be found in several of the references cited in the bibliography as well as in the accompanying PowerPoint presentation.

5.4 HYBRID FUNDS

Hybrid funds in Québec refer to funds that are financed by several partners, including the government and the private sector, but managed by civil society organizations.[8] *RISQ*, *Fiducie*, and *Fonds INNOGEC* (*Le Fonds d'innovation pour la gouvernance et la gestion des entreprises collectives*, the Innovation Fund for Governance and Management of Collective Enterprises) are examples of hybrid funds with multi-sectoral participation.

RISQ was created in 1997 by the *Chantier* in partnership with the Québec government and private investors to support social economy initiatives identified at the 1996 summit. The Québec government invested 50 percent of the initial capital of $10.5 million. *RISQ* was the first fund entirely dedicated to financing social economy enterprises. From 1997 to 2015, *RISQ* provided pre-start-up loans and capitalization of $23.1 million for 556 projects and created or maintained 8,432 jobs. In 2016, the Government of Québec invested $5 million in *RISQ* and contributed a non-repayable subsidy of $5 million.

The *Fiducie du Chantier de l'économie sociale* (Chantier Social Economy Trust) was created in 2007 to meet the need for long-term capital for social economy enterprises. An initial subsidy of $22.8 million leveraged the investment by the two labour solidarity funds and the Government of Québec. The *Fonds de Solidarité FTQ* and *Fondaction CSN* invested $12 million and $8 million, respectively; the Government of Québec invested $10 million. The *Fiducie* provides patient capital or quasi-equity ranging from $50,000 to $1.5 million, repayable in 15 years. Only interest payments are made throughout the 15-year term of the investment; the principal is repaid at the end. The *Fiducie* invests in start-up, expansion, and consolidation as well as in the improvement and/or adaptation of goods and services produced by social economy enterprises. It also invests in real estate. Since 2007, it has invested $49 million in 192 projects and has created 3,183 jobs.

5.5 PRIVATE FUNDS

Private sector businesses, foundations, and some high net-worth individuals also contribute to social finance. Following the Summit in 1996, the *Fonds d'Investissement de Montréal* (*FIM*; Montréal Investment Fund) for the purchase and renovation of real estate for cooperative and non-profit housing was founded by architect and philanthropist Phyllis Lambert, along with the broad participation of the private sector. The initial fund mobilized the *Fonds de Solidarité FTQ* ($2.5 million), the Desjardins Credit Union Federation of Montréal and Western Québec ($1.25 million), the National Bank of Canada ($400,000), the Royal Bank of Canada ($400,000), Hydro-Québec ($400,000), and Claridge Investments Ltd. ($100,000). As the fund for social housing proved to be low-risk and profitable, more private sector businesses have joined: Bombardier, a leading manufacturer of aircraft and train, and the McConnell Family Foundation, have also invested in the *FIM*. Since 1997, the *FIM* has enabled the renovation of 31 apartment buildings in the social housing sector.[9]

[8] Mendell (2004).

[9] Mendell (2017).

5.6 STATE FUNDS

Investissement Québec (*IQ*) is a state-owned public corporation to finance various enterprises in Québec. In 2001, it created *La Financière du Québec* (Québec Financier), a subsidiary that provides loans and loan guarantees to collective enterprises. The guarantees provided by *IQ* are an important ***credit enhancement*** tool, reducing risk for other investors. Currently, *IQ* has two major programs for the capitalization of the social economy, *Capitalisation des Entreprises de l'économie sociale* (*CAES*), and a support program for the collective buyouts of enterprises. *CAES IQ* invests a minimum of $50,000 in long-term financing, up to 25 years. Only non-profit organizations, cooperatives, federations, or confederations of cooperatives are admissible to this program. *IQ* plays a unique role as a public institution that partners with social finance and development capital to invest in collective enterprises. The returns to the government can be invested in new initiatives, generating significant multiplier effects.

5.7 COMMUNITY BONDS

Community bonds and crowdfunding are recent innovations in social finance in Québec, though they have a long history in other contexts (municipal bonds and love money,[10] for example). Community bonds not only mobilize finance, but also offer investment opportunities to citizens wishing to allocate savings to collective initiatives that generate social, environmental, and economic returns. Large-scale community bonds had been launched with success in Toronto and inspired Québec actors to test the model locally.

Three community bonds were launched with immediate success in 2017 in Montréal under the guidance of *TIESS* (*Territoires innovantes en économie sociale et solidaire*), a knowledge-transfer organization contributing to innovations in social finance and to accelerating the growth of the social economy across sectors and regions. A guide to community bonds has been published to assist those social economy enterprises wishing to issue a bond to complement other sources of finance. The involvement of the community through proximity investment raises the visibility and awareness of the social economy and is attracting more and more interest from social economy enterprises.

[10] Loans or investments from one's family or relatives.

ENABLING POLICY FOR SOCIAL FINANCE IN QUÉBEC

Since the Quiet Revolution in the 1960s, the Québec government has played a very active and interventionist role. High levels of government spending on welfare, an active role played by state-owned enterprises, and a state-led development strategy have characterized the role of the Québec state. What distinguishes Québec from other developmental states is that it created a tradition of "*concertation*," or multi-stakeholder dialogue, for many years with business, labour, and the social economy since 1996. Despite the severe consequences of the austerity measures introduced by the current government and a commitment to roll back the role and size of the state, the process of co-constructing public policy with social economy actors has continued. Among important policy measures, in particular the adoption of framework legislation in 2013, the government has collaborated with social economy organizations in creating and enabling investment tools and continues to provide overall policy support that corresponds with new and evolving needs. This is distinct from the models of other countries and practices of "public service outsourcing" in the promotion of the social economy and/or social enterprise.

The following summarizes some of the key policy measures introduced by the Québec government over the years. We have grouped these into (1) direct financial injections or subsidies by government, (2) legislation, (3) credit enhancement, and (4) fiscal measures. In some cases, the federal government also played a role. We note this.

6.1 DIRECT INJECTIONS BY GOVERNMENT

The government of Québec, and in some cases the government of Canada, have invested directly in the development of social finance through both repayable and non-repayable contributions. In some cases, government contributions have been used to leverage to private capital. In other cases, they have been a unique source of capital. Government funding has also been important in supporting operational costs for small funds. This is necessary because of the high cost of transactions despite the small amounts involved; due diligence in analyzing investment opportunities and supporting entrepreneurs is necessary, whether the amount invested is small or large. However, it is impossible to cover operating costs and keep interest rates low when the loans are small.

Over the past 20 years, the major direct injections by government in Québec's social finance have been as follows.

RÉSEAU D'INVESTISSEMENT SOCIAL DU QUÉBEC (RISQ)

In 1997, the Québec government capitalised *RISQ* at a one-to-one ratio with private contributions (50 percent of $10.5 million from the Québec government). In 2010, an additional $5 million was injected for a new financial product for the pre-start-up phase of development. Given the important impact of *RISQ* in terms of leverage and social impact, the Québec government recapitalised *RISQ* in 2016 with a $5 million subsidy and an additional $5 million interest-free loan. Support for *RISQ*'s operations has also been provided at different levels over the past two decades.

CHANTIER DE L'ÉCONOMIE SOCIALE TRUST (*FIDUCIE DU CHANTIER DE L'ÉCONOMIE SOCIALE*)

In 2007, the government of Canada (Economic Development Canada), in the context of the 2004 Social Economy Initiative, injected $22.8 million for the creation of the first patient capital fund. The federal contribution allowed the *Chantier* to offer first-loss protection to other investors. The federal government's investment in the *Fiducie* confirmed its confidence in the potential of social economy enterprises and, therefore, the ability of the *Fiducie* to generate stable financial returns.

As mentioned above, in 1997, the Québec government, through *Investissement Québec*, invested $10 million in the *Fiducie*. In 2015, in its Social Economy Action Plan (2015–2020), the Québec government committed an additional five-year interest relief to the *Fiducie* on its initial investment in this fund. This represents a total investment of $2.5 million.[11]

LOCAL DEVELOPMENT FUNDS

Both the governments of Canada and Québec have equipped local development organizations with the financial tools to invest in SMEs. Some of these funds have been made available for social economy enterprises, though the majority of funds have been invested in private initiatives.

- In Québec, there are 57 **Community Futures Development Corporations** (CFDCs), known as *Sociétés d'aide au développement des collectivités* (*SADC*), and 10 **Community Business Development Corporations**, known as *centres d'aide aux entreprises* (*CAEs*). They have contracts with the federal government (Canada Economic Development for Québec Regions) through the Community Futures Program, which offers financial support to the *SADCs* and the *CAEs,*[12]. Although we cannot identify investments in social economy enterprises as this data is unavailable, the *SADCs* and *CAEs* have invested $60 million in businesses every year, on average. From 1997 to 2015, they invested $105.5 million in businesses created by youth. In 2015, $8.25 million was invested in ongoing local development projects.[13] "*SADCs* and *CAEs* have $265 million in assets for investment. They help and finance over 10,000 businesses and over 1,000 local project every year." [14]

- **Local development centres** were established in 1998 by the government of Québec, but most of these were abolished in 2015 under the current government. In their 17 years of existence, these centres had public funds to support the development of local entrepreneurship, including a fund designated for social economy enterprises. Moreover, they established an association representing 120 LDCs. Several regional county municipalities have chosen to assume former LDCs' tasks, while some have chosen to create a new NPO or to entrust development tasks to an existing body.

  While the LDCs and their association no longer exist, they represent an important moment in the history of social finance in Québec, demonstrating the value of local intermediaries in identifying investment needs and in working with social finance actors to respond to these needs. In addition, it allowed social finance actors to collaborate locally in structuring capital for local enterprises, including social economy enterprises.

- In 2015, **PME MTL** was established, following the abolishment of the LDCs. With six hubs on the island of Montréal, its initial capitalization was $7.8 million ($6.5 million from the Québec government and $1.3 million from the City of Montreal). They offer a full range of professional services for private-sector and social economy entrepreneurs.[15] An additional $9.2 million was added specifically for a social economy fund in May 2018 in the context of the City of Montréal's Action Plan on Social Innovation.

[11] *Ministère de l'Économie, de la Science et de l'Innovation*, 2015, «*Plan d'action gouvernemental en économie sociale* 2015–2020»: 15.

[12] *Réseau des SADC et CAE*, 2017, «*Réseau des SADC et CAE Annual Report 2015–2016*»: 19.

[13] *Réseau des SADC et CAE,* "Who we are – Results."

[14] *Réseau des SADC et CAE*, "The Réseau in brief."

[15] In the few years prior to this policy decision by the current government, 2010–2011 to 2014–2015, the government was planning to inject more than $360 million in the LDCs according to Charest, M. (2015). «Exit les CLD, vive PME MTL». *Les Affaires*

CO-FUNDING WITH CIVIL SOCIETY ORGANIZATIONS

In 1991, the *Fonds de Solidarité FTQ* and the *Union des municipalités régionales de comté* (*UMRC*) (network of regional municipal counties) created *SOLIDEQ* to establish *SOLIDE* (*Société locale d'investissement pour le développement de l'emploi*) throughout the province. While the *Fonds de solidarité* was central to the initiative to develop *SOLIDE*, it may be considered a "hybrid" given the partnership between *SOLIDE* and the *UMRC*. In 2009, the *SOLIDE* became known as *Fonds locaux de solidarité* (local solidarity funds) and were given the mandate to invest in social economy enterprises (cooperatives and not-for-profit enterprises/organizations).

At the end of 2016, Québec's regions had an important development tool at their disposal, with over $100 million in funding available for their SMEs:

- $24 million invested by local partners (including $10 million from the Québec government);
- $76 million from the Fonds de solidarité FTQ to support local economies.[16]

DIRECT INVESTMENT BY A GOVERNMENT ENTITY

Investissement Québec is the investment arm of the Québec government. Over the past decade, it has offered a variety of products to social economy enterprises. In 2007, $10 million was invested in the *Chantier de l'économie sociale trust* followed by an additional $10 million investment in 2018. In both cases, these were repayable loans with flexible conditions and long-term repayment. Several other programs managed directly by *Investissement Québec* have provided capital to social economy enterprises:

- *Financement IMPLIQ* – 80 financial interventions totalling $33.5 million (2012–2013). (No information is available beyond 2013).
- Capitalization of Social Economy Enterprises Program – $3 million was invested in 2011, but $30 million will be invested between 2015 to 2020, as stated in the Social Economy Action Plan.

The ***Ministère de l'Économie, de la Science et de l'Innovation*** (*MÉSI*) (Ministry of the Economy, Science and Innovation) is responsible for the *Programme d'immobilisation en entrepreneuriat collectif* (Program for Fixed Assets in Collective Entrepreneurship). This program supports collective entrepreneurs in carrying out their projects for the acquisition of property, construction, or renovation. The program has $20 million available from 2015 to 2020 (Social Economy Action Plan). The *MÉSI* will also inject $20 million from 2015 to 2020 (Social Economy Action Plan) in the *Entente de partenariat pour le développement des coopératives* (Cooperatives Development Partnership Agreement), which provides support for cooperative entrepreneurs to start or expand their business.

The ***Fonds d'initiative et de rayonnement de la métropole*** is administered by the *Secrétariat à la région métropolitaine* (Secretariat for the metropolitan region, government of Québec), which has existed since 2012. This fund has financed more than 2,000 projects representing global investments of $2.5 billion. Information providing a breakdown of these investments according to project type is not available. However, information is available for the year 2014–2015, in which this fund invested $600,000 in 12 social economy enterprises.[17]

[16] *Fonds de solidarité FTQ*. «Fonds locaux (local funds)» and *ministère de l'Économie, de la Science et de l'Innovation*. «*Mise sur pied d'un fonds local de solidarité dans la MRC de Kamouraska*».

[17] *Journal Métro*, 2015, «*Metro. Douze projets d'économie sociale montréalais reçoivent un financement de Québec*». *Métro, 28 janvier 2015*. While the amount is rather small and the period of time rather limited, we include this fund because of its potential to invest in collective enterprise.

6.2 LEGISLATION

FONDS DE SOLIDARITÉ FTQ

The Québec National Assembly passed legislation in June 1983 to create the *Fonds de Solidarité des travailleurs et des travailleuses du Québec* (Act to establish *Fonds de solidarité des travailleurs du Québec*). Both federal and provincial legislation enabled the creation of the first labour solidarity fund in Québec. With the passing of this legislation, shareholders-savers subscribing to *Fonds de solidarité FTQ* were now eligible for tax credits from the provincial government (15 percent) and the federal government (15 percent). The initial tax credit from both levels of government was 30 percent.

RÉGIME D'INVESTISSEMENT COOPÉRATIF (RIC)

Created in 1985, the *RIC* provides a 125 percent tax credit on the purchase of shares by workers, members of certain cooperatives (worker cooperative, shareholding workers' cooperative, etc.), and eligible federations governed by the Cooperatives Act or by the Canada Cooperatives Act needing equity capital for their development (Cooperative Investment Plan Act).

FONDS DE DÉVELOPPEMENT DE LA CONFÉDERATION DES SYNDICATS NATIONAUX POUR LA COOPÉRATION ET L'EMPLOI

In 1995, the *Confédération des syndicats nationaux* established *Fondaction de la CSN pour la coopération et le développement de l'emploi*. Both federal and provincial legislation permitted the creation of this second labour solidarity fund in Québec (Act to establish *Fondaction, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi*). However, from 2015 to 2021, shareholders will be eligible for a 20 percent tax credit from the provincial government and a 15 percent tax credit from the federal government. Prior to 2015, the provincial tax credit was 30 percent, as it was for *Fonds de solidarité FTQ*.

INVESTISSEMENT QUÉBEC – LA FINANCIÈRE

In the early 2000s, the Québec government passed legislation making it possible for certain public institutions to offer risk capital to cooperatives and not-for-profit enterprises, thus increasing collective enterprise's access to capital. Additionally, four new funds were established exclusively for the social economy.[18]

In 2001, *Investissement Québec* created a new subsidiary, *La Financière du Québec* (Act for Investissement Québec and *La Financière du Québec*). *La Financière* administers the Program to Promote the Financing of Collective Entrepreneurship, providing loan guarantees, and the Program to Promote the Capitalization of Social Economy Enterprises, supplying loan capital. Of the $100 million allocated for the financing of enterprises by *Investissement Québec*, the subsidiary earmarked $15 million for non-profit organizations and cooperatives under the two new programs. *La Financière* was abolished in 2010 (Act for *Investissement Québec*).

[18] Mendell, Marguerite, 2003, "The social economy in Québec," *VIII Congreso Internacional del CLAD sobre la Reforma del Estado y de la Administración Pública*, Panamá, 28–31 Oct., p. 8.

Today, *Investissement Québec* administers the Collective Entrepreneurship Program, which offers the following to cooperatives and non-profit organizations:

- Loans at competitive rates
- Loans in partnership with other lenders
- Loan guarantees: guaranteed repayment of the net loss suffered by a financial institution that granted a loan, line of credit, or any other short-term financing
- Quasi-equity financing in the form of subordinated debt
- Purchase of preferred shares in a cooperative.

The financing covers up to 100 percent of project costs.[19]

Cooperatives and non-profit organizations may also be eligible for the Financing of Refundable Tax Credits Program if they qualify for a refundable tax credit and need liquidity to carry out a project right away. *Investissement Québec* can provide financing equivalent to the anticipated tax credits. Enterprises "can receive up to 100 percent of the total anticipated amount of their refundable tax credits for one fiscal year, right away." [20]

CAPITAL RÉGIONAL ET COOPÉRATIF DESJARDINS

"Created in 2001 as a development capital investment fund, *Capital régional et coopératif Desjardins* (*CRCD*) takes an active role in the economic development of Québec [Act constituting *Capital régional et coopératif Desjardins*]. To fulfil its mission, *CRCD* issues a share offering available for subscription by all Québec taxpayers. Buying shares of *CRCD* allows shareholders to enjoy a provincial tax credit equal to 40 percent of the amount they invest." [21]

SOCIAL ECONOMY ACT (FRAMEWORK LEGISLATION FOR THE SOCIAL ECONOMY)

The Social Economy Act, adopted by the government of Québec in 2013, defined the social economy and the obligations of the Québec government as follows:

"In the exercise of their powers and responsibilities, all ministers [notably Minister of Municipal Affairs, Regions and Land Occupancy, Minister of Finance and the Economy, Minister Responsible for government departments and the Secretariat of the Conseil du trésor, Minister responsible for Investissement Québec and the Société d'habitation du Québec, and any government agency designated by the Government and governed by the Auditor General Act] must, in their actions and with respect to any agency referred to in section 4 for which they are responsible, recognize the social economy as an integral part of the socio-economic structure of Québec by taking it into consideration in measures and programs, when updating those measures and programs, and in developing new tools for enterprises. In addition, whenever it is relevant, ministers must promote social economy initiatives carried out in Québec and at the international level."

REGULATION FOR EQUITY CROWD FUNDING

Crowdfunding is a way to finance a project by engaging a large number of people through web platforms. There are two types of crowdfunding:

- Donations or presale that consist of collecting donations and reciprocating with a product or a service to donors. This is not regulated in Québec.
- *Securities crowdfunding* "is when a business raises funds by issuing debt securities (such as bonds) or securities giving the right to participate in future profits (such as shares). In Québec, issuing securities offered to the public is subject to legal and financial obligations." [22]

The two types of crowdfunding include limits on the amount that can be raised per year as well as how much can be invested.[23] Regulation 45-108 respecting crowdfunding has been in force since January 25, 2016.

Social economy enterprises also have access to community capitalization and investment tools, such as preferred shares and community bonds, but these transactions do not yet go through a web platform in Québec; crowdfunding is a relatively new phenomenon.

[19] *Investissement Québec*, 2016, "Collective entrepreneurship."

[20] *Investissement Québec*, 2015, "Financing of Refundable Tax Credits".

[21] *Desjardins Capital regional et cooperative*. "Who we are".

[22] *Autorité des marchés financiers*, 2015, "Securities crowdfunding."

[23] *Entreprises Québec*, 2017, « Le financement participatif."

6.3 CREDIT ENHANCEMENT

As stated above, *Investissement Québec* provides loan guarantees to collective enterprises, representing a very important credit enhancement that greatly facilitates the leveraging capacity of these enterprises to access additional capital. (See pages 26 and 31 for more details.)

6.4 FISCAL MEASURES

Tax credits have played a significant role in developing social finance in Québec. We discuss this briefly here, as there is an overlap between tax credits and legislation, as discussed above. Still, noting the impact of tax incentives is very important as it is a policy measure that generates great public interest. To summarize briefly, investors in the two labour solidarity funds, *Fondaction CSN* and *Fonds de Solidarité FTQ*, are eligible for 20 percent and 15 percent provincial tax credits, respectively, and a further 15 percent federal tax credit. A second tax credit is applied for those holding provincially registered retirement savings plans that vary according to individual marginal tax rates. Together, these can represent between 58 percent and 83 percent on the amount contributed. For investors in *CRCD*, the tax credit rate is 40 percent. (See above.)

A FORMAL PLATFORM FOR COLLABORATION: Cap Finance

The creation of CAP Finance, a network for "socially responsible finance" in Québec (development capital and solidarity finance) in 2010, formalized a long-standing relationship between its founding members.[24] A key distinguishing feature of social finance in Québec has been its history of collaboration. Social finance institutions and organizations, including solidarity finance, development capital and state funds, have frequently worked together in structuring finance for social economy enterprises. They have several collective projects, including the publication of a *Portrait of Socially Responsible Finance* across Québec every four years and, most recently, the publication of the second edition of the *Guide for the Analysis of Social Economy Enterprises*, an invaluable tool for financial analysts assessing social economy initiatives seeking investments.

Formalizing this collaboration was important to demonstrate the collective capacity of these financial actors to contribute to Québec's socio-economic wellbeing. CAP Finance provides an institutional space for dialogue, knowledge mobilization, and collective representation, fully respecting the autonomy of each of its members who share a commitment to economic democracy, promoting the public awareness of social finance, and influencing the financial sector to become socially responsible.[25]

Building a network of social finance organizations is important for: 1) the development of professional expertise in social finance, 2) collective action to influence government policy and the practices of conventional finance, and 3) creating a community of practice. For Seoul stakeholders who wish to learn from the Québec experience, the role of CAP Finance as a platform for collaboration is an essential element in developing a social finance ecosystem.

[24] Charest, J., 2013, See also the other papers of *Éditions Vie Économique (EVE) vol4.* The entire issue is dedicated to CAP Finance.

[25] Founding members of CAP Finance are signatories of a charter outlining its mission and mandate. See *Charte de Cap Finance*, 2010. capfinance.ca

SUMMARY

Role of each sector in the development of social finance

1. Social economy actors/organizations/enterprises, social movements, community movement, socio-economic development intermediaries

   - Mobilization of actors in the social economy and community organizations
   - Formation of networks, participation in policy making (*Chantier*, CAP Finance)

2. Co-operative and employers' investment in the social economy

   - Investment of co-operative funds: CRCD, *Caisse d'économie solidaire*
   - Investment of the private sector and foundations. This have been limited thus far, but we have reason to believe this will grow as investments are sought that offer stable returns and contribute to societal wellbeing. Foundations are increasingly entering the "impact investing space," for example. This is true in Québec, as the Chagnon Foundation and the McConnell Family Foundation are investing in the social economy through direct investments and, most recently, through credit enhancement by the offering of guarantees.

3. Government

   - Direct financial support
     - Subsidies
     - Investments
   - Fiscal policy
     - Tax credits, including combining these with retirement plans, for example
   - Credit enhancement
     - Loan guarantees
   - Integrated coherent policy infrastructure
     - Five-year action plan for social economy (2008–2014; 2015–2020)
     - Framework legislation for the social economy (unanimously passed in 2013)

4. Labour movement

   - Investment by union-controlled funds in the social economy
   - Consolidating the value of an economic democracy

5. Research

   - Partnership research between social economy actors and academic institutions
   - Social finance has had the support and collaboration of the research community

While these roles are listed separately, they are, in fact, integrated into the social economy ecosystem embedded in processes of dialogue, "concertation," and co-construction.

CONDITIONS OF SUCCESS

The construction of a social finance ecosystem in Québec is the result of a long process that included building new partnerships, developing and strengthening capacity within the civil society and government, and allowing space for creative thinking in favour of innovative financial products. The success of this experience is rooted in several important principles and approaches that can be considered key to this success.

These include the following factors:

1. A bottom-up approach: responding to demand
2. An ecosystem approach with a diversity of tools working in collaboration
3. Continuing training, research, and knowledge transfer to strengthen supply and demand
4. A coherent policy framework built through ongoing dialogue between government and civil society
5. Mobilization of support from the labour movement
6. Maintaining the focus on local realities and a long-term vision of sustainable and inclusive development

8.1 A BOTTOM-UP APPROACH: RESPONDING TO DEMAND

The Québec experience with social finance was, from the outset, a bottom-up approach. The creation of *RISQ* emerged from a need expressed by community-based organizations involved in local development initiatives, providing a new opportunity to bring them together and build common development tools, including finance. As more and more entrepreneurial initiatives with social goals emerged, access to investment products or guarantees was identified as an obstacle to development. *RISQ* was created to respond to that need. The financial products developed by *RISQ* were adapted to emerging demand, including small high-risk loans to social economy enterprises for technical assistance. Rather than simply rejecting an initiative that clearly responded to local needs because of an incomplete businesss plan, for example, a small loan instrument was created to access the necessary professional support for the project to become "investment ready."

As the number of collective enterprises increased and the internal capacities of social economy enterprises in all sectors expanded, access to equity for sustainable growth became a priority. The *Chantier d'économie sociale trust* (*the Fiducie*) responded to that need with patient capital or quasi-equity long-term finance for social economy enterprises.

The creation of *RISQ* and the *Fiducie* marked significant milestones for the social economy in the decade following the 1996 summit, as they were designed to meet the specific investment needs of collective enterprises. As described above, they became part of a growing constellation of social finance institutions that already existed in Québec. The *Fiducie* was an innovation in venture capital, widening the objectives of investment capital to consider both social and economic returns, bringing it closer to socially responsible investment, but with a marked difference. Social finance in Québec involved direct investment by financial institutions in initiatives that contrasted with the more indirect practice of SRI mediated by fund managers and most often pooled.

In the early 1990s, the network of community credit institutions, starting with the Montréal Community Loan Fund, also emerged in response to a need for access to credit or non-guaranteed loans for small entrepreneurial initiatives among new immigrants and people living in situations of poverty and social exclusion. Added to this was the creation of regional and local investment funds by labour solidarity funds, bringing financial tools closer to communities, thereby aligning the supply of capital with local and regional demand and thus reducing the risk to investors. Proximity finance has proven its effectiveness in risk management.

There are numerous examples, many of which have been documented, but we refer to one very recent illustration. The *Chantier de l'économie sociale Trust* is working with a student association to attract additional investors in developing cooperative student housing. The long process leading to this involved collaboration between the student association and a collective of young entrepreneurs in real estate in response to a clearly identified need. A commitment by the *Fiducie* (Trust) has successfully leveraged further investment, including different levels of government and a private foundation. This is but one example of how social finance institutions are responding to pressing needs in community housing more broadly and how they work closely with local community and cultural organizations.

In summary, one of the key success factors of the Québec experience was the choice to build new financial instruments based on the analysis of concrete needs expressed by social economy enterprises and entrepreneurs. These financial innovations were and are still customized to meet the needs of the social economy. Most importantly, they align the supply of social finance with the demand for investment tools and products. This contrasts sharply with current trends to create new forms of social finance and impact investing that are largely supply driven and risk misalignment with needs and/or under-utilization.

8.2 A PROCESS OF CO-CONSTRUCTION AND CO-OWNERSHIP AMONG DIVERSE PARTNERS

The bottom-up approach to building new financial products to respond to needs expressed on the ground went hand in hand with the process of co-construction and co-ownership of these newly created funds. Throughout this process, future users were associated with the conception and structuring of the funds to assure that they remained closely aligned with the expressed needs. When compromises were necessary because of investors' requirements (financial stability or rate of return), these issues were discussed in a transparent process and resolved consensually. More importantly, the principle of shared governance, involving all stakeholders in the governance structures, was applied to all new investment tools.

Shared governance has been designed to assure a professional and objective selection process for investments based on strict due diligence. For example, the Board of the *Chantier de l'économie sociale* has veto power over any changes in the investment policy of the *Chantier de l'économie sociale Trust*, but the individual investment decisions are based on rigorous analysis and recommendations by an investment committee for approval by the Trust's Board of Trustees.

8.3 AN ECOSYSTEM APPROACH WITH A DIVERSITY OF TOOLS WORKING IN COLLABORATION

Private for-profit enterprises benefit from a wide variety of financial products and can choose the best vehicle depending on their sector, size, and stage of development. Over the years, social economy actors in partnership with the government and other investors have strived to ensure a similar access to a diversity of financial products to a growing range of needs for collective enterprises. Each financial product has its particularity, and the goal is to guarantee the greatest possible complementarity among the various products. This allows enterprises to choose those best suited to their needs.

Simultaneously, funds are often partners in supporting the development of the same enterprise. It is indeed rare that an investment in an enterprise will be made by only one entity. More often, it will be a partnership between *RISQ* or the Trust, Investment Québec, and the *Caisse d'économie solidaire* as well as a local investment fund or other forms of joint investment. This ongoing collaboration benefits all. It allows a sharing of risk among investors and a sharing of the work involved in pre-investment analysis and tracking of an investment.

These ongoing collaborations have been formalized with the creation of CAP Finance in 2010, raising the public profile of social finance and the visibility of the diverse actors in this market, ranging from small community-based funds to the large labour solidarity funds and cooperative funds and those in between. *Investissement Québec* (Government of Québec) is also a member of CAP Finance, illustrating its role as partner and co-investor representing an important "social innovation" by government more typically accustomed to financing through grants and subsidies. There is no substitute for this collaboration. Its collective professional expertise and influence on policy and practice is invaluable. Speaking with one voice strengthens the entire sector without in any way compromising the autonomy of each of its members.

This ecosystem approach is in constant evolution as needs grow, but the principle of collaboration versus competition has been a key factor in the success of Québec's social economy and social finance.

8.4 CONTINUING TRAINING, RESEARCH AND KNOWLEDGE TRANSFER TO STRENGTHEN SUPPLY AND DEMAND SIDES

The building of a social finance ecosystem in Québec was a process of innovation nourished and accelerated by ongoing knowledge gathering and learning from both international and national experiences. At every step of the journey, including today, it has been necessary to accompany financial analyses and new investors with training, research, and knowledge transfer. These on-going learning processes take place within civil society organizations, government, and the financial sector.

As a first step, social economy actors in Québec worked in close partnership with academic researchers to learn about examples in other countries and to better understand the functioning of the financial sector to attract investors to social finance initiatives in Québec. This community-university research alliance was also extremely important in the evolution of public policy, as it provided legitimacy and a clear articulation of issues to policy makers called upon to support the social finance sector.

Training has been an ongoing activity since the emergence of the social finance sector. Its first objective was to reinforce the capacity of social economy entrepreneurs, employees, and their boards of directors to use new financial instruments other than the traditional grants or contributions to which they were accustomed. This training contributed to an increased number of investment-ready projects and helped to accelerate investments. Capacity building on the demand side has been an essential component of Québec's social finance successes.

However, training and knowledge transfer were also essential elements on the supply side within the financial world. The "*Guide for the Financial Analysis of Social Economy Enterprises*," the first edition of which was published by *RISQ* in 2002, is an excellent illustration of the importance of ongoing training for those working in social finance. As social economy actors created new financial instruments, it quickly became evident that it was also necessary to train those offering support to these enterprises. Traditional training for financial analysts focusses exclusively on for-profit private companies and does not consider distinctions in mission, approaches, and legal structures specific to social economy enterprises. The *Guide* produced by *RISQ* in partnership with other social finance actors synthesized the lessons learned from analysing feasibility and the level of risk associated with investment in the social economy. It has become a key training tool for all those involved, directly or indirectly, in investing in collective enterprises.

After almost two decades of systematic research and training, the transition to systematic knowledge transfer was enabled by the creation of TIESS, a centre of liaison and knowledge transfer in social innovation created by the *Chantier* and its partners.[26] TIESS brings together civil society actors, research networks, and institutions to accelerate the processes of mutual learning based on best practice and best research. As social finance accelerates its development and diversifies its forms of intervention, the capacity to rapidly transfer knowledge to reinforce development work has been critical to the success in scaling up Québec's social finance.

A recent example of the contribution of knowledge transfer to the development of social finance is the work done by TIESS, in collaboration with the *Chantier de l'économie sociale*, to support the development of community bonds. As described above, this new form of proximity social finance was first tested by three enterprises. Their experiences and lessons learned have been systematized, and there are now guides to help other enterprises that would like to use this new strategy to attract investors and investment.

8.5 A COHERENT POLICY FRAMEWORK BUILT THROUGH ONGOING DIALOGUE BETWEEN GOVERNMENT AND CIVIL SOCIETY

Public policy has played an important role in the construction of Québec's social economy and social finance ecosystem. The successful development of this policy has been largely attributed to deliberative dialogue and processes of co-construction. A coherent and integrated policy framework, which integrates support for strengthening enterprise development and the creation of new investment instruments, has resulted from this dialogue between representatives of the social economy and government.

The social economy file is a challenge for government because it embraces a wide range of issues, sectors, and strategies. In Québec, this diversity is reflected by the mandate for the social economy and social finance in government given to several ministries over the years. A silo approach that characterises most public institutions is counterproductive in the development of social economy/social finance policy and had to be countered by assorted institutional innovations. For example, government action plans on the social economy have involved a wide range of ministries. The contribution of social economy actors best able to articulate the needs and how to integrate a variety of interventions to achieve results has imposed coherence on these inter-ministerial processes.

This is particularly true in the field of social finance. The involvement of civil society actors in a deliberative dialogue with government has been instrumental in identifying the most strategic ways that public funds can leverage private investment. This dialogue has also facilitated the evolution of the legislative framework to adapt to new needs and aspirations in developing new social finance instruments.

[26] http://www.tiess.ca

8.6 MOBILIZATION OF SUPPORT FROM THE LABOUR MOVEMENT

In Québec, the labour movement has been very important in developing the social economy, especially in recent years when it has become increasingly evident that investing in collective enterprises generates stable returns. This follows from the earlier reticence by the labour movement's risk assessment of collective enterprises and the myth that these enterprises were marginal and potentially not viable. In addition, there was the concern that new sectors in the social economy, particularly those providing services, would displace secure, well-paid, public-sector jobs. These views are no longer held. The labour movement is a key partner in social finance and the development of the social economy.

8.7 MAINTAINING THE FOCUS ON LOCAL REALITIES AND A LONG TERM VISION OF SUSTAINABLE AND INCLUSIVE DEVELOPMENT

During recent decades, social finance in Québec has evolved in response to local needs but has also sought inspiration and lessons from experiences around the world. However, there has been a clear choice to create a "made in Québec" response rather than surfing on fashionable trends or proposals with a tendency to dominate the landscape for a certain period and be sold as "the" answer to current challenges. Two examples stand out.

Inspired by the experience of the Grameen Bank, micro credit and micro finance institutions providing small loans to those who could not apply for bank loans or access any form of capital investment underwent an intense period of development. Québec was no different. The creation of community loan funds was partially inspired by this approach. However, history has revealed the mitigated results of microcredit experiences in different parts of the world. Additionally, the skepticism many felt about its capacity to considerably reduce poverty has been confirmed. Micro credit is only one among many tools necessary to lift millions of people out of poverty throughout the world, and it is grossly inadequate to address endemic poverty and social exclusion. Its ambitions were unrealistic, even if these small loans have certainly made a difference in the lives of many people. However, critical evaluations of micro-credit experiences have revealed the limitations of a homogeneous approach to poverty alleviation without enabling policy measures and raising the capacity of micro credit to leverage larger sums with the availability of diverse financial tools, thereby increasing its transformative potential. This is why micro-credit or community loan funds have always been considered one component on a broader continuum of social finance tools.

Another more current example is the Québec response to the more recent trend in what is called "impact investment." This new term is being promoted by a growing number of financial actors, including large international financial institutions and investment banks eager to enter this growing market. Today, impact investment is considered a new asset class. It is distinct in its capacity, or at least promised potential, to mobilize large pools of capital from institutional investors (pension funds, insurance companies, etc.), foundations, high net-worth individuals, and increasingly from retail and investment banks. It is the new face of socially responsible investment that began as a means to filter negative investment opportunities. Impact investing is capitalizing on the large international SRI market to transform negative screening into proactive or intentional investment in social enterprises and organizations with the capacity to achieve social outcomes while generating economic returns. It is not surprising that interest in impact investing has increased exponentially since the 2008 financial crisis as investors seek more "ethical" investment opportunities.

However, the major proponents of impact investing do not include a vision of the *democratization of capital* as a long-term objective. In Québec, however, solidarity finance has always been seen as a means to democratize capital in the context of a new development model. Hence, impact investing finds an uncomfortable cultural fit in Québec; solidarity among social actors will determine how and where this capital will be deployed as a concrete manifestation of a process of economic democratization. The landscape is shifting, but the unity and cohesiveness of the social economy will determine how this new source of capital will best serve its organizations and enterprises in Québec.

The growing interest in social enterprise internationally has also raised interest in certain circles in Québec. Behind the concept of social enterprise, in many cases, is the desire to encourage the commercialization of non-profit organizations and the development of social purpose or public benefit businesses by the private sector. This "enterprise" focus is gaining ground in Canada and often conforms to prevailing global trends to privatize public services more generally and/or to replace government programs with "pay for success" approaches by government, such social impact bonds. It focusses on individual initiatives, not comprehensive approaches. Once again, the Québec social economy movement has been very cautious about this approach and has maintained its insistence on the importance of collective ownership and the embedding of the social economy and social finance in a broader movement for economic democracy and inclusive growth.

PERSPECTIVES FOR THE FUTURE

The social finance sector in Québec is extremely active and is achieving good results in response to investment needs within communities. However, it also faces important challenges to continue its progress and to respond to the growing demand for financial products as social economy actors become increasingly ambitious in their determination to generate inclusive, sustainable growth.

The primary challenge is the need to scale up and offer larger amounts of capital to accelerate development in some traditional sectors and to intervene in emerging sectors. Many small-scale projects have grown and require larger amounts of capital to attain their full potential. Initiatives in sectors such as renewable energy or manufacturing also require larger amounts of capital both for infrastructure and operating costs. In some sectors, such as housing, where there is a long legacy of innovation in building community housing through the cooperative and non-profit model, social economy developers are eager to accelerate the rate of construction of new units and the renovation of old housing stock. These projects are capital intensive, and work is being done to leverage major investments from pension funds, foundations, and the government to better respond to community needs. It is still too early to say whether the surge in interest in impact investment can connect with these types of projects. There is still much work to be done to adapt the expectations of impact investors and the types of capital offered to the needs and aspirations for scaling up within the social economy movement.

One of the key challenges in scaling up and reaching out to large instititutionnal investors is to create investment opportunities that are sufficiently familiar to traditional fund managers and investors. “Patient capital” or “quasi-equity” are not well understood; therefore, investors tend to compare the potential rate of return to more traditional venture capital funds. Since social economy enterprises are not driven by the need to maximize financial return on investment and cannot be sold to the highest bidder or on the stock market, investment opportunities are less interesting.

Nonetheless, if long-term quasi-equity investment in social economy enterprises is classified as a bond-type investment (placement), the market potential will be much greater. Social finance in Québec has demonstrated very low loss rates over the past 20 years. Experience has proven that this is a “safe” investment and can offer solid and reasonable rates of return for large institutional investors, such as pension funds, if the investments are properly classified. We are hopeful that this approach will help attract large amounts of capital for the increasingly ambitious entrepreneurial projects in the social economy.

Today, the presence of the social economy in natural resources and the environment is growing, and a great deal of work is devoted to developing more opportunities in this sector. The effectiveness of the collective management of resources is validated by important research (Ostrom et al., 1995). In Québec, as elsewhere, the resource sector is under siege, be it in forestry or in the reckless mining projects under way that will destroy ecosystems and displace communities. The domination of the extractive sector internationally raises the urgency for social economy alternatives. Access to capital and the design of adapted financial products, opening the way for the social economy to develop collective sustainable alternatives, is a major challenge in Québec, as it is elsewhere.

Challenges for the social economy today also include commercialization and access to existing and new markets. The capture of this market by private capital continues unabated. Important work on social indicators is responding to the need for evaluation and adapted accounting measures. Procurement policies integrating the social economy into the movement for socially responsible consumption, labeling, or branding; purchasing portals; and trade fairs are among the many strategies in place to create markets for social economy goods and services.

The most complex challenge being faced is designing new financial products for investment in the digital economy. Presently, this new and rapidly growing market continues to be captured by private capital, and the concentration of capital and power in this field has become a burning issue. The growing interest in platform cooperativism to stem the tide of rampant privatization of the digital economy calls for ambitious financial innovation. Platform cooperativism raises the complexity of these nascent innovations, as it brings a new level of risk to social finance. Moreover, the absence of an exit strategy in a sector that has been, until now, highly speculative constitutes another major obstacle to attracting investors. No doubt, the answer lies in a blended finance approach integrating government resources and private investment to meet the needs of social economy enterprises in this new commercial space, which is increasingly occupied by private capital. This remains a work in progress with a level of urgency that is now well understood.

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Chapter 3

The Landscape and Challenges of the Social Finance Ecosystem in Seoul

Jongick Jang and Garam Lee

INTRODUCTION

It is frequently claimed that a social finance ecosystem is essential for the social economy sector to develop, as an appropriate financial system is an integral element for an economy to prosper in every country. An important issue here involves the reason why the social economy sector requires a financial ecosystem distinctive from the traditional financial system. We believe that it is mainly because the goals and means of social economy enterprises are distinct from traditional capitalistic enterprises. Social economy enterprises run businesses to solve social, environmental, or community problems that have been neglected or failed to be satisfactorily addressed by capitalistic enterprises or governments. The disparity in objectives between mission-first social economy enterprises and profit-maximization-first capitalistic enterprises results in different approaches to business development.

Social economy enterprises seek to provide products or services that help achieve their mission by utilizing innovative ways to procure needed resources, while capitalistic enterprises seek a business project whose expected rate of financial return is above the market interest rate of procuring money (Nicholls et al., 2015). Cooperatives, for example, have developed financial tools mainly within their organizations, such as equity, debt, and corporate bonds to which the cooperatives' users subscribe to answer needs unmet by existing capitalistic enterprises. The identity relationship between lenders and money users in cooperatives, which helps moderate the information asymmetry between money lender and money borrower, differs from the traditional financial system, where financial intermediaries mediate dichotomous agents through the price of money, regardless of the value the money produces. They have also developed financial tools and institutions at inter-organizational levels, such as inter-organizational solidarity funds and investment banks within the cooperative sector, which helps mitigate the disadvantages of members' self-financing principles and facilitates the launching of new cooperatives to meet the demand missed by existing individual cooperatives (Jang & Park, 2013).

Traditional non-profit organizations (NPOs) have significantly developed without relying on a capitalistic financial system in which investors, money borrowers, and agents of financial intermediaries tend to maximize their self-interests. NPOs, such as foundations, charities, and associations, have instead counted on citizens' altruistic behavior, including donations, volunteering and pro bono work, to achieve their public missions. NPO sectors have also developed their own NPO funds and various types of collaboration with governments and public agencies to obtain financial assistance, such as grants, low-interest loans, and tax benefits, which help curb the so-called NPO failure (John & Emerson, 2015).

Social enterprises have been growing around the world in recent decades, along with the development of social finance or impact finance, which is a more closely coordinated and collaborative financial system in the public, private, and non-profit sectors than the financial support system for the traditional non-profit sector or cooperative sector (Nicholls & Pharoah, 2008; OECD, 2015). An in-depth study on 12 large impact funds based in the USA and the UK reveals that funds are placed at the center of the impact investing ecosystem, anchoring impact investing with blended return objectives. Impact funds are regarded as an innovative financial system, exploring investment strategies beyond the artificial bifurcation of social impact versus financial performance. This has generated innovative financial institutions, tools, and practices, such as policy symbiosis, catalytic capital, and cross-sector leadership (Clark et al., 2015).

Without the proper development of social finance, the social economy sector in a country cannot grow to the scale that the society demands. It is mainly because the vast majority of capitalistic financial institutions pursue a goal of profit maximization that is not aligned with the goals of social economy enterprises. Therefore, it is important to identify factors affecting the development of a social finance ecosystem. A social finance ecosystem comprises social economy entrepreneurs, social investors, social finance intermediaries, and the social finance infrastructure (Jang & Park, 2013; Nicholls et al., 2015). The landscape and characteristics of a social finance ecosystem in a country, thus, are determined by the features of those four components. More fundamentally, the features of those four components may be explained at an institutional, policy, and actor-behavioural level. The following section describes the characteristics of the demand side of social finance by examining the characteristics and challenges of social economy sectors in Seoul. Section three delineates the remaining three elements of the social finance ecosystem in Seoul. The conclusion recapitulates the critical shortages within the social finance ecosystem in Seoul and highlights the major factors helping resolve the critical shortfalls.

THE LANDSCAPE AND CHALLENGES OF THE SOCIAL ECONOMY SECTOR IN SEOUL

2.1 CHARACTERISTICS OF THIRD-SECTOR DEVELOPMENT IN SOUTH KOREA

The landscape and characteristics of a country's social finance ecosystem are largely shaped by the characteristics of its region's social economy sector, while social investors and social finance intermediaries can inversely influence the landscape of the social economy sector. Although the social economy sector in Seoul is evolving rapidly, the sector has been characterized by a mixture of long-lasting, state-driven old cooperatives, newly emerging grassroots cooperatives, a weak non-profit sector, and the rapid emergence of social enterprises with both top-down and bottom-up approaches.

South Korea is well-known for the statist model of its non-profit and cooperative sector, long buttressed by Confucianism, Japanese imperialistic occupation, and state-bureaucratic developmental dictatorship (Bidet, 2002; Jang, 2017a). The old cooperatives, including agricultural cooperatives whose revenues come mostly from banking business, represent a major share of the country's social economy sector in terms of employment and turnover. However, they are still suffering from a lack of mutuality and democracy, which are the two core principles that distinguish the cooperative business enterprise from investor-owned firms (Jang, 2013).

The country also has a grassroots tradition for founding social economy organizations to meet the needs of ordinary people: credit unions started in the 1960s, consumer life cooperatives and worker cooperatives emerged in the early 1990s, and production-oriented NPOs emerged in the 1990s. The successful development of the credit union movement around the country since the 1960s contributed to civil society's associational capability, which led to the consumer cooperative movement initiated by Wonju Catholic Parish in the 1970s (Kim, 2013). The experience with the consumer cooperative movement in Wonju nourished the beginning of the *Hansalim*[27] movement in Seoul in the late 1980s. The unique consumer cooperatives, which are organized by partnership between producers and consumers for the direct exchange of eco-friendly products, quickly spread in Seoul throughout the 1990s. The inception of *Hansalim*, initiated by traditional farmer movement activists, spurred the emergence of the *Saenghyup*[28] movement, initiated by former labour movement and civil society activists in the early 1990s when South Korea witnessed a transformative process from the long-standing repressive relationship between the state and civil society sector into the civilian government's acceptance of institutional pluralism (Coston, 1998; Jang, 2017b).

South Korea's social economy has considerably evolved with the structural changes in the socio-economic environment, in which the failures of the market or government in meeting the society's increasing needs have been apparent since the financial crisis in 1997. They include the polarization of income and wealth, the rising unemployment and poverty rate, noticeable shrinking of the number of decent jobs, burgeoning of vulnerable temporary jobs and insecurity among self-employed workers, and mounting demand for social services resulting from rapid aging and social needs due to women's active participation in economic activities (Grubb et al., 2007; Bidet and Eum, 2011). Based on the structural changes in supply and demand for civil society organizations in South Korea, the social economy sector has considerably developed since the 2000s.

2.2 THE LANDSCAPE OF THE SOCIAL ECONOMY SECTOR IN SEOUL

Social economy organizations in Seoul are diversified in terms of objectives, institutional types, functions, and sectors of activities. While all social economy enterprises are not for-profit, any social economy enterprise can be placed at a point in a space by the two axes of mutuality and public interest or social purpose. Social economy organizations can also be classified by institutional type. Social economy organizations in Seoul are constrained by the nation's institutional and policy environment. Social economy organizations classified by institutional types in South Korea include cooperatives, certified or preliminary social enterprises, village enterprises, self-sufficiency enterprises, social ventures, and other associations and foundations related to social economy activities. Cooperatives can be organized based on eight special cooperative laws or the 2011 Framework Act on Cooperatives. Since it is highly controversial to affirm that the six types of cooperatives associated with the special cooperative laws – including agricultural cooperatives, small and medium enterprises' cooperatives, and *saemaul geumgo* (community credit cooperatives) – embody social economy values, this section has limited its review to credit unions and *saenghyup* (consumer cooperatives).

[27] The native Korean words *han* and *salim* come together to create the meaning "save all living things." The mission of *Hansalim* consists of saving our food, our agriculture, our life, and our planet.

[28] *Saenghyup* means cooperatives for consumers' daily life. *Saenghyup* was established in such fields as transactions of organic food, sales of necessities in colleges, and medical and child care services.

2.2.1 Cooperatives

There are 127 credit unions in Seoul, among which 60 credit unions were organized on a territorial basis, and 67 credit unions were organized based on either a common workplace or an associational bond. In fact, 740,000 members are affiliated with the credit unions in Seoul, where about 10 million people live. There is a national federation of credit unions that operates a branch in Seoul. While credit unions in South Korea have contributed to resolving a lack of credit for workers, the self-employed, or farmers, they have not served as the financial arms for cooperative enterprises or non-profit organizations. It is worthwhile noting that several credit unions, namely *BukSeoul Sinhyup* (Northern Seoul Credit Union), *Dongjak Sinhyup*, and *Nongol Sinhyup*, have been actively collaborating with social economy networks in Seoul. Leaders of those credit unions have made efforts to contribute to Seoul's social economy ecosystem by providing financial services (Lee et al., 2017).

As of 2016, there were 23 consumer cooperatives specialized in organic food in Seoul. Those consumer cooperatives had 349,000 members in 2015, among which 253,000 members were affiliated with *Hansalim Seoul*. *Hansalim Seoul* is the single largest primary consumer cooperative in the nation, operating 58 stores in Seoul. Nine *Dure saenghyup* and eight *iCOOP saenghyup* had 32,000 members and 38,000 members, respectively, in 2015. Five *Haengbokjungsim saenghyup* had 25,000 members in 2015. The four lines of *saenghyup* had their own federations, each of which are independent. Relating to the social economy ecosystem in Seoul, leaders of *Dure saenghyup*, *iCOOP saenghyup*, and *Haengbokjungsim saenghyup* have been deeply involved in the development of the social economy in Seoul at both the borough and metropolitan city level. They have contributed to forming the leadership of network organizations and to creating newly established cooperatives by transmitting their successful experience with organizing and managing a cooperative. In addition, the number of medical service cooperatives, owned and operated by local residents, and daycare service cooperatives, owned by parents, has also been increasing based on the 1999 law on consumer life cooperatives.

The cooperative sub-sector in Seoul has been significantly evolving since the Framework Act on Cooperatives took effect on December 1, 2012, and allowed cooperatives to be created by five or more people. **Table 1** shows the past four years' growth of cooperatives established in Seoul based on the Framework Act on Cooperatives (FAC). At the end of 2016, the indicated number of 2,659 newly established cooperatives shared 25.6 percent of the total number in the nation. Those 2,659 newly established cooperatives included 2,462 general cooperatives, 176 social cooperatives, and 21 federations.

Table 1 – Accumulated number of cooperatives newly established based on FAC in Seoul

	Nov. 2013	Nov. 2014	Nov. 2015	Nov. 2016
General co-ops	885	1,458	2,041	2,462
Social co-ops	47	76	114	176
Federations	4	7	19	21
Total	**936**	**1,541**	**2,174**	**2,659**

Source: Ministry of Strategy and Finance

In fact, the number of newly established cooperatives based on the 2011 FAC is the largest among different institutional types of social economy organizations. However, the objectives of the newly established cooperatives are diverse. **Table 2** illustrates the classification of the active cooperatives by their members' objectives.[29] The number of cooperatives formed by the self-employed and freelancers represent the majority of the newly established cooperatives. Freelancers include independent researchers, writers, lecturers, translators, IT developers, web designers, etc. Those two types of cooperatives share 66.9 percent of the total number of active cooperatives, representing the significant difficulties associated with a large number of the self-employed[30] and increasing number of freelancers in Seoul (Jang, 2017a, 2017c).

Table 2 – Types of active cooperatives by members' objective and their distribution

Type	Objective	No. of co-ops
Co-ops by self-employed	To strengthen business of self-employed	190 (40.0)
Co-ops by freelancers	To strengthen business of freelancers	129 (26.9)
Co-ops by workers	To create and secure employment for workers	9 (1.9)
Co-ops by village residents	To revitalise communities	96 (20.0)
Social co-ops	To achieve various social purposes	56 (13.2)
Total		**480 (100.0)**

Source: Census data on cooperatives, 2015 (Ministry of Strategy and Finance), Jang (2017c).

Note: The data is derived from the numbers of co-ops that were in operation as of December 2014 and that responded to the 2015 census survey on co-ops.

In addition, it is found that a large number of cooperatives reported to the government as general cooperatives turned out to be cooperatives whose objectives are closely aligned with public interest, including community-enhancing businesses and business activities for disadvantaged community members. This type of cooperative established by village leaders and residents is close to social cooperatives concerning their objectives. There are various objectives of social cooperatives, including offering workplaces for disadvantaged people, providing social services for local residents, and establishing business activities contributing to revitalising communities.

[29] The survey data was produced by asking all cooperatives reporting to or permitted by the government as of the end of 2014.

[30] Out of the total employed population, 58 percent worked at enterprises that employed less than 10 workers in 2015.

2.2.2 Non-profit organizations

During the industrialization period that lasted until the 1990s, South Korea was considered to approximate the statist model of a non-profit sector, featuring low government spending on social welfare and a weak non-profit sector. In 1990, the country's social welfare expenditures, measured by share of GDP, were 3 percent, far below the OECD average of 17 percent (OECD, 2014). The size of South Korea's civil society sector, measured by the percentage of the workforce in civil society organisations in the overall economically active population was 2.4 percent in 1997, far below the 4.4 percent mark, the average for the 36 OECD countries (Park et al., 2004). In addition, the non-profit sector in South Korea in the 1990s featured a weak degree of volunteer participation and the strong presence of service organizations in the field of education and medical services, depending heavily on service fees and charges rather than philanthropic donations or government funding (Park et al., 2004).

Since then, the nonprofit sector has considerably increased. While the NPIHs' share of GDP[31] was around 3 percent from 1970 to 1990, they began to grow after the 1990s and reached 5.7 percent in 2010 (Jang, 2017b). In addition, the structure of the NPO sector was transformed during that period. Until the early 1990s, the vast majority of the non-profit organizations in the country were either educational institutions or medical and healthcare institutions. However, the picture has changed since the 1990s. Social welfare institutions or professional and business associations have become important types of non-profit organizations. In particular, the share of social welfare institutions among NPIHs, measured by the total production value of each service area, increased from 4.1 percent in 1990 to 15.6 percent in 2010 (Jang, 2017b). This reflects the fact that non-profit organizations have become social service providers on behalf of the central government in South Korea (Son and Park, 2014).

In addition, it is noteworthy that another important institutional change has to do with the introduction of the Act of Assistance of Non-Profit Civil Organizations in 2000. This act offers a legal basis for grassroots organizations to operate officially and collaborate with the government. Civil society's response to this Act was quite remarkable; the number of registered non-profit civil organizations increased from 3,654 in 2001 to 12,252 in 2014. Considering that 10,758 out of 12,252 organizations were registered at regional governments in 2014, the vast majority of registered non-profit civil organizations perform their activities based on locality (Jang, 2017b).[32]

2.2.3 Social enterprises

In South Korea, the concept of social enterprise (SE) has gradually attracted attention from civil activists, policymakers, and researchers who have been making efforts to manage the unemployment problems exacerbated by the financial crisis of 1997. The development of social enterprises has also exhibited a mixture of bottom-up and top-down approaches and a blend of a European continental approach and an Anglo-Saxon approach. As Defourny and Kim (2011) pointed out, the policymakers and civil activists of South Korea were very active in learning from the Western European countries' examples of SE, among which a mix of Italian and UK examples were adapted to enact the Social Enterprise Promotion Act (SEPA) in 2006.[33] The main components of the Act included the certification of social enterprises; the classification of social enterprises into the likes of work integration social enterprise (WISE), social enterprises providing social services, and social enterprises aimed at community development; and government subsidies for certified social enterprises that employ disadvantaged people in the early stage of their growth.

[31] *NPIHs* stands for *Nonprofit Institutions Serving Households*, which is one of the five institutional sectors classified by the Bank of Korea to estimate the national accounts. Although the data are not comprehensive since *NPIHs* do not cover all nonprofit organizations in South Korea, the trend can be identified with the data.

[32] Out of 10,758 organizations, 1,837 were registered at the Seoul metropolitan city government.

[33] Later, the idea of the US's social innovation school (Dees and Anderson, 2006) was also transmitted to South Korea.

Table 3 illustrates the past six years' growth of social enterprises, village enterprises, and self-sufficiency enterprises in Seoul. The number of certified social enterprises increased from 147 in 2011 to 280 in 2016, representing 16.3 percent of the total number of certified social enterprises in 2016. On the other hand, the preliminary social enterprises decreased from 328 to 202 during the same period. The decline of the latter is ascribed largely to a policy change, moving from the former conservative mayor's subsidizing individual preliminary social enterprises from 2010 to 2012 to fostering a new ecosystem for the local social economy as a whole. In addition, the number of village enterprises grew from 67 to 105 during the same period. Similarly, the number of self-sufficiency enterprises increased from 149 in 2011 to 175 in 2016.

Table 3 – The growth of social enterprises, village enterprises, and self-sufficiency enterprises in Seoul

Classification	2011	2012	2013	2014	2015	2016
Social enterprise	475	532	433	374	433	482
Certified SE	147	169	212	231	260	280
Preliminary SE	328	363	221	143	173	202
Village enterprise	67	76	108	125	119	105
Self-sufficiency enterprise	149	167	188	194	201	175

Source: Department of Social Economy, Seoul Metropolitan Government

Based on the 2006 SEPA, certified or preliminary social enterprises can be structured as almost any type of legal entity specified by the civil code, commercial law, cooperative laws, and special laws related to non-profit organizations.[34] Village enterprises and self-sufficiency enterprises are types of social economy organizations designated by the Ministry of Security and Public Administration and the Ministry of Health and Welfare, respectively. In 2016, 280 certified social enterprises were an important type of SE organization in Seoul's social economy sector. An analysis of the certified social enterprise model shows that it comprises enterprises of five different backgrounds and objectives.

The first segment of certified social enterprise came from *jahwal gongdongche* (the self-sufficiency community) or *jahwal giup* (the self-sufficiency enterprise), which were established by community leaders with assistance from the Ministry of Health and Welfare as a work integration program initiated based on the 1999 National Basic Livelihood System Act (NBLSA).[35] As of 2015, 9.1 percent of the total number of certified social enterprises in the country came from *jahwal gongdongche* or *jahwal giup* (Kim and Whang, 2016). Many of this type of certified social enterprises started as a commercial corporation legal entity, but they were transformed into cooperatives when the FAC took effect in 2012.

The second segment of certified SE originated from *sahoi bokji bubin* (social welfare institutions), which had served physically or mentally handicapped people. In 2015, 7.1 percent of certified social enterprises in the country came from this background (Kim and Whang, 2016). For example, *sahoi bokji bubin Dongcheon*, a SE well known for their innovation in the production and marketing of salable hats made by mentally disabled people, obtained certification in 2007. However, the enterprise was established in 1951 in Seoul.

[34] Of course, the SEPA specifies requirements for the SE certification, including limitations on the allocation of surpluses, democratic governance, etc.

[35] The NBLSA of 1999 guaranteed all households whose incomes do not meet the minimum standard of living for welfare benefits from the government. This introduced the idea that society should provide every citizen with a decent standard of living. Consequently, the public social welfare expenditures of the country measured by GDP share increased considerably from 3% in 1999 to 9% in 2012. On the OECD average, the social welfare expenditure share of GDP grew 17% to 22% during the same period.

The third segment of certified SE came from the civil movement or the grassroots community movement for social innovation using alternative business models. Many of these social enterprises have emerged since the 2000s. Fair Trade Korea, Travelers' Map, and *Noridan* are well-known examples of this type. A notable example, *Areumdaun gage* (Beautiful Store) which was established in 2002 by Park Wonson, the current mayor of Seoul, with the goal of sharing, recycling and upcycling, and encouraging citizen's participation. The company has quickly developed into 186 stores earning KRW 31.5 billions, and could count on the participation of 16 000 volunteers in 2015. This type of social enterprise has been increasingly attracting attention from policymakers and citizens. In addition, their leaders have played important roles in the development process for Seoul's social economy sector. An increasing number of social ventures in Seoul not certified as a SE is close to this line of SE tradition.

The fourth segment of certified social enterprises was established by an extension of big firms' corporate social responsibility activities called *Chaebol*. *Haengbok dosirak* (Happy Lunchbox) is a well-known example of this type. It was established by local community leaders with considerable financial support from SK *haengbok nanumjaedan* (SK Happiness Foundation). They produce free lunchboxes for the local poor by employing the community's disadvantaged people. There are six branches of *Haengbok dosirak* in Seoul that were certified as social enterprises.

The last portion of certified social enterprises are those whose initiators are not easily identified. It is conjectured that this type of certified social enterprises emerged partly due to the specifications of the 2006 SEPA, by which the certification of SE does not differentiate the corporations by commercial law and focuses on whether they employ a minimum number of disadvantaged people. The share of certified social enterprises whose legal entity is a commercial corporation has been significantly increasing, from 43.6 percent in 2009 to 61.7 percent in 2016 (Kim and Whang, 2016), though the reason for this increase is not clear.

It is noteworthy that, in Seoul, there is an increasing number of social ventures and other associations and foundations related to social economy activities that are not under laws regarding cooperatives, the 2006 SEPA, or the government. In addition, an increasing number of cooperatives have been transformed from village enterprises and self-sufficiency enterprises because many of the latter type held a legal entity of commercial corporations. Moreover, an increasing number of social cooperatives and general cooperatives based on the 2011 FAC has obtained the SE certification.

Last, this section ends with secondary organizations that serve the overall development of primary organizations in Seoul. The secondary social economy organizations can be classified into network organizations of primary social economic organizations and intermediary organizations supporting the social economy, which can be categorized as a government-civil society partnership or pure private organization. It should be noted that the number of secondary SE organizations has been increasing in Seoul in recent years. Network organizations in Seoul include the Seoul Council of Cooperatives, Seoul Council of Social Enterprises, Seoul Council of Village Enterprises, Seoul Council of *jahwal giup*, and Seoul Network of Social Economy. Network organizations have also been rapidly established at the borough level. The Korean Social Economy Network is a national-level network organization consisting of four federations of *Saenghyup*, a few credit unions, the Korean Council of Social Enterprises, the Korean Council of Village Enterprises, the Korean Council of *jahwal giup*, social economy networks at the provincial level, and intermediary organizations. An office in Seoul makes the network more influential.

Intermediary or infrastructure organizations supporting the social economy, including associations, foundations, and colleges' extension services, have also rapidly grown in recent years. Infrastructure organizations can be operated under government-civil society partnerships or by pure private organizations. The principle of hybridity between the government's financial provision and civic organizations' provision of local information and volunteerism (Salamon and Toepler, 2015) has been widely applied to the establishment of infrastructure organizations at the city and borough levels. Almost all boroughs began to form infrastructure organizations for fostering the social economy.

2.3 THE CHARACTERISTICS AND CHALLENGES OF THE SOCIAL ECONOMY SECTOR IN SEOUL

As described above, Seoul's social economy sector, or the Korean social economy sector more broadly, can be characterized by more multiple mixtures compared to their European or North American counterparts. The mixtures include the cooperative subsector comprising long-lasting government-controlled or -dependent ones and ones founded by grassroots movements, the newly established cooperatives encompassing cooperatives of the self-employed or freelancers and social cooperatives for public or community interests, and the social enterprise subsector containing both cooperative or non-profit organizations and Anglo-Saxon social innovation or social entrepreneurship-based organizations. The mixed characteristics of Seoul's social economy sector may imply the need to consider multiple strategies for developing social finance in Seoul.

In particular, the recent reform in Korean cooperative law sparked a structural change in the existing cooperative subsector and generated financial challenges. Micro or small entrepreneurs' cooperatives and freelancers' cooperatives, which are the vast majority of newly established cooperatives but are economically vulnerable, have urgently called for a suitable financial system supporting their cooperative business and linking them to the communities where they are located. A few cooperatives operate in a sector where markets are severely inefficient and the vast majority of stakeholders are dissatisfied with poor market outcomes, including taxi, bus, or truck transportation, housing, and elder care services. The lack of responses to the needs for cooperatives in the sectors is ascribed largely to lack of strategic initiative or an innovative financial adventure in the cooperative or social economy sector. This reflects the weakness of the Korean system of cooperatives' secondary organizations that are structured within a business sector or a type of cooperative, but not between or across business sectors or cooperative types, which is observed in Québec, Italy, and Mondragon.

While the responsibility of caring for elderly or disabled people and daycare services in Korea has quickly transited from the family to the state and community, non-profit organizations providing such social services have been quite underdeveloped. The lack of philanthropic investors and the weak partnership between the government and civil organizations in organizing the needed services are regarded as the main reasons for the undersupply.

Although Mayor Park's new leadership in Seoul since October 2011 has changed policies for social enterprises from supporting individual enterprises to fostering a new ecosystem for the local social economy as a whole, it is claimed that the vast majority of social enterprises are not sizable and the social impacts that the increasing number of social enterprises have generated are still marginal from the ordinary citizen's perspective. Notwithstanding, they tend to avoid business collaboration, including consortiums and mergers with other social enterprises. Intermediary organizations have focused on supporting start-up establishments for social enterprise certification rather than business expansion. In this regard, social finance intermediaries urgently need to play a critical role as an agent to help scale up existing small social enterprises.

Finally, it is noteworthy that the labor movement sector in South Korea has not been seriously interested in cooperatives, social service-providing non-profit organizations, or the social economy sector more broadly, compared to its counterpart in Québec or Italy. The Korean labor movement sector's disinterest in social economy has resulted in the moderation of its potential to increase its social economy's width and depth. In general, South Korea has strong silo effects among different ministries, levels of governments, various departments within a local government, and even among institutional types of social economy enterprises, which is considered a strong institutional path dependency to be lessened.

THE CURRENTS AND CHALLENGES OF SEOUL'S SOCIAL FINANCE ECOSYSTEM

3.1 CHARACTERISTICS OF FINANCING SEOUL'S SOCIAL ECONOMY ENTERPRISES

The ways of financing Seoul's social economy enterprises vary; they differ in terms of their purposes, the historical background of their establishment, their institutional type, and their relationship with the government. As described above, since the old cooperative subsector, including the agricultural cooperatives called *Nong-hyup*,[36] did not develop its own cooperative sector-based solidarity fund, each type of cooperative has had to rely on its own internal financing or government subsidy. Primary and secondary agricultural cooperatives in Korea have financed the growth capital they needed mainly from the banking business they were legally allowed to operate. Credit unions in South Korea have also restricted their aims to financing individuals with credit deficiency, so they have not played a role as a financial arm for housing cooperatives or worker cooperatives.

Therefore, few cooperatives have appeared in the new areas where existing cooperatives could not reach. In this regard, the emergence and expansion of consumer life cooperatives, which reached almost one million members and approximately CAD 1.15 billion of turnover for the past two and half decades, is quite remarkable. In particular, it is noteworthy from the financing perspective that iCOOP *Saenghyup,*[37] which is the largest group of consumer life cooperatives among four representative *Saenghyup* groups, has developed its own innovative financial tools, such as fixed-term bonds purchased by their members with a lending period and interest rate fixed *ex ante*.[38] iCoop has procured its growth capital with a fixed-term bond of approximately CAD 70 million, a larger amount than the members' subscribed equity capital of about CAD 62 million. While Italy's Co-op Italia[39] has notably used the fixed-term bond as a financing tool for its cooperatives, as has US agricultural cooperatives, it is rarely found in the South Korean cooperative sector, where members' subscription to equity capital and revolving capital retains[40] are greatly used.[41]

[36] *Nong-hyup* is ranked the fourth-largest cooperative in terms of turnover in the world (ICA-Euricse, 2017). The primary agricultural cooperatives and their federation employed over 77,000 workers as of 2015, and over 1,000 primary agricultural cooperatives are recognized as a type of social economy organization in the proposed 2015 Basic Law on Social Economy.

[37] The group comprised 90 primary cooperatives, two federations, and 15 subsidiaries in 2016. The group's business, including 193 stores, seven logistics centers, and over 30 food factories in two food clusters, are highly integrated, while members' activities in primary cooperatives are quite decentralized.

[38] Innovativeness in the fixed-term bond used by iCOOP has to do with members' trust in their cooperatives' representatives, which has been built by repeated financial transactions for the past one and half decades and has to do with the significant reduction of liquidity restrictions, compared to the traditional member equity capital subscription.

[39] Legacoop co-op member loans amounted to over €13 billion in 2014 (Linguiti, 2016).

[40] It means that an allocated patronage refund to a member is obligatorily retained to his/her equity capital account for a certain period of time (Parnell, 1995).

[41] However, the two methods have their own disadvantages from the members' point of view since the liquidity of the methods is fairly low in the cooperative sector without secondary markets for shares, resulting in the undercapitalization of cooperatives.

Under the financial environments for cooperatives, where silo effects have dominated as described above, most newborn cooperatives based on the 2011 FAC have had to rely on internal financing or government grants because existing for-profit financial institutions are reluctant to offer loans with favorable terms. The results of a 2017 national survey on 5,100 active cooperatives established on the FAC support this conjecture. General cooperatives or social cooperatives using external financing from a bank or other for-profit financial institutions represented 8.6 percent of the total number of responding cooperatives, while members' subscription to equity capital and borrowing from their directors or members represented 61.3 percent, followed by government grants at 20.6 percent. In addition, 3.2 percent of responding cooperatives reported gains in loans from credit unions or other non-profit institutions, while 6.2 percent of cooperatives or social cooperatives reported gains in donations.

The financing sources used by social enterprises in Seoul are more varied than those used by cooperatives or non-profit organizations.[42] Social enterprises can utilize loans from public funds or social finance institutions and equity investment from several impact investment funds, while many social enterprises still rely mainly on private borrowing from affiliated persons and government subsidies. **Table 4** shows the varying trends in the major financing sources used by social enterprises in Seoul.

Table 4 – Major financing sources used by Seoul's social enterprises

Financing sources	2013		2016	
	No. of respondents	Percentage	No. of respondents	Percentage
Borrowing from affiliated persons	15	34.1	24	17.1
Loans from commercial banks	12	27.3	24	17.1
Subsidies from governments	8	18.2	34	24.3
Loans from public funds	0	0.0	22	15.7
Loans from social finance institutions	2	4.5	15	10.7
Equity investments	2	4.5	13	9.3
Donations	0	0.0	6	4.3
Others	5	11.4	2	1.4
Total	**44**	**100.0**	**140**	**100.0**

Sources: Kim, et al., 2016.

Note: The data were produced by two independent surveys. The 2013 survey obtained responses from 44 certified social enterprises that were asked to choose a single item among the financing sources listed, while the 2016 survey obtained responses from 52 certified social enterprises, 17 social cooperatives, and 6 village enterprises, all of which were asked to choose two items.

[42] To our knowledge, there is little literature on financing issue of Korean nonprofit organizations, which implies that a point of view that a nonprofit organization is an alternative business enterprise providing social services had been rarely found until the concept social enterprise was introduced in South Korea.

3.2 THE LANDSCAPE OF SOCIAL FINANCE INTERMEDIARIES IN SEOUL

Social economy enterprises can raise capital either directly, as for-profit enterprises do, or indirectly through social finance intermediaries. Social economy enterprises can receive donations from supporters, receive equity investments or loans using crowdfunding platforms, or issue stocks or bonds through a potential social finance exchange. However, as seen in the above section, transaction costs in the social finance sector can be higher than in the traditional finance sector. The reason is investors' expectations of the social values the social economy enterprise creates and the costs of measuring the social value should be considered. Additionally, other factors must be considered, including the financial return rate, the predicted risk, and liquidity preferences, for transactions in the social finance sector to be achieved. Such high transaction costs would restrict the activation of direct finance markets, especially at the initial stage of social economy development.

Social finance intermediaries emerged from the need to provide innovative financial instruments with moderate transaction costs and to promote intermediation between social investors and social economy enterprises, between the funding supply and demand. Social finance intermediaries further contribute to the creation of social value by actively attracting social investors to social economy enterprises, discovering social entrepreneurs who seek to solve social problems through social economy enterprises, and playing the important role of catalyst for inducing various social economy enterprises to collaboratively solve a serious social problem.

According to their mission, target customer, and means of financing and investment, social finance intermediaries can be categorized into intermediaries that directly finance social economy enterprises and those that focus on funding other social finance intermediaries and fostering social finance ecosystems: the former is characterized as a retail social finance intermediary, while the latter is characterized as a wholesale social finance intermediary.

3.2.1 WHOLESALE SOCIAL FINANCE INTERMEDIARIES

Among wholesale social finance intermediaries, one example is the Community Development Financial Institutions Fund (CDFIF), which was legally established in the United States in 1994.[43] The CDFIF is one of the representative government-driven funds that was promoted by the federal government, funded by government budget, and operated as an organization affiliated with the US Department of the Treasury. Community Development Financial Institutions (CDFIs) serve as retail social finance intermediaries in the US; they raise their equity by getting subsidies from the CDFIF through the Financial Assistance Award Program. With the New Market Tax Credit Program and Community Reinvestment Act, the CDFIF also induces commercial banks to provide funding and knowledge to CDFIs through loans, investments, credit guarantees, and business cooperation. The introduction of program-related investment as a tax incentive for private foundations has supported CDFIs' investment and loan projects, as the measure induces large private foundations to take over subordinated bonds so other private investors can securely participate in the projects (Rosenthal, 2016).

Big Society Capital (BSC) in the United Kingdom represents a wholesale social finance intermediary that is government-driven but operated independently with a private funding structure. The UK government founded BSC with £600 million in 2012 to create a sustainable social finance ecosystem using dormant bank deposits of £400 million and donations from four commercial banks as its financial resource. The main tasks of BSC were the creation of a market and the construction of infrastructure for social finance, not direct investments and loans to social economy enterprises (Big Society Capital, 2014). By constructing social finance infrastructures, such as providing catalyst capital for retail social finance intermediaries and financial instruments of diverse return-risk profiles and transaction structures,[44] BSC has induced more funding to the social finance sector.[45]

[43] The UK also introduced the CDFI law in 2002.

[44] The UK's government also operates the Social Investment Tax Relief program to give civil funds to social economy enterprises, which provides tax deductions for 30% of the investment amount when individuals invest in organizations with social missions.

[45] Japan's government passed a law in 2016 to establish a wholesale fund similar to this, which will be effective in 2019.

There are no national-level wholesale social financial intermediaries in Korea, although the country is known as having a strong government-driven social economy. The Seoul Metropolitan Government has operated the exceptional Seoul Social Investment Fund (SSIF), which covers both wholesale and retail functions in social financing. The Seoul Metropolitan Government under Mayor Park's leadership originally designed the fund in a way that the Seoul metropolitan government fundraises KRW 50 billion from its budget and consigns the fund to the Korea Social Investment Foundation (KSIF), a private organization. The KSIF was supposed to raise a matching fund of KRW 50 billion from the private or civil society sector and to operate the SSIF totally, amounting to KRW 100 billion. The SSIF started in 2013, aiming to directly provide loans to social enterprises, social ventures, and cooperatives, and to fund retail social finance intermediaries on a partnership basis.

For the last four years, the KSIF has consigned the SSIF with KRW 55 billion from the Seoul Metropolitan Government and fundraised KRW 17.7 billion from the private or social economy sector. The KSIF has also provided loans to social enterprises, social housing, intermediary partnership projects, and other social projects. The SSIF is evaluated as contributing to the growth of the social economy ecosystem, as it has provided the largest amount of funds at low interest rates to social economy enterprises as well as the start-up capital for activating retail social finance intermediaries and self-help finances (Park, 2017).

In Korea, central and local governments have provided funds to social economy enterprises in the form of loans with favorable terms such as low-interest rates and credit guarantees, mostly using traditional policy financing programs. By 2016, total loans from policy financing by national and local governments amounted to KRW 32.3 billion, and loan guarantees amounted to KRW 14 billion. A fund of funds, specialized for social enterprises, has raised KRW 18.2 billion from 2011 to the present, as well as provided equity investment to social enterprises.

Table 5 – Public policy measures regarding social finance

Classification	Policy measures	Outline
Loan	Government loan program for small business ('10–)	– Loan maximum KRW 4.5 billion per firm – Annual total loans of KRW 10.6 billion in 2016
	Microfinance Foundation ('08–)	– Loan maximum KRW 0.1 billion per firm – Annual total loans of KRW 1 billion in 2016
	Seoul Social Investment Fund ('12–)	– Loan maximum KRW 0.2 billion per firm – Annual total loans of KRW 20.7 billion in 2016
Loan guarantee	Korea Credit Guarantee Fund ('12–)	– Loan guarantee maximum KRW 0.1 billion per firm – Annual total loan guarantees of KRW 4.6 billion in 2016
	Regional Credit Guarantee Foundation ('12–)	– Loan guarantee maximum KRW 0.5 billion for social enterprise and KRW 50 million for co-op – Annual total loan guarantees of KRW 9.4 billion in 2016
Equity investment	Fund of funds for social enterprises ('11–)	– Total amount of funds: KRW 18.2 billion for the past six years – Annual total amount invested in 2016: KRW 1.5 billion

Source: Korea Financial Service Commission, 2018.

3.2.2 RETAIL SOCIAL FINANCE INTERMEDIARIES

Based on the characteristics of initiators and funding sources, retail social finance intermediaries can be categorized into mutual aid funds, private social finance intermediaries, and public-private hybrid funds. Mutual aid funds can be operated as solidarity funds among cooperatives and/or social enterprises in mutually supportive ways. The characteristics and performance of mutual aid funds differ according to whether they are limited to a particular field or a type of cooperative, or they cover all types or all fields of cooperatives as in Italy,[46] Mondragon,[47] and Canada.[48] It is proven that the latter supports the establishment of new cooperatives in new fields as well as existing ones. In Korea, social enterprises started to create such mutual aid funds. The Korea Central Council for Social Enterprise Mutual Aid Fund provides short-term and long-term loans, and microcredit for social economy enterprises and practitioners based on the installments of member social enterprises. In the cooperative subsector, a mutual aid fund has not yet been founded in FAC-based cooperatives, while agricultural cooperatives, credit unions, and iCoop each internally operate their own mutual aid funds. There is no mutual aid fund under the entire cooperative sector or social economy sector.

Private social finance intermediaries are diverse concerning their missions, target customers, and means of funding and investment. We would like to divide them into two categories with their funding methods, depending on whether they raise funds directly from citizens, through deposits, bonds, or selling funds, or indirectly, by consigning the operation of donations or grants from the government, private firms, or foundations. The former includes Mondragon's Caja Laboral[49] established in 1959, Québec's *Caisse d'économie solidaire* initiated by labor unions in 1971, GLS Bank established in Germany in 1974, and the Netherlands' Triodos Bank established in 1980. Most retail social finance intermediaries in the US and the UK, including CDFIs, raise funds by taking deposits or issuing bonds. Private impact investment funds, developed in the US and the UK, raise money mostly from philanthropic investors or civil investors by selling funds. Crowdfunding, which proliferates worldwide, has become significant as a potential civil-based funding resource where citizens can choose a social project of high social value that they would like to fund.

Since the FAC took effect in 2012, three credit unions in Seoul, namely *Dongjak* CU, *Bukseoul* CU, and *Nongol* CU, started providing loans to social economy enterprises using funds from their deposits. In addition, at the end of 2015, funds amounting to KRW 18 billion were operated by 10 impact investing companies, including Sopoong, HGI, and D3Jubille. Those impact investing companies were established with donations from former venture executives or large conglomerate families. They prefer equity investment, convertible bonds, and subordinated bonds to simple loans. Representative crowdfunding platform companies specialized in the social economy include OhMyCompany and Wadiz. OhMyCompany has mediated 782 projects by funding over KRW 2.7 billion since its inception in May 2012. Now, the company has 130,000 members. It is noteworthy that SK Happiness Foundation, a representative philanthropic investor in Korea, has operated a philanthropy program called the Social Progress Credit (SPC) since 2016. The SPC program measures the social values created by social enterprises and rewards part of them with a grant. Until now, it has provided 130 social enterprises with grants amounting to KRW 14.7 billion.

There are also retail social finance intermediaries mainly managing entrusted projects of donations represented by Social Solidarity Bank and Joyful Union, which have run microcredit lending operations since the early 2000s. They obtain grants from the CSR foundations of big firms and provide microcredit to the poor and small loans to social economy enterprises. Korea Social Innovation Finance, established in 2014, operates *Gwangjin* Cooperative Social and Economic Network Cooperation Fund, Catholic Social and Economic Unity Development Fund, and Daegu Social Economy Innovation Fund through their trust. Such social finance intermediaries of this type do not raise funds directly from citizens.

[46] *I fondi mutualistici per la promozione e lo sviluppo della cooperazione* (Mutual funds for the promotion and development of cooperation), implemented by law in 1992, is a cooperative development fund raised from cooperatives and their federations' installment of 3 percent of their yearly revenue, which is tax deductible.

[47] Mondragon Cooperative Complex raises money for and operates the Central Inter-co-operative Fund with the surplus from its member cooperatives.

[48] The Canada Federation of Cooperatives established the Co-operative Investment Fund in 2012.

[49] Later, the name was changed to *Laboral Kutxa*.

Last, there are hybrid funds whose funding resources are diverse, from a hybrid of the government and labor/civil society sector, hybrid between government and private enterprises, hybrid between private enterprises and the labor/civil society sector, to a hybrid among the government, private enterprises, and the labor/civil society sector. *Compagnia Finanziaria Industriale* (CFI) is a good example. The industrial loan company was established in cooperation with the Italian government, the cooperative sector, and a national labor union federation in 1986 to financially support worker cooperatives and social cooperatives. *Réseau d'investissement social du Québec* (RISQ) is another excellent example. The hybrid fund was created in 1997 with donations from the Québec state government, commercial banks, the Desjardin credit union, and large private corporations, including Bombardier. *La Fiducie du Chantier de l'économie sociale* (Fiducie), which was initiated by *Chantier de l'économie sociale* in 2007 and is the first "patient capital investment fund" in Québec, was established with investments from two labour-sponsored pension funds, the Québec state government, and a non-refundable contribution from the government of Canada. Such hybrid funds do not yet exist in Korea. The Korea Social Investment Foundation's attempts to create a matching fund between the Seoul Social Investment Fund and private funds have been abandoned, mainly due to the former government's objections.

3.3 THE CHARACTERISTICS, CHALLENGES, AND PROSPECTS FOR A SOCIAL FINANCE ECOSYSTEM IN SEOUL

The overall characteristics and challenges of the current social finance ecosystem in Seoul can be summed up in four points. First, the intermediaries and instruments financing the social economy have been expanding and diversifying. In particular, a new attempt by the Seoul metropolitan government, with the introduction of the Seoul Social Innovation Fund, is encouraging and challenging under the longstanding policy lending programs. In addition, it is also encouraging that community-based social finance intermediaries, mutual-aid solidarity funds, crowdfunding companies, and impact investment funds have recently emerged. **Table 6** shows the changing sources of financing for social economy enterprises within a short period of time.

Table 6 – Social enterprise leaders' awareness of external financing sources in Seoul

Financing sources perceived	2013		2016	
	No. of respondents	Percentage	No. of respondents	Percentage
Loans from public funds for SMEs	30	68.2	33	46.5
Loans from microfinance institutions	24	54.5	20	28.2
Loan guarantees by Credit Guarantee Fund (central government)	17	38.6	12	16.9
Loan guarantees by Credit Guarantee Foundation (Seoul Metropolitan City Government)	18	40.9	24	33.8
Loans from Seoul Social Investment Fund	0	0	22	31.0
Loans from nonprofit organizations	7	15.9	24	33.8
Fund of Funds for SEs initiated by Ministry of Labor and Employment	6	13.6	3	4.2
Crowdfunding	6	13.6	36	50.7
Social enterprise solidarity funds	0	0	16	22.5
Engel investment	7	15.9	8	11.3

Sources: Kim et al., 2016.

Note: The percentages are calculated with the ratios of the number of respondents perceiving each item out of the total number of respondents.

However, it is still observed that funds come mostly from the government and large companies (CSR projects and philanthropic investors) in South Korea. Self-help financing is very weak, despite efforts to create mutual aid funds for cooperatives or social enterprises in recent years. National pension funds or investment banks have no interest in the social economy sector. While the current rising trends of crowdfunding indicate that civil investors have the potential to invest in social economy enterprises, financial tools that are legally allowed for social finance intermediaries to use to invite and retain those civil investors seem very limited.

There is a very limited number of social finance intermediaries that obtain funds from civil society, enterprises, or foundations. Unlike Québec or Anglo-Saxon countries where social finance intermediaries can raise funds by selling bonds, shares, or funds, there are almost no wholesale or retail social finance intermediaries in Korea that can raise funds in such ways. This implies that there are no social investors other than the national or local government and the CSR divisions of big companies. In South Korea, social finance intermediaries have failed to play an active role in creating social value, such as discovering civil social investors and linking them to ethical consumption.

In this regard, some credit unions' recent funding efforts through the development of social deposits and installment products are very encouraging because they interest people in how their money is used, through which they may discover the social value created by the social economy enterprises that they have funded. In addition, social trust can be built with this citizens' participative process in the financial sector, which reduces the rampant information asymmetry problems in the mainstream finance sector.

The third point has to do with the mismatch between supply and demand for social financing. In South Korea, financing opportunities for social economy enterprises at the pre-growth or growth stage are very limited, while financing opportunities for ones at the seeding or start-up stage are relatively abundant. This mismatch has resulted in the underdevelopment of business evaluation systems and a lack of catalyst capital. The government's financial supports have mainly focused on short-term loans, while long-term loans, equity investment, and subordinated loans are very limited. This has resulted in an increasing number of small, vulnerable social economy enterprises and may hinder the growth of social impact businesses.

The last point concerns the lack of collaboration among the public sector, civil society, and the private sector in South Korea, where the legal environment tends to restrict such cooperation.[50] Many development funds and solidarity funds in Québec are hybrid funds, including the public sector, the social economy sector, labor unions, and private enterprises. Such hybrid funds do not yet exist in Korea. This situation is highly contrary to the fact that social enterprises and social finance have emerged in a hybrid form to resolve the failures of the market, the government, and NPOs.

However, the current landscape of the social finance ecosystem in Seoul should change considerably in the coming years as President Moon's new government has shown a strong desire to solve those problems and announced the Social Finance Activation Plan on February 8, 2018. The Moon government defined the social finance market in Korea as being in its nascent stage, with an undersupply of social finance and a lack of patient capital provision.

The activation plan is composed of four main parts. The first element concerns the government's strong initiative in establishing a private-driven wholesale social finance institution. The government will create a Social Benefit Fund of KRW 300 billion within the next five years through financing from national and local governments, dormant deposits, and private funding. The plan describes that the fund will be established by benchmarking Big Society Capital in the UK, and funding will be indirectly provided through retail social finance intermediaries. This plan includes a Social Benefit Fund Initiative, to be launched in 2018.

The second element has to do with fostering retail social finance intermediaries by introducing a government accreditation system for qualified retail social finance intermediaries. The government is planning to include mainstream financial institutions, such as new technology companies, venture capitals, and credit unions that would like to engage in social finance.

[50] In the case of the Seoul Social Innovation Fund, public-civil society cooperation (the consigned operations of the fund, a hybrid of public and private funds) ceased due to the legal rigidity concerning the fund's operation by the local government.

The third portion concerns the government plans to drastically expand loans or equity investment to social economy enterprises through a government policy on financing and to enhance credit unions' role in social financing. A loan of KRW 11.6 billion in 2016 will be expanded to KRW 45 billion a year in 2018, and credit guarantees will also expand from KRW 14 billion in 2016 to KRW 55 billion in 2018. The government will create a new Social Investment Fund of KRW 30 billion in 2018 through a grant from the government's Growth Ladder Fund and public-private fund matching. The fund will be operated by selected institutions through a public call for proposals, and the fund will continue for an estimated 10 years. In addition, the government will invest an additional 7.5 billion KRW to create a fund of funds for social enterprise.[51] It will also create an Impact Investment Fund of 100 billion KRW in 2018 for investing in social ventures, and the fund will be operated by a selected venture capital company. The 80 percent of the impact investment fund will be financed by the fund of funds created by the Ministry of SMEs & Startups, and the remaining 20 percent will be funded by private investors. (**See Table 7**). A fund for supporting social economy enterprises amounting to KRW 10 billion will be established by the federation of credit unions. The government will push ahead to amend the Credit Union Act, which now prohibits credit unions' investment in other legal entities.

Table 7 – Proposed government-led funds for social economy enterprises and social ventures

Classification	Social investment fund (Financial Service Commission)	Fund of funds for social enterprises (Ministry of Labor and Employment)	Impact Fund (Ministry of SMEs and Startups)
Target customers	Certified social enterprises and co-ops	Certified social enterprises and co-ops	Social ventures
Magnitude of fund	KRW 30 billion	KRW 7.5 billion + α (private source)	KRW 80 billion + KRW 20 billion (private source)
Duration	10 years or more	8 years	10 years or more
Investment tools	Equity and loan	Equity, CB	Equity investment

Source: Financial Service Committee, 2018

The fourth and last part has to do with building an evaluation system needed for the expanded provision of a social finance and cooperative system among related institutions. A "Social Finance Council" composed of delegates from government departments related to social finance, intermediaries, and representatives from social economy enterprises, will be founded for mutual information sharing, strengthening linkages of multiple social finance intermediaries for financing, and the co-construction of infrastructures. The government is planning to create a "Standard Social Impact Evaluation System" for social economy enterprises that all social finance intermediaries can use. Each social finance intermediary will regularly publish impact reports that will be open to the public.

[51] "fund of funds" (FOF) is an investment strategy of holding a portfolio of other investment funds rather than investing directly in stocks, bonds or other securities.

CONCLUSIONS

Seoul's social finance ecosystem has been rapidly emerging in recent years and will change considerably in upcoming years, mainly due to the ongoing social finance activation programs initiated by the country's current President Moon Jae-In's administration. As described earlier, the social finance activation program features a mixture between a community-based approach and an impact investment approach to build a social finance ecosystem. The central government is proposing to launch a wholesale social finance institution through which retail social finance intermediaries, including community-based institutions and credit unions, are to be fostered. The so-called Social Value Fund is expected to be launched as an independent entity with collaborative governance, including the government, the social economy sector, and the private sector. The proposed social finance council at a national level, including concerned government authorities, social finance intermediaries, and social economy organizations, is also aligned with the community-based and collaborative approach to building a social finance ecosystem.

However, the government's social finance activation program also includes a supply-driven impact investment approach. The government promoted three large funds for social economy enterprises as well as social ventures, where the funds are operated by for-profit financial enterprises, including asset management companies and venture capital firms. The social finance activation program also includes venture capital firms and new technology companies as important types of retail social finance intermediaries to be fostered by the government.

Therefore, the social finance ecosystem in Seoul will be significantly influenced by the ongoing reform programs being initiated by the central government of South Korea, whereas local governments' autonomy is still largely restricted compared to the central government's dominant power in regulation and fiscal allocation. Under these circumstances, four major lessons from Québec's successful experience stand out to build a balanced ecosystem for social finance in Seoul. In this regard, it is strongly suggested that the Seoul metropolitan city government play an important role in supplementing the central government's social finance activation program.

The first lesson has to do with a need-based or demand-based approach as opposed to a supply-driven approach, which is dominant in the mainstream financial sector. From this financial perspective, it is necessary to analyze the various demands emerging from social economy enterprises, including the need for tools to scale up the current actors in various areas and sectors, the unmet demand for social real estate developers, and the need from sectors where market failures are prevalent. Based on the demand analysis, social finance intermediaries should be developed with expertise in these areas of interest.

The second lesson concerns the importance of community-based social finance intermediaries. Given the current lack of community-based funds in Seoul, the large funds initiated by the central government can be supply-driven and, thus, under-utilized. Therefore, it is highly recommended that the social economy sector in Seoul, in collaboration with the Seoul Social Innovation Fund, develop various community-based funds including loan circles, small micro-credit organizations, and loan funds that would work in close partnership with other social finance institutions and could be the basis for a network of solidarity-based social finance institutions and a national fund.

The third lesson involves the so-called democratization of capital described in the previous chapter. One of the common factors found in the successful experiences of Mondragon, Italy, and Québec relate to their success in building a virtuous circle between social economy enterprises and the financial sector. Creating a mechanism that allows those who use social finance tools to have a say in how these tools are developed and operated is a key factor for success. In this regard, the Seoul social economy sector and the city government need to push the central government into institutional reforms to help citizens become social investors. There are various ways to encourage ordinary citizens to participate through financial contributions to the social economy, including labor solidarity funds, social banks, community bonds, retail social finance intermediaries that issue bonds, etc. The labor movement's interest in social finance and social economy could be a great turning point. The introduction of an appropriate tax incentive system is also needed, as well as the introduction of new forms of financial institutions.

The last lesson has to do with the importance of collaboration among the government, the social economy sector, and the private sector in building a balanced social finance ecosystem in Seoul. Success in multi-sectoral collaboration needs representativeness and trust among various actors. Trust can be built with proven performance, as the social economy sector in Québec showed. The creation of over 20,000 jobs in 1997 and 1998, supported in part by the creation of *Réseau d'Investissement social du Québec* (*RISQ*; Québec Social Investment Network), a hybrid fund between the government and social economy sector, led to the establishment of various social finance funds. It shows that performance-based collaboration can be sustainable.

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Chapter 4

Strategy to facilitate effective knowledge transfer

Jinhwan Kim, Garam Lee, Emilien Gruet, and Vanessa Sorin

INTRODUCTION

1.1. THE CONCEPT OF KNOWLEDGE TRANSFER

In the 1990s, when the role of knowledge in economic change and innovation began to be highlighted in the discourse around a "knowledge-based economy," one of the most important contributions highlighted was the identification of knowledge transfer as a process of institutional change in an organizational or territorial context. Knowledge transfer is not recognized as being completed when the individual member of the target organization or location acquires knowledge but rather when there is a recognizable change in formal institutions, such as written operating procedures, or in informal institutions, such as change in the organizational culture or working practices.

The production, transmission, and transfer of knowledge are the key elements leading toward a knowledge-based economy. The production of knowledge refers to scientific research in academia and the research and development (R&D) activities of a particular industry. The transmission of knowledge refers to the education and training of scientists, engineers, and practitioners. The production and transmission of knowledge together refers to research and education within a specific context. The transfer of knowledge is defined as "disseminating knowledge and providing inputs to problem-solving" elsewhere.[52] Unlike the functions of production and transmission, the transfer of knowledge requires a deliberate intervention to change institutions at the organizational or territorial level. The creation and transfer of knowledge has been recognized as a core element of social and economic change and innovation as well as a competitive advantage of firms and organizations.[53]

1.2. KNOWLEDGE TRANSFER IN SOCIAL ECONOMY

C.I.T.I.E.S. (*Centre international de transfert d'innovations et de connaissances en économie sociale et solidaire*) is an organization founded to facilitate knowledge and innovation transfer at a multiterritorial level to further and accelerate the development of the social and solidarity economy. Why do we need an organization dedicated to facilitating the transfer of knowledge and innovation in the social economy sector when there is no such organization in other fields? In the 1990s, knowledge transfer in the context of the knowledge-based economy began to be seen as a national strategy for economic development and the promotion of innovation, and, as such, involved the policy decisions for the system or network driven by the national government, without the participation of the private or civil society. With a few exceptions, the majority of knowledge transfer research has been done in the private sector context. Knowledge transfer in the private sector assumes that members of the business networks involved (such as franchises, alliances, branches of multinational business networks, etc.), who act as the agents of the knowledge transfer, share common business interests, practices, procedures, and elements of their organizational cultures.

[52] OECD (1996)

[53] Argote & Ingram (2000)

However, the decentralized and heterogeneous nature of the social economy requires a different approach. Globally, the social economy is comprised of loose networks that do not choose the centralized coordination of institutional change as do national or local governments, nor does it have the more uniform business practices or culture that are commonly found in private business networks. Rather, social economy enterprises around the world have, as a common underpinning, shared values and a vision for the economy, from which different models have emerged, with slight variations based on elements of culture, history, and the nature of the formal and informal institutions that comprise the enterprises in each territory. In this context, many processes of international knowledge transfer often happen spontaneously, as an effect of the dissemination of academic literature, media coverage, and international conferences like the Global Social Economy Forum. However, these uncoordinated transfers are often shallow, incomplete, and lack structured processes; consequently, numerous needs remain unfulfilled and many opportunities remain untapped.

1.3. STRUCTURE OF THIS CHAPTER

Internationally, within the field of organizational studies, research on knowledge transfer has been conducted mostly in the context of multinational corporations or joint venture firms, whose primary goal is to maximize profit. Within the not-for-profit and the social economy sector, the question of knowledge and innovation transfer remains largely unexplored.

To begin, this chapter summarizes the key factors that influence the effectiveness of knowledge transfer, as identified in the field of organizational studies. It then presents two short case studies on the knowledge transfer. The first is a case of domestic knowledge transfer methodology. The second case study is an exploratory project field study to observe the challenges and opportunities that can arise when the transfer methodology is applied internationally.

Territoires innovants en économie sociale et solidaire (TIESS) is an organization dedicated to the mission of disseminating innovations in the social economy mainly in Québec, Canada. Among several projects implemented by TIESS, we chose the example of community bonds as a case study for the development process of knowledge transfer methodology.

While the mission of C.I.T.I.E.S. (*Centre international de transfert d'innovations et de connaissances en économie sociale et solidaire*) is to facilitate effective knowledge transfer in the social economy field at the global level, the organization is at the stage of exploring and experiencing potential models for its knowledge transfer methodology. In April 2018, it hosted a two-day workshop on analyzing and evaluating social economy organizations in Seoul, South Korea, based on the *Guide for Analysis of Social Economy Enterprises* (2nd edition) published by CAP Finance, a network of social finance organizations in Québec.[52] This chapter will also present, as an exploratory single case study, the reflections on and results of this workshop, based on the feedback received from participants and workshop facilitators after the event.

KEY FACTORS OF EFFECTIVE KNOWLEDGE TRANSFER

Researchers have identified several factors as relevant to effective knowledge transfer. Among those reviewed, the most relevant factors in the case of cross-border knowledge transfer among different contexts can be summarized as follows: the nature of the knowledge, the contextual gap between the knowledge offering and receiving parties, the characteristics of the offering and receiving parties, and the dynamics at play between the two parties.

2.1 NATURE OF KNOWLEDGE

The transferability of knowledge is often related to its specific nature, such as its level of organization/structure, its explicit or tacit nature, or its level of embeddedness in the social structure it relates to. Scientific knowledge on the law of nature is more salient than in studies relating to the success of organizational endeavours, as the former type of knowledge can be more systematically organized than the latter, which involves more tacit knowledge and entrepreneurial "instincts" that are difficult to codify verbally. As expressed by Michael Polanyi, usually, "We know more than we can tell."[54] While knowledge is more transferable when it can be formalized as formulas or operating manuals, the transferability of tacit knowledge can be low when the institutions transmitting knowledge focus on "learning-by-doing," as in the apprenticeship.[55] While it is necessary to improve the codifiability of knowledge as much as possible, it is also important to recognize that some form of knowledge is not codifiable. To develop an effective knowledge transfer methodology, it is imperative to effectively codify knowledge as well as to develop and organize effective activities for the transfer of knowledge that is more tacit or less easily codifiable.

2.2. CONTEXTUAL GAP IN FORMAL AND INFORMAL INSTITUTIONS

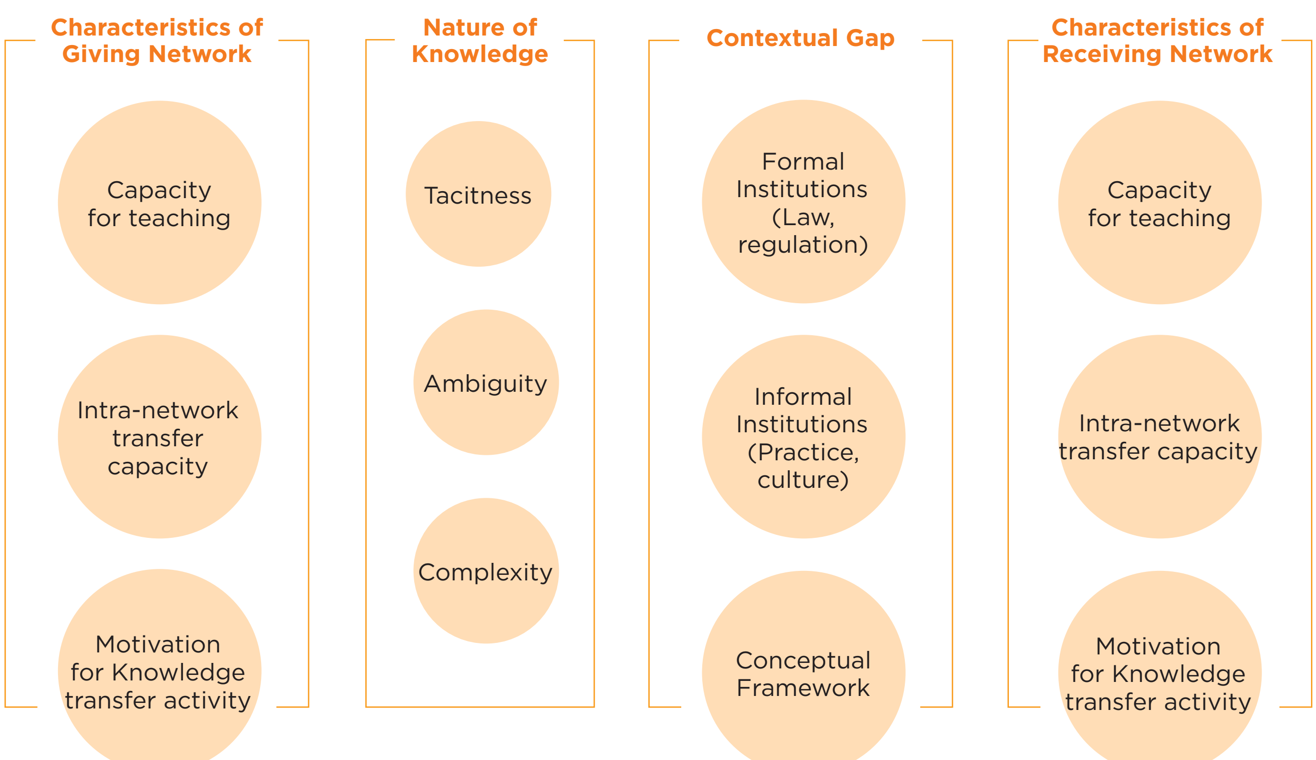
The transferability of knowledge is affected by the similarities and differences linked to the context of the giving and receiving actors. Even the transfer of knowledge within the same linguistic boundaries, for example, between countries that share a common language, may involve challenges due to cultural and institutional differences. If the knowledge transfer process needs to overcome linguistic boundaries, the challenges can become even more complex, as certain terminology can be understood differently by the different cultures, even when the best possible equivalent terminology is adopted by professional translators. In addition, if certain best practices are deeply rooted in the social and cultural dimension as a "cooperative culture," the embedded nature of the knowledge makes it more difficult to transfer. Thus, the contextual gap between the knowledge giver and receiver becomes important when the knowledge involved in the best practice model is culturally embedded.[56] Hence, the differences in formal or informal institutions need to be clearly identified and understood by the giving and receiving organizations in the process.

[54] Polanyi (1962)
[55] Lam (1997)
[56] Lam (1997)

Among the factors that influence the effectiveness of knowledge transfer are organizational characteristics, such as openness to risk, change, or innovation; the level of organizational flexibility; the level of institutional development for learning; and the learning capacity of an organization's members. The inter-organizational relationship between the giving and receiving organizations varies in the diverse contexts of knowledge transfer. The knowledge transfer process is more effective in collaborative relationships among commercial business relationships, such as strategic alliances, networks, R&D coalitions, franchises, co-production agreements, licensing, and joint ventures. However, when the unit of analysis changes from the individual organization to the social economy network, a new approach is necessary, which takes into account the capacity of the network. Just as organizational capacity is not determined by the simple sum of the capacity of the individuals within an organization, the capacity of a network also needs to be distinguished from the capacity of individual member organizations in the network.

The institutions at the network level and the relationship among the members affect the network's capacity to engage effectively in knowledge transfer activities. Most notable among such relationships for a social and solidarity economy are the inter-organizational "communities of practice." Changemakers are important in creating organizational change, and entrepreneurial changemakers are important in leading the knowledge transfer process in order to overcome the challenges involved in the international knowledge transfer between networks. Developing transfer methodology for organizations in global social economy networks requires a careful selection and identification of the giving and receiving agents. In the context of this paper, the giving and receiving agents are not government agents or individual organizations, but the leaders of social economy enterprises and institutions. This renders the mobilization of transfer activities more complex as the issues to consider are different than in technology transfers or best practice transfers in more homogenous business networks. Careful analysis and attention is needed in evaluating the different characteristics that may affect the process, such as the density of the networks, their internal cohesion, the nature and dynamics of the internal relationships, the dynamics of information flow, the formal and informal organizational culture, the organizations' openness and approach to change management, their learning capacity, and the experience of the giving and receiving agents.

Figure 1 – Four factors for the effectiveness of knowledge transfer[57]



[57] The diagram was developed based on Easterby-Smith et al. (2008).

CASE STUDIES OF KNOWLEDGE TRANSFER METHODOLOGY

3.1 COMMUNITY BONDS IN QUÉBEC: THE APPROACH OF TIESS TO TRANSFERRING THIS SOCIAL INNOVATION

Financing projects and social economy enterprises (SEEs) has always been a challenge. In recent years, the finance ecosystem has seen new players and new ways of doing things. For nearly two years, TIESS has been documenting the opportunities offered by the participative approach to financing, such as crowdfunding and community bonds.

Crowdfunding and crowdlending (community bonds for non-profit organizations [NPOs] and privileged shares for cooperatives) are major avenues for the mobilization and financing of social economy enterprises. However, because they are new and/or complex, they are often ignored by companies and the ecosystem supporting the social economy itself. The goal of TIESS is to document, implement, and make these practices sustainable.

Crowdfunding (donations) is well known. It consists of raising funds by collecting many contributions through a web platform. Crowdfunding attracts many social economy enterprises who see it as a way of diversifying their sources of funding, raising awareness about their mission and services, and mobilizing their support community. This method of financing is an interesting avenue for transforming social capital into financial capital.

However, the success of a crowdfunding campaign requires preparation and expertise. In the spring of 2017, TIESS published a guide aimed at providing SEEs with all the information needed to understand crowdfunding and make a success of their campaigns. TIESS has also conducted various information workshops with the social economy clusters, support structures for the social economy, and SEEs to encourage their appropriation of the content of the guide. In addition, other actors in Québec and elsewhere in Canada have produced interesting tools and offer support resources that are referenced in this guide. Crowdlending for the social economy in Québec includes two tools: community bonds and privileged shares.

Community bonds (CBs) provide social economy NPOs with the opportunity to borrow money directly, without an intermediary, from their closest supporters (users, customers, members, partners, etc.). In a world where subcontracting and intermediation services are flourishing and sometimes leading to a disconnection from the real economy (especially in the financial sector), CBs bring a real transformation in the ways of doing things by reinforcing the social bond and the territorial roots that contribute to the strength of a company. They provide an opportunity to converge citizens' aspirations, the expectations of the financial ecosystem, and the needs of the social economy enterprises. They contribute to the democratization of the economy and are part of the current buzz around responsible investment, impact investing, and crowdfunding. However, issuing bonds requires foresight, rigour, and transparency on the part of social economy enterprises to contribute to the effectiveness of this tool.

More specifically, CBs are paid debt securities that are accessible to all and can only be issued by an NPO. They are part of the exempt market and are therefore not supervised by the Québec Security Commission (*Autorité des marchés financiers: AMF*). Like all bonds, they have the following characteristics: an issuing price, a duration, and an interest rate. The capital is repayable at maturity. In addition, the AMF prohibits a remunerated brokerage on these securities; the transaction is therefore necessarily done directly between the company and the investor.

CBs have been used effectively for several years in Ontario, notably by the Centre for Social Innovation (CSI) and Solar Share in Toronto, and on a smaller scale in Québec, but they are still little known and underused.

FIRST STEP: DOCUMENTATION AND CODIFICATION

Between 2016 and 2017, TIESS documented and standardized the process of issuing community bonds through collaboration with four pilot companies: Le Grand Costumier, the Cinema du Parc, the 7 À Nous, and the Empress Theatre.

This project resulted in the publication of a comprehensive community bond issuance guide for social economy enterprises. This guide aims to equip businesses at all stages of the issuance process: from an understanding of the very nature of community bonds to the considerations surrounding the decision to issue them, and subsequent management of such obligations.

The purpose of this guide is to mark and facilitate the use of CBs by social economy enterprises. The underlying ambition is not only that a greater number of social economy enterprises will use this financial tool, but also that the whole approach will be, beyond the legal framework, based on best practices. A successful issue is one that ends with a bond repayment.

These financing avenues are currently attracting great interest from the support ecosystem, businesses, and even the general public. There has been an increased demand for knowledge transfer from support organizations to TIESS. Since the work of TIESS began, there have been about 30 Québec companies interested in issuing short- and medium-term CBs, and TIESS has carried out some 20 dissemination and transfer activities throughout Québec since April 2016.

The tools used, and the activities carried out by TIESS facilitate the use of these financing methods by Québec SEEs, but are not sufficient for them to fully appropriate them. Thus, there are still levers to be developed and needs to be filled, especially in terms of support, so that the SEEs can take full advantage of the opportunities offered by crowdfunding and crowdlending.

IMPLEMENTATION STAGE: IMPLEMENTATION AND SUSTAINABILITY

It is necessary to ensure that, throughout Québec, social economy support structures take ownership of these tools and are equipped to inform, refer, and support the SEEs interested in these alternative modes of financing.

Thus, after having modeled and systematized the knowledge specific to an innovative practice, the transfer approach favoured by TIESS relies on the Québec ecosystem of support to the social economy to foster the appropriation of expertise and know-how. Through its role of liaising, monitoring, and transferring, TIESS aims to equip and reinforce the structures and people who ensure the daily information, referencing, and support of social economy enterprises. The intention is to allow any company, wherever it may be in Québec, to benefit from a referent who will be able to support it in the use of participatory financing and investment.

Thus, this stage of the implementation and sustainability of practices has two main objectives:

- To equip and strengthen the capacity of the ecosystem supporting the social economy to inform on participatory financing and crowdlending, refer to relevant resources, or support social economy enterprises wishing to finance themselves through these practices.
- To contribute to the deployment and sustainability of innovative participative financing practices by exploring the development and diversification of these financing and investment tools.

The transfer strategy therefore focuses on three main elements:

1. **the support of a national organization**, the Chantier de l'économie sociale, which will maintain a high level of expertise on these tools, will be able to remove the obstacles to the use and deployment of this alternative financing by the SEE, and will become a reference;

2. the appropriation of knowledge by the territorial support organizations and the SEEs by setting up a **community of practice** (through the Passerelles platform), which allows professionals to train, exchange, and share their experiences continuously and companies to pool their learning and challenges; and

3. the development of **tools**, which allow information to be easily updated, didactic, and adapted to the different audiences targeted by these sources of funding (SEEs, support organizations, and contributors/investors).

During all the TIESS work on these issues, a monitoring committee ensures the monitoring, implementation, development, and evaluation of the project. A committee of partners (social economy players, solidarity finance professionals, and researchers) bring their expertise and also contribute to fostering the ownership of knowledge by the partners and the influence of the project.

Thus, the acquisition of knowledge and experience on these avenues of financing and investment will continue to be refined in a long-lasting dynamic of co-construction and transfer.

3.2 ANALYSIS OF SOCIAL ECONOMY ENTERPRISES: AN EXPERIMENTAL WORKSHOP IN SEOUL

The *Guide for Analysis of Social Economy Enterprises* mentioned earlier is an operational manual for financial analysts and business consultants who need to evaluate social economy enterprises for various reasons, including loan/investment decisions and mentoring for social economy enterprises. It was jointly developed by the members of CAP Finance. The workshop was designed to guide social economy finance and business experts in evaluating the social economy enterprises' economic viability and their coherence to the principles of social economy, such as the primacy of people and work over capital, sound governance that guarantees participation and collective responsibility, independence from governments, and service to the community and social good.

The first edition of this guidebook was published in 2003, and it has been utilized as material for training sessions and workshops for finance analysts and business consultants in various social economy enterprises. The second edition was published in 2017 in French and translated into English in 2018.

OBJECTIVE OF THE ORIGINAL PROGRAM

The objective of the original training program based on the guidebook was to disseminate key knowledge on the analysis of a social economy enterprise and enable users to share common references and standardized knowledge to evaluate the economic and social viability of a project. The final aim was to help business experts and analysts improve the economic viability of projects while helping to ensure the social impact of the project is also taken into account, evaluated, and, if necessary, improved upon. The training covered the following elements:

- How to evaluate if the project respects the principles of the social economy and how to evaluate its social impact
- How to interpret the financial data
- How to identify major risk and success factors
- How to improve and maximize the social benefit

As this guidebook and the training program were originally developed to disseminate knowledge within Québec, their key content is based within the context of Québec. As such, the guidebook's concepts, characteristics, principles, and accounting practices reflect the existing institutions in Québec.

STRUCTURE OF THE GUIDE

The structure of the guide is designed as follows:

- Social economy in Québec
- Concepts and characteristics of the social economy
- Principles for the social economy enterprise's associative dimension
- Characteristics of the social economy as an enterprise
- Financial analysis
- Investment decisions

EVALUATION OF THE EXPLORATORY WORKSHOP IN SEOUL

Three financial analysts, including the authors of the first and second edition of the guidebook, went to Seoul to implement an exploratory workshop, with two purposes. The first was to share their knowledge on the analysis of social economy enterprises. The second was to use this workshop as a referential experience in the process of the development of a knowledge transfer methodology. Thirty participants in total partook in the training, including financial analysts from social finance organizations, business development consultants in local social economy centres, as well as social economy researchers. The duration of the workshop was nine hours of training on the analysis method and three hours on the social finance ecosystem in Québec.

Even in Québec's "local" context, every time trainers facilitate a workshop based on the guidebook, slight adaptations of the program are necessary, depending on the facilitators' knowledge as well as the background of the audience. In the case of the workshop implemented in Seoul, it was expected that a substantial adaptation would be necessary. However, the inaccessibility of the relevant information for its adaptation and the heterogeneous nature of the group limited the scope of adaptation. Facilitators were provided a case study paper on the "Status of social economy development in Seoul," and had preparatory meetings with a Korean coordinator to become more familiar with the Korean context.

At the end of the two-day workshop, participants were invited to provide written feedback to help identify lessons and information that would be useful for the development of a knowledge transfer methodology.

REFLECTION ON THE EXPERIMENTAL WORKSHOP BASED ON THE SURVEY AND SELF-EVALUATION BY WORKSHOP FACILITATORS

- **Training program was a perfect fit for the niche of needs that have remained unfulfilled.**

The workshop participants were appreciative of the workshop content. It is apparent from the feedback received that there is a widespread demand regarding the content of the "Guide for the analysis of social economy enterprises" developed in Québec. The national government launched "Task Force for social value fund," and the task force. One of the members of this task force participated in the workshop. There was also a project created to develop evaluation standards for the social benefit of cooperatives, and someone who was involved in the project was also present for the workshop.

- **Adaptation is more difficult in the international context**

It was difficult for the workshop facilitators to understand the Korean context before the workshop. Despite the fact that they were provided written information on the Korean social economy, such an adaptation would have required more time and resources.

- **Differences in conceptual framework**

As Québec and Korea have a different history in relation to the social economy, it is understandable that there are also conceptual differences in this regard. In Korea, the concept of social economy is much broader and encompasses legal entities that are not captured in the Québec definition, which is limited to certain legal entities and strict collective ownership and democratic participation.

- **Local case study would be more useful**

The use of case studies is an important element of this educational workshop. The case studies used in the workshop are based on the formal (law, accounting practices, banking practices) and informal (culture, practices, social capital) institutions of Québec. To improve the workshop, it would be necessary to include local case studies, which would help provide local context to the application of the guidebook methodology, especially as it relates to the collaborative approach of analysis. It is important to identify model success stories to promote dissemination of a best practice model based on the local context.

- **Pending certain adaptations, the guidebook and the training program are expected to be highly transferrable**

The format of the guidebook and the training program are highly transferrable, and the challenges have more to do with the contextual elements that are behind the program. The guidebook and the program were developed through the collective effort of a network of social finance organizations. Most of the stakeholders involved were related to social finance – government, social finance organizations, network organizations, investors – and contributed as the co-owners of the project. It is emphasized that the adaptation would be more effective if the ***collaborative approach*** behind the guidebook's development were replicated. It is highly recommended to form a ***collective platform*** to steer adaptation of the guidebook and the program.

- **Identification of key knowledge transfer agent organizations and training**

To facilitate a successful knowledge transfer process between Québec and Korea, the best approach would be to form a partnership between the Québec social finance network and the Korean social finance network. Given that there is no formal platform among social finance organizations in Korea, it is recommended to identify a key knowledge transfer agent organization to lead the formation of the social finance network in Korea and support it to form the platform for the collective work and the agreements necessary to facilitate its adaptation.

CONCLUSION: STRATEGY TO DEVELOP A TRANSFER METHODOLOGY FOR THE SOCIAL ECONOMY

1. The appropriate codification of knowledge is a key to knowledge transfers.

As seen in the case of community bonds and the analysis of social economy enterprises, the codification is a prerequisite for an effective and successful knowledge transfer process. Key stakeholders involved in knowledge transfer activities should first process the knowledge that needs to be transferred. To support this process, searching for the already-developed transfer methodology within or across local contexts and documenting this will strengthen the quality of the transfer method being developed.

2. An inclusive, collaborative platform at the level of the social economy network and at the sub-sector level is the foundation of an effective knowledge transfer process.

During knowledge transfer, it is important that the knowledge that is subject to transfer be adapted to the local context in a way that is widely accepted by the majority of stakeholders in the social economy sector, while maintaining the core elements of the original context. To ensure the adaptation is useful for the social economy network, it is essential to form an inclusive platform for collaboration where important decisions regarding the adaptation can be made collectively. The collaboration platform can function as a community of practice, inspiring innovation and serving as a centre for collective action and advocacy, in addition to its function as the knowledge transfer hub.

3. Identify key knowledge transfer agent.

The process of knowledge transfer is hugely influenced by the inter-organizational relationships among the individuals participating in the process. When there is no established platform for collective work at the sector or the sub-sector level, it is important to identify the key knowledge transfer agent in the targeted territory and foster its leadership, so that it can lead the achievement of a broad consensus on the appropriate adaptation that meets the needs of the receiving network.

4. In-depth training for key transfer agents at the origin and the target.

To overcome the challenges that arise from the contextual gap between different territorial contexts, it is important to ensure the existence of key knowledge transfer agents who are well informed in the sub-topic areas of the social economy, such as social finance, home care, social housing, and urban regeneration in both local contexts. The transfer agents in the target territory need in-depth training to become familiar with the conceptual framework, formal and informal institutions, and pedagogy regarding the knowledge in question.

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Chapter 5

Conclusion

Jongick Jang and Jinhwan Kim

This report presents the result of C.I.T.I.E.S.' project to share and transfer knowledge and best practices in the social finance sectors of Seoul and Québec. Since knowledge sharing and transfer themselves constitute mutual learning, this project team is composed of researchers and practitioners in both regions to facilitate mutual learning and to produce a reader-driven report. In this regard, the structure and contents of chapters 2 and 3 have been shaped and revised by mutual discussions and reviews among the team members. Through this process, the research team has agreed to identify that the unique experience of Québec's capital democratization for the past four decades or so would considerably inform the practitioners, policymakers, and researchers in Seoul, where the development of the social finance sector is still at an early stage amidst the capital or *Chaebol*[58] -dominant financial market.

As described in Chapter 2 in detail, Québec has succeeded in developing a balanced ecosystem for social finance to play an appropriate role for actively responding to various dynamic financial demands of the social economy sector. The continuous evolution of institutions and financial tools in the fields of solidarity finance and development capital demonstrates the process towards *democratization of capital*, where capital serves to meet the needs of people and the community, as opposed to the pursuit of the maximization of profits. The balanced social finance ecosystem in Québec could not have been built without the government's active involvement in development of social finance, including direct financial support, fiscal policies such as tax credits, credit enhancement, and integrated and coherent policy infrastructure, but it is also important to highlight the process of co-construction. We also believe the government's policies for fostering social finance have been essential for private-sector actors to participate in social finance.

Considering the progressive policy programs for fostering the social economy and social finance spearheaded by Mayor Won-soon Park's and President Moon Jae-in's administrations, Seoul's social finance ecosystem will change considerably in upcoming years. We believe the ongoing social finance reform programs initiated by President Moon's administration will ameliorate the social finance ecosystem in Seoul since the two leaders at different governmental levels recognize the importance of social finance for developing the social economy. President Moon's recent announcement on policies to support social finance indicate the importance accorded by the new national government to the social economy in solving the complex socio-economic issues South Korea has been facing.

Indeed, we believe the strong will of government is a necessary condition for success to build a balanced ecosystem for social finance in Seoul. However, the reflection on the process of co-construction upon which the foundation of Québec's social finance is built upon would make it clear that strong commitment of governments to support does not constitute a sufficient condition for success of social finance. It would be important to reflect upon the core elements of Québec's social finance presented in Chapter 2. We emphasize three core elements of social finance in Québec to relate the Seoul's strategy for social finance. The democratic and participatory nature of the process to build social finance ecosystem, bottom-up innovation based on the demands of social economy enterprises, and the role of collaboration are three most important elements to reflect upon to bring insights to the audience of Seoul regarding how to address current challenges faced by Seoul and South Korea.

[58] Korean word for conglomerate

First, the analysis summarizes that the construction of a social finance ecosystem in Québec is the result of *a long process* of co-construction that includes building new partnerships, developing and strengthening the collaborative governance between civil society and government, and allowing space for creative thinking in favor of innovative financial products. This long process was built upon the strong foundation of principle on social finance that is essentially the vision of the d*emocratization of capital*. Anchored in this principle, Québec's social economy movement consistently maintained its emphasis on the demand-driven bottom-up approach, the collective ownership of various funds, and the embedding of the social economy and social finance in a broader movement for economic democracy and inclusive growth.

This perspective and long process that the Québec social economy movement has maintained would fundamentally inform the Seoul counterpart of the essence of a social finance ecosystem. As described in Chapter 3, the current national government's social finance activation program includes both supply-driven 'impact investment' approach and demand-driven approach. The government promoted three large funds for social economy enterprises and social ventures. These funds are operated by for-profit financial enterprises, including asset management companies and venture capital firms. This supply-driven impact investment approach would not be well aligned with the economy democracy agenda, which is one of the top strategic goals of President Moon's administration.

Therefore, it is strongly recommended that the leaders of Seoul's social economy sector and the Seoul metropolitan government should carefully discuss strategies for building a social finance ecosystem rooted on the vision of the *democratization of capital* and play an important role for the national government's social finance activation program during the long process towards democratization of capital. It is extremely important to build a process of collective ownership and participatory governance of the funds to be established. In addition, various financial tools that are legally allowed to invite citizens to invest in social economy enterprises through social finance instruments must be emphasized, need to put forward, as such participation fits better to the vision of the democratization of capital.

The second point concerns innovativeness in social finance practices, including financial products and social economy enterprises' tools and methods of financial analysis. As described in Chapter 3, in South Korea, financing opportunities for social economy enterprises in their pre-growth or growth stage are very limited, while financing opportunities for ones at the seeding or start-up stage are relatively abundant. This mismatch has resulted in an increasing number of small, vulnerable social economy enterprises and may hinder the growth of social impact businesses. Québec's experience developing innovative financial practices especially with the 'patient capital' may inform the leaders of Seoul's counterpart to help them identify appropriate solutions about the mismatch. Unlike the traditional commercial finance sector, Québec has built an ecosystem with diverse financial tools in collaboration, with social economy enterprises based on their demands.

Moreover, Québec has created financial products and tools that complement each other, so social economy enterprises can choose those best suited to their needs. More importantly, funds often form partnerships to support the development of the same enterprise. Such collaboration to effectively meet the various demands of social economy enterprises contrasts sharply with the long-lasting culture of the silo effect and competition among financial institutions against each other in Korea. Innovation in the financial sector has also been made in the governance structure and capacity-building arenas, which includes the creation of CAP Finance in 2010, a formal platform for collaboration which enables the legitimate representation of social finance sector in the governance for relevant policy making. It also plays important role in continuous training, research, and knowledge transfer on social finance to reinforce the capacity of social economy entrepreneurs, employees, and their boards of directors by taking advantage of a community-university research alliance. This hybridity and collaboration in a social finance ecosystem is well aligned with the hybrid nature of social enterprise – a benchmark useful for the actors in Seoul's counterpart.

Newest challenges for social and solidarity economy is how to respond to new forms of capitalism such as platform business or 'gig economy' that affect the employment and the livelihood. Such challenges in the social and solidarity economy sector could not be resolved without further innovations and progress in social finance in order to attain the scale of capital necessary and resolve complex risk-related issues within the social and solidarity economy. That would be a promising domain that the actors from the social finance sectors in Seoul and Québec would mutually benefit by continuously engaging in knowledge and innovation transfer.

While this paper provided comprehensive overview of social finance in Québec and Seoul, this project and the transfer activity cannot guarantee an implementable adaptation in Seoul. That is why C.I.T.I.E.S. is suggesting the second phase of the social finance knowledge transfer project. The next stage for the complete transfer of social finance knowledge should comprise the action plans in the proactive participation of Seoul's social finance organizations. The process of knowledge transfer must not limit the capability of the social economy network to one place by limiting its role to a student's. Implementing the first phase of the social finance project, the Québec experts were in the position of providing information, and the social economy network in Seoul was in the position to learn the best practice model. As the Québec experts recollect, the process of developing domestic knowledge transfer methodology to diffuse knowledge within Québec was itself a learning process. In addition, during the preparation and implementation of the knowledge transfer activity in Seoul, the social finance experts realized the dynamic development of social finance in South Korea would also provide valuable insights for social finance organizations in Québec.

Therefore, the second phase of the social finance knowledge transfer project, as suggested in Chapter 4, should be implemented as a bi-directional learning process. The construction of an inclusive platform for the adaptation and domestic diffusion of knowledge is an essential part of the knowledge transfer process. This platform would not only function as a knowledge hub to adapt and propagate knowledge to benefit social finance organizations within South Korea, but also as the knowledge transfer agent that can document, codify, and diffuse knowledge on social finance accumulated in South Korea to other parts of the world interested in social finance as the key element of building a social economy ecosystem.

The development of a knowledge transfer methodology is a new field, and it is important to build a first successful best practice model for knowledge transfer in the social economy. In many ways, the knowledge exchange between Québec and Seoul has the conditions to become the best practice model of knowledge transfer methodology. First, there are well-developed domestic knowledge transfer models in Québec. In addition, there is high level of unfulfilled demand for the reference model in designing the social finance ecosystem in Korea, and social finance organizations are highly motivated to learn from the social finance ecosystem in Québec. The new local and national governments that appreciate the value of the social finance model is a valuable opportunity that should not be missed.

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