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CANADA ECONOMIC DEVELOPMENT

Departmental Performance Branch

**FORMATIVE EVALUATION
OF THE FUNDING COMPONENT OF THE
QUEBEC SOCIAL ECONOMY SUPPORT INITIATIVE**

Final Report

March 12, 2008

EXECUTIVE SUMMARY

BACKGROUND AND OBJECTIVE

A non-repayable contribution from the Agency allowed for creation of the Fiducie, which was selected to implement the Funding Component of the Social Economy Support Initiative for Quebec. Implementation of the Initiative has been governed since November 2006 by the Contribution Agreement, of which the revised Fiducie Agreement forms an integral part.

The objective of the mandate is to determine how effectively the Funding Component has been implemented in accordance with the Contribution Agreement.

METHODOLOGY

Audit Services Canada conducted a documentary analysis and in-person and telephone interviews:

- the documentary analysis focussed on documents from the Agency and Treasury Board, as well as the Fiducie, the Chantier and RISQ;
- in-person interviews were conducted with (1) responsible individuals from the Fiducie, the Chantier and RISQ, (2) representatives of the three investors from the Board of Trustees and the Investment Committee, (3) Agency managers involved in managing the Initiative and (4) external members of the Committees;
- telephone interviews were conducted with members of the Monitoring Committee and some of the enterprises which applied for financial assistance.

RESULTS

EFFECTIVENESS OF THE IMPLEMENTATION OF THE FUNDING COMPONENT

Fiducie governance structure

At the end of its first year of operation, the governance structure is functioning adequately and complies with the provisions of the revised Fiducie Agreement:

- in 2007, the Board of Trustees and the Investment Committee attained an appropriate level of operation and complies with the prescribed terms and conditions
- the Audit Committee and the Monitoring Committee devoted the first year to setting operational parameters and should attain a suitable level of operation in 2008.

Fiducie operations

The sharing of roles and responsibilities among the various constituent bodies is well understood and the co-ordination mechanisms developed by the executive are effective. The Fiducie must, however, improve its monitoring of services assigned to the RISQ.

Analysis of investment files by RISQ

The quality of the financial analyses performed by the RISQ is the most problematic aspect of the implementation of the Contribution Agreement. Analysis of the investment files was stepped up by Investment Committee members, who made certain that the recommendations sent to the Board of

Trustees were consistent. Improving these analyses will accelerate the work of the Investment Committee and optimize the investment file approval process.

Fiducie communications activities

The communications strategy was deployed in many regions of Quebec and is in keeping with the expected regional distribution of investments.

Information management and reporting

The Fiducie's internal monitoring and management tools permit the Board of Trustees to make enlightened decisions. Reporting on results is a priority for the Fiducie and is carried out as stipulated in the Contribution Agreement.

PROGRESS ON ATTAINMENT OF RESULTS

Overall assessment of the Fiducie's activities

The overall assessment meets expectations for the first year of implementation. Progress is satisfactory with regard to:

- compliance of information on results with Treasury Board requirements;
- attainment of objectives and results as per the Contribution Agreement;
- regional distribution of investments.

Progress achieved with regard to leverage effect and funding of enterprises

Several community stakeholders said they felt that the Fiducie's financial products could be more closely tailored to the needs of social economy enterprises. Nevertheless:

- the Fiducie posts satisfactory results with regard to the leverage effect of its investments on projects carried out by social economy enterprises;
- the Fiducie made very satisfactory progress toward attaining expected results with regard to funding social economy enterprises, in some cases exceeding the targets in the Contribution Agreement.

The Fiducie should focus on the perception of some community stakeholders with regard to its financial products as part of its communications activities. It should also mandate the Chantier to conduct a study to examine the potential limitations of its financial products in more depth.

Satisfaction with services and usefulness of the assistance

Two consultations with a smaller number of respondents revealed some preliminary findings: overall, enterprises are satisfied with the services provided and the usefulness of the financial assistance received from the Fiducie.

The study on the potential limitations of the financial products offered will allow for an understanding of the extent to which the Fiducie's financial assistance enables social economy enterprises to obtain financial assistance from other financial institutions.

CONCLUSION

Implementation of the Funding Component is proceeding as provided for in the Contribution Agreement, given that the organization has just completed its first year of operation. The Fiducie should attain the expected results if improvements continue to be made to the quality of the RISQ financial analyses and if the effectiveness and efficiency of the governance structure can be maintained.

RECOMMENDATION

To optimize the effectiveness of the Funding Component of the Initiative and support attainment of the results expected under the Contribution Agreement, it is recommended that:

the Fiducie continue to implement corrective measures to improve the quality of the investment file analyses performed by the RISQ and that the Board of Trustees carry out regular monitoring activities during 2008.

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1. INTRODUCTION

1.1 Background

In its 2004 budget, the Government of Canada announced assistance for community economic development and the social economy. To this end, the government developed a Social Economy

Support Initiative for Quebec (the Initiative), managed by Canada Economic Development (the Agency). Implementation of the Initiative led to the creation of a new investment fund (the Patient Capital Fund) designed to offer funding complementary to sources of capital.

The Initiative is intended for social economy enterprises, that is, not-for-profit organizations and co-operatives that produce goods and services for the market economy but manage their operations and invest their surpluses in pursuit of social and community goals. Social economy enterprises are thus characterized by democratic governance and social goals.

Following an open competition, a jury composed of external members selected la Fiducie du Chantier de l'économie sociale (the Fiducie) to implement the Funding Component of the Initiative in Quebec. The mission of the Fiducie is to "further the expansion and development of collective enterprises by making it easier to secure funding and by ensuring that social enterprises are better capitalized." The Fiducie is affiliated with the Chantier de l'économie Sociale (the Chantier).

Creation of the Fiducie was made possible by a non-repayable contribution from the Agency. Implementation of the Initiative has been governed since November 2006 by a Contribution Agreement, of which the revised Fiducie Agreement forms an integral part. The Fiducie has three investors, *Investissement Quebec*, for a total of \$10 million, the *Fonds de solidarité FTQ* for a total of \$12 million and *Fondation*, the CSN development fund for co-operation and employment for a total of \$8 million.

The Contribution Agreement between the Agency and the Fiducie provides for payment of a maximum non-repayable contribution of \$22.8 million over three years, broken down as follows: \$20,806,820 for Investment Fund capitalization costs and \$1,993,180 for Fiducie operations and management costs. Two instalments of \$5.7 million each will be paid between November 15, 2006 and March 31, 2008.

The Treasury Board must authorize the payment of a final instalment of \$11.4 million in 2008-2009, following the submission of the examination report on the Funding Component of the Quebec Social Economy Support Initiative. The Agency has entrusted the examination to Audit Services Canada (ASC).

1.2 Objectives and scope of the mandate

The objective of the mandate is to determine how effectively the Funding Component has been implemented, as provided for in the Contribution Agreement between the Agency and the Fiducie. The two specific objectives of the mandate relate to the effectiveness of implementation of the Funding Component and progress achieved in the attainment of results.

The specific objective of the section devoted to implementation effectiveness is to conduct a systematic, objective evaluation of the methods, procedures and mechanisms developed and implemented by the Agency and the Fiducie to ensure delivery of and reporting on the Funding Component of the Initiative.

The specific objective of the section devoted to progress toward attainment of results is to determine how much progress the Fiducie made during the first year toward attainment of the short-term objectives and anticipated results set forth in the Contribution Agreement appendix on continuous performance measurement, which calls for particular attention to information required by the Treasury Board concerning:

- extent of use of available loan funds
- number and category of social economy enterprises that have negotiated loans
- operating costs and investment by the Fiducie and degree of compliance with the provided for in the Contribution Agreement.

The examination covers the Fiducie's first year of operation, which was largely devoted to establishing the governance structure and operational procedures.

1.3 Methodology

The mandate was carried out in three consecutive phases: mandate planning, mandate execution and disclosure of results.

The mandate planning phase included briefing sessions on the Initiative and its management with representatives of the Agency and the Fiducie. This phase also involved establishing the working framework, for which we made sure was in line with the issues identified in the Terms of Reference of the Departmental Performance Branch.

The working framework identifies the criteria, issues and evidence gathering methods. It was approved in December 2007 by the Departmental Performance Branch representative and includes 14 criteria—eight related to implementation effectiveness and six related to progress achieved toward the attainment of results.

The execution phase of the mandate included a literature review and interviews conducted in person and by telephone.

- The literature review involved documents from the Agency and the Treasury Board as well as the Fiducie, the Chantier, and the *Réseau d'investissement social du Québec* (RISQ). The minutes of all Fiducie committee meetings and reports from the Executive to the Board of Trustees were also examined.
- The in-person interviews took place in January 2008 in accordance with review framework criteria. They were conducted with (1) managers and professionals at the Fiducie and the related organizations, the Chantier and the RISQ, (2) representatives of the three investors on the Board of Trustees and the Investment Committee, (3) Agency managers involved in managing the Initiative, and (4) external committee members, including the Chair of the Monitoring Committee. We made sure to meet with people representing a variety of Fiducie membership types.
- The telephone interviews took place in January 2008 with members of the Monitoring Committee and some of the enterprises that had submitted a funding application. We contacted eight of the seventeen members of the Monitoring Committee, who were selected so as to ensure a representative selection of the four types of regions defined by the Agency and every type of local development organization represented by the committee. We also contacted eight enterprises that had submitted a funding application, which were selected so as to ensure a representative selection of the various stages of analysis and approval of a funding application by the Fiducie: investment authorized, file under study, file pending, application refused and application withdrawn.

The results disclosure phase comprised presentation and discussion of preliminary results with Agency representatives. The preliminary report was then sent to the Agency for validation and comments. The final report took comments received into consideration.

ASC would like to thank everyone who took part in the in-person interviews, particularly Fiducie management, for their constant availability and co-operation. We also thank all those who agreed to take part in the telephone interviews for their kind support.

2. RESULTS

2.1 EFFECTIVENESS OF IMPLEMENTATION OF FUNDING COMPONENT

2.1.1 Governance structure of the Fiducie

The Fiducie's governance structure is defined by the revised Fiducie Agreement adopted on November 15, 2006, which forms an integral part of the Contribution Agreement between the Agency and the Fiducie. The Fiducie Agreement established four committees: the Board of Trustees, the Investment Committee, the Audit Committee and the Monitoring Committee. The examination placed great importance on evaluating implementation of the governance structure during the Fiducie's first year of existence.

The Board of Trustees is the Fiducie's decision-making body. It consists of nine members, including a representative of the Agency's senior management, and three observers. It had held eleven meetings as of January 15, 2008. The Board of Trustees devoted a great deal of effort to setting up the various Fiducie committees during the first year, but its meetings are now increasingly devoted to making decisions on questions of governance and approving investment decisions on the basis of recommendations made by the Investment Committee.

The members of the Board of Trustees we met with said they were satisfied with the information received from Fiducie management and with the investment file summaries received from the Investment Committee. They also mentioned that the Fiducie's governance structure permits an adequate flow of information and effective decision-making by the Board of Trustees.

The Investment Committee evaluates funding requests and makes recommendations to the Board of Trustees. The ten-member committee is chaired by the Executive Director of the Fiducie. It had held sixteen meetings as of January 17, 2008. During the Fiducie's first year of existence, its work was often delayed owing to the unsatisfactory quality of the investment analysis files that were submitted to it. This question will be addressed in sub-section 2.1.3 of this report.

However, the expertise of the members of the Investment Committee, particularly the investment agents, offset the shortcomings of the analyses it received and enabled it to present justified recommendations to the Board of Trustees. The governance structure established by the Fiducie allows the Investment Committee to fully play its role as a filter for investment file analyses before investment recommendations are sent to the Board of Trustees.

The Audit Committee is made up of three external members and three non-voting members representing the investors. It held only three meetings during 2007. At first meeting, the Audit Committee clarified its mandate, which was approved by the Board of Trustees in August 2007. This mandate consists in monitoring the management and control mechanisms set in place by the Fiducie and ensuring their compliance with the provisions of the revised Fiducie Agreement.

This first year was devoted to establishing operational parameters for the Audit Committee. These parameters should enable it to attain an acceptable level of operation during 2008 and fulfill its mandate.

The Monitoring Committee is mandated to record points of view and perceptions from representatives of the regions, mainly with regard to the suitability of the financial products offered by the Fiducie and the adequacy of its service in all the regions of Quebec. It is made up of seventeen members representing each administrative region of Quebec who are all in regular contact, in accordance with the Chantier’s vocation of constituting a “network of networks” in the regions.

The members of the Monitoring Committee are drawn from six types of local development organizations (Local Development Centers, Community Economic Development Corporations, Regional Development Cooperatives, Community Futures Development Corporations, Community Development Corporations and Community Credit Organizations). It also includes three observers representing investors.

Even though two meetings are planned annually, the Monitoring Committee held only one meeting in 2007, given the difficulty of complying with the regional and sectoral representation criteria provided in the revised Fiducie Agreement. In addition, the Board of Trustees had to relax the criteria for constituting the Monitoring Committee in April 2007, in order to allow the committee to be set up. This first year was devoted to the establishment of operational parameters for the Monitoring Committee. These parameters should enable it to attain an acceptable level of operation during 2008 and fulfill its mandate as prescribed.

We collected reactions from members of the Monitoring Committee with regard to the structure and functioning of the committee through telephone interviews with eight of its members. We wanted to determine whether the Monitoring Committee was constituted in compliance with the provisions of the revised Fiducie Agreement. The members declared that they were satisfied with the mandate entrusted to the Monitoring Committee. They also clearly expressed their intention to play their role as a “watchdog” for investments made by the Fiducie in the various regions. The following text box presents other positive points about the Monitoring Committee, as expressed by its members.

Members’ appreciation of the Monitoring Committee
<ul style="list-style-type: none"> - The structure of the Monitoring Committee is perceived as open, well organized and able to take in the necessary information; members feel that they have so far been able to forge links and ask the questions they want. - Some members feel that two meetings a year is not enough and suggest increased use of teleconferencing and networking activities. - The Monitoring Committee has all the information it needs; members feel that they received sound training in the Fiducie’s financial products at the outset and that the information process is very transparent. - The Fiducie’s communication and promotional activities could be improved over time, through dialogue with local development organizations. - Members do not feel that the Fiducie neglects their regions, but stress the importance of including socio-economic and regional contexts, especially in the case of rural communities, which have specific needs.

Source: Audit Services Canada, January 2008.

In conclusion, the Board of Trustees and the Investment Committee attained an adequate level of operation, in compliance with the terms and conditions of the Contribution Agreement. The Audit Committee and the Monitoring Committee devoted their first year to establishing operating parameters and should attain an acceptable level of operation during 2008.

In our estimation, given that the Fiducie is completing its first year, the governance structure complies with the provisions of the Contribution Agreement. It functions properly, owing the expertise, professionalism and commitment of the people on the Board of Trustees and its various committees. We were able to observe that everyone participating in the various constituent bodies within the Fiducie shares the goal of working toward the success of the Social Economy Investment Fund experiment.

2.1.2 Operation of the Fiducie

Although constituted in November 2006, the Fiducie did not really began operations until January 2007. The examination therefore focused on its first year of existence, making it possible to observe the difficulties inherent in setting up any organization. Corrective measures were applied in 2007 and management is aware that others will also have to implemented.

The members of the various committees whom we met are all of the opinion that Fiducie management has been consistently transparent in disclosing information on Fiducie activities and investments. We also observed that the arrival of a new professional resource in the finance division in November 2007 made it possible to improve internal monitoring mechanisms. In our opinion, the expertise and experience of the human resources in place permit effective management of the Contribution Agreement and adequate delivery of services to social economy enterprises.

The Fiducie has developed policies aimed at promoting transparency and equity in its operations. More specifically, these are the investment policy, the policy on the constitution and definition of contingency fund attribution rules, the policy on delivery of patient capital products and co-operation with local development stakeholders, and the investment policy, as well as codes of ethics and professional practice. Evaluation of the implementation of these policies is usually assured by the Audit Committee.

Based on the information obtained during our meetings with management personnel involved in managing the Initiative at the Agency, we were able to establish that information transmission mechanisms are effective and sufficient for the needs for the Agency. The Agency receives information about the Fiducie's financial results through payment claims and from non-financial results (project progress and attainment of results) in documents distributed at Board of Trustees meetings.

The revised Fiducie Agreement established a sub-contracting structure that favours related organizations. Consequently, the RISQ was mandated to analyse and monitor investment files as stipulated in the revised Fiducie Agreement. The Chantier was mandated to co-ordinate the activities of the Monitoring Committee and identify, on an annual basis, the funding needs of social economy enterprises, and sectoral and regional development issues, in compliance with the revised Fiducie Agreement.

The sharing of roles and responsibilities between the RISQ and the Fiducie is currently being formalized. The RISQ is responsible for all professional work related to the analysis and monitoring of investment files and for any necessary adjustments. The Fiducie is responsible for all the legal and financial aspects of transactions with social economy enterprises and for portfolio management. In addition, the examination revealed that the services provided by the RISQ are in need of improvement, especially as regards the defective quality of the file analyses it submits to the Investment Committee. This issue will be addressed in sub-section 2.1.3 of this report. In the

opinion of several of the people met, one way in which delivery of services assigned to the RISQ could be improved is by increased involvement by Fiducie managers.

The way related organizations are paid for services assigned by the Fiducie is determined by the Analysis and Monitoring Mandate assigned to the RISQ and by the Chantier's Strategic Monitoring Mandate. Fees for sub-contracting services accounted for a total of \$208,600 for the period of November 15, 2006 to December 31, 2007, the main amounts paid being \$91,900 to the Chantier for strategic monitoring, \$66,500 to the RISQ for analysis and follow-up, \$22,900 to the Chantier for accounting services and \$16,300 to the Chantier for communication services.

In our opinion, the sharing of roles and responsibilities among the various constituent bodies within the Fiducie is clearly defined and well understood and the co-ordination mechanisms are effective. However, the Fiducie should improve monitoring of the services assigned to the RISQ. The question of how much control the Fiducie should exercise over services contracted out to related organizations will be re-examined during 2008. Indeed, the Audit Committee intends to examine the two subcontracting mandates assigned to related organizations in the course of 2008.

2.1.3 Analysis of investment files by the Réseau d'investissement social du Québec

The quality of the financial analyses carried out by the RISQ certainly constitutes the most problematic aspect of the Fiducie's implementation of the Contribution Agreement, despite the fact that some progress was made in 2007. The investors' agents contacted were unanimous in stressing the frequent deficiencies observed in investment file analyses, particularly as regards errors in financial analysis and frequent lack of convergence between the results of the analysis and the recommendations made to the Investment Committee.

In our opinion, this situation is partly explained by the fact that the expertise developed by the RISQ over the past ten years is mainly in the analysis of small-scale projects (investments of less than \$50,000), as indicated by the analysis criteria developed in the work entitled *Guide d'analyse des entreprises d'économie sociale* published in 2003. This expertise is probably not entirely suited to the scale and nature of the Fiducie's planned investment in enterprises.

By way of comparison, each project funded by the Fiducie must involve a total investment (including all sources of capital) of at least \$170,000. The Fiducie's investment offer ranges from \$50,000 to \$1.5 million and the Fiducie's investment portfolio must include a minimum of 65% in real estate. The Fiducie invested an average of \$369,000 in the 12 projects authorized as at January 15, 2008.

We noted that investment file analyses produced by the RISQ were improved by the members of the Investment Committee, including the investors' representatives, who checked the validity of the financial analyses and the consistency of the recommendations to the Board of Trustees. Consequently, the Board of Trustees was able to approve investment decisions based on analyses of files that had been enhanced by the members of the Investment Committee.

Fiducie management and the bodies concerned are aware of these problems and the need to remedy them, as is indicated in the minutes of a meeting of the Board of Trustees held in June 2007 and the report from management to the Board of Trustees in August 2007.

Adjustments have been instituted by Fiducie management, but these have proven insufficient, as the problem remains. The analysis and monitoring mandate, which forms an integral part of the Contribution Agreement through the revised Fiducie Agreement, specifies that the contractual agreement with the RISQ expires in November 2009. Before that time, it is important that Fiducie authorities implement corrective measures to ensure that the RISQ delivers effective, efficient investment file analysis service, in order to optimize the approval process. In particular, these measures should involve improving the competencies of RISQ personnel responsible for analysing the types of investment envisaged by the Fiducie.

In addition, the Fiducie and the RISQ have established procedures to ensure co-ordination of investment file analysis procedures in order to improve the exchange of information and reduce processing times. Toward this end, the managers have defined an *analysis and monitoring file data flow between the RISQ and the Fiducie*, in order to systematize the routing of funding applications as stipulated in the RISQ's analysis and monitoring mandate. It should be noted that the monitoring of the Fiducie's investments is still in the embryonic stage and that the appropriate procedures remain to be set in place, given the small number of authorized projects that have reached the disbursement stage.

In conclusion, the analysis of the Fiducie's investment files is a process that is still evolving and the work carried out by the RISQ must continue to be improved. Some progress was achieved during the first year, but a significant improvement has to be made to ensure that the work is performed satisfactorily in compliance with the mandate assigned to the RISQ by the Fiducie, as defined under the Contribution Agreement between the Agency and the Fiducie. Improving the RISQ's financial analyses will speed up the work of the Investment Committee and optimize the investment file approval by Fiducie authorities.

Recommendation

To optimize the effectiveness of implementation of the Funding Component of the Quebec Social Economy Support Initiative and promote the attainment of expected results in accordance with the Contribution Agreement, it is recommended that:

the Chantier de l'économie sociale Fiducie continue to implement corrective measures to improve the quality of the investment file analyses carried out by the *Réseau d'investissement social du Québec* and that the Board of Trustees carry out regular monitoring in 2008.

2.1.4 Fiducie communication activities

Between November 15, 2006 and January 15, 2008, the Fiducie held information and training sessions in ten areas of Quebec (Montréal, Québec, Mauricie, Gaspésie-Les Îles, Montérégie, Laurentides, Outaouais, Abitibi-Témiscamingue, Estrie and Côte-Nord). It also held an information session with the Community Economic Development Committee, composed of stakeholders from Quebec's Anglophone community.

In this way the Fiducie contacted 948 people directly and indirectly through its information and training activities, which were broken down as follows: 407 participants in regional information and training sessions, 360 visitors at the information kiosk during three professional events and 181 requests for information addressed to the RISQ by social economy enterprises. These information and training activities form an integral part of the functions of the Fiducie's Executive Director.

The Fiducie's target public is composed of local development organizations, not social economy enterprises, which, however, form the RISQ's target public. In addition to regional information and training tours, the Fiducie's vehicles for communicating with the general public are its annual report and information brochure, conferences and press releases, and its Web site, as well as media placement and sponsorship. The members of the Monitoring Committee whom we consulted stated that they are satisfied with the information received from the Fiducie.

The Fiducie's communications strategy enables it to contact social economy enterprises through its partnerships with local development organizations and the RISQ. The communication vehicles specified in the Fiducie's communications plan are, in our opinion, appropriate and adequate for communicating with the targeted recipient enterprises. The communication strategy has been deployed in many areas of Quebec and is in keeping with the regional distribution of investment approach expected of the Fiducie, in accordance with the ongoing performance measurement requirements of the Contribution Agreement.

2.1.5 Fiducie information management and reporting

Four essential information management tools were sent to us and were easily updated by Fiducie management. These four activity monitoring and reporting tables are entitled:

- *Results attained and effectiveness of the Fiducie's management and administration (as of November 2006 to January 15, 2008)*
- *Summary of authorized investments (as of January 15, 2008)*
- *Regional distribution of the Fiducie's investment files (as of January 15, 2008)*
- *Performance measurement in accordance with Appendix 3 of the Contribution Agreement (period of November 15, 2006 to January 15, 2008).*

The Fiducie's chief financial officer also informed us of various internal monitoring tools that were established in 2007, including the Fiducie's investment fund statement, a table for monitoring projects handled by the RISQ and a calendar of actions to be taken by management.

The in-person interviews that we conducted with various people (Fiducie officers, investors' agents and external committee members), as well as the review of the information management and activity monitoring tools established, resulted in the following conclusions with regard to three criteria related to Fiducie information management and reporting:

- The internal monitoring and information management tools established by the Fiducie are adequate and produce relevant information permitting the Board of Trustees and management to make informed decisions.
- The mechanisms for gathering and transmitting financial and non-financial information generate reliable information that is accessible to the Fiducie and the Agency in a timely manner.
- The Fiducie's reporting mechanisms are adequate and results are produced in a timely manner, in accordance with the continuous performance measurement provisions of the Contribution Agreement.

The Fiducie has developed various management tools to enable it to monitor the financial and non-financial results of its activities. Reporting on results is a priority for the organization. We observed that the reporting elements required by the Agency form the basis of the management tools developed by the Fiducie.

Finally, it also transpired from our meetings with the managers involved with managing the Initiative at the Agency that the two information transmission systems, namely the requests for payment for financial results and documents distributed at Board of Trustees meetings for non-financial results, generate relevant, reliable and timely information for the Agency. In addition, the established reporting mechanisms enable the Agency to effectively monitor the Fiducie's performance measurement, in accordance with the Contribution Agreement.

2.2 PROGRESS IN ATTAINMENT OF RESULTS

2.2.1 Overall assessment of Fiducie activities

Evaluation of progress in the attainment of the results expected of the Fiducie during the first year of implementation involves three criteria: progress in terms of Treasury Board requirements, progress with regard to the objectives and results stipulated by the Contribution Agreement between the Agency and the Fiducie, and progress with regard to regional distribution of the Fiducie's investments.

Progress in terms of Treasury Board requirements

The Treasury Board requires the Agency to submit an examination report on the Funding Component, reporting on three types of results' information, before it can authorize payment of the last budget instalment of \$11.4 million:

- the use of available loan funds
- the number and category of social economy enterprises receiving loans
- operating costs and the investment by the Fiducie's patient capital demonstration fund.

It should be noted that it was agreed that it was the Agency responsibility to transmitting to the Treasury Board the documentation related to a fourth type of required information: the pro forma statement of the Fiducie's cash flow.

- In sub-section 2.1.5, we referred to the summary accounting table on activities carried out and results attained entitled *Results attained and effectiveness of the Fiducie's management and administration (as of November 2006 to January 15, 2008)*. In our opinion, information on the results required by the Treasury Board for the first year of implementation of the Contribution Agreement is available, and meets Treasury Board requirements. This information on results is reliable and was made available in a timely manner.

Progress with regard to the objectives and results stipulated by the Contribution Agreement

According to the investors' agents, the budget envelope allocated to the Investment Fund is substantial, given the needs of the social economy sector. It should prove more than sufficient to enable the Fiducie to achieve the results and objectives specified in the Contribution Agreement.

The Contribution Agreement between the Agency and the Fiducie defines the objectives and results to be attained by the Fiducie Investment Fund in general terms, but establishes no annual target to be attained:

- The objectives are (1) to improve access to long-term funding by eligible social economy enterprises and (2) to ensure better capitalization of eligible social economy enterprises.
- The targeted results are (1) to support the development and expansion of eligible social economy enterprises and (2) to support increased investment by eligible social economy enterprises and to increase their financial autonomy.

Although there were delays in setting up the Fiducie and its governance structure, the organization was able to achieve significant results in its first year of operation. The quantitative information described in the following pages on the regional distribution of investments, the leverage effect of the investments and the funding of the enterprises show that the Fiducie has made satisfactory progress toward achieving the objectives and results specified in the Contribution Agreement.

Progress with regard to regional distribution of investments

The Contribution Agreement appendix on continuous performance measurement sets the targets to be reached over a three-year period (2006-2009) with regard to the regional distribution of the Fiducie's investments. Four types of area were defined by the Agency: outlying territories, central territories, major urban centres and Metropolitan Montreal.

The Fiducie produced an activity monitoring table entitled *Regional Distribution of Fiducie Investment Files (January 15, 2008)*. This table presents the details for each of the 17 administrative regions of Quebec of all 69 files processed and the 12 projects that had been authorized by the relevant constituent bodies at the Fiducie as of this date, according to the value of the projected investments. The highlights of the regional distribution of the Fiducie's investments are given in the next table:

Regional distribution of Fiducie investments

Type of regions defined by the Agency	Contribution Agreement Targets 2006-2009	Projects authorized by the Fiducie as of January 15, 2008 (N: 12)	Files processed by the Fiducie as of January 15, 2008 (N: 69)
Outlying territories	23%	24.67%	21.73%
Central territories	38%	38.16%	43.48%
Major urban centres	12%	0%	2.37%
Metropolitan Montreal	27%	37.17%	32.42%

Source: Chantier de l'économie sociale Fiducie, January 2008.

This data shows that the investment files presented to the Fiducie by social economy enterprises are mainly from outlying and central territories and that the demand is not just a Montreal phenomenon. On January 15, 2008, a total of 62.8% of the Fiducie's investments in the 12 authorized projects were in outlying and central territories.

In our opinion, the Fiducie made satisfactory progress during the first year of implementation of the Contribution Agreement in terms of the regional distribution of investments, in keeping with the targets for 2006-2009 under the Contribution Agreement. The Fiducie will still have to monitor developments in the regional distribution of investments carefully, however.

In conclusion, the general assessment of the Fiducie's interventions is satisfactory and meets the expectations of the Contribution Agreement for the first year of implementation. The progress made by the Fiducie is satisfactory with regard to compliance with Treasury Board requirements on information on results, attainment of objectives and results in accordance with the Contribution Agreement, and in terms of the regional distribution of investments.

2.2.2 Progress with regard to leverage effect of investments and funding of enterprises

The detailed evaluation of the progress attained by the Fiducie during the first year of implementation leads us to consider three issues: stakeholders' perceptions of the suitability of the Fiducie's financial products to the needs of social economy enterprises, progress with regard to the leverage effect of the investments, and progress with regard to the Fiducie's funding of social economy enterprises.

Perceptions of the Fiducie's financial products

According to the Fiducie's Executive Director, the Investment Fund meets a need for capitalization of social economy enterprises (not-for-profit organizations and co-operatives). It provides value-added by funding enterprises rather than projects. The Investment Fund allows risk to be shared, while acting as an intermediary between the financial market and the social economy enterprise. In its opinion, the Fiducie's Investment Fund is complementary to, rather than in competition with, other available sources of funding and offers financial products different from those already existing on the market. The Fund provides larger amounts of funding and a longer repayment period than other sources of funding accessible to social economy enterprises.

The opinions of those we consulted on this topic are divided. Two of three investors' agents feel that the financial products offered by their organizations and those provided by the Fiducie are not really complementary. They point out, moreover, that the financial products offered by the Fiducie are designed for major capital projects and are not really suited to all social economy projects.

The members of the Monitoring Committee whom we consulted also share this perception. They said they wished that the Fiducie's financial products were more closely tailored to the needs of social economy enterprises. In the following text box, we present the major comments about the Fiducie's financial products gathered from telephone interviews with eight members of the Monitoring Committee.

Comments by members of the Monitoring Committee on the Fiducie's financial products
<ul style="list-style-type: none"> - the Fiducie exerts a significant development leverage effect and brings value-added to the regions, particularly through its use of community resources. - the percentage of the Fiducie's investments devoted to capital projects is likely to disadvantage the other projects, especially since it is estimated that demand for capital funding in the regions is low. - the capacity for repayment for enterprises receiving funding has not yet been satisfactorily shown; at first, certain enterprises assumed that the Fiducie was offering a grant rather than a repayable loan. - social economy enterprises and local development organizations also require financial and strategic counselling from the Fiducie.

Source: Audit Services Canada, January 2008.

These perceptions by the members of the Monitoring Committee about the Fiducie's financial products had been expressed previously at the committee's meeting of September 2007 and are reported in detail in the minutes of that meeting. The Board of Trustees, at its meeting of October 2007, raised these concerns expressed by the members of the Monitoring Committee with regard to the funding of small social economy projects and the comments of the latter to the effect that the financial products offered by the Fiducie do always not meet their needs.

Some stakeholders in the regions have not really absorbed the fact that the Fiducie's financial products are intended to aimed at funding large-scale projects involving a high proportion of real estate. It would undoubtedly be appropriate if the Fiducie continued to use its communications strategy to clarify its funding niche and to explain why the Investment Fund is not suited to all social economy projects.

Progress with regard to leverage effect of investments

The Fiducie could not have set up operations without the non-refundable contribution from the Agency, which enabled it to attract \$30 million in capital from the three investors. It is therefore undeniable that the Agency exerted a leverage effect on the Fiducie's funding. It also emerges from our work that, during the first year of implementation, the Fiducie's investments exerted a leverage effect on the funding of social economy enterprises.

On January 15, 2008, the Fiducie authorized an investment of \$4,439,227 (\$3,205,409 in real estate patient capital and \$1,233,818 in operations patient capital) in 12 social economy projects, which accounts for 18% of the enterprises' total funding. The other sources of capital account for 77% (\$19,011,653) of the funding, while the contribution of the enterprises themselves accounts for 5% (\$1,314,522) of the funding. Total investments in the 12 social economy projects authorized by the Fiducie amounted to \$24,765,402 as of January 15, 2008.

The other sources of capital for each of the 12 investment projects authorized by various constituent bodies within the Fiducie as of that date are identified in the monitoring activities table entitled *Summary of authorized investments (as of January 15, 2008)*. These other sources of capital are as follows:

- Investment Quebec and Fondation CSN (Filaction)
- Local development organizations (LDCs, CEDCs, CFDCs) and the RISQ
- Co-operative institutions (Caisses populaires, Caisse d'économie solidaire Desjardins, cooperative federations);
- Private capital (Sobeys);
- Government (Government of Canada, Government of Quebec, municipalities) and private grants.

The Fiducie attained the desired result as regards leverage effect by attracting other investors to the Fiducie. Moreover, in terms of the 2006-2009 targets under the Contribution Agreement, the Fiducie made satisfactory progress during the first year of implementation by using the leveraging effect of its Investment Fund in the implementation of social economy enterprise projects.

As shown by the quantitative information reported above, funding for 77% of total investments in authorized projects came from other sources of capital, and the Fiducie's investments exerted a leverage effect that attracted additional funding. However, given that the Initiative is in its first year

of operation, it is not yet possible to distinguish the capital attracted by the Fiducie's investment from the capital that would have been invested even without its financial assistance.

Progress with regard to funding enterprises

The Fiducie produced a summary accounting table entitled *Performance measurement in accordance with Appendix 3 of the Contribution Agreement (period of November 15, 2006 to January 15, 2008)*. In our opinion, the information obtained from the Fiducie on results attained with regard to funding eligible social economy enterprises shows that these enterprises meet the information requirements of the Contribution Agreement. The following table shows the results obtained by the Fiducie on January 15, 2008 for each of the seven anticipated results.

Funding of social economy enterprises by the Fiducie

Contribution Agreement targets 2006-2009	Contribution Agreement targets 2006-2007	Results attained on January 15, 2008
Answer 750 requests for information	250	948
Process 160 requests for funding	40	47
Provide 75 loans for eligible social economy enterprises	15	12
Provide \$25 million in investments for eligible social economy enterprises	\$5 million	\$4,439,227
Generate \$70 million in total investments	\$14 million	\$24,765,402
Monitor 44 eligible social economy enterprises	0	0
Support 7 eligible social economy enterprises in difficulty	2	0

Source: Chantier de l'économie sociale Fiducie, January 2008.

In certain cases, these results exceed the 2006-2007 targets in the Contribution Agreement. They show that the Fiducie made very satisfactory progress during the first year of implementation toward attaining the results in accordance with the Contribution Agreement regarding funding eligible social economy enterprises.

The Fiducie places great importance on making sure that projects receiving an investment comply with the eligibility and non-eligibility requirements of the Contribution Agreement. These criteria form the very heart of the project analyses carried out by the RISQ and the recommendations that the Investment Committee sends to the Board of Trustees.

As mentioned in sub-section 2.1.2 of this report, the Fiducie gave the Chantier, as part of its Strategic Monitoring mandate, the responsibility of identifying, on an annual basis, the funding needs of social economy enterprises and sectoral and regional development issues. We examined the two studies produced by the Chantier.

- *The 2007-2008 Annual Survey of the funding needs of social economy enterprises for the coming year* which is intended to create a profile of the Fiducie's potential market. The Chantier sought the co-operation of local development organizations to identify emerging projects in the various communities. The Chantier was thus able to produce tables showing the regional and sectoral distribution of potential investment projects for the Fiducie.

- *The Annual Summary of the sectoral and regional development issues facing social economy enterprises in Quebec*, which is intended to provide a targeted vision of the development potential of the social economy in Quebec, from the sectoral and regional standpoints. The Chantier conducted studies of 20 industrial sectors and 17 administrative regions in Quebec.

Although these documents contain a considerable amount of information relating to the social economy, it would be useful if the Fiducie asked the Chantier to conduct a study to examine in greater depth the potential limits of the financial products and social economy investment opportunities that are offered to the organization. Such a financial study would make it possible to improve the funding strategy of the social economy enterprises targeted by the Contribution Agreement with the Fiducie. It would also make it possible to respond to the comments of various community stakeholders on the suitability of the financial products offered.

In conclusion, stakeholders felt that the Fiducie's financial products could be more closely tailored to the needs of social economy enterprises. Nevertheless, during its first year of operation, the Fiducie achieved satisfactory progress with regard to the leverage effect exerted by the Investment Fund. The organization also made very satisfactory progress toward attaining results expected under the Contribution Agreement regarding funding eligible social economy enterprises.

2.2.3 Satisfaction with regard to services and the usefulness of the assistance

Two consultations held in January 2008 enabled us to record preliminary reactions concerning the enterprises' satisfaction with the services provided and the usefulness of the financial assistance received from the Fiducie. These preliminary observations were also taken from a Fiducie survey of social economy enterprises whose investment projects had been approved by Fiducie authorities and from telephone interviews carried out by ASC with social economy enterprises that had submitted an application to the Fiducie for financial assistance.

The Fiducie's survey

The Fiducie surveyed the 12 social economy enterprises whose investment project had been approved by Fiducie authorities. The response rate was 66%. Owing to the small number of respondents, caution should be exercised in interpreting this data on the Fiducie's first year of existence.

The data in the survey reveals that the great majority of respondents said they were very satisfied with the services provided by the Fiducie and the RISQ in relation to the eight following criteria:

- courtesy of the personnel
- ability to respond to needs
- clarity of information received concerning the financial products available and the Fiducie's operations
- accessibility of analysts by telephone, e-mail or fax
- fairness and impartiality in handling requests
- clarity of contract documents
- processing time for payment request
- clarity of documentation.

The overall rate of satisfaction of the recipient enterprises complies with the results expected under the Contribution Agreement.

Two areas of dissatisfaction for some respondents with regard to services provided relate to the quality of discussions with the file analyst and the time required for processing the investment application. According to the Executive Director of the Fiducie, these respondents' dissatisfaction was with a financial analyst who is no longer employed by the RISQ.

As to the usefulness of the financial assistance provided by the Fiducie, the majority of survey respondents felt that, had they not received the financial assistance, they would perhaps not have been able to carry out their project at all, or not to the same extent and in the same time. In addition, half of the respondents felt that, even without the assistance from the Fiducie, their social economy enterprise could have obtained assistance from other financial institutions, while another half thought that they might not have been able to obtain other financial assistance.

Audit Services Canada telephone interviews

SVC contacted enterprises that had submitted an application for financial assistance under the Initiative, in order to obtain their views on the usefulness of the financial assistance offered by the Fiducie for their social economy enterprise. We contacted a total of eight enterprises, four whose project had been approved, one whose file was under study, one whose file was outstanding, one whose application had been refused and one whose application had been withdrawn. These telephone interviews were conducted on the basis of a very restricted sample of enterprises and were intended to establish some preliminary avenues of inquiry.

In general terms with regard to the usefulness of the financial assistance of the Fiducie, our telephone interviews indicated that the enterprises consulted were satisfied with the financial assistance received. The interviews did, however, enable them to qualify their reactions and make some suggestions on how the Fiducie might improve the services it provides. The following text box presents the comments collected during telephone interviews conducted with eight enterprises on the usefulness of the financial assistance provided by the Fiducie.

Comments by enterprises on the usefulness of the financial assistance provided by the Fiducie
<ul style="list-style-type: none">- The Fiducie investment exerted a leverage effect on the funding of enterprises; some enterprises suggest that the funding rates could be made more competitive.- The financial support of the Fiducie will enable enterprises to increase their financial independence; the Fiducie understands the specific problems and needs of social economy enterprises.- Enterprises have access to other sources of capital to fund their projects.- The majority of the enterprises would have been able to undertake their project without the investment of the Fiducie, which does, however, add an element of certainty, and reassures partners.- The enterprises are divided in their opinions regarding adjusting the Fiducie's financial products to their needs. Some are satisfied with the loan conditions even though improvements could be made, while others emphasized the constraints imposed on their project by the Fiducie (especially the percentage reserved for real estate funding).- The enterprises would appreciate receiving support services from the Fiducie to ensure project follow-up.

Source: Audit Services Canada, January 2008.

In conclusion, the great majority of recipient enterprises said they were very satisfied with the services provided by the Fiducie. In addition, enterprises that had submitted an application for assistance stated that they were satisfied overall with the financial assistance received from the Fiducie, but added certain qualifications to their appreciation. Considering that the Fiducie's Investment Fund is still in its early stages, these first reports on satisfaction with services provided and on the usefulness of financial assistance received need to be interpreted with caution.

2.3 CONCLUSION

The implementation of the Funding Component of the Initiative is proceeding as stipulated in the Contribution Agreement between the Agency and the Fiducie, given that the organization has just completed its first year of operation. The Fiducie should attain the expected results if improvements continue to be made to the quality of the RISQ's financial analyses and if the effectiveness and efficiency of the governance structure can be maintained.

The governance structure is functioning properly and management has developed effective coordination mechanisms among its various constituent bodies. The Fiducie must continue to implement corrective measures to improve the investment file analyses performed by the RISQ in order to optimize the approval process by its own personnel. In addition, reporting on results is a priority for the organization, and appropriate management information tools have been developed. The Fiducie also used its communications strategy in numerous areas of Quebec.

During its first year of operation, the Fiducie achieved satisfactory progress in compliance with the expected results in the Contribution Agreement with regard to regional distribution of investments, the leverage effect of its investments and funding of eligible social economy enterprises. The enterprises consulted said they were satisfied overall with the services provided and the usefulness of the financial assistance received from the Fiducie.

3. RECOMMENDATION

In order to optimize the effectiveness of the implementation of the Funding Component of the social economy support initiative in Quebec and to support the attainment of the results expected as under the Agreement Contribution, it is recommended that:

the Chantier de l'économie sociale Fiducie continue to put in place corrective measures aimed at improving the quality of the investment file analyses carried out by the *Réseau d'investissement social du Québec* and that the Board of Trustees conduct regular monitoring in 2008.

MANAGEMENT RESPONSE

CED has a representative at the Board of Trustees. He ensures that the Fiducie continues its efforts regarding the improvement of the quality of the financial analyses of the investment files. The governance structure includes an Investment Committee which role is to revise the RISQ's analyses before recommending their approval or their refusal to the Board of Trustees. The Investment Committee has himself noticed the gaps of the financial analyses during the evaluation and has already begun to give advice to the RISQ analysts in order for them to apply the necessary adjustments. Furthermore, the Board of Trustees, upon which every financial sponsor of the Fiducie has a seat, will bring a sustained attention to this recommendation.