



BuildingPolicy4 the Social Economy

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Social Economy and Sustainability Research Network
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Bridging, Bonding, and Building / Renforcement des liens et des capacités

SOCIAL ECONOMY ORGANIZATIONS AND EXTERNAL FINANCING

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Purpose of study

The study aims to complete a comprehensive survey of the financing needs and challenges facing organizations in the Social Economy in Atlantic Canada. It examines the demand for external financing: it aims to identify financing needs and challenges facing a sample of social economy organizations, to determine characteristics of organizations that are successful in accessing external financing, and identify the factors affecting such success. It also aims to estimate the demand for external financing for the Social Economy in the region.

The role of financing in enabling entrepreneurial activity and economic growth has been well recognized for years. It has been recognized that financing gaps are detrimental to the creation and growth of SMEs and governments have sponsored significant research on SME financing. Although the relative size of the Social Economy is larger in Canada than in other developed countries, governments in Canada have not shown comparable interest in SEO (Social Economy Organization) financing issues. The Atlantic research node of the CSE Hub believes there is great value in gaining insights on the financing issues affecting local SEOs. This research initiative was spurred by community partners, such as the Canadian Worker Coop Federation and the Saint John Community Loan Fund.

There is agreement in the literature that the issues surrounding the financing of the social economy and how SEOs utilize and access external finance are central to the sustainability of the sector and the organizations therein. However, existing research has concentrated on the financing options and instruments available for SEOs and the criteria used by financial institutions. There has been little research on the demand and supply for external finance for SEOs, the uses of financing, and the challenges SEOs face in obtaining financing; for Canada in general and for Atlantic Canada in particular.

Scope

The study uses samples of organizations within five geographical areas sufficiently restricted that we could enumerate the population of social economy organizations within it, namely Saint John NB, Cape Breton Island, Halifax regional municipality, Prince Edward Island, and Newfoundland. A sample can then be drawn that includes representatives of each organizational type of social economy organization, representatives of each sub-sector, and representatives from a variety of organizational size and age.

The National Survey of Nonprofit and Voluntary Organizations reported that 13,000 incorporated organizations and registered charities operated in Atlantic Canada and they generate revenues of \$5.7 billion (Rowe, 2006). We have used a set of four accepted qualification criteria for Social Economy Organizations to narrow the list

of organizations for our samples: economic activity, no distribution of surpluses to members, voluntary association with legal and decisional autonomy, and democratic governance. (Bouchard et al, 2006).

Methodology

The study focused on surveying samples that include representatives of each organizational type of social economy organization, representatives of each sub-sector, and representatives from a variety of organizational size and age. The first major task in the research project was to determine the survey sample: to develop a database of SEOs in the target areas.

There is no comprehensive database of SEOs in the region and the researchers spent a lot of time in assembling lists from different sources. In Newfoundland we benefited from the support and direct help of the *Community Services Council*. Our compiled list included over 5,000 organizations. By applying the four criteria described above, this listing was reduced to 1,142 SEOs, resulting in 281 completed surveys. The surveys include self-screening questions to ensure the respondent SEOs met the four qualifying criteria. Out of 281 responses, 207 met all four SEO criteria.

Summary Profile of SEOs

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

The majority of organizations surveyed are well established: fifty nine of respondents have been established for over 20 years.

SEOs mentioned sales of goods and services, grants, and donations as their primary sources of funds on an ongoing basis. The majority of SEOs (seventy seven percent) have pursued external financing. SEOs predominantly use grants, loans, and lines of credit for financing. The primary reason for external financing cited is to expand services, purchase a building, and purchase equipment.

Findings summary

Rejection experienced for SEO financing is fairly high at forty two percent. There is heavy reliance on government grants: sixty percent of respondents had received grants in the previous twelve months and seventy four percent of SEOs planning an expansion are pursuing grants to finance the expansion ! Interestingly, forty percent of SEOs are pursuing public/corporate fundraising for expansion also.

A large percentage of SEOs (forty two percent) plan to expand or start a new venture. They are reporting large amounts of financing required for new ventures: a quarter of the growing SEOs require funds in excess of \$500,000 for expansion. However, less than thirteen percent of SEOs have raised this level in the previous twelve months, indicating an upcoming shortage of funding..

The study suggests policy intervention in improving the financing environment for the Social Economy and overcoming the disadvantages inherent is the generic Social Economy Organization model:

- Improve access to debt finance and asset leasing for SEOs
- Improve access to equity finance for SEOs
- Enable capacity building on financial management and planning within the sector