

Submission by the Fonds de solidarité FTQ

Presented to the Standing Committee on Finance

August 4, 2017



1. Context for the submission

The Fonds de solidarité FTQ is very pleased to participate in the pre-budget consultation process launched by the House of Commons Standing Committee on Finance in advance of the 2018 budget. The Fonds is thrilled that the questions proposed by the Committee are very much aligned with the Fonds' mission. Indeed, the economic growth of businesses and communities is at the very heart of our organization's priorities. Furthermore, the Fonds' mission is consistent with the model of inclusive growth, a concept that your government has promoted.

2. Concept of inclusive growth

In recent years, numerous reports and studies carried out by major institutions (IMF, OECD, etc.) have stressed the importance of inclusive and sustainable growth.

The Government of Canada has committed to investing in inclusive growth that seeks to strengthen the middle class and stimulate growth to enable the Canadian economy to prosper in a sustainable fashion:

"... the government will continue to act proactively to implement policies and make the much-needed investments required to position Canada for strong, inclusive and sustainable growth...." ¹

Behind that concept, which runs counter to the aim of the ultraliberal policies implemented around the world during the 80s, there is one consistent observation: excessive inequalities and inadequate sharing of the collective wealth compromise the conditions for growth by eroding the foundations of social cohesion required for optimal market efficiency. Economic growth must benefit everyone and provide for the emergence of a strong middle class.

Since its establishment in 1983, the Fonds de solidarité has embraced that concept of inclusive growth:

- 1- by making it easier for Quebec's middle class to save, even with more modest income, thanks to tax credits offered by both levels of government;
- 2- more importantly, by channelling those savings from the middle class toward businesses and offering them "patient capital" to support their growth and enable them to provide quality jobs to middle class workers.

1 Fall Economic Statement, 2016, p. 61.

Our organization goes so far as to provide training to workers in the field of economics so they can further influence the economic development of Quebec and Canada. In short, nearly 35 years after its creation, the Fonds de solidarité FTQ can be described as a true crowdfunding innovation, notably for its bold and forward-thinking vision for inclusive growth.

3. The Fonds and its approaches to stimulating inclusive growth

With the reinstatement of the federal tax credit for our shareholders in 2016, the Fonds provides economic leadership in the area of inclusive growth. The paragraphs that follow will present certain elements of our organization's strategic planning that have a positive impact on the economic growth of businesses and communities

3.1 Stimulate economic growth and job creation

With net assets of \$13.2 billion, the Fonds de solidarité FTQ has clearly become a key player in economic development. The World Bank recently indicated that for growth to be sustainable, it must involve a broad range of sectors and large segments of the labour force. Through its involvement in all sectors of economic activity in Quebec and all phases of business development, the Fonds contributes to this vision of sustainable economic development. Our network finances more than 2,700 partner companies and helps to create, maintain or protect more than half a million jobs.²

For fiscal years 2007 to 2016, the Fonds directly invested close to \$5.9 billion in companies and specialized private funds, making it the largest direct and indirect venture capital investor in Canada.

A recent KPMG study³ concluded that while the Fonds' investments were mainly aimed at supporting small- and medium-sized enterprises located in Quebec, the activities of these enterprises also stimulate the rest of the Canadian economy. The impact on the economic fabric outside Quebec is substantial, representing an additional 16% over the value of the impact measured in Quebec alone. The Fonds is also present in other Canadian provinces, particularly through investment in venture capital funds that, in turn, support SMEs across Canada.

Moreover, a study by Deloitte⁴ on development capital funds in Quebec demonstrated that in the last ten years, Fondaction, Desjardins Venture Capital and the Fonds de solidarité FTQ participated in:

2 Includes current and former partners.

3 "Analyse de l'impact économique des investissements du Fonds de solidarité FTQ – l'impact dans les régions du Québec," January 2016, KPMG.

4 "Study on Tax-Advantaged Funds," May 2013, Deloitte.

- 52% of seed-phase transactions;
- 70% of transactions below \$1M;
- 69% of transactions in regions;
- 87% of venture capital transactions in traditional sectors.

We are convinced that this economic dynamism demonstrated by the Fonds in recent years has contributed to the increase in employment levels, thereby promoting citizen empowerment – two pillars of inclusive growth.

3.2 Stimulate regional and local economies

Through their presence in all regions of Quebec, the FTQ's 16 regional solidarity funds and 17 local solidarity funds, created in partnership with the Fédération québécoise des municipalités (FQM), play an important role in the growth of companies. In 2016 alone, 294 companies received financing from the local funds network. Since their creation, these funds have supported more than 4,000 company projects with total investments of \$122 million, creating or maintaining more than 35,000 jobs.

The same KPMG study also demonstrated that the Fonds' partner companies "are proportionally more present in less economically favoured regions," [Translation] and that they help increase the employment rate and reduce income gaps in the regions. Such benefits justify and demonstrate the importance of innovation and diversification in development approaches to ensure inclusive growth. In a territory like Quebec, it is not reasonable to pit regions against each other; prosperity should encompass the development of all territories and foster the well-being of everyone, everywhere. In deploying its network of experts supporting regional and local economies across Quebec, the Fonds is using an approach that is sensitive to the reality of different environments.

3.3 Promote saving

As of 31 March 2017, the Fonds had slightly more than 645,000 unionized (56%) and non-unionized (44%) shareholders, mainly middle class (more than half have annual income of less than \$60,000). Since its creation, our organization has been working to change Quebecers' saving habits:

- The Fonds de solidarité FTQ was the first RRSP for one third of its shareholders. This percentage is higher among younger shareholders (age 39 and younger):

47%).⁵ Seventy-five percent of all these shareholders subsequently invested in RRSPs with other financial institutions. Our “educational” impact is clear.

- Almost 7,800 companies make the Fonds’ payroll deduction plan available to their employees, and 2,215 SMEs have a group RRSP with the Fonds, representing a true savings partnership to support business growth in Canada.

Our model not only enables Quebeckers to save for retirement and to participate collectively in the growth of thousands of companies, but also to reap the benefits through the returns on the Fonds (9.1% over 12 months). This inclusive growth process is enabling the middle class to become richer and support employment!

3.4 Offer communities socio-economically structuring infrastructure

The property division of the Fonds de solidarité FTQ, the Real Estate Fund, is aiming for investments of \$400 million in socio-economic real estate projects over the coming years. These projects, such as public schools, sports and cultural centres and libraries, will be undertaken in cooperation with governments, municipalities and public agencies. The Real Estate Fund is therefore positioned to contribute to government priorities and provide services and tools for use by local economic development players, all while continuing to play a structuring role in the economy and create jobs in a socially responsible manner.

The Real Estate Fund is also involved in the construction and renovation of social, community and affordable housing through direct or indirect investments in specialized funds. As of May 2017, the Real Estate Fund had invested nearly \$70 million in the construction and renovation of 3,683 social, community or affordable homes. These investments enable low- or modest-income households to access quality housing at an affordable price.

These projects are managed by Technical Resources Groups (TRG) like “Bâtir son quartier,” which work with other NGOs involved in improving people’s well-being through support and coaching, notably in situations of employment reintegration.

Through these new investments in social infrastructure like affordable housing, the Fonds is helping to strengthen the middle class, promote inclusive growth and allow people in need to escape poverty. When there is a lack of affordable housing, the entire economy suffers.

5 “Hiérarchisation des raisons de contribution et attentes en matière de risque/rendement des actionnaires,” July 2011, Groupe Altus.

3.5 Attack employability challenges – The example of literacy

The Fonds has always concerned itself with challenges to employability. The Literacy Foundation estimates that nearly one of every two people experience difficulty reading and using the written word to some degree. This means that these people have not demonstrated a command of literacy skills enabling them to read with a view to learning. The advent of new technologies will continue to radically transform our economy. Already a significant issue, the situation of workers with workplace literacy problems will only worsen if nothing is done.

That is why the Fonds de solidarité FTQ and the Literacy Foundation began working together this year to address the challenges to employability associated with illiteracy. The new partnership between these two organizations led to the launch of a study on the economic impacts of a failure to address workplace illiteracy. We look forward to sharing the conclusions with both levels of government and to considering the actions that should be taken.

Equal opportunity to access markets is also a form of sustainable and inclusive growth.

4 What we offer

In short, the Fonds de solidarité FTQ is already taking concrete action to promote the growth of a robust middle class. These measures are generating and will generate benefits for communities.

These consultations are normally used to make demands on your committee. However, the Fonds would rather use this platform to demonstrate its ability and its willingness to play a role in addressing the issues that have been identified as priorities in inclusive growth. We can and we want to work with your government to help it meet its objectives in terms of retirement savings, job creation, innovation and economic development.