Brief from the Fédération des travailleurs et travailleuses du Québec
and the Fonds de solidarité FTQ

Consultations for the 2012 Federal Budget

Submitted to the Standing House of Commons Committee on Finance

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The Fédération des travailleurs et des travailleuses du Québec [Quebec labour federation] (FTQ) and the Fonds de solidarité FTQ ("solidarity fund") would like to thank the members of the Standing Committee on Finance for the opportunity to share their thoughts and make recommendations for the 2012 budget.

The FTQ, which has more than 600,000 from representing all regions of Quebec, has come before this committee to say that government assistance and funding for businesses are key to a cohesive economic development strategy, job creation, and regional and local development policies.

The Fonds de solidarité FTQ, which was created in 1983 to address the FTQ's concerns about employment and economic development, mainly by investing in small and medium-sized enterprises (SME), adds its voice to this brief. The fund had net assets of $8.2 billion at May 31, 2011, and a record high of more than 583,000 shareholders – almost 14% of the Quebec labour force – most of them middle class; 58% of the investors are unionized, while the remaining 42% are not. The solidarity fund provides funding for 2,129 partner businesses, primarily SMEs in all regions of Quebec, and the value added of those businesses amounts to almost 8% of Quebec's total GDP in industries covered by the fund. The initiatives it has taken have made the solidarity fund a vital player in economic development in Quebec.

In this brief, the FTQ and the solidarity fund will outline the role played by labour funds in Quebec in light not only of the situation in the private investment industry, but also of the fact that Quebeckers are ill prepared financially for retirement.

**The Fonds de solidarité FTQ at a glance**

The Fonds de solidarité FTQ is a development capital fund with union roots that was created by the FTQ. The solidarity fund was created in 1983 by legislation passed unanimously in the National Assembly and very quickly won the support of the Conservative federal government of the day.

The fund's mission is based on four main elements:

- invest in businesses that have an economic impact in Quebec and provide them with services that will assist their development and create, preserve or save jobs;

- raise awareness among workers and encourage them to save for retirement and contribute to economic development by purchasing shares of the fund;

- promote training in areas related to the economy so that workers have greater impact on economic development in Quebec; the economic training given to employees of businesses in which the solidarity fund invests fosters communication within the business and gives employees a better understanding of the business's financial situation and the way the business evolves;

- stimulate the Quebec economy by making strategic investments that will benefit workers as well as Quebec businesses.

The solidarity fund is involved in 25 sectors of the economy and at all phases of business development. Over the past decade, the fund directly invested almost $6 billion in businesses and specialized private funds – $4.4 billion in traditional sectors, and $1.5 billion in sectors of the new economy – making the fund a leader in venture capital in Quebec.

Approximately 58% of the investments made by the solidarity fund and its network are outside Greater Montreal. Because they are present in all regions of Quebec, resource regions in particular, the 16 regional FTQ solidarity funds and 87 local FTQ solidarity funds, created in partnership with the Fédération québécoise des municipalités [Quebec federation of municipalities], play an active role in the growth of businesses. The network works closely with provincial and federal economic development agencies, such as local development centres, community economic development corporations and community futures development corporations.

**Tough times for the private investment industry**

The private investment industry has recently gone through several bad years and has still not recovered from the 2008-2009 crisis. Venture capital fundraising in Canada was particularly weak in 2010. New commitments to venture capital funds totalled $819 million last year, 24% less than in the previous year and the lowest annual amount in the Canadian market in 16 years. Results for the first quarter of 2011 are not much better: fundraising is down 44% compared with the first quarter of 2010. According to Gregory Smith, President of the Canadian Venture Capital Association (CVCA):

> *"Fundraising continues to be the major challenge facing the venture capital industry." (CVCA, February 16, 2011)*
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> *"To finance Canadian innovative companies across all cycles of growth, our VC industry requires the resources that come from continuous fundraising at more sustainable levels. This is not the direction of current trends, nor has it been for several years now…If we wish to guarantee Canada a prosperous economic future based on thriving knowledge-based businesses, then longstanding challenges to VC supply must be swiftly and effectively addressed." (CVCA, May 17, 2011)*

The decrease in fundraising has not had as much impact in Quebec. Venture capital fund managers in the province accounted for 42% of all commitments in Canada, far outstripping the ratio between the Quebec and Canadian economies. According to Geneviève Morin, co-chairperson of Réseau capital:

> [TRANSLATION] *"Tax-advantaged funds and government initiatives in support of the creation of private funds made the decrease smaller in Quebec than in the rest of Canada." (Réseau Capital, February 16, 2011)*

The FTQ solidarity fund was very involved in those government initiatives. Since 2005, the fund has put almost $1 billion into 42 private funds. Over the past decade, the fund has directly invested almost $5 billion in Quebec SMEs.

Quebec's strong financial support for SMEs stems primarily from the ability of labour funds, especially the solidarity fund because it is so big, to attract Quebeckers' retirement savings and use those savings directly to provide equity funding for private companies and indirectly by contributing to independent private funds. In Quebec, apart from the public retirement savings plan managed by the Caisse de dépôt et placement, no other retirement savings instrument is used to any significant degree to meet these needs.

CVCA president Gregory Smith stated earlier this year:

> *"Quebec has been a leader, but no one province or one fund can prop up the entire industry. You need to work in collaboration. If all the provinces had a strategy as robust as Quebec, you'd see a market pickup." (CVCA, February 17, 2011)*

Fundraising in Canada is expected to remain a struggle in the years ahead because many institutional investors find this class of assets less appealing than it was in the past. Since the early 2000s (after the technological bubble), institutional investors have not been getting enough of a return to offset the risk associated with this class of assets.

The results in Quebec, particularly in the area of fundraising, clearly show that the existence of large labour funds capable of attracting a large portion of Quebeckers' retirement savings is an effective response to institutional investors' loss of interest in this class of assets and the resulting shortage of capital.

**An important role in saving**

Labour funds also have a role to play in changing the saving habits of Quebeckers and other Canadians. Preparing financially for retirement is a major issue; a large proportion of the population have not put away enough money to meet their future needs. The situation today is worrisome given that the rate of savings among Quebeckers has plummeted in the past few years and debt levels have risen sharply. The amount of workers' incomes being replaced under their employers' pension plans is decreasing, and many Quebeckers, especially those working in SMEs, do not have group pension plans.

In the past five years, hundreds of thousands of Quebeckers contributed between $600 million and $700 million to the FTQ solidarity fund. Since its inception in 1983, the fund has helped urge Quebeckers who are less likely to contribute to an RRSP to get started (205,000 Quebeckers had never contributed to an RRSP before they became shareholders in the fund) and contribute more regularly than other RRSP contributors.

Our solidarity fund has given its shareholders a reasonable return – 3.6% a year on average since the fund was created in 1983 – putting the fund comfortably in the second quartile compared with more than 80 Canadian private investment funds.

The fund has also helped encourage many SMEs to introduce easier ways of contributing to an RRSP. Group RRSPs (offered by 1,411 businesses), coupled with the payroll deduction program (6,500 participating businesses), are increasing the number of workers in SMEs who are saving for retirement and urging them to make bigger contributions.

**Conclusion and proposal**

Because the labour fund model, especially where it is well structured and complements other financial institutions, helps promote and develop saving habits and allows those savings to be used to provide equity funding for private businesses (directly or indirectly through funding support for independent private funds), we endorse and approve of the recommendation made by the Standing Committee on

Finance in its December 2009 report *A Prosperous and Sustainable Future for Canada: Needed Federal Actions*:

> *"[that t]he federal government work with the venture capital industry to identify new sources of financing and examine the effectiveness of existing tax incentives related to financing. Moreover, the government should review the feasibility of increases to the Labour-sponsored funds tax credit to 20% of eligible investments, to a maximum eligible investment of $20,000." (p.40)*

This proposal is especially responsible in difficult financial and economic times, because the tax credit not only supports a program that is vital to the future of Canadian businesses, but also enables both levels of government to recover their investments in an average of three years, according to studies carried out in 2010 by the Montreal firm SECOR and Regional Data Corp. in Ottawa. This ensures strong support for the funding of businesses, venture capital and innovation and encourages saving, which has become a major issue for all Canadians and all governments in Canada.

We believe, however, that tax-advantaged funds are first and foremost a way for the middle class to save and that the $20,000 cap is out of reach for the vast majority of our shareholders. We therefore think that the most important measure is to increase the tax credit for labour funds from the current 15% to 20% of the eligible investment.

*Proposal*

*The FTQ and the Fonds de solidarité FTQ are of the opinion that the federal government should not only maintain the labour fund tax credit program, but also explore the possibility of increasing the tax credit from the current 15% to 20% of the eligible investment.*