CALEDON INSTITUTE OF SOCIAL POLICY

caledon profiles: community stories

February 1997 ISBN # 1-895796-70-9

The Montreal Community Loan Association and Social Partnerships [1]

introduction

This paper describes a model of intervention in which individuals from low-income communities developed and learned how to manage a sophisticated community economic development vehicle which addresses unemployment and underemployment. The Montreal Community Loan Association (MCLA) embodies a new social partnership between individuals and institutions in the private and community-based sectors. The Association brings together those who are searching for capital to invest in their neighbourhoods and those who have both the capital and will to help residents rebuild their communities. The MCLA is an interesting social, political and economic initiative because it illustrates the growing capacity of the partners to reach beyond socioeconomic constraints and the dilemmas created by such collaboration.

The Caledon Institute has launched "community stories" to enable individuals involved in capacity-building initiatives to reflect upon and write about their work. This series provides a vehicle for community leaders to tell their stories in their own words.

background

Over a three-year period, 1986-1989, community organizations representing various population groups in the Grand Plateau district of Montreal - women, single parents, immigrants and unemployed youth - met regularly to discuss how they could work together to overcome the poverty in their neighbourhoods. This umbrella group agreed to form a community economic development centre, *Corporation de développement économique communautaire - Grand Plateau* (CDEC-GP), to coordinate its work and enable the coalition to conduct outreach more effectively. Various methods of community outreach gave area residents the opportunity to discover their own economic knowledge by sharing their stories of work, looking for work and what gave meaning to their lives. Through the telling and recording of stories, they were able to develop an economic profile of their community. They were becoming the experts and acquiring the appropriate technical skills to identify community problems and begin developing solutions.

This coalition differed from several other CDECs in the Montreal region in its deliberate departure from conventional models of community economic development that focus primarily on job creation and revitalization of the private sector. The CDEC-GP emphasized that economic development begins with investing in the social needs of the community and recognizing that local control is essential for this to be achieved. The CDEC-GP's first objective was to develop a community education program to create the *social* foundation necessary to attack the *structural* causes of poverty. The agency for change was to be the community itself and the life experiences of its members would be the basis upon which to develop common objectives. Previous government-led economic initiatives had failed to consider the cultural, social and economic distinctiveness of each community. Programs were introduced in a social vacuum and their failures were then interpreted as the economic inertia of the poor - an explanation which clearly suited a political agenda intent on cutting back social programs.

The CDEC-GP assisted participating groups in developing new initiatives to respond to long-term needs and long-standing impediments to the socio-economic integration of marginalized populations. Ideas were also proposed to establish new businesses, some worker owned or controlled, and training programs to enable direct participation in the management of these enterprises.

However, the hopes and expectations generated by this process and the work of the community economic development corporation had to go further. There was a need to confront the lack of capital in the community and the inability to control its allocation. It was painfully clear that no amount of local initiative or technical assistance could have any real impact without new sources of loan capital. With conventional lenders unwilling to meet this need, and governments at all levels retreating from past commitments to provide capital for community development, a decision was made to create a community revolving loan fund.

Montreal Community Loan Association

During its initial outreach and training activities (between 1987-1990), the CDEC-GP contacted the Institute for Community Economics (ICE). Based in Springfield, Massachusetts, ICE is one of the North American leaders in developing alternative investment strategies. ICE provides training and technical assistance to groups developing community loan funds and community land trusts. The Institute's loan fund currently has more than $12 million in assets and has made more than 340 loans totalling $28.4 million.[2] ICE inspired the creation of the MCLA and helped train a volunteer base to implement and manage the Association.

The Montreal Community Loan Association, established in 1990, is legally constituted as a non-profit organization that provides loan capital and technical assistance for business start-ups and affordable housing projects.[3] There are currently three permanent staff people, a manager, a technical assistance provider and a community outreach worker. In addition, more than 40 active volunteers work with the Association as members of the Board of Directors and of several standing committees which serve to raise investment capital, provide technical assistance and review loan requests.

The loan fund borrows money from individuals and institutions supporting its objective to lend to individuals or community groups that propose projects which address the needs of the local community. The supported initiatives must respond to specific social and economic criteria developed by the Association. Social criteria for loans include creating decent, secure jobs for low-income groups and reflect the Association's philosophy of placing the highest priority on the capital needs of those who have been most exploited or excluded by prevailing social, cultural and economic forces.

The extent to which the loan will generate further projects that meet the needs of the community is also considered. The borrowers must provide information to demonstrate the economic viability of the business start-up and identify collateral for the loan. Collateral is often non-traditional. In the peer lending programs, for example, the group itself is the collateral as the individuals in the lending groups are highly committed to each other and the Association.

Interest on loans is generally less than the market rate. Lenders are willing to accept this lower rate of return in recognition of the socioeconomic benefits derived from their investment. Business or commercial loans currently range from $5,000 to $20,000; housing loans range from $40,000 to $55,000. Loans are generally for a period of three years or less and various measures are in place to ensure security for investors. There is, for example, a loan loss reserve from the Association's loan capital; risk is pooled so each investor holds a claim on the assets of the Association; all donations are placed in a permanent capital fund to protect investors; and technical assistance support is provided throughout the loan period. Loan-fund projects are continuously monitored and the borrower is involved with all aspects of the loan process. Trust and a sense of shared responsibility are built among all participants - borrower, lender and technical advisors.

To date, loans include both business start-up and housing projects. The Association has also issued several loans to loan circles based on the Grameen Bank model developed in Bangladesh. There are several loan circle programs in Montreal which provide a base for low-income people to receive loan capital for their microenterprise initiatives, work together in small ongoing groups and obtain assistance to develop their initiatives. Other loans have supported the development of worker cooperatives, a day care centre, individual entrepreneurs and short-term bridge loans to community-based groups.

Two loans of $15,000 each were made to Bummis, a small business started by three women for the production of plastic covers used with cloth diapers. In a letter sent to the MCLA on the date of their final loan repayment, they stated:

> Bummis started out as a small home business with a tiny retail trade. We were three women with a great product, a thorough knowledge of our market and the competition, and lots of energy and enthusiasm. But we had no business experience, no capital or other assets, and thus no credibility with bankers or suppliers. We had no means to grow or expand. It was frustrating, to say the least. When the loan fund approved us for a $15,000 loan, it was like a dream come true. We invested the money in the expansion of our company. The following year, we found another lender to help us go a step further. Later that same year, we obtained a margin of credit from our bank. Now we have credibility with lenders and suppliers. We have a boutique in our factory, and we sell our diaper covers to diaper services and stores across Canada. Best of all it looks as if we'll survive this recession!
>
> Thank you for believing in us enough to give us a chance. We have grown so much in these past two years, both as a company and as individuals. Each of the three of us has worked hard at our own spheres within the business, and we have learned a great deal. We have profited immeasurably in terms of confidence and self-esteem. I think we have all become much more concerned and involved members of our community as a result of this increase in self-confidence... [Thomas, Bechard, Lepp, September 8th, 1992].

uniqueness of the Association

There are many aspects of this community investment model which are unique and distinguish it from more traditional funds created to support community economic development initiatives in Canada and elsewhere.

First, most funds are established by potential borrowers or potential lenders or through the initiative of technical assistance providers. The model developed by ICE and adopted by the MCLA is based on a coalition of these three groups. Moreover, the inclusion of potential investors enables the MCLA to reach out to other investors in a personal way. Including potential borrowers in the decision-making process ensures that their needs are clearly articulated and responded to in the selection process. Technical assistance providers work with borrowers in the early and critical stages of their initiative. The MCLA's inclusive coalition creates a bridge between the different sectors of the community to come together and redefine social and economic needs as well as opportunities.

Second, the Association model differs from most established Canadian investment funds in that it encourages and promotes individual lenders.[4] They represent an important new source of investment capital and have lent the MCLA amounts ranging from $500 to $20,000. These new relationships have opened the way for establishing new partnerships in the community. The MCLA is raising investment capital through individuals working within their personal networks in religious communities, labour, business, foundations and non-governmental organizations.

Finally, the MCLA strives to be a teaching and learning institution as well as a successful lending institution. It *mobilizes* and *allocates* capital for community development and helps to leverage capital from other sources for the projects it supports. The MCLA works to *educate* community groups, potential lenders and existing financial institutions on matters related to community investment. Working together in a viable and dynamic coalition facilitates new perceptions of problems and possible solutions. Traditional prejudices towards the poor are broken down as the high rate of loan repayments by the borrowers explodes the myth that the poor are a high credit risk.

new partnerships with the private sector

i. banks and the Association

As mentioned above, the Association is working to influence the policies of traditional lending institutions to become more responsive to the needs of low-income borrowers. Banks typically consider women, minority groups, young adults and the unemployed too 'high risk.' These groups are described as lacking experience and having no traditional sources of collateral. Moreover, the loans are often considered too small to maximize the profits of the bank. The MCLA's experience of lending to the above-mentioned groups has seen less than five percent in loan losses over five years. This amount has been recovered in our interest income and the lenders are protected with the permanent capital pool.

The MCLA has engaged in many efforts to persuade banks to change their practices and attitudes. A local branch of the Laurentian Bank, for example, was approached with a menu of new alternatives to open up access to their resources:

- offering clients the option of selecting a savings account which pays a lower rate of interest. The difference would be placed in a local reinvestment fund for young entrepreneurs;

- taking shared risk in lending to projects approved by the Association. The advantage to the local bank branch would be the cultivation of new business clients;

- providing a margin of credit for businesses which have repaid their loans to the Association and have therefore established a track record.

The above ideas were supported by the local bank manager, but when these suggestions were taken to a higher level for approval, they were all refused. The Association decided to move its assets out of the local branch and will take up this challenge with our new banker.

This anecdote is not reflective of all institutions lending to low-income groups. Calmeadow, for example, has been highly successful in gaining support for the peer lending model and in partnering with banks which actually lend money to the loan circle participants. However, Calmeadow has had to put up considerable loan guarantees in order to develop partnerships with banks. It will be interesting to track how Calmeadow's approach has influenced lending practices to low-income groups. We foresee little change in the near future and anticipate that alternatives to traditional lending practices will require considerable coalition-building with other community economic development structures, governments and business.

While efforts to influence the lending practices of banking institutions have thus far proved to be a stifling experience, individuals from this milieu have repeatedly responded in a positive fashion. The Loan and Finance Committees and the Board of

Directors have successfully recruited individuals to assist the MCLA carry out loan reviews, analyze potential borrower's business plans, search for operating funds to pay salaries and overhead, become individual lenders and approach potential investors (although no banks to date). These are not insignificant acts. In fact, these are quite remarkable acts that help break down considerable sociocultural barriers. We hope that from this pool of experience will come the wisdom to help the Association deal more effectively with the structural inequities that lead to poverty.

ii. large and medium-size business partnerships with the Association

Individuals from Alcan, Aldo Shoes, Teleglobe Canada, the Royal Bank of Canada, Marcon Inc. (a private consulting firm) and several private foundations[5] (which owe their existence to highly successful businesses) are working together in the Association with church outreach workers, single mothers, community health officers, new immigrants, university professors, unemployed youth and community organizers to create a new vision and a new social contract for rebuilding our communities.

One of the most important and satisfying impacts of the MCLA has been the development of a better understanding among its members of what it means to be poor or to have wealth. Individuals from these two 'worlds' have come together to define a common vision to address socioeconomic inequities. These acts challenge existing neo-liberal economic theories and 'common sense' regarding how our economies must and do function. Moreover, these acts nurture the local generation of knowledge which is providing new approaches to address the structural problems which create high unemployment.

Those from the community-based sector have developed new skills and entered into a field which has long confounded many professional economists, business people and politicians. Intimidating to say the least! It has taken considerable time to build these skills and assure that the underlying values of the MCLA rest intact.

Outreach activities which involve representatives from the business community require supporters of the Association to have faith in themselves and their democratic community-based loan fund. We realized that the issues of work, unemployment and access to capital require much broader participation to address the structural inequities in our economy. The Association began to broaden its coalition to engage the accountant, CEO, marketing analyst, foundation director and banking consultant to work with the economically marginalized in countering the impersonal forces of the market economy which are destroying the capacity of many communities to rebuild themselves.

Through the process described in this paper, community economic development is no longer the analysis of the marginalized. It is now part of a much broader and more powerful coalition which is being built between those in the business and community-based sectors. But what impact does this cross-sectoral coalition have beyond individual involvement? Two examples are outlined below which provide hope for the potential impact of the Association and the future of many new community loan funds currently under development.

second-stage partnerships

i. Alcan Aluminum and the Association

At a recent MCLA Finance Committee meeting, it was announced that Alcan Aluminum had given $10,000 to the MCLA. This contribution was achieved, in part, because a retired Alcan executive is a member of the Committee and used his contacts to open doors and talk about the Association's support of self-help initiatives.

While it would have been much easier to ask for a traditional donation, the MCLA's preference was to negotiate a loan with Alcan. A charitable gift would have meant a one-time grant and a lost opportunity to relate to each other on an ongoing basis. But corporations have no history of lending money to non-profit charitable groups and, therefore, no mechanisms in place to arrange such transactions. Corporations generally have a person responsible for charitable donations or a grant-making foundation to decide which requests will be supported.

In the end, Alcan did not give the Association a loan as doing so seemed “too complicated.” However, Alcan did give the Association the right to decide to use a portion of the grant for loan capital. In fact, half of the grant has been set aside for this purpose. The MCLA has decided to go back to Alcan and discuss using its generous support to challenge other corporations to match the Alcan contribution, not as grants but as loans which can be rolled over several times in the community and thereby create a multiplier effect.

The Alcan contribution has since been used to attract another $10,000 investment from a small business, A.D. Prévost, that makes window frames. The retired Alcan executive on the Finance Committee was again responsible for the contact and has persuaded the President of A.D. Prévost to ask three other businesses to do the same.

ii. Aldo Shoes and the Association

Aldo Shoes was one of the original investors in the MCLA. At the personal invitation of one of our Board members, the owner attended the first investor information meeting in early 1990. He returned to his company comptroller to see how a loan could be given to the Association, and within weeks, $10,000 arrived as new loan capital for a period of three years. Nowhere in the process was there any question of it being too complicated to work out a loan agreement. The initial loan recently was rolled over and renewed at zero percent interest.

The owner of Aldo Shoes will be approached to consider three different ways to participate further in the work of the MCLA. He will be asked to identify three potential lenders among his friends to match the contribution of Aldo Shoes. The company will also be asked to consider advertising its participation in the Montreal Community Loan Association on Montreal City buses. Moreover, the Association wants to open exploratory talks on how Aldo Shoes might contribute a percentage of the profits earned over a specific time as loan capital.

None of these options would have been possible if the MCLA initially had asked for a charitable contribution. Investing money in the Association ensured that the owner received regular reports on how the loan capital was being used and thus challenged his original expectations on performance and the capacity of the Association to get the money out to low-income communities. This investor, with his key contacts in the business community, has moved from being an interested to a dedicated supporter. The contribution of Aldo Shoes was not a charitable act but rather it embodies the qualities of a true partnership between the private and community-based sectors.

conclusion

The Montreal Community Loan Association is solidly rooted in the traditions of self-help. However, one of the fundamental issues is whether such models will be condemned to struggle on the margins or whether they receive the support they need to realize their potential.

Community-based institutions, such as the Association, not only must be capable of engaging in economic development but also must carry out advocacy, service delivery and the building of new social partnerships. While these tasks are not the unique responsibility of the nonprofit sector, those from this milieu are at the vanguard of community economic development and in the best position to understand the needs and resources of low-income communities.

Forming social partnerships between investors/lenders and borrowers/developers challenges how we critique growing disparities and where the changes must take place for a more fair distribution of wealth and opportunity in our society. This challenge begins neighbourhood by neighbourhood. However, efforts are doomed to failure if initiatives are not linked to similar work taking place in other communities.

In an effort to facilitate these links, the Montreal Community Loan Association hosted a national conference in the Fall of 1996. More than 110 participants from low-income communities spent three days learning about the loan fund model and its role as an intermediary between the private and community-based sectors. It was fascinating to have more than 70 similar funds and community economic development organizations from across the country sharing their experiences and challenges as they strive to create a more equitable society. Many of the participants committed themselves to continued follow-up and support for each other's work.

Lance Evoy

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Endnotes

1. Portions of this paper have been adapted from Evoy, L. and Mendell, M. (1993). "Democratizing Capital: Alternative Investment Strategies." In E. Shragge (ed). *Community Economic Development: In Search of Empowerment.* Montreal: Black Rose Books.

2. ICE helps low-income communities address fundamental problems - particularly the lack of control over land, housing and capital. ICE sees these problems as the result of practices, institutions and values that must be modified if greater justice is to be achieved. It has produced an excellent 'how-to' resource, *The Community Loan Fund Manual*. This is a practical guide to the ICE model of citizen participation and the creation and management of a community revolving loan fund. The manual is available through the ICE office at 57 School Street, Springfield, MA, 01105-1331.

3. The legal firm Goodman, Phillips and Vineberg provided invaluable *pro bono* assistance to help the Montreal Community Loan Association obtain charitable status from Revenue Canada; the process took more than a year of negotiations. The results have set a precedent for other community development loan funds in Canada as the MCLA was the first loan fund to receive its charity number. Among other things, it has meant that foundations can support the work of the Association. They have been key in providing financial support for the administration of the organization.

4. There is currently more than $400,000 in investment capital in the Association with individual contributions representing approximately 32 percent of the total. In addition, the Association has more than $60,000 as permanent capital which has come mainly from individual gifts to the loan fund. Money has also been negotiated to cover the overhead costs of the Association - for staff salaries and other program costs. Several foundations and the private sector are major contributors to these costs.

5. Key assistance has been provided by the Laidlaw Foundation. Early in the process, the foundation gave CEDC-GP grant money to undertake a community vision-building process which led to the development of the MCLA. Laidlaw then went a step further and invested $50,000 in the Association as a Program Related Investment (PRI). A PRI means the Foundation takes money out of its investment portfolio and lends it to a community, non-profit intermediary. It is not considered a donation. Since the Laidlaw Board has the fiduciary responsibility to manage this portfolio properly to assure the donation base, there was concern that such an action could lead Revenue Canada to rescind the charitable status of the Foundation. However, no such action was taken by Revenue Canada. The Laidlaw Foundation and the MCLA have therefore set a precedent which now allows PRIs as a new partnership opportunity between the private and community-based sectors. The J.W. McConnell Family Foundation has also been instrumental in supporting the capitalization of the Association. The Samuel and Saidye Bronfman Family Foundation has supported the linking of the ground-breaking work of the MCLA with groups and communities across the country which are building alternative investment funds and using the MCLA as a model.

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This paper is also available in French. The translation of this paper was made possible through the generous support of the Community Partnerships Program at Canadian Heritage.

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