

# National Call for Concepts on Social Finance



**Submission to**  
**Human Resources and  
Skills Development Canada**  
by the  
**Canadian Community Economic  
Development Network**

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*This Brief was prepared by the  
Canadian Community Economic Development Network*

This brief has been prepared for Human Resources and Skills Development Canada as part of the national call for concepts on social finance. The Canadian CED Network is a national association of community organizations, co-operatives, credit unions, foundations, municipalities and practitioners working to enhance the social, economic and environmental conditions of Canada's communities. We have several hundred member organizations in every province and territory inclusive of urban, rural, northern and Aboriginal community settings. Our head office is in Victoriaville, Québec, with regional staff and member committees throughout Canada. Community Economic Development is citizen-led action to enhance the social and economic conditions of their communities on an integrated and inclusive basis, reducing poverty, unemployment and social disadvantage by building assets and creating opportunities.

The Network can be contacted through our website <http://www.ccednet-rcdec.ca> or at our national office:

59, rue Monfette, CP 119E, Victoriaville, QC G6P 1J8  
Tel. 819-795-3056. Fax 819-758-2906  
[info@ccednet-rcdec.ca](mailto:info@ccednet-rcdec.ca)

## **National Call for Concepts for Social Finance**

As part of the Government's commitment to empowering individuals and communities to better address social challenges, Economic Action Plan 2012 announced that HRSDC would explore social finance opportunities.

Social finance has enormous potential for unlocking new sources of capital and new ways of thinking to improve social and economic outcomes for Canadians.

HRSDC's work to date has been focused on forging new partnerships with not-for-profits, charities, businesses, and foundations to examine the barriers to social innovation and how they can better enable social entrepreneurs.

Now, by launching this Call for Concepts for Social Finance, HRSDC has invited organizations and individuals from across the country to help the Government take the next step by bringing their best ideas forward. Whether they are high level concepts or detailed proposals, the goal is to help identify future partners and inform how we can shape our existing programs to better support social innovation.

## **Submitting a Concept**

Participants have the opportunity to provide as little or as much information as they want through the online questionnaire and/or by attaching additional information.

[http://www.hrsdc.gc.ca/eng/consultations/socialfinance/submit\\_concept.shtml](http://www.hrsdc.gc.ca/eng/consultations/socialfinance/submit_concept.shtml)

## **CCEDNet's Response to Questionnaire**

**Question 2: What is the social challenge that could be addressed through your social finance concept? For the purpose of this activity, targeted “social challenges” are complex social issues, such as chronic poverty, homelessness, long-term unemployment and family breakdown, or any other economic or social issues, which persist over time and defy single solutions.**

Community Economic Development Investment Funds (CEDIFs) raise capital from the community to invest in local enterprises which produce a social benefit. Citizens collectively identify social and economic challenges within their community and decide where to invest capital raised through the CEDIF to address those challenges. The social challenge addressed by the CEDIF will vary by community, depending on its unique context. Examples include a community which banded together to open an RV Park that supports the local arena and some local churches<sup>1</sup>; a fair-trade coffee importer; a co-operative funeral home; a fund that targets black-owned and operated businesses and a community theatre. The CEDIF model is flexible. A fund can be started to invest in at-risk youth, new immigrants, or any ethnic or cultural sector, so long as the investee company is a for profit business (Company or Co-operative).

**Question 3: Please identify and describe the target population that requires support through your social finance concept. For the purposes of this activity, target populations are people or groups in need of more support to overcome social challenges, such as homeless people, people with severe disabilities, and disadvantaged youth.**

Community Economic Development Investment Funds (CEDIFs) are based on the unique needs and opportunities of individual communities. Therefore, funds raised may be invested in local enterprises that support and create economic opportunities for a broad range of target populations including: newcomers, women, Aboriginal populations, and people with disabilities among others.

A pilot could be structured that would invest in a specific target population. In this manner, the CEDIF could be evaluated directly against another model in another jurisdiction which attempts to address the same or similar needs.

**Question 4: Please describe the elements (such as support or services) that would be put in place to address the social challenge.**

Community Economic Development Investment Funds (CEDIFs) are created as an investment vehicle but also serve as a forum for community dialogue and action. Local people who otherwise do not interact meet to discuss economic and social issues within their communities.

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<sup>1</sup> [http://www.gov.ns.ca/econ/cedif/news/2009.02.27\\_portHood.asp](http://www.gov.ns.ca/econ/cedif/news/2009.02.27_portHood.asp)

Through the deliberations and investments of local citizens, CEDIFs create businesses that generate local economic and social solutions while capturing economic opportunities. CEDIFs innovatively use business models to leverage local resources, strengthen the local economy, provide essential services, and create training and employment opportunities.

**Question 6: Please describe the roles of the participant organizations in the proposed project.**

Federal and/or provincial governments facilitate the formation of Community Economic Development Investment Funds (CEDIFs) and create a tax credit to stimulate investment.

Community champions create the CEDIF. A CEDIF is a corporation, co-operative, or association (but not a charity or non-profit) organized by citizens of a geographically defined community, with the aim of raising investment capital to invest in business projects in that community which produce a social benefit. Funds are raised by issuing shares to individual investors. In exchange for their investment investors receive a tax credit. A CEDIF may envisage investment in a single specified business project or in more than one. Alternatively, it may constitute itself as a “blind pool” for projects as yet unspecified. It may simply invest in the project, or it may operate the business in which it has invested. Any investment must be clearly an endeavour that is intended to produce a profitable income stream. A CEDIF must have at least six directors elected from their defined community who make investment decisions on behalf of the shareholders.

Individuals invest their money into the CEDIF. These would be local community residents where the businesses are operating. While corporations and banks, as well as people outside of the community would be accepted as investors, they would not be eligible for the tax benefits.

**Question 7: Identify the type of non-government investors that might be involved in the financing of the project. Please select all that apply. If possible, indicate how funds would flow between the partners that might undertake the project or deliver the services.**

Sources of start-up capital for a Community Economic Development Investment Fund (CEDIF) may include: local corporations, municipalities, local entrepreneurs, community or business leaders, cultural groups, and unions.

CEDIFs sole means for raising capital is through the issuance of shares to individual investors with a small initial offering followed by annual, or semi-annual offerings. There is no set limit to close an issue. However, persons involved in the process in Nova Scotia suggest that a minimum effective size is approximately \$100,000.

CEDIF dollars are invested in local enterprises. In some cases the enterprises to be invested in are predetermined prior to the offering. In other cases investment decisions are based on the review of business proposals submitted to the CEDIF by the enterprise seeking the investment with final approval made by the Board of Directors

Investors earn income through traditional means including interest, dividends, and capital gains. Additionally they would receive a 35% tax credit calculated at 35% of the investment to a maximum annual investment of \$50,000. Investors are required to hold the investment for a minimum of 5 years. If an investment is disposed of prior to the end of the five year period, the investor may be required to repay the tax credits earned. Additional tax credits are offered to CEDIF investors if they hold their investments for longer periods.

**Question 8: Describe what measurable results the project or services outlined in your concept will have on the target population. For the purpose of this activity, “measurable results” refers to outcomes for the beneficiaries of the services which can be measured through indicators such as reduced rates of re-offending or higher rates of labour force participation for disadvantaged groups.**

Generally, Community Economic Development Investment Funds (CEDIFs) retain capital in the community and stimulate the local economy which will provide community benefits. CEDIFs can be set up to support specific enterprises that generate measurable results for target populations, such as jobs, income, additional skills, reduced rates of incarceration, reduced social assistance costs, and increased tax revenues among others.

**Question 10: Is there evidence from Canada or elsewhere that concepts similar to the one you have described are working?**

An early analysis of the Community Economic Development Investment Fund (CEDIF) model was done in Nova Scotia. It suggested that the return to the Province was positive after two years even with providing the tax credit up front.

Ten years after launching its program (1999), Nova Scotia has well-established the CEDIF model and proven its success. There are over 45 Community Economic Development Investment Funds (CEDIFs) in Nova Scotia. Over 5,000 community investors have provided about \$40 million in capital in over 90 successful offerings. Some CEDIFs have floated as many as six successful offerings over several years for repeated expansions and enhancements of their businesses or for new businesses. Ten are paying annual dividends to investors. Only four CEDIFs have folded out of fifty. Thus at the worst we are looking at a failure rate of about 8%, as compared with the 66% failure rate common to new businesses.<sup>2</sup>

Prince Edward Island has adopted the model and is in its first year, while other Provinces are exploring the potential for adoption.

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<sup>2</sup> Follow the link for more information on Nova Scotia's model: <http://www.gov.ns.ca/econ/cedif/>