Community Economic Development Investment Funds

Mobilizing Community Capital for Co-op Development in Manitoba

By Brendan Reimer | Regional Coordinator

Kirsten Bernas | Policy & Research

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Strengthening Canada's Communities

Des communautés plus fortes au Canada

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Introduction

Co-operatives have a long and rich history in Manitoba, beginning as early as 1887 with the formation of the worker-owned Co-operative Tailoring Association.[1] Twenty five years later, co-operatively-owned grain elevators flourished throughout rural Manitoba.[2] The early to mid twentieth century also saw the emergence of manufacturing co-ops and retail co-ops, such as the Red River Co-operative that is the largest of its kind in the province. Manitoba's first credit union was created in St. Malo in 1937, and the credit union movement has been growing ever since.

Today, there are over 400 co-ops in Manitoba including consumer, producer, worker, and multi-stakeholder models involved in housing, retail, child care, fitness facilities, municipal services, arts and culture, courier service, collective marketing, financial services, insurance, and much more. Co-ops in Manitoba serve over 1 million members and employ over 8,500 Manitobans.[3] This includes 40 credit unions with 191 branches and over $21 billion in assets. This does not include the many co-operatives that serve Manitobans, but are registered outside of the province such as Mountain Equipment Co-op, Federated Co-operatives Ltd., The Co-operators, and Arctic Co-operatives Ltd.

Co-ops play an important role in our local economies and in our communities serving both economic and social purposes. They create jobs, root business ownership in local communities, keep wealth in the community by distributing profits equitably, and provide goods and essential services such as housing, health care, financial services, or child care that may otherwise be unavailable to the community. Co-ops also build capacity and develop community leaders within their membership through member participation in the democratic governance of the business.

The co-op business model is more sustainable than traditional business models. Research demonstrates that the co-op survival rate is twice that of other business models, with 62% of new co-ops in Quebec still operating after five years compared to 35% for other new businesses.[4] This research has been replicated with similar results in Alberta and British Columbia.[5] Co-ops exist to meet the common needs of their members rather than exclusively to generate profit. Private enterprises terminate for a variety of reasons including the age or health of the owner, a decision to move, retire, or to change a career path, or simply because the enterprise is not sufficiently profitable. In contrast, no one person can decide to terminate the operations of a co-op along with the jobs, services, and local economic impact generated. A co-op will exist as long as the collective membership finds value in the service it provides and the business model is viable. They stick around even when other businesses leave or shut down.

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[1] http://usaskstudies.coop/socialeconomy/files/LLL_Final_Reports/Report_CL5_04_MB.pdf
[2] http://usaskstudies.coop/socialeconomy/files/LLL_Final_Reports/Report_CL5_04_MB.pdf
[3] Correspondence with Manitoba Co-operative Association
[4] http://ontariocoops.wordpress.com/reports/survival-rate-of-co-operatives-in-quebec-2008
http://www.bcca.coop/sites/bcca.coop/files/BALTA_A11_report_BC.pdf
http://auspace.athabascau.ca/bitstream/2149/3132/1/BALTA%20A11%20Report%20-%20Alberta%20Co-op%20Survival.pdf
[5] http://ccednet-rcdec.ca/sites/ccednet-rcdec.ca/files/ccednet/pdfs/11-BALTA_A11_Report_-_Alberta_Co-op_Survival.pdf
http://ccednet-rcdec.ca/sites/ccednet-rcdec.ca/files/ccednet/pdfs/2011-BALTA_A11_report_BC.pdf

This is evident in the 1,100 Canadian communities where the credit union is the only remaining financial institution providing essential services to members in the area.[6]

Co-ops are usually created by citizens acting locally to address a local challenge or to capture an opportunity for the benefit of local people. However, due to their unique legal model, co-ops often have a challenge raising capital to launch the business as compared to other small and medium-sized businesses. This is particularly true with regard to the up-front (first money in, last money out) investments that enable a co-op to leverage additional investment and financing from more traditional sources.[7]

Co-operatives are owned by their members and do not have publicly traded shares, which means that some of the mechanisms for raising equity capital available to other business models are not available to co-ops.[8] “Co-operatives, because of the common features of their capital structures — par value shares, prescribed limited returns on capital, and restrictions on the sale of shares — do not offer the potential for capital appreciation that conventional sources of developmental financing are seeking,”[9] which are high return rates traditionally associated with high-risk seed capital investments. The challenge is finding a way to enable external investment in co-operatives without having investors take over decision-making, which could turn the co-operative’s primary orientation from that of being a service for the members to focusing on financial return to shareholders. It is important that any mechanism for mobilizing capital for co-op development be fully compatible with the co-op model and be able to structure financing in keeping with the co-operative and Community Economic Development principles (See Appendix A).[10]

It is important to note that the challenge is not a lack of available investment capital in Manitoba, but rather the lack of an appropriate mechanism for Manitobans to invest in co-operatives. According to Statistics Canada, 5,953,370 Canadians invested $34.4 billion in RRSPs in 2011.[11] The total asset value of RRSPs held by Canadians is $775 billion.[12] 201,600 Manitobans invested $996.3 million in RRSPs in 2011.[13] According to Investor Economics, 10 million Tax Free Savings Accounts have also set up by Canadians holding $80 billion in 2012.[14] As well, 880,650 Manitobans donated $382 million to charities in 2011.[15] There are many more ways that Manitobans dedicate a significant amount of resources to investment opportunities and as financial contributions toward community well-being. While people may have different motivations and expectations for their investments (ex. financial return) than they do for their donations (ex. community well-being), they can accommodate both by investing in co-operatives given that most are able to generate financial and social returns on the investment.

[6] http://www.coopscanada.coop/en/about_co-operative/Co-op-Facts-and-Figures
[7] http://www.coopscanada.coop/assets/firefly/files/files/CDF_FUND_booklet_final.pdf
[8] http://www.coopscanada.coop/assets/firefly/files/files/CDF_FUND_booklet_final.pdf
[9] http://www.coopscanada.coop/assets/firefly/files/files/CDF_FUND_booklet_final.pdf
[10] http://www.coopscanada.coop/assets/firefly/files/files/CDF_FUND_booklet_final.pdf
[11] Statistics Canada. *Table 111-0039 - Registered Retirement Savings Plan (RRSP) contributions, by contributor characteristics, annual (percent unless otherwise noted),* CANSIM (database).
[12] http://www.cbc.ca/news/business/taxseason/story/2013/01/02/f-rrsp-2013-by-the-numbers.html
[13] Statistics Canada. *Table 111-0039 - Registered Retirement Savings Plan (RRSP) contributions, by contributor characteristics, annual (percent unless otherwise noted),* CANSIM (database).
[14] http://investoreconomics.com/blog
[15] http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/famil90-eng.htm

An effective mechanism is required that will mobilize available capital in Manitoba for investment in new and growing co-operatives. For this reason, the co-operative community identified the need to enhance the capitalization and financing of co-ops, as well as create new financial supports for co-ops, when they collectively created the Co-op Vision Strategy for Manitoba.[16] The Co-op Vision Strategy specifically prioritized the exploration of new options for investing in co-ops, such as tax incentives and the creation of a Community Development Investment Fund (CDIF) to act as a co-op equity investment fund.

Research Focus

Seeking to address the investment financing challenge that co-operatives face, this research will explore the potential for building on existing legislation in Manitoba to create a province-wide CDIF as a financial vehicle to raise equity capital for co-ops by leveraging the provincial Community Enterprise Development (CED) Tax Credit to encourage equity investments in co-operative start-ups and expansions. This research will inform Manitoba's co-operative community in its pursuit of creating new financing mechanisms for co-op development.

More precisely, the objectives of this research will be to:

- Provide clarity on the legislative potential for the creation of a province-wide CDIF to act as a co-op equity investment fund that would raise capital for co-ops in Manitoba by leveraging the Community Enterprise Development Tax Credit.
- Identify models that provide equity capital for co-operative start-ups and growth, particularly those that are capitalized by individuals as investors, and identify the particular nature and structure of each model in order to understand the transferability or applicability to the Manitoba model.
- Identify the requirements for successfully developing a province-wide CDIF in Manitoba focused on co-ops, and some of the benefits and disadvantages of using a CDIF model versus continuing to build on the current direct investment model.

Equity Investment Models for Co-operatives

Financing mechanisms have been created to support community-based businesses, but many without a focus on mobilizing individual investors to join an investment fund that takes equity positions in co-operatives. Most, such as the Edmonton Social Enterprise Fund and the Réseau d'investissement social du Québec (RISQ), were seeded by institutional investors such as governments, foundations, and other investment or pension funds as opposed to individual investors. Others, such as the Tenacity Works Loan Fund for worker co-operatives and the North Country Development Fund based in Minnesota focus on loans for co-operative development rather than equity investments. For the purposes of this

[16] http://www.manitoba.coop/wp-content/uploads/2012/04/Complete-Strategy-Jan-2010.pdf

research, the criteria for selecting models to profile included: the mobilization of individuals as investors; the ability to invest in co-operatives; and the provision of equity investments. While not essential, models that motivated equity investments through financial incentives were sought out.

The following models most closely meet the criteria in question for this research project.

Alberta

The Alberta Community and Co-operative Association (ACCA) launched its "Unleashing Local Capital" project in the summer of 2012. It enables rural communities to create investment funds for mobilizing local capital to finance local business development, expand or upgrade existing businesses, facilitate succession planning, and strengthen the local economy through job creation and increased ownership over key economic infrastructure. The project helps direct outward-bound investments from local residents toward local businesses, which keeps local capital flowing in local communities. "Unleashing Local Capital" is funded through the Rural Alberta Development Fund and will run to the end of 2013. It is based on the recent success of initiatives such as the Sangudo Opportunity Development Co-operative (SODC).[17] The SODC was established by community members as a mechanism to raise capital to invest in a local business in order to stimulate the local economy. It raised $250,000 to purchase Sangudo Custom Meat Packers from the owner, who was retiring. The SODC then leased the building to two local entrepreneurs, who not only saved the business and the local jobs, but have now expanded the business and created fourteen new jobs for the local community.[18]

"Unleashing Local Capital" assists with the replication of this initiative in other rural Alberta communities through webinars on how to apply to "Unleashing Local Capital." The project also educates Albertans on the importance and benefits of investing locally and facilitates the establishment of an Opportunity Development Co-operative (ODC). ODCs are for-profit co-ops that raise local capital to invest in local business, with investors being the members of the co-op.

In the first year, the project provided $60,000 in funding to support applicants who wished to establish an ODC, which had to be matched by $10,000 from the local community. Funding dropped to $30,000 in later years and is now at $15,000 and must be matched by $5,000 from the local community.[19] ODCs can also access a network of local experts to ensure they are successful. ODCs own and manage Community Investment Funds (CIFs) that local individuals can purchase shares in. ACCA has created a toolkit of training resources to help communities establish Community Investment Funds.[20]

Local investors must pay a membership fee, which can be put toward investing in a local business and/or covering the operating costs of the ODC. Each ODC sets their own membership fee rate, although they are encouraged to make it a substantial contributions ranging from $200 to $1000. This is done to ensure that individuals are serious about being part of the ODC and getting actively involved in the

[17] http://acca.coop/wp-content/uploads/2012/03/ULC-Press-Release-V2.pdf
[18] http://acca.coop/wp-content/uploads/2012/03/ULC-Press-Release-V2.pdf
[19] http://acca.coop/unleashing/apply-today/
[20] http://acca.coop/unleashing/

volunteer work required to make it succeed. Members have equal voting rights (one member, one vote) in the decision-making of the ODC, including where and how investments are made in local businesses, regardless of the number of investment shares owned in the Community Investment Fund.[21] While ODCs might eventually invest in multiple businesses at one time, they typically begin by investing in one business as it takes a considerable amount of volunteer and skill resources to establish an ODC and make the first investment. Members of the ODC do not have voting rights in the business that the ODC has invested in.

CIF investment shares are RRSP-eligible, meaning that investments may be designated as RRSPs, and existing RRSPs can be moved from institutions where they are currently held to the CIF. According to Canada Revenue Agency rules regarding RRSP-eligible business investments, one individual may not hold more than 10% of a share offering as an RRSP. As well, investment share purchases by non-members cannot exceed 10% of total capital invested in the ODC. Only 10% of investment shares may be held by institutional investors.

Most ODCs place a cap on individual investments at less than $10,000 per person, as Alberta's co-op legislation requires the completion of a full offering document when individual investments are greater than this. This document is not required as long as investments are capped at less than $10,000 with up to 99 investor members. One exemption is for persons with assets of over $400,000. They are able to invest up to $25,000 without requiring a full offering document. The creation of a full offering document requires additional expertise, time, and expenses as well as annual audit costs of over $5,000.

Limiting share ownership to 10% per person ensures broader community ownership and collective decision making. Each ODC determines their own investment share size options; shares have been sold for as little as $500 and for as much as $25,000 (see the exemption mentioned above), depending on the needs and priorities of the local leadership group looking at local investment options.

A minimum investment of $5,000 is recommended as the administrative costs associated with a large volume of small investments would be high. Investments are made for a minimum time frame ranging from 5 to 10 years, with most ODCs setting the time frame at 5 years. This relatively long investment time frame creates greater investment and business stability compared to timeframes that enable shares to be withdrawn at any time. Early observations suggest that investors are in no hurry to withdraw their funds, but rather intend to keep their funds in the ODC to allow for additional future investments in the community.

While the ODC is a co-operative, investments are not only made in co-operatives. Investments can be made in any viable business idea as equity or as a loan in order to develop local projects that improve the quality of life for Albertans. Other financing options such as loan guarantees are possible as well. Businesses pay interest on loans and dividends on equity back to the ODC, which distributes returns back to ODC members based on share purchases. The ODC determines how much will be paid back to investor-members after having covered its administrative costs.[22] In the case of a lease or debt

[21] http://acca.coop/unleashing/frequently-asked-questions/
[22] http://acca.coop/unleashing/frequently-asked-questions/

agreement, the return on investment is based upon the entrepreneur meeting their financial commitment (lease or loan payments with interest) with the ODC. In the case of an equity investment, the return on investment is based upon the success of the business and what it chooses to pay its shareholders. Each ODC is asked to contribute 1% of its annual profits (before dividends) to a central fund that will help support the growth of, and development of new, ODCs throughout Alberta. They are also each encouraged to build and maintain a development fund of indivisible reserves to be used for a variety of purposes such as Board development, training and education, new project evaluation, etc.

Nova Scotia

The Nova Scotia Equity Tax Credit was created by the provincial government in 1993 to encourage local residents to invest in small businesses in Nova Scotia. Originally set at 30%, the personal tax credit was increased to 35% on January 1, 2010[23] for individuals who make 5-year equity investments of a maximum of $50,000 annually in eligible corporations, co-ops, and community economic development initiatives.[24]

Eligible businesses must meet the following criteria:

- Involved in active business or investing in other eligible businesses
- Less than $25 million in assets and/or revenues, including associated companies
- At least 25% of salaries and wages paid in Nova Scotia
- Corporations must have authorized capital consisting of common voting shares
- Co-operatives must be marketing, producing or employee co-operatives
- Corporations must have at least 3 eligible investors taking part in the specified issue

The provincial government built upon the early success of the tax credit program by facilitating the formation of Community Economic Development Investment Funds (CEDIFs) – local pools of capital used to operate or invest in local businesses.[25] Individual investors are issued the tax credit when they place their money into the CEDIF. No single investor can hold more than 20% of ownership. Each fund sets the minimum number of shares that can be purchased by an investor, which often equates to $1,000 but has been as high as $5,000.[26] A CEDIF must first obtain an equity tax credit certificate from the Department of Finance as well as a "letter of non-objection" from the Securities Commission before having 90 days to sell investment shares.[27]

Approximately 80% of CEDIFs in Nova Scotia were created to invest in one business, while the remainder are blind funds where the investor does not know where the money will be invested at the time they purchases shares. There are pacing requirements for CEDIFs to invest their funds in local enterprises;

[23] http://www.novascotia.ca/finance/en/home/taxation/personalincometax/equitytaxcredit/default.aspx
[24] http://www.novascotia.ca/finance/en/home/taxation/personalincometax/equitytaxcredit/equitytaxeligibilityforbusinesses.aspx
[25] http://socialeconomyhub.ca/sites/socialeconomyhub.ca/files/CEDIF_NOVASCOTIA.pdf.
[26] Correspondence with Chris Payne
[27] http://www.gov.ns.ca/econ/cedif/docs/48721.CEDIF%20Brochure%20final.low-res.pdf

40% of funds raised must be invested in eligible businesses in the first year, 60% in the second, and 80% in the third. [28] Approximately one quarter of CEDIFs in Nova Scotia are investing in co-operatives.

Early withdrawal of investment funds depends on the capacity of the enterprise to return the funds, and the investor must repay the tax credit they received. Investors can renew their investments for a second 5-year period and receive an additional 20% tax credit, and another 10% if renewed for a third 5-year period.[29] Investments are also RRSP-eligible and existing RRSPs may be transferred into these investments. However, note that even though an individual may hold up to 20% of investment shares in a CEDIF, Canada Revenue Agency rules state that in order for investments to be RRSP-eligible, an individual must own less than 10% of a share offering. For this reason, investments made during or within 60 days of a calendar year receive a credit for that year. Approximately half of the investments made through Nova Scotia's tax credit are designated as RRSPs.[30]

Returns to individual investors depend upon the performance of the investments made by the CEDIF. CEDIF investments in local businesses are in the form of equity or subordinated debt. Investment decisions are determined by an investment committee made up of the CEDIF's Board of Directors. Individual investors do not have a decision-making role within the CEDIF unless they are on the Board of Directors, which is elected by shareholders. If the CEDIF is structured as a co-operative, decisions are based on one member, one vote. If it is structured as a corporation, decisions are based on one share, one vote. CEDIFs cannot be charitable, non-taxable, or not-for-profit, and must have at least six directors elected from their defined community.

There is no program to cover the administrative or operating costs of a CEDIF. There is, however, considerable development support from the Province of Nova Scotia through a staff person with considerable expertise, experience, and capacity regarding the development of CEDIFs. New CEDIFs are also able to learn from the many other successful CEDIFs operating in the province. Communities are expected to seek out sources for start-up capital from within the community (municipalities, community or business leaders, unions, etc). A portion of funds raised and investment earnings can be used to cover some operating costs. Furthermore, partnership arrangements with local businesses can be sought out to help provide administrative support and in-kind services.

By having local capital available for investment, it is easier for local entrepreneurs to access financing and facilitate the creation of new businesses that have a measurable, financial return. The tax credit was grounded in the belief that there was investment capital available in Nova Scotia, but that it was not being invested within the province. The government's aim was to use the CEDIFs to increase the amount of local capital reinvested in Nova Scotia. As of March 31, 2013 Nova Scotia has 47 CEDIFs with a combined 121 public offerings that have raised and invested over $56,714,886 in local businesses from 7,466 individual Nova Scotia investors.[31] To date, only three CEDIFs have failed and approximately 20% are paying out dividends.[32]

[28] Correspondence with Chris Payne
[29] http://www.novascotia.ca/finance/en/home/taxation/personalincometax/equitytaxcredit/equitytaxeligibilityforinvestors.aspx
[30] Correspondence with Chris Payne
[31]http://www.gov.ns.ca/econ/cedif/funds/
[32] Correspondence with Chris Payne

Prince Edward Island

Prince Edward Island (PEI) developed a program similar to Nova Scotia's model called the Community Economic Development Business (CEDB) program. Launched in summer of 2011, the CEDB program is intended to facilitate local equity investment by local individuals in PEI businesses to stimulate rural community development.[33] Local investors purchase shares in CEDBs (companies or co-operative associations) and receive a 35% RRSP-eligible tax credit of 35% on their investment of up to $20,000 providing that they hold their investment for five years. There is no additional benefit for holding an investment longer than five years. The investment may be made within the calendar year or within 60 days of the end of the taxation year to receive a credit in the previous year. Provincial legislation allows for individuals to own up to 20% of a CEDB's shares, although for investments to be RRSP-eligible, an individual must own less than 10% of a share offering.

To become a CEDB and raise capital by issuing shares, businesses must obtain a certificate of registration from the Minister of Finance and Municipal Affairs as well as a "letter of non-objection" from the Superintendent of Securities. An initial offering of shares of a CEDB must have at least 25 purchasers. The CEDB raises capital by issuing shares to individuals, and in turn invests that capital in eligible local businesses that meet the following criteria:

- Involved in active business
- Have less than $25 million in assets or revenues
- Have less than 100 full-time employees
- At least 75% of the salaries and wages paid in Prince Edward Island

Dividends are paid out at the discretion of the Board of Directors for the CEDB. If the CEDB is a co-operative, decisions are made on a democratic basis with each member having one vote. If the CEDB is not a co-operative, decisions are made through voting weighted by the number and type of shares held by individuals. CEDBs can operate as a direct investment CEDB that invests raised capital in its own operations. They can also operate as a flow-through CEDB which invests raised capital in a local business or businesses which have been identified at the time capital is raised. Finally, they can operate as a portfolio investment CEDB which invests raised capital in a local business or businesses which have not been identified at the time capital is raised.[34] Funds invested in eligible businesses cannot be used for lending. As of July 2013, no CEDBs have been registered under provincial legislation, although there are several at various stages of the application process.

There is no direct funding available to cover the startup costs or ongoing administrative costs of a CEDB. Nevertheless, should a community offering be completed, CEDB proponents can seek to recoup some or all of their out-of-pocket costs from the proceeds of the offering. Local business and economic

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[33] http://www.gov.pe.ca/cedb/
[34] http://www.gov.pe.ca/photos/sites/cedb/file/Guide-to-starting-CEDB-25Nov2011.pdf

development staff are available to work with interested persons to provide information and assistance on how to plan and organize a CEDB.[35]

New Brunswick

New Brunswick has had a similar program in place since 2003 to increase access to equity financing for small businesses from local investors[36]. The New Brunswick Small Business Investor Tax Credit provides individuals with an RRSP-eligible 30% tax credit when they hold an equity investment of between $1,000 and $250,000 in local small businesses for a minimum of four years. There is no additional benefit for holding an investment longer than four years. An investment may be made within the first 60 days of a calendar year and may be claimed as a tax credit in the prior taxation year.

All business sectors are eligible to participate, except for co-ops, but individual businesses must first obtain a certificate of registration that is accompanied by an application fee of $100. Each business must also develop an investment plan outlining how much capital it intends to raise and how it intends to use that capital. Unique to New Brunswick, companies must first have identified investors when registering and a signed statement must be provided by investors certifying that he or she understands the holding requirements for the shares and has read the investment plan. The plan must be approved by the Minister of Finance. Businesses then have 90 days to sell investment shares and raise a minimum of $10,000 from at least three separate investors, although for investments to be RRSP-eligible, an individual must own less than 10% of a share offering.[37] Funds raised cannot be used for lending or investment in land, except land that is secondary to the business.

To register in the Small Business Investor Tax Credit program, the corporation must meet the following criteria:

- the corporation must be a private company
- the corporation is incorporated or registered to carry on business in New Brunswick
- the corporation must have authorized capital consisting of shares without par value
- the corporation must have net tangible assets less than $40 million (including associated corporations)
- all, or substantially all, of the corporation's assets and income must be used to generate active business income in New Brunswick
- the corporation must pay, in each of the four years after the date of registration, at least 75% of its wages and salaries to individuals who are residents of New Brunswick
- the corporation is not lending money, providing a loan guarantee or any other financial assistance, to a person for the purchase of shares included in a specified issue under the Small Business Investor Tax Credit Program
- that the issued shares will not be purchased by investors who have disposed of shares of the corporation after Dec. 10, 2002, and before the proposed share issuance

[35] http://www.gov.pe.ca/photos/sites/cedb/file/Guide-to-starting-CEDB-25Nov2011.pdf
[36] http://www.gnb.ca/0162/tax/sbitc/smallbusiness-e.asp
[37] http://www.gnb.ca/0162/tax/sbitc/smallbusiness-e.asp

- the shares to be issued are newly issued, fully paid shares of the capital stock of a corporation that is registered under the Small Business Investor Tax Credit Act and will not include a replacement share.

As of 2011, 396 applications to the Small Business Investor Tax Credit program were processed. 2,103 investors have invested 77.6 million dollars into small businesses in New Brunswick and have received tax credits worth 23.4 million dollars.[38]

Quebec

Quebec created the Co-operative Investment Plan (CIP) in 1985 to encourage equity capital investments in eligible co-operatives and co-operative federations – primarily agricultural producer and worker co-operatives, as well as some multi-stakeholder worker-shareholder co-operatives.[39] Members and employees of eligible co-operatives receive an income tax deduction for holding a minimum five-year equity investment in their co-operative. After the five-year holding period, shares can be bought back at the co-operative's discretion. Non-members are not able to hold investments. The deduction equals 125% of the total value of the shares purchased by an investor in a given year, but cannot exceed 30% of a person's adjusted net income for the tax year.[40] Investments can be made at any time during the calendar year, and are not RRSP-eligible. The tax deduction was originally 150%, but was reduced to 125% after a moratorium on the issuance of new subscriptions to the CIP was created in 2003, although worker and worker-shareholder co-ops were exempted from the moratorium.

To participate, co-operatives need to apply to the Ministry of Economic Development, Innovation and Exports for an eligibility certificate that authorizes it to issue shares. Once eligible, co-operatives must submit annual reports declaring all activities undertaken with respect to the CIP.

The co-operative must meet the following criteria:

- The co-operative has completed at least one fiscal year or is able to demonstrate the ability to satisfy all eligibility criteria by the end of the current fiscal year;
- The co-operative conforms to all provisions under existing co-operatives legislation;
- The co-operatives administration is carried out in Québec;
- More than 50% of its wages are paid to employees of businesses located in Québec;
- The majority of the co-operatives assets are located in Canada;
- The proportion of the co-operatives assets which belongs to its members (i.e. all shares, reserves, operating surpluses before distribution, etc) is less than 60% of its total assets.

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[38] Correspondence with Melissa McCarthy

[39] http://www.coopscanada.coop/assets/firefly/files/files/CIP_Report_ENGLISH_FINAL.pdf

[40] It should be noted that this number cannot be compared directly to the 30 - 35% tax credit mentioned in other models. A tax credit means that you receive a reduction of that amount in taxes payable for that year. When you buy a $1000 share and receive a 30% tax credit, you will pay $300 less in taxes. The Quebec tax deduction means that 125% of your equity investment is deducted when calculating your taxable income for the year. When you buy a $1000 share and receive a $125% tax deduction, you will not pay taxes on $1250 of earned income, meaning that the actual credit you receive depends on the personal income tax bracket you are in. If you pay 50% personal income tax, your actual credit will be $625. If you pay 35% personal income tax, your actual credit will be $437.50.

(Worker and worker-shareholder co-operatives excepted, and others may request an exemption in cases of expansion or development projects); and

- The co-operatives total assets, exclusive of all shares issued under the CIP are equal to at least 80% of what the total assets were on April 23, 1985.[41]

In the years between 1998 and 2002, approximately 200 co-operatives held CIP certificates, with up to 10,000 member investors buying preferred shares each year. In 2003, the moratorium reduced CIP-related investments by $17.6 million in comparison to the previous year. Responding to pressure from the co-op sector, the CIP was reinstated in 2004 and total investments in co-operatives under the plan increased again by $6.5 million, bringing average annual CIP-related investments closer to pre-moratorium levels. Since then, over 25% of eligible co-operatives in Quebec have been approved under the plan and approximately 8,000 co-operative members invest in their Quebec co-operatives through the CIP each year, more than 40% of them in the agricultural sector.[42]

Since established, the CIP has led to annual investments of between $25 and $30 million of equity capital in Quebec's co-operatives, with total investments since inception approaching $500 million. A large majority of participating co-operatives are located in rural and resource-based regions of Quebec.

In 2007, the Quebec government estimated the financial cost of forgone tax revenues resulting from the tax deduction at about $8 million. Their cost to administer the plan is approximately $50,000 per year. With $32 million in new investments resulting from the tax deduction incentive, the leveraged investment in co-operatives produces a return on investment of approximately 4:1.[43]

The Context in Manitoba

Corresponding to the long co-op history in Manitoba is a legacy of financing efforts and mechanisms to enable co-operative development and growth. This has been characterized primarily by mobilizing capital from local members and leveraging this with financing by credit unions that were created to deal with the challenges co-ops experienced accessing credit from mainstream financial institutions. While the credit unions now have a strong presence in Manitoba with regard to co-op financing, the challenge of access to equity capital for co-op development remains. The next section will explore examples of co-op financing through equity investments that have been explored and/or implemented in Manitoba to support co-op development and growth.

Crocus Investment Fund

The Crocus Investment Fund (CIF) was established in 1992 by the Province of Manitoba and sponsored by the Manitoba Federation of Labour to act as a potential source of capital for Manitoba businesses that employ "ethical policies with respect to employment practices, workplace safety, environmental suitability and other matters."[44] The Fund was supposed to make investments that would strengthen the

[41] http://www.coopscanada.coop/assets/firefly/files/files/CIP_Report_ENGLISH_FINAL.pdf
[42] http://www.coopscanada.coop/assets/firefly/files/files/CIP_Report_ENGLISH_FINAL.pdf
[43] http://www.coopscanada.coop/assets/firefly/files/files/CIP_Report_ENGLISH_FINAL.pdf
[44] https://web2.gov.mb.ca/laws/statutes/ccsm/c308e.php

Manitoba economy through capital retention, employee ownership, business continuity, and job retention. Professional managers and analysts were hired to make investment decisions. While the Fund was able to invest in co-operatives, there were no co-ops in its investment portfolio. The CIF did work with several businesses in its portfolio to create employee share ownership mechanisms. Individual Manitobans could receive a 30% tax credit for making RRSP-eligible investments to be held for eight years. At one time, the Fund held over $165 million in assets and had invested over $115 million of primarily venture capital in 55 Manitoba businesses. It collapsed in 2005 under allegations of over-valuation of its shares relative to the value of underlying investments.

Proposed Manitoba Equity Investment Fund

Responding to the need for access to equity capital for business starts for enterprises mandated to hire workers from marginalized backgrounds, a coalition of Winnipeg-based organizations explored the potential for a Manitoba Equity Investment Fund in 2003. The proposed Fund would have operated as a non-profit charitable organization, perhaps adopted by an existing organization. Investments in worker-owned enterprises, including co-operatives, would be prioritized. The Fund would have been capitalized through donations, grants, and low-interest loans. Investments in the Fund would have been sought from individuals, religious groups, foundations, governments, and unions as opposed to corporations and financial institutions. Investments were to range from a minimum of $20,000 to a maximum of $100,000.

At the time, the research found that there were enough sources of capital to collectively provide most of the capital the Fund would need. The Fund would have needed to raise $3 million over 7 years to be viable, with at least half of that coming from a Federal Social Economy Initiative or some similar source. It was thought that the biggest challenge would be in securing annual operating grants for the Fund, as the Fund would not be able to operate on a self-sustaining basis. Partnerships with other organizations offering in-kind contributions would have also been required to help cover operating costs and technical assistance services. When these sources of funding were not secured, and with the cancellation of the Federal Social Economy Initiative program 2006, the proposal was tabled.

Community Enterprise Development (CED) Tax Credit

Manitoba's Community Enterprise Development (CED) Tax Credit was created through the CED Tax Credit Act in 2004 to encourage Manitobans to invest in enterprises in their communities while providing community-based enterprises with access to equity capital.[45] Investors receive a 30% tax credit for maintaining a maximum annual equity investment of $30,000 for a minimum of three-years in a government-approved community enterprise, which could include a co-op, or in a CDIF created to invest in community enterprises or community development corporations. Community enterprises and CDIFs issue common shares to individual investors to raise capital. Investors cannot purchase more than 10% of a single share issue. Investment offerings were originally capped at $500,000 with the limit later being raised to $1 million per offering. [46] The Province places a threshold on the investment offering of

[45] http://www.gov.mb.ca/agriculture/programs/aaa21s04.html
[46] http://web2.gov.mb.ca/laws/regs/2009/127.pdf

between 25% - 50% depending on the financial circumstances of the enterprise. This means that tax credits are not issued until 25%-50% of the investment offering is raised from individuals, ensuring that credits are only issued once there is sufficient security for the business to move ahead. CDIFs must invest in government approved community enterprises within two years (four for new CDIFs) through the following instruments:[47]

1. Common shares issued to the CDIF by the community enterprise;
2. A partnership interest issued to the CDIF by the community enterprise;
3. Certain forms of subordinated debt as regulated by the CED Tax Credit Act.

However, there have not been any CDIFs established to invest in community enterprises or community development corporations to date.

Initially the CED Tax Credit was used primarily by individual investors in community enterprises in rural Manitoba. This is in part because the department administering the program, Agriculture, Food and Rural Initiatives, made little effort to promote or implement the program in urban areas.[48] More recently, the CED Tax Credit has had new uptake from a variety of urban co-operatives including Pollock's Hardware Co-op, Neechi Foods Co-op, and Peg City Car Co-op.

While most of the other models profiled in other jurisdictions do nothing or little to restrict sectors that eligible businesses can be involved in, the list in Manitoba of ineligible business activities is more extensive:[49]

(a) property, other than commercial property owned by a community development corporation or by a corporation controlled by a community development corporation;

(b) providing management, administrative, financial or other similar services;

(c) providing maintenance services, unless they are provided primarily to persons who deal at arm's length with the provider;

(d) farming, fishing, forestry, hunting, resource exploration or other similar activities;

(e) the performing arts, sports, amusement, gaming or recreational activities;

(f) a business that would be a personal services business as defined in subsection 125(7) of the federal Act if that definition were read without reference to paragraphs (c) and (d);

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[47] http://web2.gov.mb.ca/laws/regs/pdf/i010-231.04.pdf
[48] http://communityrenewal.ca/sites/all/files/resource/MW200321.pdf

(g) providing seasonal facilities, services or activities, such as recreational parks or camps, hunting or fishing lodges or camps, or golf courses;

(h) providing professional services that are governed by an Act of the Legislature;

(i) providing educational, health care, social or other similar services, unless they are recognized by the minister as being eligible in the circumstances;

(j) any other activity that, in the opinion of the minister,
(i) does not constitute or promote community economic development, or
(ii) it would be contrary to public policy to support with public funds.

In addition, eligible businesses must:[50]

1. Not have gross assets in excess of $25 M;
2. Not have net assets in excess of $10 M;
3. Employ no more than 200 employees;
4. Have at least 25% of the organization's total wages paid to Manitobans;
5. Have at least 25% of the employees reside in Manitoba;
6. Receive a sponsorship or endorsement from a local community development organization.

As of 2012, $2.25 million has been invested in 12 community enterprises, suggesting an average investment of about $187,500 per enterprise.[51] An additional 7 community enterprises have been approved to issue shares for local enterprises, but either failed to hit the threshold on the investment offering or did not progress any further with the business idea beyond the point of approval for the CED Tax Credit.

Research on Supports for the Social Enterprise Sector in Winnipeg

In 2008, social enterprise leaders once again considered the question of equity financing for social enterprises including worker co-operatives.[52] Rather than picking up on previously tabled efforts to create an equity investment fund, the decision was made to take a step back and explore the broader question of supports required for social enterprise growth in Winnipeg. The research asked key informants about five specific interventions that were thought to be essential for creating supports for social enterprises in Winnipeg that had a goal of becoming self-sufficient on market revenues. Five specific interventions were explored:

- Creating the capacity to animate the social enterprise sector
- Strengthening the skills and supportive networks for social entrepreneurs

[50] http://web2.gov.mb.ca/laws/regs/pdf/i010-231.04.pdf
[51] http://communityrenewal.ca/sites/all/files/resource/MW200321.pdf
[52] http://ccednet-rcdec.ca/files/ccednet/SE_Report_feb_09.pdf

- Providing access to capital
- Changing government or other procurement policies
- Providing wage subsidies to offset productivity loses from employing workers with employment barriers

The research discovered that improving the local capacity to animate the social enterprise sector as well as developing social entrepreneurs and entrepreneurial skills were the top priorities for the Winnipeg context. In terms of access to capital, most social enterprises and small co-ops were not in a position to take on repayable debt capital, but rather required capital and operating grants. Those that were ready to service repayable loans already had access to several sources of loan capital, and at relatively low rates in the modern market. For this reason, local organizations pursued the development and strengthening of initiatives that advanced the first two priorities. These initiatives included SEED Winnipeg and Spark's technical support services for co-ops and social enterprises, social enterprise and co-op courses at the University of Winnipeg School of Business, as well as supporting the Co-op Vision Strategy and convening a social enterprise working group as mechanisms to explore further co-op and social enterprise development. In addition, the Canadian CED Network – Manitoba worked with partners to develop the Enterprising Non-Profits program that provides skill-building workshops and development grants. This program is focused on non-profits, and includes non-profit co-operatives.

Co-op Vision Strategy

Also in 2008, the Manitoba co-operative community partnered with the Province of Manitoba to engage the sector in a strategic visioning process focused on identifying the key factors for successfully strengthening and growing the co-op community in Manitoba.[53] This led to the development of the Co-op Vision Strategy which has a goal to stimulate, broaden and sustain the development of a socially and economically successful Manitoba co-operative community. Its strategic objectives include: creating a more supportive environment for the establishment and on-going operation of co-operatives; fostering better awareness and understanding of the value and the principles of co-operatives; and providing better infrastructure supports and services for co-operatives.

Within the strategic objective of creating a more supportive environment for co-operatives, priority actions regarding financing mechanisms included exploring co-operative development tax credits, different RRSP rules for investing in co-operatives, and equitable capital gains income tax treatment. Various types of funds to support co-op development such as venture capital funds for co-op start-ups and equity funds to support the growth of existing co-ops, were also prioritized. Clearly, there was still a need for a range of targeted financing mechanisms to enable co-op development in Manitoba.

National Co-operative Investment Fund

Another initiative to be mindful of is the National Co-operative Investment Fund being created by the Canadian Co-operative Association and its members, including co-operatives in Manitoba. This Fund has been proposed as a sector-driven, self-sustaining loan fund to support the creation of new and the

[53] http://manitoba.coop/Uploads/File/Co-op%20Strategy%20Paper.pdf

growth of existing co-ops across Canada. The Fund would be open to co-ops in all sectors and will launch after having secured $20 million.[54] The Fund will operate as a co-operative and will invest loans, subordinated debt or potentially take an equity position with patient capital in co-operatives.[55] Equity investors will share in the earnings of the Fund while depositors will earn a market interest rate of return. Should the Fund prove successful, it will create another equity and debt financing mechanism for co-ops in Manitoba.

Putting This All Together for Manitoba: Observations & Recommendations

1. *Legal and Political Considerations for a CDIF to act as a co-op equity investment fund in Manitoba*

Although there were some questions in the co-op community about whether existing provincial policy enabled the creation of an investment fund, the current CED Tax Credit Regulations clearly allow for the creation of a province-wide Community Development Investment Funds (CDIFs) in Manitoba that can invest in multiple community enterprises, including co-operatives, or community development corporations.

There was also some concern in the co-op community that there was no political appetite for the creation of province-wide CDIF given the controversy surrounding the Crocus Investment Fund which was similarly designed. The Crocus Investment Fund also mobilized individual Manitobans through tax credit incentives to make equity investments in a fund that invested in local enterprises. Key informants at the Province indicate that they would support a proposal for a province-wide CDIF to act as a co-op equity investment fund should the co-op community identify it as a priority and develop a sound proposal for implementation. However, departmental staff administering Manitoba's CED Tax Credit remain opposed to the CDIF model given the high operating costs associated with it. The concern is that it would be difficult to acquire enough grants to cover operating costs and that even if these grants could be successfully acquired, there may be more effective ways to support co-op development with these dollars. These concerns are worth noting, both from a practical business plan perspective as well as when considering the amount of work that might be required to convince the Province to approve such a proposal.

2. *The Critical Role of Leadership and Champions*

Key informants from other jurisdictions could not stress enough how successful mobilizing of equity capital investments for local enterprise strongly depended on having strong, credible, local leaders. In Alberta, the strength of the local voluntary leadership group is a key factor in determining which communities receive funding for the creation of ODCs. The key informant from Nova Scotia noted that "you need leaders who will walk through walls to make things happen."

[54] http://www.canadianworker.coop/news/general-news/cwcf-commits-250000-national-fund
[55] http://acca.coop/program-manager-shares-what-the-new-new-co-operative-investment/

In both provinces, they also emphasized that trust was essential to having people be willing to invest in local enterprises. Citizens are being invited to place their money, sometimes their retirement funds, in a high-risk local investment opportunity. While financial incentives motivate investors, trust in the individuals mobilizing the investments is paramount to their willingness to take this risk. According to one key informant, people care more about who is involved rather than precisely where the money is going – they invest because they trust the leadership and they believe they can succeed.

3. *The Importance of Local*

The models considered in this research all have a strong local focus, suggesting people want to invest in their local community as opposed to a province-wide fund. The champions are local and are able to mobilize the people around them based on their leadership and credibility. The investors are supporting those champions, looking to save local businesses, services, jobs, and economic activity in their community. They are looking for results that they can see around them in the community as opposed to simply anonymous financial returns or results in communities that they are not connected to. This is true whether investing directly in one business or in a fund that invests in multiple businesses.

Motivation to invest locally appears stronger in rural communities, perhaps in response to growing concerns that current economic trends are threatening the sustainability of their local economies. ODCS in Alberta have been established primarily in smaller rural communities. A large majority of participating co-operatives in the Quebec model are also located in rural and resource-based regions. A comparative analysis of the Manitoba and Nova Scotia Tax Credit models by Loewen and Perry in 2010 noted that, despite very similar legislated models in both provinces, the programs have attracted the most interest in small town and rural areas.[56] Nova Scotia has a more rural population compared to Manitoba which may be the reason for the profoundly different uptake of the models in the two provinces.

4. *Incentives Matter*

Co-operatives, because of their economic and legal structure, and member-service focus, do not offer the potential of high financial returns that many investors are focused on, particularly when it comes to high-risk venture or seed capital – first money in, last money out. People will invest in local businesses or great ideas / stories without added incentives, but incentives mobilize many investors that would not otherwise participate in these high-risk ventures. They also raise the volume of capital that individuals are willing to invest.

It is no coincidence that the models with the greatest incentives have leveraged the greatest volume of capital. Since 1985, the Quebec model (noting the earlier explanation regarding the difference between a tax deduction and a tax credit) with a tax deduction of 150% and later 125% has incented annual investments of between $25 and $30 million in co-operatives, with total investments since inception approaching $500 million. Since 1993, the Nova Scotia model with a tax credit of up to 65% if you have multi-term renewals, plus possible RRSP designation, has incented over 7,000 investors to place over $56 million in local enterprises. Since 2003, the New Brunswick model with a 30% tax credit and possible

[56] http://communityrenewal.ca/sites/all/files/resource/MW200321.pdf

RRSP designation has incented over 2100 individuals to invest $77.6 million in local enterprises. Since 2004, the Manitoba model with a 30% tax credit has mobilized only $2.25 million for local enterprises as of 2012. Manitoba, with the weakest incentives has mobilized the lowest investment totals.

5. *Marketing, Animation Capacity, and Technical Support*

Ensuring that there is sufficient capacity to promote, mobilize, and support the use of local equity investment models strengthens the model and enhances the likelihood of success. Both Nova Scotia and Alberta in particular have provided considerable resources via dedicated staff support with high levels of expertise on the models. In the case of Nova Scotia, resources are provided in the form of a dedicated provincial staff person who has promoted the model tirelessly and provided high quality support to communities looking to establish a CEDIF. In Alberta, the Alberta Community and Co-operative Association (ACCA) received provincial funding to provide grants to communities to support the development phase of ODCs and to have a staff person supporting community exploration of ODCs and the Community Investment Funds they manage.

A review of the Manitoba and Nova Scotia models a few years ago identified that the longer and stronger history of promoting co-operative and community development enterprises in Nova Scotia was likely a contributing factor to the different uptake.[57] The researchers noted that the Nova Scotia Co-operative Council has played a very active role in promoting and facilitating the use of the Nova Scotia Equity Tax Credit to finance co-operative development. The lack of this capacity in Manitoba has resulted in most co-operatives, economic and community development offices, and enterprise development centres knowing very little or nothing at all about Manitoba's CED Tax Credit. Virtually nobody is aware that Manitoba's legislation allows for the creation of CDIFs. In fact, the provincial website providing information on the CED Tax Credit makes no mention of it at all. While provincial staff are available to answer questions about the model, there is no pro-active strategy to promote the model and mobilize action to take advantage of the potential opportunities.

6. *Required Expertise*

Key informants from other jurisdictions suggested that the primary technical skills required for creating and managing an effective equity investment fund that invests in multiple businesses include legal and accounting skills, particularly in the process of establishing such a fund. However, business investment skills are most important and are not necessarily found in the same individuals who have the expertise required to establish the fund and mobilize the capital. Key informants also noted that business investment skills are different from lending skills and require a higher tolerance for risk. Without established business investment skills on the volunteer board or staff team of the fund, it will not be easy to mobilize capital and investments choices will have a greater risk of failure. The effective management of an equity investment fund that invests in multiple businesses also requires someone with the ability to make the fund operationally sustainable. Operational costs require monthly payments, but the fund may not be able to depend on regular revenue as would occur with monthly repayments to a loan fund. It is likely that all these required skills are present in Manitoba. What is less

[57] http://communityrenewal.ca/sites/all/files/resource/MW200321.pdf

clear is what it would cost to access these skills for the creation and management of a province-wide, co-op focused CDIF.

With a direct investment model where equity is mobilized for a single business, the entrepreneurs must have credible business skills to ensure the business will succeed and investors must be informed and use their judgement when making investment decisions.

7. *Questions of Scale / Costs*

In exploring the Manitoba Equity Investment Fund in 2003, proponents calculated that $3 million would be required in the fund to make it sustainable, as long as there was considerable support in the form of grant funding for operations and in-kind partnerships to cover some operating costs and technical assistance services. It was calculated that without grant funding and in-kind partnerships, the fund size would need to be over $5 million in order to be sustainable. Staff of the fund would need to be paid to promote the fund to potential investors and applicants, manage investor relations, manage board development and relations, process application, perform due diligence, provide technical assistance to applicants, and monitor investments. As a result of the high costs of the proposed fund revealed by this research, provincial government staff continue to discourage communities from attempting to organize CDIFs that invest in multiple businesses.

Other equity investment fund models, such as those in Alberta and Nova Scotia, are primarily volunteer-driven which makes them much less costly to operate. In Nova Scotia, estimates are that setting up a CEDIF costs between $10,000 - $20,000 primarily for legal, accounting, and consulting fees with annual operating costs of under $3,000. Naturally, fund maintenance costs are lower if the CEDIF is only investing in one business as opposed to operating as a fund investing in multiple businesses at once. While Alberta provides up to $15,000 for pilot initiatives at this time, they hope to bring ODC start-up costs down to $5,000 with annual operating costs of $2,500 through gained experience and efficiencies. It would be possible for Manitoba to establish a primarily volunteer-run CDIF that invests in multiple businesses with operating costs comparable to those in Alberta and Nova Scotia.

8. *Supply vs. Demand*

Some equity investment models mobilize individuals to place their money in a supply-side fund in the anticipation that the funds will be invested in multiple local businesses once investment opportunities arise. Others are demand-side direct investment models or funds where investment is mobilized for one business at the time that the business requires the capital.

The Manitoba, New Brunswick, and Quebec models are examples of demand-side models – when the enterprise is ready for investment, investors are mobilized. A clear advantage of the demand-side approach is the opportunity to sell the specific story to investors. Supply-side funds can pitch the value of “local” or of investing in a particular sector, along with the promise of financial incentives and returns, but demand-side models can market the investment opportunity to targeted individuals interested in the story of a specific enterprise involved with local food, worker co-ops, fair trade, renewable energy, car sharing, affordable housing, Aboriginal employment, etc. Key informants from Manitoba say that their experience with the CED Tax credit suggests that Manitoban investors place considerable value on knowing the specific story they are investing in. Having said all this, there is some evidence that investors are interested in supporting a particular sector of activity without being concerned about the specific business that will be supported within that sector. For example, FarmWorks Investment Co-operative in Nova Scotia was created in 2011 to raise equity capital for investment in local food initiatives. To date, about $450,000 has been mobilized and invested in 15 local food enterprises.

There are other challenges that have been identified with respect to supply-side models. Given the importance of investing locally, as noted earlier, it might be more difficult to mobilize individuals to invest in a supply-side fund that will not necessarily reinvest in their own community. Furthermore, in Manitoba, the proposed Manitoba Equity Investment Fund identified concerns about the volume of investment-ready enterprises that would emerge with a supply-side fund, something that would have led to an insufficient uptake of available funds. These risks can be mitigated if a demand-side approach is taken.

However, the experience in other jurisdictions tells a different story. Some of the CEDIFs being created in Nova Scotia and the ODCs in Alberta, first pool funds from equity investors in a supply-side model and then look for local business opportunities to invest in. Key informants from these regions suggest that there is never a shortage of business opportunities to capitalize on, only a shortage of capital. Understanding that business opportunities are often time sensitive, some key informants emphasized that the advantage of a supply-side model is that the capital is already mobilized when the moment arises so that action can be taken quickly. Waiting to identify a business opportunity before mobilizing investors might mean that the window of opportunity has closed by the time the capital is collected.

Another advantage with a supply-side model organized by community champions is that it saves time, energy, and administrative costs for entrepreneurs and co-op developers who might not have the skills and capacities required to mobilize investors on top of the work and expertise necessary to launch and grow the business. Instead of spending their resources and time selling investment shares to hundreds of different people, entrepreneurs and developers are able to approach a supply-side fund to negotiate an equity investment in their business. They still gain access to hundreds of individuals interested in local investment, but through one single point of contact.

Provincial policy may also factor in the decision to go with a demand-side or supply-side model. With a supply-side fund in Manitoba, key informants from the Province suggest that the CED Tax Credit would only be issued once CDIF funds are invested in an eligible business, not at the time of placing funds in the CDIF. Manitoba's CED Tax Credit Regulation stipulates that CDIF funds must be invested in eligible enterprises within two years, four for new CDIFs. This means that individuals may wait up to four years before receiving the tax credit, which may create a significant disincentive to using a supply-side CDIF. The demand-side direct investment model that has already been used in Manitoba ensures that investments go directly into an enterprise so the investors receive the tax credit in the same year the investment was made. In Nova Scotia, while regulations stipulate that 40% of net capital raised in a CEDIF must be invested within one year, 60% within two years, and 80% within 3 years of the closing date, the investor receives the tax credit upon placing their funds in the CEDIF. Manitoba's Crocus

Investment Fund also issued its tax credit at the time investments were made in the Fund. These precedents suggest that the Manitoba model could be amended to issue the tax credit at the time investments are made in a CDIF. However, as it currently stands, these two factors may render a demand-side model more effective in Manitoba. While Manitoba has experience with the supply-side model in the form of the Crocus Investment Fund, no supply-side model has been created using the CED Tax Credit.

It should be noted that none of the supply-side funds in this study limit their investments to co-operatives, with key informants suggesting that this would be too limiting to effectively pursue viable and sound investment opportunities. This, together with the clear desire on the part of investors to invest in their local community, should be strongly considered before further exploring a province-wide co-op focused CDIF.

9. *RRSPs*

Making equity investments in local enterprises RRSP-eligible seems to be an effective way to mobilize local capital from two perspectives. First, it means that the federal tax credit gained from the purchase of RRSPs can be added to existing provincial tax credit incentives. As previously mentioned, incentives attract additional investors and increase the amount that individuals are likely to invest. The Quebec model is not RRSP-eligible, but the models in Alberta, New Brunswick, PEI, Nova Scotia, and a model being explored in British Columbia all utilize this incentive.

Second, individuals have the option to shift existing RRSP funds to local investments as opposed to looking for available, undesignated cash on hand to place in local investment opportunities. Again, considering that Canadians invested $34.4 billion in RRSPs in 2011 (Manitobans invested $996.3 million) and hold total RRSPs worth $775 billion, creating the option of sliding existing RRSP funds to local investment opportunities opens doors to massive pools of existing investment dollars.

The provincial government in Manitoba has been approached about designating CED Tax Credit investments as RRSP-eligible, which it has declined to do. This may help explain why investment totals in Manitoba are so much less than in other jurisdictions with similar legislated models. Some of the models profiled in this research that include the RRSP option are doing so in partnership with the Canadian Worker Co-op Federation (CWCF), who has been approved by the Canada Revenue Agency to hold RRSP-eligible investments in CEDIFS in Nova Scotia and PEI, as well as co-operatives in Canada.[58] All CEDIFs in these two provinces that register with the CWCF program are able to issue RRSP receipts for investments and accept RRSP transfers held in other institutions via the CWCF self-directed RRSP program. Alternatively, any co-op in Canada that becomes a member of the CWCF for $100 is able to apply for RRSP eligibility for shares sold to the co-operative's members. The ODCs in Alberta are structured as investment co-operatives with shares being held by the members of the co-op, which is how they are able to access the CWCF RRSP program. In this way, CED Tax Credit investments in Manitoba co-ops could become RRSP-eligible without the need for the provincial government to take action.

[58] http://www.gov.ns.ca/econ/cedif/news/2007.12.10_approval.asp

However, key informants also noted that the RRSP approach to incenting and mobilizing investors should be used with significant caution and clarity. Too often, in their opinion, individuals consider investments made with RRSP designations to be secure, and sometimes even perceive them to be guaranteed. The reality is that they are not and should be considered high-risk. Individuals need to clearly understand that they could lose everything they invest except for the tax credits already gained. Placing a cap on investments per person would help to ensure that individuals were not overly exposed to risking their retirement funds.

It should also be noted that in 2011 the federal government increased taxation on RRSP investments where ownership is greater than 10%. Individuals can still own more than 10% of an investment share offering, but will need to hold anything over 10% outside of an RRSP to avoid this new tax. [59] This will only be an issue where models allow for individuals to hold more than 10% of an investment offering.

10. *Direct Investment Models vs. Equity Investment Funds*

At the heart of this research is the question regarding the value of investing significant time and resources pursuing the creation of a province-wide CDIF to act as a co-op equity investment fund given the fact that Manitobans are already able to invest directly in co-ops to receive the CED Tax Credit. There are many factors to consider, and some of them have already been addressed, particularly in the Required Expertise, Questions of Scale / Cost, and Supply vs. Demand-side sections. These factors are summarized below.

While the common perception of the Nova Scotia and Alberta investment funds is that they are equity pools investing in multiple businesses, most are investing only in one particular business, which is not much different than the direct investment model currently used in Manitoba. The difference is that approximately 20% of Nova Scotia CEDIFs are funds that do invest in multiple businesses at once and the Alberta ODCs have a vision of eventually growing into more of an equity fund that invests in multiple businesses at any given time. A key informant noted that even if an investment fund is the intended outcome, this should only be pursued after successfully establishing a track record of sound results from investing in one business at a time.

The **advantages of direct investment** models are that they:

- Cost less to create and run
- Require less additional administrative and technical capacity, and investment expertise
- Provide a direct relationship to a particular story that investors believe in, thereby creating ambassadors and champions as well as loyal members and consumers of the business
- Ensure demand-driven investment where the tax credit is leveraged immediately

However, the **disadvantages of direct investment** models are that they:

- Require the enterprise to do its own investment share marketing and sales

[59] http://www.gov.pe.ca/photos/sites/cedb/file/Guide-to-starting-CEDB-25Nov2011.pdf

- Do not ensure that the required capital is fully mobilized before a business opportunity arises, which may be gone before the necessary funds are gathered
- Are not able to mitigate risk by spreading investment funds across several enterprises. If the business fails, the money is lost, possibly lowering the amount that individuals will invest

The **advantages of equity investment fund** models are that they:

- Ensure that the required capital is fully mobilized before a business opportunity arises
- Are able to mitigate risk by spreading investment funds across several enterprises. If one business fails, not all is lost, possibly increasing the amount that individuals will invest
- Could gain efficiencies of scale and expertise (particularly with a large-scale equity investment fund) by providing common approaches to marketing, messaging, share sales, business investment expertise, as well as capacity building and business development support for the enterprises

However, the **disadvantages of equity investment fund** models are that they:

- Cost more to create and run
- Require additional volunteer or paid administrative and technical capacity, and specific business investment expertise
- Are not able to provide a direct relationship to a particular story for investors
- Creates risk in that investment opportunities may fail to materialize, meaning that investors may have to wait for their incentive and for investment returns

Recommendations

1. The research would suggest that creating a large-scale, province-wide CDIF to act as a co-op equity investment fund in Manitoba would not be an effective use of time, money, and sector capacity right now. Such a fund, while mobilizing individual investors, would likely also require additional funds for the equity pool and for operations in order to be viable. With the federal government terminating the national Co-op Development Initiative, and the provincial government in Manitoba dealing with a budget deficit and corresponding spending limitations, it is unlikely that either level of government would be willing at this point to fund either the equity or operational costs of a new fund. With the co-op community in Manitoba also being drawn on to support a variety of sector initiatives such as investments in the National Co-op Investment Fund, donations to Manitoba's Co-op Development Fund incented by the provincial tax credit, commitments toward the Chair in Co-operative Enterprises at the University of Winnipeg, donations to the Co-op Development Foundation of Canada for international initiatives, and much more, it would be difficult to now mobilize support to contribute to the equity and operations costs of yet another sector initiative.

   The scope and focus of such a fund is also likely to pose problems. First, given how much local seems to matter to investors, a province-wide fund might be a disincentive to individuals hoping to make a visible difference in the communities where they live. In fact, co-ops looking to mobilize investments from local individuals are likely to continue to issue shares in their community through a direct investment model while also approaching a fund for investments, meaning that there could be a duplication of efforts with regard to raising capital for co-op development. Second, no supply-side equity investment fund found in the research focused exclusively on co-operatives. With only a few co-ops launching in Manitoba each year, there may not be a high enough volume of investment-ready co-ops to make the fund viable. Certainly, a fund focused exclusively on co-operatives within a small geographic region would have an even greater challenge finding enough investment-ready co-ops starting or growing in its region.

The controversy surrounding the Crocus Investment Fund also lingers and may add an additional barrier to the success of a new province-wide equity investment fund. Government and institutional support for such a model might be tepid, and there would likely be questions from individual investors about the similarities between Crocus and this new fund. With investment losses related to the dissolution of Crocus being a recent event in Manitoba, some individuals are likely to be nervous about placing their investment funds (and RRSPs) in a fund that resembles Crocus, possibly limiting the number of potential investors in a new fund.

The research also clearly identifies the critical importance of champions and leaders in order to succeed. It is not clear that the co-op sector in Manitoba has the capacity right now to mobilize this type of leadership for the creation of a fund and to mobilize the resources and investments required to make it succeed.

2. Notwithstanding the points made in the first recommendation, exploring the potential to designate an existing community investment fund as a CDIF would address many of the issues surrounding costs, expertise, and co-op sector capacity to create a new fund. The Jubilee Loan Fund primarily does lending and loan guarantees, but has the capacity to make equity investments. It already mobilizes individuals to make investments in a fund that is focused on community benefit, including co-operative development. The CED Tax Credit legislation in Manitoba allows CDIFs to use a variety of financing mechanisms with the mobilized funds including equity investments, loans, and loan guarantees. Using the Jubilee Loan Fund as a CDIF would build on existing infrastructure, capacity, and expertise.

   To meet the objectives established in this research, the Jubilee Loan Fund would need to be willing to invest in any type of co-operative in any part of Manitoba as opposed to the current focus on Winnipeg. As well, current investment shares in the Jubilee Loan Fund are $1,000, while most co-operatives using the CED Tax Credit have sold shares at $100 in order to make it possible for more individuals to participate. Perhaps the Jubilee Loan Fund would be willing to create smaller share offerings of $100 increments to enable a greater range of potential investors to participate in the fund. Further research is required to establish whether there might be additional issues to resolve and to determine the likelihood of the Province approving the Jubilee Loan Fund as a CDIF.

3. Despite the first recommendation to not pursue the creation of a new large-scale co-op focused equity investment fund, the CDIF model could be tested on a small scale without incurring the significant financial and resource costs of such an endeavor by creating a small volunteer-led, demand-driven CDIF along the lines of most created in Nova Scotia. This CDIF would be created to raise investment funds for a pre-determined co-op venture that was set to embark on a campaign of selling investment shares anyway, such as Peg City Car Share Co-op that is planning to issue another round of investment shares in the fall of 2013. While not much different than the current direct-investment model being used in Manitoba, it would test the CDIF model to ascertain whether it demonstrates additional benefits for mobilizing individuals to make equity investments in co-ops that are currently not realized through the direct investment model.

   This CDIF model could be tested through several steps. First, identify an existing co-operative planning to issue investment shares and willing to mobilize individuals to invest equity into a co-operative via a CDIF. Second, convene a group of selected leaders from that co-operative, co-op developers and advocates, potential investors, and other credible community champions to explore whether the interest, capacity, and commitment exist to pilot the model. This group could become the board of the CDIF. Third, apply for and attain CDIF status from the Province, and formally create the CDIF. Fourth, CDIF partners would mobilize individuals to invest in the CDIF, with all funds designated for investment in the identified co-operative. This would test the CDIF model while avoiding significant costs as it would be volunteer driven and would essentially be demand-driven in terms of timing and ability to sell the local story.

   If successful, successive capital drives and investments could be made by the CDIF, either in the same co-operative or in others. If unsuccessful, the CDIF could be dissolved and the ownership of shares could be transferred from the CDIF to individual investors as long as this process was done with full legal and legislative compliance.

4. Other than the two options presented in the second and third recommendations, further mobilization of individual equity investments for co-operative financing should continue with the current practice of demand-side direct investment. This will ensure effective timing, efficient use of resources, transparency and choice for investors with regard to destination of funds, the ability to sell a story rather than just a legal structure, as well as lower expertise and new resource requirements. However, improvements can be made to the current model and approach that will strengthen our ability to raise equity for co-operatives:

   a. Develop marketing tools for both the CED Tax Credit and available investment opportunities through various mediums including an effective web site with a thorough Frequently Asked Questions section, social media strategies, published and distributed brochures, and a detailed case study outlining the steps required to effectively apply for CED Tax Credit status as well as to sell shares. Communications, messaging, and public awareness strategies could be informed by existing successful experiences with the CED Tax Credit in Manitoba as well as from other effective crowdfunding models such as Kiva, Kickstarter, and others. Crowdfunding is the collective effort of individuals who network and pool their money, usually via the Internet, to support efforts initiated by other people or organizations.[60]

b. Ensure that the Province follow through on commitments made in 2012 to streamline the application process and remove unnecessary administrative challenges when applying for CED Tax Credit status. This would include ensuring that there was interdepartmental coordination between the Department of Agriculture, Food, and Rural Initiatives and the Department of Finance to make the process as simple as possible for co-operatives applying for the CED Tax Credit.
c. Build a central resource in the co-operative community to champion the CED Tax Credit, promote investment opportunities, support the application for eligibility by co-operatives, build the capacity of co-op leaders to market and sell investment shares, and connect co-operatives that are using and exploring the model to facilitate peer-support. The Manitoba Co-operative Association would be the ideal host for this resource and capacity, The Economic Development Council for Manitoba Bilingual Municipalities (CDEM) would be best positioned to provide this resource for francophone communities. The Canadian CED Network – Manitoba could also play a supportive role.
d. Develop tools and a strategy to educate and train co-op developers, existing co-operatives in Manitoba, economic development officers, and anyone else involved in business and co-op development in Manitoba to ensure that they are confident in using and supporting the use of the CED Tax Credit model. Also, build broader awareness of the potential for the model by bringing in speakers who have experience with other successful and innovative equity investment funds such as those in Alberta and Nova Scotia.
e. Encourage the Province to enhance the incentive by raising the CED tax credit from 30% to 35% and by creating additional incentives for investment term renewals after 5 and 10 years.

5. Arrange a meeting between the Canadian Worker Co-op Federation representatives responsible for their RRSP-eligible investment fund and the Manitoba Co-operative Association, CDEM, co-op developers, existing co-operatives using the CED Tax Credit, and other co-operatives considering use of the Tax Credit to better understand how to make local investments from their members, RRSP-eligible. To ensure that members do not over-expose themselves with RRSP investments in these local high-risk investments, consider placing a cap on the RRSP investments that a co-operative will accept from a member. Should the RRSP model facilitated by the CWCF prove fully available to Manitoba co-operatives selling investment shares to members, it should be integrated into the promotion and education strategies mentioned above in recommendation #4.

[60] http://en.wikipedia.org/wiki/Crowdfunding

6. Watch for emerging developments with regard to crowdfunding legislation in Canada, which utilizes the internet to mobilize individuals to make equity investments in small businesses. Crowdfunding is currently prohibited by Canadian securities law because issuers are currently required to ensure that all investors are provided with a full prospectus or an offering memorandum, which most current crowdfunding sites do not require. However, the Ontario Securities Commission is currently studying the formalization of restrictions and protections for the investor, issuers, and portals in order to make crowdfunding possible there. There is also a proposal in Saskatchewan to exempt equity crowdfunding from securities rules while placing a cap of $100,000 on fundraising that is done not more than twice a year, with a maximum investment per person set at $1000. Crowdfunding, and the policies being developed to enable it, could provide additional mechanisms for co-operatives in Manitoba to raise the equity investment capital that they require to start and to grow.

Appendix A

Co-operative Principles

1. Voluntary and Open Membership
Co-operatives are voluntary organizations, open to all people able to use its services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2. Democratic Member Control
Co-operatives are democratic organizations controlled by their members—those who buy the goods or use the services of the co-operative—who actively participate in setting policies and making decisions.

3. Members' Economic Participation
Members contribute equally to, and democratically control, the capital of the co-operative. This benefits members in proportion to the business they conduct with the co-operative rather than on the capital invested.

4. Autonomy and Independence
Co-operatives are autonomous, self-help organizations controlled by their members. If the co-op enters into agreements with other organizations or raises capital from external sources, it is done so based on terms that ensure democratic control by the members and maintains the co-operative's autonomy.

5. Education, Training and Information
Co-operatives provide education and training for members, elected representatives, managers and employees so they can contribute effectively to the development of their co-operative. Members also inform the general public about the nature and benefits of co-operatives.

6. Cooperation among Co-operatives
Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7. Concern for Community
While focusing on member needs, co-operatives work for the sustainable development of communities through policies and programs accepted by the members.

Community Economic Development Principles

1. Use of locally produced goods and services

- Purchases of goods and services produced locally
- Circulation of income within the local community; less income drain
- Stronger economic linkages within the local community
- Less dependency on outside markets
- Greater community self-reliance

2. Production of goods and services for local use

- Creation of goods and services for use in the local community
- Circulation of income within the local community, less income drain
- Stronger economic linkages within the local community
- Greater community self-reliance
- Restoration of balance in the local economy

3. Local re-investment of profits

- Use of profits to expand local economic activity
- Stop profit drainage
- Investment that increases community self-reliance and cooperation

4. Long-term employment of local residents

- Long-term jobs in areas which have experienced chronic unemployment or under-employment
- Reduction of dependency on welfare and food banks
- Opportunities to live more socially productive lives
- Personal and community self-esteem
- More wages and salaries spent in the local community

5. Local skill development

- Training of local residents
- Training geared to community development needs
- Higher labour productivity
- Greater employability in communities which have historically experienced high unemployment
- Greater productive capability of economically depressed areas

6. Local decision-making

- Local ownership and control
- Co-operative forms of ownership and control
- Grassroots involvement
- Community self-determination

- People working together to meet community needs

7. Public health
- Physical and mental health of community residents
- Healthier families
- More effective schooling
- More productive workforce

8. Physical environment
- Healthy neighbourhoods
- Safe neighbourhoods
- Attractive neighbourhoods
- Ecological sensitivity

9. Neighbourhood stability
- Dependable housing
- Long-term residency
- Base for long-term community development

10. Human dignity
- Self-respect
- Community spirit
- Gender equality
- Respect for seniors
- Respect for children
- Social dignity regardless of physical, intellectual, or psychological differences
- Social dignity regardless of national or ethnic background, colour or creed
- Aboriginal pride

11. Support for other CED initiatives
- Mutually supportive trade among organizations with similar community development goals in Winnipeg and elsewhere