Creating Capital Pools to Support Social Enterprise Development in Manitoba

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I. Introduction

This research project is part of a larger body of research being completed under the title of *Creating Policy to Support Social Enterprise Development in Manitoba*. The thesis of the larger research project is stated as follows in the project's scope of work:

> The thesis of the research is that other jurisdictions have created large scale, viable social enterprises that meet CED principles, whereas Winnipeg has tended to create small, grant dependent social enterprises while following the same principles. The research will test this thesis, examine the factors that have led to success elsewhere, and draw conclusions about how to replicate the success of other jurisdictions in Winnipeg.

As a contribution to the larger body of research, this project will examine *social enterprise funds/trusts*, and *tax credit programs* that are relevant to financing social enterprise. This will be accomplished by examining the following six social enterprise funds/trusts:

1. Northcountry Cooperative Development Fund
2. The Chantier de l'économie sociale Trust
3. ICOF Community Capital Limited
4. Ontario Social Enterprise Trust
5. Toronto Social Enterprise Fund
6. Edmonton Social Enterprise Fund

In addition, this report will examine the following two tax credit programs:

1. Nova Scotia Equity Tax Credit and Community Economic Development Investment Funds (CEDIFs)
2. Manitoba CED Tax Credit Program

When reviewing the Nova Scotia CEDIFs, information will be provided on how the CEDIFs are operating (in certain circumstances) as capital investment funds in support of social enterprises.

A third aspect of this report will be to revisit the 2004 *Manitoba Social Enterprise Investment Fund (SEIF) Business Plan*. The objectives of this section of the report are two-fold:

1. To provide a brief overview of the different aspects of the proposed SEIF. This overview will be based on the July 2004 SEIF *Business Plan* and contextual information[1] concerning the current realities of the proposed activities and structure of the fund.
2. To provide a comparative analysis with the seven social enterprise trusts/funds reviewed in this report (inclusive of the six funds/trusts listed above plus the Nova Scotia CEDIFs). The focus of this comparison will be on establishing which of the funds are most similar to the proposed SEIF and which are most different.

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[1] The current contextual information will be based on a recent interview with Mr. Garry Loewen who was heavily involved in the development of the SEIF *Business Plan* in 2004. Mr. Loewen is also the chief investigator of the larger research project, *Creating Policy to Support Social Enterprise Development in Manitoba*.

In the final section of the report 3 categories of conclusions will be developed:

1. Conclusions concerning social enterprise funds/trusts and the proposed Manitoba SEIF;
2. Conclusions concerning the Manitoba CED Tax Credit;
3. General characteristics table developed by the research team.

The first two categories of conclusions will be developed with the objectives of summarizing the key findings of the report and suggesting the next steps that are required for further development of the proposed Manitoba SEIF. In addition to those conclusions specific to the ongoing development of the Manitoba SEIF, a three-step process is presented as a strategy for developing successful social enterprise funds.

The general characteristics table provides a summary that was developed by the research team specific to those funds reviewed in the report that are most relevant to the Manitoba context.

II. Established and Developing Social Enterprise Funds

1. Northcountry Cooperative Development Fund

1.01 Background:

Northcountry Cooperative Development Fund (NCDF) was incorporated in 1978 and provides community development loans to consumer, worker, housing and agricultural producer cooperatives across the Midwest United States. (Northcountry Cooperative Development Fund)

The legal structure of the NCDF is a cooperative that operates as a member-owned and member-governed financial intermediary. The NCDF's capital pool has been established through the investments received from the cooperative community and its supporters. The fund works across all sectors to act as a catalyst for the development and growth of cooperative enterprises. As articulated on the NCDF's webpage, the organization's mission is to "promote economic equity and community stability by making loans to cooperatives, and by providing corresponding support services." (Northcountry Cooperative Development Fund)

The main sources of information for this section of the report were the NCDF website, the 2006 NCDF Annual Report, and an interview with Interim Executive Director, Mr. Bill Patrie.

1.02 Source of Funding for Fund/Trust:

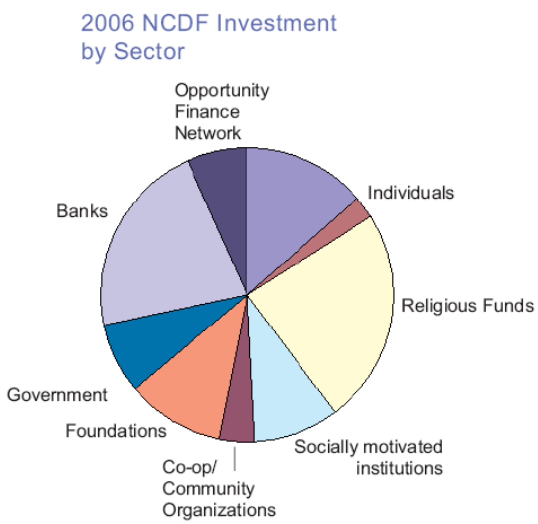
The NCDF was initially capitalized by three individuals and four natural food cooperatives that pooled together $3,000 to start the Fund in 1978. The first loan made by the fund was for $300. Thirty years later the fund now has over 200 investors and a capital pool of about $12 M. (Patrie, 2008) The NCDF website lists the fund's current investors. This list is reproduced here for reference:

- Adrian Dominican Sisters
- Ascension Health
- Calvert Social Investment Foundation
- Catholic Health Initiatives
- Community Development Financial Institution Fund of US Dept of Treasury
- Congregation of the Humility of Mary
- Consumer Association for Community Action
- Cooperative Development Foundation - Hillman Dubinsky Fund
- Co-op Disaster Relief Fund
- Amy Domini as Trustee
- Dominican Sisters of Springfield Illinois
- Episcopal Church
- Episcopal Diocese of Iowa Alternative Investment Fund
- Federated Youth Foundation
- Franciscan Sisters of Little Falls
- Funding Exchange Endowment
- Funding Exchange Pooled Funds
- Group Health Association
- Investment Management Accounts
- Kansas Midwives Legal Defense Fund
- Loring, Wolcott, and Coolidge Trusts
- M & I Community Development Corporation

- MMA Community Development Interests, Inc.
- Mercy Investment Program, Inc.
- National Cooperative Bank Development Corporation
- Northstar Asset Management
- Opportunity Finance Network
- Our Lady of Victory Missionary Sisters
- Partners for the Common Good
- School Sisters of Notre Dame
- School Sisters of St. Francis
- Sinsinawa Dominicans
- Sisters of Charity BVM
- Sisters of Charity Seton Enablement Fund
- Sisters of St. Dominic
- Sisters of Saint Francis of Philadelphia
- Sisters of St. Joseph in California
- Sisters of St. Joseph of Carondolet, St. Paul Province
- Sisters of the Presentation of the BVM
- Sisters, Servants of the Immaculate Heart of Mary
- SSM International Finance
- Tides Foundation
- Trinity Health Corporation
- Twin City Co-ops Federal Credit Union
- Twin Pines Cooperative Foundation
- Wells Fargo Community Development Corporation
- Western Wisconsin Coalition of Co-ops
- Wheaton Franciscan Sisters Corporation
- A number of individual and institutional investors through United States Trust of Boston

(Northcountry Cooperative Development Fund)

The NCDF's 2006 Annual Report provides a breakdown of the fund's investors by sector:



(Northcountry Cooperative Development Fund, 2006, p. 4)

The NCDF website also provides a list of additional funders who have invested in special projects or committed to equity funds that benefit specific cooperatives. (Northcountry Cooperative Development Fund, 2006)

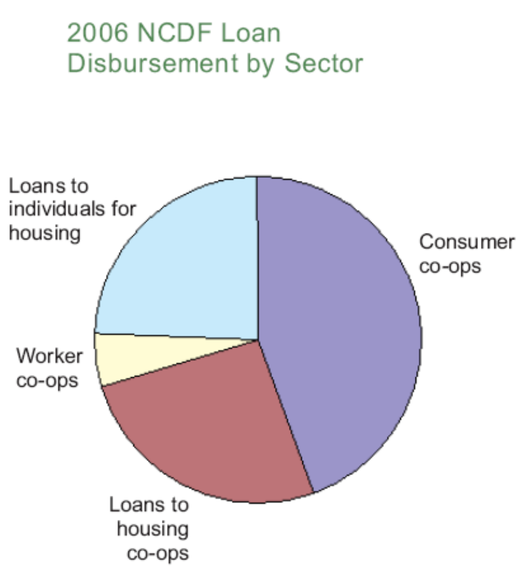
1.03 Demand: Who is Using the Fund/Trust? What Types of Organizations are Targeted?

In order to be eligible for financing through the NCDF the recipient organization must be a member of the cooperative. The eligibility criteria and process of becoming a member is discussed in more detail in section 1.04. The current members of the NCDF include over 100 cooperatives from 11 upper Midwest states (Montana, South Dakota, North Dakota, Kansas, Nebraska, Indiana, Illinois, Iowa, Michigan, Wisconsin, and Minnesota). The NCDF website lists the many different types of co-ops that belong to the NCDF; the length of the list suggests a very diverse membership:

- Agriculture
- Arts
- Bakery
- Books
- Consulting
- Design and Construction
- Distribution
- Engineering and Manufacturing
- Health Care
- Horticulture and Forestry
- Housing
- Retail Grocery
- Land
- Park
- Printing
- Restaurant
- Secondary Cooperative
- Transportation (Taxi)
- Vendor Market
- Worker

(Northcountry Cooperative Development Fund)

The pie chart below is reproduced from the NCDF 2006 Annual report and shows the NCDF's loan disbursements by sector in 2006:



(Northcountry Cooperative Development Fund, 2006, p. 4)

The NCDF provides loans to cooperatives ranging in size from $500,000 to $12 M in annual revenue; from 3-4 employees to more than 200 employees; and capitalization amounts ranging from $100,000-$200,000 (for start-ups) to $20 M. Mr. Patrie noted that the NCDF works to a greater extent with expansions over start-ups. He estimated that at least 80% of the fund's business is with expansions while less than 20% of its commercial scale loans are for start-ups. (Patrie, 2008)

An individual can also become a member of the NCDF and borrow from the fund to finance the purchase of a share in a cooperative, such as a producer cooperative or a housing cooperative. (Northcountry Cooperative Development Fund)

1.04 Eligibility Criteria:

As previously noted, in order to qualify for a loan from the NCDF an individual or cooperative must become a member of the NCDF. Consumer, producer and worker cooperatives must purchase equity in the NCDF. The amount of the required equity purchase is determined by the business's assets. The following table reproduced from the NCDF's website explains how this amount is determined:

Asset Value	up to $50,000	up to $100,000	up to $200,000	up to $500,000	up to $1,000,000	over $1,000,000
Equity	$150	$300	$600	$1,000	$2,000	$3,000

(Northcountry Cooperative Development Fund)

For housing co-ops, the equity purchase amount is determined by the number of units rather than the cooperative's asset value. More specifically, the amount is determined by calculating units at base amount of $10 per unit, with a minimum of $150 and a maximum of $3000. (Northcountry Cooperative Development Fund)

Loans issued by the NCDF to cooperative members may be used for any business purposes, including equipment purchase or lease, capital improvement, working capital, inventory, and relocation or expansion. (Northcountry Cooperative Development Fund)

Individuals wishing to become members must purchase a $10 equity share in the fund.

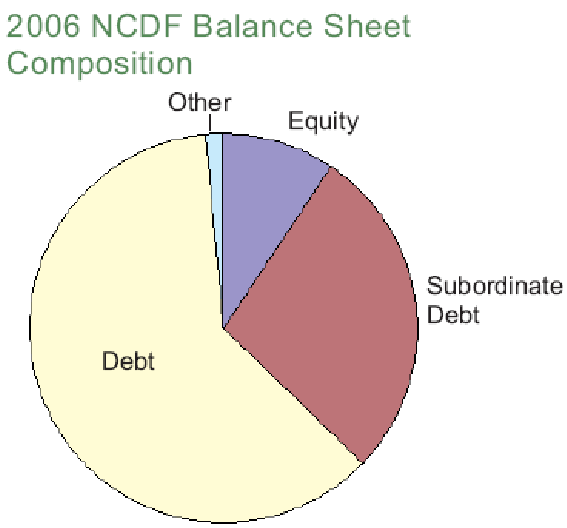
1.05 Return to Investors in the Fund/Trust (Structure and Range of Investment Instruments Employed):

The NCDF receives investments from members (cooperatives and individuals) and non-member institutions (cooperative coalitions, foundations, community groups, religious entities, financial institutions, other socially responsible institutions). The investment instrument used by the NCDF is a loan product which offers a below market rate of return along with the guarantee that investors are "investing in cooperation" (Northcountry Cooperative Development Fund). Mr. Patrie noted that the average rate of return paid to institutional investors is roughly 3.75%. There is however a great deal of variance in the rate of return paid to different investors ranging from a low of 0% to a high of 5%. (Patrie, 2008)

1.06 Viability of Fund/Trust:

The NCDF's 2006 Annual Report suggests that the fund is doing quite well for itself. The cooperative reported a 26% increase in its equity in 2006. In absolute terms, total equity grew from $860,772 in 2005 to $1,085,580 in 2006. The NCDF also posted a net profit[2] in 2006 of $28,369, an increase from 2005 when it recorded $24,248 in net profit. The membership of the NCDF also grew in 2006 adding 10 new members from 6 different states. It is also notable that NCDF completed the 2006 fiscal year with $0 in loan losses. (Northcountry Cooperative Development Fund, 2006, pp. 2-3).

The following pie chart is reproduced from the NCDF's annual report and illustrates the fund's balance sheet composition at the end of the 2006 fiscal year.



(Northcountry Cooperative Development Fund, 2006, p. 3)

NCDF has several different sources of operating capital which include:

- Loan interest & loan fees;
- Management fees;
- Grant revenue;
- Project reimbursement income, and
- Development fees.

Loan capital is sourced principally from investors and undivided profits. (Shadko, 2008)

1.07 Technical Assistance:

Closely affiliated to the NCDF is the Northcountry Cooperative Foundation (NCF), a technical assistance and educational non-profit organization. The NCF's programming includes: research, training, education, development assistance for housing and business, and other services. The NCF aims to assist low-income and other underserved communities in developing "community-owned, democratically-governed enterprises" (Northcountry Cooperative Development Fund).

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[2] Net profit is reported as the net profit after the payment of returns to investors.

Mr. Patrie noted that part of NCF's role is to play an animation role in the cooperative sector. That is, playing a proactive role in identifying good cooperative business opportunities across different sectors of the economy, and acting as a liaison to connect cooperatives with these business opportunities. Mr. Patrie refers to NCF's role in providing technical assistance and animating the sector as the *development* function of Northcountry's work. (Patrie, 2008)

An examination of the NCF's 2006 Audited Financial Statement suggests that although the NCF is dependent on the NCDF for financial support of its programming, it also relies heavily on grant donations from other sources to support its work. For example, of the NCF's total income of $957,799 in 2006, $849,747 was received by the NCF as grant funding. An additional $40,000 was received as a donation directly from the NCDF. Mr. Patrie confirmed that although the NCF was initially founded and funded by the NCDF it has increasingly diversified its investors. He noted that the fund now receives significant investments from the US Department of Agriculture and various foundations. (Patrie, 2008)

Mr. Patrie provided extensive commentary on the question of the advantages of funds providing development services in-house versus contracting these services to another organization. He stressed that his comments reflected only his views and did not necessarily reflect the perspective of the NCDF. Mr. Patrie began by noting that this has been a highly debated question in his 32 years of experience in the development field. Mr. Patrie is a proponent of having two affiliated but independent organizations playing the separate roles of *financing* and *development*. The developer's role, in Mr. Patrie's view, is to act as a vigorous and robust development entity that takes appropriate and calculated risks to achieve its mandate of acting as a catalyst for the sector. The funding structure and investment instruments it uses are different than the fund's; making use of public sector and foundation grants, and generating additional revenue from the services it provides. *The services provided by the developer should be completely independent of the lending functions performed by the fund.* The developer should be knowledgeable about the types of loans the fund is looking for however it should play no role influencing the lending decisions of the fund. The fund on the other hand, needs to be an interested (but hands off) participant in the activities of the developer. This is critical as the fund needs to know that the loan applications coming through the work of the developer are carefully thought through. (Patrie, 2008)

Mr. Patrie noted that Northcountry has only recently become more involved in development type activities. Despite this, the development function has quickly grown to such an extent that the number of employees at NCF currently outnumbers those at the NCDF. (Patrie, 2008)

1.08 Financial Product Offerings:

Mr. Patrie noted that in the NCDF's thirty year history it has loaned over $20 M to 524 enterprises. The average loan size over this period has been roughly $37,000; however the current typical loan size is much higher ranging between $100,000 and $300,000. The largest loan made by the NCDF to date has been $480,000. (Patrie, 2008)

In the 2006 Annual Report the NCDF records that it disbursed close to $4 M in loans to consumer, housing and worker cooperatives. This amount also included loans to individuals to purchase shares in housing cooperatives. (Northcountry Cooperative Development Fund, 2006, p. 3)

The NCDF lists three different financial products for its members:

1. Cooperative Home Loans:
   NCDF offers share loans for individuals who wish to buy into a cooperative housing community, and a cooperative home equity loan product for home improvements. For individuals wishing to buy into a cooperative housing community, the individual must first find a housing cooperative that is listed as one of the NCDF's approved share loan sites. Once the individual has found an approved cooperative they can proceed with completing their loan application to NCDF for financing to buy into the cooperative.

2. Commercial and Business Loans:
   The NCDF website lists two different Commercial and Business Loan applications; one for amounts under \$60,000 and the other for amounts over \$60,000 and all real estate purchases. Any cooperative that is a member of the NCDF is eligible to apply for a loan. As previously mentioned, the loans can be used for working capital, equipment purchases expansion, relocation, and business start-up for cooperatives. (Northcountry Cooperative Development Fund)

3. Worker Ownership Fund:
   The Worker Ownership Fund (WOF) is a fund that the NCDF manages on behalf of the U.S. Federation of Worker Cooperatives (USFWC). The objective of this fund is to "increase access to financing for start-up and existing worker-owned cooperatives" (Northcountry Cooperative Development Fund). The WOF offers cooperatives with loan and investment financing options as well as technical assistance and mentorship to assist with business plan development and the preparation of loan applications.

(Northcountry Cooperative Development Fund)

In addition to the above three financing options, the NCDF is closely affiliated with the Northcountry Cooperative Federal Credit Union (NCFCU), which also provides a range of financial products and services that are tailored to the needs of cooperatives and their members. The NCFCU was started in 2003 by the members of the NCDF. (Northcountry Cooperative Development Fund)

1.09 Due Diligence for Selecting Recipient Organizations:

The process for applying for a NCDF Commercial Business Loan involves completing the appropriate loan application. The loan applications are then received by the NCDF staff and assessed in a streamlined process that is intended to respect the time constraints of the applicant. (Northcountry Cooperative Development Fund)

Mr. Patrie noted that the loan underwriting work is completed by the NCDF staff who in turn forward the loan applications with recommendations to the NCDF Finance Committee (a committee of the NCDF Board of Directors). The Finance Committee is made up of individuals with a high level of financial literacy and is expected to play a decisive role in the loan approval process. (Patrie, 2008)

Mr. Patrie noted that there are a number of aspects that make the due diligence process for community development financing institutions unique. One such aspect is that the individuals involved in the process need to have strong intuition about the viability of the deals being proposed. In his words:

> "In order to be a good lender, for community development financing types of activities, you also have to have, the folks who are doing this, both the board and the staff, have to have in their gut a good idea of what is likely to work. There is some intuition that is involved here that you can't get out of books and ratio analysis and a typical banker review." (Patrie, 2008)

In addition to intuition, Mr. Patrie noted that another specialized skill that NCDF looks for in recruiting new staff is the ability to be both a strong advocate (that is, trying to find creative ways to make deals work), while at the same time remaining coldly rational in assessing which deals make financial sense and which do not. Balancing these two sets of interests is a challenge facing community development financing institutions that a typical financial institution does need to face. For these reasons Mr. Patrie noted that it is hard to find individuals that have these specialized skills which are necessary in his opinion to be able to run a successful community development financial institution. (Patrie, 2008)

The due diligence for the Worker Ownership Fund (WOF) operates in a different fashion from the loan products offered by the NCDF. The website notes that in assessing applications for financing, the WOF gives primary consideration to the cooperative's demonstrated capacity in sound business management practices. That said, the following social considerations are also noted as criteria that are taken into account in the assessment of applications for financing:

- ***Democratic Job Creation.*** The topmost priority is democratic job creation. Applications will be favored in direct proportion to the number of democratic jobs they promise to create. Long-term job creation will be considered; thus a project intended to serve as a foundation for further cooperative developments would receive favorable consideration over a stand-alone project.

- ***Democratic Enterprise in Low-income and Underrepresented Communities.*** Business plans that will create democratic jobs in low-income communities and communities currently underrepresented in the worker cooperative movement (e.g., African-American) will receive favorable consideration.

- ***Safeguards Regarding Cooperative Longevity.*** Cooperative applicants will be favored to the extent that they include mechanisms to preserve the affordability/accessibility of membership by people of limited means and safeguards against the conversion of the business and its assets to conventional ownership.

- ***Democratic Operation.*** Applying cooperatives will receive favorable consideration commensurate to the (anticipated or existing) levels of democratic participation of their workers in business operation. In addition to the standard elements, business plans for start-ups will be expected to include a plan for democratic organizational development and education.

- ***United States.*** Lending/investments will be focused in the United States. However, collaborative projects with such partners as the Canadian Worker Co-op Capital Fund could be considered for cooperative enterprises that cross borders.*

- ***Projects Disfavored by Conventional Lenders/Investors.*** Priority will be given to projects that, although sound from a business perspective, would receive unfavorable consideration from conventional lenders. Whenever possible, the backing of the dedicated fund will be used to leverage support from other lenders/investors in the interests of furthering democratic job creation.

(Northcountry Cooperative Development Fund)
*NB – Underlining added by author.

1.10 Ownership and Governance of the Fund/Trust:

The legal structure of the NCDF is a cooperative. As such, it is owned and governed by a board of directors comprised of its members. The NCDF website lists 10 staff members. (Northcountry Cooperative Development Fund)

The broader Northcountry family of organizations has three entities:

- Northcountry Cooperative Development Fund;
- Northcountry Cooperative Foundation;
- Northcountry Cooperative Federal Credit Union.

Until recently Northcountry had one executive director for all three organizations. The organization has since committed to having a one executive position for each organization (fund manager, executive in charge of NCF, and a credit union manager). (Patrie, 2008)

Mr. Patrie noted that up until the present the NCF and NCDF have had an overlapping board of directors. The organization has also committed to eliminating these overlapping seats on the two respective boards. (Patrie, 2008) These changes clearly suggest a movement towards greater delineation between roles and responsibilities of the three Northcountry organizations.

Mr. Patrie noted that the three organizations will however continue to have a common strategic plan. (Patrie, 2008)

2. Chantier de l'économie sociale Trust

2.01 Background:

The Chantier de l'économie sociale Trust is one of the most successful Canadian social economy capital pools examined in this report as judged by its capacity (i.e. the size of its capital pool) and its record of investment in social enterprises.

Central to the Trust's success has been the advocacy work of its parent organization, Chantier de l'économie sociale (Chantier). The Chantier negotiated with the former Liberal government to ensure that the funding allocated to Quebec in the Federal Government's Social Economy Initiative was moved through the Federal Treasury Board prior the 2006 federal election. When the Federal Conservatives took government after the election they cancelled the Social Economy Initiative and as a result the Initiatives' funding for provinces outside of Quebec was never realized. The Chantier's steadfast efforts to ensure that the Initiative's funding reached Quebec prior to the 2006 Election provided a tremendous payoff in the form of a 22.8 M non-repayable contribution towards the capitalization of the trust. In addition to these funds the trust has managed to raise an additional 30 M in capital which together provided the trust with 52.8 M in initial capital to start the trust. (Chantier de l'économie sociale Trust) Since beginning its operations in February of 2007, the trust has already made investments in 12 social enterprises totalling 4.5 M. (Charest, 2008)

The trust invests in market-driven or market-supplemented social enterprises that are operated by non-profit organizations and co-operatives. The trust's mission, as stated in the 2007 Annual Report, is as follows:

> The main mission of the Chantier de l'économie sociale Trust is to stimulate the expansion and development of collectively run enterprises by improving their access to financing and by enhancing the capitalization of social economy enterprises. (Chantier de l'économie sociale Trust, 2007, p. 2)

2.02 Source of Funding for Fund/Trust:

The following four partners contributed to the trust's initial pool of capital: Canada Economic Development (previously discussed), Fonds de solidarité (a labour-sponsored venture capital corporation), Fondaction - Fonds de développement de la CSN pour la coopération et l'emploi (a labour-sponsored development fund), and the Government of Québec. The contribution from Canada Economic Development is non-repayable, whereas the other three investors received a debenture in exchange for their investment (the debenture product is explained in section 2.05). The trust received investments from the four partners at the following amounts:

Canada Economic Development – CED	$22.8 M
Fonds de solidarité FTQ	$12.0 M
Fondaction CSN	$8.0 M
Government of Québec	$10.0 M
Total	**$52.8 M**

(Chantier de l'économie sociale Trust)

The trust's website notes that: "In partnership with the private market, $8 million more may be added to the initial fund" (Chantier de l'économie sociale Trust).

2.03 Demand: Who is Using the Fund/Trust? What Types of Organizations are Targeted?

With an initial capital pool of $52.8 M and an additional $30 M expected in investment revenues, the trust expects to invest approximately $80 M in social enterprises over a 15-20 year period. (Charest, 2008) Considering that this works out to an average of $4-$5 M being invested annually[3], an obvious question is whether or not the social economy in Québec can provide adequate deal flow to support this level of investment. Early indications are that this will not be a problem. As of June 30, 2007, only 5 months after the start date of the trust, the trust's *2007 Annual Report* reported the following statistics:

No. of applications 38
Applications accepted 5
Applications under consideration 14
Potential applications 13
Applications refused 1
Ineligible applications 2
Self-withdrawn applications 3
(Chantier de l'économie sociale Trust, 2007, p. 7)

A number of factors have contributed to the trust's early successes in generating such a high level of deal flow. Training sessions delivered by the trust have reached over three hundred individuals, representing a diverse network of organizations and social entrepreneurs. Eighty-five hundred copies of an informational pamphlet have been distributed to sector stakeholders. The trust has participated in a number of conferences and workshops, and has also benefited from media coverage. The Chantier de l'économie sociale is also assisting the trust in conducting a survey on the financing needs of social economy enterprises in Québec. (Chantier de l'économie sociale Trust, 2007, p. 6)

Another factor working in favour of the trust is the size of the social economy sector in Québec. Quoting Nancy Neamtan, President of the Trustee Council of the Chantier de l'économie sociale Trust, "In Québec, the social economy comprises 7000 collective enterprises, including financial cooperatives, that generate sales of over $17.5 billion" (Chantier de l'économie sociale Trust).

The trust's most current statistics report its investments in 12 social enterprises totalling 4.5 M. The trust does not have an explicit preference for start-ups or expansions; 1/3 of the first 12 projects have been start-ups while the remaining 2/3 are expansions. Each of the 12 social enterprises to receive financing from the trust derives between 60-75% of their total revenue from market revenues. M. Charest noted that the enterprises generate the additional 25-40% of their income from a variety of other sources including government subsidies, contributions from foundations, and fundraising activities. The trust has a broad mandate with regards to

[3] M. Charest noted that the trust plans to invest $5 M in year one, an average of $11.25 M per year during years two through five, and approximately $2 M per year during years six through twenty.

advancing a range of social outcomes through investing in a wide range of social enterprises that vary greatly in their social missions. Part of the trust's mandate is to ensure that the trust is financing social enterprises in all regions of the province. (Charest, 2008)

The trust's website lists the first 11 social enterprises to receive financing. The list is reproduced here for reference:

Ateliers créatifs – Centre-sud/Plateau Mont-Royal
Montréal
Activities: Develop and make sustainable production spaces for artists, artisans and cultural workers and organizations.
Projected use: Acquisition of a building and layout work.
The Trust's Investment: $743,885
Total project cost: $2.9 million
Number of jobs maintained or created: 3 jobs

Coopératives de travailleurs CHNC
New Carlisle (Gaspésie-Îles-de-la-Madeleine)
Activities: Gaspé regional radio station that features quality programming for the widest possible audience, with a focus on information, entertainment and relaxation.
Projected use: Purchase and installation of the equipment needed to convert the station from the AM to FM band.
The Trust's Investment: $95,000
Total project cost: $271,650
Number of job maintained or created: 10 jobs

Société des Fêtes et Festivals du Québec
Montréal
Activities: Tourism promotion associations producing general circulation publications and a website
Projected use: Acquisition and development of the www.quebecvacances.com website
The Trust's Investment: $250,000
Total project cost: $572,750
Number of job maintained or created: 28 jobs

Le Recyclo-Centre
Sorel-Tracy (Montérégie)
Activities : Sales of used items after they have been sorted and upgraded.
Projected use: Expansion and renovation of premises.
The Trust's Investment: $350,000
Total project cost: $1.6 million
Number of job maintained or created: 22 part time jobs and 26 insertion projects

Les Serres coopératives de Guyenne
Guyenne (Abitibi-Témiscamingue)
Activities : Greenhouse operation and tomato production.
Projected use: Equipment purchase.

The Trust's Investment: $250,000
Total project cost: $1.68 million
Number of job maintained or created: 155 jobs

Légendes Fantastiques
Drummondville (Centre-du-Québec)
Activities : Production of major outdoor spectacles.
Projected use: Construction of an outside amphitheatre and development of a new show.
The Trust's Investment: $412,000
Total project cost : $3.15 million
Number of job maintained or created: 31 jobs

Service funéraire coopérative Drummond (J.N. Donais Coopérative funéraire)
Drummondville (Centre-du-Québec)
Activities : Provide funeral services based on high quality standards and the values of mutual aid, solidarity and community involvement.
Projected use: Building acquisition and construction work.
The Trust's Investment: $500,000
Total project cost: $4.26 million
Number of job maintained or created: 26 jobs

La Corporation du cinéma Beaubien
Montréal
Activities: Offer programming composed mainly of auteur and first-run films and commercial films from Québec.
Projected use: Increase the comfort of filmgoers, improve projection quality and add two new theatres.
The Trust's Investment: $506,373
Total project cost: $1.8 million
Number of job maintained or created: 25 jobs

Le Centre de la Biodiversité du Québec
Bécancour (Centre-du-Québec)
Activities : Public education on conservation, the protection of endangered species, and the wealth of Québec's biodiversity.
Projected use: Building improvement and equipment purchase.
The Trust's Investment: $381,969
Total project cost: $1.3 million
Number of job maintained or created: 5 jobs

Coopérative de l'Université de Sherbrooke
Sherbrooke ((Estrie)
Activities: University consumer cooperative managing bookstore and computer services.
Projected use: Leasehold improvements and equipment purchase.
The Trust's Investment: $250,000
Total project cost: $1.45 million
Number of job maintained or created: 30 jobs

Les Boutiques Chic Chez Vous
Montréal
Activities: Retail sales of clothing that is adapted for men and women suffering diminishing autonomy.
Projected use: Transformation of a private enterprise into a social economy enterprise (non-profit organization).
The Trust's Investment: $150,000
Number of job maintained or created: 10 jobs

2.04 Eligibility Criteria:

The trust invests exclusively in social enterprises, typically those social enterprises that are run by non-profit organizations and co-operatives. There is a preference placed on financing social enterprises with fewer than 200 employees. (Chantier de l'économie sociale Trust)

The trust defines social enterprise as "an enterprise in the commercial sector that, while having an entrepreneurial character, also pursues a social mission" (Chantier de l'économie sociale Trust).

Eligible projects include business start-ups as well as expansions. Financing for business recovery or refinancing is not eligible. For a project to be eligible, the trust's loan must not represent more than 35% of the total project-related costs. Provincial Government agencies and those agencies that deliver provincial government programs (e.g. childcare centers, home support services) are ineligible to receive financing from the trust. (Chantier de l'économie sociale Trust) Another activity that is considered ineligible is financing for housing co-operatives. M. Charest noted that the trust places housing cooperatives in the same category as agencies that deliver provincial government programs. He added that the demand for financing in this sector is so great that if housing projects were considered by the trust its entire capital pool would be drained over a very short period of time. (Charest, 2008)

2.05 Return to Investors in the Fund/Trust (Structure and Range of Investment Instruments Employed):

As previously mentioned, four partners contributed to the capitalization of the trust. The Government of Canada's contribution (Canada Economic Development) is non-repayable. The other three partners (Fonds de solidarité FTQ, Fondaction CSN, Government of Québec) each received a debenture in exchange for their investment. The debenture product offered to the three institutional investors is scheduled for repayment at the end of a 15 year period, starting from the initial date of investment. The rate of return for the debenture product is the principal plus interest equal to that paid on a Government of Canada Bond (greater than 10 year) plus 2%. The actual rate of return paid to each of the three individual investors varies depending on the prevailing interest rate on Government of Canada Bonds at the time of their respective initial investments. At present, M. Charest noted that the debenture product pays a rate of return of roughly 6.35%. (Charest, 2008)

2.06 Viability of Fund/Trust:

All of the administrative and operational costs of the trust are paid for by the Trust. For the first two and a half years these cost will be paid out of the contribution from Canada Economic Development. From March 2009 onwards, all of the trust's costs will be paid for out of investment revenues accumulated by the trust. (Charest, 2008)

As previously mentioned, the trust only invests in social enterprises. This is different from the investment strategies in some of the other funds/trusts examined in this report. The investment strategy of the Edmonton Social Enterprise Fund, for example, involves a mix between mainstream market investments, investments in social enterprises, and offering technical assistance grants to social enterprises.

At any given point of time, the interest rate set by the trust on its patient capital loans is fixed for all its offerings. It is fixed at a rate slightly above the rate of return paid on the debenture product to institutional investors. This mark-up is in place to integrate the expected losses from write-offs on the patient capital loans. For example, if the rate of return paid to institutional investors is roughly 6.35%, the interest rate on the patient capital loan products might be approximately 7.5%. (Charest, 2008)

2.07 Technical Assistance:

No technical assistance programming is offered through the Chantier de l'économie sociale Trust. The trust has made a decision that its business will be exclusively to invest in social enterprises. The advantage of this strategy is that it allows the trust to manage a $52.8 M capital pool with only three staff and minimal cost. Critical to the trust's strategy is partnering with existing actors in the social economy that provide technical assistance to support the social enterprises that it finances. (Charest, 2008)

2.08 Financial Product Offerings:

The trust's financial products include two patient capital loan products with 15-year capital repayment moratoriums. (Chantier de l'économie sociale Trust) The amount of the loans range from $50,000 to $1.5 M, and the average loan at present is approximately $350,000. (Charest, 2008). The two patient capital loan products are described in detail on the Trust's website and reproduced here for reference:

- **Operations Patient Capital**: to finance costs related to the working capital fund, market launching of new products and the acquisition of office and computer equipment, automotive equipment, machinery, and tools. Operations patient capital is unsecured.

- **Real Estate Patient Capital**: to finance costs directly related to the acquisition, construction, or renovation of real estate assets such as land, building, warehouse, etc. Real estate patient capital is secured by a real estate mortgage subordinate to real estate mortgages that may be held with other lenders.

(Chantier de l'économie sociale Trust)

2.09 Due Diligence for Selecting Recipient Organizations:

The trust has mandated an outside agency, Réseau d'investissement social du Québec (RISQ-social investment network of Québec) to receive and analyze loan applications. (Chantier de l'économie sociale Trust) Once RISQ has assessed a potential loan application, it sends its analysis and recommendations to the trust's Investment Committee. (Chantier de l'économie sociale Trust, 2007, p. 7) The Investment Committee, in turn, advises the Trustee Council on the loan application; however, it is the Trustee Council who makes the final decision on all loan offerings. (Charest, 2008)

2.10 Ownership and Governance of the Fund/Trust:

The legal form of the Chantier de l'économie sociale Trust is a trust that operates like a non-profit organization. The trust does not presently have charitable status and has no plans to apply for charitable status. (Charest, 2008)

As previously mentioned, the Trustee Council makes the final decisions on all loan offerings. There are eleven members on the Trustee Council:

- Four Council members of the Chantier de l'économie sociale (including the president of the Trustee Council);
- One Council member from each of the four institutional investors (Canada Economic Development, Fonds de solidarité FTQ, Fondaction CSN, and the Government of Québec);
- One Council member from the Conseil Québécois de la Coopération et de la Mutualité.

(Chantier de l'économie sociale Trust, 2007, p. 2)

The Investment Committee and Monitoring Committee include local actors in the social economy from all regions of Québec and play an advisory role to the Trustee Council. (Charest, 2008)

As previously mentioned, working with an extensive network of partner organizations in the social economy in Québec is a critical component of the trust's strategy. In particular, the trust's website lists the following partner organizations:

- Corporations de développement communautaire (CDC-community development corporations)
- Corporations de développement économique communautaire (CDEC-community economic development corporations)
- Coopératives de développement régional (CDR-regional development cooperatives)
- Centres locaux de développement (CLD-local development centres)
- Community credit organizations
- Sociétés d'aide au développement des collectivités (SADC-community development assistance agencies)

(Chantier de l'économie sociale Trust)

These local stakeholders provide interested enterprises with information about the trust's financial products and eligibility criteria. (Chantier de l'économie sociale Trust) In 2007, the trust completed four training sessions with partner organizations, providing direct contact with over 150 development officers and analysts. (Chantier de l'économie sociale Trust, 2007, p. 5)

3. ICOF Community Capital Limited

3.01 Background:

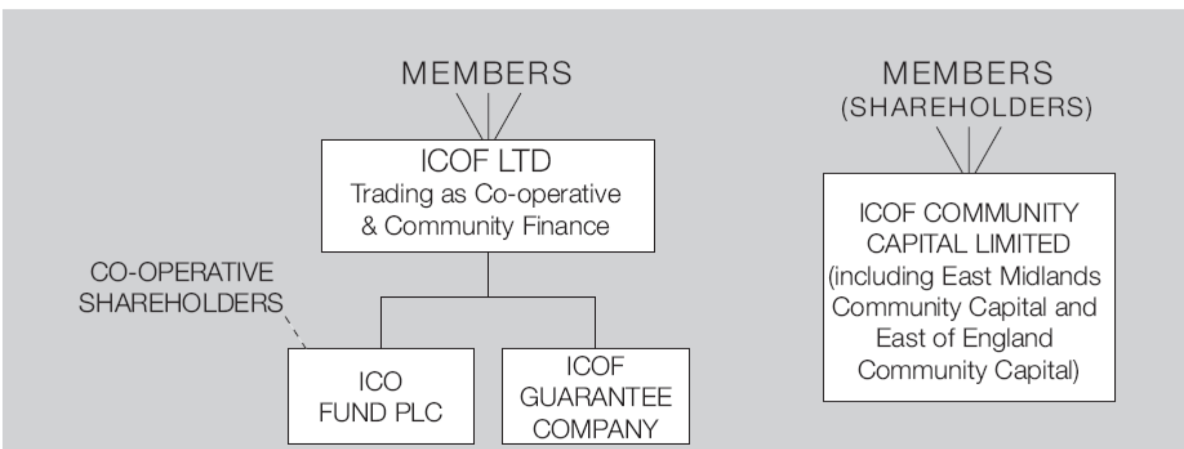
ICOF Community Capital Limited is a free standing society (established in 1994) that is managed under the family of businesses trading as Co-operative & Community Finance Ltd. (ICOF). ICOF Community Capital Limited's mandate is to provide loans to co-operatives, community businesses and social enterprises throughout mainland UK.

There are two main organizations that are managed by the larger entity of Co-operative and Community Finance:

- Industrial Common Ownership Finance Ltd (ICOF), which has two subsidiary companies; ICOF Guarantee Company and ICO Fund PLC – together these form the ICOF Group
- ICOF Community Capital Limited (ICC), a free standing society for the benefit of the community for which ICOF acts as fund manager.

(Co-operative & Community Finance)

The following organizational diagram is reproduced from the ICC's 2006 annual report:



(Co-operative and Community Finance - Community Capital, 2006)

<u>This report will focus primarily on providing a comprehensive overview of the how ICOF Community Capital Limited (ICC) operates</u>. Any discussion of the ICOF (including the ICO Fund PLC and the ICOF Guarantee Company) will be clearly noted so as not to confuse the reader.

Before discussing ICC in detail, it is necessary to first begin with a historical overview of ICOF (established in 1973) as the organization whose work led to the establishment of ICC in 1994. ICOF was developed through a number of informal meetings in Northampton in 1973 organized by a large common ownership cooperative called *Scott Bader*. The initial concept was to develop a fund that was capitalized by donations, deposits and loans from existing cooperatives which could be pooled and loaned out to new cooperative ventures. ICOF slowly gained momentum and eventually benefited from the central government's support, which came on side in 1976 by providing ICOF with £250,000 of funding to lend to co-operative enterprises.

ICOF continued to expand in the 1980s as a number of cooperative loan funds entrusted the management of their funds to ICOF. At present, ICOF continues to manage loan funds on behalf of many organizations as part of its operations. This is discussed in greater detail in section *3.08 - Financial Product Offerings*.

In 1987 ICOF established ICOF Fund PLC as a means of generating capital by public share issue. ICOF Fund PLC offers loans to worker co-operatives and employee owned businesses. Following the initial share offering, second and third offerings have been made in 1997 and 2007 respectively.

Up until the early 1990s, ICOF's operations were focused exclusively on financing worker cooperatives. The 1994 establishment of ICC expanded ICOF's focus to include not just cooperatives but other organizational structures that engage in economic activities that fulfill primarily mutual, social or community objectives. ICC is mandated to provide loans to co-operatives, community businesses and social enterprises throughout mainland UK.

3.02 Source of Funding for Fund/Trust:

The initial source of capital for ICC was £450,000 raised through withdrawable membership shares. (Co-operative & Community Finance) A discussion of the ongoing sources of capital for the fund is provided in 3.06.

3.03 Demand: Who is Using the Fund/Trust? What Types of Organizations are Targeted?

A vibrant social economy in the UK has resulted in high demand on the funds managed by ICOF. The ICOF website notes that "ICOF is running short of money, demand is outstripping supply." (Co-operative & Community Finance) Despite a slow beginning ICC has become the ICOF fund in most demand by borrowers. ICC loans are exclusively targeted at supporting social and community enterprises. These enterprises focus on employment generation and community renewal by offering a long list of services including:

- Crèche and nursery facilities
- Recycling furniture and restoring electrical goods
- Providing training for the young, the long term unemployed, and the physically or mentally disadvantaged
- Developing social housing
- Waste management and advice on recycling
- Running community farms
- Providing community counselling
- Publishing community newsletters

(Co-operative & Community Finance)

The ICOF website provides a list of some of the enterprises that it has financed. Note: The website does not distinguish between those enterprises funded through ICC versus other funds managed by ICOF.

The Twist Partnership
The Twist Partnership is a London-based social enterprise that delivers unique learning programmes to promote good leadership and enable people to positively change the environment in which they work or live.

Green-Works
Green-Works is a leading social enterprise that primarily operates an office furniture recycling service. Initially based in London, it now has warehouses across the UK.

Essential Trading
Essential Trading is a wholefood co-operative based in Bristol that specialises in supplying natural, organic, GMO free and fair trade vegetarian wholefoods to independent businesses in the UK.

Soft Touch Arts
Soft Touch Arts is a not-for-profit arts co-operative that was established in Leicester during 1986. It works with groups of marginalised or misrepresented people to help them to work together and generate positive change for themselves and their communities.

Wave
Wave is a design co-operative in Hastings, East Sussex that has been providing professional creative services since it was established in 1987.

DLT Training Ltd
DLT Training is a Bridgend-based company that delivers industrial training in freight logistics and materials handling to thousands of people every year.
(Co-operative & Community Finance)

3.04 Eligibility Criteria:

Note - The eligibility criteria for prospective borrowers does not distinguish between ICC and other ICOF funds. The overview of the eligibility criteria listed in this section therefore applies to all ICOF funds.

In order to be eligible to receive financing from ICOF, borrowers must first become members of ICOF. Organizations that are eligible to borrow from ICOF include:

- Cooperatives
- Social enterprises
- Community businesses
- Development trusts
- Businesses developed from the charitable and voluntary sector

(Co-operative & Community Finance)

The ICOF website lists the following as business activities that are eligible for financing through ICOF loans:

- Those starting a co-operative, employee owned business or social enterprise
- Those who are seeking to expand a co-operative, employee owned business or social enterprise
- Those wishing to take over an existing business and convert it to a co-operative or social enterprise. This may be where a business would otherwise close, be sold to a third party, or become a privatised public utility.

(Co-operative & Community Finance)

Organizations applying for a loan are required to pay a loan appraisal fee which varies between 1% to 2% of the sum advanced, depending on the work involved in processing the loan application. There is a minimum fee of £210 and a maximum fee of £1,000.The fee is only charged to successful applicants. (Co-operative & Community Finance)

3.05 Return to Investors in the Fund/Trust (Structure and Range of Investment Instruments Employed):

ICC offers shares of £1 nominal value with a minimum investment of £250 and a maximum investment of £20,000, although there is no limit for investment by other industrial and provident societies. Joint applications (applications by more than one individual) are also accepted. The shares are not quoted on any exchange and therefore are not transferrable. (Co-operative & Community Finance)

ICC sets a target of paying interests at a rate equal to inflation, without deduction of tax at source. The fund provides no capital gains. Interest is paid as an increase in shares in the society rather than in cash. There are not charges or membership fees for share purchase or withdrawal. (Co-operative & Community Finance)

ICC has regulations in place that require a withdrawal notice period of 6 months. In practice, this regulation has not been enforced over the past eight years whereas ICC has been in a position to provide withdrawals on demand. (Co-operative & Community Finance)

ICC also has a procedure in place whereby the directors of the society can suspend withdrawal rights or reduce the amount payable upon each share when withdrawn if the auditors of ICC certify that the liabilities of the society exceed its assets. (Co-operative & Community Finance)

On ICC's webpage for potential investors, it makes very clear that the society places a stronger emphasis on ethical investments over profitable investments.

> Community Capital invests in social businesses that are viable and operate in a commercially effective manner. We recognise that their level of profitability may be constrained by the achievement of social or environmental benefit and we know our investors share this recognition. This is an ethical investment with a priority for people rather than profit (Co-operative & Community Finance).

The webpage further notes “We hope the monetary value of your investment will be maintained, but it may go down” (Co-operative & Community Finance).

3.06 Viability of Fund/Trust:

ICC’s priority on people over profit has not led to the demise of the fund despite a number of losses. During the first four years of the Fund’s existence it did not record any losses. In 1999 however, it experienced its first lending loss when a Devon based business supported by ICC ceased trading, resulting in a loss to ICC of just over £7000.

Despite this loss and a number of others recorded by ICC, the Fund has been able to maintain the value of its shares by a number of strategies. One method has been the development of the ICOF’s Guarantee Company. The Guarantee Company is succinctly described on ICOF’s website as follows:

> One strategy to reduce investor risk is the Guarantee Company. The Guarantee Company exists solely to raise money to cover any capital losses made by Community Capital. Without it, if the loss rate increased, lending would have to be restrained to prevent a rapid depletion of capital and our ability to pay interest would be impaired. With the loss covered by the Guarantee Company lending can proceed as planned. (Co-operative & Community Finance)

Another strategy employed by ICC to increase their lending capacity is to encourage members to waive their interest payments. At the discretion of the directors, revenue earned by ICC by not having to pay interest is invested in the Guarantee Company. These investments enable ICC to make a limited number of higher risk loans that otherwise would not be possible. The website notes that fund’s main source of income for the Guarantee Company has come from this process. (Co-operative & Community Finance)

The successes of the fund in recent years have resulted in small surpluses that have counterbalanced ICC’s losses. The website notes that the fund expects to pay interest to shareholders in the near future; however also adds a reminder to members of the funds’ priorities:

> We expect to be able to pay interest again to our shareholders very soon. However Community Capital remains a fund that lends at risk to some of the most deprived people and communities in the UK. After all, how quantifiable is the glimmer of hope that puts their survival before our members’ interest? (Co-operative & Community Finance)

3.07 Technical Assistance:

The ICOF website notes that it offers non-financial support to its borrowers, however little detail is provided on the nature of these services. It is also noted that ICOF facilitates networking between the businesses it finances. (Co-operative & Community Finance)

3.08 Financial Product Offerings:

ICC is just one of a number of funds managed by the ICOF. A number of funds are region specific, while the ICOF Fund PLC is a national fund set up for worker co-operatives. ICC is also available nationwide and provides loans for social enterprises and cooperatives. (Co-operative & Community Finance)

The terms of ICC loans are tailored to the specific needs of the businesses based on their capacity to make repayments. There is a maximum repayment term of 10 years. The interest rates on ICC loans are competitive; however like the term the actual rate of interest, vary from loan to loan. The size of the funds' loans range from £5,000 to £50,000. If a business requires a loan greater than £50,000, ICOF's other loan funds provide loans for amounts up to £125,000 (in London up to £250,000). To date ICC has loaned out over £1,750,000. (Co-operative & Community Finance)

ICC will normally not consider financing greater than 50% of a financing package for a new business. However, the website notes that ICOF has 30 years of experience and in that time have developed partnerships with other lenders and funds which can be leveraged. (Co-operative & Community Finance)

The ability to provide security cover is not the main criteria upon which the lending decision is made, however the ICC does seek to secure loans against assets of the borrowing organization where possible. The fund does not take personal guarantees on loans. (Co-operative & Community Finance)

As previously mentioned, ICOF also provides *back office services* and loan management services on a contractual basis. Back office services include:

- Holding monies and provision of treasury services
- Setting up loan accounts, calculation of interest
- Re-calculating loans
- Provision of quarterly statements and tax computations
- Providing for early repayment
- Collection of repayments by monthly direct debit

(Co-operative & Community Finance)

ICOF loan management services are offered to local, regional and national funds, and other lenders. ICOF loan management services operate at a range of levels depending on the preferred degree of involvement of the contracting loan fund. ICOF's website lists three levels of service options, although it also notes that different elements of each level can be blended. The three levels are reproduced below for reference:

> Level One: Administration and Control
>
> At this level Co-operative & Community Finance will provide the administration of loans as in our normal Back Office service.
>
> - Loan advance release documentation.
> - Perfection of security.
> - Charging and collection of interest and loan capital repayments.
> - Financial and credit control; book keeping; reactive reporting of repayment problems.
> - Client monies can be held either by ourselves or by the Loan Fund itself.

Level Two: Appraisal and Monitoring

In addition to all of Level One, this would include

- Checking that applicants comply with the Loan Fund criteria.
- Full appraisal and written report on each client.
- Assigned Co-operative & Community Finance business advisor who will liaise with and attend all relevant Loan Fund Board or Committee Meetings.
- The regular, proactive monitoring of Loan Fund borrowers.
- The provision of business, financial and marketing advice to borrowers, where appropriate, in association with existing provision.
- The provision of monitoring and financial reports to the Fund.

Level Three: A Comprehensive Management & Investment Service

This would include all of levels one and two together the management of the Loan Fund's cash balances with investment advice to ensure best ethical investment practice and rate of return. This would involve adding the cash balances of the Loan Fund to our own cash balances to benefit from economy of scale and our investment experience. There are several mechanisms for doing this.

(Co-operative & Community Finance)

3.09 Due Diligence for Selecting Recipient Organizations:

ICOF invests only in cooperatives, employee owned businesses and social enterprises that are economically viable. Therefore, the capacity to repay the principal plus the agreed upon rate of interest are important considerations in the due diligence process of accessing loan applications. The ICC process of assessing a loan application includes:

- Visiting the business
- Preparing an appraisal report
- Decision making
- Perfection of security

ICC aims to complete this process within 24 working days of receiving the loan application. (Co-operative & Community Finance)

ICOF also has an *Ethical Policy* which sets forth positive and negative criteria that govern all of its business activities. (Co-operative & Community Finance)

3.10 Ownership and Governance of the Fund/Trust:

The legal structure of ICC is an Industrial and Provident Society. Any surplus remaining after the payment of interest to members is reinvested into the society, or may be used for charitable or educational purposes. (Co-operative & Community Finance)

Each member is entitled to one vote regardless of the size of their shareholding. The board of directors is appointed by the members of the society at the annual general meeting. Directors receive no remuneration for serving on the board of directors. The Rules of the Society regulate the composition of the board of directors as follows:

(a) Up to eleven persons elected by and from the membership; and

(b) Up to four persons appointed by Industrial Common Ownership Finance Limited (or such

> body as may succeed to its functions); provided that at no time shall the number of appointed Directors exceed the number of elected Directors. (Co-operative & Community Finance)

The Rules of ICC also require that one third of the directors (or, if their number is not divisible by three, the number nearest one third) to step down from the board of directors each year to make way for new directors. Currently the board of directors includes representatives from social economy businesses and affinity organizations. (Co-operative & Community Finance)

ICC has no staff itself. Management of its operations is contracted to ICOF. In conducting its business operations ICOF is authorized and regulated by FSA (the Financial Services Authority). (Co-operative & Community Finance)

4. Ontario Social Enterprise Trust

4.01 Background:

This section of the report considers the Ontario Social Economy Consortium's *Proposal to Establish a Social Enterprise Trust* (OSET)[4]. The main sources of information for this section are the most recent OSET Proposal (January, 2008), and an interview completed on March 12, 2008 with one of the Consortium's lead proponents, Mr. Paul Chamberlain (Project Director of the Canadian CED Network).

The consortium's work towards establishing the Ontario Social Enterprise Trust (OSET) was set back significantly when the Province of Ontario rejected the consortium's request for a $20 M contribution towards the capitalization of the trust. The consortium's strategy was to use the $20 M contribution from the provincial government to leverage $55 M in capital from other funders including the federal government, private corporations and foundations (further detail on OSET's capitalization strategy is found below in section 4.02). This strategy needed to be revamped when the provincial government decided not to accept the consortium's proposal. Since turning down the consortium's request, the province has encouraged the group to work through the provincial government's poverty reduction mandate as a means of securing a possible contribution. The consortium is hopeful that pursuing this route may lead to a smaller contribution in the neighbourhood of $100,000, which would assist the group in completing the next steps towards the further development of OSET. (Chamberlain, 2008) These next steps would include drafting an OSET business plan, legal work on the form, structure, and policies of OSET, and community consultations to assess the demand-side information of the sector. (Ontario Social Economy Consortium, 2008, pp. 10-11)

Although the completion of these next steps will undoubtedly strengthen the Consortium's business case for OSET, the likelihood of OSET actually being established is still very much contingent on the initiative receiving a significant contribution from either the provincial or federal government. (Chamberlain, 2008)

In writing this section of the report, the author has relied heavily on the interview with Mr. Chamberlain as a source of information for the finer points of OSET which are not included in

[4]The members of the Ontario Social Economy Consortium are listed in 4.10

the Consortium's *Proposal to Establish the Ontario Social Enterprise Trust*. Mr. Chamberlain was able to provide limited information with regards to a certain number of these points since the OSET business plan has not yet been completed. As this is the case, for those areas of inquiry where little information was available, limited information is provided.

4.02 Source of Funding for Fund/Trust:

As previously discussed in section 4.01 the capitalization strategy for OSET is currently being remodelled. Despite the fact that the financing figures listed in the OSET Proposal (January, 2008) are no longer current, the proposal's financing breakdown is listed here to provide context for understanding the Consortium's original strategy:

Major long-term contributions from institutional investors, with the following targets over a ten-year period:

- Government of Ontario ($20 million);
- Government of Canada ($25 million);
- Private corporations (banks, insurance companies) ($20 million);
- Foundations ($10 million).

Short-term and medium-term grant funds, with the following ten-year targets:

- Government of Ontario ($10 million);
- Government of Canada ($10 million);
- Foundations ($3 million);
- Private corporations ($2 million).

(Ontario Social Economy Consortium, 2008)

Beyond the initial capital pool, the OSET proposal lists the following additional sources of capital:

- Interest on loan repayments;
- Returns on a portion of the OSET's capital pool that is to be invested in mainstream financial markets;
- Operating grants for special projects.

(Ontario Social Economy Consortium, 2008)

Mr. Chamberlain noted that during the consortium's consultations with the provincial finance minister in 2007, one aspect of the OSET proposal that appealed to the finance minister was the fact that the contribution arrangement involved a lump sum contribution towards the initial establishment of OSET, after which the point the trust would be geared towards self-sufficiency. The finance minister viewed this type of investment as potentially compatible with spending a year-end budget surplus, whereas the dollars could be invested without requiring a long-term commitment to financing the project year after year. (Chamberlain, 2008)

Consistent with all other jurisdictions in Canada, the current federal government has shown no interest in financing anything related to social entrepreneurship in Ontario. (Chamberlain, 2008)

With regards to prospective financing from the private sector and foundations, as previously mentioned, without a buy-in from either the federal or provincial government it will be difficult for the Consortium to secure an investment from these parties.

4.03 Demand: Who is Using the Fund/Trust? What Types of Organizations are Targeted?

The consortium has identified that obtaining demand-side information is a priority in the next steps to be completed as part of the ongoing development of the business case for OSET. Preliminary information was gathered during a series of workshops coordinated by the Ontario Region of the Canadian CED Network which took place in Sault Ste. Marie, Peterborough, Ottawa, Hamilton and Sudbury during 2007. These workshops introduced participants to the concept of OSET and generated discussion and feedback as to the needs of the social economy sector. (Ontario Social Economy Consortium, 2008) A common theme expressed by participating organizations was the need for financing to purchase the property they were currently renting so that they could leverage this asset to scale up their operations.

Further information was ascertained by the Ontario Region of the Canadian CED Network as part of the organization's *Inventory of CED Organizations*, which was completed in 2007 and aimed to establish a profile of the sector. Not surprisingly, the survey found access to funding to be the number one priority for CED organizations. Mr. Chamberlain acknowledged however that a weakness of this process was that the survey tool used did not distinguish between the need for capital loans, equity and grant financing. (Chamberlain, 2008) Unfortunately, without a further breakdown of which organizations were interested in capital loans or equity financing, versus those who were interested in grant funding, this information does not provide a great deal of substantive demand-side information to gauge the sector's interest in the types of financial products that would be offered by OSET.

Mr. Chamberlain commented that any future activities directed towards generating demand-side information will need to include a sector education component. This is necessary because the volunteers and employees who make up the social economy's labour force generally lack the higher level of financial literacy that is required to understand the advantages and disadvantages of different financing strategies. Mr. Chamberlain noted an education tool could be combined and delivered with a tool used for ascertaining sector demand as part of the next steps of OSET's development. (Chamberlain, 2008)

The OSET lists the following targeted socio-economic outcomes that will result from the capital injected into the sector through the trust:

- Community economic renewal
- Reduced child poverty
- Affordable housing
- Women's access to credit
- Employment for marginalized groups
- Immigrant integration
- Labour market innovation
- Youth entrepreneurship

- Revitalized language and culture
- Green energy
- Health Care
- Social Services

(Ontario Social Economy Consortium, 2008)

The original intention of the consortium was for OSET to place a priority on financing a broad range of initiatives that reflect the wide array of socio-economic outcomes listed above. However, the mandate of OSET will likely now need to place a greater priority on poverty reduction since the consortium has been directed towards the poverty reduction mandate of the provincial government as a means of financial support for OSET. Mr. Chamberlain added that OSET may also pursue additional lines of government funding that are in line with the other socio-economic outcomes listed above as a means to try and maintain a broader focus than just poverty reduction. (Chamberlain, 2008)

The OSET proposal lists a number of different examples of the types of social enterprises it would be structured to finance. There is considerable variance in the enterprises listed with respect to how the enterprises derive their revenue. Some of the enterprises listed are structured in such a fashion that their long-term sustainability is dependent on a significant proportion of their revenue coming from grant funding. Some of the other enterprises appear to be less reliant on grants and generate a larger proportion of their income through market revenue. With respect to the social enterprises' revenue structure (grants versus market revenues), the proposal does not specify if there will be a priority on financing one particular social enterprise structure over another. (Chamberlain, 2008)

4.04 Eligibility Criteria:

The consortium has not yet established the basic criteria that an organization must meet in order to be eligible for the financial products offered by OSET. Mr. Chamberlain noted that preference will likely be given to financing those social enterprises which demonstrate the potential to scale up their operations as part of their business plan. (Chamberlain, 2008)

4.05 Return to Investors in the Fund/Trust (Structure and Range of Investment Instruments Employed):

For the capitalization of OSET, the consortium proposes a dual approach of applying for grant funding (non-repayable), and raising funds through the offering of a debenture product to institutional investors. The debenture product would yield a rate of return equivalent to a ten year Treasury Bill or five year GIC. (Ontario Social Economy Consortium, 2008, p. 9)

4.06 Viability of Fund/Trust:

The OSET proposal lists five lines of revenue that will lead to the long-term viability of the trust:

1. Major long-term contributions from institutional investors;
2. Short-term and medium-term grant contributions;
3. Interest on loan repayments;
4. Returns on investments of the trust's capital pool;
5. Operating grants for special projects.

(Ontario Social Economy Consortium, 2008, pp. 9-10)

The OSET proposal cites an expected rate of return of 5-6% on the portion of the OSET's capital pool that is to be invested in mainstream financial markets (number 4 above). This rate of return will be higher than the rate of return paid to institutional investors and the surplus revenues will be used to cover administrative and operational costs. (Ontario Social Economy Consortium, 2008, p. 10)

No additional information was obtainable about OSET's portfolio mix; that is, the breakdown of OSET's capital pool disbursement between investments in:

- Mainstream market investments;
- Patient capital loans for social enterprises;
- Grant funding for technical assistance.

4.07 Technical Assistance:

One of the two financial product offerings listed in the OSET proposal is a *capacity building product* for technical assistance with business planning, governance, operations, accounting, marketing and finance. These technical assistance grants will be non-repayable and for amounts ranging from $5,000-$25,000. (Ontario Social Economy Consortium, 2008, p. 9)

4.08 Financial Product Offerings:

The OSET proposal lists two financial products that will be offered to recipient organizations. The first is the capacity building product already discussed in 4.07. The second is a *patient capital product* that is structured as a long-term loan or guarantee (5-15 years) with competitive market based interest rate. The product will be available for eligible recipient organizations to use as a means of financing "real estate projects and working capital proposed by social enterprises and CED organizations" (Ontario Social Economy Consortium, 2008, p. 9). The loan amounts will range from $50,000 to $1.5 M. (Ontario Social Economy Consortium, 2008)

4.09 Due Diligence for Selecting Recipient Organizations:

OSET will select an organization to assume responsibility for the financial management of the trust. This organization will be selected through a competitive process and may be a "credit union or caisse populaire, other financial institution, a socially oriented investment company, a foundation or another charitable body such as a university." (Ontario Social Economy Consortium, 2008, p. 7) Part of the responsibility of the selected organization will be to perform the financial due diligence on those organizations applying for financing. (Ontario Social Economy Consortium, 2008, pp. 6-7)

Although much of the due diligence process will not be completed by OSET, the OSET Loan Committee will play a major role in the final decision of which proposals to approve for financing. The loan committee will be responsible for evaluating the non-financial aspects (i.e. social outcomes) of the proposed activities of the recipient organization. The financing decision will be the result of a meshing of the due diligence process and the evaluation process of the loan committee. (Chamberlain, 2008)

4.10 Ownership, Management and Governance of the Fund/Trust:

As mentioned at the onset of this section, the proponent of OSET is the Ontario Social Economy Consortium. The current members of the consortium include:

- Canadian Community Economic Development Network (CCEDNet))
- Community Economic Development Technical Assistance Program (CEDTAP)
- Conseil de la Coopération de l'Ontario (CCO)
- Ontario Co-operative Association (OCA, or On Co-op)
- Le Réseau de Développement Économique et de l'Employabilité (RDÉE)
- L'Alliance des caisses populaires de l'Ontario limitée (L'Alliance / ACPOL)
- MaRS Social Innovation Generation (SiG@MaRS)
- United Way of Greater Toronto

(Ontario Social Economy Consortium, 2008, p. 1)

The decision with regard to the legal structure of OSET has not yet been determined. Mr. Chamberlain noted that part of the next steps in the development of the business plan would be legal work to determine the most appropriate structure. (Chamberlain, 2008)

OSET will be governed by a board of trustees made up of eleven members. The proposal stipulates that the chair of the board as well as the majority of the trustees must be from the sector itself. The remaining seats on the board would be for investor institutions. (Ontario Social Economy Consortium, 2008, p. 6) Mr. Chamberlain noted however, that during the consortium's meetings with the finance minister in 2007 the minister noted that the province would likely not wish to have a seat on the Board.

The delivery of the capacity building grants will make use of pre-established networks, such as: the Canadian CED Network, On Co-op, CEDTAP, economie solidaire, RDÉE, community foundations, and United Ways. In the delivery of the patient capital loan products, the proposal notes:

> The Trust will work through, syndicate with or otherwise cooperate with local credit unions, caisses populaires, community loan funds, Community Futures Development Corporations, and other organizations already in the business of lending to the sector. (Ontario Social Economy Consortium, 2008, p. 7)

In the delivery of both the patient capital loan and grant products the proposal notes that OSET will work closely with all levels and agencies of government. (Ontario Social Economy Consortium, 2008, p. 7)

5. Toronto Enterprise Fund

5.01 Background:

The Toronto Enterprise Fund (TEF) was established in 2000. The initial pool of capital for TEF was established through non-repayable grant funding from the City of Toronto, Human Resource Development Canada, the United Way of Greater Toronto, and the Province of Ontario. The current funding partners and funding structure of TEF have remained largely unchanged since its inception. (Jamieson, 2008)

TEF provides financial and technical support to social purpose enterprises that provide employment opportunities for at-risk populations, with a particular focus on the homeless or those at risk of homelessness in Toronto. TEF's definition of a "social purpose enterprise" reflects the fund's targeted focus on the homeless:

> A social purpose enterprise is a business venture established by a not-for-profit organization that creates both community connections and real economic opportunities for homeless and at-risk populations by developing businesses that balance both revenue generation and a social mission – the "double-bottom line".
> (Toronto Enterprise Fund)

TEF offers support to social purpose enterprises via direct investment (grant funding), business development assistance, and ongoing research and evaluation.

The main sources of information for this section of the report were TEF's website and an interview with TEF's program manager, Ms. Anne Jamieson.

5.02 Source of Funding for Fund/Trust:

The initial pool of capital for TEF was established by non-repayable grant contributions from the following funding partners:

United Way of Greater Toronto*	$950,000 over 3 years
City of Toronto	$750,000 over 3 years
Province of Ontario Ministry of Community and Social Services (Ontario Disability Support Program)	$575,000 over 3 years
Human Resources and Social Development Canada (Homelessness Partnership Initiative)	$460,000 over 3 years
Total	$2,735,000 over 3 years

***** The United Way of Greater Toronto Contribution was raised through the contributions of two private-sector donors.
(Jamieson, 2008)

The funding partners and funding structure of TEF has remained unchanged since its establishment aside from few minor changes. For example, Human Resources Skills

Development Canada (HRSDC) initially directly funded TEF and now funds TEF indirectly through the Homelessness Partnership Initiative (an HRSDC initiative delivered by the City of Toronto). It is also noteworthy that over the period of its existence TEF has received contributions from other funding sources for specific initiatives. For example, CEDTAP provided TEF with funding in 2003 for one year in support of its business development work. (Jamieson, 2008)

5.03 Demand: Who is Using the Fund/Trust? What Types of Organizations are Targeted?

The social purpose enterprises currently funded by TEF are all enterprises that are being run under a parent organization which is an incorporated non-profit organization. TEF is currently funding 12 such social purpose enterprises that are in various stages of growth ranging from pre-start-up to business expansion. The annual revenues of these enterprises range from $150,000 per year to $400,000 per year. TEF has issued grants to these enterprises ranging from $40,000 to $105,000. All are considered to be small to medium sized businesses. (Jamieson, 2008)

The social objectives of the recipient organizations are primarily targeted at providing employment for the homeless or those at risk of homelessness in Toronto. They are also structured to support social purpose enterprises that provide employment opportunities for people with disabilities. This second social objective is reflective of the ongoing funding support TEF receives from the Province of Ontario’s Disability Support Program. (Jamieson, 2008)

Although the individuals running the social purpose enterprises come from a wide range of backgrounds, a large number come from the field of social work, with a limited number having business experience. Ms. Jamieson noted that all are motivated more by the social goals of the enterprise rather than the financial goals of the enterprises. At the same time, Ms. Jamieson commented that those who understand the link between the social and the financial objectives of the enterprise are running the most successful initiatives. (Jamieson, 2008)

The TEF website provides a description of each of the enterprises it has invested in. A sample of this list is reproduced below to provide an overview of the types of organizations that are funded by TEF:

- **River Restaurant**
  Owned and operated by All-A-Board Youth, the River Restaurant is a fine-dining restaurant and lounge that provides training and transitional employment to youth who are homeless or at-risk of homelessness.

- **Eva’s Phoenix Print Shop**
  The Phoenix Print Shop is a commercial print shop that provides training and transitional employment to youth who are homeless or at-risk of homelessness. It is owned and operated by Eva’s Initiatives.

- **Furniture Link**
  Owned and operated by the Furniture Bank, Furniture Link operates a furniture pickup and delivery business providing permanent employment to people who are homeless or at risk of homelessness.

- **Out of This World Café**
  Owned and operated by the Ontario Council of Alternative Businesses, Out of This World Café is located within the Centre for Addiction and Mental Health (CAMH)'s Queen Street site, and operates four business units: a café, an espresso bar, a mobile coffee cart, and a catering business. Out of This World Café is the first psychiatric survivor run business in a hospital setting in Canada, with employees taking responsibility for the business. The café provides permanent part-time employment to 40 participants who are patients of CAMH.

- **Blue Sky DJ Service**
  Blue Sky DJ Service is owned and operated by Pape Adolescent Resource Centre. Blue Sky is an entertainment business that provides training and transitional employment to youth moving out of the foster care system.

- **Inspirations Studio**
  Inspirations Studio is a studio space where homeless and marginalized women develop micro-businesses in arts and crafts production. Inspirations Business obtains bulk orders from organizations and corporations for gift items, which are sub-contracted to the members of the studio. Sistering owns and operates Inspirations Studio.

- **Haween Enterprises**
  Owned and operated by the Somali Women and Children's Support Network, Haween Enterprises is a sewing enterprise that makes textile products for manufacturers, private companies and individuals, and provides training and transitional employment for immigrant and low-income.
  (Toronto Enterprise Fund)

5.04 Eligibility Criteria:

In order to receive grant funding, interested organizations enter the TEF Business Plan Competition. The Business Plan Competition and selection process are discussed in detail below, in section 5.09. The TEF website states that in order to be eligible to participate in the Business Plan Competition an organization must:

- Be located and operating in Toronto
- Be managed by a volunteer Board of Directors or Steering Committee
- Operate in accordance with the Ontario Human Rights Code
- Be an incorporated non-profit organization, a charitable organization, or, if not incorporated, be sponsored by a charitable organization
- Not currently be in receipt of funding from the Toronto Enterprise Fund

(Toronto Enterprise Fund)

In addition, to participate in the Business Plan Competition, the concept being proposed by the applying organization must meet the following conditions:

- Generate revenue through the sale of a product or service; and
- Provide transitional or permanent employment to people who are homeless, at-risk-of homelessness or low-income; and
- Be in the planning stages or have been operating for less than 12 months

(Toronto Enterprise Fund)

5.05 Return to Investors in the Fund/Trust (Structure and Range of Investment Instruments Employed):

All funding received by TEF is in the form of non-repayable grant contributions. The institutional investors' interest is in TEF's ability to achieve the social objectives that are aligned with those of the institutional funders. (Jamieson, 2008)

5.06 Viability of Fund/Trust:

Whereas TEF itself is not structured to generate income the on-going sustainability of TEF is reliant on continued support from the institutional investors that provide TEF with funding.

Of the revenue generated by TEF, it is expensed in the following manner:

- 88% program spending (social purpose enterprise grants, contracting of technical assistance services, etc.)
- 12% admin spending (staffing, administrative, etc.)

In the past this ratio has been as high as 92:8 (percentage programming to admin spending) however a combination of factors has lead to the current ratio. One such factor has been a move towards having a greater proportion of technical assistance supports being provided by in-house staff where previously these services where contracted to a third party service provider. (Jamieson, 2008)

5.07 Technical Assistance:

TEF offers three types of technical assistance support:

1. Pre-development program:
    a. Business development training
    b. Online tools and resources
    c. One-on-one consulting support
2. Technical assistance programming for social purpose enterprises that have received funding from TEF:
    a. Ongoing business development support focused on management, marketing, and sales. May include workshops as well as customized assistance.
    b. Online tools and resources
3. Social Purpose Enterprise Network (SPEN Toronto):
    a. Network of Toronto area social purpose enterprises with the objective of providing business development assistance and peer support.
    b. Programming includes:
        i. Collaborative action

ii. Networking activities
iii. Skills development

(Toronto Enterprise Fund)

TEF also has a *"What we've Learned"* webpage that provides prospective social enterprises and the public with information from the evaluations and research it has completed with the social enterprises the organization has worked with. (Toronto Enterprise Fund)

In the provision of technical assistance an interesting challenge is finding the balance between providing these services in-house, versus contracting these services to a third party service provider. Ms. Jamieson commented that a best practice that she has learned through her experience with TEF is to provide in-house technical assistance supports to pre start-ups, while contracting to third party service providers to deliver technical assistance to established social purpose enterprises. Having a third party technical assistance provider working with established enterprises allows the consultant to be more objective and hands on then is the case when the technical assistance is being provided by the same organization that is granting funding. (Jamieson, 2008)

The costs of all of the technical assistance services provided by TEF are incorporated into TEF's annual operating budgets. (Jamieson, 2008)

5.08 Financial Product Offerings:

The financial products offered by TEF are limited to grant funding for social purpose enterprises. TEF is structured to provide on-going financial support to the social purpose enterprises it supports. The following paragraph quoted from the TEF website provides a good overview of the relationship between TEF and the recipient organizations:

> We make a long-term commitment to the social purpose enterprises we fund. Once an enterprise has received a start-up operating grant, it is eligible to re-apply for funding every year. Only enterprises that do not meet our expected social and business outcomes would be at risk of losing their funding. We encourage increased reliance on sales revenue, and decreased reliance on grants by reducing the operating grant each year. (Toronto Enterprise Fund)

TEF is not structured to provide any type of loan products to recipient organizations. (Jamieson, 2008)

5.09 Due Diligence for Selecting Recipient Organizations:

In order to receive grant funding, interested organizations enter the TEF Business Plan Competition. The Business Plan Competition is a three phase process whereby prospective recipient organizations compete and are short-listed based upon business plans which they submit and receive feedback on at each phase of the competition. A Judges Panel comprised of representatives from business, funders, social enterprises and academia is responsible for providing feedback and selecting the strongest applicants. (Toronto Enterprise Fund)

Ultimately however, the Judges Panel serves as an advisory committee to the TEF Funders Committee which makes all final decisions as to which organizations will receive funding. The TEF Funders Committee also plays a very hands-on role in developing an ongoing relationship with the recipient organizations. For example, the TEF Funders Committee visits the recipient organizations at least once a year. (Jamieson, 2008) The TEF Funders Committee is discussed in more detail below in section 5.10.

5.10 Ownership, Management and Governance of the Fund/Trust:

Although independent in its operations and decision making, legally TEF operates under the auspices of the United Way of Greater Toronto. More specifically, TEF is a grant stream of the United Way of Greater Toronto. (Jamieson, 2008)

As mentioned above, all seed funding and ongoing funding agreements are subject to the approval of the TEF Funders Committee. The TEF Funders Committee meets four times a year and is also responsible for approving TEF's operating budget. The TEF Funders Committee is made up of one representative from each of the four institutional funders. The TEF Program Manager sits as an ex officio member of the Committee. (Jamieson, 2008)

6. Edmonton Social Enterprise Fund

6.01 Background:

The Edmonton Social Enterprise Fund (SEF) is the most recently established social enterprise capital pool considered in this report, the formal start date of the SEF being February 1, 2008. Information for this section of the report was obtained through an interview with the lead proponents of the SEF, Mr. Martin Garber-Conrad (CEO of the Edmonton Community Foundation) and Mr. Bob Ward (Executive Director of the SEF). Both Mr. Garber-Conrad and Mr. Ward emphasized that all aspects of the SEF, from the investors contributing to the capitalization of the fund, to the criteria regarding eligibility, will continue to evolve with the ongoing development of the SEF. (Garber-Conrad, 2008)

The SEF Information Sheet defines social enterprise as:

> A business that produces goods and services for the market but manages its operations and redirects its surpluses in pursuit of the health and well being of the community. In order to be considered eligible for financing through the SEF, a social enterprise must meet all three of the following criteria:
>
> 1. The social/economic/environmental health and well being of the community is at the core of its mission;
> 2. Business is the means used to support the achievement of the mission of the parent organization;
> 3. All surpluses/profits are reinvested back into the mission. (Social Enterprise Fund, 2008, p. 1)

While the SEF has a mandate to support social enterprises with a wide range social objectives, the fund places special emphasis on supporting social housing initiatives. This priority reflects SEF's efforts to address the issue of the acute shortage of affordable housing in Edmonton. (Garber-Conrad, 2008)

6.02 Source of Funding for Fund/Trust:

Similar to other jurisdictions in Canada, securing investors for the capitalization of the SEF, and in particular the establishment of partnerships with the public sector, is proving a challenge for the fund's proponents. The following table is copied from the *SEF Business Case* and provides the *prospective*[5] sources of funding for the SEF:

Exhibit B
Initial Suppliers of Funds

Sources of Lending Capital	Year 1	Year 2	Year 3	Year 4/5	Total
City of Edmonton	$1,500,000	$1,500,000			$3,000,000
Edmonton Community Foundation	$500,000	$1,000,000	$1,000,000	$500,000	$3,000,000
Federal Government	$1,000,000				$1,000,000
Province of Alberta	$1,000,000	$1,000,000	$1,000,000		$3,000,000
Local Funding Agency	$500,000				$500,000
Total	**$4,500,000**	**$3,500,000**	**$2,000,000**	**$500,000**	**$10,500,000**

(Bubel, 2007)

The City of Edmonton's $3,000,000 contribution, although not yet finalized, is the SEF's most promising hope for a contribution from the public sector. This contribution is currently in the process of working through the bureaucratic process; Mr. Garber-Conrad is hopeful that this contribution will be realized in the coming year. (Garber-Conrad, 2008)

The refusal on the part of the federal government (from 2006 to present) to consider funding any projects related to social enterprise has forced the SEF to revise its expectations regarding a contribution from the federal government. The SEF had hoped to partner with Western Diversification, however the Conservative Federal Government's re-shuffling of this department's priorities has left the SEF less optimistic about receiving a contribution from Western Diversification. One point which Mr. Garber-Conrad made that may be of strategic usefulness in efforts to appeal to the federal government, was his comment that the federal government is seemingly less averse to the concept of *social financing* as opposed to *social enterprise*. (Garber-Conrad, 2008)

The challenges facing the SEF in trying to secure a contribution from the provincial government in Alberta are similar to its efforts in trying to establish a partnership with the federal government. Despite the general reluctance of the provincial government, the

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[5] Figures are for prospective contributions only. The challenge and probability of securing the actual amounts listed is discussed in the paragraphs following the table.

SEF is hopeful that inroads it has established with the Ministry of Employment and Immigration may lead to a potential contribution from the province. (Garber-Conrad, 2008). The SEF's pitch for funding from the Ministry of Employment and Immigration is to draw a link between the employment aspects of social enterprises (for example providing employment for marginalized individuals) and the objectives of the ministry.

To date, the SEF has received two grants which have been invested in endowment funds by the Edmonton Community Foundation on behalf of the SEF. Mr. Garber-Conrad noted that the SEF is also in conversation with at least one other organization that is potentially interested in providing an investment that would technically be structured as a loan requiring a nominal interest payment. However, Mr. Garber-Conrad added that the terms of the loan would be relaxed to such an extent that the contribution might equally be viewed as a grant as it would a loan. (Garber-Conrad, 2008)

6.03 Demand: Who is Using the Fund/Trust? What Types of Organizations are Targeted?

The SEF's managers expect that upwards of ninety percent of the financing provided by the SEF will be to charitable organizations. In addition to registered charities, Mr. Garber-Conrad noted that the SEF will be open to providing financing to non-profits organization (who are not registered charities) and co-operatives. (Garber-Conrad, 2008)

The SEF very recently provided financing to its first recipient organizations, having provided a $10,000 technical assistance grant to a local charity in support of their business plan development process, and a second deal involving a $300,000 loan to another local charity to finance its purchase of property. Confidentiality clauses prohibited Mr. Garber-Conrad and Mr. Ward from discussing these transactions in depth or sharing the names of the recipient organizations. (Garber-Conrad, 2008)

For it first round of business, the SEF is placing a very high priority on ensuring that recipient organizations have a strong track record in their financial management practices. This criterion will continue to factor large in the SEF's financing decisions in the long-term as well; however, the SEF managers are particularly focused on identifying organizations that demonstrate as low a risk as possible for its first transactions so as to strengthen the likelihood that these deals will be successful. As such, the SEF is working with roughly a half a dozen potential recipient organizations (all registered charities) that are all already operating social enterprises and either wish to start an additional enterprise, or expand the scope of their existing business. (Garber-Conrad, 2008)

The *SEF Business Case* document completed surveys to measure the interest of organizations in the Edmonton area with regard to launching social enterprises. This survey found that of the sixty-eight organizations surveyed, 23 currently operate a social enterprise, while 78% of others expressed an interest in starting a social enterprise in the next three years. (Bubel, 2007)

The *SEF Business Case* document also measured the demands and needs of affordable housing projects in the Edmonton area. Of the 42 housing developers who responded to the survey, 30 planned on developing more affordable housing projects in the next 3 years.

6.04 Eligibility Criteria:

The *SEF Information Sheet* states that an organization must satisfy the following three criteria in order to be eligible for financing through the SEF:

1. A registered society, charity, cooperative, incorporated or unincorporated social enterprise and is in good standing with the Business Corporation Act, the Societies Act, Alberta's Cooperatives Act and any City of Edmonton licensing requirements;
2. Has, as its core business, to improve the social/economic/environmental health and wellbeing of the community;
3. Has a majority of members and primary beneficiaries living and being served within the boundaries of the City of Edmonton. (Social Enterprise Fund, 2008)

6.05 Return to Investors in the Fund/Trust (Structure and Range of Investment Instruments Employed):

As per the overview provided in Section 6.02, the contributions received by the SEF towards the capitalization of the fund thus far have strictly been in the form of non-repayable grant contributions. Mr. Garber-Conrad commented that the clear preference of the SEF is for the capitalization of the fund to be accomplished by grants. This will allow the SEF to reinvest any surpluses from the return on its investments into the ongoing development and sustainability of the fund. Hypothetically speaking, Mr. Garber-Conrad noted that the SEF would be willing to consider investment instruments other than non-repayable contributions; however, he added that it would necessarily be the case that the terms of such investments would provide a very modest rate of return. (Garber-Conrad, 2008)

6.06 Viability of Fund/Trust:

The *SEF Business Case* document projects that the SEF will be capitalized with $10.5 M, raised over five years. (Bubel, 2007, p. 6)

The SEF is structured such that all administrative expenses are provided for by the fund itself. The fund is committed to minimizing these expenses to 8% of the disbursement pool. (Bubel, 2007, p. 8) The self-sufficiency of the fund is to be accomplished by a blend of three steams of investments which are presented on page seven of the *SEF Business Case* as follows:

1. Capital that generates a market-rate, risk-adjusted financial return (e.g. mainstream investments);
2. Capital that generates a blend of social and financial returns, but accepts a reduced financial benefit in exchange for meeting an even greater social returns (e.g. favourable loans, near-equity investments, etc.); and
3. Capital that accepts a social return but does not seek a financial return (e.g. technical assistance grants). (Bubel, 2007, p. 7)

Exhibit C on page eight of the *SEF Business Case* provides a breakdown of the investment portfolio illustrating the allocation, expected interest rate, and average size of each stream of investment:

Exhibit C - Allocation of Investments

Investment Portfolio	Split	Int. Rate	Av. Size
Market Investments	38%	9%	
Affordable Housing Mortgages	10%	7%	$ 250,000
Interim Financing	40%	6%	$ 200,000
Patient Capital Loans	10%	3%	$ 100,000
Grants for Technical Assistance	2%	0%	$ 20,000
Total	**100%**		

(Bubel, 2007, p. 8)

The market investment portion of the portfolio will be managed by the Edmonton Community Foundation on behalf of the SEF. (Bubel, 2007, p. 7)

6.07 Technical Assistance:

One of the central components of the SEF is grant funding for technical assistance supports. This aspect of the fund will provide non-repayable grants of up to $10,000 to a maximum of 50% of the total cash costs of technical assistance activities. The *SEF Information Sheet* lists the following as eligible technical assistance activates:

1. Organizational readiness – assessment and preparation;
2. Project planning and consultation;
3. Pre feasibility analysis of high probable business ideas;
4. Business concept – selection and statement;
5. Detailed feasibility analysis;
6. Business planning. (Social Enterprise Fund, 2008, p. 2)

The SEF also has plans to provide non-financial supportive services, however these services are still in the early stages of being developed. One such service being considered is a mentoring program whereby newly established social enterprises are connected with more established social enterprises. Mr. Ward noted that the SEF is also considering sector education initiatives whereas the concept of social enterprise is still very new in Edmonton. There is a need to raise organizations' awareness so as to increase the number of organizations launching social enterprises. (Ward, 2008)

The SEF is exploring the potential of partnering with various local organizations on the delivery of technical assistance supports; however, these partnerships are still in the early stages of development. (Ward, 2008)

All technical assistance services provided by the SEF will be funded through the fund itself. (Garber-Conrad, 2008)

6.08 Financial Product Offerings:

Page eight of the *SEF Business Case* document presents four general types of products and services that will be offered by the SEF:

1. Affordable Housing Mortgages;
2. Short-Term Housing Loans (1-year term);
3. Patient Capital Loans (5 year amortization);
4. Grants for Technical Assistance. (Bubel, 2007, p. 8)

In addition, the *SEF Information Sheet* notes that there is flexibility in the financial services offered by the SEF:

> "The SEF is interested in financing good projects and businesses that add value to the mission work of the applicant, even if they fall outside of the guidelines. If your project does not seem to fit, please call to discuss. (Social Enterprise Fund, 2008, p. 1)

Mr. Ward noted that this flexibility is necessary since the SEF is the first organization in Edmonton to enter into the market of financing social enterprises. As this is the case, a complete understanding of the needs of the sector is still uncertain. (Ward, 2008)

All of the financial products and services offered by the SEF are intended to assist the recipient organizations in leveraging mainstream financing for their initiatives. The following example is provided in the *SEF Business Case*:

> For example, a second mortgage (20% of total loan) coupled with owner equity (20%) will leverage 60% in conventional financing. With this approach in mind, the Fund will be able to leverage approximately 3 times its contribution in private sector financing, particularly in the case of mortgages for affordable housing projects. (Bubel, 2007, p. 11)

6.09 Due Diligence for Selecting Recipient Organizations:

A formal due diligence process for selecting recipient organizations is still in the process of being developed by the SEF. As previously mentioned, Mr. Garber-Conrad noted that the first round of business deals struck by the SEF will focus on working with organizations that have a proven track record of sound financial management practices. Mr. Garber-Conrad added that the due diligence process will continue to place a high weight on the demonstrated historical and current financial management practices of the organization applying for funding. (Garber-Conrad, 2008)

6.10 Ownership, Management and Governance of the Fund/Trust:

The SEF is in the process of applying to register the Social Enterprise Fund as non-profit company that will not be seeking charitable status. (Garber-Conrad, 2008)

The reason that the SEF will not be pursuing charitable status is that this will leave open the option of engaging in certain activities not deemed charitable as defined by the Canada Revenue Agency (CRA) (for example, loaning funds to organizations who are not registered charities and other non-eligible community economic development). (Bubel, 2007, p. 10) Any contributions to the fund that require a charitable receipt will be received by the SEF through the Edmonton Community Foundation (which is a registered charity and therefore can issue charitable receipts). Contributions not requiring a charitable receipt, such as the prospective $3,000,000 contribution from the City of Edmonton, can be received directly by the SEF. The *SEF Business Case* document notes that as the SEF grows, it may seek to establish a second separate entity that would pursue charitable status so as to receive charitable donations directly. In addition to the advantage of being able to engage in activities deemed not charitable by CRA, a second advantage of not pursuing charitable status is that it allows the SEF to begin operations within several weeks of receiving funding rather than having to await approval of its application for charitable status. (Bubel, 2007, p. 10)

The members of the company will initially be the City of Edmonton and the Edmonton Community Foundation. Other major funders may be invited to become members of the company if they choose to become involved in that way. The members of the company will be responsible for selection of a board of directors to operate the Social Enterprise Fund. (Bubel, 2007, p. 9)

III. Tax Credit Programs Relevant to Financing Social Enterprise.

7. Nova Scotia Community Economic Development Investment Funds

7.01 Background:

Since 2000, 51 Community Economic Development Investment Funds (CEDIFs) have been established in Nova Scotia. These CEDIFs have been established as a result of the Nova Scotia Equity Tax Credit, a tax credit specifically developed by the provincial government to stimulate investment in Nova Scotia's small businesses, co-operatives and CED organizations. CEDIFs raise funds by issuing shares to individual investors and then invest that capital in local businesses. In exchange for their investment investors receive a tax credit (which is explained in greater detail in section 7.05). The enterprises that CEDIFs invest in may or may not have social objectives in addition to economic objectives.

The Equity Tax Credit (ETC) is a local economic development strategy and makes no distinction between social enterprises and mainstream enterprises. The definition of *CED Organizations* found in the department of finance's *Nova Scotia Tax Credit* online document reflects the program's primary focus, that is, on supporting local economic development:

> CED corporations and co-operatives are those organizations created to assist or develop local businesses within the community. The CED corporation or co-operative raises capital by issuing shares to individuals and in turn invests that capital in local businesses. (Government of Nova Scotia)

CEDIFs are one of two vehicles through which investors can access the ETC. Individual investors can also benefit from the ETC through purchasing shares directly from eligible businesses, who are required to obtain a Certificate of Registration from the department of finance prior to issuing the shares to potential investors. (Government of Nova Scotia) <u>For the purposes of this section of the report focus will be placed exclusively on how CEDIFs function in the context of the ETC, since they are means by which the ETC is being used (in some cases) to support social enterprises.</u>

7.02 Sources of Funding:

There are no matching government funds programs to support CEDIFs as part of the ETC. That is, CEDIFs sole means for raising capital through the ETC is through the issuance of shares to individual investors. CEDIFs are welcome to apply for additional financing from other government programs that do not conflict with the rules set out in the ETC Act. However, the government's *CEDIF FAQ* web page notes that there are no federal or provincial government programs which cover the administrative and operating costs of CEDIFs. Government encourages communities interested in establishing a CEDIF to consider the following options as potential sources of start-up capital for their organization:

- Local corporations that may be users of the fund,

- Municipalities that would have a vested interest in seeing such funds develop,
- Local entrepreneurs,
- Community or business leaders,
- Cultural groups,
- Unions.

(Government of Nova Scotia, 2007)

7.03 Demand: Who is Using the Fund/Trust? What Types of Organizations are Targeted?

While CEDIFs do invest in social enterprises as well as mainstream enterprises, the priority for the government in establishing the ETC is clearly on supporting local economic development. This is not to suggest that the program is set up to discourage social ventures, only to say that government is primarily concerned with economic outcomes. Any social benefits that arise from enterprises that have social as well as economic objectives are considered value added.

The Government's *CEDIF – Financing Economic Growth in Your Community* document profiles a number of the enterprises that have been financed through the CEDIFs. The list is reproduced here for reference. Note that some of the enterprises listed have a social and economic mandate while others are strictly economic ventures:

BBI, *Halifax*
PURPOSE: Create a pool of capital which will invest in businesses owned by persons in the Black community.

BCA Investment Co-operative Limited, *Sydney*
PURPOSE: Create a pool of capital which invests into business opportunities in Cape Breton

Just Us! Fair Trade Investment Co-op Ltd., *Wolfville*
PURPOSE: Invest the proceeds in their fair trade coffee business.

La Residence Acadienne, *Cheticamp*
Purpose: To build and operate a seniors housing facility.

New Dawn, *Sydney*
PURPOSE: Invest the proceeds in businesses within the New Dawn family of companies.

Vale Corporate Training, *Middleton*
PURPOSE: Invest the proceeds into developing the Ledgehill facility. Additional capital required to carry out next phase of the long-term development plan.

Valley Funeral Home Co-op, *Coldbrook*
PURPOSE: Invest the proceeds in the development of a co-operative funeral home in the Coldbrook/Kentville area.

Victoria County, *Baddeck*
PURPOSE: Invest the proceeds in the Victoria County Co-op store in Baddeck. The funds will be used to repatriate long term debt currently held outside the province.

Windsor Super 8, *Windsor*
PURPOSE: Invest the proceeds in an equity stake in a new Super 8 motel to be constructed in Windsor in 2004.

4EverSports, *Sydney*
PURPOSE: Invest the proceeds in the operations of 4EverSports, a Sydney based developer of wireless products and services for golf courses.

(Government of Nova Scotia, p. 1)

7.04 Regulations and Eligibility Criteria:

Criteria for becoming a CEDIF:

In order to meet the criteria to become a CEDIF, an organization must be either a corporation or co-operative pursuant to the laws of Canada. The organization cannot be a registered charity, non-taxable, or not-for-profit. (Government of Nova Scotia) A further stipulation is that the organization must have at least six directors elected from their defined community. (Government of Nova Scotia, 2007)

The department of finance's Nova Scotia Equity Tax Credit online document provides the following additional criteria that an organization must meet in order to become a CEDIF:

- 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 three eligible investors taking part in the specified issue. (Government of Nova Scotia)

The businesses that the CEDIFs invest in must also meet the criteria listed above. (Government of Nova Scotia)

As part of their application to the department of finance, CEDIFs must provide a community economic development plan that provides:

- The economic development strategy of the organization,
- The community it serves,
- The amount of capital to be raised by the issue,
- Details of the type of shares to be issued,
- Provisions for the issue of investment certificates. (Government of Nova Scotia)

Rules pertaining to the types of investment instruments used by CEDIFs:

Essentially, CEDIFs sole means to invest in eligible businesses is via equity investment. That being said, the department of finance may approve of CEDIFs issuing loans in the form of subordinate debt in certain circumstances. (Government of Nova Scotia, 2007)

The issuances of shares by CEDIFs are governed by the following regulations as presented in the department of finance's *Nova Scotia Equity Tax Credit* online document.

> In the case of corporations, eligible investments must be newly issued common voting shares of the corporation that are non-redeemable, non-convertible and are not restricted in profit sharing or participation upon dissolution. The shares cannot be eligible for any other tax credit or deduction allowed under the Income Tax Act, except as a deduction for RRSP purposes. In the case of co-operatives, eligible investments must be a share that would, if it were the only share issued to the investor, allow the investor to be a member in the co-operative and allow the member to participate in the

affairs of the co-operative. In addition, shares are not eligible if the investor disposed of any shares of the eligible business at any time after September 30, 1993 and before the specified issue of shares. The specified issue of shares means the shares that are specified in the application of the eligible business to which a Certificate of Registration applies. (Government of Nova Scotia)

Rules pertaining to eligible individual investors in CEDIFs:
The only stipulations on eligible investors are that they must be over the age of 19 and having a bona fide reason for making the investment. One further clause is that each eligible issue of shares must have at least 3 eligible investors. (Government of Nova Scotia)

Due diligence for CEDIFs investment practices:
Several of the CEDIFs do not operate as general pools of capital; rather they are highly focused and are set up to attract investment in specific community enterprises. In these cases, clearly there is no need for due diligence whereas the enterprises to be invested in are predetermined prior to the offering. Other CEDIFs however do act as general capital pools that target a particular community but not a specific enterprise. For these CEDIFs a process of due diligence is required to decide on which enterprises the CEDIF will invest in. General information about the due diligence process for these types of CEDIFs was ascertained through an interview with Mr. Chris Payne, the Government of Nova Scotia officer assigned to work with CEDIFs province wide. Mr. Payne noted that, generally speaking, the due diligence process involves the following:

1. The community enterprise seeking the investment submits a business proposal to the CEDIF;
2. This proposal is first reviewed by a staff person of the organization;
3. If the proposal meets the designated criteria of the CEDIF it is passed on to an investment sub-committee of the organization;
4. If approved by the sub-committee the proposal is forwarded to, and is subject to, the ratification of the Board of Directors prior to final approval of the investment.

Mr. Payne noted that this process will vary from CEDIF to CEDIF. (Payne, 2008)

7.05 Investment Incentives and Return to Investors:

The main incentive of the ETC is a 30% tax credit calculated at 30% of the investment to a maximum annual investment of $50,000 (the maximum annual tax credit is therefore $15,000). 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. (Government of Nova Scotia)

Additional tax credits are offered to CEDIF investors if they hold their investments for longer periods. At the fifth anniversary (from their initial purchase of the shares), investors are entitled to an additional 20% tax credit. At the tenth anniversary investors are entitled to a further 10% tax credit on top of those already issued. (Government of Nova Scotia)

These additional tax credits have been put in place due to the fact that several of the CEDIFs are not prepared for investors to be exiting their investments after five years. In response, the government has created these additional incentives to encourage investors to hold their investments for longer periods.

The provincial government also offers a partial guarantee on funds invested in CEDIFS. If a CEDIF becomes insolvent within four years of a purchase of eligible shares, the province will compensate the individual investor at 20% of their initial investment. In addition, if the CEDIF is valued by a certified professional at less than 20% of its initial capital investment pool within the four year period, the province will also compensate investors by paying the difference between the value of their investment and 20 percent of their original investment. These guarantees are not offered for CEDIFs based in Halifax, Dartmouth, Sackville, and the town formerly known as Bedford. (Government of Nova Scotia, 2007)

Funds invested in CEDIFs have been recognized as pre-approved holdings for a self-directed RRSP by the federal government. (Government of Nova Scotia, 2007)

Because the CEDIFs are not publically traded entities statistics on financial operations are not easily obtainable. However, a number of the CEDIFs have published their offering documents online for investors' reference. For example, *New Dawn Holding Ltd.* paid dividends of 2.14%, 2%, and 2% on the dates June 30th, 2006, February 7th, 2006, and July 17th, 2007 respectively. (New Dawn Holdings Ltd., 2008) *Just Us! Fair Trade Investment Co-op Ltd.* reported dividends paid to shareholders in 2004, 2005, and 2006 at $13,706, $21,296, and $28,241 respectively. (Just Us! Fair Trade Investment Co-op Ltd., 2007). Other CEDIFs offer less in the way of dividend payments, such as *Chebucto Wind Field Inc.* which projected in its 2005 offering document that no dividends will be paid on common shares for the first 3 years and after this point dividend payments "will not occur unless it is financially viable or the issuer" (Chebucto Wind Field Inc., 2005)

7.06 Viability of Fund/Trust:

Accurate information about the viability of CEDIFs and the businesses they invest in is hard to ascertain, again because of the fact that these organizations are not publically traded. However general information was obtained from Mr. Payne.

Mr. Payne reported that the first three CEDIFs were established in 2000. Since 2000, there have been a total of 51 CEDIFs established and 48 have survived[6]. Assets managed by CEDIFs totalled over $28 M. (Payne, 2008) As of 2007, the Government of Nova Scotia reported that a total of 3,697 individual Nova Scotians (repeat investors are included in this figure) had invested in CEDIFs over an eight year period. (Government of Nova Scotia, 2007)

[6] One of these 48 CEDIFs was in fact eventually dissolved. However the dissolution of this particular Fund came about intentionally, and only after the Fund had raised and invested the amount it set out to invest in a local business. Whereas the Fund met its investment targets and dissolved in a fashion that satisfied its investors it is included as one of the 48 CEDIFs that survived (i.e. has been successful).

With regards to the financial viability of the CEDIFs, Mr. Payne noted that overall the CEDIFs are doing well. He reported that only 3 have failed since 2000, and four or five are currently paying out annual dividends. (Payne, 2008)

A particular challenge already discussed and noted on the government's *CEDIF FAQ* web page relates to the ability of CEDIFs to buy back shares from investors who wish to sell after the required hold period. (Government of Nova Scotia, 2007) The subsequent tax credits offered at the fifth and tenth year anniversary of investor's original investment is part of the provincial government's efforts to address this issue.

7.07 Technical Assistance:

Another challenge noted on the government's *CEDIF Issues* web page is that of attracting and retaining qualified CEDIF board members. (Government of Nova Scotia, 2007) Developing a successful investment portfolio for an investment fund requires a very specialized skill set. Individuals possessing these skills are in short supply, and it is therefore not surprising that trying to recruit these individuals to sit on the volunteer CEDIF boards is challenging. As a result, the Nova Scotia Government is having to provide a greater level of support to CEDIF boards then it initially intended:

> The CEDIF was intended to create self-managing local funds. Government was to play a limited role in the establishment and operations of these funds. However, developments this year indicate that the funds may require a higher level of ongoing support. There have been cases where funds have made ineligible investments, have failed to complete proper reporting, or have otherwise not fully complied with legislation. Many of these issues can be addressed through the preparation of written material for CEDIF boards. (Government of Nova Scotia, 2007)

Mr. Payne noted that the CEDIFs generally do not play a role in providing technical assistance to the community enterprises seeking investment. (Payne, 2008)

7.08 Ownership, Management and Governance of the Fund/Trust:

The Government's *CEDIF FAQ* web page suggests that CEDIFs use a portion of the funds raised, or investment earnings to cover operational and administrative costs. (Government of Nova Scotia, 2007) As mentioned above, there are no provincial or federal government programs which will cover these costs. The option of partnering with a local bank, credit union or trust company in the administration and delivery of the CEDIF is a possible arrangement which is supported by the government. (Government of Nova Scotia, 2007)

Approximately 25% of the existing CEDIFs are cooperatives (11 of 47) while the remainder are for-profit corporations. It is notable that the ratio of CEDIFs that are cooperatives is disproportionately high, given that in the province of Nova Scotia there are a total of approximately 400 cooperatives and 20,000 for-profit corporations. Mr. Payne noted that this phenomenon is *not* the result of an intentional effort on the part of the government to set up the Equity Tax Credit and the framework for CEDIFs in such a fashion that they favour cooperatives. On the contrary, the program is intended to be neutral in this respect. Mr. Payne noted that the relatively high proportion of cooperatives making use of the program can likely be attributed to the fact that cooperatives have recognized the program to be a useful and unique tool that enables them to achieve their objectives. (Payne, 2008)

8. Manitoba CED Tax Credit Program

8.01 Background:

The Manitoba CED Tax Credit Program is an initiative of the provincial government that aims to encourage individual investment in local community-based enterprises. Investments that are eligible for a tax credit must be received through a share issue by government approved community enterprise or Community Economic Development Investment Fund (CEDIF). (Government of Manitoba)

Since the tax credit was established in December of 2004 nine community enterprises have been approved. The program has received zero applications from CEDIFs and therefore no CEDIFs have been established to date. Despite the inclusion of CEDIFs in the CED Tax Credit Act, recent discussions with Government of Manitoba officials from the department of Manitoba Agriculture, Food and Rural Initiatives (MAFRI) revealed that the provincial government is no longer supportive of the concept of CEDIFs and therefore the likelihood of any prospective CEDIF applications being approved is very unlikely.

In total, 565 individuals have earned tax credits by making investments in approved community enterprises. Their collective investment totals $1,865,000 in capital that has been raised in support of the community enterprises participating in the program. (Government of Manitoba, 2008) A more detailed breakdown of these investments is provided in section 8.02.

Whereas there is little information to report about the Manitoba CED Tax Credit Program the sub-sections of this section of the report are collapsed into the following categories:

- 8.02 Demand: Who is Using the Manitoba CED Tax Credit?
- 8.03 Regulations and Eligibility Criteria
- 8.04 Investment Incentives and Return to Investors

8.02 Demand: Who is Using the Manitoba CED Tax Credit?

At the request of the author, MAFRI officials produced a report that provides an overview of the nine community enterprises that have been approved by the Manitoba CED Tax Credit program. The main table from the report has been reproduced here for reference:

Project	**Approved (,000's)**	**Funds Raised (,000'S)**
2005/06		
Clearwater Development – restaurant	$ 95.0	$ 35.0
2006/07		
Bifrost Bioblends Ltd. – Arborg bio-diesel plant	500.0	375.0
Intermountain Forage Ltd. - Dauphin - hay compaction plant	500.0	328.0
2007/08		
Bowsman Community Store	90.0	90.0
Pilot Mound Hotel	500.0	500.0
Crocus Plains Co-op – Langruth restaurant	200.0	0 (on sale 10/07)
Pipestone Development – restaurant	500.0	0 (08)
Kudu Foods Ltd. – Wpg food manufacturer	500.0	500.0
TOTAL INVESTMENTS	**$ 2,885.0**	**$ 1,828.0**
	30%	30%
CEDTCP Tax Credits	$865.5	$548.4
08/09 Pollock's Hardware Co-op	$100.0	0 (on sale 08)

(Government of Manitoba, 2008, p. 2)

The report also provides an overview of how many investors participated in each share offering:

	Investors	
Clearwater	150	
Bifrost	25	
Intermountain	20	
Bowsman	250	
Pilot Mound	100	
Crocus Plains	0	(On sale in 10/07)
Pipestone	0	(On sale in 2008)
Kudu Foods	20	
Pollock's Hardware Co-op	0	(On sale in 2008)
Total	**565**	

(Government of Manitoba, 2008, p. 2)

Considering that the Manitoba CED Tax Credit was only established in 2004, there is very little information to report with regards to the medium-run and long-run viability of the community enterprises that have made use of the program. MAFRI officials noted that to the best of their knowledge, all the nine enterprises that have made use of the CED Tax Credit Program are still in operation.

8.03 Regulations and Eligibility Criteria:

As previously mentioned, MAFRI officials noted that the provincial government is not presently supportive of receiving applications from prospective CEDIFs. Despite this, the regulations pertaining to CEDIFs as listed on the Government of Manitoba website and in the Manitoba CED Tax Credit Act are listed here for reference.

Criteria for becoming a CEDIF:

In order to apply to the provincial government to become a CEDIF, the Manitoba CED Tax Credit Act stipulates that an organization must meet the following criteria:

1. Be a taxable Canadian Corporation;
2. Be incorporated under the Corporations Act or the Cooperatives Act;
3. Maintain its head office in Manitoba;
4. Be "organized primarily for the purpose of investing...in community enterprises, or community development corporations" (Government of Manitoba, 2004, p. 3).
5. Be "sponsored or endorsed by a person or group of persons from the community in which the corporation proposes to make investments" (Government of Manitoba, 2004, p. 3).

Criteria for becoming an eligible community enterprise:

An eligible community enterprise can participate in the CED Tax Credit Program by receiving a capital investment through a CEDIF, or by direct investment via the issuance of shares to individual investors who are entitled to a tax credit. In order to apply to the provincial government to become an eligible community enterprise an organization must meet the following basic criteria:

1. Not have gross assets in excess of $25 M;
2. Not have net assets in excess of $10 M;
3. Must employ no more than 200 employees;
4. At least 25% of the organization's total wages must be paid to Manitobans;
5. At least 25% of the employees must reside in Manitoba.
6. Must receive a sponsorship or endorsement from a local community development organization. (Government of Manitoba)

In addition, community enterprises must not be engaged in any of the following businesses which have been designated as ineligible by the CED Tax Credit Act:

- Deriving income from property, other than commercial property owned by a community development corporation;
- Management, administrative or financial services;
- Farming, fishing, forestry, hunting, or resource exploration;
- Performing arts, sports, amusement, gaming and recreational activities;
- Seasonal enterprises such as recreational parks or camps, hunting or fishing lodges or gamps, or golf courses;
- Others[7].

(Government of Manitoba, 2004, pp. 4-5)

[7] A complete list of the ineligible business activities of Manitoba CED Tax Credit program is included in Appendix 2.

“The maximum amount that an enterprise may raise, that will be eligible for the tax credit, is $500,000. However, projects requiring larger amounts of capital will also be considered” (Government of Manitoba).

<u>Rules pertaining to the types of investment instruments used by community enterprises and CEDIFs:</u>
To be eligible for the tax credit, CEDIFs and community enterprises sole means of raising capital is through issuing common shares to individual investors. The CED Tax Credit Act refers to the proceeds received from issuing common shares as subscription proceeds. CEDIFs have a few additional investment instruments through which they can invest their subscription proceeds in government approved community enterprises. These include:

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

(Government of Manitoba, 2004, pp. 8-9)

The subscription proceeds received by a CEDIF must be invested in a government approved community enterprise within two years. For newly established CEDIFs the investment window is extended to four years. (Government of Manitoba, 2004, p. 11)

8.04 Investment Incentives and Return to Investors:

Manitobans who invest in a government approved CEDIF or community enterprise receive a 30% personal income tax credit which offsets Manitoba income tax payable. The maximum eligible annual investment is $30,000 ($9,000 in tax credits). Investors are limited to purchasing no more than 10% of a single share issue. There is a stipulation requiring investors to hold their investment for a minimum of 3 years or be subject to a claw back of the tax credit. (Government of Manitoba)

MAFRI officials commented that they had no information with regards to the returns paid to investors in the nine community enterprises that have participated in the Manitoba CED Tax Credit Program.

IV. Revisiting the Proposed Manitoba Social Enterprise Investment Fund

9.01 Background:

This section of the report examines the proposed Manitoba Social Enterprise Investment Fund (SEIF). The *Business Plan* for the SEIF was drafted in 2003-2004 by SEED Winnipeg Inc and Community Ownership Solutions with the support of funding through CEDTAP. Partners who supported the development of the *Business Plan* included Aboriginal Business Canada, The Jubilee Fund, Louis Riel Capital Corporation, and The Women's Enterprise Centre of Manitoba. The strategy for capitalizing the fund was to rely heavily on the Federal Social Economy Initiative. When this program was cancelled in 2006 the proposal was tabled.

Recent discussions between CCEDNet Manitoba and the Province of Manitoba's CED Working Group have brought the concept of a social enterprise capital fund back to the fore. After these meetings the provincial government invited the proponents of the Manitoba SEIF to re-submit a proposal for the fund. However, prior to re-submitting the proposal, the proponents of SEIF decided that it would be prudent to first conduct research into the conditions for success for social enterprise development, as well as to research sector dynamics and emerging models. This is the motivation that has led to this report, as well as the larger body of research titled *Creating Policy to Support Social Enterprise Development in Manitoba*. Funding and support for this research was provided by the Social Sciences and Humanities Research Council of Canada, the Canadian Centre for Policy Alternatives (via the Manitoba Research Alliance: Transforming Inner City and Aboriginal Communities), Winnipeg Partnership Agreement, and the Assiniboine Credit Union.

The objective of the originally proposed SEIF is presented on page four of the 2004 *Business Plan* as follows:

> The purpose of the Fund is to provide patient capital for the start-up and expansion of social enterprises, and for the transformation of existing enterprises to a social enterprise format. A social enterprise is broadly defined as a for-profit enterprise that places a strong emphasis on both social and financial goals. (Community Ownership Solutions, SEED Winnipeg, 2004, p. 4)

The objectives of this section of the report are two-fold:

1. To provide a brief overview of the different aspects of the SEIF. This overview will be based on the July 2004 SEIF *Business Plan*[8] and contextual information[9] concerning the current realities of the proposed activities and structure of the fund.

[8] Throughout this section of the report the term "SEIF *Business Plan*" will be used interchangeably with the terms "*Business Plan*" and "the Plan".

[9] The current contextual information will be based on a recent interview with Mr. Garry Loewen who was heavily involved in the development of the SEIF *Business Plan* in 2004. Mr. Loewen is also the chief investigator of the current research project, *Creating Policy to Support Social Enterprise Development in Manitoba*.

2. To provide a comparative analysis with the other seven social enterprise trusts/funds[10] reviewed in this report. In summary, the seven funds reviewed include:
    1. Northcountry Cooperative Development Fund (NCDF)
    2. The Chantier de l'économie sociale Trust (The Chantier)
    3. ICOF Community Capital Limited (ICC)
    4. Ontario Social Enterprise Trust (OSET)
    5. Toronto Social Enterprise Fund (TEF)
    6. Edmonton Social Enterprise Fund (Edm SEF)
    7. Nova Scotia CEDIFs (NS CEDIFs)

    The focus of this comparison will be on establishing which of the funds are most similar to the SEIF and which are most different.

9.02 Source of Funding for Fund/Trust:

Overview of SEIF:

The *Business Plan* states that for the SEIF to be viable, the fund would have to raise $3 M over seven years. As previously mentioned, the Plan was to rely heavily on a major contribution from the Federal Social Economy Initiative and to use these funds to leverage investments and contributions from other institutional investors.

> This business plan depends on a high level of support from the new federal government social economy program. A minimum of $1.5 million of its contributed capital will need to come from this (or a similar) source. (Community Ownership Solutions, SEED Winnipeg, 2004, p. 13)

Pages 14-17 of the Plan lists the prospective investors that the proponents had hoped would be interested in the SEIF. The list includes:

- Crocus Investment Fund
- Great West Life
- The Jubilee Fund
- Mennonite Central Committee, Manitoba
- Mennonite Economic Development Association
- Province of Manitoba
- Social Capital Partners
- The Thomas Sill Foundation
- United Way of Winnipeg
- Western Diversification
- The Winnipeg Foundation
- Federal Social Economy Initiative
- Province of Manitoba CED Tax Credit Program

[10] To enhance the readability of this section of the report, the term "funds" will be used in place of "trusts/funds" when referring to the seven trusts/funds reviewed in the report. The reader should be cautioned that there are important differences in the legal structures of the different trusts/funds reviewed in this report. These differences are summarized in section 9.10.

- The Tides Canada Foundation
- The Asper Foundation
- National corporations with head offices in Manitoba

(Community Ownership Solutions, SEED Winnipeg, 2004, pp. 14-17)

A number of the potential investors on this list have ceased to exist (Crocus Investment Fund, Federal Social Economy Initiative), while others may or may not be interested in the concept of a social enterprise investment fund at present.

The *Business Plan* also proposes targeting two types of prospective individual investors.

> The first includes wealthy individuals who are known to have some empathy for the goals and strategies of the Fund. These individuals will be approached individually by the Fund manager and/or members of the leadership team. The second group includes "ideological communities" that naturally coalesce around certain networks, associations and organizations. Examples include groups who are part of the environmental movement, the social justice movement, or the union movement. (Community Ownership Solutions, SEED Winnipeg, 2004, p. 17)

Another potential group of investors noted is the faith community; however the Plan also points out that it is important that the fund does not compete with the Jubilee Fund for these investors' dollars. The Plan notes that there would not be any type of mass marketing program to attract individual investors. (Community Ownership Solutions, SEED Winnipeg, 2004, pp. 17-18)

<u>Most-similar, Most-different Analysis</u>:

This sub-section will complete a cross-fund comparison of the proportion of each funds' initial capital pool that is generated through government investments or contributions.[11]

The SEIF *Business Plan* presents two different financial scenarios (the second scenario has two parts, *a* and *b*). In Scenario 1, the SEIF was to receive a $2.5 M contribution from the federal government's Social Economy Initiative. In Scenarios 2a and 2b, the expected contribution from the Social Economy Initiative was set at a minimum of $1.5 M. (Community Ownership Solutions, SEED Winnipeg, 2004, pp. 29-30) There is no mention in either scenario of the contribution amount that was to be expected from the provincial government, although as noted above, the Province of Manitoba was listed in the *Business Case* as a potential source of funding. If in fact the Province of Manitoba was to provide a contribution on top of the Social Economy Initiative funding, then obviously the percentage of the SEIF's initial capital pool that was to be received from government sources would be higher. For the purposes of this report however, the total government contribution towards the capitalization of the SEIF will be assumed to include only the amount projected to be received in the two scenarios from the Federal Social Economy Initiative.

[11] The cross-fund analysis in this sub-section does not distinguish between non-repayable government grants and other investment arrangements (debentures, equity, etc.). A cross-fund analysis of the different investment instruments used to capitalize each of the respective funds is examined in the most-similar, most-different analysis in section 9.05.

The following table summarizes each of the funds with respect to the percentage of each of the respective funds' initial capital pool that was (or is projected to be) generated through government investments or contributions:

Fund/Trust	**Government Contribution or Investment to Initial Capital Pool**	**Total Amount of Initial Capital Pool**	**% Government Contribution or Investment of Initial Capital Pool**
Northcountry Cooperative Development Fund (NCDF)	$0	$3,000	0%
ICOF Community Capital Limited (ICC)	£0	£450,000	0%
Nova Scotia CEDIFs (NS CEDIFS)	$0	Varies from CEDIF to CEDIF	0%
*Manitoba Social Enterprise Investment Fund (MB SEIF) - Scenario 2a and 2b	$1.5 M	$3 M	50%
The Chantier de l'économie sociale Trust (The Chantier)	$32.8 M	$52.8 M	62%
*Ontario Social Enterprise Trust (OSET)	$65 M	$100 M	65%
Toronto Social Enterprise Fund (TEF)	$1,785,000	$2,735,000	65%
*Edmonton Social Enterprise Fund (Edm SEF)	$7 M	$10.5 M	67%
MB SEIF Scenario 1	$2.5 M	$3 M	83%

*Note that the listed amounts for the Ontario Social Enterprise Trust, Edmonton Social Enterprise Fund and Manitoba SEIF are prospective not actual amounts.

Examining the funds reviewed in this report, two clear groups emerge. The NCDF, ICC and Nova Scotia CEDIFs all started their funds without the financial support of government. That is, government funding contributed 0% of their respective initial capital pools. All of the other funds reviewed in this report generated (or plan to generate) over half of their respective initial capital pools through government financing. In particular there tends to be a trend whereby funds are aiming to raise two thirds of their initial capital pool through government contributions and/or investments. Clearly the Manitoba SEIF falls within this second group that relies on the government for the majority of their capitalization funds.

9.03 Demand: Who is Using the Fund/Trust? What Types of Organizations are Targeted?

Overview of SEIF:

The *Business Plan* projects a low demand for the SEIF's capital pool during the first few years after the SEIF is established.

> This plan assumes a slow start to the use of an Equity Capital Fund in Manitoba. Preliminary estimates indicate in the first few years that the Fund will receive applications from less than a dozen potential deals per year, and will accept between 3 to 6 deals per year. These volumes will approximately double by the sixth year. (Community Ownership Solutions, SEED Winnipeg, 2004, p. 12)

The *Business Plan* anticipates that the SEIF would receive investment applications directly from prospective social enterprises, and from organizations that support groups in setting up social enterprises. The *Business Plan* refers to these supporting organizations as *sponsoring organizations*. Some of the sponsoring organizations that were expected to create much of the SEIF's deal flow are listed in the *Business Plan*. This list is reproduced in the table below with the expected number of deals that the Plan predicts each organization will generate, along with the expected amounts of equity capital that the social enterprises will be requesting in their investment applications.

Organization	**Expected deals generated for the SEIF**	**Expected amount of equity capital requested in investment application**
Assiniboine Credit Union	3-4 annually	$20,000 - $80,000
Community Ownership Solutions	1 every two years	$100,000
SEED Winnipeg	3 annually	$20,000
West Broadway Development Corporation	3 every five years	$20,000
Women's Enterprise Centre	3 every five years	$35,000

(Community Ownership Solutions, SEED Winnipeg, 2004, p. 11)

The *Business Plan* also notes expected deal flow from rural, francophone and aboriginal communities that are not associated with the organizations listed in the table above. (Community Ownership Solutions, SEED Winnipeg, 2004, p. 12)

Mr. Loewen noted that demand side readiness is one of the most significant challenges facing the proponents of the SEIF. Mr. Loewen commented that he has recently spoken with some of the sponsoring organizations who in 2004 had committed to generating deal flow for the SEIF. Specifically he asked these organizations how many social enterprises they knew of that had solid business plans which were ready to be implemented, but on hold due lack of access to capital. Not one of the sponsoring organizations revisited by Mr. Loewen knew of any social enterprises that were in this position. (Loewen, 2008)

Most-similar, Most-different Analysis:
One point of differentiation that is notable across the funds reviewed in this report has to do with demand-side information. Before discussing this comparison it is important to distinguish between the demand for non-repayable contributions (grants) and the demand for financing through debt or equity. Based on the experience of having worked with non-profits across Canada, the researcher concluded with a high degree of certainty that the demand for grants in the CED/social economy sector in Canada is very high. However accurate demand-side information on the sector's demand for debt and equity financing products is far less established in Canada.

In Nova Scotia, it is apparent that at least a limited number of CED organizations and cooperatives have embraced equity financing and the CEDIF model as a means of financing their initiatives. The Chantier de l'économie sociale Trust's record of receiving 38 investment applications within the trust's first five months suggests that there is a high demand for patient capital loans in the social economy sector in Quebec.

The combined experiences of the other Canadian funds reviewed in this report have little information to report on the sector's demand for equity and debt financing in their respective regions. The proponents of the Ontario Social Enterprise Trust have acknowledged that the development of accurate demand-side information is a priority in the further development of OSET. In Edmonton, Mr. Ward noted that the SEF has plans for sector education initiatives and also acknowledged that the fund is working on generating accurate information on the needs of the sector.

In Manitoba anecdotal information suggest that perhaps the CED sector is not yet at a point in its development to embrace the concept of equity financing. As previously noted, Mr. Loewen's recent discussions with the SEIF's sponsoring organizations revealed that these organizations did not know of any social enterprises that were in a position to put forward an investment application for the type of financing that was to be offered through the SEIF. The fact that the Manitoba CED Tax Credit Program has received zero applications from prospective CEDIFs is another indication that the CED sector in Manitoba may not be ready for and/or adequately educated on concept of equity financing.

9.04 Eligibility Criteria:

Overview of SEIF:
In the SEIF *Business Plan*, the proponents note that the SEIF will typically invest in firms with between ten and twenty employees. To be eligible, firms must have a minimum of three employees, with a plan to expand operations to necessitate eight employees within two to five years. (Community Ownership Solutions, SEED Winnipeg, 2004, p. 4)

Mr. Loewen noted that the rationale for the criteria of a minimum of three employees was so that small enterprises did not drain the fund. The proponents of the SEIF were of the opinion that SEED Winnipeg and other Winnipeg-based organizations were doing a good job in providing micro-finance products and services, and therefore there was an interest to not duplicate these services. (Loewen, 2008)

The *Business Plan* lays out the following criteria that a social enterprise must satisfy in order to be eligible to apply for financing from the SEIF:

1. Be structured as a for-profit entity.
2. Demonstrate an intention to work towards a goal of broadly based employee ownership and/or participation in the governance of the enterprise.
3. Have a long term goal for a substantial proportion (50%) of its employees to come from low-income situations or from other situations that typically represent barriers to employment.
4. Have the objective of becoming commercially sustainable within a reasonable period.

(Community Ownership Solutions, SEED Winnipeg, 2004, p. 4)

The Plan notes that the SEIF will consider investment opportunities in social enterprises operating anywhere in Manitoba, although social enterprises in rural areas will be required to establish a mentoring relationship with a partner organization in their geographic area for technical assistance. (Community Ownership Solutions, SEED Winnipeg, 2004, p. 4)

<u>Most-similar, Most-different Analysis</u>:
An examination of the different eligibility criterion that have been in put in place for each of the funds reviewed in this report reveal a number of different categories of eligibility. Two of these categories include eligibility criteria related to the *legal structure* of the social enterprise, and the *social and economic purpose* of the social enterprise. In this sub-section of the report, the focus will be on suggesting which of the funds are most-similar and most-different from the SEIF in the context of these two categories. The Ontario Social Enterprise Trust is not included in this analysis since at the time of writing of this report its eligibility criteria had not yet been established.

<u>Legal Structure of the Social Enterprise</u>
Most-Similar: The Chantier de l'économie sociale Trust, ICOF Community Capital Limited, Edmonton Social Enterprise Fund, Nova Scotia CEDIFs.
Similar to the SEIF each of these funds is open to financing both cooperative and incorporated entities.

Most-Different: Northcountry Cooperative Development Fund, Toronto Enterprise Fund.
NCDF only provides financing to cooperatives, while the Toronto Enterprise Fund will only provide funding to an incorporated non-profit organization, a charitable organization, or, an organization that is sponsored by a charitable organization.

<u>Social and Economic Purpose of the Social Enterprise</u>
Most-Similar: The Chantier de l'économie sociale Trust, Northcountry Cooperative Development Fund, ICOF Community Capital Limited, Nova Scotia CEDIFs.

Similar to the SEIF, all of these funds are structured to support social enterprises pursuing a wide range of social and economic objectives.

Most Different: Toronto Enterprise Fund, Edmonton Social Enterprise Fund.
Both of these funds have a mandate to target social enterprises pursuing a specific mandate. For TEF this mandate includes addressing homelessness and providing employment opportunities for people with disabilities; for the Edmonton Social Enterprise Fund there is a priority placed on financing social enterprises whose initiatives address issues related to affordable housing.

9.05 Return to Investors in the Fund/Trust (Structure and Range of Investment Instruments Employed):

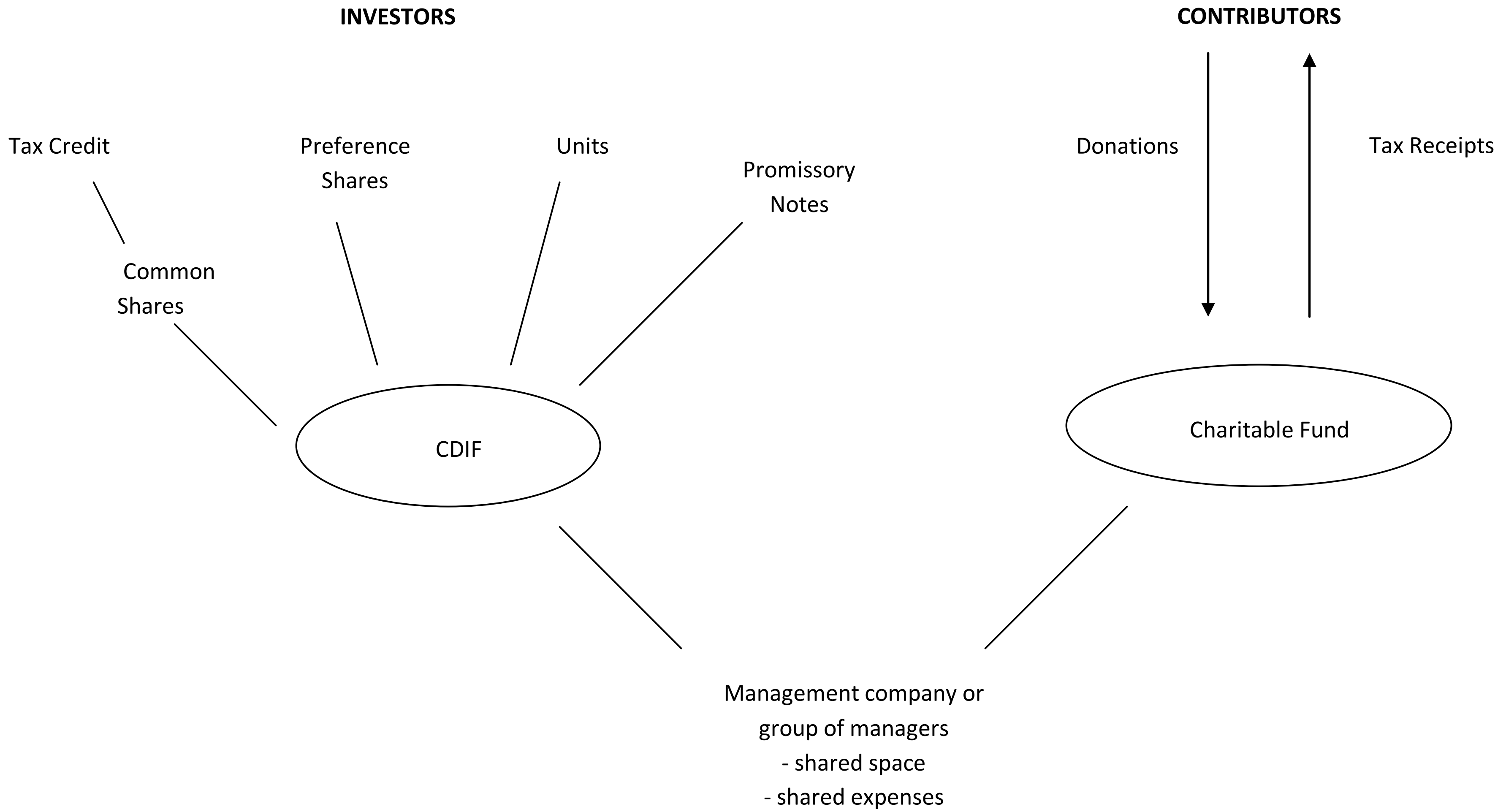
Overview of SEIF:
The *Business Plan* proposes that a range of investment instruments would be used to capitalize the fund. That being said, the Plan notes that "The Fund cannot be viable if a substantial amount of its contributed capital needs to come from investors who are expecting market type returns" (Community Ownership Solutions, SEED Winnipeg, 2004, p. 13). The range of investment instruments used by the Fund would be coordinated through two separate entities operating under the larger umbrella of the SEIF.

The first would be a Community Development Investment Fund (CDIF). At the time of the drafting of the *Business Plan*, the regulations for the Manitoba CED Tax Credit were not yet established; however the Plan anticipates making use of the tax credit as an investment incentive for investors. The Plan suggests that the CDIF could raise capital through the CED Tax Credit via the issuance of common shares to individual investors. The Plan also proposes that the CDIF could employ other investment instruments for those investors not eligible or not requiring a tax credit. These instruments would include preference shares, a debenture, a straight promissory note, and non-repayable grant contributions. (Community Ownership Solutions, SEED Winnipeg, 2004, pp. 22-25)

The plan to use the Manitoba CED Tax Credit as part of the strategy to capitalize the SEIF was contingent on the CED Tax Credit regulations being consistent with the concepts being put forward in the SEIF *Business Plan*. These regulations were finalized a short time after the *Business Plan* was drafted and as it turned out the regulations were only partially consistent with the *Business Plan's* intended use of the CED Tax Credit. Speaking with Mr. Loewen about the fit of the Manitoba CED Tax Credit program with the capitalization strategy of the Fund, he noted two challenges that would have had to be overcome. Of the $3 M in capital raised by the SEIF, Mr. Loewen noted that the plan had been to delay investing a portion of these funds until the eighth year of the fund's operation. However, the Manitoba CED Tax Credit regulations require that new subscription proceeds be invested in community enterprises within 4 years (for new CEDIFs), or 2 years (for established CEDIFs). A second impediment noted by Mr. Loewen is that the regulations included a long list of ineligible business activities that community enterprises are not permitted to engage in (a complete list of the ineligible business activities of Manitoba CED Tax Credit program is included in Appendix 2). Mr. Loewen commented that this regulation places significant restrictions on the types of enterprises that the fund could finance. (Loewen, 2008) A third challenge that has only recently become apparent is that the Government of Manitoba is reportedly no longer interested in supporting the concept of CEDIFs. As has been discussed in 8.02, despite the inclusion of CEDIFs in the CED Tax Credit Act, recent discussions with MAFRI officials revealed that the provincial government is no longer supportive of the concept of CEDIFs.

The second entity operating under the umbrella of the SEIF would be a charitable fund that would have the capacity to issue charitable tax receipts in exchange for donations. As an alternative to creating a new Charitable Fund, the *Business Plan* notes that the management of the charitable fund could be carried out by an existing organization whose mandate included socially responsible investing. (Community Ownership Solutions, SEED Winnipeg, 2004, pp. 22-25)

The Plan notes that it is unlikely that the charitable fund and the CDIF could be combined into one entity. However, provided that the investment restrictions for both the CDIF and Charitable Fund were managed carefully, the Plan suggests that the same management entity or group could manage both funds. Mr. Loewen noted that the legal structure of the management entity was undetermined at the time of drafting the *Business Plan*. Possible structures of this entity might have included a cooperative, non-profit entity or another type of organization. Mr. Loewen also commented that the management entity might have been established as a new entity, or the responsibility of managing the two funds might have been contracted to an existing entity. Page 25 of the SEIF *Business Plan* provides a chart which illustrates the basic organizational concept of the Plan:



(Community Ownership Solutions, SEED Winnipeg, 2004, p. 25)

Most-similar, Most-different Analysis:

This section will provide a cross-fund analysis of the range of investment instruments that the different funds have used to capitalize their respective initial[12] capital pools. The Ontario Social Enterprise Trust is not considered in this cross-fund examination since it is not yet established. Northcountry Cooperative Development Fund is also left out of this sub-section whereas the researcher could not obtain the necessary information from NCDF to complete the analysis. This cross-fund examination reveals that there is wide variance in the investment instruments the different funds have used as part of their capitalization strategy. It is interesting to note that of the established funds, only the Chantier de l'économie sociale Trust has used a mix of different investment instruments in raising its initial capital pool.

Fund/Trust	**Debt**	**Equity**	**Grants/Donations**
The Chantier	57%	0%	43%
ICC	0%	100%	0%
TEF	0%	0%	100%
Edm SEF	0%	0%	100%
NS CEDIFs	0%	100%	0%
MB SEIF (Scenario 1)	0%	17%	83%
MB SEIF (Scenarios 2a, 2b)	10%	15%	75%

Using financial Scenario 1 as a basis for comparison, the SEIF is most similar to the Edmonton Social Enterprise Fund and the Toronto Enterprise Fund in that in this scenario the SEIF is receiving a very high percentage of capitalization funds through grants and donations. If instead Scenarios 2a and 2b are used as the basis of comparison, the SEIF could be said to be similar to the Chantier de l'économie sociale Trust in that both funds involve using a mix of different investment instruments. However, even if Scenarios 2a and 2b are used as the standard of comparison, the SEIF is still much more reliant on donations and grants than is the Chantier de l'économie sociale Trust. The SEIF is most different from ICC and the NS CEDIFs in that these funds rely entirely on investment instruments other than donations and grants, while the Manitoba SEIF is heavily dependent on donations and grants in either financial Scenario 1 or 2a and 2b.

9.06 Viability of Fund/Trust:

Overview of SEIF:

The *Business Plan* notes that after the establishment of the SEIF there will be no investment activity for a period of up to twenty four months. This period is intended to provide the fund with adequate time to raise the necessary investment capital. (Community Ownership Solutions, SEED Winnipeg, 2004, p. 13) The Plan projects that the fund will achieve commercial sustainability by the sixth or seventh year. It is noted that the sustainability of the SEIF will improve if the fund can rely on partner organizations to deliver administration, technical

[12] It should be emphasized that this cross-fund analysis considers only the investment instruments used in the capitalization of the funds' *initial* capital pool. The range of investment instruments currently being used by the respective funds to raise capital may be different than what was used to start the fund.

assistance and monitoring services. (Community Ownership Solutions, SEED Winnipeg, 2004, p. 5) To cover operating costs during the first five or six years, the Plan anticipates that approximately $200,000 will need to be raised. (Community Ownership Solutions, SEED Winnipeg, 2004, p. 13). By the seventh year the Plan notes that the fund will likely be exiting investments and freeing up capital for new investments. (Community Ownership Solutions, SEED Winnipeg, 2004, p. 5)

<u>Most-similar, Most-different Analysis</u>:
Another interesting point of comparison between the funds is that in some cases, such as the proposed Ontario Social Enterprise Trust and the Edmonton Social Enterprise Fund, the funds planned to (or have) developed a mixed portfolio that includes a certain percentage of investment in social enterprises, and a certain percentage of investment in mainstream market investments. In other funds, such as the Chantier de l'économie sociale Trust, the entire investment portfolio consists strictly of investments in social enterprises. Mr. Loewen noted that the plan for the SEIF was the same as the Chantier de l'économie sociale Trust's strategy of investing exclusively in social enterprises.

ICOF's model of having developed within its group of companies a guarantee company is an interesting twist on the mixed portfolio strategy. Similar to the strategy employed by OSET and the Edmonton SEF, ICOF Community Capital's investments that are held with the guarantee company provide the ICC's overall investment portfolio with a higher degree of stability. The added advantage of the ICC model however is that ICOF's *Ethical Policy* ensures that the ICOF Guarantee Company's investments are not inconsistent with social and economic mandate of the broader organization.

9.07 Technical Assistance:

<u>Overview of SEIF</u>:
The Plan proposes making use of both in-house and partner organizations to provide technical assistance to the social enterprises receiving financing through the SEIF. The *Business Plan* defines technical assistance as follows:

> "(T)he support that is provided to a business after it has received an investment and is operational. It does not include the technical assistance required to help an applicant prepare a business plan. It is assumed that all applicants will have a business plan before approaching the Fund. If the applicant needs assistance to prepare a business plan, they will have to find that assistance somewhere else. The Fund will not provide that kind of assistance" (Community Ownership Solutions, SEED Winnipeg, 2004, p. 20).

The technical assistance that will be provided in-house will be delivered primarily by the SEIF Fund Manager. The fund manager will also play a role in coordinating the technical assistance services provided by partner organizations. (Community Ownership Solutions, SEED Winnipeg, 2004, p. 20)

Mr. Loewen noted that the rationale for providing in-house technical assistance was based on research he had completed on social enterprise funds in the United States. Through this research he noted that a number of these funds started out with the goal of keeping a very small staff and not providing technical assistance services in-house. Overtime however, these funds found that it was necessary to provide these services in-house. (Loewen, 2008)

The *Business Plan* states that the success of social enterprises is positively correlated to the extent to which these enterprises are open and have access to technical assistance services. Accordingly, the Plan notes that investments will be contingent on the enterprises agreeing to receive a certain level of technical assistance. The technical assistance provided (either by the SEIF itself or by a partner organization) will cover the following topics:

- Business planning
- Financial and human resource management
- Legal issues
- Marketing
- Operations management

(Community Ownership Solutions, SEED Winnipeg, 2004, p. 5)

<u>Most-similar, Most-different Analysis</u>:
The funds reviewed in this report varied greatly with respect to the provision of technical assistance. Beyond the decision of whether or not to provide technical assistance, funds differed in the manner in which they offered technical assistance. Some funds offer direct technical assistance through in-house programming. Other funds offer indirect technical assistance either through an affiliated[13] organization, or through providing grant funding for technical assistance. The following table lists the funds reviewed in this report along with an overview of the types of technical assistance each of the respective funds provides[14].

[13] A distinction is made in this sub-section between *affiliated* organizations and *partner* organizations. Affiliated organizations are those entities that are contained within the same group of companies as the fund (e.g. Northcountry Cooperative Foundation is *affiliated* with Northcountry Cooperative Development Fund). Partner organizations are those organizations that a fund may collaborate with to deliver technical assistance; however are not part of the same group of companies as the fund. The focus of this sub-section is on identifying which organizations play a role in delivering technical assistance services either directly or indirectly. In completing this analysis the researcher has made a decision to include technical assistance that is delivered indirectly through an affiliated organization, and exclude technical assistance that is delivered through a partner organization.

[14] ICOF Community Capital is not reviewed in this sub-section due to lack of detailed information being obtained about ICOF's technical assistance programming.

	Direct TA	Indirect TA		No TA
Fund	**Fund provides in-house TA**	**TA provided through affiliated organization**	**Grants are provided for TA**	**Fund provides no direct or indirect TA**
NCDF		X		
The Chantier				X
OSET			X	
TEF	X		X	
Edm SEF			X	
NS CEDIFs				X
MB SEIF	X			

*TA = technical assistance

The SEIF is most similar to the Toronto Enterprise Fund and the Edmonton Social Enterprise Fund in that each of these funds is structured to provide in-house technical service. The SEIF is most different from the Chantier de l'économie sociale and the Nova Scotia CEDIFs, which provide no direct or indirect technical assistance. It should be noted however that the Chantier de l'économie sociale relies on partnerships with organizations in the social economy to connect the social enterprises it finances with technical assistance.

One organization which is not mentioned in the SEIF Business Plan is the Community Economic Development Technical Assistance Service (CEDTAS), which is hosted by SEED Winnipeg. It should be noted that if the SEIF was to become operational, CEDTAS could be invited to act as a partner in the coordination and delivery of technical assistance services.

9.08 Financial Product Offerings:

Overview of SEIF:

The Plan proposes that the primary instrument used by the fund to invest in social enterprises will be convertible debt or convertible preferred shares with a small annual interest or dividend yield. Mr. Loewen explained that part of the reason that these instruments were specified was because they were consistent with the SEIF's objective of supporting organizations that were working towards employee ownership. To that extent, using convertible debt or convertible preferred shares allowed for the possibility of having an enterprise convert its debt into shares which could then be sold to the employees of the enterprise. (Loewen, 2008) Other investment instruments used by the SEIF would include: subordinated debt, royalties, warrants, and common shares. The Plan notes a preference for those instruments that provide small amounts of cash flow beginning soon after placement. (Community Ownership Solutions, SEED Winnipeg, 2004, p. 12)

It should be noted that in the Manitoba CED Tax Credit regulations, neither convertible debt nor convertible preferred shares are listed as eligible investment vehicles for a CEDIF to invest its subscription proceeds. In addition to the three already listed in 9.05, this presents a fourth impediment to the *Business Plan*'s intended use of the Manitoba CED Tax Credit. In recent communications with the Government of Manitoba, MAFRI officials confirmed that convertible debt and convertible share would not be considered eligible investment vehicles for CEDIFs to invest subscription proceeds.

The *Business Plan* anticipates that investments will be for amounts ranging from $20,000 to $100,000 with the average investment being $50,000. (Community Ownership Solutions, SEED Winnipeg, 2004, p. 12)

The Plan anticipates that enterprises will begin to exit investments through a share buy-back plan beginning in the third or fourth year. The Plan stipulates that all investments should be fully exited after seven years, however an allowance of considerable flexibility would be shown to this stipulation. (Community Ownership Solutions, SEED Winnipeg, 2004, p. 12)

The *Business Plan* notes that the terms of the investments will be flexible based on the needs and capacities of the enterprise. For the purposes of the *Business Plan*'s financial projections, an annual rate of return of 9% is assumed over a seven year period, with 3% being paid annually and the balance being paid at redemption. (Community Ownership Solutions, SEED Winnipeg, 2004, p. 12)

Most-similar, Most-different Analysis:
This sub-section will consider the range of different financial instruments used by the different funds reviewed in this report to invest in social enterprises. The following table lists each of the funds and the financial products that each fund offers its clients:

Fund/Trust	**Loans**	**Equity Investments**	**Grants**
NCDF	X		
The Chantier	X		
ICC	X		
OSET	X		X
TEF			X
Edm SEF	X		X
NS CEDIFs		X	
MB SEIF		X	

It should be noted that although the patient capital loan product offered by the Chantier de l'économie sociale is listed as a loan it is treated as an equity investment by banks and other financial institutions. (Charest, 2008) It should also be noted that the Nova Scotia CEDIFs are also capable of offering subordinated debt in very limited circumstances, however their primary means of investment is through equity investment.

Comparing the SEIF with the other funds it appears to most closely resemble the Nova Scotia CEDIFs. Although the primary investment instruments to be used by the SEIF could be considered a combination of debt and equity (convertible debt and convertible preferred shares), the SEIF *Business Plan* makes clear that its purpose is to make equity investments in social enterprises.

> A key strategy for creating employment and wealth for workers from marginalized backgrounds is to create enterprises that have a specific mandate to hire and create ownership from within that group. Organizations involved in such work find that while there seems to be an adequate supply of loan capital to capitalize those businesses, it is very difficult to access equity capital. The worker-owners generally are not able to contribute their own equity. The lack of equity capital typically results in, undercapitalized enterprises whose financial risks are heightened by undesirable capital structures. Thus the need to establish a source of equity capital for these types of businesses. (Community Ownership Solutions, SEED Winnipeg, 2004, p. 4)

9.09 Due Diligence for Selecting Recipient Organizations:

Overview of SEIF:

The *Business Plan* suggests that the formal criteria and process for due diligence will be drafted by the fund manager within the first year of the SEIF's establishment. (Community Ownership Solutions, SEED Winnipeg, 2004, p. 19) While not providing the specifics of this process, the Plan does present guidelines for how this process would be developed.

As previously mentioned, the Plan assumes that a majority of the investment applications will come from enterprises that have developed their application with the assistance of sponsoring organizations. The plan expects that these sponsoring organizations will provide a certain degree of due diligence to ensure that the needs and capacities of the enterprises are consistent with the eligibility criteria of the SEIF. (Community Ownership Solutions, SEED Winnipeg, 2004, p. 19)

The *Business Plan* presents the following three step process for completing due diligence:

1. Preliminary Assessment by the Fund Manager:
   This would involve a quick review by the fund manager to ensure that the business plan and investment application are complete and meet the basic guidelines of the fund.
2. Detailed Assessment:
   Following the preliminary assessment a detailed assessment would be completed by either the fund manager or one of the sponsoring partners. Some criteria for the due diligence to be performed by the sponsoring organization are listed as follows on page 20 of the *Business Plan*:
   - Approximately two per year per organization
   - A sponsoring organization would never do the due diligence on an application that has come to the fund through their processes
   - The due diligence organization would provide its analysis and conclusions in terms of strengths, weaknesses, risks etc. for the applications that they perform the due diligence on. The organization would not make a formal go/no-go recommendation.

- The due-diligence organization would provide recommendations regarding the structure of the deal that would make most sense for that application.

(Community Ownership Solutions, SEED Winnipeg, 2004, p. 20)

3. Investment Decision

The investment decision would be made by the Investment Review Committee (IRC). The IRC would be made up of representatives from the sponsoring organizations and a number of additional committee members from beyond this group. Sponsoring organizations would not participate in evaluating prospective deals with social enterprises which they had assisted in the preparation of the investment application. The IRC would only review applications that the fund manager is willing to support. (Community Ownership Solutions, SEED Winnipeg, 2004, p. 20)

After the decision to invest in an enterprise has been made, the Plan stipulates a significant level of follow-up and monitoring activities to be completed by the fund. These activities would include the enterprises submitting financial statements to the fund and visits by the fund manager on at least a quarterly basis. (Community Ownership Solutions, SEED Winnipeg, 2004, p. 20) The fund will also typically expect a seat on the board of a portfolio company which may be held by an in-house staff member of the fund or a partner designated by the SEIF. (Community Ownership Solutions, SEED Winnipeg, 2004, p. 5)

<u>Most-similar, Most-different Analysis</u>:

The majority of the funds reviewed in this report follow a similar process of due diligence. Specifically, Northcountry Cooperative Development Fund, the Chantier de l'économie sociale Trust, the proposed Ontario Social Enterprise Trust and the Nova Scotia CEDIFs all follow a similar process for due diligence[15]. Generally speaking and in brief, this process involves staff of the fund receiving and completing a preliminary assessment of the investment prior to the application being forwarded to the board of directors (or a committee of the board of directors) which makes the final decision on whether to approve or reject the application. This process is notably different than the due diligence process for the Toronto Enterprise Fund. The Toronto Enterprise Fund is similar to the other funds in that the final decision rests with the TEF Funders Committee. It is different however in that the application process involves prospective enterprises entering the TEF business plan competition, which is a considerably different process than any of the other funds. The Manitoba SEIF clearly fits with the larger group of funds reviewed in this report that complete their due diligence in the first process described.

9.10 Ownership, Management and Governance of the Fund/Trust:

<u>Overview of SEIF:</u>

An overview of the basic organizational structure of the proposed SEIF was provided in Section 9.05 and will not be repeated here. In addition to what has already been presented, a critical

[15] Detailed information on the due diligence process for ICOF Community Capital was not obtained and therefore ICC is not referenced in this sub-section of the report. The Edmonton Social Enterprise Fund is not in this sub-section either since their formal due diligence process has not yet been established.

aspect of the Plan is the involvement of various types of partners. The following three types of partners are presented on pages 21 and 22 of the *Business Plan*:

1. Governance Partners:

   As previously mentioned, the Plan proposes that the SEIF may have several distinct entities that fall under the broader umbrella of the SEIF. These entities may include a charitable fund, a for-profit or cooperative, and a management company. The governance partners would be responsible for acting as a steering committee/board of directors for the SEIF's different entities. The governance partners would include those organizations that have made a major commitment to the fund. In addition to the governance role, the governance partners would be expected to provide deal flow, technical assistance, due diligence and monitoring. (Community Ownership Solutions, SEED Winnipeg, 2004, pp. 21-22)

2. Co-operating Partners

   Co-operating partners would be responsible for making a commitment to providing assistance with deal flow, technical assistance, due diligence, and monitoring. The Plan notes that this category may be appealing to some northern and/or rural partners. The *Business Plan* adds that there may be some rotation between governance and co-operating partners. (Community Ownership Solutions, SEED Winnipeg, 2004, p. 22)

3. Service Providers

   Service providers would be responsible for providing a limited amount of assistance with a defined responsibility. For example, an organization that agrees to complete due diligence on a certain number of investment applications per year would be included in this category of partners. (Community Ownership Solutions, SEED Winnipeg, 2004, p. 22)

The fund manager would play a critical role in the management and operation of the fund. The Plan notes that the first 18 to 24 months of this individual's time will be devoted to developing the application and due diligence criteria and marketing the fund. The Plan estimates that these responsibilities could be managed with one half-time position. Beyond the first 2 years of the fund's operation, the *Business Plan* estimates that between one and one and a half full time positions will be required to carry out the staffed responsibilities of the fund. (Community Ownership Solutions, SEED Winnipeg, 2004, p. 21)

<u>Most-similar, Most-different Analysis</u>:
An interesting point of comparison is the different legal structures of the different funds reviewed in this report. The following table presents each fund and their respective legal structure.

Fund/Trust	Trust	For Profit Corporation	Cooperative	Incorporated Non-Profit	Program Stream of a Parent Non-Profit	Industrial and Provident Society
NCDF			X			
The Chantier	X					
ICC						X
TEF					X	
Edm SEF				X		
NS CEDIFs		X	X			

The organizational structures of the proposed Ontario Social Enterprise Trust and the SEIF have yet to be determined. That being said, it is likely that the SEIF would be most similar to the Edmonton Social Enterprise Fund in that the (planned) structure of both funds have built in a means for providing charitable receipts, while the funds themselves would not be registered charities.

V. Conclusions

In this final section of the report three categories of conclusions will be developed:

1. Conclusions concerning social enterprise funds/trusts and the proposed Manitoba SEIF;
2. Conclusions concerning the Manitoba CED Tax Credit;
3. General characteristics table developed by the research team.

The first two categories of conclusions will be developed with the objectives of summarizing the key findings of the report and suggesting the next steps that are required for further development of the proposed Manitoba SEIF. In addition to those conclusions specific to the ongoing development of the Manitoba SEIF, a three-step process is presented as a strategy for developing successful social enterprise funds.

The general characteristics table provides a summary that was developed by the research team specific to those funds reviewed in the report that are most relevant to the Manitoba context.

Conclusions Concerning Social Enterprise Funds and the Manitoba SEIF

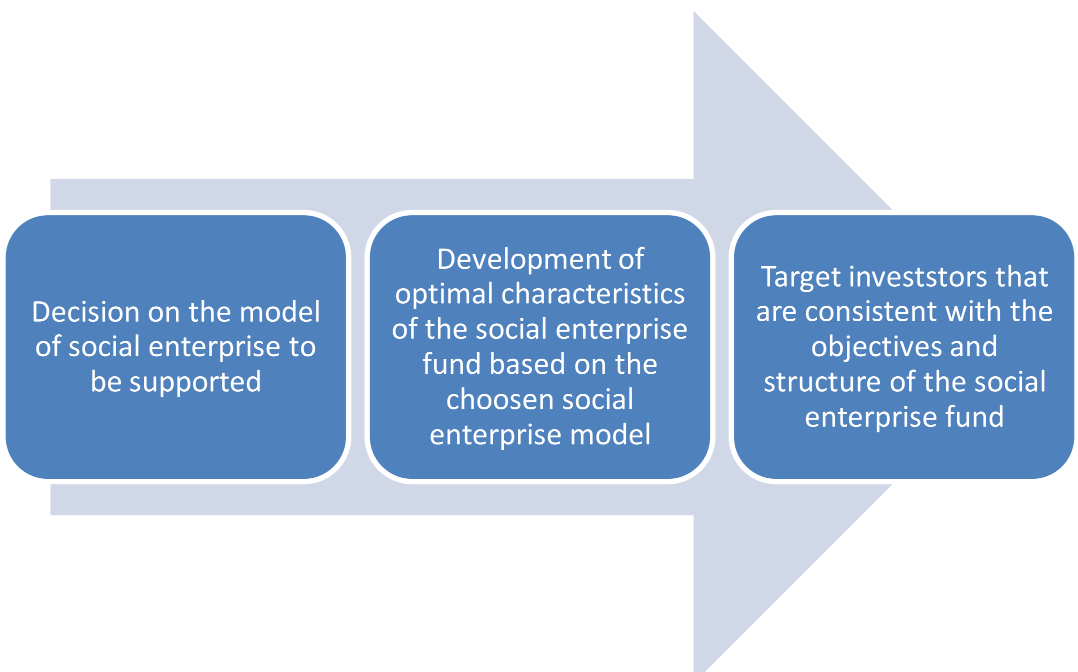
An important starting point for developing conclusions concerning the appropriate structure of social enterprise funds is to recognize that what is commonly referred to in Canada as a *social enterprise* has many different forms. The significance of this important point has not been fully acknowledged by the CED/Social Economy sector in Canada. Recognizing that social enterprises have different structures is important because along with these different structures come enterprises with different needs and capacities. Simply put, if the sector is unable to recognize and distinguish between the different models of social enterprises that exist, then its efforts to increase the number and viability of social enterprises will lack effectiveness and efficiency. In particular, the development of a successful social enterprise fund demands an acute understanding of the needs and capacities of the enterprises that such a fund is set up to finance. These factors suggest the need for developing some means for differentiating between the different types of enterprises that are currently collectively referred to as social enterprises.

As previously mentioned, this report is part of a larger research project titled *Creating Policy to Support Social Enterprise Development in Manitoba*. Mr. Garry Loewen, the chief investigator of this larger project, has developed a S*ocial Enterprise Continuum* which provides a means for differentiating between the various models of social enterprises. Mr. Loewen's *Social Enterprise Continuum* has been included as Appendix 1 to this report. The distinguishing factor used in the continuum to differentiate between the different models of social enterprises is *the extent to which enterprises are grant dependent versus self-sufficient on market revenues*. With exceptions noted, Mr. Loewen draws the following correlation:

> We have shown, for example, that as enterprises place stronger emphasis on becoming self-sufficient in the market place, they focus more on the enterprise aspects of their organization. We have also shown that organizations that place the highest priority on their social goals are more likely to be grant dependent, and to only obtain a portion of their revenues from the marketplace. There will clearly be many exceptions to this.

It is important that the CED/Social Economy sector supports social enterprises that operate throughout the entire range of the continuum. As has been discussed, placing a higher priority on social goals tends to lead to a social enterprise model that is more grant dependent. However, as long as there are social issues that demand a high priority focus there will be a need for social enterprises that aim to achieve these objectives. On the other hand, there are many social enterprises that have the capacity to become more self-sufficient and it is important that they are encouraged to do so. Therefore there is a need to support social enterprises operating at every stage within the continuum. Another reason why this is important is that it is unlikely that a newly established social enterprise will be fully self-sufficient on market revenues. Therefore there is also a need to support social enterprises in their movement across the spectrum toward greater levels of self-sufficiency.

It has been argued thus far that the first step in developing a successful social enterprise fund is to develop an understanding of the range of social enterprises models that exist. The next logical step in this process is to then decide on the type of social enterprise that the fund is interested in supporting. Once decided, the proponents of the fund can then move through a series of decision points that ultimately concludes with deciding who will be the targeted investors that will support the capitalization of the fund. The following flow-diagram is presented to illustrate this process:



Note that the suggested process begins with the proponents of the fund deciding on the intended model of social enterprise that is to be supported. *It is critical that the proponents recognize the significance of this decision. That is, ultimately this decision will impact the degree of emphasis that the social enterprises supported by the fund place on achieving their* *social objectives*[16]. There are many different processes that the proponents can use to help decide on the appropriate model of social enterprise that the fund should be structured to support. In many circumstances it will be necessary to include some level of community consultation as part of this process. In other circumstances the proponents will have an adequate level of knowledge about the community and therefore a consultation may not be required.

This report has examined several social enterprise funds/trusts in the context of nine different *characteristics*. Another component of this report has been to compare the proposed Manitoba SEIF to the other social enterprise funds/trusts reviewed in the report with respect to these characteristics using a most-similar, most-different analysis. In summary, the nine characteristics are:

1. Source of Funding for Fund/Trust
2. Demand: Who is Using the Fund/Trust? What Types of Organizations are Targeted?
3. Eligibility Criteria
4. Return to Investors in the Fund/Trust (Structure and Range of Investment Instruments Employed)
5. Viability of Fund/Trust
6. Technical Assistance
7. Financial Product Offerings
8. Due Diligence for Selecting Recipient Organizations
9. Ownership, Management and Governance of the Fund/Trust

In establishing a new social enterprise fund, it is important to ensure that the above nine characteristics are consistent with the needs and capacities of the social enterprises that the fund is being set up to support. The *Social Enterprise Continuum* presents five different categories, or models, of social enterprises. This report has not attempted to define the optimal structures of the nine characteristics for each of the five models of social enterprises presented in the continuum. In the continuation of this field of research this is an important activity that should be further developed.

Considering the proposed Manitoba SEIF in the context of the *Social Enterprise Continuum*, the fund appears to have been striving towards supporting enterprises that fit in the "Previously grant assisted – now self-sufficient" category of social enterprises. For example, the SEIF's planned use of equity investments as a means to support social enterprises is consistent with the needs of social enterprises that are listed in this category. Of course, the framework of the continuum was not in place to guide the development of the SEIF *Business Plan* in 2004. As the *SE Continuum* continues to develop as per the suggested research activities described above, it is likely that the optimal structures of the characteristics for the "Previously grant assisted –

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[16] This point has already been developed using Mr. Loewen's *Social Enterprise Continuum.* As has been shown those social enterprises that place a higher priority on social objectives tend to be more grant dependent, whereas those social enterprises who place a higher priority on their enterprising activities tend to be more self-sufficient on market revenues.

now self-sufficient" category of social enterprises may not match up perfectly with what was initially proposed in the SEIF *Business Plan*.

As next steps towards the further development of the proposed Manitoba SEIF, the researcher suggests moving through the following four steps in sequential order:

1. Define the specific model of social enterprise that the SEIF is intending to support. As mentioned, it appears that the proposed Manitoba SEIF was intended to support the model of enterprise which the continuum refers to as "Previously grant assisted – now self-sufficient". This question however needs to be revisited and reaffirmed.

2. Identify the optimal structures for the nine characteristics of the SEIF based on the model of social enterprise that the fund chooses to support. Ideally the additional research required to determine the optimal structures of the nine characteristics for each of the five models listed in the continuum would be completed by this point. Whether or not this research is completed, use can also be made of this report to examine the structure of other funds that are working towards supporting social enterprises which are similar to those that the SEIF is interested in supporting. That being said, there is no guarantee that the structures of the characteristics that have been chosen by the other funds are optimal. Therefore the proponents of the SEIF should be open to mixing and matching the various strategies used by the different funds examined in this report when re-modeling the nine different characteristics of the SEIF.

3. Once the optimal structures of the nine characteristics have been determined the SEIF *Business Plan* should be redrafted. Those characteristics that are consistent with the optimal structures can be left intact, while those that are inconsistent will need to be amended accordingly.

4. Once the *Business Plan* has been redrafted the proponents will be in a position to approach potential investors and explore the viability of the SEIF.

<u>Conclusions concerning the Manitoba CED Tax Credit</u>
This report has identified that that there are at least four possible impediments that would prevent the SEIF from making use of the Manitoba CED Tax Credit in the intended manner that was initially proposed in the 2004 SEIF *Business Plan*. In order to overcome these four impediments the proponents of the SEIF have at least two clear options:

1. Petition the Manitoba Government to change the regulations;
2. Change the SEIF to fit the regulations.

This report will conclude by listing each of these four impediments in turn. The researcher will not suggest, however, whether option 1 or option 2 is the better course of action for the proponents of the SEIF to pursue for each of the four impediments. This decision is very much contingent on the process of: first, defining the specific model of social enterprise the SEIF is intending to support; and second, identify the optimal structures for the nine characteristics of the SEIF. Until these decisions are made, the extent to which having to conform to the regulations of the Manitoba CED Tax Credit is a hindrance to the proposed Manitoba SEIF is unknown. Therefore, to make recommendations to either petition the government or alter the *Business Plan* prior to these important decisions being made would not be rational.

The four impediments are as follows:

1. Government of Manitoba's decision to no longer support the concept of CEDIFs
   As has been discussed in section 8.02 of this report, despite the inclusion of CEDIFs in the CED Tax Credit Act, recent discussions with MAFRI officials revealed that the provincial government is no longer supportive of the concept of CEDIFs. This impediment is listed first because it is the one obstacle that the proponents of the SEIF are most likely to want to petition the Manitoba Government to reverse. Of course, there remains the possibility that in the process of identifying the optimal characteristics of the fund the proponents may decide that the Manitoba CED Tax Credit program would not be a useful tool for the new *Business Plan*. However, the potential of the tax credit to enhance the fund's ability to raise capital will likely lead the proponents to want to try and make use of this program.

2. Timeframe for investment and use of proceeds
   Of the $3 M in capital raised by the SEIF, Mr. Loewen noted that the plan had been to delay investing a portion of these funds until the 8th year of the Fund's operation. However the Manitoba CED Tax Credit regulations require that new subscription proceeds be invested in community enterprises within 4 years (for new CEDIFs) or 2 years (for established CEDIFs). (Loewen, 2008)

3. Ineligible business
   The Manitoba CED Tax Credit Regulations provides a very long list of ineligible business activities (a complete list of the ineligible business activities of Manitoba CED Tax Credit program is included in Appendix 2). These are the business activities that community enterprises who receive funding from CEDIFs are not permitted to engage in. Mr. Loewen commented that this regulation places significant restrictions on the types of enterprises that the SEIF could finance. (Loewen, 2008)

4. Regulations on the types of investment instruments that can be used by CEDIFs to invest in community enterprises
   Section 6(1) of the Manitoba CED Tax Credit Regulations lists the rules pertaining to the types of investment vehicles that a CEDIF can use to invest in a community enterprise. Neither of the primary investment instruments proposed in the 2004 *Business Plan* (convertible debt and convertible preferred shares) are listed as eligible investment instruments in this section of the regulations. (Government of Manitoba, 2004, pp. 8-9) In recent communications with the Government of Manitoba, MAFRI officials confirmed that convertible debt and convertible share would not be considered eligible investment vehicles for CEDIFs to invest subscription proceeds.

General characteristics table developed by the research team

As has been previously noted, this project is part of a larger project titled *Creating Policy to Support Social Enterprise Development in Manitoba*. Part of the mandate of the larger project has been to consider the local context of social enterprise development in Manitoba through conducting interviews with social enterprises, supporting partners, and policy makers. This final section of this report attempts to connect the findings of this report to the other work that has been completed by the research team in Manitoba. The research team has developed the following general characteristics table, which is specific to those funds reviewed in the report that were deemed most relevant to the Manitoba context. Making use of the concept of classifying social enterprises on a spectrum ranging from a focus on the *social* to a focus on the *enterprise*, the table classifies the funds as *social*, *hybrid*, or *enterprise* focused. The left hand column of the table lists the aspects of each of the funds that the research team found to be most critical when considering the ongoing development of the Manitoba SEIF. Below the general characteristics table are some of the reflections that the research team has compiled regarding the Manitoba SEIF.

General Characteristics of Social Enterprise Development Funds By Type of Fund			
	Emphasis on Social (TEF)	**Hybrid (OSET, Edm SEF)**	**Emphasis on Enterprise (NCDF, NS CEDIF's, The Chantier)**
Longevity	• A proven model to obtain results.	• An emerging but as yet unproven model – mostly still in the proposal stage • The model that most closely approximates the Manitoba SEIF proposal	• A proven model to obtain results. • The model most used by the jurisdictions whose SE sector Winnipeg has hoped to emulate.

General Characteristics of Social Enterprise Development Funds By Type of Fund			
	Emphasis on Social **(TEF)**	**Hybrid** **(OSET, Edm SEF)**	**Emphasis on Enterprise** **(NCDF, NS CEDIF's, The Chantier)**
Operating Funding/Viability	• Provided by grant money – most of which has already been raised	• OSET – Sources of operating funding: ○ Loan interest ○ Returns on market investments ○ Operating grants • Edm SEF – Sources of operating funding: ○ Loan interest ○ Returns on market investments • Both are much larger funds than the SEIF had anticipated. Both reserve a substantial portion of the fund to invest in the mainstream market as a way of generating operating funds	• NCDF - Sources of operating funding: - Loan interest & loan fees; - Management fees; - Grant revenue; - Project reimbursement income; - Development fees. ○ Affiliated organization performs most of the development work • NS CEDIF's – CEDIFs use a portion of the funds raised, or investment earnings to cover administrative costs. These functions are also sometimes carried out by a partner organization. • The Chantier – Sources of operating funding: - 1st two years – federal

General Characteristics of Social Enterprise Development Funds By Type of Fund			
	Emphasis on Social **(TEF)**	**Hybrid** **(OSET, Edm SEF)**	**Emphasis on Enterprise** **(NCDF, NS CEDIF's, The Chantier)**
			grants - Beyond – investment returns ○ Due diligence, technical assistance, development work performed by partner organizations
Source of Capital	• Grants from a variety of organizations	• Grants from a variety of organizations – especially government	• All use money that has been obtained free or at below market rates • NCDF – a large spectrum of organizations committed to social justice and/or local development • The Chantier – largest portion from federal government. Some also from provincial government and other institutions. • NS CEDIF's – private investors
Type of Business	• Grant dependant • Small to medium sized • Started by non-profits	• OSET – criteria not yet clear ○ OSET's initial focus will likely be on supporting social	• NCDF ○ Consumer, producer, worker and housing coops

General Characteristics of Social Enterprise Development Funds By Type of Fund			
	Emphasis on Social **(TEF)**	**Hybrid** **(OSET, Edm SEF)**	**Emphasis on Enterprise** **(NCDF, NS CEDIF's, The Chantier)**
	• Targeted at providing employment opportunities for the homeless and people with disabilities	enterprises that address poverty reduction ○ Pending funding, this focus may broaden to support social enterprises which address other social issues. • Edm SEF ○ 90% run by charities ○ Strong history of successfully running social enterprises and sound financial management practices ○ Edm SEF places special emphasis on supporting social housing initiatives.	○ Mostly business expansions • The Chantier ○ 2/3 expansions ○ Loose definition of SE ○ Larger businesses ○ Enterprises derive 60-75% of their income from market revenues, and 25-40% from government subsidies, contributions from foundations, and fundraising activities. • NS CEDIF's ○ 25% coops, 75% share capital ○ Local economic development emphasis, not necessarily CED ○ Capable of demonstrating viability to local investors
Product Offerings	• Grants	• OSET – Long term loans or guarantees • Edm SEF	• NCDF – Loans • The Chantier – Loans

General Characteristics of Social Enterprise Development Funds By Type of Fund			
	Emphasis on Social **(TEF)**	**Hybrid** **(OSET, Edm SEF)**	**Emphasis on Enterprise** **(NCDF, NS CEDIF's, The Chantier)**
		○ TA grants ○ Mortgages ○ Loans	• NS CEDIF's – Equity investments
TA	• TA provided either via in-house services or through TA grants.	• OSET – TA grants • Edm SEF – TA grants	• NCDF –Provided through an affiliated organization • The Chantier – None. • NS CEDIF's – None
Return to Investors	• None	• Edm SEF – None • OSET – Plan is for only a portion of OSET's capital to require a return to investors	• NCDF ○ Highly variable -depends on institutional expectation ○ Below market • The Chantier ○ Only a portion requires a return • NS CEDIF's ○ Tax credits ○ Some also pay dividends ○ Exits are a problem

Reflections of the Research Team regarding the Manitoba SEIF

- Need to decide which part of the SE sector we wish to build – before deciding on the best model for doing that
- The model we have intended to use is essentially untested, and does not match the SE sectors we wish to emulate
- Viability with any self-sustaining model will require a larger fund, with a range of "safe" investments to complement the riskier investments
- The demand for expansion funding vs. start-up funding needs to be evaluated
- The Manitoba model has too many financial products in its offering. Manitoba's offering was patterned after the social enterprise venture capital funds in the US.
- Only one of the researched funds provides equity funding, and it is having difficulty accommodating exits
- All of the models use either non-repayable money or money that has been obtained at below market rates
- The ownership restrictions in the Manitoba model may be unnecessarily restrictive

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Appendix 1
Social Enterprise Continuum
Developed by Mr. Garry Loewen, May 2008

A Social Enterprise Continuum

The purpose of this research has been to test the shape and priority of five types of interventions for scaling up the social enterprise sector in Winnipeg. In the course of conducting the research, it has become apparent that there are significant differences in social enterprise models. The merit of each intervention, and the features that need to be incorporated into each intervention, will vary according to the model of social enterprise that it is targeted at.

The following diagram is an attempt to portray the social enterprise continuum within a range that is useful for this research. Like any continuum, it provides some conceptual clarification, but it cannot capture the many anomalies that exist within the sector. We have shown, for example, that as enterprises place stronger emphasis on becoming self-sufficient in the market place, they focus more on the enterprise aspects of their organization. We have also shown that organizations that place the highest priority on their social goals, are more likely to be grant dependent, and to only obtain a portion of their revenues from the marketplace. There will clearly be many exceptions to this.

The models on the continuum, however, provide a useful starting point for examining the shape and character of the five types of interventions.

A Continuum of Social Enterprise Models

Focus: Social ⟷ Enterprise

Model:	**Program:**	**Grant dependent**	**Striving for market self-sufficiency**	**Previously grant assisted – now self-sufficient**	**Self-sufficient on market revenues**
	• Operates as a program of another organization • Market revenues cover some, but not all program costs • Market revenues may or may not be critical to program survival	• Incorporated as an independent organization – npo, coop or share capital • Market revenues cover some costs • Grant revenues relatively secure over the long term	• Incorporated as an independent organization – npo, coop or share capital • Market revenues cover most costs • Grant revenues currently supplementing market revenues, but are not secure for the long term	• Incorporated as an independent organization – npo, coop or share capital • Some grant moneys used at start-up or expansion • Now fully self-sufficient on market revenues	• Incorporated as an independent organization – npo, coop or share capital • Start-up costs covered through normal financial market arrangements • All ongoing costs covered by market revenues
	e.g. Fort Whyte Farms sells the produce from an urban gardening program with at risk youth	e.g. S.S.C.O.P.E. employs people with mental health issues to perform a variety of services on a fee for service basis	e.g. Inner City Renovations employs workers with employment barriers to renovate residential and commercial buildings	e.g. Mondragon Bookstore and Restaurant achieves a variety of social goals through its operation as a worker collective	e.g. Mountain Equipment Coop has a variety of social and environmental goals
Long-term viability:	Moderate	High	Low	Moderate	High
Animation Role	• Most likely to be facilitated by funding organizations e.g. Enterprising Non-Profits Program	• As per "Program" related animation	• Primary target for a full range of animation services, including opportunity	• Primary target for a full range of animation services as per "Striving for market self-	• Not a primary target for animation • Animation much more likely to be

Focus:	Social ⟵				⟶ Enterprise
Model:	**Program:**	**Grant dependent**	**Striving for market self-sufficiency**	**Previously grant assisted – now self-sufficient**	**Self-sufficient on market revenues**
	• Most likely to consist of stimulating the NPO's imagination toward social enterprise, providing business development supports, and offering access to grant capital • May involve facilitating access to markets – e.g. SPP • Not likely to consist of brokering deals		identification, deal facilitation, providing access to capital, facilitating special procurement arrangements, offering business development supports etc.	sufficiency"	achieved through involvement of the entrepreneur, or though existing coop structures • Enterprise may be the outcome of a more modest initial endeavor similar to those described under "Striving for self-sufficiency" and "now self-sufficient", in which case it would be the product of an externally animated process.
Provision of Investment Capital	• Typically prefer grants or donations	• Typically prefer grants or donations • May seek loans for capital purchases or lines of credit as operating capital	• Typically prefer grants or donations for start-up capital • May seek loans for capital purchases or lines of credit as operating capital • Equity incentives (e.g. tax credits) are of limited value due uncertainty about	• Typically prefer grants or donations for start-up capital • May seek loans for capital purchases or lines of credit as operating capital • Equity incentives (e.g. tax credits) may be useful for growth and expansion	• Have the financial capacity and sophistication to use a wide range of debt and equity instruments. • Have access to most mainstream financing vehicles

Focus:	Social ⟵			⟶ Enterprise
Model:	**Program:**	**Grant dependent**	**Striving for market self-sufficiency**	**Previously grant assisted – now self-sufficient**	**Self-sufficient on market revenues**
			future profitability		
Procure-ment	• Can benefit from small scale, voluntary, socially conscious procurement such as SPP • Not likely to scale up to consistently meet government or corporate needs in a contractual environment – even a favoured one	• Can benefit from small scale, voluntary, socially conscious procurement such as SPP • Might be able to scale up to consistently meet government or corporate needs in a contractual environment	• A primary target for modified government and/or corporate procurement policies • Many have the intention of putting in place the systems that are required to meet quality and other requirements in a contractual environment	• A primary target for modified government and/or corporate procurement policies • Many have the intention of putting in place the systems that are required to meet quality and other requirements in a contractual environment	• A primary target for modified government and/or corporate procurement policies • Many already have the systems in place to meet quality and other requirements in a contractual environment
Wage/ Training Subsidies	• Wage/training subsidies less likely to be applicable • Workers frequently are program participants, and receiving only casual remuneration or honorariums • Subsidization usually comes from funders related to the host	• As per "Program" related enterprises	• A primary target for labour market related subsidies	• A primary target for labour market related subsidies	• Not a primary target for labour market related subsidies • Less likely to employ a significant portion of workers who would qualify for labour market subsidies • Business model generally oriented to growth, and can not

Focus:	Social ⟵			⟶ Enterprise
Model:	**Program:**	**Grant dependent**	**Striving for market self-sufficiency**	**Previously grant assisted – now self-sufficient**	**Self-sufficient on market revenues**
	program, not from labour force development funders				be dependent on constantly increasing subsidy pool
Entrepreneur Development	• Not likely to attract somebody with strong entrepreneur aspirations • Most likely to be run by somebody with program related skills and passions • Could benefit from training in basic business management principles	• As per "Program" related enterprises	• May be attractive to somebody with strong entrepreneurial aspirations • Would be a potential employer for entrepreneurs trained specifically in social enterprise management • Could benefit from supports such as business training, business mentorships, creation of business networks etc.	• As per "Striving for self-sufficiency"	• As per "Striving for self-sufficiency" • Incumbents are likely to be strong in business skills. Challenge may relate more to inculcating values and processes related to social goals.

Social Goals of Social Enterprises

Employment for barriered workers

- Inner City Renovation
- Versa Tech
- S.S.C.O.P.E.

Providing services overlooked by the market

- Neechi Foods
- Kookums Day Care
- Ellice Café & Theatre

An environmental emphasis

- Organic Planet
- Enviro-Safe Cleaning
- Mountain Equipment Coop

Generating revenue for other programs

- YM/YWCA
- MCC Thrift Stores

Preserving local ownership and control

- Red River Coop

Appendix 2
Ineligible business activities of Manitoba CED Tax Credit program

Source: Manitoba CED Tax Credit Act (Pages 4-5)

The following is sourced from page 4 and 5 (section 1(1)) of the Manitoba CED Tax Credit Act:

"**ineligible business**" means a business the principal purpose of which is to derive income from one or more of the following:

(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);

(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. (« entreprise non admissible »)