Review and Analysis of Access to Capital in Northern and Rural Communities in Canada

Final Report

Prepared by
the Canadian Labour and Business Centre
in collaboration with the
New Economy Development Group Inc.

Prepared for
the Rural Secretariat,
Agriculture and Agri-Food Canada

February 23, 2004

Government of Canada Gouvernement du Canada

Canada

Review and Analysis of Access to Capital in Northern and Rural Communities in Canada

February 2004

Prepared by the Canadian Labour and Business Centre in collaboration with the New Economy Development Group Inc.

Prepared for the Rural Secretariat, Agriculture and Agri-Food Canada

To obtain additional copies, please contact:
Rural Research and Analysis Unit
Rural Secretariat, Agriculture and Agri-Food Canada
1341 Baseline Road, Tower 7, 6th floor,
Ottawa, Ontario K1A 0C5
Fax: 1-800-884-9899
E-mail: rs@agr.gc.ca

ISBN 0-662-40647-8, Cat. No. A114-16/2005E-HTML
Agriculture and Agri-Food Canada Publication Number 10040/E

Également offert en français sous le titre : *Accès au capital dans les collectivités rurales et du Nord du Canada - Examen et analyse*, Agriculture et Agroalimentaire Canada Nº de publication 10041/F

TABLE OF CONTENTS

1. INTRODUCTION

During the last decade, issues pertaining to access to capital in rural and northern communities have steadily risen on Canada's public policy agenda and within the economic development community. Concerns about access to adequate financing have also increased in importance for Canadian businesses and the labour movement, the latter having responded to the challenge by setting up labour-sponsored investment funds. Community groups and government at all levels have not stood still, as evidenced by the large number of government- and community-sponsored investment funds that now operate at local or regional levels.

Debt financing is by far the most widely used financing instrument for small and medium sized businesses in Canada. Half of these enterprises have some form of business loan, and a quarter use business credit cards. By comparison, a little more than two percent of Canadian businesses – almost all of them large businesses – use conventional equity instruments to raise capital through sale of shares or stocks on the open market (Industry Canada, 2002). Most equity for small and medium business is made up of owner's cash equity, reinvested earnings, and private investment by friends or family. Risk capital is a form of equity targeted at small to medium-sized businesses (SMEs) and, while it is a growing source of financing, it is still not widely available .

1.1 Where are the financing barriers?

While the supply of both debt and equity financing is constantly evolving as new institutions enter the market and new products and services are offered, it has nevertheless been argued that financing barriers exist in certain capital sub-markets. Impediments encountered by new and developing small and medium-sized private or community-owned businesses in obtaining adequate and affordable external financing arise for many reasons and are often specific to the nature of supply in individual capital markets for debt and equity. Furthermore, research shows that the financing challenges that affect firms in all parts of Canada can be overwhelming for businesses that are located at some distance from major financial centres.[1] The problem of access is compounded, in that existing local sources of capital are often deficient:

> *"There is evidence to suggest that capital resources indigenous to disadvantaged communities and regions have even migrated elsewhere, rather than to support local productive investment requirements."* CLMPC, 1998, p.12.

Access to capital issues can also be particularly severe for Aboriginal communities, which face specific barriers in addition to those faced by rural or remote communities. Indian and Northern Affairs Canada notes a markedly growing demand for investment capital by First Nation, Inuit, and Innu communities and businesses. That demand, however, is not currently met by existing financial institutions. In addition to investments that are made on a strictly commercial basis,

---

[1] Canadian Labour Market and Productivity Centre, *Capital, Community, Jobs – Local Solutions for Financing Investment in a New Economy*, Ottawa, 1998.

“there is a much larger number of smaller, lower growth and/or higher risk opportunities which offer lower investment returns but the potential for significant economic and employment growth.” (Growth Connections, 2001, p.8)

It is fair to say that little research has attempted to measure the magnitude and characteristics of financing barriers. At one level, there is no consensus on the definition or interpretation of a “financing gap” (Equinox Management Consultants Ltd., 2002). On the empirical side, several studies have measured the capital supply (Conference Board of Canada, 1999), supply conditions experienced by borrowers/ investees (CFIB, 2001), or the socio-demographic characteristics of borrowers/investees (Industry Canada, 2002). These studies, however, primarily focused on traditional sources of capital – which are largely excluded from this project’s scope and focus – and rarely made a distinction between urban- and rural-based businesses.

One notable exception is a 1997 study of Quebec’s Local and Regional Development Funds (Lévesque et al., 1997), which examined inter-regional differences in the availability of “investment capital.” In this study, the authors produced an inventory of funds that provide (primarily) equity financing. One important finding is that, in terms of venture capital provided by local and regional funds, the Greater Montréal region is disadvantaged, and some of the more remote or northern regions receive more than their share of *available* venture capital (calculated as the average amount of venture capital per SME). For instance, in 1997 Quebec’s northernmost region, the Côte-Nord, was estimated to have $21,094 of venture capital available per SME, which greatly exceeded the provincial average of $2,144. Of course, the issue of access to capital is more complex than these figures suggest.

While such findings appear to run counter to the popular notion that financing gaps are more severe in rural and remote areas, it is important to remember that this study considered neither private sources of equity, nor other forms of financing. In addition, the study sheds no light on the amount of capital actually disbursed, since it only considers *available* equity capital. If anything, the findings suggest that governments and community groups have been quick to respond to perceived gaps in financing by setting up investment funds that, today, are significant players in many rural or northern communities.

In assessing financing barriers, it is also important to recognise that financing relationships are not one-sided – that barriers to financing have also been linked to deficiencies on the demand side of the financial equation. At a conceptual level, there is a debate about the reasons behind firms’ failure to secure financing: whether some firms that actually merit investment are denied financing – which raises the spectre of market imperfections; or whether these firms are unable to access capital simply because they are too risky or unsuitable for the type of capital they are pursuing – which reflects reasonable investment decision making. Without entering into the market imperfection debate, it is clear that, in discussing access to capital issues and barriers, demand-side characteristics and conditions are as important to consider as supply-side conditions.

1.2 Recent trends

In recognition of the challenges they face, firms and organizations operating in remote, rural and northern communities have been prompted to establish micro-level institutions and practices. Traditional lenders and investors are offering more flexible financing instruments, while other stakeholders are developing and implementing new and innovative mechanisms in order to meet a wider spectrum of financing needs. On the debt financing side, Canada's network of CFDCs reinforces the notion that there is a long track record in providing debt and (to a small extent) equity financing to rural and northern businesses and organizations. By contrast, loan circles and community investment funds – some of them modeled after successful international initiatives – represent some of the newer and engaging innovations. That they are starting to have an impact is exemplified by the $2.8 million, along with their commendable (low) default rate, disbursed by Quebec's community loan funds to disadvantaged individuals or groups (Réseau québécois du crédit communautaire, 2003).

On the equity side, the experience of the Quebec SOLIDE, and of community-controlled investment funds such as Nova Scotia's BCA Holdings or Waterloo Ventures Inc., suggests that there is still little activity in this relatively underdeveloped area of financing. To be fair, a low level of activity in this area should not necessarily be construed as a problem, since SMEs – except perhaps the rapidly-growing knowledge industries ventures – do not traditionally rely on equity financing to meet their capital needs.

One additional tendency when discussing financing issues in the context of community development has been to consider so-called *social enterprises* as legitimate vehicles for employment creation and economic growth and, therefore, as appropriate targets for financing. Indeed, several next-generation investment funds target these organizations, either exclusively or in addition to investing in traditional, for-profit enterprises. While it is too early to report on the success of these types of investments, some of the financing mechanisms/vehicles profiled in this report that fall under this category do offer insights about their potential benefits/effectiveness.

Overall, it is fair to say that, if one excludes government- or traditional financial institutions-sponsored investment funds, critical mass has yet to be achieved for locally managed and/or controlled capital available in a rural or northern setting. In its 2002 review of community investment activity in Canada, the Social Investment Organization (SIO) (2003) reported a total of $69 million in assets held by 24 community loan funds, community development venture capital organizations, and community development credit unions, of which 91% offer loans, 35% offer a line of credit, and 15% only do equity financing.

These recent trends suggest that solutions to the financing issues and barriers faced by SMEs operating in rural and northern communities need to fit the local conditions and needs. This prerequisite is perhaps best captured by the (then) Canadian Labour Market and Productivity Centre, in its 1998 review of innovative local financing mechanisms:

> *"In designing and implementing strategic means and structures, community actors are also in the best position to determine what works best, even if assistance comes from elsewhere. There is also a market basis for local approaches."* CLMPC, 1998, p.14.

In order for them to meet the financing needs of their constituencies, most if not all of these investment mechanisms are based on partnerships with local businesses and development organizations. In its review, the SIO observed, “there seems to be an increasing number of partnerships between community loan funds and financial institutions.” Another trend identified in this national study is a move away from peer lending – involving loan circles – and toward individual loans.

1.3 Study focus

While it can be argued that some of the aforementioned investment vehicles and mechanisms are well known, and their performance and impacts well documented, a large number of them are not. Furthermore, no systematic attempt has been made to undertake from a national perspective a broader examination of their effectiveness in raising money and disbursing it to SMEs in northern and rural communities. A better understanding of these vehicles’ characteristics, impacts, and the conditions under which they operate would thus go a long way in helping rural, Aboriginal, and northern communities to achieve long-term sustainability and viability.

This report presents detailed information on relevant and instructive financing vehicles and mechanisms that have a strong SME development focus in the context of rural and northern communities. The report is primarily descriptive, and distinguishes between ‘relevant’ examples and ‘instructive’ cases – the latter demonstrating more innovation and relevance in the context of rural and northern communities. The report also presents an analysis of findings based on a series of considerations relevant to access to capital questions. In order to improve the understanding and possible comparison of cases, a common template is used for reporting on and describing the examples and models. The level of detail contained in each case varies according to the type and amount of information available at the time of writing.

2. SCOPE AND METHODOLOGY

2.1 Scope

The objective of this project is to assess community controlled and/or managed financing mechanisms and vehicles from a rural and northern community development perspective. Particular emphasis was placed on the development of a broad understanding of issues relating to sustainability, replication, community and business impacts, as well as their relevance to a wide range of community settings.

Unless significant characteristics meriting further examination were encountered, this study excluded traditional private-sector institutions such as banks, credit unions, trusts, private venture capital firms, as well as programs managed by federal or provincial governments. Similarly, urban or urban-adjacent initiatives were included only to the extent that they utilised approaches that might be fruitfully transferred to initiatives for rural and northern regions.

Thus, some government initiatives that embody a significant community control dimension did fall under the project’s scope. The overriding consideration of the assessment framework was the degree to which the organisation could be considered innovative in its efforts to provide access to capital to SMEs and other enterprises.

2.2 Methodology

The project involved a number of research and analytical tasks that were grouped into two main phases: a research phase, in which planning and framework development were combined with data collection; and a consolidation/report phase, in which findings were organised and analysed.

A comprehensive review of existing literature and data was conducted to examine existing financing vehicles and mechanisms designed to meet the capital needs of private and community-owned enterprises in rural and northern settings. Drawing on key Canadian and international literature (as pertinent to the Canadian context), and based on both print- and web-based documentation, the reviewed literature included raw data, quantitative analyses, government and stakeholder reports, academic literature, and empirical studies.

In order to determine the applicability to the study of a particular financing mechanism or vehicle, each was assessed in the context of the following organisational parameters:

1. the capacity to raise funds and provide debt and equity financing to small- and medium-sized enterprises in rural and northern communities;
2. the extent to which activities are undertaken to develop community capacity and contribute to sustainable development; and
3. the transferability of mechanism and vehicles to other provincial/territorial jurisdictions.

This information was then used to identify key vehicles/mechanisms for further, more in-depth investigation. Upon development of a preliminary list of instructive examples, representatives from these organizations were contacted, and a structured interview guide was used to fill any information gaps – indeed, representatives from more than half of the organizations in this report were contacted.

The assessment framework that was developed outlines the following: the process and criteria to identify, categorize, and evaluate the vehicles and mechanisms; the type of quantitative and qualitative information needed to describe and analyse these vehicles/mechanisms; and the appropriate reporting format for the information gathered on each vehicle/mechanism.

Information collected on financing vehicles and mechanisms

Information was gathered for each mechanism according to the following themes:

1) Background and Context;
2) Financial Dimensions of the Vehicle/Mechanism;
3) Organizational Dimensions of the Vehicle/Mechanism; and
4) Outcomes (for any cases that would potentially be included in the ten instructive cases).

For the ten innovative practices, additional materials were gathered – to the extent that it existed – to answer the following questions:

- How successful is the mechanism in raising and attracting capital to rural and northern communities? What is the type and amount of capital raised (debt, equity, quasi-equity), both in the short and the long term? What are the main advantages and disadvantages of the mechanism?
- How successful is the mechanism in providing capital to SMEs and community-owned enterprises? How does it address barriers/obstacles to accessing capital for rural community enterprises? What type and size of business or organization is helped?
- What level of capacity is required in the community to establish and manage successfully this financing mechanism over the long term? How successful is the mechanism in developing community capacity?

Assessment Criteria

Programs, and more specifically individual organisations, were assessed according to the criteria outlined below. To the extent that information was available to make a determination, each aspect of the selected mechanisms was defined as being high, medium, or low, according to the mechanisms' characteristics.

Effectiveness

- Investment Loss Ratio:
  The ratio the total amount of written-off investments to the average amount of funds outstanding (including any equity participation).

- Leverage Factor:
  The degree to which existing financing capacity is levered to establish or extend clients' access to capital (e.g.: loan guarantees or fulfillment of other conditional financing requirements); it is the ratio of all loan guarantees plus other external funds (accessed by way of some commitment) to the total amount of funds available for investment

Community Control

- Board Composition:
  The degree to which the composition of the board reflects the mechanism's constituent communities, includes relevant technical expertise for oversight activities, and accommodates equity group participation.
- Board Selection:
  The degree to which a formal board member selection process exists, is documented, reflects the equitable composition dimensions (under "Board Composition"), and includes measures to prevent undue influence.
- Origin of Funds:
  The ratio of non-government-sourced funds to total funds available for investment.

Decision Control Mechanism (DCM)

- Degree of functional alignment (relevant member expertise):
  The degree to which the DCM (e.g.: loans committee) incorporates financial expertise as well as expertise relevant to the industrial profile of the target community.
- Degree of community representation:
  The degree to which the composition of the DCM reflects the mechanism's constituent communities, includes relevant technical expertise for oversight activities, and accommodates equity group participation.
- Degree of industry representation:
  The degree to which the DCM includes representatives of industries that are likely to be affected by the mechanism's activities.

Community Capacity Building

- Number of Complementary Activities:
  The number of activities or programs designed to enhance clients' business skills and increase their general likelihood of being successful.
- Participants/Financing-Clients Ratio:
  The ratio of participants in complementary activities (inclusive of exemptions) to the number of clients who receive some form of financing.

Degree of Innovation

- Uniqueness:
  The degree to which specific innovative financing mechanisms are unique to the organization.

- Age:
  How long specific innovative financing mechanisms have been in operation.

3. PROFILE OF INSTRUCTIVE EXAMPLES OF ACCESS TO CAPITAL VEHICLES AND MECHANISMS

The ten financing vehicles that are profiled in this chapter were selected on the basis of the assessment criteria described in Chapter 2. They represent the examples that display the most innovation and, thus, can provide the most insights on what works and what doesn't in terms of providing access to capital in rural and northern communities.

3.1 The BCA Group, Sydney, Nova Scotia

1. Background and Context

Community setting

The BCA Group operates out of the Cape Breton Island, on the northern tip of Nova Scotia. The area is currently experiencing high unemployment and youth migration, partly a result of changing economic circumstances.

Impetus/reason for creation

Since the coal mines and the steel plant have been closing down, unemployment was (and still is) running high, job creation was dormant, and there was a concern that investment dollars were not readily available for local businesses. In the group's analysis of underdevelopment, there are two key pillars: capital drain and brain drain. BCA Group is a partial answer to the capital drain.

History, creation date

The history of the BCA Group goes back to 1989 when BCA Holdings Ltd. was established by a coalition of local organizations and individuals which included business people, a community development corporation, and a co-op insurance group. It was felt at the time that a locally-based investment corporation would provide a partial answer to the need for risk capital and employment creation. The group first met in that year and, after undertaking a feasibility study and trying out several partnership approaches, was able to secure a major matching loan bearing no interest for its investment fund in 1992 from a federal government agency.

In the mid-1990's the province of Nova Scotia introduced a new programme called CEDIF granting a 30% tax credit to investors in community funds. BCA Holdings was not eligible as a not-for-profit. Thus, BCA Investment Co-operative was organized. During the first year, three quarters of a million dollars was raised.

Main purpose and mandate

The group's main mission is to create jobs and keep ownership of businesses in local hands by providing loan and equity financing to local small businesses. BCA Investment Co-operative's stated mission is 'the development of a capital pool to be invested in business within Cape Breton and Northern Nova Scotia communities.'

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

Since its inception, BCA Holdings has limited itself to relatively safe investments and more than 50 percent of its investment portfolio was in real estate. Its venture capital subsidiary, on the other hand, was designed to make equity investments considered more higher risk.

BCA Investment Co-operative primarily seeks equity participation in its investee companies, but will use other financing products to meet the needs of these companies.

Other products/services delivered

While the BCA Group does not provide technical assistance to its investee companies, it identifies successful business and community development people from the community and makes room for them on the investees' Board of Directors, thus ensuring that managerial expertise resides within the company. This is a deliberate strategy to capacity building that has the benefit of quickly providing business development assistance at no cost. In the word of a BCA Group representative, 'the best way to transfer skills is to recruit people with the appropriate skills and who are committed to the region and put them on Board of Directors.'

The BCA Group does not have the resource level – it has no paid staff to speak off and no operating budget – that would allow it to provide in-house technical assistance, and it does not see its role as training unqualified local residents to become qualified managers.

Eligibility criteria for targeted financial vehicle/mechanism

Project applicants are required to submit a detailed business plan, but only after going through a successful interview with the corporation's manager. The required business plan must contain the standard information and it must demonstrate the project's commercial viability. Beyond that, the BCA Group applies a unique set of criteria for selecting suitable investment projects. All eligible projects must demonstrate that they: (1) can be commercially viable; (2) will make a positive contribution to the community; and (3) are majority locally-owned and controlled with more than one owner. These criteria are viewed by the organization's supporters as an effective way to achieve community objectives while applying conventional business methods.

Methods for raising capital/paying operating expenses

Since its inception, BCA Holdings has raised money from local groups, individuals, and government for combined assets of $900,000 composed of repayable loans made to the corporation paying 5% per annum. BCA Holdings now has a net worth of almost $200,000.

BCA Investment Co-operative first began raising funds in January 2000 by selling $1,000 share. Investors are entitled to a 30% provincial tax credit. Assets of BCA Investment Co-operative are now over one and a half million dollars.

Amount of capital raised and levered

In 1992, BCA Holdings successfully negotiated a $500,000, five-year interest-free loan from ECBC to be used for investment purposes. This formal partnership has meant that, starting in 1997-98, the corporation had to repay the loan (at a competitive interest rate). It is worth noting, however, that BCA Holdings has never received grants or contributions for its operating expenses. In 2000, BCA Holdings disinvested its equity in the radio station, which resulted in the federal government calling back the loan. The loan is now repaid.

Today, BCA Holdings has approximately $800,000 in assets, the result of $600,000 that was raised from the private sector and an increase in value of its initial investments.

As for BCA Investment Co-operative, in this first offering, investors purchased $730,000 in common shares and in 2001, a similar amount was raised. During the February 2003 campaign, $350,000 was raised. The BCA Investment Co-operative now has close to 400 shareholders who invested $1.5 million. It did not have a campaign in 2002 because of the prolonged process with the Securities Commission. Because of the BCA Group track record, however, negotiations with the Securities Commission are now much smoother.

Disbursement/investment profile

BCA Holdings has at one point or another held interest in five locally-based ventures: a cable manufacturer, a hotel, a radio station, a plumbing and heating company, and a ski hill, and it gradually disinvested itself from these ventures in order to maintain a capital base that it can use for other investments. The corporation has invested more than $1.2 million in these ventures, representing approximately 80% of its capital base (close to two-thirds of which is in the form of debt financing). As of today, losses have amounted to approximately $250,000 while the assets have gained $400,000, for a net portfolio appreciation of $150,000. This net gain is impressive in relative terms, considering the size of the portfolio and the risky nature of several of the corporation's investments.

Investments by BCA Investment Co-operative are as follows:

Organization name	*Type of business*	*Type/amount of financing received*
Forest Insight Ltd.	Hardwood flooring	• $100,000 in equity, for 7.5% of preferred shares
Sydney Technologies	Customized auto parts	• $200,000 in subordinated debt, at prime plus 2%
Laurentian Energy Corporation	Commercial real estate and a building for offshore repairs	• $266,000 in loans that were converted into 139 common shares
Polysteel Atlantic Ltd.	Ropes manufacturer	• $20,000 promissory note at 2.5% annual interest rate
New Dawn Investments Ltd.	Investment corporation owned by a CED corporation	• $100,000 in subordinated debt at prime plus 1%
Highland Technical	Specialized technical training provider	• $75,000 of Class 'A' preferred shares
Breton Care Givers	Home nursing care for the elderly	• $30,000 loan guarantee

As one can see from the above table, the BAC Investment Co-operative has been extremely flexible in the type and amount of capital invested. Its deliberate strategy is to customize its financing according to the specific requirements of its investee firms.

Some of these investments are also significant in that they contribute to build major assets in disadvantaged communities, often in partnerships with other local partners. The example of the Laurentian Energy Corporation is a good case in point; financed through a partnership with New Dawn Enterprises and a Mi'kmaq community, this substantial ($7 million) land holding and commercial estate development in the Sydney Harbour is being used as a jumping board for exploring opportunities in service and fabrication for the offshore oil and gas industry.

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure

BCA Holdings was incorporated as a not-for-profit business corporation, but it operates on the principles of a co-operative, which is the legal form of the BCA Investment Co-operative. At the present time, the two companies have a partially inter-locking board and share facilities and services, making them operate more like a single functional entity. BCA Holdings focuses on property development and is now low risk. BCA investment Co-operative focuses on medium risk businesses.

Investment decision-making structure

Since BCA Holdings and BCA Investment Cooperative are two separate legal entities, they each possess their own Board of Directors and investment decision-making structure. All BCA Holdings' investment decisions are made by the eight-member Board of Directors, following a favourable recommendation and a presentation by the corporation's manager. The Board meets on average bimonthly. Six Board members come from the local business community and one of the other two represents a community development corporation – New Dawn Enterprises – which possesses an impressive track record in community investing and development.

Operating budget, resource level

One significant trait of the BCA Group is that it functions with no paid staff. The organization can count on Board and community members, as well as local organizations, for carrying out its mandate; it also receives support from the local university. For instance, New Dawn Enterprises provides bookkeeping for a nominal fee. One university professor has volunteered his time and done legal work on behalf of the Group; one Finance professor sits on the Investment Committee of the BCA Investment Co-operative, while another professor is on BCA Holdings' Board of Directors. Some university research grant money is also being used to obtain services from students who are involved in the BCA Group from time to time a managerial capacity.

This lean structure has meant that, since its inception, BCA Holdings has covered its operating expenses entirely from its investment income. This minimal structure has also meant that the corporation is not in a position to offer its clients specialized business or after care services.

Accountability structure

The notion of accountability plays out differently whether BCA Holdings or the BCA Investment Co-operative is concerned. Since the former is structured as a non-for-profit, it does not operate on the basis of a community-based decision-making process. For BCA Investment Co-operative, however, the situation is different since it has 400 shareholders and an obligation to hold an annual assembly, at which time members elect the Board of Directors. According to a BCA Group representative, approximately 20% of all shareholders normally attend the annual general assembly, which can be considered a very good attendance. The BCA Investment Co-operative also publishes a biannual newsletter, which goes to all shareholders.

4. Outcomes

Community Impacts

It is estimated that BCA Holdings has created up to 1998 over 150 direct and indirect jobs. Investments by the BCA Investment Co-operative, on the other hand, are said to have resulted in creating or saving more than 200 full-time jobs for Cape Bretoners.

Existence of feasibility or evaluation study?

According to an unpublished 1998 study, BCA Holdings' investees have provided at the time the equivalent of 111 full-time positions and, the indirect and induced impacts of their operations account for an additional 42 full-time jobs. While the corporation cannot be credited for all of this employment maintenance or creation, the incremental nature of these investments is nonetheless high given that several of them were rescue operations and all of them are still in operation today.

Next steps

BCA Holdings has recently set up a wholly owned subsidiary called Cape Breton Waterside Developments Ltd. This company will raise equity capital to build a condominium building of 44 units. The project is worth approximately $7 million dollars. A local trade union will lend BCA a half million dollars, and a local business will invest an additional $100,000. Once completed, the building will be managed by New Dawn Enterprises.

SOME INVESTMENT HIGHLIGHTS BY BCA HOLDINGS

TOMPKINS CENTER IN RESERVE MINES: This former mining town has long suffered from unemployment. BCA Holdings financed a new building which contains Tim Hortons, the Credit Union, a library and a Pizza Shop. The buildings added vitality to Reserve Mines and triggered other developments. The building was recently purchased by the owner of the Tim Horton facility.

A & B MECHNICAL: When the region's largest industrial plumbing and ventilation company went bankrupt, BCA Holdings provided the money for the employees to buy the assets. The company began with five shareholder workers but the average number of employees was usually around 25, although at times 200 union members were on the payroll of the company. The company recently carried out a million dollar expansion and now has a solid record in major contracting. It has been a case of exceptional success.

BRAS D'OR LAKES INN: After this hotel in St. Peters went bankrupt, BCA purchased it. It is a major facility in town. Since taking over the hotel BCA Holdings engaged a variety of managers. After losing some money on this operation, it persuaded a number of individuals to purchase shares from BCA and take responsibity for management. It is currently run by a couple on a lease-purchase agreement.

EAST COAST ROPE: In late 1992, a high-tech rope manufacturing company went bankrupt in Cape Breton. In an unexpected move, the Canadian Imperial Bank of Commerce called for the sale of the assets. Within weeks American Manufacturing Ltd of Louisiana purchased the machinery and attempted to move it to the United States. Local church groups maintained a vigil in front of the plant so that the American company would not move the machinery out. BCA Holdings then put together a group to take over the plant under the name "East Coast Rope". BCA Holdings provided $250,000 and outside investors were recruited to put up an additional $750,000. Care was taken to assure that 51% of the ownership remained local. This company has been very successful and another specialty rope company was created as a spin-off.

SYDNEY MINES COMMERCE PLACE: In the late nineties, many stores on the main street were empty with plywood on the windows. BCA Holdings bought some central buildings and demolished them. A local group was organized and a new building erected. This has triggered a renewal of the downtown.

3.2 CEI Community Ventures, Maine

1. Background and Context

Community setting

CEI Community Ventures (CCVI) manages a socially responsible, community development venture capital fund based in Portland, Maine. Financing and resources are provided to growth-oriented companies in targeted communities in Maine, New Hampshire, and Vermont.

Impetus/reason for creation

CCVI was formed to provide equity and operational assistance to qualifying businesses in distressed northern New England.

History, creation date

CCVI is a for-profit subsidiary of Coastal Enterprises Inc. (CEI), a non-profit community and economic development group based in Maine, it was created in 2003. CEI helped to create legislation that led to the development of a US Small Business Association program known as the New Markets Venture Capital (NMVC) initiative. Part of Small Business Administration's (SBA) long-standing Small Business Investment Company (SBIC) program, NMVC funds are co-funded by the SBA and are to be invested in targeted, underserved communities across the US.

Main purpose and mandate

CCVI's mission is to realize a 'triple bottom line' by supporting companies that can demonstrate an ability to meet or exceed its financial, social, and environmental aims within its target region.

Nature and scope of the vehicle/mechanism

From its own capital, CCVI typically takes minority investment positions ranging from 20% to 45% of a company's outstanding shares. Investments are most often structured in some form of preferred stock (or subordinated debt with warrants), to give minority shareholders certain rights and preferences over majority common shareholders. While CCVI is obliged to invest 80% of its capital in qualified areas, 20% of the fund may be invested anywhere in the country. Of necessity, CCVI is especially selective about investments it makes outside its target regions (upstate New York tends to be the next area of interest).

In addition to the creation of targeted jobs for people from low-income backgrounds, CCVI is also interested in supporting socially beneficial products and services, as well as progressive management practices.

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

Equity participation (preferred shares or subordinated debt with warrants)

Other products/services delivered

The SBA also co-funds a US$3 million Operational Assistance Program (OAP), which is designed to support professional services, and aids a company in either becoming ‘equity ready’ or executing its business plan once CCVI has provided financing. Like the equity program, these OAP resources must be directed to CCVI’s target communities. For a company to be considered for an OAP engagement, CCVI must have either an interest in considering an equity investment or have already made an equity investment. Operational assistance partners include the SBA, state economic development organizations, a bank, a foundation, law firms, as well as accountants and consultants.

Eligibility criteria for targeted financial vehicle/mechanism

A number of considerations come into play in determining eligibility for financing. CCVI looks closely at a candidate’s management team, the characteristics of the proposed target market, the competitive environment, the viability of the product or service, the business model, the financial plan (including an exit strategy for the fund), as well as social criteria that include civic responsibility, workforce, and environmental considerations. Applicants are also subject to a size constraint that limits investment to companies with less than US$6 million in net assets and less than US$2 million in earnings in the previous two years.

To be eligible for financing, the headquarters and most of the employees of a business must be located in a community that is deemed to be economically distressed. A given community is designated as distressed according to one of three criteria:

- Historically Underutilized Business (HUB) Zones
- Rural and Urban Enterprise Zones and Empowerment Communities
- Any census tract or equivalent county division:
    - That has a poverty rate of at least 20%, or
    - That qualifies for the Low Income Housing Tax Credit, or
    - That is a non-metropolitan area and has a median household income of no more than 80% of the state-wide median household income

Methods for raising capital/paying operating expenses

Investors include a bank, foundations, an insurance company, a CED organization, and a state economic development agency, with matching funds from the SBA. A management fee of 3% (amounting to approximately US$300,000) is taken out of the fund annually to pay for operating expenses.

Amount of capital raised and levered

US$10.2 million (US$5 million leveraged from the federal SBA).

Disbursement/investment profile (#, average size, default rate, losses, etc.)

Given its brief history, no meaningful profile has been established. CCVI intends to invest in amounts ranging from US$100,000 and US$500,000. Working with partner funds, it will also help coordinate and/or lead larger financings (as much as US$5 million) with investors that share its outlook and criteria.

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure

CCVI’s Advisory and Investment Boards of Directors have 11 members, and include representatives from institutions and economic development organizations from across the New England region. CCVI is staffed by a president and a fund administrator and is presently soliciting applications for an investment associate or a partner/principal.

Investment decision-making structure

Investment decisions are made by the investment committee of the Board of Directors.

Operating budget, resource level

US$300,000.

Mechanism/level of community control

CCVI is not intended to be a community-controlled entity. Community control is exerted by third-party directors, which number five of the eleven-member board.

Accountability structure (to shareholders, community)

CCVI has a representative board and investment committee. Upon receiving a license, the SBIC is subject to an annual regulatory audit by the Office of SBIC Examinations. These audits are designed to ensure that SBICs operate in conformance with the regulations or to uncover those instances when they have failed to do so.

4. Outcomes

No significant outcomes information is available as the fund is only six months old.

SAMPLE INVESTMENT: Juno Rising, Burlington, VT (www.junorising.com)

Womens outdoor apparel

Social Benefit(s):
- Diversity
- Environmentally focused

Description:
An upstart, outdoor apparel company is aggressively meeting the needs of today's active woman. Juno was founded in April 1998 by Carolyn Cooke and Poppy Gall, two outdoor women who intimately understand what women need in their outdoor gear. Combined, both co-founders bring over 40 years of outdoor industry experience to the company.

3.3 Community First Development Fund of Saskatoon

1. Background and Context

Community setting

Saskatoon and two smaller nearby communities.

Impetus/reason for creation

A small group of Saskatoon residents realised that good ideas were falling through the cracks because of their proponents' inability to access financing.

History, creation date

In 1999, seven organisations banded together to form the Community First Development Fund of Saskatoon (CFDF), which manages the only community economic development fund of its kind in Saskatchewan. The founding organisations were the Roman Catholic and Anglican dioceses, Saskatoon Credit Union, Saskatchewan Cooperative Association, Quint Development Corporation, River Bend Presbytery of the United Church of Canada, and the Grain Services Union. Operations for the fund, which has charitable status and is registered with the provincial government as a non-profit organisation, started in late 2000.

Main purpose and mandate

Community First is a local community-based charitable organization which manages a local Investment Fund. Working with the Saskatoon Credit Union, CFDF develops flexible financing options for groups and individuals that lack access to traditional financing, including low-income households and neighbourhoods, at-risk youth, single parents, people with disabilities or medical impairment, aboriginal people, women, and newcomers to Canada.

Nature and scope of the vehicle/mechanism

The fund mobilizes community capital by selling below-market value investment certificates and accepting donations to create an investment pool that will be used for economic development projects. Barriers to mainstream financing that can be overcome by Community First include:

- a shortage of collateral, income or guarantors to secure start-up loans
- an absence of cash or other assets to invest as owner equity
- a need for comparatively long payback periods
- lack of operating experience
- the unconventional nature of a project

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

In addition to providing flexible financing in the form of loan guarantees, loans, and equity investments, the fund helps leverage other sources of investment.

Other products/services delivered

In May 2003, CFDF hired a project facilitator to work on business plan development and alternative financing options with clients. The project facilitator provides support and mentoring as needed. CFDF is also involved in a number of other activities designed to link community expertise for common good. For example, CFDF partners with Quint Development Corporation on the organization's Urban Issue Project to research and plan for additional affordable housing in Saskatoon's core neighbourhoods. Together with Working for Women it provides a scholarship to help low income women improve their education to become more employable. CFDF administers another scholarship that will fund an individual in pursuing CED studies. Another initiative is the Individual Development Accounts project for which CFDF, in partnership with five other organisations, provides financial management assistance to individuals to help them save up funds for a specific goal; success can result in the funds being matched at a rate of two to one or three to one.

Eligibility criteria for targeted financial vehicle/mechanism

Community First makes prudent investments in projects that demonstrate their potential for both financial viability and social return. Community First provides financing on commercial and social projects such as:

- worker, consumer, and marketing co-ops
- community-based businesses and organizations such as small partnerships, cottage industries and student businesses
- social-purpose enterprises and community services, like day care, training, peer counselling, recreational and advocacy programs
- affordable housing, inner-city home projects, seniors housing and supported housing for people with physical disabilities or medical impairments

Methods for raising capital/paying operating expenses

CFDF issues investment certificates with terms of 3, 4, and 5 years as a basis for its investment pool. Contributing organisations include religious organisations, trade unions, co-ops, financial institutions, a mutual fund, community groups, businesses, and individuals committed to reducing poverty through CED. The minimum investment is $500.00; donations, including donations of interest on investments, are tax-deductible.

In 2003 CFDF received $120,000 in operational funding for two years from Western Economic Diversification Canada, which builds on WD's past support of $100,000 in 2001. Saskatoon Credit Union worked with several organizations and individuals to help build the CFDF. SCU provided $25,000 to the loan loss reserve, $10,000 per year operations funding for three years, and has also provided technical and administrative support, as well as office space. Other operations funding comes from the City of Saskatoon ($3000 per year), the province ($10,000 for promoting co-ops), interest, and a growing amount of charitable donations.

Amount of capital raised and levered

The investment fund presently has $512,000.

Disbursement/investment profile

Over the past three years, CFDF has made mostly loan guarantees with only a small amount in direct loans; direct and indirect investments totalled $120,000. A further $250,000 was accessed from other sources as a result of CFDF involvement. A small organisation, the primary factor that limits CFDF's investment activities is the support work and the rigorous review process involved in providing funds; a further limitation is the fund's liquidity requirements. Only one investment has thus far resulted in default; CFDF recovered a small portion.

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure

In addition to five "members at large," each of the seven founding groups is represented on CFDF's board of directors. CFDF has three advisors – one from the provincial government and two from the community. The board also has an Executive/Finance Committee, a Project Committee, a Communications and Fundraising Committee, and a Nominations Committee. CFDF has a full-time executive director, a full-time project facilitator, and engages contractors as needed.

Investment decision-making structure

The Project Committee, reviews all applications and makes a recommendation to the full board for a final decision.

Operating budget, resource level

For 2003-2004, the operating budget is projected at $102,000 for all expenses including salaries.

Mechanism/level of community control

Community control is achieved through the composition of CFDF's board of directors. A further level of community consultation is attained through the strategic planning process, which solicits input from its stakeholders – funders, grantors, and others.

Accountability structure

CFDF's accountability structure is based on open communication with its stakeholders – this includes its annual report, presentations to community groups, a semi-annual newsletter, and the upcoming launch of its website. A provincial conference was also delivered and may become a bi-annual event.

4. Outcomes

Performance data

No fees are charged for financing services. While present budget projections indicate a five-year operating horizon, CFDF is attempting to build up a short-term surplus and to offset the possible termination of WD funding.

Client profile

Typical clients tend to be micro-enterprises – see example below.

Firm-level impacts

CFDF is finding a strong correlation between the amount of front-end time committed in the financing process and the degree to which a project is successful. In three cases people have moved off social assistance, and benefited from significant learnings in business skills and increased confidence.

Community impact

The board of directors and the project committee have as their priority that the projects they support provide a significant economic and social community benefit. The Urban Issues Project being undertaken by Quint Development Corporation (under a funding agreement from CFDF) is an example of this community focus. There is also a "multiplier effect" as the Individual Development Accounts initiative has encouraged other community organisations to direct resources towards that program.

TYPICAL CFDF INVESTMENTS

CFDF's financing assistance has provided assistance to the following: a video production company, launched by a person of aboriginal ancestry; an East Indian specialty and grocery store; a dog-grooming and kennel business. Both are small-business start-ups by motivated individuals who needed additional financing. CFDF helped these ventures secure financing by providing a loan guarantee for all three, as well as small direct loans for two. In all three projects, CFDF's assistance enabled the individuals to move from social assistance toward economic independence. CFDF has also provided ongoing mentoring and consultation to strengthen the viability of each business.

3.4 Community Works Loan Program, Manitoba

1. Background and Context

Community setting

The Community Works Loan Program (CWLP) is a community-driven investment tool designed to help with new small business start-ups and expansions that will create jobs in rural and northern Manitoba communities. Of note is that it puts the financial decision-making in the hands of community leaders who become directly involved in mentoring, assessing and funding home-based and small business ventures in their communities.

Impetus/reason for creation

The CWLP is one of the programs available through the Rural Economic Development Initiative (REDI). REDI is funded entirely from revenues generated by video lottery terminals in rural Manitoba which are invested back into the rural economy to encourage community economic development and diversification. These funds enhance business and co-operative development, create opportunities for youth, support industry and help communities and organizations address local priorities and needs, thus enhancing the quality of life of Manitobans.

History, creation date

The CWLP was introduced in 1995 as a further enhancement and commitment by the government to support small business and new enterprise growth in rural and northern Manitoba. It compliments other provincial programs by addressing the financial needs of micro and small business through a community-driven investment tool.

Main purpose and mandate

The CWL Program is designed to help new small and micro businesses start and expand. By taking advantage of CWLP, the creation and expansion of businesses will lead to increased products and services for community members, while providing new job opportunities. The program is also intended to build community capacity and leadership in the area of community and business development.

Nature and scope of the vehicle/mechanism

The CWLP operates as a revolving loan pool with initial funding derived by an unconditional community contribution supported by a provincial interest free loan. The community, through its Community Development Corporation (CDC), raises between $10,000 and $25,000 which is then matched on a 2:1 basis by the provincial government. The CDC administers the loan fund and provides 5 year term business loans of up to a maximum of $10,000 at competitive interest rates (prime to prime plus 2%).

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

Approved clients can receive up to $10,000 in loans at a competitive rate, to help them start or expand a business. The loan payback period is up to five years, depending on the business plan.

Other products/services delivered

The CDC provide mentoring and ongoing assistance to the borrowers free of charge.

Eligibility criteria for targeted financial vehicle/mechanism

All Manitoba communities are eligible for the program except First Nation communities. In terms of eligibility criteria for targeted businesses, they tend to vary slightly from one CDC to another but typically are similar to the conditions imposed on small business applicants by local financial institutions.

Methods for raising capital/paying operating expenses

The program's operating structure at the community level, the Community Development Corporation (CDC, see under *Operational Structure*) is responsible for raising between $10,000 and $25,000 from contributions from local businesses, municipal governments, individuals, charities, or other sources. These monies are then matched on a two-to-one basis by the Province, creating a loan pool of up to $75,000 for the community. The provincial contribution is provided as an interest free, 5-year term repayable loan. Provisions are in place to have the term of the provincial loan extended for an additional 5 years.

Once the CDC has successfully placed its initial loan pool, it can raise an additional pool of $50,000 that will in turn be matched by the Province but, this time, on a one-to-one basis, bringing the total for a given CDC to $175,000.

Amount of capital raised and levered

To date the CWLP has 68 participating CDs, representing a total of 120 municipalities. As such, it represents a much more decentralized structure for accessing capital than, say, the CFDCs which are not always directly present in rural and remote communities. The communities have raised a combined contribution of $1,622,367, which has been matched by the Province through interest-free loans in the amount of $3,009,092, thereby creating a total loan pool of $4,631,459 in rural and northern Manitoba.

Disbursement/investment profile

To date the CWLP has provided 507 business loans totalling $3,859,194. The following table summarizes the program's activities to date.

Description	*Scope*
Number of business loans	
• For business start-ups	312
• For existing businesses	195
Average loan size	$7,600
Default rate	11.24%
Cost of investment per job	$3,179
Sector break-down	
• Services	320

• Retail	132
• Manufacturing	55
Employment impacts	
• New jobs	795
• Jobs maintained	419

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure

The central operating structure of the program is the CDC. In a typical situation, a municipal council will partner with local organizations such as a local Chamber of Commerce or Community Round Tables to establish a CDC. The local CDC, once it has raised its capital from local sources and received its matching funding from the province, manages the loan portfolio. A CDC is a share-capital corporation incorporated under Part XXI of the Corporations Act (Manitoba) whose mandate is restricted to fostering the social and economic development of a municipality of other local area in the province.

Investment decision-making structure

The CWLP is delivered through a CDC, which is governed by a Board of Directors. These directors can be either appointed or elected and generally represent a community stakeholder such as town council, chamber of commerce, etc.. The CDC may also have an employee, generally an economic development officer, who may be involved in the lending activities. Most participating CDC's have a loan committee made up of individuals with some lending experience or knowledge. The committee reviews loan applications and makes a recommendation to the Board for final approval of the loan. All loans must be approved by the Board of Directors and be reflected in the corporation's minutes. All CDCs participating in CWLP must have a loan policy.

In summary, the CDCs are responsible for: a) establishing the terms and conditions for loans; b) managing the loan portfolio, including collections; c) assessing and approving business loan applications; d) monitoring businesses that receive loans; and e) providing practical business advice.

Operating budget, resource level

Interest earnings from the loans disbursed by the CDC are retained to help cover administrative costs and further capitalize the loan fund. In addition, CDCs may be financed by contributions from their municipal government or revenues generated through their own business ventures. Given that, all CDCs are financially self-sufficient, in that government does not cover any operating expenses.

Mechanism/level of community control

The CWLP loan pool is managed by the local CDC. The CDC must report loan pool activities to the provincial government twice a year.

Accountability structure

Although the specific nature of the loans are private and confidential, the experience of the program has been that borrowers want to be acknowledged as recipients of CWLP loans and this is usually communicated through local media. The borrower sees this as a good opportunity to market his/her business (free publicity). It also allows the CDC to advertise its services to the community. The CDC also has an obligation to prepare an annual report, which has loan activity figures available to the public, and it must hold an annual general meeting.

3.5 Grow Bonds, Manitoba

1. Background and Context

Community setting

The Grow Bond Program is targeted to rural and northern Manitoba businesses.

Impetus/reason for creation (crisis, expansion of existing vehicle into new region, ..)

The Program was established to assist in the financing of new or expanding rural businesses as it was considered that they did not have the same financing opportunities that was available in Winnipeg. Both venture capital financiers and the banks were reluctant to lend to companies outside of the City of Winnipeg. The program was originally modeled after a comparable program that was operating at the time in Saskatchewan.

History, creation date

The Grow Bonds Program was established in 1991 as a vehicle for rural residents to invest in prudent business opportunities and thereby strengthen the local economy, diversify the rural economy and create employment and other benefits. The program provides a guarantee to investors, while placing responsibility for the investment selection, management and control directly in the hands of the community through the creation of local community development bond corporations. This way the communities themselves can define and pursue their own economic goals and objectives.

Main purpose and mandate

Grow Bonds gives local residents the opportunity to participate directly in strengthening their local economies and in creating job opportunities in communities by raising capital to finance eligible expansions and new business opportunities. Manitobans participating in the program have a direct stake in planning and directing the future of their communities.

Grow Bonds bring together local investors and local entrepreneurs in such initiatives as: manufacturing, processing, operating a tourist attraction, commercial water/gas distribution, exporting goods manufactured and processed in Manitoba, and the provision of goods or services for the protection of the environment.

Nature and scope of the vehicle/mechanism

The Grow Bond Program provides financing for a new business or the expansion of an existing business. It provides Manitoba residents with a means to participate directly in strengthening their local economy. The program acts as a catalyst for local development and diversification, bringing together local people with money to invest into community-based industries. It can de defined as follows:

1. An interested community forms a *Community Development Bond Corporation*, whose role is to oversee the management of the Bond emission and investment process.
2. Once approved by the Grow Bond office – on the basis of a sound business plan, the bonds are emitted and sold locally.

3. The proceeds of the Bond sales are used to invest in a local business venture through a 5-10 year convertible loan, which pays interest on a annual basis to bondholders. The loan is guaranteed 100% by the province. The proceeds of a particular Bond sales goes toward a single investment project.
4. After 5-10 years, the investee company repays the convertible loan to the bondholders.

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

The primary investment vehicle offered through Grow Bonds is a debenture, which bears interest payable annually and are repayable over a 5 to 10 year horizon. Depending on the particular needs of the investee, the debt can be converted into preferred shares at the end of its term but this option has not been popular with investees.

Other products/services delivered

A Grow Bond request is assessed, in part, by a business plan/feasibility study which must be provided for each Grow Bond request. Up to 50% of the cost of the feasibility study can be covered by a related REDI program (REDI Feasibility Studies Program).

Eligibility criteria for targeted financial vehicle/mechanism

Grow Bonds are used to make an investment in an eligible business that is commercially viable and environmentally sound. An eligible business must be primarily involved in either manufacturing, processing, operating a tourist attraction, exporting goods manufactured or processed in Manitoba or providing goods and services for the purpose of protecting the environment.

In addition to the types of businesses that are eligible, Grow Bond financing is limited to 40% of the total capital (assets) of the business. The company must have a reasonable equity base of at least 20% for existing businesses (both before and after the Grow Bond is issued) and upwards for start-ups. Grow Bonds can finance up to 50% of the total expansion costs and cannot be used for buyouts, refinancing or the purchase of an existing business.

Methods for raising capital/paying operating expenses

Under provisions of *The Community Development Bonds Act*, which governs the Grow Bonds Program, communities plan and manage bond offerings to raise capital which is used to finance eligible new business opportunities and expansions. Activities are managed through local Community Development Bond Corporations which market the bond issues, make project investments in new or expanding local businesses and keep investors informed about ongoing development.

Only Manitoba residents and corporations are eligible to purchase Grow Bonds, and bondholders have voting rights in the Bond Corporations, giving them a say in the Bond Corporation’s operation. The government of Manitoba guarantees the bond principal.

Grow Bonds are available in denominations of $100, limited to individual purchases of $50,000 or 10% of an issue, whichever is less, for a five-year term. They bear interest payable every year at prime plus a few percentage points, enough to make them attractive compared to, say, long-term investment certificates. At the end of the five year term, bondholders have the option of renewing their bond for a further 5 year term, redeeming their bond or converting into securities of the company. Generally, conversion into securities of the company is in the form of non-voting preferred shares at a rate of 1% higher than the Grow Bond interest but the government guarantee is no longer in effect.

Amount of capital raised and levered

The average Grow Bond issued is between $500,000 and $600,000, typically all going toward a single investment project. Grow Bonds are limited to 50% of a project and cannot exceed $2,000,000.

Disbursement/investment profile (#, average size, default rate, losses, etc.)

There have been a total of 28 Grow Bonds issued so far, with 12 defaults since inception. However, 6 of the 13 businesses (one Bond was used to finance two projects) are still in operation under different ownership.

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure (Board, #/type of staff)

Community Development Bond Corporations are made up of local residents who volunteer to sit on the corporations' boards. The Corporations are often 'a structure on paper,' in that they have no staff nor a physical presence of their own. That said, they may share facilities and staff with existing local agencies – such as Community Business Development Corporations – but such arrangements are not a common occurrence.

The Grow Bond Office has been set up to support the activities of the Bond Corporations and it is financed by the Government of Manitoba. It consists of three staff: two Project Officers and a receptionist/administrator. The Officers' role is to review and assess business plans and accompanying bond applications and monitor the Grow Bond investments.

Investment decision-making structure (committee, Director, Officer, etc.)

Decisions to form a Bond Corporation and subsequently invest in a local business venture normally involve the following steps:

- The project company presents a business plan and project application to the Grow Bonds Office.
- Analysts review and assess the viability of the project. They are often assisted in their assessment work by a Special Cabinet Committee of the Government of Manitoba, which may decide to reroute a particular funding proposal to another program or department.
- Upon approval, a Grow Bond Corporation is formed and Grow Bonds are offered for sale.
- The proceeds of the Grow Bond offering are invested in the approved business (investment is limited to 40% of total capital).

Operating budget, resource level

The annual operating budget is approximately $300,000, excluding any provisions for write-off reservations. The provincial government provides the Community Development Bonds

Corporations with a fixed annual operating grant of $1,000. This money can be used to reimburse a local agency for its work

Mechanism/level of community control
Communities plan and manage bond offerings to raise capital, which is used to finance eligible business opportunities and expansions. Activities are managed through local Community Development Bond Corporations which market the bond issues, make project investments in new or expanding local businesses and keep investors informed about on-going activities.

Accountability structure (to shareholders, community)
The Community Development Bond Corporation is responsible for monitoring the investment of the Bondholders. The Project Officers ensure that the mechanics of the Program are adhered to ie. interest is paid on the due dates, T5 forms are issued, regular meetings of the Community Development Bond Corporations are held. The Project Officers also monitor the companies through annual financial reviews and other review and reports as may be necessary.

4. Outcomes

Performance data
So far the Grow Bonds Program has invested approximately $15.3 million into rural Manitoba companies, leveraging a total of $36.0 million into new investment and creating or maintaining almost 900 jobs. Both the creation/expansion of Grow Bond companies and their employees have created a sizeable tax base for the Province.

There have been 13 guarantees paid out for a total of almost $6.4 million (default rate of 42%), which is a direct expense to the Province. However, six of the companies are still in operation, under new ownership, and the Province is still receiving taxes from the corporations and their employees. This relatively high default rate is attributable to a range of factors, but poor management, a shortage of operating capital and a lack of risk sharing may contribute to the explanation.

Client profile
The average Grow Bond company is a manufacturer/processor with annual sales of $5,000,000 - $10,000,000, located within 150 kilometres of Winnipeg. Most Grow Bond companies employ 40-50 local people and are a major employer within their community. There has been few northern projects since the program's inception.

Firm-level impacts
Grow Bond financing can be considered a bridge between owner equity and traditional financing. It would have been difficult for many of the Grow Bond companies to expand without the Grow Bond financing as access to capital in rural Manitoba is limited. The impact of providing Grow Bonds to new or expanding companies can be calculated as an increase in sales, revenues and profits.

Community impacts

Grow Bond financed companies are an important part of their community. They are a main employer of local people and provide sizeable tax revenues to their communities. Generally, the principals of the companies are very active in community affairs.

Evaluation or feasibility study

Studies done by the Manitoba Bureau of Statistics suggest that the economic impact of the Grow Bond program has been favourable. The taxes received by Grow Bond businesses and employees of these businesses have more than offset the costs of administering the program.

COMMUNITY ENTERPRISE DEVELOPMENT TAX CREDIT

In order to encourage and promote economic development in the province, the Manitoba community enterprise development tax credit (MCEDTC) will be introduced in the spring of 2004. This innovative tax incentive will encourage local private investment in Manitoba-based opportunities. The credit will provide community based enterprise development projects with the means to raise necessary equity capital to bring about investments, jobs and economic development in their communities.

The MCEDTC will be structured as a non-refundable 30% personal income tax credit for resident investors in eligible community enterprise development projects. The maximum credit that an individual investor can earn in a year will be $9,000, based on a maximum $30,000 eligible investment. Any credits earned but unused in a given year will be available to be carried back 3 taxation years, but no earlier than 2003, or carried forward 7 taxation years. Investors will be expected to maintain their investments in qualified community enterprises for a prescribed period of time in order to fully benefit from the tax credit. Individual investors will be able to claim the tax credit on the annual income tax return filed with the Canada Customs and Revenue Agency.

Eligible investments may be made either directly in qualifying Manitoba community enterprises or indirectly in qualifying community development investment fund pools, which serve as a conduit for investments in qualifying Manitoba community enterprises. This arrangement will provide investors with the flexibility to determine how narrow or broad they want their individual investments to apply.

The Department of Agriculture, Food and Rural Initiatives will approve eligible community enterprise development projects and fund pools, and determine eligible investments in an individual project. It will also assist projects and funds in organizing an issue of eligible investments, and work to facilitate any requirements by the Manitoba Securities Commission.

3.6 Investors' Circle, United States

1. Background and Context

Community setting

Investors' Circle (IC) has 100 investors in 24 states and 4 countries. All members are fully accredited investors or investor representatives. IC operates nation-wide, and its members have made some international investments.

Impetus/reason for creation

IC grew out of the Social Venture Network (SVN), which was founded in 1987 by "some of the nation's most visionary leaders in socially responsible entrepreneurship and investment." SVN describes itself as a non-profit network that is committed to building a just and sustainable world through business; it promotes new models of socially and environmentally sustainable business. IC was created by SVN members to provide investors with and opportunity to invest in profitable companies that operate on a so-called double bottom line.

History, creation date

Established in 1992, IC has become one of the nation's oldest and largest investor networks, and the only one devoted specifically to sustainability. In its first decade, network members invested over $90 million into 147 early stage private companies and venture funds working to deliver commercial solutions to social and environmental problems. Having started out as an angel network, IC now involves institutional investors and oversees a venture capital fund.

Main purpose and mandate

Investors' Circle is a social venture capital intermediary whose mission is to support early-stage, private companies that drive the transition to a sustainable economy by:

- Increasing the flow of capital to entrepreneurial companies that address major social and environmental problems;
- Growing the network of individual and institutional investors who are engaged in mission-related venture capital investing; and,
- Fostering acceptance in the financial community of corporate cultures that integrate concerns for financial capital, social capital and natural capital.

The IC board has endorsed the following Statement of Responsibility:

- We begin the investment management process recognizing that our responsibility as investors does not end with maximizing return and minimizing risk.
- We recognize that economic growth can come at considerable cost to community and environment.
- We believe that efforts to mitigate environmental degradation and promote social well-being will be successful to the extent that these concerns are brought from the margins to the center of business and investment decision making.
- We recognize that addressing such concerns while pursuing financial objectives is an imperfect process. However we believe that the development of healthier corporate cultures, and through them a healthier, more sustainable economy, depends upon the recognition of these concerns by management, directors, employees and investors.

Nature and scope of the vehicle/mechanism

IC is composed of three parts:

- IC Network – a dedicated circle of investors (individual and institutional) who invest in and support social mission entrepreneurs. The network is a membership organization of angel investors, institutional investors, venture capitalists and foundation officers who seek to use venture capital as a tool for social change while striving for financial, social, and environmental returns. Members invest in the following categories: community development, education, environment/energy, health, media, and minority- or women-led companies. Some members are passive investors, but most are actively involved in portfolio companies.
- IC Model Funds (Commons Capital) – creating and capitalizing investment vehicles to support entrepreneurs to achieve both financial and social return.
- IC Foundation – improving research, understanding and the practice of venture capital to grow social mission entrepreneurship.

The Commons Capital Fund enables participants to diversify their portfolios and benefit from professional management. Through a balanced, diversified portfolio of both direct investments in early and growth-stage companies and indirect investments in venture capital funds, the Fund will seek to generate competitive returns while generating measurable, long-term social and environmental benefits. (IC is also exploring the creation of other, specifically focused funds.)

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

The primary vehicle is angel-based equity participation, along with participation of institutional investors – individual investors may opt for other arrangements such as subordinated debt. Equity venture capital is also provided through Commons Capital.

Other products/services delivered

Working with the IC Foundation, IC provides educational programs, publishing services, and research support to those engaged in sustainable venture capital investing; IC also facilitates the organization of new sustainable venture funds. The IC Foundation, a registered charitable organization, was founded in 2002 to harness the intellectual capital of the IC network to develop the social venture capital markets further. The foundation promotes research and publications, educational programs and working groups, and hands-on work with mission-driven companies to develop greater understanding and best practices. The foundation works in three areas: Education and Research, Technical Assistance, and Strategic Innovation. Other research is also being undertaken on best practices in media.

Eligibility criteria for targeted financial vehicle/mechanism

Businesses that endeavour to be reviewed by IC members must fall into one or more of five specific interest areas: community development, education and media, environment and energy, health. Minority and woman-led businesses are also strongly encouraged to apply as long as the underlying business does not detract from IC's sustainability and social responsibility values. IC considers companies in many different deal stages including seed, early, expansion and growth; projects, individuals, or technologies are not considered – only fully-formed companies.

Companies that do not expect to generate revenues of at least $5 million within the next five years will not be considered, nor will companies with capital needs greater than $10 million, which is beyond the means of the primarily angel investor membership. Companies with capital needs under $5 million are generally more likely to find interest. IC also does not consider companies that are religion-based. Companies that have a potential for national or international growth tend to find more interest. For example, a company that sells organic coffee to retailers across the country will be considered but a company launching a single, local, organic coffee shop will not. IC does consider non-US companies, although members are primarily interested in US-based firms due to the complications of investing in foreign companies.

A combination of the following characteristics is most likely to find interest:

- a strong management team
- a clear understanding of their market(s)
- legally defensible technology
- third party product or business model verification
- clear commitment to a social and/or environmental mission – a double bottom line

Methods for raising capital/paying operating expenses

IC's members and affiliates are high net worth individuals, venture capitalists, family offices (a name given to a collection of financial, investment, legal and tax experts working often under one roof for one family), and foundations. All members are accredited investors who join by invitation. (Accredited investors must meet specific SEC criteria: earnings of at least $200,000 for two consecutive years or a net worth of at least $1 million.) Private investors make up about 70% of IC membership, which also includes investment-fund managers and venture capitalists.

Funded by membership dues and other fees, IC takes no commissions and holds no financial stake in any deals between its members and the entrepreneurs it brings their way. IC charges membership fees as follows:

	One year	Two years
Individual Membership	$1195	$2195
Institutional Membership	$1795	$2995

Applicants pay a $350 fee to have their two-page business summaries (Briefings) circulated among IC members; companies that have previously submitted pay a $100 "re-submission fee". Applicants chosen to make presentations at venture fairs are then charged $350-$750.

Amount of capital raised and levered

Investment decisions are made by individual members (over US$90 million has been invested since 1992). Commons Capital closed its first round at US$13.5 million.

Disbursement/investment profile

IC members have made 147 investments, with a range of US$10,000 to US$6.5 million, and a median aggregate investment of US$225,000. While information on specific investments is unavailable, the investment profile breaks down as follows:

Community Development	7%
Education	9%
Environment/Energy	29%
Health	24%
Media	3%
Minority- or women-led companies	23%
International	5%

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure

IC has three permanent staff (2.5 FTEs) and presently retains two contractors. IC has ten-person Social Venture Fair Presentation Committee, and a nine-member board of directors. Commons Capital has one manager, one associate, and a four-member advisory committee.

Investment decision-making structure

Each month, IC members receive two page executive summaries of socially responsible businesses. These summaries are designed to provide the most important information in an easily accessible format. Members vote for the companies they would like to meet at venture fairs. If an applicant receives interest from four or more members, IC will set up conference calls and e-mail discussion groups to facilitate communication between investors.

Once a briefing has circulated with IC members, a company remains eligible for six months to present at one of IC's venture fairs (two regional fairs and one national fair per year). The fee for presenting companies is $350-$750, depending on event delivery costs.

Mechanism/level of community control

A number of regional venture fairs take advantage of the proclivity of angel investors to invest close to home. These events feature the presentations of several local companies and offer members the opportunity to convene in a more intimate setting and to build on-going relationships with local entrepreneurs and co-investors. Historically, over 40% of presenting companies have received some level of funding from IC members at these events.

Accountability structure

IC staff provide members with monthly reports on deal flow.

4. Outcomes

Performance data

Harvard Business School / McKinsey & Co. study demonstrated that, over a ten-year horizon with various assumptions about timing and holding patterns, a hypothetical portfolio composed of IC client companies generated returns of 8% to 14%.

Client profile

Most applicants are start-ups or early-stage companies. Most have had some previous financing, and many have some sales, which is seen as a great risk reducer, because it means investors can talk to customers. No information is available beyond the sector breakdown outlined under Disbursement Profile.

Firm-level impacts

IC members make mostly non-traditional investments in companies that would otherwise not receive financing.

Community impact

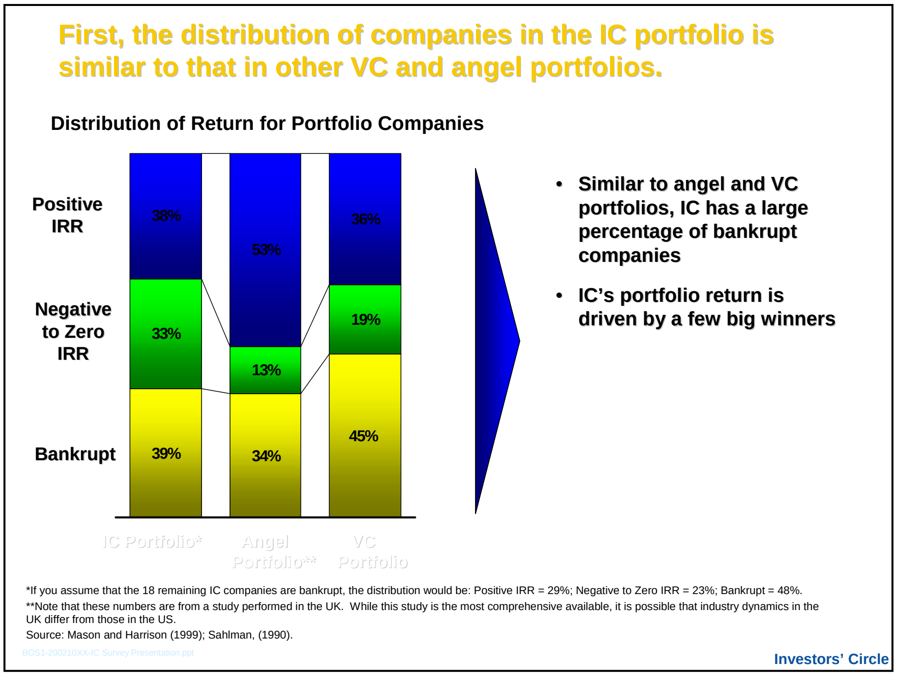
IC is presently grappling with making a determination of what the most effective and appropriate method is for measuring social return. Community development with a focus on impoverished regions is a focus for some members. Indeed, the 2003 National Conference entitled, "Building Sustainable Communities: From Philanthropy to Venture Capital," focused on community development. Amongst others, the event brought together angel investors, professional venture capitalists, venture philanthropists, foundations to examine the continuum of strategies for deploying risk capital to support social entrepreneurship at the community level.

Existence of feasibility or evaluation study?

Harvard Business School / McKinsey & Co. study.

Key findings:

- Returns are dependent on the extraordinary performance of a few companies
- IC homeruns have lower multiples than traditional VC homeruns
- Percentage of total write-offs is consistent with traditional VC
- Technology and health care are the best performing sectors
- Diversification and investing in additional rounds is key



First, the distribution of companies in the IC portfolio is similar to that in other VC and angel portfolios.

- **Similar to angel and VC portfolios, IC has a large percentage of bankrupt companies**
- **IC's portfolio return is driven by a few big winners**

*If you assume that the 18 remaining IC companies are bankrupt, the distribution would be: Positive IRR = 29%; Negative to Zero IRR = 23%; Bankrupt = 48%.

**Note that these numbers are from a study performed in the UK. While this study is the most comprehensive available, it is possible that industry dynamics in the UK differ from those in the US.

Source: Mason and Harrison (1999); Sahlman, (1990).

BOS1-200210XX-IC Survey Presentation.ppt

Investors' Circle

A TYPICAL INVESTORS' CIRCLE DEAL

When Larex Inc., a St. Paul (Minn.), manufacturer first presented at an IC Social Venture Fair, it had no revenues and its plant wasn't operating. What it had was a patented process for extracting a versatile compound called arabinogalactan (AG) from damaged wood left behind when larch trees are logged. Research had shown AG to have multiple uses such as a fibre in dietary supplements, as well as an ingredient of pharmaceutical and personal-care products and printing inks.

When it approached IC, Larex had about $4.5 million in venture capital from Medical Innovation Partners and Northeast Ventures, a $10 million community-development fund that promotes entrepreneurship and employment in rural northeast Minnesota (a region suffering from decline of its steel industry). As a member of Investors' Circle, Northeast Ventures brought Larex to the group's attention. The connection wasn't enough at first, though. "There was a lot of interest in our concept," says Mike Finney, Larex' president and CEO, but investors were sceptical about the manufacturing process and any potential market for the product. "It hadn't been proved," says Finney. While Larex received only $50,000 from one investor, just making the presentation proved valuable to the company. "You see the kinds of questions the group asks and where the emphasis needs to be on the facts," says Finney. The company was glad to get the $50,000, which gave it credibility just when it was trying for another round of financing. "Having somebody actually put in money from [Investors' Circle] helped other investors feel good about putting money in," Finney explains.

Since that early presentation, Larex has reduced much of the risk and proved many of the issues, and the company will return to IC – something many previous presenters do – to pitch the company at another venture fair. Now, the company has a lot more to offer, as its $1.5 million manufacturing plant opened in Cohasset, a town of 600 in the woods of northeast Minnesota. In three years the company grew from only $250,000 to $3.7 million in revenues, with projections exceeding $6 million and a profit. The 21-employee company now has six trademarked products and contracts to supply dietary-supplement, cosmetics, and ink companies. Outside investors have put more than $10 million into the venture.

"I think we're going to be a very good fit for the Investors' Circle membership this time around," says Greg Sandbulte, a Larex board member who's also president of Northeast Ventures. "We've grown steadily in the three years since the last presentation. And I think there's a lot of people in Investors' Circle who see an opportunity to have an impact on a rural area like that as very attractive." The fact that Larex has found an added use for the damaged portion of the larch tree doesn't hurt either.

Source: Halperin, Karen, Lender Profile: Members of Investors' Circle, BusinessWeek, 1999, New York, NY http://www.businessweek.com/smallbiz/resources/finance/profiles/lp990422.htm.

3.7 NLFC Micro-Business Development Service, St. John's

1. Background and Context

Community setting

The Newfoundland-Labrador Federation of Co-operatives (NLFC) operates throughout the entire Newfoundland-Labrador region.

Impetus/reason for creation

The fisheries moratorium in the mid-1990s signalled the end of an era and, more importantly, the continuation of a struggle by rural, coastal and remote communities to retain their young people and pursue social and economic development opportunities. During that period, the NLFC recognized that it had a role to play in the support and development of employment and, more generally, economic opportunities.

History, creation date

In 1996, the NLFC established, along with the provincial government, a $1 million Community Investment Fund throughout the region. The original purpose of the fund was to encourage co-op development in the rural and remote communities of Newfoundland-Labrador. Shortly after the fund's creation, however, it was recognized that there was little current demand for co-op development services in those areas, and that people were simply unaware of the potential role of co-ops in community economic development. As a result, the organization designed its micro-business development service with rural micro-entrepreneurs in mind, and its community investment fund's mandate was expanded to include financial support for micro-businesses.

Main purpose and mandate

The overall purpose of NLFC's micro-business development service (MBDS) is to support the rural development process by working in partnership with local CED agencies to promote collective approaches to self-employment through the peer lending model. It does so by developing formal service delivery partnerships with CED agencies, on the one hand, and local financial institutions, on the other, for the provision of both financial and technical services to micro-entrepreneurs located in the rural areas of the region.

Nature and scope of the vehicle/mechanism

Since NLFC's MBDS are offered through service delivery agreements with local CED agencies – CFDCs; community development corporations; local banks; credit unions; etc. –, the residents living in the areas served by those CED agencies constitute the primary potential recipients of these services.

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

Through its service delivery partnerships with local financial institutions, entrepreneurs get access to small loans via membership in peer lending circles. Right now, there is a $5,000 ceiling on the value of the loan, although the ceiling will be increased to $7,500 in the next fiscal year, and discussions are underway to increase it further to $10,000. Successful borrowers can reapply for loans once they have paid off their original loan.

Other products/services delivered

Besides debt financing, NLFC’s MBDS include peer counselling, marketing support, and networking. These services are not delivered directly by NLFC but by the local CED agencies with which it has formal service delivery agreements.

It is important to note that the recipients of the micro-business development services value as much or more the non-financial services – particularly the training and the networking – than they do the debt financing they can access. Such a finding is consistent with that of other peer lending mechanisms active in Canada and elsewhere. In fact, several lending circle members are active participants but they have yet to contract out a loan.

Eligibility criteria for targeted financial vehicle/mechanism

Any types of business ventures are eligible for financing under the peer lending model, and it is up to a lending circle member to demonstrate to his or her peers the value and feasibility of his or her business project (since they are entrusted with the responsibility of moving forward – or not – funding applications).

Methods for raising capital/paying operating expenses

On the capital side, NLFC’s Community Investment Fund of $1 million serves as guarantee against the loans the peer lending circle borrowers contract out with participating local financial institutions. Transaction costs are covered by the financial institutions and considered low, given that the loans are guaranteed by NLFC and that the amounts disbursed are very small.

Expenses incurred in the delivery of non-financial services associated with micro-business development are covered by project-based funding provided by ACOA and by HRDC. The ACOA funding allows NLFC to meet the expenses associated with the provincial coordination of all micro-business development services. The HRDC funding, on the other hand, is used to pay for the regional delivery of services through the local CED agencies (see *Operational Structure* below).

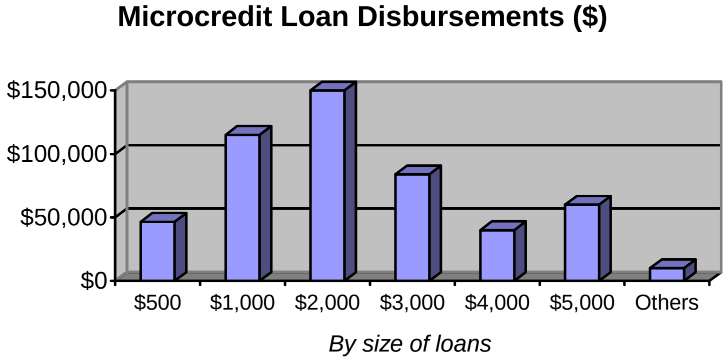
Amount of capital raised and levered

The Community Investment Fund was created in 1996 using a $500,000 contribution from NLFC and the same amount from the provincial government, and this initial capital has not been augmented. It also remains more or less intact given that the funds serves primarily as a loan guarantee.

Funding from ACOA and from HRDC to pay for micro-business development services have fluctuated over the years. On average, ACOA has provided funding support in the amount of $125,000 annually for program coordination and support. A $270,000 HRDC contribution covers delivery of regional client services at nine service delivery sites across the province.

Disbursement/investment profile

From January, 1997 to present, more than $600,000 has been disbursed using NLFC’s Community Investment Fund as a guarantee. Approximately $100,000 of this amount has been used to finance co-op development projects, while more than $505,000 was used for micro-lending. Chart 1 below provides a break-down of loan statistics for micro-businesses by size of loans made.



3. Organizational Dimensions of the Vehicle/Mechanism

<u>Operational structure</u>

One innovative aspect of NLFC's micro-business development service is the fact that it does not directly deliver the services, relying instead upon service delivery partnerships with local CED agencies and financial institutions to carry out this role. This approach was designed to appeal to agencies that are not necessarily in a position to undertake or systematically promote co-op development, but are interested in other collective approaches – in this case peer lending – to supporting self-employment and economic development.

NLFC's approach to partnership formation is based on four components:

1. *Clear decision to proceed*: the process starts with an information session to which all relevant agencies in the region are invited. Commitment from the potential partners and from other agencies to support the process are essential outcomes of this component.
2. *Detailed Service Delivery Plan*: NLFC and its partner develop a concept paper and project plan, outlining goals, outcomes, activities, time lines, resource requirements, and agency responsibilities.
3. *Service Delivery Partnership Agreement*: following the plan approval by the NLFC, the partner's Board of Directors and the project funding agency (ACOA or HRDC), a joint service delivery memorandum of understanding is signed by NLFC and its partner. Such agreement is normally accompanied by an agreement with a local financial institution regarding terms and conditions for loan security.
4. *Regular communication and partner networking*: meetings with the partner and other local agencies are regularly called and facilitated by the NLFC. They provide a forum for information dissemination on best practices and other issues of mutual concern.

<u>Investment decision-making structure</u>

Given that each partnership agreement will meet the specific mandate, needs, conditions and resource level of the local CED agency, it is not surprising that different approaches to service delivery have been adopted. For instance, some local CED agencies rely upon part-time staff to organize and deliver micro-business development services, while others are using full-time, dedicated staff for that purpose.

Mechanism/level of community control
Another interesting feature of the approach taken by NLFC for micro-business development is the establishment of so-called *Volunteer Area Committee* in each region where it has formal Service Delivery Partnership Agreements. These committees, whose number and representation varies from one region to another, provides support and expertise in overall micro-business development. They may be involved in loan application review or development, or they can play a useful intermediary role of connecting micro-entrepreneurs to locally-delivered support services.

Accountability structure
The Service Delivery Partnership Agreements signed between the NLFC and its partners spell out specific accountability requirements by way of expected outcomes, timelines, specification of roles and responsibilities, and reporting. Since these agreements are reviewed and/or signed by both the NLFC and its partner's board of directors, these organizations' 'shareholders' are kept informed about and involved in these initiatives.

The NLFC takes great pain throughout the partnership development process to involve all relevant local agencies to learn more about the micro-business development initiative and to participate in it if they so desire. The regular communication and networking component of the partnership formation process provides a natural conduit for being accountable to the community.

4. Outcomes

Performance data
Little information is available on overall fund's performance, but the micro-credit loan operations between January 1997 and the present have resulted in an overall default rate of 1.62%, which is considered very good.

Community and other impacts
While there has been no formal attempt to quantify community impacts arising from NLFC's micro-business development activities, anecdotal evidence suggests that it has had the following impacts:

1. Increased local employment and economic opportunities through the micro-business creation and growth process;
2. Increased visibility for NLFC and for the co-op sector in general within the community development community. NLFC is now better known and more integrated with the extensive network of local and regional development agencies;
3. the NLFC itself has developed significant knowledge and expertise relating to micro-credit and other services that can assist home-based businesses and micro-enterprises;

4. NLFC's efforts in micro-business development has also led to some increase in co-op development activity. Some of this increased activity has occurred through the cross-fertilization of ideas that relating to co-ops and small business development.

Existence of feasibility or evaluation study?
Three program assessments have been conducted so far. The central message common to these assessments is that in general, clients place as much if not more importance to the training, networking and peer counselling aspects of the initiative than they do for the peer lending. Such a finding suggests that access to capital in and by itself does not suffice in sustaining business creation and development in rural and remote areas. One review also made reference to very positive indicators of client and community benefits.

Client Profile: Darlene Mercer, Inland Knitwear (Whitbourne, NL)

Darlene registered with MBDS in December 2000. She was one of the founding members of her Business Development Group, Ventures 2000. She has accessed three business loans, totalling $3300, one of which she is currently making payments on.

In addition to the loans, Darlene has also availed of other MBDS services: one-on-one business counselling; peer support and advice, marketing support and skills development training. As a client of MBDS, Darlene has also received assistance in attending a provincial trade show recognizing successful rural businesses in Newfoundland and Labrador.

At the time of joining the program, Darlene was receiving social assistance benefits from the provincial government. Her business has grown to the point where she no longer receives these benefits and is providing employment for herself and one other seasonal employee. In addition to involvement in MBDS, she has also been a client of several other business development support programs offered through the Community Business Development Corporation in her area.

Darlene's business is a small scale knit product manufacturing company. As the owner/operator, she designs and machine kits items such as sweaters, socks, mittens, etc. The business also includes a small retail store in Whitbourne, and it has expanded in the last 3-4 years. She is now a member of the Newfoundland and Labrador Craft Council. Her original designs have been juried and accepted for participation in the many events held in the province. More information is available on her website at www.inlandknitwear.com.

3.8 PARO, Thunder Bay (Ontario)

1. Background and Context

Community setting

PARO, a Northwestern Ontario Women's Community Loan Fund, operates in Northwestern Ontario, a large area centred around Thunder Bay and composed of small towns and a few First Nation communities.

Impetus/reason for creation

The idea of PARO came to Rosalind Lockyer, then a business and community development officer at the Thunder Bay-based CFDC, upon identifying peer lending as an appropriate financing vehicle for Aboriginals and women living in northern and remote communities. She saw a community-based approach and support system as essential components of any access to capital strategy that would have a chance of succeeding in these settings.

In 1995, still working at the local CFDC Ms. Lockyer partnered with the Northern Women Centre and successfully proposed to the Ontario government the establishment of a peer lending program for women. Funding was secured and Ms. Lockyer was hired as a coordinator. In 1996, the group elected its Board of Directors – entirely made up of members from the lending circles, and received its incorporation in 1997. Rosalind Lockyer then became its Executive Director.

Main purpose and mandate

PARO can be defined as a grassroots community economic development organization, registered as a charity, delivers enterprise development, skill development, peer lending, networking, marketing and mentoring services to women.

Nature and scope of the vehicle/mechanism

The most important aspect of PARO is its integrated approach to financing and developmental issues. From the outset, a survey of needs made it clear that access to capital is not the major issue faced by women living in Northern Ontario. In fact, financing was not considered the main priority: training, mentoring and access to a network of contacts were deemed as essential. As a result, PARO's activities and *raison d'être* are based on the notion of a model of support made up of five central elements: access to capital; education, training and access to information; access to a supportive family and social network; spirituality and self-confidence; and basic needs (housing, transportation, food, etc.). In light of this, the peer lending activity has to be considered in the context of a broader, more holistic support system.

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

PARO currently supports 30 peer lending groups throughout Northwestern Ontario that provide small loans to their members.

Other products/services delivered

Consistent with its model of support, PARO offers a range of services to women of Northwestern Ontario. Much of its activities, however, center around peer lending, networking, mentoring, and training. On the training side, the organization focuses on the peer lending concept, business start-up, and life skills. It also includes the notion of developing a network of contacts. In 1999, PARO developed an eight partner community alliance to develop the Thunder Bay Community Mentoring Program, incorporated in 2001.

In 2000, PARO developed PARO PLACE: A Micro-Business Centre for Women offering flexible incubation services for women's businesses and not-for-profits. PARO PLACE offers a resource center, computer and Internet Access, occasional or monthly rental of office, training, equipment and boardroom space
PARO's Network is a key component of its programming, and there are currently 563 so-called Network members in the organization. Networking dinners and other activities are organized for the members. As of October, 2003, more than 700 women attended 14 such dinners.

<u>Methods for raising capital/paying operating expenses</u>
PARO partners with the five regional CFDCs as a means to access debt financing for its lending circle members. As such, it does not operate a loan fund of its own. Since the organization does not receive core funding, it must rely upon its staff – who are paid through specific project funding – to process loan applications. It is estimated that approximately half of the 'transaction cost' on the loan application is covered by PARO, the other half being supported by the CFDCs as part of their debt financing activities.

<u>Disbursement/investment profile</u>
Consider the following statistics, as of October 2003:

Description	*Scope*
Number of peer circles	30
Number of peer circle members	167
Number of network members	563
Cumulative value of loan disbursements (since 1996)	$174,500
Number of first-stage loans ($500-1,000)	68
Number of second-stage loans ($1,500-2,000)	26
Number of third-stage loans ($2,500-3,000)	19

3. Organizational Dimensions of the Vehicle/Mechanism

<u>Operational structure</u>
PARO's organizing structure is the lending circle. Each circle has between 4 and 7 members and their deliberations are facilitated by a Chairperson. Circle members seek support and advice from their circle peers.

The organization's Board of Directors, made up of nine members, is made up entirely of circle members. Members of the Network are considered associate members of the organization and cannot sit on the Board, unless vacancies cannot be filled from the circle membership The organization operates with a small staff of four full-time and two part-time employees, complemented at times by a small roster of workers on job creation partnerships with HRDC.

PARO contracts member businesses to provide services such as web page design and upkeep, desktop publishing, network and equipment maintenance, workshop facilitation, etc.

Investment decision-making structure
Lending circle members are the primary decision-makers in the loan approval process. Peer circle members must submit to the other members of their circle their loan request, which must be approved by them. Once it is approved by a circle, PARO's Board reviews it to ensure that it conforms to its bylaws and that the organization has enough money in its emergency fund. It is then sent to one of the five CFDCs that have a partnership with PARO, and they provide the money directly to the borrowers who, in turn, must repay the CFDC. If there is a problem the CFDC calls the Executive Director, who in turn calls the circle chair, and together they address the problem in an appropriate manner.

Operating budget, resource level
PARO operates with project-based funding only, which means that the organization has to constantly devote time and resources to write proposals and seek financial assistance. Despite this situation, the organization has been able to steadily grow and diversify its funding sources, from a little over $85,000 in 1998 to more than $400,000 in 2004.

4. Outcomes

Performance data
As with most peer lending programs and initiatives, PARO's default rate on loans is almost non existent, thanks in part to the accountability structure inherent to the lending circles. Out of the 113 loans it has managed so far, only one borrower requested that her equipment be sold to cover the balance of the loan, while in another case PARO paid off the remaining (small) balance on the loan.

Client profile
PARO does not keep detailed statistics as to its member's age, but discussions with key employees suggest that the typical borrower is aged between 35 and 50 years old, although some are as young as 18 or as old as 60. Aboriginal women make up a segment of the membership, which is in line with their regional population weight, and they tend to be integrated into existing peer circles, as opposed to Aboriginal-specific ones.

Firm-level impacts
According to its records, PARO members have started 527 new businesses since its inception in 1995. A follow-up study conducted in 2002 revealed that 86% of those who started a business were still in operation after three years.

Community impact
While difficult to quantify, membership into PARO has been credited to enhance the lives of many women who were lacking personal and financial autonomy, and contributed to leadership development. Several of the region's leading women in either the business or political spheres are former or current PARO members, including the CEO of one of the major towns, and another member is a town counsellor in her Superior North community. A member living in

Manitouwadge won the Influential Woman Award sponsored by Northern Ontario Business in 2003.

Existence of feasibility or evaluation study?
The organization carried out in 2003 a feasibility study for the creation of a Training Loan Fund. The study determined that the need exists for such a fund, but that it requires funding to be part of a broader structure, and allow for flexibility and representation from the communities it purports to serve. PARO has applied to FEDNOR to fund the project; it is also under review by another government department.

PARO is also looking at implementing a ‘business accelerator’ program that would target women already in business and looking for support beyond traditional lending.

Overall, it is clear from the above that PARO is not a traditional peer lending program. It can best be defined as a hybrid model that brings flexibility and a community-based support structure to business development and women empowerment. Such a model is seen as relevant to the context of isolated, remote communities.

3.9 Sociétés locales d'investissement dans le développement de l'emploi, Québec

1. Background and Context

Community setting

The network of 87 Sociétés locales d'investissement dans le développement de l'emploi (SOLIDEs) covers all regions of Quebec and operates at the regional municipality or the municipal level.[2] Each SOLIDE serves the geographical area that determines a given regional municipality.

History, creation date

The SOLIDEs were created in 1991 under the aegis of the Fonds de solidarité des travailleurs et travailleuses du Québec (FSTQ), a Quebec-based labour-sponsored investment fund, in partnership with the Fédération québécoise des Municipalités, which regroups the province's regional municipalities.

Impetus/reason for creation

At the time, a number of regional funds were being created, most of them aiming at filling the financing gap in the $50,000 to $500,000 range.[3] There was a sense that an additional gap existed for smaller amounts of capital targeted at the very-small-to-small business developers.

Main purpose and mandate

The SOLIDE's main mission is to provide financing to local small businesses dedicated at creating and/or maintaining employment opportunities.

Nature and scope of the vehicle/mechanism

Each SOLIDE works closely with the local economic development agencies that are already established in the area where it operates. These agencies – typically a Quebec-sponsored Local Development Centre (CLD), a Community Futures Development Corporation (CFDC) or a community economic development corporation – establish a formal management agreement with their SOLIDE and become the SOLIDE's *managing organization*. Therefore, they play an important role in determining the specific nature and scope of the financial instruments to be delivered by the SOLIDE. The result is that there is local variation in the nature and scope of the investment mechanism.

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

The main financial product delivered by the SOLIDEs is subordinated debt (often incorporating an option for equity participation or profit sharing). On occasion, a SOLIDE will provide non

---

[2] Quebec's Municipalités régionales de comté (MRCs) are administrative entities regrouping towns and municipalities sharing a common territory. There are currently 86 MRCs throughout the province.

[3] Examples include Quebec's Regional Intervention Funds and the Enterprise Assistance Funds. The Fonds de solidarité du Québec's Regional Solidarity Funds were also created during that peiod of time.

guaranteed loans. It targets the low end of the capital spectrum, investing in the $5,000 and $50,000 range.

It is worth noting that the FSTQ has also set up a network of so-called regional solidarity funds, aimed at the $50,000 to $500,000 investments. Local SOLIDEs often play a role in identifying and forwarding to the appropriate regional fund promising investment proposals that exceed their $50,000 funding limit.

Other products/services delivered

The SOLIDEs have little by way of internal resources and, therefore, are not in a position to offer technical assistance to their investee firms. For this role, they depend on their *managing organization*. Approximately 70% of the SOLIDEs' managing organizations are the CLDs, while a further 20% are CFDCs and the rest is made up of community economic development corporations or regional municipalities. The specific nature and scope of the technical assistance made available will thus depends on the managing organization's own expertise, but typically it will include project assessment, business plan development, marketing, etc. The SOLIDE Board of Directors will determine whether such services will be provided free of charge to the investees.

Eligibility criteria for targeted financial vehicle/mechanism

Admissible projects must demonstrate that they: (1) are financially viable and that they will contribute to create or maintain permanent jobs; (2) advocate constructive, sound labour-management relations; (3) have a business plan that confirms the promoter's expertise, sufficient owner equity, and positive economic returns.

Methods for raising capital/paying operating expenses

Each SOLIDE can count on an initial investment fund of $500,000, half of which must be pooled from local sources and the other half is provided by the FSTQ through SOLIDEQ (see *Organizational Dimensions* below). The FSTQ applies a 5% interest charge on the amount disbursed to the SOLIDEs via SOLIDEQ – the provincial organization set up to support the operations of the SOLIDEs (see *Operational Structure* below), and these charges are paid from the revenues generated by the investments.

As part of its management agreement, a SOLIDE typically pays approximately 1% of the net balance on their investments to its managing organization for the services it provides in managing the SOLIDE's investment portfolio and assessing new investment projects.

Amount of capital raised and levered

The FSTQ has invested $30 million province-wide to capitalize (50% of) the SOLIDEs. The same amount has been collected from local sources, typically the regional municipalities, the Caisses populaires Desjardins, or the CFDCs. Another important source of capital has been the Quebec Government's Local Investment Funds, which simply transferred some of their funds to the SOLIDEs.

Disbursement/investment profile

The following table provides a statistical profile of the SOLIDEs as of June 30, 2003.

Investments by the SOLIDEs		*Value*
• Number of active SOLIDEs		87
• Number of investment projects		1,459
• Authorized disbursements		$45,500,262
• Average investment by project		$31,186
• Total value of projects in which the SOLIDEs have invested		$519,176,936
• Jobs maintained or created		14,127
Sector of activity	*Number of projects*	*% of authorized disbursements*
• Primary	110	7.3
• Manufacturing	940	66.4
• Tertiary	221	15.0
• Others	188	11.3
Type of projects	*Number of projects*	*% of authorized disbursements*
• Acquisition	53	3.9
• Consolidation	263	17.8
• Start-Up	555	36.1
• Expansion	588	42.2

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure

Each SOLIDE is independently administered and set up with a Board of Directors that is comprised of local political and economic development leaders. The SOLIDE network of local financial institutions is supported by SOLIDEQ, a limited partnership organization that oversees the SOLIDE operations and provide capitalization, administrative and technical support (primarily training) to them.

Investment decision-making structure

For any given SOLIDE, both the FSTQ and the regional municipality nominate one person to sit on the SOLIDE's Board of Directors. Other Board members are drawn from the local business and development community. The number of board members vary from one SOLIDE to the nest, but typically amounts to seven peoples. The Board has ultimate responsibility in managing the SOLIDE and making investment decisions, after a screening has been done by the managing organization.

Operating budget, resource level

Each SOLIDE's operations involve expenses in the $5,000 annual range. The SOLIDEs do not have any paid staff, since they depend on their managing organizations for managing their investment portfolio. As mentioned earlier, these expenses are incurred by the managing organization and paid directly from the revenues generated by the investments.

Mechanism/level of community control

The SOLIDEs typically work in close partnership with the regional municipality, CFDC, local development centre,[4] and other local development agencies present in their territory. Since their Board of Directors are made up of local business and social leaders, the actual level of community control is significant.

Accountability structure

Each SOLIDE must submit an annual report on its activities to its members and partner organizations.

4. Outcomes

Performance data

No performance data was available at the time of writing but the expected returns on SOLIDE investments are in the 15% range.

Lessons learned

Since the SOLIDEs are present in all regions of the Quebec province, it would interesting to compare the performance of those operating in rural and remote regions with that of the SOLIDEs that operate in urban areas. Such comparison has not systematically been undertaken, although a 1997 study of local and regional funds – which included but were not limited to SOLIDEs – broke down its empirical findings by region.[5]

One SOLIDE representative spoke of the fact that, while the volume of potential projects might be relatively smaller in rural/remote areas than in urban regions, the quality is the same.

---

[4] The Local Development Centres were created by the Quebec Government and their mandate is to promote and support – financially and otherwise – business, economic and community development throughout the province. Much like the BDCs, they operate out of a specific geographical area and cover most of the province.

[5] Canada Economic Development, *Québec Local and Regional Development Funds*, by B. Lévesque, M. Mendell and S. Van Kemenade, Montréal, May 1997.

3.10 VanCity, British Columbia

1. Background and Context

Community setting

BC's lower mainland and Victoria.

Impetus/reason for creation

The initiatives described below are part of VanCity's community investment philosophy:

> *"At VanCity, we use our unique skills and expertise as a financial institution to create solutions to social, environmental and economic issues. Through innovative loan programs and deposit products, VanCity and its members are working to make a difference in communities here and around the world."*

History, creation date

While the Peer Lending Program was established in 1996, Self-Reliance Loans were established in 1997, and targeted youth through a partnership with the Greater Vancouver Venture Centre (GVVC) Youth Entrepreneurship Program. With Westcoast Community Enterprises and GVVC, VanCity supported the delivery of technical assistance to micro-entrepreneurs and non-profits.

VanCity Capital was founded in 1998 as a wholly owned subsidiary to provide growth capital (subordinated debt / mezzanine financing) to fast-growing small to medium-sized BC-based organizations, as well as to co-operatives and not-for-profits.

In March 2001, WD announced a combination of repayable and non-repayable funding for the Advice and Business Loans for Entrepreneurs with Disabilities (ABLED) program to be delivered by VanCity Credit Union in Vancouver and by Pacific Coast Savings Credit Union in Victoria.

Main purpose and mandate

Through microcredit and other innovative loans, VanCity provides access to credit and invests in the economic well-being of members and the community. The ABLED program provides access to loans and advice for entrepreneurs with a disability.

Nature and scope of the vehicle/mechanism

Microcredit:

- The Peer Lending Program is aimed at full and part-time self-employed people or those planning to start a small business. The program is designed to help participants establish a credit history. Loan funds may be used to purchase equipment, inventory, advertising, or to cover other business expenses. The program provides:
    - Access to credit to grow the business
    - Support and advice from peers in business
    - A way to build a sound credit history
    - Networking and learning opportunities
    - Exposure to new customers

- Self-Reliance Loans
    - Self-Reliance loans are loans for people who want to start or expand a business to create employment for themselves.

- Advice and Business Loans for Entrepreneurs with Disabilities (ABLED):
    - A joint initiative of VanCity Savings Credit Union and Western Economic Diversification (WD), ABLED provides access to loans and advice for entrepreneurs with a disability. Established to address the issue of under-participation in the economy among people with disabilities, its purpose is to encourage opportunities for self-employment among those illustrating the capacity to operate their own businesses.

Conservation Financing Program:

To demonstrate its commitment to helping its business members improve their financial and environmental bottom line, VanCity and Ecotrust Canada launched a joint Conservation Financing Program in 2001. This partnership aims to strengthen the growth of the conservation economy in British Columbia by financing the enterprises that bring it to life. Together, VanCity Credit Union, VanCity Capital Corporation, and Ecotrust Canada can provide a full range of financing solutions, including small and large conventional loans and growth capital.

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

Microcredit:

Microcredit solutions provide financing up to $25,000 for entrepreneurs who are in the start-up or expansion phase of their business. These include the Peer Lending Program (a group lending method for securing small scale credit) and Self Reliance Loans (for individuals requiring larger credit for start up or expansion).

Peer Lending Program

Loans are initially small and regularly increase upon successful repayment and strength of the peer lending group. Loan sizes range from $1,000 to $5,000 and terms range from 3 months to 24 months. Reasonable interest rates apply on all loans.

Self-Reliance Loans

The maximum loan amount is $35,000 on terms with a maximum amortization of 60 months and an interest rate at Prime + 4%. There are no fees, and the borrower may postpone up to two payments per year, with an option to postpone the first two payments.

ABLED:

ABLED provides two financing streams: stream one is either a loan up to $35,000 or a line of credit up to $15,000; stream two is a loan from $35,000 to $75,000. ABLED loans can be used for:

- Start-up or expansion of an existing business
- Purchasing and applying new technology

    - Upgrading facilities and equipment
    - Developing marketing and promotional material
    - Establishing working capital for anticipated sales increases

Conservation Financing Program:

- Small to large conventional business term loans and lines of credit
- Growth capital (available through VanCity Capital Corporation)
- Tailored Conservation Loan Fund – available to eligible businesses with strong business plans, but unable to access conventional credit; special criteria apply.

With a sound business plan, Green Business Loans can fund activities such as the following:

  - Increasing production and service capacity
  - Equipment or other fixed assets purchase
  - Operational improvements leading to eco-efficiencies
  - Working capital
  - Bridge financing for confirmed contracts
  - Research and development
  - Product or market development

Interest rates vary on a case-by-case basis.

Other products/services delivered

Successful ABLED loan applicants can receive ongoing training resources tailored to the realities of entrepreneurs with disabilities as well as limited business counselling during the duration of the loan.

In addition, VanCity and Ecotrust Canada are finding innovative ways to provide technical assistance to individual enterprises and emerging conservation sectors.

Eligibility criteria for targeted financial vehicle/mechanism

Microcredit Solutions:

Peer Lending Program

This program is open to full and part-time self-employed persons. Loan approval is based primarily on the recommendation of the applicant's full Peer Group. Lack of assets, traditional collateral, or a credit history will not necessarily prevent access to credit.

Self-Reliance Loans

This program is open to people who want to start or expand a business to create employment for themselves. Eligibility is limited to VanCity members who have been in good standing for at least six months, or those enrolled in, or a graduate of a self-employment or similar entrepreneurial program. Loan approval is based primarily on character, business viability, and credit history. Applicants must also provide a sound business plan, a resume that outlines their qualifications and experience, financial statements for the previous months or years of operation (for businesses already operating), two written character references, and documentation showing his/her investment of 10% of the amount to be borrowed.

ABLED:

Entrepreneurs must be self-identified as a person with a disability operating or starting a business in BC's Lower Mainland or Fraser Valley. They must also provide a viable business plan and have a reasonable credit history, although VanCity’s character assessment takes precedence. A good explanation of any derogatory credit bureau must be presented by the applicant.

Stream 1:

- Viable business plan
- Two written character references
- A substantiated investment of 10% of the loan amount, including cash, assets, prior investment into the business, or sweat equity
- Reasonable credit history

Stream 2:

- At least six months experience operating the business
- Interim financial records to reflect the progress of the business if under one year – if over one year in business, financial records for the number of years in operation
- Viable business plan
- At least two industry related character references – e.g. suppliers or customers
- A substantiated investment of 20% of the loan amount, including cash, assets, prior investment into the business, or sweat equity
- Reasonable credit history

Green Business Loans/Financing:

VanCity takes applicants’ environmental goals into consideration when assessing applications for credit. A demonstrated commitment to environmental responsibility and leadership is considered a strength and can be the “tipping factor” in deciding whether or not to approve financing. The program is available to businesses seeking to make operational improvements or with “green” business goals that lead to significant environmental benefits in areas such as:

- Pollution prevention
- Resource conservation
- Waste reduction
- Ecosystem protection or restoration
- Energy conservation or renewable energy
- Sustainable harvesting of natural resources

Required Business Characteristics:

- strong, ethical, committed management team
- senior management expertise in functional areas
- in operation for at least two years
- minimum of 1 year of positive cash flow
- accountant-prepared financial statements
- demonstrated market demand for products/services
- demonstrated positive social or economic contributions to the community (e.g. creating jobs for traditionally underemployed members of the community)

Methods for raising capital/paying operating expenses
VanCity is a deposit institution. WD provided capital and operational funding for the ABLED program.

Amount of capital raised and levered
For the ABLED program (VanCity and Coast Capital combined) WD made a $1 million repayable contribution to create a $5 million investment fund; this was accompanied by a $200,000 non-repayable contribution for operating costs.

Disbursement/investment profile
In 2001, VanCity funded over 900 small business loans and lines of credit totalling $15 million. Using seven categories of loan size, VanCity's lending profile breaks (as compared to the average for Canadian chartered banks) breaks down, by proportion of total portfolio value and by total number of loans, as follows:

Approved business loans by size	VanCity 2001		Banks 2000*	
	proportion of:		proportion of:	
	total value	total #	total value	total #
1) $0 to $25,000	3%	48%	0%	43%
2) $25,000 to $50,000	2%	17%	1%	14%
3) $50,000 to $100,000	3%	8%	1%	14%
4) $100,000 to $250,000	10%	13%	3%	14%
5) $250,000 to $500,000	11%	7%	3%	6%
6) $500,000 to $1,000,000	14%	4%	3%	4%
7) $1,000,000 or more	57%	4%	88%	5%

Totals may not be exact due to rounding

* Source: Canadian Bankers' Association, seven bank aggregate statistics

Recent Social Lending Data:

	2001	1999	1997
Peer Lending	$0.10m	$0.17m	$0.10m
Self Reliance Loans	$3.72m	$3.79m	$1.08m
ABLED	$0.15m	-	-
Total micro-financing	$3.97m	$3.96m	$1.18m

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure
VanCity has a typical credit union structure. The community investments department has a complement of 5.5 FTEs – 2 for ABLED, 2 for Self Reliance loans, and 1.5 for Peer Lending. VanCity Capital has a staff of 6, of which 5 focus on mainstream and growth deals and 1 is responsible for the social enterprise portfolio.

Investment decision-making structure
Self-Reliance & ABLED

VanCity employs standard loan approval procedures for the Self-Reliance and ABLED programs, which is supplemented by a character analysis in order to maintain the scope and spirit of the initiatives.

Peer Lending
While few of the traditional requirements to secure the loan are needed, loan approval is based on the confidence that fellow group members have in each other's commitment, resourcefulness, and ability to repay. Formal loan approval is preceded by the following steps:

- Group members vouch for each other's character
- Group members assess and approve each other's loan requests

VanCity Capital employs a standard venture capital approval process.

Operating budget, resource level
$100,000

Mechanism/level of community control
Community control is to the extent the VanCity board of directors represents its members, and the members represent the constituent communities. In addition to members, VanCity also consults its staff and community leaders in setting its operational priorities.

Accountability structure
In addition to its standard annual report, VanCity undergoes a bi-annual social audit process, from which is produced an externally verified Accountability Report.

4. Outcomes

Performance data
The default rate for the Micro Credit program has been approximately 15%. Profitability data is consolidated with VanCity's overall performance.

Client profile
For the Self Reliance loan program, 90% of participants come from HRDC's (now HRSD) Self Employment program. Applicants tend to be in the service sector, with some professionals but few retail ventures.

Firm-level impacts
Most applicants would not be able to launch or expand their ventures without access to VanCity's Community Investment initiative.

Community impact
During 2003, VanCity's initiatives generated 29 jobs under the ABLED program and 100 to 150 jobs under the Self Reliance loan program. As most participants in the Peer Lending program were employed outside of their venture, the primary community benefit is the creation of additional services.

Existence of feasibility or evaluation study?

A study of the ABLED program for WD is available pending a decision to release the findings.

INVESTMENT HIGHLIGHTS BY VanCity: HEART & SOIL HORTICULTURAL THERAPY

Shelagh Smith had been a certified landscape gardener for almost 15 years when she decided to trade the insecurity of seasonal work with parks departments for the potential rewards of self-employment. Smith's company, Heart & Soil Horticultural Therapy, brings people and plants together through gardening or nature crafts involving fresh and pressed flowers and homemade papers. Much of her work is with seniors, for whom the physical activity and pleasures of gardening provide balm for body, soul, and mind. She and clothing designer Ebra Ziron and photographer Theresa Grech decided to form a peer group, Wild Indigo, to ease their way into business. The three invited another clothing designer, Kathleen O'Grady, to join in order to meet the program requirement of four to seven members per group.

The four women agreed to embark on a process wherein access to future credit would depend on full, timely repayment by everyone in the group. Before receiving a loan, each peer group member had to complete a loan application to the satisfaction of the entire group. Each group member began by borrowing the maximum for a first loan: $1000. Smith used the funds for tools and a small camera to record her clients' labours. When her ancient computer crashed later that year, she was already debt free, and qualified for a new loan of $2,000 toward a new computer.

4. PROFILE OF OTHER RELEVANT ACCESS TO CAPITAL VEHICLES

4.1 ACOA Seed Connexion Program

1. Background and Context

Community setting
Throughout Atlantic Canada.

Impetus/reason for creation
This program was established to address several important constraints faced by young entrepreneurs in Atlantic Canada. Consultations conducted by ACOA during the mid-1990s identified several serious obstacles for young entrepreneurs wishing to start or expand a business. A 1999 study of the first year of program operations concluded that in practical terms, the program may be the only source of funding in some rural areas.

History, creation date
This program was created in 1997.

Main purpose and mandate
The program is designed to address three areas of need: (1) access to capital; (2) access to timely business advice and training; and (3) single access and referral point for business information specific to the needs of young entrepreneurs.

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services
Repayable, unsecured personal loans up to $15,000 for the launch, expansion or update of a business.

Other products/services delivered
The SEED ConneXion loan provides an additional $2000 in training funds to help develop entrepreneurial skills.

Training and counselling represent the main services offered outside financing. The training component has several elements, including the identification of training or learning needs; the development of learning plans to address these needs; the implementation of the plans; and follow-up activity to ensure that additional training needs are identified and addressed.

Mentoring represents another component of the program but, according to the 1999 evaluation study quoted earlier, this component is not as effective as it should be, as most of the mentoring that took place is best described as an informal source of broad business support.

Eligibility criteria for targeted financial vehicle/mechanism

Eligibility:

- must be a resident of Atlantic Canada and between the ages of 18 and 29. If you are under the age of 19, you'll require the co-signature of an adult.
- businesses in most sectors are eligible, including retail and personal services, as well as seasonal enterprises.
- must be the majority owner of the business.
- loan must be invested in the start up, expansion or modernization of a business.

Restrictions:

- loan is intended as a long-term investment in the financing of any costs of the business including fixed assets, start-up costs and working capital.
- loan may be used as equity to attract other investors.
- loan cannot be used to purchase an existing business.
- loan cannot be used for refinancing of existing debt or business restructuring.

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure

The program appears to be delivered entirely through CBDCs and CEEDs.

Investment decision-making structure

A panel of volunteers who sit on a Loan Approval Board is responsible for approving or declining each loan. Representing a wide cross-section of small business expertise, board members tend to be business professionals and entrepreneurs who reside in the applicant's region.

Mechanism/level of community control

One noteworthy feature of the program is the fact that it is delivered through a network of community business development corporations and other community development agencies.

Accountability structure

To the extent that the program is delivered through CBDCs and CEEDs, the reporting structure in place in these organizations will ensure public accountability.

4.2 Adena Ventures, Ohio

1. Background and Context

Community setting

Adena Ventures operates on an interstate basis; with its head office in Athens, Ohio, and a second office in Charleston, West Virginia, it limits its investments to central Appalachia, which includes south-eastern Ohio, West Virginia, western Maryland and north-eastern Kentucky. The Adena target region is comprised of 4.1 million people and 21,630 small businesses with 10 to 100 employees.

Impetus/reason for creation

Adena was formed to provide equity and operational assistance to qualifying businesses in central Appalachia. Its mission is to generate market-rate returns for its investors while promoting shared and sustainable economic development throughout its target region. Although the demographics of Adena’s target region are similar to those of the Washington, DC and Atlanta metropolitan areas, only five companies in the Adena target region received $23.7 million in venture capital investment between 1999 and 2000, while 229 companies in the Washington region received $2.7 billion in venture capital and 159 companies in the Atlanta region received $2 billion. Adena Ventures seeks to turn this capital gap into a market opportunity.

History, creation date

Formally established on April 24, 2002, Adena Ventures is the nation's first New Markets Venture Capital (NMVC) company; the New Markets Venture Capital Program was implemented by the US Small Business Administration (SBA) in 2001. The Fund provides both investment capital and operational assistance to smaller enterprises and entrepreneurs in the Fund's target region. The fund is backed by twelve institutional investors, the U.S. Small Business Administration and several prominent strategic partners from both the public and private sectors, including: Ohio University, the University of Charleston, the Mountain Maryland Entrepreneurial Development Center, Spilman Battle and Thomas LLC, Maple Creative, PricewaterhouseCoopers, and Cornerstone Partners, Inc.

While the fund was originally slated to close in February at approximately US$10 million, with subsequent involvement by the West Virginia Development Office the focus and size of the fund was expanded. It received a $3.7-million contribution for professional business assistance services from Ohio University, the University of Charleston, and the Mountain Maryland Entrepreneurial Development Center.

Main purpose and mandate

Fund goals include: creating new companies, spurring new employment opportunities, commercializing new technologies and generating new sources of income and wealth in a region that has fallen behind the rest of the nation in these economic categories.

Nature and scope of the vehicle/mechanism

The Fund invests in diverse sectors, including information technology, healthcare and e-learning. The Fund invests between $200,000 and $2 million in early and growth stage companies.

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

Equity financing with a 3 - 7 year investment period in each portfolio company.

Other products/services delivered

Operational assistance is provided to actual and potential "portfolio concerns" by a mix of university, CED, and private consulting and accounting firms.

Eligibility criteria for targeted financial vehicle/mechanism

- Seed, early and growth stage companies with strong management teams operating in central Appalachia.
- Broad range of sectors: technology, life sciences, manufacturing, energy, and value-added food products.

Methods for raising capital/paying operating expenses

Private and public investors: a university, a state government, banks, a utility, a pension fund, a CED organization, and a major national foundation. Capital is also provided in part by the SBA through the New Markets Venture Capital Program. To better focus the state's incentive program, West Virginia's 1987 Capital Company Act has recently been revised to restrict its 50 percent tax credit for venture investment to investors who channel funds through SBA-approved VC funds.

Amount of capital raised and levered

$34 million raised since December 1999.

The Fund seeks to co-invest with other institutional investors when appropriate – amounts are TBD. Through the SBA, Adena has also received federal funds that match existing monies raised.

Disbursement/investment profile

$200,000 - $2 million per company. As of November, 2003, Adena had US$2.1 million invested.

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure

The fund brings together a variety of investors such as a university, a state government, banks, a utility, a pension fund, a CED organization, and a major national foundation. The fund has a staff of seven.

Investment decision-making structure

The fund is operated by a professional management team. The members of the general partner serve as members of the Fund's Investment Committee, which will review and approve all investments. Investment money will not be earmarked for specific counties; it will go wherever businesses qualify for funding.

Mechanism/level of community control

Community control appears to be limited to the political influence of the constituents of the fund’s target area as well as the national electorate (to the extent that this could influence tax policy and/or the SBA’s New Markets Venture Capital Program).

Accountability structure

Investors retain significant input and control, including seats on the client company’s board of directors and often control of the company.

4.3 Alberta Women’s Enterprise Initiative Association, Alberta

1. Background and Context

Community setting

AWEIA’s two offices are located in Edmonton and Calgary; it also has a business advisor in Lethbridge (previously, advisors were also located in Cold Lake and Grande Prairie). The approach appears to be similar to the CFDC model, but limited to women.

Impetus/reason for creation

The impetus for creation lies in the results of a 1994 study by Western Economic Diversification (WD) on the status of women as participants in the economy in general, and as entrepreneurs in particular. The research identified gender-related barriers to starting and running a business, such as: systemic differences in attitudes towards and among women, limited access to capital, gaps in education and training, limited access to information, networks and mentors, and the need to balance family and business responsibilities. Research also has shown that women sometimes face difficulties accessing financing for reasons such as: the industry is considered higher risk, insufficient operating history, little collateral security, or simply that the proposal falls outside the acceptable risk level of the lender (historically, women tend towards operating businesses such as restaurants, service companies, and retail outlets, which are perceived to carry higher risk).

History, creation date

In May of 1995 WD entered into an agreement with the Alberta Women's Enterprise Initiative Association (AWEIA) to provide funding for a five-year period for delivery of business service and loans to women entrepreneurs throughout the province. AWEIA officially opened its doors November 16, 1995. It is presently in its third round of negotiations with WD, not only to retain operational funding, but also to secure a further capital allocation as all present capital funds are expected to be committed by 2007.

Main purpose and mandate

AWEIA’s mandate is to provide Alberta women with services that will build on their business strengths and enhance their contribution to the Alberta economy. As decreed by WD, services under this program are to be tailored to the needs of women in each western province, taking into consideration regional differences and existing services. Services are to be delivered in each province by not-for-profit corporations operating at arm’s length from the federal government.

Nature and scope of the vehicle/mechanism

AWEIA provides small business start-up and expansion loans up to $100,000 to Alberta women who own or intend start or purchase a business with at least a 50% ownership stake and a minimum 51% operating control. AWEIA is not a lender of last resort – applicants do not have to be declined elsewhere before applying for a loan. AWEIA also provides information on existing business services, one-on-one confidential business advising, support, training and networking. Services may be accessed Alberta-wide through the telephone, fax machine, computer and Business Advisors based throughout the province.

Once applicants are matched with a Business Advisor, they are guided through a comprehensive business planning process. The submission of a formal loan application is followed by a credit pre-screen. The advisor will offer feedback and suggestions, and upon their incorporation the business plan and loan application are forwarded to the Loan Program Manager for consideration.

AWEIA has negotiated group creditor life insurance coverage at a very nominal rate. The borrower must purchase insurance or assign an existing policy to AWEIA.

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

- Term loans and mortgages (but no lines of credit)
- Allowed uses of funds: working capital, start-up, hard assets, leasehold improvements
- Maximum Size: $100,000
- Term of Financing: max 5 years
- Amortization: max 15 years – typically linked to the economic life of asset
- Interest Rates: prime plus an additional percentage determined by the size and risk of the loan (typically prime + 2% for existing businesses and prime + 4% for start-ups)
- Service Charges: $20 application fee plus other costs (additional $10 for each co-applicant)
- Security Required: general security agreement, personal guarantee, and anything else deemed necessary
- Principal Repayment: No penalties for prepayment arrangements

AWEIA will consider a co-finance arrangement with other lenders and/or government programs; in some cases AWEIA will consider taking a second position behind another lender.

Other products/services delivered

The Business Advisory services delivered during the application process is confidential and free (funded by sponsors). Business advisory services include:

- Business Planning Workshops
- "A Business of my Own" Session
- AWEIA Volunteer Experts provide mentoring services
- Business Advising (Staff and contract personnel provide free and confidential advice)
- Women's Enterprise Links
- Women's Enterprise Circles
- Specialty Sessions with business professionals (accountants, attorneys, etc.)

Eligibility criteria for targeted financial vehicle/mechanism

- The applicant must be at least 18 years old
- The business must have at least 50% legal ownership by a woman or women
- The business operations must be at least 51% controlled by a woman or women
- The applicant(s) must live in Alberta (must be Canadian citizen or landed immigrant)
- The business must operate within Alberta
- Satisfactory credit pre-screening or a satisfactory cash-flow management record
- A complete and current business plan commensurate with amount on loan application

- Payment of all application fees and all costs associated with credit investigation, security registration, creditor life insurance, and any legal fees
- An owner's equity contribution of 10% to 25% (up to 50%) of total business debt

AWEIA is unable to finance certain transactions, which include, but are not limited to: revolving lines of credit, multi-level marketing ventures, franchise fees, independent agents and/or direct sellers, tuition/educational training, purchase of goodwill, owners' salaries, and re-finance of existing debt.

Methods for raising capital/paying operating expenses
WD provided all of the initial capital pool along with substantial annual operating grants. WD has also committed funding for service delivery until 2005. Other sources of funding include loan processing fees and interest. AWEIA also charges applicants a non-refundable application fee of $20 per application plus $10 for any additional partners. Non-sponsored business advisory expenses are charged to participants at cost.

Amount of capital raised and levered
WD committed a $5 million capital pool to AWEIA in 1995, along with $4.5 million in operational funding.

Disbursement/investment profile
From 1995 to 2000, AWEIA has made more than $4 million dollars in direct loans and helped leverage an additional $3 million from other lenders; by 2004, a cumulative total of nearly $7 million had been disbursed. The average loan amount is $23,000, and net write-offs to date have totalled $530,000 for a loan loss rate of 8%. An estimated $4.5 million has been leveraged as a result of either AWEIA loans or services.

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure
Five members from the original advisory group became the founding board members. An open competition was conducted across the province to recruit five additional directors, to complete the eleven-member board. Presently, the board is incomplete and new members are being sought. The staff complement is also incomplete, as three business advisors (one for Calgary and two for Edmonton) as well as a communications manager are still needed.

Investment decision-making structure
Consistent with prudent lending practices, the AWEIA staff conducts an extensive critical analysis of the loan request, which includes: venture viability; management and operational capacity; product/service marketability and consumer acceptance; cash flow and debts service capacity; credit history and collateral security; owner's equity and capacity to contribute financially to the business; overall risk assessment; and potential economic activity and employment. The AWEIA Board of Directors establishes lending criteria and the Finance Committee has final approval on all loans over $25,000. The Executive Director reviews all decisions and declined applicants have access to a formal appeal process.

Operating budget, resource level

In 1999 WD made a further commitment of $4.4 million ($850,000 per year over five years) for operational costs; funding for a further five years is presently being sought. AWEIA also reports a contribution of more than 11,600 volunteer hours.

Mechanism/level of community control

Volunteer board of entrepreneurs and business professionals – board members are recommended by AWEIA staff and incumbent board members.

Accountability structure (to shareholders, community)

AWEIA’s accountability structure is similar to the CFDC model in that staff report to an executive director, who reports to a volunteer board of directors, which is accountable to WD. In addition to AWEIA’s annual report, which includes the financial audit and is available to the public, staff compile and submit quarterly operational statistics to WD and the board.

4. Outcomes

Performance data

Operating as a not-for-profit, AWEIA generally charges no fees for services or provides them at cost; continued operations depend on WD funding.

Client profile

AWEIA’s client profile breaks down as follows:

Calgary:	47%
Edmonton:	31%
Rural:	22%

Sector	Start-up	Expansion	Total
Retail	12%	13%	25%
Service	25%	21%	46%
Whole Sale	1%	6%	7%
Manufacturing	3%	10%	13%
Hospitality	3%	2%	5%
Other (tech./environment)	1%	2%	3%
Total	45%	54%	99%

Firm-level impacts

As it is not a lender of last resort, some applicants choose AWEIA over traditional lenders in order to take advantage of the accompanying advisory services. Nevertheless, without AWEIA financing most clients would not be able to launch or expand their ventures, or the scope and progress of the undertaking would be greatly reduced.

Community impact

The average start-up company entails 1 to 1.5 FTEs, and the average expansion loan is commensurate with an additional 1 to 1.5 FTEs. In many cases clients provide services that their communities would otherwise lack.

Existence of feasibility or evaluation study?

A 2001 "Impact Study" found that Women's Enterprise Initiative clients are younger, better educated, and more inclined to grow their business, but with less direct management experience than the control population.

PICTURE PERFECT – PATRICIA COULTER PHOTOGRAPHY

While she had dabbled in photography for over 20 years, it took a request for work from Imperial Oil to spur Patricia Coulter of Cold Lake into making the leap from hobbyist to entrepreneur. Although she had practical experience in addition to training from the University of Saskatchewan's College of Art and Art History, Patricia realised that she needed help to make her dream a reality. Patricia approached AWEIA for both financial and business planning assistance, where she received direction on how to run a home-based business and was matched with a business advisor who guided her through the process of starting her business.

Patricia now provides a wide range of professional photography services including weddings, family portraits, commercial contracts, and landscapes. While her photographs have been featured in magazines such as Photo Life and Western People, she continues to expand her market by hosting workshops for individuals who want to improve their own photography skills. Since the venture's launch, Patricia has doubled the number of forecast bookings, which she credits to her website. She has also established strategic partnerships with other local photographers in order to share resources and promote each other, which is proving to be substantially more effective than competing against one another.

Adaptability and innovation are essential to Patricia's competitive advantage. She creates hand coloured photographs, a unique and inventive technique not widely practiced. She has responded to increased demand for unique wedding mementos by offering an innovative engagement package. Patricia also modifies her photography packages to suit individual needs. In addition to weddings, Patricia now focuses more on corporate and commercial contracts.

You can learn more about Patricia and her photography by calling 780-639-4660 or visiting her website at http://www.patriciacoulterphotography.com

4.4 Bridges Community Ventures, U.K.

1. Background and Context

Community setting

BCV invests in wards throughout England that are in the most deprived 25th percentile on the Index of Multiple Deprivation. The IMD contains 6 weighted 'domains' for Ward Level Indices: income (25%); employment (25%); health & disability (15%); education, skills & training (15%); housing (10%); and geographical access to services (10%). The overall IMD score is the sum of its weighted domain scores.

District Level Indices build on the ward level domains to produce 6 district level indices, as follows:

- Local concentration - a population weighted average of the ranks of a district's most deprived wards that contain 10% of its population (intensity indicator).
- Extent - the proportion of a district's population living in wards within the most deprived 10%.
- Income Scale - the number of people who are 'income deprived.'
- Employment Scale - the number of people who are 'employment deprived.'
- Average of Ward Ranks - a population weighted average of the combined ranks for the wards in a district.
- Average of Ward Scores - a population weighted average of the combined scores for the wards in a district.

Impetus/reason for creation

Venture capital has proven a powerful tool in the formation and growth of entrepreneurial businesses in the UK. Over two million people in Britain are estimated to be employed by companies backed by venture capitalists. Since its inception, the British venture capital industry has grown the scale of its investment from £111 million in 1984 to over £8 billion (2000) invested in over 1,500 companies. It is now the second largest in the world after the USA.

Bridges Community Ventures has been set up to bring some of that same power to the parts of the country that have been left behind. Just as the mainstream venture capital sector has been a powerful force behind entrepreneurship and job creation in the mainstream economy over the past 20 to 30 years, it is hoped that this fund will begin a similarly catalytic process in the parts of the country that have been left behind economically.

History, creation date

Bridges Community Ventures Ltd was publicly launched in May, 2002, by two leading venture capital companies, Apax and 3i. The idea for Community Development Venture Funds arose from the Social Investment Task Force, which reported to the Chancellor of the Exchequer in October 2000 and recommended a five-point programm of action for Government, business, finance, and the voluntary and community sector aimed at increasing investment, enterprise, and wealth creation in under-invested communities. One of the five points was the creation of Community Development Venture Funds, and BCV was set up to manage the first of these. The government has matched each Pound invested by the private sector in the fund in order to catalyse its creation. BCV will identify businesses with growth potential that are located in, or that directly benefit under-invested communities and support them with business advice, networks of contacts, and appropriate financing to realise their growth potential.

BCV takes its inspiration from the Community Development Venture Capital industry in the USA, where there are currently about 60 such funds, which have begun to build a track record of financial success and social impact.

Main purpose and mandate

BCV invests in businesses with high growth potential in the most under-invested parts of England. It's aim is to pick winners and to demonstrate that financial returns can be made by backing entrepreneurs in these communities. This in turn should result in the attraction of increased private sector finance into under-invested communities.

Mission and Objectives:

We aim to harness the entrepreneurial spirit in under-invested communities to stimulate economic growth and create jobs, wealth and role models of business success.

We invest in and support outstanding entrepreneurs, helping them realise their vision and create wealth for themselves and their communities.

Nature and scope of the vehicle/mechanism

BCV invests in 'outstanding entrepreneurs,' to provide them with an opportunity to realise their business vision, and to create wealth for the entrepreneurs and their communities. Its focus is on growth companies (from all industry sectors) at the early and expansion stages, as well as management buy-outs and buy-ins. Some start-ups will also be considered, if management have strong experience in the applicable sector. The maximum investment in any single business is £2 million, while the minimum is generally not below £100,000. While there is no set time frame on investments, the funds do have a ten year life and must exit all investments within this period.

While BCV must work within the constraints set by the European Commission on State Aid to the private sector, in most cases, these will not be affected by other grant funding that the applicant may have received. BCV is targeting an internal rate of return of around 10% to 15%, which is lower than the benchmark of most commercial venture capital funds. The actual fund is to be managed by BCV as the General Partner; the management company is a separate legal entity from the fund.

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

Equity participation (venture capital). BCV may supplement this as appropriate with debt or quasi-equity instruments that have a mixture of debt and equity characteristics. All investments will include an equity-element, while not more than 35% of the capital will be invested in the form of ordinary loan finance.

Other products/services delivered

BCV endeavours to bring knowledge and connections to the companies in which it invests. Through its investor networks, investment professionals, and entrepreneurs’ club members, it provides invaluable experience, advice, and connections to investee companies. Like most VCs, BCV takes a position on the board of each of its companies, and often has someone else sitting in on meetings as well. The intention is that the entrepreneurs that have invested (and others) take an active role. BCV aims to get 20 entrepreneurs into the fund – its Enterprise Club – as an active resource to help mentor our companies. As the portfolio develops, BCV will call upon the Enterprise Club more to help support its companies, serve as role models and give portfolio companies the best chance of success

Eligibility criteria for targeted financial vehicle/mechanism

To qualify for an investment by Bridges Community Ventures a company must:

- Be located in the most deprived 25th percentile on the Index of Multiple Deprivation by electoral ward as published by the Office of the Deputy Prime Minister in 2000;
- Be a small or medium-sized enterprise
- Have a direct and beneficial impact on deprived areas in at least of one of the following ways:
  1. Employees: at least 35% of current employees or employees to be recruited as an immediate result of the investment must live in the target areas – future plans should not significantly compromise this
  2. Markets: the core target market for products and/or services, as identified in the business plan, are local people who reside within the target areas
  3. Suppliers: at least 50% of non-salary expenditure goes to local businesses, defined as having at least 50% of staff located in our target areas (i.e creation of local supply chain network)

Methods for raising capital/paying operating expenses

Funds have come from private and institutional investors with matching funds from the UK government’s Phoenix Fund. The government’s contribution is partially subordinated with a cap on potential returns with respect to the subordinated investments. Of the government participation, 70% is subordinated, and the remaining 30% is invested on par with the private investors (“pari passu”).

Amount of capital raised and levered

BCV has raised £40 million, with £20 million coming from private investment and the other £20 million coming in the form of matched investment from the UK government.

Disbursement/investment profile

So far Bridges Community Ventures has received over 200 business plans, however, half of these have come from London and the West Midlands. By the end of March 2003, and following a strong deal flow, BCV completed its first three investment deals, for which it drew down £2.1 million from the Phoenix Fund (which implies a total deal flow of £4.2 million).

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure

BCV has seven directors, three of whom are executive directors. The four non-executive directors sit on the investment committee, which is appointed by the board. Members of the Board are selected by the shareholders of the company, all of whom are private sector individuals. All directors are selected on the basis of their strong track records in venture capital or entrepreneurship. A separate Investors Committee, which comprises representatives of the investors, has also been established to assess the performance of the fund management company (whose contract they may terminate if necessary) and to resolve any conflicts of interest that may arise. The investors Committee will not make investment decisions.

Investment decision-making structure

Once the applicant company has passed a rigorous screening process conducted by the executive directors, the funding agreement is presented to the BCV Board of Directors’ Investment Committee (the four non-executive directors) for final approval.

Operating budget, resource level

The remuneration structure of the fund management company mirrors the profit-driven packages that characterize those found in the venture capital industry around the world. The principal profit-related element will be the “carry”, which is the portion of profits that is distributed to the fund management rather than investors. In order to ensure profit-driven behaviour the “carry” is set at 20% of realised gains once the Fund has repaid to investors their capital. The priority for fund distributions is as follows:

(1) Liabilities of the fund (management fee, bank interest);
(2) Private investors’ and Government pari passu original capital;
(3) Distributions split between:
    (i) Fund manager profit share (20% of profits2)
    (ii) Private investors’ and Government pari passu preferred return (10%);
(4) Subordinated Government original capital;
(5) Capped return of 5% on subordinated Government original capital;
(6) Subsequent distributions split between:
    (i) Fund manager profit share (20% of profits);
    (ii) Private investors’ and Government pari passu (80%).

Mechanism/level of community control

BCV has no direct form of community control, other than the extent to which its private investors have links to the target communities.

Accountability structure

BCV’s management is held accountable primarily through its reporting procedures to the board as well as to the Investors Committee. Fund management is also regulated under the auspices of the Financial Services Authority and the British Venture Capital Association. Finally, the fund is accountable to EU regulators with respect to state aid to private enterprise.

Social impact will be measured by a social audit and social impact evaluation by external specialists. BCV intends to be very open and transparent, and to break new ground in social auditing. The kinds of social impact expectations include:

- Creating sustainable jobs
- Providing role models of success
- Creating economic dynamism
- Creating opportunities for individual advancement

BCV’s Ethical Charter:

> While we are accountable to investors in our funds and to our shareholders, we take into account the interests of all our stakeholders. We aim to be commercial and fair, to maintain our integrity and professionalism and to respect the needs of investors, staff, suppliers, the local community and the businesses in which we invest. Our standards are embedded in the culture of the company and are reinforced by our recruitment decisions and our annual performance review process.

The Board as a whole is responsible for ethical standards, while the Executive Directors are responsible for ensuring compliance with company standards and values.

4. Outcomes

Given BCV’s brief history, no meaningful outcomes data are available yet.

SOME INVESTMENT HIGHLIGHTS BY BRIDGES COMMUNITY VENTURES

TrusttheDJ

TrusttheDJ works with dance DJs from some of the biggest names in the industry through to emerging talent. It is chaired by Matthew Bannister, former Chief Executive of BBC Production, Director of Radio and Controller of Radio One. Set up in 2000 the company has grown very quickly and now manages and books more than 30 DJs, hosts the official website of over 70 of the world’s leading DJs, and has released over 35 albums.

TrusttheDJ also has a strong community focus. The company seeks to offer opportunities to young people, often based in deprived areas. For example some of its DJs teach young people the skills required to become a DJ, and the company donates unwanted vinyl to East London colleges which teach mixing and scratching skills.

TrusttheDJ secured an investment of £1.1m, of which £800,000 comes from Bridges Community Ventures, with the rest being provided by management, existing angel investors, and Lynx Capital Ventures (the first venture capital institution to back the business in 2001). This new investment is to aid expansion in two key areas: radio production and syndication, and talent management.

Simply Energy

Simply Energy, the brainchild of Karen Darby, aims to provide a telephone based service to individual customers, helping them save on their energy bills by enabling them to quickly compare energy prices (based on their usage level) and switch suppliers at zero cost and with minimal effort. The company’s business model is simple, offering a free service to callers, telling them which gas and electricity providers offer them the best price, based on an extensive database of tariffs for different areas and size of homes. It makes its money on a standard commission charge paid by the provider that the customer decides to switch to. Simply Energy takes care of the process, leaving the customer with no cost except the phone call. This impartial service is based on a price comparison engine which has OFGEM/energywatch accreditation.

Simply Energy received an equity injection of £125,000 to start up the business. Affinity partners of Simply Energy will offer price checks as an additional service when communicating with their customers. Co-founder Alistair Tillen states, "We have already signed up a number of major retailers as private sector affinity partners together with a national charity, and we are confident of attracting more." Through Simply Energy, affinity partners can offer their customers a valuable service and receive up to £20 for each contract that is secured.

4.5 Calgary Angel Network

1. Background and Context

Community setting

Calgary region.

Impetus/reason for creation

Calgary Angel Network (CAN) is working to ensure continued economic growth and prosperity in the Calgary area by linking quality investors to high-potential early-stage companies. This work is driven both by the acute need for more financial and strategic support for promising enterprises in all sectors of the local economy and by the interest and capability of many existing and potential investors.

History, creation date

Established in 2002, Calgary Angel Network is an incorporated non-profit organization by, for, and of angel investors – individuals who directly invest their own money, and often time and talent in their portfolio companies.

Main purpose and mandate

Calgary Angel Network is focused on a small number of related objectives:

- developing and sustaining quality and quantity in local angel investors
- developing and sustaining quality and quantity in investment opportunities for its angels
- connecting its angels with other parties – local, regional, national and international – involved in company creation and building in order to create a full, seamless, and effective pipeline of capital

Nature and scope of the vehicle/mechanism

The organization engages in education, networking, opportunity generation and advocacy efforts on behalf of angels. CAN is not itself a fund and therefore does not invest on behalf of its community of angels.

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

Equity.

Other products/services delivered

Individual investors become involved with mentoring companies to varying extent. Calgary Angel Network provides all companies that begin its investment process with comprehensive feedback. CAN also delivers investor education events.

Eligibility criteria for targeted financial vehicle/mechanism

Business viability is key. While Calgary Angels are interested in potential investments from all industries, CAN members currently have a particular interest in products and services related to high technology (eg. IT software or hardware, wireless communications, telecommunications, geomatics, etc.). While CAN does not expect companies to have complete business models or management teams when applying, it does expect that interested companies are aware of their deficiencies when applying and seek Angel support in addressing those.

Methods for raising capital/paying operating expenses
Individual angels provide funds on a case-by-case basis.

Disbursement/investment profile
The size of angel investments will vary greatly from $10,000 to $1,000,000 and higher. Frequently, several angels will invest together in a company, with one or two of these investors taking an active mentoring or advisory role.

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure
The Board of CAN is a volunteer group of experienced entrepreneurs, investors, and company builders. The Executive Director of CAN is responsible to the Board for the effective and efficient management of operations and administration of the organization. As such, the Executive Director is the first point of contact for prospective members, for companies wishing to present, and for all other parties.

Investment decision-making structure
Investment decisions are made individually by members.

The investment process at Calgary Angel Network is as follows:

- interested companies submit a short executive summary, and a business plan if available, to the Executive Director by email, hand, or mail. The executive summary should include comments regarding (to the extent possible for the stage of company life):
    - Company Description
    - Market Opportunity
    - Description of Products and Services
    - Marketing Plan
    - Operating Plan
    - People Plan
    - Financial Plan
- the Executive Director will provide feedback and, if the company is selected to proceed further, will schedule a Management Meeting comprised of a maximum 15-minute presentation by the company followed by Q&A
- CAN will provide further feedback and, if the company is selected or conditionally selected to present to Calgary Angels, will advise on any further preparations required
- at a CAN investor event, selected companies will
    - make a 15-minute presentation
    - take Q&A from Members and guests
    - be excused from the presentation room to allow Members and guests to privately discuss the company and to express any interest in further information regarding the company
    - be introduced by CAN to any interested Members and guests

- after an investor event, CAN will follow-up with the presenting companies and with their interested Members and guests to assist in due diligence, deal-making and other areas.

4.6 Canadian Alternative Investment Cooperative

1. Background and Context

Community setting

CAIC is a national initiative that funds on a local basis.

Impetus/reason for creation

The founding members felt that traditional financing organisations, such as banks and mortgage companies were not making any type of formal moral/ethical judgements in their financing decision. CAIC was founded on the basis of providing its members with an opportunity to place their financial assets in a vehicle that afforded them direct input with respect to the moral/ethical aspects of client approval.

History, creation date

The Canadian Alternative Investment Cooperative (CAIC) was created in April of 1984 by a number of religious communities who wanted to pool their resources in order to make investments that support positive social change and promote alternative economic structures.

Main purpose and mandate

With a commitment to generating a fair rate of return and protecting investors' capital, CAIC invests in groups that work for positive social change and community economic development, but lack access to traditional financing. Of particular interest are investments that promote alternative economic structures and which act as a catalyst to structural change.

Nature and scope of the vehicle/mechanism

CAIC lends to groups, organizations and co-operatives that have a project of social benefit or economic development. CAIC currently operates with a three-fund structure:

- Social Mortgage Fund (non-CMHC-backed mortgages);
- Community Venture Fund (loans & equity investments to organizations assisting the economic development of disadvantaged peoples and alternative economic structures).
- Now defunct (CMHC ceased its participation): Authorized Investment Fund (CMHC-backed co-operative housing projects);

CAIC provides financing in the following ranges: mortgages ($200,000 to $600,000), loans ($10,000 to $250,000), and equity investments ($10,000 to $20,000).

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

Various: lines of credit, mortgages, equity participation, etc.

CAIC generally offers an interest rate equal to the bank residential mortgage rate (plus 2% on second mortgages), but prefers to decide on a case-by-case basis – it has charged as little as three percent. It does not, however, ensure 100% funding, but rather only up to 90% through second mortgages. It offers a 15-year (instead of a 25-year) amortization period with a five-year term, which allows the borrowing group to build up equity more quickly.

Other products/services delivered
Financing only – CAIC will endeavour to put borrowers in touch with other organisations that provide business advisory services.

Eligibility criteria for targeted financial vehicle/mechanism
Groups, organizations or cooperatives whose mandate is to create economic development and provide social services requiring financial assistance in the form of a mortgage, loan or equity investments. CAIC is not mandated to lend to individuals. CAIC bases its investment decisions on the financial soundness of the application and the social benefits that will result. While applicants must have been turned down by at least one mainstream lender, CAIC does seek to mitigate the risk to its members.

Methods for raising capital/paying operating expenses
Capital is raised by member contributions. Operating expenses are paid from annual return on investment. CAIC does charge housing applicants a 1% processing fee to defray the additional costs of this vehicle, and all borrowers must pay all associated legal costs.

Amount of capital raised and levered
$7 million.

Disbursement/investment profile
The types of organisations that receive funding vary greatly, although most tend to be registered charities. Having absorbed no defaults in the last three to four years, the default rate is negligible. At present, CAIC has funds disbursed through the Social Mortgage Fund on thirteen mortgages at an average of $175,000 per client (with a range of $15,000 to $350,000 outstanding). There are also fifteen loans through the Community Venture Fund at an average of $50,000 per client (range of $3000 to $250,000).

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure
A five-person board of directors represents the 52 member organisations. Two part-time contract staff – one in general admin and one in financial management – fulfil CAIC's administrative and financial analysis requirements.

Investment decision-making structure
The Board of Directors conducts the loan reviews with the assistance of a five-person advisory committee composed of individuals from the business community.

Operating budget, resource level
The operating budget is approximately $100,000 per year, which accounts for approximately 1.5% of assets.

Mechanism/level of community control

As CAIC operates on a national level, community control is exercised to the extent that its member organisations represent its constituent communities. While membership is open to any Canadian registered charity, the present membership profile is characterized entirely by faith-based organisations.

Accountability structure (to shareholders, community)

CAIC’s 52 member organisations elect its five-person board of directors. CAIC also has a volunteer advisory board, which presently includes a lawyer, chartered accountant, a marketing specialist, an MBA, and a banker.

4. Outcomes

Performance data

CAIC offers its members a “GIC-level” of return, which was 3.5% for 2003 and 3.2% for 2002. Taking into account 1.5% for operating expenses, the fund achieved approximately a 5% rate of return in 2003. While the fund has approached full subscription, an average of 50% is typically invested at a given point.

Client profile

While most clients are registered charities, some are small cooperatives. Citing difficulties in “getting the word out” to rural and northern Canada, CAIC representatives acknowledge that most clients are urban-based.

Community impact

For the few rural clients that have received financing, CAIC staff characterize the impacts and spin-offs as significant and visible. The community impact in urban settings is apparently more difficult to delineate.

Existence of feasibility or evaluation study?

A formal evaluation has been considered, but has yet to be conducted.

4.7 C-CAP, Cincinnati

1. Background and Context

Community setting

Cincinnati region.

Impetus/reason for creation

C-CAP was formed in response to the growing need for an efficient deal flow between investors and emerging companies with high growth potential.

History, creation date

Since its start in May 2001, C-CAP's membership has grown from seven to 24 investors. The Queen City Angels club is the core of the C-CAP network, and its members have made nine investments in eight different companies since 2000; more than half have been made since the club affiliated with C- CAP.

Main purpose and mandate

C-CAP is a network for funding the angel capital needs of growth companies. Most of the angels who have joined C-CAP are former growth company executives who are engaged in angel financing because they want to be active in mentoring new companies.

Nature and scope of the vehicle/mechanism

C-CAP is a hub designed to provide a venue for private investors (angels) and entrepreneurs to communicate, and for entrepreneurs to find the other resources they need to succeed.

Members invest as individual private investors. It is also possible for a group of investors to form a single legal entity and pool their investment, or for a group to invest on a single term sheet. The individual members decide for themselves whether or not to invest in a company.

The C-CAP/Queen City Angels model allows each investor to benefit from the others' expertise in evaluating deals, while each person decides for himself whether to invest in a particular deal. Each investor can pick the kind of deals that he likes and still spread investment dollars across several deals to diversify risk. As an initiative of the Circuit (Greater Cincinnati's information technology association), C-CAP is part of a network of over 200 member companies who are interested in fostering growth-company successes in this region.

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

Equity participation.

Other products/services delivered

Mentoring and business advice is frequently provided by individual investors – sometimes even to companies that do not receive financing. C-Cap is also developing relationships with local university entrepreneurship programs, where young companies are often assigned to groups of students who provide free assistance in developing businesses.

The Cincinnati region has at least four business incubators in which early-stage companies can participate. C-Cap provides introductions and assistance in locating in the incubators. C-Cap conducts boot camps for entrepreneurs, to give them low-cost assistance in making their businesses attractive to angel investors, and achieving business success. C-Cap will also introduce an Angel Boot Camp to show individuals how to become successful angel investors. Angels will learn the Ten Commandments of Successful Angel Investing, and meet other active angels.

An Angel Toolkit will be provided to member angels, to help them participate in the angel investing network effectively and successfully.

Eligibility criteria for targeted financial vehicle/mechanism

C-CAP is open to any company that promises an excellent return on investment. Member angels look for companies with credible management as well as a sustainable competitive advantage or proprietary technologies. Investors will consider companies within and without the Cincinnati region, although local companies are generally preferred.

Methods for raising capital/paying operating expenses

Capital is provided by individual angel investors who are members of C-CAP. While most of C-CAP's expenses are paid by its sponsors and member angels, entrepreneurs are charged a $200 fee to help defray expenses.

Amount of capital raised and levered

N/A – capital contributed by individual members according to their investment parameters.

Disbursement/investment profile

C-Cap is looking for deals ranging in size from $200,000 to upward of $2 million.

3. Organizational Dimensions of the Vehicle/Mechanism

Investment decision-making structure

Business proposals submitted to C-Cap must be in the form of an Executive Summary of the business plan in a format specified by C-Cap. C-Cap's staff reviews the summaries for format requirements, and distributes them to its angel members. C-Cap does not evaluate the merits of business proposals, and does not recommend businesses to angels. Angels make their own investment decisions. If there are interested investors, then C-Cap contacts the entrepreneur to arrange next steps. Angels typically review the complete business plan, and/or meet with the entrepreneur. If members of Queen City Angels are interested, the entrepreneur is usually invited to present at a Queen City Angels meeting as well.

4.8 Coast Capital Savings: Rising Tide, British Columbia

1. Background and Context

Community setting
Lower Mainland and Vancouver Island.

Impetus/reason for creation
An increasing amount of valuable economic activity that may not meet the lending criteria of most financial institutions. Credit Unions are community-minded, and want to give back by giving a "leg-up" rather than a "handout." CCS recognises a small business community that is growing stronger and more diverse as important to the local economy. CCS commits itself to a triple-bottom-line approach in providing responsible financial practices, social well-being, and a healthy environment.

History, creation date
Coast Capital Savings is the second largest credit union in Canada, with $6.1 billion in assets, 300,000 members and 42 branches across the Fraser Valley, Lower Mainland, and Vancouver Island. Coast Capital Savings was originally formed in December 2000, as a result of a merger between two credit unions: Pacific Coast Savings (Vancouver Island) and Richmond Savings (Lower Mainland). On June 27, 2002, Coast Capital Savings merged with Surrey Metro Savings.

Main purpose and mandate
To provide financing for valuable economic activities for which traditional financing is unavailable.

Nature and scope of the vehicle/mechanism
Rising Tide loans are available for community initiatives and local small business ventures that may not qualify for conventional credit. Through Rising Tide loans, Coast Capital Savings supports a variety of initiatives ranging from small businesses to community-owned enterprises, non-profit societies and even new technology-based ventures.

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services
There are three categories of loans with Rising Tide:

- Microcredit Loans: up to $35,000 for small businesses
- Social Enterprises Loans: up to $150,000 for initiatives that show benefits to the community's economic, social or environmental well-being
- ABLED Loans: up to $75,000 for entrepreneurs with disabilities
- Other

Interest rates are charged at prime plus a significant percentage – 3% to 5%.

Other products/services delivered
CCS helps Rising Tide clients secure advisory services through third parties; financial support for these services is possible.

Eligibility criteria for targeted financial vehicle/mechanism
Any initiative that can present a financially viable business plan and show a contribution to the social and economic stability of the community is eligible for these repayable loans.

Rising Tide Type 1, Microcredit Loan Criteria:

- Applicant will be a graduate of or be enrolled in a Self Employment Assistance (SEA) program or equivalent; and will have
- Proof of community/personal network support (2 letters of reference, documentation outlining support)
- Be a member/client of CCS
- Have a financially viable business plan
- Demonstrate proof of their own contribution to business (financial or in-kind)
- Seek a loan of up to $35,000.

Rising Tide Type 2, Social Enterprise Loan Criteria:

- Applicant organization will be a member/client of CCS; and
- Have a financially viable business plan with demonstrated benefits to the community's economic, social or environmental well-being
- Show proof of community support (2 letters of reference, documentation outlining support)
- Demonstrate proof of their own contribution to the business (financial or in-kind)
- Seek a loan up to $150,000.

Rising Tide Type 3, ABLED Loan Criteria:

- Applicant will be a member/client of CCS; and
- Have a self-declared disability and proof thereof
- Have a financially viable business plan
- Demonstrate proof of community/network support (2 letters of reference, documentation outlining support)
- Show strong evidence and documentation of disability management strategy
- Demonstrate proof of their own contribution to the business (financial or in-kind)

Methods for raising capital/paying operating expenses
Coast Capital is a deposit institution that also charges service fees.

Amount of capital raised and levered
Assets equal $6.1 billion, where $2.5 million have been disbursed over the past several years under the Rising Tide program. As well, WD provides a loan loss reserve of up to 80% for Type 1 and Type 3.

Disbursement/investment profile

While other loans have performed fairly well, ABLED losses have been "high." An independent evaluation of the ABLED initiative (including both Coast Capital Savings and VanCity who also delivers this initiative) will hopefully provide recommendations to improve the success rate.

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure

The Coast Capital board of directors has twelve members. The length of term for a Director is three years, and Directors' terms are staggered so that the terms of only three Directors for each Region expire each year. There is no restriction on the number of terms a Director can serve if they continue to be re-elected. Dealing with matters of overall strategy and policy, the Board is accountable to the Members. Board meetings are held monthly, and committees also meet frequently. The Chair of the Board, along with the 1st, 2nd, and 3rd Vice Chairs (the Board Executive Committee) is elected by the full Board at the first regular meeting following the Annual General Meeting. The terms for the Chair and Vice Chairs are one year, and committee members also change yearly.

CCS will have three CED staff: one in Victoria and two in the lower mainland. There is also one community lending manager and one community loans officer. The CED group reports to the Manager of Corporate Social Responsibility.

Investment decision-making structure

Applicants need to complete a business plan, which should include a market analysis, operational details and financial information (specifically, a cash flow statement) for their enterprise. Social or environmental impacts should also be included in the plan. Lending decisions are made by a committee of representatives from Coast Capital Savings based on criteria established with a board of community advisors. CCS relies on character, as evidenced by references and letters of community support, and a strong business plan more than collateral; lack of collateral is not considered a barrier.

Mechanism/level of community control

Community control is exercised to the extent that a credit union is a member-based organisation.

Accountability structure

The program's accountability structure is in effect CCS's hierarchical organisational reporting structure through to the board of directors and on to the members. CCS must also provide quarterly reports to WD.

4. Outcomes

Performance data

Rising Tide type 1 and type 2 loans have performed fairly well, while Rising Tide type 3 (ABLED) has been more problematic. A review of the ABLED file is currently underway and refinements to the initiative are planned to improve success rates.

Client profile
A variety of small businesses.

Firm-level impacts
Most loans are to start-ups that would not have been launched without Rising Tide.

Community impact
The primary community impact has been the creation of jobs – no data are available on spin-off benefits.

Existence of feasibility or evaluation study?
WD study on Rising Tide and an article from the Caledon Institute on ABLED.

Two Typical Rising Tide Loan Clients

Gelinas Carr Furniture Makers – Gelinas Carr Furniture Makers design and build contemporary handcrafted furniture. Operated in a partnership, design inspiration for furniture comes from many places: the arts and crafts movement, Japanese and Chinese furniture styles, the Art Deco period and modern architecture, to name a few. The shape and character of everyday things, such as a bowl from a potter's wheel or the wings of a beetle, also bring inspiration. Subtle use of exposed joinery and the inclusion of a primary and secondary wood to highlight different aspects of the overall design has become their signature, as has maintaining exceptionally high standards for the level of detail in each piece.
(http://www.gelinascarr.com)

Innovative Design Products and Consulting Inc. - Charles Reid approached ABLED in Victoria two months after the program began. A computer-aided design (CAD) specialist, and an accomplished boccia and floor hockey player, he is also a quadriplegic. Charles wanted to start a business importing and distributing specialized sporting equipment for persons with disabilities. In order for the business to be viable, he needed to import sufficient inventory from Europe and New Zealand and establish a North American distribution system. An ABLED loan provided the capital for the initial purchase of inventory, and Charles' sporting contacts around North America provided the distribution network. Now the sole distributor for this equipment in North America, Charles also works as a CAD consultant specializing in adaptive accessible design for houses, offices, and other buildings.
(www.idpci.net)

4.9 Co-operators Community Economic Development Fund, Guelph

1. Background and Context

Community setting

This investment fund is national in scope and managed through the Co-operators' head office located in Guelph, Ontario. The decision was made some 30 years ago to locate the company headquarters in this predominantly rural area in recognition for its rural and community-based roots. Most Canadian insurance companies head offices are located in the country's larger metropolitan areas, especially Toronto.

Impetus/reason for creation

The year 1995 marked the 50th anniversary of the Co-operators and, as a means to celebrate this accomplishment, the company decided to launch the Community Economic Development (CED) Fund. The company's idea was to establish a program that would celebrate the diversity of community groups and acknowledge the multiple challenges they may face. It was also created in recognition of the company's rural roots, thus the community focus.

Main purpose and mandate

The CED Fund's main mandate is to provide financial support to community enterprises and initiatives that create local employment and self-reliance. The primary focus is on helping members of economically or socially disadvantaged groups. As such, it does not have a strong small business development bias but, rather, favours projects that work directly with disadvantaged groups and individuals on the basis of social and/or economic objectives.

Nature and scope of the vehicle/mechanism

The fund is national in scope but, so far, much of the investment activity has taken place in urban settings throughout the country.

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

Both grants and loans are available, although grants have been by far the favoured financing vehicle up to now. Grants are usually in the $10,000 - $20,000 range, while loans can range from $10,000 to $25,000. Loans normally bear interest charges at 1-2% below prime, making them very attractive to potential borrowers.

Other products/services delivered

Limited technical assistance is available depending on the specifics of the funding proposal. The assistance is provided by Co-operators staff in an ad hoc basis.

Eligibility criteria for targeted financial vehicle/mechanism

The Co-operators CED Fund will only invest in projects where other funding partners exist. Other investment criteria include:

- Accessibility of appropriate technical, strategic and administrative assistance;
- Sound business and marketing plan;

- Evidence of strong, long-term community partnerships; and
- Proven ability to build local capacity through skill development.

Methods for raising capital/paying operating expenses
All of the CED Fund's capital comes from annual allocations made by the Co-operators. Each year, the company's Board of Directors meet and decide how much money will be allocated to the fund. The decision is based, among other factors, on the financial performance of the organization.

Amount of capital raised and levered
Since 1995, the CED Fund has invested approximately $3.2 million. Approximately $150,000 - $200,000 is invested annually, but it can vary from as low as $100,000 to as high as $400,000, depending on the Co-operators' financial situation.

Disbursement/investment profile
It is estimated that the CED Fund has so far disbursed 95% of its capital as grants, and the remaining 5% as loans. While detailed statistics on investees were not available, it is said that they include charitable and non-for-profit organizations, Community Futures Development Corporations, and foundations.

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure
One interesting feature of this CED fund it that it relies upon local agencies to deliver the services. The CED Fund thus provides funding to these groups that, in turn, provide the community enterprise and initiative support services that it is designed to deliver.

Investment decision-making structure
One executive employee located at the company's head office has explicit responsibility for the CED Fund, but she is supported in her fund allocation and investment decisions by a four-member Advisory Committee. A seven-member Co-op and CED Fund Board of Directors also exists, and it decides on a yearly basis on the annual level of fund disbursements.

Operating budget, resource level
The CED Fund does not have dedicated staff, nor a dedicated budget for covering the Fund's operating expenses. As mentioned earlier, one executive employee has managerial responsibility for the Fund as part of her job description.

Accountability structure
Reports on the CED Fund activities are produced four times a year by the executive employee in charge of it, and these reports go to the Co-operators Board of Directors. In addition, an annual report is prepared and sent to the 28 owners of the company. Finally, a newsletter that provides examples of the investments made by the fund and highlights of investee organizations is sent once a year to staff and company owners.

One Co-operators Group CED Fund Recipient: Future Foundations

Future Foundations is an innovative program run by the Mennonite Central Committee in the Abbotsford area of British Columbia. It is designed to equip low-income individuals with the tools and resources to build their savings, assets, and financial skills to break the cycle of poverty. In 2001 and 2002, the CED Fund provided a $15,000 grant to the organization, one of several organizations and foundations to have done so.

Program applicants are committed to save money on a monthly basis and they must attend financial literacy workshops, peer group meetings and one-on-one consultations. Participants are required to deposit $15-50 per month and at the end of the savings period – typically one year, donor funding is used to match the participant’s savings at a 3:1 ratio. Savings are restricted for use on high return investment such as expanding or starting a small business, education, or home ownership.

While matched funding encourages program participants to save, other program services such as the financial education and personal counselling help them develop the skills, self-confidence and resources that they need to establish lifelong habits of good money management and a positive outlook on the future.

4.10 Coopérative de crédit alternatif, Belgium

1. Background and Context

Community setting

The Coopérative de crédit alternatif (Crédal) operates two offices – one in Louvain-la-Neuve and the other in Charlerio – that serve all of its the borrowers/investees, who must go through these offices in order to access funding or business services. Crédal's catchment area is country-wide, but it is unclear how much of its investment activity takes place outside urban areas.

Impetus/reason for creation

During the 1980s, a debate over unethical investments in South Africa by banks led a group of small Belgium-based credit coops to reassess the ethical value of their activities. It was clear that more could be done to bring ethical behaviour and transparency into commercial activities, including banking activity.

History, creation date

Building on the needs expressed by many to come up with alternative means of managing credit, two non-profit organizations spearheaded a movement to create a new credit coop that would be based on strong and shared ethical values. The Coopérative de crédit alternatif was created in 1984 to fulfill this mission.

Main purpose and mandate

Four central objectives guide the activities of Crédal:

1. To support social development projects that are facing barriers to access to capital.
2. To pool financial resources and invest in projects targeted at disadvantaged groups and individuals.
3. To provide an opportunity for both individuals and groups to invest their savings in instruments that will seek social returns over and above financial returns.
4. to develop with both members and borrowers/investees a trust relationship based on transparency.

Nature and scope of the vehicle/mechanism

Crédal provides financing to not-for-profit organizations, companies and individuals who have little or no access to "traditional" financing. Specific financing products and services are available for these three types of clients, as outlined below. In addition, this cooperative provides technical services on a fee-for-services basis.

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

1. *Debt financing for not-for-profit organizations*: strictly for organizations/projects that are targeted at disadvantaged groups/individuals and aimed at their economic and social

inclusion. Loans range in value from 2,500€ to 275,000€. The following table outlines the various forms of debt financing it can provide.

Description	*Conditions (01/01/03)*
Long-term loans	4.75% interest + 75€ fee
Short – to mid-term loans	5% interest + 75€ fee
Operating loans (1-5 years)	5% interest + 75€ fee
Bridge financing	5.5% interest + 75€ fee
Line of credit	6% interest + 75€ fee

2. *Micro-credit for individual borrowers*: this type of debt financing is targeted at individuals who want to start or expand a micro-business. Two types of financing are offered under this component of Crédal's activities:

Description	*Conditions (01/01/03)*
Operating loans (up to 3 year term); up to 10,000€	5% interest + 3% of loan value placed as guarantee
Line of credit (up to 1 year term); up to 5,000€	8% interest + 1% of loan value placed as guarantee

3. *Quasi-equity financing for social enterprises*: Financing to new or expanding social enterprises is available for qualifying social enterprises at advantageous conditions. It represents a flexible financing instrument that can be used by the investee for asset financing, cash flow, etc. It possesses aspects of both debt (regular interest payments) and equity (no or little collateral, presence at the investee's annual meeting, regular reporting, etc.) financing.

Description	*Conditions (01/01/03)*
Subordinated debt (up to 10 year term); up to 75,000€	4.75% interest

<u>Other products/services delivered</u>
Crédal also offers technical assistance in two general areas (each with several content areas): financial management of projects and project management/marketing. Services are provided on an hourly, fee-for-service basis, but projects targeted at the social economy benefit from a preferred rate.

<u>Methods for raising capital/paying operating expenses</u>
Two sources of funds are used for raising capital: contributions by groups and individuals through the purchase of two different types of shares. The 'builder' share is sold for 100€ and redeemable on request; it does not pay any interest or acquire value. The 'investor' share is sold for 500€ and its value keeps pace with inflation, but no more.

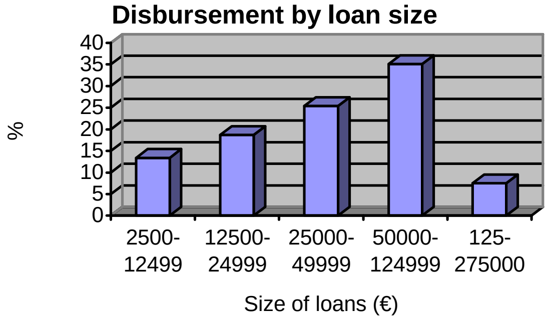
Operating expenses are paid with the income generated by the co-op's investment and technical assistance activities. Between 2000 and 2002, revenues from these sources went from 265,271€ to 352,128€, and revenues exceeded expenses in all of these three years.

Amount of capital raised and levered

As of December 31, 2002, 665 members had bought shares into Crédal for a total of 3,888,373€, an increase of 12% over the previous year. By its own standards, the organization considers its fund raising operations successful.

Disbursement/investment profile

In terms of debt financing for non-profit organizations, the following 2002 data are available:



For micro-credit, the following *cumulative* statistics, as of December 31, 2002 are available:

Description	*Level of activity*
Phone requests	379
First meetings held	156
Applications presented to Disbursement Com.	69
Applications accepted	60
Applications rejected	9
Number of disbursements	37

It is worth noting that the disbursement rate is estimated at 61% (ratio of applications accepted : number of disbursements) and considered an issue for Crédal. Two factors explain this relatively low disbursement rate: difficulty in obtaining co-financing and lack of personal motivation. The cumulative default rate on micro-credit operations was estimated at 10% as of December 31, 2002.

As for quasi-equity investing, Crédal has between 1998 and 2000 invested 50,817€ in direct equity participation and an additional 405,672€ in subordinated debt.

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure

Crédal is legally structured as a co-operative. Its Board of Directors is composed of twelve members and it meets monthly.

Investment decision-making structure

Investment decision-making varies according to the type of investment being considered. For micro-credit, the borrower must meet a credit officer who will guide the applicant through the application process. A successful application will then be passed on to an internal Disbursement Committee, which will make the investment decision. In the case of quasi-equity for social enterprises, the procedure involves: (1) the development of an application with one of Crédal’s officer; (2) submission and approval of the application by a Credit Advisory Committee, made up of volunteers coming from both the cooperative and the financial communities; and (3) an approved application will be submitted to Crédal’s own Board of Directors, which has a final say on the investment decision. Both the Credit Advisory Committee and the coop’s Board of Directors meet at least once a month.

Operating budget, resource level

While there is no information available on staffing and infrastructure, Crédal’s financial statements reveal that in 2002, its operating expenses have amounted to 284,090€.

Mechanism/level of community control

Being structured as a co-operative, Crédal embodies the ‘one member one vote’ philosophy that results in transparent management and regular reporting to members.

Accountability structure

One of Crédal’s underlying principles is transparency, and this principle is reflected in how the organization operates and reports to its stakeholders. Consider the following:

- credit union members receive information on realized and anticipated investments every three months;
- potential borrowers receive a copy of their credit profile/worthiness before the Credit Committee meets to discuss their projects, allowing them to react before a decision is made;
- financial statements are made available in a clear and legible manner and presented both during an annual general assembly and on the organization’s website.

4.11 Crocus Investment Fund, Manitoba

1. Background and Context

Community setting

The Crocus Investment Fund is a Labour Sponsored Investment Fund (LSIF) that operates throughout the Province of Manitoba. It is sponsored by the Manitoba Federation of Labour.

Impetus for creation

Prior to the creation of the Crocus Fund, there was a strong sense that any of the money provided by banks or other financial vehicles that was generated in Manitoba stayed within the province. Most of the funds were transferred to financial centres outside of the province, instead of remaining in Manitoba to support Manitoba businesses and create jobs. There was a noticeable lack of capital from traditional sources and an absence of venture capital in the province.

In the early 1990's, the Manitoba Federation of Labour, concerned over the future economic prospects for the province, pushed to create a fund modeled after Quebec's Solidarity Fund as a means of retaining jobs and businesses in Manitoba.

History

Crocus Investment Fund was incorporated on March 21, 1992 under the provisions of The Crocus Investment Fund Act and the Corporations Act. It was provided with seed funding by both the federal and provincial Governments. It can be defined as a prescribed labour-sponsored venture capital corporation for purposes of the Income Tax Act for Manitoba. The federal and provincial Income Tax Acts make available personal income tax credits to individuals who purchase shares of the fund.

Main Purpose and mandate

The Fund has been established to make investments in Manitoba businesses with the objective of achieving long term capital appreciation and promoting and maintaining:

- Capital retention and economic stability in Manitoba;
- Employee ownership of Manitoba businesses;
- Business continuity, job retention and creation and ownership of Manitoba businesses by Manitobans;
- Investment capital and other financial assistance; and
- Other services to Manitoba businesses to enable them to create, maintain and protect jobs.

Nature and scope of the vehicle/mechanism

The legislation creating the Crocus Fund contains rules respecting the types of investments that can qualify as eligible. The Crocus Act requires the fund "to promote capital retention and a stable economy, worker ownership and employment and continues resident ownership of firms in Manitoba and contributes to other goals such as corporate social responsibility and worker economic education."

2. Financial Dimensions

Types of financing products/services

The fund is structured as a balanced portfolio with a portion of its assets in liquid assets and the rest in a combination of equity or debt financing invested in established Manitoba businesses. Crocus tries to control for risk by buying businesses they understand and diversifying across industries to minimize exposure to industry cycles.

Other products or services

Crocus created the Manitoba Science and Technology Fund in 1998 to invest in Manitoba-based businesses in the science and technology sectors. This is the first of a number of sectoral funds. The Crocus Fund will announce the establishment of an Aboriginal Sectoral Fund by the end of February 2004.

Crocus, in conjunction with the University of Manitoba's Continuing Education Department, also offers a course in participative management for representatives of its investee companies and others.

Eligibility criteria for targeted financial vehicle

The Fund's overall investment objectives are prescribed by the Crocus Act. The Board of directors have adopted investment policies that take into account capital appreciation, geographic diversification, industry diversification, technological innovation, employee ownership and participation in corporate governance and management.

The investment policies require the Fund consider investments which possess as many of the following characteristics as possible:

- A business concept identified as having merit
- As experienced management team
- Reasonable anticipation of profits based on a history of performance or other characteristics
- The likelihood of a sustainable competitive advantage which may be associated with superior technology, patented products, established market position ,quality service provision resulting from the creation of quality jobs
- A commitment to cooperative and innovative labour relation and to ethical employment practices
- A commitment to workplace safety and to sound environmental practices
- A commitment to employee ownership and employee participation in corporate governance
- A reasonable expectation that the investment could be disposed or recouped within five to seven years

Methods for raising capital

Capital is raised from the selling of Common Shares as an RRSP investment. Crocus offers common shares in Manitoba, Nunavut and the Northwest Territories. Individuals who purchase common shares are eligible for a Federal Tax Credit and a Manitoba tax Credit. The fund sells through Manitoba Credit unions, labour representatives and through agents (i.e. brokers).

Amount of capital raised and levered
The fund originally received contributions totalling $2 million from the Government of Canada through Western Diversification. The Fund is required to repay the funds over time. More recent figures include:

- For the fiscal period ending September 2003, net assets were $174 million.
- In fiscal 2003, Crocus had gross sales of $29 million in common shares.
- For every dollar invested, Crocus has levered four dollars in additional investment from other sources creating more than $500 million of investment in Manitoba businesses.
- Management expense ratio is estimated at 4.04%.

Disbursement vehicle/investment profile
In 2003 alone, Crocus invested $14.8 million in Manitoba businesses. As of September, 2003 the Crocus Fund has invested in 51 Manitoba businesses and has helped create, maintain or save more than 13,400 jobs, mainly in Manitoba.

Crocus diversifies across industries to minimize exposure to industry cycles. The current makeup of the portfolio is as follows:

- 42% in science, medical and technology
- 19% in entertainment and hospitality
- 17% in manufacturing
- 8% in financial services
- 8% in transportation
- 6% in service industries

Within these sectors are a number of companies that are located outside of Winnipeg in smaller communities.

3. Organizational Dimensions

Operational structure
The Board of Directors has nine members, five representing the Manitoba Federation of Labour (MFL), one representing the Province of Manitoba and three elected at the Annual General meeting. The MFL as a primary owner and as a requirement for the fund to qualify as a LSVCC under the provincial tax Act has the right to elect the majority of the Board of Directors. In addition 6 senior officers of the Fund are on the Board.

There are established committees in the following areas:

- Investment Committee: to review and recommend to the Board of Directors new investments recommended by the staff committee. To review and approve smaller investments which are of a time sensitive nature
- Corporate Development Committee: has the mandate of reviewing corporate development initiatives
- Executive and personnel Committee: comprised of three members of the Board of Directors. The primary responsibilities include evaluating the governance structure , serving as the nominating committee and evaluating the performance of the CEO and establishing CEO compensation

- Labour Affairs Committee: provides advice and direction to the Board of Directors and the Fund on the Labour movement in Manitoba and serves to ensure the broad objectives of the Fund's sponsor are achieved
- Finance and Audit Committee: approves non-routine redemptions, reviews and reports to the Board of Directors on all matters related to finance and audit including review of the monthly and quarterly statements, annual financial plan and all activities associated with the audit requirements of the Fund.
- Valuation Committee: has three voting members of the Board and is supported by an external chartered Business Valuator and fund staff. The committee reviews all valuations coming forward and provides recommendations.

Investment decision making structure

The *staff investment committee*, chaired by the Chief Investment officer, is responsible for sourcing and evaluating the sustainability of investments, negotiating the commercial terms of investment and following through on the investment transactions.

The *investment advisory committee* was established to advise the Board of Directors as to the financial merits of proposed investments. The members of the advisory committee are selected based on their experience and expertise in particular business sectors or in the management of investments. Members of the fund serve for two years. They are not employees of the Fund.

Accountability structure

Crocus provides a range of services for its investee companies intended to both enhance the profitability and encourage the evolution of employee ownership and employee participation in management and governance.

As a condition of investment the Fund is entitled to appoint a representative, usually a member of the staff investment committee, to the company's board of directors. Crocus also provides assistance with corporate financing, strategic corporate structure planning and reorganization and on organizational strategies.

As part of its due diligence, Crocus conducts a social responsibility audit of the potential investee company which includes reviews of owners, managers and employees. The audit examines employment practices, workplace safety, and environmental sustainability.

The Fund has also made it a condition of investment that the chief executive officers of the company agree to participate in a regular series of meetings known as the CEO Roundtable. The meetings provide a forum in which CEO's can discuss issues of common concern.

4.12 Deal Generator, Alberta

1. Background and Context

Community setting

Based in Edmonton, Deal Generator serves all of Alberta.

Impetus/reason for creation

The need (as expressed by the business and investment communities) for a more effective method of bringing together investors, entrepreneurs, and service providers, was the motivation for developing a credible, high-quality delivery process for generating early-stage enterprise deals. Deal Generator was originally established to facilitate deal flow with a focus on seed and early stage technology ventures.

History, creation date

Established on July 25, 2002, Deal Generator was designed by experienced angel investors and investment professionals and operates in conjunction with Economic Development Edmonton (EDE).

Main purpose and mandate

A key flagship initiative of the Greater Edmonton Competitiveness Strategy, Deal Generator will focus on increasing the quality and quantity of deal flow for entrepreneurs, angel investors, and professional service providers. Since its founding, the focus has shifted to include all industries, and is now limited to early stage companies (seed financing will be considered if a significant management team is in place). Its primary purpose is twofold: to screen deals for its members and to help applicants become "deal-ready".

Nature and scope of the vehicle/mechanism

Through a unique arrangement involving local providers of professional services (e.g. accounting, marketing, legal etc.) the rigorous Deal Generator entrepreneurial program will help budding entrepreneurs develop viable business plans while screening out those plans that aren't yet ready for investment. In addition to the high-quality opportunities facilitated by Deal Generator, angel investors will also have a formal network of other angel investors and regular Deal Generator events to draw on.

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

Angel-based equity participation is the main vehicle. Other options, such as debt issues or convertible debt, are available based on investors' and applicants' preferences.

Other products/services delivered

Training courses and seminars are delivered by third parties. Mentorship opportunities exist, although most investors have tended to take a passive role. Business plan refinement – which consists of the business plan itself, the offering, and the presentation – is part of the application process. Linkages to additional technology commercialization advice and various program cost reductions are also provided. Deal Generator is also involved with VenturePrize (www.ventureprize.com), a business plan competition in which the top three submissions share $140,000 in cash and in-kind prizes - $100,000 for first place and $20,000 for second and third.

Eligibility criteria for targeted financial vehicle/mechanism

At the first stage of the application process, each application must demonstrate business viability in terms of the product, its market, and the management team. Each applicant undergoes a screening process with eighty-two elements, each rated from "deficient" to "strong"; the elements are grouped into seven sections, and applicants must "pass" all of them in order to be approved for presentation to investors. The second stage entails a presentation to a screening committee (made up of three Deal Generator investor members), which decides if the applicant is ready to be presented to investors for consideration.

Methods for raising capital/paying operating expenses

Capital is provided on a case-by-case basis by angel investors – either individually or in groups. Operating expenses are defrayed partially by user fees: $250 for registration and initial screening process and $1,250 for a second assessment stage. EDE and Western Economic Diversification provide the balance of the operations budget, while a number of sponsors support various other aspects of the initiative.

Amount of capital raised and levered

Eighty investors are now affiliated with Deal Generator, of which seventy-three are angel investors, six are venture capital firms, and one is an investment firm. Membership is expected to swell past 100 in 2004.

Disbursement/investment profile

Twelve applicants had submitted prior to 2004, which resulted in only one first-round financing of $400,000, with a follow-on investment of $600,000 for the same applicant company. Presently, Deal Generator has four applicants under consideration by its members.

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure

Deal Generator has an eight-member board of directors, and EDE provides secretariat services. Dedicated staff includes an executive director and an administrative assistant.

Investment decision-making structure

Once an applicant passes the screening process, financing decisions are made by angel investors on an individual basis.

Mechanism/level of community control

Community control is exerted only to the extent that member investors represent their constituent communities.

Accountability structure

A monthly report is produced for the board, EDE, Industry Canada, as well as sponsors Ernst & Young and Bennett Jones.

4.13 Filaction, Province of Québec

1. Background and Context

Community setting

This investment fund has a provincial mandate to invest in private and so-called *collective* enterprises. It relies extensively on partnerships with various stakeholders – including the provincial government, non-profit development agencies, and other investment funds – to cost-effectively deliver financial products and services to small businesses, co-operatives, and social enterprises.

Impetus/reason for creation

At the time of Filaction's creation, there was a recognition that several gaps existed in the province's financial markets that needed addressing, in particular the need for small amounts of equity and quasi-equity financing for small (private and collective) businesses. There was also a recognition that some disadvantaged groups – in particular women – faced additional barriers in their quest for social and economic inclusion.

History, creation date

Filaction was established in 2000 by Fondaction, one of Quebec's labour-sponsored investment funds. Fondaction was created in 1996 by the *Centrale des syndicats nationaux* with a mandate to create, maintain and otherwise support employment, with a focus on enterprises characterized by decentralized, or democratic, decision-making. Being a registered labour-sponsored investment fund, it allows investors to receive tax credits for their share purchases into the fund.

Main purpose and mandate

Three main objectives are guiding Filaction's activities: (1) to act as a small-scale version of its parent labour-sponsored investment fund and invest in small, Quebec-based businesses for the purpose of creating/maintaining jobs in the province; (2) provide access to capital to social enterprises; and (3) increase the capitalization of Quebec's community loan funds.

Filaction is also involved in the Co-operative Investment Fund in a partnership with the Réseau d'investissement social du Québec (RISQ; see its profile later in this report), a non-profit venture capital fund specializing in social enterprise investing. This fund invests in so-called collective businesses, which are essentially co-operatives and social enterprises.

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

The following financial products are offered by Filaction:

1. *Financing for small businesses*: financing is flexible and includes equity participation, quasi-equity, or loan guarantee. It ranges from $50,000 to $250,000 for a first investment, but can go up to $500,000 for recurring capital injections.
2. *Financing for social enterprises*: it is also fairly flexible and designed to fit the specific financing need of the investee. Financing is available in amounts ranging from $50,000 to $150,000.

3. *Capitalization for community loan funds*: Filaction provides matching funding (up to 50% of all capital needs) to Quebec-based community loan funds or lending circles. Its financing comes in the $250-500,000 range, the upper limit being relevant only for reinvestments.

In terms of the latter, Filaction has entered into a three-way partnership with the Government of Quebec and with a network of women entrepreneurs. The government reimburses Filaction for some of the transaction costs incurred in investments in community loan funds, while the *Réseau des femmes entrepreneurs en région* provides overall support, guidance, and access to its network of contacts. To date, Filaction has been actively involved in the capitalization of five such funds, all happening in 2003.

Other products/services delivered

Filaction's other fund, the Co-operative Investment Fund, invests in amounts ranging from $100,000 to $250,000 in co-operatives and social enterprises. In addition, Filaction's (limited) staff provides a range of technical services that fit within its development role, such as application processing, guidance, business plan development assistance, and so on.

Eligibility criteria for targeted financial vehicle/mechanism

Filaction's eligibility criteria for its private business investments are fairly broad, in that it will invest in firms from all sectors and at every stage of development. It will be looking for the usual investment criteria such as a sound business plan, a capable management team, good potential for growth and long-term profitability, etc. In some cases, Filaction may require of its investee firms participation in decision-making or that they carry out economic literacy training for their employees.

In its social enterprise investment activities, Filaction looks for organizations that can demonstrate a commitment to democratic decision-making, potential for a high social rate of return, and a credibility recognized by local partners and funding agencies.

Methods for raising capital/paying operating expenses

Filaction's parent organization, Fondaction, has provided the capitalization for Filaction. At the time of its creation, Filaction was able to secure a five-year grant from the Government of Quebec to cover part of its operating expenses. The rationale was that after that period of time, income generated through investment activities would be sufficient to cover operating costs. As mentioned earlier, the Government of Quebec, through a special agreement, also reimburses Filaction for the transaction costs incurred through its community loan fund investment activity.

More generally, Filaction is counting on the income-generating potential of its various investments for covering some or all of its operating costs. Its expected rate of return on investments is set on a sliding scale, with small investments and investments targeted at social enterprises demanding a lower rate of return. At present, Filaction is looking at a 10% return on investments of less than $100,000, and between 13-15% for those above that threshold (the lower rate relating to investments in social enterprises).

Amount of capital raised and levered
Filaction has received $7 million from Fondaction for its capital base, for which Fondaction expects market rate returns. Filaction also received a $200,000 grant from the Government of Quebec to expand the capital base used for community loan find investing. Filaction has allocated a $400,000 portion of its own capital for the purpose of investing in these community funds.

In addition, Fondaction has capitalized 80% of the $6 million Co-operative Investment Fund, the remaining 20% having been capitalized by RISQ.

Disbursement/investment profile
It is important to keep in mind that this investment fund is in its infancy, and part of its growth strategy is not to rush into investment deals just for the sake of starting off fast. One consequence of this approach is that it has only recently started making investments. As of today, Filaction has invested approximately $2.5 million in its financing for small businesses and social enterprises. The latter category has attracted the biggest share of this investment activity, although there are currently 5-6 active files involving for-profit businesses. As for the capitalization of community loan funds, Filaction has committed – but not necessarily disbursed- an additional $2.5 million.

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure
Filaction operates with a very small staff of four: one executive director, two analysts/project officers, and two administrative personnel. Two more staff manage the Co-operative Investment Fund, bringing total staff allocation to six persons. One interesting aspect of Filaction’s operations is its reliance upon the Internet for some of the investment management functions. For instance, a good chunk of the application process is done using this communications channel, as are the regular financial reports sent by Filaction to its investees.

Investment decision-making structure
Filaction’s ten-member Board of Directors makes all investment decisions, following recommendations from the staff. The Board’s composition reflect the broad mandate of the organization, as it includes leaders from both the investment and the social/economic development arena.

Observations
Filaction considers itself first and foremost an investment fund, as opposed to other vehicles of a similar nature that may favour their development mandate over their investment one. In practical terms, it means that it will seek to maximize its financial returns by investing in ventures that have a reasonable chance of achieving financial self-sustainability and generating a profit or surplus. Of course, it also considers its mandate as one of supporting social and economic development, but not at the expense of financial sustainability.

4.14 Kilkenny County Enterprise Board, Ireland

1. Background and Context

Community setting

Kilkenny County, Ireland.

Impetus/reason for creation

The Enterprise Boards were set up to fill a gap in the support services to small businesses at a time of poor economic conditions – in particular high unemployment rates.

History, creation date

The Kilkenny County Enterprise Board (CEB) was set-up in 1993 as part of the national network of 35 City and County Enterprise Boards. The Enterprise Boards were given a clear enterprise and job creation role and were to be responsible for business areas not already covered by state development agencies such as Enterprise Ireland. This was elaborated upon by the Operational Guidelines agreed by the Department of Enterprise, Trade & Employment. Funding was provided to the Boards during the period 1994-1999 under the National Development Plan through the Operational Programme for Local Urban & Rural Development (OPLURD). The Kilkenny CEB is the first point of contact for start-up and expanding businesses in County Kilkenny.

Main purpose and mandate

KCEB's main objective is to facilitate the establishment, development, and growth of micro-enterprises in the County by providing selective financial assistance and support to improve the entrepreneurial and management development ability of owner-managers of small businesses.

Nature and scope of the vehicle/mechanism

The financial assistance function of the KCEB delivers what is termed "grant aid," which breaks down into non-repayable grants for feasibility studies and salary subsidies, and repayable "Capital Grants" for capital costs (subject to a maximum of €63,500). Assistance is targeted, indeed limited to micro-enterprises – those with fewer than 10 employees.

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

The KCEB provides "Capital Grants" (loans) of up to 50% of eligible capital costs. All capital grants are repayable over a five-year term currently at a rate of 3% interest.

Other products/services delivered

Employment Grants:

As an alternative to capital grants, the KCEB may allocate employment grants to a project where new jobs are being created as a result of the proposed investment. It is not possible to be considered for an employment and capital grant simultaneously. The maximum grant aid for new employees for existing and start-up businesses is €4,500. Employment grants are paid in two instalments: 50% payable upon the creation of a new full-time job; the balance after six months later, provided the person is still employed.

Feasibility Study Grants:
The KCEB provides assistance feasibility and market research through Feasibility Study Grants up to 50% of the study cost subject to a maximum of €5,000. Eligible studies include market research, negotiations with potential joint venture partners, plant and equipment selection, cost analyses, financial projections, and business plans.

KCEB also provides basic information and advice, training, research, mentoring and management development supports to clients. A total of 378 people participated in over 35 training & management development programmes organised and delivered by the Board in 2002 at a cost of approximately €325,000. The topics ranged from 'Start Your Own Business' to 'Computerised Accounts' to 'Financial Training' and 'Sales & Marketing'.

On behalf of the KCEB Board, Ossory Youth Services coordinates the Young Entrepreneurs Scheme, which provides first-hand knowledge and experience to young people of what it is really like to run their own business. Approximately 350 students from second level schools all over the county participate each year. Students get exposure to: business idea development; market research and business plan preparation; setting-up a business; selling their products or services.

Eligibility criteria for targeted financial vehicle/mechanism

To be eligible for financial assistance a project must meet the following requirements:

- The proposed employment level must not exceed 10 people.
- The project must be capable of achieving commercial viability without continuing EU and State support.
- Add value to a product, process or service so as to generate or supplement the income of those involved.
- No displace or put at risk any existing enterprises or industry;
- Not be in receipt of substantial funding from any other state agency or programme.
- Comply with existing policies on tax and certification matters.

Methods for raising capital/paying operating expenses

EU and Exchequer funding:
Funding was provided to the Boards during the period 1994-1999 under the National Development Plan through the Operational Programme for Local Urban & Rural Development.

Amount of capital raised and levered

The aggregate amount made available to the 35 Enterprise Boards by the Minister in 1995 was limited to £100 million (€126.97 million), which amounts to approximately £2.85 million per Board (€3.62 million).

Disbursement/investment profile

The Board approved financial assistance totalling circa €450,000 to an additional 45 business projects in 2002 in the form of Capital Grants (loans), and Employment and Feasibility Study Grants. This brings the total number of projects assisted by the Board since its establishment in 1993 to 480 and the total amount of grant aid approved to almost €4.6 Million. The 45 projects assisted in 2002 have the potential to create an additional 74 full-time jobs when fully operational.

This brings the total number of jobs created over the last 9 years to 764 at a cost per job of just €6,000. The 45 projects approved grant-aid in 2002 covered the full spectrum of industry sectors from local services and manufacturing operations through craft based enterprises and small-scale food processors to tourism & leisure projects and those that have the potential to become internationally traded services.

The board approved more than €840,000 during 2003.

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure

The Board has the services of a specialist Evaluation Committee to advise on project assessment and make recommendations with respect to the allocation of financial assistance. The Board has a current staff complement of four namely, a Chief Executive; a Business Analyst; an Enterprise Supports Officer; and an Administrator.

Investment decision-making structure

Upon review by the Business Analyst, applications are submitted to the Evaluation Committee for appraisal. Members of the business community, financial institutions and local authority comprise the Evaluation Committee, which normally meets every six weeks. The committee then presents a written recommendation to the KCEB Board, which, upon review and discussion of the application, issues a final decision. The Chief Executive informs the applicant in writing of the Board’s decision, and issues a formal letter of offer along with terms and conditions.

Mechanism/level of community control

Community control is exerted through the structure and membership of the board of directors.

4.15 Murex Investments, Philadelphia

1. Background and Context

Community setting

Murex Investments manages a socially-responsible, community development venture capital fund based in Philadelphia, Pennsylvania. Financing and resources are provided to growth-oriented companies in targeted low income communities in eastern Pennsylvania, southern New Jersey, and two thirds of Delaware.

Impetus/reason for creation

Murex was formed to provide equity and operational assistance to qualifying businesses in Pennsylvania, New Jersey and Delaware.

History, creation date

Established in 1998, Murex Investments Inc. is a for-profit, wholly-owned subsidiary of Resources for Human Development (RHD), a non-profit community and economic development group based in Philadelphia; the fund itself is called Murex Investments 1, LP. As the fund's initiator, Murex Investments Inc. is also a co-owner of the fund along with the members of the board of directors, as required by the US Small Business Administration (SBA). Part of SBA's long-standing Small Business Investment Company (SBIC) program, Murex funds are co-funded by the SBA and are to be invested in targeted, underserved communities across the US. Some of the fund's present investments have been carried over from a previous RHD fund.

Main purpose and mandate

Murex's focus on participative employee-ownership aligns company profitability with community wealth creation. Indeed, its social mission is to create employee-owned companies (with a minimum of 10% employee ownership). Investments in distressed communities maximize regional impact.

Nature and scope of the vehicle/mechanism

Based on a traditional venture model, the fund is limited with respect to what it can and cannot do; thus, as a conservative program, it may exclude companies without a high enough growth rate. While Murex is obliged to invest 80% of its capital in qualified areas, 20% of the fund can be invested anywhere in the country. Eighty percent of the Fund's investments will be invested in distressed areas, with a focus on economic development zones and technology incubators. Murex also works with an operating model whereby it develops an integrated system of control and accountability for each portfolio company. Exit Strategies: Mergers, Acquisitions, IPOs, ESOPs, Recaps

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

Equity participation and/or subordinated debt instruments up to $1,000,000
(Convertible preferred or convertible sub-debt)

Other products/services delivered

SBA also co-funds an Operational Assistance Program (OAP) designed to support professional services that aid companies in either becoming 'equity ready' or executing their business plan. A fund of $3.3 million in grant dollars, made possible by Murex's partnership with RHD, is available to provide intensive OA to portfolio companies at no cost to either the portfolio companies or investors. Like the equity program, OAP resources must be directed to Murex's target communities, and are only available to companies that have received financing or are under consideration.

Eligibility criteria for targeted financial vehicle/mechanism

Murex invests in businesses that satisfy its "double bottom line" (financial and social) fund performance measures. On the financial side, Murex looks for investments that fit its objective of achieving a 10% to 12% internal rate of return for the fund as a whole, low default risk, and a clear exit strategy. On the social side, it looks for companies that will invest and create jobs in underserved communities, provide "living wages" and health benefits for all employees, empower employees, and have implemented profit sharing and/or employee ownership initiatives. The focus is on manufacturing, technology, and high value-added service companies that have the potential to generate an internal rate of return of 20% to 30% (deal to deal).

To be eligible for financing, the headquarters and most of the employees of a business must be located in a community that is deemed to be economically distressed. A given community is designated as distressed according to one of three criteria:

- Historically Underutilized Business (HUB) Zones
- Rural and Urban Enterprise Zones and Empowerment Communities
- Any census tract or equivalent county division:
  - That has a poverty rate of at least 20%, or
  - That qualifies for the Low Income Housing Tax Credit, or
  - That is a non-metropolitan area and has a median household income of no more than 80% of the state-wide median household income

Methods for raising capital/paying operating expenses

Investors include banks, a trust, an insurance company, a CED organization, and a social development fund. Operating expenses are paid out revenue generated by the 3% management fee.

Amount of capital raised and levered

US$11 million (US$5.5 million leveraged from the federal SBA at a nominal interest rate).

Disbursement/investment profile

Murex invests from its own fund in amounts up to US$1 million. Working with partner funds, it will also help coordinate and/or leads larger financings (as much as US$5 million) with investors that share its outlook and criteria. To date, five deals have been completed for approximately US$400,000 each, plus some follow-on financing. None of the investments has failed.

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure

Murex's Board of Directors and investment committee include representatives from institutions and economic development organizations from across its target region; most have significant venture experience. Murex has 3.5 full-time equivalent employees, consisting of a fund manager (100%), a business developer (80%), and an operations assistant (50%).

Investment decision-making structure

Murex's investment committee is composed of seven "seasoned financial and investment professionals" who make the final investment decision. The five members of the "board of managers" provide operational oversight to both the fund and its portfolio companies. Applications are submitted to fund staff, who develop write-ups for the committee. If the committee decides to move forward with an application, the staff then carry out due diligence and develop a full investment write up for final approval by the board.

Operating budget, resource level

US$360,000 per year – primarily for salaries

Mechanism/level of community control

A degree of community control is exercised to the extent that the board includes outside directors.

Accountability structure

The fund is subject to two audits: one internal and the other by the SBA. Upon receiving a license, the SBIC is subject to an annual regulatory audit by the Office of SBIC Examinations. These audits are designed to ensure that SBICs operate in conformance with the regulations or to uncover those instances when they have failed to do so. Staff also produce quarterly investment books detailing the performance of the fund's investments.

4. Outcomes

Client profile

Of the five present portfolio companies, four are in low-income areas.

Firm-level impacts

No Murex deals have been done for turnaround situations – one acquired further assets and moved its operations to the Camden Incubator, three required funding for growth (one was at and one was below breakeven, and one had good prospects), and one relocated to a low-income area.

Community impact

Murex's investments help create a critical mass in its constituent communities, which is intended to spawn further economic activities.

4.16 New Markets Growth Fund, Washington DC

1. Background and Context

Community setting

Maryland, Washington DC and Northern Virginia.

History, creation date

Initiated through the Dingman Center for Entrepreneurship at the University of Maryland's Robert H. Smith School of Business, the fund was created in early 2003 as part of the SBA's New Markets Venture Capital program.

Main purpose and mandate

To invest in early and expansion stage companies, primarily located in economically distressed sections of Maryland, Virginia, and Washington, D.C. The fund is obliged to invest 80% of its capital in qualified areas, while 20% can be invested anywhere in the country.

Nature and scope of the vehicle/mechanism

The New Markets Growth Fund makes equity investments and provides operational assistance to both early-stage ventures and small to mid-sized high growth companies. The fund focuses on start-ups and more mature companies that can commercialize innovative products and processes into domestic and foreign markets, as well as on later stage businesses looking for expansion capital to address new markets both vertical and geographic. The fund is most interested in companies that have market validation, have been through the development cycle, and are ready to ship product. The fund considers cross-border transactions in a range of industries that include IT, telecom services, software, outsourced business services, manufacturing, and direct marketing. While the fund has access to the region's top scientific, investment, and business professionals, the Dingman Center will also provide a team of exceptional Smith School MBA students, who will support the fund's professional managers.

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

Equity participation ranging from $200,000 to $2 million.

Other products/services delivered

SBA also co-funds an Operational Assistance Program (OAP) designed to support professional services that aid companies in either becoming 'equity ready' or executing their business plan.

Eligibility criteria for targeted financial vehicle/mechanism

Companies with strong management teams and superior products in growing markets.

Only small businesses that have less than US$2 million in net income and less than US$6 million in book value are eligible for funding through the program. To be eligible for financing, the headquarters and most of the employees of a business must be located in a community that is deemed to be economically distressed. A given community is designated as distressed according to one of three criteria:

- Historically Underutilized Business (HUB) Zones
- Rural and Urban Enterprise Zones and Empowerment Communities
- Any census tract or equivalent county division:
    - That has a poverty rate of at least 20%, or
    - That qualifies for the Low Income Housing Tax Credit, or
    - That is a non-metropolitan area and has a median household income of no more than 80% of the state-wide median household income

Methods for raising capital/paying operating expenses
The fund’s investors include several banks and venture capital firms, as well as the three levels of government (including economic development agencies).

Amount of capital raised and levered
US$20 million

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure
The fund has a five-member management team – three managing directors and two vice presidents – of which three sit on the fund’s seven-member investment committee. A mix of business people, academics, and CED professionals comprise the fund’s twenty-one-member advisory board, while a mix of engineers, consultants, and academics comprise its fifteen-member scientific advisory board.

Existence of feasibility or evaluation study?
TBD (The fund was a 2003 finalist for the Purple Cow awards – a regional award presented to unique and innovative organizations that are “doing something remarkable.”)

4.17 Northeastern Community Investments Inc., Nova Scotia

1. Background and Context

Community setting

Based in Antigonish, NS, NCII also serves Pictou, Guysborough, Inverness, and Richmond.

Impetus/reason for creation

The fund was developed as a regional economic development and job-creation catalyst.

History, creation date

The Fund was initiated on December 20, 2000, by the Antigonish Regional Development Authority, and received approval by the Nova Scotia Securities Commission on February 9, 2001.

Main purpose and mandate

To increase the level of economic activity and prosperity within the counties of Antigonish, Pictou, Guysborough, Inverness, and Richmond.

Nature and scope of the vehicle/mechanism

NCII is a community economic development investment fund that makes financing available to new or existing business. Charitable, non-taxable, and not-for-profit organizations are not eligible to take part in the Community Economic Development Investment Funds (CEDIF) program. Investments are locked in for four years in order to conform to the requirement of the Equity Tax Credit program. While money can be taken out earlier (at the Board's discretion), the investor must then repay the 30% Equity Tax Credit. At the conclusion of the four-year term, investors may either sell their shares to a third party or request the fund buy the shares back (depending on the funds liquidity profile). Approximately 10-20% of the total capital funds raised will be kept in liquid securities (GICs, Money Market, etc.). under the CEDIF program, NCII investments must be in the form of either an equity investment or subordinated debt.

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

Equity and subordinated debt (the board of directors prefers to use subordinated debt)

Other products/services delivered

NCII is a passive investment vehicle and offers no additional services other than referrals to other organisations.

Eligibility criteria for targeted financial vehicle/mechanism

Any active businesses within Antigonish, Guysborough, Inverness, and Richmond Counties is eligible. Applicants must expend at least 25% of their labour costs within Nova Scotia, and 90% of their assets must be engaged in carrying on active business. All assets, including any affiliated companies, must be valued at less than $50 million. Along with professional service providers (doctors, lawyers, etc.), charitable, non-taxable, and not-for-profit organizations are ineligible.

Methods for raising capital/paying operating expenses

Any resident of Nova Scotia over the age of 19 is eligible to invest in a CED Investment Fund, anywhere in the province. Fund investors profit from the following benefits:

- a 30 per cent tax credit available under the Equity Tax Credit
- a 20 per cent guarantee for four years from the time of investment
- pre-approved holding status for a self-directed RRSP

The minimum investment is $1000 (10 shares valued at $100 each). Investors at the minimum amount are made aware of the costs involved with maintaining a self-administered RRSP account (to allow them to forgo the RRSP option). A minimum non-RRSP investment still qualifies for a 30% equity tax credit.

Amount of capital raised and levered

By the end of February, 2001, the fund had attracted 49 investors for a total of $258,000.
By 2002, the fund had raised a further $480,000, and by 2003 another $600,000 for a total of nearly $1.4 million from 150 investors.

Disbursement/investment profile

NCII must invest at least 40% of the capital raised within the first 12 months, 60% within 24 months, and 80% of within 36 months of each offering's closing date. To date the fund has invested in only one company for $700,000. No losses have been incurred, and a financing decision is pending for a further three companies.

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure

The fund's shareholders elect the seven-member volunteer board of directors at every annual meeting; there are no outside directors, but at least six directors must be from the community.

Investment decision-making structure

A four-member investment committee makes financing recommendations to the full board, which makes the final decision. If more than 40% of a particular offering is to be invested in a single venture, then all shareholders must vote to make the decision.

Operating budget, resource level

While ARDA provides secretariat services, NCII directors also provide administrative services. Actual cash outlays have not exceeded $15,000.

Mechanism/level of community control

While no one person may own more than 20% of the fund, the majority of shareholders are presently from outside the fund's operational region.

Accountability structure

The program has two requirements to keep investors up to date: first, an annual auditor's report must be distributed to the shareholders; second, an annual general meeting must be held. Operational information on the fund is available to shareholder's only.

4. Outcomes

Performance data

The fund’s present rate of return is approximately 6.0%, which is in excess of the objective minimum return of 3.5%.

Client profile

The fund’s present client is a wood processor for the building supply market. The investment committee is also looking at expansion financing for ventures in water processing and tourism.

Firm-level impacts

The fund’s present client received financing for an expansion, which traditional sources were unlikely to fund.

Community impact

Funds activity to date has staved off a round of local layoffs.

4.18 Réseau Accès Crédit, Rimouski (Québec)

1. Background and Context

Community setting

Réseau Accès Crédit (RAC) is a community loan fund located in Rimouski. It serves the regional municipality of Rimouski-Neigette, a mostly rural and semi-rural area situated in the Bas St-Laurent region of Quebec.

Impetus/reason for creation

RAC was originally conceived as a community-based tool designed to fight poverty, economic and social exclusion, and out-migration to larger urban centres.

History, creation date

RAC was officially established in June of 2002 and was quickly off the starting blocks, offering its full range of services by December of that year.

Main purpose and mandate

RAC's main mission is to contribute to the economic and human potential of communities by offering technical assistance, counselling, and access to financing to individuals or organizations that have no or little access to conventional financial services.

Nature and scope of the vehicle/mechanism

RAC can be defined as a community loan fund that provides debt financing for individuals and businesses that have little or no access to conventional sources of funds.

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

Up to $15,000 in financing is available from RAC, and it can consist of loans, loan guarantees, or equity participation. Much of its realized investments to data, however, have been in the form of loans.

Other products/services delivered

Intrinsic to the concept of this community loan fund is the provision of counselling and technical assistance to borrowers. It can take the following forms: help in finalizing business plans; training; one-on-one counselling; project viability assessment; follow-up; etc.

Eligibility criteria for targeted financial vehicle/mechanism

Eligible borrowers can be self-employed individuals, for-profit businesses, not-for-profit enterprises, and co-operatives. Projects from all sectors of the economy are eligible, but projects that demonstrate positive and significant impacts on the community are given precedence. Projects should also demonstrate that they are based on a sound business plan and have a fair potential for long-term financial sustainability.

Methods for raising capital/paying operating expenses
Réseau Accès Crédit has been able to secure grant funding for operating expenses from the Government of Québec in both 2002-03 and 2003-04. Other funding partners have included foundations, charities, and a credit union. It also generate income through its investment activities, as it provides capital at the market rate plus 5%, for terms up to five years.

Amount of capital raised and levered
It received $60,000 last year and $80,000 this current fiscal year. In addition, in-kind contributions from partners have amounted to an estimated $8,000 in 2002-03 and $9,000 a year later.

Disbursement/investment profile
The table below outlines disbursement statistics and other data on the fund's investment activities up to now. On average, the organization disburses $35,000 a year in financing.

Loans, loan guarantees or bridges	*Current year*	*Cumulative*
Number of individual loans	5	8
Number of collective loans	1	1
Total value of loans	14,960 $	19,170 $
Average value of loans	2,493 $	2,130 $
Total project value	164,820 $	178,357 $
Projects located in rural areas	**2**	**4**
Projects located in semi-rural areas	**4**	**5**
Number of jobs created	16	19
Number of jobs maintained	16	19
Number of active project 2003-04 (support)	6	9
Balance outstanding on loans 2003-04	12,460 $	15,420 $
Default rate	0%	0%
Project failure rate	0%	0%

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure
RAC's Board of Directors is composed of seven volunteers, five of whom are elected by RAC membership, one is nominated by ATENA-Conseil, a partner and supporting organization, and the other member is selected by the Board.

Investment decision-making structure
Investment decisions are made by the organization's Loan Committee. The committee is composed of five members who are nominated by the Board of Directors: one person from the social development field; one from business/economic development; one financial analyst; one Board delegate; and the last one a borrower/user of RAC services.

The investment decision-making process is the following: (1) one of RAC’s analysts does a preliminary assessment of the proposal based on a detailed business plan; (2) the analyst sends a recommendation to the Loan Committee, which recommends or not approval based on the analyst’s recommendation; and (3) RAC’s Board of Directors grants final approval based on the Committee’s recommendation.

Mechanism/level of community control

RAC’s board composition provides one level of insurance that the organization is responsive to local priorities and issues. At another level, RAC works in close partnership with several locally-based development agencies in order to ensure that all local resources work together for maximizing the area’s social and economic development potential. In particular, it works with the area’s Centre local de développement, Community Futures Development Corporation, and others to provide business and developmental services in a timely and complementary fashion.

4.19 Réseau d'investissement social du Québec (RISQ)

1. Background and Context

Community setting

The Réseau d'investissement social du Québec (RISQ) operates throughout the province from a Montréal office. It is present in all regions of the province.

Impetus/reason for creation

In 1996, Quebec's social and economic forces were being mobilized, in the context of a provincial Summit on Employment and the Economy, in order to find solutions to some of the province's social and economic problems. A consensus emerged that social enterprises were essential to the social and economic development of the province's disadvantaged communities and neighbourhoods, and that they were severely under funded. The Quebec government, which was hosting the event, then agreed to provide start-up capital for an investment funds that would specialize in social enterprise financing, but only if the private sector would match its contribution.

History, creation date

The *Fonds de développement de l'économie sociale* was established in November, 1997 following the Summit on Employment and the Economy. The Banque nationale was the first private sector investor to commit itself to the fund, soon followed by other, large investors from the banking and other business communities. In August of 1998, it became the RISQ.

Main purpose and mandate

The RISQ is a not-for-profit venture capital fund whose mission is to provide financing to so-called *partnership businesses*. Its objective is to support the economic development of these businesses by "providing capital that can act as a financial level to implement their projects."

Nature and scope of the vehicle/mechanism

RISQ offers two main financing components: capitalization assistance and technical assistance.

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

Financial support for capitalization is designed to top up capital provided by other financial institutions. It takes the form of either loans or loan guarantees of up to $50,000. Terms of payment are flexible and designed to suit the specific needs of the applicant. In some cases, postponing of capital reimbursement is possible.

Financial support for the technical assistance component is provided to help applicants access consultants and specialists to conduct the services required for project development. It takes the form of a cash advance that is reimbursed only it the project is carried out, and it ranges from $1,000 to $5,000. It also requires the applicant to invest 10% of the technical assistance costs.

Other products/services delivered

RISQ has established a number of partnerships with various organizations as a means to promote social and economic development in the province of Quebec. For instance, it has co-invested in a co-operative development fund with Filaction, an investment fund created by one of Quebec's labour-sponsored investment funds. It has also entered into a formal partnership with the McConnell Foundation to coordinate the activities in Quebec of the Community Economic Development Technical Assistance Program, which is a national program managed by Carleton University.

Eligibility criteria for targeted financial vehicle/mechanism

Eligible recipients must be non-profit organizations and co-operatives. No collateral is required for the investments.

Methods for raising capital/paying operating expenses

RISQ's capital base has been constituted by contributions from the private sector and from the Quebec government, which provides matching funding.

RISQ generates revenue from its investment activities by charging interests at a rate based on the rate of a three-year guaranteed investment certificate plus 2-6%. An additional 1% of the allotted amount is also requested as an 'engagement commission.' Applicants requesting a financial contribution for technical assistance are asked to pay a $50 file procedure charge. In 2002, interests from investment activities amounted to almost $390,000, up from approximately $322,000 a year earlier.

Amount of capital raised and levered

RISQ's capitalization reaches approximately $10 million, half of which is made up of contributions from private sector investors.

Disbursement/investment profile

As of December 31, 2003, RISQ has invested in 294 social economic projects. The following table provides financial information on RISQ's investments as of that date.

Description	*Capitalization*	*Technical assistance*
Number of projects	136	158
RISQ involvement	$ 5 643 700	$ 778 843
Investments produced	$ 60 124 338	$ 2 313 304
Average investment	91%	66%
Jobs created	667	593
Jobs retained	1 199	632
Others jobs	331	380
Total	*2 197*	*1 605*
Number of jobs per project	16	10
Average cost per job	$ 2 569	$ 485
RISQ investment per project	$ 41 498	$ 4 929

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure

RISQ operates out of a central office with a nine-person staff complement, which includes three financial analysts, two are project officers, and one community development officer. Its Board od Directors is made up of 15 members, nine of whom come from the social economy domain, and the remaining six represent the main investors in RISQ's capital fund.

RISQ has also entered into formal partnerships with several community loan funds and community economic development corporations for the assessment and processing of applications falling under RISQ's Technical Assistance financing component. These partnerships allow the potential applicants easier, more decentralized access to RISQ.

Investment decision-making structure

A ten-member Investment Committee oversees RISQ's investment activities. Some of the members are also directors on RISQ's board, but most come from the province's investment, social development, and community economic development communities. The investment decision-making process is the following: investment proposals are prepared by RISQ staff, then sent for approval to the Investment Committee, and finally sent for endorsement to the Board of Directors.

Operating budget, resource level

In 2002, RISQ incurred expenses of more than $582,000 to cover its operating costs (excluding provisions for losses), up from $377,000 the year before.

Investee Profile: Recyclage Vanier

Recyclage Vanier specializes in paper recycling and the disposal of confidential documents. Established in 1984, this non-profit-making agency employs 35 persons who have major employment problems and helps them to acquire and develop skills and attitudes compatible with the work place. In 1998, the company had to acquire additional equipment and redesign its production area in order to ensure its growth and economic viability. The project required an investment of $ 110 000 and RISQ extended a long term loan of $ 46 000. With RISQ's aid, Recyclage Vanier will continue to provide a clean environment for future generations.
www.fonds-risq.qc.ca/english/financing_components.html

4.20 Small Business Financing Program, Nova Scotia

1. Background and Context

Community setting

The program is available at 39 credit unions throughout Nova Scotia.

Impetus/reason for creation

There is a perceived shift by larger lending institutions towards centralized decision-making and away from the administrative costs associated with smaller loans. According Nova Scotia Economic Development Minister, Cecil Clarke, access to capital is the single biggest issue for small businesses throughout Nova Scotia.

As well, co-operatives and credit unions have a long history of commitment to their local communities. The Small Business Financing Program is part of this commitment – helping to establish new business, grow existing business and empower entrepreneurs with the support they need to create employment for themselves and others.

History, creation date

The program was announced in June 2003.

Main purpose and mandate

The program will also target youth and disabled entrepreneurs in rural communities.

Nature and scope of the vehicle/mechanism

This program is available exclusively through credit unions in Nova Scotia, and can cover loans for working capital or lines of credit. The maximum loan amount is $150,000. The interest rate, terms, and conditions of the loan will be negotiated between the borrower and the individual credit union. The maximum term under this program is seven years.

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

Loans up to $150,000.

Other products/services delivered

The Nova Scotia Co-operative Council, a development agency, has a technical assistance division that can assist applicants with business plan development, incorporation, business analysis, etc. If there are any weaknesses in the business plan, the credit union may request that the applicant have a business mentor as a condition of the loan. The Nova Scotia Co-operative Council will work with such applicants to find a suitable mentor.

Eligibility criteria for targeted financial vehicle/mechanism

Residents of Nova Scotia who wish to start a small business and companies or co-operatives in the province who intend to grow their business are eligible for the program. With the exception of residential and commercial real estate as well as beverage rooms and taverns, all types of business are eligible. Any venture of a questionable ethical or legal nature is ineligible. Each application is evaluated on a case by case basis and on the strength of the business plan and viability.

Requirements include a business plan that shows the viability of the proposed venture, as well as information regarding the applicant's net worth, credit history and other information that is normally required when applying for a loan. The decision to grant a loan under this program will also involve other factors, so those with a less than perfect credit history are still eligible to apply.

Methods for raising capital/paying operating expenses
The province will provide loan guarantees of up to 75% for each loan, with the credit unions being responsible for the remaining 25%. There is a 1% administration fee on the total value of the loan, which is a guarantee fee payable by the lending credit union to the Provincial Department of Finance. The province will also provide $50,000 annually to cover operating costs for the three-year pilot.

Amount of capital raised and levered
The province is providing $6 million in loan guarantees, while the Credit Unions are providing $2 million.

Disbursement/investment profile
Given the program's brief history, data are not yet available.

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure
Participating organizations have a standard credit union operating structures. Loans are processed with existing staff.

Investment decision-making structure
Representatives of the Credit Unions and Nova Scotia Economic Development will approve the loan guarantees through regional committees – ensuring the decision-making stays in the local community. Once approved, the Credit Union will issue the loan and monitor compliance. Credit unions will evaluate the loan requests by following regular credit lending criteria. If an application does not fit normal lending criteria, but the credit union feels the business has potential for success, the credit union can apply for a loan guarantee to offset the risk. The credit union will work with the applicant to find security for the remaining 25% of the loan that is not guaranteed by the government, and for which a second guarantor may be required.

Operating budget, resource level
Given the program's brief history, data are not yet available.

Mechanism/level of community control
Community control is realised to the extent that all lending decisions are made at the local branch level of each credit union. For the loan guarantees, representatives of the Credit Unions and Nova Scotia Economic Development will make approvals through regional committees, which also

ensures decision-making at the local community level. Once approved, the Credit Union branch issues the loan and monitors compliance.

4.21 Small Business Loans Association, Saskatchewan

1. Background and Context

Community setting

Rural communities throughout Saskatchewan.

Impetus/reason for creation

The creation of the Small Business Loans Association (SBLA) Program is based on a realisation that retention and growth of businesses in a community is critical in retaining its population and tax base, and that a stable population is key to retaining schools and hospitals.

History, creation date

The program was introduced in 1989.

Main purpose and mandate

The purpose of the SBLA is to encourage diversification of the Saskatchewan economy and support community economic development by making funding available, through community-run organizations, to beginning and non-traditional entrepreneurs.

Nature and scope of the vehicle/mechanism

An SBLA can be formed by the incorporation of four or more community-based interest groups – individuals, partnerships, co-operatives or corporations. The SBLA can incorporate under the Business Corporations Act or the Co-operatives Act as either "for profit" or "non-profit." An SBLA may access an interest-free revolving line of credit of up to $100,000 from which it makes loans of up to $10,000 to new and existing businesses.

Businesses can use SBLA loans to purchase assets, such as equipment, but not for operating expenses or for repayment of existing debt. Interest rates vary up to a maximum of 10% per year, for a maximum term of five years. The principal is returned to Saskatchewan Industry and Resources, while the SBLA retains the interest to cover its administrative costs. Businesses cannot obtain loans from two or more SBLAs if the total amount of those loans exceeds $10,000.

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

Loans up to $10,000.

Other products/services delivered

The program is intended solely to provide financing, although business advisory services are often available from one of an SBLA's founding organisations (frequently a CFDC).

Eligibility criteria for targeted financial vehicle/mechanism

An SBLA judges businesses on their ability to create jobs and to add services to communities. Eligible businesses include companies that have experienced difficulty obtaining financing through traditional means. The ability of businesses to access traditional bank or credit union financing is also considered, as the intent of the program is to provide help to entrepreneurs who otherwise might not get started. Ineligible businesses include those engaged in direct farming, exploration (e.g., mining and oil extraction), residential real estate, multi-level marketing schemes, and charities.

Methods for raising capital/paying operating expenses
The Department of Industry and Resources may make interest free advances of up to $100,000 for any one Association. Security from the borrower is assigned by the Association to Saskatchewan Industry and Resources. An administration fee of $30.00 is also charged to cover operating expenses.

Amount of capital raised and levered
$100,000 per SBLA.

Disbursement/investment profile
By 2003, there were 279 SBLAs in the province, which made loans to 495 businesses for more than $3.4 million during 2001-2002 – an average of just under $7,000 per business. Since its inception in 1989, more than $42.5 million has been loaned to more than 8000 new and existing businesses.

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure
Varies by SBLA – with frequent CFDC involvement, the CF model tends to dominate.

Investment decision-making structure
In addition to a completed application form, a business plan, and a signed demand note with a general security agreement is submitted to the applicable association for review and for a determination to be made either to approve or to decline the loan application. Once a particular SBLA approves an application, it forwards the request to the provincial government for final approval.

For example, South Central CFDC administers four Small Business Loan Funds in the region.

- supplying loans to a maximum of $10,000
- providing financing for capital purchases and inventory
- interest rate of prime less 1% (minimum of 6%)

Operating budget, resource level
The program's operating expenses are paid out of the interest earned from loans.

Mechanism/level of community control
The general structure of an SBLA – incorporation of four or more community-based interest groups – provides a significant amount of control for its constituent communities.

4. Outcomes

Firm-level impacts

Loans clients are start-ups and expansions that would otherwise not have gone forward with their venture.

Community impact

For the year 2002 – 2003, over 1100 jobs, primarily in rural regions, were created or maintained; since 1989, almost 17,000 jobs have been created.

One Example: Cornerstone Regional Small Business Loans Association (CFDC Model)

PURPOSE

To provide business development opportunities to the non-traditional entrepreneur and to extend financing beyond the traditional lenders scope to contribute to the success of the small entrepreneur.

To expand the economic base of rural Saskatchewan by involving existing businesses and associations to assist small start-up or existing businesses in their communities.

To encourage the formation and support the continuance and retention of existing small businesses by providing financial assistance under the SBLA program. The goal is to make small loans available to assist in the creation and development of new and existing businesses.

ELIGIBILITY

The following four areas are not eligible for lending under the Industrial Development Act: direct farming, direct selling or multi-level marketing; exploratory (mining, oil extraction); charitable organizations; residential real estate.

INTEREST RATE

The interest rate shall be fixed for the term of the loan. The interest rate for a loan shall be that which is in effect for the association at the time a loan is approved and a letter of offer is given to the client. The present rate is 6%. Interest shall be calculated monthly.

LOAN SIZE

The maximum size of loan, loan guarantee and/or equity financing to any applicant, or enterprise, may not exceed $10,000 as stipulated in the contract with Saskatchewan Economic & Co-operative Development.

LOAN TERM

The maximum term and amortization period of a loan shall be five (5) years. Repayment of all loans will normally be amortized over the agreed upon term. The term of a loan shall not exceed the estimated lifetime of the assets purchased with loan proceeds. The repayment schedule shall be flexible and at the discretion of the loans committee. There will be no penalty charge for prepayment of loans.

SECURITY

All loans will be secured by way of Promissory Note which will be supported by security available and will be documented by legal council where deemed appropriate. The association will be flexible in taking security but may include mortgages on real property and chattels, personal property security agreement which include the assignment of book debts, personal guarantee, floating and fixed debentures and any other appropriate security including the assignment of insurance proceeds.

Six (6) month's post-dated cheques in the amount of the loan repayment will be required throughout the length of the term.

A $30.00 Administration Fee will be charged.

4.22 Social Capital Partners, Toronto (Ontario)

1. Background and Context

Community setting

Established in Toronto, Social Capital Partners (SCP) has a national mandate and, therefore, does not limit its interventions to a specific geographical area or community.

Impetus/reason for creation

Much of the impetus for the creation of SCP came from Bill Young (SCP's actual President) who, prior to founding SCP, had been a successful entrepreneur for twenty years. Mr. Young was intrigued by the concept of a social enterprise and its potential for effectively meeting both social and economic development objectives.

History, creation date

SCP was formed in early 2001 to fulfill a vision of large-scale social change by investing in non-profit organizations that can be defined as social enterprises. The original investing strategy was based on the concept of *venture philanthropy*. Part of the vision was for SCP to become a principal force for creating the conditions for social enterprises to flourish in Canada.

Main purpose and mandate

SCP's mission is to invest in and incubate revenue-generating social enterprises that employ populations outside the economic mainstream in Canada. Particular attention is given to support enterprises that will be able to grow and eventually exist without external funding, and to create social outcomes and financial self-sufficiency for the target populations they employ.

Nature and scope of the vehicle/mechanism

The assistance provided by the organization is multi-faceted and includes, besides a wide range of financing options, other forms of non-monetary assistance. The assistance is customized to fit the needs of the recipient organization as it goes through its various stages of development.

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

SCP financing is eminently flexible and is designed to fit the particular needs of the recipient organization according to its size, scope, and stage on its lifecycle. That said, it can fit one or more of the following categories: grants; low interest loans; and equity/near equity (subordinated or convertible debt). The amounts vary but normally fall under the following ranges:

- Grants: $20-100,000
- Loans: $30-200,000 per round of financing
- Equity/near equity: $100-500,000 per round of financing.

Other products/services delivered

As said earlier, the organization provides a wide range of non-financial support, including: business plan or strategy development; market and financial analyses; advisory review; fundraising assistance; legal support; management team recruiting support; board planning; social mission integration; etc.

SCP is providing these forms of support based on a three-stage model of intervention, each stage with a unique set of goals and expected outcomes. *Stage 1: Viability* is designed to give SCP a chance to assess the feasibility of the recipient's business plan and develop a longer term relationship between the two. *Stage 2: Strategy Review and Formulation* is set to last between 3 to 6 months, and focuses on setting the strategic direction for the enterprise from both a financial and a social standpoint. *Stage 3: Ongoing Support* can last up to 5 years and is centered around helping the enterprise execute its growth strategy. Much of the non-financial assistance provided by SCP is made possible through a partnership the organization has with the Monitor Company, an international strategy consulting company originally formed by Michael Porter and others.

Eligibility criteria for targeted financial vehicle/mechanism

Two types of organizations are eligible to receive assistance from SCP: (1) social enterprises: businesses that employ groups who have significant employment barriers and create employment in a supportive environment for at-risk populations; and (2) community economic development (CED) enterprises: businesses that create employment in geographically identifiable, economically depressed communities. The latter category is of particular relevance to access to capital issues for rural and remote communities.

Methods for raising capital/paying operating expenses

Private donations, most notably from SCP's founder, constitute the main revenue generation stream that SCP can count on for both investment purposes and for its operating expenses.

Amount of capital raised and levered

The total amount of money available to cover both investing and operating expenses is estimated at $10 million. No information is currently available of SCP's leveraging track record.

Disbursement/investment profile

Although its mandate does not preclude it, SCP has not yet invested in social or CED enterprises located in rural or remote areas. So far, SCP has invested $540,000 in loans, grants and equity, and its investment portfolio is comprised of six social enterprises. The following provides a break down of SCP investments so far:

Organization name	*Location*	*Type/amount of financing received*
Pivotal Services	London	• $200,000 loan
Inner City Renovations	Winnipeg	• $50,000 equity/grant • $25,000 unsecured subordinate debt • $25,000 equity/grant in second round financing
Turnaround Couriers	Toronto	• $60,000 loan
Montrealite	Montreal	• $30,000 loan • $30,000 grant/equity

Evergreen Gardens	Toronto	• $60,000 equity/grant
LEF Helpdesk	Toronto	• $60,000 equity/grant

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure

SCP is registered as a not-for-profit organization but so far has been unable to fit the requirements to become a registered charity. It operates out of a small Toronto office, and its staff is made up of a President; a Director for Social Investments; a Director for Social Returns; and a small administrative staff. In addition, the organization has established a formal partnership with the Monitor Group, which provides overall guidance as well as specialized expertise in all aspects of supporting and nurturing social enterprises.

SCP has also put together two advisory structures, an Advisory Board and a Youth Advisory Group. The former is made up of established business and community leaders and provides advice on specific funding proposals, while the latter ensures that the needs of youth, particularly those in disadvantaged situations or communities are factored into the organization’s priorities and activities.

Investment decision-making structure

Social enterprises wanting to access SCP financing and other forms of support must go through a rigorous selection process. Due diligence is conducted using a formal, multi-stage process and once funding has been approved, there is an expectation that SCP and relevant members of the investee company will meet at least once a month. In a nutshell, SCP looks at the individual qualities of the social enterprise promoter/owner, and a successful business plan that outlines what the social, economic and financial mission and feasibility are. In order for a social enterprise to receive a grant, it must act in coordination with a registered charity. Other types of financing have their own set of eligibility criteria.

Mechanism/level of community control

Given its structure and the nature of its activities, SCP does not formally embody a community-based control mechanism. However, its reliance upon two advisory groups for overall guidance and specific, project-specific expertise means that SCP is potentially well-connected to issues of concerns to community groups across the country.

Accountability structure

Since the organization operates primarily out of private donations and, therefore, does not depend on public or multi-source funding, it does not operate on the basis of a formal accountability structure or process.

4.23 Waterloo Ventures, Waterloo

1. Background and Context

Community setting

The Waterloo area – because Waterloo Ventures (WV) emphasize hands-on involvement with companies, it will only consider opportunities in Waterloo Region or within a short drive – roughly between London and Guelph. Companies that are outside this area but willing to relocate there are welcome to submit.

Waterloo forms part of what local pundits call the "Technology Triangle," an area in southwestern Ontario, about 70 miles southwest of Toronto, comprising Kitchener, Waterloo and Guelph, with a population of about 325,000. The town's biggest employers are insurance firms -some of Canada's largest insurance companies are based there. Its high-tech role evolved in the 1980s, thanks primarily to its two large universities, the University of Waterloo and Wilfrid Laurier University.

Impetus/reason for creation

To get more seed capital into the community.

History, creation date

Waterloo Ventures was created in September, 1999 by Working Ventures Canadian Fund, a 10-year-old nationwide fund that already with investments of more than $500 million, under the Ontario Community Small Business Investment Fund (CSBIF) program. Under this provincial legislation, community investment funds must be sponsored by a municipality or educational institution. Wilfrid Laurier University and Conestoga College agreed to co-sponsor Waterloo Ventures after being approached. It is currently managed by Tech Capital Partners, a private investment company.

Main purpose and mandate

WV's mission is to help entrepreneurs build world-class technology companies. It provides financing to early-stage high-technology companies in the Kitchener-Waterloo area with less than $1 million in assets and fewer than 50 employees.

Nature and scope of the vehicle/mechanism

Core focus for funding is on early stage companies in Internet technologies, wireless and photonics. WV is particularly interested in Internet and networking companies, which must have less than a million dollars in revenue and assets and fewer than 50 employees to qualify. Initial investments were no more than $250,000. Originally, the fund was to invest in companies "affiliated" with UW, Laurier, and Conestoga, where affiliation is defined as using technology developed at the schools, employing graduates, or "having connections with professors" of the schools (it is unclear if this still stands). The fund is limited to putting a maximum of 20% of its assets in any one deal.

Tech Capital, the WV fund manager, typically expects to invest about $1-3 million in a company, split between a seed round and follow-on investments (from Waterloo Tech Capital fund). While WV has a broad technology focus, it limits investments to companies in industries where its experience and contacts will be of most value. Thus, it is unlikely to invest in biotechnology, medical devices, service firms, or consumer product developers.

WV is set up under federal rules as a labour-sponsored investment fund, which is a program that allows labour-sponsored venture capital funds to avoid paying penalty taxes they have incurred after failing to meet government investment deadlines (labour-sponsored funds are designed to address the needs of companies which are too small to be able to get financing from larger venture capitalists and other traditional lenders).

2. Financial Dimensions of the Vehicle/Mechanism

Types of financing products/services

Equity participation.

Other products/services delivered

Tech Capital takes an active role in building companies by recognizing commercializable Intellectual Property (IP), helping to develop this IP into marketable technology, and assisting the entrepreneur with financial and marketing expertise. The partners work with the entrepreneur on areas such as recruiting a management team, clarifying strategy, financial planning, establishing business alliances, and working through management issues. WV provides a broad network of existing relationships with lawyers, recruiters, accountants, financial service firms and potential technology partners. When a company is ready to attract additional rounds of capital, WV also helps to identify potential venture partners.

Eligibility criteria for targeted financial vehicle/mechanism

WV is unlikely to invest in technologies that are more than a year or two away from commercialization. Venture funds have a limited lifespan and WV needs to deliver a return to its investors within the life of the fund. While WV looks for the nucleus of a strong technical team on which to build, it does not expect, or even want, the company to have a complete management team. Part of the process will be to help the company put the right people in place.

Methods for raising capital/paying operating expenses

Lead investor: Working Ventures Canadian Fund
Sponsors: University of Waterloo, Wilfrid Laurier University, Conestoga College

Amount of capital raised and levered

Initial fund size: $5 million
Current fund value: $10 million (approximately)

3. Organizational Dimensions of the Vehicle/Mechanism

Operational structure

WV has a six-member board of directors representing:

- Tech Capital Partners, fund manager
- Wilfrid Laurier University School of Business and Economics
- Waterloo Ventures, chair

- Conestoga College School of Business, vice-president
- Open Options Corp., president
- Working Ventures Canadian Fund, vice-president

SOME INVESTMENT HIGHLIGHTS BY WATERLOO VENTURES

COVARTY INC., KITCHENER, ONTARIO
Covarity helps financial institutions reduce credit risk and automate commercial credit administration through Business Process Management (BPM) solutions. ClearCreditTM, Covarity's flagship solution, is a real-time, workflow-driven, Loan Monitoring, Review and Management (LRAM) solution that automates credit risk management and administration. The company was founded in December 2001 by Jeff Fedor who is now the company's Chief Technology Officer. Ron Shuttleworth, an experienced technology entrepreneur, heads up the management team. Covarity received seed financing from Tech Capital Partners (Waterloo Tech Capital and Waterloo Ventures).
SEED FINANCING: $2 million (March 2003)

SANDVINE INCORPORATED, WATERLOO, ONTARIO
Sandvine Incorporated helps service providers build more profitable subscriber relationships and better manage the growing burden of peer-to-peer (P2P) file-sharing traffic. The company was founded by Don Bowman, Dave Caputo, Tom Donnelly, Marc Morin and Brad Siim, a team that worked closely together at PixStream Incorporated. PixStream was founded by Morin and Siim in 1996 and sold to Cisco Systems in December 2000. Sandvine received seed financing from Celtic House, VenGrowth, Tech Capital Partners (Waterloo Ventures and Waterloo Tech Capital) and the Business Development Bank of Canada.
SEED FINANCING: $19.5 million (September 2001)

SiRiFIC WIRELESS CORPORATION, WATERLOO, ONTARIO
SiRiFIC Wireless Corporation is a Fabless Semiconductor RFIC Company whose unique reconfigurable RF technology is the platform for innovative multi-standard transceiver products. Patent-pending SiRiFIC technology enables a reconfigurable, multiple standard RF receiver and transmitter, integrated and manufactured in 0.18µm RF CMOS. The company was founded in 2000 by Taj Manku, associate professor with the University of Waterloo's department of Electrical and Computer Engineering. SiRiFIC received seed financing from Tech Capital Partners (Waterloo Ventures) and Solowave Investments.
SEED FINANCING: $1 million (June 2000)
COMMON SHARE ROUND: $10 million (November 2000)
FIRST PREFERRED SHARE ROUND: $18 million (November 2002)

VIDEOLOCUS INC., WATERLOO, ONTARIO
VideoLocus was acquired by LSI Logic Corporation (November 2002) VideoLocus developed next-generation video compression and processing technologies. The company was founded by four former members of PixStream/Cisco's advanced engineering team: Mate Prgin, Lowell Winger, Guy Cote and Michael Gallant. VideoLocus received seed financing from Tech Capital Partners (Waterloo Ventures and Waterloo Tech Capital).
SEED FINANCING: $600,000 (June 2001)

5. ANALYSIS OF FINDINGS

This chapter provides an analysis of the findings that can be drawn from the descriptions of financing vehicles and mechanisms contained in Chapters 3 and 4. An important caveat needs to be made: the sample of financing mechanisms and vehicles that are profiled in this report are not necessarily representative of all financing vehicles that fall under the project's scope. They were selected on the basis of criteria related to effectiveness, community control, decision-making, capacity building, and innovation, as explained in Chapter 2. As a result, the generalizations and comparisons made here should be interpreted with caution, and are provided as a means to inform discussions about what works and what does not, and under which circumstances.

5.1 A typology of financing vehicles and mechanisms

Chart 1 below provides an overview of the profiled vehicles' and mechanisms' key characteristics. It focuses on the following aspects of each vehicle's operations: types of financing provided; target populations; operational structure; and size/origin of the capital base. These functional aspects are discussed in this section, except for information about the origin of the capital base, which is discussed in the following section (*How successful are the mechanisms in attracting/raising capital?*). Taking these dimensions one by one, some useful observations can be made.

Types of financing available

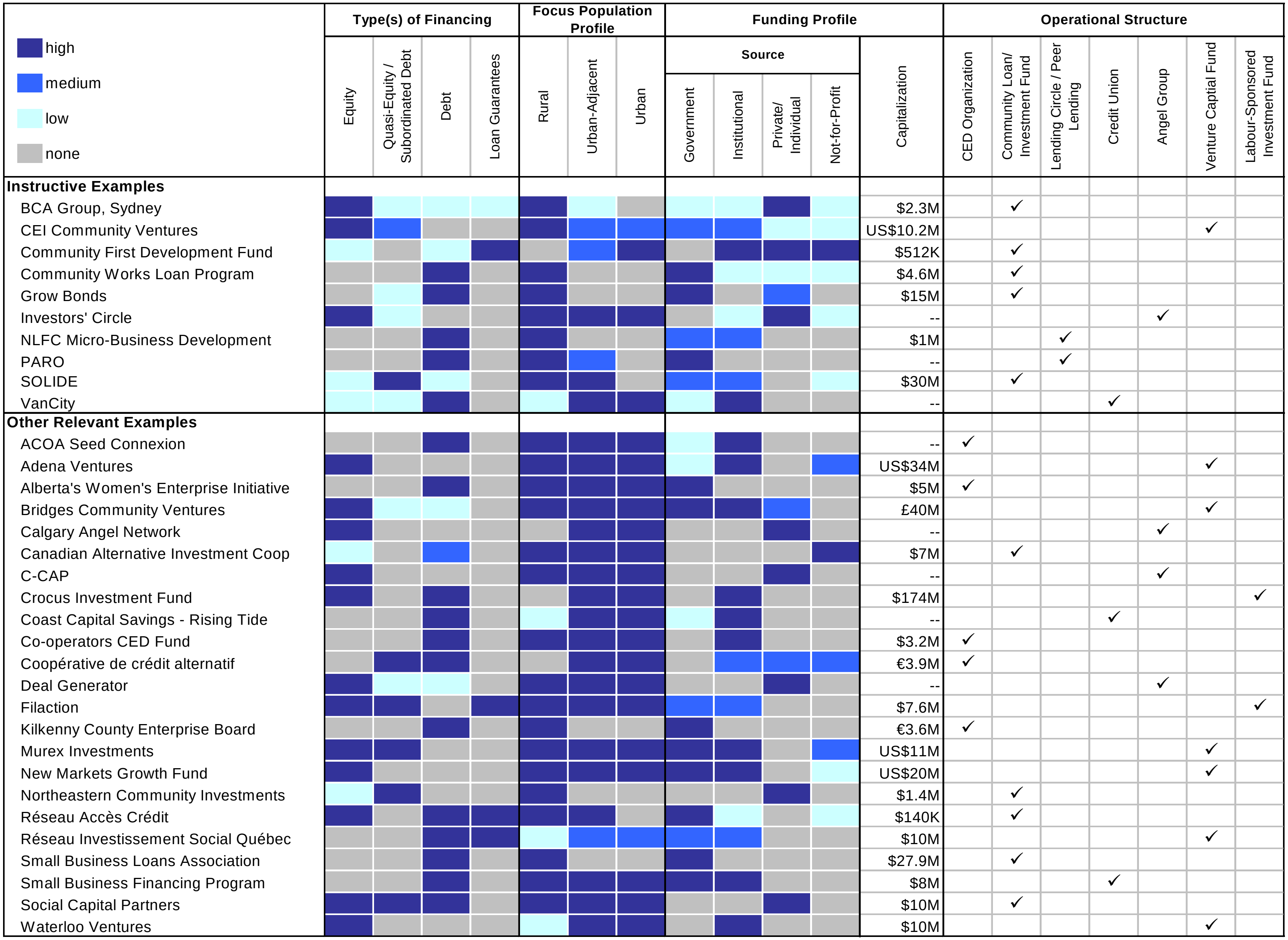
Overall, debt financing is used most often by a majority of financing vehicles: nearly 70% of all vehicles provide debt financing, and almost half of those provide debt financing exclusively. These findings are consistent with the literature, which underscores that SMEs and the self-employed (which are important target groups for a majority of the profiled vehicles) have a preference for this type of financing.

At the other end of the spectrum, equity is offered by 61% of all vehicles, but only 3 of 20 vehicles offer equity exclusively. Two of these specialized vehicles are US-based venture capital funds, suggesting that there is relatively little specialized venture capital activity taking place in Canada with relevance to rural and northern communities.

Another type of financing that is not very common is *loan guarantees*. Only 5 of the 33 profiled vehicles, or 15%, offer this type of financing, which is somewhat surprising as loan guarantees are often seen by community economic development practitioners as strategically important instruments for SMEs, micro-businesses, and self-employed individuals with little or no collateral (Canadian CED Network, 2003).

Perhaps more interesting is that only one of the profiled vehicles – the BCA Group based in Sydney, Nova Scotia – provides financing of all types (although it favours equity financings). This finding would suggest that it is difficult for locally-based organizations, or organizations serving a local/regional capital market, to assemble the critical mass of resources and expertise that will allow diversification and flexibility. Although it operates with a relatively small capital base and in

Chart 1: Key characteristics of profiled financing vehicles and mechanisms



- ■ high
- ▦ medium
- □ low
- ░ none

	Type(s) of Financing				Focus Population Profile			Funding Profile					Operational Structure						
								Source											
	Equity	Quasi-Equity / Subordinated Debt	Debt	Loan Guarantees	Rural	Urban-Adjacent	Urban	Government	Institutional	Private/ Individual	Not-for-Profit	Capitalization	CED Organization	Community Loan/ Investment Fund	Lending Circle / Peer Lending	Credit Union	Angel Group	Venture Capital Fund	Labour-Sponsored Investment Fund
Instructive Examples																			
BCA Group, Sydney	■	□	□	□	■	□	░	□	□	■	□	$2.3M		✓					
CEI Community Ventures	■	▦	░	░	■	▦	▦	▦	▦	□	□	US$10.2M						✓	
Community First Development Fund	□	░	□	■	░	▦	■	░	■	■	■	$512K		✓					
Community Works Loan Program	░	░	■	░	■	░	░	■	□	□	□	$4.6M		✓					
Grow Bonds	░	□	■	░	■	░	░	■	░	▦	░	$15M		✓					
Investors' Circle	■	□	░	░	■	■	■	░	□	■	□	--					✓		
NLFC Micro-Business Development	░	░	■	░	■	░	░	▦	▦	░	░	$1M			✓				
PARO	░	░	■	░	■	▦	░	■	░	░	░	--			✓				
SOLIDE	□	■	□	░	■	■	░	▦	▦	░	□	$30M		✓					
VanCity	□	□	■	░	□	■	■	□	■	░	░	--				✓			
Other Relevant Examples																			
ACOA Seed Connexion	░	░	■	░	■	■	■	□	■	░	░	--	✓						
Adena Ventures	■	░	░	░	■	■	■	□	■	░	▦	US$34M						✓	
Alberta's Women's Enterprise Initiative	░	░	■	░	■	■	■	■	░	░	░	$5M	✓						
Bridges Community Ventures	■	□	□	░	■	■	■	■	■	▦	░	£40M						✓	
Calgary Angel Network	■	░	░	░	░	■	■	░	░	■	░	--					✓		
Canadian Alternative Investment Coop	□	░	▦	░	■	■	■	░	░	░	■	$7M		✓					
C-CAP	■	░	░	░	■	■	■	░	░	■	░	--					✓		
Crocus Investment Fund	■	░	■	░	░	■	■	░	■	░	░	$174M							✓
Coast Capital Savings - Rising Tide	░	░	■	░	□	■	■	□	■	░	░	--				✓			
Co-operators CED Fund	░	░	■	░	■	■	■	░	■	░	░	$3.2M	✓						
Coopérative de crédit alternatif	░	■	■	░	░	■	■	░	▦	▦	▦	€3.9M	✓						
Deal Generator	■	□	□	░	■	■	■	░	░	■	░	--					✓		
Filaction	■	■	░	■	■	■	■	▦	▦	░	░	$7.6M							✓
Kilkenny County Enterprise Board	░	░	■	░	■	░	░	■	░	░	░	€3.6M	✓						
Murex Investments	■	■	░	░	■	■	■	■	■	░	▦	US$11M						✓	
New Markets Growth Fund	■	░	░	░	■	■	■	■	■	░	□	US$20M						✓	
Northeastern Community Investments	□	■	░	░	■	░	░	░	░	■	░	$1.4M		✓					
Réseau Accès Crédit	■	░	■	■	■	■	░	■	□	░	□	$140K		✓					
Réseau Investissement Social Québec	░	░	■	■	□	▦	▦	▦	▦	░	░	$10M						✓	
Small Business Loans Association	░	░	■	░	■	░	░	■	░	░	░	$27.9M		✓					
Small Business Financing Program	░	░	■	░	■	■	■	■	■	░	░	$8M				✓			
Social Capital Partners	■	■	■	░	■	■	■	░	░	■	░	$10M		✓					
Waterloo Ventures	■	░	░	░	□	■	■	░	■	░	░	$10M						✓	

a small local market, the BCA Group is able to offer a wider range of financial products by: (1) relying on local volunteers who have technical expertise – university professors in finance, law, etc., and (2) aligning its dual operational structure with the nature of the investment activities in which BCA specializes, with one structure focusing on property investments and the other on more speculative, commercial and industrial ventures.

Target population

Chart 1 outlines the different populations targeted by the profiled financing vehicles. Reflecting the selection criteria that were used to distinguish *instructive* from *relevant* examples, 8 of the 10 instructive examples place an important focus on rural- or northern-based clients. Furthermore, 3 of these 8 focus exclusively on clients from these areas. The remaining vehicles on the list of *relevant* examples tend to target clients located in various jurisdictions, as they are national or regional in scope, or they operate in provinces/states that are highly urbanized. By contrast, most of the *instructive* examples are situated in predominantly rural provinces or states.

It is worth noting that very few of the profiled vehicles – the exceptions being Manitoba's Community Works Loan Program and Grow Bonds, Newfoundland's NLFC Micro-Business Development, Saskatchewan's SBLA, and Ireland's Kilkenny County Enterprise Board – target exclusively clients from rural and remote areas. This finding indicates that it is more challenging – perhaps because lack of demand prevents economies of scale, and access to specialized resources is difficult – for a vehicle to meet the financing needs of rural and northern clients exclusively.

Operational structure

Not surprisingly, the ways in which the profiled financing vehicles structure themselves in order to fulfill their mission vary markedly from one organization to the next. That said, a few observations can be made on the basis of the information on *operational structure* in Chart 1. First, a majority of the profiled financing vehicles are relatively specialized, in that from the start they are set up with a unique, specific financing/investing mandate. Community loan/investment funds and lending circles – almost half of all profiled vehicles – fall under this category. To the extent that these vehicles are successful in fulfilling their mandate, this finding suggests that it may be more effective to set up single-purpose entities in order to meet specialized financing needs, rather than expanding the mandate of existing organizations.

Second, a majority of the profiled vehicles, either from the *instructive examples* or the *relevant examples* category, operate as not-for-profit organizations, whether they be community investment funds (the most prevalent operational structure), CED organizations, angle investor groups, or lending circles. Such a finding is consistent with the nature of their mandate, which is often closely tied to the achievement of (non-lucrative) social and economic development objectives.

In this context, it is useful to think of several of the more specialized financing vehicles as *development funds*, as opposed to strictly *investment funds.* The latter see financial viability as the first priority, while the former more typically integrate the achievement of social and economic objectives into their mandate. Of course, several of the highlighted investment funds also have a development mandate, but it does not come at the expense of the financing bottom line. Several *development funds*, by contrast, provide financing as one of several products and services, and they do not necessarily anticipate generating a profit or surplus from their investing activities. These funds normally depend on government funding to a larger extent, and some observers have argued that it is unreasonable to expect financial self-sustainability from development funds (more on this issue in the following section).

Size of the capital base

As indicated in Chart 1, the capital base of the profiled vehicles varies from $140,000 for Québec's Réseau Accès Crédit to $174 million for the Crocus Investment Fund (although this amount is not reflective of Crocus' investments in rural- or northern-based businesses). Reflecting the size of their market and geographical base of operations, the US-based vehicles are those with the largest capital base and also tend to invest larger amounts of money on average.

Focusing on the Canadian-based examples that have a strict rural or northern focus – this would include the BCA Group, the Community Works Loan Program, Grow Bonds, Northeastern Community Investments, and the Small Business Loans Association – it is clear that the single-purpose financing vehicles operating in Canada's rural and northern communities tend to be very small (the exception is the government-funded SBLA program). This finding supports the notion that there is currently little capital specifically targeted at rural- and northern-based SMEs outside of the 'traditional' sources of funds.

5.2 How successful are the financing vehicles in attracting/raising capital?

Based on Chart 1 above, it appears that very few of the highlighted cases are dependent entirely on government sources for their capitalization. Indeed, in the Canadian context only PARO (Northern Ontario), the Alberta's Women's Enterprise Initiative Association, and Saskatchewan's Small Business Loans Association fall under this category. Although government may not be the sole or the most important contributor to several vehicles' capital base, it does provides core or project-based funding in a large number of cases; government remains an important, but by no means the sole financial contributor.

The flip side of this observation is that the financing vehicles that are categorized as *instructive examples* are generally more successful in diversifying their sources of capitalization than those in the *relevant examples* category. Although government may be an important contributor to their capital base, a majority of the instructive examples are able to access other sources as well. That said, private sources of capital – which include individuals and private sector businesses – are not tapped to a very large extent. This characteristic is shared with nearly all of the vehicles in the *relevant examples* group.

Not surprisingly, several of the financing vehicles that depend entirely on private sources of capital are angel groups. These groups are not really involved in *raising* capital, since their primary function revolves around facilitating deal making or providing an interface between investors and potential investees. Excluding these organizations leaves very few examples of organizations that have actually tapped local savings at the individual level as a means to constitute their capital base. These examples include the BCA Group, Grow Bonds, and Northeastern Community Investments, and their success at accessing local savings appears to be largely dependent on investor incentives in the form of tax credits.[6]

Is financial self-sufficiency an achievable goal?

Financial self-sufficiency is a particularly acute issue for small, community-based vehicles or mechanisms that cannot count on government funding to cover their costs. A few, such as the BCA Group in Sydney and the Community Development Bond Corporations in Manitoba, make due without any paid staff, while a much larger number have contractual service delivery agreements with various provincial and federal departments that allow them to cover some of their costs.

The crux of the financial self-sufficiency issue is that transaction costs – proposal preparation and assessment, risk assessment, due diligence, etc. – are much higher in relative terms for small investments than for larger ones. One way for investment funds that operate in rural/remote areas to tackle this difficult issue is to be close to their investees and to rely extensively on social networks for character assessment. Proximity can substantially reduce access to information costs, decrease risk through personal knowledge of applicants, and ultimately reduce losses.

This point has been corroborated by recent studies on community investment. For example, the SIO in its 2003 *Study of Community Investment in Canada* noted that “it has proven very difficult for community investment funds to cover operating costs through the generation of interest and administration fees alone . . .” Many funds are constantly struggling to find operating funds, which threatens their stability and taking energy away from lending activities.”

As noted by the SIO (2003), one way for local and regional funds to tackle this difficult issue has been to seek charitable status in order to apply for money from charitable foundations and offer tax receipts to individuals. Another has been to rely upon specialized volunteer expertise for project assessment and due diligence.

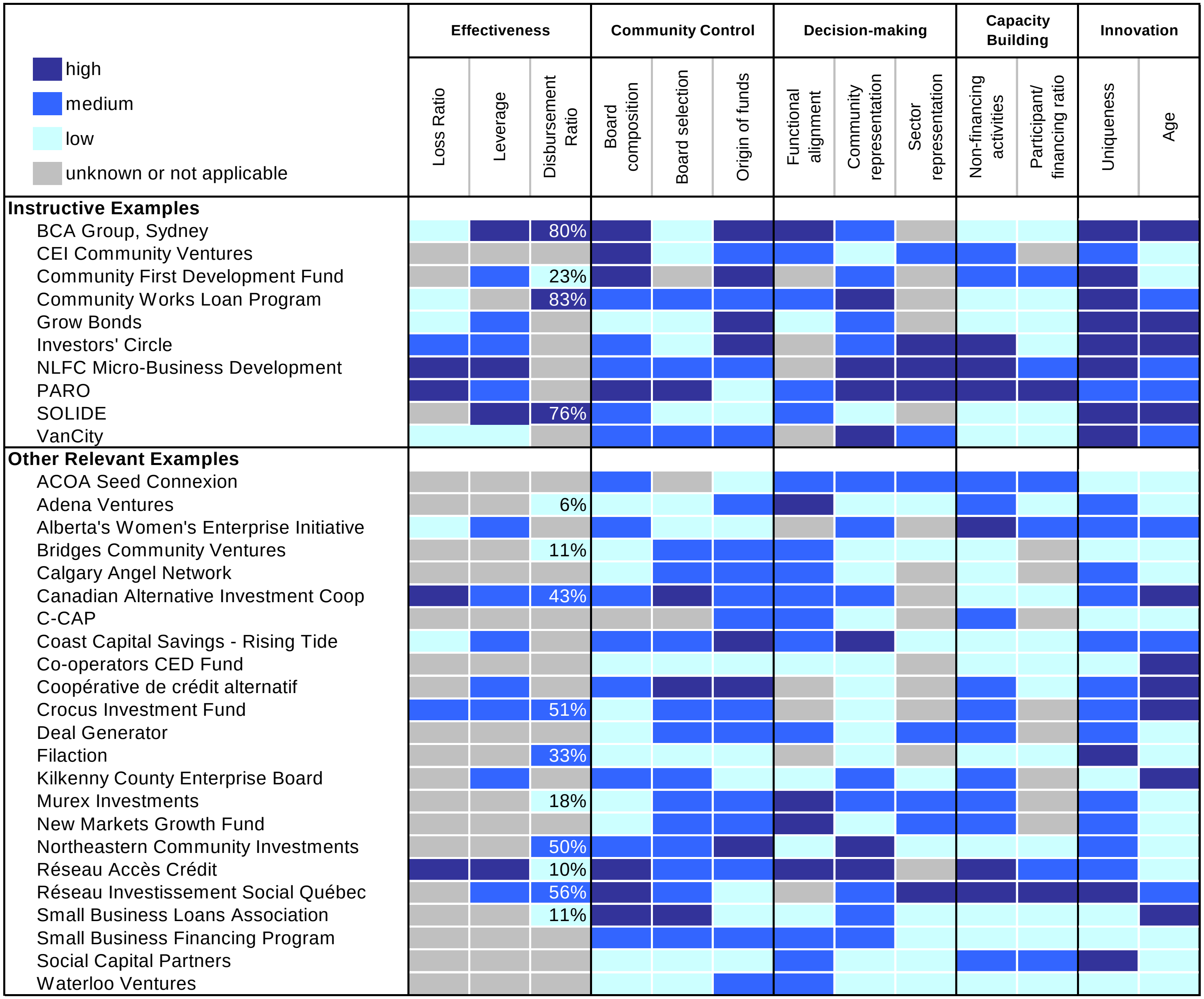
5.3 How successful are the financing vehicles at providing capital to SMEs?

Several possible indicators of success can be considered when trying to determine how successful the profiled financing vehicles are at providing capital to SMEs, but no single one can provide a complete picture. On the one hand, the disbursement rate is an indicator that may inform us on the capacity of the vehicles to invest their capital fully. Unfortunately, lack of data prevents us from making any generalizations on the basis of this indicator (see Chart 2 for these data).

---

[6] It remains to be seen if these tax credits can be considered ‘good investments’ from a public policy standpoint. Given the Grow Bonds Program’s relatively high default rate and the ensuing financing cost to government, it would seem difficult to make the case for tax incentives, although Jackson and Lamontagne (1995), in a study of investment activity by labour-sponsored investment funds (which benefit from tax credits of the same magnitude as the financing vehicles discussed here) found a positive fiscal return on investment after a relatively short period of time. These findings may have relevance in the case of the tax credits inherent to the BCA Group and the Northeastern Community Investments.

Chart 2: Qualitative aspects of the financing vehicles and mechanisms



🟪 high
🟦 medium
⬜ low
▒ unknown or not applicable

	Effectiveness			Community Control			Decision-making			Capacity Building		Innovation	
	Loss Ratio	Leverage	Disbursement Ratio	Board composition	Board selection	Origin of funds	Functional alignment	Community representation	Sector representation	Non-financing activities	Participant/ financing ratio	Uniqueness	Age
Instructive Examples													
BCA Group, Sydney	⬜	🟪	80%	🟪	⬜	🟪	🟪	🟦	▒	⬜	⬜	🟪	🟪
CEI Community Ventures	▒	▒	▒	🟪	⬜	🟦	🟦	⬜	🟦	🟦	▒	🟦	⬜
Community First Development Fund	▒	🟦	23%	🟪	▒	🟪	▒	🟦	▒	🟦	🟦	🟪	⬜
Community Works Loan Program	⬜	▒	83%	🟦	🟦	🟦	🟦	🟪	▒	⬜	⬜	🟪	🟦
Grow Bonds	⬜	🟦	▒	⬜	⬜	🟪	⬜	🟦	▒	⬜	⬜	🟪	🟪
Investors' Circle	🟦	🟦	▒	🟦	⬜	🟪	▒	🟦	🟪	🟪	⬜	🟪	🟪
NLFC Micro-Business Development	🟪	🟪	▒	🟦	🟦	🟦	▒	🟪	🟪	🟪	🟦	🟪	🟦
PARO	🟪	🟦	▒	🟪	🟪	⬜	🟦	🟪	🟪	🟪	🟪	🟦	🟦
SOLIDE	▒	🟪	76%	🟦	⬜	⬜	🟦	⬜	▒	⬜	⬜	🟪	🟪
VanCity	⬜	⬜	▒	🟦	🟦	🟦	▒	🟪	🟦	⬜	⬜	🟪	🟦
Other Relevant Examples													
ACOA Seed Connexion	▒	▒	▒	🟦	▒	⬜	🟦	🟦	🟦	🟦	🟦	⬜	⬜
Adena Ventures	▒	▒	6%	⬜	⬜	🟦	🟪	⬜	⬜	🟦	⬜	🟦	⬜
Alberta's Women's Enterprise Initiative	⬜	🟦	▒	🟦	⬜	⬜	▒	🟦	▒	🟪	🟦	🟦	🟦
Bridges Community Ventures	▒	▒	11%	⬜	🟦	🟦	🟦	⬜	⬜	⬜	▒	⬜	⬜
Calgary Angel Network	▒	▒	▒	⬜	🟦	🟦	🟦	⬜	▒	⬜	▒	🟦	⬜
Canadian Alternative Investment Coop	🟪	🟦	43%	🟦	🟪	🟦	🟦	🟦	▒	⬜	⬜	🟦	🟪
C-CAP	▒	▒	▒	▒	▒	🟦	🟦	⬜	▒	🟦	▒	⬜	⬜
Coast Capital Savings - Rising Tide	⬜	🟦	▒	🟦	🟦	🟪	🟦	🟪	⬜	⬜	⬜	🟦	🟦
Co-operators CED Fund	▒	▒	▒	⬜	⬜	⬜	⬜	⬜	▒	⬜	⬜	⬜	🟪
Coopérative de crédit alternatif	▒	🟦	▒	🟦	🟪	🟪	▒	⬜	▒	🟦	⬜	🟦	🟪
Crocus Investment Fund	🟦	🟦	51%	⬜	🟦	🟦	▒	⬜	▒	🟦	▒	🟦	🟪
Deal Generator	▒	▒	▒	⬜	🟦	🟦	🟦	⬜	🟦	🟦	▒	🟦	⬜
Filaction	▒	▒	33%	⬜	⬜	⬜	▒	⬜	▒	⬜	⬜	🟪	⬜
Kilkenny County Enterprise Board	▒	🟦	▒	🟦	🟦	⬜	⬜	🟦	⬜	🟦	▒	⬜	🟪
Murex Investments	▒	▒	18%	⬜	🟦	🟦	🟪	🟦	🟦	🟦	▒	🟦	⬜
New Markets Growth Fund	▒	▒	▒	⬜	🟦	🟦	🟪	⬜	🟦	🟦	▒	🟦	⬜
Northeastern Community Investments	▒	▒	50%	🟦	🟦	🟪	⬜	🟪	⬜	⬜	⬜	🟦	⬜
Réseau Accès Crédit	🟪	🟪	10%	🟪	🟦	🟦	🟪	🟪	▒	🟪	🟦	🟦	⬜
Réseau Investissement Social Québec	▒	🟦	56%	🟪	🟦	⬜	▒	🟦	🟪	🟪	🟪	🟪	🟦
Small Business Loans Association	▒	▒	11%	🟪	🟪	⬜	⬜	🟦	⬜	⬜	⬜	⬜	🟪
Small Business Financing Program	▒	▒	▒	🟦	🟦	🟦	🟦	🟦	⬜	⬜	⬜	⬜	⬜
Social Capital Partners	▒	▒	▒	⬜	⬜	⬜	🟦	⬜	⬜	🟦	🟦	🟪	⬜
Waterloo Ventures	▒	▒	▒	⬜	⬜	🟦	🟦	⬜	⬜	⬜	⬜	⬜	⬜

For those examples for which information exists, the track record is mixed. For example, Crédal's micro-credit operations are characterized by a 61% disbursement rate, which the organization considers low and attributes to difficulty in obtaining co-financing and lack of personal motivation. Adena Ventures in Ohio and Bridges Community Ventures in the UK are characterized by disbursement rates lower than 25%, although this can be explained by the fact that they are relatively young organizations. In the Canadian context, Saskatoon's Community First Development Fund, Filaction, the Réseau Accès Crédit, and the SBLA feature low disbursement rates. While their relatively brief history explains the first three examples, for the SBLA, it seems that the level of demand from rural SMEs in Saskatchewan is simply not sufficient to use up all available capital under this program.

Measures of fund performance such as loan losses, default rate, or loans in arrears represent another potential indicator of the capacity of the financing vehicles to successfully provide capital to their clients. Here again, difficulty in obtaining information on fund performance prevents generalization. Nevertheless, as Chart 2 indicates, some of the vehicles for which data are available – the BCA Group; Grow Bonds; Community Works Loan Program; VanCity; Alberta's Women's Enterprise Initiative; and Coast Capital Savings – are characterized by relatively high default rates. For some, the higher risk associated with their specifically-targeted disadvantaged clients explains this performance.

In this context, it is worth noting that all but one of these vehicles offer little in the way of technical or other forms of support. This alone suggests that technical assistance, counselling, mentoring, and other forms of support can be effective in increasing the success rate of investment activity. Such a finding is well supported in the Canadian and international literature on community investment. The international micro-credit experience, for one, is instructive in that most of the better-known micro-credit programs/institutions have very low default rates, despite dealing with some of the most disadvantaged client groups. Much of their success is attributable to the existence of non-financial support activities.

An additional observation can be made on the Grow Bonds program. This program's relatively high default rate can be explained in part by lack of incentive to make it work, as both investors and investee firms bear no financial risk whatsoever. Thus, investment vehicles in which the financial risk is shared between local stakeholders and others – including government – may have a better chance of succeeding than those in which government bears the financial risk alone.

Finally, it is worth noting that although cooperative-based financing vehicles/mechanisms were not considered a priority for this project (given that they do not tend to focus on small business development), several cooperative-sponsored or financed vehicles play an active role in financing or supporting non-cooperative ventures. The examples of Belgium's Crédal, the Quebec network of SOLIDEs (in which the Desjardins credit movement provided a fair amount of the initial capital base), and perhaps more evidently the NLFC's Community Capital Fund support the notion that cooperatives can play an active and significant role in financing small business development in rural and remote communities.

5.4 Conditions for success

In his review of financing instruments for community-based rural development, Ninacs (2003) discussed several enabling factors that were responsible for the (perceived) good results of the financing vehicles he highlighted. It is worth reviewing these factors, as they may shed light on the characteristics of successful financing vehicles:

- Local strategic planning and control over implementation by individuals and organizations who will be affected by the outcomes, working in partnership and supported by competent technical assistance and adequate financing;
- Competitive application processes involving some degree of local partnerships at the outset coupled with technical assistance during the application process;
- Medium and long-term commitment by funders for capacity-building programs in severely disenfranchised areas;
- Multi-year or permanent core financing for CED organizations or their equivalent to ensure on-going facilitation of partnerships and competent technical assistance to local projects and entrepreneurs;
- Multi-level government collaboration both in setting goals and program parameters and during the life of the supported projects;
- An expanded notion of development that includes social, cultural and environmental dimensions, as well as health and education issues.

In *Capital, Community and Jobs*, the then Canadian Labour Market and Productivity Centre (1998) identifies several conditions for success in local financing solutions. The following are worth noting:

- Local orientation is key: the strengths of local financing solutions lies in the cost and risk reductions achieved by localized, personalized and informed transactions;
- Partnerships can result in new pools of capital and sharing of other resources: these partnerships can introduce new capital flows to communities and regions, as well as strategic combinations of expertise for investment projects;
- Co-investment and deal syndication can guarantee success: these strategies can reduce average costs and risks in part by introducing the value-adding capability of partners that possess investment-related know-how;
- Long-term horizons make a crucial difference: especially for the fast-growing innovative companies that are so vital for economies undergoing extensive restructuring;
- Government can play an important role as facilitator: it has also tended to defer to local investment decision-making and professional management of new pools;
- Specific financing barriers require specific responses: the mandates of many local financing vehicles have been designed to respond to a variety of access to capital concerns at the local level;

- Local success can be adapted to other communities and regions: there is evidence that a positive local financing experience can be emulated in another community, as long as particular local contexts are observed and addressed.

How do these observations apply to the cases profiled in this report? Drawing primarily from Chart 2, and focusing on the *instructive examples*, the following observations provide additional insights about the features and the conditions that make the profiled financing vehicles successful and/or innovative.

Effectiveness

While there are many ways to measure effectiveness, we have chosen to highlight loan loss ratio (and/or default rate, depending on data availability), disbursement rate, and leverage as potential indicators of effectiveness (the dimensions of fund performance and disbursement have already been discussed earlier). Although the evidence is somewhat sketchy, a key finding is that providing support services to clients and sharing the financial risk of the investments were significant in ensuring high repayment rates. Disbursement rates, on the other hand, are obviously dependent on the longevity of the financing vehicles and the capacity/critical mass of borrowers and investees in accessing all the available capital.

In terms of leverage, there is not enough data available from the case studies to draw definitive conclusions, but the point can be made that the more successful vehicles in this regard – the BCA Group, NLFC Micro-Business Development, and the SOLIDEs – have for the most part established formal partnerships with local organizations that afford their clients a more direct access to additional sources of financing and/or technical assistance.

Community control and local decision-making

The profile of those who sit on the vehicles' Boards of Directors, the manner in which directors are selected, as well as the origin of the funds making up the vehicles' capital base, speak in varying degrees to the issue of community control. Regarding the former, only one of the ten illustrative cases – the Grow Bonds – does not have a Board that effectively reflects its constituents, indicating that a representative board is an important factor of success, given the relatively high Grow Bonds default rate.

The way in which board members are selected does not seem to matter as much as the actual board composition, since this factor was ranked high in only one of the cases, Quebec's SOLIDE. Indeed, it appears not to matter as much how board members are selected as long as, in the end, the board does represent its constituencies and works at meeting their needs.

The third element that can be linked to community control, the origin of funds, has been discussed above. The point was made that while a majority of the instructive examples were successful to some degree in drawing from multiple sources of funds for the purpose of capitalization, this appears to have had little impact on their effectiveness, as measured by loss ratio, leverage, or disbursement rate.

Closely related to community control, the extent to which decision-making is locally based and reflective of local priorities may explain the success – or lack thereof – of the profiled financing vehicles in meeting their objectives. The one constant seems to be the importance attached to *community representation*. A large number of the illustrative examples appear to emphasize the integration of target group representation and suitable technical expertise into the investment decision-making process. One extreme example is PARO, where borrowers make most of the loan decisions and have equal representation on the organization's Board of Directors.

Capacity building

It should be clear by now that the capacity building issue needs to be examined and discussed from both the supply and a demand sides. On the demand side, financing vehicles offering technical assistance and other non-financial support to their clients can increase their success rate. More specifically, the more disadvantaged the clientele, the more critical the provision of non-financial services to clients seems to be.

In some of the illustrative examples – NLFC Micro-Business Development and PARO in particular – the above point can be taken even further as these cases demonstrate that access to financing for micro-businesses is not considered by their clients as the number one priority. Access to social and business networks, technical assistance, the ability to meet basic essential needs, and an on-going support structure are deemed more important. For micro-credit in particular, the success rate can fall dramatically if it is not delivered in the context of a broader, more holistic approach to business and community development.

On the supply side, reliance upon volunteer time and local expertise – through, for instance, participation on Board of Directors of investee firms – is seen by many as the most strategic, or indeed the only way to build internal capacity, by gaining and sharing access to specialized expertise at low or no cost. The case of the BCA Group is particularly instructive in this regard, while Grow Bonds illustrates how a lack of internal capacity to assess and follow up on projects contributes to relatively high default rates.

Some of the financing vehicles profiled in this project have tackled the capacity issue by relying extensively on external partners for the technical expertise – or specialized financial products – that their clients needed but that they could not provide themselves. The CFDCs and other local development agencies have played a key role in this regard, and there may be a role here for government to facilitate the establishment of local/regional partnerships involving, for instance, CFDCs or provincial financing institutions and programs.

6. CONCLUSIONS

It is becoming increasingly obvious from the above discussion – and from an examination of the instructive examples’ characteristics – that there is no one-size-fits-all approach to designing and implementing a successful vehicle/mechanism for financing SMEs in rural and northern communities. That said, it is possible based on this project’s research findings to identify conditions that can increase the success rate of financing vehicles/mechanisms designed to operate in these communities.

From a supply-side perspective, it has been shown that debt is the prevalent type of financing, and, while it is also a significant component of many financing profiles, only a handful of organisations provide equity financing exclusively. Loan guarantees appear to be a relatively little used mechanism, despite their potential multiplier effect in leveraging mainstream sources of financing. By and large, most vehicles tend to limit the types of financing they provide, which could indicate either a lack of resources or a preference with respect to the business model. In light of that, a useful government role is to carefully assess financing needs at the local or regional level before committing to a particular financial ‘product line.’

While for most vehicles the allocation of funding has some form of restriction to specifically targeted communities, their particular circumstances appear to dictate some flexibility in making investment decisions. The key here is to integrate sound business criteria into the investment decision-making process, while being sensitive to the specific needs and other demand conditions typical of these community environments.

Although organisational structure varies substantially, a not-for-profit orientation coupled with a relatively specialized mandate dominates the cases included in this study. Accordingly, some attention needs to be paid to find the organizational model that will best ensure sufficient local capacity in the delivery of specialized financial and non-financial products and services, and that will be cognisant of both social and economic development imperatives.

Another key message for government is that reliance upon local savings for the capitalization of investment funds operating in rural and northern communities is a commendable goal, but it has little chance of succeeding unless appropriate incentives, including tax credits, are put in place to influence investor behaviour. As past research has demonstrated, a positive fiscal return can be expected from the provision of such incentives, but more research – including fiscal cost-benefit analysis – should be undertaken before decisions can be made.

In the final analysis, the examples described in this report testify to the resourcefulness and innovation that can be found in Canada and elsewhere by organizations, groups, and individuals confronted by barriers to capital acquisition. All of the experiences and models discussed here provide insights and useful guidance for government, local groups, and any other stakeholders that are committed to better use of the financial lever for the social and economic development of Canada’s rural, remote and northern communities. It is hoped that they will trigger debate and a positive response from the rural and northern development community.

BIBLIOGRAPHY

Arora, Ashish, Richard Florida, Gary J. Gates, and Mark Kamlet, (2000). *Human Capital, Quality of Place, and Location*. Pittsburgh, PA, Carnegie Mellon University.

BC Funders Council for co-op and community economic development, (1999). *Funding Directory. BC*, BC Funders Council for co-op and community economic development.

Bouchard, Marie, Julie Rondeau, (2002). *Le financement de l'économie sociale, à la croisée des intérêts privés et public: Le Réseau d'investissement du Québec*, Cahiers du Crises. Montréal, QC, Centre de recherche sur les innovations sociales.

Bruce, Doug, (2001). *Banking on Entrepreneurship: Results of CFIB Banking Survey*. Toronto, ON, Canadian Federation of Independent Business.

Cabaj, Mark, (2000). *Struggle for Sustainability: Commercial enterprise is just one possible ingredient in the nonprofit funding mix,* Making Waves. Port Alberni, BC, Canadian Centre for Community Renewal.

Canadian CED Network, (2003). *CED Funding and Delivery in Canada*. Victoria, BC, Canadian CED Network.

Canadian labour Market and Productivity Centre, (1998). *Capital, Community, Jobs: Local Solutions for Financing Investments in a New Economy*. Ottawa, ON, CLMPC.

Cerac Inc., (2000). *Evaluation of the Rural Enterprise Program*. Ottawa, ON, Government of Canada (Canada Economic Development).

Collins Management Consulting & Research Ltd., (1999). *Review of AOOA's Seed Capital ConneXion Program for Young Entrepreneurs*. Dartmouth, NS, Government of Canada (ACOA).

Community Economic Development Technical Assistance Program, (2003). *Individual Development Accounts*. Ottawa, ON, Carleton University.

---------------------, (2003). *Community Loan Funds*. Ottawa, ON, Carleton University.

---------------------, (2003). *Financial Equity*. Ottawa, ON, Carleton University.

Corporation for Enterprise Development; National Community Capital Association, (2003). *Community Development Financial Institutions:Providing Capital, Building Community, Creating Impact*. Washington, DC, Corporation for Enterprise Development.

David L. Barkley, (2003). *Policy Options for Financing Rural Entrepreneurs*. Kansas City, MO, Federal Reserve Bank of Kansas City.

Equinox Management Consultants Ltd., (2002). *Gaps in SME Financing: An Analytical Framework*. Ottawa, ON, Government of Canada (Industry Canada).

Florida, Richard, (2000). *Economic Geography of Talent*, The. Pittsburgh, PA, Carnegie Mellon University.

Folkins, Ray, (2002). *Changing Banking Environment in Atlantic Canada and Effects on the SME Market & the Economy in General*, The. Moncton, NB, Atlantic Canada Opportunities Agency.

Government of Nova Scotia, (2003). *Community Development & Small Business Financing Partnership*. Halifax, NS, Government of Nova Scotia.

Growth Connections, (2001). *Risk Capital Financing for Aboriginal Businesses: Analysis and Design Considerations.* Ottawa, Government of Canada (Industry Canada, Aboriginal Business Canada).

Industry Canada, (2002). *Small and Medium-Sized Enterprise (SME) Financing in Canada*. Ottawa, ON, Government of Canada (Industry Canada).

Infanti, Jennifer, (2003). *Inventory of Provincial and Territorial Government Support to Community Economic Development in Canada*, An. Victoria, BC, The Canadian CED Network.

Jackson, Edward T. and François Lamontagne (1995). *Adding Value: The Economic and Social Impacts of Labour-Sponsored Venture Capital Corporations on their Investee Firms.* Ottawa, Canadian Labour Market and Productivity Centre.

Lamontagne, Francois, (2000). *Community Credit: An essential tool in economic and social development.* Quebec City, QC, Groupe Econov Developpement inc..

Lévesque, Benoit, Margie Mendell, Solange Van Kemenade, (1997). *Socio-economic Profile of Quebec Local and Regional Development Funds*. Ottawa, ON, Government of Canada (Agriculture and Agri-Food Canada).

Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination, (2000). *Business Capital for Microentrepreneurs: Providing Microloans,* Microenterprise Fact Sheet Series. Arlington, VA, Aspen Institute, The.

---------------------, (2000). *Microenterprise Development Works!: Outcomes for Clients,* Microenterprise Fact Sheet Series. Arlington, VA, Aspen Institute, The.

---------------------, (2000). *Ten Grantees Expected to Shed Light on: Institutional Models for Microenterprise Development Programs,* Field Forum. Washington, DC, Aspen Institute, The.

Ninacs, William A., (2003). *Financing Community-Based Rural Development*. Ottawa, Government of Canada (Agriculture and Agri-Food Canada).

Parker, Kathryn, Mark Lyons, (2003). *Community Development Finance Institutions: Evidence from Overseas and Australia*. Sydney, Australia, Australian Centre for Co-operative Research and Development.

Réseau québécois du crédit communautaire, (2003). *Le crédit communautaire: une réponse novatrice.* Québec, QC, Réseau québécois du crédit communautaire.

Rice, Michael L., (2001). *Debt and Equity Capital Instruments*. Ottawa, ON, National Aboriginal Capital Corporation Association (NACCA).

Schmitt, Brian, (2002). *Assessing the Availability of Traditional Venture Capital in the US: A Preliminary Analysis*. New York, NY, Community Development Venture Capital Alliance.

Shutt, Theresa, Pierre Vanasse, (1999). *Sources du financement par emprunt des petites et moyennes entreprises de la région de l'Atlantique*. Ottawa, ON, The Conference Board of Canada.

Smith, Ross, (2000). *Strategies, Initiatives, and Models for Community Economic Development.* Burnaby, BC, Simon Fraser University.

Social Investment Organization / Riverdale Community Development Corp., (2003). *National Study of Community Investment in Canada*, A. Toronto. ON, Riverdale Community Development Corp..

Takahashi, Dean, (2003). *At Long Last, Angels Are Trying Their Wings*, TechComm. Albuquerque, NM, Technology Ventures Corporation.

Waterfield, Charles, and Jeremy Black, (2003). *Microenterprise Support within Community Development Financial Institutions*. Washington, DC, Aspen Institute, The.

Wehrell, Roger, Marion Campbell, Gordon Cunningham, Alison Mathie, Nancy Lee, (2002). *Atlantic Micro-Credit Socio-Economic Impact Study*. Antigonish, NS, Government of Canada (ACOA).

Williams, Kelly, (2002). *Working with Angel Investors: a Shared Experience from Northeastern Minnesota*. , Community Development Venture Capital Alliance.

List of Contacts

ACOA Seed Connexion Program
Blue Cross Centre, 3rd Floor
644 Main Street
Moncton, NB E1C 9J8
Tel: (506) 851-2271
Fax: (506) 851-7403
Toll Free: (800) 561-7862
Web: #http://www.seedconnexion.ca/index_en.php#

Adena Ventures
143 Technology & Enterprise Building
Athens, Ohio 45701
Tel: (740) 597-1722
Fax: (740) 597-1399
Web: #http://www.adenaventures.com/#

Alberta Women's Enterprise Initiative Association (AWEIA)
250 - 815 8TH Avenue SW
Calgary, AB T2P 3P2
Tel: (403) 777-4254
Fax: (403) 777-4258
Toll Free: (800) 713-3558
Web: #http://www.aweia.ab.ca/web/webhome.nsf#

BCA Holdings
188 Charlotte St.
Sydney, NS B1P 6J9
Tel: (902) 567-0000
Fax: (902) 539-5107

Bridges Community Ventures Ltd.
1 Craven Hill
London, UK,   W2 3EN
Tel: (207) 262-5566
Fax: (207) 262-6389
Web: #http://www.bridgesventures.com/index.htm#

Calgary Angel Network
Alastair Ross Technology Centre
3553 - 31 Street NW
Calgary, AB T2L 2K7
Tel: (403) 260-5238
Web: #http://www.calgaryangelnetwork.com/#

Canadian Alternative Investment Cooperative's Community Venture Fund
146 Laird Drive, Suite 111
Toronto, ON M4G 3V7
Tel: (416) 467-7797
Fax: (416) 467-8946
Web: #http://www.caic.ca/#

C-CAP
4500 Cooper Road, Suite 20
Cincinnati, Ohio 45242
Tel: (513) 791-2884
Fax: (513) 791-4808
Web: #http://www.c-cap.net/about.html#

CEI Community Ventures
2 Portland Fish Pier, Suite 201
Portland, Maine 04101
Tel: (207) 772-5356
Fax: (207) 772-5503
Web: #http://www.ceicommunityventures.com#

Coast Capital Savings' Rising Tide
300 - 5611 Cooney Road
Richmond, BC V6X 3J5
Tel: (604) 273-8138
Fax: (604) 273-7612
Web: #http://www.coastcapitalsavings.com/#

Community First Development Fund of Saskatoon
309 - 22nd Street East
Saskatoon, SK S7K 0G7
Tel: (306) 934-4177
Fax: (306) 934-5490

Community Works Loan Program (Manitoba Intergovernmental Affairs)
Rural Economic Development Initiative (REDI)
604 - 800 Portage Avenue
Winnipeg, MB R3G 0N4
Tel: (204) 945-2150
Fax: (204) 945-5059
Toll Free: (800) 567-7334

Coopérative de crédit alternatif
Place de l'Université, 16
Louvain-le-Neuve, Belgium, 1348
Tel: 010 - 48 33 50
Fax: 010 - 48 33 59
Web: #http://www.credal.be#

Co-operators Community Economic Development Fund
Priory Square
Guelph, ON N1H 6P8
Tel: (519) 824-4400
Fax: (613) 567-0658
Web: #http://www.cooperators.ca/group/#

Crocus Investment Fund
The Crocus Building
5th Floor, 211 Bannatyne Ave.
Winnipeg, MB R3B 3P2
Tel: (204) 925-7777
Toll Free: (800) 361-7777
Web: #http://www.crocusfund.com/#

Deal Generator
9797 Jasper Ave.
Edmonton, AB T5J 1N9
Tel: (780) 401-7680
Fax: (780) 426-0535
Web: #http://www.dealgenerator.com/index.html#

Filaction
210, boul. Charest Est, bureau 500
Quebec City, QC G1K 3H1
Tel: (418) 522-3334
Fax: (418) 522-0990
Web: www.filaction.qc.ca#http://www.filaction.qc.ca#

Investors' Circle
320 Washington Street
Brookline, Massachusetts 02445
Tel: (617) 566-2600
Fax: (617) 739-3550
Web: #http://www.investorscircle.net/#

Kilkenny County Enterprise Board
42 Parliament Street
Kilkenny, IE,
Tel: (056) 775-2662
Fax: (056) 775-1649
Web: #http://www.kceb.ie/#

Manitoba's Grow Bonds
604 - 800 Portage Avenue
Winnipeg, MB R3G 0N4
Tel: (204) 945-2157
Fax: (204) 945-5059
Toll Free: (800) 567-7334
Web: #http://www.gov.mb.ca/ia/programs/redi_bonds.html#

Murex Investments
4700 Wissahickon Avenue, Suite 126
Philadelphia, Pensilvania 19144
Tel: (215) 951-0300
Web: #http://www.murexinvests.com#

New Markets Growth Fund
2518 Van Munching Hall
College Park, Maryland 20742
Tel: (301) 405-9499
Fax: (301) 314-7971
Web: #http://www.newmarketsfund.com#

Newfoundland-Labrador Federation of Co-operatives' Micro-Business Development
P.O. Box 13369
Station A
St. John's, NF A1B 4B7
Tel: (709) 726-9431
Fax: (709) 726-9433
Web: #http://www.nlfc.nf.ca/default.html#

Northeastern Community Investments Incorporated
20 St. Andrews St.
Antigonish, NS B2G 2H1
Tel: (902) 863-3267
Fax: (902) 863-4095
Web: #http://www.antigonishrda.ns.ca/ncii/index.html#

PARO (Northwestern Ontario Women's Community Loan Fund)
PARO Place
105 May Street North, Suite 110
Thunderbay, ON P7C 3N9
Tel: (807) 625-0328
Fax: (807) 625-0317
Web: #http://www.paro.ca/#

Réseau Accès-Crédit
12, rue St-Pierre, bureau 10
Rimouski, QC G5L 1T3
Tel: (418) 722-8535
Fax: (418) 722-8627

Réseau d'investissement social du Québec (RISQ) - Fund for Social Economic Business
4200, rue Adam
Montreal, QC H1V 1S9
Tel: (514) 866-2355
Fax: (514) 288-0755
Web: #http://www.fonds-risq.qc.ca/#

Small Business Financing Program (Nova Scotia Economic Development)
P.O. Box 2311
14th floor South, Maritime Centre
1505 Barrington Street
Halifax, NS B3J 3C8
Tel: (902) 424-0377
Fax: (902) 424-7008
Web: #http://www.gov.ns.ca/econ/business.asp#

Small Business Loans Association
Program Administration Office
Saskatchewan Industry and Resources
3rd Floor, 2103 - 11th Avenue
Regina, SK S4P 3V7
Tel: (306) 787-7154
Fax: (306) 787-3872
Web: #http://www.ir.gov.sk.ca/Default.aspx?DN=3877,3148,2936,Documents#

Social Capital Partners
Suite 601, 205 Richmond Street West
Toronto, ON M5V 1V3
Tel: (416) 646-1871
Fax: (416) 646-1875
Web: #http://www.socialcapitalpartners.ca/#

Sociétés locales d'investissement dans le développement de l'emploi
5050, boul. des Gradins, bureau 130
Quebec City, QC G2J 1P8
Tel: (418) 624-1634
Fax: (418) 624-0462
Web: #http://www.solideq.qc.ca/solideq.nsf#

VanCity Savings Credit Union
PO Box 2120
Station Terminal
Vancouver, BC V6B 5R8
Tel: (604) 709-6934
Web: #http://www.vancity.com/Community/CommunityInvestments#

Waterloo Ventures
8 Erb Street West
Waterloo, ON N2L 1S7
Tel: (519) 883-8416
Fax: (519) 883-1265
Web: #http://www.techcapital.com/990902rec.htm#