

Community Investment Funds in Action: New Dawn Enterprises – Nova Scotia

The Nova Scotia Community Economic Development Investment Fund program was the first of its kind in Canada and is the program after which most current efforts are modeled.

The origins of the program began with the creation of the Nova Scotia Equity Tax Credit in 1993. The success of the Equity Tax Credit led the Province to develop an enhancement to the program, the Community Economic Development Investment Fund (CEDIF) program. There are currently 47 different CEDIFs in Nova Scotia. Some have been directly created by local companies or co-operatives to drive investment to their enterprise (e.g. Just Us! Coffee Roasters has formed a CEDIF called Just Us! Fair Trade Investment Co-operative). Others, like the Black Business Community Investment Fund, invest in a range of businesses toward a certain aim.

CEDIFs are structured as share issuing co-operatives or companies that sell shares to the public and use the capital raised to re-invest in eligible local business. Investments in CEDIFs are pre-approved holdings for inclusion in a self-directed RRSP.

Investors are eligible for an initial 35% tax credit for investing for 5 years; if they keep their investment in the CEDIF for an additional 5-year period they receive an additional 20% tax credit, and another 10% if renewed for a third 5-year period. This helps encourage not only initial investment in CEDIFs but encourages investors to keep their money in the CEDIF for longer periods of time, essentially making it more patient and more friendly for local projects. An analysis undertaken by the provincial government of Nova Scotia demonstrated that this tax credit was revenue neutral in two years from implementation. In the last 15 years, the CEDIF program in Nova Scotia has captured more than \$43M in investment in local projects from more than 4000 individuals throughout the province.

Most significantly, the CEDIF regulations that have been adopted set out a “special relationship” for the CEDIFs and securities regulations. CEDIFs are required to complete a simplified form of an Offering Memorandum, rather than a complete Offering Document. The form of this is spelled out in the regulations. This is meant to reduce the legal, financial and



knowledge barriers that many community initiatives currently face in seeking to raise community capital.

The second critical support provided to CEDIFs through this ‘special relationship’ is that CEDIFs are exempted from most of the Continuous Disclosure requirements under NI 51-102. This includes an exemption from the 2011 regulatory change requiring OM filers to comply with Canadian Generally Accepted Accounting Principles for Public Enterprises²¹.

Thirdly, it is impossible to underestimate the important role that the Nova Scotia Department of Rural and Economic Development has played in supporting the growth of the CEDIF program, including through its network of Business Service Centres.

Key features of Nova Scotia CEDIF’s:

- Created by groups of local citizens who first must develop a CED strategy for their community.
- Are structured as a Community Economic Development Corporation, legally a corporation or cooperative (with a minimum of 6 directors).
- Must register under the Equity Tax Credit Program.
- Can raise capital to directly invest in one business or allot among several local businesses.
- Provide an equity (or subordinated debt) investment.
- Once incorporated, the CEDIF completes a Public Offering and sells shares.

²¹See: NSSC Blanket Order No. 51-504 and http://www.novascotia.ca/just/regulations/regs/secced.htm#TOC1_3

- Among other items, the offering document must set out a minimum and maximum amount to be raised through the offering and a plan for use of the funds at the minimum and maximum amounts. This must also include a breakdown of the costs associated with issuing the offering.
- If desired, can be marketed and/or administered in partnership with a bank, credit union, etc.
- The Government of Nova Scotia estimates that \$100,000 is the minimum effective size of the fund.

CEDIF's in action: New Dawn Enterprises

New Dawn Enterprises is a community development corporation that was founded in 1976 to revitalize Cape Breton's regional economy that collapsed with the closure of coal mines and a steel plant. It is an incorporated business corporation limited by guarantee with a mission "to engage the community to create and support the development of a culture of self-reliance".

- New Dawn started with housing and real estate development, now has an annualized budget of \$8M, serving a region with a population of 100,000 people with a relatively low average income. It operates the following divisions:
- A profit creating real estate company that has 193 rental units, 4 commercial buildings, and 28 supported housing units.
- A profit creating College running diploma and certificate programs, including a welding school.
- A health care service inclusive of Meals-on-Wheels, home care, a care home and seniors assisted living.
- A renewable energy company that operates revenue generating wind power and a cold climate green house.
- A non-profit foundation that runs a leadership roundtable and an "ideas" program to foster leadership for change.
- A community economic development investment fund that has raised \$6.8M for reinvestment in community assets and enterprises since 2004.

New Dawn has created a total of 17 companies and societies to meet different needs.

New Dawn Community Investment Fund

New Dawn's staff manage all aspects of their Fund without a full return on their staff time. The investment raised however creates the necessary financing to generate the programs and assets that sustain the organization and achieve its mission.

Shareholders: The fund raises equity investment from individuals that is eligible for provincial CEDIF tax credits and RRSP tax credits. Each investor is a common shareholder. The shareholders meet annually and elect a board of directors. There is some overlap of board members between New Dawn Enterprises and the holding company of the investment fund, but that cannot be required due to securities regulations.

RRSP: Investments are held by a trustee (the Canadian Worker Coop Federation) that issues RRSP receipts and transfers the funds only on notice of compliance from the NSSC. A standard

self-directed RRSP account application form is completed by each investor and sent to the trustee for processing. (A provincial tax credit related receipt is issued by New Dawn to each investor.) The Trustee charges \$60 per investment per year. New Dawn currently pays this fee on behalf of the investor.

Return and Business Plan: There is no guarantee of return on investment, it is equity. However New Dawn promotes its record of dividend returns (4%) and issues a dividend cheque to each investor twice a year. In previous years, New Dawn Holdings has managed the Fund and charged 6% on loans to New Dawn Enterprises, returning 4% to shareholders and retaining 2%. For example in 2011 the \$2.4M raised was invested in New Dawn College to loan them the funds to expand programs and facilities, with tuition fees representing the revenue to pay back the loan. In 2012, the \$1.5M raised was held by a new company (New Dawn Community Investment Ltd) with a board made up of the investors in that fund, that then loaned those funds to a non New Dawn enterprise (Protocase Inc.) with a 5.5% interest rate, a 3.5% target return to investors, and a 2% target return to New Dawn CI.

Overhead costs stated up front in the Statement of Offering that are deducted from the proceeds were between \$15K and \$35K in 2012 and included promotion, legal, accounting.

Retirees: Retirees are using the fund to transfer existing RRSP savings that would be taxable if drawn down into the community investment fund to then use the provincial tax credit to meet financial needs.

Lessons Learned:

The three key components of success have been (according to their CEO):

1. Creating a sense of shared identity;
2. Focus on knowledge development and education;
3. New Dawn has a visionary CEO, a Board with a willingness to take risks, and a staff team carefully constructed to provide the necessary competencies. It marshals a family of divisions that are constructed as corporations, non-profit societies or charities according to the specific opportunities and needs associated with that activity or asset.

There are two ongoing challenges:

1. Big national investment firms won't include these types of investment in their offerings as their national offices don't want anything that is not traded on the stock market. Some brokers not tied to national contracts are involved.
2. Provincial CEDIF regulation prevents investors from re-investing in CEDIFs once they have withdrawn one allocation of investment on its maturity (i.e. they can't draw down and then decide to reinvest).

More Information:

For more information on New Dawn Enterprises, please visit the website at: <http://newdawn.ca/>