



Enabling Local Investing in Alberta: The Role of Community Economic Development Investment Funds (CEDIFs)

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Executive Summary

Entrepreneurs in Alberta are seeking access to affordable capital to grow and expand their businesses. Albertans often want to invest in small, locally-owned businesses that benefit their communities — businesses that provide positive social and environmental returns, in addition to financial returns. However, regulatory barriers prevent potential investors from supporting local small business in Alberta. By enabling the creation of Community Economic Development Investment Funds (CEDIFs), the Government of Alberta can play an instrumental role in meeting these needs and connecting supply and demand.

Momentum asks that the Government of Alberta support the creation of CEDIFs in Alberta by:

- Creating a market exemption to enable all Albertans (unaccredited and accredited investors) to invest in locally-owned businesses, social enterprises, and co-ops through the vehicle of a CEDIF; and
- Ensuring that all Albertans are able to take advantage of the Alberta Investor Tax Credit (AITC) through investing in CEDIFs.

Enabling local investing is complex and there are multiple required solutions to improve the investing environment in Alberta. This paper focuses on the creation of CEDIFs through the creation of a local exemption from otherwise applicable securities laws and the application of the Alberta Investor Tax credit to these investments. The purpose of CEDIFs are to:

- Mobilize local capital for small business development;
- Keep more wealth local instead of it being invested outside of the province;
- Enable everyday Albertans (unaccredited investors) to invest in business in their communities; and
- Support businesses that contribute positive social and environmental returns to our communities.

Enabling local investing will help local businesses flourish. By increasing access to capital, businesses that provide meaningful, living wage work to vulnerable Albertans can grow. We will have more businesses that protect the environment and are creating green jobs. Increasing local investment opportunities supports the current government priorities of economic growth and diversification, and will benefit local economies and communities in Alberta.

What is the problem?

Local investing in Alberta can be costly and complicated, and is generally limited to “accredited investors” as defined by securities regulations (e.g. individuals who have considerable assets and income). There is demand from locally-owned businesses to access affordable capital, and a supply of Albertans wanting to invest locally and with social impact. However, opportunities for everyday Albertans to invest in businesses in their communities are extremely limited. A market exemption and tax credit incentive are needed to recognize local investing, to make it cost-effective, and to match Albertan investors with local businesses seeking capital.

Demand for affordable capital is substantial in our province. The Calgary Chamber of Commerce notes that “the inaccessibility of early-stage capital investment is a major impediment to the growth and sustainability of Alberta’s small businesses. Often lacking the resources and administrative capacity to raise capital via debt financing, these businesses rely heavily on equity investments made by angel investors and venture capital firms.”¹ Furthermore, angel investors are looking for start-up businesses with the potential to grow exponentially in order to generate above-market returns on investment. Many small businesses are successful – creating jobs, paying taxes, providing needed goods and services – by staying local and enhancing the quality of life in their local communities. These businesses may also need to raise capital from time to time, to upgrade facilities, premises or equipment, or to expand, for example. Individuals may want to invest in these companies for social as well as more modest financial returns.

Supply of local capital is abundant. Last year, Albertans invested more than \$5 billion into RRSPs.² However, investors lack choice in the market: the size and mission of companies listed in traditional mutual funds and other investment opportunities for average investors lacks diversity. For example, 77% of companies in the Toronto Stock Exchange are comprised of companies in the energy, mining or banking sector. There is growing demand for Socially Responsible Investment funds,³ and local and impact investing opportunities; however, residents have very limited opportunities to invest in businesses in their cities and neighbourhoods, including in businesses that align with their goals related to sustainability and social returns. In Canada, the majority of impact investing has been done through accredited or institutional investors.⁴ Facilitating local investing would enable Albertans to invest in the businesses in their communities they see as providing potential environmental, social, and financial returns.

Market tools and funds to facilitate local investing do exist in Alberta (see Appendix A). These funds use charitable or funder donations, or existing market exemptions. However, these exemptions are for start-up and private businesses, or accredited investors, are costly and complicated for small businesses and require them to seek out individual investors, and vice versa.

\$5.7 BILLION
The amount Albertans invested into RRSPs in 2014.

1 Calgary Chamber of Commerce http://www.calgarychamber.com/insight/blog/2016-alberta-budget-priority-jumpstarting-small-business-investment?utm_medium=email&utm_campaign=Influence%20-%20February&utm_content=Influence%20-%20February+CID_c1e778f765009c3998b60a803c660ec6&utm_source=CampaignMonitor&utm_term=Read%20more

2 Total Alberta RRSP contributions in 2014 were 5,738,940,000. Statistics Canada. Registered retirement savings plan contributors. <http://www.statcan.gc.ca/daily-quotidien/150213/t150213b001-eng.htm>

3 Janet McFarland, “‘Responsible’ investment vehicles see demand surge” Globe and Mail, 22 January 2015 <http://www.theglobeandmail.com/report-on-business/economy/responsible-investment-vehicles-see-demand-surge/article22565321/>

4 <http://socialfinance.ca/2015/12/02/retail-impact-investing-guidebook-canadian-credit-unions/#sthash.7RXYSYk.dpuf>

What is the solution?

Enabling local investing is complex and requires multiple strategies, such as:

- Incentivizing investment through the new Alberta Investor Tax Credit (AITC)
- Updating legal frameworks to permit and streamline this kind of investing, through the creation of a market exemption as proposed in this brief

Community Economic Development Investment Funds (CEDIFs) can effectively enable more local investment.

- A CEDIF is a pool of capital invested in multiple local businesses, including:
 - locally-owned community-based businesses
 - co-operatives
 - social enterprises operated by non-profits and charities
- A CEDIF is a vehicle through which everyday Albertans can invest some of their money in local businesses - in their neighbourhoods, communities, towns, or province.
- A CEDIF market exemption allows unaccredited investors to make investments in these locally-owned businesses
- In Nova Scotia, the creation of CEDIFs is supported by the Ministry of Finance⁵, and community groups who raise awareness and provide step-by-step guidance.
- Investments in CEDIFs are incentivized through an investor tax credit.
- Existing local business development funds in Alberta such as the Social Enterprise Fund Edmonton could be recognized as CEDIFs.

Why a new market exemption?

Existing exemptions⁶ will not successfully enable CEDIFs in Alberta. CEDIFs would be considered “investment funds” as defined in current Alberta’s securities regulations. A company, including an investment fund, seeking to sell securities to members of the public in Alberta must comply with the following Alberta securities laws:

1. First, unless covered by an existing exemption, the company must produce a **prospectus**, a lengthy and detailed disclosure document, which must be approved by the Alberta Securities Commission (ASC).⁷
2. Second, the shares must be sold or “distributed” by individuals who are registered dealers under the statute.⁸ Once shares have been distributed to the public, the company is subject to ongoing continuous **disclosure requirements**.⁹ These requirements are in place to help to protect investors against fraud or misinformation. However, these requirements place a burden on companies, and may prevent them from accessing capital markets.
3. Companies that are considered “investment funds” are subject to further requirements.¹⁰ It is likely that in most cases an Alberta CEDIF would fall under the definition of an investment fund, and that by extension, those in charge of the CEDIF would fall under the definition of “**investment fund manager**.” These designations would subject them to applicable requirements under the Securities Act, unless granted exemptions from these requirements by the ASC.

5 Nova Scotia Securities Commission. Community Economic Development Investment Funds (CEDIFs). <http://nssc.novascotia.ca/corporate-finance/community-economic-development-investment-funds>

6 Alberta Securities Commission. Common Capital Raising Exemptions. <http://www.albertasecurities.com/industry/issuer-regulation/Pages/common-capital-raising-exemptions.aspx>

7 Securities Act, RSA 2000, c S-4, s 110(1).

8 Securities Act, RSA 2000, c S-4, s 75(1).

9 Securities Act, RSA 2000, c S-4, s 146.

10 Securities Act, RSA 2000, s 193.2 and National Instrument 81-102 Investment Funds.

The Alberta Securities Act empowers the ASC to grant exemptions from the requirements described above when “it would not be prejudicial to the public interest to do so”.¹¹ A new CEDIF market exemption is proposed to:

- Permit funds to raise up to \$5 million in order to enable ventures such as affordable housing, real estate, or renewable energy.
- Streamline and reduce the registration and reporting and disclosure documentation otherwise applicable to CEDIFs as investment funds.
- Support the ASC’s mandate to advance investor protection. This could be done by capping investments at \$15,000 and allowing only “recognized CEDIFs,” for example.
- Recognize particular businesses for CEDIFs within Alberta, as determined by the Ministry of Finance, in enforcing the market exemption and applying the Investor Tax Credit. See Appendix A for potential funds to be recognized. Recognized CEDIFs could include funds that:
 - Have been established and are working with entrepreneurs. For example, recognized CEDIFs should have at least two years of financial statements (the organization operating the fund, not the businesses within the fund);¹²
 - Are based in Alberta; and
 - Have a constitution that restricts the fund to making investments in active local businesses in accordance with a community economic development plan.¹³

Why use an investor tax credit?

Tax credits have been successful in incentivizing local investing in other jurisdictions in Canada. This is especially true of CEDIFs, which may generate below-market returns. The creation of the Alberta Investor Tax Credit is commendable. To realize the full benefit of this initiative, this tax credit needs to be accessible to all Albertans (including unaccredited investors), rather than only high net worth accredited investors, companies, and family members and friends of business owners.

Is there precedent?

There is evidence displaying the value and impact of local investing in communities across Canada, including Nova Scotia, Prince Edward Island, Manitoba, and New Brunswick.¹⁴ This section summarizes the CEDIF regulatory regimes and securities exemptions in Nova Scotia and New Brunswick. Nova Scotia’s disclosure and dealer registration exemptions have been in place since 2011; an exemption from the rules ordinarily applicable to investment funds was added in January 2014. New Brunswick’s market exemption for Community Economic Development Corporations (CEDC), which can include CEDIFs, came into effect April 1, 2016.¹⁵ For the sake of simplicity, CEDIF is used to describe both regimes.

For investors in the CEDIF to be able to take advantage of the tax credit, the CEDIF must be registered with the Minister of Finance. Criteria for eligibility for the tax credit specifically applicable to a CEDIF includes that the purpose of the fund is limited to investing in local, active businesses within a “defined community.”¹⁶

11 Securities Act, s 144(1) and 213.

12 Nova Scotia requires that the businesses have filed at least one tax return with CRA (Equity Tax Credit Regulations, s 2(b)(vi)). New Brunswick does not include this requirement; if the CEDC has not completed its first financial year or its year end is less than 120 days from the date of the offering document, it must include an interim financial report not more than 90 days before the date of the offering document (Local Rule 45-509, s 14(1)).

13 See Nova Scotia Equity Tax Credit Act, SNS 1993, c 3, s 12(e); New Brunswick Small Business Investor Tax Credit Act, SNB 2003, c S-9.05, s 13.5(b)(i)(A).

14 Sarah Amyot, “Enabling Community Investment: A Policy Brief” (Community Investment Fund Vancouver Island, May 2014) http://www.communitycouncil.ca/sites/default/files/Enabling_Community_Investment_Policy_Paper_Final_web.pdf

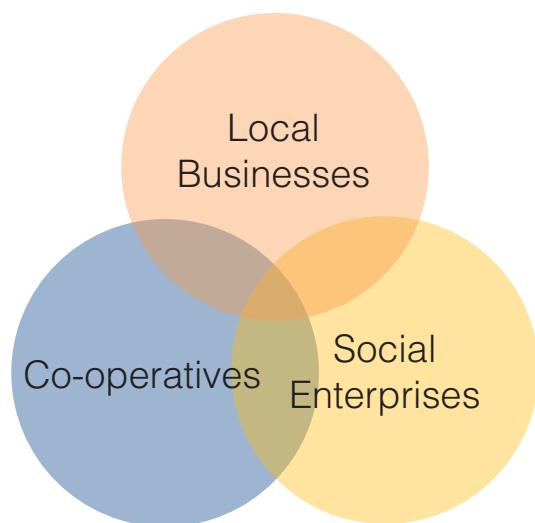
15 Community Economic Development Corporations <http://fcnb.ca/cedc.html>

16 Equity Tax Credit Regulations, NS Reg 18/94, s 3(a)(i); Small Business Investor Tax Credit Act, SNB 2003, c S-9.05, s 13.5(b)(i).

A “defined community” is a “group of persons situated within the Province that may be reasonably distinguished by common geographic, economic or cultural characteristics.”¹⁷ The type of investment eligible for the tax credit is a newly issued common (i.e. voting) share of the CEDIF. Nova Scotia sets the maximum amount raised under an offering at \$3,000,000.¹⁸ New Brunswick sets the maximum amount to be raised in a 12-month period at \$3,000,000.¹⁹

The CEDIF is subject to limited ongoing disclosure requirements, namely filing annual, and in the case of Nova Scotia, interim, financial statements with the provincial securities commission and making copies of these statements available to all investors.²⁰ These financial statements do not have to be audited, so long as other prescribed conditions are met.²¹

Types of businesses CEDIFs invest in



The Nova Scotia investment fund exemption limits the amount any individual can invest in the CEDIF to \$15,000 per calendar year for the exempt CEDIF and any affiliates if the person has not received advice about the investment from a registered dealer, and \$30,000 if the investor has received such advice.²² New Brunswick, in contrast, sets a minimum investment amount for an individual at \$1,000.²³ To qualify for this exemption in Nova Scotia, the offering document:

- must also specify the businesses to be invested in and the amount or percentage of assets to be invested in each, and cannot be changed without the approval of a simple majority of the shareholders,²⁴ or
- the total amount raised by any one CEDIF and its affiliates, under any prospectus exemption, must not exceed \$6,000,000.²⁵

Both jurisdictions have incorporated into their market exemptions other measures to protect investors. The officers and directors of the CEDIF must meet prescribed fitness standards, namely that they are suitable to act in this capacity and their past conduct does not give reason to believe the fund will be run improperly.²⁶ These individuals remain subject to insider trading rules and requirements to disclose a material change to the CEDIF.²⁷ New Brunswick also provides the same civil right of action for misrepresentation in an offering document that other investors have under the securities act.²⁸

17 Equity Tax Credit Regulations, NS Reg 18/94, s 2(e); Small Business Investor Tax Credit Act, SNB 2003, c S-9.05, s 1.

18 Community Economic Development Regulations, NS Reg 168/2011, s 12.

19 General Regulation, s 9.4

20 Blanket Order 51-504; Local Rule 45-509, s 21 and 22.

21 Community Economic Development Regulations, NS Reg 168/2011, s 22(2) and Blanket Order 51-504; Local Rule 45-509, s 26.

22 Blanket Order 45-521, Order, s. 2.

23 General Regulation, s 7(1).

24 NS Blanket Order 45-521.

25 Blanket Order 45-521, Interpretation, s. 2.

26 Community Economic Development Regulations, NS Reg 168/2011, s 9; Local Rule 45-509, s 10 and Companion Policy 45-509.

27 Community Economic Development Regulations, NS Reg 168/2011, s 22(1).

28 Local Rule 45-509, s 19.

Outcome

The creation of CEDIFs supports the key government priorities of economic growth and diversification, as well as job creation, including green jobs.

The launch of CEDIFs in Nova Scotia has resulted in the creation of 70 CEDIFs, mobilizing 7,500 investors, and more than \$70 million in assets contributed.²⁹ Businesses have included, among many others, cooperative coffee roasters, farmer's markets, wind farms, and other renewable energy projects. In the region of Cape Breton, Nova Scotia, New Dawn Enterprises reports that today \$11 million has been invested, from 577 investors, \$1.2 million paid in dividends, and \$3.3 million paid in provincial tax credits. If Albertans moved merely 2% of their RRSPs to a local investment fund, the result would be approximately \$114 million in local investments.

There is well-researched value in growing locally-owned businesses, including social enterprises³⁰ and co-operatives, as they are critical job creators, are here to see the environmental impact of their business decisions, and are more likely to pay a living wage and invest in community.³¹ The Government of Manitoba for example has set a target of adding 75,000 new workers to Manitoba's economy by 2020 in collaboration with the social enterprise sector. Locally-owned small businesses are known for providing positive social, economic, and environmental returns to communities.³²

Summary

Mobilizing local capital for local entrepreneurs will help support local business in Alberta, thereby growing and diversifying our economy, creating jobs, and delivering positive social and environmental returns to society, in addition to financial.

Other provinces have enabled local investing through market exemptions and investor tax credits. CEDIFs demonstrate the value of creating a market mechanism to facilitate local investment. Alberta can also benefit from introducing a CEDIF model, and the time is now.

We ask the Government of Alberta to create a market exemption for CEDIFs to enable local investing in Alberta, and to help these investors to benefit from the Investor Tax Credit. We ask that the Government of Alberta work with the local investing community to design the terms of the market exemption and application of the Investor Tax Credit.

If Albertans moved merely 2% of their RRSPs to a local investment fund, the result would be approximately \$114 million in local investments.

²⁹ Government of Nova Scotia <http://www.gov.ns.ca/econ/CEDIF/>

³⁰ A social enterprise is an "organization or business that uses the market-oriented production and sale of goods and/or services to pursue a public benefit mission." Canada's National Advisory Board to the G8 Social Impact Investing Task Force, "Mobilizing Private Capital for Public Good: Priorities for Canada" (Mars Centre for Impact Investing, Sept 2014) at 11-12.

³¹ Business Alliance for Local Living Economies. The Benefits of Locally-Owned business. <https://bealocalist.org/economic-development/planet-protection/benefits-of-locally-owned-businesses> Community Economic Development benefits: <http://www.momentum.org/files/Publications/CEDSectorDevelopmentBriefWeb.pdf> and <http://www.momentum.org/files/Publications/Building-a-Diverse-and-Inclusive-Economy.pdf>

³² Anthony Pringle, "The Power of Purchasing: the Economic Impacts of Local Procurement" (May 2013) http://locobc.com/wp-content/uploads/Local_Procurement_FinalforWeb.pdf

Recognition

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- Patti B. Dolan, Portfolio Manager
- Peter Davis, Credit Union Central of Alberta Ltd
- Sandi Gilbert, SeedUps Canada
- Stephanie Jackman, REAP Business Association
- Seth Leon, Alberta Community and Co-operative Association

Momentum

Momentum is a Community Economic Development (CED) organization, working with 4000 participants each year to build a sustainable livelihood through employment skills training, financial literacy, and business development programs. Momentum works with more than 60 entrepreneurs each year, and has loaned \$2.4M to local entrepreneurs in support of their small businesses.

More information

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Current Local Investing Examples

| Fund | Type | Info | Accessibility | Contact | Web |
|---------------------------------------|------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Opportunity Development Co-ops | Co-operative Financing. Launched in 2010 | Seven ODCs established in AB to date. See Sanguo, WestLock Grain Terminal, and Crowsnest Pass for examples. | Minimum \$5000 investment. | Seth Leon sleon@acca.coop 587-216-2144 | http://acca.coop/unleashing/odc/ |
| Social Enterprise Fund | Debt-based financing for social enterprises, social entrepreneurs (any corporate structure) across Alberta. Launched in 2008 | Currently using debt instruments to strengthen enterprises with embedded public benefit mission. Includes Alberta Social Enterprise Venture Fund, Edmonton Social Enterprise Loan Fund. Future plans include equity investments. Total investments to date: \$28 million in more than 40 enterprises. | Investors to date include Edmonton Community Foundation, City of Edmonton, Alberta Real Estate Foundation, United Way of Edmonton, private individuals. Other investors welcome. | Jane Bisbee, Social Enterprise Fund Jane@SocialEnterpriseFund.ca Martin Garber-Conrad, Edmonton Community Foundation | http://socialenterprisefund.ca |
| SEEDUps | Equity investment in Canadian businesses | Crowdfunding platform across Canada. Using existing market exemptions within particular provinces. In AB – Offering Memorandum Exemption. | Affordable. Minimum shares as low as \$500 | Sandi Gilbert sandi@seedups.ca | https://www.seedups.ca/ |
| Alberta Impact Fund | Debt-based financing. Not yet launched. | In development. Goal of \$25 million fund with 40-60 businesses | Accredited investors and foundations only | Rosalyn Dodd and Houston Peschl rosalynn@creatingdaimonia.com | https://www.alberta-boostr.ca/campaign/?id=394e8d1b-dc76-e511-80bf-0cc47a696e6d |