

# Building Local Assets

*Taking the Measure of Community Investment in Canada*

BY SETH ASIMAKOS

*We have all heard such phrases as “giving credit where credit is due” and “banking the unbankable.” Community investment works in that space. At its simplest, community investment is financing that targets the underserved to develop opportunities and improve conditions.*

In Canada, credit unions in the early 1900s were a prime example of that philosophy. They were formed in rural communities to provide financial services where there were none. They pooled the small bits of money from farmers and farm workers to enable loans to help people own houses and build assets. Decisions were made over kitchen tables by a local group of volunteers.

Today credit unions are big. Due to amalgamation, even the smallest has tens of millions of dollars in assets and the largest, VanCity, declares assets over \$14 billion. They deliver financial products and services comparable to any bank, and they serve the wider community, not just those who cannot get these services elsewhere. Clearly, they have evolved into a fairly traditional financial organization albeit with significantly more local control and accountability.

So what are we talking about when we use the term “community investment” today? Who is involved? How big is it? What relevance does it have in today’s economic downturn?

## **Defining Community Investment**

A more precise definition of community investment is used by the Canadian Community Investment Network Co-operative (CCINC), a national co-operative of community loan funds, social enterprise funds, co-op funds, microloan funds and financial institutions with community financing programs. CCINC defines community investment as “financing and technical assistance that targets the underserved; including individuals, communities, and community (or social) enterprises.”

By the “underserved” we mean those whose financing needs are not being fully met by the mainstream financial sector. The reason for the lack of financial services may vary. It might be the perceived or real risk related to limited collateral or equity offered against a loan. It might be an applicant’s bad credit or

limited credit history. It might be the financial institution’s lack of understanding of a type of enterprise (social enterprise, for instance). And, sadly, it might be that the profit margins are too low for an institution to consider serving the potential client or community.

The actual community financing product varies. It can be in the form of debt such as a loan, mortgage, or credit line. It can be a loan guarantee: that is, one institution (or individual) holds money to offset the risk of lending at another institution. It can also be equity: a share of ownership in an enterprise. Local organizations commonly use the financing to develop opportunities for income generation, affordable housing, community renewal, and environmental sustainability. Most providers back up financing with technical assistance in order to increase the chances of a successful project and minimize the risk of financial loss.

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Organizations that deliver community investment are diverse. But they all operate independently from government and share the goal of a blended (financial and social and sometimes environmental) return on investment. Grants can be part of the financing mix but cannot be its sole component. If it is, the provider becomes a foundation, which provides non-repayable grants.

The majority of community investment organizations are organized in the form of nonprofit corporations with volunteer boards of directors. The sources of capital for community investment funds are diverse. They include loans, loan guarantees, equity, and donations from private citizens, associations, the government, and other mainstream financial institutions.

*The aggregate value of thousands of community investment deals in Canada was at least \$1.4 billion in 2008. This represents the portion of loans, loan guarantees, or equity that remains receivable by 487 organizations.*

## Some of the Major Players

**Community Futures organizations** (CFs) were formed in the mid-1980s by the federal government to support community-based initiatives in low-income rural regions across Canada. Currently, 267 Community Futures organizations are capitalized (\$3 million each roughly) and receive on-going operating revenue from the federal government (\$250,000/year approx. each). They operate at arm's length with volunteer boards. They provide financing up to \$150,000 for the start-up, expansion, and/or stabilization of local business.

**Aboriginal Financial Institutions** (AFIs) were formed by federal government and Aboriginal leaders in the 1980s and 1990s under the Canadian Aboriginal Economic Development Strategy. The purpose of AFIs is to reduce barriers to the entry of Aboriginal small businesses into the Canadian economy. Twenty years later, there are a total of 59 independent, Aboriginal-owned and -controlled AFIs (20 CFs and 39 Aboriginal Capital Corporations or Aboriginal Development Lenders). Since inception, AFIs have provided in excess of 32,000 loans totaling more than \$1.3 billion.

**Credit Unions**, organized locally according to co-operative models, were one of the first community investment organiza-

tions in Canada. The first was created in Lévis, Québec in 1900, when 80 people formed a *caisse populaire*. The system now employs over 24,000 people, serves 4.9 million members in 1700 communities, and manages assets of over \$91 billion. Today, credit unions service the same clientele as any bank and offer the same range of services. As credit unions have grown in size, profits have risen and co-operative social responsibility has started a comeback. They have earmarked a portion of their assets for investment in the under served once again.

In Nova Scotia, close to 3,700 individuals have chosen to take advantage of a 30% equity tax credit and a 20% guarantee to invest in 44 Community Economic Development Investment Funds. CEDIFs can be organized as a community's blind pool to which entrepreneurs apply, or they can be set up to invest in a specific industry or company through share offerings. After a total of 77 offerings, CEDIFs now manage over \$30 million in assets.

As well, there are **national pools**, such as the **Canadian Alternative Investment Co-operative**, which has been capitalized through investments from various churches, and has \$7 million in assets. It provides loans to social enterprises, mortgages for community based projects, and loans for social and affordable housing. **Tenacity Works** is a smaller national pool managed by the Canadian Worker Co-operative Federation. It exclusively finances worker co-operatives, with an average investment of \$65,000. Its capital was provided through a grant from the federal government.

**Community loan funds** began appearing in Canada 20 years ago, an adaptation of an American model that was focussed on housing to one focussed on enterprise develop-

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### Résumé : Créer des actifs locaux

L'investissement communautaire est le financement qui cible les sous-desservis (individus, communautés et entreprises sociales) afin de développer des opportunités et d'améliorer les conditions. Qui est présentement impliqué dans ce secteur au Canada? Comment gros est-il? Comment important est-il pendant la récession en cours? Pour répondre à ces questions, le Réseau d'investissement communautaire du Canada, Coopérative (RICCC) a entrepris un sondage national en 2008-09.

Le RICCC a découvert un secteur comprenant près de 500 organisations qui ont des ententes d'investissement communautaire (prêts, garanties de prêts ou du capital) qui avaient une valeur d'au moins

1,4 \$ milliards. Le sondage révèle des acteurs qui, même s'ils sont très diversifiés (Sociétés d'aide au développement des collectivités, institutions financières autochtones, caisses populaires, fonds et organisations d'investissement en DÉC, fonds de prêts communautaires et tontines), partagent leur indépendance du gouvernement et le but de retours multiples sur les investissements.

Leurs sources de capitaux incluent des prêts, des garanties de prêts, des capitaux et dons privés, des associations, le gouvernement et d'autres institutions financières courantes. Ils ont tendance à investir dans l'économie verte, le logement social, le commerce équitable, l'entreprise sociale, et le financement de la transition

des personnes du chômage vers le travail.

C'est aussi un secteur en croissance, lorsque vous comparez ces résultats à ceux recueillis en 2006. Avec de la recherche améliorée, plus de financement de fonctionnement et des incitations pour les investissements privés, un plus grand partage des pratiques et de nouvelles structures innovatrices, le secteur pourrait générer encore plus d'investissements dans les communautés canadiennes. À vrai dire, le ralentissement actuel est un temps idéal pour continuer de faire des affaires, pour former des personnes au financement et à la gestion d'entreprises et pour éduquer le public par rapport aux investissements communautaires. ■

ment. Launched in 1990, the **Montreal Community Loan Association** (ACEM) is the oldest community loan fund in Canada. Its capital of roughly \$500,000 is built on investments from private citizens and groups. It focusses its lending on business development with immigrants, visible minorities, and women. Most loans are around \$15,000.

In the late 1990s, ACEM held a series of national forums that affirmed it as a mentor for other start-ups, such as the Saint John Community Loan Fund, Ottawa Community Loan Fund, and Access Riverdale in Toronto. It has also been at the centre of social economy development in Québec, and is a member of the 21-member Réseau québécois du crédit communautaire (RQCC). Many of RQCC members use **peer lending circles** as a means to disburse loans. Closely related to community loan funds are urban-based **community economic development organizations** that run diverse loan and training programs. Two such examples are Momentum of Calgary and Quint in Saskatoon.

## **What do they invest in? What are the deals?"**

**Financing the Conservation Economy** – Ecotrust is a regional fund in British Columbia that invests in the “conservation economy;” the economy that blends environmental soundness with the creation or maintenance of jobs for the region. They are pushing hard on the idea of community- and Aboriginal-owned power on the Pacific coast. Ecotrust is lending to Aboriginal groups to enable them to take equity positions in power projects. As Peak Oil looms, having some windmills or microhydro river power projects that feed into a larger grid makes some sense. Keeping jobs in the region and blending this with a good renewable industry makes sense.

**Financing Affordable Housing** – In Saint John, N.B., there are five priority neighbourhoods where the poverty rates are 30-50% and the home ownership rates are less than 2%. A consortium of nonprofit organizations decided to address the issue by piloting a home ownership project consisting of three semi-detached units. The Saint John Community Loan Fund extended a 3-year loan of \$35,000 to the \$400,000 project. This was critical to leveraging the local credit union’s financing which was restricted by a loan-to-value ratio lower than the project needed.

**Financing Transition to Work** – Sometimes people just need a loan to get back to work. Vancity’s Back to Work loans of \$2,000-5,000 are designed to support new Canadians who, for lack of upgrading or certification, are not able to work in

fields in which they already have some training. These loans are provided on the strength of the individual’s past employment experience and an assessment of the labour market. Recently a small loan was disbursed to a woman from East Africa who needed to take a North American horticulture training class to return to work in her chosen field.

**Financing Fair Trade** – Just Us! Coffee Roasters was founded in the fall of 1995 as Canada’s first fair trade coffee roaster. In March 1996, it was formally incorporated as a worker co-operative. In order to raise capital for expansion, Just Us! formed a CEDIF called the Just Us! Fair Trade Investment Co-operative Ltd. Thanks to this unique government of Nova Scotia Equity Tax Credit program, five share offerings raised over \$1.6 million and enabled the co-operative to expand operations and take on new projects such as fair trade chocolate. Yum!

**Financing Social Enterprise** – In the Manitoba community of Lac du Bonnet, the local CF worked with the school district and social service agencies to develop Mrs. Lucci’s Secondhand Store and Community Resource Centre. It sells items donated by the community while providing students and unemployed youth with training in the areas of retail sales, customer service and inventory control. In June 2004, Mrs. Lucci’s moved from its original 2,000 square foot location into a new 4,300 square foot building. It was built with the support of CF Winnipeg River Brokenhead and a strong network of community partnerships.

## **Total Community Investment Activity**

These examples of community investment represent just a slice of the economic, social, and environmental innovation happening across Canada. CCINC surveyed the sector in 2008 and 2009 and found the aggregate value of these and thousands of other community investment deals in Canada were worth at least \$1.4 billion in 2008. This represents the portion of loans, loan guarantees, or equity that remains receivable by 487 organizations.

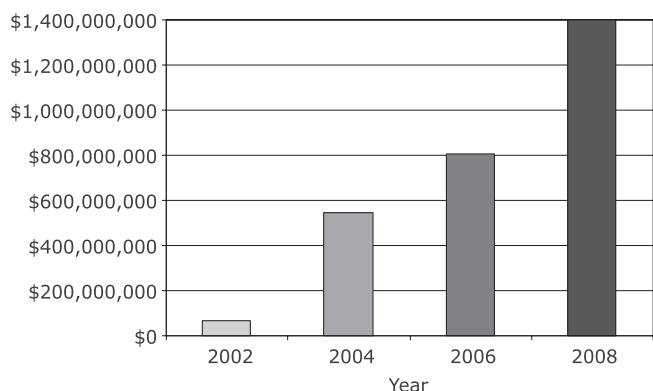
We suspect that many credit unions and smaller funds are not reporting and that the value of community investment could easily be another \$200 million. Still, based on former scans; we continue to see growth in the value of community invested capital.<sup>1</sup>

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<sup>1</sup>How Canada stacks up to other countries in terms of community investment is difficult to assess. The definition of community investment varies from country to country, and that directly affects which organizations are included in each country’s research. Some scans are done only periodically, and so tend to be out of date. Comparing jurisdictions will only be made possible when we use the same research methods and the same definitions.

Three factors account for this growth: improved research and response rates, expanding the definition of community investment to include the Community Futures, and natural growth. If we disregard the addition of new funds and look at funds reporting scan to scan (year over year), 70% of organizations that reported in both the 2006 and 2008 survey realized growth in assets. As an example, Momentum started a new loan program in 2004 called the Immigrant Access Loan. It has grown to over \$400,000, doubling their current entrepreneur loan portfolio's asset size.

Figure 1 – The Growth of Community Investment



Community Futures were not included in the first scan, but it was clear that with their community-based boards they were a part of the community investment sector. In fact, government-capitalized and -funded organizations (Aboriginal Funds and the Community Futures organizations), when combined, encompass 66% of the value of community investment assets in Canada. Clearly, government has a great deal of influence on the community investment sector and can have a major impact on its future.

The survey found significant variation between organizations in terms of size of assets, product mix, and efficiency. The largest credit union holds \$280 million in community-invested assets. The smallest microfund has \$7,000 receivable.

Clearly, there is a vast difference in operational sustainability between a nonprofit community loan fund and a credit union, or even a CF. Even so, community loan funds are delivering the most diverse product mix. They deliver loans for business, social enterprise, housing, and employment, as well as diverse training and development programs.

There is a reason for this. Community loan funds can adapt quickly to opportunities and demands in communities. They are not restricted by loan-to-value ratios the same way credit unions

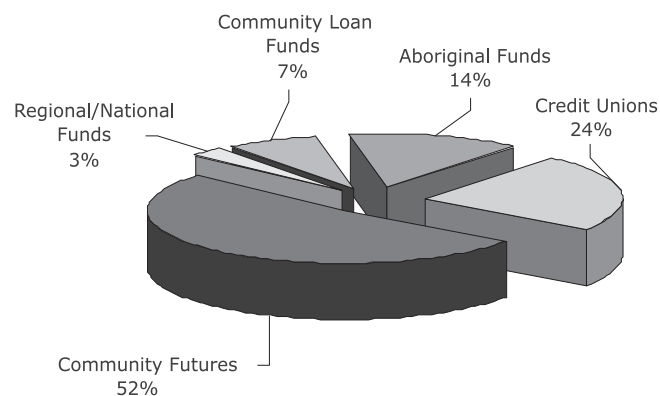
are. Nor are they bound by fiduciary requirements and government business development constraints as CFs are.

## Projecting Demand

The CCINC survey also asked respondents what they felt were the opportunities for community investment in Canada in the next two years. CFs listed business succession and diversification. For other organizations, the opportunities tended to be more social in nature, including social enterprise development, housing, and community renewal.

To meet the demand, the average CF identified the need for an additional \$1.5 million. If projected over the entire network, this would be approximately \$400 million. For non-CF organizations, the demand varied. For value-added environmental resource conversion on the west coast, the projected capital requirement was pegged at hundreds of millions! For two of the community loan funds that identified housing and social enterprise as key growth areas, the sum was \$2 million in either case. The manager of the CEDIF program in Nova Scotia saw a demand for another \$50 million, much of it going to alternative energy projects, such as wind energy. Pulling these numbers together, even without considering many other parts of the sector, the projected demand for financing is easily \$750 million.

Figure 2 - How the \$1.4 billion is broken up



Early results from a financing demand study in Atlantic Canada by the Social Economy Research Network suggest that the average social enterprise (nonprofit organizations and worker co-operatives) requires a minimum of \$500,000 for the expansion of programs and services, including housing development.

Of course, there are always limitations and barriers to growth. A recession as deep as the current one is sure to have an impact on this sector. For CFs, the low-risk tolerance of

their funders (aka government) combined with the economic downturn might frighten them further and limit flexible lending. Smaller community funds that depend on diverse funding will see their resources reduced, too. Foundations will cut back support due to losses in the market, and governments due to losses in taxation.

The recession will provide a reprieve for housing development as markets ease up. But once the economy turns around, rising construction costs and real-estate values will once again make the target of affordability hard to hit. Both CF and non-CF organizations stressed how important it is in these times to expand operational funding to keep deal flows going, and to train individuals in financing and managing enterprises.

## Recommendations from the Research

It is clear that community investment is growing in Canada and that there is continued demand for financing. How will we ensure its growth? The 2008 scan provides the following recommendations:

- **Improve research of the sector.** Further develop the community investment scan. Develop an industry standard template to increase adoption and increase response rates. If at all possible, bring on Statistics Canada. As part of this effort, a digital catalogue of community investment organizations should be developed.
- **Develop a hybrid model – an urban-based CF.** To move capital, you need adequate staff resources. Is there a way to marry the CF concept with urban-based loan funds? Combine CF operational resources and the support of a national network with the ability of community loan funds to raise private capital and finance more diverse activities.
- **Attract private capital.** Use incentives like tax credits and guarantees, after the example of the CEDIF. Promote it as a public agenda. (Now is a good time, given the ethical beating that mainstream investment is taking). Explore Program-Related Investments and develop the reassurance that foundations need to start placing capital in community funds.
- **Invest in housing and nonprofit commercial space.** Look at the few under-priced but expanding housing markets where equity can be developed and assets grown. Look at the real opportunity to build affordable home ownership units in combination with nonprofit office space to enable asset accumulation by individuals and nonprofits.
- **Crack the business succession vacuum with social enterprise conversions.** Succession planning is a huge issue in rural communities and may be ripe for worker co-operative conversion.

- **Develop a national community investment framework** that puts forth a concise, forward-thinking document that identifies opportunities for growth and the real returns to families, communities, and to the Canadian government. This will include convening roundtables and rationalizing the sector through mergers between leading organizations.
- **Expand opportunity with credit unions.** Credit unions are in over 1700 Canadian communities. This is a great network through which to expand community investment. The Nova Scotia Co-operative Development Council provides a great example for aggressive program development in this area.
- **Facilitate sharing and adoption** of leading practices in the field from each slice of the sector: community funds, credit unions, Community Futures, and equity investment opportunities like the CEDIFs. CEDTAP was a wonderful resource. We need to be able to share knowledge at a better pace with a similar vehicle.

The Canadian community investment sector is growing. More money is being placed by more organizations. With enhanced private investment incentives, the deliberate sharing of practices, merging of structures, and provision of an appropriate level of operational resources, the sector could generate even more investment in Canadian communities.

In an economic downturn that many people blame on the excess of the marketplace, there is a big opportunity to educate the public on community-based investing, and to promote investing for blended returns. In fact, it is a great time to build and retain local assets in Canada.



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To follow a blog on this subject and download the entire report on which this article is based, "Building Local Assets: Community Investment in Canada, 2008" (Canadian Community Investment Network Co-operative, May 2009), go to [socialfinance.ca/blog/2009/07/building-local-assets-community-investment-in-canada](http://socialfinance.ca/blog/2009/07/building-local-assets-community-investment-in-canada). For more information on CCINC, go to [www.communityinvestment.ca](http://www.communityinvestment.ca).