Hello Everyone,

The Nova Scotia CEDIF program was unique when it was established but it has been, or is being, replicated in MB, PEI, NB, and likely BC - I'm helping several organizations that are working to have the program legislated in that province. Although I've promoted the program outside the Province, I haven't provided as much information closer to home.

Here's a good summary that covers the essential points, although I've noted some changes and the amount is now over $80 M invested in about 70 funds. Since the reorganization of Government Departments it's difficult to get information. When we met with the Minister of Finance we were assured that the program is safe, but I get phone calls from across the Province asking for information that previously would have been provided by Chris Payne in Economic Development.

As well, here's a link to Banking Community Assets: A New Model of Community-Based Economic Development in Cape Breton by Greg MacLeod and Chris Ling

Nova Scotia Community Economic Development Investment Funds (2014)

http://newmarketfunds.ca/pdf/Eight-Tracks.pdf

Name:	Community Economic Development Investment Funds (CEDIF)
Objective:	Access to patient, local capital
Primary Investee Focus:	Companies and Co-operatives
Primary Capital Type Deployed:	Equity (common shares) and/or subordinated debt
Current/Target Funds Under Management:	$60 million
Financial Returns targeted for Investors:	Market-based with tax credits to offset risk
Number of Current Investees:	There are about 60 CEDIF's which have capitalized and are operating. Most of these have only a single investment, however, there are about 6 which have made multiple investments. In total, approximately 75 companies (also includes cooperatives) have been successful in securing funds from a CEDIF
Types and Numbers of Investors:	Retail investors 100% (6,000 +)
Primary Geographic Scope:	Across Nova Scotia

NOTE: Community Economic Development Investment Funds (CEDIF) are unique among the SFIFs profiled in this How-to Guide. CEDIFs are pools of capital formed through the sale of shares to persons in a defined community, which is invested in the creation or expansion of a local business.[13] They exist as a result of an enabling structure adopted by the Province of Nova Scotia. The information presented below comes primarily from Christopher Payne, Senior Advisor, Evaluation of Finance and Private Sector Initiatives at NS Economic and Rural Development, rather than the director or lead staffer of a fund. Mr. Payne has played an integral (and evangelical) role in the Province's development and adoption of CEDIFs since their inception.

Key Conditions required for the formation of the CEDIF program

The idea of a Community Economic Development Investment Fund (CEDIF) was first announced in 1993 during the Nova Scotia Liberal government's budget process. It had been put forth by a voluntary planning effort that had sought to develop a mechanism to support local investment. The conceptual framework envisioned individual investors to capitalize local Funds which would invest into the local community. However, this idea quickly became significantly more complicated than had been anticipated by the requirement for the completion of a Prospectus and approval by the Securities Commission, due to this being a public offering. As a result, it was shelved.

The Nova Scotia Equity Tax Credit (ETC) had already been developed and was working well to promote equity investment in the community, however, it only worked in instances where the company seeking capital was familiar with potential investors. There was a gap between the businesses that had ideas and a need for capital and the investors seeking investment opportunities. The tax credit was envisioned as a logical next step to efforts for employee stock ownership programs (ESOPs) in the province, which never really got off the ground for a myriad of reasons.

By 1997, the Office of Economic Development (OED) had created a working group to address the obstacles that impeded the implementation of the CEDIF concept. Their charge was "to make CEDIFs happen" by finding the balance between investor protection and the need to prepare a prospectus document. The group included Chris Payne, who was seconded from the Department of Finance, an external consultant, as well as legal and other personnel from the Nova Scotia Securities Commission and the Finance and Economic Development departments.

The working group considered models in place in other jurisdictions such as Manitoba and Saskatchewan (e.g. Grow Bonds). Overall, the group's goal was to develop a mechanism that did not require a government guarantee or government deciding if the investment was warranted. Over time enabling laws and regulations were created. A key feature was the ability for CEDIFs to issue a Simplified Offering document. 14 The Simplified Offering document allows community-led groups, lacking the scale of large corporations or cooperatives, to offer investments to non-accredited retail investors without the virtually insurmountable cost and complexity barriers of a full prospectus offering.

In 1999, the CEDIF concept was launched by Nova Scotia Office of Economic Development (OED). Meetings were held throughout the Province to tell people about this new local investment opportunity. Within a few months, the first offerings were issued. Interestingly no clear investment pipeline had been identified at the beginning of the development of these Funds. There was an implied understanding that there were investment opportunities in most communities and once funds had been raised and were available for local investment then candidates for these funds would bring themselves forward.

There was somewhat of a "build it and they will come" philosophy and for that reason it required strong initial leadership.

Biggest Barrier
The biggest barrier for the development of CEDIFs was the lack of a regulatory framework. This was substantially offset by the ardent desire of numerous government departments and players in making the CEDIF concept operational and successful.

Formation subsidies, Time and Cost
Active development of the CEDIF concept involved countless hours of government employees over a period of about two years. An outside securities lawyer cost about $30,000 in consultant's fees which were paid by OED.

Capital Raising
Investor Types
Individual CEDIFs around the province are capitalized by members in a defined community that choose to invest in new or existing local businesses through the sale of shares (the use and purpose of which is defined by the CEDIF). Given that the CEDIF offer retail investments, investors do not need to be accredited, they only need be residents of Nova Scotia over the age of 19.

The mix of investors for each CEDIF varies. For example, some funds, especially those where the company that is being financed is growing rapidly and expected to eventually issue a

public offering, attract higher net worth investors, similar to angel investors. Other CEDIFs supporting more community-based enterprises tend to appeal to a broader range of investors. The investments in these CEDIFs are smaller on average, ranging from $3,000 – $5,000 versus $20,000 on average for the CEDIF supporting companies that are on a path to go public.
The initial investment limit was $30,000 per investor per year. It is now $50,000 (PP/Year), with talks within government of raising it to $100,000. However, government wants to ensure that there is no room for tax leakage or developers using CEDIFs for commercial property development. On the other hand, raising the limit to $100,000 would not make a big difference to the money raised as it is very rare that an individual investor invests the maximum $50,000.
Blanket Order January 17/14 http://nssc.novascotia.ca/sites/default/files/bo45-521.pdf
2. the exempt CEDIF, together with any other affiliated CEDIFs, may raise no more than: a) $15,000 per beneficial investor per calendar year in aggregate, or b) $30,000 per beneficial investor per calendar year in aggregate if the investor has obtained advice regarding the suitability of the investment from a person or company registered as an investment dealer or exempt market dealer authorized to sell securities of the CEDIF, except that these investment limits do not apply to an investor that meets the definition of an accredited investor under National Instrument 45-106 Prospectus and Registration Exemptions, or is an officer, director or promoter of the CEDIF;

CEDIFs must be for-profit businesses, and cannot be charitable, non-taxable, or not-for-profit. They can be for-profit cooperative corporations. In order for the CEDIF to sell shares, all requirements set by the Department of Finance and the Nova Scotia Securities Commission must be met. It is the responsibility of the CEDIF board of directors to sell shares and manage the funds, as well as carry out other administrative tasks. Since the board of directors is responsible for the investments, it cannot be assumed that CEDIFs will have professional investment management services, or that they will possess such expertise.

Lessons about Different Investor Groups
Investors have different reasons for wanting to invest; however, the primary motivation comes down to having personal relationships with the seller and/or the business(es) supported by the CEDIF. Community-based organizations might secure investments from their donor networks.

A number of CEDIFs have placed ads or held community meetings to raise awareness of the opportunity to invest and incentives to do so. However, at these large gatherings, participants don't typically purchase shares. They do so because of one-on-one, community-based relationships. Each fund has a different approach. Some might identify high net-worth individuals, for example. They also benefit from being able to demonstrate that the individuals on the CEDIF board have themselves invested. The Funds all depend on increased awareness and momentum.

Strategies for Finding Investors
According to an evaluation framework, created for the CEDIF program and led by the Nova Scotia Office of Economic Development (2006), Nova Scotians invest more than $600 million annually in RRSPs, yet most of this money leaves the province without adding value – less than 2% of this money is reinvested in Nova Scotia. The goal of the CEDIF program is to capture a portion of the funds that would otherwise leave the province, in order to add value to local communities. Funds invested in CEDIFs are pre-approved holdings for a self-directed RRSP. If the program could attract 5% of the money that would otherwise flow out of the province annually through traditional RRSP investments, this would provide an additional $30 million of reinvestment in Nova Scotia communities.

When the CEDIF was first put in place in 1999-2000, there was a partial provincial guarantee for investors. The Province provided a 20% guarantee for 4 years, which when combined with the (at the time) 30% Equity Tax Credit, provided investors with mitigation of 50% of the risk. In 2006, the provincial guarantee was removed and in its place, shareholders gained the right to re-invest. That is, a shareholder could rollover its investment after expiration of the five year hold period and, subject to certain conditions, qualify for a subsequent tax credit.
The CEDIF must meet certain conditions for its investors to qualify for these incentives:
- Be in good standing with both the Department of Finance and the Nova Scotia Security Commission
- Be growing

• Market value of fund must exceed 65 percent of original base value for the five year tax credit and 50 percent for the 10 year tax credit.

The province's Equity Tax Credit creates an additional incentive for individuals to purchase shares in a CEDIF. The credit, which is available to Nova Scotia residents, was originally a 30% personal tax credit (it is now 35%) for a 5-year investment. The credit can be carried back three years or forward seven years. Shares in eligible CEDIFs may qualify for an additional 20% income tax credit upon renewal after the first five years, and a 10% income tax credit upon renewal after ten years on the original amount invested in a CEDIF. In order for the shareholders to qualify, the shares must be held for an additional five years for each credit based on the date of share purchase.

Operating Model

CEDIFs are a unique method for providing capital to one or more specified businesses within a community in Nova Scotia. They may also be created as a pooled fund for a designated community. Independent CEDIFs are typically created by the staff of a community-based organization or a group of interested volunteers within a community. The primary work associated with creating, funding and investing the CEDIF and its assets is heavily front-ended and typically handled by the volunteer board, the companies who will benefit from the investment or allocated staff time within an organization with a mission of supporting community-based economic development. The out-of-pocket costs associated with the Offering are typically funded from the proceeds. These costs are usually kept to an absolute minimum, however, they can range from virtually nil to perhaps as much as 10%. The vast majority of offerings are at the low end of the aforementioned range. The remainder of funds raised (i.e. Net Proceeds) are used for investment and ongoing operating expenses. It is key that a CEDIF minimize the administrative burden so as to be able to deploy the maximum amount of capital into target ventures. There is no rigid percentage for the total cost of administrative expenses, however, as part of the review of the offering document, staff would identify and seek clarification of any unusual costs in this area.

Once the CEDIF has been established, ongoing expenses are typically limited to costs associated with holding the annual general meeting and reporting to the Government and investors. There is the cost to prepare the annual financial statements (audit or review) as well as normal operational costs such as annual corporate registration.

Staffing

CEDIFs are generally not individually staffed. In the case of some of the larger Wind Field offerings, they do maintain a staff (3-5) and office which provides services to multiple funds. The volunteer Boards of most CEDIF have at least one chartered accountant, a lawyer, small business owner(s) and an academic. They may also have people with expertise in government, community development or the field in which the investees operate.

The CEDIF model is supported by about 3 FTEs working for the Nova Scotia government. This includes a portion of one person's time at Finance (to oversee the associated Equity Tax Credit), a portion of one person's time at Economic Development (to promote the CEDIF concept and provide information about how to form and maintain them) and staff time equal to 1.5-2 FTEs at the Nova Scotia Securities Commission to review and non-disapprove the Offering Documents.

Pipeline

The enabling legislation requires that businesses financed by a CEDIF to be located in Nova Scotia and have at least 25% of its salaries and wages paid in the province. Both new and existing businesses (companies and cooperatives) are eligible for investment. It is also interesting to note that although cooperatives represent about 2% of businesses in NS, they represent about 20% of the CEDIF. Unlike most other SFIFS, the CEDIF model is highly responsive to the funding requirements of one or more specific business within a region or community. They are formed by local people for local businesses and have deep roots and networks within the community which helps with both securing capital and effectively investing it in deserving enterprises.

In many cases, the need for capital by a local business is often the impetus that leads supporters of the enterprise toward creating a CEDIF. As a result, the CEDIF typically does not need to "build or screen the pipeline" of eligible investments. The notable exception is with blind pool CEDIFs, which are described below. Due diligence and structuring of the investment must occur prior to the writing of the Simplified Offering in order to be adequately disclosed. The proponents of a Blind Pool CEDIF will analyze the key strengths of its community (e.g. SWOT analysis) and the opportunities which are not being fully realized. They will also try to understand what entrepreneurs are seeking capital and for what projects. Much of the investment made by such funds is driven by relationships between the Directors of the funds and the individual entrepreneurs.

Only 6 of Nova Scotia's 47 CEDIFs have been created as blind pools. These funds specify the objectives, criteria and due diligence process in their offerings. Nova Scotia law specifies that blind pool CEDIFs must be invested according to the following schedule:
• At least 40% after 1 year
• At least 60% after 2 years
• At least 80% after 3 years

Blind pool CEDIFs are often created by organizations with a community-based economic development mission that have created and funded other CEDIFs. As a result of this experience, the CEDIFs supporters or Board are familiar with the capital needs in the community. To date, CEDIFs have found that opportunities present themselves quite quickly once the funds are available. None of the blind pools has faced difficulty in investing funds within the proscribed "pacing requirements".

Monitoring and Reporting
Investees must provide the CEDIF with at least semi-annual management-prepared financials. CEDIFs are required by law to hold an annual general meeting which must be noticed to all investors. At the AGM, the CEDIF must present audited or reviewed financials and report on investee performance. Blind pool CEDIFS must report on any investment made over the previous year.

The CEDIF must also send the annual financials to the Nova Scotia Securities Commission. The Department of Finance must also receive a copy of the investor information so as to enable the issuance of the equity tax credit certificate, which an investor uses to claim the tax credit on their personal income tax return.

Concluding Advice for Those Considering Replication
The CEDIF model is a highly effective mechanism for supporting local investment in economic development. Development, promotion and rollout of the mechanism was heavily supported by the Government of Nova Scotia and its champion, Chris Payne, a self-described CEDIF evangelist. Development of the mechanism was greatly facilitated by the affected government departments (i.e. Finance, Economic Development and Securities) desire to "make it work." It is important to note the significance of the Equity Tax Credit to the ability of Funds to source investment. While impossible to quantify the exact impact of the tax credit, it can be "guesstimated" that the total amount of funds that would be raised would be only about 10% of what has been achieved. The Equity Tax Credit has been a very significant factor in the scale achieved by the CEDIF Funds.

The cost to the Province of this tax credit is estimated at approximately $20 million ($60 million times either 30% or 35%, per or post 2006 changes). The impact on the communities which have started a CEDIF have been significant and the multiplier from these investments would certainly take the overall impact closer to $100 million.

Nova Scotia's Economic Development department continues to support CEDIFs in a variety of ways including a web site (http://nssc.novascotia.ca/corporate-finance/community-economic-development-Investment-funds), ongoing technical assistance, and the availability and sharing of all relevant documents and templates and advocating within government for the needs of CEDIFs. Support diminished when Department of Business replaced ERDT.

Overall, CEDIF-supported businesses have a 90% success rate. This is far better than the typical SME survival rate. Three of the CEDIFs have failed resulting in the loss of less than $1 million in total invested funds. This doesn't take into account Seaport Market which was a $1.7 M single entity CEDIF (if anyone wishes to read that story let me know).
However, CEDIF failures relative to other SMEs are few still few in number.
There are now 8-9 funds which provide investors an annual dividend. It should be noted that these dividends must be non-liquidating. That is, dividends can only be paid from earnings, not a return of capital. There has been no attempt to quantify the return to investors and this exercise would be quite costly and complex due to the valuation of investee companies and the absence of a market to use for comparative purposes.
Some of the current challenges faced by CEDIFs include the following:

- Dealing with RRSP (RRIF) investments
- Selling through registered dealers
- Broadening the net so that the CEDIF model might be available in larger regions or even outside the province
- Evolving the model so that it can be replicated elsewhere

In conclusion, other jurisdictions need to let the community decide where investment should be made. There is a bias inside most government to have so-called experts within a government office decide what projects get approved. The magic in the CEDIF approach is that no person inside government decides where investment goes. The role of government is to ensure there is clear disclosure and that investors know what they are investing into. It is a major paradigm shift to have government let go and let communities make these decisions for themselves and the results have proven this to be the better course of action.