

Putting Our Money Where Our Hearts Are

by Silver Donald Cameron

ISLE MADAME, NS --

Never, in my most fevered imaginings, did I contemplate becoming part-owner of a building-supply business in Arichat, Nova Scotia. Nor did I have fantasies about a scallop and mussel farm. So why am I spending a September evening on a hard chair beside a display of manufactured windows, discussing the financing of a fork-lift? Why do I have a proprietary glimmer in my eye as I sail by the tidy lines of white styrofoam floats which mark the limits of the mussel farms in Lennox Passage? Can it possibly be that the provincial government has done something right?

So it seems. I belong to two of Nova Scotia's first Community Investment Co-operatives, designed to encourage Nova Scotians to invest in local business. Good news for rural entrepreneurs, who quickly learn, to their sorrow, the truth about venture capital. There isn't any. Not around here.

That's not to say that there isn't any *capital* around here. Like other Canadians, we build up retirement accounts, rainy-day reserves and educational savings funds. But our pension funds, bank deposits, RRSPs and the like go into national institutions and flow away to Toronto, Vancouver, Boston and New York. The money is invested by fund managers in those distant metropolitan centres, and research reveals that fund managers invest mainly in businesses located within an hour's drive of their offices. That's prudent, too. If you put a lot of money into a business, you want to keep an eye on it -- meet with its management, visit its plant, look at its products. I'd do the same if I were a fund manager.

There are no fund managers, however, within an hour's drive of Isle Madame. Meanwhile, a parallel problem confronts the local investor. I don't want to risk a lot of my retirement savings in small start-up businesses, here or anywhere else. I want to spread my risks around, as I can through a mutual fund. I also want my retirement savings sheltered in an RRSP. But no RRSP-eligible mutual fund invests heavily in rural Nova Scotia. So my savings fly off to Ontario. In effect, the system drains money from Arichat to create jobs in Markham and Kanata.

A Community Investment Co-operative attacks this problem at its root. A CIC is organized locally, to make a specific local investment. U.J. LeBlanc Ltd, for instance, is a century-old family firm with eight employees. It's also a vital piece of infrastructure. Without it, people here would have to make a 90-km. round trip to buy a doorknob or a two-by-four. When the business fell on hard times, and needed a capital infusion, Development Isle Madame organized a CIC. The investors bought shares in the CIC, which then invested the proceeds -- about \$150,000 -- in U.J. LeBlanc. The company pays 6% to the CIC, and the CIC pays 5.4% to the investors, keeping the difference to cover its own costs. The whole deal is managed by one of the island's two credit unions, which belong to the people of Isle Madame.

That 5.4% return doesn't sound like much -- \$54 on a \$1000 investment -- but the deal includes three sweeteners. First, the investment is eligible for a 30% provincial tax credit. Second, the CIC shares can be rolled into an RRSP, so if you're in the 40% tax bracket you get a \$400 tax refund back from a \$1000 investment right away.. Third, the province guarantees 20% of the investment for the first four years. If the business goes belly-up, you still get \$200 back.

The 30% tax credit means you're really investing \$700, not \$1000, which converts your \$54 into a 7.7% return. If you also take the 40% RRSP credit, your net investment drops to \$300, and your return rises to 18%, which beats the TSE 300 even in a pretty good year. And our two CIC's have created 20 jobs in aquaculture, and saved eight at U.J. LeBlanc.

Excellent, but not perfect. I don't like the complexity of organizing a separate CIC for every investment. I'd like to see a local mutual fund, which could accept investments continuously and spread the risk by placing them in a variety of enterprises. I'd also accept more risk for more reward; if our shellfish farms take off, for instance, I'd like to share in the bonanza.

Still, the CIC's are a great start. Listen, if you're building a house, call me. We can make you a great deal on a complete package. And we can supply mussels and scallops for your housewarming party, too.

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