Addressing the Financial Gaps

By "financial gaps" here is meant only those gaps in the forms of finance that meet capital costs (including so-called working capital but not on-going operating expenses). Finding ways to underwrite the capital costs of the CEDO's local development projects is a major task in itself, never mind creating and carrying out the projects themselves. An on-going program of CED requires regularly accessible capital for its projects, and of course that sort of capital is the business of the conventional financing institutions (banks, venture capital companies, etc.). Establishing a working relationship with one or more such institutions should be a major objective for any CEDO. In fact, it is an essential condition for any CED program, and in a sense the prime financial tool is to know how to relate to the appropriate conventional institutions.

In the absence of such a working relationship, each time a CEDO seeks capital for one of its projects, it will have to qualify itself as well as the individual project. That is just an extra obstacle. A previously established working relationship smoothes the way for immediate consideration of the project itself.

However, it is difficult, if not impossible, to establish working relations that will satisfy all the capital needs of the local CED program. Even the best relationship with a local bank or bank branch, for example, cannot guarantee the availability of every kind of capital needed. Each such institution itself will have limits on what it can legally do, and its rules of prudence or policy will further limit its accessibility for every necessary CED project. How to accommodate those limits at an otherwise approachable institution is the aim of some of the techniques described in this section (Loan Guarantee Program, e.g.).

Other approaches to be described here do not depend upon the usual sources of capital but actually create a capital pool accessible for the CEDO's purposes, including promoting local private business. Mobilizing partners for jointly organizing such a capital source may be necessary; and indeed a CEDO may, with others, create one or more independent funds. While these must always operate judiciously and prudently if they are to survive, they will offer ready accessibility, so that the CEDO does not have to approach less available or less friendly outside sources over and over again.

These and all the other approaches to capital described here will vary in correspondence with the particular job that the CEDO sets for them. Some CEDOs may have more than one fund; others have only a single priority and therefore only a single type of investment fund.

Almost all CED capital strategies are geared to business development tasks, although some may be adaptable for property development as well. Nevertheless, even a focussed business development fund can vary considerably, depending on the goals set for it and the techniques used to achieve those goals. So the first step to be taken by any CEDO contemplating the use of any of the strategies here is to zero in on exactly what goal or goals should be addressed.

Note especially, financing may not necessarily be the prime problem for the projects of a CEDO. For example, it may be more important for the CEDO to be able to design and analyze its potential projects so that they could indeed qualify for conventional capital assistance. If the CEDO is not adept at Feasibility Studies or Business Planning, it can never obtain needed financing. Similalrly, private businesses may not be as capital-starved as they are limited by their own business practices.

The financing tools described in this section have been selected primarily to model what can be done with no (or minimal) government participation. There is no doubt that governments at any level can and often do play an important role in facilitating the availability of capital, or even actually providing capital for community investment purposes. Thus it could be useful to document all the existing federal or provincial programs that CED groups could take advantage of. For example, some of these involve tax credit provisions (such as BC's incentives for worker ownership or Nova Scotia's community investment fund incentives). However, the range and number of all such programs is beyond the scope of this publication, although, actually, some tax incentives have been dealt with tangentially under four entries, Co-operative Employee Partnership Program, Worker Ownership, Worker Buy-out, and, in this section, Community Equity Investment Fund.

Other government interventions that directly supply capital are not readily accessible to community groups or do not require organized community action (such as the credit available from the Small Business Development Bank) or are primarily municipal investments in infrastructure (including industrial parks). There are interesting and useful models of programs developed in some provinces that could be replicated in other provinces, but these obviously entail future legislation and so forth, and since *Tools &Techniques* is designed for immediate use by all CED groups, such models are omitted.