Breaking the Rules

Strategies for the survival of small investment funds

Greg MacLeod

In the world of low income and unemployed citizens, the most common sentiment is that of helplessness. Economic and government systems appear big, complex, and completely beyond the control of small community groups.

This is especially true in the global economy. Community activists struggle to help the unemployed, to improve housing, to help the sick, and so on. However, the obstacles seem to become ever greater and our efforts become less effective.

Against this challenging backdrop, there are two fundamental pillars needed for success in community economic development:

- a financial investment pool
- a mutually-supporting complex of organizations

When we have an organization with a capital pool that is linked in a dynamic way with other multifunctional organizations, great creativity can occur — especially if the structures are infused with vision and innovation. We may consider institutions as tools to turn our visions into reality, but nevertheless, the tools are important. If we don’t have legs, we cannot walk. Tools without vision are dangerous, but also, vision without the right tools doesn’t go very far.

Breaking with Convention

Most people in the world of investment know that a fund with less than $20 million will have a hard time merely surviving. Smaller funds usually cannot generate enough income to pay for staff and overhead. With a $1-million investment fund, the group will be fortunate to generate $25,000-$50,000 per year as income in the first two years. And usually some investments go bad.

I think that the only way for small funds to survive is to be different. Through innovation and the breaking of mindsets we can achieve remarkable results. Remember that the conventional system does not work well for the marginalized in society (in fact, the conventional system got us into this mess), so there is not much point in being conventional. It is time we resisted and began to experiment to a much higher degree.

Finance depends upon our conventional psychological attitude more than any other sector. In finance, what we think turns into reality. Stock market people know this very well. The same goes for real estate. If we think a neighbourhood is crummy, house prices go down; if we think it stylish, the prices go up. If we can break away from conventional mindsets, we will be surprised at what we can do.

Theoretically, it is almost impossible to raise investment money in Canada in an area with a poor economy and high unemployment. Yet BCA Holdings, our community investment fund in Cape Breton, raised over $500,000 without government guarantees — indeed without guarantees of any kind. Using a strategy of not-for-profit continual reinvestment, it has...
created 100-200 jobs over the last five years. Its assets now total a little more than $1 million.

In finance, this is small potatoes. But the same thing has happened on a really big scale in the world-famous complex of worker co-operatives known as Mondragon. Situated in the mountains of northeastern Spain, without an airport, railway, or seaport, Mondragon lacked such conventional factors for success as location and capital. Community groups, by contrast, build isolated operations in the name of autonomy. Tremendous waste occurs in local communities as community economic groups go off on their own, each with independent staffs and resources. Within the co-operative movement in Canada in particular, tremendous opportunities have been and continue to be lost because the various parts of the movement are hesitant about pooling resources and joint venturing.

BCA Holdings piggybacked on the University College of Cape Breton to reduce operating expense, using offices, telephones, and photocopiers without paying. This was enormously important.

In addition, BCA has always worked closely with New Dawn Enterprises as a sister company (see Making Waves, “New Dawn: The Quest For Affordable Housing,” vol. 7, No. 3, and Vol. 8, nos. 1 and 3).

To reduce staff cost, BCA has used a double strategy. A semi-retired person was hired and his salary was tied to profit. Students from the business school provided staff support. A skimpily staff will work if the board of directors is active. In the BCA case, the board was made up of experienced business people who simply managed the BCA money as if it were their own. Fiduciary responsibilities are no problem in communities where the directors are well-known to the public. Directors will go to great length to avoid failure because they would be extremely embarrassed to be identified with a failed business.

Orphans don’t survive easily. Linkages and interlocking boards with other like-minded groups are essential.

Likewise, money alone is never a solution. Take this belief in government grants, for instance. You don’t need a government grant to start a community business. Indeed, most of the ones which survive started without grants (although government support eventually becomes very important).

Why? Because money cannot supply the spirit and initiative required for long-term survival. Those factors can only come from the personal commitment of unpaid volunteers - at least in the beginning. As important as a long-term perspective may be, groups oriented to short-term results are usually more successful. Volunteers like to see results for their sacrifices.

THE PROBLEM OF INTEREST RATES

A lot of traditional thinking also surrounds that single greatest financial burden, interest. If a housing unit costs $70,000 and we mortgage it at 8% over 20 years, we know that we will pay approximately $140,000 for the house. This translates into roughly $580 per month for the mortgage alone, aside from taxes, insurance, and so on. Regardless of the kind of development or business structure set up, we cannot escape the hard reality of interest rates as the one most formidable obstacle to affordable housing. (Even free labour does not make houses affordable.)

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There have been a number of attempts to address this problem. One of the most innovative has been the Cape Breton Labourers’ Development Corporation. It is quite simple and it depends on resist conventional rules relating to interest. The union members remit 25 cents per hour to a special fund. With 500 members working this adds up to about $250,000 per year.

The money is legally a loan, but it is an interest-free loan. (People don’t seem to mind foregoing interest when is only $0.25 per hour.) The fund is then used to provide interest-free mortgages for union members on a lease-purchase basis. With

CLUSTERING & SHARING RESOURCES

What kills most small funds is overhead and staff. All the time we hear of large corporations merging to save money. Many
no downpayment, a worker can move into a new house for about $350 per month, including an administrative fee. Approximately 20 houses have been built in this way. The problem is that only a few hundred of the union’s members have been working at any one time.

Another innovative approach has been taken by a Baptist Church group in Calgary. When they saw that some members of their congregation could not afford market-rate mortgages to purchase a home, they set up a special mortgage fund. They appealed to both congregation members and to outsiders to transfer some of their RRSP money to the mortgage fund, which is recognized by Revenue Canada as an RRSP vehicle. Supporters agreed to accept a very low interest rate. Consequently, a good number of low-income people were able to afford a house. This church group has been able to manage its fund with almost no staff. It is surviving and expanding.

There is no escape from the problem of interest. Indeed, the likely disappearance of government-subsidized interest rates is likely to make life very difficult for co-operative and nonprofit housing projects in Canada and for low-income people in general. As the housing problem intensifies, more creative solutions to the fact of interest will be required.

MULTIFUNCTIONAL STRUCTURES

Another effective strategy is to combine community businesses under one hat.

Typically, housing groups are single-issue oriented; they wish to concentrate on housing alone. This can be a big disadvantage. In fact, housing projects can be much more effective if they form part of a larger multifunctional community business organization.

The aforementioned New Dawn Enterprises is a good example. In its early days, housing constituted the major business activity which supported the infrastructure to carry on other innovative activities. Today, the opposite is true. Due to government cutbacks, housing is no longer a money-maker; little return to the local community.

The big venture capital companies sponsored by the government through tax credits demand a 25% return on their money. They will not invest in a poor community in economic difficulty. Instead, they drain money from all local communities and invest it in the richer, buoyant economies.

Many people will invest in their own community to make a future for their children. But government tax credits to local initiatives can help. In the depleted fishing community of Petit de Grat, the local credit union collaborated with a community group to raise over $150,000 to be invested in local aquaculture. Retired school teachers were especially important here because they often hold RRSPs in addition to their pensions. These new plans allow people to invest their RRSPs locally. By linking with the local credit union, investors were able to place their investment in an RRSP plan set up by Cooperative Trust. This is another good example of linking and joint venturing at the community level.

What one group cannot do, several groups operating as one can often achieve without difficulty. Just as individuals co-operate with each other, groups should co-operate as one corporate force for the good of the local community. The survival of small investment funds, not to mention other types of community business, demands it.

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