Tapestry

Moving Community Bonds Forward

Research, insights, and recommendations
to grow Canada's community investing movement

TAPESTRYCAPITAL.CA

Executive summary

This report aims to explore and propose ways in which community bonds can scale to become a mainstream financing tool.

Having been used in Canada for two decades, demand for community bonds has surged in the last five years, providing crucial capital for social purpose organizations attempting to solve Canada's pressing social and environmental challenges.

The insights and recommendations in this report were derived from case studies, academic literature, and semi-structured interviews with 30 stakeholders in the community finance ecosystem.

There are four key sections in this report: **introduction**, **our findings**, **key recommendations**, and **annex**.

The **introduction** introduces the report's authors (Tapestry Community Capital), discusses the financing obstacles encountered by social purpose organizations, and provides an overview of the community bond instrument, along with pertinent statistics. The **annex** outlines the research methodology employed along with other images.

In **our findings**, we highlight important trends documented through our research. We discovered that to help the ecosystem scale and develop, stakeholders in the community finance sector needed space to share findings, innovations, and jointly advocate for the sector's growth. Moreover, investors and organizations raising investment with community bonds (issuers) require a dedicated marketplace to easily facilitate the sale of and search for community bonds.

To increase the supply of community bonds, issuers would benefit from increased support from intermediaries to build their organizational and investment readiness. Issuers also need access to larger pools of flexible and rapidly deployable capital. Engaging larger institutions as investors (foundations, pensions, endowments, financial institutions, and governments) will help to 'crowd in' retail investors by building their confidence, and help to reach investment targets faster. Building investment vehicles that reduce frictions in investing for larger institutions, will be critical to achieving this scale. While current retail investors are excited by the prospect of matching their values and investments via community bonds, investors could be incentivized further via tools such as tax incentives, but this requires a holistic approach to government advocacy.

Finally, we have established seven **key recommendations**: (1) Initiate a holistic approach to government advocacy leading to tax incentives for community bond investors, (2) Structure a fund that will allow accredited/institutional investors to invest in a portfolio of community bonds, (3) Reduce investment risks by sourcing non-repayable funds that can serve as a first loss capital, (4) Establish a pan-Canadian community of practice, (5) Engage financial institutions and financial decision-makers to build support, (6) Create an online marketplace for community bonds, and (7) Build an entrepreneurial program for SPOs.

These recommendations have been divided into Tapestry-led actions, ecosystem-led actions, and shared (ecosystem and Tapestry) actions, as seen in the chart on the next page.

ACTOR	FINDING	RECOMMENDATIONS
Ecosystem	Stakeholders in the community bond and finance sector need a joint space to share findings, innovations, and jointly advocate for the sector's growth.	**R4:** Establish a pan-Canadian community of practice for community bond intermediaries, issuers and investors. Using the community of practice, stakeholders can establish best practices, enable greater sector mobilization and collaboration.
	Investors could be incentivized via tools such as tax incentives; but this requires a holistic approach to government advocacy.	**R1:** Develop a holistic government advocacy strategy - in concert with the community finance sector at large - that includes specific asks for tax incentives for community bond investors. This builds longevity and recognition for work the sector does, and allows us to help shape the regulatory environment for community finance.
Shared actions	Social purpose organizations need access to larger pools of flexible and rapidly deployable capital. Engaging larger institutions as investors (foundations, pensions, endowments, financial institutions and governments) will be critical to achieving this scale.	**R3:** Reduce investment risks by sourcing non-repayable funds (i.e. loan guarantees) that can serve as a first loss capital from government, foundations, and high-net worth individuals.
		R5: Engage financial institutions' and financial decision-makers' to build support for adding community bonds to RRSP and TFSA accounts.
		R2: Structure a fund - or other vehicle - that will allow accredited/institutional investors to invest in a portfolio of community bonds. This allows investors to easily park their funds with intermediaries without having to undertake rigorous and siloed due diligence.
	Issuers would benefit from dedicated containers to build organizational readiness.	**R7:** Build an entrepreneurial program for SPOs, using the lessons from the Social Finance Fund's Investment Readiness Program or Thrive Impact Funds Thriving Non-Profits).
Tapestry Community Capital	Investors and issuers require a dedicated marketplace in which to meet for the easy and efficacious sale of community bonds.	**R6:** Create an online marketplace for community bonds that fully engages all types of investors and issuers.

Introduction

Community bonds are making headway in Canada as a viable, supportive, community-oriented means of raising capital for social purpose organizations' vital work.

This momentum comes at a critical juncture, where Canada faces complex social and environmental challenges, and the social purpose organizations best placed to address them are significantly underfunded. This report seeks to understand how community bonds might become a mainstream solution.

The information and recommendations in this report are based on the review of case studies and academic literature, as well as semi-structured interviews with 30 organizations and individuals in the community bonds ecosystem. These included organizations raising investment (issuers); potential and current impact investors; social/community finance professionals; academics; representatives from foundations; legal professionals; and representatives from financial institutions, namely credit unions and one think tank attached to a credit union.

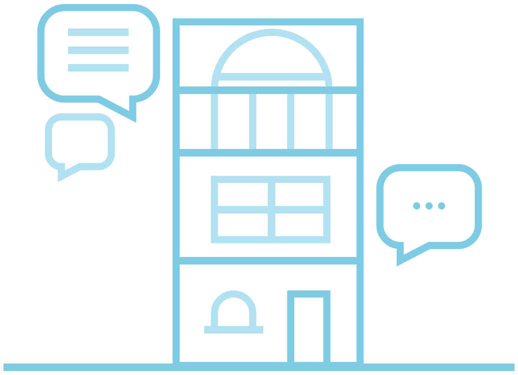
Tapestry Community Capital

The Tapestry Community Capital team.

This report is authored by Tapestry Community Capital. Tapestry provides full-services support to qualified issuers looking to raise impact investment via community capital. Tapestry provides investment readiness assessments; guides organizations on how to consult their stakeholders; helps organizations develop business plans, offering statements, term sheets, and trust agreements; and processes investor transactions, coordinates the disbursement of interest payments, issues tax forms, and provides other bond administration support.

As a social finance leader with a proven process and track record, Tapestry has helped 13 clients raise $110 million in community bonds, purchased by more than 3,000 investors across the country. Community bond issuers offer investors an opportunity to make a financial return while also making a tangible, positive impact in their community. Interviews conducted for this report suggest that Tapestry's own due diligence process and reputation as a trustworthy intermediary/consultant helps build the credibility of its issuer clients and further builds confidence among investors.

Tapestry presents this report to the social/community finance and community development sectors, with two primary goals. The first is to document the history and state of community bonds in Canada, encouraging further research into this developing field. The second goal is to catalyse growth in the community bonds sector, providing recommendations for governments, social finance actors, and philanthropic organizations on how to better support community bond issuers. Tapestry's ultimate vision is a thriving community bond marketplace, where community organizations can source the capital they need and investors can more easily align their money with their values.



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Our impact

62

PROJECTS FUNDED
BY COMMUNTIY INVESTMENT

$110M

RAISED BY
QUALIFIED ISSUERS

3400

ELIGIBLE INVESTORS
ENGAGED BY ISSUERS

Spotlight: Affordable housing

Tapestry's work began with seeding renewable energy cooperatives through community financing. This work expanded to supporting other non-profits, charities and cooperatives within the arts, education, cultural hubs sectors. Over time, Tapestry has been asked how the community bond model might apply to affordable housing. In 2022, Tapestry Community Capital conducted research among affordable housing providers to determine the capital needs for affordable housing providers. This research identified that affordable housing providers need rapidly deployable and patient capital.

As recipients of innovation funding from the Canada Mortgage and Housing Corporation's (CMHC) Housing Supply Challenge in 2022, Tapestry is expanding the reach of community bonds in the affordable housing sector through its Investing in Housing Program. Tapestry is supporting six community bond campaigns by affordable housing providers — a diverse group of rural and urban providers, grassroots and larger organizations, and community land trusts.

Read more here.

A financing gap, waiting to be filled

Across Canada, social purpose organizations (SPOs) are doing important work for communities' wellbeing — and even providing essential goods and services like housing and food — but struggle significantly to access the capital they need to do this work.[1]

Currently, most SPOs (including but not limited to non-profits, charities, and both for- and non-profit co-operatives) largely rely on non-repayable forms of funding like government grants and private donations.[2] This report does not advocate for governments to abdicate their fiscal role in funding this important community work and sector, but many SPOs now recognize that there's a need to diversify and modernize their capital stacks[3] in pursuit of boosting their resilience.

Unfortunately many SPOs don't qualify for traditional, repayable financing capital.[4] While some are truly unprepared for financing, either in their business model or in their organizational capacity,[5] traditional financial institutions also use assessment frameworks that don't account for the triple-bottom-line objectives and missions by which social enterprises are guided.

What we heard from community organizations:

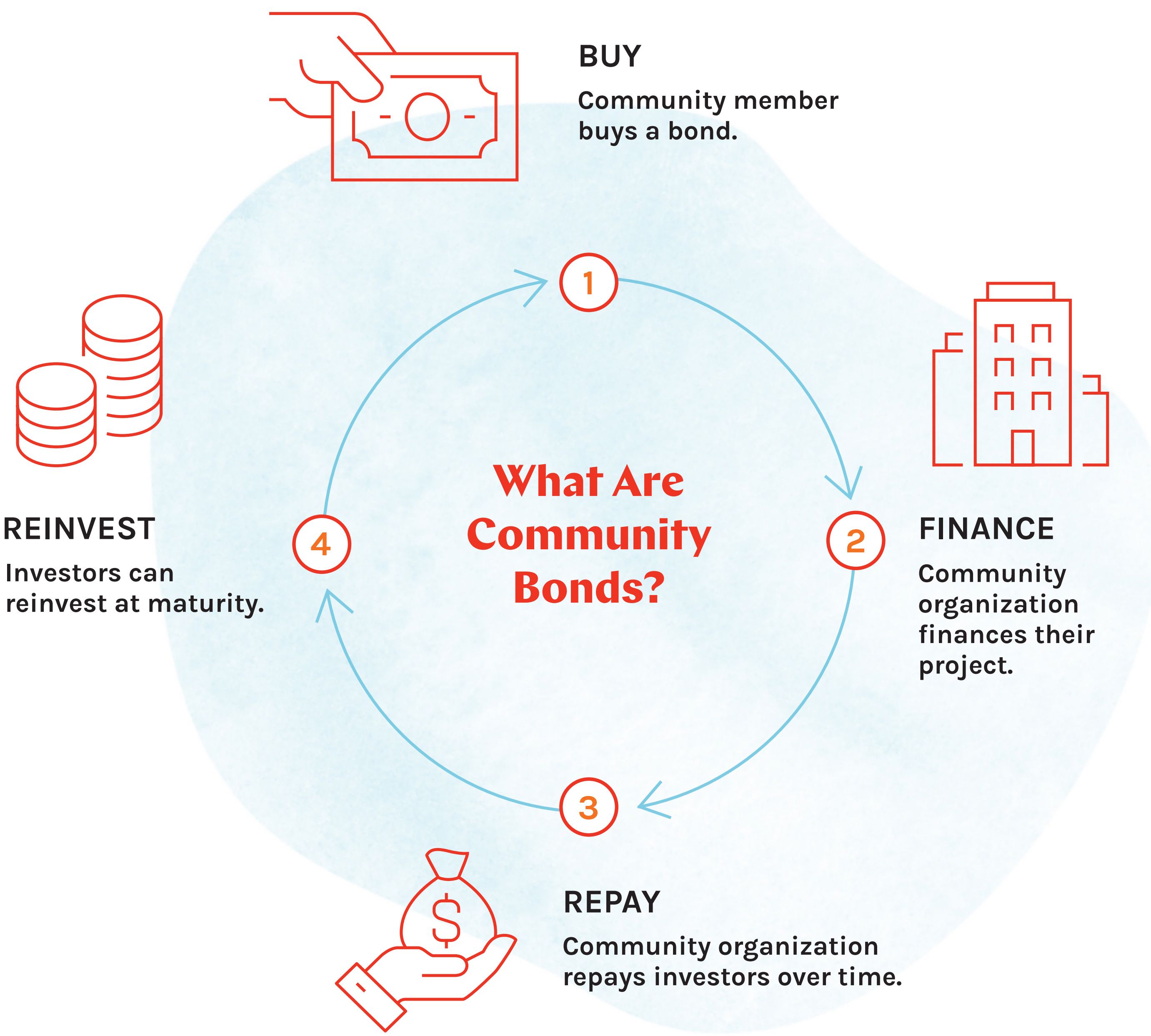
"Grants are great because it's free money, but they also take forever, and we can't depend on them."

"Banks won't lend to us — they wouldn't want to have to foreclose on us. It would be a PR nightmare."

"We need to move very quickly to acquire properties and compete with the private market."

"I've had people ask how they can invest, and we just don't have a route for that right now."

"We could get a mortgage for a portion of the purchase price, but we were still left with a gap, plus we needed funds for renovations."


What Are Community Bonds?
1
BUY
Community member buys a bond.
2
FINANCE
Community organization finances their project.
3
REPAY
Community organization repays investors over time.
4
REINVEST
Investors can reinvest at maturity.

Enter: community bonds

Community bonds are well-positioned to help close this financing gap — if the model can achieve enough scale and mainstreaming across the country.

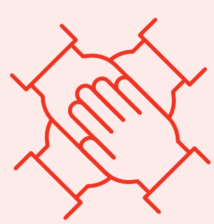
But first, what exactly are community bonds? Simply, community bonds (or les obligations communautaires) are an interest-bearing loan from community members to a social purpose organization. They are also an exempt, private market financial security that allow organizations to raise capital specifically targeting retail investors from their communities.

While community bonds are often compared to fixed income securities like traditional bonds and guaranteed investment certificates (GICs), they operate more similarly to promissory notes. With both promissory notes and community bonds, investors loan money to an issuer for a fixed loan value, set a fixed term, and offer pre-defined interest. The key difference lies in how returns are valued: namely that financial profit is not valued above social, cultural and environmental returns. Offering social purpose organizations full control to design these terms, community bonds are a flexible alternative to more traditional financing. Valuing returns holistically allows SPOs to build a business case to their investors for more accessible financing terms.

Beyond their flexibility and accessibility, there are three key benefits community bonds present:

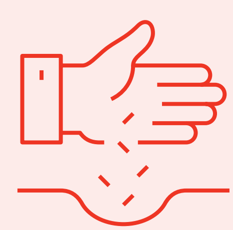
1

They return power back to social purpose organizations, because organizations define, often in collaboration with their investors, the terms of the debt that they are taking on.



2

They help social purpose organizations leverage (and even expand) their often highly engaged communities, whether that's a local community or a more geographically spread-out community connected through values-alignment allowing them to access (often) cheaper capital.



3

Returns go back to community members rather than financial institutions, meaning they help build community wealth and economy at the same time as raising money for the issuing organization.

With this impact focus, community bonds tend to be well-suited to projects that focus on building, acquiring or developing infrastructure, equipment and real estate assets that have a significant social, cultural and environmental returns. Usually structured as repayable capital, community bonds are also best suited to projects and issuers that have methods to repay such capital.

Of course, directly raising capital by leveraging community support is not a new idea. There are many philosophical precursors to community bonds that entail the communal sharing of resources and risk, including but not limited to, rotating savings and credit associations (ROSCAs), esusus, partna banking, Hebrew Free Loan Associations, communal pools put together by Chinese Clan Associations, and many more.

The term "community bond" has been around in Canada since at least 1990, when Saskatchewan passed the Community Bonds Act and created a pilot program to support retail investment in Saskatchewan businesses called Community Bond Corporations.[6] These businesses also had specific diversity, equity, and inclusion requirements for their boards. However, modern-day community bonds are used by non-profits, charities and cooperatives and are enabled through federal legislation (National Instrument 45-106). In the last two decades, the use of community bonds has been largely concentrated in Ontario and Quebec. Today, Tapestry Community Capital — alongside other intermediaries — supports organizations across the country in raising capital via community bonds.

Case study in scalability: SolarShare

In the early 2000s, solar PV development was being dominated by private companies. Many Ontarians wanted to do their part to tackle climate change but didn't have a way to do it. Many didn't have the financial means to acquire their own solar system or even a roof to install one on.

SolarShare is a non-profit cooperative that was created to democratize solar PV participation by allowing all people, of all means, to become an investor in the co-operative. SolarShare launched their community bond program in 2012, offering an accessible entry point with their $1,000 bond. This first campaign raised only $120,000, but over the last decade, SolarShare has continued to raise capital and build awareness among investors. In 2021, they raised a total of $16,000,000 in just a few months.

The SolarShare community.

Case study in speed: Places for People

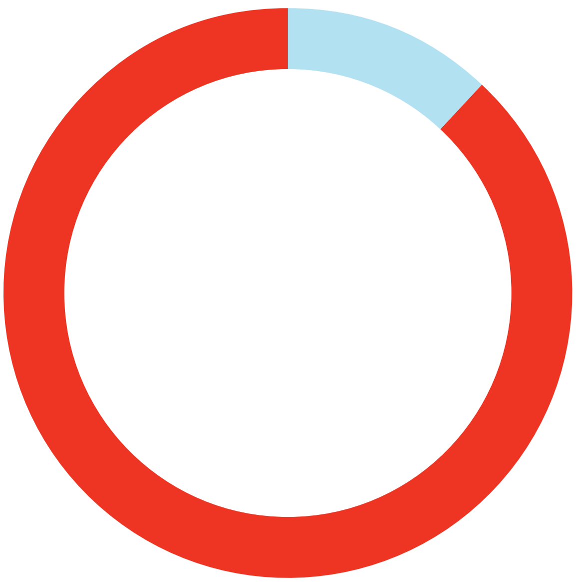
Haliburton County, nestled within the picturesque Kawartha Lakes region, is known as cottage country. Yet, year-round residents see a different story: homelessness is a stark reality here. The county grapples with the dual challenges of being one of Ontario's lowest-income areas while experiencing rapid population growth. This has fueled a severe housing crisis, prompting the founding of Places for People (P4P).

In June 2023, P4P launched their community bond campaign with the golf of raising $850,000. In just 10 weeks, P4P exceeded their campaign goal, garnering support from 79 local investors.

Haliburton County, Ontario.

Fay Martin and Jody Curry are the vice president and president of Places for People.

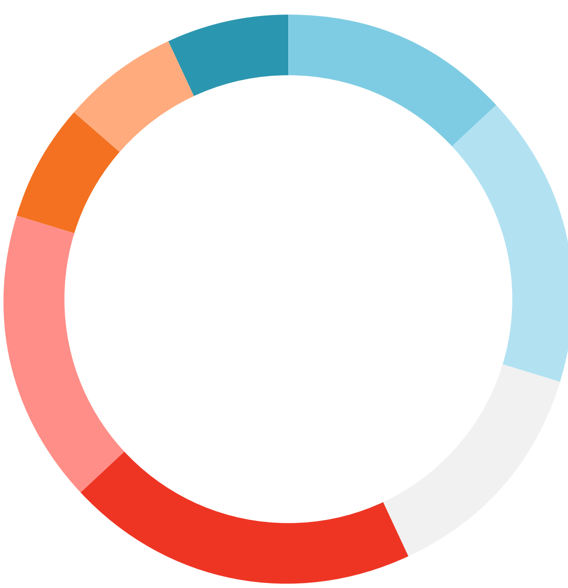
Canada's community bonds: at a glance



Tapestry supported issuers vs. non-Tapestry supported issuers

From 2022 to present (March 2024)

- $15M Non-Tapestry Supported Issuers (12%)
- $110M Tapestry Supported Issuers (88%)

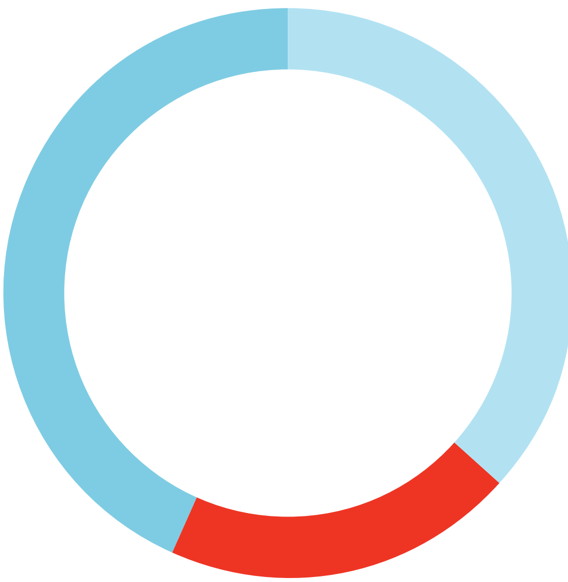


Community bond issuer sectors

- Renewable (13.3%)
- Arts and Culture (16.7%)
- Food (13.3%)
- Housing (20.0%)
- Community (16.7%)
- Recreation (6.7%)
- Health (6.7%)
- Education (6.7%)

Through research conducted by Tapestry Community Capital, we've determined that from 2002 until now, there have been 30 community bond issuers resulting in 59 community bond issuances over the course of a little over two decades.

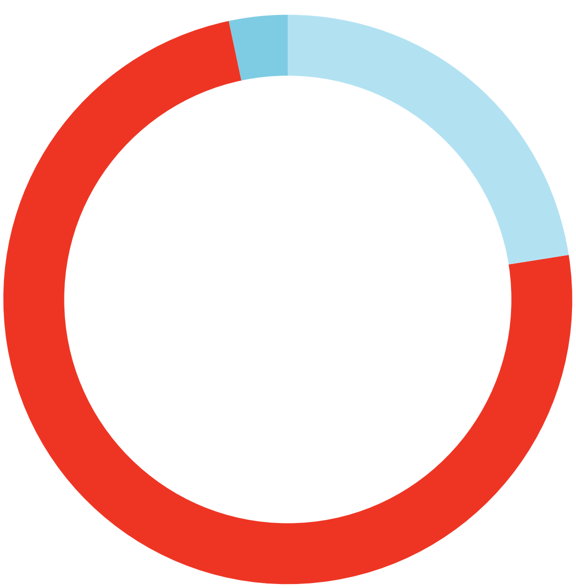
Taken together, these 30 community bond issuers have raised approximately $125 million in community capital.



Community bond issuers support

From 2002 to present (December 2023)

- Tapestry Supported (36.7%)
- Other Intermediaries (20.0%)
- Self-Guided/Unknown (43.3%)



Issuers by province

From 2002 to present (March 2024)

- British Columbia: 1 (3.2%)
- Ontario: 22 (74.2%)
- Quebec: 7 (22.6%)

Supporting community bonds across Canada

Tapestry is not the only intermediary that supports organizations in raising community capital and expanding the sector in the country. This fuller network merits recognition.

1 **The Canadian Community Economic Development Network (CCEDNet)**, a regional network, plays a vital role in supporting research on community finance and also helps organizations enhance their investment readiness for both fund-based and direct raises.

2 In Québec, the **Chantier de L'Économie Sociale** promotes the use of community bonds through its Fonds L'Ampli program, offering matching funds to organizations. Its research arm, **Territoires Innovants en Économie Sociale et Solidaire (TIESS)**, conducts research on community bonds and supported three pilot issues in 2016-2017. **PME Montreal** is another key intermediary assisting Île de Montréal organizations in raising community bonds.

3 In Ontario, **10Carden (10C)** is a key player in the community bond sector. They conducted significant 2018 research, and have since supported the Guelph nonprofit, Habitat for Humanity, to raise community investment. **Social Venture Exchange (SVX)** facilitates bond issuances, while the **Catalyst Community Capital Initiative** supports both direct and indirect fundraising through community investment funds.

4 Historically, Nova Scotia's impact capital raises have been via Community Economic Development Investment Funds (CEDIFs). Today, capacity builders like **Common Good Solutions** play a crucial role in enhancing investment readiness and financial literacy for nonprofits, charities, and co-ops expanding and scaling their missions.

5 In British Columbia, **Capacity Build** and **Vancity Community Investment Bank** have also supported research on community bonds. Meanwhile, **Thrive Impact Fund** is another impact investor and fund that works to bridge and support community financing initiatives in the province.

Our findings

Community bonds have shown promise as a supportive model of raising capital for social purpose organizations, and there are several ways Canada's social finance ecosystem could build on this success.

There's potential for the model to achieve mainstream status, meaning more retail and institutional investors — including larger-scale investors interested in social returns — could consider putting their money into community bonds alongside (or even before) mainstream investments like mutual funds or real estate investment trusts — thereby building a new movement of community-led, socially and environmentally responsible finance.

According to interviews with stakeholders, there are five key ingredients to this potential success: better connecting investors and issuers; making community bonds as inviting as possible to investors; building up community bond issuers' capacity for investment; developing trusting relationships between issuers and financial institutions; and deepening the support for issuers offered by Tapestry Community Capital and other intermediaries.

Better connecting investors and issuers

"...I would like to invest in community bonds, but I don't know where to find them and have to rely on knowing which specific organizations may be selling at any given point..."

-Potential investor

"...my clients would like to be able to continue investing in community bonds, but it's hard when they're hard to find, and always sold out..."

- Financial advisor

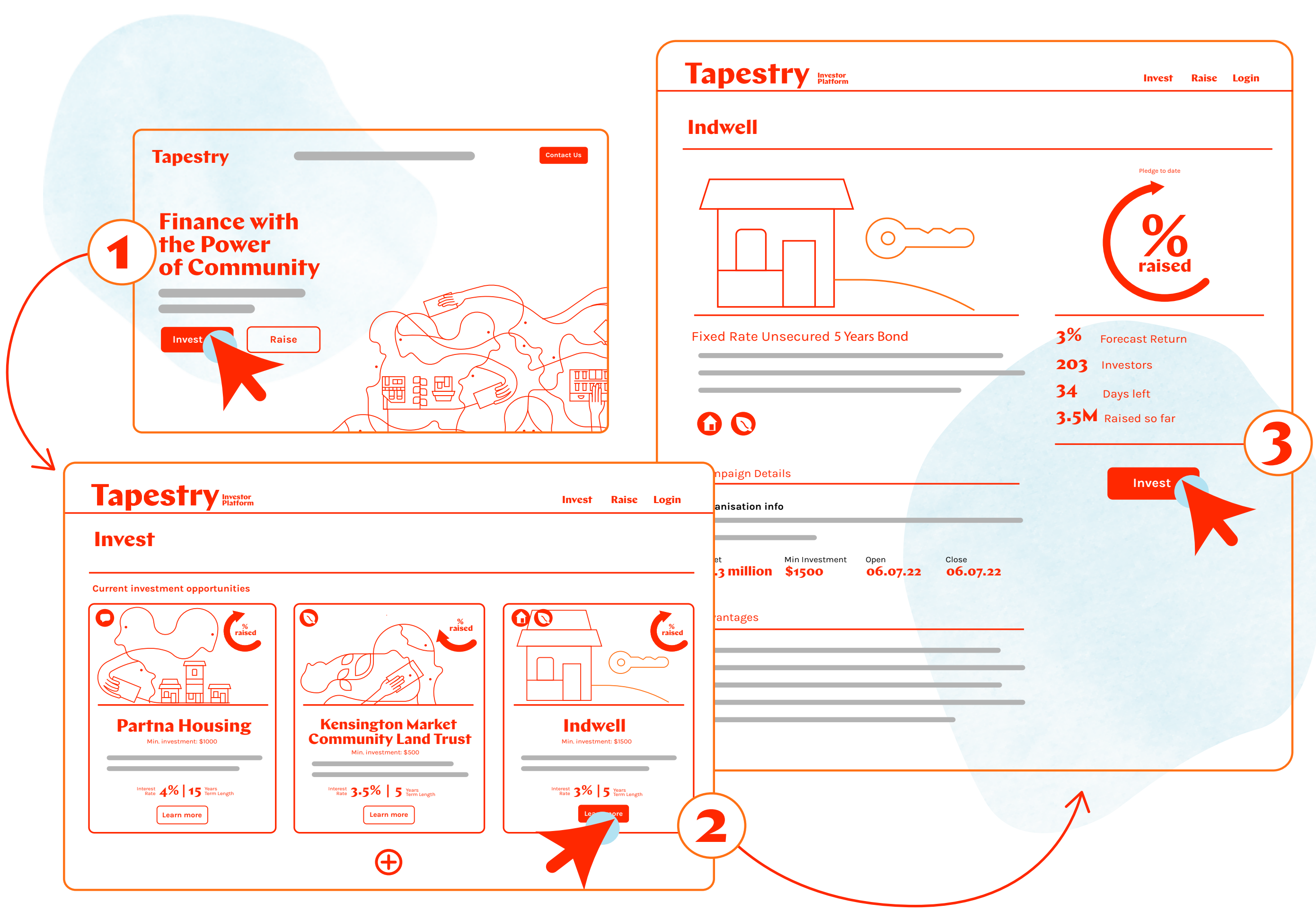
"...the campaign raise is one of the toughest parts...the Tapestry team is graceful and diligent, but when I'm having to work off the side of the desk to sell bonds, it's tough!"

- Community bond issuer

Organizations issuing community bonds said they would benefit from easier access to investors (just as investors have identified a need for easier and more organized access to community bonds).

Many community bond investors have an existing connection to the issuing organization — perhaps they know someone on the board or they read about the campaign in the local news. How might the community bond market grow if investors were able to browse and discover investment opportunities outside of their immediate network?

Investors are eager to put their money into community bonds, and the social finance sector could seize this opportunity by better connecting these investors to community bond issuers. Even according to community bond-savvy investors, these investments can be hard to find, given there's no consolidated list of all (or many) community bond issues in the country at any given time. An interview with a financial advisor revealed that their clients who had previously invested in community bonds would like to continue to invest in them, but could rarely find community bonds that weren't already sold out — indicating great interest in the model, but a potentially discouraging experience for a prospective investor.



Community bond issuers and investors alike are clear: for the community bonds model to scale, they need an online marketplace for buying community bonds — one go-to destination for opportunities to invest in community-powered, socially and environmentally beneficial work across the country. Such a hub could accelerate the growth of the community bond market, helping investors and issuers connect far more easily.

Inviting investors in

Interviews with community bond investors and prospective investors revealed what could move community bonds to mainstream status in their minds. Investors are excited by the prospect of being able to invest in community bonds, highlighting the great value they see in being able to invest in trusted organizations within their communities and directly see and feel the impact of completed projects.

Investor spotlight: Haliburton County Development Corporation

When Places for People launched its community bond campaign, eventually raising $850,000 to provide affordable housing in Haliburton County, Ont., the Haliburton County Development Corporation (HCDC) came in early on with a whopping $50,000 investment. Why? HCDC's executive director Patti Tallman says the Corporation wanted to publicly show its support for affordable housing development in the county, and to encourage retail investors to support, too.

Investor spotlight: Deb Alore

Living in Kamloops, B.C., Deb Alore has a front row seat to the country's housing and climate crises. That's why she invested in community bonds offered by Propolis Housing Cooperative, an organization planning to build a new six-storey, energy-efficient, affordable apartment building. One factor that limited the size of Deb's investment, though, was that it couldn't beheld in an RRSP (for Propolis's first raise, their bonds are not eligible), since she's retired and much of her savings are in this account. But Deb also says she's not overly concerned with returns: "The investment piece of it was just sort of incidental. It was all about being a part of something positive."

Tapestry team member Sattyameet Singh shares about community bonds at the 2023 Good Investment Fair.

Investors revealed that they could be better incentivized if more community bonds could be held in tax-free accounts, such as registered retirement savings plans (RRSPs) and tax-free savings accounts (TFSAs).

Issuers can choose to offer bonds that are eligible for these registered accounts, but preparing to do so can be a costly process — namely the $4,500 to $8,000 opinion letter they need from a tax professional. This letter confirms that the bonds in question are a qualified investment under subsection 4900(1)(j) of the Income Tax Regulations, and that the assets serving as collateral are of sufficient value to cover the outstanding bonds in the event of default.

But even if issuers complete these steps, some financial institutions' compliance teams still choose not to allow their clients to hold community bonds in their registered accounts. This decision is often based on three factors:

- There can be no commission paid to the financial institution on community bonds.
- Community bonds could be viewed as competing products, so there is little incentive for financial institutions to take on the administrative work associated with holding them or competing with institutions' existing products, and
- There is no rating system available for financial institutions to conduct risks associated with community bonds.

Tapestry team member Stephanie Pinnington speaks about community bonds.

These are complex but not insurmountable challenges.

Tapestry is working to develop relationships with financial institutions (and has a productive relationship with the Canadian Worker Co-op Federation, where investors can always hold community bonds in self-directed RRSPs and TFSAs) to push community bonds forward within that sector.

Facilitating investment: tax incentives

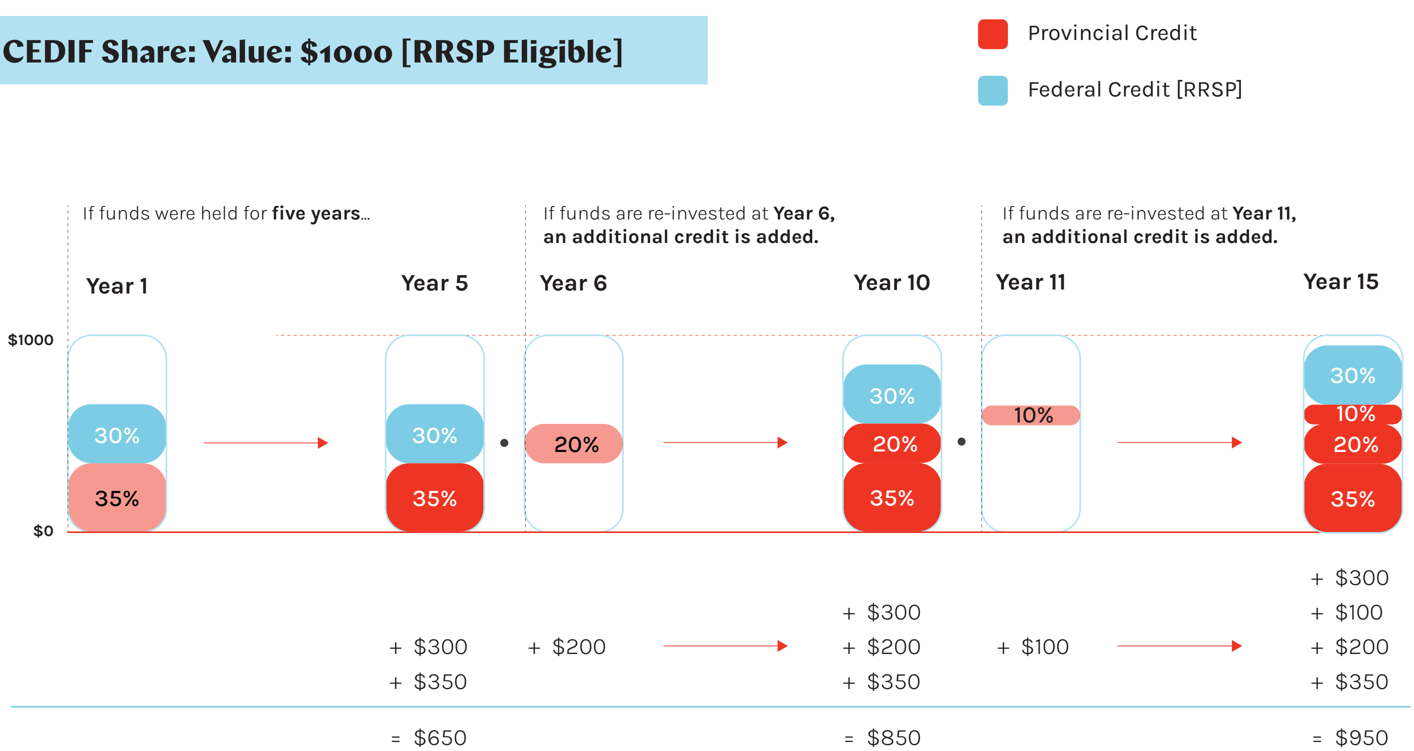
In lieu of RRSP/TFSA eligibility, one impactful measure to further facilitate investment would be to create tax incentives for investors in community bonds. There are Canadian and international examples governments could draw on (see boxes below). Since community bonds typically offer a below market rate return, government tax incentives could help make these investments more financially attractive as well as recognize their social, environmental, and cultural benefits.

Community Economic Development Investment Funds (CEDIFs)

The CEDIF is a home-grown Canadian investment vehicle from Nova Scotia. This model involves direct investment from retail and accredited investors into Nova Scotian enterprises — specifically for-profit businesses. This model was designed to stimulate the development of businesses in Nova Scotia during a time when unemployment was at a historic high, and a business and brain drain were taking place.

What particularly helped stimulate investment in CEDIFs, was Nova Scotia's Equity Tax Credit Act of 1993 and RRSP eligibility. The progressive tax relief scheme has been particularly generous and incentivized both re-investment and the investment of larger sums. As of 2023, the Equity Tax credits will continue till March 2nd, 2032. The tax benefits are illustrated in the figure below.

CEDIF Share: Value: $1000 [RRSP Eligible]



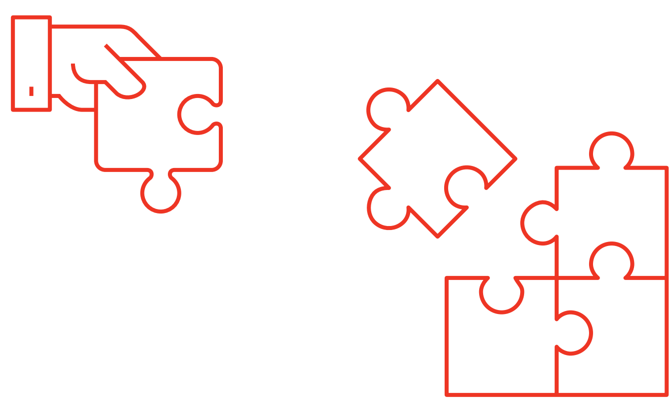
By **Year 15** of investment, investors will have accrued tax credits valued at **95% of their investment.** This value does not include return of the principal and any interest paid out on the initial investment

Enterprise Investment Schemes

From the mid-1990s to present, the United Kingdom (under various governments) have instituted a few tax relief schemes that allow for investment in ventures, first, for for-profit businesses, and later for social enterprises that cannot be listed on the stock market. These schemes included the Enterprise Investment Scheme (EIS), the Seed Investment Enterprise Scheme (SEIS), and the most relevant, and now defunct, Social Investment Tax Relief (SITR).

Facilitating investment: pooled funds

Many accredited and institutional investors are interested in investing in community bonds. However, many community bond offerings are too small for these investors to justify the needed due diligence and associated costs. A solution could be a fund which would allow investors to conduct diligence on a one-off basis in order to invest in a diversified portfolio of community bonds. This could have an added benefit of reducing risks to investors, by diversifying investments into multiple projects in different sectors and stages of development.



Social Investment Tax Relief (SITR)

Established	Applicable Ventures	Applicable Ventures
2018 - 2023	Social enterprises (community interest company, community benefit society, charity) with less than 500 employees and less than $15M in gross assets	• Income tax relief of 30% on investment of 1M GBP for investments held for a minimum for 3 years • Capital gains tax deferral or capital gains tax reinvestment relief • Eligible for inheritance tax relief for shares only

Developing trust with — and trusting — financial institutions and investment decision makers

Engaging mainstream financial institutions with the community financing sector could accelerate a better supply of capital. One interviewee noted that as financial institutions have a "...large client base of financially capable and willing investors," their involvement would be invaluable to scaling the community bonds model.

Interviews revealed that for financial institutions, developing confidence (low uncertainty, high control) and trust in the community bond model is key to unlocking their participation. This is difficult, however, because many financial institutions (and the individuals working within them) do not understand the tool or its benefits.

Moreover, as previously referenced, financial institutions have no tools (i.e. a rating system like that used for traditional bonds) to assess the risk around community bonds, which results in them largely choosing to not evaluate them at all. As one interviewee noted, the key to unlocking buy-in from financial institutions is to "make it easy for lenders to not have to think about risk". Changing this risk perception means creating "... more data points showing that this is a model that works," and "...a few case studies to show that this works...over the full life cycle of the bond...that show the success rate of community bonds overall."

These considerations are also true for foundations, who often outsource their investment decision-making, or are constrained by limited decision-making tools. While representatives of pension funds, endowment funds and other institutions were not interviewed, anecdotal evidence suggests that the above considerations once again constrain their investment decision-making.

However, it's important to note that meeting the trust requirements of financial institutions could have significant equity implications for community bonds. Applying risk ratings to community bonds to fully satisfy financial institutions — even credit unions — who operate on traditional financing paradigms may place increased burdens on less powerful actors. One increased burden would be costs associated with compliance and any accreditations and ratings needed to issue community bonds. This could present financial barriers to issuing community bonds for many nonprofit organizations. Any standardization of community bonds should be approached carefully and with the full participation of less powerful actors in the social finance and community finance sectors.

> *"...make it easy for lenders to not have to think about risk..."*
>
> **-Representative of Credit Union**

Another way to de-risk community bond investments for both financial institutions and investors could be to have governments, foundations, and other philanthropic organizations provide 'first in, last out' capital, also referred to as first loss capital. In the event an issuer's project doesn't go as planned and the organization isn't able to pay back all investors on time, the government funder would be the last to be repaid. This would create a buffer for other investors, and make some less financially lucrative projects possible.

Helping community bond issuers thrive

Across the country, community organizations are resourceful, innovative, and committed to solving some of our most pressing challenges. They're ideal candidates for raising community bond investment.

Still, their ability to issue community bonds depends on their success during the first two lifecycle stages of the community bond process (see The Community Bond Lifecycle in the Annex): the pre-investment runway and the planning, feasibility, and structuring of bonds. Interviews with investors, prospective investors, and foundations also revealed that the internal capacity of social purpose organizations would be crucial to their assessment of whether or not to invest in community bonds issued by those organizations.

"…it took us a long time to explore community bonds because we didn't have the tools, resources and education to understand how to mobilize that type of capital."

-Community Bond Issuer

Investment readiness

Many nonprofit and for-profit social purpose organizations can successfully take on investment, but others would benefit from support to reach that point, either in boosting their financial literacy, establishing a viable plan for revenue generation, or a combination of those two factors. Programs providing support in these areas do exist but are few and should be more widely available.

Moreover, holistic support should include trauma-informed approaches. As Adriana Beemans, director of the inclusive local economies program at the Metcalf Foundation explains, "…it's hard to convince some folks to use what are considered the 'master's tools'…". She further adds "that for communities who have been historically marginalized," the pre-project runway can be quite long because of "historical trauma around debt and finances," and organizations stemming from these communities will require a longer runway to be "project ready."

Community bonds can help subvert traditional financial dynamics, as a tool of financial self- determination allowing organizations to access funding on their own terms, without the control of large, traditionally oppressive funding institutions — but a recognition of and sensitivity to financial trauma is crucial.

Tapestry team member Suzanne Faiza at the Social Finance Forum

Organizational capacity and knowledge — for issuers and intermediaries

Community bond issuers, prospective issuers, and financial sector professionals indicated a community of practice could boost organizations' knowledge of the model and capacity to issue. As members of the Chantier de L'Economie Sociale note below, establishing the viability of the model further will require testing the model in different jurisdictions and sectors, and with varying organizational sizes:

"...à profil diversifiées (taille, secteur d'activités, territoires desservis) qui expérimenteront cet outil de financement, plus nous seront en mesure de le connaitre et d'approfondir notre maitrise de son cadre légal.

"...diversified profiles (size, sector of activity, territories served) that will experiment with this financing tool, the more we will be able to know it and deepen our mastery of its legal framework."

A community of practice would boost knowledge mobilization and sharing, and also allow for joint advocacy to securities regulators and other government bodies. It should also be noted that cooperatives issuing community bonds must have their offering statements reviewed by provincial regulators, which vary across provinces. In contrast, nonprofits and charities operate under a national exemption. This regulatory diversity can pose challenges for cooperatives, and a community of practice could assist in navigating these regulations.

Interviewees also identified an opportunity to create a common set of standards and practises that social purpose organizations could follow when issuing community bonds, thereby streamlining the process for them — and increasing investors' trust in the model at the same time. In 2012, The Ontario Nonprofit Network and the Social Economy Roundtable released a short document which in large strokes set out common standards and principles for issuers to adhere to when issuing community financing of any kind. Tapestry and the Chantier de L'Economie Sociale have formalized and professionalized successful processes for their respective issuers, and Nova Scotia's CEDIF program made a simple Offering Statement template, but there is no sector-wide standard.

Key recommendations

To achieve mainstream status for community bonds, both the supply of and demand for bonds in Canada need to increase. This means increasing both social purpose organizations' capacity to issue community bonds, and investors' motivations for investment. Moreover, achieving scale will entail greater flow of investment from larger accredited and institutional investors.

Recommendation 1: Initiate a holistic approach to government advocacy leading to tax incentives for community bond investors

To incentivize investment in community organizations and increase uptake of community bonds, federal and provincial governments should offer retail investors, accredited investors, and institutional investors tax incentives to invest in community bonds, using the models provided by Nova Scotia's CEDIFs and the U.K.'s Social Investment Tax Relief (SITR) as inspiration for future legislative frameworks.

For these legislative changes to take place, a holistic approach to government advocacy will need to take place, with a focus on building relationships and awareness of community finance among elected and unelected government officials.

Recommendation 2: Structure a fund that will allow accredited/institutional investors to invest in a portfolio of community bonds

The creation of a fund for accredited/institutional investors to invest in a portfolio of community bond investments will be critical to accessing larger sums. This fund would help reduce risk-related due diligence needed to be conducted by accredited/institutional investors thereby reducing friction in risk-related decision-making. Investments made by the fund into individual community bond campaigns may also serve to raise confidence among retail investors because they can see that institutional due diligence has already been conducted and the risks have been deemed acceptable to proceed.

Recommendation 3: Reduce investment risks by sourcing non-repayable funds that can serve as a first loss capital

Governments, foundations and other philanthropic funders should provide 'first in, last out' or 'first loss' capital for community bond issuers. This capital would be forgivable, and last to be repaid should these organizations' projects hit roadblocks that prevent repaying all investments on time, thus 'de-risking' community bond investments for both investors and financial institutions. Theoretically, by reducing risk, issuers could offer lower interest rates to their investors and reduce their overall cost of capital.

Recommendation 4: Establish a pan-Canadian community of practice

Social fnance and community organizations should come together to establish a pan-Canadian community of practice for community bonds. This community of practice could build common standards for issuers, thereby making community bonds a more reliable and accessible investment tool. Such a community of practice could also help cooperatives navigate provincial regulation of their community bond offerings.

Recommendation 5: Engage financial institutions and financial decision-makers to build support

Financial institutions should develop policies that allow for their clients to hold community bonds in their RRSP and TFSA accounts. Community bond intermediaries should develop relationships with financial institutions and advocate for such policies.

Meanwhile federal and provincial governments should explore an intervention to mandate community bonds' inclusion, for non-profits/charities and co-operatives respectively, in registered savings accounts. This will require, once again, holistic government advocacy to take place (see Recommendation 1).

Recommendation 6: Create an online marketplace for community bonds

Both issuers and investors need to be able to find each other more easily. As such, the community bond sector needs an online/digital marketplace where issuers can easily advertise and sell their bond offerings, and investors can easily search for and then buy community bonds.

Recommendation 7: Build an entrepreneurial program for SPOs

Social finance organizations and intermediaries should work together to fund, plan, and deliver a program that would help social purpose organizations' leadership develop the entrepreneurial skills and knowledge base necessary to raise investment. The program would also provide education about the community bonds model, in addition to other types of investment available to them.

If these conditions are achieved, community bonds have the potential to change the landscape of socially and environmentally responsible investment. The model could direct returns back to communities and offer social purpose organizations a desirable option for raising the capital they need to solve our society's greatest challenges, all the while expanding their communities of supporters in the process.

Annex

1. Methodology

This report's initial findings were derived through semi-structured interviews, and in a more limited way through three case studies and a literature review. The literature review covers grey, legal and academic literature as it pertains to community bonds, and has largely contributed to the beginning sections of this report that sets the context and also helped inform much of the case studies. Semi-structured interviews were conducted to establish what different sectoral stakeholders required from community bonds to build greater buy-in, trust and confidence in the model from their respective sectors.

The 30 total interviews cover potential community bond issuers, potential and current community bond investors, social finance professionals, professionals in the academic context, representatives from foundations, legal professionals, and representatives from financial institutions, namely credit unions and banks related to credit unions (see next page for full breakdown).

INTERVIEWEE CATEGORY	NAMES	#	YEAR	INTERVIEW METHOD
Potential Issuers	• All have been anonymized	10	2022	**Zoom:** Interviews conducted for another project at Tapestry Community Capital. Author was present at each conducted interview.
Investors (Current, Potential)	• All have been anonymized	7	2022	**Zoom:** Interviews conducted for another project at Tapestry Community Capital. Author conducted interviews.
Social Finance Professionals/ Intermediaries	• Financial advisor • Emeline Le Guen, Thrive Impact Fund • Accountant with ~30 years of experience in social finance • Ariane Clavet-Gaumont & Charles Gagnon, Chantier de L'Economie Sociale	4	2022/ 2023	**Zoom:** One interview conducted for another project at Tapestry Community Capital. Others were conducted independently for this project.
Financial Institutions	• 2 anonymous • Eric Visser, Vancity Community Investment Bank • Lars Boggild, Vancity Credit Union	4	2022/ 2023	**Zoom:** These interviews were conducted independently for this project.
Foundations	• Adriana Beemans, Director of the Inclusive Local Economies program at the Metcalf Foundation • MJ Sinha, MJ Sinha Consulting	2	2023	**Zoom/In-person:** These interviews were conducted independently for this project.
Academics/ Professionals in Academic Institutions	• Jason Prince, Concordia University • Alix Aylen, Infrastructure Institute at the University of Toronto	2	2022/ 2023	**Zoom:** These interviews were conducted independently for this project.
Legal Professionals	• Brian Iler, Iler Campbell LLP	1	2023	**Zoom:** Interview was conducted independently for this project.
Total # of Interviews Conducted		30		

2. Community Bond Lifecycle

Prior to Tapestry/ TIESS (Prior to 2018)

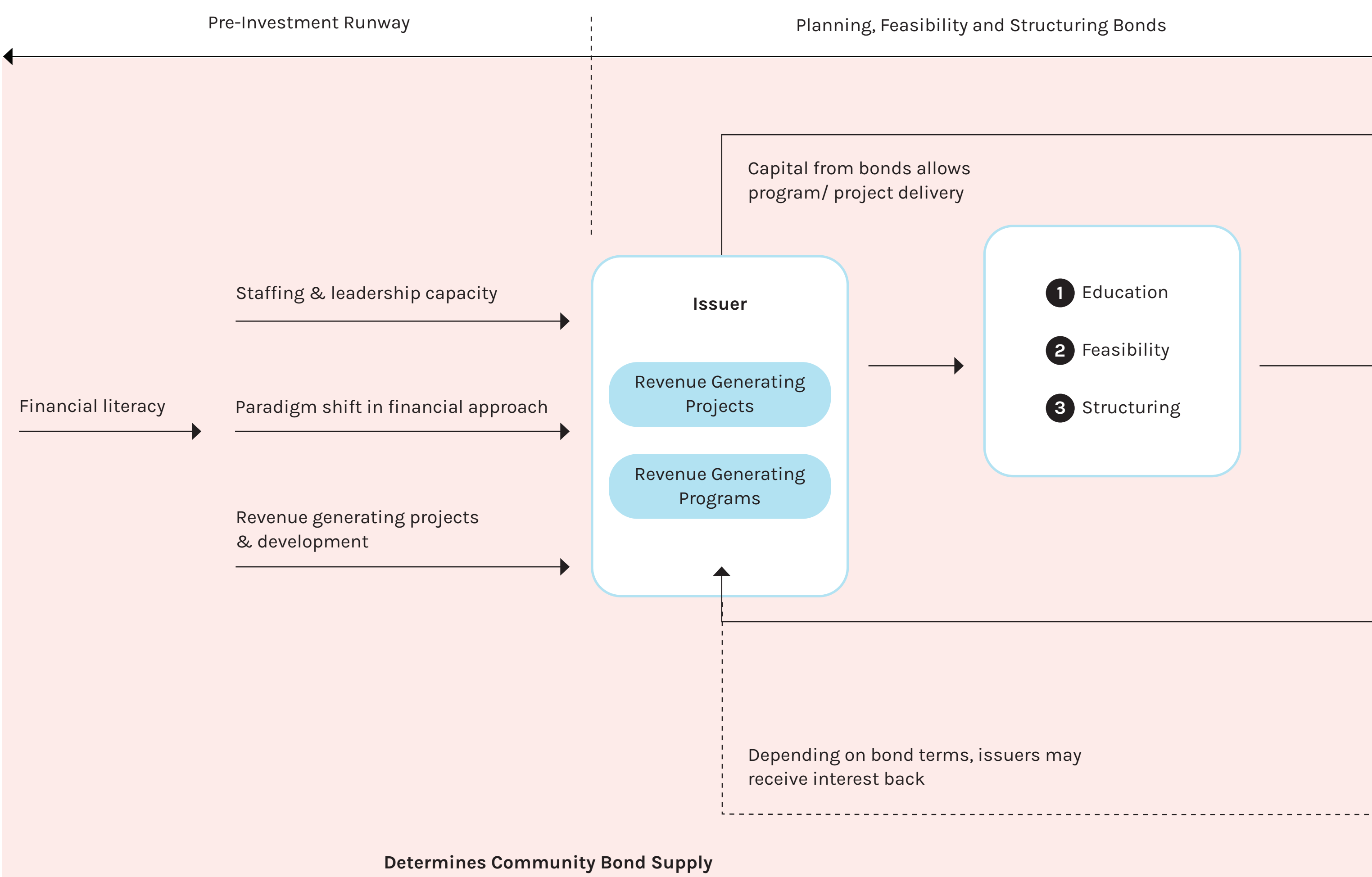
Support for this stage is unclear	Completely managed by individual social purpose organization and requires high levels of internal SPO capacity

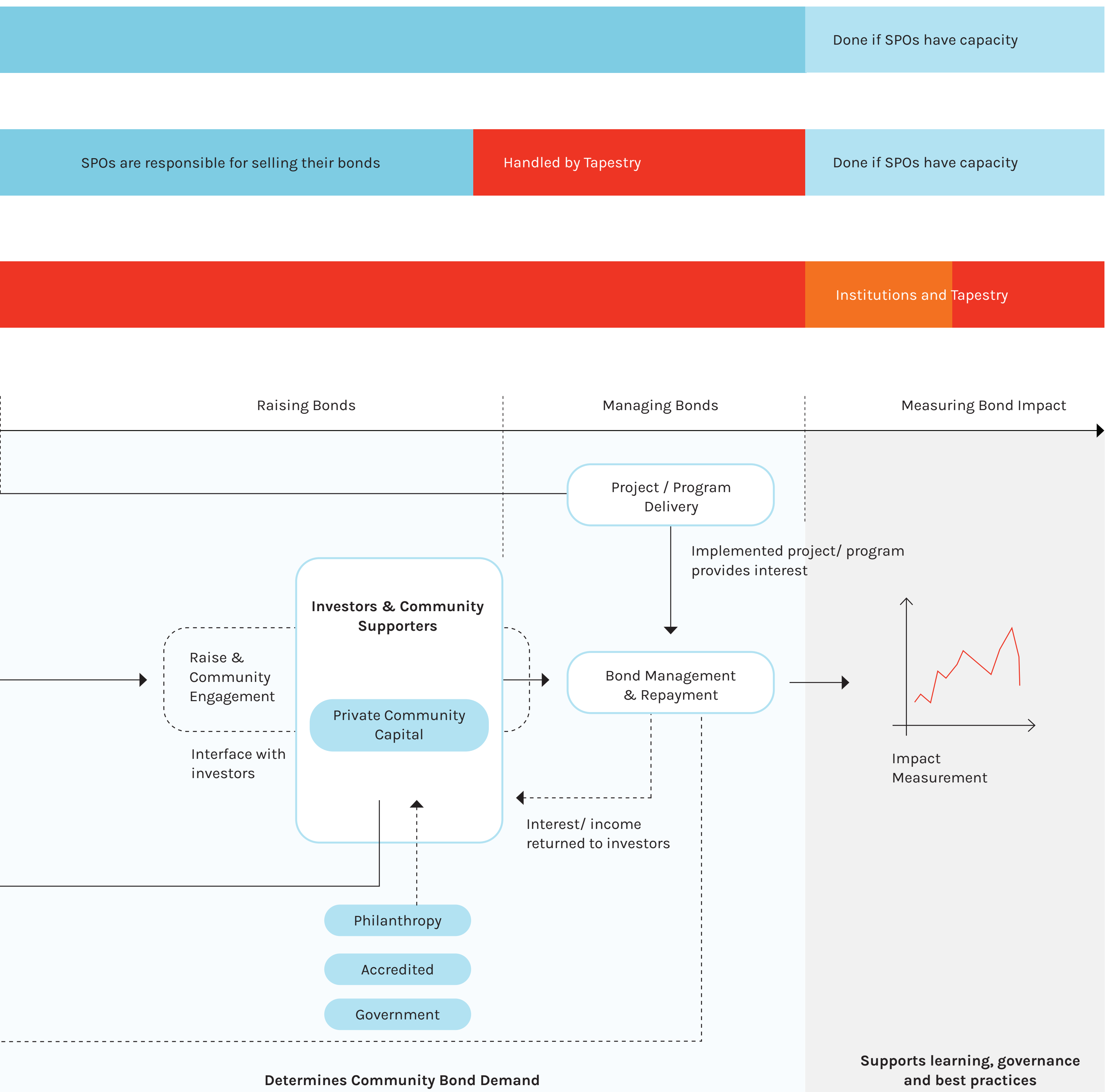
With Tapestry or Other Intermediaries (After 2018)

Support for this stage is unclear	Tapestry currently handles this for SPOs

Ideal Future Development (2023 and beyond)

Foundations and Universities build capacity	Tapestry offers a full suite of services that takes project-ready SPOs to investment readiness, help them raise and then manage bonds




Done if SPOs have capacity
SPOs are responsible for selling their bonds
Handled by Tapestry
Done if SPOs have capacity
Institutions and Tapestry
Raising Bonds
Managing Bonds
Measuring Bond Impact
Project / Program Delivery
Implemented project/ program provides interest
Investors & Community Supporters
Raise & Community Engagement
Private Community Capital
Bond Management & Repayment
Interface with investors
Impact Measurement
Interest/ income returned to investors
Philanthropy
Accredited
Government
Supports learning, governance and best practices
Determines Community Bond Demand

Endnotes

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Pomeroy, S. (2017). Challenges and opportunities in financing affordable housing in Canada.

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Beausoleil, V., Juma, S. and Simpson, H. (2022, March). Catalyst Community Finance Initiative – Stakeholder Engagement Report. Catalyst Community Finance Initiative.

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