CENTRE FOR SOCIAL INNOVATION

The Centre for Social Innovation has launched CommunityBonds.ca, the website and public resource to complement their do-it-yourself guidebook, The Community Bond - An Innovation in Social Finance. Food co-ops started using bonds to raise money in the 1960s and this model has been picked up and replicated by community power co-operatives, non-profits such as the Centre for Social Innovation, and others.

Are You Ready?

Before considering Community Bonds, you need to be confident that your enterprise will be viable and you need a clear understanding of what this investment will do for your organization. Offering a Community Bond takes a lot of hard work, and it's only suitable for a certain subset of nonprofits. The ultimate decision isn't based on whether your organization is large or small, or if your idea is fabulous or flawed — it depends entirely on your capacity to effectively raise, manage and repay loans.

How do you know if you are ready? Well, it's just like any other risk in business: you will never really feel completely ready. Sometimes you just have to jump in with both feet. But before you do, make sure you…

- **Consider traditional forms of funding**. Capital campaigns and grants are obvious ways to raise money that you don't have to pay back. For certain projects, this may be the best avenue. Discuss the advantages and disadvantages of various types of funding before you consider a Community Bond.

- **Speak to banks about a loan/mortgage**. Sometimes a conventional loan or mortgage is the best option. Your financial institution may be able to invest in your project if it's clear you have the revenues to repay the loan. You may also want to consider a blended approach that balances an institutional loan with Community Bonds. Community Bonds don't always replace conventional loans; they can supplement them too, filling the gap between the loan and your goal. In any case, building a strong relationship with a financial institution is vitally important for a growing nonprofit. Whether you need a loan or a line of credit, a payment processed or some expert advice, it pays to strengthen your relationship with your bank. Start early and stay in touch. Don't be afraid to ask questions and learn what's available.

- **Can create a robust and reliable revenue stream**. Remember that a Community Bond is a loan, not a donation. You'll need both reliable and increased revenue to run your new project and repay the loan with interest. Ideally the loan will pay for a project that helps secure this increased revenue.

- **Have a supportive board of directors**. More than ever, a Board becomes a critical partner to make a project like this come together. Make sure that your Board is fully aligned with the goals of the project. Trust us – you are going to need them!

- **Can create organizational capacity**. Any organization interested in taking on a Community Bond project faces two capacity challenges: first, to ensure your team has the skills necessary to properly develop, launch and manage the bond offering; second, to appropriately manage the resulting organizational growth. This may mean new staff, new training, new external support or any other number of increases to your organizational capacity.

- **Have the capital funds (cash) to cover the project fees.**

- **Get ready to start knocking on doors**. You need charisma and confidence for a project like this. Ultimately, people are investing in the person (or team) who holds the vision just as much as the business proposition. Be ready to be charming, convincing – and busy! Sales are not easy and it will take a ton of connections and near boundless energy to keep trying and trying until you reach your goal.

- **Assemble the right team**. Your capacity to create and launch a successful Community Bond is a direct function of the team that is doing the work. While the Community Bond is a straightforward investment concept, the devil, as they say, is in the details. You'll need a knowledgeable lawyer, a financial expert who can assemble masterful projections and budget documents, as well as the usual cast of characters necessary for any substantive project: communication staff, project managers, a bookkeeper and more.

- **Have a demonstrable track record**. Investors, the bank and your community will only get behind you if you have a solid track record. All the dreams in the world can't override the need for reliability, competence and experience. Your reputation is what will spell the difference between success and failure. And you can never start too early. All nonprofits should be working to capture data and document their work so they can prove their impact. Proof is what investors are looking for if they're going to take a chance with their investment dollars.

- **Have healthy networks to rely on**. Even if all of the other elements are in place, your Community Bond offer won't be successful if you can't find investors. This means leveraging your reputation and translating your social capital into financial capital. If you are a start-up organization, it won't be easy to find investors. Your best chance of success lies in a proven track record and a community of eager supporters and advocates. Again, you need to start early.

Principles of Community Bonds

1. Integrity

- Organizations considering issuing Community Bonds must develop the case for investment in an honest and open way that is respectful of the organization's culture and ensures there is a strong, compelling, case for the Bonds that is understood and supported by all key stakeholders in the organization. This case includes:
- A clear set of organizational operating principles. It is important that any project be considered in light of these principles and any conflicts identified and resolved.
- Organization wide commitment to all facets of the planning process: to manage (or on a more practical level pitch) the project, senior management must have a deep and fundamental understanding which can only come from active involvement in the planning process
- Honest assessment of new demands the project will place on organizational capacity – any deficiencies need to be addressed and rectified. For example organizations considering a social enterprise need access to industry knowledge.
- Space within the planning process to vigorously debate and vet the project so that when it comes time to move beyond debate to action, all voices have been heard and there is support to proceed.
- Board of Director input – Ultimately it is the nonprofit's board that is responsible for the

nonprofit and its activities including the decision on why and how to seek financing. Board member involvement in the planning process will provide additional insight and sober second thought, and is essential if the nonprofit is going to seek financing from the general public.

2. Verifiability

Any type of planning process involves assumptions. It is important that these assumptions are able to stand up to scrutiny. All of the project's assumptions need to be documented and wherever possible be the result of independent or empirical evidence provided from:

- Third party experts – (i.e. appraisers, contractors, architects).
- Individuals with industry knowledge (for example, for social enterprises, indivudals may include managers and accountants who understand the market and business model).
- Organizational knowledge – the nonprofit may have first-hand knowledge, for example if it has been operating a building or social enterprise, that can be used as a basis for assumptions (these should be vetted to ensure consistency with industry norms).

3. Transparency

The organization should be as open as possible with investors. Investors' decision to invest in a nonprofit is not solely a financial decision. They may be forgoing a financial return for a social return. They are putting their trust and faith in the organization. Absolute honesty with investors through the bond issuing process is key to a long term, mutually satisfactory relationship. The organization should be clear about:

- Risks of project failure – There needs to be a full, clear and plain disclosure of potential risks that the project will not succeed. This would include an analysis of their likelihood, potential impact and possible mitigations of these risks.
- Shared risk – although investors are the primary financers the organization should have a financial stake in the project. It is not only good public relations, it reinforces the organization's commitment to succeed.
- Financial projections that explore different scenarios (best, worse and most likely cases) so that outcomes can fully demonstrated.
- Organizational capacity strengths and how weaknesses are being addressed.
- Exit strategy for investors to recoup investment if the project fails.

4. Social impact goals of the project

Social impact goals need to be clear and unambiguous.

- Why is this project being undertaken? If successful what will it achieve for the organization and the community in 1 year, 5 years or 10 years? How is the project aligned with mission objectives?
- How will social impact be measured?
- What community assets will be created?

5. Accessibility

Community bonds are a tool that allows community members to invest in assets that provide benefit to and are retained in the community. It is important that these investments are accessible to all community members (regardless of means):

- Bonds should be affordable to a significant portion of the community
- Bonds should be RRSP or TFSA eligible when practical

6. Accountability
Issuing community bonds will bring in a new stakeholder: the bondholder, who will require assurance that the investment remains sound and that social impact objectives are being met. The reporting requirements and investor rights need to be articulated in the bondholder agreement and should include the following:

- Regular communication with the bondholders.
- Third party verification of reporting should be sought wherever practical.
- Sufficient empirical data (i.e. financial results) so that the bondholder has a clear picture of progress to date.
- Measurement of the actual results against the original planned data with clear, frank explanations of any differences.
- Revised projections and related action plans.
- Project's unintended impact or consequences to the organization.
- Opportunity for interaction with management, if bondholders feel it is warranted.

7. No third party soliciting of investment
("third party" is defined as individuals who "sell" the community bond to the public for a flat fee or a percentage of the amount raised).

However, the use of credit unions and other community-based financial institutions charging small administration fees to facilitate the bond sale for Registered Retirement Savings Plan and other tax administration purposes can be quite beneficial and should be explored.

- A nonprofit selling community bonds should be willing to do this work itself. This ensures that the organization is committed to the plan, how it is financed and ultimately to the bond holder.
- The organization interacts directly with the investor. Trust and an investor's commitment to the nonprofit's mission can only be built through direct contact. This connection is vital to how community bonds create community based assets.

8. Use of Trustee to facilitate the transaction
To provide additional assurance to investors, a trustee should be used to administer funds and act on the bondholders behalf. The trustee's role will be set out in a trustee agreement and will include such tasks as:

- Collect and administer all bondholder funds during the solicitation stage.
- Register the mortgage charge or other security, and execute and maintain all related legal documentation.
- Hold the security on behalf of the individual bondholders.
- Convene bondholders' meetings and act on their instructions.
- Exercise all bondholders' rights under their security.

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