



Understanding Community Capital Financing

in 120 seconds

To diversify their sources of funding and get their projects off the ground, social economy enterprises (SEEs) can borrow money directly from their members and communities as part of a community capital financing campaign.



What is the legal environment?

Community bonds and shares are governed by the Securities Act. Under certain conditions, the process for issuing these securities is simplified for NPOs and co-operatives.

Organizations that issue community bonds or cooperative shares can benefit from exemptions provided by the Autorité des marchés financiers (AMF). This means that they are not obliged to:

- produce a prospectus, which is the detailed legal document intended to provide investors with information to help them make an informed investment decision.
- register as a securities broker.

However, the organization still has a responsibility to inform investors clearly and truthfully and it could have these exemptions withdrawn if they fail to do so.



Is this the same as crowdfunding?

Yes... and no.

If the definitions are anything to go by, “community financing” and “crowdfunding” are synonymous. However, there are different types of community financing and crowdfunding. *Community capital financing* refers to funds that are invested in an organization and then must be repaid to investors. Community financing in the form of *donations and presale-based crowdfunding* allow organizations to collect non-refundable contributions or advance payments for services to be rendered at a later date. The two approaches are complementary and meet different needs.

What is community capital financing?

Community capital financing is a form of financing that allows social economy enterprises (SEEs)—non-profit organizations (NPOs) and co-operatives—to **borrow money** (capital) from investors in order, for example, to build up a down payment for some work or facility.

A social economy enterprise that uses this method issues financial securities, such as

- **community bonds** (which can be issued by NPOs and, in some cases, by co-operatives) or
- **shares** (issued only by co-operatives).

The total amount to be raised, the value of each bond or share, their maturity and the interest rate to be paid to investors are determined by the enterprise’s board of directors, based on its financing needs, its repayment capacity and the profile of the targeted investors.

These investors may be individuals (e.g., customers or members of the organization, staff or board) or legal entities (partner organizations, companies, foundations, institutional investors, etc.).

Example 1

An NPO is considering a collective takeover of a major private tourism business in the region. To complete the financial package needed to buy the business, it raised \$75,000 in bonds from its community, bringing together 47 solidarity investors (including 6 enterprises) for bonds yielding 3% annual interest with a term of 5 years.

Example 2

A solidarity cooperative in the personal services sector issues \$120,000 in preferred shares to purchase new equipment and develop its range of services. The campaign brought together 72 investors, including 2 enterprises and a municipality, who purchased preferred shares with a 4-year term and no interest due.

Example 3

To acquire a building worth \$15 million and complete its financing package, a cultural NPO is issuing \$1.2 million in community bonds. It offered to its community three bond categories with varying interest rates, maturities and investment amounts. Some 210 investors, including 3 enterprises and 3 foundations, took part in the campaign.

The strength of this financing tool

For social economy enterprises

Flexible, tailored capitalization



- It provides access to new capital, potentially at lower interest rates than on the regular market (since the enterprise itself sets the rate).
- It allows for diversification of funding sources.
- The terms and conditions are determined by the board and repayment terms are flexible.
- From a financial point of view, it can be considered as equity¹ or quasi-equity.

A powerful force for mobilization



- It creates a support network that is ready to invest and commit to the organization's mission.
- It helps to raise the profile of the social economy enterprise and its project, while strengthening its local and social roots.
- The support provided by the community validates the relevance of the project, reassures partners and generates leverage with other funding bodies.

Another step towards democratizing the economy



- It offers investors opportunities for impact investment, without intermediaries.
- It directs capital towards local projects and enterprises with collective ownership, democratic governance and a social mission.

¹ Also known as "shareholders' equity", "equity capital" or "net assets".



A few points to watch out for

Despite its advantages, this approach is not suitable for all enterprises and situations.

- Bonds constitute **debt that the enterprise must repay at maturity**, while shares may carry different conditions depending on their structure. You therefore need a solid business model and repayment strategy.
- It is not intended to replace other sources of finance. **It is part of a broader funding strategy** that enables risk to be shared and different financial packages to be consolidated.
- Although these bonds or shares are issued under market rules that provide an exemption, issuing NPOs and co-operatives must act **rigorously and transparently**. They are **obliged to provide the information necessary** for investors to make an informed decision, in particular, in a series of documents constituting an "investor kit." Investors must be informed of the risks associated with these securities, such as the possibility of losing the capital to be invested, since the bonds or shares are usually unsecured.
- Issuing these securities to the community can be a demanding process. You must establish your financial projections, design the campaign, produce the documentation and communications plan, maintain relations with investors, carry out administrative follow-up after the bonds or shares are issued, and so on. So, you need to make sure you **have the time and resources** to carry out this type of campaign successfully.



Are you interested?

Using community capital financing requires social economy enterprises to be well informed, to prepare carefully and execute their campaign properly with appropriate follow-up.

With the right support, you can exploit the full potential of this tool and avoid the pitfalls. The l'ampli course has been designed with this in mind.

To find out more:

amplifinance.info

