DEMOCRATIC FINANCE SCOTLAND

# Community Bonds

A summary

Development Trusts Association Scotland
A Thriving Community-led Network

DEMOCRATIC FINANCE SCOTLAND

Community Ownership Support Service
Development Trusts Association Scotland

This is a summary of the findings from the research report "Community Bonds Stage 1 Evaluation" now published on our website here.

## What are Community Bonds?

Community Bonds are a form of debt security issued by community or charitable organisations to fund local projects. Communities get financial, social or environmental benefits, and investors (who may also be community members) get a social/environmental return as well as a financial return on their investment. Unlike community shares, investors don't become members of the organisation. They are used as an alternative to or an addition to commercial or social loans and grant funding, and might be a way of reducing the cost of capital and engaging with a community of investors.

## What does this look like in practice?

Imagine a community organisation wants to raise £400,000 for a community solar project. They sell community bonds at £50 each. 300 people locally purchase bonds with the minimum investment being just one bond and the maximum 400 bonds (£20,000). 5% interest is offered on the bond to be paid annually over a fixed term of 10 years. The capital will be repaid in full at year 10.

This means that over the 10 years, the total interest paid is £200,000 (£20,000 x 10), the total capital repaid at the end of 10 years is £400,000, so the total cash out over the life of the bond is £600,000.

For the community organisation to be comfortable, this means that the project needs to generate at least £20,000 a year of free cash for interest, and make plans to repay the capital at the end of year 10, usually through refinancing, accumulated reserves or the sale/repowering of assets.

## Who can issue community bonds?

Community Benefit Societies can issue their own community bonds - they're exempt from the Prospectus Directive of the Financial Services and Markets Act 2000 (in the same way that they are able to offer community shares). These community bonds are not regulated by the Financial Conduct Authority, and there is no current voluntary scheme of regulation like the Community Shares Standard Mark.

Other legal structures such as companies limited by guarantee, SCIOs or CICs can issue their own bonds but do have to use a financial intermediary or get approval from a third party investment platform to issue bonds as they are not exempt from the Prospectus Directive. This can include extra admin and cost for example, Ethex and Triodos Crowdfunding both charge fees on bond raises (they only work with bond raises over £250,000). Until 2025, Scottish Communities Finance Ltd operated in this space in Scotland. It was a Community Benefit Society, issued the community bonds and then lent the money via a loan to a community organisation.

## The data

We used publicly available (but incomplete) records of bonds issued in the UK via Ethex and Triodos Crowdfunding as well as our own incomplete records of bonds issued by SCF Ltd in Scotland between 2018 - 2025. We considered 55 bond offers in total. You can find all of the results of our research in our full report here. Some highlights include:

- 45% of the 55 bonds were issued by community benefit societies
- 65% of bonds were used for business growth, 18% to refinance and 9% for start ups
- £67m were raised in bonds across the UK from 2018 - 2025
- The average bond raise was £1.3m across the UK with an average of 219 investors per raise
- The average bond investment was £4,500 per person
- Community benefit societies raised £25m out of the £67m total across the UK
- Only 6% of the total bonds raised were for Scotland specific projects
- In Scotland, £4.2m was raised across 6 successful bond offers
- Bond raises for solar energy dominate across the UK (£26m)
- Typical interest rates were between 4-6.5%
- Most bonds are used alongside other forms of finance such as loans, grants and community shares
- The largest bond raise in Scotland was £2m for the Trees for Life Dundreggan project in the Highlands

## Next Steps

We want to keep exploring the community bond space and will be doing some further research. We're keen to hear from DTAS members [and DF clients?] what they think about community bonds - these are some of the questions we're still thinking about:

- Why is the bond market so limited in Scotland? Is it because of more abundant grant funding historically, or a stronger social investment sector? Or are community groups more risk averse about debt?
- What is the demand for this type of democratic finance? Is it well understood?
- What don't we know about smaller scale community bonds in the rest of the UK?
- What can we learn from the bond offers that have happened in Scotland before?
- How does the cost of debt via community bonds compare to social or commercial investment?
- How does the amount of financial return to community investors compare to returns they might make elsewhere through commercial savings or investments and how much does that matter to these investments alongside the social or environmental returns they might make?
- What are some of the scenarios where you might want to use community bonds instead of shares or alongside shares?