



Policy Brief: Protect Ontario Through A Local Investment Strategy

Policy and Research Solutions Prepared By:



Introduction

In the face of economic uncertainty in Ontario, there is universal recognition that we need to take action to support local businesses, organizations, and projects. One of the critical actions will be to mobilize local capital to support local enterprises in Ontario to help them adapt and continue to grow.

We have developed four policy solutions to support this objective:

1. Create a provincial fund to support local investment intermediaries, particularly community development financial institutions (CDFIs).
2. Create a provincial tax credit for local investments, including eligible debt and equity investments in local intermediaries.
3. Develop a registry of community development financial institutions (CDFI) to qualify tax credit and fund eligibility.
4. Introduce a regulatory requirement for Ontario-based pension funds to make and disclose investments in the province's real economy

These four bold policies could protect Ontario and drive local investment in uncertain times, mobilizing billions in capital. We have articulated the background on the issue, policy case, models, costs and impacts of these proposed policy solutions below for consideration by the Government of Ontario as it begins its new mandate. This policy brief has been prepared by SVX and Catalyst: Community Finance Initiative.

Background

We are experiencing our most pressing economic challenge in a generation. This isn't a circumstance that requires a short-term fix, but a generational response.

It is self-evident to all Canadians, but important to declare. We are faced with an existential economic crisis as our next door neighbour and leading trading partner has opened a trade and tariff war with Canada in pursuit of revenues at minimum and annexation at maximum. As a result, Canadian families, businesses, and governments are faced with the prospect of ongoing uncertainty, lower economic growth, higher prices, lost income, flight of business, talent and capital, and generally harder times. Regardless of whether the tariff hammer drops tomorrow or two months from now, we'll have to be prepared for years ahead that trend in the same direction of uncertainty and risk. Alongside this economic crisis, we are concurrently facing social and environmental challenges, particularly housing affordability. This is a moment where we need to lean into a range of comprehensive solutions with a long-term time horizon.

We will need significant amounts of capital for relief, adaptation, and growth for businesses and organizations across Ontario.

We need investment capital to protect jobs and our economy and to address the other pressing challenges that we face. Businesses will need capital to make payroll, retool, manage cash flow, open up new local, national and global markets, and beyond. Communities need capital to build affordable housing, protect real estate for local businesses, and support spaces for community purposes. And we continue to need capital to protect our natural environment and ecosystems.

We have significant local capital at our disposal and the local institutions to invest that capital to protect and power Ontario's economy, its citizens, and its environment.

We have significant sources of local capital through individuals and institutions across the province. We also have purpose built intermediaries that help bridge capital gaps for local enterprises, organizations and projects. These local institutions, particularly community finance intermediaries, can take on greater risk, have greater flexibility, and make targeted investments with greater focus on economic, social and environmental impact than traditional financial institutions. They can be catalytic in deploying local capital to meet the challenges that we face.

Policy Case, Models and Costs

We have articulated the case, models and costs for our four (4) proposed policy solutions:

1. Create a provincial fund to support local investment intermediaries, including community development financial institutions (CDFIs).

There are dozens of institutions in Ontario that are focused on investing locally. These community development finance institutions (CDFIs) facilitate debt or equity investments to create economic opportunity and drive local community development. CDFI-like institutions in Ontario include community loan funds, microlending institutions, community bond intermediaries, community futures organizations, Indigenous Financial Institutions (IFIs), investment co-operatives, community land trusts, credit unions, and even venture capital firms and angel networks that invest and deploy capital in local businesses, organizations and projects.

These institutions are capitalized with private capital, public resources, and philanthropic assets and have significant potential to deploy greater amounts of capital locally. However, they require operating support and investment capital to achieve greater scale and scope in lending and/or making equity investments. An Ontario CDFI Fund could provide operating grants, guarantees or first loss capital, and low cost investment capital for these intermediaries. An initial fund of \$50 million over the next government mandate period could leverage tens of millions of additional capital for small businesses and organizations.

Again, there are many models for this kind of policy solution:

- [Many US states have a state-level CDFI fund](#) providing investment or operating capital including New York State ([\\$25 million fund through Empire State Development](#)), Virginia ([\\$10 million CDFI Fund](#)), and California ([\\$50 million California Investment and Innovation Program](#)).
- At a federal level, we have a \$755 million Social Finance Fund providing primarily investment capital for intermediaries. This pool provides readily available leverage for the provincial government to match its investment. As a result a \$50 million investment by the provincial government could become \$100 million or more given the federal investment. This represents a provincial investment that provides a matched return at minimum.

This policy recommendation would have a cost of \$50 million over four years for the provincial government treasury, with funds being allocated up-front to maximize impact.

2. Create a provincial tax credit for local investors, including eligible debt and equity investments in local intermediaries and select organizations (i.e. individual non-profits, charities and cooperatives).

We can mobilize capital from local investors such as individuals (both non-accredited and accredited), businesses, foundations and larger corporations among other local investors. A basic calculation would put total net financial assets for Ontario in the trillions. If we could mobilize a fraction of a percentage point of those assets, we could move hundreds of millions (or billions) into local investments.

We suggest creating a simple non-refundable provincial tax credit with a value of 15-25% of the amount invested, subject to annual limits and how long the investments are held. Ideally, this could be stacked with RRSP credits if an investment was also eligible for that credit. Further, there should be a range of eligible investments that are offered by either CDFIs or select organizations (non-profits, charities and cooperatives) including community bonds, conservation bonds, community loan funds, venture capital funds, and other vehicles. This would represent the range of organizations raising community investment under National Instrument 45-106.

The models for this type of credit already exist in Canada and peer jurisdictions:

- In Quebec, a select set of funds including [Fondaction](#) are able to leverage [non-refundable tax credits](#) at a total value of 30% of the amount invested on up to \$5,000 invested annually. Fondaction now has approximately \$4 billion in assets.
- [Manitoba](#), [Nova Scotia](#) and [Prince Edward Island](#) have tax credits for community investment funds;
- [BC](#), [Manitoba](#), [Saskatchewan](#), [Nova Scotia](#), [Newfoundland and Labrador](#), and other provinces offer tax credits for investments in individual businesses or start-ups.
- Introduced in 2002, [Community Investment Tax Relief \(CITR\)](#) in the UK provides tax relief to individuals and companies that invest in accredited Community Development Finance Institutions (CDFIs) worth up to 25% of the amount invested, spread over 5 years from the original investment date.

As an aside, these tax credits could be eligible across a broader range of intermediaries and institutions including private venture funds with a majority of their portfolio in Ontario, angel network funds, municipal green or social bonds, or even employee ownership models. We would need to have clear and well-defined criteria to limit/ring fence the eligible products. Private investments that have a local impact would have an easy to understand and definable characteristic.

This policy recommendation would have a cost of \$1–5 million on an annual basis for the provincial government, depending on uptake by investors.

3. Develop a registry of community development financial institutions (CDFI) to qualify tax credit and fund eligibility.

There are dozens of CDFI like intermediaries across Ontario including PARO, Union Co-op, Tapestry Community Capital's Weave Community Bond Fund, VERGE Capital, Bloom Local Food Fund, Harvest Impact, Fair Finance Fund, and many more. While they are incredibly resilient and impactful organizations, they are not necessarily well known in Queen's Park or the Frost Building. So a key question would be asked: how do we know that these intermediaries and investments are local and legitimate? It is important to have some form of qualification to ensure effective use of resources and alignment with the overarching public mandate.

In order to address this need, a registry and certification process could be established to qualify intermediaries as eligible for both the fund and tax credit. This function could operate out of an existing entity like FSRA or the Ministry of Finance.

It would require an efficient but effective process with a simple set of criteria (eg. incorporation, clear local mandate, good standing, etc.) and some ongoing requirements such as the completion and filing of an annual report (including the portfolio) and a financial report by the intermediaries. Depending on the desired scope of the program, there may need to be some consideration as to the eligibility of credit unions and credit union products. It would not fit to include simple deposits (eg. savings or chequing accounts), but there may be some alignment with mission specific term deposits or other similar products.

The model for this type of certification can be found in the United States through the [US CDFI Fund Certification](#) process. The certification is managed by the Department of the Treasury, and the criteria and process have been battle tested over the past thirty years.

This policy recommendation would have an approximate total cost of \$1–2 million over the next four years for staff and overhead for management and monitoring.

4. Introduce a regulatory requirement for Ontario-based pension funds to make and disclose investments in the province's real economy, and convene a time limited task force on investments in community development financial institutions (CDFIs).

Ontario's pension plans are a vital part of the province's retirement income system, and ensure many Ontarians have security and dignity in retirement. The largest public sector pension plans collectively manage over \$500 billion in assets, including the Ontario Teachers' Pension Plan (OTPP), Ontario Pension Board (OPB), Ontario Municipal Employees Retirement System (OMERS), and Healthcare of Ontario Pension Plan (HOOPP). These plans have strong governance practices, substantial capital, broad diversification, and hold the assets of millions of Ontarians.

The portfolios of these plans include investments both at home and abroad. We want to explore more opportunities for the province's pension funds to invest at home to protect Ontario's economy, create jobs, and address pressing challenges.

We recommend a regulatory requirement for Ontario-based pension funds to disclose investments in the province's real economy annually. We also recommend the creation of a time limited task force on pension fund investments in community development financial institutions (CDFIs) that would complete its work of outlining appropriate strategies and recommendations before the end of 2025. We would like to see a path that would lead to actual asset allocation, progressing toward a medium-term goal of at least 10% local investments, and a long-term target of at least 20%.

There are models for investments in community by pension funds and financial institutions:

- CDPQ in Québec manages the assets of 42 public and para-public sector depositors and is a major place-based investor with a dual regulatory mandate to achieve optimal returns and contribute to local economic development. In their case, \$88 billion is invested locally of their total assets of \$451 billion, and they have established a target of investing \$100 billion locally by 2026.
- There are also capital mandate requirements for US financial institutions to invest locally through the Community Reinvestment Act (CRA). This has mobilized billions of capital for local businesses, organizations and projects across the United States, particularly in underserved communities. One example of a Canadian institution (BMO) that has to comply with the CRA: they invested \$5.4 billion in community development loans between 2020-2023 in the United States. In Canada, these numbers are unknown across all major financial institutions. But without a mandate, the reported figure is zero.

This policy recommendation would have no cost to the provincial government treasury.

Impact

These policy solutions could be an important part of the long-term economic strategy for Ontario. They would have a positive impact on our province as they can:

- Mobilize hundreds of millions or even billions in new capital in Ontario to support local businesses, organizations and projects;
- Provide capital for relief, adaptation, and hopefully growth;
- Drive positive outcomes for Ontario including maintaining and creating jobs, creating and maintaining businesses, and building affordable homes; and
- Help drive a resilient, regenerative economy that serves its citizens, communities, and the planet.

This would generate significant economic, social and environmental returns for a modest investment of \$55 - 70 million by the provincial government over the next four years.

Appendix: Community Finance Primer

What is community finance?

Community finance, also known as place-based impact investing, refers to the local deployment of impact capital, meaning that investments are made with the intention of generating both financial returns and community benefit to address the needs of particular communities, regions, or ecosystems. Specifically, community finance uses repayable financing (debt) and equity investment to support the startup or growth of enterprises, organizations or projects that look to achieve specific community outcomes. The sector is growing rapidly, as capital moves into the impact investing market at unprecedented rates seeking local impact.

Around the world, this approach to investing primarily occurs through two methods: (1) intermediaries that aggregate local institutional capital to finance local organizations, enterprises and projects, and (2) community capital organizations (i.e. crowdfunding platforms, funds, and individual non-profits, charities and cooperatives) that directly raise and aggregate, to varying levels depending on organization type, retail capital and occasionally institutional capital. Together, these organizations provide critical financing to a range of entities from lending to small businesses on main streets to providing debt financing for affordable housing projects.

Because community needs vary, these place-based funds typically invest in a variety of sectors, business types, and impact areas. These funds also leverage local capital from a variety of investor types, including high-net worth individuals, local foundations, corporations, governments, and the general public. This form of impact investing provides funds with the unique ability to bring private capital, public resources, and philanthropic assets together to build a stronger and more resilient community.

What is the size of the community finance market in Ontario?

Collectively, there is \$8 billion invested in private impact investment funds, bonds and other tools that are based in Ontario held in over 156 investment products. When we narrow into Ontario-based investment funds, bonds and other intermediaries that invest exclusively in Ontario, there are over 40 investment products representing \$314 million in assets. This figure does not include credit unions, community futures organizations, or Indigenous Financial Institutions (IFIs), and it also does not include funds, bonds, and other products that invest across Canada including Ontario.

What are examples of community finance intermediaries and community capital organizations?

There are many examples of community finance intermediaries and community capital organizations of different types, sectors, and geographic areas of focus:

- Community loan funds like VERGE Capital that invests in businesses, organizations and projects in Southwestern Ontario;
- Microloan funds provide capital to individuals for training or small business development like the Ottawa Community Loan Fund, PARO, or the African Canadian Business Network (ACBN), and Windmill Microlending.
- Loan funds similar to the The Weave Community Bond Fund raises institutional dollars to directly invest in community bonds and/or lend alongside community bond issuances for sectors such as affordable housing, arts and culture, energy, and beyond.
- Indigenous Financial Institutions (IFIs) like Waubetek Business Development Corporation and Nishnawbe Aski Development Fund (NADF) provide microloans, individual loans and business loans for Indigenous individuals and enterprises.
- Community land trusts including Kensington Market Land Trust, Muskoka Community Land Trust, and Ottawa Community Land Trust currently directly raise capital via community bonds to invest in local real estate to maintain affordability for local businesses and housing. We anticipate that some of these organizations will grow into intermediaries.
- Affordable housing funds such as Union Co-operative, Indwell, New Market Funds, and others help to structure capital and bolster on the ground capacity for communities to build affordable housing.
- Community finance intermediaries such as Harvest Impact, Bloom Local Food Fund, and the Fair Finance Fund invest in agriculture and food systems, from farms to retail businesses.

In addition, service providers like Tapestry Community Capital work alongside community-based organizations to make the process of raising community investment (via community bonds) for local infrastructure simple. They have mobilized over \$100 million for urban and rural communities across the province through thousands of retail investors, financing community real estate, arts and culture, energy projects, and affordable housing. Further, organizations like SVX design and manage place-based funds, conservation bonds, and community finance vehicles for a range of entities including municipalities, Indigenous Nations, non-profit organizations, and others.

There are larger actors like credit unions (eg. Alterna Savings and Libro Credit Union) and adjacent community finance organizations like angel funds (eg. GTAN|LP, MLA48 Fund) or venture funds (eg. Graphite Ventures) that could also fit in this category if/when they invest in local businesses in Ontario.

About

SVX's mission is to advance social, environmental, and economic justice through impact investing. As a nonprofit, diversified financial services firm, we work with investors, funds, enterprises, and institutions to help them take the first or next step on their impact journey. We provide knowledge products and programs, design strategies and products, manage funds, operate an impact investing platform, and develop systems change solutions. We work across key impact sectors: climate, food, equity, housing, and community real estate. SVX is regulated by the Ontario Securities Commission and operates as an Exempt Market Dealer (EMD) across several Canadian provinces. Our reach extends across Canada, the U.S., Mexico, and Colombia. For more information, please visit www.svx.ca.

Catalyst: Community Finance Initiative is a network of place-based impact funds, community loan funds, investment co-operatives, community land trusts, local credit unions, and other community finance organizations. We are a collective that exists to advance the community finance sector. For more information, please visit <https://catalystcommunityfinance.ca/>.

Contact Us

Adam Spence

CEO, SVX

adam.spence@svx.ca

Jo Reynolds and Geraldine Cahill

Co-Managers, Catalyst: Community Capital Initiative

manager@catalystcommunityfinance.ca