



October 24, 2017

Social Innovation and Social Finance Co-Creation Steering Group
Employment and Social Development Canada
Gatineau, QC
Via email: social_innovation_sociale@hrsdcc.gc.ca

Re: Social Innovation and Social Finance Strategy

Dear Steering Group members,

We are writing to provide our recommendations in response to your [engagement process](#) on the development of the federal government's Social Innovation and Social Finance Strategy, intended to "provide better support for community organizations working to achieve positive solutions to persistent social problems, including those facing vulnerable populations."

Organized in 2007 and incorporated as a nonprofit in 2014, the Ontario Nonprofit Network (ONN) is the convening network for the approximately 55,000 nonprofit and charitable organizations across Ontario. As a 7,000-strong provincial network, with a volunteer base of 300 sector leaders, ONN brings the diverse voices of the sector to government, funders and the business sector to create and influence systemic change. ONN activates its volunteer base and the network to develop and analyze policy, and work on strategic issues through its working groups, engagement of nonprofits and charities and government.

Canada's nonprofit sector already plays a vital role as an economic driver, generating 8.1% of our GDP and employing two million people ([Imagine Canada](#)). As stewards of our communities, nonprofits can leverage public and private investments--via social enterprise, donations, and the hundreds of millions of hours that their volunteers donate--into community wealth that *remains* in the community, providing services that meet the needs of Canadians while creating jobs locally.

It is critical that our policy-makers recognize the social innovation already taking place in the nonprofit sector--and take steps to modernize the policy, financial, and regulatory environment to help our sector maximize the social, economic, and environmental benefit it generates.

Summary of recommendations

- 1. The goal of new finance mechanisms should be to generate capital for the sector on the best possible terms for communities. Public capital, community capital, and intermediaries must be financed and enabled if new investments are to achieve real public benefits.**
- 2. Revise and amend federal legislation and regulations to allow and support public-benefit nonprofits (charities and community-benefit nonprofits) to engage in revenue generating enterprises (social enterprise) that will enhance their mission delivery and/or increase and diversify program related revenue.**
- 3. Level the playing field between supports provided to for-profit and nonprofit enterprises and fix government granting streams to enable nonprofit social innovation.**

ONN is hearing more and more from nonprofits that they need to be able to access new forms of financing-- for example, investment capital, innovation funds, and start-up/scale-up support for nonprofit social enterprise. There is also a growing appetite for nonprofits to explore community-driven finance initiatives like community bonds and community shares that connect individuals who would like to invest their dollars locally with community-led enterprises -- such as arenas, food hubs and community kitchens, community-owned co-working spaces, housing, and energy cooperatives. Tackling the policy, financing, and regulatory issues that get in the way of investments flowing to nonprofits will be critical to help our sector support and sustain Canadian communities.

ONN has been engaged in social innovation and social finance issues since 2010, when we partnered with the Social Venture Exchange (an initiative of Social Innovation Generation at MaRS) to undertake a [social finance census](#). The census gave us a detailed sector profile and insight into the demand for capital and barriers faced by social ventures in Ontario (both nonprofits and social purpose businesses).

With our networks, ONN is engaged in a number of initiatives to address the barriers to scaling up social enterprise and other forms of nonprofit sector innovation. Since 2010, we have partnered on a series of [Rural Social Enterprise Projects](#), we have produced policy frameworks on an [enabling policy for social enterprise](#) and on [social impact bonds](#), we continue to promote [social procurement](#) through the Community Benefits Ontario network, and most recently we have become a promotional partner for [S4ES](#), the new pan-Canadian Social Enterprise Ecosystem project.

ONN's Priorities for Social Innovation and Social Finance

1. Access to funding and capital

There is an interest on the part of many public and private investors to “make a positive difference through the power of finance and enterprise, skillfully deployed” ([Nonprofit Quarterly](#)). We know that investment in the nonprofit sector provides long-term social, economic, and environmental benefits but it is a delicate task to ensure that investment capital is deployed for the long-term benefit of communities and contributes to community resilience. Investment capital would be a welcome injection into our under-resourced sector; we need to ensure, however, that new “social finance” mechanisms primarily support nonprofit social enterprises and do not end up unjustifiably subsidizing private investment.

Recommendation 1: The goal of new finance mechanisms should be to generate capital for the sector on the best possible terms for communities. Public investment and community capital must be enabled, and intermediaries must be financed, if new investments are to achieve real public benefits.

- **Public capital:** Central funds can add a layer of cost to capital that the sector can ill afford. The federal government should be cautious about creating one central fund. It may be more effective to take a decentralized approach, i.e., build on existing nonprofit, community-driven mechanisms (like [RISQ](#) and [Fiducie du Chantier de l'économie sociale](#) in Quebec and the Edmonton Community Foundation's [Social Enterprise Fund](#)) and develop streams appropriate to different sectors (e.g., housing) and regions. Lessons can be learned from [Big Society Capital](#) in the UK as they initially had difficulty providing low-interest loans to local community projects and are still experimenting. If a central fund is adopted it must:
 - be governed by experienced investors and practitioners in the public benefit nonprofit sector;
 - provide accessible funds to local nonprofits; and
 - monitor the ability of community organizations to access the investment capital.
- **Community capital:** Nonprofit social enterprises need access to different types and structures of investment capital: slow money, pooled funds, crowd-funding, community bonds, loan guarantees, RRSP eligibility for social investments, grants, and tax incentives. The federal government should enable and support these sources of investment capital with the appropriate policy and regulatory support.
- **Social finance intermediaries:** There is a clear need for intermediaries to link small and large-scale capital with the local and emergent enterprises

that need investment. Intermediaries must be nonprofit and closely linked to the community. In provinces/sectors where suitable intermediaries do not exist, a portion of new federal investments should support the development of such intermediaries in partnership with provincial/territorial governments and the nonprofit sector.

2. Income Tax Act reform

Income Tax Act reform is essential to building a strong ecosystem for social innovation and social enterprise. It is critical that Income Tax Act reform take place sooner rather than later.

Recommendation 2: Revise and amend federal legislation and regulations to allow and support public-benefit nonprofits (charities and community-benefit nonprofits) to engage in revenue generating enterprises (social enterprise) that will enhance their mission delivery and / or increase and diversify program related revenue.

- Revise the Income Tax Act (ITA) revenue rules for nonprofits providing public benefit: The majority of nonprofits are non-compliant with an outdated Canada Revenue Agency (CRA) interpretation of “not-for-purposes of profit” that prevents them from supporting one line of work with excess revenues from another -- and isn't that one good reason to run a social enterprise? The nonprofit corporate form must be made economically viable by providing a functional interpretation (destination test) of what it is to operate not-for-purpose of profit.
- Refocus the CRA direction and control guidance for charities under the ITA to focus on expenditure responsibility as they do in other countries: ONN supports the proposal by [Philanthropic Foundations of Canada](#) to enable partnerships and collaborations between charities and other public benefit nonprofits (including nonprofit social enterprises and cooperatives). Community benefit nonprofits and cooperatives should be listed as “qualified donees” in the guideline. It is essential that charities be able to partner and collaborate with other public benefit organizations in 2017. With direction and control guidelines at present they cannot do this effectively.

3. Capacity and skills

Nonprofits are not in the everyday business of starting ventures, acquiring real estate, and negotiating financial markets. Our sector often needs access to third-party expertise to assist them with business plans, identifying market and investment opportunities, and getting the investment mix right.

Recommendation 3: Level the playing field between supports provided to for-profit and nonprofit enterprises and fix government granting streams to enable nonprofit social innovation.

- Access to existing and future business development programs: Federal business development capacity-building supports, such as those offered through FedDev Ontario and FedNor, should be available and actively marketed to nonprofit social enterprises alongside small and medium enterprises across Canada. Programs require the appropriate knowledge of the sector to serve them well.
- Provide a grant stream to enable public benefit organizations to engage third-party expertise to assess their capacity and access the different sources of financing appropriate for their needs.
- Fix federal grants and contribution programs: Modernize funding agreements to increase nonprofit budget flexibility, reduce the administrative & reporting burden, and cover the real cost of program delivery, including proportional overhead. If done well, these changes would help foster social innovation and set an example across the country of effective granting.

As employers and stewards of inclusive and sustainable communities, nonprofits play a critical role in working with governments to build a more collaborative and sustainable economy that works for everyone. An enabling policy, financial, and regulatory framework is urgently needed to help build and scale up nonprofit innovation and community-based enterprises that create and distribute value and wealth in inclusive and environmentally sustainable ways.

Our sector looks forward to being engaged by the Steering Group and the Government of Canada as they explore recommendations in the best interests of Canadians.

Sincerely,



Cathy Taylor, Executive Director