



# Introducing the “Public Benefit Nonprofit Sector”

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How a new identity can better serve  
communities



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# Public benefit nonprofit sector

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What is this sector? Public benefit nonprofits are everywhere, in every community, yet they remain largely unrecognized. While virtually every Canadian knows what a for-profit business is and may think they know what a charity is, few people are aware there are other groups of organizations that also work for the public good. This other group of organizations also does good things for local communities and spends the money they raise exclusively or primarily for the good of their communities.<sup>1</sup>

These organizations (usually lumped together under the term “nonprofits”) do things like provide social housing, operate community sport and recreation leagues, and run social enterprises. They provide a social good to people in communities and spend their money, not in paying profits, but reinvesting in the work they do and their local communities.

Together, these organizations are part of a sector that is vital to the health and wellbeing of our communities, yet is poorly understood because it lacks a clear identity.

When we try to describe them, we use different terms and each has a different meaning or expresses only part of what this sector is about. Let’s take a closer look at each and the connotations they carry:

- *Civil society*: often seen as non-commercial public space and activity
- *Social economy*: an alternative and parallel economy to the commercial economy, such as social enterprises and co-operatives
- *The voluntary sector* highlights the role the sector plays in encouraging people to volunteer their skills and talent to make their communities better
- *The third sector* recognizes the unique role and culture of the sector, but relegates it to third place, a nameless entity in contrast to government and businesses which have clear, well-understood mandates and are at the decision-making tables

Clearly we have a serious identity problem.

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<sup>1</sup> While profit-seeking corporations, including for-profit social enterprises, may spend money for the good of their communities, these efforts are always secondary to the fundamental goal of the corporation to make a profit.

As those of us who work in the sector already know, the sector does all of the above. These organizations help drive the economic strength and stability of our communities. They play an active role in public policy, channeling community voices to hold government and decision makers accountable. They demonstrate the value of care and service to others as a core value of their work. This sector should be part of social and economic decision-making, just as government and the private sector is, charting the way forward for Ontario and Canada.

## **Renaming the sector**

Despite being seriously hindered by this lack of identity, sector organizations share common values that to bind us together into a powerful sector that can provide leadership in today's rapidly changing world.

So, we propose a new name: **public benefit nonprofit sector**.

The "public benefit" language is increasingly being used within the sector to describe the sector and it has resonated with many people.

Why do Canadians need to recognize and understand this sector? We argue that without a clear identity, Canada's legislative, regulatory and policy frameworks fall short of enabling and supporting the sector to undertake its important work.

## **Identifying a public benefit nonprofit sector**

Canadians need to be able to make public policy to support public benefit organizations and need these organizations to thrive.

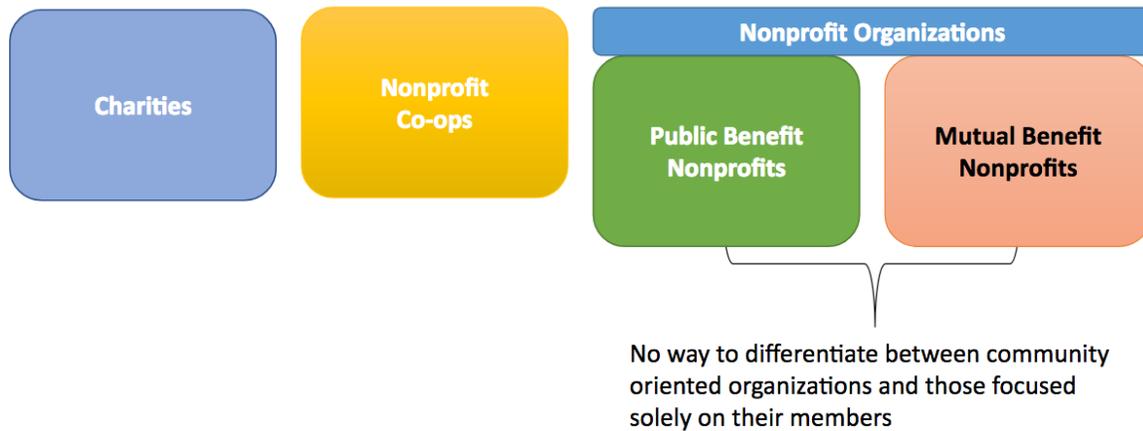
Organizations that work for the public benefit in our communities are a class (or group) of organizations that go largely unrecognized but have a profound impact on our communities and on safeguarding democracy.

Here's what the nonprofit environment currently looks like:

**TABLE 1. The Nonprofit Universe**

## Create a **Public Benefit Designation**

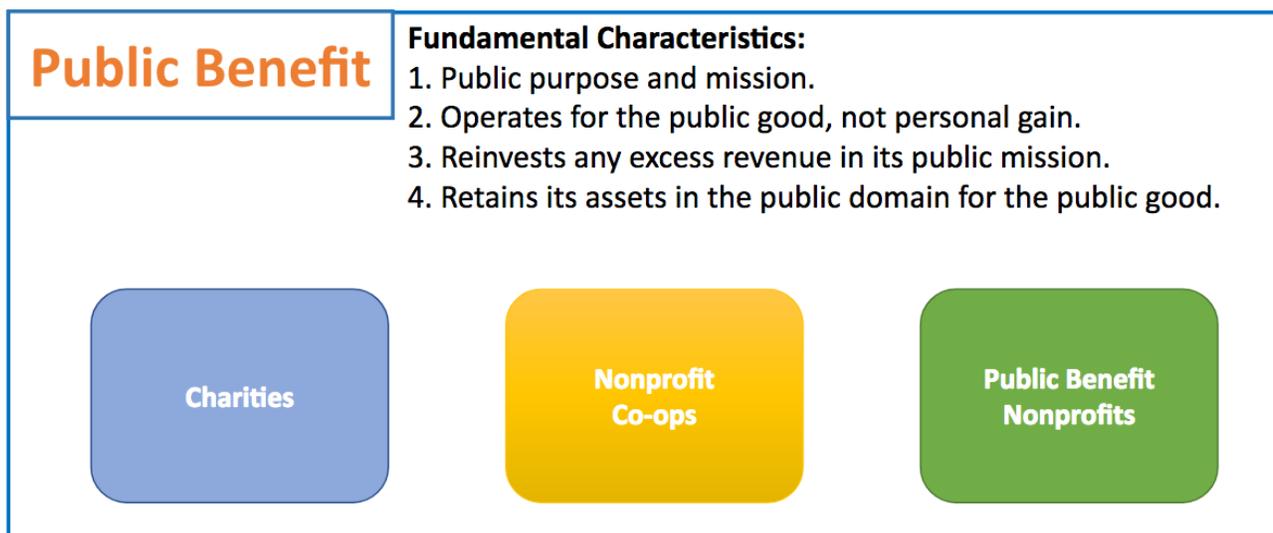
The Nonprofit Universe:



We use the term “public benefit nonprofits” as a way to differentiate from “mutual benefit nonprofits,” which focus solely on serving their members, and can distribute assets to members when they wind up. Examples include condo boards/associations, trade associations, and private clubs. As corporate entities, only charities and nonprofit housing co-ops are clearly defined in government legislation. “Nonprofits” are all lumped together, regardless of whether they serve communities or their members. Under the Income Tax Act, they are called the generic term of “nonprofit organizations”.

Under the public benefit designation, we would be able to clearly identify organizations based on four fundamental common characteristics:

**TABLE 2. Fundamental characteristics of a public benefit organization**



## CANADA'S HIDDEN ASSETS

It is important to understand what public benefit organizations are.

Public benefit nonprofits and nonprofit co-operative organizations are not charities, but they also do good things for local communities and spend the money they raise for the good of their communities. While they do not qualify under the current definition of charity in Canada, they nevertheless exist for the good of their communities.<sup>2</sup>

What they don't do is operate like for-profit businesses, where the objective is to generate profit for shareholders. Instead, their objective is to maximize benefit for the community. Public benefit organizations invest their revenue into their missions.

<sup>2</sup> Canadian charity law relies on a definition of charity originally developed in Elizabethan times – relief of poverty, advancement of religion, advancement of education, other purposes beneficial to the public and analogous to purposes, which the courts have found charitable. Sport and social enterprise are usually not charitable.

For example, if they serve people with disabilities, they put revenue into increased supports and, if they house vulnerable people, they build more accommodation and services.

They are champions for maintaining, restoring and enhancing community resources and assets.

These public benefit organizations are advocates, and speak up for their communities and their mission.

The issues championed by the public benefit sector help make our communities safer, more resilient, and more inclusive. They are an early warning system and, with an ear to the ground, they know when changes or challenges are coming up and can mobilize to respond.

*“Organizations that work for the public benefit are a class of organizations that go largely unrecognized but have a profound impact on our communities and on safeguarding our democracy.”*

Lynn Eakin, ONN Policy Advisor

### **Virtually every Canadian interacts with public benefit organizations in their daily lives**

It is important to note that Canadians are directly connected to public benefit organizations. In fact, 44 per cent of Canadians volunteer (12.7 million people) for public benefit organizations<sup>3</sup> and devoted 1.96 billion hours to their volunteer activities, the equivalent of about 1 million full-time jobs.

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<sup>3</sup> Spotlight on Canadians: results from the General Social Survey volunteering and charitable giving in Canada (M. Turcotte 2013)

## Economic impact

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The public benefit sector is important in terms of its contribution to economic activity and jobs. In Canada, the charitable and nonprofit sector represents 8.1% of Canada's GDP and 10.5% of the labour force,<sup>4</sup> while the co-op sector has over 9,000 co-operatives and \$330 billion in assets.<sup>5,6</sup>

The public benefit sector is a major employer and a leading creator of jobs. Two million Canadians are employed by charities and nonprofits<sup>7</sup>, and a further 150,000 are employed in co-operatives.<sup>8</sup>

Charities, public benefit organizations, and nonprofit co-operatives are governed by volunteers in their communities and are therefore rooted locally. Because they're not for sale and aren't focused on maximizing profits for shareholders, nonprofits invest in and enrich local communities for the long term, which helps to revive economies, rather than enriching the few.

## Social impact

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Even more important than the economic impact is the role and contribution these public benefit organizations play in building and maintaining inclusive, and resilient communities.

It is often public benefit organizations that people turn to when times are tough, to give their lives meaning, to give back to their community, or to find support for overcoming their challenges. Public benefit organizations are the glue that keeps communities together in difficult times.

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<sup>4</sup> [Charities, Sustainable Funding and Smart Growth](#) (B. Emmett, 2016)

<sup>5</sup> The Ontario Co-operative Association, STR05, July 2013

<sup>6</sup> NOTE: Both the charitable and nonprofit data and the co-op data include organizations that are not public benefit organizations as we are defining them in this paper. Some nonprofit organizations only serve a narrow group of members and some co-ops focus on providing services to their members and return surplus revenue to members.

<sup>7</sup> [National Survey of Nonprofit and Voluntary Organizations](#) (Hall et al., 2004) Includes member focused nonprofit organizations.

<sup>8</sup> The Ontario Co-operative Association, STR05, July 2013, includes co-ops that distribute their surplus funds to their members, normally in proportion to the business done by the member with the co-op.

Public benefit organizations are a major buffer against disruptive trends in a changing world. When unemployment, forced migration, poverty, and homelessness rise, public benefit organizations rise to the challenge, providing job training, settlement services, food banks, and housing supports.

It is imperative that Canada support and strengthen its public benefit organizations on the frontlines in communities.

## **Legislation needed to recognize and support public benefit organizations**

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One of the key reasons public benefit organizations are so little understood and underused is the lack of clear identification in both legislation, and regulation. It is impossible to make policy targeted at public benefit organizations because they cannot be easily identified.

Unlike charities which are clearly identified and closely regulated, the other two groups of public benefit organizations are mixed in with organizations that have different interests and objectives.

Public benefit nonprofit organizations are included together with member-focused organizations as “nonprofit organizations”. Yet member-focused groups like professional associations, trade associations, condominiums, and private clubs, have a narrow focus on their members. public benefit organizations such as social enterprises, local sports leagues or cultural organizations have open, inclusive mandates, and provide a public good in the broader community.

Co-operatives also come in two groups, but they are more clearly identifiable as either nonprofit (non-share capital) or for-profit (share capital). For-profit co-operatives have different mandates and needs from social housing co-operatives, nonprofit renewable energy co-operatives (such as SolarShare and ZooShare), or nursery school co-operatives.

# Lost opportunity for communities: We need data on the public benefit sector

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The quality and effectiveness of public policy is dependent on being able to tailor it to the needs of the groups involved. Canadians do not know basic information about public benefit organizations operating in their communities. The 2004 National Survey of Nonprofit and Voluntary Organizations<sup>9</sup> found that half of the organizations were charities and the other half nonprofits. By 2017, 13 years after the last available data on the sector, we have little idea about the current makeup of the sector.

- We do not know how many public benefit organizations are operating in Canada or what activities they are undertaking.
- We do not know how many member-focused organizations are operating and what they look like or who their members are.
- We do not have a profile of nonprofit co-operatives as distinct from for-profit co-operatives.

In the private sector, this lack of data would be unheard of. With the exception of charities, we do not have even basic data. Understanding who is doing what in our communities is essential for sound policy, and legislative development.

## Three things the public benefit sector needs to advocate for

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1. We need to recognize that Canada has a vibrant and critically important public benefit sector operating on common values, providing public good and comprised of charities, public benefit nonprofit organizations, and nonprofit co-operatives.
2. The Income Tax Act needs to be amended to ensure public benefit nonprofit organizations' current uncertain exemption from income tax is secure.
3. Data collection on the size, scope and activities of the public benefit sector must be regular, and ongoing. Canadians need to know, and understand their public benefit sector.

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<sup>9</sup> 2004 was the last year the National Survey of Nonprofit and Voluntary Organizations was done.

Every day, public benefit organizations help Canadians find meaning in their lives and engage in their communities. The public benefit sector is focused on creating better, more vibrant, creative, and inclusive communities. Canada needs a renewed regulatory environment for these organizations to better serve and support Canadians, and communities.

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This is the first in a series of policy papers that will address the need to renew the legislative and regulatory frameworks affecting public benefit organizations, the vital organizations serving our communities, and their residents. In subsequent papers, ONN will address the need for changes to the Income Tax Act to identify and support public benefit organizations, and we'll identify data on the sector needed for planning.

What do you think?

**We want to hear from you! Share your feedback:**

info@theonnc.ca | @o\_n\_n

For more information, visit:

<http://theonnc.ca/our-work/our-regulatory-environment>

## ABOUT ONN

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ONN is the independent nonprofit network, with a reach of over 20,000, for the 55,000 nonprofits and charities in Ontario, focused on policy, advocacy, and services to strengthen Ontario's nonprofit sector as a key pillar of our society and economy.

ONN works to create a public policy environment that allows nonprofits and charities to thrive. We engage our network of diverse nonprofit organizations across Ontario to work together on issues affecting the sector and channel the voices of our network to government, funders, and other stakeholders.

## OUR VISION

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A Strong and Resilient Nonprofit Sector. Thriving Communities. A Dynamic Province.

## OUR MISSION

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To engage, advocate, and lead with—and for—nonprofit and charitable organizations that work for the public benefit in Ontario.

## OUR VALUES

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**Courage** to take risks and do things differently. **Diversity** of perspectives, creativity and expertise to get stuff done. **Optimism** and **determination**. **Solutions** created by the sector, with the sector, for the sector. **Celebrating** our successes and **learning** from our experiences. **Strength** that comes from working **together**.

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