

February 24, 2015

Exploring the Potential of Social Finance in Canada

ONN appearance before the Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities

Thank you for the opportunity to speak with you today about Social Finance and social enterprise.

Our network includes 55,000 public benefit organizations (nonprofit and charities – from arts and culture, sports and recreation, newcomer settlement, housing, faith groups and many more) – reaching almost all Ontarians. (My remarks will be from the lens of the nonprofit sector.)

Across Canada...

- **Core nonprofit organizations** (without hospitals, universities, municipalities and colleges) are **big business**
- We **generate \$35.6 billion** or 2.6% of Canada's GDP and are **one of the fastest growing sectors of the economy** with an annual growth rate of 7.1%.
- **Contrary to common perception, 61.5% of the core nonprofit sector's revenue comes from sales of goods and services and fees.** (15.6% of that is membership fees). Government transfers from the three levels of government comprise only 19.7% of revenue, with charitable donations at 14% and 4% other.)
- **The Public benefit sector in Canada is not waiting for a "handout." In fact, it's just the opposite: the nonprofit sector is comprised of independent organizations that make a significant economic contribution while pursuing their social missions**
- **In a recent survey in Ontario, 88% of social enterprises are operating as nonprofit organizations and an additional 4% are for profit corporations wholly owned by nonprofit organizations. So social enterprise is heavily reinvesting in their communities.**
- **It is this commitment to building strong resilient and inclusive communities, to providing a social good - as opposed to increasing private wealth, that makes social enterprise such a powerful force and one that has such strong support in communities.**

Social Finance and social enterprise has the potential to address growing inequality in communities and play a major role in building community assets and resiliency. We applaud you for considering how to create an enabling environment and we believe the federal government has the ability to lead.

We would like to make the following recommendations to you today:

1. **Focus your work and effort on creating an enabling environment for social finance and specifically social enterprise that builds on the trust the public has for our sector.** To that end, all social enterprise regardless of corporate form or source of revenue must:
 - a. Have a public purpose and mission;
 - b. Operate for the public good, not personal gain;

- c. Reinvest excess revenue in its public mission; and
- d. Retains assets in the public domain for the public good.

2. **Wait and See: Do not develop a dual purpose/hybrid corporate legislation at this time. There is so much else that will provide more return for the time invested.**
 - British Columbia and Nova Scotia have developed dual-purpose legislation and we can learn from their experiment.
 - We believe the current hybrid legislative forms satisfies no one. If it protects community assets, it is too constraining for investors and entrepreneurs and if it meets the need of entrepreneurs and investors it fails to protect community interests.
 - We have very flexible business corporate legislation and we should wait to see how its use evolves.
3. **We urge you to reform and reinterpret the Income Tax Act as it relates to nonprofit corporations especially those providing a public benefit to allow them to be sustainable and grow their businesses.** Current interpretation of the ITA prevents nonprofit organizations from generating revenue on one part of their organization to fund their work in another part, or to build and maintain cash reserves to grow their business. As you well know it is impossible to operate an organization with this kind of limitation and even more impossible to operate a social enterprise with goals of being accessible and inclusive. Revenue that is reinvested back in the mission of the organization is not profit. **Nonprofit and charitable regulation is out of step with what is happening on the ground in communities and desperately needs modernization.**
4. **Don't exclude nonprofit organizations from business support programs: Treat social enterprises operating as nonprofit and charitable organizations as Small and Medium Enterprises (SMEs.)** They need access to the same funding and business supports available to for profit businesses. Currently they are too often actively excluded and ineligible for research and development funding or start up funding and business planning supports that are available for SMEs, and often start as a for profit because as the initial financing is easier to get for this corporate model.
5. **Social enterprises need debt financing that is creative and responsive to their needs. Financing tools such as:**
 - **Slow money** – where there is a grace period before loan interest and repayment is expected.
 - **Long term low interest loans** for things like social housing, and other capital projects.
 - **Unsecured operating capital** for social enterprises. Businesses can get lines of credit to provide cash flow but finance tools as simple as that are not in place for nonprofit social enterprise as typically lenders are not familiar with the model and shy away – even though it is less risky.

Social Enterprises often take considerable time to become profitable as they are filling a void – that has typically not been filled by for profit business because the profit margin is not there. Also social enterprises are often meeting social goals such as employing community members who have otherwise been marginalized and excluded.

- These debt financing instruments are not hand outs nor are they particularly risky but they will deliver more modest financial returns than some for-profit investments and,
- They require investors to have the expertise and knowledge of the NFP sector to evaluate the business case. Quebec has done an excellent job in developing a profitable and steady investment returns from investing in their social enterprises.
- *If topic arises: (A note on Social Impact Bonds: While the complexity and expense of SIBs makes them a niche too - only suitable in specific settings - in this as all cases, we should evaluate SIBs transparently and include multi-partisan evaluators (including nonprofits as well as government and business)).*

6. Develop a Social procurement action plan for the government that encourages companies obtaining government contracts to engage social enterprises as a component of their work. Leverage the purchasing power for government to strengthen communities. Scotland is a leader in this regard.

Thank you so very much for allowing me to present our ideas for strengthening social enterprise and social finance. We would be pleased to provide more detail if you so wish ([A Policy Blueprint for Strengthening Social Enterprise in the Province of Ontario](#)).