Social Innovation in Canada

How the non-profit sector serves Canadians ... and how it can serve them better

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by

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Foreword

Innovation is not just about improving the way we produce and market goods and services. It is also about finding creative ways to address social and economic problems faced by communities or nations – “social innovation.”

In communities, the non-profit sector plays a vital role in social innovation. Both CPRN and the National Survey of Nonprofit and Voluntary Organizations have documented the wide range of activities of this sector, from child care to elder care, from community sports programs to theatre companies, and from employment counseling to protecting the environment.

This report, by Mark Goldenberg, outlines, for the first time, the special role that non-profit organizations play in social innovation, through their deep knowledge of their communities and their ability to work with others to respond to the complex problems facing these communities today. Mark’s report also identifies the challenges that non-profits are facing, in such areas as financing, regulatory constraints, and accountability mechanisms, which need to be addressed in order for the sector to realize its potential as a vehicle for promoting well-being.

The report served as the basis for a Roundtable, convened by CPRN, to develop a vision and action plan for social innovation by the non-profit sector. Participants included people from all parts of the non-profit sector, from all levels of government, foundations and from the research community. The Future of Social Innovation in Canada summarizes the results of that discussion, highlighting a broad consensus on the need to support social innovation by improving the stability of funding for non-profits, broadening the types of financial instruments available to the sector, improving the efficiency of accountability requirements, and reforming the regulatory and tax systems.

I want to thank Mark Goldenberg for his clear outline of the potential role of the non-profit sector in social innovation, his articulation of the key challenges, and his succinct summary of the Roundtable discussions. I would also like to thank the 40 participants for their contribution to the vision for social innovation in Canada. Finally, we are all grateful for the project support from Social Development Canada.

Judith Maxwell
November 2004
Executive Summary

This paper has been prepared for Canadian Policy Research Networks (CPRN) in order to help stimulate a dialogue within the non-profit sector and between it and government on how to best support social innovation in Canada.

The term “social innovation” is used to denote the development and application of new or improved activities, initiatives, services, processes, or products designed to address social and economic challenges faced by individuals and communities.

The non-profit sector has long been a force for innovation in Canadian society. Along with government and the private sector, it has been an important part of the “Canadian model” that has built a prosperous, just and caring society with a high quality of life that has been the envy of the world.

Non-profit organizations can foster and lead innovation at the community level. They bring to social and economic challenges their in-depth knowledge of the community, hands-on experience, flexibility, creativity and responsiveness, entrepreneurial skills, and a holistic approach – some of the very ingredients essential to “social learning” and innovation.

But the non-profit sector is under stress today, at the very time that it is being called on to assume more and more responsibilities in society and when new and innovative solutions are urgently needed to address deep and intractable problems in our communities across Canada. Recent government cutbacks and a new funding regime are hampering the non-profit sector’s ability to serve Canadians and to lead social innovation. The federal Budget of March 2004, however, recognizes the important contribution of the sector to society and the economy, and offers hope that ways can be found to improve support to the sector and help maximize its contribution.

The non-profit sector in Canada is vast and diverse. It includes hundreds of thousands of organizations, employs almost one million people, and calls upon the enthusiasm and dedication of millions of volunteers who contribute one billion hours of time each year. The sector owns important assets, produces a vast array of goods and services, and generates significant revenues. It is active in almost every area of social, economic and community life – in health care, education, economic development, social services, employment, training and skills development, financial services, the environment, culture, the arts and recreation.

The sector is often referred to by different names, including the “not-for-profit sector”, the “voluntary sector”, the “social” or “charitable” sector, the “third sector” and “civil society”. Whatever the term used, organizations in the broad non-profit sector have a number of characteristics in common: they are independent from government; they often have a significant volunteer dimension; they are “non-profit” in that any surplus is plowed back into the mission and activities of the organization; and, above all, they exist to fulfill a public purpose and respond to a societal need, as well as serve their members.
The paper describes four broad categories of organizations within the non-profit sector in Canada:

**Voluntary** organizations are active across Canada at the local, regional, provincial/territorial and national levels and pursue a wide range of social, community, advocacy and public policy interests.

**Community economic development** organizations seek to mobilize local resources to stimulate economic opportunities and enhance the social and environmental conditions of communities.

Organizations in the **social economy** are active in the market place and produce goods and services in order to respond to social and community needs.

**Co-operatives** are organizations that are owned and operated by their members, who use their services, and that pursue both a social and economic purpose in responding to the needs of their members and communities.

The boundaries across these categories are fluid – almost all organizations have a volunteer dimension, and many voluntary, community economic development and co-operative organizations can be considered to be part of the broad social economy.

The non-profit sector has many strengths – deep roots and extensive networks in the community, significant volunteer support, the capacity to mobilize local resources, and the ability to work in horizontal and holistic fashion, linking the social and economic and environmental spheres.

The paper suggests three key ways in which the sector is well qualified to play a leading role in fostering social innovation in Canada:

First, non-profit organizations, given their strengths, can deliver services that the state cannot provide as effectively or efficiently and that the private sector cannot be expected to provide. Governments in Canada are increasingly turning to the non-profit sector to deliver important public services. And the sector provides services, in response to individual and community need, that business is unlikely to offer. Moreover, non-profit organizations can deliver such services in ways that stimulate creativity and foster innovative solutions to complex social and economic problems.

Second, they are able to deliver effective “place-specific” policies. Many of the most significant challenges facing our communities today require locally-driven, community-based and creative solutions that cut across sectors and cut through institutional and jurisdictional barriers, rather than the top-down, “silo” approach of traditional government bureaucracies and programs.
Third, the non-profit sector can help develop social capital and a shared sense of citizenship, and contribute to the working of a healthy and vital democracy in Canada. It provides opportunities and means for citizens to participate actively in society and pursue shared goals. It helps them build networks and relationships, develop skills and share knowledge. Non-profit organizations often speak on behalf of the most disadvantaged in society, providing a “voice for the voiceless”.

In playing these roles, the non-profit sector receives support from a number of sources: funding and tax and other assistance from government at the federal, provincial/territorial, regional, municipal, and local levels; its own revenue-generating efforts such as membership fees, charges for services, and commercial activities; donations from individuals, corporations and foundations; and revenues from “gaming” activities.

Not surprisingly, given the nature of the sector and the roles that it plays in society, government support is the most important of these sources, accounting for some 60 percent of overall revenues. The importance of non-governmental sources varies considerably across the sector. For some organizations, membership dues and fees for services are a significant revenue source. For others, commercial activities are an integral part of their mission and operations, generating important revenues from the production of goods and services. For other organizations, these sources of income may not be possible or even appropriate.

Today, the non-profit sector in Canada is under severe strain in its ability to contribute to social innovation and serve Canadians.

Recent trends in funding from government and others that target short-term projects at the expense of the core on-going activities and services of non-profit organizations, as well as new and onerous reporting requirements, have put many organizations at risk. These trends have also seriously undermined one of the very strengths of the non-profit sector that give it value-added – its capacity to innovate and find creative solutions to societal problems.

Inadequate access to capital financing and start up funding and to support for organizational community capacity building means organizations are unable to fulfill the roles we look to them to play in our communities and the economy.

The current government regulatory regime is also often a hindrance to the work of the non-profit sector.

A new framework for government support is required, founded on a clear and shared vision for the non-profit sector. The paper identifies three important dimensions of such a framework:

One is to get the underlying financial structure right for on-going support to the sector.

A second is to ensure access to a healthy mix of different kinds of funding, to reflect different needs across the sector as well as the needs of government.

A third dimension is to ensure funding modalities that are efficient and effective and provide appropriate accountability to Canadians for results achieved.
Finding effective solutions will require dialogue among all concerned – dialogue between the sector and government, but also dialogue within the sector itself in order for the various movements in it to identify common ground and interests and articulate the kinds of institutional changes that will allow the sector to realize its potential.

In order to facilitate this, the paper suggests a number of issues that warrant further discussion and debate. Key themes for further discussion could include:

- A future-oriented vision for the non-profit sector
- A common understanding of social innovation and the social economy
- The roles and responsibilities of the sector and of government and the private sector
- What the sector itself can do to secure its own future
- A new framework for government support to the sector
- How to enhance non-governmental supports for the non-profit sector

It is hoped that further discussion and dialogue on these and other issues will help define the way forward for the non-profit sector to play a unique and vital role in social innovation and support sustainable social, economic and community development in Canada.
Introduction

The rise of social entrepreneurship can be seen as the leading edge of a remarkable development that has occurred across the world over the past three decades: the emergence of millions of new citizen organizations.¹

Every day of the year, millions of people living in every part of Canada benefit from the work of hundreds of thousands of dedicated organizations providing tangible services that are essential to our quality of life – in health care, education, the economy, social services, employment, the environment, the arts, culture, recreation, and virtually every area of daily living.

This is what is known as the “non-profit” sector in Canada. It is composed of groups and organizations that have deep roots in our communities and are a vital part of our economy, of our culture, of how we live and work and play, and how we relate to each other.

Throughout Canada’s history, the non-profit sector has been a powerful force for social innovation. The term “social innovation” is used in this paper to denote the development and application of new or improved activities, initiatives, services, processes, or products designed to address social and economic challenges faced by individuals and communities. The role of the non-profit sector in social innovation dates back to the earliest hospitals established by the church in Quebec City and Montreal. In the 20th century, the church was joined by many thousands of charities and non-profit organizations working to better their communities. Together, their efforts have resulted in many innovations that have since given rise to the public programs in the health, education and social areas that Canadians value so highly.

Today, as in the past, we rely on non-profit organizations of many types to step into the breach to strengthen our communities, help vulnerable people, enrich our lives with cultural and recreational activities, and to continue to innovate and lead the way in developing new and effective ways of meeting the social and economic challenges faced by Canadians.

Fostering Social Innovation in Canada

Two decades of economic restructuring, the globalization of competition, and rapid technological change have combined to create a world of great uncertainty and complexity. Not surprisingly, governments and citizens now place a premium on generating new knowledge to tackle unfamiliar problems. The need to replace inefficient, unsustainable practices with intelligent, responsible ones crosses organizational boundaries. Simply put, innovation – applying the best ideas in a timely fashion to emergent problems – is an urgent priority in the private, public and voluntary sectors.

Today, the importance of innovation extends well beyond the economy and the workplace. Many of society’s greatest challenges – from achieving ecological balance to creating meaningful employment for all citizens – equally demand new thinking, organizational creativity, and institutional adaptation.

The non-profit sector is uniquely well positioned to be a key driver of social innovation in Canada. Many of its strengths are in fact the very characteristics and factors that are essential ingredients of the innovation process.

Current thinking on innovation emphasizes the importance of different kinds of knowledge. “Know-how”, the skills to carry out certain actions, and “know-who”, information about who knows what to do and how to do it, are understood to be as important as “know-what” and “know-why”. Put another way, “tacit” knowledge, knowledge derived from experience and mutual learning, is understood to be as important as “codified” knowledge.

It is just this kind of knowledge and learning that is found in communities and that is fostered by the work of non-profit organizations in those communities:

Grassroots community organizations represent a major infrastructure for innovation at the local level. They make use of the expertise and commitment of local citizens, mobilizing them to contribute to their community. That volunteer effort is a huge resource to Canada’s productivity and well being. Volunteers are a source of innovation and action. They transform knowledge into opportunity for all our communities and their citizens.

These social and interpersonal aspects of innovation are increasingly being recognized and understood to be critical to the innovation process. People play a key role in the innovation process as the “creators and carriers” of knowledge. And community-based organizations – with the tremendous human resources that they can mobilize, both through volunteers and paid professional staff – can play an important role in fostering this “social learning” and providing a context and venue for innovation.

Collaboration across sectors is another important ingredient of innovation, as are flexibility, adaptability and responsiveness. “In order to promote an appropriate context for innovation, organizations must be more fluid, inclusive and responsive”. Again, these are some of the strengths of non-profit organizations.

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3 Torjman, Sherri and Leviten-Reid, Eric, Innovation and CED: What they can learn from each other, Caledon Institute of Social Policy (2003), p. 29.
5 Torjman and Leviten-Reid.
6 Ibid.
The entrepreneurial nature of many non-profit organizations is a further essential ingredient of innovation. While the community economic development, social economy and co-operative movements require and place a premium on entrepreneurial skills, these exist and are valued in all parts of the non-profit sector.

All this means that the non-profit sector is well suited to play a key role in fostering social innovation in Canada in order to address the challenges faced by our cities and communities:

Innovative cities and regions are those places that organize themselves to make the most of their local assets. They demonstrate an institutional capacity to engage civic, business, social, and intellectual leaders in implementing strategies that enhance the quality of life for all members of the community.

. . . The overarching message is clear: it is often in cities that today's increasingly wicked problems are most visible, and, further, it is only by engaging local actors themselves that durable and legitimate solutions can be found. Sustainable innovations flow from networked relations that include a broad cross-section of state and societal actors in learning what works in a particular place and how to make it happen.

. . . These new understandings provide the foundations for an emerging policy paradigm of community-based innovation.⁷

**Supporting the Non-profit Sector in Social Innovation**

Recently, however, as governments have cut back on their commitments and economic times have been hard, the sector has come under intense stress. At the same time as non-profit organizations are being asked to take on new responsibilities, their access to funding has become increasingly unstable and burdened with ever-greater reporting requirements. Not surprisingly, their capacity to innovate is being sorely tested.

In this context, the federal Budget of March 23, 2004 represents an important step forward in recognizing the contribution of the sector to social innovation:

> Mr. Speaker, every day, in towns and cities across Canada, there are millions of people who make our country stronger, our lives richer and our future brighter by giving back to their communities. One way they do it is through the "social economy." Social economy enterprises are organizations that run like businesses, producing goods and services, but which manage their operations on a not-for-profit basis. Instead, they direct any surpluses to the pursuit of social and community goals. The social economy is too often overlooked and under-appreciated. This government will take steps to encourage the development of the social economy, support its aims, expand its efforts.⁸

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⁷ Bradford, Cities and Communities that Work.
⁸ Minister of Finance, Budget Speech, (March 24, 2004).
The Budget announced a number of initiatives relating to the non-profit sector:

- Continued funding for the next two years for the Voluntary Sector Initiative to “strengthen the sector’s capacity to collaborate and innovate”;
- Two-year funding for “strategic planning and capacity building of community economic development organizations”;
- $100 million over five years to support financing initiatives for the social economy, including regional patient capital funds and increased lending;
- A new Not-for-Profit Corporations Act, and a commitment to explore the concept of a Bank for the charitable sector.⁹

These four commitments are relatively small in the context of the overall Budget. However, they are very challenging for the federal public service to implement because they suggest models and machinery which do not now exist. And they are challenging to the non-profit sector because many organizations are not accustomed to the language of entrepreneurship and innovation.

The purpose of this paper is to stimulate a dialogue within the non-profit sector, in all its diversity, and between the sector and government¹⁰, in order to do two things:

- To begin to imagine the future for citizen organizations working at the community level; and
- To provide a framework to help in the implementation of the federal Budget 2004 measures and guide the development of further initiatives for future Budgets, and to assist all the various “players”, including other levels of government, in more effectively addressing challenges at the community level.

The paper proceeds as follows. The next section presents an overview of the non-profit sector and its different components. The following sections discuss the policy rationale for government to begin to build a different relationship with the sector, and outline some of the issues to be addressed in improving support to the sector in order to maximize its contribution to social innovation. The paper concludes with a series of questions to be worked through in future dialogue.

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¹⁰ Note that while the paper uses “government” in the singular throughout the text, this is intended to refer to the multiple orders of government in Canada – federal, provincial, territorial, regional, municipal, and local. An important issue to consider is the different roles played by the different orders of government in relation to the non-profit sector, and the implications of this for support for the sector.
The Non-profit Sector in Canada

...non-profit organizations... are at the leading edge of community service and in reaching out to people who would otherwise be left on the margins of society. In doing their jobs well, they are doing much good for Canada. All Canadians therefore have an interest in seeing non-profits operate on a sustainable basis for the long-term.11

Canada’s “non-profit” sector consists of thousands of organizations, groups and agencies that work at the local, regional, provincial/territorial and national levels to provide a multitude of services and supports to Canadians in almost every field of human endeavour. The sector is extraordinarily vast and diverse, with many differences across the country and across areas of activity and interest.

But what is the non-profit sector? What does it do and how does it serve Canadians?

What We Mean by the “Non-profit” Sector in Canada

While this paper refers to the “non-profit sector”, many different terms have been used to describe the sector, or components of it. Sometimes the term “not-for-profit” is used instead of “non-profit”. The sector is frequently referred to as the “voluntary sector” or the “charitable sector”, although the degree of volunteer involvement in non-profit organizations varies considerably across the sector and many non-profit organizations do not have charitable status. The “social sector”, the “third sector”, the “independent sector”, and “civil society” are other terms that are often used to describe the sector. A recent book (2004) on social entrepreneurs uses the rather attractive term “citizen sector”.12

By its very nature, the non-profit sector defies simple definition and easy categorization. The boundaries between it and the public and private sectors – and within the sector itself – are often blurred and ambiguous.

International researchers, academics and practitioners have identified a number of key characteristics of the sector.13 Notably, in the Johns Hopkins non-profit sector project14, Lester Salamon identifies the following characteristics, which are recognized by most researchers and commentators:

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12 Bornstein.
13 See, for example, the Voluntary Sector Initiative (VSI), An Accord Between the Government of Canada and the Voluntary Sector (December, 2001); National Survey of Nonprofit and Voluntary Organizations, The Capacity to Serve; Statistics Canada, Workplace and Employee Survey (WES) (1999), Business Register and the National Survey of Giving, Volunteering and Participating (NSGVP); and Jack Quarter, Laurie Mook, and Betty Jane Richmond, What is the Social Economy?, Centre for Urban and Community Studies, Research Bulletin #13 (March, 2003).

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• Non-profit organizations are “non-governmental” in that they are “institutionally separate” from government, although they may and do receive government funding.
• They are autonomous and self-governing, controlling their own activities.
• They have some degree of formal organization and internal structure and governance.
• While they may accumulate a surplus in any given year, they are “non-profit” in that they generally do not distribute any profits they generate back to their owners or directors; instead, any surplus is plowed back into their basic mission and activities.
• They are “voluntary” in that they have a meaningful degree of volunteer participation in their operations and management, on their board of directors and/or through volunteer staff and contributions.
• And, perhaps most importantly, the organizations exist to serve a public benefit and purpose and respond to a public need.

Some of the literature on the non-profit sector includes hospitals, schools, colleges and universities and similar organizations as part of the sector. However, these may also be considered to be quasi-public institutions that are financed and controlled by government – the so-called “quango” sector (quasi-autonomous non-governmental organizations). The term “non-profit sector” as used in this paper does not include such organizations.

It should also be noted that while the non-profit sector includes organizations representing and serving First Nations and Aboriginal Peoples in Canada, this paper does not discuss specific issues relating to their particular context and situation.

The Size and “Reach” of Canada’s Non-profit Sector

A few statistics illustrate the size and importance of the non-profit sector in Canada:

• Almost one in three Canadians (31.4 percent) over the age of 15 – some 6.5 million people – volunteer each year for a charitable or non-profit organization. This represents over 1 billion hours of volunteer work, or the equivalent of over half a million (580,000) full-time jobs.

15 See, for example, Saunders, and Quarter et al
16 Much of the data on the size of the non-profit sector is drawn from Statistics Canada’s Workplace and Employment Survey (WES) (1999) and Business Registry, as cited in various sources. It should be noted that the WES includes only workplaces with at least one paid employee. It does not include information on the numbers of volunteers who work in those organizations, and it does not include information on workplaces run entirely by volunteers.
Close to eight out of ten Canadians (78 percent) – some 22 million people – make financial donations to charities, totalling almost $4.5 billion annually.\(^{18}\)

Almost a million Canadians (over 900,000) are employed in non-profit organizations. This represents about 8 percent of all paid employees in Canada.\(^{19}\) Total payroll expenditures by non-profit organizations are over $22 billion a year, representing a very significant contribution to our economy.\(^{20}\)

There are an estimated 180,000 non-profit organizations in Canada, including 80,000 charities and hundreds of thousands more community and volunteer groups that are not incorporated.\(^{21}\) There were close to 96,000 non-profit entities listed in Statistics Canada’s Business Registry in 2002, including 15,000 non-profit organizations within government (including hospitals and educational institutions) and over 80,000 non-profit organizations outside government. Non-profit organizations with paid employees numbered almost 60,000.\(^{22}\)

For the purposes of this paper, four broad categories are used to describe organizations in the non-profit sector in Canada, recognizing that there are not “hard-and-fast” distinctions among them, and that commonalities among organizations may be more important than the differences suggested by these categories:

- The voluntary sector
- Community economic development
- The social economy
- Co-operatives

Each of these is discussed below.

**The Voluntary Sector**

This paper uses the term “voluntary sector” to describe the host of citizen organizations that exist across Canada at the local, regional, provincial/territorial and national levels and pursue a wide range of community, advocacy, and public policy interests.


\(^{19}\) Saunders; McMullen and Shellenberg.

\(^{20}\) Saunders.

\(^{21}\) Accord, p.3. One estimate, assuming that there are about 30 non-profit organizations per 1,000 population, is that there may be in the order of 870,000 such organizations in Canada. See Michael Hall and Keith Banting in Keith Banting (ed.), *The Nonprofit Sector in Canada: Roles and Relationships*, Queen’s University Press (2000), p. 11.

\(^{22}\) McMullen and Schellenberg, p. 18-19.
“Voluntary organizations” embody all of the characteristics described earlier for the non-profit sector as a whole. The distinction that is made in this paper between voluntary organizations and non-profit organizations involved in community economic development, the social economy or the co-operative movement is that the latter operate much more in the economic sphere than the former, employing economic means to social ends.

Using international classification frameworks\(^{23}\), we can talk about three broad categories of voluntary organizations in Canada:

*Health, education and social services.* This includes organizations and agencies that provide services in community health clinics as well as nursing homes and residential care facilities. A large number of social agencies working in areas such as individual and family services, childcare and food and emergency relief are included in this category. It also includes education-serving organizations such as literacy groups and research organizations; the number of such organizations is however quite small, as educational services in Canada are mostly provided through elementary and secondary schools, colleges and universities which as noted earlier are quasi-public institutions.

It is estimated that there are some 24,000 organizations working in this sector, with almost 535,000 employees.\(^{24}\)

*Culture and recreation, and business, labour and professional associations.* This includes organizations working in the arts, entertainment, culture and recreation, including performing arts companies, museums, summer camps, and sports clubs and organizations. Business and professional associations are also included in this category as well as labour unions and charitable or philanthropic foundations. Some 23,000 organizations work in this sector, with almost 200,000 employees.\(^{25}\)

“Other”. Inevitably, large numbers of organizations don’t fall easily into broad general categories such as the foregoing. These include organizations active in economic, social and community development; in housing; in employment-related supports and services and training; in legal services; in civic and local issues; in the religious and political areas; in international issues; in environmental issues; in animal protection – just to name a few! Over 11,000 organizations are active in this sector, with almost 160,000 employees.\(^{26}\)

\(^{23}\) Saunders, p. 11-12.

\(^{24}\) Based on Statistics Canada’s [Workplace and Employee Survey (WES)](https://www150.statcan.gc.ca/n1/pub/71-236-x/71-236-x2004007-eng.htm). Includes only organizations with paid employees.

\(^{25}\) Ibid.

\(^{26}\) Ibid.
Non-profit organizations are diverse in terms of size as well as range of activities. Small organizations predominate in the non-profit sector, as in the for-profit sector. Over half of organizations with paid employees have fewer than five employees, and almost three-quarters have less then ten. Only about 5 percent have fifty or more employees. Employment in the non-profit sector is heavily concentrated, with half of all employees found in organizations with fifty or more employees and 20 percent in organizations with between twenty and fifty employees.\(^{27}\)

The voluntary sector in Canada is thus quite broad and encompasses a vast array of organizations. The term, moreover, is often used interchangeably with the “non-profit” sector.

This paper, however, includes organizations active in community economic development, the social economy and the co-operatives movement in separate categories of the overall non-profit sector. Each of these is discussed below.

**Community Economic Development**

*Community economic development is local action to create economic opportunities and enhance the social and environmental conditions of communities.* \(^{28}\)

*In a nutshell, the goal of CED is to promote social well-being through the creation of local economic activity. CED creates economic opportunity by forming new businesses and/or by enhancing knowledge and skills to meet the demands of existing jobs.* \(^{29}\)

Community economic development can be described as people organizing themselves to take action in the community where they live to create economic opportunities and improve social conditions on a sustainable basis. Its fundamental tenet is that the problems facing communities – unemployment, poverty, job loss, the quality of the environment – must be addressed in a holistic way that involves citizens themselves in finding solutions.

Community economic development organizations share most of the characteristics described above that are common to the non-profit sector. What distinguishes these organizations from others in the sector is their focus on local economic development – structural economic change, labour market development, local ownership of resources, environmental stewardship, and access to capital – and the application of business economic skills and methods in addressing social and community concerns. What distinguishes them from organizations in the private sector is their non-profit nature \(^{30}\) and their pursuit of social and environmental objectives as well as economic ones, with a particular concern for the disadvantaged and marginalized in their community.

\(^{27}\) Saunders.

\(^{28}\) Canadian Community Economic Development Network (CCEDnet), *Strengthening Canada’s Communities: Towards a New Community Agenda* (2003)

\(^{29}\) Sherri Torjman and Eric Leviten-Reid, *Innovation and CED: What they can learn from each other*, Caledon Institute of Social Policy.

\(^{30}\) While this paper focuses on the non-profit component of community economic development, it should be noted that CED can and does include for-profit organizations and businesses.
Community economic development organizations share a number of characteristics (Torjman and Leviten-Reid). They are rooted in the community and seek to mobilize local resources and skills; their focus is on building communities from within rather than looking elsewhere to drive economic development. Participation from the community, and accountability to local citizens, are essential elements of how they operate. The goods and services produced by these organizations, as well as any profits, are shared among community members as equitably as possible. “Profit is seen as an instrument of development rather than the objective of development”.31

The businesses created through community economic development take different forms, including private companies, partnerships and cooperatives. Economic activity is extremely varied, and can include tourism, home ownership, commercial and industrial development, community infrastructure improvements, consumer and producer cooperatives, business incubators, and support to individuals or businesses through micro-loans and other kinds of financing, resource centres, mentoring programs and marketing activities, community planning and training and technical assistance.

Equally important is what may be called the social dimension32 of community economic development. This, again, takes many forms – affordable housing and basic education; employment and learning opportunities; transportation and childcare; economic development in rural or remote regions; and other activities directed at disadvantaged and marginalized segments of the population, including people who experience difficulties finding jobs, youth, persons with disabilities, and single parents.

A recent survey by the Canadian Community Economic Development Network (CEDnet) paints a comprehensive picture of the organizations in this sector.33

There are estimated to be well over 3,000 organizations or initiatives involved in community economic development. Although they are active in every province, territory and region, community economic development organizations are more concentrated in regions outside of Ontario and Quebec, relative to the distribution of Canada’s population, and in rural areas. While almost one-third of organizations have been in operation for more than 15 years, the majority are relatively young organizations, with over half having come into existence in the last 10 years. Recent growth in the sector has been especially strong in British Columbia and the Atlantic provinces. Most organizations are small (77 percent of those surveyed have 10 staff or less, over half had less than 6 staff), and rely on volunteers in the community, with volunteer involvement being particularly high in the Prairies and Quebec. The ratio of full-time equivalent staff to volunteers is estimated to be 1 to 5.6; organizations reported involving over 19,000 volunteers, which would indicate that they have about 3,500 paid full-time equivalent staff.

31 Torjman and Leviten-Reid.
32 Ibid.
33 Nicole Chaland and Rupert Downing, Profile of Community Economic Development in Canada, CCEDnet (October, 2003).
Community economic development is increasingly seen worldwide as an innovative and effective approach to dealing with economic and social challenges. Examples abound of success stories in Canada; a recent (2002) evaluation of the Community Futures program in Western Canada found that community enterprises created 30,000 jobs and generated revenues of almost $1.5 billion between 1995 and 2001, and that every dollar of operating funding provided under the program in Western Canada saw between $65 and $81 in client revenues.\textsuperscript{34}

A recent study on community economic development concludes that:

CED is gaining momentum as an alternative development model that involves disadvantaged communities, neighbourhoods and populations in economic development strategies on a much greater scale than traditional public sector development approaches. Indeed, community economic development is not only more inclusive of marginalized people and populations, but [fosters] sustainable, locally-led approaches to community economic revitalization that are increasingly understood as essential elements of effective social and economic development around the world.\textsuperscript{35}

**The Social Economy**

The “social economy” has attracted attention recently, and there is growing recognition of the important role that it can play both in generating employment and in providing essential social services.

. . . The people who are dedicated to these efforts understand the power of the social economy. The people themselves represent a powerful social resource, and it is high time that the federal government recognizes this. We intend to make the social economy a key part of Canada’s social policy tool kit . . .

*Over the course of the next year we will work with these groups to develop the tools they require. Just as entrepreneurs are essential to a strong economy, social entrepreneurs are essential to strong communities, and they require our support.*\textsuperscript{36}

The Prime Minister of Canada, The Right Honourable Paul Martin

There are differing definitions and understandings of what is meant by the social economy, both in Canada and internationally.\textsuperscript{37} While the concept is well established in much of Europe and Japan, in Canada until recently the term has been used primarily in Quebec - indeed, some observers speak of a “Quebec model” of social economy.\textsuperscript{38} The terms “third sector” or “voluntary sector”, while not synonymous with the social economy, have been more prevalent in the rest of Canada and elsewhere in North America.

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\textsuperscript{34} CCEDnet, *Strengthening Canada’s Communities, Towards a New Community Agenda.*


\textsuperscript{36} Reply to the Speech From The Throne (February 3, 2004).

\textsuperscript{37} For further discussion about the definition of the social economy, see the Chantier de l’économie sociale, *Osons la solidarité* (1996); William Ninacs, *A Review of the Theory and Practice of Social Economy / Economie sociale in Canada*, Social Research and Demonstration Corporation (SDRC) (2002), and Community-based Poverty Reduction: The Québec Experience, Caledon Institute of Social Policy (2003); Eric Shragge, Peter...
Some researchers and observers have, in fact, used the term social economy to encompass all organizations and enterprises that are present in the market place, produce goods or services, and serve a social purpose. One international centre on the social economy describes it as including co-operatives, mutual associations and foundations and other institutions that are “... based on the values of economic activities with social goals, sustainable development, equal opportunities, inclusion of disadvantaged people, and civil society”.\(^{39}\)

In this sense, the social economy includes almost all of what is commonly referred to as the non-profit sector, including voluntary and non-governmental organizations, community economic development organizations, and cooperatives.\(^{40}\)

There is much that is attractive in using a broad definition of the social economy. It reminds us that all social organizations, while their primary purpose may be to meet a social or community objective or need, have economic value: they employ people, they produce or purchase goods and services, they own valuable assets, and contribute to the economy in myriad ways.

In its narrower sense, the social economy is about the use of business and entrepreneurial means by organizations operating in the market place to pursue social ends.\(^{41}\) It is centred around addressing community and individual needs through the work of non-profit organizations that provide social and other services and are also involved in a broad array of economic activities, including: the creation of stable employment, particularly for the disadvantaged; the production of goods and services that respond to unmet needs; and the provision of training and technical and financial services. The key characteristics of organizations in the sector are: an emphasis on service to members and the wider community, rather than profits and revenue generation; the equitable sharing of surpluses and revenues; the active participation of the community in their operations; a democratic decision-making process involving users and workers; and autonomous management separate from government.\(^{42}\)

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Ninacs.


\(^{40}\) Ninacs (p.7) identifies credit unions, co-operatives, new social enterprises, foundations and charities and non-profit organizations as all being “unequivocal components of the social economy”, while noting that economic self-help groups and benevolent associations were “uncertain” components, requiring case-by-case analysis. Quarter *et al.* see the social economy as including public-sector non-profit organizations, market-based social organizations and civil society organizations. It should also be noted that even in Quebec, where the concept of the social economy is most developed in Canada, there are differences of opinion as to the scope and definition of social economy, for example, whether “les composantes non marchandes” (i.e., organizations that do not sell goods and services on the market) should be included or not. See, for example, Yves Vaillancourt, François Aubry, Muriel Kearney, Luc Thériault and Louise Tremblay, *The Contribution of the Social Economy Toward Healthy Social Policy Reforms in Canada: A Quebec Viewpoint*, École de travail social, Université du Québec à Montréal (2004).

\(^{41}\) See Chantier de l’économie sociale, *L’économie sociale et le Ministère de la Culture et des communications. Quelques éléments de définition et de problématique* (June 2002): “L’entreprise d’économie sociale est issue d’initiatives du milieu. Située dans le secteur marchand et revêtant un caractère entrepreneurial qui s’articule autour d’une finalité sociale . . . ”.

\(^{42}\) Chantier de l’économie sociale, *Ibid*; see also *Osons la solidarité* (1996). See also MacPherson, p. 3. As noted earlier, some community economic development organizations are for-profit organizations. Ninacs notes (p.9-
Social economy organizations are active in a wide variety of fields, including childcare, social housing, homecare, youth services, tourism, culture, the environment, and waste management.

Some observers have suggested that a distinction between the social economy and the voluntary sector is that the former is about “working with others to solve a common problem” and is concerned with the “self-interest of members and stakeholders (notwithstanding its collective nature)”, while voluntary organizations are about “helping others in need” in support of the “general interest” of the population.\textsuperscript{43}

Arguably, one can distinguish between the community economic development and social economy sectors by saying that the former operates \textit{primarily} in the field of economic development, albeit in support of social goals and concerns, while the latter has social goals and concerns as its primary mission while operating in the economic sphere to achieve them.\textsuperscript{44}

A detailed statistical portrait of the social economy sector in Canada is not available. Given the ambiguity of boundaries and definitions across the non-profit sector, the statistics cited earlier in this paper regarding the voluntary sector and community economic development also include data for the social economy. Some statistical data is available for the social economy sector in Quebec, where the sector is the most recognized and developed.\textsuperscript{45} Although estimates vary depending on the definition of the sector that is employed and the source of data, the social economy in Quebec today includes:

- a total of an estimated 7,200 entities, numbering almost 125,000 paid employees;\textsuperscript{46}
- over 900 credit unions and financial services cooperatives (\textit{caisses populaires} and \textit{caisses d’épargne});
- some 150-200 production cooperatives, concentrated in the forestry and food industries;
- over 200 worker cooperatives, the majority in the forestry and homecare sectors;
- some 100 homecare enterprises offering services to 35,000 people across Quebec and employing some 3,800 persons;
- over 900 childcare centres and agencies and over 100 youth job cooperatives;
- some 1,200 housing cooperatives and non-profit enterprises (excluding municipal low-income housing units);

\textsuperscript{10} that some social economy organizations may “only partially” meet some of the generally accepted criteria for non-profit organizations with regard to the distribution of any profits and the participation of volunteers.

\textsuperscript{43} Ninacs.
\textsuperscript{44} Ninacs, p. 25 notes that some observers see community economic development as a subset of the social economy.
\textsuperscript{45} See Ninacs, Review of the Theory and Practice of Social Economy and Community-based Poverty Reduction, Chantier, L’économie sociale et le Ministère de la Culture et des communications. Vaillancourt et. al. count an additional 4,000 organizations and 35,000 employees when non-commercial organizations are included.
an unknown but considerable number of non-profit businesses in other fields such as the arts, leisure, recycling, training and skills development, and consumer cooperatives.

The social economy is seen as making a significant – and growing – contribution to economic and social development in Canada and around the world, although precise measures of its impact and contribution are not readily available.

The European Commission, for example, estimated in 1995 that there was potential for the creation of an additional 140,000 jobs in member countries in 17 labour-intensive areas such as homecare, childcare, youth services, housing, public transport, and the environment.47

While a comprehensive cost-benefit analysis of the benefits of public investment in the social economy sector in Canada is not available, numerous case studies have documented a significant return-on-investment.48

For example, a study of labour-sponsored investment funds in small- and medium-sized enterprises in Quebec through the Fonds de Solidarité found that, when direct and indirect employment and tax revenues generated are considered as well as savings in employment insurance and welfare costs, all taxpayer costs were repaid within 2-3 years. Similar findings were noted in a study of British Columbia’s Working Opportunity Fund. A study of a Waterloo university housing cooperative done by the Ontario Institute for Studies in Education (OISE), using an “expanded value-added statement” approach, found that the residence produced net financial and social value-added of $3.16 million, including both primary outputs (housing units and services) and secondary benefits such as skills training for members. Similarly, a study of a Vancouver affordable housing initiative demonstrated significant return-on-investment when direct, indirect and induced tax revenues are considered against government tax expenditures.

In concluding this discussion we would do well to remember the use of the term social economy in its broader sense, as noted at the beginning of this section, and the potential that it holds for Canada and Canadians:

*The social economy makes a significant contribution in enhancing the “Canadian face” around the world. It fits the image of inclusiveness, basic democratic values and capacity for consensus that many Canadians like to be known for...*

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47 Ninacs, p. 30.
If one groups together all the institutions that could fit within the Social Economy into a single category, then it amounts to an important part of the Canadian economy. If one anticipates the role that it might play in the future, then it could become a significant resource in helping to resolve many of the social and economic issues confronting Canada today. It offers ways to mobilize resources now only partly employed. The Social Economy framework offers a way to think about government policy that seems to be working very well in Europe and in Quebec. It perhaps offers a way in which more Canadians might usefully think about some of the country’s more pressing issues, particularly in the field of social health and community-based responsibilities. It offers mechanisms that, if nurtured properly, can provide the kinds of personal and community and individual empowerment widely sought after today; it offers frameworks that have built-in systems of accountability if they are developed and sustained properly.49

Co-operatives in Canada

Co-operatives and credit unions recognize the importance of people and communities defining their own needs and working together to meet those needs. They are a powerful and democratic way to put decision-making into the hands of those who need and use the services. Co-operatives and credit unions are directed locally and invested in locally. Surplus profits are returned to the members and, therefore, remain within the community.50

The Co-operative movement has a long tradition in many parts of Canada, and is closely related to community economic development and to the social economy.51

It has been said that “at the core of every co-op’s history is an unmet need”.52 The movement has been described as “a marriage of social and economic activity in a co-operative structure” to pursue social ends through economic tools.53

The International Co-operative Alliance defines a co-operative as “an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise”.54

Co-operatives are organizations that are owned and controlled by their members, who use their services. Co-operatives are in the marketplace but give primacy in their activities to the needs of their members and the quality of life of the community; they serve both a social and an economic purpose; and share any surplus profits. They are involved in the production of goods or services in all sectors of the economy, including healthcare, housing, groceries, retail, financial and insurance.

49 MacPherson, p. 28 and 31.
50 Canadian Co-operative Association, www.coopscanada.coop
51 While this paper identifies co-operatives as a sector, many co-operatives can be considered to be part of one or both the social economy and community economic development sectors. At the same time, other co-operatives may not be; for example, several large financial co-operatives in Quebec while not part of the Chantier de l’économie sociale can be considered to be part of the social economy, broadly speaking.
53 Ibid.
54 International Co-operative Alliance, www.ica.coop
Co-operatives are guided by seven internationally recognized key principles: voluntary and open membership; democratic member control; economic participation by members; organizational autonomy and independence; an emphasis on education, training and information; co-operation among co-operatives; and concern for the community.

Co-operatives have long played an important role in Canada in meeting the social and economic needs of individuals and communities. Historically, they have been at the forefront in the generation of programs and services now considered an essential part of our social system. For example, Medicare grew out of health-insurance strategies developed in Saskatchewan; co-operatives developed by farmers in Western Canada were the precursors of agricultural marketing now undertaken through the Canadian Wheat Board; and housing co-operatives remain the most successful and cost-effective means of providing quality low-cost housing. A recent publication (2004) on co-operatives in Canada concludes that “In short, the earliest forms of public health insurance, public education and public housing in Canada were provided by co-operatives for their members. These social innovations were later adopted by governments and transformed into universal programs”.

Co-operatives in Canada are active in virtually every economic sector. Financial co-operatives have the largest number of members among co-operatives in Canada, nearly 10 million and the largest assets (over 94 billion). Service co-operatives are the most numerous (3,700), while marketing co-operatives have the largest annual volume of business (over $10 billion).

In all, it is estimated that there are over 10,000 co-operatives and credit unions in Canada:

- In over 900 Canadian communities, a credit union is the only financial institution.
- There are some 2,100 non-profit housing co-ops that provide housing to a quarter of a million Canadians in 90,000 households.
- Fishing co-operatives have 8,000 individual members.
- There are approximately 400 daycare and childcare co-ops in Canada.
- Canadian co-operatives and credit unions employ over 160,000 persons and have combined assets of almost $170 billion.
- One in three Canadians is a member of a credit union or a co-operative, and each year 70,000 Canadians volunteer their time in these organizations.
- Collectively, co-operatives provide services to over 10 million Canadians.

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55 Canadian Co-operative Association, [www.coopscanada.coop](http://www.coopscanada.coop)
58 Ibid.
59 Ibid.
It should be noted that the data earlier in this paper about the size and economic impact of the non-profit sector overall and of community economic development and the social economy also include data on co-operatives in Canada.

Co-operatives are generally considered to be “on the commercial/economic end of the social economy continuum”, although the emergence of new “social co-ops” has also been noted, organizations that are engaged in the provision of health and home care, social services, education, and recreation as well as employment and training to disadvantaged groups. Such co-ops have been described as often being “the biting edge of the Social Economy.”

The potential of co-operatives to contribute to social innovation in Canada, including providing alternative means for the delivery of public services, is increasingly being recognized:

Currently, co-operatives are addressing many issues that are major challenges in Canada or in parts of Canada. These include developing information systems in healthcare, dealing with downloading and redistribution of responsibilities for sewage and water systems, maintaining prescription drug plans, providing ambulance services, and integrating marginalized groups, such as those with disabilities, better into the community and the economy.

The reason that co-operatives innovate and develop new services is to serve their members. The connection to a well-defined body of members rooted in a place or in a community interest forces co-operatives to think ahead, to plan for the long-term needs of their members, and to develop appropriate new services to meet needs articulated by their members. The innovative or transformative potential of co-operatives is tied to their fundamental dynamic of membership.

Social Entrepreneurship

Social entrepreneurs are the innovators in the human services sector who create goods and services, influence or create public policy and influence public perceptions and behaviours. Their primary goals are collective goals aimed at addressing perceived societal needs.

The terms social entrepreneurship and social entrepreneurs are also used frequently to denote entities or persons applying business and management skills and methods to the pursuit of a social goal. These terms are sometimes associated with community economic development and with the co-operative movement, and are often used almost interchangeably with the social economy, although social entrepreneurs and social entrepreneurship can be found in all parts of the non-profit sector:

60 Wall et al.
61 MacPherson, p.27.
62 Fairbairn, p. 33.
63 Brenda Zimmerman and Raymond Dart, Charities Doing Commercial Ventures: Societal and Organizational Implications, Trillium Foundation and Canadian Policy Research Networks (CPRN) (1998), p.23. Commercial entrepreneurs, on the other hand, have as a primary goal to “improve their wealth, status and position in the market”.

Social Innovation in Canada
Social entrepreneurism . . . takes many forms but it includes nonprofits using the market to either generate income for mission-driven activities or provide social benefits through outcomes such as employment. It also embraces new thinking about how private sector methods, tools, and approaches can be appropriated by nonprofits or their institutional funders to creatively improve performance and impact. The shift towards social entrepreneurship is clearly a global phenomenon with innovative examples found both in the developed and developing world . . .

The rise in nonprofits borrowing from the for-profit world comes precisely at a time when society is developing a clearer vision of how the three spheres, government, private sector, and voluntary sector should inter-act productively and in appropriate equilibrium to engender and sustain a healthy and sustainable economy, social system, and physical environment . . .

A Last Word about Defining the Non-profit Sector

As we have seen, the non-profit sector in Canada is vast and diverse. Even the terms used to define the sector vary across regions and across the sector itself. While we learn more every day, the information that we have on the non-profit sector remains fragmented. The following table summarizes what we know about the non-profit sector in Canada, and some of the limitations in our knowledge:

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64 Tim Draimin, Engaging the New Social Entrepreneurism, Tides Canada Foundation (2004).
### A Preliminary Map of the Non-profit Sector in Canada

<table>
<thead>
<tr>
<th>Component of the Non-profit Sector</th>
<th>Primary Concern/ Mission</th>
<th>Geographic Concentration</th>
<th>Number of Organizations</th>
<th>Number of Employees</th>
<th>Number of Volunteers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co-operatives and Credit Unions</td>
<td>Economic activities and services to members and the community</td>
<td>Canada-wide</td>
<td>10,000</td>
<td>160,000</td>
<td>70,000</td>
</tr>
<tr>
<td>Community Economic Development</td>
<td>Local economic development in support of social goals</td>
<td>Canada-wide with concentration (relative to population) in BC, Prairies, Atlantic</td>
<td>3,000</td>
<td>3,500</td>
<td>19,000</td>
</tr>
<tr>
<td>Social Economy&lt;sup&gt;65&lt;/sup&gt;</td>
<td>Pursuit of social goals through employment and other economic activities</td>
<td>Quebec (other terms generally used in other parts of Canada)</td>
<td>7,200</td>
<td>125,000</td>
<td>(data not available)</td>
</tr>
<tr>
<td>Voluntary Sector&lt;sup&gt;66&lt;/sup&gt;</td>
<td>Services to members and the broader public for sustainable social, economic, environmental and community development</td>
<td>Canada-wide</td>
<td>180,000&lt;sup&gt;67&lt;/sup&gt;</td>
<td>900,000</td>
<td>6.5 million</td>
</tr>
</tbody>
</table>

While the distinctions across the different components are important, it is worth recalling the broad characteristics common to most organizations in the non-profit sector as a whole. These include:

- the pursuit of a social goal or purpose as their underlying mission;
- separateness from government;
- deep roots in the communities they serve;
- the significant involvement of volunteers;
- the production and use of goods and services; and,
- a significant contribution to the economy.

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<sup>65</sup> Data is for Quebec only, for the definitional reasons described in the text. Includes credit unions and other co-operatives as well as community economic development organizations.

<sup>66</sup> Given the size of the voluntary sector within the non-profit sector overall, the data used here for the voluntary sector is based on the data available for the non-profit sector as a whole.

<sup>67</sup> Including 80,000 charities, 60,000 organizations with paid employees, and many thousands of community and volunteer organizations that are not incorporated.
Whatever the terms and classification system used to describe the sector and its components, the critical point is the capacity of the non-profit sector to play an important and often unique role in serving Canadians, to promote and lead social innovation, and to contribute in a significant and meaningful way to Canada’s social and economic development and the well-being of individuals and communities.

Be it the social economy, community economic development, social entrepreneurship, community business, the cooperative and non-profit or 'third' sector, there is a common thread and a common purpose that unites these initiatives: the desire for ordinary citizens to become actively involved in the development of their communities and in meeting the challenges that globalization and new technologies have brought before us.\(^\text{68}\)

\(^{68}\) CCEDnet, Funding proposal (Final Draft, November 19, 2003).
The Policy Rationale for Supporting the Non-profit Sector

Why should governments support the work of the non-profit sector, through the use of public funds, policy and legislation or regulation? What role or roles in society and the economy can it play that government and the private sector cannot or will not play? What are the strengths and qualities of the sector that enable it to play these roles and to develop innovative and effective approaches to addressing the social and economic challenges faced by Canadians?

Without attempting to articulate all the roles of non-profit organizations, this section outlines three key ways in which they can play an important role in fostering social innovation in Canada:

*They can deliver services that the state cannot provide as effectively or efficiently, and that the private sector cannot be expected to provide, doing so in ways that encourage creative, innovative solutions to respond to individual and community needs.*

*They are able to implement policies and deliver programs that are “place-specific”, something that government often has difficulty doing effectively.*

*They can help develop social capital and a shared sense of citizenship, thereby contributing to the working of a healthy democracy in Canada and to social innovation.*

Between the State and the Market . . .

Non-profit organizations can play an important role in fostering social innovation in Canada by delivering services in “essential fields or in localities deemed not profitable enough for the private sector or too costly for the public sector”⁶⁹, and by doing so in ways that stimulate creativity and mobilize communities.

Increasingly, all levels of government in Canada are turning to the non-profit sector to deliver important public services. The sector has many strengths that qualify it to deliver services that the state cannot provide as effectively or efficiently – or in as innovative fashion – on its own:

- The sector is able to draw upon the commitment of many hundreds of thousands of volunteers every day.
- Non-profit organizations have deep roots in the communities they serve. Their “on-the-ground” presence gives them in-depth knowledge of those communities and the challenges they face.
- They have extensive networks in the community and are well connected to each other and to the many different “players” from government, education, business and the private sector. They are able to mobilize community resources to address complex social and economic challenges.

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⁶⁹ Ninacs.
Responsiveness and flexibility are hallmarks of non-profit organizations. Living and working close to the people they serve, organizations tailor their programs and services to meet the real needs of real people. When they deliver services for a government institution, they are necessarily constrained by program criteria and conditions, but can “translate” these to respond to local and individual circumstances – when there is sufficient flexibility and “reasonableness” on the part of the funding institutions!

Non-profit organizations can work horizontally and holistically, across different sectors of the economy and society, bridging the social and economic and environmental worlds, and across the jurisdictions of different levels of government.

The non-profit sector also has an important role to play in delivering services to Canadians that the private sector does not or cannot provide. Private companies must focus, necessarily, on profitability. They cannot capture all of the benefits to society that flow from providing goods or services to those that need help.

Driven by a social goal or mission rather than the profit motive, the non-profit sector is therefore called upon to play roles that cannot reasonably be expected of the business sector. It reaches out to individuals and communities or offers goods and services in order to meet needs to which the market place is unlikely to respond or that it is not designed to serve.

Even where the non-profit sector may be involved in commercial activities, the orientation and purpose of the two sectors are not the same:

Where charities see a need that should be met, commercial businesses see a niche that could be filled.

... A social service agency targets the societal need and then looks for ways to address the need. Services and products are created to address the overall target. A commercial business looks to create profitable products and services.

... Non-profit organizations will exist distinct from commercial businesses because they have fundamentally different purposes in society.70

Place-based Policies and Solutions

The recent increased public policy focus on cities and communities in Canada reflects changed demographic realities with the growing concentration of people in urban areas; almost 80 percent of Canada’s population now live in cities. It also reflects the shift to an economy that is based on knowledge, technology and human capital and is often centred in urban- and service-based activities.

70 Zimmerman and Dart, p. 14-15
The new focus on cities and communities also recognizes the serious, deep-seated and complex social and economic problems that exist in our cities and communities. New and innovative approaches are called for, involving citizens and communities in finding innovative, “place-based” solutions:

Spatially concentrated problems are not simply complex, they are wicked . . . Characterized by critical information gaps about what is required to help and by large coordination failures in terms of channelling the appropriate resources to the right target, city problems are resistant to traditional monosectoral interventions designed from above by insulated, distant bureaucracies. Instead, they demand place-sensitive, holistic approaches . . . strategies built from the ‘ground or street up’, on the basis of local knowledge, and delivered through networked relations crossing program silos, even jurisdictional turfs.\(^{71}\)

The more “senior” levels of government in Canada have difficulty in implementing policies and delivering programs that are place-based. Their mission is to treat all citizens equally and to redistribute benefits in order to achieve greater equality. Their traditional mode of operating is a top-down approach based on government leadership, with decision-making authority vested in the highest political authority or requiring an intergovernmental process, using programs with relatively rigid criteria and terms and conditions, and with government departments working mostly in “silos”.

Effective place-based policies require a different way of working, based on true partnerships with many players across government, the private sector, educational institutions, and civil society. They require community rather than government leadership and decision-making. Place-based policies are driven from the ground up and rooted in local knowledge. They draw on and mobilize local resources and expertise. Rather than “programs”, they use a wide mix of tools, interventions and actions to address challenges. And place-based policies cut across sectors and institutional and jurisdictional responsibilities.

Of course, the development and implementation of effective place-based policies requires resources, as well. The work of convening people, linking knowledge and skills across a wide spectrum of players, and building effective partnerships to address community issues and challenges takes time, effort . . . and financial resources.

Place-based policies will also need new forms of “multi-level governance”\(^{72}\), with a still-vital but different role for government that will require government to adopt different modes of behaviour and new ways of doing things, such as the ability to pool resources among institutions, new contracting authorities and accountability methods, and new ways for the different levels of government to work together.


\(^{72}\) Ibid, p.4.
Canada’s national policy machinery and intergovernmental system remains ill-adapted to changing policy realities and spatial flows... A new urban policy architecture is needed for a better alignment of aspatial policies (generally available to all individuals everywhere if they meet the criteria) and spatially-focussed interventions...

The point is to equip local communities to revitalize themselves on terms of their own choosing in accordance with democratic mandates, while also ensuring that the “new localism” does not breed greater disparity between places.73

The non-profit sector, active in every feature of social and economic life, present in communities across Canada, with thousands of organizations and hundreds of thousands of volunteers, able to mobilize citizens and local resources and work horizontally and holistically, is well placed to deliver innovative place-based policies and solutions to enhance the health and well being of our cities and communities and address apparently intractable social, economic and environmental problems and challenges.

Social Capital, Citizenship and Democracy

Finally, the non-profit sector has an important role to play in building social capital and a shared sense of citizenship, thereby contributing to a healthy and vital democracy in Canada and to social innovation.

Non-profit organizations provide opportunities and means for citizens to participate actively in society. They are a meeting place for people to work, learn and play together. They offer means and opportunities for citizens to address common challenges, pursue shared dreams, and give expression to deeply-held values. They help people build networks and relationships, learn and develop skills, and share knowledge. Their democratic structures, openness and involvement in the community provide potential for the empowerment of both users of their services and of volunteers and employees.74 In sum, the sector can help develop “social capital”75 and foster a sense of belonging and inclusion among citizens.

The sector also plays an important role in helping to represent the interests of individuals and communities to government. Non-profit organizations inform and contribute to public debate and the development of public policy. They often speak on behalf of the disadvantaged and marginalized in society – they “act as the conscience of our communities... they remind us of what is happening to people who are left out or treated unfairly”.76

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74 Vaillancourt et. al., p. 10, speak of the “double empowerment” of workers and users and note the “comparative advantage” of community-based organizations in this regard.
75 “Social capital” refers to the networks of social relations that provide access to needed resources and supports.
76 Scott, p. 50.
Voluntary sector organizations bring their knowledge, expertise and compassion in working with communities and individuals to public policy debates and identify priorities to governments. By encouraging people to participate and work together for common causes, the sector strengthens citizen engagement, gives voice to the voiceless, allows for multiple perspectives to be heard on a variety of issues, and provides opportunities for people to practice the skills of democratic life.

. . . . . . .

These, then, are some of the key ways – providing important public services, delivering place-specific policies, and helping build social capital and a shared sense of citizenship – that the non-profit sector is able to foster social innovation in Canada.

A discussion of the roles played by the sector leads, inevitably, to the question of the kinds of supports that it needs in order to do so most effectively.

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77 Voluntary Sector Initiative (VSI), An Accord between the Government of Canada and the Voluntary Sector, p. 2.
Supporting Social Innovation in Canada

If the non-profit sector in Canada has a significant role to play in fostering social innovation and contributing to Canada’s social and economic development, what kinds of resources does the sector need in order to play this role effectively and to its fullest potential?

This section of the paper outlines the supports that are currently available to non-profit organizations, from government and other sources.

It discusses recent trends, notably in government support, that have put organizations under severe financial strain, even as they assume greater responsibilities within Canadian society and the economy, and that seriously hinder their ability to innovate and to serve Canadians effectively.

And it outlines the kinds of support that the sector itself has identified as needed in order to maximize its contribution to social innovation in Canada.
How the Non-profit Sector is Being Supported Today

The following table summarizes current supports to non-profit organizations, recognizing that there are gaps in the quantitative information available.

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<td></td>
<td>60 percent of revenues overall. Majority of government funding is from provinces/territories. It includes contracts to deliver prescribed community services such as home care, counselling, job search, etc. Federal funding estimated at $5.7 billion annually, including $1.2 billion in tax assistance (charitable tax credits and GST rebates)</td>
<td>Arts and cultural groups and sports and recreation organizations rely heavily on fees and charges Fees and commercial activities are not a source of income for all voluntary organizations, depending on their nature and mission</td>
<td>Donations from individuals represent an important source of funds, particularly for religious organizations and smaller community-based or advocacy groups Corporate philanthropy and support from foundations are a significant source of revenue only for a few larger non-profit organizations The trend in corporate giving has been away from donations in favour of sponsorship of events and activities that offer recognition opportunities for the corporate name</td>
<td>While bingos and similar activities have long been a source of revenue for some groups, “gaming” (gambling, casinos, etc.) has recently also become an important revenue source for some organizations Some charities and other organizations run their own gaming activities Some provinces distribute a share of gaming profits to support non-profit organizations, often through public foundations</td>
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<tr>
<td>Community Economic Development Social Economy Co-operatives</td>
<td>Supports available vary considerably across jurisdictions. They include some support for on-going operations as well as project-based funding, and access to financial capital</td>
<td>Commercial activities and charges for products and services represent a significant source of revenue</td>
<td>Donations from corporations and individuals are estimated to be about 11 percent of total revenues for charities</td>
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<td>Support from the Quebec government for the social economy includes state funds such as Investment Quebec and state participation in other funds, as well as fiscal advantages that target social economy enterprises</td>
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78 Based on available information for the non-profit sector as a whole.
79 When hospitals and other “quasi-public” organizations are included, it is estimated that provinces/territories provide 84 percent of total support to charities, the federal government 10.5 percent. See Treasury Board Secretariat, Study of Federal Funding Practices and Policies (2001).
80 Ibid. Data is for 1997-98. Funding for hospitals and post-secondary institutions accounts for almost half of this amount.
Government Support for the Non-profit Sector

Government support is clearly the most important source of revenue for many non-profit organizations. This simply reflects the nature of the sector and its contributions to society and the economy. The majority of government support to non-profit organizations in Canada comes from the provincial/territorial governments, which is not surprising given their responsibilities for many areas of social policy and social programs and services.

As well, government plays an important regulatory function with respect to the non-profit sector, in particular concerning the incorporation of organizations and tax benefits relating to charities.

Recognizing the importance of the non-profit sector to Canada, the Government of Canada launched a joint initiative in June 2000 with voluntary sector representatives to examine their relationship and how they could work together to serve Canadians better – the Voluntary Sector Initiative (VSI). An Accord has been concluded setting out broad principles to guide the relationship, and further work has been done on a number of important questions; for example, a Code of Good Practice on Funding has been developed.

Federal government support for non-profit organizations engaged in economic development-related activities has been the focus of recent attention, notably in the February 2004 Speech from the Throne and the March 2004 federal Budget, as noted in the Introduction to this paper.

In this context, it is worth noting some of the particular forms of support currently available to organizations in the community economic development, social economy and co-operative sectors.

A recent study undertaken for the Canadian Community Economic Development network (CCEDnet) examines provincial and territorial government support for community economic development and identifies four types of community economic development programs that governments support to some extent:

- building “community capacity” to address economic problems;
- improving “human capital” through acquisition of skills and knowledge;
- strengthening “financial capital” through access to loans, improving the investment climate and supporting alternative financial institutions; and
- building “natural capital” by supporting sustainable resource management.

82 Chantier de l’économie sociale, L’économie sociale et le Ministère de la Culture et des communications: «Une intervention de l’Etat, ponctuelle ou récurrente, peut être nécessaire puisque ces entreprises, bien qu’actives dans le secteur marchand de l’économie, interviennent dans des activités économiquement moins rentables ou caractérisées par un marché restreint ou insuffisant».

83 See The Voluntary Sector Initiative, at www.vsi-isbc.ca
The CCEDnet report concludes that there is “some level of support for community economic development in every province and territory of Canada”, although it notes that only seven jurisdictions have made comprehensive policy commitments to community economic development and only six have legislated their support. There is also considerable variation across jurisdictions – another study of the sector refers to a “patchwork quilt” of supports.84

Some important examples of federal government support include: Industry Canada, through programs such as Community Futures, the Business Development Bank, the Community Access program, Small Business Loans, Community Innovation Plans, and Aboriginal Business Canada; the regional development agencies such as Western Diversification and the Atlantic Canada Opportunities Agency; Agriculture and Agri-Food Canada and agencies such as the Farm Credit Corporation, the Canadian Wheat Board, and the Dairy, and Grain Commissions; the Canada Mortgage and Housing Corporation; Indian and Northern Affairs Canada; Fisheries and Oceans; and the Canadian International Development Agency.85

Within Canada, the Quebec government has the most comprehensive framework of supports for the social economy of any jurisdiction. A recent study of support for the sector in Quebec86 notes the emergence of new financial instruments and forms of funding for the social economy in recent years, including venture capital and local development funds. The study identifies five principal types of funding for the social economy in Quebec:

- community-based funds (e.g., the Montreal Community Loan Association), that are often initiated by community economic development corporations;
- “hybrid funds” such as the Société d’aide au développement des collectives in rural areas, funds managed by the Centres de développement local, and the Réseau d’investissement social du Québec; such funds involve state participation in various forms, including both the federal and provincial governments;
- worker funds, notably the Fonds de solidarité and Fondaction constitute a third type of funding; cooperative funds, notably the Mouvement Desjardins, also play an important role;
- state funds available such as Investissement Québec and funding for the communautaire autonome; and
- fiscal advantages offered by the Quebec government that target social economy enterprises.

84 Torjman and Leviten-Reid, p. 33.
85 Canadian Co-operative Association.
Other Sources of Support

While sources of revenue other than government funding – including donations and income from fees and commercial activities – are available to the non-profit sector, their importance varies across the different components of the sector.

Donations from individuals, institutions, corporations and others can be an important source of funds for non-profit organizations. With funders increasingly demanding that organizations diversify their funding sources, more and more organizations are putting time and effort into seeking private donations. There is in fact growing competition among non-profit organizations for donor funds. Smaller organizations find that they are unable to compete in a crowded field, particularly with larger non-profit organizations such as universities, hospitals and cultural institutions who are often able to mount huge public campaigns for funds.

Not all non-governmental sources of revenue are available to all organizations, depending on their mission. The clientele of some service organizations may not permit them to charge service or user fees. Organizations do not always have the capacity to produce goods or services to generate revenue. Such activities often require significant time and effort and may take much-needed needed human and financial resources away from the core services and activities of the organization. Revenue-generating activities can also have unintended negative impacts – additional costs and financial risk, changed perceptions in the community about the organization, and potential disincentives to volunteer participation and charitable giving.87

Successful commercial activities may also require a different kind of approach and operational behaviour. Traditionally, non-profit organizations use “top line” thinking, in which costs must not exceed revenues and revenues must be obtained before costs are incurred; business traditionally operates with “bottom line” thinking, in which costs are incurred first, in order to generate revenues.88

Commercial activities may not therefore be desirable or appropriate for all organizations, depending on their nature and the context in which they operate:

For some charitable organizations, commercial activity may be fundamentally improper because it would distract from the mission or refocus energies away from collective goods and services with long-run impact. For others it may be precisely the lever that triggers useful organization-wide innovation and creativity.89

At the same time, for social economy organizations, commercial activities are often integral to their central mission.

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87  Zimmerman and Dart, p. 27-39.
Issues and Challenges

Organizations in the non-profit sector face a number of challenges and obstacles that prevent the sector from maximizing its contribution to Canadian society and threaten its continued ability to serve Canadians. Indeed, many organizations in the sector speak in terms of a “crisis” when they describe the current situation.

This situation reflects, in part, the fact that increased responsibilities have been assumed by the sector as a result of a re-definition of the scope of state activities and the rapid change in labour market conditions. Government “off-loading” has often occurred without the accompanying transfer of the necessary financial resources.

At the same time, the capacity of the non-profit sector has been seriously undermined by a major shift in government support, and that of other funders, towards shorter-term, targeted and project-based funding.

As a result of this shift, financial support is generally not available for the on-going activities of non-profit organizations, for infrastructure and overhead costs or for administration (now “a dirty word” for government funders). Increasingly, organizations are forced to spend considerable time and effort “chasing” ever-more limited and narrowly targeted financial resources, while the core services they provide to Canadians are seriously under-funded to the point of putting at risk the survival of many organizations. Moreover, the “real” costs of programs and services that do receive funding are not being entirely covered by funders, forcing organizations to fund the difference themselves. The focus on project funding, and often on new and “innovative” activities, has many organizations concerned as well that they are being pulled away from their underlying mission as they try to conform to government funding criteria to secure available funds.

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90 See, for example, Katherine Scott, Funding Matters: The Impact of Canada’s New Funding Regime on Nonprofit and Voluntary Organizations (2003). The Scott report is a major study undertaken by the Canadian Council on Social Development under the auspices of the Voluntary Sector Initiative (VSI) with the Government of Canada. It describes a significant erosion of the ability of the voluntary sector’s capacity to serve Canadians. The study concentrated on “public benefit organizations” that serve the general community, excluding “member-serving organizations” such as unions, professional groups, and co-operatives, religious organizations and hospitals and universities.

91 Ibid.

92 A recent study for the Community Social Planning Council of Toronto details the shortfalls being experienced by organizations and the impacts on them. The study concludes that “. . . most government-funded programs in community agencies are not covering the complete costs of program operation. The delivery of government funded services is in fact draining community organizations of their discretionary and locally raised funds as agencies cover the difference between government funding and the full costs of running programs . . . By applying all of their discretionary revenues to cover shortfalls in programs under contract to a funder, organizations have little or no capacity to respond to emerging community needs or develop innovative service models . . . In this context, agencies are fundraising to stay afloat . . .” The study found that on average organizations were receiving 14 percent less funding than they needed to cover actual operational costs; funding agencies were under-funding their share of core operational costs by 58 percent. See Eakin, Lynne, Community Capacity Draining: The Impact of Current Funding Practices on Non-Profit Community Organizations, Community Social Planning Council of Toronto (2004).
This change in the nature of government funding has been accompanied by greatly increased reporting and accounting requirements – organizations speak of “reporting overload” – that have resulted in an onerous burden on organizations, and by a more competitive environment with organizations vying with one another for the funds that are available.

A further concern is that the new funding regime is undermining one of the very strengths of the sector, namely, its creativity and ability to innovate:

There is little tolerance for risk-taking. While there is much talk about supporting innovation, there is little evidence that government funders are willing to let organizations try out something that might not work. If organizations know they will be penalized for failure, there is no incentive to risk taking a non-traditional approach.

The new funding regime raises serious “capacity” issues for non-profit organizations, including difficulties in recruiting and retaining paid staff and assuring organizational infrastructure.

The emphasis on project funding appears to have a number of unfavourable consequences for organizations, including restricted autonomy and independence, excessive time invested in searching for new project funding, difficulty with staff recruiting and retention, and limited ability to engage in long-term operational or program planning.

The changes in government funding in fact only exacerbate the on-going and new challenges that are faced by non-profit organizations, and some of the weaknesses found in the sector.

These relate, for example, to the relative size of organizations; their diversity; limited management depth; the often-limited capacity of voluntary Boards; and the adjustments and strategies needed to deal with the government cuts of the 1990s. Human resources issues are a major challenge for organizations, including less job security and lower salaries than in the private or public sectors. A lot of these problems are, of course, associated with the lack of appropriate financial foundations.

Front-line service workers also note that they are increasingly dealing with clients who face multiple challenges (e.g., a person dealing with alcoholism, homeless, and a survivor of child abuse), making effective support and care more difficult, particularly in the context of increased overall demand for services, fewer resources, and the often rigid criteria of different government programs.

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93 Scott.
94 Ibid.
96 Canadian Policy Research Networks has recently undertaken a number of studies on human resources issues in the non-profit sector that document these challenges, noting the increasing difficulties of recruiting and retaining employees despite the intrinsic rewards of working in the sector and the personal commitment of staff in non-profit organizations. See CPRN, Research Series on Human Resources in the Non-profit Sector.
As a result of the change in funding regime and these other factors, many organizations worry about their sustainability in pursuit of their mission and role in society:

*The targeted and short-term nature of most funding makes it difficult for non-profit organizations to invest in capacity building, such as through new technologies, developing the skills of their employees and volunteers, or outreach recruiting measures. Project-funding also weakens the ability of non-profits to engage in long-term planning and to adhere to their primary missions, which can turn staff commitment into disillusionment.*

It should also be noted that the new approach in funding is having a disproportionate negative impact on smaller organizations which are generally less able to secure funding from other sources.98

While the trends described above are particularly marked in regard to government funding, there are similar trends in private giving, which is also becoming more targeted. As well, corporations increasingly favour sponsorship-type support that offers greater recognition for the donor, rather than donations that can be used for core activities and infrastructure.

Non-profit organizations and entities engaged in community economic development, the social economy and the co-operatives movement experience many of the same funding difficulties as organizations in the voluntary sector.

They also face a number of other challenges, including, in particular, inadequate access to capital funds and to pre-start up and start up funding.99

Access to normal financial tools such as mortgages, commercial loans, and equity-type investments is a major issue. Organizations that do regular business with these non-profits consider them to have good standing, despite their unique revenue streams. However, for many other financial institutions and government departments, they are regarded as unacceptable credit risks – or even as “charity cases” rather than clients.100 For example, non-profit organizations may not have rates of return on investment that are competitive with those in the private sector, since that is not their primary objective. Individual and institutional investors are, however, looking for high rates of return, usually in the short term. As well, the “transaction” costs for financial institutions of dealing with smaller organizations are higher, since the loans are often for smaller amounts, and may be seen as being higher risk. Finally, some of the people involved in social economy enterprises, although well known in community activism, may be unknown to the business and financial communities.

97 Saunders, p. viii.
99 See, for example, Chaland and Downing.
100 Here are two examples of insensitive credit assessment. Example one: Lutherwood, a long-established Waterloo non-profit had successfully constructed the first phase of a community economic development initiative and was seeking a letter of credit to support construction of the second phase. They were asked to put cash collateral for the amount of the letter of credit. Example two: St. Christopher House, a downtown Toronto charity with significant real estate has been unable to procure a mortgage against that property.
As a result of these factors, social economy enterprises may experience difficulties in attracting investment or in obtaining loans from traditional financial institutions.\footnote{See Mendell et al, p. 6-7.}

In addition to these funding issues, it is important to note that many organizations in the non-profit sector have also highlighted issues relating to how the sector is regulated by government, including the definition of charities and rules about eligible activities and expenses and advocacy activities.\footnote{See, for example, Laurie Rektor, Advocacy – The Sound of Citizens’ Voices, Voluntary Sector Initiative (VSI) (September, 2002).}

**Moving Forward on Social Innovation**

The non-profit sector thus faces a number of serious challenges that limit its ability to play effectively the role that it is being asked to play in Canadian society and the economy. It should not be assumed that it is the responsibility of government, and in particular the federal government, to solve all these problems. The sector needs access to a hierarchy of tools from a range of sources, public and private. However, government support remains critical, and government has an interest in seeing that those other sources of support are present and effective.

Many proposals and recommendations with regard to government support and funding have been put forward by the non-profit sector. Not surprisingly, many call for increased funding from government. However, it is important to note that the sector is, first and foremost, calling for “better money”\footnote{Hall et al.} and “smarter funding” that would address the concerns described above.

Moving forward on innovation will require an open dialogue about roles and responsibilities. Government needs the sector to deliver important public services and to foster community-based problem solving. The sector needs government financial and other support to provide the foundations that will enable it to lead in social innovation. A new institutional framework for support, based on a different relationship between government and the sector, is called for.

Three dimensions seem necessary to ensure an effective framework for government funding support to the non-profit sector. All three are essential if the sector is to maximize its contribution to innovation in Canada and to Canada’s social and economic development and well-being.

*One is to get the underlying financial structure right for on-going support to the sector, including recognizing the actual costs of “doing business”.*

*The second is to ensure access to a healthy mix of different kinds of funding, to reflect different needs across the sector as well as the needs of government.*

*A third dimension is to ensure funding modalities that are efficient and effective and provide appropriate accountability to Canadians for results achieved.*
More Stable, Multi-year Funding

The current situation of unpredictable funding and significant variations year-to-year in the resources available to them seriously undermines the ability of non-profit organizations to plan, to recruit and retain staff and volunteers, to develop organizational capacity, and to deliver on their core mandate and serve their community or clientele.

It undermines their ability to innovate, as well. It is illusory to think that innovation can be fostered by “project” funding only, or by access to special “innovation funds”, when the sustainability of an organization is at risk.

Non-profit organizations cannot contribute to social innovation in their communities if they do not know whether they are going to be able to continue their operations because the financial support necessary to their core mission and activities, including administrative and infrastructure costs, is not secure.

Access to Multiple Types of Funding to Address the Needs of Organizations in the Different Parts of the Non-profit sector and Respond to the Needs of Government

A mix of funding is required to respond to the needs of non-profit organizations, recognizing that needs vary across the sector. The funding mix should address a wide variety of needs:

- support for on-going operations;
- funding for building organizational and community capacity;
- support for innovation and for undertaking new initiatives to address community needs as well as respond to the government priorities;
- funding for pre-start up and start up costs,\(^{104}\)
- support for community mobilization and planning efforts;
- access to risk and other forms of financial capital;
- support for investment in human resources and to make effective use of technology;
- support for multi-sectoral collaboration, bringing together participants and resources from different parts of the community and society\(^{105}\), and for research, experimentation, and the dissemination and transfer of best practices.\(^{106}\)

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\(^{104}\) See, for example, Mendell, p. 39: “... enterprises in the social economy need three phases of financing: pre-start up, start up and consolidation, before they can subsequently approach financial institutions”. Also, CCEDnet.

\(^{105}\) Canadian Centre for Philanthropy, Draft paper, An Innovation Strategy to strengthen Canada’s social and economic foundations (2004)

\(^{106}\) Ibid
New Funding Mechanisms and New Models for Financial Accountability

How government funding support is provided to non-profit organizations, and how organizations demonstrate accountability for public funds, must also be examined, and new models and mechanisms put in place.

Narrowly-focussed program criteria, the refusal to recognize or fund adequately administrative and overhead costs associated with projects, ever-increasing demands for information and financial accounting, and delays in obtaining approvals all exhaust the capacity and resources of organizations and stifle creativity and innovation.

The way government itself works, moreover, often discourages innovation by the non-profit sector or makes it more difficult. Government departments tend to work in silos, each with their own program criteria and contracting modalities, with little coherence within a jurisdiction or across jurisdictions, thereby inhibiting the very kind of horizontal, cross-sectoral work that non-profit organizations are so well qualified to carry out in the community.

A new accountability regime is also required that would provide for demonstration of both the efficient and proper use of public funds and of effectiveness in terms of results achieved, without placing undue reporting and “paper” burdens on organizations and draining resources that could otherwise be used in serving Canadians and their communities.107

Further to the Voluntary Sector Initiative and the Accord between the Government of Canada and the Voluntary Sector noted earlier, agreement has been reached on a Code of Good Practice on Funding. The Code articulates underlying shared principles – including sustainable capacity, collaboration, innovation, diversity, accountability, transparency and consistency – and outlines different funding mechanisms and responsibilities of both government and the non-profit sector.

A commitment to action to effectively implement the Code across federal government institutions would go a long way in addressing the concerns outlined in this paper.

107 A report prepared for the Voluntary Sector Roundtable, Building on Strength: Improving Governance and Accountability in Canada’s Voluntary Sector (1999), contains recommendations addressed to government, organizations, foundations, corporations and other funders.
Conclusion

“In sum, what I am saying to you today is that innovation can work its magic wherever you live, work, or play. Innovation is, fundamentally, a social process that supports good science, strong productivity growth, and a more inclusive society.”

Canada enjoys the advantage of a large, vibrant and diverse non-profit sector that, along with government and the private sector, has helped build a prosperous and caring society and a high quality of life for many.

Non-profit organizations are at work every day, in every part of the country and of Canadian society and the economy, and in virtually every field of human endeavour, to serve Canadians and their communities. They bring to this work the commitment and talents of millions of volunteers and professional staff, on-the-ground knowledge and expertise and deep roots in our communities, tremendous creativity and dynamism, the non-profit sector’s own considerable economic value and contribution, and the ability to bridge the social and economic and environmental worlds to find new solutions to the challenges faced by Canadians and their communities.

The sector has enormous potential to play a unique and vital role in social innovation in all areas of society and the economy, in order to preserve and enhance the quality of life and the well-being of Canadians.

Currently, many organizations in the non-profit sector are seriously hurting. They lack the resources and support to do the job they are called upon to do in our society. Many worry about their continued ability to serve Canada and Canadians.

To play its role fully and maximize its contribution to society, the non-profit sector will need new and better forms of public support and investment. That should not prove impossible, with good will on the part of all concerned and a willingness to work together to find solutions that will improve the sector’s capacity to play its essential role in our society.

Finding effective solutions will also require dialogue among all concerned – dialogue between the sector and government, but also dialogue within the sector itself in order for the various movements in it to identify common ground and interests and articulate the kinds of institutional changes that will allow the sector to realize its potential.

In order to facilitate this, a number of areas are identified below that warrant further discussion and debate.

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Questions and Issues for Further Discussion

Social Innovation

*Do we share a common understanding of what is meant by social innovation and how the non-profit sector can contribute to it in Canada?*

What are the current impediments to the sector playing a significant role in social innovation?

What are the factors that encourage innovation and what framework of supports is necessary to do so?

Canada’s Non-profit Sector

*Do we have a shared vision of the non-profit sector and the role it plays now and should play in the future in Canadian society and the economy?*

Does the paper adequately "capture" the sector, in all its diversity?

How significant are both the differences and the commonalities in the sector? Do they call for different solutions to the challenges faced by non-profit organizations, or are some solutions common across the sector?

Do we have a shared understanding of the social economy and social entrepreneurism, and of what they mean for the non-profit sector?

What can non-profit organizations do themselves to meet the challenges they face and improve their effectiveness and efficiency, in addition to what government and other funders are being asked to do?

How can the sector articulate a vision that is compelling and can be communicated to government, other funders, and Canadians?

Roles and Relationships

*What is the non-profit sector called upon to do in Canadian society and the economy that government and the private sector cannot or will not do?*

What are the roles that the sector is especially well qualified to play? How can the sector best articulate the case for improved government support?

How can the sector and government work together more effectively?

What kinds of changes are necessary in the ways that government, at all levels, works and relates to the sector, in order to build a more effective relationship?
What kind of accountability regime can be put in place that would reduce the “paper” and administrative burden on organizations while ensuring probity, efficiency and effectiveness in the use of public monies?

How does the sector see the role of the new federal government institutions recently established (Human Resources and Skills Development Canada, and Social Development Canada)?

**Government Support for the Non-profit Sector**

How can the non-profit sector demonstrate to government an effective return-on-investment?

How can the case for cost-effectiveness in the investment of public funds in the non-profit sector best be made?

How can the sector demonstrate the value of public investment vis-à-vis the demands of competing sectors and programs?

What models of funding can meet the diverse needs of the non-profit sector?

What is the appropriate mix of funding, including on-going funding, project funding, capital funding?

Should different government funding regimes apply to the different parts of the sector? Should some funding modalities be common across the sector?

Should the different orders of government support the sector differently?

Should funding regimes be different for the different orders of government? How can we foster greater coherency and coordination across governments and government policies and programs?

What other supports – policy, legislative, tax, regulatory or programmatic - are needed from government, in addition to funding?

Are there other initiatives that government could take that would better support the non-profit sector? For example, measures to help develop the philanthropic sector in Canada? Or measures to encourage and support earned income by the non-profit sector and the acquisition of assets, in order to help diversify and stabilize the finances of non-profit organizations?

**Other Supports for the Non-profit Sector**

How can other funders and sources of support for the non-profit sector (corporations, foundations, private and individual doors, etc.) better support the sector?
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**Provincial Governments:**

**Alberta**
- Human Resources and Employment

**British Columbia**
- Ministries of Health
- Ministry of Children and Family Development
- Office of the Deputy Minister to the Premier

**Manitoba**
- Department of Family Services and Housing

**Ontario**
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- Ministry of Community and Social Services
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**Municipal Governments:**
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Associations and Other Organizations:
AFP Foundation for Philanthropy – Canada
AFP Calgary Chapter
AFP International
AFP Toronto Chapter
Association of Fundraising Professionals (AFP)
Canadian Institute of Planners
Canadian Labour and Business Centre
Canadian Labour Congress
Canadian Medical Association
Canadian Population Health Initiative
Canadian Public Health Association
Coalition of National Voluntary Organizations
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The Learning Partnership
National Voluntary Organizations
Nuclear Waste Management Organization
United Way of Canada
Université de Montréal
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