

# **2010 National Summit on a People-Centred Economy**

## **Issue Paper #2: Enterprise Development**

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### **Background**

From May 30 to June 1, 2010, the National Summit on a People-Centred Economy is an unprecedented gathering of leaders and representatives of the community economic development, cooperative and social economy sectors to build a common agenda and mobilize action for a secure, sustainable economy that puts people and the planet first. The Summit seeks to mobilize networks and organizations by building on the best research, agreeing on a common action plan, and increasing awareness of this sector among politicians, policy makers, non-governmental sector leaders and the mainstream media.

As part of the preparatory process for the Summit, six issue papers were drafted on themes which outline the key strengths, challenges and proposals for action to further reinforce this movement. These issue papers were subject to an engagement and outreach process for feedback and revisions by Summit participants and other stakeholders between March 1 and May 15. The revised papers are being presented at the Summit, where a common declaration and action plan will be developed.

To view the latest versions of the other papers and for more information on the Summit, visit: <http://www.ccednet-rcdec.ca/en/summit>

### **Enterprise Development: Summary**

Building a people-centred economy depends on the creation, consolidation and expansion of enterprises whose primary goals are to respond to the needs and aspirations of citizens in communities across the country. Social enterprises, which in Canada include co-operatives and various non-profit enterprises, now -- as in the past -- play a key role in the Canadian economy and in making Canada a people-centred economy. This third enterprise sector, after private and publicly owned companies, is important in many of Canada's sectors such as retail, banking, housing, daycare, insurance, agriculture, and in new areas such as social services. While the social enterprise sector in Canada is large and impressive compared to that in many other countries, it still remains small compared to the traditional private and state-owned sectors.

In the current economic environment, we believe that there is a real possibility to rebuild and re-stimulate our economy after the most severe recession in decades, to better use the social enterprise tool for creating new jobs, preserving old ones, and assuring that jobs stay in our communities both large and small. While community members carry the primary creative force in establishing new social enterprises and expanding existing ones, we

believe government at all levels can play a key role in helping to set a framework which would allow social enterprise to flourish. To differing degrees, all levels of government currently underuse social enterprise as a tool for public policy and there are a number of important openings for new partnerships between governments and the sector.

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### 1. Current State of the Field

Social enterprises have some differences with both traditional private and state enterprises. Private investor-owned businesses have a primary profit motive for their existence. For this reason their horizons in terms of time can be limited to the short term. In some cases, a private company can decide to abandon a sector of business or close down a plant or office not because it is not profitable, but because more profit can be made by moving to a new sector or a new jurisdiction where some costs, such as wages, are lower.

In many sectors, Canadians have made the choice of the public economy to deliver services, particularly in health and education or to assure public benefit from the exploitation of our natural resources such as electricity. In other areas, state-owned businesses are often established because of private sector market failure or reluctance of private investors to enter a new sector. However, they can become remote and distant from the people they are supposed to serve and decisions are often made far from the communities who use their services.

Social enterprises, on the other hand, are set up by citizens in communities to meet needs that have not been fulfilled by the market or the state. Co-operatives are owned by their members and are democratic organizations based on “one member, one vote” Communities often create non-profit enterprises to respond to broad community needs that combine market, public and voluntary resources. Mutuels are another form of collective enterprise. These collective enterprises have one thing in common: they have a commitment to their communities and keep jobs in these communities.

Across the planet, there is a growing movement in favour of social enterprise and the social economy. This grassroots entrepreneurial movement is drawing the attention of national, regional, provincial and local governments in the revitalisation of rural and urban communities, the fight against unemployment and social exclusion and as a way to address unmet needs in a sustainable manner. Social economy enterprises are emerging in numerous sectors as producers of goods and services and increasingly

demonstrate their capacity as economic actors. Social enterprises, such as co-operatives or community controlled non-profits, are accountable to the people in their communities, usually through boards elected by the users of the services or goods they provide.

Social enterprises can be either for-profit or not-for-profit; in the case of for-profit social enterprises, the profits are redistributed back into the community through the members who use their services.

Today, social economy enterprises play a strategic role in our economy. They create jobs, contribute to economic development and offer innovative responses in a variety of economic sectors. Despite its importance, this form of entrepreneurship receives too little recognition, and there are too few tools available for those who choose to combine entrepreneurial skills and social mission to contribute to Canada's socioeconomic development.

## **2. The Key Players**

### **What are social enterprises?**

The terms “social enterprise” or “social economy enterprises” are new for many Canadians, but these are really just new terms for businesses which have been around for a very long time.

It is no accident that the history of Canada can be linked, time and time again, to citizen-led innovation in the creation of social economy enterprises, be they co-operatives, mutuals or non-profits. The co-op sector has deep roots in Canada. In the late 19th century, farmers in Quebec, Ontario and Atlantic Canada developed co-operative creameries and cheese factories to meet the needs of the growing dairy industry. Alphonse Desjardins founded Canada's first credit union or *caisse populaire* in Lévis, Quebec in 1900. And in the first decade of the 20th century, farmers in western Canada organized co-operatives in an effort to market their products. Housing co-operatives and non-profit organizations have played an important role over the past 40 years in responding to needs for decent housing. Throughout the 20<sup>th</sup> century, the non-profit sector can be credited with being the first to be involved in a multitude of social innovations (for their time) including adult education, childcare and many health and social services

In Canada, social enterprise and the social economy are relatively new terms which are often used interchangeably to refer to collectively owned enterprises (co-operatives, non-profits and mutuals) that use market-oriented production and sale of goods and/or services to pursue a social mission. Social enterprises take many forms and pursue a wide variety of social, cultural or environmental missions; some function entirely within the marketplace while others combine non-market functions, such as charitable mandates, with market-oriented activities.

In general, social enterprises have in common their roots in community, the pursuit of collective good, the primacy of people over capital, democratic forms of decision-making and a commitment to individual and collective empowerment.

### **What role do they play in the economy?**

Complete and reliable statistics are difficult to provide, as Statistics Canada has not yet identified social enterprise as a specific category within the overall economy. However several sources allow us to illustrate the importance of their overall role.

The most accurate statistics are available for co-operatives. There are approximately 9,000 co-operatives in Canada, providing products and services to over 17 million members. Co-operatives have over \$275 billion in assets, owned by the members and communities they serve. They employ over 150,000 people and are led by 100,000 volunteer directors and committee members.

Non-profit social enterprises also play an important role in the Canadian economy. The recently published [\*National Survey of Nonprofit and Voluntary Organizations\*](#) (NSNVO) reports that there were over 161,000 registered charities and non-profit organizations in Canada in 2003, the most current year for which data are available. These non-profits and charities employ over two million people and represent \$79.1 billion or 7.8% of the GDP (larger than the automotive or manufacturing sector). However these statistics include organizations that are not considered part of the social economy and it has not been possible to distinguish the different types of non-profits. Nevertheless it is useful to underline that Canada's non-profit and voluntary sector is the second-largest in the world on a per-capita basis; the Netherlands is the largest; the United States is the fifth-largest.

In Quebec, unofficial statistics compiled in 2002 showed that approximately 6% of the Quebec GNP was made up of social economy enterprises. Over the past eight years, there has been significant growth within the sector, though current statistics are not available.

Social economy enterprises are present in a wide variety of economic sectors. Co-operatives exist in virtually **every sector of the economy**, from agriculture, retail and financial services to housing, child care, funeral services and renewable energy. Non-profits are also present in many economic sectors, and notably the service sector (services for seniors, childcare, family services) culture, recreation, social tourism, recycling and other environmental sectors, workforce integration.

Social economy enterprises play an important role in **rural communities**, where they are often the mainstay of rural economies. In times of crisis, they play a fundamental role in assuring the survival of communities. For example, there are at least 2,000 communities in Canada with at least one credit union or caisse populaire and more than 1,100 communities in which a financial co-operative is the only financial services provider. In Quebec, solidarity co-operatives and non-profit social economy organizations are playing a central role in assuring that basic services (grocery stores, gas stations,

transportation) are maintained and that families have access to childcare, the elderly have access to affordable homecare and that all citizens have access to recreational and cultural activities.

Social enterprises play an important role not only by contributing to the creation of wealth and new job opportunities for Canadians; they also play a very important role in **social innovation**. As the issue paper on social finances explains, social enterprises are:

1. **Innovation driven:** Highly entrepreneurial, flexible, and therefore able to test, adapt, and refine novel solutions that can be taken to scale
2. **Focused on impact:** Possessing clearly defined mission goals and accountable to a broad base of stakeholders for social/environmental impacts as well as profits, employing new tools and metrics
3. **Sustainable:** Leveraging substantial private and volunteer capital using only limited public/philanthropic investments
4. **Collaborative:** Often employing cross-sectoral partnerships and relying on non-profit sector collaboration.

Social or social economy enterprises have proven to be more **sustainable** than traditional SMEs. A 2008 study in Quebec found that 62 per cent of new co-ops are still operating after five years, compared with 35 per cent for other new businesses. After 10 years, the figures are 44 per cent and 20 per cent respectively. This longevity is also illustrated through the performance of investment funds that have specialised in financing social economy enterprises. For example, the Arctic Co-operative Development Fund which was capitalized with \$10 million by the federal government in 1986 is now worth \$30 million and has helped to develop the network of over 30 co-operatives in Nunavut and the North West Territories. RISQ, a Quebec \$10 million investment fund that offers non-guaranteed loans to small social economy start-ups and enterprises with development projects has lost only 13% of its portfolio after 12 years, compared to similar funds whose loss rate is considerably higher.

### 3. Top Questions or Issues

1. **Governments need to better use social enterprise as a policy tool for dealing with some of the key issues of the day.**

Many of the key issues of the day, from stimulation of the economy, to fighting poverty and providing housing, health care and food security, could use the social enterprise model as a tool for public policy.

For example, social enterprises such as co-operatives need to be better and more widely used amongst new Canadian and Aboriginal communities. While there are over 70 Aboriginal co-ops, for example, and many co-ops in new immigrant

communities, there could be many more social enterprises in these rapidly growing sectors of the Canadian population. It is these very communities who have the greatest potential for using the social enterprise model as they have less community-owned capital or local entrepreneurs with the financial capacity to invest.

A second example relates to the fight against poverty in both rural and urban areas. Five provinces – Québec, Newfoundland & Labrador, Ontario, New Brunswick and Nova Scotia – are now committed to provincial anti-poverty strategies. The federal government should work with each of the provinces in a spirit of cooperation to develop accords that could form the basis of a pan-Canadian anti-poverty strategy. Within this strategy, there is an urgent need for federal investment in social housing, using the non-profit and co-operative model. In a new federal anti-poverty strategy, non-profit organizations and co-operatives can play a crucial role alongside the expansion of place-based poverty reduction.

## **2. Social enterprises need access to capital**

While social enterprises have a very good track record for sustainability, as the Quebec government study on co-op durability mentioned in this paper indicates, they often have trouble capitalizing their initial start-up. The federal government has helped capitalize the Chantier de l'économie sociale Trust in Quebec and the sector needs many more such funds. The Chantier de l'économie sociale Trust has made initial investments of some \$11.4 million among 39 social economy enterprises in Québec. These investments enabled the creation and consolidation of over 1115 jobs.

A variety of organizations and networks are working on projects to increase access to capital for social enterprises. The two national co-op organizations, the Canadian Co-operative Association (CCA) and the Conseil canadien de la coopération et de la mutualité CCCM), have been advocating for the creation of a Co-operative Investment Strategy which includes a partnership with the federal government around:

**A Co-operative Investment Plan (CIP)** which would provide a tax credit for members or employees of agricultural or employee-owned co-operative businesses who invest in their own co-ops. This would be a partnership between citizens who invest their own money and the federal government, which would provide the tax incentive. Government monies (in the form of tax exemptions) would not be committed unless co-op members and employees first invest their own funds.

This would be similar to the current plan in Quebec, where \$393 million was invested by members in eligible co-operatives from 1985 to 2006. The cost of a similar plan at the federal level is estimated to be \$17-20 million per year and would generate some \$120 million per year of new investment across Canada.

The Canadian Federation of Agriculture endorsed the CIP as its number one priority in its 2008 Budget proposal.

A **co-operative development fund**, which would be a repayable loan fund rather than a source of grant funding. Investments made under this fund would be based on an analysis of a co-operative's business plan and its capacity to pay back loans on the negotiated terms and over a specified period of time.

This new fund needs a one-time-only investment of \$70 million from the federal government and after that it will be **self-sustaining**. The Fund would also seek additional financing from the co-operative financial sector. It would work like the Arctic Co-operative Development Fund, which was capitalized by the federal government in 1986 with \$10 million and is now worth over \$30 million.

In its 2009 budget, the Government of Quebec announced two new measures that open up the door to further financial innovation. An investment of \$5 million in RISQ has allowed the creation of new financial product for pre-start ups. A study is currently underway in collaboration with the Chantier de l'économie sociale to explore the possibility of creating a secondary market to leverage private capital for the social economy.

Causeway, which brings together several major networks and organizations interested in investment in social enterprise, is also proposing several innovative approaches to financing. Their proposals can be found in the issues paper on finance prepared for the Summit.

### 3. **Social enterprises need to be used in a broader range of sectors**

Social enterprises in Canada are already active in a wide range of sectors but could be more active in such sectors as manufacturing, transportation, health care, and education, to name only a few. However the experience of other countries, or even in some Canadian provinces, shows us the variety of possibilities.

- In Spain, in the white goods manufacturing sector, the worker-owned Mondragon co-operative is a major player
- In Japan ,co-operatives deliver a major part of health services
- In the United States, rural electrical cooperatives have been the basis for access to electricity for over 30 millions members since the 1930's.
- In Alberta, co-operatives deliver gas and electricity to large sections of rural Alberta
- In Quebec, child care is mainly delivered by parent controlled not-for-profits
- In Western Canada, 1.2 million co-op members own a major oil refinery through Federated Co-operatives Limited.

- In Quebec not-for-profits and co-ops deliver home care services that combine public funds and user fees to assure accessibility across the province.

A profile of how co-operatives are being used in new and innovative situations can be found at <http://tinyurl.com/InnovativeCoops>. A repertory of over 4 000 social economy enterprises in Quebec can be found on the portal <http://economiesocialequebec.ca>

#### **4. Social enterprises need access to existing government programs (including funding and procurement) as well as new programs and policies**

For social enterprises to emerge and to consolidate their activities in Canada, they must have access to the same development instruments as traditional private for-profit enterprises: access to capital, access to markets, access to training for managers and employees, and support for research and development. The extent to which social enterprises can access existing government programs varies depending on the jurisdiction. A first essential step is to examine existing programs for small and medium enterprises to assure their accessibility to co-operative and non-profit social enterprises. Another initiative proposed is the extension of the loan guarantee program at the Federal Development Bank to co-operative and non-profit organizations

But social enterprises also need new and specifically designed programs where the specificities of these enterprises are taken into account in the design and delivery of support measures. There are currently few comprehensive programs at the federal level which can help new social economy enterprises through the start-up phase or facilitate a transition from the traditional non-profit model to a more enterprising one. In some provinces, technical resources are provided through provincially funded organizations; in a few cases, Community Futures development corporations offer this kind of support.

Support for social entrepreneurs through the start-up phase or through development projects increases the rate of success and widens the number of potential entrepreneurs. It is important over the next few years to build on successful existing models to allow access to technical resources and expertise in all regions of Canada.

An example of a successful partnership program at the federal level is the Co-operative Development Initiative (CDI) which is managed by the co-op sector and distributes some \$4 million per year to help the development of new, emerging and innovative co-operatives.

Federal, provincial and municipal governments across Canada purchase goods and services whose total value can be evaluated in the hundreds of billions of dollars each year. These sums account for an important part of the



country's economic activities. Even though government expenditures do not always have explicit social objectives, they all, in the broadest sense, serve the interests of the Canadian public. What better way to increase the social impact of these expenditures than to increase public procurement from social enterprises?

This kind of policy does not sacrifice quality or price in order to do business with social enterprises; they simply allow for a 'social preference' in procurement while maintaining the same standards of quality and cost controls. Many policy initiatives are currently being carried out in Europe and the United States: for example, awareness campaigns within the public sector to encourage these practices, technical support to social enterprises to increase their capacity to win bids in public tenders, reserved markets for certain types of services and the integration of social impact measures in public tenders. Collaboration between social economy actors and public officials will be necessary to identify the appropriate measures to increase access to public markets for social enterprise.

**5. Social enterprises need trained managers and staff as well as trained directors and trained social enterprise entrepreneurs who know how to start up new programs**

While there are quite a few programs which examine the history and functioning of social enterprises (and particularly co-operatives), only a handful are dedicated to meeting the needs we have outlined above.

The co-op sector has a new Co-op Management Certificate Program at the Schulich School of Business at York University and there are co-operative Masters programs at Saint Mary's University and at the University of Sherbrooke as well as Centres of Co-operative Studies at the University of Saskatchewan and the University of Victoria; there is also a Masters program (MBA) in management of collective enterprises and a Social Economy Chair at the Université de Québec à Montréal. The sector needs more dedicated college and university programs which can help train managers and entrepreneurs as well as sector led programs to train the thousands of volunteers who serve on boards of directors.

**6. Within governments, all departments need to be made aware of the value of social enterprises**

The federal and some provincial governments have specifically embraced social enterprises by creating a place for them within the government bureaucracy: the federal government's Co-operatives Secretariat is a prime example.

While this is a good start, the social enterprise sector needs to be promoted within all government departments, and not just in those which have a direct responsibility for social enterprises. Many departments which could use the

social enterprise tool are not aware of how it could be used in their respective policy areas.

## **4. Propositions**

In countries around the world, new instruments and new public policy is emerging in support of the social economy and social enterprises. Common to all countries, however, is the recognition that new tools and instruments that combine financial and social returns require the contribution and investment of both private and public actors. Moreover, the experience in OECD countries has shown that enabling legal and institutional frameworks are the pillars upon which this activity can emerge and grow. The growth of the social enterprise model on all continents, and particularly in the context of the current economic environment, are bringing increased recognition of the capacity of businesses to operate as social and economic actors that can meet triple bottom line objectives (economic, social and environmental). In Canada, the policy we need revolves around specific answers to the issues raised in the last section. These can be summarized into three major concerns:

### **Recommendation 1: Position social enterprises in a greater role for immediate economic revitalization strategies**

Federal policy and programs need to ensure a greater role for non-profit organizations, social enterprises and co-operatives in today's revitalization strategy. Mechanisms can be developed to include social enterprises and social economy organizations in all industrial development strategies. Social enterprises can play a crucial role in creating employment for residents of inner cities and rural areas, newcomers, persons with disabilities, Aboriginal peoples and other marginalized citizens.

### **Recommendation 2: Build partnerships with governments to ensure the development of a stronger people-centred economy sector**

As we have noted in the previous section, we need to develop a partnership with governments at all levels to assure that social enterprises -- including co-ops and non-profits -- have access to government programs which can help develop the sector. The social enterprise sector does not view partnerships as a one-way street. Rather, the sector is willing to invest its own resources in terms of money, time and energy to assure the success of this strategy.

### **Recommendation 3: Strengthen networks and collaboration between social enterprises**

Because of its emphasis on collaboration instead of competition, one of the key strengths of the people-centred economy is its capacity to build networks on a local,

national and international level. The Canadian Co-operative Association, the Chantier de l'économie sociale (Québec), the Conseil canadien de la coopération et de la mutualité and CCEDNET are examples of the types of networks that have emerged to assure the recognition and representation of community and social economy enterprises. These Canadian networks are also linked to global networks that play an increasingly important role on the international scene, often in collaboration with recognized international institutions such as the International Co-operative Alliance, International Labour Organization, OECD and the UNDP.

Networks play a key role through the creation of common tools, mutual learning and negotiation of appropriate public policy. Support and recognition of these networks is an important component for the strategic development of social enterprise.

Another way that social enterprise can be strengthened is through increased business-to-business activities within the sector. The intensification of commercial exchanges between social economy enterprises represents an important potential for growth. New instruments based on the use of internet and purchasing portals to support increased business-to-business activities should become a priority for the sector over the coming years.