Social Enterprise and Social Finance: The Infrastructure behind Social Innovation and "Philanthrocapitalism"

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There is increasing discourse in Canada and elsewhere on the topic of social innovation. Governments in jurisdictions such as the United Kingdom and the United States see social innovation as a legitimate public policy approach, and governments in Canada are being asked to take a more active role. Notwithstanding this, a number of social innovation concepts are not well understood in Canada except by those actively working in the area, and there appears to be no consensus on the appropriate role to be played by government in advancing the social innovation agenda.

The concept of social innovation has been around for a while. Like innovation in the private sector, social innovation is about applying new thinking or new processes or new technologies to addressing old problems. And like private sector innovation, social innovation can be either incremental or transformative. Unlike private sector innovation, however, social innovation has to some extent turned its focus inwards, towards the structure and the infrastructure of the social sector itself, seeking more effective tools for tackling challenging social issues.

In this sense, the movements of the non-profit sector towards social enterprise or social purpose business are innovations, as are social finance proposals that seek to enable the work of social enterprise by providing access to a wider variety of investment instruments. Social finance concepts include mission-based lending and program-related investments for foundations, social lending mechanisms for institutional investors, social venture philanthropy and social investment funds, to name a few. All operate under the umbrella of “philanthrocapitalism”, a term coined in a 2006 article in The Economist.

A discussion of the topic breaks down into four key components: (i) social innovation, (ii) social enterprise, (iii) social finance, and (iv) social organizational forms.

A social enterprise can be defined loosely as an organization through which a social entrepreneur can pursue socially beneficial or charitable goals through for-profit or business-like activities. The law in Canada presents impediments to carrying on social enterprise. This issue lies in the fact that both non-profit organizations and registered charities are limited in the extent to which they can carry on business activities or otherwise earn profits. As with many legal impediments, legal “workarounds” have been devised, but many find these workarounds to be unsatisfactory. Legislative changes could be implemented to eliminate the worst of these impediments, but there is little evidence that governments are rushing towards any such amendments.

There is a growing lobby in Canada for the creation of a new type of organizational form that would permit such “blended” purposes. The United Kingdom has a “community interest company” or “CIC”, which has as its primary objective the use of assets and profits for the benefit of the community and a secondary objective of creating a recognizable brand for social enterprises. Several American states have created the “low-profit limited liability company” or “L3C”, and other states have recognized the “benefit corporation” or “B Corp”, which in each case have as their primary purpose furthering one or more charitable purposes, with profit-making as a secondary goal. The need for legislation in Canada to create new so-called “hybrid” organizational forms to facilitate social enterprise is a critical and pressing issue only to the extent that legislative impediments to carrying on social enterprise are not removed. If they are, the need for new organizational forms becomes less significant, although perhaps still desirable.

The greatest confusion lies in the area of social finance. Mission-based investments and program-related investments by foundations are relatively well understood by those working in the area, as are social lending mechanisms for institutional investors, even if infrequently utilized in Canada. Several modest legislative amendments aimed at increasing the comfort level of fund managers, by clarifying the ability of institutions to make such investments, likely would increase their use.

Other models of "impact investments" are less common. Some of the alternate models being proposed have been used with some success in other jurisdictions, while others, to the extent they exist other than theoretically, appear almost completely reliant on government investment, and thus may not be sustainable in the longer term.

Social enterprise should not be seen as a panacea for all that ails the not-for-profit sector. To the extent that it has the ability to diminish the perceived value of the work, or the fundraising capacity, of non-enterprising charities, it is not without risk. However, social enterprise does reflect an innovative approach to addressing social issues that should be welcomed, particularly when viewed as only one in a menu of possible approaches.

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