CALEDON
INSTITUTE OF SOCIAL POLICY

caledon commentary

February 2007 ISBN # 1-55382-214-5

Money and Meaning: Blended Value in Community Enterprise

There is a world of untapped opportunity that promises both financial and social return on investment. It is known as the 'social economy' and, in Québec alone, generates some $6 billion in revenue with an estimated 160,000 employees in various types of community enterprise. Thousands of these ventures operate in other regions of the country as well.

But despite its vast potential revenue and employment capacity, this dimension of the economy remains largely untapped in Canada. Outside of Québec, the social economy typically is treated as a set of disparate projects rather than as a viable sector worth significant financial investment by private business and governments. Ottawa has provided only limited support for these ventures.

Both the US and the UK, by contrast, have introduced measures in the form of tax credits and direct funds to actively promote investment in community enterprise. The US effectively recognizes this economic sphere as a 'new market' and offers a tax credit by that very name.

Community enterprises lie at the interface of two worlds that typically run on parallel tracks. Investors put their money into private businesses in order to make a profit. Governments and private donors contribute to community organizations to support work with a social purpose. The latter may include creating job opportunities for persons considered hard to employ or constructing affordable housing for low-income families.

Community enterprises effectively fall into a gray zone that blends these black and white worlds. The enterprises can be understood as hybrid organizations in which business principles meet social purpose. They are sometimes referred to as 'blended value' organizations because that is precisely what they do.

These hybrid organizations operate on the basis of business principles. They seek investment capital, produce goods and services, and generate revenue from their activity. Like conventional businesses, community enterprises operate in all sectors of the economy, including forestry, agriculture and fishing; energy production and recycling; land development and housing production; and services such as ecotourism, catering, computer graphics, music production and artistic design.

A primary difference from traditional business lies in the way in which community enterprises produce their goods and services. These enterprises do not simply construct housing if they are in the development business. Rather, they build accommodation specifically for low- and modest-income families.

Community enterprises do not just look for available workers. Instead, they often seek out candidates who face disproportionately high rates of unemployment in the traditional labour market, such as Aboriginal Canadians, persons with disabilities, recent immigrants or young people who have dropped out of school.

Sometimes a training component is built into the work operations so that employees can upgrade their skills at the outset and on an ongoing basis – good business practice that traditional businesses could emulate in this world of rapidly changing knowledge and technology.

Finally, community enterprises may set up shop in neighbourhoods that have experienced decline or in rural areas that have lost their traditional resource base. The monetary boost is the spark these areas often need to kick start their economic engine.

Credit unions have long recognized the value of community enterprise and have seen strong financial returns on their investment. But private investors do not typically include this category of business among their holdings – even in the most diverse of portfolios.

In fact, most investors would ask why they should put money into a community enterprise when traditional businesses appear so much more attractive. There are many reasons. One of the most important has to do with meaning.

Increasingly, investors are seeking opportunities not only to do well. They are also seeking opportunities to do good. They are looking for more profound meaning for their money. Community enterprises are the intersection of smart business and good philanthropy.

But the financial returns can be equally attractive, especially in countries that explicitly support the development of hybrid organizations. In the United States, for example, investments in community enterprise are not only recognized, but are actively encouraged, through federal tax credits and direct government support.

American efforts to promote this economic activity were triggered by the interest in encouraging investment in low-income communities. In 2000, the US government introduced the New Market Tax Credit as part of a broader set of measures within its Community Renewal Tax Relief Act. The New Market Tax Credit was to provide up to $15 billion worth of tax credits for community investment between 2002 and 2007.

Under the plan, investors received, for the first three years, an annual tax credit worth 5 percent of their investment in community enterprise. For the next four years, the tax credit increased to 6 percent of investment.

In order to be eligible for the credit, investors had to direct their funds toward an accredited enterprise known as a Community Development Entity. To gain accreditation, the entity is certified by the Community Development Financial Institution Fund administered by the US Treasury Department. The Fund oversees these financial institutions in order to ensure accountability and the quality of business practice.

The UK measures on community enterprise similarly were driven by the national interest in promoting investment in economically disadvantaged regions. The UK Chancellor of the Exchequer appointed a lean high-profile Social Investment Task Force to provide advice on how best to grow this new market. The Task Force made (only) five practicable recommendations, including a community investment tax relief credit and community development venture funds.

Relative to other developed nations, Canada is well behind in our support of community enterprise. We can learn from the new market policies of our principal economic allies. Untapped millions in private pockets could make a significant social difference if the appropriate financial incentives were in place. Private dollars would not replace government support of social purpose – but could bolster significantly its scope and impact.

Canada can start by introducing a tax credit for investment in community enterprise. We can encourage private dollars for social purpose – and thereby provide the right signals to match money with meaning.

Sherri Torjman
Vice-President
Caledon Institute of Social Policy

Bill Young
President
Social Capital Partners

401-1390 Prince of Wales Drive
Ottawa, ON K2C 3N6
CANADA

Phone: (613) 729-3340
Fax: (613) 729-3896
E-mail: caledon@caledoninst.org
Website: *www.caledoninst.org*