



## **Legislative Innovations and Social Enterprise: Structural Lessons for Canada**

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Of the many lessons to be drawn from the tumultuous economic events of 2008, two are particularly striking.

The first is the obvious lesson that Canada, like most other nations, has undergone, and continues to experience, dramatic and fundamental structural economic change. The potential collapse of the automotive manufacturing industry is the most graphic example of the sort of change that has negatively impacted industries and communities across the country. Old industries are gone or failing, and communities are suffering.

The second lesson is equally obvious - infrastructure is essential. There has been much discussion of how governments should invest in repairing and modernizing physical infrastructure, like our crumbling roads and bridges, bursting water mains, and failing sewer systems as a way to create jobs, bolster the economy, and ensure that the basic physical requirements of commerce and community are renewed.

These two lessons come together on the issue of social enterprise. Here is one of many similar definitions:

A social enterprise is an organization or venture that achieves its primary social or environmental mission using business methods. The social needs addressed by social enterprises and the business models they use are as diverse as human ingenuity. Social enterprises build a more just, sustainable world by applying market-based strategies to today's social problems.<sup>3</sup>

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<sup>1</sup> See [www.lawyerforcharities.ca](http://www.lawyerforcharities.ca)

<sup>2</sup> See [www.centreforsocialenterprise.com](http://www.centreforsocialenterprise.com)

<sup>3</sup> This is from the Washington D.C.-based Social Enterprise Alliance [www.se-alliance.org/about\\_us.cfm](http://www.se-alliance.org/about_us.cfm) (Retrieved February 3, 2009).

The first lesson (fundamental economic change) underscores the urgency of the need to adapt and redesign the ways in which our economy and communities function, as the old industrial model will not be coming back in its old form. Social enterprise should be at the forefront of this redesign.

The link to the second lesson is that infrastructure is more than bricks, mortar, and pavement. Physical infrastructure is indeed essential, but of equal importance is the organizational or legal infrastructure – the laws, regulations, and public policies that enable the adaptation, redesign, and rebuilding needed by our economy and communities. Though not as dramatic as a burst water main, nor nearly as expensive to modernize as physical infrastructure, the organizational infrastructure needs attention too.

This paper argues that governments should modernize the organizational infrastructure that applies to social enterprise to better enable it to flourish. A relatively modest start would be new legislation enabling the creation of a legal structure specifically for the purpose of social enterprise.

### *Social Enterprise and the Law*

“Social Enterprise” is not a legal expression in Canada. There is no national or provincial social enterprise act or regulation that defines it or gives it legal form or structure. It is not addressed in the voluminous federal *Income Tax Act* as something distinct and worthy of unique treatment.

Instead, social enterprises in Canada take a variety of different organizational forms. They can be:

- A sole proprietorship or partnership registered under provincial legislation.
- A corporation incorporated under either provincial or federal legislation.
- A co-operative incorporated provincially, or, if it is carrying on business in more than one province, incorporated federally.
- A non-profit organization incorporated under provincial “society” or equivalent legislation, or under Part II of the *Canada Corporations Act*.
- A registered charity engaging in “related business.”<sup>4</sup>
- A non-profit or charity that owns a for-profit business (which can take different organizational forms).

Social enterprises can also be undertaken as programs, projects, joint ventures, or other agreements between any of the above legal structures or individuals.

“Community Enterprise” is an alternative name for organizations or ventures of this type that may better capture their essence as part of the middle ground between the state and

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<sup>4</sup> See 2003 CRA policy statement [www.cra-arc.gc.ca/tx/chrts/plcy/cps/cps-019-eng.html](http://www.cra-arc.gc.ca/tx/chrts/plcy/cps/cps-019-eng.html) (Retrieved February 3, 2009).

the market. The two names are used interchangeably here. Unfortunately, “community enterprise” is also without legal meaning in Canada.

Operators of social or community enterprises have been creatively working with the available legal structures. But in Canada, there has been virtually no corresponding legislative or regulatory innovation.<sup>5</sup> The organizational infrastructure has not kept pace with the growing sophistication of community enterprise.

Of the existing legal structures, only the co-operative expressly embraces notions similar to social enterprise. One of the internationally recognized principles shared by all co-ops is “concern for community.” The International Co-operative Alliance states, as one of its seven key principles, that “while focusing on member needs, co-operatives work for the sustainable development of their communities through policies accepted by their members.”<sup>6</sup> This principle applies to all co-ops, whether they are for-profit or non-profit.

The other legal structures do not fit as well with the notion of social or community enterprise. Charities must be established for exclusively charitable purposes, and their ability to utilize market-based strategies is limited. Profit cannot flow from charities to members or directors. Such payments are strictly prohibited. Similarly, non-profit organizations cannot be incorporated for the purpose of making profits, nor can they issue shares or pay dividends. Corporations are designed to maximize profits for shareholders, though shareholders may decide to forego some of that profit to enable the corporation to engage in activities that benefit the community.

## *A Patchwork*

The existing legal infrastructure utilized by Canada’s community enterprises is a patchwork. The quality of the relevant legislative and regulatory systems varies from province to province. Most are badly dated, incomplete, and inadequate.

### CANADA CORPORATIONS ACT

The best illustration of the dated nature of the legal infrastructure in this area is the *Canada Corporations Act*, which governs thousands of federally incorporated non-profit organizations and charities. It has changed little since 1917, and is sadly inadequate. A full critique is not possible here, but briefly, it lacks detail and clarity on a range of important issues relating to governance, accountability, and administration.

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<sup>5</sup> An exception is the adoption over the last couple of decades in the federal and most provincial co-operative legislation of the capacity for co-ops to issue investment shares. Regarding charities, the Canada Revenue Agency has produced helpful policy statements regarding “Community Economic Development Programs” <http://www.cra-arc.gc.ca/E/pub/tg/rc4143/rc4143-e.html> (Retrieved February 3, 2009) and “Related Business” <http://www.cra-arc.gc.ca/tx/chrts/plcy/cps/cps-019-eng.html> (Retrieved February 3, 2009), but these are interpretations of existing (sparse) legislation and infrequent and conflicting case law.  
<sup>6</sup> [www.canadabusiness.ca/servlet/ContentServer?cid=1081945277001&pagename=CBSC\\_SK%2Fdisplay&lang=en&c=GuideFactSheet](http://www.canadabusiness.ca/servlet/ContentServer?cid=1081945277001&pagename=CBSC_SK%2Fdisplay&lang=en&c=GuideFactSheet) (Retrieved February 3, 2009).

Its failings are recognized by Corporations Canada and others in the federal government, and substantial work has been done in an attempt to modernize it. In 2005, Bill C-21 was introduced by the then Liberal minority government, but it was not passed. In June of 2008, the Conservative minority introduced Bill C-62, which was very similar to Bill C-21, and shared its fate – it died on the order paper when the 2008 election was called. On December 3, 2008, this proposed legislation reappeared as Bill C-4.<sup>7</sup> Parliament was prorogued on the following day.

Prorogation means that all government bills not yet passed “cease to exist” and must be reintroduced as new bills, or they may be reinstated, with consent of the House of Commons.<sup>8</sup> While the fate of this important legislative overhaul is in doubt, it does appear to have at least some level of bi-partisan support as a sensible step forward.

But Bill C-4 and its earlier iterations do not address the concept of social or community enterprise. If passed, this modernization will improve the governance, accountability, and administration of existing and future non-profits and charities that incorporate federally, but there is nothing in those improvements that is specifically intended to enable community enterprise.

#### ONTARIO’S NON-PROFIT AND CHARITY REGIME

In Ontario, the legislation that governs provincially incorporated non-profit organizations and charities is also dated, incomplete, and in need of an overhaul. Unlike other provinces, which leave the administration of charities to the Charities Directorate at Canada Revenue Agency, Ontario takes an active role in the administration of charities. Ontario’s *Charitable Gifts Act* prohibits charities from owning more than a 10% interest in any business.<sup>9</sup> This is an impediment to the practice used in other provinces and with federally incorporated charities, of charities creating and owning for-profit businesses that engage in commercial activities which the charities themselves cannot undertake.

The Ontario government is working to modernize this legal infrastructure and the recent UK and US innovations will probably inform that work.

#### NOVA SCOTIA SOCIETIES

The Nova Scotia *Societies Act* states that a society cannot be incorporated “for the purpose of carrying on any trade, industry or business”. This restriction is applied broadly to include organizations with charitable or other non-profit purposes that intend to charge fees for services (educational workshops for example) in order to generate revenue to pay staff and other costs on a break-even or non-profit basis. Incorporation will not be permitted if fees will be charged for core services unless the work is carried out by 90%

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<sup>7</sup> <http://www2.parl.gc.ca/HousePublications/Publication.aspx?DocId=3625950&Language=e&Mode=1> (Retrieved February 3, 2009).

<sup>8</sup> [www.parl.gc.ca/compendium/web-content/c\\_d\\_prorogationparliament-e.htm](http://www.parl.gc.ca/compendium/web-content/c_d_prorogationparliament-e.htm)

<sup>9</sup> See Carter & Man p. 24 for a more detailed discussion. It is available at: [www.carters.ca/pub/article/charity/2008/tsc1024.pdf](http://www.carters.ca/pub/article/charity/2008/tsc1024.pdf)

volunteers. In contrast, other jurisdictions permit societies to engage in “business” so long as it is not for the profit or pecuniary gain of members.<sup>10</sup>

This approach is much narrower than in other provinces and under the *Canada Corporations Act*, by which fees can be charged for core services by societies (or “corporations without share capital” as they are called in some of the legislation) so long as the purpose is not profit or gain for directors or members of the organization.

### *Co-ops and Investment Shares*

Another gap for social enterprises is the fact that in some provinces with older co-operative legislation and regulatory regimes, it is not possible for co-ops to issue investment shares.<sup>11</sup> For co-operatives incorporated under federal legislation or in provinces with more modern co-operative legal infrastructure, this is an option that is attractive from a social enterprise perspective. The co-op model is successful for many social enterprises, but it does not meet the needs of all enterprises and situations.

### *Charities and Social Enterprise*

The relationship between charity and social enterprise is not very clear. That relationship is beyond the scope of this paper. Interested readers will find a paper on this topic by Canadian lawyers Terrance Carter and Theresa Man<sup>12</sup> very informative.

Very briefly, charity law is poorly developed in Canada. Unlike the UK, Canada has no national *Charities Act* that addresses the key principles and practices.<sup>13</sup> The provinces have constitutional jurisdiction over charities, but administration has fallen primarily to the federal government through its taxing powers. The favourable tax treatment that charities receive has resulted in the creation within the Canada Revenue Agency of the Charities Directorate to administer the field nationally.

Charity law is found in disjointed sections of the federal *Income Tax Act*, some provincial legislation, and a body of case law that goes back centuries but rarely expands. The Charities Directorate attempts to hold this poorly developed law together with administrative policies that fill in gaps and try to bring sense to the confusion.

When it comes to charity and social enterprise, the *Income Tax Act* and the limited case law leave sizable gaps and considerable confusion. For example, charities may engage in

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<sup>10</sup> See for example Section 2 of the BC *Society Act*, or section 154 of the *Canada Corporations Act*.

<sup>11</sup> For example, see the New Brunswick *Co-operative Associations Act*  
<http://www.gnb.ca/0062/acts/acts/c-22-1.htm> (Retrieved February 3, 2009).

<sup>12</sup> *Canadian Registered Charities: Business Activities and Social Enterprise – Thinking Outside the Box*. See <http://www.carters.ca/pub/article/charity/2008/tsc1024.pdf> (Retrieved February 3, 2009).

<sup>13</sup> The *Charities Act 2006* is a comprehensive modernization of charity law in England and Wales. It includes a new definition of ‘charity’ that replaces the four heads of charity adopted in the Victorian era based on a statute from the Elizabethan era. It also includes modern provisions for the governance and regulation of charities. See [http://www.opsi.gov.uk/acts/acts2006/ukpga\\_20060050\\_en\\_1](http://www.opsi.gov.uk/acts/acts2006/ukpga_20060050_en_1) (Retrieved February 3, 2009).

“related business,” but this concept is not fully defined in the *Act*, and the case law addressing it is inconsistent. Two Charities Directorate policy statements attempt to patch things up. One deals with Community Economic Development,<sup>14</sup> and the other with “related business” undertaken by charities.<sup>15</sup> These documents are helpful, but not without shortcomings. They are also administrative interpretations, not law, and they may therefore not stand up to future judicial scrutiny.

Here are the key lessons to be drawn from this guidance:

- Social or community enterprise is not defined. The administrative guidance refers to “social businesses” but defines them narrowly as sheltered workshops for persons with disabilities.<sup>16</sup>
- Charities may charge fees in relation to their charitable activities and programs.
- Any surplus must be devoted to the purposes of the charity.
- Private profit or benefit from charitable resources by directors or trustees is strictly prohibited. Champions of social enterprises need to make a difficult decision: either act as a paid employee and relinquish governance over the very venture that they founded, or serve on the Board in an unpaid position.
- The short definition of “business” is “commercial activity – deriving revenues from providing goods or services – undertaken with the intention to earn profit”.
- Charities cannot engage directly in “unrelated business”. A business activity will be considered “related” if : a) it is run substantially by volunteers or b) it is linked to a charity's purpose and subordinate to that purpose.
- It is not a sufficient link that all of the profits generated by the business activity are devoted to the purposes of the charity.
- It is not a sufficient link that the social enterprise serves or employs the constituents named in the organization’s charitable objects.
- Private foundations (one of the three categories of charities, along with charitable organizations and public foundations) may not engage in any business activities, and neither private nor public foundations may acquire more than half of the voting shares of a taxable corporation, unless the shares are donated to the foundation.
- Soliciting donations or selling donated goods are not considered to be business activity (and are therefore clearly allowable, within limits).
- Charities may establish separate corporate entities to perform activities that they cannot perform directly themselves. If that activity is business, it must be housed within a taxable corporation. If the activity is not considered by the Charities Directorate to be “business” and is not charitable, it can be housed in a non-profit organization. With some exceptions, charities can retain control over such a taxable corporation or non-profit organization.

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<sup>14</sup> [www.cra-arc.gc.ca/E/pub/tg/rc4143/rc4143-e.html](http://www.cra-arc.gc.ca/E/pub/tg/rc4143/rc4143-e.html) (Retrieved February 3, 2009).

<sup>15</sup> [www.cra-arc.gc.ca/tx/chrts/plcy/cps/cps-019-eng.html](http://www.cra-arc.gc.ca/tx/chrts/plcy/cps/cps-019-eng.html) (Retrieved February 3, 2009).

<sup>16</sup> [www.cra-arc.gc.ca/E/pub/tg/rc4143/rc4143-e.html](http://www.cra-arc.gc.ca/E/pub/tg/rc4143/rc4143-e.html) (Retrieved February 3, 2009).

In summary, a registered charity considering engaging in community enterprise needs to be very careful not to run afoul the laws and policies administered by the Charities Directorate. Transgressions can result in loss of charitable status. It may be necessary for the charity to create a separate corporate entity to house that activity. Extra care is needed in Ontario, as noted above, and if the charity in question is a private or public foundation.

### *The UK's Innovation*

In 2005, a new legislative and regulatory framework came into force in the United Kingdom, specifically supporting a new legal structure for social enterprise. The *Companies (Audit, Investigations and Community Enterprise) Act 2004* and the *Community Interest Company Regulations 2005* (the “*New Act*”) enabled the creation of a new type of company called Community Interest Companies, or “CICs.”

Community Interest Companies have these essential attributes:

- 1) They are established to trade (goods or services) for the community good. To qualify for CIC status, the company must submit to the CIC Regulator a “community interest statement” that includes:
  - a. certification that it has been formed to serve the community rather than to make private profits;
  - b. a declaration that it will not engage in political activity;
  - c. a description of its activities and how they will benefit the community; and
  - d. a description of how surpluses will be used.

Subsequent annual reports are required to confirm that the CIC continues to meet the community interest requirement. These reports are available for public review, ensuring a high level of transparency.

- 2) They may issue shares in order to raise capital. But unlike a traditional business corporation, the dividends that can be paid by CICs on these shares are controlled by a cap on returns set by the Regulator.
- 3) They are subject to an “asset lock”, which means that the assets and profits must be permanently retained by the CICs for community benefit, or transferred to another CIC subject to an asset lock, or to a charity.
- 4) They are subject to fewer regulations than charities, and may be established for purposes that do not meet the legal test of charity. But CICs do not enjoy the same favourable tax treatment that charities receive. They are taxed in the same manner as other businesses.

By February 24, 2009, 2,481 CICs had been established in the UK. They are listed on the CIC Regulator’s website<sup>17</sup> and they are pursuing a wide range of works, such as

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<sup>17</sup> <http://www.cicregulator.gov.uk/coSearch/companyList.shtml> (Retrieved February 24, 2009).

affordable housing, the arts, education and training, pre-schools, home support services, recycling, and the promotion of international trade.

This innovation has several important strengths.

**Legitimacy.** Creating a separate legal form provides additional legitimacy for social enterprise. The *New Act* represents confirmation by Parliament that activities of this type are important and should be encouraged.

**Profile.** Similarly, the *New Act* and related initiatives raise the profile of community enterprise, and expose more people to the basic concepts, and may attract more participants.

**Investments.** Perhaps the most dramatic strength of this innovation is the explicit combination of private investment capital with activities that benefit community. In Canada and elsewhere, limited access to capital is arguably the greatest obstacle to social enterprise projects, such as affordable housing, rural or urban community economic development, and environmental initiatives. Many projects are capable of becoming viable once established, but too often do not succeed due to lack of access to patient capital. For projects that fall outside the realm of charity, donations may be difficult to attract. With projects that are charitable, donations are often unpredictable and unsustainable.

CICs are able to do what Canadian charities and non-profit organizations cannot directly accomplish themselves – raise equity capital. That is, raise funds in exchange for shares, the way that traditional business corporations and some co-ops do. This enables and encourages the investment of private wealth in community projects – a combination with enormous potential.

**Cap on Returns.** This creative feature is a potentially useful administrative tool to ensure a reasonable balance between the interests of investors and the community interest when it comes to dividend payments.

**An Option.** The UK innovation creates an option for community enterprise. It does not render other structures or approaches unlawful or invalid, or force future projects to adopt the new form.

**Room to Evolve.** Another strength is the “community interest” test created by the *New Act*. It features a lower threshold than the test of charity, and it is not codified in detail. Instead, it is fluid and will evolve over time as the community enterprise sector develops.

**The Asset Lock.** This simple feature helps to ensure that assets intended for community benefit remain in that realm.

There is a substantial advantage for Canada in having the UK innovation well underway. If the federal or provincial governments decide to adopt something similar, they can replicate aspects of the model and make refinements based on lessons learned through several years of experience in the UK. One area that may be refined is the amount of the cap on investments returns. The current cap of 5% has been criticized as too low for investments with substantial risk. Another area where change may be needed is tax treatment. Income tax exemption may be appropriate, as may tax credits to encourage investment. Something similar to Labour-Sponsored Venture Capital Tax Credits or Nova Scotia's Community Economic Development Investment Funds may be prudent, and are being explored in some jurisdictions.

### *The American Innovation*

Changes similar to those in the UK are now occurring in the United States. On April 30, 2008, Vermont passed legislation that enables the creation of new legal entities called Low-Profit Limited Liability Companies, or L3Cs. At time of writing, similar legislation is before the North Carolina State Legislature. The Vermont legislation allows L3Cs created in that state to operate across the country. The primary goal of these legal changes is to introduce market solutions to community needs by providing "access [to] the vast pools of market driven wealth to make socially responsible investments in so called nonprofit areas."<sup>18</sup>

L3Cs are a variation on American Limited Liability Companies (LLCs), which are a form of business partnership that can issue shares. LLC investors are members rather than shareholders. LLCs are established by an operating agreement among the members. With an L3C, the terms of the operating agreement guarantee the public benefit nature of the entity's work. Like LLCs, L3Cs are not subject to federal income tax themselves, but the income they pay to members is taxable according to the rates applicable to each member. Very importantly, L3Cs are able to attract private capital for their works through the sale of shares and other securities, various forms of loans, or other commercial financial arrangements.

A key feature of the L3C innovation is the ability that they provide to American charitable foundations to make Program Related Investments in these new legal entities. This substantial pool of investment capital will enable L3Cs to attract or leverage other capital (from pension funds, institutional and individual investors, banks, insurance companies, etc.) to undertake community projects that make sound business sense.

The essential strength of the L3C innovation appears to be the capacity to attract capital by issuing shares, as CICs do. Canada does not possess the same pools of foundation capital that exist in the US, but the potential to combine foundation capital and private capital for community projects is very attractive and potentially powerful.

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<sup>18</sup> Lang, R.M.Jr. (n.d.) Overview. Americans for Community Development. Retrieved February 3, 2009 from <http://americansforcommunitydevelopment.org/supportingdownloads/ACDOverview.pdf> .

In Canada, charitable foundations may only make Program Related Investments in other registered charities or to “qualified donees”<sup>19</sup> The *Income Tax Act* would need to be amended to broaden this investment scope, and provincial trust law would need to be amended to expand the investment powers of trustees to go beyond the “prudent investor test”.

### Concerns

Some concerns or doubts have been raised as to whether Canada should follow the UK or US leads and create a new structure for social or community enterprise. Here are the concerns, with some responses.

**1. The current choices of organizational forms for social enterprises in Canada are sufficient and there is no need to add another structural option.**

Social enterprises will continue to emerge and grow with or without the adoption of the changes proposed here. The expectation is that a *Community Enterprise Act* would create another choice of form, increased profile and recognition for the sector, and a focus for additional legislative and regulatory innovations. The addition of a new option in no way compromises existing structures. It merely offers another choice.

**2. There are other higher priorities in terms of legislation to support social enterprise. Favourable tax treatment and access to other sources of capital are more important.**

A *Community Enterprise Act* creates an opportunity for the Government of Canada to do more for social or community enterprise than just enable a new structure. Such an Act could reference favourable tax treatment or other public policies designed to help these entities to succeed. Additional innovations could take the form of additions or revisions to this *Act* in the future.

**3. The creation of a new structure for social enterprise may discredit or undermine the structures currently in use by social enterprises.**

This is not the case. The intention is for the proposed *Community Enterprise Act* to provide another choice of structure for social enterprises. The legislation could provide a definition of “Community Benefit” and a mechanism for entities incorporated under other federal or provincial legislation that meet that test to be eligible for favourable tax treatment and other incentives which the Government of Canada may decide to establish. Existing social enterprises would not be compelled to change their legal structure to comply with this new Act.

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<sup>19</sup>[www.cra-arc.gc.ca/tx/chrts/pley/csp/csp-q01-eng.html](http://www.cra-arc.gc.ca/tx/chrts/pley/csp/csp-q01-eng.html) (Retrieved February 3, 2009).

**4. Loans or debt financing is adequate to finance social enterprise by non-profit organizations.**

In Canada and elsewhere, limited access to capital is a major obstacle to community or social enterprise, such as affordable housing, rural or urban community economic development, and environmental initiatives. Some social enterprises are capable of being self-sufficient once established, but too often do not succeed due to lack of access to capital. These projects often fall outside the realm of charity, so they cannot be supported by charitable donations. For projects that can receive charitable donations, this source of funding is often too unpredictable and unsustainable to support many worthy community enterprises. In addition, community benefit projects are usually undertaken by non-profit organizations that lack the legal capacity to raise equity capital – that is, to raise funds in exchange for shares, the way that traditional business corporations do.

Enabling new community enterprises to tap into private capital by issuing shares is a powerful feature of the proposed new *Act*.

**5. Social enterprises interested in share capital can incorporate as for-profit businesses.**

This is correct. Business corporations can be, and are, successfully used for community enterprise. But corporations are intended to maximize profits for shareholders rather than to advance community interests, and they are taxable at the same rate as other purely for-profit corporations. A *Community Enterprise Act* would create another legal structure capable of raising funds through share capital offerings, and with higher levels of community accountability.

**6. The UK model is too complicated to be attractive to social entrepreneurs or investors.**

There is no evidence that this is so. There are now approximately 2,400 Community Interest Companies in the UK, and the number is growing steadily. It does take time for innovations like this to catch on.

**7. The UK model has received negative reviews. The dividend cap is too restrictive, the reporting requirements are too onerous, and the tax treatment is not generous enough.**

The fact that the UK has a head start of several years will be helpful in shaping the details of Canada's *Community Enterprise Act*, as lessons learned from the UK experience can be addressed at the outset in Canada. At time of writing, for example, a formal review of the dividend cap is being undertaken by the CIC Regulator<sup>20</sup>. Results from this investigation will prove useful to Canadian innovations.

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<sup>20</sup> [www.socialenterprisemag.co.uk/sem/news/detail/index.asp?id=844](http://www.socialenterprisemag.co.uk/sem/news/detail/index.asp?id=844) (Retrieved February 24, 2009).

**8. We do not know whether there is any interest in a new structure among existing social enterprises.**

This is correct. There is not yet any data regarding support for this proposal in Canada. Such data would inform the discussion on the issue. The first step is to build a case as is outlined in this paper. Such work has not previously existed.

**9. The Ontario government is planning an overhaul of its non-profit law and regulations, and may provide helpful new opportunities for social enterprises. Care should be taken not to complicate that potential progress by advocating a different new structure.**

It will be good news if Ontario decides to make progress in this area. This would not preclude the Government of Canada from creating a *Community Enterprise Act*, nor would it prevent other provinces from doing something similar.

**10. Work advocating for a new legal structure will be a distraction from other social enterprise policy reform.**

This need not be the case. Efforts to establish a new legal structure can be made independently of other reforms, or in conjunction with them. The idea of a new legal structure may indeed bring new interest, energy, and focus to the infrastructure needs in this area.

### *Conclusions*

Canada's organizational or legal infrastructure has not kept pace with the progress made by our community enterprises. By adopting relatively modest and low-cost legislative and administrative reforms that draw lessons from innovations in the UK and the US, Canada can improve that infrastructure. This important incremental step forward could be part of a broader strategy to encourage more social enterprises to help communities adapt to change, and address the challenges and opportunities that they face.

### *Recommendations*

1. That the Government of Canada enact a *Community Enterprise Act*, which draws upon the best of the recent legislative innovations in the UK and the US.
2. That this *Community Enterprise Act* incorporate by reference the modern governance, accountability, and administrative provisions that have been built into Bill C-4, the existing replacement for the inadequate *Canada Corporations Act*.

3. That this *Community Enterprise Act* enable new organizations to incorporate as “Community Enterprises” – organizations similar to Community Interest Companies in the UK. They should have the capacity to issue shares to investors, subject to limitations on scope of activities and on investment returns, and a capital lock to ensure that assets remain primarily for community benefit.
4. That this *Community Enterprise Act* create an option for existing social enterprises incorporated under the *Canada Corporations Act* to “migrate” either to Bill C-4 as non-profit organizations or charities, or to the *Community Enterprise Act* to become Community Enterprises.
5. That this *Community Enterprise Act* should define “community benefit” and provide a mechanism for entities incorporated under other federal or provincial legislation that meet that test to be eligible for favourable tax treatment and other incentives the Government of Canada may decide to establish.
6. That specific legislative authority be granted to charitable foundations to invest in Community Enterprises and other organizations that meet the community benefit test and that have purposes similar to the investing foundations.