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# **Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities**

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**EVIDENCE**

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**Chair**

**Mr. Phil McColeman**



## Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities

Tuesday, February 17, 2015

• (1530)

[English]

**The Chair (Mr. Phil McColeman (Brant, CPC)):** Good afternoon, ladies and gentlemen. Committee members, welcome.

This is meeting number 42 of the Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities. Today we are embarking on a new study entitled “Exploring the Potential of Social Finance in Canada”.

To help us kick off our study, we are joined today by departmental officials. From the Department of Employment and Social Development, we have, first of all, Ms. Siobhan Harty, director general of the social policy directorate, strategic policy and research branch; and Mr. Blair McMurren, director of social innovation, strategic policy and research branch.

Thank you both for being here, Ms. Harty and Mr. McMurren.

We are quite flexible today. We've tentatively scheduled a one-hour meeting; however, I'm going to be flexible with the time and then we'll move into questioning.

I have one other note. We have to deal with a very short budget issue at the end of our meeting. When we've exhausted our questions, we'll move into that session.

Ms. Harty, please proceed.

**Ms. Siobhan Harty (Director General, Social Policy Directorate, Strategic Policy and Research Branch, Department of Employment and Social Development):** Thank you very much. It's a pleasure to be here this afternoon.

We distributed a PowerPoint presentation to you in both official languages. What I propose to do is to take you through it at a high level. I won't go through every slide. Then we can cover off some more topics in the question and answer period.

I'd like to start on slide 2 and provide you with a definition of social finance. This is particularly appropriate as you embark upon your study. Simply put, social finance is using money in ways that generate both social and financial returns. It's an approach that mobilizes multiple sources of capital to deliver a positive, measurable social outcome and an economic dividend.

Social finance provides opportunities to leverage additional investments and increase available dollars to develop, deliver, and scale up proven approaches that seek to address social and economic

challenges in our communities. It includes new approaches to investing. It's often known as “impact investment”, so if you hear the term “social impact investment”, it is quite interchangeable with “social finance”. Impact investing has been described as actively placing capital in businesses and funds that generate social and/or environmental good, and at least a nominal principle to the investor.

Let me turn now to slide 3 and look at the question: why social finance? Why are countries like Canada, the U.K., the U.S., Australia, and others embarking upon social finance? In Canada the momentum to explore social finance came largely from the non-profit sector, and it was aided by the launch of the non-governmental Canadian Task Force on Social Finance, which published a report in 2010 and a subsequent follow-up report in 2011.

Despite Canada's strong safety net and community-specific programs, some groups continue to face complex social and economic challenges. Governments, community organizations, and private sector investors have come to recognize that they can't tackle these challenges alone. There is a desire to find new ways to do so through partnerships that address social challenges and that have proven resistant to traditional forms of social intervention.

A mature social finance marketplace—and we're seeing that develop in the U.K. and the U.S.—would unlock new sources of capital for community organizations. These are primarily from private foundations, and we have large ones in Canada and other sources. They provide a new avenue for socially conscious investing by the private sector—I also include foundations in the private sector—and realized savings for governments by efficiently allocating resources to complex social challenges.

In addition, social finance also requires rigorous use of metrics and evaluation to determine if expected outcomes have been met, thereby ensuring effective use of resources and accountability for the use of public funds.

Turning to slide 4, one thing to note about the marketplace for social finance or social impact investment is that it's a marketplace like any other marketplace. It will seem familiar to you if we can lay it out in those terms. In practice, the way markets work varies from country to country and sometimes, as we know in Canada, from region to region. Some players will have more than one role, or they are active in more than one side of the market.

As with other capital markets, the social finance marketplace is made up of three broad components. There is the supply side that provides the capital. There are a number of players that are active in this area, including foundations, financial institutions, and private investors, to name a few. There is the demand side that comes from a range of both non-profit and for-profit organizations that includes charities, non-profit organizations, social enterprises, cooperatives, and social purpose businesses. In the middle there are intermediaries, those agents that try to bring together the two sides of the market: supply and demand. These intermediaries work to facilitate deals by providing expertise for the development of the supply and demand side, and to enable the efficient growth of the overall market.

● (1535)

Some examples of intermediaries are presented in the PowerPoint presentation. Down at the bottom, I'd like to note that, as in any other market, you need to have a tax and regulatory environment—the role of government in shaping the overall market.

The size of the market in Canada is currently estimated to be approximately \$2.2 billion. Some projections that were done by the MaRS Centre for Impact Investing suggest that it could grow to the range of \$30 billion in approximately 10 years, if all parts of the market move forward together in an optimal situation.

Let us move to slide 5.

[Translation]

Here are some examples of organizations that supply capital for social finance. They are generally large investors, banks or other financial institutions and foundations.

Some of those organizations are looking to help grow the supply side for social finance in general or are using social finance investments in a specific social mission, such as aboriginal community development.

[English]

Slide 6 shows some examples of intermediaries that are fairly active on the Canadian scene. As noted before, these try to bring together the two sides of the market, but because the market is pretty small in Canada, as I noted earlier, some players play on all sides of the market right now. You find that some organizations, such as MaRS or Trico, are intermediaries, but Trico is a good example of one that also provides grants through a foundation.

[Translation]

Page 7 provides a few examples of organizations that need social funding to develop and expand innovative interventions or use social finance mechanisms to further their social mission. These are generally non-profit social enterprises or charity organizations.

[English]

Here we have examples of organizations operating on the demand side.

I'd like to turn now to slide 8 to take that image of the market with supply, demand, and the intermediaries and then just highlight for you some of the actions that are being taken by governments across the country. We have broken it down into two general areas of activity: rules and regulations—if you recall, I talked about that

foundational piece that governments can provide by creating an enabling environment—and direct investment.

To highlight some areas of activity on the supply side, the Government of Saskatchewan is considering crowdfunding legislation. Crowdfunding is something that is quite common not only in Canada but in other countries. Saskatchewan is looking at whether the government has a role to play in regulating that kind of activity. We know that this can be a source of incredible funding, and it can be done very quickly to achieve different social missions.

As well, looking at the next column, “Directing Capital”, the Government of Nova Scotia has been looking at introducing an equity tax credit. On the demand side, the Government of British Columbia has introduced a community contribution company in the form of legislation. Recognizing that some of our traditional categories of corporations don't permit us to move forward in this area, it has tried to find a way in between traditional business and traditional charities.

Looking at direct investment, we already have a number of vehicles that supply social finance. A strong, well-established example in the province of Quebec is the Fiducie du Chantier de l'économie sociale; it is a big player. Also, to speak about my own department, we have been involved in a micro-loan project to look at helping recent immigrants achieve foreign credential recognition so that they can engage in their professional activity in Canada and be part of the labour market.

As well, for directing capital, I go back to the Province of Saskatchewan. They are noteworthy because they launched the first social impact bond in Canada. It's on a small scale, approximately \$1 million, but it started that part of the market.

Finally, looking at capacity building, I will just note that in Canada there is a rich tapestry, I would say, of organizations at the local level that are already engaged in social purpose activities and mission-based activities. We name a few there.

Turning to slide 9, I said earlier that the market is starting to grow in Canada. It is nascent, but one important point to note as it moves forward is that it is not designed to replace government funding at all. It is very much complementary to government funding; it is additional to government funding. One of the purposes I noted earlier is to be able to leverage different sources of funding to address complex social challenges.

● (1540)

There's an assumption that by bringing new ideas and new sources of funding to the table, governments with their partners would be better placed to address complex social and economic challenges, but as they do so, some issues in the market would need to be looked at again. As with any other market, when you're trying to grow a venture capital market or another kind of market, you sometimes need to have various interventions, whether on the supply or the demand side, to grow it. We know that from other countries as well.

I will conclude concerning this slide by noting that social finance isn't necessarily suitable for every social issue or for every target population. As countries embark on this, they are looking to their vulnerable populations on various issues and to their partners in those spaces, asking whether an area is an appropriate one in which to consider social finance. The one advantage of social finance is that it allows you to take a more preventative approach, because it is something that needs to take place over the long term, and often with short-term funding you can't address things using a preventative approach.

Turning to slide 10, I've mentioned a few times that other countries are engaged in social finance. The leader among countries currently engaged is definitely the United Kingdom. They have taken a very active role in pioneering social finance domestically, but they didn't stop there. In 2013 they decided to use their presidency of the G-8, as it was at the time, to launch an international social impact investment task force made up of G-7 member states. I had the privilege of sitting on it as the Government of Canada representative, along with Tim Jackson from the MaRS Centre for Impact Investing.

We spent a year going around most G-7 countries and speaking with all the players in the market. Then we produced a report, which was published in September 2014. Actually, there is a series of reports. Canada as well published its own domestic report, as did other G-7 countries. All of those are available on a website.

So the U.K. is the leader, with the U.S. not far behind in doing different kinds of pay-for-performance schemes, as well as social impact bonds. Australia has launched social impact bonds. Other countries are looking at their legal and regulatory environments and asking whether there are some things they can do to finance the flow of different forms of capital into the market.

Let me conclude by recapping that this is a phenomenon that has emerged internationally. I would say it's another tool in the tool kit that governments can use to look at addressing social and economic challenges. But it's important that you take a partnership principle, because it's not governments acting alone: you have to engage with different sectors of society to be able to leverage innovation and new sources of capital. The federal government has started looking at the potential for social finance, but so have some provinces, Saskatchewan, B.C., Ontario, and Nova Scotia in particular. As we in the federal government look at various opportunities to move forward, we'll be taking our cue from what happens internationally and from the lessons learned from other countries.

Thank you.

• (1545)

**The Chair:** Thank you, Ms. Harty. You might provide us with—I'm not sure they're in the documents we have—the link to the website for the reports of the panel which you mentioned during your remarks.

**Ms. Siobhan Harty:** Yes, absolutely.

**The Chair:** I think it would be important for us to get access to those.

Our first round will be a seven-minute round. We'll start with Madam Groguhé.

[*Translation*]

**Mrs. Sadia Groguhé (Saint-Lambert, NDP):** Thank you, Mr. Chair.

I want to begin by thanking the witnesses for coming here to enlighten us on social finance.

I must admit that social finance is a new topic for me. When I did my research—my homework, if you will—I realized that there was still a lot of questioning about this new program. More specifically, I came across a Carleton University study where 150 Canadian community groups were surveyed. Three main conclusions emerged from this study, and I will share them with you.

First, community groups don't want to use social finance instruments because they do not have the required expertise or resources to do so.

Second, problems inherent to short-term contracts constitute barriers to the development of their activities.

Third, their activities develop better when they receive stable funding instead of project-based funding.

This study also states that, to attract investors, interest rates have to be provided. I would like to ask you a few questions about those rates, especially since the Rotterdam pilot project, which is mentioned in the Library of Parliament document, provides a 12% interest rate.

When it comes to projects funded in this way, I would like to know what percentage of the money is used to cover administration fees and interest rates.

[*English*]

**Ms. Siobhan Harty:** I'll start with the study from Carleton that you mentioned.

I found it interesting because there were three conclusions. One is that the groups weren't interested in social finance instruments per se because of the challenges of understanding them. That is valid. Other countries have set up capability funds. A good example is both the U.K. and the U.S. recognizing that this is a change and that to bring organizations along they would need to be able to provide them with assistance to understand this new market, but also how they can position themselves to function in this new market. The U.K. in particular has set up very generous funds, both through the government and through public foundations, to be able to provide that expertise to charities and not-for-profit organizations.

I think one reason that's important addresses the second and the third points from the study that you cited. It's true that a lot of organizations speak to the fact that short-term contracts are very difficult to manage and the financing that comes with them is not stable. They have to apply on a pretty frequent basis to get access to new grants or new funding. In fact, social finance wants to address that head on. Social finance wants to be able to move away from those short-term contracts. If you recall, in my presentation I said that one advantage is that you can deal in a preventative mould with issues, so you take a much longer perspective.

The first social impact bond that was launched in the U.K., the Peterborough pilot, is a seven-year project. It takes a much longer view. It's moving away from short-term contracts. At the same time, opening it up to other sources of funding it is designed to provide more financial stability for organizations. We know that in the charitable and not-for-profit sector they want to have more stable sources of financing. To apply for grants on an annual basis is very challenging, and you never know if you're going to get one. If you have an investor that's willing to provide you with patient capital to do something over a three-year, five-year, or seven-year horizon, that really helps an organization's business model, because it knows it's going to have multi-year funding as opposed to just annual funding. It's important to be able to get across that message because we hear the same thing from organizations.

• (1550)

[Translation]

**Mrs. Sadia Groguhé:** If I have understood correctly, you feel that social finance addresses the very issue of long-term funding.

[English]

**Ms. Siobhan Harty:** Yes.

Your second point was about the interest rate and what percentage is devoted to administration and what is devoted to the actual rate of return. In the Rotterdam one, it was 12%. In the Peterborough one, I think it was 11% or 12%, and Blair can check. I think it was double digit.

What we see across different projects is that the rate varies. I'm afraid I couldn't tell you what part of it goes to the administration of the project. In most cases, that information might not be available publicly because it's in a contract, but we can certainly go back and look to see whether that was the case.

The rate of return varies. It varies depending on the risk associated with the project. If you're dealing with a risky population, an investor might want to say that the rate of return should be higher. If you're dealing with a proven intervention that has worked in multiple locations and now it's being scaled up, the rate of return might be lower because the risk is lower. But fundamentally what's important is that for each of these projects, that is something that needs to be negotiated among the partners.

[Translation]

**Mrs. Sadia Groguhé:** If my understanding is correct, market forces are specifically applied to the social involvement of a non-profit organization or a company whose goal is to solve social issues.

Is that right?

[English]

**Ms. Siobhan Harty:** I would say, to a certain extent, because social interventions that are accomplished by non-profit organizations or charities don't have a market value. They don't have a market value. Part of it is looking at proven innovations and then asking what it would take for an organization that has a proven intervention, that has worked at a local level, say, in a community in Montreal, to scale that up to other parts of Montreal, or to use it in another part of the country, if that was appropriate. Often those not-for-profit organizations don't have the resources to be able to scale up or export a model they know has worked in a certain local situation because

they don't have access to that kind of capital and they don't have access to that kind of grant.

If you have something that has worked for a small cohort, what would it take for it to work for a larger cohort and be able to address challenges on a broader scale?

**The Chair:** Thank you.

Mr. Armstrong, you have seven minutes.

**Mr. Scott Armstrong (Cumberland—Colchester—Musquodoboit Valley, CPC):** I want to thank you for that high-level discussion as an introduction. I think that was very worthwhile. I'd like to try to bring it down now to a more ground-level look at this so that people on the committee can wrap their heads around this and what we're going to be seeing when we talk to other proponents who come forward over the next few weeks.

Maybe you can start with social impact bonds. Let's say that we have a social problem, for example, childhood obesity or literacy on first nations reserves. These are issues that have been resistant to projects that have tried to solve these problems. How could an organization that has been successful on one of those pilot projects use social impact bonds and social financing to try to solve that social issue on a much broader scale? What would they actually do as an organization using this method?

**Ms. Siobhan Harty:** It gets back a bit to what I was saying. An organization like that wants to be able to scale up its proven intervention but doesn't have the resources to do so. What we know from talking to charities and not-for-profits is that they don't have access to traditional forms of capital through going to a bank. It is not available because their social enterprise business model is not one that the traditional banking community necessarily understands, and so they are left with very few options. Grants are the usual ones.

Social finance provides an alternative form of funding. As I mentioned earlier, that funding can come from a private foundation. Some of the foundations that are engaged in looking at this in Canada are considering whether there are possibilities for them to make a loan, for instance, to that kind of organization. That is one form of social finance.

Another form that you mentioned is the social impact bond, which has an investment component. An organization—it could be a private foundation, or some financial institution such as RBC or TD that is more actively engaged in this space—would make an investment in that proven intervention, and they would get their money back from the market, if that intervention achieved predetermined outcomes.

What is important in any case and in the one you mentioned is that all the partners decide on what outcome is to be achieved. That changes things in the conversation, because currently we don't focus on outcomes all that much. We tend to focus on outputs or activities and don't often ask the question whether our programs are achieving certain outcomes. These could be, for instance, reducing high school drop-out rates, or they could be increasing literacy and essential skill levels, things that we know are going to help Canadians stay in the labour market or achieve a certain level of well-being.

Once those outcomes are decided, they become the target. Then, in the case of the social impact bond, which has a supply of capital and an intermediary managing the project, if the outcome is achieved by the service provider, the investor would get their capital back plus a certain risk premium.

• (1555)

**Mr. Scott Armstrong:** Okay. If you were one of these operating organizations and had a program that you thought worked and that you wanted to ramp up, you would meet with your proponent from whom you are asking for money to be invested and would say that you believe you can improve, let's say, school readiness by having students enter at such and such a higher literacy score before they enter primary school.

We'll say it is RBC and that you are approaching them for an investment. Let's say that RBC invests a certain amount of money, and in five years, which is the length of the project, the goal is actually achieved and the literacy rate is raised by the targeted amount. How does RBC gain that money back? Can you explain that to everyone?

**Ms. Siobhan Harty:** The vehicle would have been the contract, which would have set out the terms among all the parties. If the outcome is achieved, then RBC would get back its capital, as I said, with the rate of return.

How do you know whether that outcome has been achieved? What we see in other social impact bonds is that there is a role for a third party evaluator to go in and do some measurement of it. We do evaluations right now, but we often don't do them for outcomes. In these cases, it's important to have an independent third party assess whether the outcome has been achieved. But along the way, there has to be data collection as well. As I said in the presentation, this is a very data rich environment. It's one that seeks to develop appropriate measures to see whether an intervention has met its target for outcomes, and it seeks a way to be able to evaluate whether that's the case. The advantage is that if you achieve the outcomes, but also if you don't, you have an evidence base that will allow you to determine whether to go forward with another similar project.

**Mr. Scott Armstrong:** From the government's perspective, it has seen a project that actually achieves the goal they contracted for, and in the long run it is going to save the taxpayers money because they're not going to make future interventions that are much more costly in that particular scenario and example. RBC is able to glean the money back that they have invested in the social project that has achieved its goal. The organization that coordinates this probably has an opportunity to implement its project on an even bigger scale, because now it has proven it has worked on a much broader target.

It's a win-win-win if they achieve their goal, and it's all based on the evaluation metrics you set up at the front end of the project. You can see why it would actually encourage private sector proponents to invest in these types of projects.

Am I right on that?

**Ms. Siobhan Harty:** Sorry, I didn't catch your last point.

**Mr. Scott Armstrong:** I'm saying it's a win-win-win. If other private sector investors can see that they're gaining this benefit from their social investments, you can see this actually growing. That's what we've seen in the U.K., and Australia in particular, is it not?

**Ms. Siobhan Harty:** Yes, it is.

That is correct in terms of the savings. I think that for a lot of the projects that are out there, we'll have to wait and see what the savings are. But this is something where the savings accrue over the medium to long term because you are making important investments in individuals. That's where that notion of patient capital comes in. But if you get it right, then you're not dealing with remedial social and labour market programs down the road.

**Mr. Scott Armstrong:** Thank you.

• (1600)

**The Chair:** Mr. Hsu, for seven minutes.

**Mr. Ted Hsu (Kingston and the Islands, Lib.):** Thanks to our witnesses for coming in today.

I want to understand a little bit better some of the challenges in implementing social finance. In particular, you mentioned, Ms. Harty, that we need to have rigorous use of metrics and data collection, and that's the sort of thing that helps to provide the guarantees that we're getting real outcomes. I guess there's work involved in designing the metrics, but also in collecting the data, and having the capacity to collect and evaluate the data.

Are there challenges in our capacity to collect data and to rigorously evaluate metrics? Do we need to develop things? Is there a gap between Canada and other countries in that respect that we would need to fill in?

**Ms. Siobhan Harty:** I can't comment on the gap; I'm not a program evaluator. I don't really know what systems exist across different countries, so I can't comment on that. But the data collection does need to take place. In many cases we do it already.

A good example from my department is the homelessness partnering strategy where, in the context of moving to the current iteration of the program, we have worked with communities across the country to be able to collect data on the homeless population. It's something that we have put in place. It is really important for being able to understand whether we're hitting the mark in terms of being able to help the homeless population. I think that's a really strong example of how it can be done. When you recognize that there is a gap and you're trying to have an effective program intervention, you set up the process to be able to evaluate whether you are having that effective program intervention or not.

I think this is a trend we're seeing across many countries. In part, it's because we have the IT systems to do it now. Those capacities are there. It's something that we can do in partnership with other organizations. We already asked them to collect information. There are rich sources of information that are already available at the community level that are collected by the not-for-profit sector in the context of doing social interventions. It's a matter of working with them to be able to ensure that data is available in the right format to be able to evaluate.

**Mr. Ted Hsu:** Who pays for the data collection then? Is that part of the contract on the demand side that would provide...or maybe it's a third party that does the data collection.

**Ms. Siobhan Harty:** Yes. We've seen in other social impact bonds that it varies. We've seen different models, depending on the country. In the U.K., the U.K. government didn't get involved with a third party organization to collect some data related to the Peterborough pilot, but we've seen variations in the U.S. and Australia. In the U.S., there are third party evaluation processes involving organizations, and they do some of the data collection. I think it will vary, depending on what that landscape looks like in a particular country, whether there are foundations in place that can do it or intermediaries. In some cases universities have been involved because they already have that strong capacity from a quantitative perspective. Again, it's that partnership model. You leverage what's there to be able to do it.

**Mr. Ted Hsu:** Wouldn't governments be heavily involved in collecting data? In my community of Kingston, for homelessness in particular, I know there was a city-wide organized effort to actually, on a given day, count the homeless population, which involved a lot of people. It was a big effort. I believe the idea was to provide a baseline for the homeless population. In Canada, we also have Statistics Canada, which is heavily involved and has a lot of expertise in collecting data.

Would you say that Statistics Canada and other levels of government would be involved in that data collection effort?

**Ms. Siobhan Harty:** If it was appropriate, but it really depends on what kind of data you want to collect. Statistics Canada does a lot of survey work and that might or might not be appropriate for a local level intervention that is working across multiple policy areas. It might work, and it might not work, but you might want to have community health centres involved or local not-for-profit organizations that are involved in the intervention.

• (1605)

**Mr. Ted Hsu:** Okay.

Our federal government has been talking about this for a couple of years now, and I realize these things can take time to implement, but since the government has been talking about it for a couple of years, what are the major barriers that you see to implementing social finance in Canada? What work remains to be done?

**Ms. Siobhan Harty:** I don't think there are major barriers. If you go back to the slide on the market, I think that like any market you have to move forward all components at the same time, and that means engaging with all players and all players have to be interested and willing. I think it's just a timing issue to move them forward.

I pointed to some things the government has done in different departments. In my department we're looking at introducing different social innovation components into our programs. We have been doing that already for the last couple of years by using federal dollars to leverage private sector contributions to many of our grants and contributions programs. We are also doing something that is testing elements of a social impact bond in the area of literacy and essential skills. This is something that my previous minister announced in October 2013.

There are projects happening in my department and others as well. We're taking an incremental approach in Canada and looking at pilots. I think that's the appropriate approach to take as we look to see what's going on in other countries and what lessons we can learn.

**Mr. Ted Hsu:** What are the risks that you see in social finance? In particular, we're involving the private sector. We're applying a financial model for privatizing some of the funding. What are the risks in applying this model to the delivery of where you have to have measurable outcomes and you don't always have a nice metric to measure what you want to do, as you well know, and there's profit as a motive here? What are the risks that you see that this committee might have to pay attention to?

**The Chair:** Ms. Harty, I'm going to ask you to hold the answer, please, as we are over time on seven minutes for this round. Perhaps that could be answered in another round. It's a valid question and I'd like to hear the answer myself.

The last person on the first round is Mr. Butt.

**Mr. Brad Butt (Mississauga—Streetsville, CPC):** Thank you, Ms. Harty and Mr. McMurren, for being here. I'm particularly excited about this study. I was one of the proponents for this. We need to find out more about what is going on. We need to find out more about what the department is doing to support these kinds of things across the country.

I think we're all familiar in our individual ridings of some wonderful projects that are being done that we are particularly proud of. I was delighted to hear you mention the homelessness partnering strategy, because prior to getting elected to Parliament, in my previous life I was the president of the Greater Toronto Apartment Association. Our organization played a major role in the success of that program in the city of Toronto, particularly through the streets to homes program. We were actually able to see some marvellous results without a huge bureaucracy and Statistics Canada giving us the results. We actually saw the direct results on the ground. I'm particularly pleased. I think that's an excellent example of how social enterprise and social finance can work in a city that's dealing with homelessness as a tremendous issue. I'm delighted to hear that's one of the poster children of success for this kind of project that we are looking at as a committee.

I want to talk a bit about financing. I served on the special committee that looked at cooperatives in Canada. One of the issues that we dealt with as an all-party committee was the general misunderstanding of how cooperatives worked and therefore how they were able to access financing and funding. I realize social enterprise is a little bit different from co-ops, but is that one of our major challenges in convincing lending organizations, financing organizations, groups on the ground that want to put the partnership together to create social finance, that people just don't understand exactly how these things work?

Can you talk about that a little bit? How do we do a better job of talking about the benefits of social finance and making sure that the financing authorities, the Business Development Bank of Canada, perhaps, EDC, and some other government authorities as well as traditional financing, our banks, trust companies, and credit unions might play a role and better understand what social finance is?



**Ms. Siobhan Harty:** Sure. It would be my pleasure.

You're right that traditionally social enterprises have a hard time accessing capital in our country, but it's not just in our country. I think that's because we've had a traditional view of that sector as being not-for-profit. Of course, it's important to note that it falls under certain legislation; that's important to keep in mind as you as a committee look at this going forward.

Fundamentally, the business model is not one that is readily understood by traditional financial institutions. Many social enterprises in our country employ vulnerable populations who would not be employed by regular businesses. They play a very important role from a social and labour market perspective because they integrate certain vulnerable populations into the labour market who otherwise would be unemployed and perhaps living on social assistance. They play a fundamental role. In order for them to get recognized as such, though, and to be able to access capital, they find it challenging. To be able to grow their business model, they come up against roadblocks. Traditional banks will not lend to them, so the main option for them has been grants. It would be hard to grow a business on a grant; I think so. To be able to access other streams of money in order to grow their business, it has not been possible outside of certain financial institutions. Co-op banks are a good example. Vancity in Vancouver, British Columbia, is an example of an organization, a cooperative bank, that is willing to lend to these kinds of organizations. At almost the other end of the country, in Quebec, we also have cooperatives and banks, Desjardins being one, which are willing to lend to these kinds of organizations. They don't view it as a risk necessarily.

For more financial institutions to get on board, two things have to happen. Social enterprises would have to be able to develop a business case that is understandable to traditional financial institutions, but those institutions will need to meet them halfway as well and recognize that the risk is not what they perceive in terms of investing in social enterprises. There is data to show that the bankruptcy rate for social enterprises is lower than for small and medium-sized enterprises. They do have a good business model. They are not necessarily a risky venture. That needs to be communicated to financial institutions to be able to access supplies of capital.

At the same time, banks, I think, are being pressured in different ways that are important; that is, some Canadians would like to make investments that return on both a social and financial front. Increasingly, banks are looking at their products and asking whether there's a way they can create vehicles for Canadian investors, whether they're high net worth individuals or people who want to invest in their RRSPs in different ways, and be able to achieve that.

I think if both of those things happen, they will open up the supply of capital into really important ways for social enterprises in Canada.

● (1610)

**The Chair:** One minute.

**Mr. Brad Butt:** Okay.

Do you have any other recommendations of things which at the federal government level we could be doing or looking at? Would they be changes to the Income Tax Act or corporate tax, or some

other tax credit provisions, or whatever it is? The good thing about this study is that I think we've decided as a committee that this is kind of wide open: we want to learn as much as we can and look at any opportunities there might be on the table.

Is that part of it, or are most of these successful ones just happening because they're happening and it's not because government is providing tax money on the table or a tax credit or whatever? Perhaps you could talk to that just very quickly, before the chairman cuts me off.

**Ms. Siobhan Harty:** Quickly, I imagine you'll hear from different witnesses who will tell you that there are some challenges in the current legal and regulatory environment. I think they'll be better placed than I am to explain those from a practitioner's perspective. But that is certainly something we hear.

I would just note that when I talked about the G-7 task force report, the Canadian one—I'll send you the link—was produced by a group of Canadians from different sectors, including financial. They do talk about some of the issues you've raised. If some of those people appear before you as witnesses, I think you'll be able to get a good overview as well as a technical assessment of what some of those challenges are.

**Mr. Brad Butt:** Thank you.

**The Chair:** We'll now move to our five-minute rounds.

Madam Hughes.

**Mrs. Carol Hughes (Algoma—Manitoulin—Kapusking, NDP):** Mr. Chair, for the response to Mr. Hsu's question a while ago, I would ask that she table it. I think it's important that we get as much information as we can.

I have a couple of questions. First of all, is there a budget set aside for this when we're looking at the overall transition that's actually happening?

● (1615)

**Ms. Siobhan Harty:** Do you mean a budget in the Government of Canada or just generally?

**Mrs. Carol Hughes:** Well, for this specific area. As you know, there's a budget for every department and a budget for every program, so I'm wondering if there's a specific amount of money that's set aside for this.

**Ms. Siobhan Harty:** No. I work in a policy area, not in a program area, so I do not have a dedicated budget to look at this. This is part of ongoing work, because I work in social policy generally, so I'm interested in different innovative approaches.

**Mrs. Carol Hughes:** Okay. You're actually looking at it, but as they're looking at implementing....

**Ms. Siobhan Harty:** Yes. When I—

**Mrs. Carol Hughes:** Are we still just at that initial phase?

**Ms. Siobhan Harty:** In the work I do on the policy side, I look at a range of approaches. If you recall, I said that this is one additional tool in the tool kit. Anytime that I'm asked by my minister to provide advice on something that could be done to address a social challenge, I look at a range of instruments that could be used, whether it's the tax system or other things. This is one more instrument that I can look at.

From a program perspective, as I mentioned, some of our programs are already looking at whether it's possible to introduce social innovation into their call for proposals. That is being done in the department and has been ongoing for several years. It's not social finance specifically; it's more about leveraging additional funding from private foundations, for instance, to be able to support further interventions.

**Mrs. Carol Hughes:** Thank you.

In May 2013, the then minister of HRSDC presented a report entitled "Harnessing the power of social finance: Canadians respond to the National Call for Concepts for Social Finance". The minister wrote in the introduction to the report that "over 150 submissions" were "received from across the country", which were addressing "key priorities for Canada's long-term prosperity". When we look at it, we see that only 15 of the submissions made it, so that's about 10%. I'm just wondering, because it seems a bit low, if you could explain to us why it was only 10%, and whether it actually reflected the whole of what was actually presented.

**Ms. Siobhan Harty:** You're right: just over 150 concepts were received over several months from across the country. What we did in the report is just profile some of them. None of them were funded. We were interested in getting a sense of whether Canadians had a familiarity with social finance and whether they had some ideas about innovative approaches that could be used in the context of social and labour market interventions at the local level. When we produced the report, we tried to get a good cross-section of what those concepts were and to give them some profile in the report.

**Mrs. Carol Hughes:** Another question I have is with respect to the social impact bond. I'm wondering what happens after the bond. Does the project simply end? Is there a reissuance or a new bond formed, or does the government take up the project and make it a public program?

**Ms. Siobhan Harty:** That's an excellent question. There hasn't been one social impact bond project that has ended yet, so we don't know. The contracts are still in place. The Peterborough one is the one that was initially launched, but it hasn't concluded yet. That's the one in the U.K. Other social impact bond projects are ongoing across different states, so it would be too soon to say what governments might choose to do at the end of those, or indeed what not-for-profit service providers might choose to do at the end of those.

**Mrs. Carol Hughes:** When would you think you would be able to evaluate? You indicated that you haven't been able to evaluate at this point.

**Ms. Siobhan Harty:** We're not engaged in any social impact bonds. The one project that we're doing in the area of literacy and essential skills does have some elements of a social impact bond. It is in the process of development, but it hasn't fully launched and therefore hasn't concluded, so I couldn't say what the government might decide to do with that at the end. But as I mentioned, there will

be important lessons learned that we can leverage for ongoing programming.

**The Chair:** That's your time. It goes fast, doesn't it?

Mr. Mayes.

**Mr. Colin Mayes (Okanagan—Shuswap, CPC):** Thank you, witnesses, for being here today.

One of the challenges we have in this country is that we're such a large country with many regions and with rural populations and urban populations, so the dynamics of many things are quite different across this country. The question I'm looking at is the role of the provincial governments. Are any of the provinces taking any initiatives?

As for the role of the federal government, as I say, it's such a large country, so would it be better to look at monitoring, oversight, and that type of thing being at the provincial level? Do you have any opinions about that?

• (1620)

**Ms. Siobhan Harty:** Several provinces are engaged. The ones that are most active are British Columbia, Ontario, Saskatchewan, and Nova Scotia. As I mentioned, Saskatchewan has launched a social impact bond already. I dare say that both B.C. and Ontario will make some announcements in the near future, not necessarily about social impact bonds, but definitely about social finance. Ontario in particular had a public call last fall, I think, so their results are supposed to be out soon.

I think the provinces will see more action at the provincial level. If you consider that a lot of services, particularly in the social sphere, are delivered at the provincial level anyway, it makes sense that the provinces would be engaged with partners at the local level to be able to explore social finance. We're starting to see that.

The federal government, I think, can play multiple roles, as national governments do, from the perspective of different markets. It might be information sharing; when information doesn't travel, that is a market impediment, so the national level government could certainly share information. Then there are other pieces related to the broader legal environment that obviously a national government could take care of, whether it's in Canada or another country.

In Canada, I think oversight would be challenging just given the jurisdictional split. There's not necessarily a logical role for the federal government to do that when the province has jurisdiction. I think it would be more in the area or in the spirit of sharing information, best practices, lessons learned. The transaction costs can be high to do some social finance initiatives, so why not reduce them by sharing information? After Saskatchewan or another province completes something, that information should be made available. That's certainly the approach that other countries have taken to be able to reduce those transaction costs, by sharing information around the market and their country.

**Mr. Colin Mayes:** A couple of years ago the Manning Centre had a conference here in Ottawa. They talked about government delivery of service and about some of the challenges we see today with slow growth and some of the demographics in the country. They talked about a fourth option for delivery of service, the community, and trying to motivate communities to work together. For instance, you might have people in a Rotary Club who would be willing to donate their time to the seniors centre to help them out there, or provide some sort of assistance to seniors, or even child care or whatever, just because the cost of this service delivery is overwhelming and quite frankly, we just can't afford it. We can't even imagine going into debt to try to sustain that as we see some of the examples in Europe that have failed.

Could you see initiatives at the federal level with regard to one of the suggestions that I think came out of the Manning Centre, giving a tax credit to people who gave of their time? They wouldn't be paid, but they would have a tax credit and those types of things. Does that come under social finance, or do you think that's a different concept and it's more looking at enterprise?

**The Chair:** Please make it a very quick response.

**Ms. Siobhan Harty:** Yes.

On that one, it strikes me that this is something related to volunteerism. The example you provided about people contributing or volunteering their time at the local level to assist others is a good example of the spirit of volunteerism. In that case, different initiatives have been introduced to support and encourage that.

On the tax credit side, I would defer to my colleagues at the Department of Finance to see what their views might be on that.

**Mr. Colin Mayes:** Thank you.

• (1625)

**The Chair:** Madam Morin, you have five minutes.

[*Translation*]

**Ms. Marie-Claude Morin (Saint-Hyacinthe—Bagot, NDP):** Thank you very much.

I want to begin by saying that volunteering should not be overused. Some organizations also require qualified workers. I just wanted to point this out.

My background is in community-based services. I was the director of a group of community organizations for a number of years. That work taught me that a community organization is a model that emerges from the community. At some point, people came together because they realized that there was a need within their community, and they created a community organization. So an organization belongs to its members. Moreover, the annual general meeting of a community organization is an independent event.

I understand how social finance can apply to a social enterprise or a co-operative, but I don't quite understand how it can apply to a community organization. Let's take the example of Quebec, where we have a policy on autonomous community action. In the case of social finance, I am wondering how it is possible to work with the community to preserve democracy within autonomous community organizations.

How can those organizations' sovereignty be guaranteed and how can government disengagement be prevented?

[*English*]

**Ms. Siobhan Harty:** I agree that organizations such as the ones you defined emerge from the community. I'm looking to other countries that are more advanced than Canada in using social finance models. I've not heard about concerns such as the ones you've expressed. I guess it depends on the mission of the organization, but everything I've heard is about how to allow these kinds of organizations to preserve their mission. It's so fundamental, so how do you do that? That question of mission is fundamental to everything that we're looking at. I've never heard that social finance as a form of financing in and of itself would have a detrimental effect on the ability of an organization to retain control of its mission.

[*Translation*]

**Ms. Marie-Claude Morin:** That answers my question. Thank you.

I could go on, but I will yield the floor to Ms. Groguhé.

**Mrs. Sadia Groguhé:** I wanted to come back to the return on investment issue.

You said that this return could vary based on a project's risk. How is a project's risk assessed? Are there any established criteria? Regarding social finance, I haven't yet heard how this can be articulated through data, through evidence-based variables that would help assess the consequences of that intervention.

[*English*]

**Ms. Siobhan Harty:** Those are great questions, thank you.

On how to assess the risk in order to determine the return on the investment, I think criteria are being developed. I say that because, in the area of social impact bonds in particular, which are the most risky, there are enough now that have been launched across different countries that data is being developed so that you can do that. The evaluation of risk needs to happen, I think, on a project-by-project basis. That will be dependent upon the population that's being served; whether the intervention is proven or not, so whether or not it's been tested in another context; and the period of time over which the intervention is going to run, so when can an investor expect to get his or her money back.

[*Translation*]

**Mrs. Sadia Groguhé:** I would still like to clarify something. I have provided support because I have done a lot of work with people in need. Unfortunately, the qualitative aspect of support cannot be measured—for example, when it comes to young people in social or workforce reintegration. So that variable is qualitative. It's impossible to quantify a qualitative variable.

So how can criteria be defined? What criteria will be used to truly measure the objective of our intervention?

• (1630)

[*English*]

**Ms. Siobhan Harty:** Yes. That's a great question.

**The Chair:** I'm going to ask you to hold that response as well, in the fairness of time and all questioning, but perhaps again, as Madam Hughes suggested, you could provide us with a response post-committee meeting.

**Ms. Siobhan Harty:** Yes.

**The Chair:** I would even think that it's possible to engage afterwards in discussion—

**Ms. Sadia Groguhé:** Oui.

**The Chair:** —if that's desirable.

Mr. Boughen, you have five minutes.

**Mr. Ray Boughen (Palliser, CPC):** Thank you to our consultants for spending part of the afternoon with us.

I have to be honest with you: social finance is a totally new concept to me. I know what social is; I know what finance is, and when I think social finance, well, I think of people buying a ticket for the fall supper or for the Halloween dance, and it's a social and it raises some dollars. But this is an entirely different concept...well, it's not entirely different, but there's certainly a big difference.

Can you share with us how it works? Is there a CEO? Is there a board of directors? Who's responsible for the funding? Is there a COO? What is the mechanism of it all? How does this come together?

**Ms. Siobhan Harty:** Thanks for your question.

It's a partnership. In order to achieve those different parts of the equation, the social and the finance, you need to be able to bring together people who have a stake in one or both.

On the pure social side, I would say that you bring together the community groups, whether they're not-for-profits or charities.

On the financing side, I think it's a little more interesting. What we're seeing evolve is that it's not just financial institutions, although they're there. We're seeing a different spirit, if I can use that term in the financing world, in people who want to make an investment and not achieve just a financial return. These individuals—call them social impact investors or people who want to support social enterprise—are really bringing a different expectation to that market and to this area of policy in asking how they can use their money to achieve a social good.

In the past, we might have been willing just to give a charitable donation; so the ticket to the supper that you mentioned does act as a charitable donation even if you're getting a meal out of it. Now I think there's a certain spirit of investing whereby people say that it's not just about giving a charitable donation, they would really like to see their money grow in a way that they can control from a social perspective, and they also want to see it sustain community organizations. The donation or the grant is really a one-off, whereas in social financing it's an investment model. It tries to achieve something over time, something more sustainable and more long-lasting.

**Mr. Ray Boughen:** Is there a return on the initial investment?

**Ms. Siobhan Harty:** That is definitely the idea. It's that you would achieve a double bottom line, a financial return and a social return, or a triple bottom line if you add environmental into the mix.

**Mr. Ray Boughen:** I still have a hundred questions but I'll wait because time is of the essence, Chair.

Thank you.

**The Chair:** Well, you have more time, sir, if you wish to have it. You have another two minutes.

**Mr. Ray Boughen:** Do I have some time left?

**The Chair:** You have two minutes left if you'd like to have it.

**Mr. Ray Boughen:** Two minutes left. Look out.

Are there any regulations around this operation? It's known as social finance. Is there someplace where people can look it up? Is there a regulations book or a directory that tells you what it is that you do, what you don't do, and how you make the reports known to the public and to investors?

**Ms. Siobhan Harty:** There is no official textbook on it, but I would say that the area is growing in abundance. In the three years that I've been working on it, there certainly is increasingly more information available to people. There, we have to thank the intermediaries that I talked about before, for putting out reports based on projects they've been involved in, but also the academic institutions that are starting to get involved.

Harvard has a lab that's looking at this with experienced people there who have worked in government but are also in academia. Increasingly, Canadian universities, in their business schools, are offering a social enterprise stream, so we're starting to build up expertise in that area too. There are also new books coming out on this in terms of how to do impact investing, so it's growing.

**Mr. Ray Boughen:** Thank you.

● (1635)

**The Chair:** Thank you, committee members, for your indulgence. I know that we said this was going to be a one-hour meeting, but I have allowed some latitude here in this initial meeting. I would ask, committee members, if you would care to continue along the lines of questioning or move into committee business. Is there any desire to move into more questioning?

I see none, but I would like to, just before—

[Translation]

**Mrs. Sadia Groguhé:** Excuse me.

[English]

**The Chair:** Yes.

[Translation]

**Mrs. Sadia Groguhé:** I suggest that we put the questions we haven't been able to ask in writing and that we continue—

[English]

**The Chair:** That's entirely possible. I'm at the wishes of the committee members. Certainly you can provide our witnesses with written questions and we can receive responses from them. I don't think there will be any objection to that, which is fine.

Might I just make a couple of comments and get your response to them. I think the difficult conceptual operation of social finance will become clearer as we hear from actual case studies and witnesses . Even I'm struggling a little bit with return on investment. Capital put into a business, I know what that means. I operated my own company for 25 years. I know what it means to seek capital, make money, give back to the bank or whoever was charging me interest on the working capital.

I think as we go on, committee members, what will happen is there will be more understanding of that in the social context of what's trying to be achieved.

That said, I would like to suggest to committee members that at a later point we may want to have Ms. Harty and Mr. McMurren back to committee for a more fulsome, perhaps conceptual look at this and to explore what's really working well in the other jurisdictions that have succeeded at this.

We held a social finance round table in my community over the past summer. It was well attended. Over 40 individuals attended. There was an eagerness, an excitement and a measurable energy in the room about the possibilities for various organizations, so I think it does hold a lot of promise in the social sphere.

Thank you for being here today.

**Ms. Siobhan Harty:** You're welcome.

**The Chair:** Thank you for taking the time, and we'll look forward to speaking with you more in the future.

We'll just take a very brief break while our witnesses leave and we'll move to committee business which will be in camera business.

*[Proceedings continue in camera]*

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