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Chair

Mr. Daryl Kramp

Standing Committee on Public Safety and National Security

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• (1540)

[English]

The Chair (Mr. Daryl Kramp (Prince Edward—Hastings, CPC)): Good afternoon everyone, and welcome to meeting number 26 of the Standing Committee on Public Safety and National Security.

Today we will continue our study on social finance.

For our first hour of testimony today we welcome, from Deloitte Canada, Mr. Gianni Ciufu, partner and North American leader, infrastructure advisory and project finance. We apologize for the tardy start, sir, but the parliamentary schedule is not the most predictable thing in the world. So we're a little tardy, but you have up to 10 minutes for a statement, sir, and then after that we will go for close to an hour with a round of questioning.

The floor is yours, sir.

Mr. Gianni Ciufu (Partner, Finance Advisory, Deloitte): Thank you very much. It's a pleasure to be here.

As a contribution to the committee's considerations, in my 10-minute introduction, I hope to cover some of the underlying factors that may be promoting growth in the social finance sector; provide some discussion about how social finance works, and the benefits, particularly considering how it relates to crime prevention in Canada; and also maybe provide the committee with some knowledge and information from a market sounding that Deloitte has conducted.

I have French and English copies here, which you may avail yourselves of. My comments will probably be at a sufficiently high level that you do not need to follow on, but I'll certainly leave them with you if that's helpful.

To start, I'm a partner from Deloitte, based in Toronto, and I have looked at private finance and how it assists infrastructure development and the impact that it's having on social service delivery in Canada.

If you look at some of the underlying factors that are increasing the growth of social finance globally right now—and Canada is not a market leader in this area, I dare say, but will likely migrate to being so—governments are facing very difficult fiscal challenges and they are making choices among various priorities, so accessing outside capital and funding can help them meet additional priorities and meet additional needs of the taxpayer.

When we look at taxpayers, they're expecting more these days. They're expecting more issues to be addressed, they're expecting

more accessibility to government services, and they're expecting higher levels of achievement.

If you look at some of the societal problems and how they're being addressed versus how they've been addressed traditionally, traditionally taxpayers and citizens looked to the government to solve a lot of society's problems that now are often being solved by the private sector. This may involve an economic return but also benefits them. They are looking for opportunities to earn economic benefits, but also to improve their brand, to be an instigator of social change and improvement, and contribute to the community.

If we look at that, and take a social finance example like a social impact bond, when you think about how that works, government finds a social objective that it believes it has considered and intervenes to improve that social objective. It brings an intermediary to bring forward service providers that can be of all types, and funders of the intervention—the funders potentially being private sector—and brings them together so that ultimately the cost of the intervention provided and the return to the investor are less than the economic benefit that's achieved by cost savings and cost avoidance across potentially all levels of government and across all departments.

We certainly see this in crime prevention where certain responsibilities are municipal, like policing; certain responsibilities are federal, like corrections at some levels; and certain responsibilities are provincial.

Considering some of the benefits, if you look at the benefits to government one of the key benefits is that it unlocks a new source of private funding. It allows government to access the innovative solutions that sometimes come with those sources of funding. They not only come with money, but with ideas about how to ameliorate the social problem, if you will.

Social impact bonds in particular are a system where government pays only for successful outcomes, and that's a very powerful tool.

• (1545)

Typically in programs like this, the results are clearly demonstrated to the public. That's usually part of the good stewardship.

The service providers like this, because they are acquiring a source of funding that can be longer term and that allows them to plan better, to scale and mature as an organization, and to focus on performance metrics and measurements so they can assuredly meet their obligations, and then the investor can get paid.

I think the last thing I'd like to touch on is that in the fall of 2013, Deloitte and the MaRS Centre for Impact Investing looked at and consulted with 80 potential investors in the social finance market and found, across banks, credit unions, foundations, and benevolent individuals that they are prepared to participate in this market and are looking for opportunities. There's a high level of interest, and we're starting to see a high level of preparedness.

They are also willing to accept social intervention and government objectives that cut across the range of crime prevention, homelessness, and education, and they're very open to considering and thinking about how they can contribute to ameliorating problems across all those areas. They do see some challenges about working with government, about initial projects, and about the steep learning curve. However, they do know and appreciate that, over time, transaction costs and the knowledge transfer around this should become quite prevalent quite soon. We see this in other markets. They would like to participate as a consortium and they see the intermediary role as being very important to this.

But again, there's a high level of interest, and we're starting to see a high level of preparedness as they learn from international examples and look for a successful Canadian pilot, and a Canadian pilot project that they will be able to participate in.

That concludes my prepared comments.

The Chair: Thank you very much, Mr. Ciuffo.

We will now go to a round of questioning. The first round is for seven minutes.

First up is Mr. Maguire, please.

• (1550)

Mr. Larry Maguire (Brandon—Souris, CPC): Thank you, Mr. Chairman.

Thank you, Mr. Ciuffo, for your presentation today. Obviously, I want to ask you questions about the whole process.

Some groups have had some concerns, but you've just mentioned that in some of the studies you've done, a great interest has been shown by 80 potential investors, I believe, who would be really ready to participate. I wonder if you could give us an update on what you see when you mention the "high level of preparedness". Can you just talk for a minute about what that would be? What all is involved in that? Are they looking at how they could become integrated with other partners in the industry and with other social partners? What would be involved in a definition of high-level preparedness?

Mr. Gianni Ciuffo: For the financial investors we've spoken to, I think many of them have learned a lot from the recent evolution of the Canadian infrastructure market and are comfortable in taking on risk associated with performance-based contracts. Performance-based contracts have been used effectively in that market, so they see the potential benefits transferring nicely to a market that includes providing social services and an amelioration of social conditions as well. That's one type of preparedness: they see the role for private investment on a risk basis.

The other preparedness is also in terms of understanding the pilot projects that have been implemented in other jurisdictions, such as

the U.S., the U.K., and Australia, which have implemented projects that coincidentally are squarely within crime prevention and the broader sort of justice and corrections area, around reduction of recidivism and around ensuring at-risk youth remain engaged and out of institutions, and other similar areas like that. They studied them and learned from them and see themselves participating in programs like these that would exist in Canada and that maybe would be somewhat tailored to the yet-to-be-established Canadian market.

Mr. Larry Maguire: Thank you.

One of the articles a while back—you've done many, and I don't know if you've had a chance to mention them—was a Peterborough article in regard to the United Kingdom. They were looking at referencing the fact that there was relatively little spent in the U.K. on helping short-term offenders overcome their challenges.

Do you see anything like that coming to fruition here in Canada, or would the same be true? What data can you provide to us on that?

Mr. Gianni Ciuffo: I believe the rate of recidivism in Canada is a published rate. Certainly lowering that would be a good objective. It does make for a very good potential social objective to implement a pilot project on that, for a variety of factors. The sample populations that you can identify can be well structured so that you can really look at cause and effect around the impacts your programs are having.

There are always externalities that have to be taken into consideration, but by and large you can construct a target population whereby you can be reasonably assured of knowing and understanding the potential impact that your program is having on that population. I think that's important.

That's how I'd answer that question.

Mr. Larry Maguire: We've heard throughout the discussion from some of the presenters, and from some of the opposition, comments in regard to concerns, at least, with the social impact bonds and some of the other programs to help with private industry being involved in these areas. We've heard that this model brings out investors who want to make money on the social ills of society, if you will, I guess.

Can you tell us whether you agree with that being the case? Or are these investors mainly looking to invest for the social good as opposed to financial gain?

Mr. Gianni Ciuffo: I think different investors will have different objectives. A commercial bank may have a different objective from a pension fund or a private individual in a community where they have a tie to the social objective. For example, they live in the community where they were hoping to reduce recidivism, or they're an employer or a pension fund in a community where they would like to see perhaps a reduction in the unemployment rate or an increase in the skills level of potential employees. So I think it depends on the specific objectives.

What I do believe, though, is that the added potential value can be a very powerful tool if they are aligned with the social outcome and they are a stakeholder in it. They do want the outcome to be positive because they are a participant in the community and they're trying to return to the community as well as the financial return.

I think it would be healthy for Canada to have a potential social impact bond—remembering that social impact bonds are just one tool of social finance—where there's a real level of commercial due diligence between the investor and the service provider, where they have a chance to review and assess the provider to understand their capability in delivering these services, get a high level of confidence, and so require a potentially lower level of return. That would increase value to taxpayers.

• (1555)

The Chair: Be very brief, please, Mr. Maguire.

Mr. Larry Maguire: Yes.

You've...[*Technical difficulty—Editor*]...a number of areas, but could you just expand, please, on the “Paying for outcomes” document that Deloitte just put out?

Mr. Gianni Ciuffo: That's with regard to the social impact bond.

Mr. Larry Maguire: Yes.

The Chair: Mr. Ciuffo, the time has expired on that. With regard to the honourable member's question, if you wish to respond to it in another round of questioning and/or give the response to one of the other members when they question, feel free to do so.

In the meantime, now we will go to Mr. Garrison, please.

Mr. Randall Garrison (Esquimalt—Juan de Fuca, NDP): Thank you very much, Mr. Chair.

Thank you very much to the witnesses for being here today.

I'm going to make some remarks before I turn to the witness, and these are meant with no disrespect to the witnesses. They have to do with the misplaced priorities of this committee.

We've been hearing from witness after witness on social finance, which is not something I am saying I oppose. It's something that obviously results in a lot of good in many communities, but there are many more urgent things that we believe the committee has in its mandate and that the government should be looking after.

Today we just became aware of a very urgent matter with regard to the RCMP and suicides within the RCMP. The deputy commissioner admitted that they had done no study of suicides in the RCMP even though there were 16 documented suicides by serving members in the last eight years, and, in that same period, 13 suicides by retirees. We are losing three to four RCMP members every year to suicide, and yet the RCMP has failed to report on that. Today we asked the minister if he had asked for a report on suicides, and he did not give any indication that he had.

This rate of suicide, this rate of death, is actually quite shocking. It's higher than it is for military members, and, in most years, it also exceeds the number of people killed on duty in the RCMP. So the fact that we have not paid attention to this is a matter that is much more urgent than the things we've been doing in this committee.

With that in mind, I am going to give notice of a motion. I have a copy for the clerk in both official languages. The motion is as follows:

That the Committee conduct a study into the urgent crisis of suicide among members of the Royal Canadian Mounted Police and report its findings to the House of Commons.

I am not asking that we debate this motion immediately, but I think that very soon this committee has to take a look at what it's doing and how it's spending the little time it has left in this session.

The Chair: That's fine, Mr. Garrison. In committee business, you have every right to do so, sir. Your motion is duly presented, so if you'd just go back to the topic of question here now, the chair would appreciate that.

Mr. Randall Garrison: Okay. Thank you very much, Mr. Chair.

With my apologies, this has very little to do with any of the good things that our witness has to talk about. Again it's a question of our priorities here as a group.

We heard from Elizabeth Lower-Basch from the institute in Washington, D.C., who talked about social impact and pay for success. Her conclusion from the study she did was that when government enters into those agreements, it accomplishes a purpose that it would have accomplished more cheaply had it done this work itself. By the time you filled in the extra infrastructure costs for a private group to do this, and by the time you built in some kind of pay incentive or return on investment, her conclusion was that the government, if it wanted to accomplish the objective, would have done it more cheaply by proceeding directly.

I just wonder if you have a comment on that.

• (1600)

Mr. Gianni Ciuffo: I have one comment based on casual observation rather than anything studied. In my work with public sector organizations, I have observed something of a transformation taking place such that government is less interested in perhaps providing direct service delivery and more interested in focusing on the core business of policy regulation and really focusing on the welfare of its constituents in some circumstances where it may see benefits from having other providers, on their behalf, for services, financing, or management skills. It's a tool that is certainly available, and I do see benefits from that in individual cases, though not in all cases.

Certainly we see and we have analogous examples from other sectors of our economy, such as the infrastructure market, for example.

Mr. Randall Garrison: Members on this side like to imply that when we raise these questions, we're ideologically objecting to the idea of social financing, and I would just say that, to me, it's the same as any other charitable role. I welcome corporations or philanthropic groups that wish to get involved in the public good, but I am concerned if the government is financing that with funds it's raised from taxpayers when it should be doing that work itself. In that case, there's no net gain if the government is actually doing that financing.

Again, as I've said, others have said it's probably a loss, because it becomes more expensive to do it through a third party.

Mr. Gianni Ciuffo: That's a very good point. I would respectfully submit that from time to time government has been involved in social finance of a type when it supports, for example, particular industries via low-income or no-income loans or grants that aim to strengthen an industry, or help to preserve jobs or employment in a community. I certainly leave it to government to decide on the design of those programs and the implementation of those programs, but I would say, based on their prevalence in Canada, both at the provincial and federal level, that perhaps there is a role. I also would encourage, if I may say, the committee to look at other examples of social finance too. When I look at, for example, microloans, which have been around for decades, and how enabling they can be for individuals who are trying to start their own businesses in their home, or start their own businesses period, and support themselves and their families, I see that as a really positive vehicle.

The Chair: You have half a minute.

Mr. Randall Garrison: Another concern we have on this side is that certain communities may not be as well served as others because they lack the philanthropic organizations within their communities, or certain groups in the population—we had the group that worked with sex offenders here—wouldn't get equal access to these kinds of projects because they're seen as less attractive and more difficult to deal with.

So I just wonder if you have a comment to make on the selection of projects.

Mr. Gianni Ciuffo: I like to think that Canada is quite a benevolent society and that we can recognize those who deserve support in our communities, and that we recognize affected groups as well as those affected from a geographic or a socio-economic standpoint. That's always going to be a problem, but I'm optimistic that Canada reaches out and tries to help those groups when it identifies those groups.

The Chair: Thank you very much, Mr. Ciuffo.

And now Mr. Richards, please.

Mr. Blake Richards (Wild Rose, CPC): Thanks, Mr. Chair.

I appreciate your being here. I've been listening so far and appreciated your comments.

There seems to some criticism from the other side of this idea of social financing, and they seem to be doing it from both directions. There seems to be this idea that somehow government would spend less money on crime prevention if it were to go this route, then, on the other hand, it might actually spend more because they're doing this and there's going to be profit for private industry, whatever their argument might be. I think they're missing the point.

There's actually a really interesting quote in the "Paying for outcomes" report that you commissioned by Tim Drainin, the executive director of Social Innovation Generation. I'm just going to read it because it's very brief, and I think it makes a really strong point:

The Social Impact Bond is really an amazing form of social finance: what it's doing is that it's basically letting government catalyze interventions on the prevention side, instead of being just trapped at the end of the pipeline. It takes risk off the shoulder of government:

And then he makes this key point:

if no positive benefit is generated, the government is not on the hook to pay any money.

So I think if you want to get to the heart of that comment, what he's saying is that this is something that ensures outcomes, and that's really the point of the social impact bond. The idea here is that the government is going to have partners that it's going to work with, and we're going to ensure that there are outcomes for taxpayers' money. That's the key point that I see here.

And I wonder if you could comment on that a bit. Would that be something you would see as well? Would you see that as a way of ensuring there is maximum value for taxpayers' money, and ensuring there are outcomes? Would you see it as way whereby everyone can benefit, not only government by ensuring there's value for the taxpayers' money, but a model in which everybody is winning?

Would you think that would be a fair characterization and why?

• (1605)

Mr. Gianni Ciuffo: I do think that would be a fair characterization. In working with public sector clients, I try hard to define value in several ways: value in terms of dollars and cents, value in terms of risk mitigation, value in terms of economic impact, and value in terms of social benefit. When I look at the potential for social finance in general, but specifically at an instrument like social impact bonds, I see elements and I see a system that could, if successfully applied in the Canadian context, generate valuable outcomes to government along all of those facets for taxpayers and for the affected individuals who we're trying to help improve their condition.

So what I would say is that the pay-for-performance element of social impact bonds is very powerful—no performance, no pay. Further, if thresholds are selected responsibly and properly, they can be tailored to the situation, so that you can tailor the value outcome to government. There are some challenges around measurement, but information and measurement are always challenges in transactions of this type and can be overcome, in my view.

Mr. Blake Richards: Actually, that kind of speaks to my next question to some degree, I think, because I think that's actually one of the criticisms there are of the current model of crime prevention programs. There's a lack of really having any kind of hard metrics to measure the results. Would you see, though, the idea of a social impact bond having a better way to have more definitive results that we could actually measure? I would think that would have to be part of the social impact bond type of model. Obviously, in order to pay for successful outcomes, there must be a way that you can actually measure that there are outcomes that are meeting the results you're seeking. I know you've sort of identified that just briefly in your previous response, but would you see that as being one of the positives here?

Mr. Gianni Ciuffo: I would definitely see it as a positive. I think the service providers in a model like this would maybe be forced to develop better performance measurement, performance metrics, and to transparently report back to the public, or to have measured by an independent evaluator, what their rate of success has been, what they've actually accomplished.

What I would say, too, is that social impact bonds are also meant to be proactive interventions. For example, you can look at the rate of recidivism, which is a pretty clear metric, but you can go back into the system and look at, for example, the contributors to a lower rate of recidivism. Perhaps we would start looking at the level of education or the number of graduates of the education system within the corrections system as a positive indicator and a positive contributor to a lower rate of recidivism. Elements like that could be a very powerful tool in creating the social objective you're aiming for. So I would agree.

•(1610)

Mr. Blake Richards: How much time have I got—about a minute? Okay, great, it should be just enough time.

One of the things we're hearing, initially, is whether there really would be enough capital available in Canada. I think that you, yourself, and others have kind of made that pretty clear that there do seem to be a lot of investors out there who would have the desire to invest for social good. Is that true? Is there a lot of investor interest in something like this out there? You should know, I'm sure, with your practice.

Mr. Gianni Ciuffo: Yes. Acknowledging that Canada is a very conservative financial country—and we've done well by that, in my view—there is definitely appetite in the broader investor community that I spoke of earlier to invest in opportunities of this type. For example, of the 80 investors we surveyed in our recent market sounding, two of those investors were willing to look at investments exceeding \$5 million each, and that's at these initial stages where the market is very young in Canada. I think that is a positive indicator. As well, looking broadly across the investors, their broad response was that they were prepared to invest. I think those 80 investors represented what they would call a potential committed pool of capital of somewhere in the range of \$30 million to \$40 million, something they were ready to apply in this area. That's just one data point; however, it indicates to me that the answer to your question is yes.

The Chair: Fine. Thank you very much, Mr. Ciuffo, and thank you, Mr. Richards.

Mr. Easter, please, for seven minutes.

Hon. Wayne Easter (Malpeque, Lib.): Thank you, Mr. Chair.

And thank you, Mr. Ciuffo, for your presentation.

Just coming off the last question on the 80 that you contacted, what kind of return in investment are investors looking at for social finance projects?

Mr. Gianni Ciuffo: That really depends on the specific situation. I think a social impact bond pilot project in Canada that would be viable, sustainable, and well-constructed would have a reasonable rate of return that would reflect the underlying risk of the investment—or the loan, in fact.

I believe Canada has a very well-developed commercial banking market, and we should learn from that. A prudent social impact bond would see investors do their own due diligence on the potential service provider, which would develop a great deal of comfort that these objectives could be met and the thresholds of performance could be met. And by doing this due diligence, it would de-risk the

potential investment and would, therefore, require a lower commensurate rate of return appropriate with the investment opportunity.

Hon. Wayne Easter: Do you see this investment going as far as possibly privatizing some of the prison system within Canada?

Mr. Gianni Ciuffo: For me there's no connection between a social impact bond and privatization of public services. That's not the intent of the vehicle.

Hon. Wayne Easter: Could one step not lead to another? We've seen prisons for profit in the United States.

Mr. Gianni Ciuffo: Prisons in the United States were privatized, I would say and submit, long before social impact bonds were on the horizon. I don't associate the two. You can make potential linkages in a variety of ways, but I see them somewhat independently.

I do see your point of view, but I have trouble linking the two.

•(1615)

Hon. Wayne Easter: If the key to this proposal is the performance at the end of the day, that the performance is there, there's the reward of a better return in investment—if I could call it that—what happens if there isn't performance, not only if the government doesn't pay, but if...? My concern in this whole area is that there's a downloading of accountability and responsibility onto the public sector in areas within the criminal justice system that really, ultimately, governments are responsible for.

What happens if there isn't performance, if the performance targets that have been issued aren't met?

Mr. Gianni Ciuffo: The payment mechanism and performance thresholds are established on a transaction-by-transaction basis. But at the highest level, if the thresholds are not met, some lower amount of payment is required by government. I think that's commercially reasonable. I would encourage government to get involved in more performance-based contracts, where when they get what they contracted for, they should and will make full payment. I also believe that the Government of Canada is not in the practice of defaulting on its obligations, so if it did enter into an agreement to receive services and if the performance was met, I think the government would honour the obligation there—and it should.

Hon. Wayne Easter: Are there any examples in Canada that you've been involved in where this type of financing is in place now, and if so, what was the result?

Mr. Gianni Ciuffo: If you look at what is involved at the highest level, you see that private finance is involved. I have been involved in perhaps 50 to 60 government transactions that involve procurement of infrastructure, whether it be transit systems, highways, schools, airports, or the like. It's private financing, and we have this in most provinces in Canada; the federal government is involved in procuring infrastructure with private finance.

Hon. Wayne Easter: That's more in the traditional sense, though, in terms of the economic and physical construction kind of thing, rather than social finance, right?

Mr. Gianni Ciuffo: For social finance, I have been involved in a social impact bond in Canada, in the province of Saskatchewan, that recently reached financial close. Canada doesn't have many examples.

Hon. Wayne Easter: Thank you.

Thank you, Mr. Chair. That's fine.

The Chair: Thank you very much.

We will now go to Madame Doré Lefebvre, s'il vous plaît.

[*Translation*]

Ms. Rosane Doré Lefebvre (Alfred-Pellan, NDP): Thank you, Mr. Chair.

Thank you, Mr. Ciuffo, for being with us today. Your presentation was extremely informative.

I had a chance to go over the document on social impact bonds that you sent us. It was quite interesting.

Like my colleague Mr. Garrison, I'm not opposed to social finance, but I wonder about a lot of things. I would say the witnesses we heard from were all over the map on the subject. We heard from Washington that direct government funding would be easier but that it would require private sector support, which would wind up costing more. Other witnesses voiced their concerns about the government backing away from funding. And now Quebec is dealing with a problem stemming from social finance. Concerns were raised about a particular private foundation and its considerable influence over the social policy of the government in power.

So many questions and concerns persist around the approach. Many parts of the world, including the U.K., are running pilot projects. No tangible results are in yet, but I, for one, am very eager to see them.

That said, some witnesses have said that social finance may not be the most appropriate method for certain aspects of public safety.

Do you agree with that?

•(1620)

[*English*]

Mr. Gianni Ciuffo: Those are good questions, but I apologize. For some reason, the translation didn't come forward on the first component of your question. You have my apologies, but I'll answer it to the best of my ability.

Your observation is astute, that at this point in time there is not a great deal of results or data or outcomes to draw full conclusions on, in any area of social financing. In the case of microloans, I would say, absolutely, that those have been around for decades and the outcomes are proven. For social impact bonds, though, your point is quite a good one.

I say that in the absence of perfect information, and these are some of the limitations you were speaking of. I think we have a responsibility to look at a situation and, on balance, with the information we have and with what we know, ask whether it is plausible, whether it is possible, whether we are convinced that we are going to see an outcome that is as positive from a financial perspective as it is from a social perspective, whether it could be achieved in another way, and whether there's a positive business case for it. If you have that positive business case and it's compelling to government, that is evidence and reason on which to rationally decide that perhaps this is something we should try. We should try to

ameliorate, in certain groups, the graduation rate or the recidivism rate or the rate of retention of at-risk individuals.

As well, we have a responsibility to objectively study it during and after, so that if the results are not positive, we learn from that and adjust programs, or we learn from that and decide that maybe this isn't a good mechanism for certain services or certain sectors. I think the responsibility is clear for the predictive business case that we should proceed only if it is compelling and strongly positive, and that there should be measurement and follow-up and transparent reporting back to taxpayers about the results.

[*Translation*]

Ms. Rosane Doré Lefebvre: How does a private investor benefit from putting money into social impact bonds? I assume that, depending on the program, some dividends can be drawn. In other cases, it could cast a positive light on a private company or organization. What are the main benefits to a private investor from this type of investment?

[*English*]

Mr. Gianni Ciuffo: That's a very good question.

The private investor may be looking for only commercial returns. It's possible that a commercial bank could fund such an instrument. But it might—and probably would—get the most value out of the social benefit that occurs: the contribution to community and the improvement of its brand. Organizations normally contribute back to the community from which they draw a profit, and they provide charitable gifts and donations. That's normally the case in corporate Canada.

I think investors who would normally get just a financial return would value and draw benefit from being associated with doing good in their community and the brand and image enhancement, and they would look for those opportunities. I think we're seeing that generally as part of that triple bottom line movement: looking to do social good, looking to help the environment, and looking to be a responsible participant in the Canadian marketplace.

•(1625)

The Chair: Thank you, Mr. Ciuffo.

Mr. Payne, go ahead for five minutes, please.

Mr. LaVar Payne (Medicine Hat, CPC): Thank you, Chair.

Mr. Ciuffo, thank you for coming.

I find the topic of social impact bonds very interesting. When I look at the material you've given us, Deloitte certainly appears to be looking at this and appears to be at the leading edge of organizations.

You've already contacted over 80 organizations that are willing to put up some funding. I believe that's a particularly positive statement.

You mentioned earlier that a social impact bond had been issued in Saskatchewan. In terms of population, Saskatchewan is a very small province. I'm wondering if you can tell us about that social impact bond. When was it deployed, and what kind of outcomes are you looking at?

Mr. Gianni Ciuffo: I'd be happy to.

We were advisors to the province on a very small, by international standards, impact bond in the low seven figure area. But the social objective was, particularly among first nations, to help at-risk mothers and their families to be safe, to support them while in a safe home, to support the family, and to hopefully have the objective of children not being in foster care but in a safe environment where they are supported in attending school, and the family unit is together and functioning well. So that is the outcome that is desired in that case.

It's a very small pilot project, and that was known and acknowledged by the investors and by the government. But it was very deliberate. They thought that was a prudent way to start in this area and to look for ways to leverage private investment for this, based on their analysis. I don't know the exact date that transaction closed, but I would estimate it was in the recent few weeks.

Mr. LaVar Payne: Okay. Can you tell us who those investors were?

Mr. Gianni Ciuffo: Yes I believe it is public information. The investors, I believe, were a Canadian credit union and a private family from that community, and they came together and split the investment, I think half and half.

Mr. LaVar Payne: Do we know the timeframe on that?

Mr. Gianni Ciuffo: The timeframe is I believe five years. There might be an additional timeframe of perhaps another year or so to make sure the outcome is properly measured; but it's in that range of a timeframe, say five to six years or so.

Mr. LaVar Payne: That's very interesting.

I also noted the material you gave us, and you actually have a checklist for success. Can you make a comment or two on the checklist, because I think that's a really important aspect. Obviously, you would work with that checklist with financial institutions or other organizations that would certainly provide the funding and whatever the program might be.

Mr. Gianni Ciuffo: I think it's really important to assess the situation and analyze the situation to make sure that it makes sense from a financial perspective and that it's very likely to have a strong positive business case from a financial standpoint. But the actual outcome is impactful and has a very valuable outcome. If you put those together, for me, that's a compelling business case. That's one primary area.

I think another area is to be very careful in the performance measurement and to know and understand that if kids are in school there are a variety of positive benefits, financially and otherwise, that really cut across the different levels of government and the different levels of the community. So work hard to appreciate all of those cost savings and not look at the somewhat artificial boundaries that we place between different organizations and different departments, even within the same government.

I think another key success factor is to right-size the initiative and to pick a sample population where you can really have a higher level of confidence that the program that is funded is having that positive effect, or not, and that the relationship isn't tenuous. Those are some of the things.

I think it's important, too, that the public sector sponsor be knowledgeable in this area before it goes out and that it have skills and capacity internally to do these types of things and to be properly advised as to how best to structure, operate, and also assess the outcomes at the end of the day and report back, for full transparency.

• (1630)

The Chair: Thank you very much, Mr. Ciuffo.

Mr. LaVar Payne: Oh, I had too many more questions. Thank you very much.

The Chair: Thank you, Mr. Payne. I do thank you for your interest.

Certainly on behalf of the committee, Mr. Ciuffo, thank you very kindly for not only your presentation but also for your attendance and your responses here today. We really do appreciate it.

The committee will now suspend for just a minute or two while we welcome our new witnesses.

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The Chair: The committee will now resume.

We have with us two witnesses from the organization Finance for Good. We welcome Denise Hearn, program development officer, and we have Lars Boggild, program development officer.

You can decide among yourselves whatever your presentation is. You have up to 10 minutes for a joint presentation. After that, we will go to questions and answers. Thank you.

Carry on.

• (1635)

Mr. Lars Boggild (Program Development Officer, Finance for Good): First of all, Mr. Chair and honourable members of the committee, thank you for the opportunity to provide testimony today. As an organization, we certainly deeply appreciate that.

What I intend to provide as testimony today is a little bit of what we do as an organization, the landscape we're seeing in social finance as it applies to crime prevention, and some of the particular initiatives we're seeing in working within and across Canada.

My colleague Denise will speak to how the system of justice—and crime prevention in particular—relates to some of the feasibility constraints that really do apply in social financing, as well as a lot of the interest we're seeing from service providers and what that looks like and why.

To begin with what we do as an organization, to my knowledge we are Canada's only built-for-purpose social impact bond intermediary. As a social impact bond intermediary, we aim to use these instruments as a tool to allow communities across Canada to invest in prevention of various sorts.

As I mentioned, we're primarily a social impact bond intermediary, and there are really two separate functions.

The first is working directly with organizations, usually non-profits, towards a position to feasibly engage in these sorts of instruments and really to get to a state where they can engage in these sorts of contracts and receive investment. It's something that's somewhat temporary, but we work with organizations developmentally against these various challenges, such as measurement, impact attribution, financial modelling, etc. This upfront effort is really necessary if policy priorities or areas of interest, including crime prevention, are to intersect, really, with a social sector that is equally able to step up and begin to deliver on these sorts of outcomes.

The second function that is really involved as an intermediary is that we work with both those non-profits and commissioning governments, as well as investors, to structure, help raise the capital for, and monitor the performance and implementation around social impact bonds. It's something that's more ongoing, and it really lasts over the life cycle of a social impact bond.

I'm just trying to frame what we do.

In speaking about the landscape as it applies to crime prevention, as Gianni mentioned before, there are many models of social financing. Social impact bonds are just one, but by far they're what we primarily do. As a result, we believe there is still a lot of room for innovation in the development of new structures to allow investment for social and environmental outcomes.

A social impact bond, as it's been explained, is really two things. One is an outcomes payment contract, which says that for a certain performance, government would pay as has been indicated. The second is actually the financing itself: providing the working capital up front such that organizations and non-profits can actually deliver these interventions in pursuit of these valuable social outcomes.

As a result of this, much global social bonds activity outside of Canada is actually already focused on crime reduction. In our tracking alone, there are three SIBs that are currently live and focused entirely on reducing recidivism outcomes: in Massachusetts, in Peterborough in the U.K., and in New York City.

There are another three that are focused on mixed outcomes, essentially, targeting things like reductions in recidivism or reduction in crime, as well as things like gains in employment. As well, there is another one currently in design in Israel.

So we can see that there is quite an active community of practice. It's growing. It's small, still, but it's growing in this space as it applies to these instruments. Cumulatively, those seven that I mentioned account for approximately \$72.2 million Canadian in private social investment essentially geared towards reducing crime, reducing things like recidivism, and ultimately trying to generate positive social change for incarcerated individuals or offenders of various sorts.

Importantly, in tracking these initiatives, we see that there is actually growing comfort with these investment vehicles. Some of the mechanisms that might have been used to make them less risky in the past are falling out of use, and the actual overall size of investment in these vehicles itself is growing. To us, that indicates both that people are getting more comfortable with this and that they're willing to invest more.

In Canada, as was mentioned, there's one social impact bond so far. It's focused on at-risk mothers and their families. Much of the developmental activity, such as that social impact bond in Saskatchewan, has been at the provincial level, and I think it's noteworthy that governments of many political orientations have actually been very interested in this. In Nova Scotia, where I'm based—in Halifax—the provincial New Democrats, the former government there, wanted to actually be the first jurisdiction in Canada to implement a social impact bond. Meanwhile, in Ontario, a call for concepts has been issued by a Liberal government, and in Alberta the Progressive Conservatives have committed to innovative approaches to social challenges, including these social impact bonds.

● (1640)

So this diversity of interest we are encountering has multiple motivations. Social impact bonds can be a learning tool, a mechanism by which we can essentially engage effectively in research and development within the social sector. The scale is rigorous enough without both the political and public financial costs of failures. The flexibility of this funding can also allow for what we would call “in-process innovation”, and service providers can reactively learn in the process of implementing to drive performance improvements.

Social impact bonds can be a mechanism to allow for greater risk-taking on a scale that's commensurate with major social issues. In some cases there's a recognition that there are many challenges governments have tried to address in the past, don't feel they have full ownership over or the ability to directly address themselves, and see as their priority the mechanisms to address their priorities. Then, equally, they are a tool for new investment in a constrained budgetary context.

In our interactions with many provincial governments we're already seeing this understanding that while this is valuable and that investment in prevention in various forms is very valuable, there's already a lot of spending in acute care, whether or not in forms of incarceration or various forms of justice treatment. So there's often a need for what we call “bridging capital” toward prevention, and social impact bonds can fit in that gap. They can perhaps be that bridge.

We know they're not without concerns, obviously, concerns about whether or not this is government shirking its own responsibilities. As an organization dedicated to this field, we think this is taking accountability around outcomes as a government that that this is quite positive. There are concerns about profiting essentially from social problems, but we recognize that financial return is really compensation for risk. It's compensation for having risk tolerance to engage in what are essentially innovative projects, which is incredibly important.

There are concerns about cherry-picking, just doing the easy issues. I think we have to delineate between what's happening now and what could happen in the future, and how we need to learn from what may be more understandable or legible domains, such as justice and crime prevention, to enable us to begin to expand the scope of tools such as this to things that may be more difficult to measure or track. That's okay.

There are concerns that this may only happen in big population centres. Feasibility constraints around the transaction costs for that, as Gianni mentioned, may make it difficult to apply these instruments to very small populations. We think whether or not it's grouping many small populations together to make larger projects happen or equally.... There are cases already in Perth, Scotland, where a very small social impact bond was implemented. It involved a local community and local businesses; this is possible at that scale.

Overall, there are opportunities to facilitate growth in this area. The developmental requirements are significant and we're very familiar with them and I'm sure Denise will speak to them as well, including the notion of having clarity around intentions and goals on the part of government, so that organizations such as ours and service providers, including those we interact with, know what audience their sort of work will flow into.

Then there's development funding as well, the fact the start-up costs of this new focus on the part of the social sector are not insignificant. In many other jurisdictions, including the U.K., there's an understanding that's a need that needs to be filled.

Finally, there is the question of data and information. A really strong example of this is in the U.K. As they pursued social impact bonds they've developed a tool kit, which includes chagemaster data that says these are figures that government incredibly believes are accurately reflective of its costs, such that organizations such as ours and the non-profits we work with can incredibly construct these sorts of businesses cases that they know can confidently move forward.

Thank you very much for the opportunity to present today.

• (1645)

The Chair: You only have about half a minute.

Ms. Denise Hearn (Program Development Officer, Finance for Good): Oh my, okay.

The Chair: Ms. Hearn, please give us your thoughts during that time, and of course, if you have further comments, feel free to make the balance of your message in the round of questioning, certainly.

Ms. Denise Hearn: Sure. I suppose, then, I'll just take a moment to mention my primary interest in this area, which is the service provider.

The reason these organizations actually find this a very credible and valuable model for them is, one, the long-term capital. In the current granting system, when they're required to implement programs year after year and track those measurements only year by year, it's very difficult to actually prove the long-term objectives they want to see with their clients. This gives them an opportunity to improve measurement within their organizations over the long term. We find that very valuable. It's unrestricted as well, allowing organizations to actually meet their outcomes while we're moving from an output mentality to outcomes within the social sector.

We believe SIBs are one way of driving this kind of major philosophical change within the social sector. Certainly they're not the only way, but we believe SIBs can catalyze this large-scale reconstruction, I would say, of the outcomes we are trying to see within the social sector.

Thank you.

The Chair: Thank you very much. I appreciate the brevity.

Mr. Norlock, seven minutes, please.

Mr. Rick Norlock (Northumberland—Quinte West, CPC): Thank you very much, Mr. Chair.

Through you to the witnesses, thank you for being here. There are some very interesting things for us to chew on.

To give you some more airtime, Ms. Hearn, I want you to speak more about service providers and to talk about outcomes. I'd like you to compare, if you can, because I suspect you've done this, outcomes of strictly government programs and outcomes that persons using....

I'm not talking about just social impact bonds; as you say, they're only one tool. Let's talk about the entirety of social finance as it pertains to this committee's study of crime prevention. Perhaps you could talk about the difference and then comment on the value of diversity in approaches to crime prevention.

Ms. Denise Hearn: Absolutely. I think ultimately all of the various stakeholders in not only a social impact bond but in the general social finance landscape, whether that is public, private, or social sector, have similar objectives around wanting to see our communities healthier, better, and more crime-free, in this particular case. Obviously, with the diversity of beneficiaries from the programs implemented within the realm of crime prevention, there will be all kinds of different needs that each beneficiary of these programs will need to receive from implementing organizations.

I think one of the great things about this type of model is that you identify a specific outcome, whether that is the reduction of recidivism or perhaps, in this case, an avoidance of juvenile justice system interaction. Then the financing that goes towards the meeting of that outcome is unrestricted. It doesn't matter how it's used within the course or the implementation of the program as long as that specific outcome is met.

I think it allows for a lot of flexibility and diversity and innovation and creativity when it comes to looking at what types of programs we are funding.

Mr. Rick Norlock: Thank you very much.

Would you agree with me that governments have something very valuable that they use? Governments don't have any money; they only have the money of the taxpayers, your money and mine. Governments tend to be averse to risk, and governments have programs for crime reduction.

Let's say a government wanted to steer some of those valuable tax dollars towards crime prevention, or any kind of program for that matter, and they wanted to make sure that a desired measurable outcome occurred in a relatively short time. Governments put money into crime prevention, have a program, and hire...you know, there are a lot of people in the government who want to make it work, and they do other things.

But specifically related to working with another sector, whether it's for-profit or not-for-profit, would you agree that the measuring sticks we would use in utilizing social financing...? Usually they're three- to five-year outcomes, and then there's the measuring. Usually the parameter is around five-year outcomes. Would you agree with me that it's worth the risk?

Then I want you to talk about how you reduce those risks. I note that your CFO of Finance for Good wrote that he's trying to reduce the risks associated with things like SIBs.

That's giving you lots to chew on, and you have probably three minutes to do it in.

•(1650)

The Chair: How about a specific question, Mr. Norlock? There are a number of them there.

Mr. Rick Norlock: No, my specific...in general, social financing programs.

Ms. Denise Hearn: Would we agree with you that it's worth the risk? Of course, absolutely. In terms of the reduction of risk, inherently these populations that we're dealing with are risky transactions...sorry, collaborative efforts that we're entering into.

Would you want to speak to part of that?

Mr. Lars Boggild: Yes, I would just add that what we've encountered in previous examples of social impact bonds that have been implemented, and even those that we are engaged in the development of, is an understanding that within the delivery model what we focus on is very much driven by outcomes. It's not thinking so much about just the activities. There's the capacity for spending on operational overhead, measurement systems, data performance measurement, which allows more nimble reaction to the sort of rapid feedback that these organizations are getting on the ground.

To give a very simple example, in the case of Peterborough, U.K., the first social impact bond, they began with seven partners. It's pretty substantive to begin with, but over the first year they expanded to 11, because they recognized that there were additional needs, areas, other service providers that could have that form of flexible, rapid procurement in support of the sorts of outcomes that are ultimately sought. So that's the difference we see, almost philosophically, as you begin to expand toward these other instruments to have that flexibility, that nimbleness.

The Chair: You have another minute.

Mr. Rick Norlock: Okay, in a minute or so, why would governments want to deviate from the old, traditional way of trying to reduce crime, and why would we get involved in social finance anyway?

That's your business right now. That's what your interest is. Do a sales job on us. Tell us how you do that—as succinctly as you can.

Ms. Denise Hearn: First of all I would just mention that in no way do we think that social finance or SIBs will inherently replace the existing structure. They are simply meant to be an additional source of capital influx into the system, and they're a way to test new, innovative projects and ideas. If there's a service agency that already has a clear and consistent proven track record that is already funded primarily by the government, continue to do that. We in no way

think it would be appropriate to insert a social impact bond there. If that particular organization that already has a proven track record is interested in scaling up their program, if they're interested in doing something new, innovative, slightly risky that they haven't tried before, where it's a more difficult population that they're entering into, working with, that is the space in which a social impact bond can be a great tool to take the risk away from government as they look to finance a new and innovative program.

The Chair: Thank you very much. Time is up.

Now Mr. Garrison, please, for seven minutes.

Mr. Randall Garrison: Thank you, Mr. Chair.

Thank you to the witnesses for being here today. Again, I know you were in the room when I did my presentation on the priorities of this committee, and I still have.... Mr. Norlock likes to accuse this side of being ideological. Sometimes I feel that we have a sense that everything the government's doing in crime prevention is somehow a failure, when we have a dropping crime rate. And we will have some witnesses in next week, when we'll talk about the national crime prevention strategy and some of its successes. So I was very happy to hear you say that what you're looking to do is a supplement to what's already going on, and I think that's an important perspective to keep on the record.

My questions are about governance and accountability, and I'll tell you why with an example from my own community.

We just had a youth employment program that had been run for a long time by a group called Spectrum, which is a community non-profit, non-sectarian organization. They had to bid again for their contract, and they lost the bid to a faith-based organization, which is now providing services. We've already had questions in the community, because it's a faith-based organization that is not open to all members of the community.

I think that same thing applies when we come to the idea of social impact bonds that are done essentially by private—even if they're philanthropic—interests. What is the guarantee that they'll actually be open to serve all members of the community?

•(1655)

Mr. Lars Boggild: Part of that, certainly, is the public commissioning process. The social impact bond can't proceed without an agreement by a public commissioner to pay for outcomes. So there is that final check, at least, at some stage of accountability, in engaging the public sector.

But I think it's equally important to think about these tools, the social finance space, as being oriented very broadly to the efficient allocation of social investment toward impact. In the same way that the traditional capital markets are very good at efficiently allocating toward risk, this is thinking about effectiveness toward impact. So for given investors, say a foundation, that are interested perhaps in crime reduction, for their ability to actually use tools like social impact bonds, it's part of a portfolio across their operations that actually allows them to learn, to develop, and to create much more rigorous knowledge as to whether or not those interventions work, and if they ultimately do work, to actually recycle that capital back into things that actually work because of the outcome payments that occur. So it allows much more of a revolving activity toward what are more effective interventions.

Ms. Denise Hearn: Perhaps I could just add to that. I think one of the concerns people have is that the investors will have some sort of capability or jurisdiction over the actual implementation of programs such that they could influence with their personal preferences the delivery of these services.

That's not the case at all. We actually see one of our primary functions as an intermediary organization is to be the neutral party that is facilitating the agreements between those three stakeholder groups—the organization, the investors themselves, and the government. So because of the way the actual governance structure is set up, I think it would be difficult for private interests to influence the actual delivery of the services.

Mr. Randall Garrison: But if you go back to the example I used from my community, we have programs that have moved to a space that is normally regarded as hostile by half the youth clients, because of their sexual orientation or other personal characteristics. So it's the very fact that the program had moved to a private space—even though I am not at all criticizing the operators of this new program yet, and they have made pledges that it would be open to all. But it doesn't appear open to all the clients because of the move to a private space from what was essentially a public space.

The other one we've had in our community is an organization that was largely first nations-run, which again did not have its funding renewed and the contract went to a private group to offer the same service. Their problem was that we've had years of working in the first nations community from a first nations perspective. I think the contract was shifted for an outcomes reason, saying they are looking for better outcomes, but what they are saying is being lost is the cultural sensitivity to the aboriginal programming that is not present in the private organization.

Mr. Lars Boggild: To briefly respond to that, what I would initially say is, when you think about that notion like a movement to a private space that is less inclusive, that ultimately that would likely result, in fact, in worse outcomes for at least some subset of the population, perhaps for those who didn't participate in this sort of programming.

So what tools like social impact bonds can do, if well designed—and that's a caveat, an “if”—is ensure that the measurement architecture, which is how things are evaluated for outcomes, take note of those factors. As an example, when we think about things like crime reduction, it is important to note the difference between high-frequency offenders—people who offend quite frequently—

and those who may just have had their first offence. If something is done just on the basis of a binary measure—whether they committed crimes or not—you might just choose to work with those easiest-to-work-with offenders. That is the sort of cherry-picking concern. But if you can design it such that we actually address the frequency of offence, then we might actually have an incentive to drive outcomes toward those who are the hardest-to-treat populations.

Equally, as we think about issues of cultural sensitivity, that may be a driving factor in the lack of performance of these new funded programs. So having that orientation toward outcomes, performance, and effectiveness and actually learning frankly whether or not that is true—perhaps cultural sensitivity matters an incredible amount to your committee in particular—might be a tool, and social impact bonds might actually be a tool to develop that knowledge base in a very rigorous, credible way.

• (1700)

The Chair: You have half a minute.

Mr. Randall Garrison: In the example I was just talking about, with the aboriginals, what the organization is saying, of course, is that they have worse outcomes because they deal with a more highly challenged population, with a history of residential schools and alcohol and drug abuse. They say they've been compared with all the other people who are operating and who are dealing with much less high-risk and much less difficult populations. That comes back to the concern, which you did address, about taking the low-hanging fruit or cherry-picking the easiest-served parts of the population so that you can more easily reduce your risk and increase success.

The Chair: Thank you very much, Mr. Garrison.

We will now go to Mrs. James, please, for seven minutes.

Ms. Roxanne James (Scarborough Centre, CPC): Thank you, Mr. Chair.

Thank you to both of our witnesses for appearing this afternoon.

I wanted to go back to something you talked about in your opening remarks. You clearly indicated that, based on certain performance outcomes, the government will pay a specific amount. I wanted to ask a question with regard to that. Could social impact bonds, for example, or any other type of finance, be scaled to the level of performance outcome? For example, a contract could be based on a certain percentage of crime prevention or reduced recidivism, but then, as you get better results, you actually would have a better return on investment. Is that something that's frequently used?

Mr. Lars Boggild: We see models where that is used and those where it's not. Generally speaking, the notion of having multiple thresholds, or even a kind of continuous form of performance payment, such that for each $x\%$, you have $x\%$ of return, can be and have been used. So the short answer is yes. There are examples of that. There are also examples of where there is just a simple threshold. There are both and, as well, there are reasons to use both. Particularly when there might be very challenging populations, it may make sense to just have one defined threshold so that you can do due diligence against that.

Ms. Roxanne James: So the return on investment could be based on the certain risk to a certain project or a group. Okay.

In your opening remarks, you also talked about your role as an intermediary, in that you engage with the non-profits to help them determine measurements that can be used for investors to take a look at. We talk about targets and making sure that we have desired results and so on. How do you, in your role, come up with tangible measurements for various projects? How do you determine what would be a successful project or not? Is it that there has to be some sort of an evidence-based history to this or is it something that you magically pull out of the hat?

Mr. Lars Boggild: It's certainly a balance of evidence. What we look at are cases where there tends to be a body of evidence—and ideally one that is growing—and an organization that has a culture of continuous performance improvement. However, that broader question around feasibility is something that we were actually very happy to address. We've produced documents on feasibility frameworks for social impact bonds in particular, and although we didn't actually bring them, I'd be happy to share them with the committee.

The idea is that the framework provides a lens through which we can assess the feasibility of these interventions and programs as potential social impact bonds, such that we know that the risk taken by an organization in going through this developmental effort—because it is risky for the social service sector as well—is worthwhile. We look for cases where there is that sort of culture. We also look for cases where there is a cost structure in place in the broader domain, such as crime prevention, frankly, where the positive individual and social outcomes—things like not reoffending—also align very strongly with a positive economic outcome and a lower cost to things like rehabilitation, as opposed to incarceration.

Ms. Roxanne James: Thank you.

Another witness, I believe at our last committee on Tuesday, said that crime prevention should not be the sole responsibility of any government or RCMP or local police. Do you agree with that statement and the philosophy that crime prevention is more of a community-based thing that we can all help with?

• (1705)

Ms. Denise Hearn: I absolutely believe that it has to be a collaborative effort at all levels of society. Obviously when we're talking about social impact bonds as they relate to crime prevention, we are talking about very easily measurable indicators of a reduction in crime, as in a reduction of recidivism. Obviously, however, many of the community efforts will contribute to a reduction in crime. For example, we look at the emancipation of children from foster care who are coming out at 18 and 19 years old. The stats are abysmal when you look at the lack of support they have coming out of that system and then their interactions with justice and the likelihood of becoming homeless.

As we are looking at not only social impact bonds, but social finance initiatives and all other kinds of community initiatives in this area, I think it is important to be developing as many partnerships within the community as possible to help address some of these very complex social issues.

Ms. Roxanne James: I have time left, correct, Chair?

There's been some concern about investors perhaps looking at, as you said, low-hanging fruit or areas where more funding or capital might be available, and larger cities as opposed to rural or remote

communities, or even areas of lower income, let's say, with different levels of demographics and so forth.

But in reality social financing is not simply the government saying we're doing social financing and then everybody just goes haywire. The government can set parameters as to the areas of a country, the demographics of a country, or even the parameters of the projects that would probably fit the bill for what we're looking for.

Correct me if I'm wrong, but then it would be the role of the intermediary to find the non-profit organizations that can deliver the services, and then you go out and find the capital investors to make it all happen.

Because this is something that hasn't come out really, that government still has some say as to where this is all going to happen. I just want to make sure that we're not implying that communities where there's not a lot of wealth, where community organizations don't have a lot of money, are going to be left behind.

We also heard actually from the first witness who said he had 80 partners from within the financial area that are willing partners and are eager to get involved with these sorts of things. A lot of those financial institutions are not actually located solely in a big city. They're right across Canada.

Maybe you could just comment on that.

Mr. Lars Boggild: What I would mention is that there are certainly cases where a social impact bond can be service-provider-initiated, where a non-profit can recognize that this is something it really wants to do and may contact as.

Equally though, and in many cases, social impact bonds are something that is publicly led, in processes such as requests for proposals that actually delineate exactly these parameters: which population, where, which communities, and why that's a policy priority.

We've seen both processes at work. The more formal RFP is more common so far in the United States than it has been in Canada, thus far.

The Chair: Thank you very much.

Now, Madame Doré Lefebvre, seven minutes.

[Translation]

Ms. Rosane Doré Lefebvre: Thank you, Mr. Chair.

Thank you, Ms. Hearn and Mr. Boggild, for joining us today. It's very kind of you to describe your social finance work for us.

I'm not sure whether you can really give us any detailed information on this, Mr. Boggild, but at the beginning of your presentation, you said you were carrying out a project in Saskatchewan. Is that right?

[English]

Mr. Lars Boggild: There is a social impact bond [*Inaudible-Editor*] in Saskatchewan, but it is not our social impact bond.

[Translation]

Ms. Rosane Doré Lefebvre: Very well.

In terms of the social impact bonds you are involved in, I'd like to know how the funding structure works and what benefits investors draw from it. I asked the previous witness the same question, and you probably heard his answer. Regardless, I'd really like to know how you operate.

What do investors derive from this type of funding? Financial benefits, dividends or, rather, positive exposure?

• (1710)

[English]

Mr. Lars Boggild: The investors in the financing models with whom we've interacted in the development of social impact bonds across Canada are predominantly socially motivated investors. These are high net worth individuals who are very concerned about issues in their community; they are also foundations; and in some cases they are commercial businesses or commercial financial institutions as well.

Within that, broadly speaking, they are also receiving a financial return that is generally commensurate in compensating for the risks they're taking in potentially losing all the money they're investing on the basis of performance. If outcomes aren't met, then all the investment they've made would be lost.

However, we are also seeing that because these are socially motivated investors—and this is very true of international social impact bonds as well—the expected rate of return relative to the risk that's being taken is actually what would be called in the financial community “concessionary”. People are accepting less return than would normally be seen within a fully commercial marketplace, because they recognize the value of the social good, but equally also, that these are scenarios in which the public sector, the government itself, is also capturing a significant amount of benefit.

[Translation]

Ms. Rosane Doré Lefebvre: Are you saying investors are willing to assume greater risks when investing in social finance arrangements like social impact bonds?

[English]

Mr. Gianni Ciuffo: Yes, I believe they are taking a significant risk. In many cases, they're accepting more risk than they would for a similar return in the commercial marketplace, but it's because they're socially motivated and concerned about generating positive social outcomes in their communities.

Ms. Denise Hearn: If I could just add one thing, it's that we're seeing, at least for private high net worth individuals, an interest in... Because there's a bit of donor fatigue, they don't want to strictly do philanthropy any more. They want a way to invest their money such that they can earn their money back, potentially, and then repurpose that capital back into another social objective. So it's a way for them to actually be generating interest on their capital to multiply the impact they're having in the community.

[Translation]

Ms. Rosane Doré Lefebvre: Is the investor accountable to you, as the intermediary, or to the government directly?

[English]

Mr. Lars Boggild: Investors as participants in a social impact bond are governed essentially by the terms of the contracts they sign in engaging in a social impact bond.

[Translation]

Ms. Rosane Doré Lefebvre: Who monitors the process? Is it you, as the intermediary, or is it the government? Is it more you?

[English]

Mr. Lars Boggild: The monitoring in the interim, as a social impact bond is being implemented, is usually done by an intermediary such as ours. However, when we actually think about the payment of outcomes, outcomes thresholds that would trigger payment, that's almost exclusively done by third parties. So we get an independent firm to essentially audit what went on to validate what occurred—so non-government, non-us, non-investors.

[Translation]

Ms. Rosane Doré Lefebvre: This is a question I often ask witnesses. You said that, in your field, a certain amount was allocated to public safety. Various programs exist. Witnesses told the committee it was possible to invest in public safety through social impact bonds and social finance, in general.

Are there limits to that? Are there certain aspects of public safety to which social finance should not be applied?

[English]

Mr. Lars Boggild: Just to briefly respond, as an organization we actually do have internal policies, in fact, to tell us and to guide us, to serve as a guide to the idea that there are areas, particularly in areas of emergency service of various sorts, where we feel that this sort of kind of greater risk tolerance may be inappropriate just to the severity of potential damages for the vulnerable population.

[Translation]

Ms. Rosane Doré Lefebvre: What do you mean? Could you give us some examples?

• (1715)

[English]

Mr. Lars Boggild: Sure. For example, we think it would be inappropriate perhaps to use a social impact bond to deliver emergency room care. We'd want that service handled in a very standardized way, so that we know and can have great confidence that it will be there when people need it. Inasmuch as these are more risk-tolerant and innovative approaches, there are areas where it may not be as appropriate.

The Chair: I thank you very much, Madame Doré Lefebvre.

Now Mr. Maguire, please, you have five minutes.

Mr. Larry Maguire: Thank you, Mr. Chairman.

Thank you for your presentations again here as well.

The whole purpose here is to look at crime prevention—to deal with crime prevention, to reduce crime, and to deal with at-risk individuals.

Where do you think it's the most applicable in Canada? Where would we get the maximum bang for the buck, I guess, in regard to what sectors of crime prevention you would look at?

Ms. Denise Hearn: Obviously, I think some of the acute services offered, to which you can attach sort of the highest economic proxies, would be the costs of incarceration, which has international precedent, as we have mentioned multiple times. In fact, the very first social impact bond in the U.K. and in the U.S. was in that particular area of focus, so I think that is an easy and obvious first area.

I don't know if you would add to that, Lars.

Mr. Lars Boggild: I would add to that, just with some more specificity, that we are seeing organizations come to us equally, and we recognize the rigour of the cases they're bringing forward in areas such as substance abusing offenders. Offenders who are incarcerated due to substance abuse have very high rates of reoffending, partly because of the nature of their addictions in many cases, so potential supports and programming in that area for rehabilitation oriented towards their particular unique needs would be good.

Equally, as Denise mentioned before, there is the context of youth leaving foster care or institutionalized environments and their very steep transition from those environments to non-controlled environments and the likelihood of them reoffending. We've also looked at things like domestic violence and opportunities to reduce the likelihood of that in communities where it has, in some cases, been quite epidemic.

Mr. Larry Maguire: Thank you.

The question came up regarding who monitors your role as an intermediary in these processes. I wonder if you could just touch on not so much who monitors and who's in control there but whether you think having intermediaries such as you involved in that whole process expands the opportunities to look at investors who might want to invest in the whole social impact bond program in the first place. They might have an idea of what they want to do or what they want to invest in, but you may have a much broader view of where they could be a bigger help.

Mr. Lars Boggild: I would add that certainly I think it's true that having an intermediary in place can provide the confidence for investors that the upfront case that's been developed has been so certainly with rigour and with some semi-independence, at least, as that case itself has developed and has moved forward. I think it's equally important to note that the ongoing governance associated with an implemented social impact bond and the validated reporting that would flow from the actual operations in the life cycle of the social impact bond, up to investors and government as well actually, are being done by an organization whose interests are not exactly the same as those of the service provider. There is some ability to manage key performance in the interim in the life cycle and actually to help rapidly procure and support with other organizations that might also need to be brought in. Maybe an organization realizes that there are other services that would be really complementary to what's going on, and an intermediary could very rapidly help bring those together.

Mr. Larry Maguire: I'll just say quickly that you seem to be very specialized in the social impact bond, but what other areas have you

looked at? Are you looking at other mechanisms? We've talked about other mechanisms here in committee, and I'm assuming you're familiar with them. Have you had a role in them as well?

• (1720)

Ms. Denise Hearn: We were originally founded to be unique curators of this model in Canada, because we recognized a gap in this area. There is no other functioning organization at this point filling this very specific need that we identified, so we have started with social impact bonds as sort of a proof-of-concept within the broader social finance landscape. We have had various involvements in other projects within social finance, but social impact bonds have been sort of our flagship project at this point.

The Chair: Thank you very much.

[*Translation*]

Mr. Rousseau, your turn. You have five minutes.

Mr. Jean Rousseau (Compton—Stanstead, NDP): Thank you, Mr. Chair.

[*English*]

I'll be speaking French, if you don't mind, anyway.

Voices: Oh, oh!

[*Translation*]

When all is said and done, we are in the midst of creating a new market and inevitably we want it to yield a return. Regardless of the nature of the project, be it for social, community or other purposes, we want it to yield a return. Whether that return is 5%, 10% or 15%, investors want a return.

For the projects already under way, what rate of return do your investors expect, as far as interest and benefits go?

[*English*]

Mr. Lars Boggild: That varies pretty strongly by the specific issue. For any social impact bond, when we think of the economic implications of the outcomes that are produced, there's an understanding that the value of those outcomes will very much be divided between government and the private investors that have forwarded the capital.

In cases where there is a very cost-effective intervention—something that can produce very strong outcomes for very little upfront capital—the returns are inherently higher, and vice versa. However, to be a bit more specific, we've seen broadly a sense of tolerance and understanding that it's anywhere between 5% to around 12%. That is the general understanding.

[*Translation*]

Mr. Jean Rousseau: That's about the same rate for other bonds and instruments that generate returns.

In my region, in my riding in particular, social and community groups that are running programs, including social workers and street outreach workers, are concerned about investors imposing performance requirements. They worry that could put pressure on an already difficult working environment.

What do you make of those concerns?

[English]

Ms. Denise Hearn: I think it's a valid concern, but I would also say that what we have seen internationally is that as social service agencies are moving from their current measurement system, it's not so much that there's increased pressure for results, but just that there's a better measurement system. For example, a lot of employment programs at this point are saying, for instance, that they've put 40 people through their employment training program, but they cannot tell you how many of those individuals went on to place for employment and how long they retained their employment. I'm sure that many of them would be successful; however, in this current landscape there's simply this shift happening, moving from one type of measurement to the next.

What a social impact bond allows an organization to do is to better tell their stories of success through the implementation of better data collection and measurement.

Mr. Lars Boggild: Just to add, very briefly, what we also see is that non-profits themselves, social sector agencies—and not all should participate, or want to necessarily, and that's okay—also understand that the resourcing that can come along with the social impact bond can enable them to improve their performance and invest in tools so they can really translate the efforts they're making into the ultimate outcomes they're trying to pursue.

• (1725)

The Chair: You have 30 seconds.

[Translation]

Mr. Jean Rousseau: My riding is made up of mostly rural communities. We don't have many urban areas. So there has to be some benefit, as far as investment goes, to projects carried out in rural communities. I hope you're getting some sense of the situation.

[English]

Mr. Lars Boggild: We're certainly trying to. What we would note is the difference with social impact bonds initially, and certainly in the future. It's a very new tool, and as a result the transaction costs are quite high. But we do expect those to decline over time, and organizations like ours are just trying to improve ourselves so we can produce these more efficiently. As we get better at that, we will be able to work with smaller populations as well to make this viable.

The Chair: Thank you, Mr. Rousseau.

Now, batting cleanup, Mr. Richards.

Mr. Blake Richards: Thank you.

I have a couple of questions.

In setting up his question, one of the opposition members earlier seemed as though he were asserting that there were specific groups that he felt maybe wouldn't be able to be served by the idea of a social impact bond. One of them seemed to be aboriginal Canadians. That was a sort of assertion that was being made there.

I want to challenge that assertion. I don't understand why it couldn't, in fact, serve first nations people. I want to hear your thoughts.

Would you see social impact bonds as having a lot of potential to serve our first nations people, our first nations youth, these types of

programs? Is there any reason why they couldn't? And when we talk about culturally sensitive programming, if it's showing results, could social impact bonds not be used for aboriginals to provide them some benefits?

Mr. Lars Boggild: Yes. In fact, in many of the provinces we're working in and interacting with, there is interest in that particular issue, whether it's aboriginal populations that are perhaps sometimes at risk of criminal justice interaction or whether, in other cases, it's focused at things like early childhood development within aboriginal populations. We've also looked at educational attainment gaps within various aboriginal populations.

Within that diversity, I guess the broad theme is that, yes, these are tools that can be used to address that population, certainly, because it can be well defined as well.

Mr. Blake Richards: Okay.

I noticed that you were both here for the first panel. I'll just reread the very brief end of a quote, because it talked about social impact bonds and one of the reasons they're so positive: "It takes risk off the shoulder of government: if no positive benefit is generated, the government is not on the hook to pay any money."

That speaks to two things that I think are very crucial here. One is that there is value for taxpayers' money, which is important. The other part of it, though, is the idea that we're ensuring outcomes. That is even more important. When we're talking about ensuring outcomes, we're actually talking about helping people. We're talking about changing lives. That's what "outcomes" means. It's not just a word. It means that people's lives are actually being changed, that we're providing some significant help for people.

If that's the case, is this idea of a social impact bond not worth at least trying, to make sure that we can get the best results possible for at-risk Canadians?

Ms. Denise Hearn: That would be our contention, yes.

Mr. Blake Richards: Okay.

There's nothing you want to add to that?

Mr. Lars Boggild: Only that it's part of the reason why we get up in the morning, frankly.

Voices: Oh, oh!

Mr. Blake Richards: Absolutely, and we appreciate that. We appreciate the work you're doing. We think there are definitely some positives that can be generated here. We appreciate what you're doing, we appreciate your being here today, and we appreciate your answers to the questions and your testimony today.

Thank you very much.

Ms. Denise Hearn: Thank you very much for having us.

The Chair: Thank you very much.

Ms. Hearn and Mr. Boggild, thank you so much for your contribution today. We certainly do appreciate that you took the time to share your thoughts with us today.

I thank all our committee members for their contributions as well.

We are adjourned.

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