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Chair

Mr. Daryl Kramp

Standing Committee on Public Safety and National Security

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• (1530)

[English]

The Chair (Mr. Daryl Kramp (Prince Edward—Hastings, CPC)): Colleagues, we'll call meeting number 28 of the Standing Committee on Public Safety and National Security to order. Today we are following up with a further meeting and discussion with witnesses as we continue our study on social financing.

For the first hour of testimony and questioning today, we have two witnesses before us. We have, in person here, representing MDRC, David Butler, senior adviser. We also have by way of video conference from Cambridge, Massachusetts, from the Harvard Kennedy School, Mr. Jeffrey Liebman, director, social impact bond technical assistance lab.

Did I get that one correct, sir? Do we have you with us, loud and clear?

Prof. Jeffrey Liebman (Director, Social Impact Bond Technical Assistance Lab, Harvard Kennedy School): I'm here. Can you hear me?

The Chair: Absolutely. That's tremendous. Thank you very much. We do certainly appreciate your taking the effort over the long distance to communicate with us this way.

We will give each of you up to 10 minutes to make a statement. After that, for the balance of the hour, we will have questions from our committee members from all sides of the House here.

We will start with Mr. Butler.

You have the floor for up to 10 minutes, sir.

Mr. David Butler (Senior Adviser, MDRC): Do you mean I could have done this by video and stayed in my bed and hung out at home? You guys didn't tell me that.

The Chair: Well, let's put it this way. You're warming the chair now, so carry on.

Mr. David Butler: Okay.

Just quickly, because MDRC isn't a self-explanatory thing—although the letters are the name of the organization—we're a not-for-profit social policy research organization. We've been around for 35 years or so. We basically evaluate and do demonstration projects of interventions to help low-income individuals and families. Our projects involve either evaluating what someone else has developed—we're real believers in very rigorous evaluation, random assignment evaluations—or developing an intervention ourselves, with help, and then studying that. Those are the two arms of our business.

I'm here to talk to you today about the first social impact bond, in New York City, to be implemented in the United States. There were lots of discussions, and probably a number of them should have started earlier, but we were the first ones off the block. It's a project that's providing cognitive behavioural therapy to 16- to 18-year-olds in New York City's Rikers jail, which is the largest jail in North America, I believe, with a huge population, and a huge population of adolescents.

Before I get into a little more of the detail of the program, I'll make a few introductory remarks. I know there's been lots of hype in the debate around pay for success and the social impact bonds. In the States, when we first started the project and there was nothing else happening, that's when the debate was at its fiercest, because usually people debate when they know less about something. When there's less information, there's more to argue about.

In those early days, we heard two...and I took questions about both of these alternatives. There were those who were positively hyping this as a transformative strategy that would get new money from investors for preventive programs, increase government accountability, save money for government and taxpayers, and improve outcomes for at-risk populations. It was a “quadfecta” winner, so to speak, in horse-racing language.

On the other hand, I heard other things when I would talk about our project, that it was just a cynical strategy to privatize services, to polish the sorry reputation of banks while ripping off government and the taxpayer, and leave at-risk populations worse or no better off—a quadruple loser.

Now, I'm not an ideological type. I'm a program evaluator, so I try to be more like my man Friday on *Dragnet*, “Just the facts, ma'am.” But I had to deal with those questions early on. Fortunately, I think things have changed a little bit now that we've actually started to do some of these things. I think the consensus in the States more is “Let's see whether any of these things really can produce what they claim they can produce, and make our judgments there.” So I'm facing a little bit less both the more strident criticisms and the promotional statements, and facing more the “Well, let's wait and see, give this thing a chance, and see what happens.”

I have to say that we at MDRC, as evaluators, were also a little reluctant to get into this, to start. Evaluators look at programs with a very rigorous lens, and we don't see a lot of things that really work. There aren't a lot of programs out there that are very successful. So then how does one attract an investor to take the gamble on something that may not have a great likelihood of being successful? The only way they will is if they're getting a high rate of return on that investment and there's the ability, or the willingness, of government to pay high interest rates to banks.

It seemed to us that this probably was not going to happen, so we went in with a fair amount of skepticism but with the open mind of an evaluator of let's give it a chance and see what happens.

Now we're about three years into our project, which is up and running. The measures we use to see how we're doing indicate that we're on track to achieve the goals of the program, but I can't tell you that I know that this will happen. The goals of the program are to reduce recidivism by 10%, at a minimum, for our population. Recidivism means return to jail. In our case, it's compared with a historical comparison group of the same age. I don't have that data yet. All I have is the data about the program participation, and the program participation is on track to achieve those goals if the connections between those things play out as they're expected to do.

• (1535)

Our partners in the project are Goldman Sachs. They are providing a loan to pay the cost of this program, a loan that's secured, however, by the Bloomberg Family Foundation. We're the intermediary, so we are the folks who are responsible for kind of pulling the deal together, and more critically I think, for monitoring the ongoing performance and selecting the program intervention.

We have two well-regarded service providers in New York, Osborne Association and Friends of Island, which run the actual intervention. Then we have a partner in the City of New York, through both the department of correction and the mayor's office, which is also involved. It's a partnership with multiple players who have different perspectives on things. We've managed to work reasonably well together. The negotiations and getting the deal together were complex things. It was probably more costly for us than we had anticipated. There were transaction costs around working with a bank. We had to bring in our own Wall Street lawyer so we understood the language. We had to build trust. Everybody kind of had to build trust. But we got to a point where we got the thing up and running. We mounted it. We did a pilot stage. We've run it incrementally, and it looks as though it's going reasonably well.

It's a social impact bond, so if it is successful—and that means if it achieves at least a 10% reduction in recidivism for our population—then the investor gets paid back. If it goes beyond the 10%, investors can earn some interest, up to a rate 20%. That's the interest, and it's capped at that level. We'll see whether we actually get there. A third party evaluator, the Vera Institute, a very well-respected criminal justice evaluating organization, is evaluating the program. We're going to look at impacts on recidivism at one year and then at two years. An important thing, I would say, about social impact bonds, which may be somewhat different from prior pay-for-performance models and something that we think is very important, is that the measure of success is not outcome. It's not achieving a predeter-

mined outcome. It's achieving a predetermined impact, meaning that the program does better than it would have done without the intervention, or the population does better. So that means you have to establish some point of comparison, either a control group if you're doing it really scientifically and rigorously or some legitimate comparison group.

To me that's a great development. For many years we had pay-for-performance contracts that were based on outcomes, but outcomes are easy to manipulate and easy to gain. If you serve a population you think is more likely to succeed, you will get those results, but they don't really tell you if you've made a difference or not. So the idea is that we have a net impact evaluation. I think most of the social impact bonds being proposed do have that kind of evaluation as well.

Another thing I would just say about lessons is that you face the challenge of having a restrictive contract that has some pretty clear terms. When you try to impose that on a program that has to operate in a very flexible changing environment, reconciling those two things can be difficult. In our case, one of the big challenges is that we had a predetermined number of folks we needed to serve, but at the end of the day, the number of people who are in the jail system is not within the control of the program or the control of the Department of Correction. So we built in all kinds of formulas for how to deal with reduced numbers, but it meant going back and renegotiating and rebudgeting. That was a complication. I think we figured out how to do it, and there certainly is some advantage to going in with something that says, "These are the goals you have to meet, and you have to stay on point on this". But it is a tension, and it is a challenge in the program.

I think I can stop there. I'll just say that we are scheduled to have the interim results a year from August and then our final results in 2016. The payback will occur at the end of 2017. One of the tricky things about these projects is that you have to accumulate the success, the impact over time, before government will have achieved enough savings to be able to pay back the investor.

• (1540)

The last thing I want to say is that I think it's a mistake to think about social impact bonds or pay for success as limited to only projects that result in cost savings. So far, primarily that's been the focus to date, but there are a lot of other goals that in many cases are more important to help the population we care about and that may not lead to cost savings. So—

The Chair: Excuse me, Mr. Butler. Thank you very much. We appreciate that. Certainly I know that you have more to offer here, but I'm going to cut you off there, sir. You're a little over your time.

Mr. David Butler: That's fine.

The Chair: I know you'll have an opportunity to further your comments during the questioning from our members here.

We will now go to Mr. Liebman.

Thank you very much for your contribution here today as well, sir. You have the floor for up to 10 minutes.

Prof. Jeffrey Liebman: Thank you, Mr. Chair and members of the committee, for inviting me to join you remotely here today.

I know that you've heard several testimonies previously on social finance broadly, and also on the pay-for-success or social impact bond technique. What I have to offer is that for the last two years I've been leading a team that has been providing pro bono assistance on the government side of these projects to eight state governments and two city governments around the U.S.

Our role basically is to help these governments do proper cost-benefit analysis, think hard about what kinds of evaluations they want to set up, and, I guess more importantly, decide when it makes sense to do a pay-for-success project and when it doesn't. There are certainly as many projects that we've analyzed and we've recommended and that people have decided not to do as ones they've gone forward with.

The governments we're working with that are going forward on these projects are using this tool to adjust a wide range of policy areas, including early childhood education, homelessness, diabetes prevention, and most commonly, recidivism for ex-offenders. What I'd like to do with my few minutes here is to reflect on two things, really, that I think most of the U.S. governments using this tool are trying to accomplish.

The first is to do a better job of matching the right services to the right clients. The second is to generate evidence about which programs actually work and should be expanded, and which ones don't and need to be either reformed or replaced.

As you probably already know, under the most common social impact bond model, the government contracts for social services from a local service provider, or sometimes a team of providers, and the government pays entirely or almost entirely based on the results that are achieved, such as a 10% increase in employment, a 30% reduction in recidivism, or a 50% reduction in emergency room visits. The performance is rigorously evaluated, just as Mr. Butler said, by comparing the results of the people being served to the results of some sort of comparison group, so that impacts can be assessed.

If the program fails to meet the minimum performance targets, the government and the taxpayers don't pay, and then payments increase above the minimum threshold, up to some pre-agreed maximum. Sometimes these projects generate cost savings to the government in terms of reduced spending on remediation and paying for data outcomes. That can offset the full cost of these projects. Sometimes they offset some of the costs of the projects, but not all.

As an example that's related to this committee's work, consider a program that works with young men exiting the juvenile justice system. We know that without transitional support something like 60% of these young men end up back in prison within five years. In addition to the social cost of the new crimes they're committing, these high recidivism rates lead to big fiscal costs for the government, because the government ends up paying money to incarcerate the individuals.

Under a social impact bond model, the government contracts with the social service provider to help support these young men as they transition out of the juvenile justice system. The government then

tracks the recidivism rate—the percentage of folks who were served in the program and who end up back and incarcerated—and compares that to a group of individuals who were not referred to the program. Then, at a predetermined time, they assess how the intervention did relative to the counterfactual and make payments based on the avoided bed-days of incarceration and perhaps on other things, such as the additional tax revenue that comes from increased employment.

Under this model, there's generally a lag of several years between when the services are delivered and when the results can be measured, and therefore, payments made to the service providers. The role of private investors in these projects is simply to bridge this gap. Private investors provide the operating funds to the social service providers so that they can deliver services up front and then wait to get repaid down the road after results have been demonstrated.

In the United States, there are four social impact bond projects that are actually delivering services already. Three of them are criminal justice programs working with ex-offenders to reduce recidivism and also to increase employment. The fourth is a preschool intervention. Let me talk in some further detail about one of the recidivism projects, the one in New York state.

● (1545)

The New York state project is targeting high-risk offenders coming out of the state prisons, and it's triaging and taking basically the half of the population coming out of prison that's at highest risk of reoffending. It's then connecting those folks, the highest-priority individuals, with the most intensive services. The particular program they are being connected with is delivered by the Center for Employment Opportunities, which delivers about four months of engagement with transitional and subsidized jobs, and then transitions people into permanent jobs. The basic model is to try to get someone into a job as soon as possible after they are released from prison.

The key thing here is that, as you know, in any sort of high-priority population, there's a range of different individuals who probably need a range of different services. The goal of the New York state project is to use data to try to figure out which individuals should be connected with which services, and in particular if there are some services that are the most expensive to provide and the most intensive interventions, you want to connect those to the highest-risk individuals.

This project is being piloted through a social impact bond project, but the hope is that, even beyond this project, this model of matching the right clients to the right services will get expanded, and it won't be just this one particular service. They will add other service providers and get better at figuring out which clients should be directed to which services over time.

What I think we've observed across the 10 governments we've been working with over the last couple of years is that there are three ways in which the social impact bond model is improving government performance.

The first thing it's doing is improving government decision-making. The SIB model brings important market discipline to government decisions about which of all the interventions out there should get scaled up and provided with more resources, because only interventions that have a strong enough track record to be able to attract the interest of private investors can get funded by this model. Projects that don't have a talented enough management team or don't really have evidence behind them are less likely to get resources.

The second thing I think we're seeing with this model is that it's helping governments shift resources from remediation towards prevention, so rather than waiting for bad outcomes down the road and incurring the budgetary costs for those, this model is allowing governments even in tight budget times to make additional investments, and preventive investments, which, in addition to providing better outcomes, will hopefully down the road yield some budget savings because we won't be paying for remediation.

The last thing this model seems to be doing—and I think this is actually the most important thing—is enabling governments to enter into much more effective multi-year collaborations with service providers to tackle tough social problems. It's really hard with traditional budgeting and contracting techniques to tackle a problem that takes a sustained effort over four to six years to solve. The political leadership that starts an initiative turns over. Annual budget cycles make it hard to make sustained commitments to providers, and just in general, it's hard to get everyone focused and headed in the same way on a sustained basis towards achieving a particular outcome.

These contracts seem to be enabling governments to do a more effective job of working on complex problems with private sector service providers, and to do so with a four-to-six-year time horizon, which is often how long it takes to actually make a dent in a social problem.

In conclusion, I want to say that we're really still experimenting with this technique. As I said, there are only four projects up and running in the U.S. We're working to develop another 12 right now with our partner governments.

It's important to realize that this tool is a very good fit for certain circumstances, but there are a bunch of places where it would also be a bad fit. So you have to be very careful to use it where it is a good fit and not where it's a bad fit, and you also have to design the projects carefully. It would be quite possible to design a project through which the wrong population was being served, for which the service provider was able to cream-skim and not target the highest-need individuals, and for which you didn't measure the right outcomes, and you could really, I think, do some damage by using this model if you didn't implement it well.

• (1550)

The key lesson I want to leave you with is that this tool, around the U.S., is allowing some innovative governors and mayors to tackle some problems that they don't think they can tackle with conventional mechanisms. But it's very much still an experimental tool that we are learning how to use, learning whether or not it truly will give us better results than the other tools within government tool kits.

Thank you. I'd be happy to take any questions.

The Chair: Thank you so much.

Mr. Liebman and Mr. Butler, we certainly thank you for your contributions today.

We'll now go to a round of questioning, and we'll start off with Mr. Richards, please.

Mr. Blake Richards (Wild Rose, CPC): Thank you.

Thank you to both of you for being here—or virtually here.

Most of my questions are for Mr. Butler, but I'd like to start with you, Mr. Liebman—or is that “Dr.” Liebman?

Prof. Jeffrey Liebman: Professor, Dr., Mr.; whatever you want to call me is fine.

Mr. Blake Richards: Okay.

Dr. Liebman, you mentioned that you played a role in evaluating a number of potential projects for various levels of government. I assume that you've probably also done a certain amount of academic research, looking at this model as compared with more traditional models. Is that accurate? Is that something you've conducted in terms of academic research as well?

• (1555)

Prof. Jeffrey Liebman: Yes. The research is ongoing, because we're testing the model—

Mr. Blake Richards: Fair enough.

Prof. Jeffrey Liebman: —but I'm definitely thinking about that question.

Mr. Blake Richards: You mentioned the three areas in which you see this as being quite useful, or potentially quite useful. One of them was in prevention. The focus of our study here is looking at the idea of social financing in regard to crime prevention in particular, so I'd like to focus a little bit on that side of things, the prevention side.

You mentioned four projects that you're part of in some way and that are ongoing currently. Can you share with us any of the initial results from those particular projects or any of the research you've done in terms of comparisons with the more traditional models?

Prof. Jeffrey Liebman: That's a great question. The key thing is that all of these projects are pretty new, so in terms of their impact on the ultimate outcomes, we still have to be patient. You serve people for a couple a years, you wait a couple of years to see if they reoffend, and then you know what happened. We're still in that period.

I've learned three things about this model, though, that I didn't know six months ago. The first is that it is actually possible to put one of these projects together. Mr. Butler was describing how, when they started down this road, they just didn't know whether it was actually going to be possible to raise the investor dollars, given the risk. We've now seen that it actually is possible. If you start down this road and you put together a good project, you actually can get it off the ground and provide services. That's the first thing we learned.

The second thing we learned was that the governments that set up these projects decided to do more of them. One possibility was that they'd go through this process and say, "All right, we did one, but I'm never going to do another one again. This was too hard." But that's not what happened. Both New York state and Massachusetts, when they started delivering services on their recidivism projects, immediately announced that they would do more of these projects. They found them to be tools that were allowing them to do things they just couldn't get done with conventional tools. Massachusetts said it was going to do a homelessness project and an adult literacy project, and New York state said, following on their recidivism project, they were going to do a diabetes project and an early childhood project. That's the second thing we learned.

I think the third thing we're seeing in the projects that are on the ground—I'd love to hear if Mr. Butler agrees—is that it really is the case that because there is this private attention to these projects, when you hit the bumps in the road that you hit in any project, you see an urgency in solving those problems, which, at least in my two stints in government, I didn't always see as being something that was easy to get the public sector to achieve.

So I do think we are seeing this focus on outcomes and the money at stake actually having an impact on how the services are being delivered on the ground.

Mr. Blake Richards: Great. Thank you very much. That was very helpful.

Mr. Butler, I'd like to ask some questions of you as well. You talked about your specific project, the Rikers Island project. You talked a lot about what was involved in setting it up, etc. Can you give us a sense of the timeline involved in getting that all set up? I don't think I heard you mention how long it took.

If I could, then, I'd ask you to specifically mention the amount of time it took you to find investors and then find the service providers that those investors would.... Obviously they have to create some comfortableness with each other, and I'm wondering what timeframe was involved in that. Now that you've built that framework, will it be easier and quicker to set these up going forward?

Mr. David Butler: Before we got involved in the project, the City of New York was already thinking about doing this. There was some preliminary work before we got involved, which made our lives somewhat easier, at least faster. Nevertheless, I would say that from the time we shook hands with New York City, it was about a year before we got the thing up and running on a pilot stage. A lot had to go on in that year.

The most important thing, probably, was to figure out the costs and savings, the term sheet, which is the critical piece that you have to pull together for this thing. We didn't want to talk to investors until government had blessed what we had come up with. Fortunately New York City has good data about the costs of beds and the costs of recidivism, plus we did some pretty good diligence around what interventions were returning on investments that were cognitive behaviorally based.

By putting those two things together—but it still took probably two to three months—we came up with something that we could take to the market and say that we thought this was credible. It was

definitely worth testing, and we thought we could possibly get these results. Once we started, we did a pilot for about four to six months in which we ran the project at half scale. I have to say that even beyond the pilot phase, we've still been tinkering. Unless you do something at scale, you can't really....

So, yes, there was a pretty long overture before things started.

• (1600)

The Chair: You have 30 seconds, Mr. Richards.

Mr. Blake Richards: Do you feel that now that the framework or that template has been put in place, it will be easier and quicker to put these in place in the future, now that you have that experience?

Mr. David Butler: Yes, I think so, with one caveat. I'm also saying that these projects all look somewhat different. It depends on the kind of intervention you're doing, who the partners are, the mix of philanthropies and private employers, but I would say that in general, yes, we can do it more quickly.

The Chair: Thank you very much, Mr. Richards and Mr. Butler. That was interesting.

Now Mr. Garrison, you have seven minutes, please.

Mr. Randall Garrison (Esquimalt—Juan de Fuca, NDP): Thank you very much, Mr. Chair, and thanks to both of our presenters today.

One of the things you've really done is.... We started off saying there are few of these in Canada. Now you're telling me there are few in the United States. There are very few at all.

I think Mr. Butler was talking about the quadfecta, and the quadri-loser state is kind of where we are here. The government on the quadfecta side tends to emphasize those possible gains. On this side we've been asking more questions about the possible quadri-loser side. So it's useful to think of it in that way.

Both of you said something about where you're really working on these projects is in the margins, where there's a margin available, like high recidivism or high crime rates, where you can get value out of reducing that.

In a situation like in Canada, where we have lower crime rates, lower rates of recidivism, doesn't that mean we probably have lower opportunities for these kinds of projects? I'm not expecting you to know the Canadian situation, but I'm forcing you to accept that premise and then say whether you believe that would be a possible difference between Canada and the United States.

Prof. Jeffrey Liebman: In just about every project we've been involved in, we've had to focus the projects on the highest-need and highest-risk individuals. If that is an early childhood intervention, you want to find the neighbourhoods where the most people are not showing up to kindergarten ready for school, and focus resources there. Or if it's a recidivism project, you want to find the folks who have the highest risk of going back.

It's often the case that if you just take the entire population you could potentially serve and try to design a project around that, it just doesn't work in terms of the economics. You really have to be very focused on identifying the highest-need individuals.

Mr. David Butler: The only thing I would say is that if what you're saying is true, the implications are that you really don't have to improve your programs. If you're saying that there really isn't an opportunity for marginal impacts, then the status quo is acceptable to you. I don't think you want to say that.

To me, it seems as if it's always in comparison to where you are, but I don't think you would say you don't think you can do any better, that you can't run better programs, you can't have better results. Canada is a great country, but is it utopia?

Mr. Randall Garrison: No, I wouldn't say that. But we have a group called Circles of Support that works with high-risk sex offenders. It's a partnership with the government, but not a social impact bond. They're achieving 80% success rates for non-reoffending. It's spectacularly high.

Mr. David Butler: That's spectacular; you're right.

Mr. Randall Garrison: So we do have some examples here, without using these impact bonds.

I want to go to a question on two things. Obviously government pays. If these work and they achieve a higher success rate, then the government pays more for these projects. My question is about the value that's being added there. Why couldn't government have run the same program and achieved those same good outcomes? Why is the government paying somebody else an interest rate up to 20% to achieve something it could have done itself? What's the value added there?

Mr. David Butler: I'm stuck on this one. We have a long history in the States of philanthropically funded, relatively small-scale programs that have looked very good and have been evaluated and have shown some positive effects. But government, for the most part, has not taken them up because of the fear that doing it at scale would not be successful. What this does is mitigate some of those risks associated with doing it at scale.

It's a legitimate risk to worry about, because we don't know that it's going to be as successful, when you have done something on a small scale and you expand it to a larger scale,.

Here, the upfront costs are covered by the investor. The government pays back only if it's successful. Then if it's successful, the government, and not the investor, reaps the rewards in the future of having a program that's been evaluated and that's been shown to work.

• (1605)

Mr. Randall Garrison: Go ahead, Mr. Liebman.

Prof. Jeffrey Liebman: I think Mr. Butler answered that one well.

But I think you're absolutely right that if you have a terrific program, like the one you described a moment ago that's working great, that's not where you use this tool. This is a tool to apply to a place where you don't have the results you need and you need a better way to collaborate with the service providers to get better results. That's where you should aim this tool.

Mr. David Butler: I agree with that as well.

Mr. Randall Garrison: I want to turn to the question of accountability.

The projects are working with people who are, by their nature, at risk in some way, especially if we're talking about the criminal justice field and dealing with people who obviously have extensive social needs. Who are the projects accountable to? If individuals feel they have not been well treated in the program or if they demonstrably have not been well treated, how is that dealt with?

In Canada, if it's a government project, we have accountability mechanisms. We have the correctional investigator, as an officer of Parliament, who investigates what goes on.

What happens with these projects in terms of accountability?

Mr. Liebman, perhaps we can start with you.

Prof. Jeffrey Liebman: That's a great question.

When you're setting up one of these projects, the government is choosing what the contract terms should be and whether or not to enter into one of these. You can build whatever accountability mechanisms you want into these contracts. In general the thing people are not trying to do is tell people exactly how to deliver the services. The idea is to give them some flexibility as long as they can achieve results. But in terms of provisions for protecting populations against bad outcomes, there is no reason why you can't build your traditional provisions into these projects, if that's a priority for you.

Mr. Randall Garrison: When you're talking about traditional accountability mechanisms, those apply to government; they don't apply to charitable or philanthropic organizations. For instance, in our case we have a correctional investigator as an officer of Parliament. He examines only what's done by the public agencies. He doesn't have the ability to examine what's done by private or philanthropic agencies.

Prof. Jeffrey Liebman: I see.

We're using this tool in the United States mostly in areas where government is already procuring social services from non-profit service providers. Often, even in those circumstances, government will build in protections—the right to investigate or audit or whatever—and there is no reason why those kinds of provisions can't be part of a pay-for-success contract as well.

The Chair: Just briefly, Mr. Butler, do you have something?

Mr. David Butler: Yes, that's one of our responsibilities, frankly, as the intermediary on this project. We do a lot of monitoring of what's happening on the ground. We talk to the program participants. Fortunately, we haven't heard much of this, but if they have complaints about the service—if they don't feel they're being treated fairly—we have the responsibility of trying to do something about that, either through the city's department of corrections or the mayor's office, or wherever. That's one of the ways we build in that control.

The Chair: Fine, thank you, Mr. Butler.

Now, Mr. Payne, you have seven minutes, please.

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

Thank you to the witnesses for being here today, as well as being here virtually.

I find this area is really interesting, particularly because I see some innovation happening here. I think that's quite positive in terms of social finance. It seems we're bringing together a number of different sectors to, hopefully, create some better outcomes.

I wonder if both of you could comment on the flexibility of service providers, and on being able to tailor the program to specific individuals.

Mr. Butler, you go first.

Mr. David Butler: Our particular project is not tailored to individuals. It's essentially an intervention that is provided to and the same for everybody. It's a course in cognitive behavioural therapy that's designed to change thinking. You can take into account the needs of individuals, but there's a set curriculum that's provided in this program.

I do think, despite that, we've had to, in conjunction with the service provider, adjust this intervention to address the particular population we are working with in the jail. We've had to make some changes, but we also wanted to test something that was relatively simple and easy to measure the effects of, something that didn't have too many complicated program components, certainly for the first one on the block, and something that had some good evidence of success in the past.

• (1610)

Mr. LaVar Payne: Dr. Liebman.

Prof. Jeffrey Liebman: In some models being tested—and I'm thinking particularly of the Roca model, which is the one being used to work with the young men in Massachusetts—the model really is explicitly designed to meet the individuals where they are and to figure out which services they need. Some individuals need educational services before they're ready to get job training services. Other people are ready to go directly into a job. I think a number of the service providers involved in these projects are very good at figuring out which services go to which individuals.

I would say in some cases these projects themselves, because they tend to work through the government referring a fixed population to the service providers rather than having the service providers going out and doing the recruiting themselves, the individuals are causing the service providers to have to get better at figuring out how their existing model is the right solution and how they have to add to their existing model to be able to serve the whole population that they've been assigned.

We're seeing a lot of the kind of flexibility you're talking about, but I think this model is actually causing more of that to be created in the service providers, because they're on the hook for the outcomes, so they have to figure out innovative solutions that will get better outcomes.

Mr. LaVar Payne: Thank you.

Mr. Butler, in terms of your program, you talked about your two years on track to achieve your goals and to reduce recidivism by 10%, and you talked about a net impact evaluation. I wonder if you could describe this a little further for us. What kind of checklist are you using to make sure you're actually achieving the results you desire?

Mr. David Butler: Actually tracking the net impact, which is done by an independent evaluator and not by us, is relatively easy. They're going to take the data regarding the number of days in the program. Once people leave jail, they're going to track them for two years, count how many of them come back, and count how many days they spend in jail when they come back. They compare those numbers to their comparison group, which is the same-age population over the prior five-year period. So that's pretty straightforward.

But in a situation like that, how do you track whether you're on target to meet those goals? We're looking at whether the program is being implemented with fidelity, because we know that it has worked in the past, so it has to be done in the way it's supposed to be. Then we check the level of participation. How far along in the program are they getting? How many are completing it? How many are getting to step 3 or step 7 in the step-based program? Based on that, we have some analyses we do that tell us whether they appear to be on point to being successful. But, you never know. At the end of the day, the comparison could surprise us.

That's the way we do it.

Mr. LaVar Payne: Dr. Liebman, you also talked about early childhood services and homelessness as well. Do you have any details on those kinds of programs you're working with that would give us some indication as to what kinds of folks are involved? What kinds of outcomes are you expecting? What kinds of measurements are there to make sure you're meeting those targets?

Prof. Jeffrey Liebman: That's a great question. On the early childhood ones we're seeing two very different kinds of programs being developed in multiple states. One is really early childhood, like six months before birth through the first two years of life, where the goal is to make sure the mother has a healthy pregnancy, and the first outcome that is tracked is the share of births that are low birth weight with the hope of reducing health care costs by having fewer low birth weight births, and then lower medical expenditures in the first couple years of life because the children were born healthier.

So one set of projects is very early childhood, and it's primarily with these kinds of health outcomes in mind at least in the short term, and then the other type of early childhood intervention is for children right before they're going to enter school, trying to spread high-quality child care to low-income communities where the hope is that by making sure that the children arrive at school ready for school rather than behind other children, there will be lower what we call "special education expenditures" helping people catch up once they get to school.

What makes these two kinds of projects somewhat different from the recidivism ones is that some of the benefits in these projects are much longer term. You help a child when they're five or six years old and you hope they have a lot of good things happen to them, so that they're less likely to commit crimes when they're a teenager, less likely to be a high school dropout, more likely to have higher earnings. So you end up in discussions with governments about whether they'll pay for these longer term outcomes too based on short-term results, or whether they'll only pay for the savings that have actually been accrued during the first few years.

That's what's going on in early childhood. I don't want use up all your time. I could tell you about homelessness too, if you'd like, or we can go onto another question.

• (1615)

The Chair: We'll go onto another question. But I would imagine you'd be given another opportunity to do so.

Now we will go to Mr. Easter for seven minutes please.

Hon. Wayne Easter (Malpeque, Lib.): Thank you, Mr. Chair, and thank you, gentlemen, it's an interesting discussion. I do want to come off Dr. Liebman's last point on very early childhood and early childhood, which was not an area that I thought that social finance would be involved in. We can look at some early child care programs in this country. The Province of Quebec has quite a number. In Prince Edward Island we have one that is called CHANCES and it targets kids age zero to six. It's very successful for low-income families and there are benefits. We've now seen the benefits for over 20 years.

What are the specific names of those two programs you mentioned? I might want to do a little research into them.

Prof. Jeffrey Liebman: The specific interventions?

Hon. Wayne Easter: Yes.

Prof. Jeffrey Liebman: The states that are heading down this road are going to do competitive procurements to choose which providers are going to be chosen. There are in the United States several providers in this space that have had very rigorous evaluations of their programs. The most famous one is called Nurse-Family Partnership, which has had I think three randomized controlled trials of their studies, but there are some others out there that maybe you could have your staff follow up with me on. I can send you an email and give you some more details on that.

On the preschool, the year before entering school type of interventions, those tend to be very state or city specific. There are some models out there but I don't they have brand names in quite the same way the very early childhood ones do.

Hon. Wayne Easter: We'll get in touch and follow up on that. Coming back more to the prevention of crime side, what is the population in Rikers prison and what percentage are these programs targeted at?

Mr. David Butler: Our population are 16- to 18-year-olds, who in New York state—one of the two states in the United States—are treated like adults. New York and North Carolina share that distinction. I'm not sure we share much else.

This is a saturation program, meaning we're trying to reach every kid who is in that jail system for at least six days because that's the amount of time we need to get to them, and give them some dose of this therapeutic intervention. The reason for this was that the city felt strongly that if they didn't do it at scale, if they didn't really do it for everybody, it was very unlikely to have a dramatic effect. They also thought it would be very difficult to be selective and give it only to some and not to others. They really wanted to do something at scale, which is complicated but we've been able to.... We're touching over 80%. The goal might be 100% but we're getting 80%, which is pretty rare in the field. It was a good idea to try to be more ambitious.

Hon. Wayne Easter: In terms of funding this, what's the split coming from the private sector? What's the split coming from either the government or the municipal sector? Do you know?

Mr. David Butler: This program initially is being totally funded by the private sector, by the foundation and the bank. It's a \$9.6-million budget over a four-year period.

Hon. Wayne Easter: Coming back to the three points, I was impressed with these three points. If they could work and improve government decision-making, in my opinion we could use a little of that around here, Mr. Chair. Helping government shift revenues from remediation to prevention is a good idea, as is enabling government to enter into collaborative agreements with other sources. Those objectives are absolutely great.

In terms of wherever you're at with the programs that are in place thus far, I don't think you're in a position yet to tell us how successful they have or have not been, but once the program is originally designed and the funding structure set up, for the measures you're taking, do you adapt to those as you go along? Is it ever-changing or do you start a program and you're firm in that program? Does it adapt as you go along in terms of seeing some problems and some changes that should be made? Ideas...?

• (1620)

Mr. David Butler: In our case, we have adapted, but we've walked a close line between both adaptation and fidelity, because we're trying to be true to a particular program model that has been shown to be successful in the past. We worry that if we change it too much, then we're working in uncharted territory, so we try to walk this line, and I think have been able to. The results will tell us.

Hon. Wayne Easter: I guess this is the last question I would have, Mr. Chair.

For both of you, in your experiences across the country, these are new tools and new innovations used within the criminal justice system with the objective of getting to prevention. Is there any coordination across the country? Sometimes governments are good at reinventing the wheel. Is there any collaboration across the breadth of the United States or is it a mishmash with a lot of experimentation?

Prof. Jeffrey Liebman: I think there's a little of each, but in our model, the Kennedy School SIB Lab model, what we're getting by working with 10 governments at once is some of that cross-fertilization. We bring together our fellows, who we put on the ground to help each state or each city themselves, but also the government officials they report to. We bring them together once or twice a year to talk about what they're learning, and we do regular phone calls so that they're sharing their experiences.

We're trying to build that kind of network, but there are definitely elements of these projects that are unique to a particular project, where different jurisdictions are suddenly learning new things or dealing with something that hasn't been dealt with before. I think it's a combination, but we're doing our best to spread our learning. Obviously, appearing before your committee is part of this effort that we're trying to participate in.

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

[Translation]

We now go to Ms. Doré Lefebvre for five minutes.

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

Dr. Liebman and Mr. Butler, thank you for being here today. This is very interesting.

Mr. Butler, I would like to ask you a question.

You spoke about interest that you paid. The members on this side of the table understood that the rate was 20%. Is that correct?

[English]

Mr. David Butler: No. I'm sorry if that was unclear. The amount of repayment is capped if the project succeeds in reducing recidivism by 20%. The investor's maximum profit, at that rate of a 20% impact, would be \$2.1 million. That's the most money the investor would gain.

[Translation]

Ms. Rosane Doré Lefebvre: The rate is still 20%. I think you mentioned that your program was \$9.6 million. That still borders on 20%.

[English]

Mr. David Butler: Yes. If you take the base of a \$9.6-million investment, they can get a net return of \$2.1 million over a period of years, which, when you look at it on an annual basis, is not that out of line with other investments.

• (1625)

[Translation]

Ms. Rosane Doré Lefebvre: Thank you.

Mr. Liebman, at the end of your presentation, you said that you were in the process of experimenting with social finance, that it was a suitable tool for certain places but that it was not the best solution for others.

Could you give me some examples of places where social finance is a good thing and others where you consider it not to be a very good idea?

[English]

Prof. Jeffrey Liebman: That's a great question. I think this tool works best when you can measure the outcome you care about and when the thing you can measure is a holistic indicator for what you're trying to achieve. If you can only measure a part of what you care about in terms of your social objective and you pay a lot of money based only on that part, you can distort performance toward the thing you can measure and away from other things that are important.

In an area like criminal justice, where we know that reducing crime and incarceration is our primary goal, I think this is a very good tool. But in other social services, where we might be trying to accomplish five different things and we can only measure one of them, this could be, I think, a tool that would have risk. It might get really good performance on the thing we can measure and really bad performance on the things we couldn't measure.

[Translation]

Ms. Rosane Doré Lefebvre: That's interesting.

Mr. Butler, do you have any comments on that?

[English]

Mr. David Butler: I don't know.... I think I'd like to go back for a moment, actually, to your other question to me, if you don't mind.

[Translation]

Ms. Rosane Doré Lefebvre: No problem.

[English]

Mr. David Butler: The one thing I would note is that, whatever you think of the rate of return to the investor, in that scenario the projected net taxpayer savings—which means after the program costs have been absorbed and the investor has been paid—are over \$20 million. If you're thinking about it from a benefit-cost perspective from the taxpayer, that high rate of return accrues more to government than it does to the investor.

[Translation]

Ms. Rosane Doré Lefebvre: I find it surprising that you say that because a witness from Washington told us at the start of our study that if it was possible not to use social finance, she would not use it because she felt that, basically, it cost the government and taxpayers more because of interest paid to investors, among other things.

Does that statement make any sense to you?

[English]

Mr. David Butler: I think any government that agrees to such a deal needs to rehire some new accountants and lawyers. It should not. No one should undertake this arrangement in which the government ends up losing money, right?

[Translation]

Ms. Rosane Doré Lefebvre: Thank you.

[English]

The Chair: Thank you.

On behalf of the committee, to our guests, we thank you very much for your time and your contributions here today. The chair certainly thanks you for accommodating the timelines of the chair and making the chair's job a little easier to control. Thank you.

As I say, we are deeply appreciative of your taking the time and making the effort to come up here. Welcome to the wonderful hospitality of your northern neighbour. Thank you very kindly.

We'll suspend briefly for the next witnesses.

•(1625) _____ (Pause) _____

•(1630)

The Chair: We will resume.

For the second hour of our study on social financing, we are very pleased to have with us here two guests. From the MaRS Discovery District, we have Adam Jagelewski, the associate director. We also have Sarah Doyle, the senior policy adviser.

Obviously you know our scenario here. You will have up to 10 minutes each, or you can use your time as you would like, cumulatively or separately. After that particular point, we will open the floor to questions.

You have the floor.

•(1635)

Mr. Adam Jagelewski (Associate Director, MaRS Discovery District): Thank you, Chair and committee, for having my colleague Sarah and me here.

We represent MaRS Discovery District in Toronto. Our centre focuses on the marketplace for impact investing, predominantly in Canada.

We engage in numerous activities that research, build awareness for, or help develop this relatively new type of investment model that blends financial and social objectives. Our clients range from governments to investors, but most of our work is geared around social enterprises that are looking for new ways to raise money for the work they do.

I will mention that since 2010 we've published several reports on impact investing that might be of interest to you. I will make these publicly available, and I'll also provide a brief, following this appearance, for the purpose of this study if it is something you're looking for.

An innovation centre like MaRS is involved in impact investing for a few main reasons.

First, particularly in the current fiscal environment, government budgets have significant constraints. Notably, the ability of government to meet demands on social services from an aging population is inadequate, and importantly, the ability for government to focus on and pay for prevention across a range of policy areas is limited. More than ever, government requires a partnership approach to harness the assets of other sectors to improve social outcomes of communities across Canada.

Second, governments and philanthropic donors alike are increasingly focused on shifting performance standards away from reporting on programs and towards outcomes. Appropriate metrics measuring social change are being prioritized yet still remain elusive. Many consumers and individual donors are requesting transparency regarding organizations' social and environmental practices, yet there are challenges related to standardizing how these are reported.

Fortunately, there are new tools, new players, and new thinking about how we can tackle social issues using market-based approaches. There is a new breed of investor who sees complementary investment channels with the potential to augment more

traditional philanthropic approaches to tackle these social issues. Opportunities that generate social improvements in addition to financial returns are appealing to them.

We are optimistic that, with some dedicated intermediation between demand and supply functions and constructive awareness-building about the opportunities and the risk, new investment opportunities could emerge that will move the needle on many social policy challenges in Canada, including crime prevention.

Our centre has a comprehensive strategy for exploring impact investing in Canada. We have very practical initiatives, such as the SVX, that connect social ventures looking for capital with investors who have the capital. We certify ventures that agree to measure and report their performance against social benchmarks. We advise on the development of new financial products, including social impact bonds, which I understand to be of keen interest to this study. We also develop policy advice and connect to global policy development conversations through a G-8-endorsed social impact investment task force.

I've already mentioned that we produce a significant amount of research and thought leadership, which is available for public consumption.

An important finding in our early days as a centre was that there is no one approach to solving the capital problem that non-profit and for-profit social enterprises face. We support a range of initiatives that channel efforts towards increasing the amount of capital available for social purposes as well as measurable intentional social impact.

One way we are doing this is through a dedicated effort to analyze the use of social impact bonds. Until it is proven otherwise, I think it is fair to say that this tool could have utility in prevention areas where there is a potential to save money or improve service delivery. Non-profit organizations are interested in exploring social impact bonds with us because they offer a revenue model to pay for operational growth or to sustain service delivery, and impact investors are attracted to the dynamism of connecting outcomes and a financial return.

Our centre has an accelerator program that seeks to determine the feasibility of using this tool in specific issue areas. It analyzes interventions that could improve outcomes in these issue areas, and if the conditions are met, helps develop the multi-sectoral partnership agreement required to get these off the ground.

•(1640)

While our centre is issue-agnostic, meaning all positive social and environmental impact is viewed favourably, the social impact bonds we are currently working on are in three project domains: diabetes, hypertension, and supportive housing for homeless individuals facing mental health challenges.

We have not proved or disproved the model in any of these areas yet, and quite frankly, the model globally is too new to make any definitive or general conclusions. However, we are motivated to learn whether a social impact bond could be used as a tool to support growth where government does not have the resources to scale an impactful intervention, as a tool to help government transition from paying for activities to commissioning outcomes, as a tool to help break down existing silos between government agencies that are seeking similar outcomes for a similar population group, and as a tool to reward non-profit organizations that are generating positive social outcomes.

We are not, however, blind to the real or perceived challenges that exist with impact investing and the SIB approach. In an ideal scenario, government would have enough scale capital to adequately fund prevention and what is working in particular issue areas. In the case of social impact bonds, it's often a more expensive, or certainly a more complex way to fund a service provider than a direct grant or donation. But bringing it back to our fiscal constraints, the tool could be used where government resources are not available to test, scale, or replicate innovative programs. It could also be used as an alternative accountability framework, which we may find is more conducive to achieving results.

I now will turn over the floor to my colleague to describe some of the potential benefits more fully.

Ms. Sarah Doyle (Senior Policy Adviser, MaRS Discovery District): Thank you.

Thank you for having us appear before you today.

Adam has given a broad overview of the social finance space and our work in it as the MaRS Centre for Impact Investing. I will just briefly describe the benefits that these tools could offer from a government perspective.

Social finance, as I'm sure you've heard a million times by now, is essentially a simple concept. It's an approach to managing money that targets a social or environmental impact alongside some form of financial return, which could be the return of the capital invested or could be in addition to a nominal return on top of that.

There's a broad range of partnerships and tools that fall into this space, and social impact bonds are only one of these. Some require government to enable or catalyze relationships, which then essentially can take place between the impact investor and a social enterprise. Social enterprises can take the form of non-profits, for-profits, or cooperatives.

From the government perspective, these relationships can drive private capital into social services and ventures that contribute to improving social and economic outcomes for individuals and for their communities. As we know from the business world, good ideas need capital to scale, and this is no different in the social sector.

In the area of crime prevention, these good ideas could be found in areas ranging from a job training initiative that helps connect ex-offenders into the labour force, a mental health facility that helps address some of the root causes of crime, early childhood education that's designed around the principle of teaching. These are just a few scattered examples, but I think there's a lot of possibility.

Many really excellent service providers are out there with effective programs that are already receiving government funds as well as philanthropic dollars. This is great. This should continue. But impact investing can offer an additional source of funding, which can help to test new ideas, encourage innovation, and it can also help scale up the most effective among these approaches.

Social impact bonds, as we've mentioned, is one tool among this wider group. I'll spend a little bit more time talking about its particular benefits, given that it's the model in which government is more directly involved as a funder.

There are three main benefits from the government perspective. The first is that the social impact bond involves payment on the basis of outcomes. This is a bit different from the way in which government grants are typically organized. So for payment for results, while it can take other forms, it's only in the case of a social impact bond that smaller service providers are able to be in the picture. Large service providers have the resources to enter into these types of contracts without investors to cover their cashflow needs, but for a small service provider, the investment money is required up front.

This focus on outcomes incents collaboration between service providers and helps to fill service gaps. It also necessitates rigorous evaluation and data collection, and helps us learn what works. So social impact bonds by design involve data capture on the basis of outcomes.

The unique incentive and accountability structure involves three parties that are all holding one another to account, and all seeking to target the outcomes that were agreed upon in the contract at the beginning of the agreement. In some cases, the outcomes that are being targeted could be associated with net savings to government, although this is not necessarily the case.

The second major benefit is that social impact bonds provide access to working capital for non-profit service providers over a much longer period of time. This can provide service providers room to innovate and adjust during the course of the agreement on the basis of new information as they receive it. This, again, is a bit different from the norm in government funding arrangements, where regular reporting requirements on outputs rather than outcomes and a high bar for adapting to new information can stifle innovation.

The third reason I would point out is that, under a social impact bond, financial risk is effectively transferred to the investors and away from government. Social impact bonds can be used to test untried innovative approaches or, which has more often been the case so far, to scale up or replicate an approach that has evidence of success. But even in those cases, there is some risk to that replication, that scaling up, and that risk can be transferred to the investors allowing the government to pay only if the outcomes are achieved.

One final note I would make is that I think the jury is still out on whether social impact bonds are a tool for testing new innovations, which would then, if successful, flip into a direct funding model, or whether the social impact bond, in and of itself, because of this unique accountability and incentive structure, is able to provide better outcomes. I think we don't yet know which of those two worlds we're in.

We do know that social impact bonds are not appropriate for every issue, and should be entered into with open eyes. They're new, and as Adam pointed out, they're as yet unproved. In our view, though, they have potential and warrant exploration.

Within the broader social finance space, there's a lot of activity that is not new and has been generating innovative partnerships and helping to improve the well-being of communities for quite some time.

• (1645)

The government could pursue initiatives designed to further enable this activity, and could help to direct private capital towards such priorities as crime prevention, where it would like to see additional activity take place. I can speak to this in more detail, if there's interest, but this could take the form of reducing red tape and creating a more enabling environment. It could take the form of catalyzing private capital similar to the actions that have been taken in the venture capital space, through impact investment funds or credit enhancement-style measures.

I'll leave it there and respond to questions.

The Chair: Thank you.

Thanks very much to both of you for your presentations.

We'll now go to the first round of questions.

Mr. Norlock, please, you have seven minutes.

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

Through you to the witnesses, thank you for attending today.

I'm grateful that you mentioned the risk aversion that governments have—and have for good reason. Number one, taxpayer dollars are very valuable to us. We care very much about what we're doing with them. We want to make sure that anything we do has positive outcomes. The second reason, of course, is rather obvious, because we're separated in the aisle. If we don't make good investments, we have an official opposition to put our feet to the fire, which in a democracy is not a bad thing.

That's why I think social impact bonds are a good thing, and for two reasons. Number one is that the government's not risking any of its own money, if the outcomes aren't appropriate, so there's someone else bearing the risk but also bearing the benefits. Tell me if you think I'm mistaken, but in the end, the real benefactors are the taxpayers, because not only are they not paying for a failed program or a program that's somewhat successful but they're also living in a better world. In other words, in our case, our study is social financing as it relates to crime prevention in Canada, so if we can reduce crime, we reduce....

A previous witness, who I think was an opposition witness, basically said that you need to measure more than just your outcomes; you need to measure basically the social impact. It's not just about reducing crime. It's about making your neighbourhood safer and better to live in, and therefore the quality of life of Canadians.

Would you say that's a correct statement? If you feel that you would like to expand on it, would you do so?

Ms. Sarah Doyle: Yes, I think that is a correct statement. I think one of the things that appeal about social impact bonds and social finance tools more broadly is their focus on outcomes.

When we say “outcomes”, I think that's not to be narrowly interpreted. When we look at, for instance, the supportive housing study that we're working on in the area of social impact bond feasibility, we're looking at the impact that an intervention at the level of providing housing and wraparound services could have in terms of a person's life. That could be labour market attachment outcomes. That could be reduction in crime. That could be improved health outcomes. A variety of different positive outcomes could result from a particular intervention.

When we're looking at these tools, I think the point is that we need to holistically consider all of those impacts. Frequently, I think, part of the rationale for governments in looking at social impact bonds is, as you say, to reduce costs. That means looking downstream at what an intervention now will mean in terms of reduced health care costs or in terms of lower numbers of people in prison, that kind of thing.

• (1650)

Mr. Rick Norlock: Thank you very much for that.

If I told you the reason why, on this side, the government's looking at things like social financing.... It's not necessarily just social impact bonds but the whole of social financing. The reason we're doing so is that we know that governments have limited amounts of money. We know that we're probably going to be spending more on health care. We're probably going to be spending more on other things.

So we look at one of our big-ticket items...and when I say “big-ticket”, I mean a big cost to the economy, such as the cost of crime. I'm talking about the cost of crime, not just criminal activity, but the total cost of crime, the whole social impact of that. In terms of using those precious dollars, we don't want to increase that budget—we know that other budgets will increase whether we like it or not—and we want to continue down the road of reducing crime.

I'm going to give you this, although I hate to say how old it is. When I was a young police officer, we were more interested in catching the bad guys, but when I looked at it, I was left thinking—that may shock some people—

Voices: Oh, oh!

Mr. Rick Norlock: —that I was looking at it from the standpoint of reducing the cost to society.

I want to ask you, Mr. Butler, if you can recall how back in the eighties we looked at the Bronx in New York, which was a terrible place to live; a terrible place to live. What was happening was that with “the projects”, as their social housing was called, including in the Bronx, the City of New York wanted to do something about it. At the same time, of course, their crime rate was skyrocketing. They looked at what caused criminality, and there were three things: literacy; that people who commit crimes don't own property; and that criminals who commit bigger crimes commit little crimes, even jaywalk. That's when, as you'll recall, they were picking up jaywalkers. That was a terrible thing, but they were actually solving a lot of crime because of it.

So they educated people. They gave them a trade. With the trade, they helped them buy their apartments. When they bought their apartments, they really looked down on their neighbours who tried to damage those apartments, because now they owned them. You had a reduction in crime, and now, in some areas of the Bronx, there are good places to live.

I wonder if you could translate that into what you would perceive as an impact bond in, let's say, some of the social housing areas of Canada, where we know, especially in the GTA, that a lot of crime exists.

Mr. Adam Jagelewski: Thank you for that New York example.

One of the things we're looking at in terms of the social impact bond is its ability to tackle an issue in a very holistic way. You listed literacy. You listed the transient nature of these individuals being in the community. Then you listed their ability to get jobs. In the traditional way that things like this are funded, typically there is a very siloed approach. Under a social impact bond methodology, the organizations you're working with have the ability to provide each one of those supports in a customized way, if it's designed appropriately. That in itself is a benefit as a model compared to traditional forms of funding.

Mr. Rick Norlock: Now, this is the crucial part. I was going to say, what's in this for you? Because people just don't come and offer services for nothing. What you're saying is that, properly designed.... Am I right that you're the kind of people who would design it? The government would come to you and say it has a big problem here in...I hate to mention the neighbourhood in Toronto, so I'll—

The Chair: Mr. Norlock—

Mr. Rick Norlock: It starts with an “S” and ends with a “borough”. We would go to you with that problem and you would come up with a solution that benefits everybody.

Mr. Adam Jagelewski: Well, I'm not here to self-endorse our organization. I think the social impact bond or social finance mechanisms could be deployed by a range of different actors. What I'm saying is that if there's an actor that can act as an intermediary

and that does that holistic wraparound support, they should be considered as an intermediary to do this.

What it does require is new skill sets. It does require an ability to negotiate these new outcomes and to come up with one that makes sense on the basis of repayment. It does require some new financial modelling. It does require an understanding of the target population that an individual organization may not have. It does require some accountability measures and the ability to track and measure performance over time. Those are the types of things that an intermediary organization could help with in this issue.

• (1655)

The Chair: Thank you, Mr. Norlock.

Thank you, Mr. Jagelewski.

Mr. Rousseau, *s'il vous plaît*....

[Translation]

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

I would like to thank Ms. Doyle and Mr. Jagelewski for being here today.

I represent a rural region located along the Canada-United States border. There is a broad range of crime there. There is human trafficking, contraband cigarette trafficking, weapons trafficking, forgery, and so on. Those are the kinds of crime committed in my region. However, there are also all the other kinds of crime that you find in large urban centres, including crime by small gangs, theft and all kinds of things like that.

One of the crime prevention programs, which was intended mainly for adolescents, worked well. The school drop out rate was a real problem in the rural communities. We saw that with fairly early prevention, young people were of course less likely to turn to crime, to different kinds of substance abuse and problems like that.

You just mentioned a holistic approach. What kinds of investment could be profitable for all partners, philanthropic investment funds, and so on? What types of partnership could be encouraged to deal with various kinds of crime?

The problems in rural areas are not the same as in the Greater Toronto Area, for example.

[English]

Ms. Sarah Doyle: I think, just to reiterate, that there are a number of different tools, and no tool is a silver bullet. So I think it's important to start with the problem and then identify the tools that are appropriate to solve it, rather than starting with the hammer and looking for a nail to hit. Depending on the type of challenge and the types of interventions that are available to address it, I think a social impact bond is certainly an interesting tool to facilitate the kinds of partnerships and the sort of holistic approach that I think you are speaking to.

An example might help, and I'm sure you've heard about the Peterborough social impact bond, designed to reduce recidivism in the U.K. I think one of the most interesting things about that model, and something that was commented on in the RAND report earlier this year, was that having Social Finance in the U.K. act in that intermediary-style position allowed it to bring together between five and 10 different service provider organizations that had different mandates. Some of them did mental health related work. Some were "meet you at the gate" programs. Some were organizations designed to help connect ex-offenders with jobs. Some were focused on housing. None of them formerly had shared data or been able to say that they were working with the same client, or the same person.

So under the social impact bond model you had Social Finance helping to create information-sharing and data-sharing agreements and platforms between all of these organizations, identifying where there were gaps in service delivery that nobody had formerly known about and allowing them to focus on the key interventions that were required for each client. So it became a client-focused intervention. They would see a prisoner while he or she was still in prison, meet at the gate, and they would know that person was talking to this service provider about housing, talking to that service provider about jobs, and so on. The service provisions and the outcomes were much improved as a result.

So that kind of holistic approach with a variety of partners and a community, I think, is something that is facilitated, or can be, through a social impact bond model.

[*Translation*]

Mr. Jean Rousseau: Do you think it would be applicable in small communities?

My riding contains municipalities of 500 to 3,000 residents. Of course, there are regional groups, but those are very small communities. Undoubtedly because of the nearby border, people in those municipalities are quite involved in all kinds of crimes. There is even theft of information by computer.

[*English*]

Mr. Adam Jagelewski: At MaRS we've been working on social impact bonds, or social finance models, for a few years now. I think what fascinates me the most is that this conversation about this tool has created a conversation about new forms of partnerships. So we get a range of different types of people asking questions, from very small organizations to very large organizations to rural areas to urban areas. I think we're less focused on the actual tool and the financial mechanism to make this work and more interested in the multi-sectoral partnerships that are working together to achieve those very rural outcomes that you're talking about.

So in your community—I grew up in a very small community—you may have an employer who has an affiliation to youth at risk and you may have this employer who's willing to mobilize some resources for the benefit of a non-profit or an organization. So you have this strategic partnership that is now forged to improve the outcomes in that community, and yes, they might have thought about this through the lens of a social impact bond. Did it create a social impact bond? Well probably not, but maybe down the road.

I think this tool has created this mindset change in a lot of people's heads to think through how they can align interests—it might be an investor, a non-profit organization, or a corporate entity—and just appeal to that in a more advanced way.

• (1700)

[*Translation*]

Mr. Jean Rousseau: How much time do I have left, Mr. Chair?

The Chair: You have two minutes left.

Mr. Jean Rousseau: Okay.

Is that when you intervene? On the ground, do you work with the various organizations that provide crime prevention services to solve the problems and to make investments, of course?

[*English*]

Mr. Adam Jagelewski: Somebody needs to. We have a very small team. We're a burgeoning group trying to figure out how to make this work in the Canadian context. I think, increasingly, there are going to be those types of organizations that are patching together the organizations like you're describing, like I'm describing. That's our intent as a centre, to be focused on those types of partnerships.

The Chair: Thank you, Mr. Rousseau.

Mr. Maguire, please, you have seven minutes.

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

Thank you for your presentation. You've given us a really good background in the whole area of the impact bonds and fighting crime with these new programs.

You talked about the new forms of partnerships. We've also heard there are concrete metrics for success. I wonder if you can outline them, through the benchmarks you've had, and expand on them. Can you comment on the need and the value of actually providing evidence for the programming in these areas, programming that would show the outcomes as being successful and preventing crimes?

Ms. Sarah Doyle: The need for the evidence I think is clear. At the moment, governments are spending a lot of money through grants and contributions programs, and typically, I think, the evaluations are tracking short-term outputs, such as how many people came through the door, how many people stayed throughout the duration of the program, how many desks you bought, and that kind of thing.

Part of the move towards social finance and social impact bonds is also a move towards measuring outcomes that tend to be longer-term outcomes and essentially the things governments and people care about. I would say that we haven't been doing enough of that. Part of the value of these tools is that they provoke a renewed focus on tracking and measuring outcomes. I think that can cause really important feedback loops in terms of our learning about what works. Once we use these tools, we can look at what happened at the end, and say, okay, this is a program that should be scaled up or continued in the future. There's a lot of value to that.

In terms of how we go about measuring these outcomes, I think it's really going to depend on the particular challenge and the particular intervention at hand. For a social impact bond, for example, you're ideally going to want to look for an outcome that is binary, that either did happen or didn't happen, given that a payment is going to hinge on that outcome. That's not necessarily something that you can do in every case.

Certainly there are challenges with measurement, but there are also an increasing number of organizations globally and within Canada that are developing different types of metrics for measuring the social impact of social services and programs, and for measuring the social impact of enterprises in this space.

• (1705)

Mr. Larry Maguire: Thank you.

I agree with Mr. Norlock's comments in regard to the outcomes. You talked about three areas: diabetes, hypertension, and homeless groups as well. There are others. Another outcome is that you impact people's lives. I mean, they come out of crime. This is a part of the goal, obviously, to get them back on the street and get them back working. I think that's one of the biggest outcomes that we can possibly push for in this.

Ms. Doyle, you mentioned mental health just a minute ago in your comments in answer to another question. We have many scenarios here. I'm wondering if you could expand on how we could see progress made through these kinds of programs with those in perhaps mental health areas.

Ms. Sarah Doyle: I can start, and then I'll pass it over to Adam.

A study that I'm sure you're all familiar with is the At Home/Chez Soi study, which looked at housing and homelessness but also had a focus on mental health issues. That's something we've been looking at in some detail in the context of a social impact bond feasibility study.

Now, I think an intervention in that area is not overtly about crime prevention, but if you tackle some of these problems at that inception point, if you will, the impacts clearly will be much greater than if you wait for the crime to happen and then start worrying about it.

I think that's one area where there's real potential. The evidence that came out of the At Home/Chez Soi study was really strong. It provided us with enough data to start looking at the benefits of the intervention in terms of its impact on the people involved and the communities they live in, and also the cost savings to government from those types of interventions.

We're seeing that there is certainly room for a social impact bond to be considered in that space. I think that would have a lot of really positive impacts, including in the reduction of crime, but also in the areas of health and labour force attachment, for instance.

Adam could speak to that in more detail.

Mr. Adam Jagelewski: I think that was great, Sarah.

Those were the three areas where it could have implications: health and justice, as well as employment down the road.

Mr. Larry Maguire: Thank you.

One of the areas that I think possibly has one of the most impacted groups in this whole social finance area we're looking at could be aboriginals in Canada. I wonder if you could comment on the potential capital this could unleash for the at-risk youth in that area, and perhaps in that whole community, and how it may be extremely beneficial to our aboriginal community.

Mr. Adam Jagelewski: In a previous life I did some work on aboriginals. I think there's a real opportunity to focus on real outcomes in this area. I would love to do more studies on how we can channel new sources of capital and how we can align interest among different parties to improve outcomes for aboriginals.

We know that aboriginal children are overrepresented in care. We know we can improve health issues and that might apply to aboriginals. We also know that women are overrepresented in the criminal justice system. These are all areas that have very significant costs associated with them and have very significant implications from a social standpoint in those individuals' lives. It's an area where I believe further exploration is required.

On your question in terms of how much investment this could unlock, I wouldn't be able to provide a figure, but I can tell you that in our conversations with investors, they are increasingly passionate about the space and would like to find ways to contribute their financial acumen as well as some of their business acumen to solve some of these issues.

The Chair: Thank you, Mr. Maguire. Thank you to our guests.

Now we'll move to Mr. Easter, please.

Hon. Wayne Easter: Thank you, Mr. Chair.

Welcome, folks.

Mr. Chair, if Mr. Norlock is considered a lefty, I'm worried about where some of the rest of us are on the scale.

The Chair: The only response the chair would give at this point is this. A number of people around the table are grey-haired. A number have no hair. In many cases, that's deemed to be "sage". I think our guests here today are of a different generation and are dispelling that myth quite clearly.

You still have the floor, Mr. Easter.

• (1710)

Hon. Wayne Easter: Thank you, Mr. Chair.

I certainly will say that I really like your enthusiasm. I think it provokes ideas of where we could go with some of these new concepts.

I think you have had no experience with social impact bonds as it relates to crime prevention, but a lot of experience, from what I gather, as it relates to other fields of social finance.

Sarah, you said we have to start with the problem and find the tool. Where do you see that level being? Is it perhaps related to the prison system itself? Is it getting to prevention of crime with young people?

Ms. Sarah Doyle: I think crime prevention and reducing recidivism rates are clearly the places to start. That's not narrowing it down all that much. The social impact bond or the social finance tool is applicable in that relatively narrow range of interventions that focus on prevention.

We're not talking about an overhaul of core service delivery. We're talking about the places where governments intervene to prevent negative outcomes. These are the places these tools could be applicable.

I think one of the ways we could make this tool available in the tool box is through an outcomes payment fund. I don't know if you're familiar with the Department for Work and Pensions innovation fund in the United Kingdom. Essentially they established the priorities they had as a government and the prices they were willing to pay for these outcomes, what these problems were currently costing them, and what they were willing to pay for them. They had a fund set up that would pay on the basis of those outcomes being achieved, and they let the market respond with solutions.

I think that's one really interesting way to find a good match between the tool and the problem.

Hon. Wayne Easter: I guess where I'm going on this is that the focus in the previous two presentations, and many others we've had, seemed to be on reducing recidivism, but I really think where we have to be at is reducing crime in the first place. If you look at the cost of having someone in prison, to say nothing of the damage that was done to put him or her there, and if you look at the cost within the prison system including from the point of view of lost productivity in the economy, then preventing crime in the first place is the best way to go.

Do you see areas where social finance would be important in that area? We talked earlier with the other group about some of the early learning programs, which we did have in place actually with a signed agreement in 1996 for early learning that got tossed out. Do you see those areas as important places to go, using social financing to get there?

Mr. Adam Jagelewski: I would just echo Sarah's statements about how governments can increasingly look at a range of different tools to deploy. Increasingly there is going to be a need to have grant or philanthropic money being used to fund innovative programs, and that may be where you would like to focus on early-age crime prevention or aggressive behaviour programs.

There might be a social enterprise that's out there working on an interesting technology. I don't know what that technology is right now, but there might be somebody out there designing some technology that would help in that regard. That might be a role for an investment opportunity.

There is the outcomes fund that Sarah described, and we're happy to provide more information on that.

What I would suggest is not to get too carried away. There are interventions and programs out there that already exist off which we could build. One program that I'm aware of, which I know is funded by NCPD, is the SNAP program for early childhood detection of aggressive behaviour. The focus on tackling the root cause, tackling it early, and supporting programs that do that, is a very thoughtful way to approach what you're calling prevention of crime, rather than treating the remedial.

• (1715)

Hon. Wayne Easter: In the areas where you have experience in social financing with regard to diabetes, hypertension, or whatever, can you explain how that process works in that area? We may be able to apply it to other areas, but give us the concept of how that works in those two areas.

Mr. Adam Jagelewski: Sure. Really, there are probably two current ways that people can go about developing a social impact bond or some sort of social finance arrangement. There could be what we call the top-down approach where you know that the SNAP program works, but you may not have the money that's required to scale that program up across the country so you're looking for private investment to come in and do that. You could go sole-source RFP to them and have them describe how they would scale this out. You would have either SNAP having the capacity or you would have an intermediary organization working with them to find that investment, to negotiate what the outcomes look like, to raise the capital to do that scale, or it can be more of a bottom-up approach.

You could have an organization that is looking to diversify their revenue sources approach an intermediary organization to say, we know we're achieving x outcome and we would like to find a way to generate more revenue to do this, and you analyze the costs and benefits to government and have the proposal explain what the costs and benefits are to government. Either way, you're going to have to come up with an outcome price and a way to pay for that outcome through some sort of mechanism.

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

Now we go to Madam Doré Lefebvre.

[*Translation*]

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

Ms. Doyle and Mr. Jagelewski, thank you for being here today.

I have a question for you that I ask almost every witness who testifies before the committee.

There is something that comes up often in the presentations on social finance by the various witnesses. Most people think that we can use social finance in some places, but that it is better not to use it in others.

Do you think social finance can be used in all government programs? Are there programs in which we should not use social finance? And are there others where we really should use it?

[*English*]

Ms. Sarah Doyle: As I mentioned earlier, I think the most useful thing to look at, in terms of issues that would respond well to a social finance tool, is prevention. I wouldn't suggest you could turn the running of a hospital over to a social finance type of tool. There may be people who think you could, but I wouldn't propose that.

I would say that prevention is really where this stuff has the most potential because the focus is on long-term outcomes and that's what prevention programs are interested in affecting.

I think that in the work of probably almost every government department there is some aspect related to prevention. I don't think any policy area is off the table. But I think some people have raised concerns about social finance being a code word for "privatization" or another way of covering reduction in overall social expenditure on the part of government. I don't think those are fair criticisms of the tool. Whether they're also in the air at the same time you're talking about the tools is another story, I suppose.

I think the idea behind social finance is not that government takes a step back from social service delivery but that increasingly there are multi-sectoral partnerships that help to deliver better value for government money, and that through a focus on outcomes, everybody in that scenario wins. You have a better chance of achieving outcomes that matter to the people being served, which, ultimately, government and the public dollar are seeking to pay for.

I don't know if that answers your question, but I think I would take core service delivery off the table. I don't think this is going to replace welfare cheques. I don't think it's going to replace hospitals or schools, but it could help to keep kids in school and lower dropout rates. It won't replace the running of prisons, but it could help to reduce the number of people who end up in prison. So I think it's really that prevention area that we need to focus on when we're looking at these tools.

• (1720)

Mr. Adam Jagelewski: I think because the model is so new, there are a lot of ideas floating around, whether within governments or in the social sector generally.

Ideas are great, but I think at some point we have to get to the point where we can prove or disprove the model's utility. For us, we're going through these feasibility studies and if we get to the point where the feasibility study shows that it's not going to work, we're actually not going to be that disappointed about it, because we're going to be able to share with the sector that this model does not work in issue area X. So we can shorten that list or increase that list depending on that type of study.

Sarah spoke to the government side of things, but we have to remember there is another stakeholder in a social impact bond, and that is the investor. It's of importance or it's interesting to them to figure out where they would like to invest their money. If they're not interested in a specific issue area, then it's going to be very difficult for anybody to raise money in that area.

Something that is one of the benefits is also a limiting function of the social impact bond, and that is that there has to be agreement from all three sides of the equation.

The Chair: Thank you very much.

Go ahead, very briefly.

[*Translation*]

Ms. Rosane Doré Lefebvre: I will be very brief, Mr. Chair.

I would simply like to mention that it is extremely refreshing to see young people on the other side of the table. I feel very supported. It is good to see intelligent young people testify before the committee.

That's all. Thank you.

[*English*]

The Chair: Thank you.

Mr. Richards, go ahead, please.

Mr. Blake Richards: Thank you, Mr. Chair.

I appreciate both of you being here.

I want to pick up on something my colleague Mr. Maguire was asking you about at the end of his questioning time. He made an assertion that aboriginal Canadians are a group that could be very positively impacted by this idea of social financing and working with partners.

I certainly agree. I think there is great potential there, no question, and it seems that you agree with him on that as well.

I just want to pick up and expand on that a bit more, because I do think there is probably a lot of opportunity there. I think of the partnerships already on many of our first nation reserves with corporations, businesses, corporate citizens, and others. I'm thinking of the first nation reserve in my riding. They already have a number of partnerships with outside interests—companies and corporations—on economic development opportunities.

I think there must be some opportunity to expand on the relationships and partnerships already there. I know there are many companies out there, especially larger corporations, that do have corporate social responsibility initiatives. There must be ways we can tie those together and really create something that could be very impactful and positive for our first nation communities in this country.

I wonder if you could just expand a bit more on that and give us some more thoughts, ideas, and suggestions.

Mr. Adam Jagelewski: I don't know if I'm going to say anything more than what you just said, but maybe I can provide a little bit of colour. Every year I speak at the aboriginal trust and endowment conference. I think I'm getting the right name on that, and I hope I am. This is essentially a group of council members across the country who go and they look and they discuss different investment opportunities and ways in which they can invest the moneys they have and they're sitting on, and they can't find impact investments. What I mean when I say "impact investments" is that they can't find investments that are generating impact in their own communities. They have to invest in markets. They have to put their money offshore. Wouldn't it be amazing if we could provide an opportunity for them to invest in themselves?

Another piece of this, and you mentioned it, is the resource companies. Increasingly they're coming to us and they're frustrated. They have these outcome benefit agreements and they would love the opportunity to develop new ways in which they can channel their capital to provide economic and social benefits to those communities, which aren't just seen as cutting a cheque but that are actually utilizing the resources they have in a very positive way.

So we have these stakeholders that are so motivated to do this. We need to find a way to make it happen.

• (1725)

Mr. Blake Richards: What would your suggestions be in terms of next steps? I'm thinking specifically in regard to this idea of being able to build on those partnerships and work with our aboriginal communities. Even in general, as well, would you want to just comment? I think only have a couple of minutes left. On this especially or in general, would you like to comment? What do you

see being the next steps that we could take? What would be your suggestions in terms of where we go next?

Mr. Adam Jagelewski: I'll reiterate that I don't think we want to reinvent the wheel here. I don't think we need to find the silver bullet intervention that's going to solve all of our problems. I think we need to start small and find an intervention that we know is working. There are a couple of aboriginal skills development and training programs in British Columbia that have proven to be successful. Why don't we look at those? Why don't we put them under the microscope and really identify what's working, and start talking to some of these mining and gas companies and determine what their interest is in investing in this community, and use a pilot approach with the general mindset that it is a little bit of an experiment and that we're going to include the community as much as possible to make this culturally appropriate and have everybody sign on to just a new way of doing business?

Mr. Blake Richards: Great. I thank you very much for that. I appreciate it. I appreciate all of your comments today and your help. It was very helpful and I appreciate your being here.

The Chair: Thank you, Mr. Richards.

At this time the chair, on behalf of the committee, would certainly like to thank Mr. Jagelewski and Ms. Doyle. I can assure you that your contributions are not only informative today but most welcome, and we certainly appreciate the enthusiasm, the interest, and the significant knowledge you have on this issue, given your—I won't say "tender"—age. We're deeply impressed. Thank you so kindly.

The meeting is adjourned.

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