HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

EXPLORING THE POTENTIAL OF SOCIAL FINANCE IN CANADA

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

Phil McColeman
Chair

JUNE 2015

41st PARLIAMENT, SECOND SESSION

Published under the authority of the Speaker of the House of Commons

Also available on the Parliament of Canada Web Site
at the following address: http://www.parl.gc.ca

EXPLORING THE POTENTIAL OF SOCIAL FINANCE IN CANADA

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

Phil McColeman
Chair

JUNE 2015

41st PARLIAMENT, SECOND SESSION

STANDING COMMITTEE ON HUMAN RESOURCES, SKILLS AND SOCIAL DEVELOPMENT AND THE STATUS OF PERSONS WITH DISABILITIES

CHAIR

Phil McColeman

VICE-CHAIRS

Jinny Jogindera Sims
Rodger Cuzner

MEMBERS

Scott Armstrong
Ray Boughen
Brad Butt
Jim Eglinski
Sadia Groguhé
Colin Mayes
Marie-Claude Morin

OTHER MEMBERS OF PARLIAMENT WHO PARTICIPATED

Niki Ashton
Leon Benoit
Tarik Brahmi
Jean Crowder
Hon. Mark Eyking
Alain Giguère
Robert Goguen
Ted Hsu
Carol Hughes
Dave Van Kesteren
Alexandrine Latendresse
Costas Menegakis
Dany Morin
Ève Péclet
Mathieu Ravignat
Robert Sopuck
Philip Toone
Mike Wallace

CLERK OF THE COMMITTEE

Jessica Kulka

LIBRARY OF PARLIAMENT

Parliamentary Information and Research Service

Shauna Troniak, Analyst

Caroline Quesnel, Analyst

THE STANDING COMMITTEE ON HUMAN RESOURCES, SKILLS AND SOCIAL DEVELOPMENT AND THE STATUS OF PERSONS WITH DISABILITIES

has the honour to present its

TWELFTH REPORT

Pursuant to its mandate under Standing Order 108(2), the Committee has studied Exploring the Potential of Social Finance in Canada and has agreed to report the following:

TABLE OF CONTENTS

EXPLORING THE POTENTIAL OF SOCIAL FINANCE IN CANADA

INTRODUCTION

On 5 February 2015, the House of Commons Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities (the Committee) adopted a motion to “study Social Finance’s potential for unlocking new sources of capital to improve social and economic outcomes for Canadians.…”[1] The Committee held a total of 14 meetings on this topic between 17 February and 26 May 2015, heard from 51 witnesses including three federal government departments, and now submits its final report entitled *Exploring the Potential of Social Finance in Canada*.

The Committee observed that governments around the world are making increasing use of social finance instruments, and momentum is building in Canada and internationally toward greater stakeholder engagement and capital investment in this market. As highlighted in the 2015 federal budget, social finance can contribute to the development of genuinely new and innovative approaches to addressing complex social issues. Recognizing the growing interest and engagement in this area, the Committee undertook this study in hopes of contributing to our understanding of the potential benefits and limits of social finance in Canada.

Social finance is a broad field that incorporates a variety of tools and business models. This report begins with a general discussion of social finance and the range of initiatives within this market that were raised by witnesses, in order to help clarify some of the basic concepts and issues surrounding the current status and possible future development of social finance in Canada.

The Committee heard a wide variety of evidence with respect to practical measures needed to support the development of legal and policy frameworks for social finance. In particular, witnesses raised issues and made recommendations regarding the current regulatory environment, the development of tools to measure the effectiveness of social finance initiatives, capacity building and training of stakeholders in this new market, and other financial and non-financial measures the federal government could implement to support the social finance market in Canada. The final sections of this report summarize these discussions and make recommendations for further action on these issues.

1 House of Commons, Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities [HUMA], Minutes of Proceedings, 2nd Session, 41st Parliament, 5 February 2015.

CHAPTER ONE: THE SOCIAL FINANCE MARKET IN CANADA

A. What is Social Finance?

In brief, social finance is said to be "the use of private capital in financial markets for social good."[2] The Committee heard that the terms "social finance" and "impact investment" are often used interchangeably to refer to a type of investing that seeks to generate both financial and social returns. Stated another way, "social finance" describes an approach to mobilizing repayable capital in ways that seek to create positive social impacts.

Representatives from Employment and Social Development Canada (ESDC) outlined the concept of social finance in the following terms:

> Simply put, social finance is using money in ways that generate both social and financial returns. It's an approach that mobilizes multiple sources of capital to deliver a positive, measurable social outcome and an economic dividend.
>
> Social finance provides opportunities to leverage additional investments and increase available dollars to develop, deliver, and scale up proven approaches that seek to address social and economic challenges in our communities. It includes new approaches to investing. It's often known as "impact investment."[3]

Social finance is not a new idea, but has been expanding in popularity around the world in recent years as a means to support the social economy and social sector organizations, and develop new approaches to address complex social problems. The Committee heard that the United Kingdom (U.K.) has led this recent revival internationally, having developed its social finance sector over the past 15 years and used its recent presidency of the G-8 to establish a taskforce on social impact investment.[4] In addition, under the auspices of that effort, national advisory boards were established in G-8 member countries, including Canada, to contribute research into the domestic policy agenda. The final report of Canada's National Advisory Board to the Social Impact Investment Taskforce was released in September 2014.[5]

As Kieron Boyle of the U.K. Government noted, the concept of social finance is necessarily broad because of the range of stakeholders and perspectives that are engaged:

2 HUMA, *Evidence*, 2nd Session, 41st Parliament, 10 March 2015, 1530 (Sandra Odendahl, Director, Corporate Sustainability and Social Finance, Royal Bank of Canada).

3 HUMA, *Evidence*, 2nd Session, 41st Parliament, 17 February 2015, 1530 (Siobhan Harty, Director General, Social Policy Directorate, Strategic Policy and Research Branch, ESDC).

4 See: G-8 Social Impact Investment Task Force, *Impact Investment: The Invisible Heart of Markets,* 15 September 2014.

5 For the report of Canada's National Advisory Board to the Social Impact Investment Taskforce, see: *Mobilizing Private Capital for Public Good: Priorities for Canada*, September 2014.

> Definitions are everything here. Essentially, within the U.K. there seems to be two broad definitions that sit around the world of social finance. The first one seems to be social finance being about repayable capital that helps social organizations increase their impact. That's very much from the investee's perspective. There's a broader one that we used in the G-8 task force that was talking about social investment being investment that intentionally seeks and measures financial returns and social returns.
>
> I think they're both right. It just pulls out the fact that there's a breadth to this. So much of this field depends on where you sit.[6]

Jeffrey Cyr from the National Association of Friendship Centres echoed a recurring theme amongst witnesses that social finance has the potential to serve as an additional social policy instrument in Canada that drives social innovation and complements, enhances or extends the scope of existing social programs in order to deliver an even greater social impact, rather than a means of replacing existing social programs. Many witnesses, including Mr. Cyr, described social finance as a policy tool with potential to better address specific, complex social challenges in new and innovative ways.

> Let's jump into social finance, which I see as part of a suite of mechanisms and structures required to facilitate social innovation. Of course social innovation is, at heart, about catalyzing and creating systems change.
>
> For us, one thing is clear. The complexity of the problems around us, most acutely in the lives of urban indigenous people in this country, will not be solved by traditional ways of acting. The systems of today, frankly, are not built to handle the problems of today….
>
> Social innovation and social finance represent tremendous tools with which to build on these strategic relationships to develop new or, just as importantly, to scale up and scale out existing initiatives so they can have broader impact.[7]

Witnesses appearing before the Committee approached social finance from a variety of perspectives and, as will be described below, highlighted a variety of tools and business models that fall under this broad concept. However, the Committee heard that social finance models share a key feature that is different from traditional funding models: whereas grants or donations provide a "one-off" source of funding, social finance attempts to achieve something "more sustainable and more long-lasting."[8]

The Committee heard that the social finance market, like any financial market, is a combination of demand (for capital to finance initiatives), supply (of investment capital), and intermediaries (connecting demand and supply sides of the market). As Siobhan Harty of ESDC explained:

> As with other capital markets, the social finance marketplace is made up of three broad components. There is the supply side that provides the capital. There are a number of players that are active in this area, including foundations, financial institutions, and

6 HUMA, *Evidence*, 2nd Session, 41st Parliament, 28 April 2015, 1530 (Kieron Boyle, Head, Social Investment and Finance, Government of the United Kingdom).

7 HUMA, *Evidence*, 2nd Session, 41st Parliament, 31 March 2015, 1530 (Jeffrey Cyr, Executive Director, National Association of Friendship Centres).

8 HUMA, *Evidence*, 2nd Session, 41st Parliament, 17 February 2015, 1630 (Siobhan Harty).

> private investors, to name a few. There is the demand side that comes from a range of both non-profit and for-profit organizations that includes charities, non-profit organizations, social enterprises, cooperatives, and social purpose businesses. In the middle there are intermediaries, those agents that try to bring together the two sides of the market: supply and demand. These intermediaries work to facilitate deals by providing expertise for the development of the supply and demand side, and to enable the efficient growth of the overall market.[9]

The Committee heard that interest in social finance is being driven by both the supply and demand sides of the market. From the supply side of the social finance market (e.g., governments, foundations, financial institutions), the Committee heard that investors are increasingly interested in using their resources in ways that offer both a return on investment and positive social impacts. As Ms. Harty noted:

> We're seeing a different spirit, if I can use that term in the financing world, in people who want to make an investment and not achieve just a financial return. These individuals – call them social impact investors or people who want to support social enterprise – are really bringing a different expectation to that market and to this area of policy in asking how they can use their money to achieve a social good.[10]

From the demand side of the social finance market (e.g., charities, non-profit organizations, social enterprises), the Committee heard about a need for new approaches to address the difficult social and economic challenges that have resisted change through traditional means of funding. Carole Gagnon of United Way Ottawa spoke of this dynamic in the following terms:

> Traditional ways in which we have been funding social issues are experiencing tremendous transformation. Many factors will continue to pressure government funding in the area of social service spending.
>
> …
>
> We certainly view private capital investment as an opportunity for new conversations with our long-time donors, many of whom we already speak to in investment terms. The potential to attract new stakeholders to our work is there as well and will require greater engagement of all sectors.[11]

The Committee also heard from several intermediaries operating in Canada's social finance marketplace. These include organizations that work with investors and assist in generating capital for social finance, work to improve the capacity of demand-side actors to participate in the social finance market, and generate research and data to support the measurement and evaluation of social finance initiatives. Tim Jackson of the MaRS Discovery District, a registered charity that works to promote social finance in both the demand and supply sides of the market, also described the potential of social finance to introduce new funds to address important social issues:

---

9 Ibid., 1530.

10 Ibid., 1630.

11 HUMA, *Evidence*, 2nd Session, 41st Parliament, 24 March 2015, 1540 (Carole Gagnon, Vice-President, Community Services, United Way Ottawa).

> In simple terms, the challenges we face as [a] society need a new approach. You as parliamentarians are dealing with budget constraints particularly around things like health care and social services. I think you would acknowledge the innovative approach we have taken as a country toward things like our entrepreneurial approach to business, our entrepreneurial approach to innovation, requires that same type of approach to deal with some of these large social issues, whether we're talking about homelessness or poverty reduction. We think it requires a new, innovative approach and it requires us to access some funds that are not currently available in the space.[12]

While broad consensus existed among witnesses about the need for new approaches to address persistent social and economic challenges through new partnerships and sources of financing, the particular form that social finance initiatives should take to meet this challenge varied. The next section of this chapter will describe the main types of social finance instruments raised by witnesses, and summarize the discussion regarding the potential role of social finance in Canada's social service sector.

B. Social Finance Tools and Business Models

Social finance is linked to the broader policy goal of improving social outcomes. This objective distinguishes social finance from traditional funding models for social programs (which focus on shorter term outputs), and other types of investments (which seek to maximize profits). Private capital may be used to further the goal of improving social outcomes in multiple ways, and the following section will discuss the three types of social finance tools and business models most commonly raised in the evidence: social impact bonds (SIBs), social investment funds, and social enterprises.

1. Social Impact Bonds

One approach to social finance – known as "outcomes-based finance" or "pay-for-performance" – directly links the provision of program funding to the achievement of measurable, proven social outcomes. Options under this approach include an instrument known as a "social impact bond" (SIB), which ESDC has defined as:

> … an instrument for funding projects where a prearranged amount of money is paid out if performance results are achieved. SIBs combine a pay-for-performance element with an investment-based approach: private investors provide up-front capital to fund interventions, and can expect to get back their principal investments and a financial return if the results are achieved.[13]

Although structures for specific instruments vary, SIBs are generally contractual arrangements through which investors provide multi-year funding to service providers to deliver a program or service, and government agrees to repay the investors' capital plus an agreed-upon return if the program achieves its stated social outcome goals. As Meghan Joy of Ryerson University explained:

12 HUMA, *Evidence*, 2nd Session, 41st Parliament, 19 February 2015, 1530 (Tim Jackson, EVP Corporate and Community Development, MaRS Discovery District).

13 Human Resources and Skills Development Canada, *Harnessing the Power of Social Finance*, Ottawa, May 2013.

> Basically it begins with government identifying a social policy field where it would like to pay for particular outcomes.… Government then would typically contract an intermediary organization who manages the SIB project and actually prepares the bond instrument. It prepares the desired project results, the costs, the savings, as well as the rate of return to investors should the social project achieve those pre-arranged outcome targets. The intermediary would then issue the bond to private investors, who provide the upfront or the immediate project capital. This is where the social finance element, the impact investing element, comes in.[14]

The Committee heard that SIBs have the potential to improve the funding and delivery of social programs by finding efficiencies, spurring private sector innovation, and transferring the risk of funding social innovation to the private sector. However, as will be discussed below, several witnesses advanced critiques of SIBs and their potential to improve on existing funding and delivery models.

Lars Boggild of Finance for Good told the Committee that there are currently 44 SIBs live globally.[15] The first SIB was launched in 2010 in Peterborough, U.K., for a project aimed at reducing the recidivism rates of short-sentence male offenders. Originally envisioned as a seven-year initiative, the Committee heard that the pilot project was cancelled partway through as the prison system moved toward greater privatization of rehabilitation services, and the full results of the SIB were never evaluated.[16] As John Loxley of the University of Manitoba stated, "the whole thing was wrapped up far too early for it to be called a success."[17]

Kieron Boyle indicated that the U.K. has launched a total of 31 SIBs in five policy areas: "health, reoffending, youth unemployment, children at risk and … adoption." Mr. Boyle told the Committee that the full results of these pilot projects are not yet available and, if they are deemed successful, there remains some question as to whether, at this early stage, their success could be fully attributed to the SIB model:

> All the early indications from the social impact bonds are that they are achieving better outcomes than the counterfactual, what would have happened anyway. What we don't know yet is whether that is something that would happen if it were replicated wider or whether this is some sort of pilot halo effect because there's a degree of attention and focus upon them.[18]

The Committee heard that Canada's first SIB was launched in Saskatchewan last year, to establish a home to provide mothers and their children with safe and affordable accommodation. As Donald Meikle of the Saskatoon Downtown Youth Centre (which is

14 HUMA, *Evidence*, 2nd Session, 41st Parliament, 23 April 2015, 1640 (Meghan Joy, Doctor of Philosophy Candidate, Ryerson University).

15 HUMA, *Evidence*, 2nd Session, 41st Parliament, 26 May 2015, 1535 (Lars Boggild, Vice-President, Eastern Canada, Finance for Good).

16 HUMA, *Evidence*, 2nd Session, 41st Parliament, 23 April 2015, 1645 (John Shields, Professor, Ryerson University, Department of Politics and Public Administration).

17 HUMA, *Evidence*, 2nd Session, 41st Parliament, 26 March 2015, 1540 (John Loxley, Professor, Department of Economics, University of Manitoba).

18 HUMA, *Evidence*, 2nd Session, 41st Parliament, 28 April 2015, 1625 (Kieron Boyle).

implementing the project) explained, his organization looked to SIBs as an alternative source of project funding:

> The options for us to fund this home were to wait for up to a year and a half to get into the funding cycle with still no promises, to try to raise the needed dollars with an organization that already needs to raise about $100,000 per year to keep our doors open, or to go with a new and innovative way of funding called the social impact bond that bases funding on outcomes.[19]

Dale McFee, Deputy Minister of Correctional Services with the Government of Saskatchewan, told the Committee that this SIB is valued at a relatively low $1 million and did not involve an intermediary.[20] Investors on the project include a housing development corporation and a credit union.[21]

The Committee heard that ESDC is currently involved in a pilot project incorporating the SIB model in the area of adult literacy and essential skills. Ms. Harty explained that this pilot project:

> … will run for 18 months, approximately. It has two populations: one of employed Canadians and one of non-employed Canadians. In both cases, interventions are applied to increase their literacy and essential skills levels, with the objective of their having stronger labour market attachment. These are en route. They're currently being finalized in terms of the partnerships and the negotiations.[22]

Jean-Pierre Voyer of the Social Research and Demonstration Corporation, which was retained as the independent evaluator on the pilot project, noted that one aspect of the pilot proposes to enrol unemployed Canadians in an essential skills training program, and is "testing what would be considered a true social impact bond model in which private investors will recover their initial investment plus a financial return of up to 15%, if the training is successful." The other part of the pilot addresses skills training for those who are already employed, in which private sector employers will be reimbursed for up to 50% of training costs, if this training achieves target outcomes. Mr. Voyer further explained that this aspect of the pilot is "a departure from a formal SIB, because the investor is not motivated by return on capital investment per se but by the prospect of economic returns from a better-trained and more productive workforce as well as reimbursement of training expenses."[23]

While governments have begun to experiment with the SIB model in Canada, to date no evaluations have been completed to demonstrate the actual potential of the SIB model in Canada or elsewhere. The Committee heard from witnesses who were involved

---

19 HUMA, *Evidence*, 2nd Session, 41st Parliament, 12 May 2015, 1550 (Donald Meikle, Executive Director, Saskatoon Downtown Youth Centre Inc.).

20 HUMA, *Evidence*, 2nd Session, 41st Parliament, 12 May 2015, 1605 (Dale McFee, Deputy Minister, Corrections and Policing, Ministry of Justice, Government of Saskatchewan).

21 HUMA, *Evidence*, 2nd Session, 41st Parliament, 12 May 2015, 1555 (Donald Meikle).

22 HUMA, *Evidence*, 2nd Session, 41st Parliament, 14 May 2015, 1610 (Siobhan Harty).

23 HUMA, *Evidence*, 2nd Session, 41st Parliament, 12 May 2015, 1630 (Jean-Pierre Voyer, President and Chief Executive Officer, Social Research and Demonstration Corporation).

in the development of SIB instruments and expressed interest in contributing to their use in Canada.[24] However, as will be described below, the Committee also heard from witnesses who advanced critiques of the SIB model and urged the federal government to apply this model with caution, if at all. Looking at the currently available evidence on the model and the experience of SIBs internationally, these witnesses expressed scepticism about the potential of SIBs to become a viable funding model for social programs in Canada.

First, some witnesses argued that the SIB model is unlikely to make programs more efficient or reduce government costs or budgets, but rather bring different financial and administrative costs to government. These include short-term overhead costs associated with developing in-house skills and expertise in the social finance market, and costs to retain the necessary professional services from lawyers, accountants and evaluators. Barret Weber from the Parkland Institute described social impact bonds as "cumbersome, expensive, requir[ing] a lot of upfront capital, and whose results are speculative at best."[25]

In addition, as witnesses such as Andrew McNeill of the National Union of Public and General Employees noted, rates of return also vary by contract, and can sometimes represent a significant financial cost to government:

> … social impact bonds are an expensive way to borrow money. For example, the first social impact bond project in Peterborough, England, to reduce recidivism is expected to provide a rate of return of between 7.5% and 13% per year. Based on a survey by the MaRS Discovery District and Deloitte Canada, expectations of potential investors in social impact bonds here in Canada are very similar. By contrast, the federal government was paying an average of 2.37% to borrow money in 2013-14, which is roughly a third of the minimum amount Peterborough social impact investors are likely to receive.[26]

Second, some witnesses argued that, given the potential financial risks associated with the SIB model to investors if the program fails to achieve the outcomes established by the government, investors will likely gravitate toward proven programs, and populations that are the least vulnerable and therefore most likely to succeed and generate positive outcomes (also referred to as "cherry-picking" or "cream-skimming").[27] In addition, according to David Juppe of the Maryland Department of Legislative Services, SIBs for more vulnerable populations or more innovative types of programs will be more expensive, as "[i]nvestors are going to demand a higher rate of return because there's higher risk."[28]

---

24 HUMA, *Evidence*, 2nd Session, 41st Parliament, 19 February 2015, 1615 (Tim Jackson), and HUMA, *Evidence*, 2nd Session, 41st Parliament, 28 April 2015, 1655 (Adam Spence, Founder and Chief Executive Officer, SVX).

25 HUMA, *Evidence*, 2nd Session, 41st Parliament, 12 May 2015, 1640 (Barret Weber, Research Manager, Parkland Institute).

26 HUMA, *Evidence*, 2nd Session, 41st Parliament, 12 March 2015, 1530 (Andrew McNeill, National Representative, National Union of Public and General Employees). See also HUMA, *Evidence*, 2nd Session, 41st Parliament, 12 March 2015, 1540 (Margot Young, Senior Research Officer, Canadian Union of Public Employees).

27 HUMA, *Evidence*, 2nd Session, 41st Parliament, 12 March 2015, 1540 (Margot Young).

28 HUMA, *Evidence*, 2nd Session, 41st Parliament, 12 May 2015, 1545, (David Juppe, Senior Operating Budget Manager, Maryland Department of Legislative Services).

The third main critique of the SIB model advanced by witnesses involved challenges associated with program evaluation. In particular, as John Shields of Ryerson University noted, an evidence-based approach would require rigorous evaluation methods involving comparisons between randomly selected subject groups and control groups from the wider population. He noted that early evaluations of the Peterborough SIB, while generally positive, did not involve "a random sample; it was actually volunteers. That had the effect of biasing the sample, so that one would expect more positive results from the way the sample was selected."[29] However, the issue of outcome measurement and appropriate data collection is best left to the intermediaries and is outside the scope of government.

Beyond these technical critiques of SIBs, witnesses also remarked on challenges surrounding the complexity of the model,[30] and noted that SIBs may distract from other forms of social finance requiring the attention of the federal government.[31]

2. Social Investment Funds

Many witnesses also discussed social investment funds, a type of social finance tool that pools capital from various sources and makes this capital available to demand-side actors, such as service delivery organizations and social enterprises. The Committee heard that such funds provide access to capital to organizations that may not otherwise be able to obtain funds from traditional loans.

While broadly linked to the goal of improved social outcomes, social investment funds differ from SIBs in that funding for these initiatives is not contingent on the proven achievement of outcomes. Rather, these tools resemble more traditional debt and equity financing instruments, but with a heightened social purpose and less emphasis on generating market-rate returns. For example, Andy Broderick of Vancity Credit Union spoke about its Resilient Capital program, a partnership with the Vancouver Foundation, which raised $15 million from a variety of public and private sources to make loans to organizations with a social purpose. He stated:

> Resilient is one of a number of funds across Canada—there aren't very many, probably eight or 10—that are attempting to provide capital to social enterprises, non-profits, businesses that are working to improve the environment. They could be for-profits as long as they have a mission base to them.… In Canada it's about a $500-million market, probably a little under that. In the western economic world, it's about $50 billion and growing considerably.[32]

The Committee was also told about the Chantier de l'économie sociale Trust in Québec – a social investment fund created for the purpose of supporting social economy

29 HUMA, *Evidence*, 2nd Session, 41st Parliament, 23 April 2015, 1645 (John Shields).

30 HUMA, *Evidence*, 2nd Session, 41st Parliament, 10 March 2015, 1545 (Andy Broderick, Vice-President, Community Investment, Vancity Community Investment and Resilient Capital).

31 HUMA, *Evidence*, 2nd Session, 41st Parliament, 24 February 2015, 1645 (Michael Toye, Executive Director, Canadian Community Economic Development Network).

32 HUMA, *Evidence*, 2nd Session, 41st Parliament, 28 April 2015, 1630 (Andy Broderick).

enterprises.[33] This fund can provide loans of up to $3.5 million, and was capitalized in part by the federal government and contributions from labour-sponsored funds.[34]

Colette Harvey of the Caisse d'économie solidaire Desjardins described the social finance activities of her financial institution, noting that it “makes up more than 40% of the total volume of social financing” in Quebec, and is “a very active member of Cap finance, the Réseau de la finance solidaire et responsable.” She further noted that the assets of the Caisse have doubled to $737 million over the last 10 years, “and its loans to social businesses have increased by 122% over the same period,” which are generally underwritten “to support the activities and development of social projects.”[35]

Sandra Odendahl of the Royal Bank of Canada (RBC) informed the Committee that, in 2012, RBC launched a social finance initiative involving, in part, the use of $10 million from the RBC Foundation to “invest in early-stage companies with a social or an environmental mission.”[36]

In addition, Shawn Murphy of Cooperatives and Mutuals Canada told the Committee that member-owned cooperatives have several social investment funds operating across the country, which are “designed to serve a particular geographical region or a particular sector in the co-op movement.” By way of example, he highlighted the Arctic Co-operative Development Fund, which was “established in 1986 to provide financial services to cooperatives across Canada's Arctic,” and which has grown from an initial $10 million investment into a $45 million investment fund.[37]

3. Support for Social Enterprises

Many witnesses also discussed various forms of social enterprise business models. A social enterprise is, generally, an “organization or business that uses the market-oriented production and sale of goods and/or services to pursue a public benefit mission.”[38] It could take the form of a charity, a non-profit organization, a for-profit corporation, a co-operative, or a hybrid corporation (where legislation creating such hybrid corporations has been enacted).[39]

33 HUMA, *Evidence*, 2nd Session, 41st Parliament, 24 February 2015, 1655 (Jacques Charest, President, CAP Finance, Le Réseau de la finance solidaire et responsable).

34 HUMA, *Evidence*, 2nd Session, 41st Parliament, 26 February 2015, 1535 (François Vermette, Director of Development, Social Economy Working Group).

35 HUMA, *Evidence*, 2nd Session, 41st Parliament, 10 March 2015, 1550 (Colette Harvey, Director, Cooperative Project Support, Caisse d'économie solidaire Desjardins).

36 HUMA, *Evidence*, 2nd Session, 41st Parliament, 10 March 2015, 1530 (Sandra Odendahl).

37 HUMA, *Evidence*, 2nd Session, 41st Parliament, 26 March 2015, 1630 (Shawn Murphy, Government Relations Consultant, Co-operatives and Mutuals Canada).

38 Canadian Task Force on Social Finance, *Mobilizing Private Capital for Public Good*, December 2010, p. 4.

39 Canada’s National Advisory Board to the Social Impact Investment Task Force, *Mobilizing Private Capital for Public Good: Priorities for Canada*, MaRS Discovery District, September 2014, pp. 11–12.

While not strictly a form of impact investment, social enterprises are closely related as vehicles through which social finance tools can operate. For example, financial support for social enterprises can involve providing loans and other financing at below-market rates to help these enterprises pursue their social objectives.

The Committee heard from witnesses engaged in social enterprises that have leveraged funding from both public and private sources to generate positive social impacts within their communities. For example, Steve Cordes of Youth Opportunities Unlimited, an organization created in order to help youth with limited education and no work experience, noted in particular how this social enterprise leverages public funding:

> With earned revenues, for every dollar that's invested from public funds, the organization is actually earning $2 in addition to that. The federal funding right now represents about a third of the investments coming into our social enterprises.[40]

The Committee heard about the important impacts that social enterprises can have in communities. Courtney Bain, a client of Youth Opportunities Unlimited (YOU), shared her experience with the Committee :

> I'm Courtney. I'm 24, and I've been involved with YOU since I was 18. The journey has been a long road and it wasn't always successful, but YOU didn't give up on me. I started doing the skills training program this September, and I finished in February. Through this time, they gave me the skills that I needed. I had never worked in a kitchen before, and I am leaving this kitchen to manage my own. I am now managing my own local restaurant.
>
> Without YOU, I would probably still be homeless and on social assistance. They gave me the skills that I needed.
>
> …
>
> It's giving me great opportunities. If it could do this much for me, think about how many other people it could help out as well.[41]

The Committee heard from organizations either interested in or already involved in social enterprise, including the Peel Multicultural Council, ABC Life Literacy, and Crossing All Bridges Learning Centre.[42] Some of these organizations expressed a need for greater access to private funding sources. For example, the Committee heard that ABC Life Literacy has been funded by private, public and donated dollars throughout its 25-year history, and is now turning to social entrepreneurship to fill a gap in funding. ABC Life Literacy's UP project, which provides essential skills training in the workplace, operates under a social enterprise business model. ABC Life Literacy expressed a need

---

40 HUMA, *Evidence*, 2nd Session, 41st Parliament, 12 March 2015, 1635 (Steve Cordes, Executive Director, Youth Opportunities Unlimited).

41 HUMA, *Evidence*, 2nd Session, 41st Parliament, 12 March 2015, 1640 (Courtney Bain, Representative, Youth Opportunities Unlimited).

42 HUMA, *Evidence*, 2nd Session, 41st Parliament, 24 March 2015, 1530 (Naveed Chaudhry, Executive Director, Peel Multicultural Council); HUMA, *Evidence*, 2nd Session, 41st Parliament, 12 March 2015, 1645 (Gillian Mason, President, ABC Life Literacy Canada); HUMA, *Evidence*, 2nd Session, 41st Parliament, 12 March 2015, 1700 (Debbie Brown, Executive Director, Crossing All Bridges Learning Centre).

for "patient capital" in order to cover for expenses incurred before the project starts generating revenues.[43] Crossing All Bridges Learning Centre also indicated that they are in need of start-up funding in order to get a social enterprise project off the ground.[44]

C. Role of Social Finance in Canada

As described above, social finance is an approach to mobilizing multiple sources of capital that has the potential to deliver sustainable social outcomes and economic returns, by developing multi-stakeholder partnerships and leveraging expertise in the social and financial spheres. While many witnesses expressed interest in participating in the development and implementation of social finance tools, many also indicated that they are not necessarily appropriate for all social challenges or target populations. As will be summarized below, testimony heard by the Committee included some current and planned initiatives at the provincial and federal levels, as well as a broader discussion of the appropriate role of social finance in providing funds for the social services sector.

Departmental officials described the current social finance market in Canada as "nascent" but with potential for growth. The size of the social finance market in Canada is currently estimated to be $2.2 billion,[45] but could, according to ESDC, grow in the range of $30 billion in 10 years, "if all parts of the market move forward together in an optimal situation."[46]

Siobhan Harty discussed the Department's May 2013 report which followed a national call for concepts for social finance initiatives:

> [J]ust over 150 concepts were received over several months from across the country. What we did in the report is just profile some of them. None of them were funded. We were interested in getting a sense of whether Canadians had a familiarity with social finance and whether they had some ideas about innovative approaches that could be used in the context of social and labour market interventions at the local level.[47]

In addition to the pilot project outlined previously, the Department noted its involvement "in a micro-loan project to look at helping recent immigrants achieve foreign credential recognition so that they can engage in their professional activity in Canada and be part of the labour market."[48] Ms. Harty also noted the recent announcement in Budget 2015 of a "social finance accelerator initiative" to be led by the Department,[49] and which is "expected to involve advisory services, mentorship, brokering, and investor

---

43 HUMA, *Evidence*, 2nd Session, 41st Parliament, 12 March 2015, 1645 (Gillian Mason).

44 HUMA, *Evidence*, 2nd Session, 41st Parliament, 12 March 2015, 1700 (Debbie Brown).

45 Canada's National Advisory Board to the Social Impact Investment Taskforce, *Mobilizing Private Capital for Public Good: Priorities for Canada*, September 2014, p. 25.

46 HUMA, *Evidence*, 2nd Session, 41st Parliament, 17 February 2015, 1535 (Siobhan Harty).

47 Ibid., 1615.

48 Ibid., 1535.

49 *Economic Action Plan 2015*, 21 April 2015, p. 271.

introductions to help fast-track promising social finance ventures to a greater stage of investment readiness."[50]

Witnesses also offered examples of government-supported social finance initiatives that are or may soon be taking place across Canada. In addition to Saskatchewan's SIB, other noted examples included the Government of Nova Scotia's consideration of an equity tax credit and the establishment of Community Economic Development Investment Funds,[51] and the Government of British Columbia's introduction of the "community contribution company" – a hybrid corporation that, according to the department, "has tried to find a way in between traditional business and traditional charities."[52]

Though the social finance market in Canada is currently small, many witnesses discussed the potential of social finance to represent a new and growing source of funding for social programs and services. This discussion included the role of social finance vis-à-vis government funding, and the types of initiatives potentially best suited to social finance interventions. It also included a discussion of the potential effects of social finance on the role and functions of service delivery organizations.

Some witnesses expressed concern that relationships with investors could affect the ability of social service organizations to preserve their missions and retain their independence in their operations.[53] Others noted that the degree of organizational autonomy would depend on the source of capital and how the social finance instrument is structured. As Norm Tasevski of Purpose Capital stated:

> As an example, one of the groups that we work with is the angel investment community. By angel investors, I'm referring to individuals who would finance or take the highest risk associated with a particular investment. In some cases, I've seen angel investors who are completely passive with regard to an investment. They just put their capital in, and let the entrepreneur be the entrepreneur.
>
> In fact, with some models, there's more autonomy for that type of investor than you would ever get with a government funded granting program or a charitable program … but in a lot of ways, the level of involvement that's needed in order to satisfy the conditions of a grant can often create barriers to autonomy for a lot of groups[54]

Siobhan Harty noted that the experience with social finance instruments internationally is that preserving the mission of the organization is a fundamental consideration:

---

50 HUMA, *Evidence*, 2nd Session, 41st Parliament, 14 May 2015, 1530 (Siobhan Harty).

51 HUMA, *Evidence*, 41st Parliament, 2nd Session, 19 February 2015, 1535 (Tim Jackson).

52 HUMA, *Evidence*, 2nd Session, 41st Parliament, 17 February 2015, 1535 (Siobhan Harty).

53 HUMA, *Evidence*, 2nd Session, 41st Parliament, 26 May 2015, 1550 (Sally Guy, Policy and Communications Coordinator, Canadian Association of Social Workers).

54 HUMA, *Evidence*, 2nd Session, 41st Parliament, 10 March 2015, 1715 (Norm Tasevski, Co-Founder and Partner, Purpose Capital).

> I'm looking to other countries that are more advanced than Canada in using social finance models … I guess it depends on the mission of the organization, but everything I've heard is about how to allow these kinds of organizations to preserve their mission. It's so fundamental, so how do you do that? That question of mission is fundamental to everything that we're looking at. I've never heard that social finance as a form of financing in and of itself would have a detrimental effect on the ability of an organization to retain control of its mission.[55]

The Committee heard testimony from many witnesses indicating that social finance is intended as a complementary or additional source of funding for social programs. Viewed in this way, social finance provides a means to "leverage different sources of funding to address complex social challenges."[56] As Adam Spence of Social Venture Connection (SVX) stated: "Social finance does not replace good public policy, good public investments, or good philanthropy, but it is a necessary complement to these approaches."[57]

Some witnesses emphasized the potential for social finance to lessen the financial burden on government, with the perspective of being able to do more with available public funds. As Stanley Hartt of Norton Rose Fulbright Canada observed:

> I agree that this is not intended at all to replace government funding for certain non-governmental organizations' charitable activities or public welfare activities, but in fact it certainly does take some of the burden off government if, alongside government, there can be private sector entities that are investing in social ventures with predictable, measurable outcomes, and they are doing this using private sector funding.
>
> …
>
> When you mobilize private capital for public good, you reduce the pressure on government and enable them to do, perhaps, more with their available funds. There is no part of this that recommends government do less.[58]

Similarly, Kieron Boyle echoed the notion that social finance can have a role in the social sector by increasing the number of stakeholders interested in achieving social impacts:

> At its core, one of the things that I believe social investment has the potential and capacity to do is to broaden the sense of partnership over who is trying to achieve social impact. I think that is a laudable aim and I think that can be achieved.[59]

In addition, Sunil Johal of the Mowat Centre highlighted the primary role that governments play in the social finance context:

55 HUMA, *Evidence*, 2nd Session, 41st Parliament, 17 February 2015, 1625 (Siobhan Harty).

56 Ibid., 1535.

57 HUMA, *Evidence*, 2nd Session, 41st Parliament, 28 April 2015, 1640 (Adam Spence).

58 HUMA, *Evidence*, 41st Parliament, 2nd Session, 19 February 2015, 1545 (Stanley Hartt, Counsel, Norton, Rose, Fulbright Canada).

59 HUMA, *Evidence*, 41st Parliament, 2nd Session, 28 April 2015, 1620 (Kieron Boyle).

> … I think it's very important to recognize that governments still play the *primus inter pares*, the first among equals, role in terms of setting direction and deciding what those difficult social problems are. Governments should still be very heavily involved in this. I don't think this is an area we want to outsource, solving difficult problems, to the private sector.[60]

Others cautioned that widening the responsibility for social services into the private sector could lead to the replacement of federal funding or service delivery in some circumstances. Acknowledging the financial pressures on the social services sectors everywhere, Jean-Pierre Voyer noted:

> The instruments of social enterprise, social finance, social impact bonds all fulfill different objectives, but in general if the thinking is to use them to replace an established government program whose specific objective is to serve the population I think that's the wrong point to start with. But if these tools are used to trigger innovation in social policy … and if they trigger more efficient service delivery … government or even non-profit organizations are not always a model of efficient service delivery.
>
> If we can find ways to improve that without depriving them of funding, but if they're funded differently, so be it. The literature isn't conclusive. That doesn't mean that it's a bad way to go. We just have to go there with caution….[61]

The Committee also heard that social finance presents the advantage of offering longer term funding, which is well-suited to preventative approaches.[62] Indeed, a cited advantage of social finance is its ability to offer long-term funding, potentially allowing service providers to step away from yearly renewals which can be difficult when outcomes are not immediately apparent:

> It's true that a lot of organizations speak to the fact that short-term contracts are very difficult to manage and the financing that comes with them is not stable. They have to apply on a pretty frequent basis to get access to new grants or new funding. In fact, social finance wants to address that head on. Social finance wants to be able to move away from those short-term contracts.[63]

Some witnesses noted that social finance can be used to encourage and support social innovation. For example, Bruce Dewar of LIFT Philanthropy Partners stated that: "[s]ocial finance has an enormous potential to encourage social innovation in our country, by creating new opportunities for investors and social purpose organizations, or SPOs, to partner in innovative projects and take their great ideas to scale at a new level across this country."[64]

---

60 HUMA, *Evidence*, 41st Parliament, 2nd Session, 26 March 2015, 1600 (Sunil Johal, Policy Director, University of Toronto, Mowat Centre).

61 HUMA, *Evidence*, 2nd Session, 41st Parliament, 12 May 2015, 1705 (Jean-Pierre Voyer).

62 HUMA, *Evidence*, 2nd Session, 41st Parliament, 17 February 2015,1540 (Siobhan Harty).

63 Ibid., 1545.

64 HUMA, *Evidence*, 2nd Session, 41st Parliament, 24 February 2015, 1530 (Bruce Dewar, President and CEO, LIFT Philanthropy Partners).

In addition, Tim Richter of the Canadian Alliance to End Homelessness highlighted the potential of SIBs in particular to fund "newer or emerging interventions or when an intervention is applied to a government system for the first time and where risk can be transferred to the investor."[65] Similarly, Kieron Boyle noted that, in the experience of the U.K. Government, SIBs had been used as "a way of bringing innovation into the system, of essentially testing out ideas that they have a broad sense might work but not an absolute sense" and as "a way of financing upfront interventions paid for by savings down the line, and essentially see this as the tool to enable them to do early intervention."[66]

Notwithstanding its potential benefits, some witnesses expressed scepticism about the potential of social finance instruments to fund social innovation in all circumstances. For example, commenting on outcomes-based financing models in particular, David Juppe noted that incentives built in to the model might actually discourage innovation:

> Because of this concept of a performance-based return on investment, I think rather than encouraging innovation, social impact bonds or pay for success will actually encourage a flight to quality. Investors are going to want to see programs that work and programs that are successful.[67]

Concern was also expressed by Marie-France Kenny of the Fédération des communautés francophones et acadienne du Canada, who noted that private capital may not as effectively take into account the needs of minority communities, and that "[m]inority francophone and Acadian communities don't have access to as large of a funding pool as majority communities."[68]

---

65 HUMA, *Evidence*, 2nd Session, 41st Parliament, 26 March 2015, 1640 (Tim Richter, President and Chief Executive Officer, Canadian Alliance to End Homelessness).

66 HUMA, *Evidence*, 2nd Session, 41st Parliament, 28 April 2015, 1600 (Kieron Boyle).

67 HUMA, *Evidence*, 2nd Session, 41st Parliament, 12 May 2015, 1545 (David Juppe).

68 HUMA, *Evidence*, 2nd Session, 41st Parliament, 23 April 2015, 1540 (Marie-France Kenny, President, Fédération des communautés francophones et acadienne du Canada).

CHAPTER TWO: BUILDING A REGULATORY FRAMEWORK FOR SOCIAL FINANCE

Charities and non-profit organizations are important actors in the social service sector whose ability to engage in market-based activities (e.g. invest and earn profits) is directed by federal taxation legislation and regulations. In particular, the federal government has authority over the taxation benefits of non-profit organizations and charities under the *Income Tax Act* (ITA).[69] Some of the federal rules governing non-profits and charities are included in the ITA and its regulations, while others flow from Canada Revenue Agency (CRA) policy.

Commenting on the current taxation rules with respect to charities, government officials noted that the ITA "aims to strike a balance between allowing charities to engage in business activities … as a source of revenue while ensuring that charities ultimately remain focused on their charitable purposes and activities."[70]

However, some witnesses observed that the activities of social finance, which blend charitable/non-profit and private sector activities, are not accurately reflected in current taxation regulations. For those charities and non-profit organizations that wish to engage in entrepreneurial and social finance activities, these rules may, in some cases, act as a barrier to these activities. As Sarah Doyle of the MaRS Discovery District noted:

> This is primarily about regulations and guidance that originate from the *Income Tax Act*, which we would view as being somewhat out of date. They don't take into account the value of these emergent trends of social entrepreneurship and impact investment.[71]

Witnesses identified four key aspects of current taxation law and policy as potential barriers to the growth of entrepreneurial and social finance activity among charities and non-profit organizations. Each of these issues is discussed below, along with a brief explanation of the current taxation rules that apply to registered charities and non-profit organizations.

A. Carrying on a Related Business

The ITA recognizes three types of charities: private foundations, public foundations, and charitable organizations. Two types of charities – public foundations and charitable organizations – are permitted to conduct business activities under certain conditions but, as will be described in a later section of this report, private foundations are not permitted to conduct any business activities.

69 *Income Tax Act*, R.S.C. 1985, c. 1 (5th Supp.).

70 HUMA, *Evidence*, 2nd Session, 41st Parliament, 14 May 2015, 1535 (Miodrag Jovanovic, Director, Personal Income Tax, Tax Policy Branch, Department of Finance).

71 HUMA, *Evidence*, 2nd Session, 41st Parliament, 19 February 2015, 1540 (Sarah Doyle, Senior Policy Advisor, MaRS Discovery District).

The ITA states that charitable organizations and public foundations can lose their registration if they carry on "a business that is not a related business of that charity."[72] Charitable organizations and public foundations may therefore, by implication, carry on a "related business" without risk of losing their tax exempt status.[73] The CRA defines a "related business" as either a business that is "linked to a charity's purpose and subordinate to that purpose," or a business that is "run substantially by volunteers" (which may or may not be related to the charity's purpose).[74] As Stanley Hartt explained:

> A hospital can run a gift shop or a parking lot and apply their revenues to the hospital's budget, but it would run afoul of our laws if the commercial activity were more substantial or ambitious, even if the proceeds were all expressly directed to the good works for which the charity was founded.[75]

The Committee heard that there is no limit to the revenues that a public foundation or a charitable organization can raise through a related business.[76] However, the restrictions on the business activities of public foundations and charitable organizations may, by their nature, limit the amount of revenue that can be generated by these charities.

An official of the Department of Finance indicated that, with the exception of private foundations, charities that wish to engage in *unrelated* business can establish a separate entity – usually a corporation – that would then carry out the unrelated business, provided there is a clear separation between the income generated by the separate entity and the charity.[77] The income generated by the separate corporation would be taxed, but up to 75% of said income could be sent back to the charity to support its charitable activities.[78]

The Committee heard that some charities establish separate legal entities in order to carry on unrelated business activities to generate profits for a charitable purpose. For example, Éric Hébert-Daly of the Canadian Parks and Wilderness Society described the legal requirements for his organization to purchase a profit-generating building:

> The kind of model that I'm talking to you about, the idea of a building, means that you have to end up creating a for-profit corporation that gives 100% of its profits, essentially, to the charity as a gift. It's a bit of an odd model, but that's what it ends up having to be in order to make it easy for a charity, for example, to be able to carry out a profit-making venture. There are probably places around charities, in terms of the *Income Tax Act* and

---

72 *Income Tax Act*, sections 149.1(2)(a) and 149.1(3)(a).

73 Private foundations, the third possible designation for charities, are not allowed to carry on any business activity. They are discussed in the following section.

74 Canada Revenue Agency, *What is a Related Business?*, Policy Statement CPS-019, 31 March 2003 and Canada Revenue Agency, *Summary Policy, CSP-R05, Business Activity*, 25 October 2002.

75 HUMA, *Evidence*, 2nd Session, 41st Parliament, 19 February 2015, 1545 (Stanley Hartt).

76 HUMA, *Evidence*, 2nd Session, 41st Parliament, 14 May 2015, 1620 (Cathy Hawara, Director General, Charities Directorate, Legislative Policy and Regulatory Affairs Branch, Canada Revenue Agency).

77 HUMA, *Evidence*, 2nd Session, 41st Parliament, 14 May 2015, 1535 (Miodrag Jovanovic).

78 Ibid., 1600.

> other places, where there could be ways to break down some of those barriers so that charities can actually make that work.[79]

Given the limitations on the scope of business activities in which charities can engage, and noting that a lack of clarity in the application of the tax rules has held back the development of social finance among charities, some witnesses suggested that taxation rules should allow charities to engage in business activities without jeopardizing their registered status under the ITA. While these witnesses acknowledged that allowing tax-exempt charities to do business could create an unfair competitive advantage, they maintained that such concerns could be addressed by taxing the business activities of charities above a certain threshold. Sarah Doyle suggested that federal tax rules should allow charities and non-profits (discussed below) to engage in greater business activities:

> [W]e think that charities and a subset of non-profits that have clear public benefit objectives should be allowed to engage in any kind of business activity without fear of penalty. We further think that some of those activities should be tax-exempt and some should be subject to income tax in order to deal with potential concerns about unfair competitive advantage.[80]

Some witnesses suggested in particular that federal legislation allow for a "hybrid" (i.e., for-profit and non-profit) corporation with a social purpose that would be taxable under certain conditions. Stanley Hartt, for example, suggested "a hybrid standard whereby business activities beyond those currently tolerated by our system would be taxed, subject to certain *de minimis* rules, but the charity would not be exposed to losing its registered status."[81]

B. Investing in Limited Partnerships

As noted above, while charitable organizations and public foundations may carry on a "related business," the ITA bars private foundations from carrying on "any business."[82] The CRA states that "[a] charity that becomes a limited partner in a partnership is carrying on a business and is not simply making an investment, even though the charity plays no active role in the business."[83]

Consequently, private foundations cannot hold an interest in a partnership, and few charitable organizations and public foundations are in a position to hold interests in a limited partnership because they can only engage in related businesses. Limited

79 HUMA, *Evidence*, 2nd Session, 41st Parliament, 31 March 2015, 1605 (Éric Hébert-Daly, National Executive Director, National Office, Canadian Parks and Wilderness Society).

80 HUMA, *Evidence*, 2nd Session, 41st Parliament, 19 February 2015, 1540 (Sarah Doyle).

81 HUMA, *Evidence*, 2nd Session, 41st Parliament, 19 February 2015, 1545 (Stanley Hartt).

82 *Income Tax Act*, section 149.1(4)(a).

83 Canada Revenue Agency, *What is a Related Business?*, Policy Statement CPS-019, 31 March 2003. See also Canada Revenue Agency, *Private Foundations and Investment Portfolios*, Policy Commentary CPC-023, 1 August 2002.

partnerships are used as investment vehicles to pool funding, but also to structure social impact investments.[84]

The Committee heard that the rules on limited partnerships precluded charities from making investments in social enterprises that are limited partnerships. Witnesses from private foundations and other investors in particular expressed concern about this restriction and suggested that charities should be allowed to make such investments. For example, Stephen Huddart of The J. W. McConnell Family Foundation noted:

> I think the first thing is that it would be very helpful to clarify the regulatory environment here. This field is moving very slowly, because a lot of obstacles are there. I'll mention one, which is the limited partnership rule. That, I can tell you, has prevented us from getting involved in or seeing develop a number of very promising initiatives because people just don't understand, and they can't afford the necessity of building a trust structure to allow an impact investment to be made.[85]

In Budget 2015, the federal government announced its intention to permit charities to invest in limited partnerships in order to allow charities to diversify their investment portfolios and to engage in social impact investments.[86] Specifically, the proposal is to amend the ITA such that a charity will not automatically be considered to be carrying on a business, solely because it invests in a limited partnership.[87] The investment would need to remain a passive one: the measure would only apply if the charity holds 20% or less of the interest in the limited partnership, and if the charity deals at arm's length with the partners of the limited partnership.[88]

Finance officials further explained that, since there are many social impact investments that are structured as limited partnerships, this proposed measure has the potential to make additional funds available for social enterprise projects in Canada.[89] Adam Spence, testifying shortly after the announcement was made, stated that "[w]e certainly welcome the recent announcement allowing foundations to invest in limited partnerships. It is a good first step toward reducing these limits."[90]

C. Program-Related Investments

Program-related investments (PRIs) are non-conventional investments made with the goal of furthering a charitable purpose, and do not necessarily yield a market rate of return. A witness from the CRA indicated that charities can make PRIs in non-profit

---

84 *Budget 2015*, 21 April 2015, p. 455.

85 HUMA, *Evidence*, 2nd Session, 41st Parliament, 24 February 2015, 1605 (Stephen Huddart, President and Chief Executive Officer, The J. W. McConnell Family Foundation).

86 *Budget 2015*, 21 April 2015, p. 271.

87 Ibid*.* pp. 496-97 (Notice of Ways and Means Motion to Amend the *Income Tax Act* and other Tax Legislation).

88 Ibid., p. 455.

89 HUMA, *Evidence*, 2nd Session, 41st Parliament, 14 May 2015, 1540 (Miodrag Jovanovic).

90 See for example HUMA, *Evidence*, 2nd Session, 41st Parliament, 28 April 2015, 1645 (Adam Spence).

organizations or private business through the purchase of shares, loans, loan guarantees, or leases of lands and buildings.[91]

Witnesses, foundations in particular, discussed the limitations around the possibility of making below market-rate investments, or PRIs. While one witness mentioned that the government's recognition that PRIs can serve to meet required disbursements quotas (the minimum amount a charity is required to spend on its own charitable programs or on gifts to qualified donees)[92] was helpful,[93] another witness suggested that the PRI environment is still murky and requires further clarity:[94] According to Ian Bird of the Community Foundations of Canada, PRIs are still a barrier that members of his organization face.[95]

Adam Spence of SVX, which operates out of the MaRS Centre for Impact Investing indicated that foundations need to be able to make below market-rate investments in order to advance their charitable objectives:

> We certainly welcome the recent announcement allowing foundations to invest in limited partnerships. It is a good first step toward reducing these limits. We also believe foundations should be allowed to make below-market rate investments, where appropriate, to advance their charitable objectives, ensuring no part of these investments, or any associated opportunity costs, would be considered as gifts to non-qualified donees. These kinds of investments at below-market rate are needed.
>
> Early-stage social enterprises or non-profit organizations seeking capital may not be able to offer risk-adjusted market returns. Many of these kinds of social finance arrangements require capital with different risk and return expectations for different investors. For example, a foundation might take a first-loss position in a fund or infrastructure project to leverage additional capital.[96]

A new guidance was issued by the CRA in July 2012 entitled *Community Economic Development Activities and Charitable Registration*.[97] In the Guidance, the CRA broadened the context in which charities can engage in PRIs. Whereas a prior guidance limited PRIs to qualified donees (i.e., mostly other charities), the new guidance indicates that charities can engage in PRIs involving non-qualified donees as well. In such cases, however, the PRI must be towards a "program over which the investor charity maintains ongoing direction and control, so that the program is the investor charity's own activity."[98]

---

91 Canada Revenue Agency, *Community Economic Development Activities and Charitable Registration*, Policy Guidance CG-014, 26 July 2012; HUMA, *Evidence*, 2nd Session, 41st Parliament, 14 May 2015, 1545 (Cathy Hawara).

92 Canada Revenue Agency, *Charities and giving glossary*.

93 HUMA, *Evidence*, 2nd Session, 41st Parliament, 24 February 2015, 1620 (Stephen Huddart).

94 HUMA, *Evidence*, 2nd Session, 41st Parliament, 19 February 2015, 1600 (Ian Bird, President, Chief Executive Officer, Community Foundations of Canada).

95 Ibid., 1635.

96 HUMA, *Evidence*, 2nd Session, 41st Parliament, 28 April 2015, 1645 (Adam Spence).

97 Canada Revenue Agency, *Community Economic Development Activities and Charitable Registration*, Policy Guidance CG-014, 26 July 2012.

98 Ibid.

D. Generating a Profit

Non-profit organizations are defined under the ITA as “a club, society or association” that is not a registered charity and is “organized and operated exclusively for social welfare, civic improvement, pleasure or recreation or for any other purpose except profit,” and whose income (with a narrow exception) is not “payable to, or … otherwise available for the personal benefit of, any proprietor, member or shareholder thereof.…”[99]

As the above definition indicates, in order to be considered a non-profit organization under the ITA, and thus qualify for a tax exemption, the organization must be exclusively organized and operated for an objective other than profit.[100] The CRA states that non-profit organizations may make profits that are “incidental and arise from activities that are undertaken to meet the organization’s non-profit objectives.”[101]

The Committee heard that current tax code requirements do not allow non-profit organizations to generate revenues for the purpose of saving or re-investing back into their organization. Cathy Taylor of the Ontario Nonprofit Network told the Committee:

> Current interpretation of the *Income Tax Act* prevents non-profit organizations from generating revenue – not creating profit, but generating revenue that they can put back into their mission as part of their organization – as well as maintaining cash reserves.[102]

Jeffrey Cyr expressed similar concerns:

> I'm a not-for-profit organization. I can't maintain a profit and I can't put it back in under the current tax rules governing not-for-profits. I have to come out with a zero balance every year. I have a $49-million budget. Coming out with a zero balance is tricky business sometimes.…
>
> [W]e need to have a way to invest back into those community-based organizations so that they can generate revenue and use it for social good. Otherwise, we get trapped in our own financial systems. That's where social finance can come in handy.
>
> I think there’s work here within the federal government and CRA that needs to be done.[103]

Ms. Taylor suggested that the ITA be interpreted to provide that “[r]evenue that is reinvested in the mission of the organization is not profit.”[104] Furthermore, in their written submission to the Committee, the Credit Union Central of Canada recommended that the ITA should be clarified to allow non-profits with a clear social and/or environmental purpose to generate significant revenues from business activities not directly related

99 *Income Tax Act*, section 149(1)(l). See also HUMA, *Evidence*, 2nd Session, 41st Parliament, 14 May 2015, 1540 (Cathy Hawara).

100 HUMA, *Evidence*, 2nd Session, 41st Parliament, 14 May 2015, 1540 (Cathy Hawara).

101 Canada Revenue Agency, *Non-Profit Organization Risk Identification Project Report*, February 2014.

102 HUMA, *Evidence*, 2nd Session, 41st Parliament, 24 February 2015 (Cathy Taylor, Executive Director, Ontario Nonprofit Network).

103 HUMA, *Evidence*, 2nd Session, 41st Parliament, 31 March 2015, 1610 (Jeffrey Cyr).

104 HUMA, *Evidence*, 2nd Session, 41st Parliament, 24 February 2015, 1640 (Cathy Taylor).

to their core mission, if such revenues are used to advance said core mission.[105] Currently, and as noted above, the ability of non-profits to generate a profit is restricted to revenues that are incidental and arise from "activities that support the organization's not-for-profit objectives."[106] According to the Credit Union Central, such measures would have a positive impact:

> By allowing non-profits to have a supporting and independent revenue stream these organizations will be better funded and in a stronger position to demonstrate to credit unions and other lenders that they can, for example, repay a loan at regular intervals or leverage assets to provide security for a loan.[107]

As with the tax rules governing charities, some witnesses suggested that the creation of a hybrid or dual purpose corporation at the federal level could benefit non-profit organizations seeking to expand their business activities. Stephen Huddart noted that this hybrid model has been applied in other jurisdictions, including within Canada:

> The key point is to allow a corporate vehicle to exist which is a hybrid, for-profit and not-for-profit corporation, and which can have share capital, but has a social purpose. That's one recommendation that has been put in place in several countries. Indeed, even in Canada, in Nova Scotia and British Columbia, we have this type of corporation that is able to attract capital for a social purpose.[108]

However, noting that other types of initiatives might better facilitate the business activities of charities and non-profits, Ms. Taylor stated:

> [W]e would encourage you to wait and see, around the concept of a dual purpose or hybrid corporate legislation at this time. There's so much else that will provide more return for the time invested. We have new corporate legislation for the non-profit sector at the federal level. Many provincial governments are adopting new legislation for their non-profit sector at the provincial level. Quite frankly, the last thing we need right now is another piece of legislation to try to figure out what that dual purpose or hybrid piece looks like.[109]

---

105 HUMA, *Submission to the House of Commons Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities*, Brief submitted by the Credit Union Central of Canada, 23 April 2015.

106 Canada Revenue Agency, *Non-Profit Organization Risk Identification Project : Questions and answers*.

107 Ibid.

108 HUMA, *Evidence*, 2nd Session, 41st Parliament, 24 February 2015, 1620 (Stephen Huddart).

109 HUMA, *Evidence*, 2nd Session, 41st Parliament, 24 February 2015, 1635 (Cathy Taylor).

CHAPTER THREE: MEASURING SOCIAL IMPACT

As social finance is broadly aimed at improving social outcomes, evidence and measurement of such outcomes will play an important part of any social finance project moving forward. The Committee heard that proper measurement of social outcomes and a strong evidence base are essential to the implementation of social finance tools, and could ultimately lead to more effective social programming. However, as will be outlined below, witnesses also described difficult challenges associated with developing appropriate metrics and evaluating the outcomes generated by social finance interventions.

A. Improving Social Outcomes

Siobhan Harty indicated that rigorous use of metrics to determine whether the agreed upon outcomes are achieved is essential to ensure effective use of resources and accountability when using public funds.[110] Furthermore, when accompanied by the appropriate metrics and evaluation methods, focusing on social outcomes could lead to a better idea of which interventions and programs work.[111]

With regard to the measurement currently taking place in ESDC, Ms. Harty indicated that ESDC has the data and the skill set to measure outcomes, and that such a measurement model could be applied in other sectors without necessitating an important increase in resources.[112] In addition, with regard to the Department's potential for future action on outcomes measurement, Ms. Harty emphasized the following:

> [F]or instance, in my directorate we do poverty measurement. We measure labour market outcomes … We have a research function that allows us to determine what the risk factors are for somebody who might have a poor labour market outcome, what the risk factors are for a young adult who's going to drop out of high school or post-secondary education. There's a large body of research in this country and internationally that would allow us to measure those things.[113]

Witnesses also indicated that there would be value in knowing when programs are not successful, or whether any change has occurred, in order to determine the extent of additional resources needed.[114]

Notwithstanding the value of measuring outcomes, the Committee heard that there are particular challenges associated with doing so. Some witnesses noted that social

110 HUMA, *Evidence*, 2nd Session, 41st Parliament, 17 February 2015, 1530 (Siobhan Harty).

111 HUMA, *Evidence*, 2nd Session, 41st Parliament, 19 February 2015, 1610 (Sarah Doyle).

112 HUMA, *Evidence*, 2nd Session, 41st Parliament, 14 May 2015, 1605 (Siobhan Harty).

113 Ibid.

114 See for example HUMA, *Evidence*, 2nd Session, 41st Parliament, 31 March 2015, 1620 (Jeffrey Cyr).

outcomes take more time to measure than program outputs, and require shifting perspective toward the longer term.[115] Mr. Jeffrey Cyr remarked that:

> There are a ton of indicators you can measure all across the board, everything from increased economic participation and better schooling to how [clients] adjust in society. There are ways. It's not rocket science to do it, but it takes a lot of effort and you have to build systems very thoughtfully at the outset.[116]

To illustrate the challenges associated with measuring outcomes, Mr. Cyr spoke of a leadership program and the complexity of determining whether the program has in fact created a leader. He observed that the measurement of these types of outcomes is difficult in the relatively short term of a typical government cycle. He expressed the need for a longitudinal measurement system, one that would establish the short-, medium- and long-term changes that are targeted.[117] Of a similar view, Tim Richter indicated that measuring outcomes would require tracking individuals over time to determine whether or not they fell back into homelessness.[118]

Although discussing SIBs particularly, Professor John Shields outlined the importance of measuring outcomes over outputs, as well as the significant investment associated with such measurement:

> Data is, I think, absolutely critical. To know if they're [SIBs] going to be effective or not, we're going to need substantial data. That means, obviously, far more than counting bums in seats. It means actually using statistics from organizations like Stats Canada, being able to attach those to projects, trying to evaluate the outcomes of things like recidivism within the larger context of other factors happening within society. This requires, I think, some significant type of investment, in terms of the analysis and the importance of evidence-based data. That is a challenge with SIBs, but I think it's a challenge more generally in terms of evaluating the outcomes of programs.[119]

Echoing these concerns, James Mulvale of the University of Manitoba suggested that governments instead draw on existing research to develop evidence-based approaches and improve the current public finance model.[120]

---

115 HUMA, *Evidence*, 2nd Session, 41st Parliament, 24 March 2015, 1620 (Bill Crawford, Executive Director, Eden Community Food Bank); and HUMA, *Evidence*, 2nd Session, 41st Parliament, 31 March 2015, 1615 (Jeffrey Cyr).

116 HUMA, *Evidence*, 2nd Session, 41st Parliament, 31 March 2015, 1620 (Jeffrey Cyr).

117 Ibid. 1615.

118 HUMA, *Evidence*, 2nd Session, 41st Parliament, 26 March 2015, 1715 (Tim Richter). A similar example was given by Jeffrey Cyr regarding the need to track people's lives to show certain types of outcomes: HUMA, *Evidence*, 2nd Session, 41st Parliament, 31 March 2015, 1615 (Jeffrey Cyr).

119 HUMA, *Evidence*, 2nd Session, 41st Parliament, 23 April 2015, 1715 (John Shields).

120 HUMA, *Evidence*, 2nd Session, 41st Parliament, 26 May 2015, 1545 (James Mulvale, Dean and Associate Professor Faculty of Social Work, University of Manitoba).

Witnesses also noted that focusing on social outcomes requires an appreciation of qualitative impacts, in addition to strictly quantitative results, which may be more difficult to demonstrate in terms of returns to investors.[121]

In an attempt to address these measurement challenges, some witnesses suggested that social finance initiatives should target projects that generate outcomes more susceptible to measurement, such as "[f]inding work for otherwise unemployable people, preventing recidivism, housing people who would otherwise be unhoused."[122] However, as Andrew McNeill of the National Union of Public and General Employees argued, most social problems are influenced by many factors, making it hard to determine whether a specific program has had the desired social impact.[123]

Indeed, even with outcomes that are susceptible to measurement, causal relationships are often difficult to establish. As Sharon Mayne Devine of the Honourable William G. Davis Centre for Families explained, while one can measure the number of murders in a given region where a safe centre exists for victims of violence, it is difficult to assess whether it is the presence of the safe centre that directly contributed to preventing the crimes. Obtaining such data would require significant resources.[124]

The Committee heard that all parties to a social finance project should be involved in deciding which outcomes to measure.[125] Once outcomes are agreed upon, some witnesses indicated that evaluating whether outcomes are achieved would best be done by an independent third party.[126]

The Social Research and Demonstration Corporation (SRDC), a non-profit independent social policy research organization, is an example of such a third party. As noted previously, ESDC contracted SRDC to be an independent evaluator on two social finance essential skills training projects, where "private investors pay for the training up front and are repaid by the government if the training is successful in achieving pre-established outcomes."[127] As the evaluator, SRDC designed the evaluation, but involved the proponents and intermediaries of the projects from the outset. Benchmarks were determined based on evidence from previous essential skills training programs.[128]

The projects evaluated by SRDC illustrate the challenges in measuring social outcomes. In the above skills training projects, repayment is triggered based on gains in

121 HUMA, *Evidence*, 2nd Session, 41st Parliament, 26 March 2015, 1615 (Sunil Johal).

122 HUMA, *Evidence*, 2nd Session, 41st Parliament, 19 February 2015, 1620 (Stanley Hartt).

123 HUMA, *Evidence*, 2nd Session, 41st Parliament, 12 March 2015, 1530 (Andrew McNeill).

124 HUMA, *Evidence*, 2nd Session, 41st Parliament, 23 April 2015, 1625 (Sharon Mayne Devine, Chief Executive Officer, The Honourable William G. Davis Centre for Families).

125 HUMA, *Evidence*, 2nd Session, 41st Parliament, 17 February 2015, 1550 (Siobhan Harty).

126 Ibid., 1555.

127 HUMA, *Evidence*, 2nd Session, 41st Parliament, 12 May 2015, 1630 (Jean-Pierre Voyer).

128 HUMA, *Evidence*, 2nd Session, 41st Parliament, 12 May 2015, 1715 (Sheila Currie, Principal Research Associate, Social Research and Demonstration Corporation).

literacy skills, measured before and after training. The gains in literacy skills are used as a proxy for labour market outcome success. These gains in literacy are intermediate outcomes, and not directly associated with measurable cash savings to government.[129]

B. Developing Appropriate Metrics

Metrics are tools to define and measure the outcomes sought. The Committee heard that they are "critical to success and … they need to be identified from the start and must show value or savings to government."[130]

According to witnesses from the Mowat Centre, the evidence base currently available to actors in the social finance marketplace is a patchwork at best. They indicated that a valuable role for government would be to "invest in better evidence and measurement to support promising opportunities for program innovation and support the long-term development of evidence-based policies."[131]

Tools to measure social impact, and specifically the ability to ensure that they remain constant, were identified as a challenge by an official of the Saskatchewan government.[132] Adam Spence explained the assessment of impact as having three components: a standard of impact, a plan for improvement, and appropriate metrics:

> I think, secondly, beyond the standard there's also having metrics, reportable metrics, or data points that are going to be able to demonstrate the change that exists among the enterprises and organizations that you're working with. There are taxonomy or translation devices, including the impact reporting and investment standards of the global impact investing network, which can be used in this regard. There are many local examples that have been generated by Canadian enterprises and non-profit organizations.[133]

Some witnesses described the tools they have developed to measure the impacts generated by their work. For example, Vickie Cammack of Planned Lifetime Advocacy Network and Tyze Personal Networks told the Committee that her organization looks at "measuring the individual's experience, their outcomes, and the economic efficiency of the application. Those three pieces are really key."[134] Jeffrey Cyr shared with the Committee that they have created a system where they proceed to a 20-minute intake session with a client to measure where they stand on a given outcome – in that particular case, public speaking and engagement – using various indicators. This short intake can be repeated at different points in time to measure change.[135] In addition, Preston Aitken of Enactus Canada explained:

---

129 HUMA, *Evidence*, 2nd Session, 41st Parliament, 12 May 2015, 1635 (Jean-Pierre Voyer).

130 HUMA, *Evidence*, 2nd Session, 41st Parliament, 12 May 2015, 1530 (Dale McFee).

131 HUMA, *Evidence*, 2nd Session, 41st Parliament, 26 March 2015, 1530 (Sunil Johal).

132 HUMA, *Evidence*, 2nd Session, 41st Parliament, 12 May 2015, 1530 (Dale McFee).

133 HUMA, *Evidence*, 2nd Session, 41st Parliament, 28 April 2015, 1655 (Adam Spence).

134 HUMA, *Evidence*, 2nd Session, 41st Parliament, 26 February 2015, 1700 (Vickie Cammack, Founding Chief Executive Officer of Tyze Personal Networks and Co-Founder, Planned Lifetime Advocacy Network).

135 HUMA, *Evidence*, 2nd Session, 41st Parliament, 31 March 2015, 1620 (Jeffrey Cyr).

> As an organization, we have implemented our own standardized metrics using research on such existing frameworks as IRIS and the sustainable livelihoods model. That has been invaluable, as we now have a common framework and language for our Enactus teams to show our impact. We can aggregate and better understand our data nationally. However, these standards do not necessarily align with other organizations, as there are no common standards.[136]

In addition to metrics related to the immediate users of a given social finance project, measuring broader community impact can be challenging for organizations. Ms. Devine spoke of the difficulty of measuring large-scale impact for an entire community:

> When we look at larger-scale impacts, for a very large community, it's a challenge to measure some of those impacts. Doing that kind of impact study also requires dollars and investments of money. Sometimes we're asked to do that measuring, on the one hand, but we're not given the resources we would need to actually do the kind of study or the kind of work we need to do in order to demonstrate that impact. On the micro-level, we can demonstrate it. At a larger community-based level, we're just now beginning to be able to do that.[137]

Some witnesses stated that common standards or a universal measurement mechanism for measuring and reporting social impact in Canada would be necessary. Such a national standard for measurement would, the Committee heard, allow for impact comparison on a common baseline throughout the country.[138]

Witnesses also made reference to the United Kingdom's Unit Cost Database, which provides the "cost" for taxpayers of over 600 social outcomes. As Tim Jackson explained:

> The United Kingdom has posted on its cabinet office website the cost of 600 outcomes, everything from how much it costs to keep a single mother together with her child, to how much it costs to incarcerate a 16-year-old, to how much it costs to incarcerate a 45-year-old for the third time. They've essentially said to the private sector and to foundations, "Here is what we think it costs the taxpayers. If you can do it more cheaply, make us an offer on a bond."[139]

Some witnesses suggested that the federal government could play a similar role in Canada by providing uniform information about the monetary value of such outcomes. Knowing the costing structure of social outcomes would allow stakeholders interested in the social finance marketplace to assess the monetary value of a given intervention in terms of cash savings to the government.[140]

---

136 HUMA, *Evidence*, 2nd Session, 41st Parliament, 26 February 2015 1645 (Preston Aitken, Director, Programs, Enactus Canada).

137 HUMA, *Evidence*, 2nd Session, 41st Parliament, 23 April 2015, 1625 (Sharon Mayne Devine).

138 HUMA, *Evidence*, 2nd Session, 41st Parliament, 26 February 2015, 1645 (Preston Aitken); HUMA, *Evidence*, 2nd Session, 41st Parliament, 24 March 2015, 1545 and 1620 (Bill Crawford); HUMA, *Evidence*, 2nd Session, 41st Parliament, 24 February 2015, 1625 (Wayne Chiu, Chief Executive Officer, The Trico Group).

139 HUMA, *Evidence*, 41st Parliament, 2nd Session, 19 February 2015, 1615 (Tim Jackson).

140 HUMA, *Evidence*, 2nd Session, 41st Parliament, 10 March 2015, 1605 (Sandra Odendahl), and HUMA, *Evidence*, 41st Parliament, 2nd Session, 19 February 2015, 1615 (Tim Jackson).

The Committee heard that such outcomes-based values are particularly useful in the context of creating SIB agreements. For example, Kieron Boyle described how the U.K. Government had applied outcomes-based metrics to assess the costs and progress of a recently established £30 million social impact bond aimed at preventing youth unemployment. With respect to establishing the cost of the intervention, Mr. Boyle explained that:

> What it was doing was intervening in youths aged 14 to 17 to improve things like their school attendance and their grades, because we know there's a very high correlation between those sorts of outcomes among those aged 14 to 17 and the risk of somebody becoming unemployed at age 18 to 21.
>
> …
>
> Essentially we have done a lot of data matching to say, if you achieve those sorts of things, what is the likelihood that somebody becomes employed or unemployed at age 18? That's around our knowing how much we save when somebody's employed at 18 versus unemployed at age 18. We've been able to put a price on those outcomes occurring for ages 14 to 17. We then put that out to the market, and predominately social enterprises and social sector organizations have said they can achieve that. The way in which they're achieving it is even in the sorts of ways that you're saying.[141]

Mr. Boyle further noted that the overall process of defining and evaluating progress toward the achievement of positive outcomes on this SIB is "a strictly and tightly defined process where the public managers will look at the outcomes … they're trying to achieve proof of those outcomes, and also the amount that they're willing to pay for those outcomes." More specifically, he noted that, "these first social impact bonds that have been set up … [are] heavily evaluated so they will be spotting the longer term outcomes for these youths."[142]

Finally, David Juppe cautioned against using a "fixed cost per case" when evaluating savings. Based on his research of SIBs, Mr. Juppe advised that such an approach could risk overstating the savings. He provided the example of the fixed cost per year of housing an inmate, which includes both fixed costs for operating the facility, and the variable cost associated with food and supplies for that given inmate.[143] Preventing an individual from being incarcerated would not save the government the entire fixed cost associated with that individual, since the facility would continue to operate.

141 HUMA, *Evidence*, 41st Parliament, 2nd Session, 28 April 2015, 1610 (Kieron Boyle).

142 Ibid.

143 HUMA, *Evidence*, 2nd Session, 41st Parliament, 12 May 2015, 1545 (David Juppe).

CHAPTER FOUR: BUILDING KNOWLEDGE AND CAPACITY

Many witnesses highlighted the need to build the technical capacity of organizations to participate in social finance as an important issue in the social finance marketplace.[144] The Committee heard that building capacity in the social finance context largely refers to "helping prepare or mak[ing] the investees more investable."[145] Some witnesses also raised the issue of supporting intermediaries and supply side actors to build capacity in order to better participate in this sector.

Suggested measures to help build capacity were mostly related to supports for social enterprises and service delivery organizations. As Bill Crawford of the Eden Community Food Bank stated:

> The bottom line is that social finance in Canada is still relatively unknown. In the non-profit and charitable sectors there would need to be a lot more education on social finance and an easy-to-step-into opportunity for organizations to test the waters; basically more business-minded people with a heart for social development, where business and charity combine, to be able to work together.[146]

Funds dedicated to the specific purpose of developing capacity among demand-side actors were raised by several witnesses.[147] Kieron Boyle highlighted two recent programs that the U.K. Government had undertaken in this area, noting that "[t]he demand side is a more crucial area from my perspective in terms of the distinct role government can play, we focus a lot on capacity building, specifically to enable organizations to take on investment." First, he indicated that an "investment and contract readiness fund", valued at £15 million, was piloted to provide larger and more established organizations with:

> … some ground support to build up the sorts of business models or financial planning or back-office capabilities that would enable an investor to place money into them. For that pilot every £1 of government grant we put in succeeded in unlocking over £27 of private investment, which if nothing else has made it—and I've checked—the most successful U.K. business support program out there.[148]

Mr. Boyle also noted that the U.K. Government had supported earlier-stage social ventures through a number of "social incubators", which he described as "essentially business accelerators that were typically combining public money and then private money,

144 See e.g. HUMA, *Evidence*, 2nd Session, 41st Parliament, 26 March 2015, 1535 (Jamie Van Ymeren, Policy Associate, Mowat Centre). See also HUMA, *Evidence*, 2nd Session, 41st Parliament, 24 February 2015, 1550 (Wayne Chiu); and HUMA, *Evidence*, 2nd Session, 41st Parliament, 24 March 2015, 1615 (Carole Gagnon).

145 HUMA, *Evidence*, 2nd Session, 41st Parliament, 10 March 2015, 1540 (Andy Broderick).

146 HUMA, *Evidence*, 2nd Session, 41st Parliament, 24 March 2015, 1550 (Bill Crawford).

147 HUMA, *Evidence*, 2nd Session, 41st Parliament, 26 March 2015, 1535 (Jamie Van Ymeren).

148 HUMA, *Evidence*, 2nd Session, 41st Parliament, 28 April 2015, 1535 (Kieron Boyle).

often from large corporates, and putting that into accelerated programs for very early stage organizations that were looking to have a social impact."[149]

In Canada, the Committee heard that "what works" centres can be useful in synthesizing and disseminating information on interventions that work. Technical assistance labs were suggested as useful to offer training, advice and support for impact evaluation.[150] As Sunil Johal noted:

> If the federal government wants to move into this space, I think it's absolutely critical that it plays a role in providing that critical support of infrastructure in terms of a "what works" centre and technical assistance labs, so that we're not seeing all of these contracts and opportunities going just to the largest [not-for-profit] service provider.[151]

Debbie Brown of Crossing All Bridges Learning Centre added that while urban centres have fairly well-established social enterprise "hubs" (for example, the MaRS Discovery District), rural hubs are needed for smaller, more isolated communities and their projects. This would help smaller organizations to seek out partnerships and funding.[152]

Some witnesses also identified a need to build capacity among intermediaries and supply side actors in the Canadian social finance market. The Committee heard that there is a need to "create programs that will give social workers business skills and give potential investors social value perspectives."[153] In addition, Andy Broderick told the Committee that:

> [I]t really is time to begin to focus on how to build the capacity in the sector by gravitating investment around successful groups, groups that have shown the capacity to move money out. Measure it on moving money out and managing money effectively in the same way you would with a private sector intermediary. You really want to build strong intermediaries that have a good track record. They don't exist yet. They're starting to exist, but I think that's of fundamental importance.[154]

In an effort to address identified and emerging capacity needs in this area, Budget 2015 committed to implementing a social finance accelerator initiative aimed at helping to develop promising social finance proposals. According to budget documents, ESDC will implement the initiative to help such proposals become investment-ready through "workshops, advisory services, mentorship, networking opportunities and investor introductions."[155]

---

149 Ibid.

150 HUMA, *Evidence*, 2nd Session, 41st Parliament, 26 March 2015, 1535 (Jamie Van Ymeren).

151 HUMA, *Evidence*, 2nd Session, 41st Parliament, 26 March 2015, 1555 (Sunil Johal).

152 HUMA, *Evidence*, 2nd Session, 41st Parliament, 12 March 2015, 1655 (Debbie Brown).

153 HUMA, *Evidence*, 2nd Session, 41st Parliament, 26 February 2015, 1545 (David LePage, Chair, Social Enterprise Council of Canada).

154 HUMA, *Evidence*, 2nd Session, 41st Parliament, 28 April 2015, 1635 (Andy Broderick).

155 *Economic Action Plan 2015*, p. 271.

Several witnesses observed that there are currently programs geared towards small and medium enterprises that should be made accessible to charities or non-profits. For example, Ian Bird told the Committee:

> There's a skilling up, a training up of those organizations so that they're ready to come forward with their business plans. That's fundamentally no different from the kind of thing that goes on all the time right now with small and medium-sized enterprises. There are extensive programs across governments, and as public-private efforts to skill up those small and medium-sized enterprises. Right now charities, public-purpose non-profits, don't have access to those programs.[156]

Some witnesses noted that giving charities and non-profit organizations access to existing programs for the private sector would be straightforward, could happen in a short period of time, and would not involve new resources.[157] In addition, David LePage from Social Enterprise Council of Canada noted that many existing programs are not in fact officially closed to non-profits, and mentioned Industry Canada's Canada Business Network as a program that could be expanded.[158] Similarly, Jacques Charest of CAP Finance observed:

> … the easiest way is if we consider ourselves businesses and cover all the products and investment support measures intended for private businesses. We often see programs that are for businesses in category 1. Why are they not for NPOs or cooperatives? It's because that's the way things are. There are also programs for the capital and the shares of a company, but since there are none for social economy enterprises, we must find an equivalent.[159]

Additionally, the representative for Enactus Canada noted that many post-secondary education institutions are not providing training in the areas of social finance and social entrepreneurship. This witness suggested that programs and initiatives should be put forward to train the future generation of social entrepreneurs and social finance actors.[160]

---

156 HUMA, *Evidence*, 2nd Session, 41st Parliament, 19 February 2015, 1600 (Ian Bird). See also HUMA, *Evidence*, 2nd Session, 41st Parliament, 24 February 2015, 1640 (Cathy Taylor); and HUMA, *Evidence*, 2nd Session, 41st Parliament, 24 February 2015, 1700 (Jacques Charest).

157 HUMA, *Evidence*, 2nd Session, 41st Parliament, 24 February 2015, 1640 (Cathy Taylor); HUMA, *Evidence*, 2nd Session, 41st Parliament, 24 February 2015, 1645 (Michael Toye).

158 HUMA, *Evidence*, 2nd Session, 41st Parliament, 26 February 2015, 1545 (David LePage).

159 HUMA, *Evidence*, 2nd Session, 41st Parliament, 24 February 2015, 1700 (Jacques Charest).

160 HUMA, *Evidence*, 2nd Session, 41st Parliament, 26 February 2015, 1645 (Preston Aitken).

CHAPTER FIVE: DEVELOPING THE SOCIAL FINANCE MARKET

A key consideration for many witnesses was how to generate capital for social finance and build investor confidence in this new market. An important part of this discussion, particularly from witnesses from the supply and intermediary sides of the market, focused on the need to mitigate risks to investors and provide incentives to invest in social finance initiatives.

Many witnesses discussed possibilities surrounding various types of funds (i.e., pools of capital) to encourage impact investment and secure against losses in this new market. Other possible federal actions raised by witnesses included the development of government social procurement practices, and non-financial measures to help improve market information and otherwise mitigate risks to investors. Each of these options for developing the social finance market will be discussed below in turn.

A. Financing and Tax Measures

Witnesses discussed a variety of possible financing instruments in which the federal government could invest to support social finance initiatives, and leverage additional investments from a variety of sources.

In this regard, the Committee heard that various options exist for the federal government to supply capital to encourage the development of the social finance market. Noting the potential role of the federal government in providing "catalytic capital" to support social finance, Adam Spence stated:

> The concept is simple: catalytic investments are those that trigger the future flow of capital to a desired company, asset class, sector, or geography. We would recommend that the government establish an impact investing matching program as catalytic capital to support existing and new funds through direct co-investment, credit enhancements, or incentives. In addition, grants may also be required to support the development of intermediaries that would unlock new investment.[161]

Similarly, Norm Tasevski noted the potential of "catalytic capital funds" to support social finance activities. Under this type of fund, different types of investors (i.e., those focused primarily on social impacts and those focused on financial returns) would invest in the same opportunity at varying levels of risk. As Mr. Tasevski explained:

> Catalytic capital structures bring together different categories of investors, what we would call the social first investor and the finance first investor, into the same investment opportunity. One investor category invests capital and agrees to absorb a certain preset level of loss. In doing so other investment groups reduce the risk associated with the overall investment opportunity. Due to the reduced risk an investor group receives a

161 HUMA, *Evidence*, 2nd Session, 41st Parliament, 28 April 2015, 1645 (Adam Spence).

return that is more in line with their risk return expectations, which is typically the market rate.[162]

The Committee heard that Big Society Capital – an independent financial institution in the UK created to make investments in social investment funds – illustrates a policy shift "from [a] government providing large direct investment funds to [a] government setting up a social investment wholesaler that was independent of government."[163] Describing the institution as a "wholesale social investment fund", Mr. Boyle further explained:

> The way it predominantly works is by being a cornerstone investor in social investment funds and those social investment funds themselves specialize in certain areas, with different types of lending to different organizations.
>
> …
>
> It's now supported over a hundred front-line organizations. When it was set up there were about eight funds in the U.K. and there are now over 30 of those funds.[164]

Big Society Capital was initially capitalized with £600 million, of which £200 million came from four banks, and £400 million came from dormant bank accounts that were transferred to the institution through the passage of legislation.[165] While some witnesses suggested that a similar measure could be implemented in Canada, Stanley Hartt pointed out that dormant bank accounts here are translated into the Consolidated Revenue Fund after 10 years, and so their use to capitalize the social finance market "would represent an actual cost to the government."[166]

The Committee heard that another alternative known as an "outcomes payment fund" has been applied in the U.K. to support outcomes-based finance initiatives. In particular, the U.K. Department for Work and Pensions had established this fund, which prioritizes certain social outcomes and establishes amounts that the government is willing to pay for the achievement of these outcomes. As Sarah Doyle explained:

> This is something that was initiated in the U.K. Their Department for Work and Pensions, for example, has created a fund that identifies a set of youth employment outcomes that the government is willing to pay for. It set maximum prices that the government is willing to pay. This type of model can then allow the market to respond with innovative solutions. We think that has strong potential to be replicated in Canada across a range of different issue areas.[167]

The U.K. also instituted tax benefits within the social sector in order to encourage more investment of private capital in the social finance market. Mr. Boyle told the Committee that "the majority of the tax benefits that we've advantaged to this area within

---

162 HUMA, *Evidence*, 2nd Session, 41st Parliament, 10 March 2015, 1645 (Norm Tasevski).

163 HUMA, *Evidence*, 2nd Session, 41st Parliament, 28 April 2015, 1555 (Kieron Boyle).

164 Ibid., 1610.

165 Ibid.

166 HUMA, *Evidence*, 2nd Session, 41st Parliament, 19 February 2015, 1550 (Stanley Hartt).

167 HUMA, *Evidence*, 2nd Session, 41st Parliament, 19 February 2015, 1540 (Sarah Doyle).

the U.K. have actually been about replicating within the social sector the same sorts of tax reliefs that work for purely commercial organizations." He further noted that "[i]t's a 30% tax relief on people's income tax to the same kind of qualifying amount," and "capital gains and similar other capital losses can be deferred through this tax relief."[168]

Other options for bringing capital into the social finance market were discussed by witnesses. Tim Jackson noted that options for government investment could include matching funds to build on investments from other sources. He suggested that the government could support a "fund-of-funds" arrangement, under which it would make capital available to fund intermediaries, which would in turn make the impact investments:

> [W]e think the federal government has a role to play in putting capital to work alongside others' investment, not doing this alone but being an impetus for others. What do I mean by that? It means that you could follow the example you've done on things like the venture capital action plan, what Nova Scotia did with their community economic development investment funds, and what the Government of Canada and the Government of Quebec did with the Chantier de l'économie sociale, where government said they would not be the only player in the marketplace but would match private sector, foundation, or charity financing. You could put in place a matching program, or you could put in place a fund-of-funds program, where you actually provide a significant amount of money that then could go to intermediaries, who would then invest it in the impact investing space.[169]

Witnesses also suggested that the federal government support impact investment by providing capital to secure loans made in the social finance arena. Some witnesses asked the federal government to consider supporting "credit enhancement funds" to provide first-loss capital to impact investors. As explained by Sandra Odendahl:

> In banking, this [credit enhancement] means guarantees. This is first-loss capital. It basically means backstopping investment money into a sector where you want to see investment. In particular, this is important for de-risking some of the riskier, early-stage-type investing that smaller retail investors, who can't afford to lose a lot of money but who might want to participate in social finance, might be more inclined to do it if it were somehow backstopped to some extent.[170]

Others suggested that existing federal small business financing programs could be expanded to provide loan guarantee investments to support social enterprises as well. For example, Brian Emmett of Imagine Canada told the Committee that he would like to see "the government treat charities and non-profits more as small businesses and be eligible for the small business financing program and the Business Development Bank's small business loans."[171] Similarly, Magnus Sandberg of Social Capital Partners stated that:

---

168 HUMA, *Evidence*, 2nd Session, 41st Parliament, 28 April 2015, 1615 (Kieron Boyle).

169 HUMA, *Evidence*, 41st Parliament, 2nd Session, 19 February 2015, 1535 (Tim Jackson).

170 HUMA, *Evidence*, 41st Parliament, 2nd Session, 10 March 2015, 1535 (Sandra Odendahl).

171 HUMA, *Evidence*, 41st Parliament, 2nd Session, 26 February 2015, 1720 (Brian Emmett, Chief Economist, Canada's Charitable and Nonprofit Sector, Imagine Canada).

> [W]e think it would be very, very interesting to explore already existing government programs aimed at the private sector and add a social twist to it. One example is the Canada small business financing program. The government is essentially guaranteeing up to 80% of the loan provided by financial institutions to small and medium-sized organizations that the banks wouldn't necessarily otherwise provide loans to because they're too risky. Imagine if on top of that we add a social twist, whether it's hiring, it's environmental solar panels on the roof of the businesses, or what have you, we think that could be a very interesting model.[172]

B. Social Procurement

Witnesses suggested social procurement as a means through which the government could support social enterprises and help develop the social finance market. The Committee heard that social enterprises need greater access to the demand side: by having access to more customers, they can grow their businesses and increase social impact. In this way, witnesses suggested, social procurement can foster this growth without incurring additional costs to government. As David LePage noted:

> Government can create significant social impact at no added cost, no loss of quality, and create a true value and dividend for Canadian taxpayers through social purchasing programs.[173]

François Vermette of the Social Economy Working Group indicated that the tendering process of all levels of government is currently designed in a way that excludes social enterprises.[174] He suggested including "social clauses" within requests for proposals for government contracts and procurement policies in order to foster opportunities to subcontract to social enterprises.[175] Mr. LePage further explained the potential partnerships and positive social outcomes that could be generated by this process:

> Now, if there were social policies built into that contract, they would look at opportunities to subcontract to social enterprises that are creating training opportunities in communities across Canada, because all of those government buildings, whether they're in Yellowknife, Quebec, or Toronto, have a lot of different opportunities to engage partners. You have the private sector contractor being able to unbundle and look at social clauses based on a government contract and then working with social enterprises to actually deliver the services, which would result in training. It becomes a government, private sector, and community sector partnership, using social enterprise to meet everyone's needs.[176]

Cathy Taylor noted that a "social procurement action plan" would encourage companies who secure government contracts to engage social enterprises and therefore leverage government's purchasing power to strengthen communities.[177]

---

172 HUMA, *Evidence*, 2nd Session, 41st Parliament, 10 March 2015, 1635 (Magnus Sandberg, Vice-President and General Manager, Social Capital Partners).

173 HUMA, *Evidence*, 2nd Session, 41st Parliament, 26 February 2015, 1545 (David LePage).

174 HUMA, *Evidence*, 2nd Session, 41st Parliament, 26 February 2015, 1550 (François Vermette).

175 Ibid., 1555.

176 HUMA, *Evidence*, 2nd Session, 41st Parliament, 26 February 2015, 1555 (David LePage).

177 HUMA, *Evidence*, 2nd Session, 41st Parliament, 24 February 2015, 1640 (Cathy Taylor).

Finally, Kieron Boyle noted that the development of legislation – known as the *Social Value Act* – has required that public sector "commissioners of services" within the U.K. consider the social value of services, in addition to the economic and short-term cost issues. He further explained that:

> … the idea [is] that for many commissioners thinking about value in the round, this often means they're getting better value for money than just a very short-term focus on the cost of a service when commissioning it. We feel that things like that are just as important as these initiatives around crowding in finance.[178]

Commenting on a recent review of the U.K. *Social Value Act*, Wayne Chiu of The Trico Group noted that it had found "three barriers to realizing the potential of the act: awareness and take-up are mixed, there is a lack of definition of social value, and measurement of social value is not being developed." In his view, this indicated a broader need to develop better evaluation methods and evidence of social impacts in this sphere.[179]

C. Non-Financial Measures to Support the Social Finance Market

Witnesses appearing before the Committee also identified non-financial measures to build investor confidence in the social finance market. In particular, witnesses noted that the federal government may have a role to play in clarifying rules and expectations around fiduciary duty and due diligence in the social finance context, and in sharing market information among actors and across jurisdictions.

1. Duties of Investors

First, some witnesses from the supply side of the social finance market (e.g., banks, foundations) mentioned the need to clarify expectations around the fiduciary duty incumbent upon institutional investors who are investing in the social finance market. For example, Kieron Boyle noted that "fiduciary duty [and] the responsibilities of trustees, … and on what basis they are allowed to invest, and what things they can think about other than pure financial returns"[180] are complicated questions in the U.K. as well. In addition, Sandra Odendahl noted that the:

> … government can play a role in supply [through] clarifying the fiduciary duty of institutional investors. The way it stands right now is that trustees of pension funds and endowments in Canada, depending on the jurisdiction, are uncertain if they are breaching their fiduciary duty by investing for social impact rather than strictly for returns.[181]

Sarah Doyle and Ian Bird also indicated that while many impact investments could be considered prudent investments from a traditional financial perspective, others may have significant merit and be in line with a foundation's charitable objectives but may be

---

178 HUMA, *Evidence*, 2nd Session, 41st Parliament, 28 April 2015, 1540 (Kieron Boyle).

179 HUMA, *Evidence*, 2nd Session, 41st Parliament, 24 February 2015, 1550 (Wayne Chiu).

180 HUMA, *Evidence*, 2nd Session, 41st Parliament, 28 April 2015, 1540 (Kieron Boyle).

181 HUMA, *Evidence*, 2nd Session, 41st Parliament, 10 March 2015, 1535 (Sandra Odendahl).

expected to return less than market rate. They suggested that where there is such an alignment between the investment and the foundation's objectives, foundations should be able to invest at below-market rates.[182]

In addition, some witnesses spoke about the importance of due diligence (financial and social) in the social finance sector. The Committee heard that due diligence in the social enterprise and social finance sector can look quite different than the protocols in place in the private sector, including informal networks. For example, Evan Saugstad of the Northern Development Initiative Trust noted that "[w]hen you get down into your small communities, most of your local politicians know everybody, or they can ask somebody who knows about somebody. We have an incredible unofficial due diligence network."[183]

Magnus Sandberg of Social Capital Partners, a non-profit that plays an intermediary role between the private sector and organizations seeking to place job-seekers with barriers to employment, noted how his organization conducts both social and financial due diligence processes for potential projects. With respect to social due diligence, he explained that his organization seeks to determine, for example, whether the business that seeks to employ individuals with various difficulties would be a good place for candidates to work, whether there are many entry-level positions, if the pay escalation is adequate, and so on.[184]

2. Information Sharing

Finally, some witnesses expressed the need for better information sharing and coordinating within the social finance market, and have suggested that the federal government could play an important role in this respect. Departmental officials noted that while direct oversight from the federal government may be challenging given jurisdictional issues, sharing information and lessons learned would be a valuable role for the federal government to play:

> The federal government, I think, can play multiple roles, as national governments do, from the perspective of different markets. It might be information sharing; when information doesn't travel, that is a market impediment, so the national level government could certainly share information.[185]

David LePage suggested that the federal government could facilitate cross-sector discussions more effectively than single actors from one sector. He noted that "… government is in a unique role to facilitate and encourage, to initiate, and to partner on cross-sector engagement" among government, the private sector, and the community sector. He further recommended that the federal government encourage dialogue among

182 HUMA, *Evidence*, 2nd Session, 41st Parliament, 19 February 2015, 1545 (Sarah Doyle), and 1600 (Ian Bird).

183 HUMA, *Evidence*, 2nd Session, 41st Parliament, 31 March 2015, 1600 (Evan Saugstad, Chair, Northern Development Initiative Trust).

184 HUMA, *Evidence*, 2nd Session, 41st Parliament, 10 March 2015, 1710 (Magnus Sandberg).

185 HUMA, *Evidence*, 2nd Session, 41st Parliament, 17 February 2015, 1620 (Siobhan Harty).

these actors, noting that "[i]f I invite corporations to a table, I might get a response. If the government convenes a meeting, we get a tremendous response."[186]

ESDC's national call for concepts for social finance was cited as an example of the government's ability to bring together actors from different sectors The outcome of this "call for concepts" yielded a report entitled *Harnessing the Power of Social Finance* in May 2013 which helped to build an understanding of social finance.[187] Michael Toye of the Canadian Community Economic Development Network emphasized the importance of a collaborative approach between private sector institutions and community groups and applauded ESDC for its efforts in that direction:

> We would commend Employment and Social Development Canada for having created a round table of stakeholders to do just that and we encourage its continuation as the social finance landscape evolves.[188]

In keeping with the suggestion that the government could play a coordinating role, Cathy Taylor added that the government has a responsibility to define the concepts relevant to the social finance market, such as the social enterprise. This responsibility would also provide an opportunity to align and coordinate with the provincial governments.[189]

The Committee also heard that non-governmental actors can play a role in effective information sharing. Sandra Odendahl of the Royal Bank of Canada spoke of their efforts at "translating" the social finance concepts in order to present them in a language that is familiar to the traditional finance and investment community.[190]

---

186 HUMA, *Evidence*, 2nd Session, 41st Parliament, 26 February 2015, 1545 and 1610 (David LePage).

187 Human Resources and Skills Development Canada, *Harnessing the Power of Social Finance*, Ottawa, May 2013.

188 HUMA, *Evidence*, 2nd Session, 41st Parliament, 24 February 2015, 1645 (Michael Toye).

189 HUMA, *Evidence*, 2nd Session, 41st Parliament, 24 February 2015, 1635 (Cathy Taylor).

190 HUMA, *Evidence*, 2nd Session, 41st Parliament, 10 March 2015,1600 (Sandra Odendahl).

CONCLUSION

While social finance as a general concept is not new, interest and momentum around social finance has grown around the world in recent years. This is no less true in Canada, where the federal government has developed a variety of social finance initiatives, including the recent budget announcement of a social finance accelerator initiative intended to help develop promising social finance proposals.

In the course of the study, the Committee heard testimony from a variety of stakeholders, including governments, businesses, not-for-profits, charities and foundations involved in developing the body of knowledge and record of experience with social finance in Canada. Many viewed social finance as a potentially important tool in addressing complex societal issues in new and innovative ways, and involving partnerships among a broader set of stakeholders with different skills and expertise.

Testimony from witnesses revealed a general consensus for the potential of social finance to tackle persistent challenges, but varied with regards to the ways in which social finance tools should operate. Their testimony centred around regulatory changes that would allow charities and non-profits greater flexibility to engage in revenue-generating activities, the necessity and challenges of measuring social outcomes using adequate metrics, the need to build capacity within the market, and the government's role – both financial and otherwise – in developing the social finance market.

These are fundamental components of establishing a new and emerging market for social finance in Canada. The Committee believes that many of these issues are worthy of further study and careful consideration in order to establish a solid foundation on which to base social finance initiatives in the future.

The recommendations in this report stem from a range of actors operating within the social finance market, including stakeholders from the demand and the supply sides, as well as the intermediaries. Our recommendations seek to build on the potential associated with social finance mechanisms and address some of the challenges that the witnesses highlighted to the Committee throughout this study. The recommendations provide measures the federal government can undertake in order to establish a stronger foundation for this emerging market.

RECOMMENDATIONS

RECOMMENDATION 1

The Committee recommends that Employment and Social Development Canada build on the work of Canada's National Advisory Board to the G-8 Social Impact Investment Taskforce by creating an advisory panel, involving stakeholders from the public, private, non-profit and charitable sectors, to help define a national strategy on the development of the social finance marketplace in Canada.

RECOMMENDATION 2

The Committee recommends that Employment and Social Development Canada with other departments examine the structure and fund sourcing of catalytic capital funds in other jurisdictions and make recommendations with respect to how such a fund might best be established in Canada.

RECOMMENDATION 3

The Committee recommends that the federal government consider legislative and policy measures, as appropriate, to allow charities greater flexibility to conduct business activities for the purpose of re-investing profits back into their charitable missions.

RECOMMENDATION 4

The Committee recommends that the Department of Finance and the Canada Revenue Agency review current regulations with respect to the profit-generating activities of non-profit organizations, and consider options to allow some non-profits with a clear social purpose to generate surplus revenues in some circumstances.

RECOMMENDATION 5

The Committee recommends that the Department of Finance and the Canada Revenue Agency conduct a review of current policies with respect to program-related investments, with a view to improving the communication and/or clarity of these measures, as necessary.

RECOMMENDATION 6

The Committee recommends that Employment and Social Development Canada work with the provinces and relevant stakeholders to create national guidelines for defining and measuring the impacts of social finance projects in order to ensure reliable and consistent standards for social outcome measurement across Canada.

RECOMMENDATION 7

The Committee recommends that the federal government expand eligibility criteria for existing programs to support small- and medium-sized enterprises, such as Industry Canada's Canada Business Network, to expressly include charities and non-profit organizations working in the field of social finance, where appropriate, and consider the creation of programs aimed at developing the technical capacity of these actors to participate in the social finance market.

RECOMMENDATION 8

The Committee recommends that Employment and Social Development Canada, in collaboration with relevant federal departments and agencies, explore social procurement.

RECOMMENDATION 9

The Committee recommends that Employment and Social Development Canada continue to encourage cross-sector collaboration on social finance by convening regular meetings of stakeholders from the for-profit and the non-profit and charitable sectors, in order to encourage partnership development and to share information and best practices.

APPENDIX A
LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
Department of Employment and Social Development	2015/02/17	42
Siobhan Harty, Director General Social Policy Directorate, Strategic Policy and Research Branch		
Blair McMurren, Director Social Innovation, Strategic Policy and Research Branch		
Community Foundations of Canada	2015/02/19	43
Ian Bird, President Chief Executive Officer		
MaRS Discovery District		
Sarah Doyle, Senior Policy Advisor		
Tim Jackson, EVP Corporate and Community Development		
Norton Rose Fulbright Canada		
Stanley Hartt, Counsel		
Canadian Community Economic Development Network	2015/02/24	44
Michael Toye, Executive Director		
CAP Finance, Le Réseau de la finance solidaire et responsable		
Jacques Charest, President		
LIFT Philanthropy Partners		
Bruce Dewar, President and Chief Executive Officer		
Ontario Nonprofit Network		
Cathy Taylor, Executive Director		
Ottawa Community Loan Fund		
Michael Oster, President		
The J.W. McConnell Family Foundation		
Stephen Huddart, President and Chief Executive Officer		
The Trico Group		
Wayne Chiu, Chief Executive Officer		
Enactus Canada	2015/02/26	45
Preston Aitken, Director Programs		
Imagine Canada		
Brian Emmett, Chief Economist Canada's Charitable and Nonprofit Sector		

Organizations and Individuals	Date	Meeting
Planned Lifetime Advocacy Network	2015/02/26	45
Vickie Cammack, Co-founder Founding Chief Executive Officer of Tyze Personal Networks		
Al Etmanski, Co-founder Founding Partner of Social Innovation Generation		
Social Economy Working Group		
François Vermette, Director of Development		
Social Enterprise Council of Canada		
David LePage, Chair		
Caisse d'économie solidaire Desjardins	2015/03/10	46
Colette Harvey, Director Cooperative Project Support		
Purpose Capital		
Norm Tasevski, Co-Founder and Partner		
Royal Bank of Canada		
Sandra Odendahl, Director Corporate Sustainability and Social Finance		
Social Capital Partners		
Magnus Sandberg, Vice President and General Manager		
Vancity Community Investment		
Andy Broderick, Vice-President Community Investment		
ABC Life Literacy Canada	2015/03/12	47
Gillian Mason, President		
Canadian Union of Public Employees		
Archana Rampure, Senior Officer		
Margot Young, Senior Research Officer		
Crossing All Bridges Learning Centre		
Debbie Brown, Executive Director		
Sherrie Marshall, Manager of Operations		
National Union of Public and General Employees		
Andrew McNeill, National Representative		
Youth Opportunities Unlimited		
Courtney Bain,		
Steve Cordes, Executive Director		

Organizations and Individuals	Date	Meeting
Eden Community Food Bank	2015/03/24	48
Peter Costello, Director of Operations Food Skills		
Eden Community Food Bank		
Bill Crawford, Executive Director		
Peel Multicultural Council		
Naveed Chaudhry, Executive Director		
Jagdeep Kailey, Manager Settlement Services		
United Way Ottawa		
Carole Gagnon, Vice President Community Services		
Canadian Alliance to End Homelessness	2015/03/26	49
Tim Richter, President and Chief Executive Officer		
Co-operatives and Mutuals Canada		
Shawn Murphy, Government Relations Consultant		
Mowat Centre		
Sunil Johal, Policy Director University of Toronto		
Jamie Van Ymeren, Policy Associate		
University of Manitoba		
John Loxley, Professor Department of Economics		
Canadian Parks and Wilderness Society	2015/03/31	50
Éric Hébert-Daly, National Executive Director National Office		
National Association of Friendship Centres		
Yancy Craig, Director Strategic Development		
Jeffrey Cyr, Executive Director		
Northern Development Initiative Trust		
Evan Saugstad, Chair		
As an individual	2015/04/23	51
Meghan Joy, Doctor of Philosophy Candidate Ryerson University		
John Shields, Professor Ryerson University, Department of Politics and Public Administration		

Organizations and Individuals	Date	Meeting
Fédération des communautés francophones et acadienne du Canada	2015/04/23	51
Diane Côté, Director Community and Government Liaison		
Marie-France Kenny, President		
The Honourable William G. Davis Centre for Families		
Rob El-Sayed, Manager Fund Development and Communications		
Sharon Mayne Devine, Chief Executive Officer		
Government of the United Kingdom	2015/04/28	52
Kieron Boyle, Head Social Investment and Finance		
SVX		
Adam Spence, Founder and Chief Executive Officer		
Vancity Credit Union		
Andy Broderick, Vice-President Community Investment, Resilient Capital		
As an individual	2015/05/12	54
David Juppe, Senior Operating Budget Manager		
Government of Saskatchewan		
Dale McFee, Deputy Minister Corrections and Policing, Ministry of Justice		
Parkland Institute		
Barret Weber, Research Manager		
Saskatoon Downtown Youth Centre Inc.		
Donald Meikle, Executive Director		
Social Research and Demonstration Corporation		
Sheila Currie, Principal Research Associate		
Jean-Pierre Voyer, President and Chief Executive Officer		
Canada Revenue Agency	2015/05/14	55
Cathy Hawara, Director General Charities Directorate, Legislative Policy and Regulatory Affairs Branch		
Bryan McLean, Director Policy, Planning and Legislation Division, Charities Directorate, Legislative Policy and Regulatory Affairs Branch		

Organizations and Individuals	Date	Meeting
Department of Employment and Social Development	2015/05/14	55
Siobhan Harty, Director General Social Policy Directorate, Strategic Policy and Research Branch		
Blair McMurren, Director Social Innovation, Strategic Policy and Research Branch		
Department of Finance		
Miodrag Jovanovic, Director Personal Income Tax, Tax Policy Branch		
Finance for Good	2015/05/26	56
Lars Boggild, Vice-President Eastern Canada		
Justin Bertagnolli, Partner		
Canadian Association of Social Workers		
Sally Guy, Policy and Communications Coordinator		
James Mulvale, Dean and Associate Professor Faculty of Social Work, University of Manitoba		

APPENDIX B
LIST OF BRIEFS

Organizations and Individuals

Canadian Community Economic Development Network

Center for Law and Social Policy of Washington

Credit Union Central of Canada

Philanthropic Foundations Canada

Finance for Good

Youth Opportunities Unlimited

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings* (Meetings Nos. 42 to 52, 54 to 56 and 58) is tabled.

Respectfully submitted,

Phil McColeman

Chair

Exploring the Potential for Social Finance in Canada

Dissenting Opinion – New Democratic Party

16/06/2015

Dissenting opinion of the Official Opposition NDP, submitted as part of the Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities study on the potential for social finance in Canada.

The Official Opposition members of the HUMA Committee would like to thank all the witnesses who appeared before them as part of the study on exploring the potential for social finance in Canada.

The NDP agrees with the intent to explore new forms of social innovation, but it wishes to register its disagreement with the Committee's recommendations. It is unfortunate that the final report on the study presents an unbalanced view of the potential for social finance, one that does not reflect the concerns; the dire, appropriate and constructive warnings; or the appeals for caution voiced by many of the witnesses who appeared before the Committee.

Social finance and its instruments such as social impact bonds (SIBs) have the potential to greatly influence how the Government of Canada administers its social programs. The NDP believes that these issues warrant further examination and documentation than they have received to date before their implementation is considered nationally.

I. Role of social finance and its emergence

Social finance initiatives involve mobilizing private capital to invest in social programs as a way to diversify funding sources. The social finance marketplace is made up of three components. There is the supply side, which includes players interested in providing capital, such as financial institutions, foundations and private investors. The demand side includes organizations looking for sources of funding, such as charities, not-for-profit organizations and social enterprises. Then there are intermediaries, the third type of player whose role is to bring the two other components together.[1]

The NDP recognizes that these initiatives can play an important role in community economic development, particularly by investing in social enterprises or cooperatives.

However, the NDP notes that there is a growing trend towards applying social finance and its instruments to public services, which would lead to a privatization of social programs.

This trend was first observed in the U.K., when social finance appeared. John Shields from Ryerson University pointed out that social finance and SIBs in particular "…were very much part of Big Society in the U.K., which was about … cutting various types of social programs, and then expecting philanthropy, local governments, and non-profit organizations to fill some of those gaps."[2]

Some witnesses provided the Committee with evidence that this trend is also observable in Canada and that, far from being purely experimental in its approach, the federal government is in the process of applying social finance and its instruments to its programs.

[1] **Siobhan Harty**, Director General, Social Policy Directorate, Strategic Policy and Research Branch, Department of Employment and Social Development, HUMA No 42, 17 February 2015.

[2] **John Shields**, Ryerson University, United Kingdom, HUMA No 51, 23 April 2015.

Marie France Kenney, President of the Fédération des communautés francophones et acadienne, said that "…a push is currently on to adopt social finance in a slew of government programs and initiatives …. The perception is that the government is trialling the model in a very limited and exploratory manner through pilot projects. The reality, however, is quite different. The fact of the matter is that Employment and Social Development Canada and other federal institutions have already changed how they deliver their grants and contributions programs, bringing them more in line with the social finance model."[3]

The NDP believes that the application of social finance must be limited to appropriately targeted groups. Employment and Social Development Canada officials responsible for developing social finance policy concluded: "… that social finance isn't necessarily suitable for every social issue or for every target population."[4]

The NDP is skeptical of the implication that there is consensus for applying social finance solutions to federal social programs given the supposed beneficial impact these solutions would have on the cost and effectiveness of these programs.

Interest in social finance and related instruments such as SIBs certainly stems from dwindling public funding for not-for-profit organizations and social programs, as several witnesses pointed out.

David Juppe, Senior Operating Budget Manager with the Department of Legislative Services for the Maryland General Assembly, said: "One of the reasons I think social impact bonds have become more popular recently is that since the recession of 2008 the government in the United States, and state governments especially, have not seen a robust economic recovery, as was hoped…. This is one mechanism for providing additional funding for government services without government providing the funding up front."[5]

Barret Weber, Research Manager with the Parkland Institute, echoed this view: "In the current tax-cutting frenzy among governments of the day, there's a keen interest to find solutions to the underfunding of social problems."[6]

Employment and Social Development Canada officials did not hesitate to establish that one of the goals of social finance is to cut government expenditures: "A mature social finance marketplace … would unlock new sources of capital for community organizations [and would provide] realized savings for governments."[7]

[3] **Marie France Kenny**, President of the Fédération des communautés francophones et acadienne, HUMA No 51, 23 April 2015.

[4] **Siobhan Harty**, Director General, Social Policy Directorate, Strategic Policy and Research Branch, Department of Employment and Social Development, HUMA No 42, 17 February 2015.

[5] **David Juppe**, Senior Operating Budget Manager with the Department of Legislative Services for the Maryland General Assembly, United States, HUMA No 54, 12 May 2015.

[6] **Dr. Barret Weber**, Research Manager, Parkland Institute, HUMA No 54, 12 May 2015.

[7] **Siobhan Harty**, Director General, Social Policy Directorate, Strategic Policy and Research Branch, Department of Employment and Social Development, HUMA No 42, 17 February 2015.

The trend toward developing social finance is resulting in policy choices focused on cutting spending, thereby forcing not-for-profits involved in delivering social programs to diversify their funding sources in order to maintain service levels.

This certainly raises a whole range of risks, issues and concerns for which we do not have the proper perspective to perform an objective analysis.

II. Risk of cost overruns

The NDP believes that public funds should be managed properly and used effectively, and it wishes to emphasize that there is a risk of cost overruns for governments that choose to fund their social programs through social finance and instruments such as SIBs in particular. This risk should not be underestimated, as it is inherent in the structure of social finance and its instruments.

First of all, the government must guarantee a certain rate of return to encourage investors to support social finance instruments, which adds to the cost of delivery. Andrew McNeill explained the situation clearly: “One of the misconceptions we see is that social finance is being viewed as free money, and all too often when we hear social finance discussed for public services, it’s portrayed as a new source of revenue. What is ignored is the fact that while people investing in social finance are willing to accept a lower rate of return to accomplish social objectives, they still do expect some return on their investment, and the ways to use social finance to fund public services, such as social impact bonds, will add new costs to the delivery of public services.”[8]

In addition, investors expect a much higher rate of return on SIBs than the Government of Canada currently pays to borrow money. “The first social impact bond project in Peterborough, England … is expected to provide a rate of return of between 7.5% and 13% per year. Based on a survey by the MaRS Centre for Impact Investing and Deloitte Canada, expectations of potential investors in social impact bonds here in Canada are very similar. By contrast, the federal government was paying an average of 2.37% to borrow money in 2013-14, which is roughly a third of the minimum amount Peterborough social impact investors are likely to receive.”[9] This gap between the expected rate of return on SIBs and the Government of Canada bond rate show that SIBs are an expensive way to borrow.

As David Juppe pointed out, there are currently no limits on the rate of return on SIBs: “From what I can see, the rate of return is not limited in any way. As we know, in the bond market, risk is measured by interest rates. The riskier it is that repayment may not materialize, the higher the interest rate a government is going to pay on a capital bond. The social impact bonds or pay for success is a form of borrowing. If the program works then government will pay this rate of return, which happens to be whatever was negotiated, whether 10%, 15%, or 20%. There appear to be no limits on that amount.”[10]

[8] **Andrew McNeill**, National Representative, National Union of Public and General Employees, HUMA No 47, 12 March 2015.

[9] **Andrew McNeill**, National Representative, National Union of Public and General Employees, HUMA No 47, 12 March 2015.

[10] **David Juppe**, Senior Operating Budget Manager with the Department of Legislative Services for the Maryland General Assembly, United States, HUMA No 54, 12 May 2015.

Social finance and instruments such as SIBs may lead to cost overruns because the government and recipient agencies would have to establish new layers of administration to manage them.

Managing social finance, and SIBs in particular, would also require the introduction of new intermediaries and mechanisms to deal with the complex and cumbersome procedures — both of which add to management costs. “First, there are the intermediary organizations that are required to find investors and to find an organization or business to deliver the service and oversee the service.”[11] Second, “[t]he agreements under which social impact bonds operate are a second layer of administration.”[12]

The advocates of SIBs believe that the savings to government make up for the difficulties in implementing these instruments. However, the potential savings may be overestimated. David Juppe explained that while SIBs may lead to savings in the variable operating costs of government programs, the same is not true for fixed costs, which are higher. “In our research we have found in many cases that the proposed savings are overstated. … [I]f advocates are proposing that the savings are going to be the full fixed and variable costs divided by the caseload, that’s overstating the savings.”[13]

Lastly, there is a significant risk that any potential savings will be offset by the funds that the government must set aside so that it can reimburse financiers for their full investment plus the rate of return. David Juppe noted this issue when studying the use of SIBs in Massachussetts.[14] He refers to the concept as “funding logistics,” a situation in which actual costs are delayed rather than significant savings being achieved.

[11] **Andrew McNeill**, National Representative, National Union of Public and General Employees, HUMA No 47, 12 March 2015.

[12] **Andrew McNeill**, National Representative, National Union of Public and General Employees, HUMA No 47, 12 March 2015.

[13] **David Juppe**, Senior Operating Budget Manager with the Department of Legislative Services for the Maryland General Assembly, United States, HUMA No 54, 12 May 2015.

[14] Ibid.

III. Operational risks

Social finance poses a number of significant operational risks that should be identified. These risks involve the demand side of the social finance marketplace in particular and could lead the government not complying with its obligations.

To begin with, not-for-profit organizations that want to access social finance and instruments like SIBs must have the materiel and human resources and the technical abilities to solicit and obtain this financing. As Barret Weber explained, "[S]ince this new financing model is based on markets and competition, which are not areas the not-for-profit sector is accustomed to dealing with, non-profit agencies find themselves having to hire or contract professional staff whose tasks include writing grant applications."[15] In future, the organizations that already have significant financial and technical resources may be the only ones able to attract investment, to the detriment of other organizations.

To address this imbalance, the proponents of social finance and SIBs suggest that organizations receive government funding to strengthen their capacity to attract investors in the social finance marketplace. The NDP believes it is illogical to make cuts to social programs in the name of curbing government spending, and then subsidize charitable organizations to help them attract private investors.

Lastly, the NDP is concerned that the desire to mitigate risk will significantly influence the type of social programs that investors support. As Andrew McNeill noted, "Minimizing risk also means that investors are going to be unwilling to fund innovations in service delivery. Under the model for social impact bonds, if the agreed-upon outcomes aren't achieved, investors lose their original investment. Again, it would be hard to find anybody who is willing to put money into a project if they feel it's likely that they're going to lose their original investment."[16]
On the subject of risk mitigation, investors may tend toward what David Juppe calls a "flight to quality": "[R]ather than encouraging innovation, social impact bonds or pay for success will actually encourage a flight to quality. Investors are going to want to see programs that work and programs that are successful" in order to ensure a return on their investment.[17] What this means is that only the programs deemed the most successful, and therefore profitable, will attract investors and offer a reasonable rate of return.

[15] **Dr. Barret Weber**, Research Manager, Parkland Institute, HUMA No 54, 12 May 2015.

[16] **Andrew McNeill**, National Representative, National Union of Public and General Employees, HUMA No 47, 12 March 2015.

[17] **David Juppe**, Senior Operating Budget Manager with the Department of Legislative Services for the Maryland General Assembly, United States, HUMA No 54, 12 May 2015.

IV. Critical mass

Critical mass — the presence of a sufficiently large target population — is a key condition for attracting social finance investors. However, in Canada, the existence of small communities that lack critical mass is an important consideration when implementing national policies that involve social finance, particularly in the case of minority language communities.

Marie-France Kenny explained this issue to the Committee in very clear terms: "Official language minority communities will feel the impact of an approach where requests for proposals are based on major projects and private sector contributions. The government runs the risk of creating an environment where, instead of having access to French-language services that fit their needs, francophone communities will, at best, receive bilingual services delivered by majority language organizations, or even services delivered by Quebec-based organizations with little understanding of our communities' needs."[18]

The NDP wishes to point out that, in situations like this, federal institutions are at significant risk of not meeting their obligations under Part VII of the *Official Languages Act*, which requires federal institutions to take positive measures to enhance the vitality of English and French linguistic minority communities and support their development.

V. Evaluation and accountability

Like all the witnesses who appeared before the Committee, the NDP believes that programs involving social finance must be subject to evaluation and accountability. Senior officials from Employment and Social Development Canada stressed this point and we concur: "[S]ocial finance also requires rigorous use of metrics and evaluation to determine if expected outcomes have been met, thereby ensuring effective use of resources and accountability for the use of public funds."[19] However, it was clear by the end of this study that qualitative evaluation tools are not suitable for measuring the impacts of a program's social finance components.

In addition, the NDP is concerned about the way in which the desire for a return on investment could influence evaluation methods and results. David Juppe raised two points that speak to this concern.

The first is the pressure to produce a positive outcome: "Evaluation concerns that I have are first and foremost that, because you have this return-on-investment component, there is a greater pressure to produce results and you may have a situation where one study produces an outcome that's positive resulting in payment to the investors and to the service providers, but in many cases

[18] **Marie France Kenny**, President of the Fédération des communautés francophones et acadienne, HUMA No 51, 23 April 2015.

[19] **Siobhan Harty**, Director General, Social Policy Directorate, Strategic Policy and Research Branch, Department of Employment and Social Development, HUMA No 42, 17 February 2015.

in public policy it can take years and sometimes multiple observations and multiple studies to determine if a program is really successful or not."[20]

The second involves the composition of evaluation samples: "Also there's the question of methodologies and whether or not there's a treatment and control group and full randomization to ensure that fair and objective analysis and evaluation are completed. The U.S. Congress was considering social impact legislation last year in 2014, and I noticed in that legislation that they were considering allowing quasi-experimental designs, which may not require this sort of randomization."[21]

The NDP is also troubled by the pervasive lack of transparency regarding the actual cost of implementing social finance. Many witnesses shared this concern, which was neatly summarized by Andrew McNeill: "Another concern is the loss of accountability. Contracts for services funded through social impact bonds are rarely made public. In fact, as far as I know there has not been a single contract made public. The public cannot find out the details of the services being provided or the details of the costs. This means that the public has no way of knowing whether they are receiving the services they're paying for."[22]

VII. Conclusion

The NDP supports the intent to explore new forms of social innovation. However, given the lack of tangible evidence that social finance and social impact bonds lead to positive outcomes in the delivery of social programs, the NDP wishes to emphasize in this dissenting opinion that there are considerable risks to this approach.

The NDP recommends caution when introducing social finance to the Government of Canada's social programs.

It also recommends that the subject be studied more extensively to determine the potential risks and benefits, and that pilot projects be conducted and evaluated. In order to arrive at a definitive conclusion, the NDP believes that new and more thorough analyses should be carried out using more advanced technical and research methods than were available to the Committee for the present study.

Lastly, given that introducing social finance, and instruments like social impact bonds in particular, could influence the implementation of federal social programs, the NDP maintains that this is an issue that requires public debate. The Canadian public must be properly informed of the approaches chosen by the federal government to finance and implement social programs. The NDP therefore recommends that public consultations be held before this type of initiative is implemented more broadly.

[20] **David Juppe**, Senior Operating Budget Manager with the Department of Legislative Services for the Maryland General Assembly, United States, HUMA No 54, 12 May 2015.
[21] Ibid.
[22] **Andrew McNeill**, National Representative, National Union of Public and General Employees, HUMA No 47, 12 March 2015.

SUPPLEMENTARY OPINION OF THE LIBERAL PARTY OF CANADA

We would like to thank all of the witnesses that appeared before the HUMA committee during the course of the *Exploring the Potential of Social Finance in Canada* study. The Liberal Party supports the intent of the study and its recommendations.

Throughout the study we heard from witnesses from Third Sector organizations (including charities, non-profits, co-operatives, and social purpose businesses) who are finding innovative ways to solve societal problems with limited resources. The Liberal Party seeks to ensure that all sectors, including the Third Sector, have access to capital to assist in solving the nation's social problems. We believe government should be active in facilitating and stimulating private investment for public good.

Social financing can have different meanings to different groups (e.g. for-profit vs. non-profit, investor vs. investee) depending on where they are along the spectrum of enterprises that operate in or contribute to the social economy. The Liberal Party believes social financing can be beneficial if it is used to assist organizations responding to a social need who are guided by a social conscience (i.e. social return rather than investment returns as the number one priority). It is our hope that the government be guided by this belief in defining its role in developing social financing measures.

We would like to take this opportunity to make some additional comments about certain issues raised in the Report.

Social Impact Bonds

As the Report notes, the Committee heard from a variety of witnesses who had concerns and criticisms regarding the use of Social Impact Bonds (SIBs).

It is important to ensure that the critiques and negative concerns of SIBs raised by stakeholders and witnesses are kept in mind when discussing this social finance mechanism. The government must ensure that the quality of social services does not decrease in the event of outsourcing. Additionally, the value for dollar for the government and the taxpayer should be clearly proven prior to the implementation or adoption of SIBs.

Dr. John Loxley made a fair point in critiquing the use of SIBs, "*I would argue that the first priority should be improving the funding and delivery of services in and by the public sector, and that should be a priority over pursuing and creating enabling environments for social impact bonds.*"[1]

It is clear that there are a many concerns about SIBs that must be addressed if such measures were to be implemented by government. In dealing with social services and the most vulnerable Canadians, it is important to ensure that the government prioritizes their needs and success above all.

---

[1] HUMA, Evidence, 2nd Session, 41st Parliament, 26 March 2015, 1540 (Dr. John Loxley, Professor, Department of Economics, University of Manitoba).

SUPPLEMENTARY OPINION OF THE LIBERAL PARTY OF CANADA

Government Program Data and Evaluation

Sunil Johal from the Mowat Centre makes a cogent point when he states that, "*governments should invest in better evidence and measurement to support promising opportunities for program innovation and support the long-term development of evidence-based policies.*"[2] It is imperative that the government have both the proper data and measurement criteria to evaluate the social impact and efficacy of its existing programs and services. The identification of data-based outcome targets is a necessary prerequisite for both the success of social financing and the effective delivery of government programs.

The evaluation of existing government programs continues to be in short supply. In 2010, departments spent on average less than 0.1 percent of direct program funds on evaluation.[3] Similarly, as noted in the Report, Employment and Social Development Canada continues to measure *outputs*, despite having both the capacity and the existing data to measure *outcomes*.

The Liberal Party supports evidence-based policy and the development of broader and deeper evaluation criteria of existing programs in order for all stakeholders to make informed decisions. In this context, enhancing measurement and evidence tools for current government programs and services is necessary prior to engaging in the intricacies of social financing tools such as SIBs.

---

[2] HUMA, Evidence, 2nd Session, 41st Parliament, 26 March 2015, 1535 (Sunil Johal, Policy Director, University of Toronto, Mowat Centre).

[3] Ibid.