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Chair

Mr. Phil McColeman

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

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•(1535)

[English]

The Chair: Good afternoon, ladies and gentlemen.

Welcome to the 45th meeting of the Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities. We're here to continue with our current study entitled "Exploring the Potential of Social Finance in Canada".

Here to provide testimony on our first witness panel, and we are pleased to have him with us, is Mr. François Vermette, director of development at the Social Economy Working Group. Also joining us, by way of video conference from Vancouver, is Mr. David LePage, chair of the Social Enterprise Council of Canada. Welcome, gentlemen, to our committee. Thank you for agreeing to be witnesses.

We have a 50-minute time slot for your testimony. Each of you will have up to 10 minutes to present.

Why don't we start with Mr. Vermette?

[Translation]

Mr. François Vermette (Director of Development, Social Economy Working Group): Good afternoon. I am pleased to be here today.

We came here to talk to you about what we do at Chantier de l'économie sociale en finance sociale.

Chantier de l'économie sociale is a network of social enterprises. To us, social enterprises are collective enterprises with a social mandate that use economic activities to achieve their end goals. There are several thousand in Quebec and even more across Canada.

After our creation in 1996, we realized rather quickly how difficult it was to find funding for this type of enterprise. Shortly thereafter, in 1997, we created a fund called the Réseau de l'investissement social du Québec—RISQ—which has \$12 million in place. This fund provides risk loans to social enterprises, a bit like its acronym suggests, in other words, investments without any form of guarantee. Initially, this fund was built up through donations from private businesses and by a loan from the Government of Quebec. That loan has since been renewed once, but it has allowed us to build up capital and finance enterprises with a social mandate.

RISQ's loans are relatively small. There are seed money loans that start at \$5,000 and can go as high as \$200,000. These are loans that financial institutions, banks and caisses populaires have a hard time

lending because even though they are small loans, they require an analysis that is almost as involved as for a larger loan. The profitability for such loans is harder to justify for regular banks.

We soon realized that the \$200,000 limit was not high enough. We then created another investment tool called Fiducie du Chantier de l'économie sociale. It is a trust fund that can provide loans up to \$3.5 million. The trust fund was capitalized in part by the federal government through a program that no longer exists, but allowed us to capitalize part of the fund. The rest came from contributions from labour-sponsored funds, or funds from Quebec unions, the largest being the FTQ labour-sponsored funds and the Fonds d'action de la CSN. Both groups combined put \$20 million in the fund.

The trust fund finances the same type of enterprises, those with a social mandate, but differs in that it provides patient capital. In other words, the enterprises do not have to pay back the capital for the first 15 years. What is more, they pay only part of the interest and at year 15, they have to pay back the loan in full, usually by finding financing on the regular market. Since the trust fund has not existed for 15 years yet, this hasn't happened yet. The enterprises are paying back their loans over time.

The interesting thing about this is that those who contributed to the fund through an investment, through the labour-sponsored funds and the Government of Quebec, agreed not to get their interest or capital for 15 years. For the labour-sponsored funds especially, it is a type of investment in their investment portfolio. We understand that they couldn't invest all their money that way, but this still allows us to support enterprises. The fact that it is patient capital, makes more liquid assets available to the enterprises in the critical first years.

We created all these tools. We continue to be in tune with the needs of the enterprises. We are working on developing other fund to try to respond to other needs, when they are expressed. Obviously, we were able to do this thanks to the government's support, which allowed us to provide the initial cash injection.

•(1540)

This allowed us to raise rather significant private capital in a niche that is usually ignored by the big banks.

Soon the trust fund will have invested all its money. It will either have to recapitalize or wait for year 15 to get money again. Some \$50 million was invested in enterprises and things are going very well. It is truly a success. This could apply elsewhere.

So ends my presentation. I am available to answer your questions.
[English]

The Chair: Thank you very much, sir.

Now we'll move onto Mr. LePage by video conference from Vancouver.

Please proceed.

Mr. David LePage (Chair, Social Enterprise Council of Canada): Thank you very much, honourable Chair and members of the committee.

Thank you for the opportunity to address you on this timely and important issue of social finance and social enterprise.

In this room we all agree that we face a common challenge that was stated in the federal government's 2014 budget, which is that alone government cannot solve the social and economic issues we face. But we believe that social finance and social enterprise are two tools that can help us address the growing complex social issues, the challenges of changing demographics, and the shrinking government budgets.

First of all, I think congratulations to all of you are in order. In some meaningful ways in a matter of a few years the governments across Canada and across parties have moved from an observer of an emerging international social finance and social enterprise sector to a recognized partner and facilitator. In 2013, the Social Enterprise Council of Canada was pleased to partner with the government to host the Social Enterprise World Forum in Calgary and very pleased that at that conference then Minister of Employment and Social Development Canada, the Honourable Jason Kenny, stated government support for social finance and social enterprise. With your leadership and the hard work of dedicated public servants, we're seeing results and impact.

I'd like to give you a couple of minutes of background and then offer five suggestions for moving forward.

Social enterprises are community-based businesses that prioritize the social outcome rather than just a financial return to shareholders. Any profits generated are reinvested into further social impact. They actually seek a blended value return on investment, a social and a financial value. They're operated by non-profits, by charities, hybrid companies, and some non-profit co-ops. They cross every business sector, from manufacturing, retail stores, cleaning services, health care, arts, recycling, and more. They target an entire spectrum of social outcomes, including social inclusion, employment training, poverty reduction, youth at risk, homelessness, and employment for people with barriers and disabilities.

Here are a couple of examples. Starworks Packaging is operated by the Developmental Disabilities Association in Vancouver. Their customers include Finning International, Caterpillar, and BC Hydro. While delivering quality light manufacturing and assembly services

on a commercial basis, they employ up to 45 persons with development disabilities.

BUILD, is a social enterprise construction company in Winnipeg and its target is to train and employ youth at risk. The majority of their participants are aboriginal youth. A major customer is Manitoba Housing. BUILD is recognized by the local chief of police as a significant intervention and model for addressing the real needs of youth at risk. While the courts and the police can offer another jail term for a youth with an existing record, BUILD can offer that youth an opportunity for training and future employment in the trades.

The Toronto Enterprise Fund supports up to 15 social enterprises addressing the training and employment needs of youth, adults, and new Canadians who are at risk of homelessness.

But as with any innovation, it's important that we measure and demonstrate the impact. With funding from ESDC, Dr. Peter Hall from Simon Fraser University and Dr. Peter Elson of the University of Victoria have been able to do surveys of social enterprises across Canada. In their latest survey of 757 social enterprises in six provinces and three territories they showed that those 750 social enterprises employed at least 20,000 people, with 75% or 15,000 of those employees targeted as part of the mission of the non-profit organization. The responding social enterprises raised \$480 million or 75% of their total revenues from the sales of goods and services.

Now I'd like to offer you five potential solutions for the committee's considerations.

● (1545)

Some of these ideas will cost government nothing. Some will require extending or expanding current program access, some of these will require new or shifting priorities, and a couple involve some potential new investments.

First of all, many non-profits and potential impact investors are used to working in their separate, strictly social service or corporate arenas, but in a blended value business environment—social enterprise and social finance—we need to build the business acumen of the non-profit sector and we need to improve the social impact knowledge of the traditional investors. In other words, we need to create programs that will give social workers business skills and give potential investors social value perspectives.

We've discovered that many of the existing federal programs that support the activity of SMEs are not closed to non-profit-operated businesses by legislation or regulation. They just are not prepared or directed to engage with the social sector. It is very important to continue and expand the existing government initiatives to recognize social enterprise and non-profit ownerships as a business model. A minor budget item in supporting and continuing to support Industry Canada's Canada business network and other government programs will have huge returns.

Second, social enterprises are supply side and social value oriented. They need access to markets, the demand side, because with more customers, they grow their business and they increase their social impact. We recommend that the social procurement policies as outlined in a research paper exploring social procurement, prepared last year for ESDC, be adopted and implemented. 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.

Third, as more social enterprises develop, grow, and expand in scale, the appropriate financing at the right stage is necessary. New models of grants, debt, and equity need to be developed.

Fourth, to support the marketplace, engagement of social enterprises and social finance, relevant government policies and programs across ministerial silos will need to be aligned. CRA and the charities division need to be seen as supportive and encouraging, not restricting the appropriate use of social enterprise within non-profits and charities.

Last, government is in a unique role to facilitate and encourage, to initiate, and to partner on cross-sector engagement. The participation and collaboration of government, the private sector, and the community sector are critically needed if we are going to move on any of these efforts.

Thank you very much for your time. I look forward to your questions and our continued work with government on these important issues.

• (1550)

The Chair: Thank you very much for your testimony.

Now we will move to five-minute rounds of questioning.

Madame Morin.

[*Translation*]

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

I would like to thank the witnesses, whose presentations were very interesting.

What type of social programs would benefit the most from social financing? Chantier de l'économie sociale works with social enterprises, but also a lot of community organizations. I would like you to elaborate on that.

Mr. Vermette, you may begin, then Mr. LePage could take a turn answering the question.

Mr. François Vermette: More and more community organizations are engaging in social economy activities, which is not to say that they are changing their orientation. They provide services of all kinds for a fee. For example, a community centre might decide to make money from the space it has by renting it out for other purposes. That income then allows it to fulfill its mandate better. This happens quite a bit. The enterprises Mr. LePage was describing are also aware of this practice. I could have made the same presentation as Mr. LePage. I think we are completely on the same wavelength.

Many enterprises in Canada, for example, what we call adapted enterprises in Quebec, provide work to people with disabilities. Social integration enterprises hire people who are nowhere near entering the labour market and provide them with training in a work setting that, although not very demanding, in most cases helps these people integrate into the labour market. This approach is working.

As Mr. LePage said, if we are talking about opening government procurement markets, then of course we are talking about a lot of money. The governments—not just the federal, but also city and provincial—spend a lot of money to buy goods and services, including a number that are already being provided by social enterprises.

The tendering process is designed in such a way that these enterprises cannot take part. On the other hand, certain efforts could be made to make this work at an equal or lesser cost. This would also allow these organizations to meet their social objectives.

Ms. Marie-Claude Morin: Okay. Thank you.

Mr. LePage, do you have anything to add?

[*English*]

Mr. David LePage: I don't think we have seen a limit to the role that social enterprise can play in supporting community needs. Being in Vancouver, we have a very, very strong social enterprise sector that is serving the very tough employment needs in the downtown eastside, one of Canada's poorest communities. We see groups like EMBERS, which is a day labour company, putting to work each day more than a hundred people with barriers. We see companies like The Cleaning Solution, where 70% of their employees are people with ongoing mental health issues.

As we go to rural communities like Haida Gwaii, we see things like the Haida Gwaii Higher Education Society, which is running North American-based university programs, in a very rural community, in a microenterprise. The students come there. They then have the capacity to bring in economic development to that community as well as employ the local elders and cultural leaders in the community.

So we see it in rural communities in economic development. We see it in employment. But we also see it in arts and culture. When you go to looking at how we involve the immigrant communities, and the francophone communities outside of Quebec, into a community, social enterprise is not looking at a business to return profits; they're looking at a business model to solve a problem or to create an opportunity. I don't think we've seen a limit to the types of businesses or the types of issues.

• (1555)

[Translation]

Ms. Marie-Claude Morin: Okay. Thank you.

Do I have any time left?

[English]

The Chair: You have 15 seconds.

Ms. Marie-Claude Morin: I'll be very quick.

[Translation]

Could each one of you tell me what the federal government's main priority should be with regard to supporting social finance in Canada?

Mr. François Vermette: Many programs already exist—

[English]

Mr. David LePage: I would agree with François—

The Chair: Actually, gentlemen, I'm going to hold you both off—

Mr. David LePage: —in that, for me, the biggest opportunity we hold is to adjust government procurement.

The Chair: Thanks.

I'll hold you both off here, because we're over our time on that. I should perhaps have cut it off before the question, but I decided to be courteous to the questioner.

Mr. Armstrong, you have five minutes.

Mr. Scott Armstrong (Cumberland—Colchester—Musquodoboit Valley, CPC): Thank you, Mr. Chair.

I want to thank both of our witnesses for being here this afternoon.

I'll start with a question that maybe each of you could answer. Perhaps you could choose one of the programs you're very familiar with and talk about the different roles that are fulfilled to actually meet the outcomes. For example, what's the role of a government? What's the role of the enterprise? What's the role of the client? Perhaps you could pick one specific project that you're each familiar with and just go through that so we can better wrap our heads around what we're trying to establish here.

Mr. LePage, maybe you could go first.

Mr. David LePage: I think I can give you an example of where there's great potential. The federal government just signed a single contract to have all of your building maintenance and cleaning done by one company across the entire country. This is a large international corporation and they are going to have to subcontract that work to people who actually do the cleaning and maintenance.

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.

Mr. Scott Armstrong: Mr. Vermette.

[Translation]

Mr. François Vermette: I really like the example Mr. LePage used, but we could look at in different ways.

Other countries, in Europe and the U.S. for example, are increasingly using what are called “social clauses”. This is a contract like the one Mr. LePage was talking about, in other words, providing cleaning and maintenance services for all the federal buildings, for example. We know there are costs, and clear cleaning and maintenance expectations, but we could also add that we want to integrate people who are far from the labour market or people with disabilities. Private enterprises can do this too, which would benefit society, but in many cases in Europe, they hire sub-contractors from social enterprises whose mandate falls in line with this. Either way, society benefits. This market remains open to everyone.

That was an example, but we might also say that for a Canada-wide contract, we are pretty sure that only multi-nationals will be capable of meeting the needs and that a limited number of enterprises will be able to bid. Often, if a contract is broken down and limited to a city, or even a building, then the price would not be as good and would allow local enterprises or social economy enterprises to bid, which they cannot do for contracts that are too big. That has to be kept in mind when the request for proposals is being written. The way requests for proposals are defined has an impact.

• (1600)

[English]

Mr. Scott Armstrong: Madam Morin asked each of you to put forward one thing the government could do to try to forward social enterprise. Mr. LePage answered that question. You didn't get an opportunity, Mr. Vermette. Would you like to take that opportunity now?

[Translation]

Mr. François Vermette: Integrating social clauses in requests for proposals or opening research and development programs, for example, which are currently often done through tax credits and are not open to not-for-profit enterprises. These are two ways, if you will, to support this sector.

[English]

The Chair: You have about 30 seconds.

Mr. Scott Armstrong: Very quickly, in your presentation, you talked about how once you get to 15 years you're going to see a lot of return on the investment made by both the unions—I think it was \$20 million that was sponsored—and the government itself. Do you expect a heavy return on that? Do you expect that these operations you funded are profitable enough such that they're going to be able to return those funds?

[Translation]

Mr. François Vermette: Our loss ratio is very, very low. In fact, it is lower than similar venture capital investments for private enterprises. We are quite confident and pleased so far. We saw this in the case of other Quebec investment portfolios, a Government of Quebec investment company.

When we invest in social enterprises, the loss ratio is lower than it is for private enterprises because these enterprises are anchored in their field. They are supported by their community and they are not profit oriented—although they do have to end up with a surplus or die—their average survival rate is better than that of private enterprises.

We expect good results.

[English]

The Chair: Thank you very much. That will end this round.

Mr. Cuzner, you have five minutes.

Mr. Rodger Cuzner (Cape Breton—Canso, Lib.): Thanks very much, Mr. Chair.

I thank the witnesses.

Mr. Vermette, for how long now has your organization has been operating?

[Translation]

Mr. François Vermette: We have been operating since 1996. Our organization was founded almost 20 years ago.

[English]

Mr. Rodger Cuzner: Nineteen years? Okay. So it's 15 years, and then the expectation of a payback. Were you able to vet out money in the first four years? Are you starting to see the return on that money now?

[Translation]

Mr. François Vermette: This fund was created in 2007, so it has been only eight years. In other words, we have not started to see a return on the investment yet.

[English]

It's patient capital. You have to be very patient.

Mr. Rodger Cuzner: Patient capital, we've heard that from presenter after presenter as well.

What sort of checks and balances do you have along the way? Is it like a partnership with the organization that you've funded, and then somebody from your organization continues to monitor the fund, the progress? Is that a normal operation or is it a situation of cut the cheque, and we'll see you in 15 years?

Mr. LePage, do you want to give an opinion on that as well, but Mr. Vermette first?

Mr. François Vermette: We do a follow-up, as any bank does on its loan. We get their statement every year.

Mr. Rodger Cuzner: Each year, and that's normal for the industry?

Mr. François Vermette: Yes.

Mr. Rodger Cuzner: Mr. LePage, you had mentioned social workers. I thought developing business skills was a neat insight. At some of our schools across the country, the social worker program at Dal and what have you, are we starting to see that emerge? Are we starting to see some of the curriculum tailored to identifying the possibilities, the potential, within social financing?

Mr. David LePage: We are starting to see some program R and D more at the college or university level. The University of Fredericton has an MBA program, with a specialty in social enterprise. The University of Manitoba, the University of Winnipeg, and the University of Toronto have incorporated social enterprise programs into their business schools, so we're seeing it at the college level. Where we really have the biggest challenge is how do we move it down to primary schools and high schools, so as people are coming up they're understanding that business is not separate from community and some social issues. We've kept these two issues so separate.

As we raise social workers, and then ask about social enterprise, they've never.... They're passionate and great at what they do, but we've been working through programs. We partnered with ESDC on expanding the enterprising non-profits program across Canada, which works with non-profit groups to give them business skills to help them with their business planning and their skill development, but it's very early. It's the same on the financial investors' side. They're trying to figure out how to take their traditional financial tools and apply a social lens to get a blended value.

I think we're learning. We're all working together. Investors are trying to figure it out. Academics are engaging in this. We're at the beginning, but we've taken important steps.

• (1605)

Mr. Rodger Cuzner: Sometimes we learn from our mistakes. Toronto Maple Leaf fans sometimes don't.

Voices: Oh, oh!

Mr. Rodger Cuzner: But you gentlemen have been in the sector for quite some time. Are there cases where programs, investments, have really gone awry? Are there cases out there that we can learn from to draw best practices? Are you aware of that? Most of the testimony that we've received to date has been around some very successful investments and very successful outcomes.

Mr. David LePage: I think we can go back, and you're absolutely correct, we can look at some of the enterprises that have attempted to launch that have tried, especially when they do not balance well the business side with the social side, and they get so engaged in trying to deliver a social program that the business doesn't have a market, and without a market the business cannot succeed. That's part of what we're learning; why it's so important to do business planning and preparation. A lot of social enterprises have launched without the prerequisite of a good business plan, and then in six months or two years they are closing their doors.

The Chair: Thank you very much.

We'll move on to the next round with our next questioner, Mr. Butt.

Mr. Brad Butt (Mississauga—Streetsville, CPC): Thank you both, gentlemen, for being here.

I had the opportunity a couple of years ago to serve on the special committee that the House of Commons established to look into cooperatives in Canada. One of the main themes that came out in the testimony was that a lot of people, including a lot of government agencies and departments, didn't understand how cooperatives worked and what cooperatives were. I'm wondering if there is the same problem with social enterprise and social finance. I'm wondering if you have any suggestions of what we can be doing at the federal level to create a much higher awareness of what social finance is and what these social purpose enterprises do exactly, so that we can make sure that agencies like the Business Development Bank of Canada and perhaps some other departments and agencies can better understand this model and would be more receptive to finding ways to work with and support social finance in the country.

Mr. Vermette, perhaps you'd like to start and then I'd be interested in hearing Mr. LePage's thoughts on that.

[Translation]

Mr. François Vermette: Obviously, investing in social enterprises is not the same as investing in regular private enterprises.

We have been investing in this type of enterprise for more than 15 years. We have even developed a guide specifically for analyzing social economy projects. This guide is based on our experience and we share it with other banking institutions that are close to us, including a Mouvement Desjardins fund. We also share it with government officers who are tasked with analyzing projects. The guide already exists.

It is always possible to support us. This guide was developed for the Quebec context, but it can be reworked for the Canadian context, translated in both official languages and published. We are prepared to share this experience. What is more, part of the guide is online on our website.

Indeed, it is different. It is important for people tasked with analyzing this type of cooperative project and not-for-profit agencies to understand the difference between social enterprises and other enterprises. How come a project backed by a private enterprise has little chance of working, but a project backed by a cooperative supported by members has more chances of working? The analysis has to be approached differently.

• (1610)

[English]

The Chair: Mr. LePage.

Mr. David LePage: Mr. Butt, I think you've hit on a very important topic and it's part of why our fifth recommendation is really about the potential role of government to facilitate and to lead this cross-sector discussion. If I invite corporations to a table, I might get a response. If the government convenes a meeting, we get a tremendous response. I think we saw that with Minister Kenney's comments in Calgary in 2013.

The very fact that a minister of ESDC took leadership and publicly said, "We support this", gave a lot of support to the public servants who are focused on this. I think you heard last week from Siobhan Harty. Giving the public servants room to work in this while engaged with the public sector and the community sector, I think is a role in which the government.... It doesn't involve a big cost but it's the kind of thing that doesn't sound good to you—networking and conferences and learning. How do we couch that to make it more comfortable for government to continue to take that lead on facilitating and engaging cross-sector? We've seen in other countries how private sector and social enterprises and social finance sit down and work it out, but they have to come to the same table with the same purpose.

Mr. Brad Butt: Thank you, gentlemen.

The Chair: Now we start round two with Mr. Ravignat.

Mr. Mathieu Ravignat (Pontiac, NDP): Thank you, Mr. Chair.

The first thing I'd like to do is congratulate both of you for promoting social enterprises in this country. We have a number of them in my riding and a number of them in the area, the Outaouais, and they do some pretty innovative stuff and some pretty impressive work. I think this is definitely part of the future fabric of social stability in the country, so I'm looking forward to it developing even greater wings.

I want to dig a little deeper with regard to procurement. I'm the Treasury Board critic for the official opposition, and I've been thinking about this question for a little bit. I would imagine that social enterprises face many challenges similar to those of small and medium-sized businesses. Am I right to say that most social enterprises are small and medium-sized businesses? The definition of a small and medium-sized business in the Government of Canada is part of the problem, no doubt, and the amount of diversity of corporations that actually get procurement contracts is also an issue.

What can we do specifically with procurement and procurement regulations at the Treasury Board level to ensure that social enterprises get a fairer whack at the proverbial bucket of federal cash?

[Translation]

Mr. François Vermette: As I was saying earlier, it is true that in many cases, small- and medium-sized enterprises face similar challenges to those of social enterprises, which, for the most part are small enterprises. That is something that could be put in the rules you set. We could provide officials with some flexibility in issuing requests for proposals, in other words issuing smaller RFPs or inserting social clauses.

Some provinces might be including environmental clauses, but I am unaware of any examples of social clauses in Canada. Nonetheless, this exists in other countries.

Those are some things you could do with regard to the general rules. This can help provide officials issuing RFPs with some flexibility in issuing RFPs on which other enterprises, smaller and social enterprises in particular, can bid.

Mr. Mathieu Ravignat: Mr. LePage, what do you think?

[English]

Mr. David LePage: I think there are three or four very critical items that Mr. Vermette has mentioned, including the unbundling of contracts and the social clauses.

One of the things that's fascinating in our international work is that we realize that adding a social clause does not inhibit in any way any trade agreements the federal government is involved in, whether that's NAFTA or other emerging trade agreements, as long as the social clauses are clear, straight, and open to everybody to participate in.

So there's the unbundling of social clauses and also, again, the engagement. As Mr. Butt raises, when people understand the value... There is \$685 billion being spent by governments in purchasing goods and services. We need to leverage that to get a better return for Canadian citizens. That can be done when we start to look at the social values. What I can send to your committee clerk is a copy of the report we produced last year for Employment and Social Development, which explored social procurement and delved directly into this.

We're learning from other countries, but we also learn from things here in Vancouver, with the Olympics, and now with the Pan Am Games. How do we leverage this existing purchasing to create a social value?

• (1615)

Mr. Mathieu Ravignat: That's great.

Mr. David LePage: You're absolutely correct. It's—

Mr. Mathieu Ravignat: Thank you for that contribution. I just want to add a little bit with another question. I would imagine that in order to start a social enterprise the capital you would need could be pretty risky. Access to risk capital is probably pretty essential. Do you think the federal government has a role to play with regard to ensuring access to that kind of capital, which might be high risk but may give dividends in the future?

[Translation]

Mr. François Vermette: Yes, that would be possible. Organizations like the one we have in Quebec, the Réseau d'investissement social du Québec, could be created.

There could be others. Seed capital is very high-risk. Obviously, there is always some loss and, in the long term, the fund ends up decapitalizing, but not for a very long time. In fact, many of them work and are able to pay us back. With relatively minimal investment, we are able to operate for a long time. As we say, any contribution, no matter how small, is always welcome.

[English]

The Chair: Now we move on to Mr. Boughen for five minutes.

Mr. David LePage: I think that the—

The Chair: I'm sorry, Mr. LePage, we've run out of time on that particular round of questions. I'm trying to keep everyone within a reasonable space of five minutes, so I'm sorry if I have to at times shorten questions and answers, but I will do so.

Mr. Boughen, you have five minutes, I believe.

• (1620)

Mr. Ray Boughen (Palliser, CPC): Thank you, Chair, and thanks to our resource people for sharing part of your day with us. We appreciate that.

When I look at the whole question of social finance I say, how is it that we get people engaged and willing to become part of the group that's known as the social finance folks, when there are all these other options that are out there for investing money, and people are looking at this as some return for their investment, I would think? What entices people to even take a stand and say, yes, let's get into the social finance?

Anyone can answer that.

Mr. David LePage: I can begin by looking at a philanthropy group that is often now referred to as social venture philanthropists. What's happening with a lot of individuals is they're looking for not just the option of do I give to charity and get a tax return for that charitable gift, or on the other extreme looking at how do I invest and get a maximum financial return, but there are more and more investors who are looking for a blended return. They ask, how do I invest some of my capital into something that is not just about making money, and not just a one-time gift, but how do we explore this middle ground of a blended return on investment? So they say, I want to invest in companies or in social enterprises and social finance packages that will leverage my investment. I will get my money back, I will see a return, and hopefully I will get the same tax credits I would get if I were to invest somewhere else, if it's a legitimate business model. I'm looking for a blended return.

I think it's part of this same discussion that the investors are looking differently as well.

[Translation]

Mr. François Vermette: That sort of investor does exist. People may absolutely want a return on their investment, and at the same time, they may be willing to get a lower return, but not always, if something serves a social purpose they believe in. That capital exists and it is possible to find it. There are individuals and larger funds that are increasingly concerned about what they are investing in. If there are social benefits, they are even happier.

We can see this in very local projects. For example, to save the last grocery store and service station in a town, the people in the community will invest \$100 or \$200 in shares in the business so that it survives. They don't always expect a return. The return may be very low, because that is not what they are looking for. They are looking for social utility and solidarity.

The same person may do that on the one hand, and on the other hand, invest for their pension fund and try to get the best possible return.

[English]

Mr. Ray Boughen: Mr. Vermette, maybe you can carry on with this question. What are the barriers that stand in the way of a business supporting a social finance project? How does it start? Is there a desire to form a group? Do they meet? How does it get started? What are the barriers in the way of getting one going?

[Translation]

Mr. François Vermette: One barrier is the lack of knowledge. Moreover, large foundations have to invest their money. In order to make donations, they have to invest somewhere. They need a return and certain guarantees. It is sometimes hard to connect the investor with the project.

There may be other barriers when we are asked to prepare a prospectus for investment. Those are all things we are working on right now in connection with crowdfunding. There may be investments on a smaller scale, with simpler regulations. These things are being worked on with the financial market authorities in Canada and in all the provinces. Regulations will be put in place shortly. Eliminating these barriers would facilitate investment.

[English]

The Chair: That's the end of that round, Mr. Boughen.

Mr. Ray Boughen: Is that it?

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

Mr. Ray Boughen: Darn.

The Chair: Monsieur Morin, five minutes.

[Translation]

Mr. Dany Morin (Chicoutimi—Le Fjord, NDP): Thank you very much, gentlemen.

My questions are for Mr. Vermette.

I'm glad to hear about the social economy in Quebec. I see the social economy and social finance as a good alternative to the capitalist model we have now, but I'm also aware that in 2015 they do not account for a huge part of Canada's or even Quebec's economy.

Do you know what percentage of Canada's or Quebec's economy the social economy and social finance account for?

Mr. François Vermette: I don't know the figures for Canada. Perhaps Mr. LePage has them.

In Quebec, we often talk about 8% of GDP, but of course that includes the giants. Mouvement Desjardins and La Coop fédérée, for example, are very large businesses that skew the data. Statistics of this sort are a problem for us right now. They are very hard to get. This is not the case so much on the cooperative side, because it is fairly well defined, but statistics for non-profit organizations are much harder to get.

[English]

Mr. Dany Morin: Monsieur LePage, can you give us the number, or do you have the percentage, of the social finance in Canada? It can be linked or not to the GDP.

• (1625)

Mr. David LePage: No, I don't think anyone has done adequate analysis. As I think Mr. Vermette has indicated, we lack the information because of some of the definition issues.

As well, how do we include universities, how do we include municipalities, which are normally put into that pot? I think this is why we started to work with the federal government, to look at whether or not we can do surveys and start to understand the sector, start to define it. I think we're very, very early on in trying to understand its relationship to GDP.

[Translation]

Mr. Dany Morin: Mr. Vermette, in your presentation you talked about a \$12 million fund and a roughly \$50 million fund.

Could you quickly list some examples of small and large projects you have supported? That will help us know what types of social economies or enterprises you have helped.

Mr. François Vermette: The projects are extremely varied.

They can range from a cooperative brewery to a town convenience store. In the region you come from, Saguenay—Lac-Saint-Jean, there is Groupe Coderr, for example, which does waste management. It is a social enterprise. There are such enterprises in the food service industry that offer takeout buffets and meals for seniors.

There are many in the housing field, including seniors' residences. However, because we are not involved in housing, we don't support those enterprises. They are extremely diverse. Some are practically plant schools. I am thinking of Formétal in Montreal. Young dropouts learn about metalwork there and make all sorts of things out of metal: garbage cans, desks and so on. That is the kind of enterprise we support. Some other examples would be cultural enterprises, performance venues and a circus school. These projects came out of community needs and are limited only by people's imaginations.

We don't support a project if it is supported by only one, two or three people. We need to feel that the project is supported by the community, by a real group. That is our guarantee of success and it reduces our risks as investors.

[English]

The Chair: Thank you very much for that answer.

That brings the first panel to a close.

I want to thank both of you gentlemen for being with us, for taking the time and sharing your expertise.

I know that two things were mentioned by you.

Mr. Vermette, I believe you offered to deliver to this committee a policy manual. I think the members of this committee studying this would like to receive that, if we could. If it's in French, we'll be able to get it translated into English for the English members. We'd appreciate that.

Mr. LePage, I believe you referred to a study that you offered to send to the committee. We'd very much enjoy receiving that as well.

Again, thank you for taking the time.

Committee members, we will break momentarily while we bring in the second panel.

• (1625) _____ (Pause) _____

• (1630)

The Chair: Welcome back, ladies and gentlemen.

In the second hour we're continuing with our study to explore the potential of social finance in Canada.

Joining us for this hour we have Mr. Brian Emmett, the chief economist for the charitable and nonprofit sector, Imagine Canada.

We also have Mr. Preston Aitken, director of programs at Enactus Canada.

Finally, joining us via video conference from Surrey, British Columbia, and representing the Planned Lifetime Advocacy Network, we have Mr. Al Etmanski, co-founder and founding partner of Social Innovation Generation. Appearing with Mr. Etmanski we also have Ms. Vickie Cammack, the co-founder and founding chief executive officer of Tyze Personal Networks. We thank you for being here with us this afternoon.

Welcome, everyone.

We have up to 10 minutes of presentation time for each of you, so there'll be three presentations. I'm not sure if our witnesses by video conference will be sharing their time, but we'll find out when it's their turn.

Why don't we start with Mr. Emmett?

Mr. Brian Emmett (Chief Economist, Canada's Charitable and Nonprofit Sector, Imagine Canada): Thank you very much, Mr. Chairman.

I wanted to start with some comments on the scope of the charitable sector in general. Charities and non-profits are an

important and expanding economic sector in Canada. Data collected by Imagine Canada and by the Johns Hopkins University Center for Civil Society Studies in the U.S. show that the charitable and non-profit sector in Canada, and in fact in most developing countries, has been growing somewhat more quickly than the gross domestic product has over the last decade or so. It's important to note, I think, that this rapid growth has been driven by demand and by value and generated by fundamental underlying economic and demographic trends. Basically, that is because as Canada's population ages and as it becomes more diverse, and as our economy becomes richer and more service-oriented, people want more of the things that charities do, such as health care and social services, recreation and culture, poverty alleviation, and the care of the natural environment, among many other high-value activities. We expect that growth to continue.

Today charities and non-profits account for roughly 8% of Canada's approximately \$2-trillion economy. This means that they generate roughly \$160 billion in income each year and employ over two million people. This makes an impressive contribution to Canada's well-being

Of course, it also means that they need \$160 billion to finance their operations and if, as we expect, they continue to grow more quickly than the economy as a whole does to meet that growing need, we will need more resources. For example, if demand grows at 4% a year—a little bit more quickly than forecasts for GDP—charities will need an additional \$4.8 billion next year, more than \$5 billion the year after, and so on compounding. These are big numbers and it's a daunting challenge. The question is, of course, where will the money come from?

Imagine Canada's research shows that today roughly 50% of the revenue of charities—that's broadly defined charities and non-profits including hospitals and universities—comes from grants and payments from government, mainly provincial governments. Thirty-five per cent or so comes from earned income activities of charities, the sale of goods and services, memberships, newsletters, and so on. Another 10% comes from donations from individual taxpayers as claimed on their tax returns. A relatively quite small amount, less than one-half of 1%, comes from donations from the business community.

Looking forward, we can see a little bit of difficulty in many of these streams. Government, our main source of revenue, will be under pressure due to the common economic and demographic challenges we all face. Governments will likely struggle with fiscal pressures for the foreseeable future. Under these conditions, it's importance to stress the necessity of at least maintaining existing levels of financing for charities from government if Canada is to remain an economically successful and socially just country.

Second, charities will look to get more from donors and we will need to expand the population of donors, but donations from individuals are under some pressure. Donations as a percent of GNP have declined slightly but worryingly. Charities are also concerned that new younger donors are not replacing older donors as quickly as they might. This explains why charities have been focused on changes in tax incentives such as the stretch tax credit for charitable giving and why they vigorously continue to support it for the next budget.

Third, constraints on government spending and donations naturally turn charities' attention to the expansion of earned income activities and the exploration by charities and non-profits of what the committee is in fact looking at—new ways to finance their operations—and it assumes a growing importance over time. Growing these financial resources is going to be necessary to meet demand, even if donations and government support remain at existing levels. It's important from our point of view to note that social enterprise and social impact investment are distinct but related concepts.

• (1635)

Social enterprises are organizations or businesses within organizations that sell goods and services as a way of achieving a social good. Many charities and non-profits have been involved in social enterprise for decades and they may or may not take advantage of social financing tools. Social financing encompasses a wide range of instruments. We have a “social good” sector and social impact bonds, demonstration funds that some of the provinces have created, crowd funding and, in particular, debt crowd funding, impact investing, and tax incentives for below market return investments.

You'll note that social impact bonds—while very top of mind, a very topical topic—are only one piece of a larger puzzle. Imagine Canada has identified four things that we need to be in place for charities and non-profits to engage in these new forms of finance. One obviously is access to capital. The second is the human capital and skills to make good use of them. Third is market demand, and fourth is an enabling regulatory environment.

New investment tools may help to address capital needs, but this will only be true if the regulatory environment allows charities and non-profits to take advantage of them and to operate a broader range of revenue-generating activities. It will also be the case only if organizations have access to people with skills and ability and the capacity to navigate new financial instruments, understand their potential, and interact in new ways with governments and investors.

Getting all these fundamentals right will require investment and capacity building at a time when organizations are under severe pressure to reduce overheads to unrealistic levels.

The sheer size and scope of the financial challenges we all face means there will be no one solution, no magic bullet, to ensure financial sustainability of a large and growing and vital sector. Rather we'll all have to work hard to maintain existing levels of government support, maintain donations from individuals, develop partnerships with business, as well as explore and develop new tools such as social impact investment.

Our goal in considering social finance initiatives should be increasing the total resources available to charities and non-profits, not finding ways to move them around, say downloading from government to other sectors. In this picture government remains vital. It's the largest source of finance for charities, and maintaining its commitment to the charitable and non-profit sector is vital. It's also vital in assisting with capacity development and providing an enabling regulatory environment.

The issue goes well beyond the remit of one standing committee or one government department. Given the broad range of regulatory and possible legislative issues that need to be considered to ensure that social finance meets the needs and goals of government, the private sector, charities and non-profits, one could foresee that your colleagues in the finance and industry committees will take note of your work and consider how they can build upon it.

Thank you very much, Mr. Chair.

• (1640)

The Chair: Thank you, Mr. Emmett.

Now we move on to Mr. Aitken, for 10 minutes.

Mr. Preston Aitken (Director, Programs, Enactus Canada): Thank you for having me here today.

My name is Preston Aitken and I'm the national program director for Enactus Canada.

Today, I'd like to provide a brief overview of Enactus and how we're involved in social finance and social entrepreneurship. From there I'd like to offer a few ideas that we have to support the growth of social finance in Canada.

For those of you who don't know, Enactus Canada is a national charity and Canada's largest leadership and entrepreneurship program in the post-secondary space, with almost 3,000 students involved on 66 university and college campuses coast to coast. Our mission is to shape generations of entrepreneurial leaders who are passionate about advancing the economic, social, and environmental health of Canada.

We're also proud to note that we're supported by many companies here in Canada, including Tim Hortons, Scotiabank, Capital One, and BDC, among others.

We are also part of a global network with Enactus operating in 36 different countries with over 70,000 students enrolled.

We establish an Enactus team on every university and college campus we operate on. It is run by students and guided by academic and business advisers. These teams are challenged to identify social and environmental needs in their communities and to create a business-based solution that empowers their target audience. After running its project, the team is tasked with measuring and reporting on the impact that each project has made on the lives of their project beneficiaries.

Last year in Canada alone our Enactus teams ran 259 projects that directly and indirectly impacted over 640,000 people. These projects saw students contribute over 225,000 volunteer hours to make these initiatives happen.

Here are some sample measurements from last year's initiatives. They employed more than 1,600 people through skill development and business creation, reduced over 600,000 kilograms of waste, provided almost 10,000 people with financial education training, assisted 99 individuals to earn an income above the low-income cut-off, and increased the wealth of participants by more than \$1.6 million.

To give you some context for what these numbers mean, let me give you a few project examples. Our University of Windsor team created their own impact investment fund for youth-based social ventures in their community. This past year they loaned \$10,000 in micro loans of \$200 for youth who were starting their own business that had a social impact. The team required a financial return of 15% or a repayment of \$230. The team established the fund through a partnership with a local credit union. The businesses started included an environmentally friendly air freshener business, a company that produces furniture out of recycled wood, among others. These businesses generated \$60,000 in combined revenue and the Enactus Windsor team reported they earned a 100% repayment rate on the loans. This has allowed the team to reinvest those funds to grow the program and allow more youth to participate and learn about social entrepreneurship and social finance.

Another example is our local team here at the University of Ottawa. The team realized a tremendous need when they noticed that 37% of the world's visible waste is cigarette butts. They decided to launch a social enterprise that collects cigarette butts and turns them into plastics to be resold into the raw materials market. In addition, it also provides employment to individuals with mental illness. In its first year, they've already hired three individuals and are on track to earn \$50,000 in revenue by May. They were able to finance the start-up costs through various business planning competitions and grants.

These are just two of the 259 projects that were run last year, and they provide a small snapshot of how our Enactus teams are using social entrepreneurship to improve the lives of people in need here in Canada. The ability to access social finance plays a key role in the success of these initiatives and their ability to scale.

To get a better understanding of what our teams achieve, we invite you to attend one of our regional or national competitions. These events feel like the Olympics of business; teams come together and showcase the impact of their results. Every year we send the best team from Canada to represent Canada at an Enactus World Cup and that moves around year after year. Last year it was in Beijing, this year it will be in Johannesburg, South Africa, and I'm pleased to

announce that we just heard that we have secured the Enactus World Cup. In 2016, it will be coming to Toronto.

In essence, Enactus Canada serves as an experiential learning platform for students to realize their potential. We run with an organizational staff of only 10 and work to build a community of experts and mentors around the students so they can be successful in improving the economic, social, and environmental health of Canada through their community outreach projects.

● (1645)

This framework not only allows for incredible community impact; more importantly, it enables the youth in our program to become the responsible business and community leaders of tomorrow by building the skills, talent, perspective, and knowledge they need to tackle the economic, social, and environmental challenges of the future.

I'll now move on to some thoughts on social finance here in Canada from our Enactus perspective. As we are mainly a capacity-building organization, these two recommendations we're offering relate to government building capacity.

The first issue I'd like to talk about is measurement. A significant challenge in getting private capital into the social sector is a lack of common language in measuring social and environmental outcomes here in Canada. 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. This makes it difficult for funders and organizations looking to support different ventures and charities, as it's harder to compare the impact. Therefore, our recommendation is to help support the use of common standards for measuring and reporting social and environmental impact here in Canada.

Second, the field of social entrepreneurship and social finance is emerging and evolving rapidly. This often means there is little awareness and understanding among mainstream investors and organizations that could benefit from social finance. We notice that many post-secondary institutions are not keeping up with educating and training students in these areas. There are a few new programs, but by far and wide it's not common. As social finance and entrepreneurship continues to grow and become a much more significant avenue for Canada to address social challenges, it is important for tomorrow's leaders to be ready for this new challenge. Therefore, our recommendation is to help support programs and initiatives that educate and train the future generation of leaders on social entrepreneurship and social finance. We believe this will build knowledge and expertise for the sector and help increase the investment pipeline down the road.

I would like to thank the standing committee for the opportunity to speak here today. I hope some of the suggestions were helpful.

Thank you very much.

The Chair: Thank you, Mr. Aiken.

Now we move to video conference to hear from Mr. Etmanski and Ms. Cammack.

Please proceed.

• (1650)

Mr. Al Etmanski (Founding Partner of Social Innovation Generation, and Co-Founder, Planned Lifetime Advocacy Network): Vickie and I have just come back from sharing our work in Europe, particularly in the city of Barcelona, which is quite fascinating. She'll tell you about that in a minute.

We will share the presentation. We are co-founders of the Planned Lifetime Advocacy Network, as well as the other things that were mentioned at the introduction. We're not speaking to you from Surrey. We're actually speaking to you from Vancouver.

I'll very briefly describe PLAN.

PLAN—the Planned Lifetime Advocacy Network—is now over 25 years old. It was set up to answer a question that nobody in history had ever had to answer before: what happens to people with disabilities when their parents die? We started this organization in Vancouver thinking that it would be a small pilot project. It has now spread to over 40 locations around the world. This is the first time in history that people with disabilities are outliving their parents.

PLAN started with a very small grant from the federal government. Once that grant was over, we operated without any government money and have been independent of government financing for over 25 years, so we are a social enterprise.

I'd like to tell you about two particular elements of social financing: one, our work in creating the registered disability savings plan; and two, a social purpose business called “Tyze”, which Vickie started.

Before I do that, I want to share a couple of biases. The first bias is that we are not particularly interested in social finance if it does not get to the roots of our social challenges. We spend an awful lot of money in this country basically remediating poverty, homelessness,

and issues facing people with disabilities and the like. If all we're doing is rearranging things and finding other sources of money, we're not particularly interested. We think social finance can be used to actually get to the source, to get to the roots, to go upstream, and to deal with issues of prevention. That's bias number one.

Bias number two is that we are less interested in securing new sources of funding, although that's a worthy effort. We don't think that in the short term there are going to be a lot of additional funds coming from the private sector. We think that will be a much slower process. We are particularly interested in social finance because it gives people an opportunity to leverage the existing resources and to have money coming from different sources working better together.

That brings me to my third point. We think social finance has to be lodged or anchored within the context of what many of us around the world are now calling “social innovation”. Social innovation invites all of us to look differently at our toughest, most stubborn social problems. It invites us to do five things.

One, it invites us to rethink our solutions, to be more open-minded and not simply focus on the way we've always done things. Two, it invites us to work together differently. Three, it invites us to use technology when appropriate but not to become overly fascinated by it. Four, it invites us to use our money wisely, which brings us to social finance, of course. Five, it gives us an opportunity to scale, and another bias Vickie and I have is that already in Canada there are solutions to our toughest social problems: they're just orphans and they're not at scale. Social finance gives us an opportunity to do that.

Let me very briefly talk about the registered disability savings plan. If a family or a person with a disability were to put the equivalent of a Tim Hortons double-double and a doughnut aside every day, in 30 years they would have over \$350,000—depending on the interest rates available to them—to spend on what they see as appropriate for their life in the world. The registered disability savings plan is the only one in the world, and it involves leveraging government, foundation, family, and individual contributions to enable the person with the disability to finally have a bank account and to have funds that he or she can control, as opposed to being at the mercy of a service delivery system that's been set up through the non-profit sector.

●(1655)

I won't get into it in a lot of detail, although I'd be happy to answer any questions on it. Today there is over \$2 billion in deposits by people with disabilities in RDSP accounts, and they are essentially fomenting a revolution in how we look at supporting people with disabilities. Clawback is being eliminated by most provinces and territories. The ability to earn and accumulate assets is now policy in most provinces and territories in Canada.

Finally, I think it is providing an opportunity for us to rethink how we approach poverty not just for people with disabilities but also for the other tens of thousands of Canadians who are in poverty.

We think this is an example of government, private sector, and the community sector working together to solve a brand new social challenge, which is what happens to people with disabilities when their parents die; and, too, providing some advice and perhaps a model for how we approach some of our other tough social problems.

I'm now going to pass it over to Vickie to tell you about another invention that came out of our work with PLAN.

Ms. Vickie Cammack (Founding Chief Executive Officer of Tyze Personal Networks, and Co-Founder, Planned Lifetime Advocacy Network): Good afternoon.

One of our two core pillars at PLAN was addressing the financial security of people with disabilities, but the other one was addressing the fundamental issue, which was their isolation. At PLAN we created a very strategic and focused process to develop personal networks. We determined that in order to spread this process to people with disabilities and their families and to many people beyond, we could better distribute our solution in the container of a social mission business, which we call Tyze Personal Networks. We took advantage, really, of a trend around technology, so this is all the social networking technologies that are out there, in creating Tyze. Tyze, if you want to think about it, is like a very personal, private Facebook for people to coordinate care around a person vulnerable to isolation. When we created Tyze, we realized that isolation is a 21st century challenge and that isolation is costly. There are many studies that talk about it as a determinant of health, including that its effects are more detrimental than that of smoking. So Tyze as a solution was created for people with disabilities, people who are aging, people who are experiencing challenging diseases and so on, anybody vulnerable to isolation.

Funding to create the business began within the charity. It came from a number of foundations in the United States and Canada. We created the business plan and the prototype, and then we launched the business as a private business, owned primarily by the charity, but also owned by private angel investors. We were actually able to blend funding to launch this business.

The business model was always designed around making the solution accessible in a way that was inclusive, accessible, and affordable. Our model was to sell Tyze to businesses or non-profits and charities that were serving people vulnerable to isolation. As we began to grow, we began to dance between the two worlds of business and charity, which led us to a few more private investors, but also to a number of foundations and so on that wanted to invest,

but couldn't because of the nature of the container, the private business container.

In terms of a business model, again, with this inclusive, accessible, affordable design, we were didn't fit into the traditional business world for mezzanine funding. We weren't looking for a fast exit. We weren't looking to make the traditional rapid economic growth. Our distribution was our biggest motivation. Mezzanine funding, a traditional term in business, was really very limited for a business like ours. We grew to 20 employees. Actually, there was some discussion around some investment by government, but, again, being a business was a problem. Project funding in a charitable container was widely available, but investment into the business was not.

Tyze itself was acquired a year and a half ago by a Canadian charity, Saint Elizabeth Health Care, so in that way it's a very good story, and Saint Elizabeth continues to maintain Tyze. The big learning for us has been that the potential of social finance is so great and the potential for partnership with government for really wide-scale distribution is extraordinary. The challenge becomes in the ways and means of these various containers and structures to be able to work together. How does a social mission business work with government, work with private investors, work with foundations, in order to scale it to its largest extent? This is particularly important when we're talking about something like Tyze, which works upstream to effect cost savings into our systems of care.

Thank you.

●(1700)

The Chair: Thank you very much. We appreciate your comments.

We're going to move on to our first round of questioning, and we'll begin with Madam Sims.

Ms. Jinny Jogindera Sims (Newton—North Delta, NDP): Thank you very much. It's great to hear all the presentations and I wanted to thank all of you.

I think for those of you from Surrey and speaking from Vancouver, you'll be pleased to know that it's -27°C or something ridiculous like that here, so you're probably glad that after Barcelona, you're doing it from Vancouver rather than being here.

One of the questions I have is one I've asked before, but I'm going to ask it again. Often when we talk about social financing, we hear about the importance of target population being engaged in the creation, design, implementation, and evaluation of the projects. That seems to be a core part of social finance, social projects. Can you tell me, based on your own experience or international examples available to you, whether target populations are routinely involved in every aspect of the creation of social finance initiatives and whether they are involved all the way through to evaluation?

I'll ask each of you to make a brief comment on that, please.

The Chair: Maybe we can start with Mr. Emmett.

Mr. Brian Emmett: I feel a little bit hampered in giving an answer to that without much specific knowledge, but the ones I'm aware of, which are basically demonstration projects on social finance, are things like the Peterborough experiment with respect to recidivism, the Rikers Island experiment again with respect to recidivism, and, I believe, a similar experiment in Boston.

I'm not familiar with any large-scale experiments in Canada. There are demonstration projects, but my impression is that those don't necessarily involve the target population very much. I think they are kind of bureaucratic technocratic exercises in developing a results-based model and bringing investors who think about the world in a businesslike way, a technocratic way, to link investments to specific defined outcomes that are probably technically developed between the charity and the government.

Ms. Jinny Jogindera Sims: Thank you.

Mr. Preston Aitken: From our perspective the vast majority of the work we do is definitely working with the target audiences. In fact when we do our training with our students and teach them how to start social enterprises or award the programming, it's part of the requirements in the needs assessment phase of the project that they work with their target audience and they get to understand the needs and challenges as specified by them. We use a process called "design thinking" in showcasing that. All along the way, they are monitored in terms of their involvement in the process, and that's something, as I said, that, from my perspective with the work we do, is definitely a part of that.

Ms. Jinny Jogindera Sims: Thank you.

Vickie.

Ms. Vickie Cammack: One of the things about technology is that it absolutely includes the individual, the target population, in every step of the design, and you're constantly iterating and measuring and refining based on that. So it has some of that kind of in-built design thinking, even if it is just for reference.

I would also like to speak to the whole area of how you know whether you're making any difference, how you know whether the work has any value. Certainly a big piece of our work at Tyze was about how we could measure what we were doing in a meaningful way. We use something called a "triple aim approach". We look at measuring the individual's experience, their outcomes, and the economic efficiency of the application. Those three pieces are really key.

The other piece out there that I think is relevant to your question is what some people call a social return on investment framework. This is a fairly nascent piece of measurement that is being used both in Britain and in some places here in Canada. I think it merits a lot more work, because we have to figure out how to value impact measurement as much as economic return when we're talking about social finance.

• (1705)

Mr. Al Etmanski: The only thing I would add is that the biggest example of social finance in Canada, and I would contend perhaps in the world, is the registered disability savings plan. You have

individual money, family money, government money working together through a distribution system of the financial institutions of Canada, the banks and credit unions and whatever. There is over \$2 billion in deposits. Individuals with disabilities are able to spend that money on what they see fit.

Finance Minister Flaherty essentially said he'd trust people with disabilities and their families to know what's best for them. So it's their decision, their bank account; they're dreaming of the future for the first time in their lives. They're thinking about owning their own homes, about putting a little money aside for retirement, of doing things way beyond what they're able to do under the traditional welfare formula in Canada. It's a brilliant example, and that's the boldness we think social finance offers as opposed to tinkering around the system. It's an opportunity to be as bold as possible and to get the money directly where it belongs, to the individuals who need it.

I think about 80,000 people with disabilities in this country, or about 15%, now see their future differently than they ever did before.

The Chair: Thank you very much.

Mr. Butt, you have five minutes.

Mr. Brad Butt: Thank you very much, Mr. Chair, and thank you to everyone for being here.

I think we're going to have to get a tape of that. I think that's a pretty good commercial for the next election campaign for the Conservative Party; and God rest Jim Flaherty's soul, he contributed a lot. People with disabilities was a major area he spent a lot of time working on as Minister of Finance and as an MP and an MPP prior to that. What a legacy he's left for this country.

What is the biggest challenge in establishing a social enterprise? Is it financial? Is it operational? Is it getting the right community partners to come together? Is it administrative? Is it too much or too little government?

Mr. Aitken, you gave an excellent example of some of the projects you're doing, and maybe we'll start with you. What did you folks find as the major stumbling block or challenge in being able to get these kinds of things up and running?

Mr. Preston Aitken: With some of the projects in social enterprises that our students have done, I think the number one challenge, just because of the audience we work with, is the inexperience. The vast majority of business start-ups fail. The same can be said when you're working with youth. The social enterprise would be the first business they've ever worked on.

Beyond that, I think getting access to funds. Our teams fundraise collectively and get access to different sources of funds, about \$1.2 million last year, but across 66 university and college campuses, that isn't a lot. I think that's been a major hurdle as well.

Mr. Brad Butt: We want to go to our friends in Vancouver, because I think they have some specific examples.

Ms. Vickie Cammack: For me the number one challenge is not about starting. All kinds of incubators and programs are seeding initiatives. The number one challenge is financing for scale when profit is not the only motive. That's where the deep challenge arises and where I think the huge potential lies as well, creating new kinds of partnerships to do that.

• (1710)

Mr. Al Etmanski: I've just finished a book on the growth of social enterprise in this country. There is absolutely no shortage of innovation, creativity, and ingenuity in this country. As you've heard from our other colleagues in their presentations, there's no shortage of people who have found a way to prove that what they're doing works. The real challenge—and Bill Clinton said this himself—is to bring these solutions to scale. That's the challenge, as Vickie said.

If that is accepted as the challenge, then I would submit that we have to pay attention to the limitations of our existing welfare systems. Our federal welfare system and our provincial welfare systems are not enabling of that kind of creativity and ingenuity of the social enterprise sector or the non-profit sector generally, and they're not enabling of the so-called clients, the people who are the beneficiaries of these resources. This doesn't build resilience and the adaptive problem-solving capacity of people. We have a welfare system that was designed coming out of the Depression. That is party-line technology, not partisan—you understand what I mean. It's party-line technology, not even dial-up technology, and we are in a smartphone era.

I would invite you to think about social finance as a doorway into how we rethink how we take care of each other in Canada. Earlier, you mentioned the RDSP. When I met with Minister Flaherty around the concept, the first thing he asked me to do was to go and talk to all the other parties in Parliament, because he saw this as a non-partisan issue and as a way to reinvent how we take care of each other, for one small group of people. That, I think, is the magnificent opportunity that we have with social finance. All the other stuff... Social impact bonds are great, but they're just tinkering. We need to rethink how we take care of each other.

The Chair: Mr. Emmett, there are a few seconds left.

Mr. Brian Emmett: I think the other presenters have said it all: capacity, awareness, and, I would add, the constraints that are implicit in the Income Tax Act that constrain what charities are able to do with their earned income activities.

The Chair: Thank you very much.

Mr. Cuzner, sir, the floor is yours for five minutes.

Mr. Rodger Cuzner: Thanks very much, Mr. Chair.

Thanks to the witnesses. There have been some great insights.

I want to follow up with you first, Mr. Etmanski. I respect your comments and the work you've done. The disability tax credit is one. I agree that it's a great initiative. I lost a brother about 10 years ago who had cerebral palsy, and I know that my parents spent most of their adult life concerned about what was going to happen after they passed on.

I know that they would have taken advantage of the disability tax credit, but both of my parents worked. Many persons with

disabilities in the country... I've heard this time and time again. You're not saying—I would appreciate your comments—that the tax credit can be the be-all and end-all. Look at the changing of the eligibility for OAS from 65 to 67. We know about the disproportionate amount of hurt that brought upon the disabled in this country, the low-wage earners and the disabled in this country.

You're not saying that the government abandon support for these people. It's just that you see the merit in this type of social financing.

Mr. Al Etmanski: On the disability savings plan, I don't think anyone would argue that the revenue from individual disability savings plans is going to be enough for anyone to live on. It complements the current supports that we provide through our welfare system.

But I am saying that the hidden benefit of the disability savings plan that we've noticed is that now some provincial governments are beginning to rethink their whole welfare approach to disability. Because there is no requirement to report, and there is no policing through the disability savings plan, they're beginning to wonder now why they need to have social workers or welfare workers who are simply monitoring on a monthly basis the very limited resources that people with disabilities get. They're beginning to ask if they can rethink how we support people with disabilities and move it more into this asset framework and away from a welfare framework.

That's why I'm encouraging this kind of bolder thinking. It's the greater challenge. All of these social finance tools by themselves are not going to reinvent the system. We are a caring country. We allocate significant resources in this country, but I don't think they're as targeted. Social finance gives us an opportunity to bring in business discipline, to leverage other resources, and to make existing government allocations more targeted so that they go directly to the individual. That's the bold opportunity: to reinvent our framework of care in this country for the 21st century, because what we're currently using is almost 100 years old and it has all kinds of assumptions that no longer make sense.

• (1715)

Mr. Rodger Cuzner: Mr. Aitken, you had talked about education, and even Mr. Emmett had talked about educating the next generation of contributors. But when you're so close to the ground here with institutions, on the whole concept of social enterprise and social financing, are we seeing an institution that's doing a real good job? You guys are coming in and doing this outside of curriculum, but are there social schools that...? Mr. LePage did a presentation earlier, and he said that building business skills within social workers in this country would be a great asset.

Are there some schools that are doing it right?

Mr. Preston Aitken: Yes. I think it's definitely progressing, and it is progressing more quickly now.

I'll give you an example. My alma mater, Memorial University in Newfoundland, is actually introducing an MBA program in social entrepreneurship. I talked to the dean, Wilfred Zerbe, and he told me that because of the Enactus program and what we've been doing and the value and the skills they've been learning, they will be introducing that program. They received a \$500,000 grant through the McConnell Family Foundation to make that happen.

I know that Ryerson University is doing a ton of work in social entrepreneurship and social innovation. They are recognized as the first Ashoka U Changemaker campus in the country. They obviously have a pretty tremendous Enactus presence as well.

We're definitely seeing the trend in terms of more programs that are doing it; it's just not across the board.

The Chair: Thank you.

That ends that round.

Mr. Eglinski, you're next.

Mr. Jim Eglinski (Yellowhead, CPC): Thank you.

I'd like to thank the presenters for coming out and spending time with us.

I will be pretty blunt and pretty straightforward here. All three of you have basically been talking about social finance, but you're all on a different level of what you're looking at. I'll start off with Mr. Etmanski, but this question is for all of you.

I want to clearly ask you what role you see the federal government playing. I know we play a role already—we've helped and assisted—but what's the most important role we can play in your program?

Mr. Al Etmanski: There are a couple of things. One, a lot of the existing tax apparatus is pinching on the ability of social entrepreneurs to do what they want to do. I realize that other people have presented on that, so I won't get into that in detail, but I was a founding member of Social Innovation Generation, or SIG, which essentially launched the social finance task force in Canada. I'm quite sure you have that. That's a fairly straightforward approach, I think.

The bigger role, I think, is for our government funding as it's currently allocated to be leveraged with the other sources of revenue. I'm sorry for repeating myself now, but my fear is that social finance will come out from our federal government and only be seen as “We'll give you the money if you can find other players who will match it”. That is such a limited perspective on what social finance can do.

Somebody mentioned the McConnell foundation. They're a leading private foundation in Canada. They have now spent 15 years trying to think how they can leverage very little money to maximize the impact they are having, and they are proving to be effective. That's what we'd like to see our federal government do as well. Perhaps we could launch some social finance funds that are set up in a way that encourages this new mindset I talked about at the beginning: new ways of working together, new uses of technology to achieve scale, to address these substantive challenges we have in Canada, which we seem to be throwing more and more money at within the existing mindset while the problem only gets worse.

I hope I'm answering the question here.

The Chair: Mr. Aitken.

• (1720)

Mr. Preston Aitken: I completely agree with what was just mentioned. From our perspective—obviously we work with youth,

so I'm going to talk to that—we see the ability for the government to build the capacity of the organizations that are out there.

To give you the example of our organization, we're 97% privately funded. However, there are so many different opportunities and things that we're looking to do. We're one of many that are working in this space and doing great things. From my perspective, in terms of building the next generation of leaders who understand the terminology involved, who understand social finance, and who understand social enterprise as an opportunity, I obviously believe that this is where there's an opportunity for the government to play a role.

The Chair: Mr. Emmett.

Mr. Brian Emmett: I come back to my main point, that charities and non-profits are a really important component of the economy. I'd 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. There are recent examples of loosening the criteria to allow charities and non-profits to participate.

Second, I think the Income Tax Act needs to be looked at with respect to constraints on earned income activities of charities.

Third is data. One of the things we were talking about is the difficulty in defining results and therefore attracting capital. We can't do that without data and an adequate census.

Fourth, one of the things social impact bonds cannot do that only the government can do is redistribute income on a large scale. It's really important from the charitable and from the social justice point of view that the federal government maintain its commitment to those large redistributive programs.

The Chair: Thank you.

Madame Morin.

[*Translation*]

Ms. Marie-Claude Morin: Thank you.

Mr. Emmett, in your presentation you talked about how the non-profit sector is growing much faster than GDP. If we exclude social enterprises and look only at community organizations and charities, that is bad news, because we can see that needs are growing in our society. I don't know if you agree with me.

You also said that more resources will be needed because of that. There are problems. Stable, adequate, sustainable funding is needed. In that case, would social finance become additional revenue? Would it completely replace government funding for community organizations and charities?

[*English*]

Mr. Brian Emmett: Thank you.

There are about 85,000 charities in Canada and about 85,000 non-profits, so taking out charities from the larger picture reduces the numbers by around a half. The hospitals, universities, and so on continue to grow more quickly than the economy, and I think the point we're making is that growth is driven by demand; people need and are in growing need of what charities provide.

I think you're right in the sense that charities can only grow to the extent that the funds are there for them to grow, and that means we're going to have to be very aggressive about looking at all different sorts of financing, including donations, governments, earned income activities, and social finance. No one source will be able to provide financial stability in the charity world.

[*Translation*]

Ms. Marie-Claude Morin: Would social finance be additional revenue, then?

• (1725)

[*English*]

Mr. Brian Emmett: It certainly is not a global answer. I don't think you could say "we'll not rely on government and we'll rely on social financing"; that is just unrealistic.

[*Translation*]

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

Mr. Etmanski, when you talk about social finance, you are talking about a new financial tool, a new way of looking at community services, if you will, by getting to the roots. You talked about prevention.

I'd like you to elaborate on that, please.

[*English*]

Mr. Al Etmanski: I don't see social finance as a tool; I see it as a way of thinking about how we use our money.

We will continue to need donations. We will continue to need community foundations and private foundations in Canada to allocate their grants. We will continue to need government to allocate resources to our toughest social challenges. We hope we will have more and more business partners providing their investments here.

Finally, the social enterprise sector itself is earning lots of revenue, so those are five streams of resources.

One of the challenges is that those money streams don't talk to each other. They operate, to a large extent, in parallel. So social finance is a way of thinking about how to leverage these resources to maximize impact. That's the real issue.

I hope that clarifies your question a little bit. If I've missed something in there, please tell me.

The Chair: Thank you, Madam Morin.

[*Translation*]

Ms. Marie-Claude Morin: Thank you very much.

[*English*]

The Chair: Thank you for that answer.

We're going to move to Mr. Wallace to close it out.

Sir, you have two minutes.

Mr. Mike Wallace (Burlington, CPC): My question is for Mr. Emmett and Imagine Canada.

First of all, I have to be frank. We do agree with you. My wife works for Easter Seals and raises money for disabled kids in Ontario in our area, so we understand the challenges.

I believe there is a considerable difference between social enterprise and social finance.

I know what a coupon rate is, and I know what a regular bond looks like in terms of being able to figure out what its return is. Tell me, what does the coupon rate or this community bond they're talking about look like? For a potential investor, how is it defined? I don't understand.

Mr. Brian Emmett: That's a very good question.

In terms of social impact bonds, most of what you see are relatively small demonstration projects. They are sponsored by government, and government has guaranteed rates of return to the private investors.

For the one I'm familiar with, on Rikers Island in New York on recidivism, I believe the private investor is JPMorgan Bank. They've been guaranteed a rate of return of 20%.

Mr. Mike Wallace: My second and very quick question is, on the stretch tax credit, why are you not just advocating the change from 15% to 25%, instead of hoping that the 15% to 25% and the 28% to 38% will encourage people who have already given, to give more? I don't understand why you just don't go for a better rate than for a stretch.

Mr. Brian Emmett: We'd be glad to have both, actually.

I think the motivation for the stretch is twofold. First of all, as I indicated at the beginning, charities need more money. But we're also concerned about enticing new donors to enter into the charitable marketplace, if you want to use those terms.

Mr. Mike Wallace: Yes, but the stretch doesn't get new donors; it gets previous donors to donate more so that they get a better rate.

Mr. Brian Emmett: Right, and it gets non-donors to donate for the first time and to get a better rate.

The Chair: That's it, Mr. Wallace.

Thank you, Mr. Emmett. Maybe you two would like to have a conversation off to the side after.

I want to offer the committee's thanks to all of you for taking the time to be here.

I also want to add a personal touch to this. I'm the father of a 28-year-old intellectually disabled son. One of the big issues that my wife and I have at our age is exactly what's going to happen with our son when we're gone, because he will outlive us, no question.

The comments made from Vancouver, via Surrey, were wonderful. Mr. Flaherty and I used to have many great talks about this because the Flaherty family has a son in the same situation as mine.

I just want to personally thank all of you for all you do in the sectors and how you're doing it. I think this study is going to be one of great value to this country, because when we have the quality of people doing the work you're doing on the various aspects of this, it can only turn out well.

Thank you for being here.

The meeting is adjourned.

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