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Mr. Phil McColeman

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

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• (1530)

[English]

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

Welcome to meeting number 52 of the Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities.

Just before we begin this meeting, which is carrying on with our current study, I'd like to introduce a gentleman who is here in support today. He's sitting at the back of the room. His name is Mr. Gilbert Dionne. Mr. Dionne is here, as was mentioned in our prior meeting, to support any of the community members who choose to use the paperless SharePlus system on your iPad. That has become an option. Mr. Dionne is here, and if you require assistance throughout the meeting or at any time, please indicate that to me, and we'll have Mr. Dionne notified. He'll move towards your position and he will assist you with whatever question you may have.

As I mentioned, we're here continuing with our current study exploring the potential of social finance in Canada. We have two witness panels today.

As we've heard many times throughout the course of our study, the United Kingdom has emerged as a world leader in social innovation and social finance. We're very pleased to have with us for the first hour, joined by way of video conference and representing the government of the United Kingdom, Mr. Kieron Boyle.

Mr. Boyle has a lengthy resumé working across the United Kingdom in government, but he joins us today as the head of social investment and finance at the U.K. Cabinet Office.

Welcome, sir. You will be presenting to us. Because you are our single witness here, I'm going to allow a lot of latitude and allow you to take as much time as is reasonable to present. We normally allow our witnesses 10 minutes, but certainly you're welcome to go over the 10 minutes if you wish. If you choose to do that, maybe I'll give you a signal when you're around 15 minutes, and we'll cut it off at that point.

Is that acceptable?

Mr. Kieron Boyle (Head, Social Investment and Finance, Government of the United Kingdom): Yes.

Thank you.

The Chair: Okay.

Please proceed with your presentation, and then we'll move on to the committee members posing questions to you.

Mr. Kieron Boyle: Thank you for the opportunity to have this discussion today. It's a real pleasure to be able to do so. Certainly the governments of the U.K. and Canada work closely together on many issues, social investment and social finance not least amongst them.

My name is Kieron. I am a civil servant. I work in the Cabinet Office, so our Office of the Prime Minister.

You'll excuse me for being a bit confused about what tense to speak in, at the moment, on the basis that we are in an election period in the U.K. We have a government; we don't have a Parliament. What I'll be speaking to is the broader policy sense of what has happened over the past 15 years or so within the U.K., rather than within any particular political government or specific political party.

The caveat over, there are a few things I'm hoping to cover today. I also really look forward to the discussion. There are three points I want to cover through the course of this presentation.

The first is narratives—how narratives have been a very strong part of the U.K. experience of social finance, and what narratives have been deployed by a variety of political parties and governments in support of this agenda.

The second is to pull out the U.K. perspective. I've sat on the social impact investment task force set up under the auspices of the G-8, and we've seen across the G-8 countries the important role of policy. I'll pull out some of the distinct policy developments in the U.K. that I think have been quite important for the development of this field.

I'll finish with a perspective on how, as a government, respective governments have tried within the U.K. to use the field of social finance to improve public services and services to the public within the U.K.

I'll give myself the challenge of doing all that in under 10 minutes, but do please let me know if I've gone way over.

A crucial point, I guess, is to talk about definitions. Definitions are everything here. Essentially, within the U.K. there seems to be two broad definitions that sit around the world of social finance. The first one seems to be social finance being about repayable capital that helps social organizations increase their impact. That's very much from the investee's perspective. There's a broader one that we used in the G-8 task force that was talking about social investment being investment that intentionally seeks and measures financial returns and social returns.

I think they're both right. It just pulls out the fact that there's a breadth to this. So much of this field depends on where you sit.

I said that narratives were important, so perhaps I could just give a sense of how this field has developed within the U.K. over the past 15 years. The field has developed out of a strong history and a strong sense of political support for the social economy and social sector organizations. That's really where this field has grown from. It has grown from a sense that as we look at the sorts of policy challenges that face governments in the U.K. and, I would argue, most developed countries, we have challenges where, when we look at demographics and we look at the types of social problems, they are complex, they are costly, and they are deeply interconnected. There's a question of whether public services, and particularly public services provided by the state or by a large government service, can actually be effective in tackling a number of those. There's been a particular and sustained interest in the role of social sector organizations within the U.K. in helping government tackle some of those challenges.

One challenge we've seen in the U.K. is that when you speak to a number of these social sector organizations about what will help them be more successful, or what some of the biggest barriers are that they face, they have historically said that it's access to finance. Now, some of that is reported. It might not be the biggest barrier, but certainly for a lot of organizations they feel it's the big barrier that they're trying to tackle.

I give that long story to say that this is how the field in the U.K. grew. It grew out of trying to tackle essentially the finance gap that exists for social sector organizations that trade and use businesslike approaches to tackle social problems. I think over the course of this discussion, we'll probably pull out that the field around the world is much broader than that. I think the field around the world is increasingly looking more agnostic about the types of organizations that are achieving social impact and looking at the role of finance in helping a broader range of organizations have a social impact. But within the U.K. this very much grew out of supporting finance into civil society or the third sector.

• (1535)

I said that the role of policy has been important. Within the U.K. there's been at least 15 years of sustained focus on how we can support the emergence of social finance and how social finance can be effective in supporting social sector organizations. I point out that it has existed across political parties. So the majority of the work that was started around support for social investment was started by the Labour government under Tony Blair and picked up and accelerated by Gordon Brown. Then our recent coalition government, headed by Prime Minister David Cameron, essentially carried on a lot of the

work, and I'll pull out the bits in particular that were carried out. But that is to say that there has been a sustained focus on this that has, among other things, allowed people like me, grey bureaucrats and policy-makers, to really look at and see and learn from what has been tried in the past, what worked from that and what didn't work, and how we should shape public policy as a result.

I won't go into a great deal of detail on all the policy interventions, but essentially there's a framework that we have used over the past six or seven years to think about how government can support the growth of the social investment market. That framework has three elements. The first has been about how we can attract capital into this market. How can you crowd in socially intended capital? The second barrier has been how you build demand for that capital. Put crudely, how do you grow the pipeline of organizations that are looking to take on investment to help them increase their social impact? The third area is how you connect the two. How do you build an enabling environment for social investment to take place?

I'll just very quickly go through some of what I feel are important developments within the U.K. On the supply side, a large initiative has been the development of an organization called Big Society Capital. Perhaps we can go into them in some detail later. Big Society Capital is a wholesale social investment fund, which we colloquially refer to as a social investment bank but really it's a wholesale fund. It is capitalized with dormant bank accounts that have been set up to cornerstone a lot of investments into the market.

We have also focused on the role of government subsidy in other ways, in particular tax relief and the role of tax relief in supporting social investment. Last year the coalition government launched a social investment tax relief, which I can go into more detail, but essentially it's trying to attract more private investors into smaller high-growth social ventures.

Then we've also been exploring—just to pull it out as it might be an area to discuss later—some of the ways in which alternative finance can support the social investment market. There's been a lot of work exploring the role of crowdfunding and peer-to-peer financing, and how that can support crowding in capital into a market.

The demand side is a more crucial area from my perspective in terms of the distinct role government can play, we focus a lot on capacity building, specifically to enable organizations to take on investment. Two recent programs that we trialled within the U.K. were part of a broader investment readiness program. The first one focused on larger organizations. This was called our investment and contract readiness fund, a pilot program of £15 million. Essentially that focused on organizations that had been trading for a while but needed some ground support to build up the sorts of business models or financial planning or back-office capabilities that would enable an investor to place money into them. For that pilot every £1 of government grant we put in succeeded in unlocking over £27 of private investment, which if nothing else has made it—and I've checked—the most successful U.K. business support program out there.

We also focused on earlier-stage social ventures, and backed by the Cabinet Office, a number of social incubators, essentially business accelerators that were typically combining public money and then private money, often from large corporates, and putting that into accelerated programs for very early-stage organizations that were looking to have a social impact. I can talk about how, very recently, the U.K. government set up a new foundation to try to build in some of that capacity building for the long term as a sister organization to Big Society Capital.

• (1540)

Also, on the demand side, we focused quite a lot on how we can open up public markets for social enterprises to deliver within. I won't get into a lot of detail on social impact bonds now, but that's essentially where they sit. I will go into some detail on an act in the U.K. called the Social Value Act. It's a very important development, in my opinion. The Social Value Act essentially said to commissioners of services within the U.K. that they have to consider the social value of a service when commissioning it, beyond, for example, just pure economic or short-term cost issues, the idea being that for many commissioners thinking about value in the round, this often means they're getting better value for money than just a very short-term focus on the cost of a service when commissioning it. We feel that things like that are just as important as these initiatives around crowding in finance.

Just very quickly, on the broader environment, I'm always kicked for saying this. It's the boring but important stuff typically. It's looking at very complicated questions such as fiduciary duty, such as the responsibilities of trustees, be they foundation trustees or pension fund trustees, and on what basis they are allowed to invest, and what things they can think about other than pure financial returns. Put very crudely, there are some complexities within the U.K. system, and I know from some experience in speaking to Canadian colleagues that some are replicated within Canada.

Just to give a U.K. example, there's a complexity that I can walk out of this room now, I can be accosted on the street by a charity asking me to give £10 to them. That's great, we can both do that. If they ask me to invest £10 with them, technically we could both be arrested then and there. The reason is that when I'm investing £10, this has stepped into a different realm of public policy and a different realm of regulation. It's the regulation on investments, where essentially punters like me are protected against certain levels of risk. But this is a complex world. If I'm willing to give my £10 to a charity, what risk am I being protected against, given that £10 is a 100% risk investment? So it's those sorts of issues that we're trying to get into.

Finally, one of the things that we noticed from the U.K. was that countries around the world are all looking at these sorts of issues. There's a lot for us to learn from one another. That was essentially behind David Cameron's intent to put social investment on the G-8 agenda, under the auspices of the G-8 to set up a social impact investment task force, essentially just to observe what is happening in each country in this field so that we can share best practices and learn from one another.

I said I'd finish with a third point, and I'm getting very close to my 10 minutes here. The third point is that the U.K. experience has

predominantly been around how you build a social investment market from a public policy perspective. We're now increasingly looking at how we as government work with, alongside, and through that social investment market, with and alongside true social enterprises.

One of the areas that brings us to is social impact bonds, or as I like to refer to them, social investment partnerships. Essentially, what are the opportunities where social investment can enable us to think about delivery of services to the public differently, enable us to innovate, at times enable us to attack issues through early intervention, rather than dealing with downstream consequences? Perhaps we can move into that in time and in discussion.

Hopefully, that's given a broad sense that within the U.K. this narrative has grown out of supporting the social sector, but it is now, I think, a much larger perspective on how social investment and the social economy are a large part of our economy as a whole. We focus in terms of policy on crowding in socially intended capital, building demand for it, and thinking about the enabling environment. Now it feels to us like an increasingly urgent challenge for governments: how do you work with and alongside these markets to deliver better services to the public?

• (1545)

The Chair: Thank you very much for that information. I was trying to keep up with you on my note-taking. I think I got some of the salient points down that you made, but my sense of it is that it's very broad and deep in terms of the amount of knowledge that you've gained through this, and also by going forward with it.

Now we'll move on to questioning by our committee members who are assembled around the table. The first round will be seven-minute rounds today, and we will start with Madam Sims.

Ms. Jinny Jogindera Sims (Newton—North Delta, NDP): Thank you for your very insightful presentation.

This afternoon we will be having credit unions in Canada presenting to us. They have sent a written recommendation ahead to members of the committee. They're asking for a new legal structure for social enterprise to be developed under the current Canadian Business Corporations Act.

Do you have any such legal framework for social finance initiatives, and can you speak a little bit more about it if you do?

Let me add just one other thing and that way you can do both of them together. Maybe you could also speak to any regular trade or tax changes that have been useful in your experience with social finance initiatives.

• (1550)

Mr. Kieron Boyle: Thank you, Madam Sims. I'm just capturing that. It's a brilliant question and a deep and complicated question in the U.K.

There is no single social enterprise legal form within the U.K. There are different types of forms that social sector organizations take. Crudely, there is a family. There are charity forms—and some charities trade and some charities don't—and then there are a series of forms such as member-owned societies, so co-ops, and industrial and provident societies.

Ten years ago in the U.K., a new legal form called the community interest company was developed. Essentially it was a response to the idea that a charity form—and charities within the U.K. are not allowed to issue equity—was too restrictive for some organizations that wanted to achieve social impact.

This is a regulated form. There is a community interest company regulator that essentially checks that community interest is being achieved by this form, but essentially the form itself is asset-locked. Typically it has been used, for example, when a public asset has been transferred to an organization—it might be a church hall, for example, or a school hall—and the idea behind it is that it's asset-constrained.

There is a very interesting question within the U.K. at the moment. We're starting to see that many businesses that are trying to achieve social impact are not choosing to take the form of charity, co-op, or community interest company. The reason is that these are all asset-constrained organizations. All of them have limitations on the equity they can release.

Some entrepreneurs are saying that puts too great a burden on them. They feel that they lack access to the same sorts of markets that can help commercial organizations scale and grow. We're starting to see a much more mixed economy within the U.K. Some organizations feel it's important to be able to say that they have certain mission locks and that those mission locks are about their assets essentially being locked. They have constraints, for example, on their profits and their dividends.

Some are saying that it's less important for them to be able to communicate or to be held by those mission locks. Still, they want to achieve social impact. For example, they're looking at things such as writing, within their articles of association, a strong social mission.

I think from a policy-maker's perspective, within the U.K. we feel that all of these areas have pros and cons, and in a way the policy-maker's challenge is to think about how clear the signalling between them is so that people can move from whatever and can set up the right sort of organization for the impact they're trying to have.

Just very quickly on the tax side, the majority of the tax benefits that we've advantaged to this area within the U.K. have actually been about replicating within the social sector the same sorts of tax reliefs that work for purely commercial organizations. For example, our social investment tax relief is modelled on an equity release scheme that applies to small, high-growth potential commercial businesses. It's an equity release scheme so, for example, it doesn't work for our charities that are not allowed to release equity. Therefore, we've made almost exactly the same tax relief but it works on debt.

Part of the reason we did that and modelled it so similarly was the result of design work we did with independent financial advisers who told us that they would find it easiest to talk about this tax relief if it looked very similar to whatever else was out there. In a way, anticipation of public take-up has guided how the coalition government has designed the tax relief at its base.

Ms. Jinny Jogindera Sims: Thank you.

This morning Dr. Marjorie Cohen, an economics professor at Simon Fraser University, spoke on CBC radio before giving a keynote at breakfast here on Parliament Hill called "Austerity to

Prosperity", something I know England knows a lot about, having lived through austerity measures there for many years myself. I was there during the Margaret Thatcher years. That's why I left and came to Canada.

She noted that Canada ranks behind other rich countries in its spending on social programs. Surprisingly, she said we even rank behind the United States in this category.

The concern I have is this. Is this going to be used or is this the government conceding that they have a limited responsibility in mitigating and improving social problems when we try to push more towards these kinds of projects? What have you got to say, and how has this played out in the U.K.?

• (1555)

The Chair: I must tell you, Kieron, that you'd have to do that in about 15 seconds. I know that's going to be difficult to do, so I'll ask Madam Sims if she'll yield the remaining 15 seconds to the next questioner. Maybe you will be able to address some of the issues in further discussions. As we go around the table, perhaps it could be handled that way.

Also, there's always the option that, at the end of our meeting today, you could submit to us, if you so choose, information to elaborate further on any of the questions or any of the conversations we're having today.

We'll handle it in that fashion because I need to be fair here with time allocation.

Now we move to Mr. Eglinski for seven minutes.

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

My question is very similar.

Here in Canada proponents of social finance, typically those on the left, fear that this will give the private sector too much influence and will ultimately be a method for the government to decrease spending on social finance programs. As a result of social finance, has the U.K. government completely handed over responsibility for social programs to the private and not-for-profit sectors?

Mr. Kieron Boyle: It's a very similar question, and a very live question within the U.K., Mr. Eglinski.

I will be careful here. I'm a civil servant, so obviously I can't speak for different political parties' philosophies in this area, but perhaps I can speak about how the debate has gone within the U.K.

The debate's essentially been about whether this is about a replacement of the role of the state or about the state essentially allowing itself access to different methods and ways of working that mean, with the same intent, its having more impact.

Certainly those who are proponents of it within the U.K. speak about the latter, and will speak, not about government ceding responsibility, but rather government saying, "Our responsibility is often to set the outcomes we would like to see, but we would like a rich diversity of organizations delivering against that."

Those who challenge that have said, firstly, "Is that true?" Secondly, they have questioned how effectively these markets are working in particular, although within the U.K., both on the left and the right, I think there is a strong degree of support for outsourcing to the social sector. Some on the left have questioned whether these sorts of models of outsourcing are truly getting through to the social sector or are being captured by large commercial firms, often, they would argue, to the disbenefit of the most vulnerable.

Those are some of the policy challenges that people like me look at. Certainly the narrative around social finance has been that it might be a way of addressing some of those risks of outsourcing, but it would be fair to say that within the U.K. there's still a very live and active debate on that.

Mr. Jim Eglinski: Thank you.

Having been through the implementation phase, is there any advice or are there recommendations you can provide as the Canadian government explores implementing similar programs?

Mr. Kieron Boyle: There is, and obviously it depends on the programs. I think I would pull out two in particular, though, Mr. Eglinski.

The first is that, over at least the past 15 to 20 years within the U.K., we have increasingly begun to look, from a public policy perspective, at how government can set up specialist and expert organizations to play a role within this market. So for example, we moved from government providing large direct investment funds to government setting up a social investment wholesaler that was independent of government. In a way, that was to do two things: to protect it from the challenges of operating in a political environment, and secondly, to build capability within the system and to build the market itself, rather than government being the biggest player.

I think the second thing, which we have not cracked yet within the U.K. and a lot of our focus is now looking at it, is essentially a constant challenge of public policy. How do you stop this being top down? How do you really involve the service beneficiaries or the social enterprises or social sector organizations in the design of these things that are essentially for their benefit? That is a crucial area in the U.K., which we are increasingly looking at.

• (1600)

Mr. Jim Eglinski: Have you noticed an increase in private and not-for-profit involvement and an interest in social issues since these changes have been brought forward?

Mr. Kieron Boyle: I think it's a complicated picture. In some areas, the answer is yes. I think within the U.K. a lot of what's happened on social finance would need to be understood within at least a kind of 30-year history of continued outsourcing, of the state being more and more comfortable with outsourcing services to private and third-sector organizations.

The past six or seven years, when there's been an acceleration of focus on social finance, has also been a time of considerable fiscal retrenchment within the U.K., a reduction in some of the grants that go to the social sector. So when we look at the data, it's pretty mixed. There is the extent to which social finance has engaged more social sector organizations in the delivery of services to the public, but

within a wider context, some of that being the victim of fiscal retrenchment in the U.K.

Mr. Jim Eglinski: Okay, thank you.

Were there any major regulatory changes that you had to undertake to implement social finance, other than talking about the regulatory person on the tax benefit part? Were there any other major regulatory changes that you had to make?

Mr. Kieron Boyle: The short answer is no, though now we are looking at areas in which we can support this to happen. We've found within the U.K. that often, although there is no prohibition to doing social investment, unless it's expressly admitted, people feel it's implicitly prohibited.

A number of the political parties are focusing now on how you can build out regulation that more expressly admits and allows the idea of looking at issues beyond financial returns, particularly for the managers of money. We haven't had to look, for example, at the role of the regulation around charities' ability to take on investment. I know that has been an issue that's being looked at within the Canadian context.

The Chair: Thank you very much.

Now we move on to Mr. Cuzner for seven minutes, sir.

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

I'd like to thank Mr. Boyle for his testimony here today.

Could you give me your take in general terms? The social impact bonds, are they used more to find efficiencies and to improve existing programs or more to develop new programs or new services? Would you have a general sense as to how they are used, one way versus the other?

Mr. Kieron Boyle: It's both, I think. I think there's an element of a Swiss Army knife here. It can be used in multiple ways.

There are 31 social impact bonds in the U.K. at the moment, in five different policy areas, including health, reoffending, youth unemployment, children at risk, and then adoption. We're seeing a variety of ways in which these are being used by public commissions.

Some are using these as a way of bringing innovation into the system, of essentially testing out ideas that they have a broad sense might work but not an absolute sense. They're keen to procure this for an outcomes-based approach and then to have a broader set of providers delivering this. They're using social investment to allow them to do that.

Some are looking at this area as a way of financing upfront interventions paid for by savings down the line, and essentially see this as the tool to enable them to do early intervention.

It's my gut feeling that over time we'll see both, but we'll see them going in slightly different ways. I think we'll probably start seeing much larger social impact bonds focused on things like efficiency savings, but we'll still see smaller dedicated social impact bonds looking at public service innovation.

•(1605)

Mr. Rodger Cuzner: In the case of trying to improve on a program, do you not go through the program and do your own assessment and say, “We can deliver this in a more efficient way”? Can you look at it and do an assessment first, before you move towards a social impact bond?

Is that the norm as well? Has that been your experience?

Mr. Kieron Boyle: Yes, absolutely.

Social impact bonds are a tool. They're a tool for better public services. They wouldn't be the first tool you start off with, particularly at the moment, where there's still an element of complexity to them. What we are finding is that in certain areas, and particularly around complex cohorts—for example, people with mental health issues, people presenting with a number of long-term conditions—it's been quite an effective tool.

Now, one of the challenges that's often asked in the U.K. is that if you know what works, why would you use a social impact bond? Isn't it an expensive way of tackling social issues? People I meet would agree, and say, “Yes, if you know what works, why on earth would you use a social impact bond?”

We do find that in a lot of areas in fact we don't know what works, or we only have a partial idea of what works. We might have some good evidence from a pilot in one area, but we don't know whether it will apply in another area. We also find that one of the big questions is that a lot of the benefits of a social impact bond could probably be handled through better public management of contracts, so why isn't that happening?

Mr. Rodger Cuzner: It is a fairly extensive evaluation process that you go through with the government managers that are involved, pretty strict criteria with outcomes, expectations. Is there a bonus system, or—?

Mr. Kieron Boyle: Yes. It is a strictly and tightly defined process where the public managers will look at the outcomes that they are seeking to achieve as specified to some degree—the outcomes they're trying to achieve, proof of those outcomes, and also the amount that they're willing to pay for those outcomes.

What that does is two things. One, it brings a degree of rigour, which you don't only get through a social impact bond, but it does come through a social impact bond. There's a second thing that we've started to discover within the U.K., which is a focus on outcomes starts to become a coordinating language.

Perhaps I can give a very practical example. In the U.K. we recently set up a £30-million social impact bond fund aimed at preventing youths becoming unemployed. What it was doing was intervening in youths aged 14 to 17 to improve things like their school attendance and their grades, because we know there's a very high correlation between those sorts of outcomes among those aged 14 to 17 and the risk of somebody becoming unemployed at age 18 to 21.

What my team did, what the bureaucrats did here, was that we went around to different public service departments and asked, “How much do you benefit from that 18-year-old not becoming unemployed?” They all said different amounts. Our department for

benefits benefited the most for not paying unemployment benefits, but for example our Ministry of Justice and our Department of Health also saw benefits from this. They all essentially put in as much money into the pot as benefits that they gained from it.

The reason I go into some detail on that example is just to say that this focus on outcomes might be a way that we get around some of the silo spending streams that we sometimes see around trying to support people with complex needs.

•(1610)

The Vice-Chair (Ms. Jinny Jogindera Sims): Thank you very much for your presentation.

Now we go to my colleague, Mr. Armstrong.

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

I want to thank Mr. Boyle for being with us this afternoon. It's been fascinating.

I'm going to focus first on the supply side. I have a couple of questions there and then I'm going to move back to what Mr. Cuzner was on with the youth unemployment and your comments there. You talked in your presentation about three aspects of the supply side. The first one you focused on was the Big Society Capital. I've done a little reading on this and I think it's been fairly successful. I don't know if you would agree with that, but from what I've read about it has.

Can you describe what that is, how the funds were put into that particular fund, and how those funds are accessed by you? Could you just really quickly go through that for us?

Mr. Kieron Boyle: It's independent to government. It was capitalized with £600 million, and £400 million of that came from dormant bank accounts, so unused bank accounts where there was legislation that allowed those to be used for the purpose of supporting a social investment wholesaler. Another £200 million came from our largest high street banks. It's been set up to be independent to government and to be self-sufficient, by which we mean that, when it invests, it invests with the intent of getting its money back and covering its costs.

The way it predominantly works is by being a cornerstone investor in social investment funds and those social investment funds themselves specialize in certain areas, with different types of lending to different organizations.

It was set up in 2012 and it's been running for a couple of years. It's now supported over a hundred front-line organizations. When it was set up there were about eight funds in the U.K. and there are now over 30 of those funds.

I think perhaps crucially what it's done is it's unlocked about two times the amount of money that it itself has invested through private markets.

Mr. Scott Armstrong: So that fund's been able to basically seed the ability for these organizations to use that money to leverage other funds coming from other sources, both private and public, I'm assuming.

Mr. Kieron Boyle: It's predominantly private actually. There hasn't been much public investment alongside Big Society Capital.

Mr. Scott Armstrong: I want to step over to the £30-million fund you were discussing with Mr. Cuzner on youth unemployment, because you were kind of cut off there.

It's focused on 14- to 17-year-olds. It's focused on probably basic work skills and getting into the school, building some entrepreneurial skills, and some apprenticeships. Can you just focus on some of the details of how that fund is used?

Mr. Kieron Boyle: Yes. Essentially it's being used in a variety of different ways, none of which we as government are specifying. We have specified the outcomes that we would like to see—and I can send this if it interests the committee. It's things like school attendance, behaviour at school, grades.

Essentially we have done a lot of data matching to say, if you achieve those sorts of things, what is the likelihood that somebody becomes employed or unemployed at age 18? That's around our knowing how much we save when somebody's employed at 18 versus unemployed at age 18. We've been able to put a price on those outcomes occurring for ages 14 to 17. We then put that out to the market, and predominately social enterprises and social sector organizations have said they can achieve that. The way in which they're achieving it is even in the sorts of ways that you're saying.

Mr. Scott Armstrong: Just to be clear, do you actually follow the particular students and track them once they do become 17? I know it hasn't been around that long so it's probably a small dataset. But are you actually going to track the students who are going through these programs to see if this actually has the impact of improving their employment?

•(1615)

Mr. Kieron Boyle: Yes, particularly with these first social impact bonds that have been set up. They're heavily evaluated so they will be spotting the longer term outcomes for these youths.

Mr. Scott Armstrong: Is the government doing that, or is that the responsibility of some of these organizations?

Mr. Kieron Boyle: In the first instance, the government is funding most of that because we want to know whether this approach works.

Mr. Scott Armstrong: In the model that you put out there for the youth unemployment, the organization develops the curriculum or the program, the government provides the funds through the £30-million fund, and at the end, the government is responsible for the evaluation and the integrity of the program. Is that accurate?

Mr. Kieron Boyle: Yes.

Mr. Scott Armstrong: I want to go back to the supply side. You talked about some of the tax relief that you were using to inspire some private sector investment. Can you talk about some of the changes you made to the program so that organizations are more likely to invest in these approaches?

Mr. Kieron Boyle: Yes. Essentially, in a similar way as I said to your colleague Madam Sims, we replicated for organizations that aren't allowed to release equity, the ability to get similar tax relief as those that are. Beyond that, and beyond some promotion of that tax relief, we didn't do anything more, the idea being that there was a gap. There was not a level playing field for social sector

organizations in accessing the same sort of business tax reliefs that commercial organizations were.

We set this up. It went live late last year. A number of deals have happened already. Some have happened around social impact bonds as well, because social impact bonds were made eligible for this tax relief.

Mr. Scott Armstrong: Thank you for that.

When you're talking about tax relief, just how significant was that tax relief? Can you give us some examples?

Mr. Kieron Boyle: Yes. It's generous. It's a 30% tax relief on people's income tax to the same kind of qualifying amount. There are also a number of other benefits to it, for example, capital gains and similar other capital losses can be deferred through this tax relief. It is amongst the most generous tax reliefs that we have in the U.K.

The Vice-Chair (Ms. Jinny Jogindera Sims): Thank you very much.

I just have a follow-up question; it may be a clarification I'm seeking.

Having taught in England and knowing how the educational system works there, I have a question about this £30 million you've allocated to social impact bonds and to study important elements so 14-year-olds and 17-year-olds can be engaged. Is that investment actually into the public school system? Or is this money sitting outside for hiring some additional people, let's say, parole officers or truancy officers, to get the kids back into school?

Mr. Kieron Boyle: It has been sitting outside of that system, so there has been more than £30 million that has gone into social impact bonds within the U.K. It's closer to over £100 million pounds—

The Vice-Chair (Ms. Jinny Jogindera Sims): But the other—

Mr. Kieron Boyle: Specifically on this, it is outside the school system.

Now, interestingly, a number of schools have paid into this outcomes pot as well; i.e., they have paid in themselves because they would like to see these outcomes being realized in students who pass through their schools.

The Vice-Chair (Ms. Jinny Jogindera Sims): All of us would.

Thank you.

Now, we go to Madam Groguhé.

[Translation]

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

Good afternoon, Mr. Boyle.

You mentioned some of the risks of social finance. Could you give us some examples? Starting from that point, how can we avoid those risks?

•(1620)

[English]

Mr. Kieron Boyle: Thank you for the question.

Perhaps I can pull out two specific risks that we sometimes see in our work, one that exists for the individual investor, and one that exists for government contracting in an imprecise way.

For the individual investors, there is and remains the consistent risk that an investment will be put in front of them that they feel is offering both social returns and financial returns, but in some sense it is masquerading on one or the other of those. I don't think that is a distinct or unique risk for investors, but it is something within the U.K. that many in the field are concerned about, making sure that there is integrity to the social investment opportunities out there.

For government, beyond some of the conversations that we've had today around the political dynamics being complicated, around whether this is making the state more effective or replacing the state, there are specific issues that we have seen around payment-by-results contracts separate from social impact bonds.

One of the risks we have seen in payment-by-results contracts or payment-by-outcomes contracts is that this government is very accurate with pricing, and often some of the most vulnerable people can be left behind, essentially because providers will take an economic decision that they are not being paid enough money to help those people out.

Part of our focus in the U.K. on social impact bonds has been seen as a response to that by saying that if you can have a broader range of providers, including mission-locked providers—charities, for example—they are much less likely not to help the hardest to help, but much more likely to help them. In some sense there is more of a partnership going on than just a straight...almost like a football match where one team wins, either the government or the providers they are with.

Those are two of the particular risks that we hear spoken about.

[*Translation*]

Mrs. Sadia Groguhé: Clearly, social finance brings with it a lot of challenges. Some have been mentioned, including measurement and evaluation, which present huge challenges.

I would like to hear your views on the place of accountability and transparency in social finance.

[*English*]

Mr. Kieron Boyle: There are two perspectives.

The first perspective is to say that, just on the outcomes piece, this is a challenge. I would say that social investment within the U.K. is much wider than outcomes-based partnerships. They are potentially less than 10% of the social investment market within the U.K. People in government, like me, talk about it quite a lot because it is the bit that touches us.

In terms of your broader question, though, what are the distinct risks? I think that a lot of the challenges and complexities that social finance faces are actually no different than the sorts of challenges there are in any way that people are trying to translate their intent to have social impact into impacts occurring. It is one of the areas that we will discuss quite a lot within the U.K.: what are the distinct challenges of social investment beyond, for example, government contracting or people trying to see a social impact?

[*Translation*]

Mrs. Sadia Groguhé: You mentioned making the State more effective and social finance taking the place of the State. Do you feel that is realistic?

[*English*]

Mr. Kieron Boyle: I think it's realistic, but the state could be much more efficient than it is. At its core, one of the things that I believe social investment has the potential and capacity to do is to broaden the sense of partnership over who is trying to achieve social impact. I think that is a laudable aim and I think that can be achieved.

The Vice-Chair (Ms. Jinny Jogindera Sims): Thank you, Kieron.

Mr. Kieron Boyle: Social investment is only part of the answer to that.

The Vice-Chair (Ms. Jinny Jogindera Sims): Thank you. Being in the chair, I have to be really strict with the timelines. We only have a couple of minutes left, but I am going to hand it over to Mr. Butt for two minutes.

• (1625)

Mr. Brad Butt (Mississauga—Streetsville, CPC): Thank you very much, Madam Chair.

Mr. Boyle, thank you for joining us today.

Can you give us some of the results that have been achieved, in your view, through programs like the youth engagement fund or the fair chance fund? Have these been successful? Have the objectives been met in these programs? What has been the benefit of having private investment in these kinds of programs?

Mr. Kieron Boyle: Thank you for the question.

It's too early to say. The first social impact bond in the U.K. was set up—if we're just talking about social impact bonds—in 2012. The fair chance fund and the youth engagement fund were both set up within the last nine months, so they're just getting going.

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

In a way I've broadened out to say what is happening around accessing investment and private investment. Quite frankly, I'd look at the hundreds of millions of pounds now that have come into the social sector that would probably not have come into the social sector anyway, and I would look to the testament of social sector organizations who are saying that access to this sort of capital, not being dependent upon declining government grants or very expensive fundraising, has allowed us to free up the time and go out and do what we do best, which is tackle social issues.

The Vice-Chair (Ms. Jinny Jogindera Sims): Thank you so much.

Our time is up for today, but on behalf of the committee, I want to thank you for your very insightful and thought-provoking presentation and also for the very straightforward way that you answered the questions that were asked.

I know it's 9:30 in the evening for you right now, and you're probably looking forward to a jug or some food and a relaxing evening while we carry on. Anyway, enjoy the rest of your evening, and thank you so much.

Mr. Kieron Boyle: Thank you very much.

The Vice-Chair (Ms. Jinny Jogindera Sims): We're now going to suspend until our next witnesses are lined up.

• (1625)

(Pause)

• (1625)

The Vice-Chair (Ms. Jinny Jogindera Sims): We're ready to reconvene. We're now going to continue with our study to explore the potential of social finance in Canada.

For our final hour today we have Mr. Andy Broderick, vice-president of community investment at Resilient Capital and Vancity Credit Union. We also have with us by way of video conference from Toronto, Mr. Adam Spence, founder and chief executive officer of SVX.

Andy, can we have you make your presentation first?

• (1630)

Mr. Andy Broderick (Vice-President, Community Investment, Resilient Capital, Vancity Credit Union): Sure.

Hi. I'm very pleased to be back—or pleased to be here in person. Last time I appeared before the committee, I think it was a time of year I wouldn't have wanted to be here, but on a day like today it's lovely. Thank you for having me.

To be clear, I'm the vice-president of community investment at Vancity. I'll give you a little bit on Vancity. We're a \$19-billion financial institution. We're a co-op, member-owned. We have a business model that's unique and I think worth spending just a second on, because it's where our interest in Resilient and having a VP of community investment comes from. It's not always the most common thing in a large, or fairly large, financial institution.

Essentially, Vancity grew out of an experience where capital wasn't reaching markets that it needed to. There were members, people living in Vancouver, who couldn't get capital. Without going into the origin story, which even I am getting tired of, it is really the foundation of the credit union; it hasn't been lost. Central to the way they look at their business is that the best business really is finding markets where capital hasn't been going. It's not avoiding those markets but actually identifying them and moving into them in a thoughtful, managed, and evaluative way.

That's my job. I'm in charge of business development for Vancity in terms of community investment. Our overall big, hairy, audacious goal is to have as much as possible of the \$19 billion of our members' money invested into capital-restrained areas of the economy, capital-restrained communities, places where the investment will really make a difference in terms of how the people in

British Columbia live and how people in the communities of our members live and survive.

Resilient is just one example of that, and I think it's an interesting one. It also leads into I think some national issues around the development of the sector. You can call it social finance or you can call it community investment, but it's an increasingly important sector, I think. As governments have re-evaluated their roles, have tried to get more thoughtful about what those roles should be, and have been under, to be honest, economic constraint in terms of investment, it becomes I think more important to be mindful of how to build capacity in communities to move capital in effective ways. Resilient is one small example of that.

Resilient is one of a number of funds across Canada—there aren't very many, probably eight or 10—that are attempting to provide capital to social enterprises, non-profits, businesses that are working to improve the environment. They could be for-profits as long as they have a mission base to them. It's where private capital hasn't gone, where they can't generally get bank financing. This is sometimes referred to as impact investing, social finance, community investment—you hear all those terms. In Canada it's about a \$500-million market, probably a little under that. In the western economic world, it's about \$50 billion and growing considerably. I was just in Chicago last year, and the opportunity is really quite amazing.

At any rate, with Resilient we started from a couple of assumptions. We wanted to have a risk-adjusted return. Essentially, we were not asking for the investors to make any charitable donation. This was not based on a charitable outcome. We were having people actually invest in Vancity by buying a term deposit, a five- to seven-year term deposit, and getting a return on that term deposit that was consistent with what the market would give for a fully insured product.

The next issue is how do you make sure that if we by chance...? Our regulators might think we're doing less conventional lending; therefore, it's riskier. In other words, we're lending to these social enterprises or for-profit start-ups that generally can't find capital. Well, I might argue about the risk, but we did set up, in deference to that, a loan loss provision. In broad terms, it was about a \$15-million fund. We had about 20% of that fund available as cash from donations to securitize it. Half the donation came from Vancity and the other half came from the Vancouver Foundation. Basically it was a de-risk strategy.

• (1635)

In other words, because we're first actors in this and we wanted to show that there wouldn't be high losses, but we didn't really want to put the burden on the provincial insurance company that insures Vancity, we set up this loan loss, the belts and suspenders to protect the Province of B.C. and protect our members.

With those two things we went out and raised money. We raised, as I said, about \$15 million. Let me give you a quick summary of who invested, because it is important. These are the first actors in this sector.

We had 23 investors. We did not try to go retail. This was not aimed at average members. We were really trying to increase the familiarity and comfort of institutions with this kind of investment. There were seven foundations, two unions, two universities, two private companies, three non-profits, and seven high net-worth individuals that participated.

Essentially, the goals of Resilient were to provide this capital pool to help some of these B.C.-based non-profits and companies do their work. The other thing was to educate capital that was coming in about how it could be done in a way that was risk appropriate. In other words, you could get a return that was appropriate with the level of risk you were taking, and you could watch your capital activate important things in the community, watch it bring change.

The actual investees.... So far, of the approximately \$12.5 million we want to put out, we've put out about \$10 million in the last three years. It could all be out. We're actually being a little slow and thoughtful because in some ways we're trying to develop a portfolio that is more broadly representative of the sector, so it's a mixture of equities, a mixture of non-profits, a mixture of energy company start-ups. It's a risk mixture that's appropriate too.

We fully anticipate and hope we have a loss of around 5% to 10% because we wanted to be on the edge there. That's why we set up the loan loss. So far the loss has been under 2%, but it has been very thoughtful and intentional in terms of how we've gone about it.

So we have invested money in 23 groups, ranging from as disreputable a group as Corporate Knights in Toronto—I'm teasing, but this is a national fund. We've done a couple of things outside of B.C. We took a small equity investment in Corporate Knights. We have Salish Soils, a first nations joint venture, which is on the Sunshine Coast of British Columbia; as well as Tree Island Yogurt, a new organic yogurt producer in the Cowichan Valley of Vancouver Island.

There's broad diversity. There are some non-profits, some charities. We helped a group that works on land preservation bridge finance, essentially, for the acquisition of an important piece of land. They had a good fundraising history, but in general, most banks won't lend on that kind of collateral, on historical experience.

Anyway, it is a real, intentional approach to trying to set up the idea that you can have an effect on your community with a risk-appropriate, non-concessionary investment. As a company, you can go and find the capital you need to grow, because this was aimed at growth capital for certain organizations. Then, we really wanted to educate the investors as to the impact they were having, so we tied in a website and a private log-in for the investor community.

The Vice-Chair (Ms. Jinny Jogindera Sims): You have a minute left if you wanted to summarize.

Mr. Andy Broderick: Perhaps I could for just a second.

I'd like to say this is part of a community practice that I would argue.... I was eavesdropping, but you talk about studying this and studying that. I am concerned sometimes that there are too many people trying to solve the same problem in different ways, and sometimes it relates to building too diffuse a capacity and spreading the butter too thin.

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

If we have a few minutes, there will be some questions and there are some other groups I can talk about.

• (1640)

The Vice-Chair (Ms. Jinny Jogindera Sims): You will get a chance, because there will be lots of questions.

Mr. Andy Broderick: I hope that was helpful.

The Vice-Chair (Ms. Jinny Jogindera Sims): Now we go over to Adam Spence.

Mr. Adam Spence (Founder and Chief Executive Officer, SVX): Madam Chair and committee members, I'd like to thank you for the opportunity to appear before you today. I just want to also thank you for taking the time to study social finance and its potential benefits for all Canadians.

I also hope that I'm not coming at you live in high definition.

Just in terms of my remarks, I'll provide a bit of background on my work, our perspective on social finance, and some recommendations on how government can enable the marketplace. Today, I represent both the MaRS Centre for Impact Investing and Social Venture Connexion or SVX.

The MaRS Centre for Impact Investing is a national hub focused on building the Canadian impact investing marketplace. We educate stakeholders through research and events. We co-develop impact investing products and strategies, and we support ventures looking for investment as well as investors looking for investment opportunities.

The SVX is housed at the centre. We would describe it as a full-service impact investing platform that supports and connects impact ventures and funds with accredited investors who are looking for investments that would demonstrate both a positive social and environmental impact as well as the potential for a financial return. Think of it as a matchmaker and capacity builder for social enterprises and investors.

Over the past year, we've supported 28 ventures and funds. They've raised \$3.5 million on the platform. We see it as a cross-sectoral innovation led by MaRS, in collaboration with the TMX Group, Torys LLP, KPMG, the Government of Ontario, the J.W. McConnell Family Foundation, and others. We're a restricted dealer with the Ontario Securities Commission and the Autorité des marchés financiers in Quebec.

It's the first platform of its kind in North America, and we're currently working with partners to be able to expand into other provinces including British Columbia, as well as the United States and Mexico. We started our work because we feel we're faced with pressing problems at a local, national, and global level, from poverty to climate change to chronic health challenges. From community power ventures to affordable housing projects, there are a number of entrepreneurs who are building business models to tackle these problems and turning to investors for support. But there are a lot of barriers that these impact entrepreneurs and investors face, including capacity, time, and cost.

Impact ventures often lack access to capital and investment readiness, and on the other side, impact investors lack the resources to find and review these impact opportunities for investments.

So what do we do?

We conduct research. We identify ventures, funds and investors that meet our criteria. We educate. We provide tailored support to ventures and investors through training and templates on topics including impact investing, pitch readiness, and due diligence. One of our flagship programs in Toronto is called Impact8. It's an investment readiness accelerator for ventures.

We also review ventures and funds. Investors using our access criteria look at them in terms of their management, their governance, the finances they're offering, and their impact. Finally, we connect. We create connections between issuers and investors online, through in person events, webinars, and one-on-one meetings.

An example of one of the ventures we work with is Komodo OpenLab. They're a Toronto enterprise that develops low-cost inclusive technologies that facilitate the daily lives of people with disabilities. Komodo allows Canadians with mobility barriers or communication barriers to use their smartphones to carry out complex and simple tasks, from managing a business to ordering a cup of coffee. One of their challenges was access to capital, so we have helped them get ready for investment and connect with investors, and allowed them to achieve their desired impact.

Alongside SVX, MaRS is also developing a seed stage fund supported by Virgin Unite and a number of foundations, including Mindset in British Columbia.

In addition to that, we also organize international venture delegations and partnerships, sending ventures to New York City, San Francisco, and beyond, to secure investment and business development in coordination with local Canadian consulates. We've also helped to bridge partnerships between other jurisdictions like Ontario and California, with the Governor's Office of Business and Economic Development in California, and the Ministry of Economic Development, Employment and Infrastructure in Ontario.

When we think about social finance, our definition aligns with many sector stakeholders. We see it as investments that are made into companies, organizations, and funds with the intention to generate a measurable social and/or environmental impact along with a financial return. These investments typically require patient capital expecting reasonable returns, as capital may be provided to support solutions to our most pressing challenges, including sustainable agriculture, affordable housing, health and wellness,

clean technology, and education. For example, a \$5-million loan to help finance a 30-unit affordable housing project in Montreal would be an impact investment, as would a \$1-million equity investment in Investeco's sustainable food fund.

Social finance does not replace good public policy, good public investments, or good philanthropy, but it is a necessary complement to these approaches.

● (1645)

Social finance is not new. Canada has been a market leader for decades, from the Desjardins movement of the early 20th century, as well as institutions like Vancity, to the Mennonite Economic Development Associates in the fifties and sixties, to the emergence of leaders like BDC and TMX Group.

What is new is the momentum. That momentum is building in Canada and around the world in terms of institutional and government engagement, capital mobilized, and young and experienced talent motivated by this emerging movement. There are challenges that are limiting this momentum, including the perceived risk, regulatory and policy barriers, and a limited number of intermediaries to manage funds and build market capacity. We also need champions from all sectors to build and advance market development, and ultimately to achieve the impact that we are seeking.

Government can really play an important role in the development of the marketplace, particularly to unlock new capital. In line with the recommendations of the national advisory board to the G-8 social impact investment task force, we believe the government's role is to create an enabling policy and regulatory environment, to provide catalytic capital to build capacity and leverage private and philanthropic capital, and to provide leadership on social finance.

Let me just dive into a few of these examples.

We think government can unlock a significant pool of foundation capital with enabling policies and regulations. Canadian foundations have \$45.5 billion in assets. An allocation of 10% would unlock billions to tackle our most pressing problems.

While impact investments can be considered generally a part of a balanced portfolio, a number of impact investments are off limits for foundations. We certainly welcome the recent announcement allowing foundations to invest in limited partnerships. It is a good first step toward reducing these limits. We also believe foundations should be allowed to make below-market rate investments, where appropriate, to advance their charitable objectives, ensuring no part of these investments, or any associated opportunity costs, would be considered as gifts to non-qualified donees. These kinds of investments at below-market rate are needed.

Early-stage social enterprises or non-profit organizations seeking capital may not be able to offer risk-adjusted market returns. Many of these kinds of social finance arrangements require capital with different risk and return expectations for different investors. For example, a foundation might take a first-loss position in a fund or infrastructure project to leverage additional capital. In 2005, New York City and several foundations, including Rockefeller, contributed \$28.8 million to a capital pool that would absorb losses in the event of a loan default on the New York City Acquisition Fund. This first-loss guarantee helped to attract a number of banks, including Bank of America, Wells Fargo, and J.P. Morgan to raise over \$150 million.

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

This is a proven approach to incentivize investors, unlock institutional investment, de-risk investment pools, and create leverage in order to access and attract new capital. It has already been done in priority areas, including the federal government's venture capital action plan and Nova Scotia's community economic development investment funds. The U.K.'s Big Society Capital is a great international example.

Alongside the potential allocation of new resources, the federal government could also use existing and available capital from dormant bank accounts and/or provide a clear mandate to relevant crown corporations or relevant departments to support this type of investment.

Finally, beyond enabling policy and catalytic capital, the federal government can make social finance a public policy and political priority. Social finance can be integrated across all government ministries, departments, and agencies, from Aboriginal Affairs and Northern Development Canada to Western Economic Diversification Canada. You are all seeking improved outcomes, from better health, housing, and education, to investments in local businesses that also achieve economic, social, and environmental impact.

There are many models for this approach, from the leadership of the Prime Minister and the Cabinet Office in the U.K. to a comprehensive plan like the Government of Ontario's social enterprise strategy. You may also seek direct partnerships with other national governments on practical matters, from research to venture exchange to co-investment in industry infrastructure.

The key message I want to close with and deliver is that there is a broader definition and bigger opportunity for social finance in Canada. The federal government can play a vital role in breaking down barriers and accelerating market development through effective policy, capital, and political leadership.

•(1650)

We are faced with many pressing problems. Surely, we can confront them if we orient government, community organizations, businesses, and capital toward achieving greater impact.

I look forward to your questions.

Thank you.

The Chair: Thank you very much.

I want to thank Madam Sims for taking the chair for me while I had to step out of the room for a couple of urgent matters.

By the looks of things, committee members, we will have the chance for each party to ask one round of questions because the bells will start ringing at about 5:15 today, we've been warned, for us to go to the House of Commons to vote.

For our first round of questions, let's go to Madam Groguhé.

[*Translation*]

Mrs. Sadia Groguhé: Thank you, Mr. Chair.

My thanks to the witnesses for their presentations.

Mr. Broderick, in your testimony, you said that you provide capital for loans and investments in shares of companies with a social calling.

In your opinion, how is an acceptable risk defined in social finance? How do we get a handle on that?

[*English*]

Mr. Andy Broderick: Risk can be contained by good money management. In other words, it is defined by the terms under which the capital enters the market. You heard Adam talking about some that are prepared to take a below-market return. In a sense that's a certain quantification. You need to match the capital to the risk that is appropriate for it.

Again, I don't want to be evasive, but in my mind it's a very straightforward thing.

[*Translation*]

Mrs. Sadia Groguhé: Could you give us a concrete example where the risk was too high and, all of a sudden, you did not proceed?

[*English*]

Mr. Andy Broderick: Absolutely. There are a number of start-up entities that do not have a proven business plan. They have not entered into operations that demonstrated the plan, and it was not so obvious a proposal that it would make sense, so we say no.

Specifically it would be around a rooftop greenhouse proposal in an urban market where the actual marketing and purchasing plan was not clear enough.

•(1655)

[Translation]

Mrs. Sadia Groguhé: So, if we get on board with that view of capital loans, how do you see the place of accountability and transparency in social finance? Could you be more specific about that issue?

[English]

Mr. Andy Broderick: Yes. Accountability should be just as it is in the private market. In other words, I should lose my job if I lose money, and the market should gravitate away from people who take excessive risk and don't perform.

[Translation]

Mrs. Sadia Groguhé: How does transparency work in social finance?

[English]

Mr. Andy Broderick: Yes. Again, I don't want to sound like too much of a private market guy because that's not my background, but it works in the same way that a private market, when it's working well, works.

[Translation]

Mrs. Sadia Groguhé: It works in the same way.

[English]

Mr. Andy Broderick: There's good transparency. If people don't get their money back, they say, "Why did you hire that person? Why did this happen? This business failed." Again, there are repercussions that allow the capital to gravitate where it can be more effective.

[Translation]

Mrs. Sadia Groguhé: Okay. Thank you.

Mr. Spence, in terms of evaluation and measurement, what indicators seem useful for you in getting a valid measurement of social finance? Can you give us a few examples, please?

[English]

Mr. Adam Spence: Great question, thank you for the question.

When we look at impact, we look at it in three different ways. First, can you meet a standard of impact? There are a number of third-party standards that exist. One is the decorporation assessment, which is developed by a non-profit organization based in the U.S. looking at the GRI, or global reporting index. There were 600 different experts who worked on that and now it's been applied to thousands of different enterprises. There's also the Imagine Canada standard, which is a great one.

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

I think the third way to look at impact is whether people have the right kind of performance improvement plan to be able to change or improve their impact over time. My father was in quality assurance for 25 years in the steel business and he taught me, or said, that the best way for you to be able to improve your impact is to talk about it, think about it, and plan to improve it. When we think about how to measure or get a sense of impact, that's how we would bucket it: meeting a standard, having verifiable metrics, and then having a plan for improvement.

The Chair: Thank you very much.

We'll move on to Mr. Boughen for five minutes, sir.

Mr. Ray Boughen (Palliser, CPC): Thank you, Chair, and thanks to the resource people we have with us this afternoon.

I'll ask a couple of questions and either Andy or Adam can answer. In fact, I'd like to hear both of your answers.

First of all, we have social bonds. You folks didn't mention that, but we heard about social bonds from earlier witnesses. Can you share with us whether they have a place in your operation? If so, what is that place? Are they well accepted by investors?

Maybe we could start with you, Adam.

Mr. Adam Spence: Certainly, and thank you for your question.

At MaRS we are in the process of developing social impact bonds. We believe that they're a great financing mechanism for an intervention that has proven to have a positive social impact on a particular outcome or challenge area, and that needs to be able to scale. In order to scale it needs the right kind of capital to do so. That scaling of that intervention would subsequently improve the outcome and reduce overall government costs for a particular area. It could be homelessness, it could be a disease, it could be children in care, or it could be recidivism.

We believe that there are many successful interventions and successful models of social impact bonds. There are currently roughly 50 to 60 that are in operation around the world in countries from Australia to the U.K., and beyond. They have a particular and focused area of work where they can be successful. I think they're also a part of a broader movement towards outcomes-based financing focused on prevention and focused on better outcomes as delivered by government funds.

•(1700)

Mr. Ray Boughen: Andy, what's your experience with them?

Mr. Andy Broderick: I have a little less patience, given where the social finance sector is. That's not to say that there aren't good proposals around social impact bonds, but they're not really bonds. The framework of thinking about them in the way of bonds is, I think, confusing. While they may scale one operation, how translatable they are to another is unclear to me.

I think pay-for-performance is a good concept, but at this point in the development of social finance, and the role the government can play around the role of social finance, social impact bonds can be somewhat distracting.

I'll say that Vancity is looking at one now in partnership with MaRS and federal health authorities.

Mr. Ray Boughen: In your presentation, Adam, you talked about success and the approach to groups for help. What barriers are in your way when you're trying to approach groups for their involvement in the projects? What kinds of projects would the \$15 million fund?

Mr. Andy Broderick: I'll speak to that. Just to give you some specific examples, Corporate Knights was doing an expansion in Toronto. They are a group that works around corporate accountability and helping develop a more dynamic culture of corporations working to bring change. They needed some equity for an expansion and we supported them.

There was Salish Soils, which was to produce essentially soil for growth out of the results of a fish factory. It was a joint venture with a first nation and a private corporation. There was the Elizabeth Fry Society that needed a new facility, which they couldn't arrange for financing without us. It ranges over a big gamut and part of the goal was to show how many different elements of a community can be touched that people are familiar with and that might generally not be viewed as needing capital.

The Chair: That ends that round.

Mr. Ray Boughen: Thanks a lot, Chair.

The Chair: Mr. Cuzner, you have the floor.

Mr. Rodger Cuzner: Thank you, Chair, and I thank the two witnesses.

The witnesses that have been before the committee that have raised either flags or at least cautionary notes with regard to social investment. To generalize, it's been...

How do you build a fence around to make sure the importance of financial success doesn't trump the social outcomes, the social impacts that you're...? I think what we sense from those witnesses is that you pick a particular area of interest and they deal with it in this fashion. Then the organizations that have taken it on will take some of the low-hanging fruit, but maybe not some of the more complex and complicated issues within the realm of the issue. Then the government says, "No, we're looking after that, that's being handled." How do we guard against that idea if we want to make good recommendations going forward?

Mr. Andy Broderick: The suspicion around social impact bonds sometimes is that it's an offloading strategy—

Mr. Rodger Cuzner: Yes.

Mr. Andy Broderick: —and that you will have private sector actors who will pick the low-hanging fruit.

Mr. Rodger Cuzner: Yes.

• (1705)

Mr. Andy Broderick: It could be home nursing or any number of things that had been... I think it really focuses on who your partners are and how you build those partnerships and those intermediaries.

Just to give one concrete example, there is a group I'm working with called New Market Funds, which is run by a guy who came out of Bay Street, was very successful, and wants to move into this impact investing. New Market Funds is a financial management company. Its first fund is an affordable housing fund that only works in partnership with non-profit sponsors. That's one way.

In other words the clarity of which is that the value of the investment is in the control of a community-based actor who has a local board of directors and a long-term mission obligation, not just to capital but to performance in community. Those are the kinds of ways I think you lock in the value and I would encourage that. As investments move forward, and as the government looks for ways to have bright lights, they look to make sure it gets set up in a way that the partnership itself, or what's being facilitated, will lock the value into the community long term.

Mr. Rodger Cuzner: Would you like to comment?

Mr. Adam Spence: Sure, I'll pick up on that as well. I think Andy said it well in terms of having the right kind of intermediaries and the right kind of partnerships in community to be able to address or tackle these particular problems, and the right kind of data and right kind of problems identified by government and community actors.

It's all going back to the point that if we're trying to focus on social impact bonds, as has been delivered for example in Peterborough, they are one flavour or one example. If we're thinking about this in the context of focusing on prevention and focusing on outcomes, there's an array of different options and solutions that can get you to tackle the problems that you're facing. I think that as much as social impact bonds is an important part of the ecosystem, to think about social finance within the context of what Andy had talked about in terms of resilient fund cuts across a whole variety of different areas: housing, food, and health and wellness.

There's a range and an array of opportunities. If there's a means by which you can integrate social finance or bring it into the different ministries and parts of government, then I think you could really identify a great opportunity to get these different players excited and activated about how they can actually move money towards more good purposes and move business towards more good purposes.

Mr. Rodger Cuzner: You might want to elaborate just a little on the catalytic capital, just some specific.... You made reference to the Nova Scotia community economic development investment funds, I believe. Where are some of the areas you're seeing success?

Mr. Adam Spence: Certainly the Nova Scotia example is a great one as an incentive for investment for both individuals as well as, potentially, the institutions that can provide more capital to be able to support local businesses in the community, create local jobs, and local economic and environmental development.

Mr. Rodger Cuzner: Excuse me for a second. Could you share with the committee the tax benefits of that fund?

Mr. Adam Spence: Similar to programs that are dedicated to attracting more venture capital into a particular sector or area, there are tax benefits associated with a CEDIF. If you as an individual are investing in a nominated or designated CEDIF in Nova Scotia, you as an investor will receive a benefit on your income, which is advantageous.

Beyond the incentives there are also other pools of capital or catalytic capital that have been created with resources you already have at your disposal. In Canada \$532 million is sitting in dormant accounts that are currently managed by the Bank of Canada. In the U.K. they were successful in moving and motivating that capital into a new institution or intermediary called Big Society Capital, thereby being able to redirect some funds into the social finance marketplace to finance intermediaries and bring in other investors.

Not only can you use tax incentives as a way to get money from the retail public or from individuals that's then going to bring more capital to institutions and intermediaries at a local level, but you can

also bring in capital at a high level from existing government sources that can have a huge catalytic effect that could come alongside the Resilient Capital fund or New Market Funds, or the Community Forward Fund, or others. It's a proven approach and from a government perspective it is not adding a significant amount of money on top of existing allocations.

● (1710)

The Chair: Thank you very much.

We do have time, Mr. Mayes, if you choose to ask questions for three to four minutes. It's up to you.

Mr. Colin Mayes (Okanagan—Shuswap, CPC): No, I'm fine.

The Chair: Okay, if you would like to yield your time, I will thank the witnesses for being with us for the second hour of today's committee meeting. I'm sorry I didn't get to know you through the introductions at the start, but thank you so much for taking your time.

Committee members, the meeting is adjourned.

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