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Government of Canada and Social Finance

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GOVERNMENT OF CANADA AND SOCIAL FINANCE

1 CONTEXT

Before the convening of the 42nd Parliament, mandate letters from the Prime Minister to the Minister of Families, Children and Social Development and the Minister of Employment, Workforce Development and Labour included the direction to “develop a Social Innovation and Social Finance strategy.”¹

Social innovation has been defined as “proven ideas that work to address pressing unmet needs by applying new learning and strategies to solve these problems.”² In its development, social innovation can be understood to have three stages:

the emergence of an idea that identifies both a need and a proposed way to meet the need; the piloting of the idea on a small scale; and, finally, the third stage: “The third stage of the social innovation process comes when an idea proves itself in practice and can then be grown, replicated, adapted, or franchised.”³ It is at this third stage that social finance is often brought to bear.

Social finance can be described as an investment made for the purposes of achieving (a) a beneficial and quantifiable impact on society and/or the environment; and (b) an economic return. The title of the report of the federally appointed Task Force on Social Finance provided a shorter description: “mobilizing private capital for public good.”⁴ The private investment can take the form of a short- to medium-term loan, bond, mortgage or venture capital investment⁵ to service providers, such as registered charities, not-for-profit organizations, co-operative corporations or social enterprises⁶ that deliver social and environmental services.⁷

Although social finance is not a new concept, its specific application to social challenges traditionally funded by the public sector is a more recent phenomenon. It has been argued that the intractable nature of such challenges, together with fiscal constraints, has created a gap that social finance can fill⁸ by means of new approaches for the development, implementation and funding of initiatives to tackle these challenges.

This paper focuses on social finance at the federal level in Canada and discusses federal government initiatives and studies by parliamentary committees.

2 FEDERAL GOVERNMENT INITIATIVES

Several provincial governments have undertaken or are exploring social financing models, including variations on a social impact bond. Examples are Alberta’s Social Innovation Fund,⁹ Ontario’s development of social impact bond pilot projects,¹⁰ and Saskatchewan’s appointment of a legislative secretary for social impact bonds.¹¹ At the federal level, the government first identified an interest in social finance in Budget 2011 and made further references to social finance in subsequent budgets. In 2012, the government issued a “call for concepts” for social finance ideas, and has

since initiated some tentative experiments with social finance approaches. The following sections address each of these steps in the federal government's initiatives with respect to social finance.

2.1 FEDERAL BUDGETS

In Budget 2011, the government suggested that it was considering new funding approaches to community/government partnerships.¹² Budget 2012 indicated “that the Government will continue to explore social finance instruments as a way to further encourage the development of government-community partnerships.”¹³ In Budget 2014, the government announced that it would “continue to work with leaders in the not-for-profit and private sectors to explore the potential for social finance initiatives.”¹⁴

In Budget 2015, the government announced “the implementation of a social finance accelerator initiative to help develop promising social finance proposals.”¹⁵ This initiative is intended “to help promising social finance proposals become investment-ready, attract private investment and turn social entrepreneurs’ proposals into action,” and to “help to fast-track promising social finance ventures to a greater stage of investment readiness.”¹⁶

2.2 LAYING THE GROUNDWORK

In November 2012, the Minister for Human Resources and Skills Development Canada¹⁷ issued a call for “Concepts for Social Finance,” inviting “ideas on how for-profit organizations, not-for-profits, charities, foundations and individuals can fund programs to help families, seniors, and at-risk individuals in Canada.”¹⁸ The goal, the Minister said, was “to help identify future partners and inform how we can shape our existing programs to better support social innovation.”¹⁹

In May 2013, the Minister presented a report that provided, as examples, detailed information on 15 of the 150 submissions received and described the experience with social finance in other jurisdictions.²⁰ The report also committed the federal government to the following short-term next steps: “furthering the conversation,” “connecting partners,” “sharpening ideas” and “developing the tools.”²¹

“To support the many SFIFs [social finance investment funds] in Canada,” Employment and Social Development Canada commissioned a report to explore, through cases studies, best practices in social finance investment.²² The resulting document, *Eight Tracks: Impact Investing in Canadian Communities*,²³ was published in May 2014.

As noted above, Budget 2015 committed the government to the implementation of a social finance accelerator initiative. This initiative is designed to “build and apply practical skills and expertise through a combination of brokerage and advisory services, mentorship, networking opportunities, and investor introductions over a short period of time; thereby, quickening the developmental stages of innovative ideas.”²⁴

The “Statement of Work” for this project, which was released on 5 June 2015, noted that up to three contracts would be commissioned, to result in accelerators being established in the Western provinces (including the territories), Ontario, and Quebec and the Atlantic provinces.²⁵ It describes the objectives of the contract as follows:

[T]he Contractor will work with organizations that develop and implement activities to improve social and economic conditions in Canada and are interested in accessing financing through social finance ... or individuals wanting to launch such organizations.²⁶

The goal of this initiative, according to the Statement of Work, is “to develop investment-ready, innovative project proposals by a) providing business development services to build the capacity of participants; and b) connecting them with potential investors.”²⁷

After the completion of several interim steps outlined in the Statement of Work, each contractor is to submit a “lessons learned report” by 23 September 2016 and a final evaluation by 20 November 2018.²⁸

2.3 PAY-FOR-PERFORMANCE INITIATIVES²⁹

At the time of Budget 2012, Human Resources and Social Development Canada reported that through innovative financial arrangements in pilot projects it was “changing how the department supports community organizations to improve economic and social outcomes for Canadians.”³⁰ The department described these innovations as:

rewarding organizations that deliver pay-for-performance agreements that bring new approaches to addressing social challenges; matching taxpayer dollars with non-government contributions to extend the impact of not-for-profit organizations; and simplifying access to government funding for community organizations.³¹

In October 2013, the Minister for Employment and Social Development Canada announced Canada’s first social finance pilot projects. The minister suggested that, in the area of literacy, the projects would “bring new and effective ways of generating employer and private investments to help unemployed and underemployed Canadians develop the literacy skills they need to be connected to available jobs.”³²

In the Departmental Performance Report for 2013–2014, more details were provided about two pilot projects. The first “will test elements of a social impact bond and new ways to generate employer and private investments to improve labour market outcomes for Canadians.”³³ The second “will test whether performance-based funding (pay-for-performance) models for essential skills will make delivery of employment and training services more effective.”³⁴ Described as “transformative projects,” these initiatives were expected to reach 2,600 “low-skilled workers in multiple jurisdictions across the country.”³⁵ These projects were to be funded by monies from the Employment Insurance fund and from the Consolidated Revenue Fund.³⁶ To date, additional information about outside investors, payment structures and models of reimbursement is not available.

3 CONSIDERATION OF SOCIAL FINANCE ISSUES BY HOUSE OF COMMONS COMMITTEES

In the 41st Parliament, three standing committees of the House of Commons undertook studies that included an examination or consideration of social finance: the Standing Committee on Finance, the Standing Committee on Public Safety and National Security, and the Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities. Each of these reports, including their recommendations and the government's response, are summarized below.

3.1 STANDING COMMITTEE ON FINANCE

In 2012–2013, the House of Commons Standing Committee on Finance conducted a study on tax incentives for charitable giving. Its report cited testimony with respect to innovative funding mechanisms, including impact investing, social enterprise and investments by charitable foundations in innovative (and perhaps less proven) approaches.³⁷ One of the Committee's recommendations was "[t]hat the federal government continue to explore social finance instruments as a way to further encourage the development of government-community partnerships."³⁸

In response to the Committee's report, the government made a commitment to "redouble" its efforts with respect to several recommendations contained in the Committee's report.³⁹

3.2 STANDING COMMITTEE ON PUBLIC SAFETY AND NATIONAL SECURITY

In its 2014–2015 study on social finance as it relates to crime prevention, the House of Commons Standing Committee on Public Safety and National Security heard testimony from witnesses with expertise in crime prevention and/or social finance. An official from Employment and Social Development Canada described the government's approach to social finance as "a cautious incremental approach, testing social finance to see where it works best in Canada, and making adjustments based on early lessons learned."⁴⁰ An official from the Department of Public Safety and Emergency Preparedness told the Committee that the federal government "needs to support the development and implementation of social innovation and social finance tools."⁴¹

The Committee's 10 recommendations called for an expansion of social finance applications related to crime prevention,⁴² including:

- the introduction of "a pilot project of crime prevention programming developed through a social financing model";
- the development of more social-finance-inclusive criteria for funding through the National Crime Prevention Centre;
- the establishment of an advisory panel "to seek input into the development of social finance models of funding to enhance crime prevention programming in Canada";

- building relationships “with the various partners of social finance models, namely, investors, intermediaries and service providers”; and
- the development of models and roadmaps for the application of social financing to crime prevention in Canada.

In response to the Committee’s report, the government said that the Department of Public Safety and Emergency Preparedness “is currently working toward developing a pilot project to test the applicability of social finance models in the domain of crime prevention.”⁴³ However, the response also indicated that preliminary steps would need to include a review of evidence to determine the programs that might be appropriate for such a funding model and a review of the terms and conditions of the National Crime Prevention Strategy “to assess the extent of changes required to foster social innovation and the ability to pursue collaboration with the private sector in implementing social finance models.”⁴⁴ In its *Report on Plans and Priorities* for 2015–2016, Public Safety Canada committed to “undertake social enterprise pilot projects for federal offenders.”⁴⁵

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

In its study of social finance, the Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities heard testimony from witnesses who described social finance in terms of sparking and supporting innovative initiatives to address persistent and complex social problems; other witnesses, however, warned of challenges associated with social finance initiatives.⁴⁶ For example, measuring results requires the collection and analysis of relevant data, and entering into a social finance arrangement requires funding for legal support and expertise that would not exist among staff or volunteers of many not-for-profit organizations. In addition to these themes, the Committee’s report focused on the need for a regulatory framework for a social finance market, on the measurement of social impact and on the development of knowledge and capacity in the not-for-profit, public and financial sectors.⁴⁷

The Committee made nine recommendations with two emphases. The first was the creation of opportunities and incentives for private investment in social finance instruments; the second was to expand eligibility for existing federal contract opportunities to explicitly include not-for-profit organizations that can act as intermediaries and/or that deliver services directly.⁴⁸ The Committee also called on the government to explore social procurement, continue to encourage “cross-sector collaboration,” and work toward a “national strategy on the development of the social finance marketplace in Canada.”⁴⁹

4 CONCLUSION

Although the Government of Canada’s involvement in social finance has been largely exploratory to date, Employment and Social Development Canada and Public Safety Canada have laid important groundwork for future initiatives. The recommendations of the three House of Commons Standing Committees during the 41st Parliament

called on the federal government to amend federal regulations in order to include and encourage social finance innovation, to invest in building the capacity of all parties to be effective participants in pay-for-performance arrangements, and to play a catalytic role in encouraging the supply of private-sector capital to fund social finance initiatives.

As governments around the world and within Canada enter into social finance arrangements for the delivery of public services, the lessons learned from such initiatives are informing next steps in the application of social finance initiatives by Canada's federal government.

NOTES

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2. Human Resources and Skills Development Canada [HRSDC], [Harnessing the Power of Social Finance: Canadians Respond to the National Call for Concepts for Social Finance](#), May 2013, p. 9.
3. Geoff Mulgan, "The Process of Social Innovation," *Innovations: Technology, Governance, Globalization*, Vol. 6, No. 2, 2006, p. 153.
4. Canadian Task Force on Social Finance, [Mobilizing Private Capital for Public Good](#), December 2010.
5. Social finance is distinct from gifts and donations made to registered charities, since the impact of such gifts and donations is usually not quantified and does not result in a financial return for the donor.
6. A social enterprise is an organization or venture that achieves socially desirable goals by using traditional business models. For a summary, see: Susan Manwaring and Andrew Valentine, "[Social Enterprise in Canada](#)," *The 2012 Lexpert/American Lawyer Guide to the Leading 500 Lawyers in Canada*, Thomson Reuters Canada Limited, January 2012.
7. Canadian Task Force on Social Finance (2010).
8. For example, see Ele Pawelski, "[Challenges to Implementing Social Finance Policy in Canada](#)," *The Philanthropist*, 5 May 2015; and John C. Williams, "Letting Investors Take a Shot at Curing Social Ills," *The Wall Street Journal*, 23 September 2014.
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10. Government of Ontario, [Piloting social impact bonds in Ontario: the development path and lessons learned](#), 12 November 2015.
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12. Government of Canada, [The Next Phase of Canada's Economic Action Plan: A Low-Tax Plan for Jobs and Growth](#), 6 June 2011, p. 132.
13. Government of Canada, [Jobs Growth and Long-term Prosperity: Economic Action Plan 2012](#), 29 March 2012, p. 173.

14. Government of Canada, [The Road to Balance: Creating Jobs and Opportunities](#), 11 February 2014, p. 215.
15. Government of Canada, [Strong Leadership: A Balanced-budget, Low-tax Plan for Jobs, Growth and Security](#), 21 April 2015, p. 271.
16. Employment and Social Development Canada (previously HRSDC), [Social Finance](#).
17. Note that this department changed names several times in recent years; the most recent names were Human Resources and Skills Development Canada and then Employment and Social Development Canada.
18. Employment and Social Development Canada, *Social Finance*.
19. HRSDC, [National Call for Concepts for Social Finance](#).
20. HRSDC (2013).
21. *Ibid.*, p. 28.
22. Employment and Social Development Canada, *Social Finance*.
23. National Impact Investment Practitioners of Canada and Employment and Social Development Canada, [Eight Tracks: Impact Investing in Canadian Communities](#), May 2014.
24. Employment and Social Development Canada, [Social Finance Accelerator Initiative](#).
25. Public Works and Government Services Canada, "[Statement of Work](#)," *Social Finance Accelerator*, p. 1.
26. *Ibid.*
27. *Ibid.*
28. *Ibid.*, p. 13.
29. Service Canada describes pay-for-performance initiatives as those in which "the disbursement of payments [is] dependent upon the achievement of pre-determined performance targets and/or outcomes." See Service Canada, [Funding: Opportunities Fund for Persons with Disabilities](#).
30. Employment and Social Development Canada, *Social Finance*.
31. *Ibid.*
32. Government of Canada, "[Jason Kenney delivers a keynote speech at the Social Enterprise World Forum](#)," Address to the Social Enterprise World Forum, Calgary, 3 October 2013.
33. Employment and Social Development Canada, [Departmental Performance Report 2013–2014](#).
34. *Ibid.*
35. HRSDC, "[Supplementary Information Tables](#)," *Departmental Performance Report 2012–2013*, 2013.
36. Canada Employment Insurance Commission, [2012/13 EI Monitoring and Assessment Report](#), March 2014, p. 166.
37. House of Commons, Standing Committee on Finance, [Tax Incentives for Charitable Giving in Canada](#), 1st Session, 41st Parliament, February 2013, p. 21.
38. *Ibid.*, p. 26.

39. Honourable James M. Flaherty, Minister of Finance, [Government Response to the Fifteenth Report of the House of Commons Standing Committee on Finance entitled *Tax Incentives for Charitable Giving in Canada*, tabled 11 February 2013.](#)
40. House of Commons, Standing Committee on Public Safety and National Security [SECU], [Evidence](#), 2nd Session, 41st Parliament, 15 May 2014, 1540 (Siobhan Harty, Director General, Social Policy Directorate, Strategic Policy and Research Branch, Department of Employment and Social Development).
41. SECU, [Evidence](#), 2nd Session, 41st Parliament, 13 May 2014, 1540 (Shawn Tupper, Assistant Deputy Minister, Emergency Management and Program Branch, Department of Public Safety and Emergency Preparedness).
42. SECU, [Social Finance as it Relates to Crime Prevention in Canada](#), 2nd Session, 41st Parliament, February 2015, pp. 19–21.
43. The Hon. Steven Blaney, Minister of Public Safety and Emergency Preparedness, [Government Response to the Ninth Report of the House of Commons Standing Committee on Public Safety and National Security entitled *Social Finance as it Relates to Crime Prevention in Canada*, tabled 16 February 2015.](#)
44. Ibid.
45. Public Safety Canada, [2015–16 Report on Plans and Priorities](#), 2015, p. 10.
46. House of Commons, Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities, [Exploring the Potential of Social Finance in Canada](#), 2nd Session, 41st Parliament, June 2015, p. 4.
47. Ibid., p. 1.
48. Ibid., pp. 47–48.
49. Ibid.