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Chair

Mr. Phil McColeman

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

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● (1530)

[*English*]

The Vice-Chair (Mr. Rodger Cuzner (Cape Breton—Canso, Lib.)): I wish to call to order the 43rd meeting of the Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities. We will continue our study on exploring the potential of social finance in Canada.

For this afternoon's meeting, we have four presenters. We hope to have around 10 minutes for presentations. You're allowed to go shorter if you'd like on a Thursday afternoon, but make sure it's fulsome and get on the record what you'd like. Then we'll go to questioning.

With the format today, we'll have time for a five-minute round for each of the members on the committee, and I'll take the Liberal round from the chair, if that's good with everybody. In prior discussions, all were in agreement with that.

Appearing live and in person an old friend, Ian Bird. He's the chief executive officer for Community Foundations of Canada.

By video link, we have Tim Jackson from MaRS Discovery District as well as Sarah Doyle.

We have Stanley Hartt from Norton Rose Fulbright Canada who will appear by video conference.

We welcome all to our discussions. Thank you very much for making time to join us.

Sarah, would you like to start or is there any particular order?

Ms. Sarah Doyle (Senior Policy Advisor, MaRS Discovery District): If you don't mind, I'll let Tim kick it off and I'll take over from him.

The Vice-Chair (Mr. Rodger Cuzner): Mr. Jackson.

Mr. Tim Jackson (EVP Corporate and Community Development, MaRS Discovery District): Thank you very much.

Thank you, Chair and committee. Thank you for letting us appear by video. It is a bit of a bittersweet day today; we couldn't come up to Ottawa as the founder or MaRS, John Evans, passed away on Friday. So we have just returned from his funeral. Thank you very much for allowing us to do this by video.

MaRS, as you probably know, is a registered charity and is one of the world's largest innovation hubs. People often ask us why MaRS is involved in social finance and impact investing. MaRS started off as a support for the entrepreneurial community, particularly around health care. It expanded to clean tech and information communication technologies. I think there was a recognition that the innovative types of solutions that we require to support an entrepreneurial community are no different in the social innovation sector or social entrepreneurship sector. So four or five years ago the MaRS Centre for Impact Investing was created.

It has been supported primarily through philanthropic efforts, primarily through foundations as well as some corporate support, so people like the McConnell Foundation, the Royal Bank, the Hamilton Community Foundation, and others. The centre has striven to be the thought leader in Canada around impact investing and to provide services to a variety of groups and individuals. We provide services to governments, foundations, charitable organizations, and others that are trying to get into the impact investing world. We spent a good chunk of the past three or four years working on education. Most recently we have moved toward actually seeing money flow and working with individuals, foundations, corporations, and others who are actually moving money in the impact investing and social finance world.

We have been very fortunate to have had some wonderful support from governments across Canada. The federal government, as you may know, participated in a process through the G-8. Under David Cameron's leadership, the G-8 struck a task force on social finance, and I've had the privilege over the past year of serving as Canada's non-governmental representative on that task force. Siobhan Harty, from the ESDC, who I know presented to the committee, has sat as Canada's government representative. We've worked alongside ESDC over the past year and a bit on that task force. I will come back to the recommendations we're going to be making today that come out of the work of that task force.

Since 2010 the Centre for Impact Investing has published several reports. We have made those available to the clerk of the committee. They include a 2010 Canadian Task Force on Social Finance report. They include a report on the state of impact investing in Canada, the most recent being the September report of Canada's advisory board to the G-8 task force. So those have all been made available in both French and English through the clerk of the committee.

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

Judith Rodin who is the head of The Rockefeller Foundation has a quote, and I am going to get it somewhat wrong, but she essentially says that the issue is not that there's not enough money to solve all the problems we have, it is that the money is tied up in the stock markets as opposed to being invested in what we would call mission-related investing. We are happy to touch on that.

I know Siobhan took you through some of the basics of social finance and what role governments have. I think one of the important things to point out to a parliamentary committee is that social finance is not a replacement for public social expenditures, it's complementary. In some cases, particularly around some of the examples Sarah will give you, we actually think it can make public expenditures more efficient and do more and put governments in a position where in some cases they are only paying based on outcomes. We'll talk about exactly what that means to us.

● (1535)

So, where are we in Canada? One of the great things about having sat on this G-8 task force over the past year is getting a sense of where we sit on the global landscape. I think it's fair to say that we are at the leading edge of the second wave. The United Kingdom and the United States would be ahead of us. We're leading the next wave of countries, but it's growing at a very, very small pace. There's a role for government, particularly federal government, to play in providing some catalysts to free up capital for impact investing or social finance.

This in many ways is no different from the role government has played in some other sectors, such as venture capital. I spent ten years running a venture capital firm investing in early-stage technology companies. I think some of the recommendations we'll talk about from our task force follow what happened in terms of the role Canada played in jump-starting the venture capital sector.

For us, the government's role really falls into two categories. One is unlocking capital, and the second is providing an enabling environment. I mentioned the G-8 task force. Each country that participated was asked to form a national advisory group. We convened 24 thought leaders from across the country to become Canada's national advisory board. That group put together a report that we released in September of last year. The report broke down our recommendations into two sections. The first section dealt with regulatory change. These are things that will have no impact on the finances of the country, but would create an enabling environment allowing foundations, charities, and others to be more innovative, to be more creative. The second part of the report made some recommendations that do have a financial cost. Let me take you through two of each.

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

That recommendation addresses two challenges that we think exist. The first is that some investment managers struggle to get enough capital in the social finance or impact investment space, because people are still unsure about the marketplace and unsure about this new method of investing. We think government can play a role in providing catalytic capital.

Second is that some of the large pools of capital, such as pension funds, that have the ability to actually transform and change some of the challenges we're facing simply cannot find vehicles that are big enough. That's why we think a fund-of-funds approach is one possibility, where you would see the fund-of-fund alongside large pension funds, much as has happened in the venture capital space.

In both of those cases, the task force did not get into the specifics of what the mechanism should be—i.e., should government provide first-loss capital, should government provide tax relief, should government provide tax credits? We have said that this requires further consultation with the sector. I think the key is that government has a role to play but not to stand alone.

Let me now ask Sarah to take you through the second financial recommendation, and then a couple that are non-financial.

● (1540)

The Vice-Chair (Mr. Rodger Cuzner): Ms. Doyle.

Ms. Sarah Doyle: Another tool that is available to governments is outcomes-based funding. This is a tool that can allow non-profits to gain access to investment capital that wouldn't otherwise be available. It can be used to improve outcomes across a range of social issue areas.

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

I'll explain this very briefly. I think probably the term “social impact bond” is one the committee is by now familiar with, but outcomes-based financing can take a variety of forms. It can take a more traditional bilateral agreement approach, where you have a pay-for-success contract between government and a service provider, or it can take the form of something like a social impact bond, where investors provide for the cashflow or working capital that non-profits may need in order to implement some type of intervention pending the achievement of outcomes, at which point the government can pay if, and only if, those outcomes are achieved.

Those are the basics of the model. I would just stress that it's a tool, it's not an end in itself. It tends to attract both accolades and criticism, but I think it's one other tool that governments can consider as part of their broader tool kit. It has some obvious attractions because of the ability of governments to shift risk to private investors and the access it can provide to non-profits to be able to attract capital and scale up interventions that have a strong evidence basis.

I'll move on to our third and fourth recommendations from this national advisory board process, which are more about creating an enabling environment for other actors to engage in social enterprise and impact investment activity. I should just note that we're using “impact investment” and “social finance” somewhat interchangeably.

Our third recommendation is for the government to enable charity and non-profit sector social enterprise activity. This is primarily about regulations and guidance that originate from the Income Tax Act, which we would view as being somewhat out of date. They don't take into account the value of these emergent trends of social entrepreneurship and impact investment. It's worth noting that non-profits and charities are key providers of social services, as I'm sure the committee is well aware. They also have a very significant economic impact, with a GDP contribution that is in excess of $100 billion. A number of non-profits and charities for several years have been taking more innovative approaches to generating revenue in order to make their services more sustainable and to grow those that are successful to scale.

One example is Habitat for Humanity's ReStore programs. They use the sale of used or end-of-line building materials as a source of core funding for the organization's charitable activities, which are focused on creating affordable housing for low-income families. Another example is Eva's Phoenix Print Shop here in Toronto, which employs at-risk youth. It uses revenue from the print shop to provide services to those youth, including their salaries.

There's a lot of really interesting activity happening in the sector, but the current legislation and regulations are inhibiting a lot of this activity. They are creating barriers that we don't see any reason for. In particular, we think that charities and a subset of non-profits that have clear public benefit objectives should be allowed to engage in any kind of business activity without fear of penalty. We further think that some of those activities should be tax-exempt and some should be subject to income tax in order to deal with potential concerns about unfair competitive advantage.

Our fourth and final recommendation is to unlock foundation capital for impact investing. This is an important area, because foundations in Canada manage about $45.5 billion in assets and they are only required to put about 3.5% of that per year into their granting activities, while the rest is invested for profit. There is a real opportunity here, and we're seeing a number of foundations increasingly interested in allocating at least a portion of their endowments towards impact investment.

Currently there's a range of different impact investment opportunities available to foundations, but a number of them are off-limits. We don't think there's any reason for this. It's really slowing down the ability of foundations to consider these new types of opportunities. One of these is that foundations currently face barriers to investment in limited partnerships. For private foundations, there's a strict prohibition on carrying on a business, and for other charities there are severe limitations on their ability to do so.

● (1545)

Because of the legal definition of a partnership, a foundation that invests in an LP is considered to be carrying on a business, so this is setting up what we would see as an unintended barrier to impact investment. It's important from the perspective of building Canada's impact investment marketplace, because a lot of these opportunities, in particular funds and in some cases social impact bonds, are structured as LPs.

The other element of this recommendation is that we think foundations should be allowed to invest, where there's alignment with their charitable objectives, at below-market rates in any kind of organization. It's important to recognize that a lot of impact investments could be considered prudent from traditional financial perspectives, but there are impact investments that have significant merit and that may be expected to return something less than market rate. For example, we have seen some interesting cases in which tranched investing has been used in order to leverage more traditional or risk-averse investors on the backs of a foundation or other investors who are willing to take a first-loss position. An example of this is the Gates foundation in the U.S., which has taken first-loss positions in order to leverage in capital from other investors in the areas of early-stage drugs, vaccines, and health technology development. Their objective in doing that is to accelerate the development of innovative solutions to health challenges that are affecting primarily low-income countries.

Just to close that off, I would note that this is the type of investment that can be used to complement granting. It certainly isn't a replacement for it. In many cases, it would also provide a financial return allowing for a recycling of capital into further opportunities that would stimulate social impacts.

I'll conclude by saying that we think the federal government has a potentially very valuable role to play, both in catalyzing the marketplace and in attracting new capital into that marketplace, as well as in creating a more enabling environment for other actors to engage in these types of partnerships. Similar to the case of venture capital for business start-ups, this can provide very necessary financing to test and implement innovative approaches to address a vast array of social challenges the country is facing. It can also be used to put an outcome-focused lens in place to help demonstrate which of these approaches work best.

To round that off, I think as a leader in Canada's impact investment market, the federal government could accelerate its growth, driving the development and implementation of initiatives designed to improve social and economic outcomes for individuals and communities.

I'd be happy to answer any more specific questions you may have about that report or about the marketplace more broadly.

The Vice-Chair (Mr. Rodger Cuzner): Thank you very much for the comments.

We're going to move right along to Mr. Hartt for about 10 minutes.

Mr. Stanley Hartt (Counsel, Norton Rose Fulbright Canada): Thank you, Mr. Chair.

Thank you to the committee for inviting us all to appear.

I was also a member of this national advisory board, so I won't repeat what Tim and Sarah have so eloquently expounded, but I would like to drill down a little bit into why we came up with some of the recommendations we did.

In our tax laws, there is a built-in mindset that has the creation of wealth in a parallel universe to the dispensing of it for charitable purposes. The idea that the principles of hard-headed business rules could be adapted to and incorporated into regular activities of a thing we call a registered charity or a charitable foundation, or that profitable ventures could assist in achieving the objectives of a not-for-profit organization, is foreign to our current legislation.

Let me give you an example of how this works. I think you will find this so silly that when you are drafting legislation you will pay some attention to correcting this lacuna in our tax laws.

A charity is supposed to provide benefit to the public at large or to a substantial segment of the public. It may not provide a benefit to private individuals. If a charity were dedicated to providing skills training to the chronically unemployed, that would be okay so long as the charity did not actually contact a series of specific employers, ask them what skilled jobs they were having trouble filling, and work with them to develop a program through which those very skills could be delivered to a population being assisted, since if they do the latter they are providing a benefit to a handful of employers because the program would be producing workers who would be filling an actual demand and become gainfully employed when the course is completed.

This is actually the true story of a foundation that attempted to engage in that activity and found itself offside because charitable activities cannot be directed to specific people. Yet what's the point of skills training that is done without reference to the actual employability of the people being trained because of the failure to contact the employers and work with them to develop a course that would work?

Sarah has already covered the issue of charities losing their charitable status if they engage in a business activity other than a related business that is run by volunteers to the extent of 90% or that is linked and subordinate to a charity's purpose. A hospital can run a gift shop or a parking lot and apply their revenues to the hospital's budget, but it would run afoul of our laws if the commercial activity were more substantial or ambitious, even if the proceeds were all expressly directed to the good works for which the charity was founded.

There is a very good reason for this; it's the concept of horizontal equity. Charities are not taxed, and thus it would be unfair to a taxable enterprise to have to compete in its line of business head-on with a charity when the private entity pays income tax and other taxes.

The report indicated a solution, which Sarah has covered, suggesting a hybrid standard whereby business activities beyond those currently tolerated by our system would be taxed, subject to certain *de minimis* rules, but the charity would not be exposed to losing its registered status.

What we have to get over here is the mindset that charity is something very different from business, and that business can make a profit, and if it chooses to use some of the proceeds of those earnings for charitable purposes, that's all very nice.

There is really no reason charities cannot be motivated by seeking to engage in commercial activities, subject to the protections for the private sector participants in those activities, in furtherance of their aims. I see this as taking some of the burden off government. I'm not sure my colleagues emphasized this as much as I would have liked. I agree that this is not intended at all to replace government funding for certain non-governmental organizations' charitable activities or public welfare activities, but in fact it certainly does take some of the burden off government if, alongside government, there can be private sector entities that are investing in social ventures with predictable, measurable outcomes, and they are doing this using private sector funding.

● (1550)

Tim made an allusion to outcomes funds. This comes from the precedent in the U.K. where in 2005 they established a commission on unclaimed assets and recommended that unclaimed funds in dormant bank accounts be directed to a social investment bank to provide seed capital and loan guarantees to charitable and voluntary sector projects. it has since been put into practice.

Let me give you one example of how this was, in fact, applied in the U.K. In 2010 they issued a series of bonds called the Peterborough prison bond. Under this bond, the government pays, out of savings that result from the costs of incarceration, which are reduced, a return to private sector investors that escalates according to the rate of reduction in recidivism of a defined population of paroled and released prisoners achieved by the plan's managers.

Here is a situation where the government has an interest to lower the cost of keeping people in prison. Preventing recidivism is a good way to do that. The private sector investors buy a bond, and the government promises them, from an outcomes fund that it established out of these unclaimed bank deposits, a return if they reduce the recidivism rate by a certain percentage more than a control group does.

Interestingly enough, it turns out that the first batch of prisoners had a recidivism rate lower than that of the control group but not low enough to trigger the payment from the government outcomes fund created by these unclaimed bank deposits. That's a way in which government and the private sector can work hand in hand to do socially good things while seeking a profit, but having no profit guaranteed unless the results are produced. This is a change to the parallel universe that we now live in.

The unclaimed bank deposits were something that worked in the U.K. There, apparently, a dormant bank account just lies dormant forever. Here, after a certain number of years—I believe it's 10 years—they are translated to the Consolidated Revenue Fund. That would represent an actual cost to the government. That's why we have not necessarily recommended that particular source be used to create the outcomes fund.

You can see immediately how an outcomes fund is not just a claim on government but also a benefit to government. When you mobilize private capital for public good, you reduce the pressure on government and enable them to do, perhaps, more with their available funds. There is no part of this that recommends government do less.

That is my submission for now.

Thank you.

● (1555)

The Vice-Chair (Mr. Rodger Cuzner): Thank you very much, Mr. Hartt.

I was out of town on Tuesday; I didn't get the presentation from the officials. But this is turning into social financing in Canada 101 for me. I can see that I'm going to have to go back and study the blues a couple of times in order to get my head around this stuff.

Anyway, thanks very much for those two presentations by video conference.

Now it's my great pleasure to welcome an old friend from a different era. He did so much for sport development in this country, being a former national team member. Now he's bringing his skills to the Community Foundations of Canada.

Ian Bird, we'll give you an hour and a half to give your presentation. You have 10 minutes.

Mr. Ian Bird (President, Chief Executive Officer, Community Foundations of Canada): Thanks, Mr. Chairman.

In some ways your social financing 101 will benefit from me repeating again in a different way what Tim and Sarah and then Stanley took on. We're of like mind.

If I were to prevail upon the committee, I would say first—and maybe first and only—write your report, please, and table it collectively, unanimously. If this isn't ground that can withstand the vagaries of partisanship, it sure ought to be. This is fruitful terrain for parliamentarians to do their work together. If you could do that, it would provide a signal to those of us who are doing the work in social finance. It would provide a signal to those in the corporate sector and those in which patient social capital is currently on the sidelines. It would, of course, trigger other policy levers that are in the realm of the Minister of Finance and at Revenue and at ESDC and elsewhere. I know you take this work seriously, and it's valuable for us that you're doing it. I could maybe even stop there and say take the good advice of Siobhan Coady and the experts in the public sector who really know this stuff. We've seen them learn and engage with colleagues around the world, and that makes a heck of a lot of difference.

That's one outlook. The second outlook comes more from the work we do. We're community folks, right? Canada is unlike any other place in the world. We've gone about assembling 191 community foundations. They're in Nanaimo. They're in the north of Alberta. They're in the Okanagan. A community fund just opened up in Cape Breton, part of the Community Foundation of Nova Scotia. If you go around the room, almost 90% of Canada's communities now have access to a foundation.

They've been assembled because Canadians have had the desire to create them for one another. They have come about and benefited from really good policy work that makes it simple to give. You can give to a community foundation, as our family does and no doubt many in the room do, and you know the rules. You know the terrain you're playing in: you give a gift, and you receive the benefit of that tax receipt. That benefits you, but you benefit the community, and that's a healthy trade-off in a country like Canada.

All of that giving that then aggregates in a community foundation adds up. It's been adding up for almost a hundred years. All that giving is placed into endowments. Those endowments are invested. Right about now there's about $4.3 billion invested because Canadians have aggregated all those gifts over all those years, which means something like $200 million in grants are handed out, are dispersed, for everything you could think of that's of a charitable nature in our communities. That's happening right now.

All those rules are clear. We know what giving looks like. We know what grants look like. We know what a charitable purpose is. It all works for us. So we can easily, in Glace Bay, give a gift to Harvest House or to the food bank, and we know how that works. We can easily show up in Victoria, and the Victoria foundation can go about providing a contribution to that physical activity initiative that helps young kids get active, and they can gain the health benefits of that. We can support education initiatives in Winnipeg by giving a grant. That's super.

The part that Tim, Sarah, and Stanley have done such a great job on is pointing out that, when it comes to investing around those same purposes—which we all want to do across the 191 community foundations, with that $4.3 billion in capital that we want to invest in our communities—that is really hard. It's really easy to invest in the markets, right? It's crazy for us. Here we are. We're community people. We've assembled our capital. We want to put it to good use. We'd love to make a loan to the women's shelter or to a fund that's all about funding women's shelters, and it's really difficult to pull that off. We should change that. It's just as simple as that.

Do the things you need to do to change that.

Because we have something in the hundreds of millions of dollars on the sidelines, and in the billions of dollars across the whole foundation sector on the sidelines not doing that right now.

● (1600)

If we can change the environment, the policy environment and the regulatory environment, in the way that you just heard about, it will happen.

We could, for example, do really practical things. We could take part of one of our funds and enter it in a fund as a limited partnership —if we were allowed to—that could go about creating jobs for young people who are outside of the marketplace, where, as Stanley pointed out, the market failure is not helping them become employed. We could do that, but we can't do that because the rules haven't caught up with what Canadians want to do to strengthen their communities.

Please help us change that.

We could also make investments in what's technically called a PRI, a program-related investment, which is simply like saying, “Let's make an investment for which we won't worry about the full rate of return”. We don't need to get the same rate that we might get if we put it out into the traditional marketplace. Why? Because some things are different. How about social housing in the north? There are a whole lot of foundations that would rather make an investment there and just get their capital back, or maybe not even a return, or something just below market. Sarah knows this stuff top to bottom, so she'll tell you it's really difficult to do that. The PRI environment is murky. We've tried to get clarity. It's not there yet.

So engage folks like Stanley to write it up in a way that's clear. Figure out how to clarify that market, and we will be active in the social housing environment if you can do that. That's just one example.

There's another thing we're trying to do.

If you can, imagine this new market opening up, and in all sorts of communities across Canada there are community foundations. Let's say we meet our goal of having 10% of our capital available for community investment. We're talking about $450 million of patient capital. You're talking about a group of organizations, the foundations, like our leader, the Edmonton Community Foundation, that intimately know charities. For decades they've been giving grants to the charities. They know how they work. They know the good ones. They know the ones that achieve impact. They know the ones that are well governed. They know them. They're strategically positioned to be great investors, as the rest of us would be given the chance to invest in a small enterprise or as Tim used to do in his work on the venture side. It's like we're the social venture philanthropist trying to find useful ways to back a YMCA that's trying to expand its early learning services and that needs a loan. It's not going to get one in a traditional form, but it might very well get one from us, because we've worked with that Y for decades. Delivering on that is very difficult.

The second part that's difficult is that for the YMCAs, for the women's shelters, for the rivershed conservation groups, for the recreation organizations, or for the cultural sector organizations, there's a capacity-building job to do. There's a skilling up, a training up of those organizations so that they're ready to come forward with their business plans. That's fundamentally no different from the kind of thing that goes on all the time right now with small and medium-sized enterprises. There are extensive programs across governments, and as public-private efforts to skill up those small and medium-sized enterprises. Right now charities, public-purpose non-profits, don't have access to those programs. If they did, you'd see that women's shelter figuring out a great business plan so that it could offer those extra rooms and alleviate the challenges facing a family.

So there's my impassioned plea. On the ground in your communities right now, there's capital on the sidelines that wants to be put to public purpose, not to replace what governments would do, not to replace grant-making—for some things the grant is the right approach—but to add to our tool kit to make a difference in the communities.

Everything you can do to free up that landscape so we can do that will be greatly appreciated.

● (1605)

You've arrived with the right study at the right time to make that difference. Thank you.

The Vice-Chair (Mr. Rodger Cuzner): Thanks very much, Ian.

We'll move right along with questions, and I'll call upon Madame Groguhé.

[*Translation*]

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

I'd like to start by thanking our witnesses for their presentations today.

One of the witnesses we heard from was the director general of the Social Policy Directorate, Ms. Harty. She discussed social finance, saying that it was a beneficial tool but that it had certain limitations. One of those limitations is that it can't address every social problem and that it requires oversight. I'd like to ask you about those two things.

As far as what social finance can and can't do, social issues obviously can't respond to market logic. What are the limits around the scope of its use? Which areas of social interest necessarily fall outside its scope, and why?

Mr. Bird, I'll let you answer that.

● (1610)

[*English*]

Mr. Ian Bird: That's the world we live in all the time. We will receive requests from community groups for our engagement with them to strengthen their ability to deliver a service to engage a population group, to remedy a challenge, take an opportunity. We will look at it and we will ask about the right contribution we can make. Sometimes that contribution is through in-kind sets of services, what people can do for people. Sometimes it's the offering up of financial resources in the form of a grant. It's very difficult to feed someone on a weekend who doesn't have food unless you're just simply giving a grant to the food bank so they can ensure the food is there to sustain someone.

So the question about the limits is key. For us in our work at the community level, aligning the tool and the resources with the right approach is always going to be key. Right now we don't have access to that particular set of tools where entering into a loan or providing an opportunity for credit or opening up the ability for someone to make an investment with us is not available to us at this time. So there are your constraints. The constraint is around the availability of that one tool. It's going to be really important that we don't use it in the wrong setting.

[*Translation*]

Mrs. Sadia Groguhé: Very good.

Ms. Doyle, I'd like to hear your thoughts on the investments.

You talked about prudent impact investments. In your view, what are the risks to community organizations associated with that type of funding?

[*English*]

Ms. Sarah Doyle: I would start by clarifying that social finance is not one tool. Rather, it's a range of tools. It can include debt and equity investments and those can look like traditional investments or they could be at below market rate where there's a willingness on the part of the investor, for example a foundation, to take some loss or a lower rate of return. Outcomes-based funding models like the social impact bond open up access to investment capital to non-profits that may not have a revenue-generating model that allows them to repay a more traditional type of investment, just to put that clarification on the table up front.

In terms of the risks to community organizations, I would say there are no more risks than there would typically be in implementing any form of intervention in the social sector. There are implementation risks, execution risks. It can be challenging to get things right. I think what is hopeful and interesting about a lot of these impact investment tools is that they really put an emphasis on the importance of measuring impact, so we get a better sense of what works and what doesn't.

A lot of thought needs to be put in up front with those community organizations and with governments or other partners into identifying appropriate outcome metrics. You want to make sure that you're targeting the right thing. A lot of funding currently is more short term. For instance, you're asking service providers to report on how many people come through their door, as opposed to asking them, in the case of an organization that's targeting improved employment outcomes, to report five years from now on how many people who formerly walked through their door have sustainable employment.

What's encouraging to me about these tools is that we're looking longer term. We're looking at outcomes as opposed to outputs, and we're being more creative and thoughtful about the metrics that we're putting in place. But all of that requires a collaborative effort with the community organizations.

The Vice-Chair (Mr. Rodger Cuzner): Thank you very much, Ms. Doyle, and thank you very much, Madame Groguhé.

Mr. Mayes, you have five minutes.

Mr. Colin Mayes (Okanagan—Shuswap, CPC): Thank you, Mr. Chair.

Thank you to our witnesses today.

This is really quite interesting. As you mentioned about the foundations, Mr. Bird, Salmon Arm has had some great success with the foundation. It's quite a surprise to me how quickly the fund built up just because there are people who have contributed who just wanted to leave something to the community. It's been a great asset in our community.

I want to ask a little bit about the social impact bonds and how they differ from regular bonds. I know the words “social impact” and what that means, but is there going to be a need for a framework around that, guidelines that protect the investor and ensure that it's properly used for the purpose that the bonds are there for, and that it's managed? Do you see any regulatory framework that has to be produced by the provincial or federal governments?

A question I asked the other day at our meeting was who should champion this. This is a huge country and we have some challenges —regional diversity, demographics, and all those kinds of things. I believe the federal government can be a partner, but who should actually champion this initiative?

I ask all three of our guests to give us some comments on that, please.

● (1615)

Mr. Ian Bird: Why don't Tim and Sarah start on the framework side, and I can share a story afterwards?

Mr. Tim Jackson: Let me start by responding to the last question of who should champion it.

There are a variety of players. I think the role the federal government can play is providing leadership, particularly about being what we would call an outcomes funder.

At the Centre for Impact lnvesting we are working with a variety of groups and some governments—in some cases the federal government and in other cases provincial governments—where we have been asked to put together a social impact bond to meet a particular need of that government or an area they have addressed.

For example, the federal government would come to an organization like the MaRS Centre for Impact Investing, or another intermediary, and say, “We would like to address homelessness. It's a key area for us. Can you help us put together a bond?”

To give you an example of one that we are working on, there is an organization that deals with folks who are employment disadvantaged. They could be new immigrants or they could have a mental challenge, and they have trouble entering the workforce. There is an organization that helps to train those people to get them placed in jobs.

We have gone out and worked with that organization to ask, “If you could expand your offering and significantly increase the number of people you service, what would it take?” We then worked with a group of investors who are concerned about helping people get into the workforce. Those investors have said, “We are prepared to make an investment in this organization”, which will then allow the organization to rapidly expand. We are working with outcomes funders who have said, “This is so important to us that if you deliver results—but only if you deliver—we will make a payment and those investors will get their money back”. In this particular case, we're talking with a financial institution and a foundation.

Imagine the role the federal government could play if it said, “There is an issue area that is of concern to us”—whether it's poverty alleviation or whether it's homelessness—“and we will pay if social agencies reduce the cost to the taxpayers or reduce the cost to government, but we will only do it if there is a savings”.

We are comfortable that we can go out and find investors who will invest in the vehicle.

The vehicle can be a traditional investment where a bond is put up. An investor makes a contribution—a thousand dollars, a million dollars, whatever it might be. There is a negotiation between the intermediary who puts this together and the outcomes payer to ask, “On what measurement will you pay?” The repayment to the investor can be as little as nothing.

If the federal government says that it wants to reduce homelessness and targets the number of people for whom to find affordable housing, who would otherwise end up on the streets, it could say that if a certain target isn't hit, it will pay nothing, but if certain targets are hit, this is how much the government will pay. We would then structure a vehicle for those investors to generate some sort of return for them.

I think the role you can play is in having such a vested interest in reducing the cost of some of these outcomes.

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

That's the role I think the federal government can play.

The Vice-Chair (Mr. Rodger Cuzner): Mr. Jackson, thanks very much. We may have to have nighttime tutorials on this.

● (1620)

Mr. Tim Jackson: I'm sorry.

The Vice-Chair (Mr. Rodger Cuzner): We have five-minute rounds.

To the witnesses, could we try to keep it a little tighter? The information you're sharing is important, and I know you have to put some context and texture around it. I appreciate that, but still we're trying to keep to the five minutes.

Mr. Tim Jackson: My apologies.

The Vice-Chair (Mr. Rodger Cuzner): From the chair here, I'll take my five minutes, if I could.

All four of you have shared the same concern about the fact that this is meant to complement grants and not to be used to replace grants. Since that is coming from all four witnesses, I'm wondering if you are hearing on the ground now that people you're dealing with, some of the agencies you're dealing with, have either experienced losing grant monies or are concerned about grant monies drying up. Why did each of you express that concern?

Ms. Sarah Doyle: I can provide a very quick response to that. I would say, from what we've been hearing, there is a widespread interest in these tools as additive opportunities for accessing financing on the part of non-profits and other community sector organizations. We've been hearing fear, perhaps, on the part of these organizations that, if you'll forgive me, the government might misinterpret this tool as being a replacement as opposed to an additive opportunity.

I don't think that is necessarily a founded fear, but it's something that a number of community organizations have expressed concern about, so there is a desire to make clear, I suppose, that by no means are we saying, “Governments, stop funding the social sector. We have it covered.” Rather the message is, “You have some really great partners out there that you're not fully leveraging at this point in time”.

That's how I would answer that question.

The Vice-Chair (Mr. Rodger Cuzner): Mr. Hartt.

Mr. Stanley Hartt: Mr. Chairman, if I could just supplement that, it is true that nobody involved in this exercise wanted the government's role to be diminished. Some of the early drafts of the task force report began each chapter with the phrase, “The government should”. Also, I think that no one was out to use this as a technique for increasing government's role.

The important point is that government, which now is exposed to contributing to certain social needs, is doing so on the basis of rote. It repeats a grant every year, because it made the grant last year, and the whole point that is additive here is that you can structure a commercially oriented social finance instrument so that the outcome that is desired is actually now measured and is actually now paid for. In that respect, there is a savings to government because, in the example that I used, government would pay less to incarcerate prisoners. There are many others where government would otherwise make the payment and that's being avoided by the intervention of an entity that was funded through a social finance type of investment.

We can just regard this as neutral to government in terms of the beating on their chest to provide more funds but also beneficial to government because it creates a private sector outcome type test for things that government does not now test for.

The Vice-Chair (Mr. Rodger Cuzner): Mr. Hartt, you mentioned measurables. In this realm of social financing, what types of data are we looking at to measure the outcomes and to measure success, and what challenges will we have in trying to compile that kind of data?

Mr. Stanley Hartt: As a partial answer, this goes to the very first question that your honourable colleague asked about limits and framing the use of this instrument called social finance. Not everything that is worthy of being done is susceptible to measurement, so you have to have a situation in which the good work that is sought to be accomplished is susceptible to measurement and there are people who are willing to put invested capital into it in return for, as Tim keeps saying, either just their money back and the feeling they have done a good thing, or perhaps a small return that would be below market.

You would have a very limited number of places where the outcomes are measurable. When I say limited, I mean compared to the universe of all works that are done for the public good and the relief of poverty and other charitable purposes, but not very limited when you start to enumerate them. Finding work for otherwise unemployable people, preventing recidivism, housing people who would otherwise be unhoused—these things are easily measurable from publicly available statistics.

● (1625)

The Vice-Chair (Mr. Rodger Cuzner): Again, I'm under the time crunch myself. If on any of these questions, like a great question like the one that was just asked, the witnesses would like to provide a note on further support, by all means don't hesitate to jot down your ideas and your perspectives, and share it with the clerk.

From that we're going to call upon Mr. Butt, for five minutes.

Mr. Brad Butt (Mississauga—Streetsville, CPC): Thank you very much, Mr. Chair. It's a pleasure to have you in the chair today, it's always entertaining.

I only have one fault with Mr. Bird. He mentioned lots of community foundations. I don't believe he mentioned the great Community Foundation of Mississauga, but that's understandable. It's a relatively young foundation, but they have come a long way in a very short period of time. We're very proud of the Community Foundation of Mississauga and Eileen MacKenzie's excellent leadership there.

In all seriousness, a lot of these organizations do tremendous work.

I'm kind of a person who asks what makes a project, or a program, or an organization successful, and what makes it not successful. Can you give me a couple of sentiments from your view of successful social enterprise organizations you're familiar with, and what has made them successful in how they are operating today?

I realize a lot of what the committee will do is, “hopefully we're going to get some ideas of new things we can do, changes obviously government should look at and consider in the future”.

I'd really like to know. I have one of these you mentioned in my riding as well with Habitat for Humanity. I have a ReStore, which is quite successful in our community and does fairly good work. I think that's a good example of one.

Maybe I could get from each of you your perspectives. We can start with Mr. Bird, and then we'll go to Mr. Hartt, and our friends at MaRS. Can you give me a couple of key ideas of what makes a social enterprise organization successful? What are the key elements they need?

Mr. Ian Bird: Let's take the example of The Stop in Toronto, which is a community food centre. A group of committed change agents in that community found a way to pair up with some folks working in the private sector, and they said we can use our local food system as an asset here.

Instead of having some of the indignities put upon local residents as they accessed food programs, they said we're going to turn this into a community builder, and they changed the story. They are feeding more families, involving more young people, and learning new skills in food preparation. They are involved in gardens. You name it.

You ask the question what will really make them successful, and it's when they can scale their idea to other places, which they are trying to do in Dartmouth, Nova Scotia; in Perth, Ontario; and in Winnipeg. At that point in time, like other enterprises, they need access to capital. Should there be a fund focused on that particular outcome, a limited partnership, sadly we can't invest in it.

There's a way to link the success we would hope to see around community food centres in Canada and their rollout with the desire for capital that would allow them to scale, and the barriers we experience in supporting them.

Mr. Brad Butt: Mr. Hartt.

Mr. Stanley Hartt: Ian's last point is very important. You're asking for examples of success when our whole case is that this idea is still operating with one hand tied behind its back.

I hope you accept that because of the taxation law limitations and the securities law limitations, which have been alluded to by the previous questioner, you're not seeing the full panoply of what you could have if you were looking for success.

One example we know of is the community housing project in Toronto known as Regent Park. It was redeveloped recently—and in fact it's still being finished; it's not completed yet—by a private sector contractor who won a bid.

The redevelopment was financed by an issue of bonds, and the source of payment for those bonds was the full rental that some people, even the community housing, pay according to their means; the partial rental that other people, including some city councillors, pay according to their means; and the subsidy that is provided by the city for community housing for people who really need that service.

So there's a revenue source, there's financing to produce some quite improved buildings. If you are familiar with the previous status of that community housing development, the new one is gorgeous compared to the old one. And that I would paint as a successful example of social finance.

• (1630)

Mr. Brad Butt: Do we have time for our friends from MaRS, quickly?

The Vice-Chair (Mr. Rodger Cuzner): Yes, we have time for a really quick comment.

Ms. Sarah Doyle: To add to the spectrum here, we also work with for-profit social enterprises. We have an accelerated program and a platform that connects investors' funds and social enterprises here at MaRS. I can provide two examples. One is the Komodo OpenLab, which develops inclusive technologies that facilitate the daily lives of people who are living with disabilities. Another is called Raise your Flag. This is an Ontario venture that works globally to help find career paths for those who are going to college. Both of these are for-profit entities that have a clear social mission and a revenue model that allows them to be successful both as businesses and as instruments for achieving social impact.

One of the very quick examples that I'll point to is Bill Young's Social Capital Partners. This organization is interesting because it uses preferential loan treatment for businesses that hire people who face labour market barriers. A company that agrees to hire a certain number of individuals from a community organization that's helping to place people in jobs will receive a lower interest rate on the loan that they're provided through the Social Capital Partners program. It's an interesting use of an incentive structure to provide both financial return and social impact.

The Vice-Chair (Mr. Rodger Cuzner): Thanks very much.

Now for five minutes, we have Madame Morin.

[*Translation*]

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

I have questions for a number of people, but I'll start with Mr. Bird.

Earlier, you talked about the loans that could be given to different organizations, shelters for women or the homeless, for example. My concern is this. What can we do to make sure community organizations retain their autonomy if they are receiving these kinds of loans from investors? How can we ensure they remain autonomous?

[*English*]

Mr. Ian Bird: It's a good question. The best answer comes from Quebec and the work of Nancy Neamtan in Chantier de l'économie sociale there. In Quebec there's been an understanding of the diverse forms that are required for a community to realize its purpose. Nancy would be another perfect person to arrive here in front of the committee to help understand what's been undertaken in that province. There's a long history of understanding between the state and community actors in that province.

Here is another thing. As an example, in Selkirk, Manitoba, there is a women's shelter whose challenge is not its operating capacity. It is very autonomous. It's governed independently by the community board. It has all of the skills to effectively govern and operate, but it's just run out of room. So like a family that's got to put on an addition to put some more rooms in, it needs capital in order to be more available to the community. When it turns to acquire a loan, it can't acquire the loan. It could from the Selkirk & District Community Foundation if that vehicle were more available to them through the PRI vehicle, or what have you. It would require the Selkirk & District Community Foundation to do all sorts of gymnastics and get access to the expert services of folks at Norton Rose Fulbright and such to figure out how they could do this. That would be to do what? It would be to provide more spaces for families at the most difficult point in time to access the services of that organization. The organization again is completely autonomous, independent, and more than capable of handling this. The people around that board are drawn from all sorts of backgrounds: public sector, private sector, community sector, academics.

So given the option of the tools that Sarah described so well, it could have a much bigger impact in its community.

• (1635)

[*Translation*]

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

My next question is for the individual who talked about investments. I can't remember whether it was Mr. Hartt or Mr. Jackson.

The discussion was about investments in community organizations and the fact that they would be given money if they were able to produce results. What I'm wondering about is how to structure such an approach in that kind of environment.

Take, for example, an organization that helps homeless people reintegrate into society or one that provides assistance to those with mental health issues. Measuring results in those types of areas is hard to do. How do we approach that? Will community organizations simply close their doors because they won't be seen as having delivered any results?

How do we address that aspect?

[*English*]

The Vice-Chair (Mr. Rodger Cuzner): Answer very quickly, in about 30 seconds.

Mr. Tim Jackson: I think it's important to recognize that, again, we're not talking about replacing. In many cases we're talking about additional programming.

The risk is not to the organization. The organization itself is guaranteed the funding. It's the return to the investors. The whole idea is that you have to guarantee funding to that organization. Let's say the federal government says they're only prepared to pay based on outcomes. The work still has to be done by the organization—the charity, the non-profit—and that's where we go to the investors and tell them we need to find the money to support this organization while it does this work, this experiment. So the investors' money is at risk. The organization—the charity, the non-profit—gets their money no matter what. The government then essentially repays the investors only based on results. There has to be an agreement going in as to how you measure, and often you use proxies to do that measurement.

I hope I answered your question.

The Vice-Chair (Mr. Rodger Cuzner): Thanks very much.

Mr. Menegakis.

Mr. Costas Menegakis (Richmond Hill, CPC): Thank you, Mr. Chair, and I want to thank our witnesses for appearing before us today. Certainly this is a fascinating topic.

Mr. Bird, I was struck with something you said. You identify a benevolent organization that can do a lot of good and help tens, potentially hundreds if not thousands of people, but you are somehow prohibited from assisting those organizations. Obviously some regulatory changes would have to happen to permit you to do that.

Can you elaborate a little on that? Part two of my question is this: how do you go through the selection process of identifying which organizations you can help or partner with for the greater good?

Mr. Ian Bird: Let me take your second question first. A community foundation would describe itself as a 360-degree organization. It looks at the community in its entirety. It's built from the community, and so it's of the community in that respect. It would have an open process of engaging the foundation, such that charities and enterprises in its community could come forward and say they see the potential to do this, to help strengthen Mississauga —right, Mr. Butt?—and then as a result of that we would take that in. The community, through a community board, would look at the merits of those initiatives and support them.

With respect to grant making, we can do that. But if what came forward was a request for certain kinds of investments or something like a limited partnership was being built in the community that had a public purpose—clean energy or whatever it might be—we would have significant challenges in making an investment. The investment committee of the community foundation runs up against the kind of barriers that you've heard described by Mr. Jackson and Mr. Hartt and Ms. Doyle. So that's the part of our contribution to the community that we're trying to free up.

In doing that, we would continue to live out our principles that the community would be making the decision, that the investment committee in a local community foundation is drawn from members of the community itself. We benefit repeatedly from the expertise of folks where Tim works at MaRS to be exceptionally good at impact investing. We draw on governance expertise and professional advisers to ensure we do it within the rules. At the moment, we're facing these barriers, especially around limited partnerships and PRIs, and the charities that we work with face the barrier in terms of the destination test. If they come forward with an enterprise that may return something to the organization, they bump up against the barriers imposed by the Income Tax Act.

Help on those three fronts will help us to do what the community hopes to do.

● (1640)

Mr. Costas Menegakis: Thank you.

Mr. Hartt, it's always nice to see you, sir. Our paths have crossed many times in the past. I always appreciate your wisdom and your advice. You're one of those people I consider perhaps has forgotten more than some of us will ever know. I look at your presentation. I see the word “eleemosynary”. I've got to admit, I've never heard that word before. I had to look it up.

But I have a question for you on social finance. It's not an entirely new concept, but it is experiencing somewhat of a revival around the world and right here in Canada. Can you give us your sense of why not-for-profits and the social enterprises are gravitating toward the concept of social finance?

The Vice-Chair (Mr. Rodger Cuzner): You have about half a minute.

Mr. Stanley Hartt: Really quickly, it's simply because this opens doors for them to do things they can't now do but that are still within the purview of their mandate—their eleemosynary or charitable mandate. They're trying to do good, but their hands are tied. It comes from the mindset that making money is different from giving money away for charitable purposes. If that mindset, which is built right into our laws, could be eliminated, then of course they could just broaden their activities and do more good. That's all this is about.

Mr. Costas Menegakis: Thank you very much.

Thank you, Mr. Chair.

The Vice-Chair (Mr. Rodger Cuzner): Madame Crowder.

Ms. Jean Crowder (Nanaimo—Cowichan, NDP): Thank you, Mr. Chair.

Mr. Hartt and Mr. Jackson, both of you, in your presentations, identified barriers to moving forward with social impact investments. I wonder if the task force identified any challenges or downsides to actually even looking at going into social impact investment.

Mr. Jackson.

Mr. Tim Jackson: I think the biggest challenge or the biggest concern is the one that Sarah addressed, which is that there needs to be a recognition that this has to be incremental. This is not to take away from the organizations that still, and will continue to, need grants. Government has a role to play around social activities. That's the biggest barrier, that a government or someone else says, “Great, we're going to move this stuff into social finance, and we're going to eliminate any of our underlying social supports”.

That ties in to the last couple of questions. What we're talking about here, in many ways, is freeing up new capital. If you take a foundation, like some of the ones Ian's members would have, and if they have $100 million a year—

Ms. Jean Crowder: I'm sorry, Mr. Jackson, but I'm actually going to cut you off. I have only five minutes, and there are a couple of other points I wanted to cover.

Mr. Tim Jackson: Fair enough.

Ms. Jean Crowder: Mr. Hartt, do you have anything to add to that in regard to actual downsides or challenges to even moving forward, not in terms of actually implementing a program but in terms of barriers to going forward with a program?

Mr. Stanley Hartt: We were asked, when we went to visit some ministers, whether there was actually a market for these bonds. They seemed to be wondering why anybody would invest at a below-market rate.

The answer is that the best businesses in our country already have elaborate and generous programs devoted to what's called “corporate social responsibility”. They're justly proud of directing part of their profits toward helping the needy in communities. Why wouldn't they embrace a concept that sees them doing as much or even more good while earning a return? Then they could know both that the return arises out of the basic business principles of the efficient use of resources and the achievement of planned and predictable outcomes and that it leaves more resources to be allocated to even more good works.

We don't see the availability of funding as a problem. We think that, in fact, once we get past the barriers that are in the law, both the taxation and the securities laws, there will be a market for these financial instruments.

● (1645)

Ms. Jean Crowder: I don't know if the task force would have dealt with this, and it may be too far into the weeds in terms of details, but did a conversation happen with regard to life cycles of governments?

I've been here since 2004. And this isn't partisan; it's Liberal or Conservative. We've seen governments come in and, because they don't like what the previous government has done, pitch a program out because they couldn't attach their name to it. That's one question, regarding the life cycle of government.

The other issue is around contingent liabilities and whether you see any problems with governments booking the repayment of these bonds into what could conceivably be future governments.

I wonder if either one of you could address that.

Mr. Tim Jackson: I'll get to it very quickly.

I think the U.K. has the example to look at. This issue has gone through both Labour and Conservative governments. It's gone from one to the other and, I think, back again consistently.

To deal with the contingent liabilities, I'll defer to Mr. Hartt, who is much more of an expert than I am on how the government runs its books.

Ms. Jean Crowder: Thank you, Mr. Jackson.

Mr. Hartt.

Mr. Stanley Hartt: I would argue that in our wildest dreams the liability that might arise from the potential to actually pay for a successful outcome under the entire aggregate mass of issued social impact bonds would be a rounding error in terms of the federal government budget. We're not talking about billions and billions of dollars of issued bonds, let alone the revenue that would accrue to them.

Ms. Jean Crowder: You don't see a risk with that then? You don't see a risk with that particular issue around the contingent liability?

Mr. Stanley Hartt: I don't see a successive government asking, “What have they burdened us with here?” by having committed to, but not booked, the liability to pay for a successful outcome. In fact, they could solve the problem easily enough by creating the outcomes fund and disbursing the money into the outcomes fund so that it wasn't a contingent liability; it was in the outcome fund.

Ms. Jean Crowder: That would be a good idea, actually.

Thank you very much for your time. I've run out of time.

The Vice-Chair (Mr. Rodger Cuzner): Thanks.

Mr. Eglinski, welcome, and you have five minutes.

Mr. Jim Eglinski (Yellowhead, CPC): This question will be for Mr. Hartt. There seems to be renewed interest in social finance among those in the not-for-profit sector, and even in the investment community. I was very fortunate; I sat for several years on a provincially funded social finance trust. We also know that, in this era of fiscal restraint, governments are looking at how social finance can benefit taxpayers. I wonder if you could just comment on that a bit.

But I'd like you to expand more on the broad range of potential benefits that could come from greater government investment in social funding, such as using it for educational purposes in communities, helping aboriginal communities maybe invest in some type of a business, or something like that. I wonder if you could just quickly answer that.

That'll give you about four minutes, because I think I took a minute, sir.

Mr. Stanley Hartt: I think the answer is that the range of potential uses of this technique is limited only by human imagination. As Sarah has been pointing out, the vast variety of things that this could be made applicable to, which have social impact, is really not something you could start with A and end up at Z and think that you've covered the waterfront, because the next morning somebody would think of some other potential use for it.

The way I see it benefiting government is precisely that funds, which now are either given away as charity by private sector institutions or paid by governments as grants, would be turned into a delivery mechanism where the payment only happened if you got the result. That has to be a principle that every government's going to like. When a government makes a grant in the best of faith, I assume that every government assumes that it's going to get the outcome it's paying for and it's disappointed if it doesn't get it. Well, how about an arrangement where it only pays if it gets it? Indeed, it pays alongside the private sector.

The Royal Bank has established an RBC generator fund of $10 million, which is a pool of capital for investment in businesses that tackle social and environmental challenges. You replicate that over all the large corporations that have corporate social responsibility budgets and you get a lot of private capital doing things that government is now being asked to do. More than that, you get it in a form where the structure requires that the outcomes be both measurable and favourable.

● (1650)

Mr. Jim Eglinski: Thank you very much for that answer. I think you hit the nail on the head that there's an expected result for the money you're investing. I think you would find that not only in government, but you'd find that in the private sector or with private investors, because people aren't just going to give money for no reason at all.

Thank you.

The Vice-Chair (Mr. Rodger Cuzner): Okay, we're going to wrap up here with one final round.

Madame Groguhé, would you like to start?

[*Translation*]

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

I'm not sure whether it was Mr. Hartt or Mr. Jackson who mentioned that philanthropists would be willing to accept riskier investments. Just to be clear, I would call these modern-day philanthropists, given that, originally, philanthropists were people who gave money without the expectation of anything in return.

When we talk about social finance, we are still talking about markets, in general, and action research. This model is being advanced to see if it works, but not enough time has passed to gather any meaningful results and decide whether we should continue using the model or not.

Are there any results or examples you could share to say whether or not we're on the right track?

Mr. Stanley Hartt: I'd like to be the first to answer that, if I may.

As I just mentioned, philanthropists in today's society are proud to contribute towards the achievement of charitable goals. But it would be wrong to assume that these people wouldn't be willing to invest in a context that is developing.

The market hasn't yet developed in Canada because of the gaps in our tax and securities laws. We believe that a philanthropist who donates money in order to get an official tax receipt would be more inclined to put that same money towards achieving a specific outcome with a social impact. That philanthropist would do that even if the dividend was less than the market rate but still better than a donation made for income tax purposes.

This instrument should encourage the philanthropist because the basic principles governing the investment are the very market principles that allowed that person to acquire the money to donate in the first place.

We believe that if the appropriate tools are provided and right legislative amendments made, the market will grow and the results will follow. At a future meeting with the committee, we could share all kinds of success stories with you.

Mrs. Sadia Groguhé: Very well.

In order to make that happen, should we consider implementing multi-year strategic plans that include requirement X or Y, plans we could possibly work on? Is that something we should consider?

● (1655)

Mr. Stanley Hartt: Naturally, because the instrument we're recommending to the committee is based on market principles. From that perspective, then, routine planning and performance measurement considerations would be normal and necessary components of the instrument. It wouldn't necessarily be on an annual basis given the nature of the project. Before investing in a given project, investors will certainly require conditions and standards around performance measurement to be in place.

[*English*]

The Vice-Chair (Mr. Rodger Cuzner): Thank you very much for that.

I had been informed that the Conservatives were finished but I've since been told that Mr. Mayes would like to get in one final question. They do have another round here.

If you'd like to take us home with an encore, please do.

Mr. Colin Mayes: Thank you for that opportunity, Mr. Chair.

I wanted to get my head around this a little. Our government initiated the Canada job grant. I see that connecting with the private sector. They have an interest because they need people with certain training and they partner with the provinces that are obligated to provide skills training. We see the outcomes.

Social finance is not just wrapped around helping people in poverty or in need of housing. It could be enterprising too when it also provides educational opportunities and those types of things.

Is that true? Could that be part of an initiative? I think of that as a social finance initiative taken by the Government of Canada. What do you think?

Mr. Ian Bird: I'm not familiar with the intricacies of the program you're talking about. Let me tell you about something we're doing. We're collaborating with MaRS, Deloitte, with a private foundation with roots in Vancouver, and with community foundations across Ontario to do exactly that. It's a youth catalyst fund. The whole purpose is to support social enterprise projects that focus on young people facing barriers to employment. There will be at least 12 communities in which we're engaged. Without giving the intricacies of the expertise to actually assemble it, one of the key things that has happened is the provincial government has come in to de-risk those early-stage investors. There is a role for government to play in partnership with, running alongside with, around something that is particularly challenging right now, youth unemployment.

There's a practical example of something that is under way right now, not at scale, but still in a mode where if we were to do this in more places across the country you could see social enterprises benefiting from the potential of this kind of strategy.

Mr. Colin Mayes: Good.

Thank you, Mr. Chair.

The Vice-Chair (Mr. Rodger Cuzner): For our witnesses, thank you so much. Mr. Bird may be onto something here. This is an interesting idea and an idea for which the time, the opportunity, to grow is here, so hopefully as a committee we can put forward a report that has some meat and support around the table.

We really appreciate the contribution made by the witnesses today.

With that, the committee is adjourned.