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Mr. Phil McColeman

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

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● (1530)

[*English*]

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

This is meeting 44 of the Standing Committee on Human Resources, Skills and Social Development, and the Status of Persons with Disabilities. We are here to continue with our current study exploring the potential of social finance in Canada.

To provide testimony for our first hour, we are pleased to have with us Mr. Bruce Dewar, president and CEO of LIFT Philanthropy Partners. Welcome.

Also joining us by way of video conference from Montreal, we have Mr. Stephen Huddart, president and CEO of the J.W. McConnell Family Foundation.

Finally, by way of video conference from Calgary, we have Mr. Wayne Chiu, the CEO of the Trico Group. Welcome, sir.

Each of you will have up to 10 minutes to make your presentations, after which we will go by rounds of questioning to the members of the committee. We'll do five-minute rounds today, committee members, because we have two panels, one in the first hour, and another in the second hour.

Mr. Dewar, would you please start with your presentation?

Mr. Bruce Dewar (President and Chief Executive Officer, LIFT Philanthropy Partners): It's a pleasure to be here to speak to the committee.

Social finance has an enormous potential to encourage social innovation in our country, by creating new opportunities for investors and social purpose organizations, or SPOs, to partner in innovative projects and take their great ideas to scale at a new level across this country. It will improve our social and economic outcomes for Canadians, and most importantly the communities they live in.

As we are all aware, Canada is facing growing economic challenges and escalating complex social issues. Our population is aging, workforces are retiring, and we face a greater demand for educated, skilled workers. Federal unemployment data shows a skills gap in regions and under-represented groups, such as aboriginal Canadians, new immigrants and adults with low literacy.

Additionally, our population's health is at risk. Physical inactivity is leading to chronic disease, mounting health care costs, and production losses. Physical inactivity accounts for more than $2 billion in annual health care costs. Government can achieve different and better outcomes for Canadian taxpayers only if it looks at new models and new ways of doing business. Social innovation and social finance can be one of these tools.

Moving from accepting the possibilities of social finance to moving projects to an active stage is a challenge for all governments, not just the federal government. We see that in the provincial government, and we also see that in other governments around the world. When we examine social finance globally, it is evident that there is no cookie-cutter solution and that social finance tools take many forms. It is too early to make a definitive prediction or reach a conclusion on which models work best globally, as they have not all yet come to fruition.

Three or four years ago, people were talking about social impact bonds, impact investing, and pay for performance, all models that can be used in Canada. I believe we'll come up with a Canadian solution, one that incorporates the best of each of these principles, to make sure that social purpose organizations can deliver results for Canadians.

In the United Kingdom, it has been recognized that in order for investment to be successful, it must be directed at the SPOs at a certain level of readiness. Building a pipeline of organizations that are able to accept and use finance tools is essential to the long-term success of Canada. If they have the capability and can be self-sufficient, then when they get the investment tools, they can scale and make a bigger impact and make the tax dollars go further.

In determining the readiness of SPOs or not-for-profit organizations to be placed in a pipeline for the social finance approach, LIFT believes that the following elements are essential to success: a clear theory of change with demonstrated results, a strategic growth plan to achieve desired outcomes, a potential for scaling the impact outside of their jurisdiction and across the country, demonstrating efficiencies and effectiveness, a robust metrics and evaluation tool to make sure the investment is getting the returns that everyone is looking for, and being impact and investment ready.

Government needs to start working with intermediaries to identify organizations that have successful models or interventions. They then have to have these intermediaries work with the SPOs to build their capacities so the organization is strengthened, thereby making it more sustainable and effective at delivering measurable social impacts. LIFT also believes that a framework of coast-to-coast investment and impact-ready projects will help Canada show other jurisdictions how to match regional and community needs and government policy priorities to a social finance framework that is able to deliver measurable results. Successful outcomes need to be determined with the government, stakeholders, and all partners. It must be clear what the intervention will achieve and whether that intervention causes a result by itself or in combination with other projects.

Globally, venture philanthropy organizations are being recognized as key contributors in getting SPOs to be investment ready and impact ready. A G-8 report talks about global collaboration as the heart of social finance and social innovation. LIFT is proud to be part of the best-practice alliance with three other global venture philanthropy organizations: Impetus Private Equity Foundation, in the U.K.; Social Ventures Australia; and New Profit Inc., in the U.S., and we support Canada's efforts to build a global network. These three organizations have been involved either directly or indirectly with social impact bonds and social finance tools.

● (1535)

LIFT believes it is essential to establish benchmarks, performance metrics, and evaluation processes to measure our social impact in targeting populations and regions. Therefore we want to ensure that measurement is embedded in all projects and accountability is clear.

I thank the committee for the opportunity to speak. I'm open for questions later.

The Chair: Thank you so much.

Now we'll move to Mr. Huddart.

Mr. Stephen Huddart (President and Chief Executive Officer, The J.W. McConnell Family Foundation): Thank you very much, Mr. Chair.

Just let me say how much I appreciate the opportunity to speak today. We really value this opportunity to work together with partners in government, the private sector, and the community sector to improve the lives of Canadians in our communities.

I'm the president and CEO of the J.W. McConnell Family Foundation, which was founded in Montreal in 1935, making it only the second private foundation to be established in this country. Today we're one of the three largest such foundations in Canada by asset size. Our mission is to engage Canadians in creating a society that is innovative, inclusive, sustainable, and resilient. If setting aside a substantial portion of one's fortune for philanthropic purposes was a new idea in 1935, it has certainly taken hold in this country. We've got about 10,000 private and public foundations in Canada now that manage assets of about $55 billion. And according to the regulatory requirements around those funds, about $2 billion to $3 billion is invested and disbursed each year to community purposes.

We would argue that if we're serious about addressing problems like those that the previous speaker, Mr. Dewar, highlighted—such as mounting and unsustainable health care costs, high and chronic youth unemployment, the viability of communities that are dependent on a resource base that's declining or whose manufacturing sector is going south—it's time to unlock more of those resources and those endowment assets and put them at the service of community and national priorities. I think that's what we're here to talk about.

Our foundation made it's first impact investment in 2007. This is a fairly new field in Canada. In line with our philanthropic goal to improve undergraduate education, we made a $10-million loan to a group that was going to create a university with a new model for undergraduate education, a cohort model. So today, Quest University, as it's now known, is the highest ranked undergraduate school in the country. Incidentally, our loan was paid back with interest in 2009, which made it the highest performing asset in our entire $600-million endowment that year. It was a very difficult financial year, as you recall. I mention this just because it's an important point that, when we talk about impact investments and social finance by foundations, we often assume that there is a less than market return involved; but because these investments are correlated to community needs and often supported by real people in our communities, they are not correlated with market performances and can often, particularly in downturns, exceed them.

So when we're talking to the trustees of foundations—and we're talking about fiduciary duty here—we have to be clear that it's important, yes, to consider social and economic outcomes as well as financial returns on investments; but we can also say that, while it's acceptable to take a lower than market financial return, it's not always necessary to do so.

As an early entrant into the social finance field, we can point to a couple other keystone initiatives in which we have participated, including the establishment of the Canadian Task Force on Social Finance whose report in 2010 laid out an agenda for the country that I think you and we are now following.

It was Minister Flaherty who distributed that report to the other provincial finance ministers, recommending that they take a look at it. Indeed, across Canada today we see considerable progress at the provincial level in implementing things like community interest corporations in British Columbia, a social enterprise purchasing portal, as is being done here in Quebec, and other initiatives. So I think we're on the way, but I think if we look around the world now, the growth of this sector is outpacing the growth of the sector in Canada.

I was looking at statistics the other day showing that between 2012 and the end of 2014 the global value of impact investments increased to $23 billion. In Canada they've increased from $2 billion to $5 billion over that period. We're being outstripped by the progress being made in the U.K., the United States, Australia, and other countries. We think it's important to catch up.

Today our impact portfolio consists of about $25 million that's invested in a range of funds and companies' initiatives. But due to a lack of available product in Canada, about half of that amount is actually invested outside the country.

● (1540)

That we're having this conversation at all in Canada and around the world is due in part to the fact that the public, and especially those people who volunteer and donate, are concerned that charities do more than address the symptoms of systemic problems, and that they actually get to the root causes and focus on outcomes. I think that's really the shift we're experiencing in the philanthropic and community sector, and to which, I think in partnership with governments and the private sector, we're now being encouraged to make some very significant changes.

As grantors, we provide funding for social R and D. We take on the early-stage risk in seeking better social outcomes, and create the conditions for further investments in community infrastructure and social programs using such things as patient capital investments, loan guarantees, and outcomes-based finance mechanisms like social impact bonds and others around health, justice, education, disability, and community economic development.

I would like to explore three areas in which I think there's considerable opportunity for us in Canada to increase our activity in partnership with governments and the private sector to produce better social outcomes.

Let's begin with investment in communities and integrating social, environmental, and economic goals. I'll give you three examples.

In Toronto, we're currently participating with Evergreen City-Works. We made a grant to develop a business plan for something called tower renewal, which is basically a model of doing environmental retrofits of older residential towers in the north end of the city in such a way that the energy savings pay for the initial cost of that energy retrofit. But we're also talking about a social retrofit. There's research showing that people living in these towers are often lonely, and there are high levels of crime, mistrust of neighbours, and so on. In partnership with the city, we're looking at rezoning the land between those towers to create new low-rise developments, and to introduce other social innovations that will create out of those towers a more viable and vibrant local community.

The next one I'm going to mention is Winnipeg. We're working in partnership with the Winnipeg Poverty Reduction Council, a local business group; the United Way Winnipeg; The Winnipeg Foundation; and the provincial government to change social outcomes in the north end of the city. This is a very challenged urban neighbourhood with a high percentage of aboriginal residents, and some social statistics that are frankly just unacceptable in a country like Canada. There, almost 25% of children are placed into foster care before they are five years old.

We recognize that this is a generational-scale commitment we're making, and one in which the ability to prototype new solutions with the community and with our community partners is one we can support through granting, but also that eventually much larger investments are going to be needed to transform that system. One of the places we're looking for capital to do that is the Canada Learning Bond, $1.2 billion of which is currently unutilized and is actually designed to support low-income families by securing entry into post-secondary education for their children. We know there's research showing that for children as young as four years old, just knowing that funding is in place for their future has a measurable and positive impact on school attendance, on a lack of participation in vandalism and criminal activity, and so on. A tremendous boost is given to a young kid who knows there's something set aside for their future.

Why aren't we using those funds? Why don't we have a mechanism to transfer them into a community like Point Douglas? That's the challenge we face, and, frankly, with that kind of capital coming into the community, we also ought to be able to think about developing social enterprises to give young people employment opportunities rather than having them be unemployed or dropping out of school.

That notion of looking at our assets and reprofiling them in line with their original intent, I think, goes to the heart of some of the best thinking about social finance these days. This is not about creating new money. It's about using our existing funds and assets to greater and better purpose.

The next case I would like to cite is one here in Montreal, where we're currently in conversations with the city, philanthropic partners, the community sector, the high-tech sector, universities, and others about a community transformation we can see for Montreal's immediate future. Again, that requires everyone to come to the table—unions, business owners, and the financial sector. It's together that we can actually accomplish very significant and different outcomes.

● (1545)

My second area to emphasize is the aboriginal one. As Mr. Dewar said, it is one of our greatest social challenges. And it is, I would say, one of our greatest opportunities to make a difference.

I'll give you an example of something that we're currently involved in from an impact investing perspective. We entered into a partnership with the Huron of Wendake, Quebec, to strengthen and replicate their model for owned housing on reserves. The Huron have a different model. They created a mortgage fund for themselves with the federal funds that come into the community. They held a referendum and they no longer control those funds at the band council level, they have an independent governance system and a business model that makes mortgages to community members, of which they've done over 400 with a less than 2% default rate. All are linked, by the way, at 7.5% and are strong enough to attract outside investment. They are interested in sharing that model—

The Chair: Mr. Huddart, I have to ask you to wrap up, sir, as you are over time already. These are great examples and I wish we had more time. Perhaps we can explore more of that through the questioning. Could you wrap it up within a minute, please?

Mr. Stephen Huddart: Certainly.

The last point is really the RECODE initiative, a $10-million initiative to introduce the opportunity for social enterprise development and social innovation to Canada's post-secondary sector. In this we are pleased to partner with the Trico Group, your next speaker, which is working on this with us. And I think the point here is just to open up the space for the next generation of young Canadians for whom there is a high level of interest in taking part.

Thank you.

The Chair: Thank you very much. As I said, there are a lot of really interesting things there to explore with you.

Now we move on to Mr. Wayne Chiu.

Mr. Wayne Chiu (Chief Executive Officer, The Trico Group): Thank you for the invitation to speak to you today.

Besides my hat as the the CEO for a private enterprise, I am also the chairman of the Trico Charitable Foundation. Established in 2008, the Trico Charitable Foundation seeks to promote innovation and capacity in social entrepreneurship.

We were honoured to participate in the 2014 Canadian National Advisory Board to the Social Impact Investment Taskforce established under the United Kingdom’s presidency of the G-8. Today we reiterate the suggestions we made there. There are two essential elements the federal government can do to encourage social entrepreneurship. These are to allow not-for-profits to earn profits, and to allow private foundations to fund not-for-profits. While these recommendations focus on our support for social entrepreneurship rather than social finance directly, we see them as opportunities to increase investment readiness for those organizations wishing to access social finance in the future.

Addressing social finance directly, we would like to applaud this committee’s efforts to determine how the government can effectively encourage the growth of social finance in Canada as it has begun to grow abroad. I take seriously the combination of the two phrases: “in Canada” and “as it has begun to grow abroad”. What is important is that we must make sure to learn from and not just copy the experiences that have been made abroad. We also must apply those learnings in a way that respects and builds on the uniquely Canadian way.

This sentiment echoes the conclusions of a new report I would like to recommend, and I thank the federal government for having the vision and leadership to fund it. The report is called “Social Impact Investment: Building the Evidence Base”, by the Organisation for Economic Co-operation and Development, the OECD. It said that “actions initiated in one country or region may not be appropriate for another—policy objectives, experience and local context must be taken into account”.

I would like to take this opportunity to support the recommendations and next steps outlined in the report. The report said that given that social impact investment is an emerging field, concrete evidence is needed in terms of its impact. In particular, further work is needed to demonstrate the gains from the social impact investment approach compared to existing models. The report recommendations focus on building the evidence base, including developing a common agreement on definitions, committing to building the necessary infrastructure for coordinating data collection processes, and furthering efforts on the measurement of social outcomes and evaluation of the policy.

Everything the Trico Charitable Foundation has observed tells us the key needs in developing social finance are building up demand, helping to nurture and build investment in social impact-ready endeavours, and building the evidence base as described by OECD.

When we look at building the demand, we have been honoured to work with Employment and Social Development Canada to help build capacity through enterprising non-profits Canada, a national network of regional affiliates supporting social entrepreneurs to develop strong and impactful enterprises. It is from national networks such as these that we have the opportunity to focus on developing investment-ready organizations. In our recent exchange from the U.K. we have learned that while social finance initiatives have gained in popularity, there is still work to be done in getting the pipeline ready to take on the social finance products in the future.

Private Equity Foundation, a pioneer of venture philanthropy in the U.K., prepared a report for the UK National Advisory Board to the Social Impact Investment Taskforce. The report identified two types of organizational capacity building required by the social sector. One is around building strong, resilient organizations that can grow sustainably. The other is around building organizations that can reliably and predictably produce meaningful social outcomes, eventually for large numbers of people.

● (1550)

Both are crucial for the social investment market to flourish, but the latter has been neglected in attempts to develop this market.

One interesting development following this report announced in October 2014 by the Cabinet Office in the U.K. is the development of a £1.5-million fund focused on ensuring that organizations are impact ready. Managed by the social investment business for the Cabinet Office, the money will allow ambitious social ventures to access grants to help them manage their performance and increase their social impact to attract more investors. Grants between £15,000 and £150,000 will be available until late January 2015 to help the organizations build their infrastructure and skills and showcase their impact. The fund states that, without the right systems and knowledge, many worthy social ventures struggle to show how their impact can be measured. This new fund aims to solve the problem by offering support from experts to help organizations show the impact they make.

To address our second point on building the evidence base, a recent review of the U.K.'s Social Value Act identified three barriers to realizing the potential of the act: awareness and take-up are mixed, there is a lack of definition of social value, and measurement of social value is not being developed.

All of those issues would be addressed by developing the evidence base recommended by the OECD. We often hear the call for large social finance funds—the field is promising—but there is little rigorous evidence of their social impact. Accordingly, our foundation and the Business Development Bank of Canada, the BDC, are to research the impact of what we call national funds. Trico and the BDC are interested in determining the success of national funds in meeting the financing needs of social enterprises at start-up and through their life cycle. National funds are understood to be large pools of money set up for the purpose of investing in social enterprises. The study will examine two to three national funds in the U.K. and one prominent national fund in the U.S. Within Canada, the study will examine four social enterprise-focused investment funds. We hope to have the report ready by April 21, 2015, and would be happy to share it with the committee once it is available.

It is in relation to building the evidence base that there is the greatest need, and here the government is uniquely positioned to drive progress. A significant advance in the field of social finance awaits us if government helps develop the evidence base as recommended by the OECD.

In conversations about social finance, we frequently hear a call for government funding, government incentives, or government de-risking to help attract money to social finance. We suspect that the money is there already and exists to serve current investment opportunities. What is truly needed to unlock more opportunity, even greater flows of funds, and greater opportunities for government to directly participate in social finance is to develop capacity and the evidence base. Without raising capacity and the evidence base either more money will not flow or it will flow in less than optimal ways.

Should the committee be tempted to engage in such activities, I again urge you to heed the advice of the OECD about when or if policies with the objective of supporting social impact investment are put in place:

> It is important that the policy interventions are well targeted, transparent and well-coordinated with existing policies as well as with the market. Policies should also be consistent so that market players both understand the implications of the policies and have some visibility...to make sure that the policies are having the intended results.

We commend Canada's federal government for their continued engagement and learning on social entrepreneurship and social finance. We appreciate the opportunity to contribute to the dialogue. We firmly believe that with increased attention to investment readiness and building an evidence base, Canada can become a global leader in this space.

Thank you, Mr. Chairman.

● (1555)

The Chair: Thank you, Mr. Chiu.

Now we'll move on to questioning.

Our first round of questioning is five-minute rounds.

Madam Sims, you may begin.

Ms. Jinny Jogindera Sims (Newton—North Delta, NDP): Thank you very much.

I want to thank all three of you for coming and making a presentation to us.

This is an area that, when I was on a different committee, we looked at as well: social financing in the context of international development and projects. I have a great deal of interest in engagement of the target population and the creation, design, implementation, and evaluation of the projects because everything I've read says that, unless you have that kind of an engagement, your project has many barriers to overcome.

My first question is for Mr. Dewar.

Based on your own experience or international examples available to us, are target populations routinely involved in every aspect of the creation of social finance initiatives?

● (1600)

Mr. Bruce Dewar: Definitely, to go forward on social finance, and even to deal with these complex issues, you need to do it in collaboration. You need to have multiple stakeholders at the table. The target population, for sure, has to be involved. You need to build the grassroots and put the right resources around it. The ones that are really successful have true collaboration. People know what they're bringing to the table, where the value add is, and the measurement is designed before so everyone knows what they're measured on, but also, can they gather that data? So it has to be built from the beginning with the design of the projects.

Building on what Mr. Chiu said, that's where we need to find proven projects and then make them investment ready. There are great projects across this country that are dealing with a variety of issues and dealing with the root cause. We need to flush those out and make sure they're ready for investment and ready to make a bigger impact, but you're right, they're built off the collaboration that goes from the person receiving the service all the way through, and it has to be built that way.

Ms. Jinny Jogindera Sims: Having spent the majority of my life in the school system as a teacher, I certainly recognize the importance of collaboration and cooperative learning, but I'm just wondering, with the current milieu that we have, what kind of challenges are faced out there when we talk about collaboration.

Building on that, I also heard from a few of you of the need for evidence-based decision-making, and yet it's no secret that we've had a government that's really allergic to data and does very little evidence-based policy-making, so for me the question for you is on whom should the onus rest in gathering data to measure the success of impact investment projects?

Mr. Bruce Dewar: Is that still for me, or do you want Mr. Chiu to respond?

Ms. Jinny Jogindera Sims: I'm going to ask you and then I'm going to ask the other two gentlemen to give me a quick response as well. Because I have five minutes, keep it tight, please.

Mr. Bruce Dewar: A quick response, okay—it has to be designed by all the investors or partners who are involved in the project.

Ms. Jinny Jogindera Sims: Thank you.

Do either of you want to add to that?

Mr. Wayne Chiu: The federal government has so much data. You should be able to collect a lot of data from different regions of the country to show some evidence that social finance is a need and is able to create an impact. There is a lot of storytelling across the country that the government is probably able to collect, and this is a situation where the government can show leadership that is not that expensive. With not a lot of money involved, you're probably able to tell stories with this evidence.

Ms. Jinny Jogindera Sims: Thank you.

Could I have a quick response from our other guest?

Mr. Stephen Huddart: If we're talking about the impact measurement around an investment, it's pretty clear that we have to have some defined metrics by which that's going to be assessed. At the same time, it's important to highlight that when we're talking about social finance, we're also talking about social innovation, about doing things differently, and we have to be careful not to put in place measures that work against the iterative nature of community-driven social innovation. Sometimes you're halfway down the road and you realize there is a better opportunity, there's a better way to do things, and you're learning as you go. We have to be able to build in that kind of capacity. The emerging field of performance analysis is one that we want to pay more attention to in Canada as we build our own type of ecosystem for this sort of work.

Ms. Jinny Jogindera Sims: Thanks.

The Chair: You have 10 seconds.

Ms. Jinny Jogindera Sims: Oh, 10 seconds—okay, I'll come back to my next question in another way.

The Chair: Thank you very much.

We'll move on to Mr. Mayes for five minutes.

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

Thank you to the witnesses for being here today.

What we're looking at here in this study, from what I can see, is the role of the federal government and how we can be a partner and support these initiatives.

One of the things we need to think about is a framework of best practices and—I hate to say it—a regulatory framework to ensure that if tax dollars are being used there is some sort of protection for that, but we're reluctant to build an administrative regime that defeats the purpose. We don't want to see that happen.

We need champions like you in doing this, and I see in partnering a great thing about our government is that we have always looked to let others set the priorities and then come along as a partner, but we do have to have that framework and that certainty concerning the finances because we are here to protect taxpayers' investments.

In saying that, I'd just like to hear from all three of our witnesses on how they see the federal government's role in doing all those things without getting in the way because it would be doomed if the government started getting in the way and being overly administrative in this initiative.

● (1605)

Mr. Wayne Chiu: Just speaking for ourselves, we are not encouraging the government to provide us with a huge amount of money. There are some in the country who are asking the federal government to look at a super fund or a national fund. To me, this is not the intent. Right now, the way I see it in this country, there's more money available to invest than there are deals. There are really not a lot of deals available in Calgary or in the country for us to invest in right now as far as social finance is concerned.

In terms of the government, as Mr. Huddart mentioned earlier, when we talk about the foundation money, how are we going to unlock the foundation money in a way that allows the foundation money to be put in the social finance space at all? There is a barrier in there regarding the use of that money. But if we were able to lower barriers to allow the foundation to invest in, let's say, a social enterprise or social finance, there would be a win for the government in allowing us to do that.

Mr. Stephen Huddart: Perhaps I could follow up. I appreciate the question very much.

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

If there was one thing you could do, it would be to get rid of the LP rule but look more broadly at our charities regulation around ownership and the profits that come out of social enterprise. We see potential there to really clear the way for a lot more activity to happen. Government can also realistically be a co-investor. Government can look across its portfolios at where social outcomes are being financed but not being delivered. Let's open them up. Let's open them up to impact investors to propose different and better solutions for Canadians. I think that's another area to look at.

Finally, around demand development, this sector needs capacity building. We have a partnership with the federal government with the Innoweave program, but I think that's something we could extend further.

Mr. Bruce Dewar: Building off the last two speakers, I think the government can help most around some of the policy issues, especially what Mr. Huddart just talked about in terms of limited partnerships, the not-for-profits, and what they can and can't do around the assets they own. They're sitting on some major assets that they could use as part of an investment strategy. The government can definitely play on co-investing.

I think the other part is to look at the grants you're giving out now that you could actually be treating as investments. Start treating them more like investments rather than just pure grants. Have the mechanism in place but also trust that.... If you look globally, organizations and governments are really using intermediaries a lot more. So have the government understand the role of an intermediary, that it's okay to use them to do certain things outside of government.

The Chair: Thank you very much. That round is finished.

Mr. Cuzner.

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

I apologize that we were late arriving, Mr. Dewar.

Five minutes can blow by pretty quickly here, and I want to build on Colin's line of questioning. I'll ask the questions and then sort of get out the way myself.

Witnesses last week indicated that in no way do they see social financing as a replacement for government support. You guys are terming it now as government “co-investing”. You still expect the federal government to be a partner going forward. I would like your comments on that.

As well, Mr. Chiu, you mentioned the barriers. The one that has been referred to is the fence that's been built around the limited partnership rules. What other barriers do you see besides that? Perhaps you could comment on that.

● (1610)

Mr. Bruce Dewar: I'll go first.

I think when governments first come to the table to look at social finance, they think it will be a reduction of investment of government dollars. It can lead to a reduction in government dollars on certain projects, because you have new partners coming in co-investing, or new sources of capital. But I think the other reality is that it allows government now to pick organizations that are really making an impact in terms of the outcomes. You may have an organization that you were giving $100,000 to, let's say, that was doing certain outcomes. You now might see, proven by other investors coming to the table, that by your investing more money in them, you're going to get more outcomes, because the issue is bigger than what they're doing right now.

So while I believe in government investing more in outcomes that are proven results, it might not mean you're having a reduction of spending; it's just that you're being more strategic and making more of an impact.

The Chair: Mr. Huddart, do you want to go next, please?

Mr. Stephen Huddart: Sure, I'm happy to follow up there.

One of the key aspects to this relationship with governments is that impact investors are able to de-risk situations. Our previous questioner mentioned the need to protect taxpayers' money. By putting the risk over on the impact investment side with foundations that, after all, give money away as granters and don't expect to see any of it back, I think we have a situation where we can create capital stacks, if you will, where situations are de-risked in the public interest, and where public and private investment can come in afterwards. That's a really operable methodology that we use to test new approaches.

The other thing is that the private sector is a key player in this discussion. They're not here today exactly, but pension funds, not to mention other endowments—universities, hospitals, and so on—do have an interest in improved social outcomes. I think the government's policy is to create the enabling environment—the language, some models, and some encouragement—to allow this field to grow.

The Chair: Mr. Chiu.

Mr. Wayne Chiu: I think as far as the government is concerned, when I look at a case in which the government co-invested with our foundation on a program called enterprising non-profits Canada, it basically encourages capacity building with social entrepreneurs.

With the government money involved we are able to create a national affiliation that is going to show examples to Canada that social enterprise and social entrepreneurship can be real and can be achievable. The government money involved is really not a lot, but at the same time it's able to kick-start the program across the country to bring an awareness that capacity building is so important in the social finance field as well.

The Chair: One minute.

Mr. Rodger Cuzner: Okay, I have just a quick one, then.

On the measurement of social value and the metrics around what data is necessary. Mr. Chiu, I think you mentioned they seemed to do a good job of this in the U.K. Are there examples? I think it would be a great challenge, but are there areas that are doing this well now?

Mr. Wayne Chiu: The U.K. is not doing as well. The U.K. is still in the process of trying to find a way of doing well. They have tried to create how they are going to measure the social value and the social impact. I think they're still learning, and we are waiting for the U.K. to come up with a report on it.

The Chair: Thank you very much.

We move on to our next questioner, and I believe that is Mr. Butt.

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

Gentlemen, thank you for joining us today.

I think I'll start with Mr. Huddart.

Before I was elected to this fine place, my background was in the housing sector—housing development, housing management, etc.—for both for-profit and not-for-profit co-operative housing. You mentioned a housing development in which you were involved. Could you comment a little bit more on how you see social finance working in affordable housing development?

I know we're spending a lot of time talking about what the federal government can do in supporting social finance. What are things the provincial and municipal governments can do because I know for a fact that in housing, if you don't have the municipality on board, if you perhaps don't have the province on board insofar as providing rent supplements or these kinds of things to make these project viable, and if you don't have all three levels of government on board as partners, these projects don't work.

Maybe you could share a bit of your insight on the housing file, sir.

● (1615)

Mr. Stephen Huddart: Thank you very much, Mr. Butt.

Just to refer back to the aboriginal issue we began to talk about, we're going to start building houses this spring in four communities that want to take on that new model that I referred to. They're going to build their own houses, they're going to own them, they're going to make mortgages to themselves, and we're setting up the financial infrastructure in those communities so as to be able to manage responsibly a mortgage fund. That's a $2-million fund we put together. As we did so we discovered that there is a federal first nations mortgage guarantee fund valued at $300 million, which has built a total of 65 houses in five years.

The point is, when we get a proven model we want to be able to take it to scale and we need governments to work with us to identify those opportunities.

Municipally, we're currently looking at a couple of projects. One is here in Montreal around low-income housing, co-investing with some other foundations. We're invested in a Vancouver initiative called the new market fund that is going to be building across Canada. This is a great area for social finance to participate in.

I think you're touching on something—one of the key, easy, early wins for this sector—which is to invest in low-income housing.

Mr. Brad Butt: Would each of you agree that the real goal of social finance, social enterprise, is the social outcome at the end of the day, not the monetary return on investment? The reason why these programs work, the reason why these models have been established, is the social outcome, perhaps even projects that maybe lose a bit of money from time to time, or simply break even, but have more of a social purpose. Who wants to comment on that? That seems to me the most important goal at the end of the day, that the social purpose has been achieved, rather than, necessarily, a bottom-line-driven organization?

Mr. Bruce Dewar: I'll go first.

The social outcome is definitely the number one priority, but as Mr. Huddart said, you can now layer on the risk, so you can bring other dollars to the table, if there is a potential return on investment from the private sector or individuals. Again, you can now layer different levels of risk on that so you can get more dollars in place and allow them to make those returns, and you can get more outcomes as well. I think it's harnessing that business ability to bring new dollars because of the return, but we are really looking at those social outcomes, to try to make the pot bigger or the pie bigger to deal with these issues.

The Chair: Mr. Chiu, do you want to comment?

Mr. Wayne Chiu: I'm a builder by trade. Trico Homes is my company. We have two programs being initiated. One program is the affordable rental program that we are working on with the provincial government. On top of that, we have a program called accessible housing that's providing a 5% no-interest down payment for the buyer to be able to purchase a home. We work with CMHC to get it to approve the program.

With that in mind, I think the affordable housing program, the one with accessible housing, is a lot easier to handle compared to housing on a reserve. Basically, the way we are doing it, we have to look at this and create a share value, to make sure that we are able to take this as a private sector initiative to provide 5% interest-free loan to the buyer to come and buy a house. What we did was set up a non-profit. This non-profit is an arm's-length organization from us based on the public's ability to provide that down payment. We try to work on this with CMHC, with the bank, and with the community foundation. Hopefully, we can make these programs move forward. At the end of the day, you're looking at the return. I don't think the funders are interested in a return; they're interested in an impact. At the same time, on this particular program, the funders hope that they can reserve their money, make sure that their money can be recycled a long, long time into the future.

● (1620)

The Chair: Thank you very much.

Now we move on to round two and Madam Groguhé.

[*Translation*]

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

Thank you to our witnesses for joining us.

I would like to address two aspects: the regulations and the measurement of results. I will start with the questions about the regulations.

Mr. Dewar, what regulatory framework applies today to social finance products in Canada?

[*English*]

The Chair: Mr. Dewar did not have his earpiece in for interpretation. Does either of the other two witnesses, Mr. Huddart or Mr. Chiu, wish to respond to Madam Groguhé's question?

[*Translation*]

Mrs. Sadia Groguhé: Perhaps Mr. Chiu would like to answer this question.

[*English*]

Mr. Stephen Huddart: I would be happy to step in. I would just say that we operate under the charitable regulations of Canada, the Charities Act. While in many respects it is quite restrictive, in terms of ownership of assets, the ability to participate in limited partnerships, and the ability to own social enterprises—there are barriers in all of those areas—one thing we can highlight that is helpful is that the government has identified the program-related investment as a place where foundations can actually lose money but declare the loss as a charitable contribution, as a grant, in effect. That has, in effect, opened up our ability to almost get our money back, and to declare that loss as a grant in meeting our required disbursement quota on the granting side. We appreciate that very much. It has been very helpful, but I think we would look for further progress on the regulatory front, it being really important to the growth of this sector.

[*Translation*]

Mrs. Sadia Groguhé: My understanding is that a lot of work still needs to be done to simplify the regulations. Is that actually the case?

[*English*]

Mr. Stephen Huddart: Yes, that is correct.

There are some very clear recommendations coming from England and the United States about how to do that. We have some other ideas; as Mr. Chiu noted, the OECD has some suggestions as well.

[*Translation*]

Mrs. Sadia Groguhé: Okay.

Let me go back to the proposals of the OECD and the other countries.

What choices have they made regarding the regulatory framework they apply to social finance? Could you provide us with examples to give us an idea of what works with that framework?

[*English*]

Mr. Stephen Huddart: Yes. I will begin that answer, and then invite Mr. Chiu to speak.

The key point is to allow a corporate vehicle to exist which is a hybrid, for-profit and not-for-profit corporation, and which can have share capital, but has a social purpose. That's one recommendation that has been put in place in several countries. Indeed, even in Canada, in Nova Scotia and British Columbia, we have this type of corporation that is able to attract capital for a social purpose. That would be one example. We could certainly mention many others, but I don't want to take up too much time here.

[*Translation*]

Mrs. Sadia Groguhé: Mr. Chiu, I don't have a lot of time left, but I would like to hear what you have to say about the measurement of results. You stated that the government could be—

[*English*]

Mr. Wayne Chiu: I think that measuring—

[*Translation*]

Mrs. Sadia Groguhé: You stated that—

[*English*]

Mr. Wayne Chiu: I think, at the end...

Mrs. Sadia Groguhé: Excuse me, but do you understand my question in French?

The Chair: Mr. Chiu, I think Mme. Groguhé began a second question after—

[*Translation*]

Mrs. Sadia Groguhé: Yes.

[*English*]

The Chair: —the one that Mr. Huddart responded to. She was in the midst of asking you her second question. I think we'll go back to Mme. Groguhé.

Paraphrase as much as you can. I'll give you a bit of extra time, and then have Mr. Chiu respond.

[*Translation*]

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

Mr. Chiu, I would like to go back to the issue of measurement of results.

You mentioned that the government could be a leader in this area. What did you mean by that? How do you see the measurement of results?

● (1625)

[*English*]

Mr. Wayne Chiu: When we talk about measuring results, when I look at...

Going back to industry—

[*Translation*]

Mrs. Sadia Groguhé: Yes.

[*English*]

Mr. Wayne Chiu: —there's a result called CSA, Canadian Standards Association. When we are building things, when we are doing things, there are always standards to be followed. You have to follow the CSA standards before you can do this or that. Right now, what Canada has is really a lack of measurement. Organizations can say that this is the way they measure their impact. But the key thing is whether the government is able to step in and look at this.

We do have a standard of measuring the impact: "This is A, B, and C." If we are able to follow that kind of impact without the involvement of the federal government, it is easier for the organization. With a not-for-profit, or social entrepreneur, or even big corporations, when they do a lot of CSA, they have something to follow. The impact created by the federal government is that we are able to follow and to be measured by a certain standard board. If the federal government is able to create some sort of national measurement, it would be a win for the not-for-profits, for public social entrepreneurs, and also for corporations.

The Chair: Thank you.

Colleagues, we're quickly running out of time. I have one more time slot here, but I'm going to use my prerogative to ask a couple of questions myself. We'll move that questioner to the next round after we get the next panel in.

As a former builder, I too am very interested to explore the ideas that have been put on the table by Mr. Huddart and Mr. Chiu.

Mr. Huddart, would you clarify something for us? You gave an example where you were in a project, you had funded the project, and certain outcomes were expected from the project. You then found out the government was running a more-or-less parallel fund —that's what I took from your comments—with a much greater amount of money, and the outcomes were far less per unit by the sound of what you were telling us.

Did I interpret your comments correctly?

Mr. Stephen Huddart: Yes, that's more or less correct, sir.

I would highlight it really as an opportunity for collaboration. If the government's purpose is to support home building on reserves in a responsible way, then having some kind of clearing house or a place to connect these efforts would be a good idea.

The Chair: You also mentioned Quest University in your earlier presentation. I have to be honest; I haven't heard of Quest University. Where is it located? Could you provide just a very concise description of this institution?

Mr. Stephen Huddart: Certainly. It's located in Squamish, British Columbia, between Vancouver and Whistler. It's a private university established by a former president of UBC, David Strangway.

The Chair: Have you any idea how many students it has?

Mr. Stephen Huddart: I don't recall exactly. It's a small university, but quite well respected, internationally renowned, and attracting a very high quality of student and faculty.

The Chair: Thank you for that.

Thank you, witnesses. This was an excellent time to listen to you, to gain your understanding of social finance and the impact it can have. I appreciate your taking the time to be with us. Please accept the thanks of our committee.

Committee members, we'll break for a few moments while we bring in our next group of witnesses, and then we'll resume.

● (1625)

———————— (Pause) ————————

● (1630)

The Chair: Welcome back, ladies and gentlemen.

We have just been informed that we have votes to get to at 5:30. We're arranging for the transportation to be in front of the building right at 5:15 so we can get to it immediately and it won't be an issue for us to get to the House of Commons. That being said, the timing of these presentations will obviously be affected and questioning will be even more so.

Unless the committee objects, I'm going to give the presenters their time to present, because they've come to present. We'll get in as many rounds of questions as we can, and maybe even shorten those to three minutes or one question per member in order to get through them most effectively.

Just before I do that, I was hoping to do this at the end. Colleagues, as you probably know, our parliamentary secretary, Scott Armstrong, lost his father last week. That's why Scott isn't here and Mr. Goguen is here on his behalf. I'd like to say to you that obviously our sympathies are with Scott and his family at this time. If you choose to send him a note and you need his coordinates, please get them through me so you can express your feelings to him.

Welcome back, ladies and gentlemen.

We're here to continue our study on exploring the potential of social finance.

Joining us now we have Ms. Cathy Taylor, the executive director of the Ontario Nonprofit Network.

We also have Mr. Michael Toye, the executive director of the Canadian Community Economic Development Network.

Splitting his time with Mr. Toye we have Mr. Michael Oster, the president of the Ottawa Community Loan Fund.

Finally, we have Mr. Jacques Charest, the president of CAP Finance.

Ms. Taylor, why don't you start? You have up to ten minutes.

● (1635)

Ms. Cathy Taylor (Executive Director, Ontario Nonprofit Network): Thank you so much for inviting me to speak with you today.

My name is Cathy Taylor. I'm the executive director of the Ontario Nonprofit Network, based in Toronto. We're a network of 55,000 non-profits and charities in the province of Ontario, which are in everything from faith communities, sports and recreation, theatre groups, arts and culture, social services, health, and across the spectrum of the non-profit sector.

My remarks today will be from the lens of the not-for-profit sector, not from the investment perspective.

You may know that across Canada we have what we call the core non-profit sector—that excludes municipalities, universities, school boards, and hospitals. We're really big business. We generate $35.6 billion, or 2.6% of Canada's GDP, and are one of the fastest growing sectors of the economy, with an annual growth rate of 7%. In fact, since 2008 we were one of the only industries in Canada that was growing at that rate.

Contrary to common perception, 61.5% of the core non-profit sector's revenue comes from earned income and the sale of goods and services, not from government and not from other charitable activities; of that, 15% is through membership fees. Transfers from all three levels of government comprise only 19.7% of the revenue of non-profits and charities. I think that's an important distinction when we talk about social finance and social enterprise.

The public benefits sector in Canada—we often speak of non-profits as providing a public benefit—is not waiting for a handout from government or from philanthropy. In fact, it's just the opposite: the non-profit sector comprises independent organizations that make a significant economic contribution while pursuing their social missions. In a recent survey in Ontario, 88% of social enterprises were operating as non-profit organizations, and an additional 4% were for-profit corporations wholly owned by their non-profit. So when we talk about social enterprise and social finance, we're primarily talking about the corporate structure of the non-profit sector.

Social enterprises heavily reinvest back into their communities because they employ people, often with vulnerabilities and disabilities, and they create public services within their communities. The focus of the non-profit and charitable sector is this commitment to building strong, resilient, and inclusive communities that provide a social good, as opposed to increasing private wealth.

Social enterprise is a powerful force that can be used in local communities. We feel very strongly that the federal government has a role in creating an enabling environment for social finance and social enterprise, which have the potential to address growing inequality in communities and to play a major role in building community assets and resilience. We certainly applaud you for taking this opportunity to discuss this.

We'd like to make the following recommendations for you to consider today.

First would be to focus your work and effort on creating that enabling environment for social finance, and specifically social enterprise that builds on the trust the public has for the non-profit sector, which is one of the highest trust levels of any sector in Canada. To that end we believe that all social enterprises, regardless of their corporate form or source of revenue, should have a public purpose and a mission, should be operated for the public good not personal gain, should reinvest their excess revenue in their public mission, and retain their assets in the public domain for the public good.

Part of that enabling framework that we think the federal government has a role and responsibility to play is determining what that definition of social enterprise is. And there's an opportunity to align with our provincial governments.

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

● (1640)

We know that B.C. and Nova Scotia have developed dual purpose legislation. We have only a few examples of organizations that have used it, and we need to see how it's working and not be the first to put another piece of legislation in place. We already have fairly flexible business corporate legislation; we need to see how it will evolve.

Third, we urge you to reform and reinterpret the Income Tax Act as it relates to non-profit corporations, especially those providing a public benefit, to allow them to be sustainable and grow their revenue. Current interpretation of the Income Tax Act prevents non-profit organizations from generating revenue—not creating profit, but generating revenue that they can put back into their mission as part of their organization—as well as maintaining cash reserves.

As you know, any business needs to have cash reserves if it is operating an organization. It is impossible to operate an organization with this kind of limitation, and even more impossible to operate a social enterprise with the goal of being accessible and inclusive without these tools in place. Revenue that is reinvested in the mission of the organization is not profit. Non-profit and charitable regulation is out of step with what is happening on the ground and desperately needs modernization.

Fourth, don't exclude non-profit organizations from business support programs, and treat social enterprises operating as non-profit and charitable organizations as small and medium-sized enterprises in the programs you have already available. They need access to the same funding and business supports as are available to the private sector. There are many government programs that offer supports and capital to small and medium-sized businesses. Free those up to also be accessible by non-profit organizations that are operating a social enterprise. This is a fairly straightforward thing that can happen in a very short period of time and that doesn't involve any new resources.

Currently, non-profits are often actively excluded and ineligible for research and development funding or start-up funding in business planning supports that are available to small and medium-sized enterprises. Often, what we're hearing on the ground is that they start as for-profit corporations to get those start-up resources, and then they transition to a non-profit once they are established.

Fifth, social enterprises need debt financing that is creative and responsive to their needs. Some of the earlier speakers spoke of certain tools out there, such as “slow money”, wherein a grace period between loan interest and repayment is expected, or long-term low interest rates for things such as social housing and capital projects and unsecured operating funding for social enterprises, such as lines of credit for cash flows.

I don't think we're necessarily always talking about complex social finance tools that need to be in place. On some level, the majority of the non-profit and charitable sector are small to medium-sized organizations, and they require some of the basic financial tools that are not currently available to our sector. Lenders are typically not familiar with the non-profit or social enterprise model and shy away, even though it's a much less risky investment for them. Government can play a role with respect to freeing up those institutions to provide these types of supports.

Social enterprises often take considerable time to become profitable, as they are filling a void that has typically not been filled by private business because there hasn't been a profit margin. For the sector to be able to provide that service with the expectation that there should suddenly be a profit margin isn't the right expectation. Help us figure out how we can provide the service at cost, which is what our role is.

The final recommendation is to develop a social procurement action plan for the government that encourages companies obtaining government contracts to engage social enterprises as part of their work. Leverage the purchasing power that government has to strengthen communities. Scotland, we know, is a leader in this regard, and there are many other examples of how this has been done around the world.

Thank you very much for receiving our ideas on strengthening social finance and social enterprise. We have a blueprint for supporting social enterprise in Ontario, which we're happy to share, and we're looking forward to your questions.

● (1645)

The Chair: Thank you very much.

Mr. Toye.

Mr. Michael Toye (Executive Director, Canadian Community Economic Development Network): Thank you, Mr. Chair.

Honourable members, thanks for the opportunity to present to you today.

I can appreciate that we're in the second week of your study. Social finance is a very big term. It can be hard, perhaps, to wrap your head around it, so I wanted to share my time with one of our members, the Ottawa Community Loan Fund, who are some of the front-line people doing the work on the ground and having a real impact on people's lives. I'm going to talk about some high-level recommendations, and then I'll pass things over to Michael Oster.

My organization, the Canadian Community Economic Development Network, is a national association of community groups like the Ottawa Community Loan Fund working on integrated approaches to economic and social development in their communities. We have several hundred members in every province and territory.

We, like I think everyone on the panel here today, represent the demand side of social finance, not the investors or the suppliers or the intermediaries. We've come on the demand side in your study. We represent the community groups, social enterprises, cooperatives, and others delivering programs and services to improve socio-economic conditions in their communities. We try to cross sectors because we see that economic and social problems are connected and that addressing the symptoms alone isn't sufficient.

Mr. Butt mentioned earlier that we need to focus on the social goal, and we would agree entirely that this is the point.

[*Translation*]

Our members face many challenges in their daily work, but access to sources of capital tailored to their needs is one of the major obstacles to having more proven practices. Social finance emerged partly as a solution to this demand.

However, outside Quebec, Canada is lagging behind the U.K. and the U.S. We have five recommendations to help us catch up. They are included in the documents we circulated. As Mr. Mayes said earlier, the focus is on the federal government's role. I will also say a few words about each one of them.

First, in terms of stimulating investment, as we have seen with the Government of Ontario and as the experience of the Chantier de l'économie sociale Trust has shown us, if the government is ready to invest venture capital, that could be a lever for private investors, institutions and foundations.

[*English*]

In terms of the regulatory or programmatic changes to support social enterprise, we would urge you to build on what is already working.

As Cathy just said, there are many smaller examples and models that have demonstrated success. One of those is Nova Scotia's Community Economic Development Investment Funds. Over just the last 15 years, 48 CEDIFs have mobilized 7,500 investors—local individuals in their communities who want to put their savings into something of local benefit—and have generated more than $56 million in investments. Numerous other funds could be scaled to extend investment and development opportunities to communities across Canada.

Some of our members would suggest that the new pay-for-success models and performance-based contracts have received some disproportionate attention in the social finance debate to date. You've already heard from witnesses that they can't replace government funding, and that they have somewhat limited application in the broad spectrum of community services. In situations where they're appropriate, they have some tremendous advantages. But they are not a panacea, so in your report I would encourage you to keep them in perspective with respect to the broad range of tools that are available for social finance.

As the supply of social finance capital grows, the capacity of non-profits, charities, and blended value businesses will also need to be bolstered to grow the demand. Stephen Huddart earlier mentioned the lack of available product for investment. Wayne Chiu also mentioned the need to develop the capacity of the social sector.

In particular, non-profit social enterprises and cooperatives should have equal access to existing government-supported business development tools—here, I'm repeating Cathy's very good advice—including business-skilled capacity development opportunities. These are existing programs; they wouldn't cost any more money and would provide very powerful capacity-building supports.

Finally, as my final recommendation with respect to Ms. Sims' earlier question, whatever government undertakes, I would emphasize that the most important element is the way that it's done. It needs to be a collaborative model in partnership with private sector institutions and community groups, because a social finance approach recognizes that no one sector can tackle these challenges on its own.

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

I'll now pass things over to Michael.

● (1650)

Michael Oster (President, Ottawa Community Loan Fund): Thank you, Michael.

Mr. Chairman,

● (1655)

Thank you for the opportunity to offer my perspective to the standing committee. I'm very pleased to support CCEDNet, ONN, and other witnesses from the social services sector.

Mike has asked me to spend a few minutes providing successful examples of social finance and to update you on Ontario's social enterprise demonstration fund.

I anticipate that this committee is already familiar with the Canadian task force on social finance hosted at MaRS and their reports from December 2010 and December 2011. I'll merely state my broad support for their recommendations such as: dealing with mission-related investments by foundations; that the federal government, with partners including provinces, should establish the Canada impact investment fund; recommendations dealing with the establishment of a tax working group; and that social enterprise, as Mike has already stated, be made eligible for government-sponsored business development programs for small and medium enterprises.

Using Wikipedia:

> Social finance is an approach to managing money which delivers a social dividend and an economic return.... Social finance includes community investing, microfinance—

such as what my organization has done for 15 years,

> social impact bonds—

and we provided submissions to the Ontario Securities Commission, to HRSDC, and others.

It also deals with "sustainable business, and social enterprise lending" that we're about to become leaders in.

Social finance also includes:

> Outcome-based philanthropic grantmaking and program-related investments, sometimes referred to as venture philanthropy....

My first example of social finance is the dozen or more community loan funds across Canada, including OCLF-FECO, Fonds d'emprunt communautaire d'Ottawa, which I have led since fall 2011 after I retired from the private sector. Established in 2000, OCLF has arranged almost 300 loans and almost $3 million in accessible loan capital to borrowers who cannot secure bank financing but have the character and aspiration that merits our support. With our help, our borrowers have improved their lives, reduced their dependence on social services and the public purse, are employing themselves and others, or have secured improved employment.

These social benefits and others have been measured by the Carleton Centre for Community Innovation, among others.

As a second example, OCLF received an impact investment of $57,000 in 2012 through Community Foundation Ottawa. With leveraged funding from Citizenship and Immigration Canada and the Ontario Trillium Foundation, we launched a new program called immigrant partner programs. We created new credit in Canada workshops, thus contributing to financial literacy in Ottawa. We have delivered the workshop in 13 months to over 700 immigrants. Of those surveyed, 45% have taken one or more tangible steps to improve their credit score and credit behaviour such as paying credit card bills on time, avoiding payday loans, reducing the number of credit cards, and in some cases starting to use a credit card which, when properly used, will establish a credit score to enable a bank loan in the future for an apartment or a home or a car or a business investment.

Already, 26 immigrants have taken loans from OCLF in the last year, and we forecast another 50 such loans in 2015. That $57,000 impact investment is bringing significant social benefits and more and better jobs. It is liberating immigrant talent to address skills shortages, and is improving service levels for our community while reducing the strain on social services. And all of that can be measured.

My third example is one that we're developing under the working title of social finance sustainable capital fund. We envision impact and other investments to build a capital pool of $1 million, with annual injections of $100,000 to fund operations, including occasional loan losses. We have already attracted community investment from Community Foundation of Ottawa, United Way Ottawa and others, matched by the Ontario Office for Social Enterprise, to provide services and financing to startup and early-stage social enterprise.

Due to the success of our immigrant partner programs, we forecast needing additional capital by mid-2015, which a new task force of our board is actively pursuing. One option is a community bond that would reward training partners for enhanced levels of job creation for immigrants and other marginalized residents of Canada and of Ottawa, and federal support would be most welcomed.

The other topic I was asked to speak on is the social enterprise demonstration fund, hosted by the Ontario government's office for social enterprise in the Ministry of Economic Development, Employment and Infrastructure.

The Chair: I'm sorry, sir. You'll have to wrap it up in the next 30 seconds or so, please.

Mr. Michael Oster: Okay.

Last Thursday, Premier Kathleen Wynne announced the 11 winning projects, including ours, which will share $4 million over two years and attract another $6 million of private investment. We're very pleased to be leading this consortium to support social enterprises which could be for profit, non-profit, and cooperative, consistent with Ontario's strategy.

In closing, thank you again to the committee for your keen interest in social finance and I wish you Godspeed as you craft your recommendations, so vital for increased prosperity across Canada.

Merci bien.

The Chair: Thank you, sir.

Now we have Mr. Charest.

[*Translation*]

Mr. Jacques Charest (President, CAP Finance, Le Réseau de la finance solidaire et responsable): Thank you, Mr. Chair.

Thank you for inviting me to testify before the committee.

I am Jacques Charest, president of CAP Finance, the Réseau de la finance solidaire et responsable. This network seeks to promote solidarity finance and development capital in Quebec. In my day job, I am the executive director of the Chantier de l'économie sociale Trust, which is an investment fund created specifically for social economy enterprises. I will tell you about that briefly at the end of my presentation. However, I will try to be as quick as possible so that the members of the committee have time to ask me questions.

What is CAP Finance? CAP Finance was created a few years ago, around 2010. It includes the vast majority of financial institutions and funding agencies providing responsible finance in Quebec.

What is responsible finance? The first thing is to determine what we are talking about when we say social finance, responsible finance, development capital, and so on. For our part, we distinguish between development capital and social finance.

Development capital is when financial institutions provide pure venture capital, but with specific socio-economic goals. They clearly want a return on the investment, but they also want to create jobs and contribute to regional and local development. It is governed by associations. The job creation we are talking about is local.

Let's now talk about solidarity finance, which is the focus of our discussion. Solidarity finance attracts financial institutions, non-profit organizations, financial cooperatives and credit unions that invest almost exclusively in social economy enterprises and in local or community development. Their mandate is to provide, among other things, funding and new investment tools to social economy enterprises.

Our organization includes almost all the players. I will not list them here because it would take too much time, but you can see them in our document.

In 2013, together with Professor Margie Mendell and her team, CAP Finance commissioned a study on the subject because the data were insufficient. We wanted to know what the situation was in Quebec and what all the stakeholders in Quebec had invested in development capital and responsible finance.

Let's look at what we call responsible placement. I am not talking about direct business investment, but the purchase of responsible financial products, responsible funds, ethical funds, and so on. In 2010, responsible placement was at $161 billion. In 2013, it was at $274 billion. Responsible investing was at $13 billion in 2010 and $18 billion in 2013.

Let's now look at the assets of the responsible investment component. In Quebec, development capital investment is $17 billion. In 2013, investment in solidarity-based finance, meaning in social economy enterprises and in local development, was $1.4 billion, which is a 40% increase over 2010.

The market is there and there are investments. However, they must be done right. Work needs to be done on both the supply side and the demand side. Being able to invest to such an extent is the result of working on both supply and demand. You need intermediaries for investment funds. We will later talk about possible solutions for the government in this area. It is important to have stakeholders on the ground to work on the supply side just as much as on the demand side of the financing in order to avoid having very good products but no businesses, or the other way around.

So the situation has really gone from placement to investment in businesses. In terms of social finance, it is important to distinguish between what we could refer to as private businesses and non-profit organizations, or collective businesses. One is not better than the other; it is a choice people make. We chose the collective businesses, social economy enterprises, but it is important to make that distinction because not all of them need the same financial tools.

● (1700)

Those in the private sector are quite present. When we want to connect with social economy enterprises, we need to keep a few differences in mind. We need to see what type of financing is possible. We need to see it as a big picture. This is not about meeting the needs of one or the other, but to consider the needs that are specific to each clientele.

How could the Government of Canada contribute to this? I will talk about its contribution to the trust later.

As was mentioned before, it is important to support the intermediaries in the market, either through specialized or central funds, through a fund that could sustain other funds or through credit enhancement funds. The question is whether we need those subsidies. That is the case in some instances. Are we talking about first losses or loan guarantees? That might be the case, but these are solutions that we need to consider to figure out how to facilitate the development of social finance in Quebec.

In addition, we need to make development capital accessible to our stakeholders, meaning the institutional funds, workers' funds, retirement funds, pension funds or foundations and reduce barriers to investment. Mr. Huddart actually referred to that. On our end, we are working with businesses and funds. However, there are problems and barriers, simply because people cannot invest in a limited partnership. So we must try to get around that.

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

As I mentioned earlier, in some cases, we should establish mixed structures. We should determine how laws can be amended to include joint ventures. We are talking about either type B businesses or fixed assets. We need to see how a third or a fourth type of business can be included and make sure that we are really talking about social finance and social enterprise. Whether they are for-profit or incorporated, fixed assets must remain with the companies.

There are some solutions I would like to mention. I can share two projects with you accepting that I may be talking about my own businesses. The fact remains that they are a fine example.

The Chantier de l'économie sociale Trust was founded at the beginning of 2007 with the help of a government subsidy. Its capital is at $53 million. Initially, the federal government granted a subsidy of about $20 million, which enabled us to obtain $30 million in investments and loans from workers' funds and the Government of Quebec. With that, since 2007, we have been able to invest $45 million in 127 businesses in Quebec. That has generated nearly 2,500 jobs, 400 entry-level jobs and $265 million in investments. In addition, based on our plan, those numbers will double over 15 years. So we are talking about one subsidy that helped get the movement off the ground and added a great deal to the trust. We have made investments across Quebec.

Finally, as one last example, I will tell you about one of our current projects. We have created a fund for NPOs involved in housing to help with renovations. That is under the federal program. Our project is geared toward those who need help to make it to the end of the first mortgage, but who don't have enough money to afford the cost increases. So we have worked with our partners, private investors and tax-advantaged funds. The goal was to raise $31 million and to loan the money to those people, based on the formula that worked for them.

In this case, the arrangements with CMHC work very well. We need to make sure that these new types of financial products are valid as programs and allow us to invest.

● (1705)

With a $31-million project, we will be able to renovate 1,200 housing units. In this case, one program just needed to be changed. In terms of housing, mortgage is not always the best financing option.

[*English*]

The Chair: Could we have you wrap up, sir? We are over the time.

Mr. Jacques Charest: Thank you very much.

The Chair: Thank you so much. I thought that might be an appropriate point because you had given us the example.

I'm going to limit the time to three minutes per question. We're probably going to have a chance for just one round.

The votes are at 5:45, so they will be 30-minute bells, not the 15-minute bells that I mentioned.

Madam Morin.

[*Translation*]

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

I will break the ice by asking the first question on a technicality. It is for Mrs. Taylor.

For information purposes, what do you mean exactly by the term “hybrid business”.

[*English*]

Ms. Cathy Taylor: That's an excellent question.

In Ontario and in other jurisdictions there is a sense that we need a new type of organization that's not a non-profit and not a business, but somewhere in the middle, one that provides a social purpose of some sort but can also make a profit. That's called a hybrid. In the United States, they can be called “B corporations”. You might have heard that expression. “Social purpose businesses” is another expression. At the end of the day, they can generate a profit, but they also have a social impact.

Some businesses would like to do that, especially with the new generation of young people wanting to start up businesses, who are interested in having a social purpose as well as making some money. Non-profits are limited as to how much revenue they can generate, so it's sort of in the middle.

[*Translation*]

Ms. Marie-Claude Morin: Thank you.

You also talked about the negative impact of the Income Tax Act for you. Can you elaborate on that?

[*English*]

Ms. Cathy Taylor: The Income Tax Act, especially as it relates to the not-for-profit sector, hasn't been updated in decades. One of the things in the Income Tax Act that the Canada Revenue Agency has been looking at, through a project called the non-profit risk identification project, is that the Income Tax Act doesn't allow non-profits to have any revenue, or profit, or a surplus of any sort.

When they say “any”, they mean none. They mean zero, so it's really difficult as a non-profit. We're of course encouraged to have balanced budgets. We can't generate a profit, but if we have a social enterprise, if we're providing training, for example, for young people with disabilities and there is a fee for that or there are charges for that, and at the end of the year we have extra revenue above what we expended, that should go into the next year's budget to reinvest into the service. There are some technicalities around whether we are allowed to do that or not.

● (1710)

[*Translation*]

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

Mrs. Taylor, just like Mr. Charest, you suggested that we allow social economy enterprises to have access to the same programs as small and medium-sized businesses. Are you not afraid that we are overlooking the specificity of a social economy enterprise and that we are treating it as an SME when they are different?

[*English*]

The Chair: Could we have a very quick response from one person only?

[*Translation*]

Mr. Jacques Charest: A social economy enterprise or a cooperative can carry out research and development. So why can't it have access to those tax credits? Cooperatives are often for-profit. They are collective property but they are for-profit. Why can't they have access to tax credits? Since they don't have access to them, the only way for them to balance things out is by applying for a grant. We tell them to apply for grants. Their answer is that they want access to this type of tool and that they will use it in the same way the others do. They are businesses.

In terms of the social usefulness and what needs to be addressed, as in the case of start-up businesses, it is a different thing.

I am sorry, but I don't have enough time to say more about that.

Ms. Marie-Claude Morin: Thank you very much, Mr. Charest.

[*English*]

The Chair: Thank you very much.

Mr. Boughen.

Mr. Ray Boughen (Palliser, CPC): Thanks, Chair.

Let me welcome our resource panel and say thanks a lot for being with us this afternoon.

Maybe Michael could handle a couple of questions that I have. One question is, can you walk us through with a little more detail on the social bond issues? The financing of the whole enterprise is of interest to me. As you walk us through that, maybe you can highlight why it is that as an investor you'd want to invest in this particular operation, given the fact that there are tons of different investments in the marketplace. What brings people to the point where they say, “I'm going to invest in social finance here”?

Mr. Michael Toye: I think in terms of the challenges around social impact bonds or pay-for-performance, my comment earlier about disproportionate attention is that they are a sexy new tool, so they get a lot of attention. But as you heard from earlier witnesses, the areas or the specific kinds of problems where they can be used are fairly limited. Not everything—social services or impacts that community groups do—can have measurable, short-term outcomes. So when we get into the types of interventions in the call groups, and the level of evaluation, the measurement, whether it's randomized, controlled trials that you need to actually demonstrate an impact, there's a huge evaluation cost that can be built in. I think that's one of the advantages in situations where they work.

A social impact bond is just about the only way I can think of that would actually resource the level of evaluation that would actually test the difference. But then, even if it demonstrates success—from what I understand some foundations in the U.S. are questioning—it becomes a recipe for that intervention. It's not always transferable to different environments, to every reality in different jurisdictions.

The other challenge is often the cost savings accrued don't go to one department. They might go to multiple departments, multiple levels of government. So having to bring together a number of investors to create the bond is the work of an intermediary, and it's extremely complicated. From our perspective, there are a lot of smaller-scale, well-established, existing programs that could have a tremendous impact beyond the social impact bonds themselves.

Just to answer your last question quickly, as Mr. Huddart said earlier, there's actually a significant amount of philanthropic capital looking and wanting to do some good. We don't see the issue so much on the demand side. If we give them a safe placement, there's probably an interest. There's really more on the demand than finding the right investments.

The Chair: Thank you very much.

We're going to wrap it up now then because I'm sure the bells are going to start ringing very shortly.

I wanted to thank you all very much for taking your time to be here with us. This is a very exciting field. It's a very exciting time, I think, with some of the innovations we're seeing and some of the suggestions and ideas we're hearing from witnesses like yourselves. Thank you for your expertise here at the table today.

Ladies and gentlemen, we're adjourned.