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Mr. Phil McColeman

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

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● (1530)

[*English*]

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

Welcome to meeting number 46 of the Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities. We're continuing today with our study exploring the potential of social finance in Canada.

Here to provide testimony in our first hour, we are pleased to have with us Ms. Sandra Odendahl, director of corporate sustainability and social finance at the Royal Bank of Canada. Welcome. Joining us by video conference from Vancouver is Mr. Andy Broderick, vice-president of community investment, Vancity Community Investment. Welcome, sir. Finally, joining us by teleconference from Quebec City is Madam Colette Harvey, director of cooperative project support at the Caisse d'économie solidaire Desjardins.

Welcome to all our witnesses. We will begin with your presentations, for up to 10 minutes. If you go over the time, I will give you a signal, but you're welcome to have 10 minutes. Then we'll move on to questions by committee members.

Ms. Odendahl, would you like to begin, please?

Mrs. Sandra Odendahl (Director, Corporate Sustainability and Social Finance, Royal Bank of Canada): Thank you very much for the opportunity to present to your committee.

I thought I would take a couple of minutes to tell you a little bit about the RBC social finance initiative to give you some context, and then jump into a description and explanation of how we see the different parts of the market and what our observations are regarding the role of government in helping to move forward this area of finance.

I'm going to start by clarifying the way that we define social finance. We understand social finance to be the use of private capital in financial markets for social good. The other thing that I think is an important context-setting piece is that we look at the social finance marketplace as having three distinct portions, similar to any financial marketplace. There's the supply of capital on one side, meaning the money that flows into social finance and social good. On the other side are the enterprises, the companies, and the organizations that demand and require the capital in order to deliver social good. In the middle, of course, you have intermediaries.

The supply can be, for example, high net-worth individuals, governments, banks, and angel investors, etc. On the demand side you can have for-profit companies that are delivering social good, non-profit companies, projects, and cooperatives, etc. Then in the intermediary bucket we would include things like financial institutions, funds, and any intermediary that facilitates the flow of capital between those who need it and those who have it.

With that context, the other piece that I also find very helpful, at least in our business, is looking at the range of social finance. The way that we understand social finance is that when you are taking private capital and using it for public the good, there are a number of different ways that those investors, those with the supply of capital, look at where to place their capital. It can range anywhere from traditional responsible investing, perhaps be screening publicly traded companies and picking the ones that are the least harmful in their sector, all the way through to what we would call "impact investing" or "venture philanthropy", where you're actually looking at placing money for really deep social impact, and where you may not be as concerned with returns. It's important to see that there's a continuum in the types of investors and people who are looking to provide money in the social finance space.

In 2012 RBC launched our social finance initiative. Our intention with the initiative was to be in a position to catalyze social finance in Canada. We wanted to do it through four pillars.

The first pillar was that we were going to be investors in the marketplace. We set aside a small pool of capital, $10 million, specifically to invest in early-stage companies with a social or an environmental mission—but they had to be for-profit companies.

The second pillar was to demonstrate the power of foundations and endowments to participate in this space. We made a commitment to take at least $10 million of the RBC Foundation's endowment and invest it for the social good. In fact, we're currently at about $15 million of the endowment. It's invested more along the lines of responsible investing, but it is still something that is not that commonly done with endowment and institutional money.

The third piece of the initiative is the powerful piece for a large corporation like RBC, and that's to catalyze social finance by helping drive thought leadership and partnerships. This is a really key piece, helping to develop this side of the market and those who need the money into more investable enterprises. We call this "accelerate the accelerators", which is providing some funding and partnership to start up accelerators that help cultivate better entrepreneurs and better social enterprises.

The last pillar was to look at the opportunities in RBC to incorporate social finance into our core business, which of course is capital markets, wealth management, asset management, etc.

Those are the four pillars of the initiative. Of course, the way that we're looking at success is, how are we catalyzing social finance? How much money have we invested for impact? How many social entrepreneurs have we helped?

● (1535)

We're also looking specifically at delivering social good in a number of sectors through our investments. We're looking at employment, specifically for youth and the hard-to-employ. We're looking at water, and we're looking at energy.

Of course, we're looking at how this looks to our businesses. There's a very deep amount of interest in this among our wealth management colleagues. Of course, we also want to make sure that, where appropriate, we are cultivating the relationships and positive views of RBC's leadership in the sector.

That being said, we have actually invested almost $4 million for impact. We've been putting money out the door for about 18 months. We have seven investments. We also have six strategic partnerships with start-up accelerators. We see that through our investments we have helped 80 hard-to-employ individuals get work just in 2014, etc. So we're tracking a number of different pieces of data.

The important thing about this, though, is what we've learned along the way, which, indeed, is the focus of this initiative.

I will sum up in a couple of points what we've learned.

The first thing we have learned is that the supply of funds for social finance in Canada is growing rapidly from a very small base. We've learned this through a couple of different research papers we did last year. There's about a trillion dollars in responsible investment assets under management in Canada, but only about $4 billion to $5 billion of that is the deep impact investing, the kind of investment money that drives deep social impact.

We've also seen that institutional investors, the foundations and endowments, are resistant to impact investing. In some cases there are reasons for it, which I'll talk about briefly in a minute.

We also found that in Canada almost 45% of high-net-worth people think that making a positive social impact is very or extremely important. Interestingly, 75% of the people under 40 think that. We think there's a wave coming of deep interest with private money and in putting that money into the social good.

We found that the top barriers to the growth of impact investing in Canada include a shortage of high-quality opportunities for investment money in this space. Very importantly, particularly in the context of government, is inadequate measurement and the inadequate data available on social and environmental impact and social and environmental status, so that you know whether you've made an impact.

What does this mean for the role of government?

I've picked my six favourite things.

I will start with the supply of money. In terms of the supply of capital for social finance, there are three things that government can do to play an important role, and in some cases has started.

First is is credit enhancement. In banking, this means guarantees. This is first-loss capital. It basically means backstopping investment money into a sector where you want to see investment. In particular, this is important for de-risking some of the riskier, early-stage-type investing that smaller retail investors, who can't afford to lose a lot of money but who might want to participate in social finance, might be more inclined to do it if it were somehow backstopped to some extent.

The second way government can play a role in supply development is a really important one. It's around clarifying the fiduciary duty of institutional investors. The way it stands right now is that trustees of pension funds and endowments in Canada, depending on the jurisdiction, are uncertain if they are breaching their fiduciary duty by investing for social impact rather than strictly for returns.

The third way is to make capital available to fund intermediaries. This is the model that Big Society Capital in the U.K. is using, making money available for funds and not necessarily putting government money directly into the enterprises.

It would also really help if government were to make accurate community-level social data widely available. For example, what is the social impact of investing in something? What is the dollar value of a particular social problem, and what is the return to society of solving it? For example, it returns $50,000—I'm making the numbers up—a year to keep one person out of prison. It returns *x* thousand dollars a year to keep a kid in school for another few years, etc.

● (1540)

In short, what is the social dollar value of the various social problems? Make that information available, make it easy for people to know when they've solved that problem and for the government to know how much impact that has on the taxpayer and on social costs.

The Chair: Can you wrap it up?

Mrs. Sandra Odendahl: Yes.

The last way is to help develop and fund capacity-building programs for social entrepreneurs, which we definitely see as an issue. They are investable social enterprises. There are a lot of great ideas out there. They need to be investable, and there's a lot that we all can do to make that happen.

The Chair: Thank you very much.

Now we move on to Mr. Broderick from Vancouver by video conference.

Please proceed, sir.

Mr. Andy Broderick (Vice-President, Community Investment, Vancity Community Investment): Welcome from foggy Vancouver.

Mr. Chairman and committee members, I'd like to thank you for this opportunity to appear before the committee to discuss the use of private and institutional financing as part of a strategy to improve social outcomes and strengthen communities in Canada.

I provided a deck, I think a little bit late. Actually, I'm not going to speak to the deck, but if anybody has questions about it, I'd be happy to answer them during the question period.

I've served as vice-president of community investment at Vancity since September of 2010. Vancity, with over $19 billion in assets and a half million members, is based in British Columbia and is the largest credit union in Canada. We were founded 68 years ago to provide social financing, essentially providing financing for people who could not get mortgages from the commercial banks on the east side of Main Street in Vancouver. It turned out to be a very good business. It was both a good social investment and a good business proposition. Vancity as a cooperatively owned financial institution sees itself as a social enterprise and takes its community investment role very seriously, so seriously that we have a vice-president for community investment. That's me, and I have a staff of 30.

Our team works on many levels to increase access to capital for our members and their communities. In particular, we're focused on affordable housing, local and natural organic food, energy efficiency and renewable energy, and indigenous communities and social finance or social venture capital. We help our credit union put its balance sheet in the service of these members' communities. We're really sort of the business development side of things.

At Vancity, we track our commercial loan portfolio and our commercial investment portfolio for its impact, with a goal of converting as much of that as possible to areas we've defined. At this point about 40% of our portfolio of $2 billion is in social impact investment.

Four years ago, with the support of the Province of British Columbia and the Vancouver Foundation—speaking here to one of Sandra's points—we set up the Resilient Capital program, which was a credit-enhanced fund. We raised about $15 million from 24 different investors, including educational institutions, unions, the government, and private sources, including high net worth people, and put it in a fund to support social enterprises. We've made about 26 investments out of that fund.

We participate and help guide the multi-sectoral BC Partners for Social Impact, a province-wide social finance round table. We are playing a role in participating in the national advisory task force on the G7 on social finance, and we've been co-convening a national social finance investment table.

I personally have been working most closely on Resilient Capital with a new intermediary, New Market Funds, which is described in the handout I gave you, and I've been working closely with Community Forward Fund, which is a Canada-wide community loan fund.

Before joining Vancity, I served as CEO and president of Housing Vermont, which really affects the way I look at the work I do. It's a non-profit that owned the Green Mountain housing equity fund and Vermont Rural Ventures. Essentially, this is a non-profit investment and development company. We raised about $125 million in private capital and managed private investment portfolios, consisting of affordable housing and public facilities, of about $350 million in assets.

Funds were deployed by Housing Vermont to address housing, economic development, and social needs, in connection with the federal and state incentives that existed in the United States in the form of new market tax credits, low-income housing tax credits, and other state and federal programs, which supported the move of private capital into these areas of community need.

From my perspective, this is key to the success of any movement to social finance. It's the merging of the discipline and ability to execute that's found in private capital markets, with a purpose of community investment and non-profit and charitable purposes. What we created at Housing Vermont is what started 68 years ago at Vancity. Anything the government can do to help facilitate that union by creating an enabling environment for social finance will result in more private investment in positive social and community outcomes.

The field of social financing in Canada is really just beginning to get organized. As such, the agenda is not focused. There's a good deal of wheel spinning. I'm sure you've been hearing all sorts of interesting testimony. The first problem is that there's very limited capacity within the community. I think Sandra spoke to that in terms of helping prepare or make the investees more investable. I'd also point out that the non-profit sector is very primary in its understanding of capital and how to deploy it.

● (1545)

Community capacity has largely been responding to government funding, which has a different risk management profile than private capital, or has have been responding to philanthropy. Again, neither model really works for managing private capital.

There's a great deal of chatter going on about social impact bonds. My experience based here in B.C. and in the United States is that I remain skeptical about the enthusiasm for two reasons. First is a general lack of clarity about what a social impact bond is. From an investment point of view, we're talking about contracted payments or a pay-for-performance scheme. The second problem, which I think is probably more important at this early stage in social finance, is that in an environment where there's a focus on reducing government outlays, on saving government money, it's a tough environment in which to introduce social impact bonds. It could be used as a way to disrupt or reduce the provision of critical government services rather than improve their delivery or efficiency.

I would encourage only cautious investigation of such programs, but would strongly advocate that you work directly to support the development of a more robust community finance infrastructure in Canada.

This work begins, I believe, with the CRA and changing the regulatory regime that currently makes the merging of private investment and charitable goals exceedingly difficult, from such things as making it clear that charities, foundations, and institutional investors can invest in limited partnerships, to removing any direct or indirect prohibitions on non-profits' creating and holding net revenues.

Non-profits and the community sector in general need to build their balance sheets. If they're going to manage private funds successfully, as has been seen in the United States and in Great Britain, this work needs to begin with a strong focus on building that balance sheet. In both the United States and in Great Britain, there has been great latitude for non-profits and charities to engage their work with private capital as partners. That kind of environment has to be created, and that's front and centre of the primary steps that need to be addressed.

Another important enabling tool would be modestly modifying the reporting requirements for financial institutions, with apologies to Sandra. It should be required of all financial institutions and credit unions to report on their level of investment in community against a common standard. It's not critical that such investment be required; it's just critical that it be reported on. The market itself, as Sandra's pointing out, where so many people under 40 are really interested in making sure that their money is put to good use, will help the more formal financial markets figure out how to do that in the right environment. Creating a regulatory environment that encourages financial corporations to report on more than just a single bottom line is critical.

Finally, the federal government should do more to support the critical role played by intermediaries—which again goes to Sandra's point—such as Royal Bank, Vancity, and entities as small as new market funds in the Community Forward Fund.

As the federal regulations in regard to credit unions are being drafted, I would ask you to keep in mind—and I think this is before Parliament currently—that Canada does not really need more small banks. The requirements of Basel III were designed to overcome the failings of large banks in global finance and should not be the instrument that kills the difference that credit unions bring, namely their focus on building their members' communities.

These institutions and others will become critical to building the community capacity necessary to manage private capital and also necessary to creating the fund managers who can speak and be accountable to private investors.

In the United States and Great Britain, social finance has become robust markets raising and deploying enormous amounts of capital and service of multiple bottom lines. If the Government of Canada successfully creates such an enabling policy environment, it will have big returns.

I'm happy to respond to questions on my remarks around the deck I've provided.

Thank you.

● (1550)

The Chair: Thank you, Mr. Broderick.

Now we move to Madam Harvey by teleconference. Please proceed.

[*Translation*]

Mrs. Colette Harvey (Director, Cooperative Project Support, Caisse d'économie solidaire Desjardins): Thank you, Mr. Chair.

I would like to thank committee members for having invited us to participate in this meeting.

The Caisse d'économie solidaire Desjardins is a cooperative financial institution which is a member of the Mouvement Desjardins, the biggest cooperative financial group in Canada. With assets of $227 billion, the Mouvement Desjardins is considered the fourth safest financial institution in North America by the magazine *Global Finance*, and the second most solid in the world according to the Bloomberg financial information agency.

With assets of $737 million, the Caisse d'économie solidaire Desjardins has, for 44 years, played a major and preponderant role in Quebec when it comes to social finance. Its assets have more than doubled over the last 10 years and its loans to social businesses have increased by 122% over the same period.

The membership of the caisse is made up of 3,000 associative or cooperative companies from various sectors of activity and of 12,000 individuals. It serves as an intermediary between savings—that is to say supply—and funding for businesses from the social economy—that is to say, demand. Desjardins offers investments with social returns. Deposits are guaranteed by the Deposit Insurance Corporation of Quebec. In 2014, savings in our institutions amounted to $617 million and loans came to $622 million, including $477 million used to directly finance projects with a social impact.

The caisse offers borrowers a wide range of credit products, term loans and lines of credit. We generally underwrite these loans to support the activities and development of social projects.

The caisse is also a very active member of Cap finance, the Réseau de la finance solidaire et responsable, which recently appeared here. The caisse collaborates with its natural financial partners from the associative or union networks to obtain the non-guaranteed portion of the financial package, that is to say, patient or venture capital.

The caisse is the biggest institution in Quebec's social economy financing network. It makes up more than 40% of the total volume of social financing. In Quebec, according to the latest statistics, the social finance sector represented $1.4 billion. In Canada, according to the Responsible Investment Association, the social finance sector amounted to $4.3 billion.

I would like to give you some examples in this regard.

The caisse plays an important role in the development of collective housing. It provides financing for nearly 10,000 units of social housing in Quebec. In 2014, this sector represented more than 50% of the loan portfolio, a value of $262 million.

The caisse has long been a financial partner of the Fédération des coopératives du Nouveau-Québec. Its funding to this institution amounts to $30 million. We have also set up financial services counters for the Inuit population in various villages. This is a project that is currently being carried out with the Mouvement Desjardins. The social impact of this is access to a bank account for an isolated population spread over a vast area.

The caisse is a solid and viable financial institution. Ever since its foundation, it has aimed to use finance to create a more just economy. In an economy at the service of people, finance becomes a means and not an end in itself. What distinguishes the caisse from a philanthropic organisation is that it seeks to remain profitable. This is necessary to the survival of the projects it funds.

● (1555)

The surpluses gained through its credit intermediation activities are in part capitalized to ensure that it is financially sound. From the very beginning, members agreed to have the part of the surpluses they could receive individually returned to the community as collective dividends. For a number of years, this has meant nearly $1 million per year provided as donations. Through these donations, the Caisse has been able to co-found an innovative services exchange network in Quebec for people living in poverty. This Quebec initiative, called l'Accorderie, has spread to France and Morocco.

Housing, access to financial services, reintegration into the workforce, literacy, health services, homelessness, food security and the environment are some examples of issues that businesses funded by the Caisse have addressed in order to find solutions.

Social finance exists because there is another economy, that is, the social economy. The Caisse sees social finance as an alternative to traditional finance. Social finance belongs in a mixed economy, along with the private and public economy, to support the development of entrepreneurial initiatives driven by the wish to meet the needs of people and communities, and not only first and foremost by a striving for profit and personal enrichment.

This social economy and the social finance that supports it deserve to be recognized and encouraged. We welcome this committee's initiative and hope that social finance and the social economy will be acknowledged and supported by the federal government through programs such as start-up programs, envelopes for research and development for social economy businesses, training programs for both administrators and managers in cooperatives and associations, and finally, research programs to document the impacts of social businesses and their innovations.

Thank you.

● (1600)

[*English*]

The Chair: Thank you very much.

Now we'll move to our first round of questioning. Committee members, all rounds today will be five minutes.

Madam Sims.

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

I want to thank all three presenters for coming here before us and putting forward your perspectives. I can see that all three of you have a passion for social finance. You're the best people to be here to educate us and give us more information.

My first question is going to be for Andy Broderick. Andy, I come from B.C., I'm living in the Lower Mainland and am familiar with the work being done by the Vancity Credit Union. Having once been the president of the B.C. Teachers Federation, I know that many of our members are your members. We do appreciate as a community all the community building that you do as well.

I was at a community event the other day where they were thinking about organizing something, and the first name that came up was Vancity. They'll be in touch with you shortly.

I could see your passion and everything. One of the projects you did was partnering with the Vancouver Foundation in 2012 to create the Resilient Capital investment program. In our briefing notes we read that the program aims to bridge the gap that social enterprises sometimes experience between government and other grants and access to conventional lending. Can you talk about this gap a little more? Why is there a gap? Isn't it more, or at least in part, a government choice whether such a gap exists at all, or are there other things we should be aware of?

Mr. Andy Broderick: I'll give you my best on that. As much as I'd like to think of my comments as being definitive, they rarely are.

The gap comes largely, I think, from a failure sometimes of financial institutions and capital markets to understand risk in relation to community-based organizations and how to understand it and quantify it. The first issue I would flag is that it's not necessarily riskier, and doesn't probably actually need credit enhancements in terms of most of the loans and investments we're making, but we need to bring financial institutions and traditional credit analysis along. That's why I think these credit enhancements are, as Sandra pointed out, important.

So the gap exists largely because the borrower does not present as traditional for-profit borrowers present. They have different assets. They have volunteer boards. They have deep historical experience within the community. They're addressing a central need that you can rely on...on municipalities and provincial government and federal government to stand close to, even if they're not at the lead with this non-profit.

I think the goal of Resilient Capital is really to demonstrate the creditworthiness of most of the loans and investments we make, which is ironic, because the most difficult element of it was probably raising the $2 million in first-loss money.

Does that help?

Ms. Jinny Jogindera Sims: It does. Thank you.

You'll be surprised to know, Sandra, but I did actually read your “2015 Canadian Responsible Investment Trends Report”. In it are listed some challenges and deterrents. Some of the deterrents listed are things like risk concerns, performance concerns, lack of qualified advice and expertise, mistrust, concerns about greenwashing, and the idea that non-market-based investing isn't viable or sustainable.

As you are such a passionate advocate for social finance, how do you respond to these concerns when you are pressed for answers?

Mrs. Sandra Odendahl: Thanks. That's a great question.

The Responsible Investment Association report that you're referring to just came out a few weeks ago. It was done by the RIA with support from RBC corporate and RBC's global asset management group, the people who develop mutual funds and products for investors.

Yes, we see that there is a little bit of a chicken-and-egg scenario going on. There are not a lot of investable financial products out there for investors who are looking for a certain risk profile, but on the other hand, those financial products will never be developed if people don't start to put some money into them. The way we're trying to address it, frankly, is through things like the report we did with the RIA and other reports—I have a handout that's an excerpt from a report we did, “Financing Social Good”—to mainstream some of the concepts around social finance, presenting them in a language that is the same language that the traditional finance and investment community uses.

Certainly that was the first thing that struck me when I entered this space. It was like all those people doing social good were speaking a completely different language. I thought, “My goodness, we need a translator here.” We're trying to serve as a translator to make sure that the community sector and the finance and investment sector speak the same language, or, if not, can at least translate. We're doing that through some of the partnerships and some of the research pieces.

I think data and hard facts are the only way to break down some of the misconceptions, misunderstandings, and maybe trepidation about getting into this space.

● (1605)

The Chair: Thank you very much.

Mr. Armstrong, you have five minutes, sir.

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

I want to thank our witnesses for being here today on what I think is a very important study for the future of social finance in Canada.

Mrs. Odendahl, in your discussion you were able to talk briefly about the role that the federal government can have in promoting social finance across the country. You were able to talk about the supply of capital being the number one aspect of that role of government. You were cut off before you got the chance to talk about the other two steps.

I'm wondering if you would just fill us in on your position. What are the other two main roles government can put in place to try to support social finance implementation?

Mrs. Sandra Odendahl: Sure. I probably didn't bucket them very well as I was wrapping up, but the other two things that I think are important for government fall into the intermediary and the demand-for-capital sides.

In the intermediary space, it's definitely making available the provision or collection of data—information about the cost, the value of solving social problems. There's a great U.K. online database called the unit cost database. I don't know if any of your other witnesses talked about it. They put out there what the cost is of health and social services. So an enterprising social business can say “wow, if I solve this, this is worth $100,000 a person” or whatever. It's very important motivationally and also in terms of knowing when we've actually been successful or not.

On the last piece on demand development, definitely—and Andy touched on this as well—we see the need for better investable social businesses that can attract traditional capital, investment capital, and go beyond just good ideas and the desire to help.

Mr. Scott Armstrong: Thank you very much.

Mr. Broderick, my next question is for you. You talked about CRA implications and making some changes in the regulatory system we've set up to try to support social finance. Can you elaborate on that a bit? What changes would you like to see in the regulatory environment to support the implementation of a program in Canada?

Mr. Andy Broderick: There would be a lot, but I would mention two. With the CRA there has been a real sort of hardline distinction between charitable status and engagement with private capital, which again is understandable in terms of understanding the purpose of philanthropy, but it is not particularly useful when you're trying to create partnerships between private capital and philanthropic goals. Basically, the main work that should be done at CRA is figuring out how to both ensure that philanthropic goals and integrity are maintained, and allow innovative partnerships and co-investment work to go forward. Specifically, that is one. Charities are not allowed to invest in limited partnerships, which is the main structure under which most of these private funds that are doing social impact investing would raise money. So they have to set up a trust structure—I wouldn't say to get around it, but to be able to comply with the regulations.

Secondly, I did raise—

Sorry, go ahead.

● (1610)

Mr. Scott Armstrong: Well, if you want to go on, you can, but I was going to ask you another question about that.

So you think there's a regulatory hurdle there that people have to overcome that restricts their opportunity to invest.

Mr. Andy Broderick: Yes, there is, and it's actually outlined fairly well in the G-7 report that was done for Canada.

Mr. Scott Armstrong: Thank you.

Mr. Andy Broderick: I'm happy to provide it to the committee.

Mr. Scott Armstrong: Okay.

I have another question, Mr. Broderick. You talked about your skepticism of social impact bonds. Do you want to elaborate on that for a moment?

Mr. Andy Broderick: Well, I'm glad there wasn't much talk about it. I testified last year on social impact bonds before another parliamentary committee. There's just so much primary work that needs to be done to lay a strong foundation, and I agree here with the testimony of my other colleagues. Before picking up social impact bonds as a really useful tool, you need to recognize that they essentially attract a lot of consultants and a lot of brain damage without your having a foundation on which to be able to judge them and set up a robust social finance environment in which they'd be successful.

The Chair: You have 10 seconds. So if you want to....

Mr. Scott Armstrong: Thank you all.

The Chair: Thank you very much.

Mr. Cuzner, for five minutes, please.

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

Let me start by saying that your presentation, Mrs. Odendahl, was every bit as good as George Wamala had.... You know, he set the table with that.

Voices: Oh, oh!

Mr. Rodger Cuzner: But I do want to ask another question. We have three members from Atlantic Canada here, and I know that Mr. Broderick commented that capital risk is different from investment in social programs, but when we hear banks talk about risk assessment I would point out that there has been zero appetite on the part of the big banks to assume any risk, even in capital projects in rural communities. That's pretty much the rationale for ACOA right now. I say this because when a guy like John Bragg can't secure bank financing for a project in Oxford, when he's one of the most successful entrepreneurs in eastern Canada and has gone on to make money with that particular investment....

You're saying that you'd like to see the government step up and backstop the investments. Are you seeing any more appetite on the part of the big banks to assume a greater degree of risk in social investment?

Mrs. Sandra Odendahl: I think the banks basically apply, as you have alluded to, very rigorous, very well-established risk management protocols in evaluating any type of financing. One of the things that we, the social finance team, have been talking about to our commercial banking colleagues—in fact all the time, as we haven't figured out exactly where to do this yet—is the possibility of layering riskier money, which might be the money from our social impact fund, with conventional bank financing. As you now, banks are highly regulated and there are certain things that they just have to do in the way they evaluate risk. However, because we've set aside a pool of capital for social impact, we have a different risk tolerance with our fund, and we have been talking about how we can use it—and here I can't speak to the particular case you mention, of course—

Mr. Rodger Cuzner: No, no.

Mrs. Sandra Odendahl: —to help start to solve that challenge of how to do high-risk things when you are a highly regulated, risk-averse Canadian bank.

Mr. Rodger Cuzner: On the suggestion that Mr. Broderick made with regard to the reporting on social investment, would there be a problem with that with the banks, do you think?

Mrs. Sandra Odendahl: As far as I know, the financial sector is —and Andy's smiling, so I'm interested in his response—to my knowledge, the only sector in Canada that is regulated to have to produce a public accountability statement every year. I'm not sure what type of information currently isn't in our public accountability statement that Andy's thinking about, but I don't actually see a problem. Until last year, in addition to our public accountability statement—I'm only speaking for RBC—we also had a 100-and-some page corporate responsibility report, plus an annual report. We report a lot of information about community stuff. For our organization, obviously depending on what the requirements are, I think it would be very interesting.

● (1615)

Mr. Rodger Cuzner: Great.

I'll ask if Mr. Broderick wanted to make an additional comment on that. But just to close off, my last question will be a follow-up to what Scott was asking about, namely taking off some of the shackles in the CRA between charitable status and having no relationship with private capital. I guess whatever you do, there's the risk of abuse or something like that. Do you see a big hole? Is there a reason that this hasn't been pursued to date? Is there a reason that we haven't gone there yet? If so, what is it? If you could comment on both, I'll wrap up.

Mr. Andy Broderick: Is this for me?

Mr. Rodger Cuzner: Yes.

Mr. Andy Broderick: Yes, I think there is. I think the fact is that the government hasn't suffered the main cost of the extreme clarity that currently exists. In other words, it's hurting a sector that doesn't really have much of a voice and has generally not been well elevated. I do think it can be resolved in a way that will keep integrity, but allow for a great deal of innovation.

As to reporting, I think there's a great deal of information provided by Canadian banks. It's not provided in a form that would easily allow communities to understand, for instance, the level of their deposits by census tract or by postal code versus the level of lending. It would be really interesting to be able to compare where deposits are taken and where they are put back as loans. Again, it would just be instructive and it would probably just help the banks to focus more clearly on where their business should grow.

The Chair: Okay, thank you very much.

Now we move on to Mr. Boughen. You have five minutes, sir.

Mr. Ray Boughen (Palliser, CPC): Thank you, Mr. Chair.

Let me add my voice to that of my colleagues in welcoming you here this afternoon.

A couple of things happened in your presentation, Andy. I'm just looking at my notes here. I see there's limited capacity for this; there's risk in private and governmental involvement; and the non-profits have to build a strong balance sheet. I'm wondering how you build that balance sheet given those variables.

Mr. Andy Broderick: The first thing is to make that a target of what the non-profit is trying to do. It's to build a culture that accepts non-profits as strong business actors, with a clear mission that wins out in balance against any sort of for-profit goal.

Again, what I've seen in Great Britain and also in the United States are very strong intermediaries that are non-profit or charitable in their focus but are active with private investment and private capital. It gets started by first allowing that relationship to begin to grow. Again, through tradition and through history, I think it's not been an area that's grown, probably because Canada has had a very active government that to many degrees has addressed a lot those issues more directly with straight government financing.

As new ways to try to innovate, it's difficult for government to figure out how to innovate with private capital just because they are from different worlds.

Mr. Ray Boughen: Thank you.

Sandra, in your presentation you talked about financial gains. It's important that there is financial gain in the various projects that are being financed to help them get going as necessary.

Given how this operates compared to traditional investment, how do you ensure that you will achieve that financial gain?

● (1620)

Mrs. Sandra Odendahl: I guess I would say that depending on the investor, financial gain may or may not be the important thing.

One of the things we see in this space, speaking from the side of the investor, is that you have finance-first investors, who are looking for the win-win situation where there's financial gain and a social or environmental impact from their investment. But you also have investors who might be impact-first, who may just be happy to get the money back in one form or another because they want to make sure there's a social benefit. They might even be able to tolerate a bit of a loss, but it's still not quite philanthropy; they are not giving it all away. Everyone is different.

In answer to your question, though, for our fund, we are looking for modest financial gain, partly because we would like to think we're going to recycle the money. If our portfolio is successful, we want to grow that $10 million. As we get exits from our investments and we get the money back with interest, we want to pour it into new investments and try new structures and new things.

I would say that like any investment ecosystem, there's going to be a range of different kinds of investors and a range of investments. The risk return profiles will be different. I actually think there is something for everyone, but you can't have it all at the same time. I don't think you can have extremely deep social impact, extremely high returns, and low risk at the same time in the social markets, any more than you can get that in the traditional markets.

Mr. Ray Boughen: Are they kind of mutually exclusive events?

Mrs. Sandra Odendahl: Well, the ideal, just like in traditional investing, is that you look at where you can optimize, where you get the most impact for the lowest risk and the best return. But it's really hard to get them all at the top. You look for that intersection of the best you can do on each of those fronts, if that's what you're looking for. It's hard.

Mr. Ray Boughen: Thanks, Mr. Chair.

The Chair: You have about 30 seconds left.

Mr. Ray Boughen: Okay.

Sandra, what would you say is the risk between the private and government sides? How do you view that? It was an issue that Andy brought up.

What's your view on that?

Mrs. Sandra Odendahl: Sorry, what is the what between...?

Mr. Ray Boughen: What do you look at when you consider risk between the private and the governmental side of the world? Which risk is the one that is favoured by social finance, and why? Is there a decided movement one way or the other?

Mrs. Sandra Odendahl: If you're talking from the perspective of a social enterprise, I think generally what we see is that government is more willing.

I'm not sure if I'm answering your question, but government tends to be, and we think is, appropriately positioned to accept more risk in pursuit of the greater good or the longer-term benefit to Canadians at large. The private sector tends to be more risk averse, especially publicly traded companies. They have to respond to their shareholders and have to explain why they are taking enormous risks.

If you are looking as a social enterprise or a community service provider, the government would be in a position to provide risk capital more than the private sector. Also, the charitable sector, foundations, etc., are usually much more accepting of taking high-risk bets on potentially really deep social impact.

The Chair: Thank you.

That ends the first round. I'm going to finish our questioning by members at the first round.

I have one question myself—as the chair, I get that prerogative—and that is to ask each witness for a few brief comments about the strength of cooperatives. Do cooperatives see themselves in the same manner or with the same sophistication, you might say, as privately held companies and private businesses in the traditional financing between business and banks and financial institutions? What are your views about the sophistication of cooperatives in terms of the ground that we need to make in that space? Or do we need to make up any ground in terms of their level of business acumen?

Andy, maybe you could go first.

● (1625)

Mr. Andy Broderick: I'd be happy to. It's a fun question, but I'm not sure I'm very prepared for it. I think my colleague from Desjardins in Montreal outlined it pretty well.

You get cooperatives that are very sophisticated and bring the same commitment to execution and discipline that you find in the private sector, and you also find co-ops that are smaller and built around more informal relationships.

It's an area of the economy that offers a great deal of promise in the area of social finance. Look at what such an institution as Vancity, which brought me to Canada, has been able to create, both as a sophisticated financial institution able to execute as well as or close to as well as banks—or better, sometimes—but also, as was noted by my Montreal colleague, in turning more than 30% of our gross profits back into the work I do in trying to build new markets that will strengthen the community.

You have that with Vancity and you have it with Desjardins. You can see that when these work, they become enormously important community institutions around which you can build a lot of other activity. I saw it in Vermont around food co-ops.

The Chair: Great.

Madame Harvey, would you like to make a few short comments?

[*Translation*]

Mrs. Colette Harvey: Certainly.

Credit unions are just as profitable and perform just as well as major banks, but they have a different development model. Witnesses who spoke earlier mentioned the risks, losses and difficulties in assessing risks. However, because of the important relationships it has with its entire community, our credit union has a loan-loss rate that is lower than the overall rate for the Mouvement Desjardins unions.

We specialize in funding unions and associations that have social projects. We are able to monitor the risk analysis thanks to these close relationships we have with the community. I believe that, for credit unions, being able to keep these ties and these roots in their environment is what is most important and what provides structure. They are essential intermediaries in these environments and communities. We must preserve this business model and to do so we must keep this space vibrant throughout Canada.

[*English*]

The Chair: Thank you very much.

We're out of time, so Sandra, we're not going to get to your comments on this question.

Mrs. Sandra Odendahl: That's perfect.

The Chair: Maybe we can share thoughts back and forth after.

Thank you very much, witnesses. It's curious for me personally. My father was a co-founder of a credit union called Brantford Municipal Employees Credit Union. Then I became an entrepreneur and had my own business my whole working life, working with financial institutions. To draw the connections and to see where the strengths and weaknesses are and see the chain between institutions and such is very interesting, and you certainly provided us with some good perspective today. Thank you for being here.

We will suspend briefly to bring in our next panel of witnesses.

● (1625)

(Pause)

● (1630)

The Chair: Welcome back, ladies and gentlemen.

We're continuing now with our study to explore the potential of social finance in Canada. Here joining us for our final hour are two witnesses. We have Mr. Magnus Sandberg, vice-president and general manager of Social Capital Partners. Welcome. Along with Mr. Sandberg we have with us Mr. Norm Tasevski, co-founder and partner of Purpose Capital.

Sir, I hope I pronounced your name—

Mr. Norm Tasevski (Co-Founder and Partner, Purpose Capital): You did a fantastic job.

The Chair: Thank you, sir.

That's not bad, eh? There we go.

You each have up to 10 minutes to present to the committee, and then we'll move into questioning.

Let us start with Mr. Sandberg. You may take 10 minutes, sir.

Mr. Magnus Sandberg (Vice-President and General Manager, Social Capital Partners): Thank you for this opportunity.

I believe that the speakers in prior sessions have talked about social finance at large, social enterprise, social impact bonds, and how to unlock capital for foundations, and so forth. All those topics are very important and are very promising, but I will perhaps take the discussion in a slightly different direction.

At Social Capital Partners, we often ask ourselves how we can engage the mainstream, the private sector, in social finance and social impact. What are some win-win scenarios and models that would motivate scaled private sector players to improve our society while not compromising their financial return? The answers to these questions might unlock the biggest opportunity for scaled impact and return on taxpayer dollars.

I will tell you about a concrete model from a practitioner's perspective that we've been working on, but the point that I want to make is that we believe that there are many more opportunities to engage with the private sector if we think creatively about this emerging field of social finance.

But first, I will tell you briefly about Social Capital Partners. We are a non-profit started by philanthropist Bill Young, who was a member of the Canadian social finance task force that has been referenced in prior sessions. We have been immersed in the social finance field for about 14 years and we started off investing in and helping to start social enterprises.

After five years we learned that social enterprises can have a real social impact while mostly financed by earned revenue, but they are difficult to scale, because start-ups are hard and even harder with this double bottom-line focus of financial return and social impact.

We realized that we could only do one deal a year, since we had to dig into the business model and ensure that there was a sustainable revenue model. That is the point at which we turned our attention towards the private sector and already-scaled business models. We provided attractive financing to entrepreneurs who wanted to buy or grow a franchise location like a Mr. Lube or Boston Pizza. In return for receiving our money, the entrepreneur committed to hiring a portion of its staff from community service providers like YMCA and Goodwill, etc.

We tied our financial return to our social impact, so for every hire they made, the interest rates on the loan went down by *x* percentage. Today we have an investment portfolio of about 80 businesses and, on average, 25% of the total staff in each business are employees who are hired through our program. These employees might have a disability or be new to the country or are youth at risk.

We play the intermediary role between the entrepreneurs and organizations like YMCA to make sure that job seeker matches are successful from the perspective of both parties. A couple of the original hires we helped place have now risen through the ranks and we think that they will soon be in a position to open their own franchise. We would, of course, be delighted to provide the financing.

We proved this model works from an impact perspective but also financially. Our portfolio yields return rates of 7% and our default rate is 2.4%. We asked ourselves, now what? How do we grow our portfolio from 80 loans to 10,000 loans? We said, imagine if the banks would provide this social finance product in all of their branches. Imagine if the banks would offer their standard loan product of, for example, prime plus 2% but customers have the opportunity to lower that interest rate by half a percentage per hire they make through a community hiring program. You might ask who is covering the cost of the interest rate reduction? I will answer that in a second.

We did some modelling together with Deloitte, and if you take someone off social assistance or some other government support, depending on the population groups and the support systems, and put them into employment, on average the government has saved about $6,000 per person after six months of employment.

● (1635)

Compare that to the cost of lowering the interest rate half a percentage on a typical $200,000 loan, a cost of about $3,000. We believe that there is a clear business case for government to cover the cost of the interest rate reduction of half a percentage per hire when the savings are twice the amount compared to the cost. The interest rate reduction will only take effect once the hire has has been employed for six months, so there is very little risk involved for the government. It's a straight pay-for-outcome model, leveraging components of a social impact bond—which I know you've had presentations on in the past—but minimizes the complexity that comes with the structure of a social impact bond.

We presented this to the Ontario Ministry of Economic Development, Employment and Infrastructure and they want to pilot this. We have engaged the banks over the last few months, and we actually had a design workshop yesterday for what the pilot could look like with three banks that have shown interest in being part of this. We're doing the same with credit unions in a couple of weeks.

Looking at the opportunity—and I'm not here to pitch this, but to make a point—with 10,000 loans, Deloitte estimates net savings to the government of about $140 million, 40,000 roles being filled by vulnerable persons, up to 2% interest rate reduction for employees, and the hiring support provided by community agencies and selected financial institutions being able to provide lower interest rate loans compared to its competitors to help drive social impact. We believe this is a compelling picture, but the point that I want to make is that, when you start to engage the private sector players in win-win scenarios, you can get to scaled social impact quickly.

I think there are a number of exciting trends and models emerging and, when they intersect and converge, we could see some very interesting results. The models that I'm thinking of are social finance, shared value promoted by Michael Porter, collective impact, innovation labs, nudge, and behavioural insight theories. In fact I think the White House announced last week a nudge unit similar to the nudge unit in the U.K. government.

We don't have time to go into all this, but to me the bottom line is that it is all about changing behaviour, encouraging new ways of working, and involving new players. In our experience we are changing the behaviour of employers to hire people with disabilities, new Canadians, at risk youth, etc. through providing a fairly inexpensive nudge in the form of an interest rate reduction and through leveraging the distribution channels of the banks and credit unions to go from engaging 80 employers to 10,000 employers.

Lastly, along these lines we think it would be very, very interesting to explore already existing government programs aimed at the private sector and add a social twist to it. One example is the Canada small business financing program. The government is essentially guaranteeing up to 80% of the loan provided by financial institutions to small and medium-sized organizations that the banks wouldn't necessarily otherwise provide loans to because they're too risky. Imagine if on top of that we add a social twist, whether it's hiring, it's environmental solar panels on the roof of the businesses, or what have you, we think that could be a very interesting model. There are many similar models like that and, again, looking into who they are and what that could look like would be very interesting.

Thank you.

● (1640)

The Chair: Thank you very much for that.

Mr. Tasevski, please begin.

Mr. Norm Tasevski: Thank you very much. Again, thank you for the opportunity to speak to the committee on this very important topic.

My comments will echo many of Magnus's comments about the role of the private sector in enabling social finance. I'll begin by offering the committee my perspective on social finance that might be a little bit different from some of the other comments you've heard so far.

For me, the first think I think about is who actually participates in social finance or who the participants are. When I think of social finance, the idea of investing to achieve both social and financial returns, or blended returns, is often championed by the charitable or non-profit sector. However, social finance is not the exclusive purview of the charitable sector. When we think of blended returns, it is equally as valid to think of social finance as it applies to the activities of for-profit incorporated organizations and ventures similar to the ones that Magnus had identified.

In fact, a growing number of companies have, as their raison d'être, the desire to fundamentally tackle social problems that are present to society. Legal forum in that way is therefore not a precondition for social finance.

The second part of my perspective centres on social finance as more than just those that participate in the investment activity. An entire ecosystem of actors participates in social finance in one form or another, and in some cases, there may be several agues of separation between the actors and the investment activity.

There is a very small example. I teach a course on social entrepreneurship and impact investing, a subcategory of social finance, to engineering students at the University of Toronto. People would think social entrepreneurship and engineering students might be an odd place for a talk on social finance, but it's actually a fantastic opportunity to expose a different category of individuals to the concept of social finance.

I also advise a group called ABC Life Literacy. In fact, I believe that Gillian Mason from ABC will be speaking to this committee later this week. Gillian is interested in social finance not only as a possible recipient of social investment but also insofar as her organization may be able to support others to engage in social finance.

Business incubators, advisory firms, legal firms, monitoring and evaluation initiatives, government agencies, all of these and others provide some form of value to helping develop the social finance ecosystem in Canada. Social finance, therefore, represents a clustering of different forms of economic activity.

Third, social finance can be viewed as an instrument that is helping to breakdown traditional firewalls between economic sectors.

A gentleman by the name of Antony Bugg-Levine, the CEO of the Nonprofit Finance Fund and a noted speaker and file leader in social finance, often speaks of the bifurcation of our world in which we invest in one case only to make money or private gain on one side, and we solve social problems through charity or public good on the other.

Social finance breaks these silos down. With social finance, private sector actors with the right motivation and intent can invest for private good alongside private gain. The role of government in this model also changes. With social finance tools, government can now focus on incentivizing private actors and establish the conditions by which they can finance public good.

My firm, Purpose Capital, was founded with this perspective in mind. My business partners and I launched our firm with a goal of mobilizing all forms of capital—financial, physical, human and social—to accelerate social progress. We aim to bridge and divide between businesses and organizations, looking to make the world a better place, and investors seeking a blended or compelling financial and tangible social impact.

Our experience with social finance takes many forms. One of our practice areas specializes in advising asset owners in the development of social finance strategies.

I'll offer an example of our work with the Inspirit Foundation. Inspirit Foundation's mission is to inspire pluralism among young Canadians of different spiritual, religious, and secular backgrounds. This is achieved through a national ground-making program and a commitment to mission related investing, or MRI.

Purpose Capital has worked with Inspirit Foundation since January of last year to define, implement, and monitor their MRI program, which strikes 5% of their endowed funds toward mission and fulfillment.

We are pleased to be an ongoing part of Inspirit as they shape and deepen their commitment to impact investing. We look at investors like Inspirit as the ideal group to participate in social finance. They have both the assets to invest and a deeply ingrained desire to align social impact with their investment strategies. However, they are the exception and not yet the norm when it comes to impact investing or social finance.

● (1645)

For other investors there is the need for firms like ours that take a more active role in removing either perceived or actual barriers to investment.

A second practice area of our firm specializes in creating or co-creating opportunities for social finance investment. We work with asset owners not simply to advise them, but to structure opportunities.

I will offer an example of our work in this case. This one is still in its infancy, but its creativity is something we're proud of and it embodies the perspective I spoke to earlier. It's called the resilient communities fund. RCF is an initiative that aims to rethink how affordable housing is financed and built. Instead of focusing on what I would call the usual suspects in affordable housing development, which are governments and non-profit agencies, to finance the affordability RCF focuses on profit-focused real estate investors. Through RCF, investors purchase investment properties with an RCF mortgage and lease those properties to someone in affordable housing need.

Our mortgage product is linked to an endowment fund that bridges the affordability gap for the tenant. The tenant pays what they can afford and the investor receives market rate return.

Private citizens themselves become investors in social finance, taking the burden off governments and charitable organizations so they can invest in other forms of housing and programming.

With these experiences in mind I will offer the committee some thoughts on how the federal government may participate in social finance.

First, government should think of itself as an enabler of social finance. By an enabler I mean the government should consider how it may help to create the conditions for a flourishing social finance ecosystem. This does not imply governments as a funder. Rather I see a more powerful role of government as an incentivizer. One specific incentive is time. The old adage of time is money applies to social finance as much as it does to traditional finance.

I think of our work in affordable housing and focused real estate as an example. A more rapid project approval process for socially impactful real estate projects could fundamentally change the economics of a project. From a government process perspective, enablement can be done either the easy way or the hard way. I always default to the easy way first. In this case it may mean prioritizing small changes to government policy that do not require regulation changes or new legislation.

A second role for government is as an investment catalyst. One structure the committee may consider is a catalytic capital fund. Catalytic capital structures bring together different categories of investors, what we would call the social first investor and the finance first investor, into the same investment opportunity. One investor category invests capital and agrees to absorb a certain preset level of loss. In doing so other investment groups reduce the risk associated with the overall investment opportunity. Due to the reduced risk an investor group receives a return that is more in line with their risk return expectations, which is typically the market rate.

Thinking of catalysts, I will offer one final example to the committee and that is of the Big Society Capital. You might have heard of Big Society Capital from other speakers before this committee.

Big Society Capital is a socially motivated financial institution out of the United Kingdom. Big Society Capital invests in the social finance ecosystem in the United Kingdom, which in itself is a fantastic thing. The more impressive thing is how they were able to be capitalized. The initial capital seed for the Big Society Capital fund was English dormant bank accounts. Dormant bank accounts are those where the account holder has ceased to access, whether they may have passed away as an example. After a certain custody period UK banks forward these bank account funds to a series of intermediaries, and then those funds eventually are sent to Big Society Capital.

Why is this relevant to our discussion? In Canada dormant bank accounts account for approximately $532 million as of December 2013. The Bank of Canada holds these funds for a 40-year custody period, and then funds held prior to that custodial period are transferred to the Receiver General of Canada. I think it would be an amazing thing to see if the federal government may be able to replicate or somehow catalyse a form of Big Society Capital in Canada as a demonstration of their commitment to the growth of social finance.

With that I will end my remarks. Thank you.

● (1650)

The Chair: Thank you very much, sir.

Now we move on to the first round of questions.

Madame Groguhé.

[*Translation*]

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

First, I would like to thank our witnesses for their contribution to this study.

While this was not a key point during your statement, I would like to hear what you have to say regarding indicators for assessing social finance, given that we know that performance-related pay models are chiefly based on evaluating results.

In your opinion, what kind of indicators should we be using to find out whether organizations have achieved their goals and to measure the results of initiatives relating to social finance? What are your ideas? Could you share them with us?

[*English*]

Mr. Magnus Sandberg: We deal in the area of employment for people with barriers to employment. For us, the current way the system is set up—and I'm speaking to the provincial systems in terms of how the community service agencies like the YMCA and such are being paid—is that it's based on the number of people who attend training sessions and on the number of people who are placed in jobs. It's not, for the most part, based on retention of the people put in jobs.

In this intermediary role we play between the employers and the community service agencies, we had pilots with TD Bank, Loblaw, Whole Foods, and Sun Life, and when playing that intermediary role we were able to get a lot of people placed, but we failed in actually getting these candidates to be successful while on the job.

So we didn't help anyone. We didn't help the candidates. The candidates were placed in the jobs, but then it didn't work out and they were back on social assistance, and their confidence was lower and so forth. We didn't help the employers.

We stopped those pilots and said that we needed to not play this intermediary role for placements only. We said that we needed to look at the whole value chain of how people are prepared for jobs and how they are set up to be successful in the jobs. For me, it's all about retention in the area we're in.

● (1655)

[*Translation*]

Mrs. Sadia Groguhé: Mr. Tavsevski, perhaps you'll be able to comment on what was just said.

In my view, one thing is clear. It all depends on the role government could play in a social financing context.

I think it's imperative to have assessment criteria and metrics. What kind of measures could we develop to get the best possible performance, in order to explain the reason for which we would involve ourselves in social financing? I know it isn't so simple, given the mix of qualitative and quantitative aspects. However, if we wish to measure the impact of costs, it is essential that we have the necessary criteria and metrics.

What do you think, Mr. Tasevski?

[*English*]

Mr. Norm Tasevski: Absolutely, and I would agree with you very much in terms of the importance of metrics and the ability to assess and quantify or at least capture the impact that's being generated by the investments.

The way I would think of this is more in how the metrics can be constructed and who is participating in that construction. The challenge we have with social finance is that it's not the same as a regular investment. When you think of a regular investment, you can do the dollars-and-cents analysis. You can know that it generates a certain IRR or a return for the investors.

Magnus spoke about employment. I can measure employment a million different ways. Is it a gradual improvement of someone who is underemployed? I could have 500 people who are going from underemployment to employment. Would it be as impactful or even more so to have 10 people who go from extreme poverty to employment?

The method by which you construct those metrics is as important as the metrics themselves. What I would offer is to include the groups that are participating in that investment opportunity and have them help co-construct the metrics that would be applied to that specific initiative, whether it's employment work with groups like Social Capital Partners that have more expertise than others in constructing those metrics.

The Chair: Thank you for that.

That's the end of the five minutes.

Now we will move on to Mr. Mayes.

Mr. Colin Mayes (Okanagan—Shuswap, CPC): Thank you, Mr. Chair, and thank you to the witnesses for being here.

One of the challenges that I see is how to measure and evaluate outcomes of social value and who determines what is social value. When looking at affordable housing, I would note that I was part of a presentation approaching the government to waive interest on money and to bring capital to such a project. We asked the local government to waive the development cost charges, that type of thing, so they could bring in affordable housing. I understand that, because we see the value of the social outcomes of that for youth or people with disabilities for employment and training.

You mentioned, for instance, doing something about solar energy, which is not necessarily a wise investment and does not have—right now at this point in time, but it might in the future—a social value. You've all learned that. I'm from British Columbia and you have learned in Ontario that it is not necessarily a wise investment at this stage. I guess that's the challenge. When the government gets involved we have a responsibility to taxpayers and to society to make value decisions on what is a good social outcome. I just want to ask you about that because I wonder who determines the social outcome when you're raising capital from the private sector. Is there a framework that we need to ensure that the social outcomes are positive and are of value to society?

● (1700)

Mr. Norm Tasevski: When we look to work with investors to bring them into specific funds or other types of models, the whole goal is the alignment of values. All the groups that participate in any given investment opportunity need to align fundamentally with the social outcome they are all meant to achieve. In some cases this might mean that that particular investor might not be the right fit for the outcome or for the investee who is seeking that capital. So, really, the fundamental question for me is how those values are aligned and how they are structured into the investment opportunity itself. I would always want to have all of the participants who are involved in any particular structuring to be at the table to define what those outcome metrics could be and what kind of longer term or more immeasurable kind of outcomes, like economic development and so forth, there could be. For me, it's often harder to say no or to say, your capital is fantastic but it's not actually aligned with the outcomes we're trying to achieve. Projects can often get derailed, as you say, if those alignments aren't fully thought through. So I would think of that, the value base, as the first thing to consider.

Mr. Magnus Sandberg: Yes, I think the topic of evaluation is a tricky one. I say that from a couple of perspectives. I think Sandra in the prior session talked about the different types of investors, from the impact first investors to the finance first investors. I think you see the same in terms of evaluation depending on the investor. You see the investors who want to have quantifiable impacts and the numbers and data behind the impact the investments are making. You have other investors who make investments and it makes sense for them to have social impact that they can see, and that's enough for them. So I think first of all you see who the investors are and then you align the evaluation approach accordingly. I think you can very easily over-engineer the evaluation. However, I want to compare that with how we do evaluations today, with the current interventions and projects offered by the government and non-profits and so forth. I think the data is very poor. So I think this field of social finance can actually enhance the data. In some initiatives they want to get them to the point where we can say, with investment in X charity versus another charity, you have 2% better impact in this charity versus that charity. There are initiatives that want to get to that point. I think it's incredibly difficult and I think we should be quite happy if we're getting to the point where it's better than it is today.

The Chair: Thank you very much.

Mr. Cuzner.

Mr. Rodger Cuzner: Thank you for your presentations.

I want to keep going with what Mr. Mayes was doing, trying to stick a fork in some of the measurables. I can only imagine some of the challenges, Mr. Sandberg, with the stuff you do on employability. What you're doing is noble, but at the end of the day, when you measure it, what degree of success...? Do you go in with some type of target? Do you want to have half of your workforce come from treatment centres or persons with disabilities or new Canadians?

I would think for what you do, you have the poster boy. This is a real success story here. Could you maybe give us an idea or an overview of what the mix would be in the workforce?

Mr. Magnus Sandberg: I have a couple of comments.

When we give a business a loan, we tell them that they have a year to hire at least 20% of the total staff from the population groups I've been talking about. If they're not able to meet that target, we reserve the right to call the loan. So we have a target like that. However, the way we measure the 20% is based on retention. If someone is not working out, then we give the business a quarter to hire someone else to replace that person and we don't change the interest rate if they hire someone else. It's based on retention, as I said. It is incredibly difficult to measure impact in employment. We track things like increase in salaries, increase in positions, the amount of training they receive from the employers, and a number of other things. But at the end of the day from our perspective, it's about retention and customer satisfaction. In this case it's both the candidate and the employer.

Does that answer your question?

● (1705)

Mr. Rodger Cuzner: It does.

I'm sort of a softie for Norm here, too.

In what you're doing at U of T with the engineers, I would understand that some of those students would want to go on and make a contribution socially. Have you had some success stories there? Have there been some initiatives you can share with the committee in which students have gone on and...?

Mr. Norm Tasevski: Sure.

Again, in the vein of designing the measurable impact based on the initiative that's being created, I actually had a group of international students from Abu Dhabi back in 2012. I called them the Abu Dhabi boys. They actually created a recyclable heating system It was effectively solar panels made out of pop cans. It was a fantastic little project.

What absolutely blew me away was the fact that they actually built a prototype and installed it in a Habitat for Humanity home. The idea here is that you're able to reduce the costs associated with installing the heating system and reduce the costs associated with heating that property over time. During my course, they started to negotiate with a first nation community in northern Ontario to run a pilot project with these recyclable heating elements. For me that was an example just coming out of the course.

When you think of that and the impact being generated, you can measure that quantifiably in the amount of heat produced by these devices and the cost associated with installing them or building them. At the same time, you're able to create stability in someone's housing, and you're able to create conditions in which they could work from home and study from home. There are a lot of qualifiable things, things that are not as easy to measure but that still generate valid impact for the people who are interested in that investment.

Mr. Rodger Cuzner: Thank you.

The Chair: That's it. You had only 15 seconds anyway.

Mr. Eglinski, go ahead for five minutes.

Mr. Jim Eglinski (Yellowhead, CPC): Thank you, Norm and Magnus, for coming out and speaking to us today.

Magnus, right at the beginning of your presentation you talked about earned revenue. I wonder if you could expand on that and clarify what exactly you mean by earned revenue?

Mr. Magnus Sandberg: I'll give you an example. We invested in an organization in Winnipeg, a renovation company. They had a submission to hire urban aboriginals in the business, so it was a classical social enterprise. Their customers were non-profits, but more and more so the commercial sector clients, as it's a fee-for-service enterprise, similar to any other renovation company, only that a majority of the staff were urban aboriginals.

Does that answer your question? It's a typical running-a-business/earned revenue perspective.

Mr. Jim Eglinski: Yes, it does to a certain degree.

How about yourself? With the pool of money that you both have, do you look at earning revenue from it money while you have it sitting in your domain if it's not lent out to group A or group B?

Mr. Magnus Sandberg: It's a great question, and I'm sure that prior speakers have touched on this. In our case, we're a non-profit funded by a philanthropist, so our motivation is purely to be a catalyst for new models and approaches. A best-case scenario would be to deploy 100% of our capital into our initiatives and loans and so forth. That's not always possible, and we would then have to place capital into the capital markets in the traditional way. But the pool of capital has as a mission to deploy as much of it as possible into these initiatives.

● (1710)

Mr. Norm Tasevski: On my firm's part, we act as an advisor to investors. We work with them to help mobilize their capital. In some cases what we are looking for is a way to creatively deploy any type of revenues that would come out of these initiatives. In the example that I offered, the affordable housing fund called the resilient communities fund, that fund is redirecting the fees associated with affordable housing into an endowment fund, which is then used to finance affordable housing. Think of brokerage fees or origination fees that banks would pay, or in some cases even legal fees that would be paid in the transaction. Those are effectively earned revenue for those entities, but a portion of those revenues can be diverted into the bridging of the affordability gap for people who move into those units.

Mr. Jim Eglinski: I've got another question for both of you, and you can start first, Magnus.

In your organization, you are the person who's going to lend that money out to that group. How strict is the set of guidelines? Who develops your guidelines to say who gets it and who doesn't, and what do they have to do to get it?

Mr. Magnus Sandberg: We have two due diligence processes. One is our financial due diligence and the other is our social due diligence.

The financial due diligence process looks quite similar to a bank's. However, in the bank you have the sales department and the credit department, and there are more guidelines there. We have fewer guidelines, so if we, for example, believe in the entrepreneur and that the entrepreneur could make a profitable business, then we can foresee maybe fewer assets and revenue streams and so forth. But that's the financial due diligence, which is similar to a bank, but maybe a little bit more hands on and not as strict.

In terms of the social due diligence—and this has been something we have developed over time through trial and error a little bit because we don't have a model to fall back on—it looks at the opportunity. Would this be a good place for the candidate to work in? Is it a good manger? Could the manager spend the time required to make this candidate successful in the job? Are there a lot of entry level positions? What are the career paths? How is the pay escalation? So we do due diligence on some of those components.

The Chair: Thank you. We're going to have to end it there. We're a little over time on your time, Mr. Eglinski.

Now we move on to Madam Morin.

[*Translation*]

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

This won't be the fist the first time I ask this question during the current study. My colleagues will perhaps find me tiresome, but no matter. It does not bother me. I always worry about the autonomy of groups and organizations, and I wonder how they can maintain it when their funding is private. I will in fact ask another question on the subject.

Many organizations are unhappy with per project funding. They say that this type of financing prevents them from developing a long term action plan.

I was also wondering if there was any kind of renewal mechanism possible with private funding, say for the medium term?

[*English*]

Mr. Norm Tasevski: Just to clarify, the first part of your question concerns the level of autonomy that a recipient of social finance may be able to receive from private capital. Is that correct?

So your question is whether that—

● (1715)

[*Translation*]

Ms. Marie-Claude Morin: Yes.

[*English*]

Mr. Norm Tasevski: —is a good or bad thing potentially?

I think it—

[*Translation*]

Ms. Marie-Claude Morin: In fact, I wish to know if the organization succeeds in maintaining some autonomy.

[*English*]

Mr. Norm Tasevski: I see.

[*Translation*]

Ms. Marie-Claude Morin: Does it remain independent in its practices?

[*English*]

Mr. Norm Tasevski: I would say that it all depends on the type of structure used.

As an example, one of the groups that we work with is the angel investment community. By angel investors, I'm referring to individuals who would finance or take the highest risk associated with a particular investment. In some cases, I've seen angel investors who are completely passive with regard to an investment. They just put their capital in, and let the entrepreneur be the entrepreneur.

In fact, with some models, there's more autonomy for that type of investor than you would ever get with a government funded granting program or a charitable program. It depends on what you mean by autonomy, but In a lot of ways, the level of involvement that's needed in order to satisfy the conditions of a grant can often create barriers to autonomy for a lot of groups.

So what about autonomy in terms of the ability of entrepreneurs to be creative with their investment? If an entrepreneur were able to negotiate a particular set of terms in order to ensure autonomy with the investor, he or she would find that a lot of private sector actors who place capital with the entrepreneur at the direct level rely on that entrepreneur to be successful. They are trying to create the conditions for autonomy and independence. Often, they place less restriction on how that capital can be used and what kind of outcomes they're looking to achieve. In other cases, organizations that look for grant capital or philanthropic capital have to align with the requirements of the funder. In many cases, they have to change the way they run their business, or they have to compromise their vision in order to satisfy the terms of their granting partners.

It's a complex question. It depends on the source of capital, how it's used, and who's actually participating.

[*Translation*]

Ms. Marie-Claude Morin: All right. That answers my question.

I don't believe private financing comes with any guarantee of renewal, and I would like to know if any kind of medium term planning is possible under those circumstances, so that an organization may breathe a little easier and know if it can pay its employees' salaries the following month.

[*English*]

Mr. Magnus Sandberg: These are very interesting questions.

My having come from the private sector into the social sector, it has been an eye opener for me. I often make the parallel or correlation with the venture capital world where you invest in the entrepreneur and create the conditions for the entrepreneur to be successful. There are not a lot of restrictions around how the money is spent, and that's in stark contrast to how the grants process has been utilized to date.

To answer your question, in terms of the short term action plan versus long term funding and so forth, I think it's a huge opportunity, from a government perspective, to divide the financing between a couple of different buckets. The government is doing this too to some extent, but it needs to do it more. There is some core funding, but core funding or program-related funding is strangling these non-profits or businesses, obliging them to do something repeatedly rather than innovatively.

I'm a huge proponent of creating another bucket in which *x* amount is given to maintain what's being done today and *y* amount is given for a little bit of innovation. As the funder, my evaluation of the two different buckets would be very different .

The Chair: Thank you very much.

Mr. Armstrong.

Mr. Scott Armstrong: Thank you, Mr. Chair.

I want to thank both our witnesses. I have several questions, so I will try to be focused here.

Mr. Sandberg, in your program you talked about working for the Government of Ontario, trying to pull people off social assistance, getting them jobs, which would save literally thousands of dollars over the long term when a person is pulled off social assistance so they're not relying on the taxpayer. You said that the businesses that were willing to hire people off social assistance understood that they're probably going to get someone with less training and weaker job than they might otherwise get. They would get an interest rate reduction of half a point, basically. Is that enough to motivate these businesses? Are these businesses risky and couldn't get a bank loan? Does this provide access to capital that otherwise they wouldn't be able to access? Is that another carrot for them?

● (1720)

Mr. Magnus Sandberg: Yes, you are actually correct. In our current loan program, getting access to financing, period, is a struggle for some of these businesses. But in many cases, and this is why we saw this opportunity to work with the banks and so forth, they were able to get financing through banks and other traditional sources. But, yes, lowering the interest rate and getting help with hiring activities and being seen as doing good for the community attracted them to this program.

Mr. Scott Armstrong: After you implemented this program, you discovered that you needed to hold the hands of the employees a little longer than you originally anticipated because they struggled as soon as they came off social assistance and got into the workplace. They didn't have that experience or the proper training, so now your organization continues to monitor and support the actual employees going into these businesses. Is that accurate?

Mr. Magnus Sandberg: I have two comments on that.

We work with community partners like the YMCA and Goodwill, who provide such support, if needed, for these candidates. They are the judge if that's needed or not. We are more the intermediary.

Secondly, what we believe is appealing with the model that I described is that half a percentage equates to $3,000 over a period of a five-year-term loan. It's not a lot of money, but it changes the behaviour of these employers. It's not the government saying, “You should hire people from our community service agencies.” Now it's the financial institutions, either us or.... And what we hope the bank is saying is, “Here's an opportunity and we think it works. We've seen it work.” For them to go and hire people from these community service agencies, with a financial incentive, is a nudge for them to change their behaviour. What we're seeing with our portfolio companies again and again is that they come back and say, “Wow, these candidates are very motivated when given the opportunity. We don't need your money, but we want to continue to utilize your hiring services.” That is a big opportunity, which I think is lost today in the system.

Mr. Scott Armstrong: I've one more question for you, Mr. Sandberg, before I move on to your colleague.

Moving that from the provincial level to a federal level, my guess is that we'd look at employment insurance and some sort of program to try to get people off EI on an earlier basis, to intervene immediately to try to use that. Do you see this model being transferable to help support people getting off EI earlier?

Mr. Magnus Sandberg: Yes. It's a little trickier to do the evaluation of the savings to the government. But yes, absolutely, because those population groups are served by the partners we're working with, in addition to other population groups, we believe it's transferable. But what's exciting about this whole set-up that we're working on right now is that if the banks take this on, instantly you can have a national scale with your program.

Mr. Scott Armstrong: The savings in the EI program will go back into the EI fund. I guess what you would be successful at doing is that the businesses would get a stronger employee with a better and more recent work history, because they're closer to the labour market. Furthermore, if you intervened immediately when a person went on EI, instead of waiting for the end of their claim, you would provide some savings right there for the EI fund.

I'm going to move on now to your colleague quickly, because I'm very interested in this notion of using dormant bank accounts. You said there's $500 million right now in Canada for this—

Mr. Norm Tasevski: I think as of 2013 it's something like $532 million. That's as of 2013. There's a holding period of about 40 years. I don't know the exact number prior to 1975, but that would be what would in theory be going back to the Receiver General.

Mr. Scott Armstrong: What they've done is Great Britain is to take the dormant bank accounts and instead of allocating them into general revenue, they've targeted them social capital funds, the big society fund.

Mr. Norm Tasevski: Exactly.

It works in the following way. The bank accounts originate in any national bank or government bank. In the Canadian case, it could be RBC, TD, or BMO. For those people who have open bank accounts, who may have passed away or something else and haven't accessed those funds for a period of 10 years, the funds get redirected to the Bank of Canada, which then holds them for 30 years. Then, if these are never touched, the money goes into the consolidated revenue fund of the Government of Canada through the Receiver General.

● (1725)

Mr. Scott Armstrong: Thank you very much.

The Chair: Ms. Groguhé, you have four minutes.

[*Translation*]

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

Mr. Sandberg, I'd like to hear your thoughts about impact investing, and more specifically, on social impact bonds.

In your view, how could we best implement the issuance of these bonds? Do you have any recommendations about that?

[*English*]

Mr. Magnus Sandberg: Yes, I'll provide some overall comments on social impact bonds. I think you have had some comments on them from prior speakers as well.

We believe in the concept of a social impact bond, which is pay for performance, and which introduces new players and uses private capital, and we believe in de-risking it for governments, and so forth.

The challenge we see is obviously that you need to have perfect before-and-after attributions. They have to be very long term, because you don't know if a specific intervention was actually the one that was contributing to the outcome. There are a number of challenges with social impact bonds. I think it's still a very interesting concept that we should continue to try to pilot, but the program that we have constructed tries to take some of the challenging components of social impact bonds to make them more available and to utilize existing infrastructure as opposed to creating new infrastructure for the social impact bond.

In terms of the framework, I think the components of a social impact bond are very compelling, but if we can simplify the way it's implemented, we believe there would be some opportunities with it to leverage existing infrastructure and tweak it to become the social-ish impact bond.

[*Translation*]

Mrs. Sadia Groguhé: Precisely. I gather from what you just told us that you have been thinking about this matter, and that you have yet to see results. How close are you to formulating your final thoughts on the matter? How soon will you propose something regarding these bonds? Could you let us know sometime before the end of the study?

[*English*]

Mr. Magnus Sandberg: I don't think that I would be the best person to provide that view.

[*Translation*]

Mrs. Sadia Groguhé: All right.

[*English*]

The Chair: Are you finished, Mr. Sandberg, on that?

[*Translation*]

Mrs. Sadia Groguhé: I believe so.

[*English*]

The Chair: I'm cutting you off a bit early, but that's okay because we're coming to the time limits of our meeting and we like to be right on schedule.

I want to thank you two gentlemen for being here today and giving us your input on this very interesting study that we've embarked on.

If there's anything that wasn't covered here today that you thought might be important or essential for the committee to know, please don't hesitate to give us a written submission if you wish after we've done more study. Obviously, the transcripts of our meetings are available publicly, so you can review what has been discussed and, if you want to weigh in in the future at any time while we're doing this study, please do so.

Committee members, that adjourns the meeting.