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Chair

Mr. Daryl Kramp

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● (1530)

[*English*]

The Chair (Mr. Daryl Kramp (Prince Edward—Hastings, CPC)): Colleagues, welcome to meeting number 25 of the Standing Committee on Public Safety and National Security.

Just to set the agenda straight, votes are going to cause us some confusion today. The bells will go in 10 minutes for the votes. As a result, unfortunately, our meeting will be interrupted, so there will be some discussion taking place with our witnesses as to the possibility of staying a little longer. I understand flight arrangements would have to be made in order for that to happen, and this committee certainly understands that. Over the course of our break, we will get to that.

Today, we have from Social Capital Partners, Mr. Bill Young, the president. Mr. Young will make a presentation to us very briefly. He'll have up to 10 minutes for that presentation. At that point, we will break as soon as the bells are called. We will go to the House of Commons for our vote, and when we return, if Mr. Young is able to stay for the balance of the period and/or our time, he will be available for questions.

Also, in the second hour, we will have a presentation from Mr. Norm Tasevski from Purpose Capital. At that point, both of our witnesses would be available for questioning from the committee.

At this point, that is the direction the committee is taking, in consultation with some members and, of course, the clerk, and with the cooperation of our guests today.

Mr. Young, you have the floor, sir, for up to 10 minutes, please.

Mr. Bill Young (President, Social Capital Partners): Thank you very much. I'd heard that I would have 10 minutes, but I didn't realize that you actually get a gong after 10 minutes. This is pretty extreme.

Voices: Oh, oh!

Mr. Bill Young: Here's what I thought I'd do. I know that this is on social finance, and I thought I'd just take you through our story and the elements of social finance that we've used in our story, and how that might apply to public safety, if we link that to it.

We have been about employment opportunities for disadvantaged populations. Social Capital Partners was formed in 2001.

I'm one of these lucky people who happened to be in the right place at the right time. In the private sector, the wheel of fortune spun awfully well for me. It sure doesn't spin well for everyone, and I thought, how do I take my business experience and leverage it to do good?

The thinking behind Social Capital Partners was this notion. Why have we separated the world into what business does, what non-profits do, and what government does, when a lot of the innovative solutions are probably somewhere in the intersection of those things? Social Capital Partners said, “Well, why don't we actually try to see if we can't make some of these new approaches effective and why don't we take a particular social challenge?”

The one we took was this one: how do you find, in new and innovative ways, meaningful employment opportunities for people who face employment barriers? We've been through three phases of that work. I'll just describe quickly—obviously, quickly—those three phases. Maybe somewhere in there we'll generate some questions.

In our first phase we asked ourselves, why not start up businesses that do this as part of their DNA, the social enterprises? Again, to make a long story short, we played the role of social venture capitalists, whereby we provided funding, sometimes in the way of loans and sometimes in grants, but only to organizations where at least 50% of their employees come from disadvantaged populations.

I'll give you an idea of the types of things we did. There's a property management company in Vancouver today that's owned by a charity that helps women who were victims of violence. It employs 200 people. There's a renovation company in Winnipeg today that employs urban aboriginals from the inner-city neighbourhoods of Winnipeg. It employs 45 people and today is still profitable.

By the way, and just as relevant to this committee, approximately half of those people had criminal records before they were employed.

There's also a bicycle courier company in Toronto that hires directly from youth shelters. There are 12 thrift stores in Montreal that are hiring directly off the provincial social assistance rolls.

Those are the types of organizations we work with. Each of them has an interesting story, but just to get through this, I'll say that at the end of five or six years we stepped back and asked ourselves, where are we? We said that on the one hand we had proven one of the things we wanted to prove, which is that you can make these double-bottom-line companies work. They can work financially—they can be profitable and sustainable—and they can work socially, in that they can transform lives.

On the other hand, it had taken us five or six years to provide 300 or 400 jobs, and what's that in the global scheme of things? We got into this change of the landscape to try to make this more the way we as a society think about generating some of our economic and social returns, and frankly, what we are is an interesting magazine article. We're seen as an anomaly.

We asked ourselves what we had to do to change the landscape. We said that if we were going to change the landscape, we would have to do two things. One, we would have to engage the private sector in what we're doing, because otherwise we were going to be seen as an anomaly. Two, we would have to make it more of a cookie cutter, because start-ups are hard, and start-ups are arguably even harder with this model, and we can only do one deal a year because we have to drop everything we're doing to figure out how to get a business to work.

With that, we thought, private sector, cookie cutter; what about franchising? Why not go to established successful franchise operations with our value proposition? That proposition was that we would provide start-up capital to a business person who wants to buy one of the franchise locations. We would make it subordinate to their bank debt and do it at attractive rates. In fact, our rates are actually tied to what our social mission is.

Our condition for our loan was that they had to implement a community hiring program. They had to agree to a fixed number of their employees being hired through the community service agencies that were helping people who face employment barriers. Our promise back to that business owner was that we would get them a competitive pool of candidates to choose from, and that if we did not deliver on that promise, they did not have to deliver on their promise to hire the fixed number. We said that they would be the sole judge of whether or not we delivered on that promise.

We effectively de-risked it for the private sector. We thought that was the way to get them to buy in. We tie our interest rates to the number of community hires, so as they hire more, their interest rates come down. We link our financial return to our social mission.

Again, to make a long story short, we've done almost 60 of those, mainly in the car service area. We like the car service model. Mr. Lube and Active Green and Ross are our biggest ones.

● (1535)

We like the car service model because you don't need that many skills to change oil—although as I always joke, it eliminates me—and you can work your way to being a licensed mechanic. We liked those ones where there was a good socio-economic outcome assured for people who are ready to turn their lives around.

We thought that was the idea, that we would do hundreds of franchises, thousands of jobs. The model is working the way we hoped in the sense that we can now do two or three deals a year, because we don't have to figure out the price of an oil change or what to sell a winter tire for, all the things we did have to figure out in phase one.

A couple of things happened which I probably won't go into the details of, but they made us realize the idea was much bigger. It was really when Active Green and Ross came to us and said, “Okay, we want to use your community hiring program in our company owned stores. We don't need your financing.”

We thought, wait a second; we thought the financing is the carrot and stick to make this whole thing happen. We offer a carrot of attractive financing. We have the stick we call your loan, if you don't do this. They said, “No, you found us access to a labour pool we never would have had access to. They're working out. It's the right thing to do for the community. Why wouldn't we do it?” We thought, yes, why wouldn't you do it. Why wouldn't everybody do this, if someone made this easy for them?

After doing this for about 50 and 60 franchise locations, we learned two things. One, employers would do this if someone made this easy for them. Two, it's very difficult for them. The reason it's very difficult for them, and this might be the subject for more questions in terms of the details, in simple terms is the system at large has never considered the employer as important a customer as the person for whom we're trying to find an employment opportunity.

So, product gets to market: product being a job-ready individual who faces an employment barrier; market being an entry level job in a company that has a good career path. Product gets to market in Canada to literally thousands of community service agencies whose training and background is primarily as social workers. They don't speak the language of business. They naturally think their customer is the person they're trying to find an employment opportunity for which makes sense.

They don't think of the employer as strategic. They think they're in a transaction relationship with those employers where they send their job candidates out to all the various job postings out there, not in a strategic relationship with that employer, where they say to that employer, “What makes for a successful lube tech at Active Green and Ross? What are the characteristics of that? Where are your pain points? We are going to solve your pain points.”

We realized we were playing a band-aid in the system. We call ourselves bilingual, not because we speak English and French, sadly. It's because we speak the language of business and we speak the language of community service organizations. We get that we have to make the employer as important a customer in the equation as the person we're trying to find an employment opportunity for in order to provide as many employment opportunities as possible for the people we're trying to help.

In a system this large, we spend billions of dollars on employment, training, and social assistance. For the most part, employers aren't involved in the design for that training. That training isn't linked to our future workforce development shortages, and very little of the funding is actually tied to successful employment outcomes.

A successful employment outcome is what the supply side of this equation wants. The people we're trying to find jobs for want to find jobs they can stay at and progress at. It's also what the demand side of the equation wants. Employers want to find people that can stay and progress.

At the heart of what we believe now is that we should be working at the systems level and trying to make the system a much more of what we call a demand-led system where both customers are recognized as important. We think it's the single biggest lever that exists out there to provide way more job opportunities for people who face employment barriers. If I link it to a public safety issue, etc., I think this demand-led lens could and should have a big impact on the design of a kind of a way that any system would be thought of.

We believe that the key for all of us in many ways is that employment is as important a thing that we can do for not only our economic outcomes but for our self-esteem and confidence. I think that lends very much to a public safety or recidivism issue as well.

At the heart of what we are now trying to do is work with employers, governments, community service agencies, and existing recruiting agencies to think about how to implement a more demand-led system.

● (1540)

We've released a white paper on what a demand-led system would look like, in conjunction with Deloitte. We are doing a couple of demonstration projects for a couple of provincial governments. Our approach is to demonstrate what it would look like on paper if you were designing a system which starts on the demand side and works backwards. Where do we know there is going to be meaningful employment opportunities in the future? What sectors will those opportunities be in?

In our demonstration, we said we would get employers from those sectors to commit to 10 community hires a year for five years. It's not a big number, but it would give us a cohort of 100 per year. We would get those employers to track the employment outcomes of those 100 versus the employment outcomes they are getting hiring those same people from other channels.

Every year, using the data and with feedback from the employers, we will iterate every step of the value chain on the supply side, from the intake to the assessment, pre-employment training, placement, post-employment support provided for the people we are trying to find jobs for, to determine what is missing and where we should intervene. This is so that we can deliver two things to the governments in five years' time. One is a business case for employers to hire through this channel, by providing data on the employment outcomes and by having 10 CEOs out on the conference circuit with us talking to their peers on why they should do it. The second thing is, we could tell governments exactly where we think they should spend their money to leverage exactly...where we think the system should be measured, managed, and funded.

The Chair: Mr. Young, the bells have started to ring.

Thank you very much for your presentation. We're very hopeful that somehow some arrangements can be made to have you back for the second hour should the committee have questions, but as the bells are ringing, we will now suspend and go back to the House. Thank you once again. We apologize, but because of the process of Parliament, the bells are ringing, and we will have to suspend.

● (1540)

__________ (Pause) __________

● (1630)

The Chair: Colleagues, we will resume.

Our first witness of the day, Mr. Young, had to catch a plane, so he is not here for the second hour for questions. That, of course, was not planned. We were interrupted by the vote.

For our second hour, we have with us from Purpose Capital, Mr. Norm Tasevski, co-founder and partner.

Sir, you have the floor for up to 10 minutes. After that, I hope you will be available for questions or comments from our members.

● (1635)

Mr. Norm Tasevski (Co-Founder and Partner, Purpose Capital): Excellent. Thank you very much, Mr. Chair, and thank you to the committee for inviting me to speak on this very important topic.

You've heard from Bill Young, albeit briefly. He's one of the gurus, one of the leaders, of social finance in Canada. I will not attempt to replace what he has to say or to offer, but what I can do is try to focus my remarks more succinctly on the applicability of social finance to crime prevention, or the how-tos. We'll offer some suggested social finance structures that the committee may choose to consider in building social finance into its overall crime prevention strategies.

From a crime prevention perspective, social finance provides a mechanism to redefine the role of all actors, the state, the private sector and the public sector, in how community is built, maintained, and kept in good order. It offers what we call a blended response to crime and its effects, and more powerfully, a blended preventative action that minimizes its occurrence in the first place.

Social finance represents a breaking down of the traditional silos between private gain and public good. Today the private sector invests for the purposes of private gain, and the foundation world and government invests for the purpose of public good. Social finance breaks these silos down. With social finance, private sector actors with the right motivation and intent, and I emphasize motivation and intent, can invest for public good alongside private gain. The role of the foundation world and government also changes. No longer having the burden of acting alone, governments and foundations can now have a true partner, a rich and more genuine partnership than that offered by the traditional public-private partnership model. With social finance tools, governments and foundations can now focus on incentivizing private actors and establishing the conditions by which they can finance public good.

Social finance shifts the discourse around society's response to crime. An outcome of social finance is the creation of a new dynamic in our community. The community bond, as an example, provides average citizens the ability to invest in buildings that matter in their communities. Life leases provide the ability for people in social housing need to invest in their own care and in their own housing.

Crime prevention by its own very nature is a community effort. It is not simply the responsibility of the police or the courts to address crime, nor is it the responsibility solely of the social sector to respond to the negative effects of crime. With social finance, the community and private sector and public institutions can create a new dynamic in our community in which the community itself addresses the root causes and after-effects of crime and prevention in a blended manner.

Social finance provides the tangible mechanisms and structures to facilitate community-based crime prevention. It also creates the ability to build new tools that even 10 years ago were simply not options in the tool kit. I'll offer you three examples that the committee may consider in social finance.

One structure is what we call a catalytic capital fund. Simply put, catalytic capital structures bring together different categories of investors, what we call the social-first investor and finance-first investor, into the same investment opportunity. One investor category invests its capital and agrees to absorb a certain pre-set level of investment loss. In doing so, this investor group reduces the risk associated with the overall investment opportunity. The second investor category then invests its capital, typically at a much larger amount and in the vicinity of 80% to 90% of the total capital invested. Due to the reduced risk, the second investor group receives a return that is more in line with their risk-return expectations, typically the market rate. The first investor therefore acts as a catalyst to stimulate the injection of new, and potentially significantly more, capital than would otherwise be invested in the initiative.

Catalytic capital not only changes the risk profile for different classes of investors, but also firmly embeds social value into the fund and its outcomes, even though some of the investors have different motivations.

My firm, Purpose Capital, has experience building these types of initiatives and profiling how catalytic capital funds in other jurisdictions have created social impact. Though our experience does not directly relate to crime prevention, I am confident that a catalytic fund model can be applied to crime prevention.

A second structure, which Bill Young might have even alluded to, is the social impact bond. SIBs are an innovation to the more traditional PPP model. A simple way of understanding SIBs is as a method for pay-for-performance financing for public good outcomes. It provides a very low risk and in some SIB models actually a risk-free method for governments to support public good initiatives.

● (1640)

The way that a SIB works, a government partners with what is known as an intermediary. The intermediary raises and manages capital from banks, financial institutions, foundations, and private individuals, and it invests those funds in the service providers that then deliver the innovative social programs.

In the delivery of these programs, the service providers reduce or replace the need for government to directly fund or issue transfer payments. As the government partner sees savings materialize, it pays a percentage of those savings back to the investors that initially financed the program.

The SIB model has been applied in other jurisdictions, most notably in the U.K. where the concept first originated in 2010, and governments in Canada have started to research, build, and launch SIBs at home. There was actually an announcement a few days ago in Saskatchewan regarding what we think is the first SIB in Canada.

Should SIBs be a model of interest for the committee, you should bear in mind a few things.

First, one must understand how to place value on the outcome one seeks. Second, there must be a mechanism to determine whether the outcome is actually attributable to the intervention itself. Third, the parties involved in an SIB, most notably the government partner, must be prepared to rethink how interventions are financed and how the intervening parties are held accountable.

This rethink may require a culture shift towards outcome-based financing and different methods of operating that may be fundamentally different from how governments and service providers currently finance and operate.

A third option for the committee to consider is to build a mechanism that directly finances highly innovative social enterprises. I can describe what a social enterprise is. This option plays off the idea of investing in an SIB; however, the investment here is made directly in the intervention itself.

An example that could relate to the committee's work is that of Peacebuilders Canada. Peacebuilders is a charity that has worked for over a decade to provide better youth access to justice. One aspect of their work involves redirecting first-time youth drug offenders from the drug courts into their program, a program that applies the techniques of aboriginal healing circles that work with youth to address the root causes of their drug offence.

Their model has resulted in recidivism rates of under 20% compared to recidivism rates in the court system of 60%, if not higher. The cost of delivering the Peacebuilders programming is also a fraction of the cost associated with prosecuting a youth offender. I believe the numbers are about $120,000 to prosecute a youth offender compared to about $30,000 for Peacebuilders programming per youth.

Peacebuilders is also building innovative social enterprise options. Purpose Capital briefly worked with Peacebuilders to help them develop an enterprise that takes the positive skills young drug offenders learn on the streets, for instance, managing the supply chain of illicit drugs, and applies these skills to the selling of legitimate products in kiosks and stores.

These three social finance options are, in my opinion, the tip of the iceberg. Social finance not only increases the government's tool kit for addressing crime, but also provides a new model for how community can create a blended response that leads to a richer and more effective means of community building.

However, I will end my remarks on a more cautious note. First, social finance is not a panacea. It is but one tool that cannot be expected to replace other interventions in the world of crime prevention. Social finance is premised on the ability to generate financial return, and because of the need for return, this type of tool is appropriate only for some interventions, not for all.

Second, there is much potential for an upside with social finance; however, the magic is not in the what of social finance—in other words, the structures—but in the how, or the implementation. In Canada we are still learning about how to do the how really well, and it is a work in progress. However, I firmly believe Canada will become an important contributor to the global movement toward social finance, and the work of this committee can add one more voice to this choir.

Thank you very much.

The Chair: Thank you very much, Mr. Tasevski.

We will go to a round of questioning for seven minutes.

Ms. James, go ahead, please.

Ms. Roxanne James (Scarborough Centre, CPC): Thank you to our witness for appearing today.

I want to get some clarification. Do you make the initial investments or are you more of an intermediary?

Mr. Norm Tasevski: We act as an intermediary in the system. The way our business works is that we work with asset owners and asset managers. We help them to think about how they can engage in the impact investment ecosystem, and then we possibly help them to structure how that capital can be moved. We don't place our own capital, but we work with other groups to help them place their capital.

● (1645)

Ms. Roxanne James: You find the areas where there is a need for those investments to do good and also to get a return on the original investment.

It's interesting, because we talk about the intermediary, and here you are.

In our first hour, which was cut very short, our first witness talked about whether it was easier to find and connect these groups together. Is that the purpose of the intermediary? Does it make it easier for the person who wants to invest into social good and the groups that actually need...?

Is that your role?

Mr. Norm Tasevski: Yes, that is our role.

Ms. Roxanne James: We can all think of Tim Hortons and Canadian Tire and so forth that do different things across Canada, but do you find that in your experience...? First of all, how long have you been in business doing this?

Mr. Norm Tasevski: Purpose Capital itself has been around for about four years, but I've been working in this space for about a decade now.

Ms. Roxanne James: Do you see a demand for this? Is there a demand, a market to fill? Obviously, if you're still here after 10 years, I would guess the answer is yes.

Mr. Norm Tasevski: Yes, there's definitely a market for the service we offer.

Ms. Roxanne James: In your opening remarks, you said that you've not really dealt with crime prevention per se. When working as an intermediary, do you see any of the companies or corporations you've worked with that want to invest...do you see any of that being aligned with crime prevention?

Mr. Norm Tasevski: I see it aligned in maybe a bit of a nuanced way. In a lot of ways, crime is an effect of elements in society that are missing, right? Whether it's youth without opportunities for employment or youth without opportunities for education, they resort to a certain behaviour because they don't have the means. The social system in place is missing parts. Some groups that are participating in social finance for impact investing are trying to fill those gaps in other ways. The after-effect of filling those gaps will potentially lead to reduction in crimes.

As an example, one of the areas that we focus on as a firm is in the space of real estate. We look for what we call impactful real estate, groups that are trying to develop civic assets in a way that helps society to solve some of its very pressing social problems. Impactful real estate can include social housing, as an example, or a community centre, or a place for sports. In those ways, you give someone a place to sleep that is of a certain quality, and you give them the opportunity to get employment and to enjoy the trappings of life that will create the conditions, in my opinion, that reduce the likelihood of crime.

Ms. Roxanne James: In your remarks you also talked about social finance creating an environment—I'm not sure if those were the exact words you used—but the ability to have tangible measurements or a way to, after the fact, go back and see whether you succeeded with your targets, and based on those, the social finance aspect of it comes into play.

As you know, governments fund crime prevention programs. We have been investing a lot of money, but a lot of that has been directed more at changing attitudes without any real capability to determine long term, down the road, whether there have been any tangible results, whether we're able to reduce recidivism or prevent crime in the first place. That's one of the reasons we're here today: to see if social finance may be, as you said, another tool in the tool box. It's not the answer to everything, but certainly if we can bring more money into the fold and invest and expand our capabilities, it's something that I think any government should be looking at.

I have one other question. You talked about the need for a culture shift. Obviously, up until this time, at least within many governments across Canada, whether federal or provincial—you talked about some social finances being deployed elsewhere—certainly it's always been the responsibility of the government or the police to prevent crime. You said it shouldn't be only government or only the police, whether it's the RCMP or local police forces on the ground, but that really it's the community, everyone, who should be concerned about this. I think that's a very good point to make.

Do you see any hurdles for the federal government? I guess this is going back to the culture shift. Do you think that we are here now—based on some of the evidence that has come out, evidence-based successful projects—where the federal government should be looking into these?

● (1650)

Mr. Norm Tasevski: That's a multi-dimensional question. I think I'll tackle that in a couple of ways, if I can.

One, on the culture shift question, the idea of social finance is trying to bring us back to a state where the full community is engaged in solving social problems. It's not just the responsibility of the government to directly finance certain interventions that will lead to the reduction of crime. I would say that over the last 200 to 250 years in western society, we have created this idea that there are certain things that are the purview of the government, certain things that are the purview of the private sector, and certain things that are only the purview of the social sector. That bifurcation, that categorization, has led to gaps being seen in the delivery of the social services and programming that improve our societies at large.

The idea of social finance is that it's bringing those groups back together, saying that there really wasn't a need for this separation of responsibilities, for one doing one thing and another group doing another. What we're able to do now is to have government be a true partner to a non-profit organization or a charity, in true partnership with a for-profit organization.

In the world of social finance, and this is something that I think is really key to note, the people who invest the capital, the supply side of capital in the impact investment space, have a genuine desire to engage in community development. It's not like it's a large corporation that's trying to place its capital.

The Chair: Thank you very much, Mr. Tasevski.

Your time is up, Ms. James.

Mr. Garrison, you have seven minutes, please.

Mr. Randall Garrison (Esquimalt—Juan de Fuca, NDP): I thank the witness for his presentation. I also have to mention Mr. Young's presentation.

I will say, however, before I ask a couple of questions, that we on this side are still a bit mystified about why the government is insisting on spending this much time on such a narrow topic. Even when we have approached people to be witnesses, they are surprised that the broader issues really aren't being addressed. We look forward to getting some witnesses before the committee who will look at the broader issues of crime prevention.

Of course, we have placed motions on notice for dealing with things that are really the responsibility of this committee and an important part of our mandate in terms of oversight of the government, such as the failure to deal with the mental illness crisis in prisons, or the youth gang problems in Montreal, or the front-line border services project.

I don't mean any disrespect to our witnesses, who I think are doing fine work and have interesting ideas. It just seems so far from the mandate of this committee, and so far removed from actually talking about the national crime prevention strategy, that it's sometimes difficult.

Having said that, I do have a couple of questions to ask.

We had as a previous witness Elizabeth Lower-Basch from the Center for Law and Social Policy in Washington, D.C. She talked about SIBs and some of the other ideas that you are bringing forward. She said, as I understood her conclusion, that these projects are inherently more expensive than the government doing this work directly because they involve creating another infrastructure. Most of them involve some kind of profit to be paid back to the investors. She finished by saying that if it's the only way you can get more money for crime prevention, they may be good ideas, but they are inherently more expensive and less accountable than the government doing the crime prevention work directly.

I wondered what your response to that would be.

Mr. Norm Tasevski: I would make a couple of points on that.

When you look at certain mechanisms in social finance, and the type of structures you might be looking to consider, what you're trying to do is to see what they are complementing or replacing. A social finance mechanism like a SIB is not a replacement for another investment opportunity.

You have granting programs. When you look at it from an investment perspective, a grant is essentially a 100% loss. When you as a government or a foundation issue a grant, you are not expecting any of that money back. The idea is that you're hoping that social good will come out of the use of that grant. Impact investing is trying to change that mentality. Even if a social finance mechanism costs a little bit more, you have to consider what the alternative of issuing just the grants would actually result in from a cost perspective. That's one thing to note.

The other thing to note with models like SIBs is that the way government finances projects today, often it's an upfront investment by government. The way SIBs work is that they're actually investments by a second group, such as a community foundation. I think the thought that private individuals are trying to take advantage of a system of social finance is probably the wrong way of thinking about it. Oftentimes you have large family foundations that want to do good. They're looking to create innovative ways of placing their capital. But it's an injection of outside capital. It's new capital. In some cases for SIBs, governments invest nothing in the project. You're actually complementing whatever other government financing mechanisms are out there.

I don't know if that fully responds to the question. For me, it's simply one additional tool in the tool kit that you can consider.

● (1655)

Mr. Randall Garrison: You're saying if the government works through a grant it gets nothing back, but it does get something back. It gets the lower crime rate, or it gets the social benefits from that.

Mr. Norm Tasevski: You get the same thing with social finance, so—

Mr. Randall Garrison: With a higher cost.

Mr. Norm Tasevski: If you think about a grant as 100% loss, that is actually the higher cost. For an SIB as an example, you don't spend anything until the social outcome is achieved. The government spends nothing until you actually see the results. This money that the government spends is actually the savings to the government.

If you reduce welfare rolls, the government is saving money in welfare cheques. You're not paying that in transfer payments. You pay a percentage of what you had saved to the intermediary; it's not a new outlay of capital.

Mr. Randall Garrison: Of course, if you'd done that directly, you would capture all the savings and you wouldn't have to pay anything to anyone. It's comparing apples and oranges in a lot of ways to talk about it in those terms.

The other question would be, who makes the decisions on where these social finance projects go? In other words, who decides which are worthy projects or priority projects? What you're saying is these are essentially left in private hands rather than in government hands to decide which community or which part of the community will benefit from these kinds of investments.

Mr. Norm Tasevski: I don't think I actually said that.

Private investors can place capital in these initiatives. Often, a lot of projects that we do as a firm are generated by philanthropic foundations, by private philanthropists, by other government agencies. We work with the City of London to develop a social housing initiative. We didn't have a private conversation or private interest conversation six months into the project.

A lot of social finance is actually led by the social sector, by public foundations, and the like. This is not something that private individuals are going out to say, "I want to invest in this and this is the way it's going to be." That's not the way it actually works. It's really the social sector that's being the champion of the cause.

Mr. Randall Garrison: But they would decide what community they want to invest in or if they want to invest in housing or crime prevention. They are making those decisions. They aren't just saying, "There's lots of money here and anybody who wants it come and talk to us."

Mr. Norm Tasevski: I can give you a quick example, if there's time.

One of the projects that we're doing right now is a social housing project with the City of London. The City of London was the group that actually hired our firm to help them design what we're calling the resilient communities fund. It's essentially a model to invest in the development of new affordable housing in the City of London. The groups that we're speaking to right now to develop that fund are the community foundations in the City of London. We haven't talked to a single private investor yet for that initiative, mainly because we know that the interests of certain family foundations in the city are already in the mindset of helping to invest in more affordable housing for the City of London. You have groups that already have charitable desire being the first people to invest in these new financing mechanisms.

The Chair: Thank you very much, Mr. Tasevski.

For seven minutes, Mr. Norlock, please.

Mr. Rick Norlock (Northumberland—Quinte West, CPC): Mr. Chair, through you to the witness, thank you for attending today.

I think you see the ideological divide here. Some of us think there is a place for government to invest in crime prevention, but sometimes, and from my ideological view, most of the time, the good ideas are already out in the community, and all we have to do is push these good ideas in the right direction. Then there are others who feel that unless the government completely controls it, there really will not be the outcomes that we really want, so we need more people on the government side to do things.

Immediately I think of, and I think I've said at this committee—and I'm not sure who said it, but I believe it was Albert Einstein—that the definition of insanity is doing the same thing over and over again and you expect better outcomes. You talked about Peacebuilders Canada,and you mentioned some of the positive outcomes that came of that, far better outcomes than, quite frankly, most government projects.

We heard from the previous witness of the corporations that hire specifically a percentage of their employees from the disadvantaged in our society: people on social assistance, people who come from a crime background, recently released prisoners, or people who may have gone through.... You talk about Peacebuilders Canada. I'm thinking of when I was leaving policing about 12 or so years ago, we were well into restorative justice. You talk about first nations. That comes from the Maori Indians from New Zealand, and the positive outcomes of, I think they call it positive shaming. It sounds really bad until you get into it and you find out that it really is good. I think that's the divide.

I wonder if you could give us some examples from your experience of how, with some government funding—and I'm talking about crime prevention funding or types of funding like that—working with agencies like yourself and other community groups, we were able to maximize taxpayer dollars in order to get good results. Can you advise us of some of those instances that you're aware of that had some positive outcomes so that we can look at them and see if we can't continue down that road?

● (1700)

Mr. Norm Tasevski: One of the examples I can give you is not an example that my firm has been engaged in, but it is a fairly well-known example. It's actually out of Yonkers in the United States. It's called Greyston Bakery. Greyston Bakery has a partnership with the local jail in New York. When certain individuals come out of the jail system—and I don't know the exact particulars of how it works—they automatically get jobs within Greyston Bakery.

For those who enjoy Ben & Jerry's ice cream, Greyston Bakery is the company that makes the brownies that are put into Ben & Jerry's ice cream. They have a fairly robust business just making brownies for Ben & Jerry's ice cream.

They hire directly from the jail system and they guarantee the person a job.

You can imagine a scenario where if a government were asked to finance directly a group that was taking such a risk, or perceived risk, that group would probably not be able to receive financing. A lot of the work that Greyston did was to harness private capital, because it's a bakery. This is a group that is selling goods into the marketplace to create an opportunity for individuals who have two-, five-, or ten-year gaps in their resumés to be able to give them a job.

Greyston Bakery has been able to show very low turnover in its staffing. They have been able to show that individuals who have come through Greyston Bakery have been able to move into full-time employment. In a lot of ways, from the testimonials of the Greyston Bakery, if you speak to anyone there, they'll say this is the only business that actually hired them out of the court system. They probably would have re-committed and then gone back into the court system.

My understanding is that most of that financing was coming from private sources. I don't know the exact breakdown of how much government funding was put in place. I think if government was involved, or government moneys were involved, it was more the, forgive the pun, icing on the cake versus the core funding that Greyston needed to operate.

I think that's one of the things the committee should keep in mind. In a lot of ways, the government's role is to incentivize and to create the mechanisms by which social finance could operate, not necessarily to be the one that actually takes the main risk of putting the capital in place. In a lot of ways, it's all a mix. In some models, government financing is the minority financing in place.

● (1705)

Mr. Rick Norlock: Thank you.

You mentioned that sometimes some groups, non-profit organizations, may want to get involved in this, but it's a bit risky. If the government were to do some seed funding for them, they would foresee that as reducing the risk, and it might, and in some cases they would go ahead with projects that actually have results, that reduce recidivism significantly, compared to a solely government program. In other words, “We've got six months. We'll hire somebody. We'll pay their salary to that company for six months, and then when that's done, they're gone.”

Mr. Norm Tasevski: Absolutely. The space I know the best is housing. That's one of the areas we focus on.

I'll give you a quick example of something called the New York acquisition fund. This is, I think, one of the great examples of how three different groups have come together to place capital to create an impactful outcome. What the New York acquisition fund does is it acquires properties in New York City and converts them into affordable housing units on a range of scale. It could be just affordable housing for low-income people, or it could be supportive housing for people in need of that.

The government plus, I think, about seven different community foundations in the fund as it is today placed about $40 million of capital in total. The private sector placed $170 million in capital for this project.

Now, who is actually controlling the deployment of that capital? It's not the private hands that are controlling the levers of the New York acquisition fund. It's the actual service providers that are finding and developing the properties, and finding the tenants to move into the properties. There is a level of independence that occurs. What we call the finance-first investors are just looking for their return. So long as the fund can generate the return.... When you think of rental income and property appreciation, you can do that. But now the social-first investors, instead of having $40 million in capital, have $210 million in capital to actually build affordable housing.

The Chair: Thank you very much, Mr. Tasevski. We're a little over time there.

Mr. Easter, please.

Hon. Wayne Easter (Malpeque, Lib.): Thank you for your presentation.

The fact that we're doing this study versus some other public safety issues we could be looking at obviously shows that the government is interested in social finance. I'm still trying to figure out why. I'm still trying to figure out what social finance is, to be honest with you.

What do you see as the benefit to government from promoting a more extensively social finance? What's the benefit to a government as a result of social finance? Does it reduce their costs? Can they download some programming? Why do you think the government is so interested in this issue?

Mr. Norm Tasevski: I think there's a multi-dimensional answer for that question. There are a number of benefits back to the government.

One of the benefits is that social finance provides a mechanism for creativity. There is so much innovation happening in the social finance ecosystem, and it's created by the people delivering the services. One of the challenges that exists with government financing programs is that the time it takes to create the program and the rules you have as a government to implement programming essentially contain them in a certain set of actions. Private individuals, charities, and non-profits are looking for innovative and creative ways of fixing social problems without the burden a government agency might have in terms of how it actually creates programming, so the ability to create new innovations is massive.

Think of the analogy to technology. Up until the mid-2000s, the people defining how we engage with technology were Google, Microsoft, and IBM. Steve Jobs created the iPhone, and now we have millions of apps created that define how we engage in technology in a fundamentally different way. You open the door to both charitable and private sector creativity, and you can find mechanisms to deliver government programming differently.

The other benefit is the ability to save funds for the government. I think there are a number of ways those savings can occur, and I can go into detail if you like. It's one of the things that...not just saving money, but finding new pots of capital to inject into a certain social sector that government alone can't address. Social housing is a perfect example of that.

It's trying to tap a number of different concerns the government has when it delivers social programming.

● (1710)

Hon. Wayne Easter: Is the fact that we're into social financing for social housing a problem because we're not emphasizing our housing strategy enough as a country from a government level?

We've seen some cutbacks in that area this year. My concern is that when you look at the country as a whole, you're in London and there may be ample opportunities for social finance in London, Ontario, but I can tell you that in Kensington, P.E.I., there aren't a heck of a lot of social finance opportunities. If this gives the governments the opportunity to say, “Okay, this has been looked after by communities, so now we don't have to be involved in social housing anymore”, you will have a patchwork quilt of programming across the country. You'll have cities where there are some wealthy people with the ability to provide funding, and there will be other areas where you won't.

Is that a danger?

Mr. Norm Tasevski: I haven't seen people pulling out yet. I'll give you an example. I'm actually from the city of Toronto. In the city of Toronto, every year we build about 65,000 new units of housing. The size of the city is growing. Of those, I'd say less than 1,000 are affordable housing units.

I was in New York City speaking to some of the members who contributed to the development of the acquisition fund. New York City has an affordable housing target of 200,000 units. The only way they've been able to achieve that target is by creating the mechanisms for social financing to occur in the States.

It's not as though a government agency is pulling away its funding. If anything, governments are investing more, because the idea of catalyzing funds is that the more one party puts into the mix, the exponentially greater the financing placed by other partners will be. So, I'm not seeing a reduction, or people saying, “I'm going to pull out of participating.”

Hon. Wayne Easter: I'm worried about the government pulling out in terms of a housing strategy.

In my area, we depend on some charitable groups. It's not really social finance, but Habitat For Humanity provides a lot of housing for a lot of individuals in Prince Edward Island, and that's a good thing. You also have to lock the government into its responsibilities as well, and not have someone else take it over and let the government off the hook.

That's my concern on some of these issues.

Mr. Norm Tasevski: I find that with the amount of need we have in our society, some of the responses we have are simply inadequate. If we can find a mechanism to be able to increase the number of actors and the amount of money in some of these programs.... I worry less about government pulling out and more about the amount of financing in total today just not being adequate. We just need to find more mechanisms to invest.

Hon. Wayne Easter: In terms of social financing and where it's coming from, it's certainly a new concept to me. Is there any national coordination in terms of how this social finance system works, or is it everyone on their own and different groups with different ideas? Is there any national coordination or any body that coordinates this stuff across the country, or does it just happen to be in specific geographical areas?

● (1715)

Mr. Norm Tasevski: It depends on how you define coordination.

In Canada, there is no regulator for social finance and no national group that espouses to be the one main entity. We have pieces of that in other jurisdictions. The United Kingdom is probably the most developed social finance jurisdiction in the world. They have something called Big Society Capital and they have something called the Third Sector that is, at a policy level, coordinating a lot of the effort in social finance in the U.K.

I would say they're 10 to 15 years ahead of where we are in North America. We don't have those elements in place yet, but we do have my colleagues at the MaRS Centre for Impact Investing in Toronto acting as an instigator for some of these developments.

The Chair: Thank you, Mr. Tasevski.

Once again we're over time a little bit. We'll give you an opportunity to add to that when answering other questions, if you wish to follow up. That's not a problem.

We're going to go to Madam Rosane Doré Lefebvre, *s'il vous plaît*.

[*Translation*]

Ms. Rosane Doré Lefebvre (Alfred-Pellan, NDP): Thank you very much, Mr. Chair.

Mr. Tasevski, thank you for being here with us today.

I have a few short questions for you.

At the end of your presentation, you mentioned that social finance was but one of a number of available tools. Are there any places or sectors where social finance would not be an option?

[*English*]

Mr. Norm Tasevski: What I would say is there are some types of interventions that have no return expectation whatsoever. The whole world of social finance is premised on the ability to create innovative products and services when someone is willing to pay for those products and services.

You can imagine a scenario like food security. In some cases the food bank system, unfortunately in Canada, is a requirement. There is really no mechanism to monetize that type of strategy, nor would a lot of people try to do that. I think that is the extreme of what is tolerable in the business of social finance.

I would say that if there are interventions.... For me, housing and real estate provide rental stream. There is a known business model there to be able to generate revenues that could be shared with the investors in that intervention, but other models, disaster relief as an example, might be where social finance might not apply.

Things that require speed like to be able to generate results. As was noted earlier in one of the other questions, you need to be able to measure the impact of your intervention. In some of those cases the intervention takes years to generate, so you need to have certain areas that require some degree of patience to be able to generate results.

It's not a very specific answer to your question, but it is not a panacea. There are places where it makes sense, and there are places where it doesn't make sense.

[*Translation*]

Ms. Rosane Doré Lefebvre: In your presentation, you gave three examples of social finance. The third point you mentioned was directly financing social value obligations.

If the private sector can directly fund these activities, why go through the government? Why go through social value obligations? Could you tell us more about the third point you presented?

● (1720)

[*English*]

Mr. Norm Tasevski: On the third point, if I understand the question correctly, one of the models that I spoke to is the idea of catalytic capital. Catalytic capital works to essentially incentivize second or third investors into a capital stock to invest in an intervention. Someone needs to initiate it.

If you remove social finance from the equation, if I were to develop an investment opportunity—forget about whether it's socially motivated or not—the first investor is the one who is going to be the catalyst for the rest of the investors. If someone says, "This is actually a legitimate investment. It can generate the returns I'm looking for. I'll be the first in", the second and third investors will come in line. Some often wait until the first investor comes on board before they decide to invest.

The same thing occurs in social finance. In the case of social finance, you have the additional complication of, at this stage in the space of social finance, not understanding what opportunities exist, how social financing works, what it means, or how you guarantee that social outcome gets generated. How do you measure it? How do you count it?

Someone needs to kick-start that equation. In some cases it's government; in other cases it could be private foundations or philanthropists. There's always a spark that needs to happen to create the investment opportunity.

The Chair: Thank you very much.

Thank you, Madam Doré Lefebvre.

Mr. Payne, please, for five minutes.

Mr. LaVar Payne (Medicine Hat, CPC): Thank you, Mr. Tasevski, for coming. We've been getting some really interesting information today.

I'm going to give my colleague, Mr. Norlock, one minute to pose a question. I know that he didn't have that opportunity.

Mr. Rick Norlock: Thank you.

I'll give you an example. Mr. Easter mentioned Habitat for Humanity and smaller communities not having the ability. Well, Habitat for Humanity is in most smaller communities. I know it is in my community. They're building houses in communities of about 1,000 to 3,000 people.

I would like to use an example, and ask if you have any input. With a small government investment in training and opportunities, we took 12 hard-to-hire people with no experience in construction. It was a faith build; in other words, a whole bunch of local churches got together and raised $300,000 in a very short period of time. They partnered with this organization which worked through the department of education. They hired 12 people to work on this build site. At the end of the build, eight, ten or twelve people had a permanent full-time job in the construction industry.

Would that be a good example of how public-private partnerships work with non-profit organizations?

Mr. Norm Tasevski: I would say it could.

I don't know if Bill Young had a chance to talk about Inner City Renovations out of Winnipeg, but that is essentially a similar model. In that case it was Bill Young catalyzing that investment. That would be an example.

To go back to the example of Habitat for Humanity, I actually know Habitat quite well. I know that they are very interested in models of impact investing for their piece.

In the city of Toronto, we have the different organizations coming together to create a larger Habitat for Humanity in the city of Toronto. One of the strategies that they have to increase the number of units that they build is actually to employ impact investing or social finance mechanisms.

The example you gave would, in my opinion, be an example,

Mr. LaVar Payne: I guess I'm back on. Thank you, Chair.

The Chair: Yes, you are, for another two minutes.

Mr. LaVar Payne: Thank you.

It's interesting that some of the opposition are suggesting that this is the wrong type of investment. You talked a little bit about silos. When you have silos, people just kind of keep their heads inside. They can't see beyond the borders and how potentially this would work to help different people in different organizations.

In terms of the social housing aspect, as you talked about, now those investors have some assets as part of this whole thing. They're going to get a return on their money. I see that as potentially helping out lots of organizations and people.

You did talk about some of the values that come out of these. Thinking of financing, I'm wondering if you've got another example that you could tell us about that would help us get past these major hurdles of developing these kinds of models.

• (1725)

Mr. Norm Tasevski: Again, I'm giving you examples in the real estate housing space mainly because that's the area of experience that we have as a firm. There's something called the life lease. I mentioned it in my notes. For those who haven't heard of the model, a life lease is a mechanism that someone who is in supportive housing needs, say an elderly individual who has some form of disability or requires not everyday care but requires care from time to time, a nurse to come to their unit. The life lease creates the ability for that person to actually purchase a leasehold on a piece of property.

Instead of that individual moving into a long-term care facility and essentially paying $3,000 to $5,000 a month just to rent, what they can actually do is purchase the unit that they're moving into. Often these are going to be, say, townhouses or condominium units next door to a long-term care facility or near a hospital.

What you have the ability to do is to create for the person who's in need the opportunity to own an underlying asset.

The Chair: Thanks very much. I'm sorry, but your time is up.

Mr. Rousseau, you have about three to four minutes.

Mr. Jean Rousseau (Compton—Stanstead, NDP): Thank you very much.

I'll be speaking French.

[*Translation*]

Could you list your assessment parameters for your investments and tell me which could apply to crime prevention programs? Which parameters or measures would be used to assess how successful an investment is?

[*English*]

Mr. Norm Tasevski: You mean specifically for crime prevention?

[*Translation*]

Mr. Jean Rousseau: Yes, please.

[*English*]

Mr. Norm Tasevski: If I were to look at an intervention for crime prevention, I would look to a couple of criteria. One would be, is this something that can show long-term reduction in recidivism? If the current programming can generate—I don't know the specific targets, but let's say that today you're generating 50% reduction in recidivism rates through programming. The intervention that you would want to invest should have a tangible target on top of that. If I want to increase that target by 10%, the interventions you look to invest in should have that as one key target, something tangible that can be measured. The more tangible the measurement, the better it is.

When it comes to social outcomes, they really are best left to anecdotal or case studies, but the more hard data you can create, the better. If there's a reduction in the use of resources, say in the criminal justice system—I believe that to prosecute one youth in the drug courts costs about $120,000 to go through the entire chain. If you can show that an intervention that is not directly supported by government, say through a social finance mechanism, can remove youth from going through the court system, it's not as if there's a de-investment of government. What you're doing is you're saving government money, and if the intervention is less than what would otherwise be spent to prosecute that youth.... The Peacebuilders example, I think their programming is in the vicinity of $30,000 per youth. Those would be some examples of criteria.

The Chair: You have another half minute.

[*Translation*]

Mr. Jean Rousseau: Okay.

Could this also apply in rural areas? I am thinking especially of examples you may not be familiar with. For example, there is less philanthropy in some rural regions in Quebec. It would be more difficult to have instruments to measure how successful a program is in these types of regions.

[*English*]

Mr. Norm Tasevski: That's a very interesting point. It depends on the nature of the crime you're trying to prevent, I think.

One of the things that I think is key to one of the questions that was asked earlier is you're bringing together the community to help solve the problem. This is not something the government has to create the answer for. The culture shift that I think needs to occur is to say the actors in our society are figuring out the ways to create the interventions that make the most sense, that matter to that community.

The government is not the funder of those things. It's not the one that runs the programming. You're simply the actor that is helping to catalyze, to support. That could be through policy change. It doesn't have to be through any capital intervention.

The best answer I can give for that piece is to say the first thing I would do is I would talk to rural Quebec and see what kind of interventions their community is already trying to create. Are they undersupported? Are they reliant on small, local, charitable foundations? Is that not enough support? Is there a way you can enhance that investment?

• (1730)

The Chair: Thank you very much, Mr. Tasevski.

Thank you, Mr. Rousseau.

Colleagues, we are finished with our time allotment today.

On behalf of the committee, the chair would like to thank you, Mr. Tasevski, for spending some time with us and giving us some thoughts and certainly some responses.

At this point, we will adjourn for the day.