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Advancing Social Finance in Canada – Moving Towards Social Impact Bonds

October, 2012

Purpose & outline

- To provide context on the development of social finance tools, such as social impact bonds (SIBs), in Canada.
- Outline:
 - Canada's interest in developing a SIB and social finance
 - Jurisdictional issues and provincial/territorial (P/T) interests
 - Key players in the private and not-for-profit sectors
 - Federal government challenges
 - Challenges to developing social finance instruments

Human Resources and Skills Development Canada (HRSDC)

HRSDC's mission is to build a stronger and more competitive Canada, to support Canadians in making choices to help them live productive and rewarding lives, and to improve Canadian's quality of life.

- The HRSDC portfolio is one of the largest within the Canadian Government and has responsibility for a wide breadth of programs and initiatives, both economic and social, that help Canadians move through life's transitions – from families with children to seniors, from school to work, from one job to another, from unemployment to employment, from the workforce to retirement.
- HRSDC is the lead department on social issues for the Government of Canada and is responsible for a number of flagship social programs including:
 - Universal Child Care Benefit
 - Employment Insurance
 - Canada Pension Plan
 - Old Age Security
- As the Department responsible for the Voluntary Sector, HRSDC works in support of the sector to ensure a strong, vibrant and innovative sector.
- The Government of Canada committed to developing government-community partnerships approaches to address social challenges in Budget 2011 and 2012.

Canadian interest in developing a SIB

- Despite Canada's strong safety net and community-specific programs, some groups continue to face complex social challenges.
- Recognizing that the Government of Canada cannot tackle these challenges on their own, there is a desire to find new ways to address social challenges that have proven to be resistant to existing interventions.
- The emergence of social finance initiatives in Canada is being driven by demand from stakeholders within both the private sector and not-for-profit communities seeking a more strategic investment that provides both a social and economic return.
- The current fiscal environment limits our ability to direct additional resources to new policy initiatives.
- The federal government can play an important leadership role to build knowledge and momentum to open the social finance marketplace in Canada and to encourage others to support it.

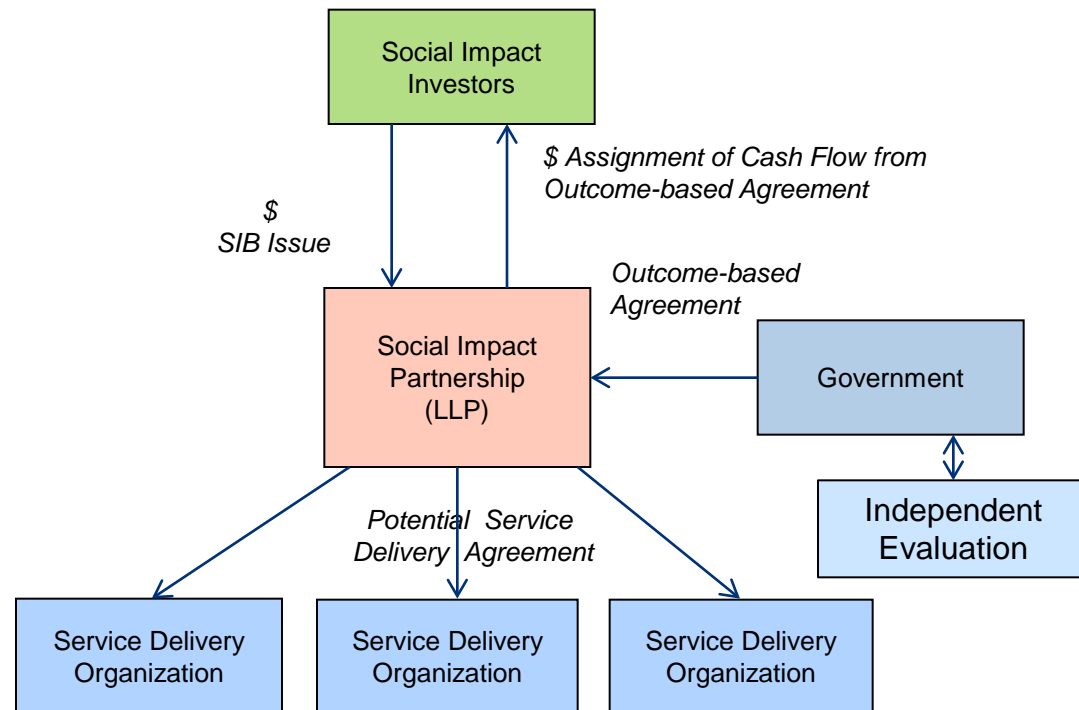
Budget 2012 – Economic Action Plan

“...the Government will continue to support the momentum building around social finance initiatives and will explore social finance instruments. For example, social impact bonds hold promise as a tool to further encourage the development of government-community partnerships.”

Social Impact Bonds (SIBs) as an Example of Social Finance Instrument

- **Government** identifies a social problem for which it is seeking a quantifiable, measurable result.
- **Contractual agreements** establish outcome targets, payment scheme and method, and evaluation process.
- **Private investors** finance interventions, generally delivered by **NFP organizations**. An **intermediary** (“broker”) could be contracting agent with government.
- If the outcome targets are met, the SIB contract holders receive payments from the government.

The Initial SIB Model: The Peterborough Project in the United Kingdom



The Potential of SIBs

- Strong **incentive** for all involved parties to **innovate** to improve performance and reduce costs.
- Financial **risks shifted to private investors**, protecting tax-payers money.

Federal-Provincial/Territorial (F-P/T) Governments

- Many of the social challenges that could be effectively targeted through social finance instruments, such as SIBs, lie in either shared Federal-Provincial/Territorial (F-P/T) or wholly P/T jurisdiction.
- The long-term reduction in public spending potentially achieved through a SIB or similar instrument would likely be seen in some combination of F-P/T programming.
- Constructing a complete picture of social outcomes and government savings may require the inclusion of P/T data.

P/T Interest in Social Finance Instruments

- A number of Provinces and Territories have recognized the potential of SIBs.
 - Budgets from Ontario and Nova Scotia have announced funding for social finance instruments;
 - Alberta, British Columbia (BC) and Ontario have begun exploring SIB-like pilots

Challenges within the federal government

- HRSDC is the lead department for the development of social finance instruments, including SIBs, but the department's mandate does not extend to all areas where a SIB may be beneficial such as recidivism, health or Aboriginal Education.
- A number of federal departments are well-placed to explore the potential of SIBs including: Public Safety Canada; Aboriginal Affairs and Northern Development Canada; Citizenship and Immigration Canada; and Health Canada.
- Given the complexity of SIBs and the potential broad reach of programming that could be encompassed by a SIB, federal departments will be required to work together in many areas.
- Some legal and administrative challenges also need to be addressed before a made-in-Canada SIB can be established.

Exploring legal and administrative circumstances for SIBs

- HRSDC is leading an interdepartmental working group to identify legal and administrative barriers to the development and implementation of SIBs and similar social finance instruments in Canada.
- Four broad areas have been identified:
 - Tax – Clarification may be needed on the treatment of SIB-related investments under the *Income Tax Act* (e.g., how foundations can put money into SIBs through mission-related investments).
 - Financial instruments – Need to identify the appropriate mechanisms (e.g., grant and contribution agreement or procurement contracts) to allow the Government to indirectly pay a profit to investors or contract for outcomes.
 - Accounting and budgeting – Government funding mechanisms (i.e., appropriations) and accounting conventions (e.g., allocation of savings) will need to address SIB funds to be paid out far enough into the future (e.g., 5-7 years).
 - Intellectual property – treatment of intellectual property developed during SIB pilots.

Key Players

- MaRS and the Social Innovation Generation (SiG) are leaders in the promotion and development of social finance in Canada.
 - In 2010, the Canadian Task Force on Social Finance, supported by MaRS and SiG, released its inaugural report *Mobilizing Capital for Public Good* which made seven recommendations to support the development of a social finance marketplace in Canada.
 - In 2011, MaRS created the Centre for Impact Investing as a national hub to increase the awareness and effectiveness of social finance and to catalyze new capital, talent and initiatives.
- As well, financial institutions, organizations and foundations are taking steps to increase the amount of social finance available in Canada.
 - In 2011, the Royal Bank of Canada established a \$10 million impact investment fund to support social and environmental projects.
 - In 2011, the VanCity Credit Union established a \$15 million Resilient Capital Program, funded by term deposits, to provide patient capital to social enterprises.
 - The Community Forward Fund addresses gaps in access to patient, working capital and bridge loans and arranges financing for Canadian nonprofits and charities.
 - The Edmonton Community Foundation is the first foundation in the country to formally commit 10% of its assets to mission-related investments.

Testing Elements of a SIB

- HRSDC will implement a pilot project to test pay-for-performance, private sector up-front investment, return on investment and new ways of risk-sharing between the federal government and non-government organizations.
- The pilot, in the area of literacy and essential skills development, will address some pressing labour market challenges, identified by government and employers alike.

Call for Concepts

- In fall 2012, the federal government will launch a call for concepts (CFC) aimed at generating a broad range of possible opportunities and ideas for social finance projects, including SIBs.
- The results of the CFC will be used for research purposes and to help shape future policy decisions.
- The CFC will be accessible to organizations and communities interested in addressing social issues in their communities.