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## **FEDERAL GOVERNMENT RELEASES REPORT ON SOCIAL FINANCING**

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*By Terrance S. Carter \**

### **A. INTRODUCTION**

The Federal Government has released its report on social financing, which aims to unlock new sources of capital and change the way governments, business, not-for-profits, charities and foundations work together to improve social and economic outcomes for Canadians. Released on May 6, 2013 by The Hon. Diane Finley, Minister of Human Resources and Skills Development, *Harnessing the Power of Social Finance*<sup>1</sup> (“the Report”) documents the responses that the Federal Government received from its *National Call for Concepts for Social Finance*<sup>2</sup> (“*Call for Concepts*”) in November, 2012. This *Charity Law Bulletin* summarizes the Report, including a definition of social financing, a description of certain social financing tools, an overview of social financing initiatives around the world and in Canada, details on the *Call for Concepts* and the response by Canadians, and the Federal Government’s plan moving forward.

### **B. DEFINING SOCIAL FINANCING**

Social financing uses multiple sources of capital in an effort to achieve social goods in realms such as unemployment, poverty and homelessness. It provides an opportunity to leverage government funds to access private investment. This provides more capital to community organizations, which then use these funds to scale up proven innovations and finance preventative interventions. This increased financing comes at a time when funding sources are becoming increasingly uncertain.

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<sup>1</sup> Available online at [http://www.hrsdc.gc.ca/eng/consultations/social\\_finance/report/index.shtml](http://www.hrsdc.gc.ca/eng/consultations/social_finance/report/index.shtml).

<sup>2</sup> The *National Call for Concepts on Social Finance* is discussed on the following Federal Government webpage: [http://www.hrsdc.gc.ca/eng/consultations/social\\_finance/about.shtml](http://www.hrsdc.gc.ca/eng/consultations/social_finance/about.shtml).

Social financing empowers citizens and communities to accept a greater decision-making role and provides investors with the opportunity to make a social impact and earn financial returns. The Report stipulates that social financing leads to “real-world” solutions, with private sector investments being accompanied by private sector best practices.

## **C. TYPES OF SOCIAL FINANCING**

Social financing can involve a number of different tools and structures. These include social impact bonds (SIBs), social investment funds (SIFs), social enterprises and sector capacity-building organisations.

### **1. Social Impact Bonds**

SIBs share similar characteristics with traditional bonds. With a traditional bond, the issuer promises to repay the investor, plus a financial return (interest), at a specified time. An SIB is similar in that the investor’s intention is to obtain repayment of the principal as well as a financial return. However, with an SIB, the investor only receives repayment and the financial return if the project achieves its specified objectives. In this sense, SIBs combine the investment characteristic of a financial return with elements of a pay-for-performance contract.

In order for an initiative to receive funding from an SIB, the Federal Government requires that the initiative be proven, more beneficial than the existing program and both scalable and replicable. Implementing an SIB often requires involvement from a government, a service delivery organization and an investor. It may also involve intermediaries, evaluation advisers and independent assessors.

### **2. Social investment funds**

SIFs use capital from multiple investors to provide loans, mortgages and venture capital to not-for-profits, social enterprises and social purpose businesses. SIFs often feature low interest rates or no interest and involve a longer-term repayment schedule than traditional loans. The Report describes how SIFs are commonly redistributed through microcredit loans to individuals that are typically excluded from traditional credit markets, such as single parents, singles under retirement age, Aboriginal people living off reserve, new Canadians and individuals with activity limitations.

3. Social enterprises

Social enterprises are organizations or businesses that produce or sell goods or services with the aim of achieving a public good. The label “social enterprise” can apply to a wide variety of entities, including enterprising charities, not-for-profits, co-operatives and social purpose businesses.

4. Sector capacity-building organizations

Many entities involved in social financing have recommended the creation of sector capacity-building organizations to help those involved with social financing to navigate the sector. The objective of these organizations would be to lower the transaction costs of commencing and executing social financing initiatives. Sector capacity-building organizations would prepare social enterprises for investment, help investors find suitable initiatives, simplify social impact measurements, package social investment opportunities for larger investors and help governments negotiate SIBs.

## D. SOCIAL FINANCE AROUND THE WORLD

The Report highlights the social finance initiatives of the United Kingdom (UK), the United States and Australia, as these countries are leaders in the social finance field. The UK introduced the world’s first SIB in 2010 and is currently reviewing its *Charities Act* and financial services legislation to improve its legal and administrative environment for social innovation projects.

In the US, the White House has established an *Office of Social Innovation and Civic Participation* and proposed allocating \$495-million of the 2014 Budget to “Pay for Success” pilot projects in areas such as job training, housing and education. The Report cites New York, Massachusetts and California as states that already have social finance projects underway.

The Report notes that Australia is moving forward on a number of “Social Benefit Bonds,” in areas such as child protection, family preservation and reoffending. Australia also has a new *Social Investment Expert Advisory Group* to advise on social investment and payment-by-outcomes initiatives.

## E. SOCIAL FINANCE IN CANADA

According to the Report, there are many social finance initiatives already operating in Canada's private and not-for-profit sectors and governments of all levels are taking notice and exploring how they might use these methods to tackle certain societal problems. The Report describes eight examples of current social finance initiatives that are taking place across the country and summarizes the efforts being made in many provinces.

In British Columbia, the provincial government co-sponsored an innovation competition in 2012 called "B.C. Ideas" that generated 466 ideas and mentioned continued support for social innovation in its 2013 budget. The Alberta Government is shifting towards more outcomes-based service delivery, having taken steps in its 2012 and 2013 budgets to implement results-based budgeting and reviews of government programs and services.

In Ontario, the Provincial Government's Budget 2012 committed to exploring partnerships that would improve service delivery outcomes while lowering costs. Meanwhile, the 2012 Commission on the Reform of Ontario's Public Services recommended testing SIBs across various applications.

In Québec, the Provincial Government is attempting to create the Banque de développement économique du Québec, which will combine various economic development programs to make funds more accessible to not-for-profits. Québec's Budget 2013 committed to improving access to Accèslogis Québec, a financial aid program that facilitates pooling of public, community and private resources for social and community housing projects.

The 2012 Speech from the Throne in Newfoundland and Labrador mentioned interest in innovative initiatives for tackling complex challenges and Nova Scotia's 2013 Speech from the Throne stated that the province would be the first Canadian jurisdiction to offer SIBs. Nova Scotia's 2012 Budget Address had committed \$200,000 to developing a social enterprise strategy.

The Report states that municipal governments are also developing social finance initiatives, highlighting a City of Toronto initiative to reduce emissions as one example.

## F. CALL FOR CONCEPTS

The Report explains that the Federal Government called for concepts on social financing because the world is facing increasingly complex challenges and governments no longer have a monopoly on defining and providing solutions. The Federal Government considers the traditional approach to addressing societal problems to be falling short, while “social innovation” is emerging.

The objective of the *Call for Concepts* was to obtain ideas from Canadians and sectors of society on how the Federal Government could harness the potential benefits of social finance to address social and economic issues in new ways.

The questionnaire circulated in the *Call for Concepts* asked submitters to outline:

- The social problem being addressed (e.g., homelessness, unemployment)
- A description of the population being targeted (e.g., at-risk youth, Aboriginal people)
- The elements of the social innovation or project and the social finance idea being proposed
- How money would flow to the innovation project and through the proposed social finance initiative (e.g., via a SIB, investment fund or social enterprise)
- The types of measurements needed to demonstrate success of the idea and whether there is any existing evidence showing that this type of project has promise.

## G. RESPONSE TO THE CALL FOR CONCEPTS

The *Call for Concepts* received more than 150 submissions between November 2012 and January 2013. The Report states that the submitters’ awareness of societal difficulties and the scope of the ideas proposed were “impressive and encouraging.” Submitters supported their proposals with empirical evidence, anecdotes and third-party research.

Most submitters were from the not-for-profit or charitable sector, with the remaining identifying themselves as representing the private sector, expert/academic, government or think tanks. There were submissions from most regions of the country, with people from Ontario and British Columbia making the most submissions.

The *Call for Concepts* asked submitters to identify the “Concept Area” of their proposal. Most submitters identified their proposal as relating to “multiple domains,” followed in descending order by youth, health, aboriginal people, housing/homelessness, people with disabilities, public safety, unemployed seniors, new Canadians and other.

## H. PROPOSALS HIGHLIGHTED IN THE REPORT

The Report profiles fifteen proposals in an effort to illustrate the range of ideas submitted and the various social finance tools described.

- **Boys and Girls Clubs of Canada’s Skilled4Success**, a concept for introducing young people to career options in the skilled trades
- **Ottawa Regional Cancer Foundation’s Cancer Coaching** concept that seeks to improve the quality of life for cancer patients
- **Pathways to Education Canada’s Northern Graduation Network**, a concept to increase high school graduation rates in northern communities
- **Aboriginal Savings Corporation of Canada/J.W. McConnell Family Foundation’s** proposed First Nations Housing and Infrastructure Fund, a concept for accelerating investment in these areas
- **Social Finance for Supportive Housing Working Group’s** concept to fund 10,000 housing units for people living with mental illness
- **JVS Toronto’s Youth Reach Program**, a concept targeting marginalized youth who are at risk of conflict with the law

- **Valuenomics’** Avanti Program, a concept for addressing skills shortages in northern British Columbia’s resources sector
- **Ottawa Community Loan Fund’s** Seniors’ Housing Project, a concept that would develop small-scale, independent community-based living units
- **Maytree Foundation’s** Immigrant Mentoring Program, a proposed support system concept that pairs new Canadians with experienced professionals in their occupations
- **Omega Foundation’s** SmartSAVER, a concept to boost participation of lower income families in the Canada Learning Bond and Registered Education Savings Plan
- **Mouvement des Caisses Desjardins’** microcredit program, a concept that provides interest-free loans, longer payback periods and business training to underserved entrepreneurs
- **The Toronto Enterprise Fund,** a concept that provides business coaching and financing to social enterprises staffed by marginalized people
- **Carleton Centre for Community Innovation’s** Canadian Impact Infrastructure Exchange, a concept describing a proposed method of building capacity for large-scale public/private investment
- **SEA Change Nation’s** LEARN-LAUNCH-SHARE Program, a concept to scale up a social enterprise that introduces at-risk youth to business and provides support for their new business ideas
- **YMCA Canada’s** Single-window Solution for Youth Employment Support, a concept proposing a national service delivery model for streamlining access to internships and job opportunities

## I. WHAT HAPPENS NEXT

In the short term, the Federal Government intends to take four concrete steps to push-forward on social financing. First, the Federal Government will continue the conversation on social finance by reaching out

via social media, webinars and seminars to inform Canadians about social financing and continue soliciting ideas. The Federal Government commits to connecting potential partners through policy tables and targeted outreach, to incentivise, leverage and encourage new relationships between investors and investees. The Federal Government also intends to create opportunities for the ideas submitted to be “sharpened” and to develop pilot-projects that are “investment-ready.” Finally, the Federal Government will use existing program funds to test the social finance tools discussed in the Report. The Report states that the quality of submissions received from the *Call for Concepts* has led the Federal Government to conclude that the time is ripe to turn some of these ideas into action. It will be interesting to see what the Federal Government decides to do in response.



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