Recommendations

Senate Standing Committee on Social Affairs, Science and Technology

Study on the creation of a Social Finance Fund

We recommend that a Canadian social finance fund:

Invest outside direct government supervision. The federal government should set the social finance fund's goals. It should not, however, supervise investment decisions. Investment decisions ask for financial skills and risk tolerance usually absent from the public sector. Such decisions must guard against real or perceived political influence. The Business Development Bank of Canada, the Venture Capital Action Plan and similar projects invest outside departmental control. The UK's social finance fund, Big Society Capital, operates as a private company held to its mission by a board dedicated only to that task.

Hold enough money to move the market. The social finance fund aims to spark a step change in the size of the social finance market. An incremental amount will not prompt that change. The fund must invest enough to push Canada's impact funds and other intermediaries to a profitable size. It must signal long-term conviction in the market's potential and thereby convince others to risk entry. While not exactly calculated, we suggest a fund between $250 M and $400 M to achieve these goals.

Articulate a clear theory on how it will solve a market failure. The social finance fund should identify the market failure it seeks to address and explain how it will overcome that failure. Without a stated problem and solution to that problem, the fund risks perennial tensions, both internal and external, on how it should invest. Upfront agreement on the problem and solution should steer the fund's design.

Invest through a flexible framework. The social finance fund will invest a large sum in a new market. Thoughtful design will help it accomplish that difficult task. Even the best design, however, will not anticipate every obstacle or predict every market evolution. Hard restrictions on the legal forms, social sectors or regions into which the fund can invest will slow the rate at which it deploys money. The federal government should set the social finance fund's goals, but it should write a flexible framework through which the fund may achieve those goals.

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