

Vartana's engagement with the Federal government

Background

2003 looked like a promising year for social and economic policy in Canada. We were on the verge of seeing a new prime minister, someone who was a policy wonk, and who cared about the many social issues facing the country. Mr. Martin's team, a collection of people who had been affiliated with him through his many years as a public servant and even before, had been scouring the country for ideas – their ambition was to build a groundbreaking agenda.

We were introduced into the series of policy roundtables via a senior Martin team member, who thought we would fit the ambition of a Martin government. And, after a couple of large group presentations/meetings, it seemed to us that they were interested in our work. Through the rest of the year we engaged with a number of different people in the Martin team on an individual basis. And we waited. We weren't really sure what this all meant. The Martin team was negotiating with us somewhat like they were the government; and it was strange, even senior Finance Canada officials were telling us what their thinking was on our file in terms of the amount of money that they (a Martin government) would allocate. But they were not yet the government. In the meantime we engaged the deeply experienced minds of the policy arm of the government. Because we were looking at an initiative that was mainly financially oriented our initial engagement happened through Finance Canada; where we found that many individuals were intrigued by our project. We also had some engagement with Industry Canada. But that was the extent of our work. We had very limited engagement with the Chretien government, as several of the Martin people made it clear they really only wanted us to deal with them, or with ministers that would be within a Martin government.

The leadership weekend happened, and the expected happened, Mr. Martin became leader of the Liberal Party. And shortly afterwards, on December 12th, he became Prime Minister. Some of the people that we'd been working with became part of the Prime Minister's Office ('PMO'), others started working with various ministers. We weren't sure where to begin, or how to fit into anything, and in some ways were a little adrift in early January. Our calls were not being returned, and that seemed to be the case with several other projects that we knew had also been very interesting for the Martin team. Then through an accidental meeting we got pulled into the government process, though it seemed like they had already been considering us having written us into early drafts of the Throne Speech. We found ourselves in an interesting position. Mr. Martin had developed a strong interest in the social economy through his experience in Quebec, and through the advocacy of Nancy Neamtan. She had been fighting to develop a case to see a massive investment made in the social economy in Quebec, and to that end – since she was courting a federal government – had tried to put together a network of social enterprises across the country. She wanted a large investment made that would get her what she needed for Quebec. The problem was that while the social economy was substantially

advanced in Quebec, it wasn't quite the case in the rest of Canada. There, with perhaps the lone exception of British Columbia, there was very little ability to use the funds that might be made available. So the government wanted to put our project together with hers under a so-called policy 'chapeau' to make the policy more credible. The proposal was that a joint program would have a much better chance of getting through, without it neither file would be held to be up to snuff. Ms. Neamtan and we both tried to sever ourselves from that kind of connection, but it was made clear that was simply not to be. And so a deal was struck... 'horse-trading' as one Vartana board member would put it. We would get recognition in the budget for the policy work we needed support on, and the funding we would need would be put in through the social economy file. In return we would advocate for the social economy package – over \$130 million, including over \$35 million for our project, for social enterprise. Critically, this understanding with the PMO was never documented.

At the same time, the sponsorship scandal was breaking out, and while before becoming Prime Minister it had seemed that Mr. Martin might eventually have a massive majority in government when he went to the polls people now began to talk about a minority government. A strong minority but a minority nonetheless; while this was all unfolding we kept our focus strongly on going through the process.

In the early part of the year we also began our engagement with the Charities Division of the Canada Revenue Agency ('CRA'). We had received charitable status earlier but that was for the pursuit of research into the project, not for the bank itself. We had worked with the CRA before on a previous project where their advice had been instrumental, and we had good legal representation on our team as well as amongst our legal advisors. And in engaging with us, they indicated that they understood that this would be a complicated process, and they suggested we approach this in a collaborative style. This, in and of itself, was remarkable from the agency and a testament to their willingness to engage on projects that could make a meaningful difference to the country. This approach made a huge difference to the outcome of our engagement with them. We had begun our process with the Office of the Superintendent of Financial Institutions ('OSFI') a little while earlier, and there too we found a receptive ear, though in their case they would be looking at us within the bounds of pre-established policy; the CRA's role on this project would be groundbreaking in many ways. We had also seen substantial support for our project emerge at the highest levels within the Privy Council Office ('PCO') as well as a couple of other major departments; at the newly formed Social Development Canada there was interest, but largely the department seemed to be a bystander. As the budget process came to an end we had many reasons to be optimistic after spending what felt like two months up in Ottawa.

On budget day we were elated to see that we had been recognized in the Budget, as well as having the entire social economy file funded. There was a lingering question though... did we really get what we thought we did? It became very clear very quickly that, in the absence of overt government direction, that the social enterprise

community across the country and especially in Ontario thought they should have a right to access the pool of funds made available. And on the face of it, they definitely did have that right. We began to be aware that this was going to be politically tricky. With the advice of the PMO we went into see the Industry department that had the mandate for the funds – but was now critically in the position of having to write the policy to justify the funding. We laid out our case, and as they did their own research over the next few months, it became clear that we had a very compelling case. There was a reason why the federal government had known they needed something else to balance out Quebec for this to be a federal proposal. The federal government indicated they would be interested in seeing a preliminary proposal from us, as well as indicating they had interest in us submitting a bid through an eventual RFP process. There was a lot of stick-handling to do to work our way through this and with the assistance of the bureaucrats we were working with, as well as substantial political cover from the PMO and minister's offices we seemed to be well positioned. And in the meantime we were included in all the government deliberations on the file participation in the government roundtable on the file, reviewing the Memorandum to Cabinet ('MC'), and assisting in moving the file forward. One big change happened along the way. There was an election and the government became a minority government, there was a change in ministers, and even key people left the PMO. But we were able to work our way through that. Eventually, as we worked our way through the social economy file, the demands of the funds became clear:

- We would only be able to operate in Ontario. And risk being forever branded an Ontario project.
- We would leave behind a somewhat upset constituency – social enterprises in Ontario, at least at that point, simply did not have the size to justify the scale of investment that was available in the pot. The only reason it had been justified in the first place was because of our project. But, with the absence of clear government direction in the initial funding, this had made our lives really complicated.
- We would have to lend a substantial fraction of our credit into social enterprises. This for us was dangerous as a bank since this meant being exposed to a sector that looked substantially higher risk than the charitable sector. We were not sure how credit worthy social enterprises were, and evidence from the States and elsewhere suggested that the failure rate was quite high. This could jeopardize our soundness as a bank.
- Our perception was that there might be issues with the way the file was proceeding in one part of the country.

These issues began to become critical, and at an October board meeting, the board decided that it made sense for us to abandon funding through the social economy file and seek funding on our own terms. We informed Industry Canada, PCO and the PMO of our intent.

At the same time we had continued our engagement with the CRA to the point where we had actually made our submission to them building our case for granting charitable status to a bank (see further document – ‘Vartana’s engagement with the CRA’), which they were now in the process of reviewing. We had already gone through two meetings with them which had unfolded productively and we began to feel positive about the outcome. Shortly afterwards, we were able to make our submission to OSFI as well. This represented the work of over 10 Deloitte consultants, and 3 members of the Vartana team, working feverishly for almost 8 months. We were gratified when OSFI acknowledged our application by telling us it was one of the best they had ever seen. But we were in a tricky spot with them. Typically they would only review an application when they knew the sources of capital for a bank. In our case, it had seemed like they had known that when we were engaging with the social economy file, and they had pushed ahead while that was the case, but when we backed off that they decided not to push the review on our application waiting for clarity about our source of capital. Yet we were in a tricky situation where it seemed that the government would not look at us for investment without some indication from OSFI as to the merit of our business plan – this being based on OSFI’s expertise in reviewing bank applications. This process was only finally pushed ahead based on support from Social Development Canada and the PCO. We also began to find that Finance Canada, with whom we had worked so closely for two years, had a different sense about us receiving funding from the government as opposed to receiving policy support; this was specifically the case in the Financial Services division, but not in other parts of Finance. Interestingly, they did not have an issue with us receiving ‘indirect’ funds via the social economy file. This time around Finance made its objection clear. We would have to go through a policy process where Finance would question the role of direct investment by the government. Their objection was premised on concerns that if the bank ran into trouble, the government might have to bail out the bank given its role in initially funding the bank, and that this would then violate the nature of the relationship between the government and the bank.

We went through the Budget process again. Perhaps a little more carefully than before, and with much more support in the wings for our project. It was clear that Finance was going to block any funding for our project, but the PMO believed that they had already pushed it through. Yet late in the day, we had not received any of the positive indications that we needed. In a couple of settings, with PCO, we were offered a portion of the funds we needed – roughly \$30 million but spread out over 3-5 years. But that didn’t work for the business plan we had and so we turned it down. And this time we weren’t so lucky through the budget process. But the significant support we had did translate into something. We, and Minister Ken Dryden at Social Development, received letters from the Prime Minister where we were told that the Minister would make our file one of our priorities and would be tasked with working out the policy for our file, specifically with regards to funding. This would mean taking a Memorandum to Cabinet on our file for review and approval, a file that would need to be taken through the interdepartmental process which would mean having to work through Finance’s objections. The good thing

about this approach is that at least Finance, and specifically the Financial Services division of Finance Canada, could be understood and addressed. The one other good thing that had emerged through our engagement during the budget process is that we had finally gotten a decision from the CRA – they would in fact give charitable status to the bank. It was a huge, and collaborative, policy win.

Our post-budget process began to unfold against the backdrop of increasing tensions between the opposition parties and the government. The Gomery Commission, called to investigate the sponsorship scandal, had incredible revelations in April and May, and the opposition parties called on the government to resign. It was only thanks to Belinda Stronach and Chuck Cadman that the government continued, and that our file was able to work its tortuous way through a very, very distracted government. Our MC was completed in June and was supposed to go to cabinet in the last meeting of that month but because of all the political fireworks this date got pushed back to the next meeting of cabinet: in September. By this point, we had become financially stressed with all the waiting on our project, and the government had arranged for a grant of \$500,000 for our continued operations. We were still seriously stressed. After working on this file for 2 years, and with the government about to die every single day, we were not sure that there was any real life to our proposal. It was at this point that we began to look at alternatives. September came and our file continued to be pushed back, because of continued issues with Finance. We got to the point in November where we thought we should pull back on our government engagement. It was at that moment that we were told that our file was going to cabinet: Social Development Canada had worked out a deal. They had realized Finance was not going to budge on its position of funding the capital of a bank, but would be willing to fund the start up costs. They had worked out a deal where the government of Canada would invest \$5 million towards our start-up, and another \$5 million towards policy research to make the case for continued and further government investment in this area. It was not even close to what we were looking for, but given all the work that had been done by the government, they wanted to push this forwards in the hope that we would be able to use it. This file got taken to the Domestic Affairs Committee, the Operations Committee of Cabinet, and the Cabinet itself within a short 2 week period and was approved and funded. We had now received funding specifically for our file. But this time not at all what we needed. The first time we had gotten the funding we needed but not through a vehicle specifically for our file, the second time we had our own file and policy, but without the right type of funding. We were now in the curious position of having to compare this option with a private sector option that we had been developing through the summer. Which one actually made more sense for the country's charitable sector and for us?

The government fell 2 weeks later, and on the face of it that didn't really affect us as our file had already been funded. Social Development Canada was pushing us to take a \$1 million grant to revise our submission to OSFI and to push ahead. We held off. The Conservatives came to power. Though we had already done enough homework to make sure that we would be palatable to them, as well as to the NDP.

In the meantime we had also had a chance to finish our review. The funding we had received simply did not make sense, it was a recipe for failure for our project. Specifically the government was offering funding that:

- Offered us only build funding and funding that could not be used at all towards the capital needs of the bank
- Could only be made available on a matching basis – so if we raised \$20 million in capital for the bank, only then would we get to access the entire \$5 million that the government had made available
- Given the fundamentally curtailed government offer this begged the question of whether we would even be able to get close to \$20 million – and it was reasonably clear that the bank's vision would be fundamentally comprised, and the risk level greatly raised. It was not clear that the bank would actually be viable.

On that basis, and as it became clear just how compelling the Vancity proposition could be, we turned down the \$10 million file. And instead decided to try and work with the private sector: specifically a combination of Vancity and RBC.