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commentary

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Private money, public programs? There will always be strings*

In response to the perpetual shortage of funding for a wide range of social needs, Ottawa just announced its commitment to the use of social impact bonds.

In theory, the announcement is a positive development in Canada, which has fallen behind the rest of the world in the creative use of capital for social purposes. In practice, its use will have to be carefully monitored.

The emerging sphere of social finance opens many new fiscal doors. Social finance is a term that refers to a range of instruments, including social impact bonds, which blend public and private money to tackle tough social problems.

Social impact bonds were first introduced in the UK in 2010 to finance a project at a prison for short-term male offenders. Its purpose was to help prevent recidivism among former prisoners.

Under a social impact bond model, the private sector or a social organization finances and delivers services under contract to the government against a bond issued by that government. The private sector or social agency promises to accomplish certain objectives within a designated time frame.

If successful, the private sector or social agency cashes in the bond and receives reimbursement of its costs plus a rate of return. Social impact bonds are therefore not bonds in the traditional sense of the term but a form of public-private partnership.

The potential problem with social impact bonds is not the fact that they bring private capital into the social equation. The concern with this instrument is the obsession with quantifiable performance outcomes.

There is nothing wrong with achieving outcomes – that's what social investments are all about. The potential problem is the unreasonable pressure that the funding formula can create to achieve outcomes that may not be attainable within the time frame set out to provide investors with the return they expect.

The requirement to achieve the numbers inadvertently can skew an entire program. For example, in order to attain designated quotas

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(and get paid), employment training programs often accept participants with few employment barriers. The programs basically are involved in 'creaming' – selecting the candidates most likely to succeed. Individuals who need more assistance or more time to achieve the designated employment goals may fall by the wayside.

Another question arises from the perspective underlying this approach. Whose benefits will they seek to achieve? The lens of success typically is the one created by the funding body – in this case, governments. But sometimes the outcomes that governments desire may not produce positive outcomes for the participants. Take, for instance, welfare reform.

There is no shortage of government programs that seek to move recipients off welfare. It is assumed that if they leave the program, they will have escaped poverty and their lives will improve.

The reality is that many people are worse off than before. They may have gained paid work but often get a job that pays only minimum wage or that offers only part-time work. In fact, many households are worse off leaving welfare for work because they may lose access to a range of benefits including child care, subsidized housing, health services, medications and disability supports – which may be worth hundreds or even thousands of dollars a year.

It is not a bad thing to help move recipients off welfare. But it is incorrect to assume that paid work alone will improve their lives. There needs to be a range of associated reforms, including health and dental care, improved earnings supplements and lower income taxes for these households. Any initiative supported by social impact bonds must take into account the broader context and, where possible, incorporate related reforms.

Finally, positive outcomes in the social field often take several years to achieve – sometimes even a generation. Social impact bonds must allow sufficient time for achieving the stated objectives. Private investors will have to be patient with their capital if these bonds are to become serious instruments to support real social change.

The federal government needs to proceed with caution when it comes to social impact bonds. Money always comes with strings. It will be important to ensure that these strings don't strangle.

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