




**THE TRUE COST OF CAPITAL:
A Social Work Perspective
on the Potential
of Social Investments in Canada**



Founded in 1926 the Canadian Association of Social Workers (CASW) is the national association voice for the social work profession.

CASW has adopted a pro-active approach to issues pertinent to social policy/social work. It produces and distributes timely information for its members, and special projects are initiated and sponsored. With its concern for social justice and its continued role in social advocacy, CASW is recognized and called upon both nationally and internationally for its social policy expertise.

The mission of CASW is to promote the profession of social work in Canada and advance social justice. CASW is active in the International Federation of Social Workers (IFSW).



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1. Executive Summary

This paper highlights the potential dangers of pay-for-performance social finance tools, and hopes to demystify the differing types of social investments being proposed in Canada. Beyond a breach of Canada's social contract, pay-for-performance models, such as Social Impact Bonds (SIBs), are unlikely to make programs more efficient or reduce costs; they are actually more likely to create additional financial and administrative costs that need to be covered by government (HUMA, 2015).

The *Canada Health Act, 1984*, implements five principles that are the pillars of our health care system: public administration, comprehensiveness, universality, portability, and accessibility. CASW has further proposed a Social Care Act¹, which would guide the use of the Canada Social Transfer (CST). CASW believes that certain pay-for-performance social finance tools are in direct conflict with these principles, as well as our governments' commitments to a fair and equitable Canada.

It is more economically logical for the government to borrow funds for a potential social program at an interest rate of approximately 3% (or the current rate) as opposed to using an SIB, which could potentially cost the government up to between 7.5% and 13%.

Furthermore, investors are most likely to choose programs with proven outcomes – the safer investment – which will further marginalize already vulnerable populations. Simply put, SIBs are questionable policy in terms of both human and economic interests.

CASW takes no issue with Socially Responsible Investing, as this model is not in conflict with social work principles, as well as Social Investment Funds, in theory, as this type of funding functions as an additional stream that social service providers can access in order to run additional or expanded programs.

In the case of social enterprises, CASW's view depends on the mandate of the social enterprise. CASW is in support of organizations pursuing a public benefit while using a market-oriented approach, as long as surpluses are reinvested in the enterprise. CASW recognizes that there are many legislative barriers that prevent non-profit organizations from participating in this type of social investment.

With this in mind, CASW makes the following recommendations:

¹ Read CASW's proposal for a new Social Care Act on our website at casw-acts.ca

- Any social finance initiatives should be guided by a social conscience, and use as a framework the principles proposed by CASW's *A New Social Care Act for Canada (2015)*: public administration, comprehensiveness, universality, portability, accessibility, fairness, effectiveness, accountability and transparency, rights and responsibility, and comparability.
- Private profit has no place in the provision of services to vulnerable Canadians and a future Social Finance strategy should reflect this.
- The federal government should examine allowing charities and non-governmental organizations to re-invest any surpluses back into their organizations without risking losing their charitable status or tax-exemption.
- Instead of pursuing one of pay-for-performance models, governments should invest in long term, comprehensive programs to support the social determinants of health, such as a basic income for all Canadians.
- The federal government should conduct further research into available social finance tools as fiscal and human outcomes in both these areas is nearly non-existent at this time.

2. Introduction

Dialogue around the concept of social finance is growing worldwide, and social finance tools have the potential to greatly impact both the character and outcomes of social services and programs in Canada. After the 2015 federal election, the newly elected Minister of Families, Children and Social Development, Jean Yves Duclos, was mandated to develop a Social Innovation and Social Finance Strategy, the shape of which remains to be seen, but contributes to the nation-wide buzz around the concept of social finance, and the types of social investment tools that fall within this broader category.

In June 2015, the Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities published a report on social finance and its possibilities for Canadian society after conducting a study titled *Exploring the Potential of Social Finance in Canada*. This study followed a 2014 report, *Mobilizing Private Capital for Public Good*, released by Canada's National Advisory Board to the G8's Social Impact Investment Taskforce, which revealed mostly positive, however occasionally ambivalent attitudes toward the concept.

In social and economic policy rhetoric, social finance is often presented in a false dichotomy; a solution to an inability to afford the type of social programs

and supports that Canadians require. Evidence shows that Canada can afford to offer publicly administered, high-quality services without compromise by investing in policies and programs that support Canadians comprehensively, reducing costly negative health and social outcomes down the line.

To this end, CASW believes that certain types of social finance have the potential to act as an additional resource to government funding. However, it is imperative that any decision in relation to social finance is evidence-based, in the best interest of service recipients, and does not provide opportunity to profit off vulnerable populations.

In brief, CASW welcomes any form of social finance that empowers existing nonprofits and community organizations to continue doing excellent work without becoming beholden to a private investor or to a set of financial deliverables. CASW is for any type of social finance that does not interfere with governments' responsibility to provide publicly administered, high quality, and accessible services to all Canadians. CASW is for any type of social finance that helps to lift up best practices, does not require a larger public payout than would be owed on a regular loan, and does not skew interest in the success and support of our citizens toward those populations that are more likely to be 'successful' under certain programs – however success is defined. And further on this point, CASW is also in favour of any type of social investment that maintains a public locus of control in the development and assessment of fundamental social services, and prevents private financial interest from impacting decisions that must be made only for the public good.

CASW emphatically cautions that the negative impacts created by certain forms of social finance would likely not be produced by the models themselves – who, indeed, would argue with a more streamlined, efficient, and effective social services system in principle? – but rather through what is left unsaid: the off-ignored topic of interest rates, the questionable ethical reality of allowing private profit on a public social good, the proverbial re-opening of the door to the charitable model of social service delivery on a federal scale, and the encouragement of a piece-meal system that privileges one-off projects and neglects long term initiatives such as a nation-wide poverty elimination strategy².

² CASW has been a long-time advocate of the implementation of a *basic income*, or minimum guaranteed income, to help lift all Canadians out poverty.

3. Historical Underpinnings

In North America, social criteria for investments surfaced among large organizations such as the Ford Foundation, which announced in 1967 that social investments would become part of its philanthropic program (Bruyn, 1987, p. 1). In the late 1990s, new ideas emerged on the role and shape of social policy and its role in relation to the economy and these similar ideas were given different labels (Morel, Palier, & Palme, 2012).

Although there is no unified theory and no single intellectual source behind these new ideas, they collectively stress the productive potential of social investments while providing a new economic rationale for social policy provision (Morel, Palier, & Palme, 2012). According to Bruyn (1987), social investments change the traditional order of business in that they introduce non-economic criteria into final decision making processes (p. 1), and, alternately, introduce financial criteria into established socially oriented thinking.

In order to better understand social investments, it is essential to be aware of the legislation that influences the social services sector. On a national level, the *Canada Health Act, 1984* and the *Income Tax Act, 1985 (ITA)* impact NGOs, non-profits, and private enterprises in their daily activities. To date, in order to comply with the *Canada Health Act, 1984, 8(1)(a)*, a health care insurance plan of a province or territory must be administered and operated on a non-profit basis by a public authority appointed or designated by the government of the province or territory (*Canada Health Act, 1984*).

However, section 8(2)(1) opens the door for private enterprises to deliver services since this subsection states that the province or territory “has the power to designate any agency to receive on its behalf any amounts payable under the provincial health care insurance plan” (*Canada Health Act, 1984*).

Both the NAB's 2014 report and the more recent HUMA report presented social finance as a strategy with the potential to develop social services by addressing complex social issues, while saving the government money through seemingly efficient and innovative approaches. As opposed to one-sided interest on behalf of governments, the financial world also seems eager to privatize and invest in social services while turning profits.

The previous federal government championed the idea of social finance as a way to access private funds for social services, enabling them to continue slashing existing public budgets in the same area. Of course, the separate issues remain as to whether a genuine lack of funds is the real issue at hand, or if other structural barriers are at play preventing marginalized populations from accessing the services to which they are entitled. If this is the case, further distancing social services from centralized government oversight will certainly not improve the situation.

While the stated intent of social investments is to avoid costly acute interventions by investing in preventative social programs – a strategy in support of the social determinants of health, with which, in principle, CASW would never disagree – it is unclear why the government does not make more funding available for preventative programs by the social services that are already in place. The recent federal election offers hope, however, as this current federal government's early actions indicate openness to evidence-based interventions that are proven to be efficient, innovative, and indeed *more affordable* than soliciting funds from social investors with the requirement of paying a market rate of return.

Since the financial crisis in 2008, there has been a steady decline in total social expenditures, lowering to 17% of the Gross Domestic Product (GDP) in 2014 (Organization for Economic Co-operation and Development, 2016). This decrease in funding forces social service agencies to direct their attention to alternatives that promise access to new and privately owned funds: these surrogate funding models are what we call social investments. It is understandable that charities and non-governmental organizations, which face the hard reality of a competing with like-minded organizations for a diminishing pool of federal funding, are attracted to this emerging trend.

4. Social Finance Defined: An Annotated Glossary

The term social finance can be a confusing one, as it acts as a catch-all for a variety of funding structures from pay-for-performance models such as Social Impact Bonds (SIBs), to the concept of Social Enterprise and Socially Responsible Investing. A major barrier to clear discussions on social finance/social investments is indeed a lack of clarity around terms used. In the context of the previous government's HUMA's study, as well as the current federal government's communications on the issue, social finance is most broadly represented as concept that enables private financiers to invest in social services, and make a profit from the investment. Employment and Social Development Canada defines the term *social finance* as:

an approach to mobilizing private capital that delivers a social dividend and an economic return to achieve social and environmental goals. Mobilizing private capital for social good creates opportunities for investors to finance projects that benefit society and for community organizations to access new sources of funds. Some of the models commonly explored as social finance tools include, Social Responsible Investing (SRI), Social Impact Bonds (SIBs), Social Investment Funds (SIFs), and Social Enterprises. (ESDC, 2016).

To provide more context, *Mobilizing Private Capital for Public Good (2014)* describes social finance as:

Outcomes-based financing [that] can take a variety of forms, including payment-for-results contracts between governments and service providers and Social Impact Bonds (SIBs) – in which investors provide up-front financing for a particular service, generally delivered by one or more charitable or non-profit organizations, based on the commitment of an outcomes funder (often a government commissioner) to pay investors an agreed-upon amount of money if certain outcomes are achieved.

To go further, **'impact investment', 'social investment', and 'social impact investment'** are often used interchangeably to describe the type of investment that is two-fold at its core. On the one hand, the investment seeks to achieve a desired social outcome, and on the other hand, it expects a financial return, which would usually be below market rate.

Another commonly discussed type, **Socially Responsible Investing (RI)**, integrates personal values and societal concerns with investment decisions (Berry & Junkus, 2013;2012;). RI encompasses ethical investing; socially responsible investing; sustainable investing; green investing; community investing; mission-based investing; and impact investing (Responsible Investment Association, 2015). According to Berry and Junkus (2013;2012), there is no theoretical model that determines how much social responsibility is appropriate, or what the optimal trade-off is between social responsibility and other investment criteria such as primary risk and return.

In 2013, the combined total of Canadian responsible investment funds was \$1.010,79 billion, which is a 68% increase in two years (Responsible Investment Association, 2015). The increase is due to the inclusion of pension funds in the Canadian RI portfolio. Munnell and Sunden (2005) state that social investing is not a good platform for public pension funds since the decision makers and the stakeholders are not the same. Social investing takes three primary forms: screening which is the exclusion of “bad” companies (tobacco, alcohol, or weapons) or including “good” companies; shareholder advocacy; and community investing (Munnell & Sunden, 2005). In 2013, the most popular social criteria when investing responsibly were human rights, labour rights, diversity, and oppressive regimes (Responsible Investment Association, 2015).

Social Impact Bonds (SIBs), on the other hand, represent a financial mechanism aimed to fund preventive interventions that are bound by an outcome-based contract (Arena, Bengo, Calderini, & Chiodo, 2016). Investors, often through a financial intermediary, provide up-front capital to fund interventions to service providers that focus on measureable impact and outcomes (Galley, McIsaac, & Van Ymeren, 2014). The idea behind SIBs is that they are a response to complex problems while providing long-term savings to government (Galley, McIsaac, &

Van Ymeren, 2014). Despite governments having started experimenting with SIBs, there have been no evaluations of the actual potential of this model in Canada (HUMA, 2015).

Prior to the initiation of a given SIB program, measurable impact and outcomes will be agreed upon and the investor(s) will pay the initial costs of the program. In the case of a SIB program being successful, the government will pay back the principle investment plus a financial return for the risk taken by the investors. During HUMA witness hearings, it was noted that the percentage of financial return depends on the achieved outcomes of the SIB program but it generally falls **between 7.5-13 per cent** of the initial investment (HUMA, 2015).

The National Advisory Board's 2015 report does not go into such detail, but notes that SIBs expect "a financial return – which could range from the return of a portion of the principal to market rate returns" (2014, p. 11). Their report also mentions that "investees are also understood to have the intention to generate social and financial value" (p. 11). CASW posits that this added concern around generating specific outcomes, tied to the promise of financial return, has the potential to negatively co-opt program delivery.

According to Arena, Bengo, Calderini, and Chiodo (2016), SIBs are characterized by three distinguishing features: focus on preventative interventions; adoption of a payment by result contract; and development of a complex stakeholders' network, including public and private organizations. The stakeholders or investors can be traditional funding agencies such as charitable foundations, private institutions, or pools of capital such as banks or equity funds (Galley, McIsaac, Van Ymeren, 2014). According to Galley, McIsaac, and Van Ymeren (2014), SIBs are intended to fund preventative services that have a proven track-record of effectiveness and that align with broader public policy goals. If this is the case, why would governments not undertake to fund them directly with regular bank loans, which are most cost-effective?

There are also **social investment fund (SIFs)**, which collect capital from multiple sources and makes this capital available to the demand side, including service delivery organizations and social enterprises (HUMA, 2015). The difference between SIBs, for instance, and an SIF, is that the latter resembles a more traditional debt and equity mechanism, but with more of an emphasis on social purpose and less on generating market-rate returns (HUMA, 2015). In this way, the concept aligns more with traditional understandings of philanthropy.

Finally, we come to the concept of Social Enterprise (SE). According to Galera and Borzaga (2009), the term social entrepreneurship includes a broad range of activities and initiatives that fall along a continuum. Johnson mentions that the spectrum of activities can be seen as a fluid state which can change over time and they can include: social initiatives occurring in profit-seeking businesses, institutionalized entities explicitly pursuing a social goal, practices that yield



social benefits, and entrepreneurial trends in non-profit organizations up to ventures developed within the public sector (as cited in Galera & Borzaga, 2009, p. 211).

The above mentioned initiatives can be launched by non-profit organizations, public agencies, individuals, or non-profit organizations in partnership with for-profit enterprises in an attempt to balance corporate profit with a commitment to social responsibility (Galera & Borzaga, 2009, p. 211). Canada's National Advisory Board describes social enterprise as an "organization or business that uses market-oriented production and sale of goods and/or services to pursue a public benefit mission" (HUMA, 2015).

Despite falling under the catch-all title of *social finance*, not all these models and tools are made equal. The most worrying of these concepts, from CASW's perspective, are those models, such as Social Impact Bonds (SIBs), that would allow private financiers to turn a profit at the expense of society's most vulnerable populations.

Mobilizing Private Capital for Public Good (2014) goes on to describe SIBs, in particular, as:

a relatively new model for funding social services, and there are mixed views on their use in the Canadian context. Lessons from other countries should inform the application of this model in Canada, as should the perspectives and interests of service providers, investors, and governments, or other outcomes funders, on a case-by-case basis.

This synopsis elegantly summarizes CASW's ambivalence toward social finance as a whole; on the one hand, using innovative funding models to lift up best practices and enable non-profits and community organizations to continue providing excellent services where they have already proved to be successful is promising indeed. Of course, none of these definitions explore the limits of the use of these tools: particularly important from CASW's perspective is how these tools might be implemented in the Canadian context.

At this time, there is one Social Impact Bond (SIB) program active in Canada, and several provinces are working towards beginning additional privately funded social services. In theory, the appeal of SIBs is they could help address the burden of providing up front investments to deliver services; instead, SIBs pay out to the investor down the line. That being said, it is difficult to accurately discuss the potential outcomes of pay-for-performance funding models due to the conspicuous lack of any actual evidence: the first, and only SIB in Canada was announced in Saskatchewan in May 2014, and the \$1 million dollar

program provides supportive housing for at-risk single mothers (Galley, McIsaac, & Van Ymeren, 2014). This dearth of actual evidence to evaluate may also be due to the lack of framework or strategy to facilitate the implementation of these emerging tools.

5. Ideology to Implementation

5.1 Building a Regulatory Framework for Social Finance

From CASW's perspective, one of the key elements of the discussion around social finance is the removal of legislative barriers that prevent non-profits from participating in certain social investments without compromising their tax exemptions or charitable status. Indeed, Today's Canadian social service sector is dominated by charities and non-profit organizations whose ability to engage in market-based activities is directed by federal taxation legislation and regulations which fall under the *ITA* (HUMA, 2015).

According to Lavasseur (2012), the meaning of charity is narrowly interpreted in Canada and the decision of charitable purposes relies on court decisions. The Canada Revenue Agency (CRA) reviews charities in Canada and decides whether requirements are met and it ensures that charities continue their purposes and activities.

It could be argued that the current legislative landscape hinders charities and non-profit organizations from engaging in entrepreneurial activities. Indeed, witnesses at the 2015 HUMA hearings identified numerous barriers to participation.

The first barrier is that the *ITA* recognizes three types of charities: private foundations, public foundations, and charitable organizations, while only the latter two are permitted to conduct business activities only under certain conditions (HUMA, 2015). According to the *ITA*, charitable organizations and public foundations can lose their registration if they carry on "a business that is not a related business of that charity" risking the loss of their tax exempt status (1985). A proposed model to avoid this threat would be to set up a for-profit corporation that donates all profits back to the charity as a gift (HUMA, 2015). The National Advisory Board's 2014 report's first recommendation is to enable social enterprise activity among NPOs and non-profit organizations.

Finally, there is the considerable issue of profit. Of course, under the *ITA*, non-profit organizations receive tax exemption if the organization is exclusively organized and operated for an objective other than profit. According to the CRA, non-profit organizations may make profits that are "incidental and arise from activities that are undertaken to meet the organization's non-profit

objectives (2014). Non-profit organizations are not allowed to generate revenues and to re-invest them back into their own organizations (HUMA, 2015). Supporters of allowing non-profits to raise revenue propose amendments to the current law which allows for the re-investment of revenue, much like the system being used in social enterprises.

With the changing landscape in terms of funding options and models, clearly understandings of categories of tax-exemption will need to be re-assessed if non-profits are to gain access to the considerable advantages some social finance tools could offer.

5.2 Measuring Social Impact

In order for the government to implement social finance tools, it is imperative that social outcomes are measured appropriately and are evidence-based. Naturally, as is the case any time we try to measure the impact on off-intangible social outcomes (such as an increased sense of belonging, a feeling of community safety, etc) developing appropriate metrics and evaluating tools is a challenging task. Indeed, evaluating the success of a given program by measuring social outcomes is more difficult than simply measuring program outputs; the evaluation needs to focus on the long term effects instead of just the short term ones (HUMA, 2015).

To do so, a longitudinal measurement system needs to be used. In this regard, the short term government cycle is a barrier, as changing governments can lead to abandoning long-term research; something with which Canadian scientists are all too-familiar (HUMA, 2015). A good example is the re-introduction of the long-form census – abandoned by the previous federal government -- as a method of collecting statistical data; this information can be used to evaluate projects and program outcomes within a larger context. In the social sciences it is well known that one cannot prove that an intervention caused certain outcomes, although causality can be determined through statistical analysis. Social problems are influenced by a variety of factors and determining whether a program is responsible for the desired social impact is extremely difficult.

Furthermore, in the case of pay-for-success programs such as SIBs, investors will be reticent to wait decades for results – this will not only skew funding toward projects and services whose outcomes can be measured in the shorter term, but also towards projects whose outcomes can be more easily measured, period. This, of course, would mean the least funding and attention would be paid to our most challenging problems – in CASW's view, this is the opposite of innovative.

5.3 Developing the Social Finance Market

Witnesses at the HUMA hearings from the intermediary side of the market focused on mitigating risks to investors and providing incentives to invest in social finance initiatives (HUMA 2015). At these meetings, it was noted that one way to “helping prepare or make the investees more investable” was the use of intermediaries should be supported. Currently, charities and non-profits do not have access to programs that are geared towards helping smaller organizations seek partnerships and funding, while small and medium enterprises do have this type of access (HUMA, 2015).

A few options were proposed in this regard: financing and tax measures, social procurement, and non-financial measures to support the social finance market. It was proposed that the government establish an impact investing matching program to support existing and new funds through direct co-investment, credit enhancements, or incentives (HUMA, 2015). Witnesses from the supply side highlighted the need to clarify expectations about the fiduciary duty that investors have when participating in social investments (HUMA, 2015).

Finally, the role of the government in terms of sharing information and coordinating within the social finance market was suggested to be of importance since the government would be more effective than single actors from one sector (Harty, as cited in HUMA, 2015). From CASW's perspective, these would represent new government watchdog roles that would come at significant expense; expense that could be better placed directly invested in existing programs or in a comprehensive and accountable poverty reduction plan.

6. Current Canadian Landscape

The provinces have their own strategies when it comes to social finance. In 2014, 79 individuals and organizations in Ontario submitted proposals for SIBs to address: housing and homelessness; youth at risk; and improving employment opportunities for persons facing barriers (Ontario, 2015). In Ontario, four proposals were selected in January 2015 to enter the business case development stage (Government of Ontario, 2015).

In Alberta, in 2008, a collaboration between the Edmonton Community Foundation and the City of Edmonton led to the creation of a Social Enterprise Fund which lends money to social enterprises (Social Enterprise Fund, 2016). The provincial government had introduced legislation to create a Social Innovation Endowment Account that was partly designed to fund the promotion and development of SIBs (Loxley & Puzyreva, 2015, p. 5). However, the government

decided to simplify its savings plan which marked the end of the Social Innovation Endowment Account (Government of Alberta, 2014).

According to the Centre of Impact Investing (2016), Quebec presently has several examples of social financing such as a patient capital quasi-equity fund -- a funding program that extends loans and loan guarantees to organizations -- and another fund that provides financing solely to social enterprises.

In 2013, British Columbia launched a hybrid corporate model known as the community contribution company (C3), and it is designed to bridge the gap between for-profit and non-profit enterprises (Ministry of Finance of British Columbia, 2016). This model caps the company's profit at 40% and the remainder is divided among social causes.

To the east, in 2016, Newfoundland and Labrador published the results of a 2015 survey on social enterprise which reported a disconnect between the local social enterprise sector and the thinking around it (Elson, Hall, Rowe, Smeed, & Wamucii, 2016). Although there are no SIBs presently active in Nova Scotia, there are what is called Community Economic-Development Investment Funds (CEDIF), which are pools of capital raised from individuals within the province to be invested in for-profit entities within a defined community (Nova Scotia Securities Commission, 2014).

In addition, Prince Edward Island, New Brunswick, and Manitoba also implement CEDIF as a means to invest in their respective communities. Two government departments in Manitoba are currently exploring the possibilities of SIBs to reduce recidivism rates and to create new social supports. Saskatchewan, in addition to being the only province in Canada with an active SIB, has a growing number of what are called 'social return on investment consulting services.' The overview of social investment in Canada indicates that although there is movement to create more SIBs there is actually more interest in socially responsible investments and social investment funds.

Most of note to CASW in terms of this brief Canada-wide survey is that many of these models are not at all new or innovative at their most basic levels. Philanthropy has always existed; private corporations have always donated to programs and organizations of their choosing. The ability to take out a loan with interest to begin a new program or initiative has also always existed. Why, now, are governments open to combining these age-old ideas under new nomenclature?

7. Fiscal Convenience at a Social Price

A well-defined social contract developed in Canada in the latter half of the twentieth century and is partially enshrined in the Charter of Rights and Freedoms as well as in the Constitution Act of 1982. In terms of social policy, it was accepted that most social and health programs were efficiently administered by the provinces or territories, but it was also recognized that the federal government had an important role to play in promoting national equity³.

In addition to this social contract, the *Canada Health Act, 1984*, implements five principles that are the pillars of our health care system: public administration, comprehensiveness, universality, portability, and accessibility. CASW has further proposed a Social Care Act⁴, which would guide the use of the Canada Social Transfer (CST). CASW believes that certain pay-for-performance social finance tools are in direct conflict with these principles, as well as our governments' commitments to a fair and equitable Canada.

Currently, the administration of the health care insurance plan of a province or territory must be carried out on a non-profit basis by a public authority, and the introduction of pay-for-performance social finance tools the Canadian social service landscape is a breach of this principle.

SIBs, as an example, are for-profit investments, and are thus directly in conflict with the first pillar of the Canadian health care system. In addition, SIBs cannot guarantee universality, accessibility, and portability since their services are not widely available to the service users across Canada.

Beyond a breach of Canada's social contract, the SIB model is unlikely to make programs more efficient or reduce costs; it is actually more likely to create additional financial and administrative costs that need to be covered by government (HUMA, 2015). Currently, the benefits of SIBs are speculative, and to risk of investing in this model without evidence-based support is, frankly, alarming.

To provide an international example, in 2013-14, borrowing dollars to be spent on social services would have cost the Canadian government an average of 2.37%, which is about a third of the minimum amount SIB investors are to receive if their targets are reached (HUMA, 2015). It would have been more cost-efficient to borrow money from a bank and allocate the funds to previously established social services that already provide programs in the community.

³ For more information about this social contract, see Norrie, Robin Boadway and Lars Osberg, "The Constitution and the Social Contract" in Robin Boadway, Thomas Courchene and Douglas Purvis, *Economic Dimensions of Constitutional Change*, Kingston, John Deutsch Institute, 1991.

⁴ Read CASW's proposal for a new Social Care Act on our website at casw-acts.ca

A second criticism is that investors are most likely to invest in programs that are proven to work with populations that are least vulnerable, which will improve the odds of generating the desired, positive outcomes (HUMA, 2015). SIBs that focus on more vulnerable populations combined with innovative types of programs are more expensive and increase the uncertainty for investors about getting a return on their investment (HUMA, 2015).

Of course, as previously stated, not all social finance tools are made equal. CASW takes no issue with Socially Responsible Investing, as this model is not in conflict with social work principles: the integration of personal values with societal concerns when making investment decisions is to be anticipated, and CASW does not discourage philanthropy and socially conscious business decisions that support and enhance existing social service structures and programs.

CASW also supports Social Investment Funds, as this type of funding functions as an additional stream that social service providers can access in order to run additional or expanded programs. In addition, it must be noted that charities and non-governmental organizations often have to tap into these additional funds as governmental funding has been steadily decreasing in availability since the mid-1980s.

In the case of social enterprises, CASW's view depends on the mandate or goal of the enterprise. CASW is in support of organizations pursuing a public benefit while using a market-oriented approach, as long as surpluses are reinvested in the enterprise. CASW recognizes that there are many legislative barriers that prevent non-profit organizations from participating in this type of social investment.

8. Recommendations to Government

This current federal government has mandated the Minister of Families, Children and Social Development to develop a Social Innovation and Social Finance strategy; CASW urges that this approach be guided by social principles *as well as* economic ones. CASW also recommends that the government implement strategies based on evidence, and not on assumptions of efficiency and innovation, ubiquitous as these assumptions may be. Since the field of social finance impacts the most vulnerable members of our society, it is imperative that they are not exploited for economic benefit.

SIBs, as currently conceptualized, focus on making profits by providing services to some of Canada's most vulnerable populations. CASW believes that motivation to create private profit does not belong in the development of social

services, and good social policy cannot be developed with a primary concern being a *financial* return on investment. Furthermore, SIBs would be utilizing an intermediary, which means additional bureaucratic and infrastructure costs to government.

Over and above these concerns, there is also no evidence that SIBs promote innovation and efficiency: on the contrary, SIBs are more likely to implement approaches with *proven* track records – a ‘safer’ investment – because investors are motivated to profit. Unpredictable investments are naturally less appealing to investors; social care is an area where the non-profit sector excels as it is not driven to create returns and can dedicate all available funds to the quality of service provision.

Finally, advocates of SIBs tend to state that when SIB objectives are not met, the investors bear the burden of the start-up cost. However, they often neglect to mention that the government may have to pay the interest on this starting capital in addition to the actual start-up investment.

With these points in mind, **CASW makes the following recommendations:**

- Any social finance initiatives should be guided by a social conscience, and use as a framework the principles proposed by CASW's *A New Social Care Act for Canada (2015)*: public administration, comprehensiveness, universality, portability, accessibility, fairness, effectiveness, accountability and transparency, rights and responsibility, and comparability.
- Private profit has no place in the provision of services to vulnerable Canadians and a future Social Finance strategy should reflect this.
- The federal government should examine allowing charities and non-governmental organizations to re-invest any surpluses back into their organizations without risking losing their charitable status or tax-exemption.
- Instead of pursuing one of pay-for-performance models, governments should invest in long term, comprehensive programs to support the social determinants of health, such as a basic income for all Canadians.
- The federal government should conduct further research into available social finance tools as fiscal and human outcomes in both these areas is nearly non-existent at this time.

9. Conclusion

CASW believes that certain social finance tools have incredible potential to better the social service landscape for Canadians, but is deeply concerned that these models will begin to replace governments' existing publicly provided and funded programs. CASW does not see social finance as a panacea to rising public expenditures in the health and social services; social finance should never be understood as 'in place of' but rather 'in addition to' when it comes to social services and programs.

Finally, governments should never pay more in returns to private investors than they would through a regular loan agreement, no matter the promise of innovation or efficacy that may come along with it. Most fundamentally, private interests should not be given the opportunity to profit off of what ought to be publicly provided services.

The best way for governments to reduce costs in the long term is by investing in long-term poverty elimination projects, such as the development of a basic income to lift all Canadians out of poverty. Income is proven time and time again to be one of the most important social determinants of health and well-being. Many of the issues for which pay-for-success programs such as Social Impact Bonds are proposed as solutions would be eliminated or greatly reduced by eliminating poverty in Canada.

The introduction of private capital and private interest into the public social policy sphere perpetuates the myth that government cannot adequately support its citizens. Furthermore, the use of private capital through pay-for-performance models creates unstable funding situations when stable, long-term, and forward thinking public solutions are the most logical and socially responsible way forward.

CASW wishes to dispel the myth that innovation, efficiency, and excellent program development and implementation cannot be undertaken by public means alone. This paper urges government to embed social policy development in a person first perspective free from profit-driven incentives and to prevent Canadian social services from returning to the charitable model of social service delivery, making social service users – all Canadians – bound by private capital and private interests.

Fundamentally, many of these proposed funding models privilege the short-term cycles engendered by market driven thinking, unsurprisingly championed by governments beholden to the rapid turnover of electoral politics. CASW urges governments and social policy makers to look past campaign promises, replace politics with good governance, and develop systems whose successes can be measured in lifetimes, not election cycles.

10. References

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