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▶▶ Assessing Social Impact Bonds in Canada

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In 2015, as part of his mandate letters, Prime Minister Justin Trudeau identified the development of a *Social Finance and Social Innovation Strategy* as a priority. With Canada facing persistent challenges in vulnerable social areas, the federal government committed to exploring innovative financial approaches to address complex social problems. In June of 2017, it struck a steering group of 16 experts from community, philanthropic, financial and research sectors, to assist in the development of this strategy. The steering group's first consultation document, which was released in September, 2017, outlines the strategy's proposed vision and six areas for action to advance social innovation and finance.

The document defines social finance as "an approach to investing that involves placing capital to generate both a financing return and a measurable social impact. Social finance mobilizes private and charitable capital for public good". Social Impact Bonds (SIBs) belong to a class of innovative social finance mechanisms which harness private capital for social programs on a pay-for-success basis. Since 2014, Canada has launched four SIBs. While governments have cautiously embraced SIBs as an innovative social finance approach, which also aligns with the federal government's upcoming strategy, the public remains largely uninformed about them. This Policy Brief offers a coherent assessment of the Social Impact Bond movement in Canada

with an attempt to dispel some of the common myths around this finance mechanism.

▶▶ Understanding SIBs

SIBs are intended to address challenging social issues. Limited government resources tend to be allocated to the most critical and immediate needs, leaving little for preventative programs, especially those in which the true impact is realized in the long-term. SIBs allow governments to support innovative programs without an upfront investment because private investors assume the risk.

The SIB process begins when government first selects one or more social issues to address. Then, it finds a reputable organization best suited to implement a particular program. Once the program and the service provider are decided, the next step is developing the structure and terms of the SIB. The outcomes must be clearly defined, measurable and provide evidence supporting short- and/or long-term cost savings (cost avoidance) to government upon achievement of these outcomes. The amount is generally calculated by a likely trajectory of the estimated costs to health, social services or justice without the intervention. In some cases, particularly projects related to education and employment, there can also be an economic benefit projection. Combined, the cost savings and economic benefit must be

significantly higher than the total potential repayment of the initial investment and return. This provides justification for the repayment amount when defined outcomes are achieved. Should the SIB fail to achieve the outcomes, the government may not have to pay anything depending on the structure of the bond.

►► The Culture of SIBs in Canada

When Canada joined the SIB movement in 2014, six other countries — United Kingdom, Australia, Germany, Netherlands, United States and Belgium — had already launched SIBs as depicted in Table 1. To date, 19 countries have implemented SIBs within the last seven years and eight countries have begun offering measurable outcomes.

Since 2014, Canada launched four Social Impact Bonds. Two bonds were established in Saskatchewan, making it the only province with SIBs, while the other two were created federally (Table 2). While several other provinces have expressed interest, and some have even taken concrete steps towards creating SIBs, provincial initiatives are yet to be solidified.

Launched in Saskatchewan in 2014, the “Sweet Dreams” project was the first Canadian Social Impact Bond. It provides affordable housing to single mothers and their children under eight years of age who may be at risk of entering foster care. With \$1M in funding from the Conexus Credit Union and the Mah family, EGADZ Saskatoon Downtown Youth Center supports eligible mothers while they complete their education and arrange for employment. The objective is that, by 2019, 22 mothers and their children stay together as family units for at least six months. Investors will only be reimbursed if more than 17 children remain out of foster care. The Sweet Dreams SIB is expected to yield up to \$1.5M in savings to the Government of Saskatchewan.

In a partnership with The Mosaic Company Foundation, Mother Teresa Middle School in Regina received a \$1M SIB for a five-year period to strengthen support offered to the school’s students, who are at high risk due to their socio-economic status. The government will repay the foundation the principal and a 1.3 per cent interest if at least 82 per cent of the school’s students graduate from Grade 12 on-time (within three years of starting Grade 10). If there is a 75 per

Table 1: Social Impact Bonds around the World

COUNTRY	NUMBER OF SIBs TO DATE	AREAS	YEAR OF 1ST	# COMPLETE
UNITED KINGDOM	33	Workforce Development (14), Housing and Homelessness (9), Child and Family (5), Health (2), Criminal justice (1), Mental Health and Employment (1), Education and Early Years (1)	2010	12
AUSTRALIA	6	Child and family welfare (3), Housing and homelessness (1), Criminal justice (1), Mental health (1)	2013	0
NETHERLANDS	7	Workforce development (6), Criminal Justice (1)	2013	1
UNITED STATES	16	Criminal Justice (5), Housing and Homelessness (4), Child and Family (2), Education and Early Years (2), Workforce Development (1), Health (1) and Environment (1)	2013	1
CANADA	4	Child and family welfare (1), Workforce Development (1), Education and Early Years (1), Health (1)	2014	0
FINLAND	2	Workforce development	2015	0
ISRAEL	2	Workforce development (1), Health (1)	2015	0
PORTUGAL	4	Education and early years (1) Workforce Development (1), Child and Family Welfare (1)	2015	1
SOUTH KOREA	2	Education and early years (1), Workforce Development (1)	2016	0
FRANCE	2	Workforce development	2017	0
JAPAN	3	Health	2017	0

Source: Author’s compilations. Numbers in brackets indicate the number of Social Impact Bonds relating to a particular social area. Countries with only one SIB are Germany (2013), Belgium (2014), Austria, India, Peru and Switzerland (2015), Sweden (2016) and New Zealand (2017).

Table 2: Overview of Canada’s SIBs

SIB TITLE	LEVEL OF GOVERNMENT	SOCIAL PROGRAM AREA	SERVICE PROVIDER	NUMBER OF INVESTORS	INVESTMENT & RATE OF RETURN	TIMELINE
SWEET DREAMS	Provincial (SK)	Child & Family Welfare	EGADZ Saskatoon Downtown Youth Center	2	\$1 Million; 5%	2014-2019
MOTHER TERESA MIDDLE SCHOOL	Provincial (SK)	Education & Early Years	Mother Teresa Middle School	1	\$1 Million over 5 years; principal + 1.3%	2016-2021
COMMUNITY HYPERTENSION PREVENTION INITIATIVE	Federal	Health	Heart and Stroke Foundation	10	\$2.9 Million; 8.8%	2016-2019
ESSENTIAL SKILLS SOCIAL FINANCE PROJECT	Federal	Workforce Development	Douglas College (BC), Saskatchewan Polytechnic (SK) & Confederation College (ON)	3	minimum of \$150,000 per each investor; up to 15%	2016-undefined

Source: Author’s compilations.

cent graduation rate, only 75 per cent of the principal will be repaid. This SIB is expected to save the government of Saskatchewan \$1.7M in health, social and justice costs.

The two federal SIBs were launched in 2016. The first—“Community Hypertension Prevention Initiative”—was created to address hypertension, because if left untreated, it is a condition that can lead to stroke and heart disease. The Heart and Stroke Foundation (HSF) was chosen as the service provider with 10 investors contributing \$2.9M. The outcomes will be measured according to two metrics: intake volume, which counts the number of people who submit blood pressure readings and sign up for the program; and, blood pressure, which computes the average change in blood pressure across all participants after six months. If the Foundation enrolls 7,000 pre-hypertensive people and stabilizes their blood pressure after six months, the Public Health Agency of Canada will repay investors \$1.6M on the intake volume metric and \$2.25M on the blood pressure metric. If fewer than 1,000 people return for the six-month check-up, the government will repay only 50 per cent on the blood pressure metric.

The second federal SIB entitled “Essential Skills Social Finance Project” was established to improve essential-skills training (such as literacy, numeracy and computer use) of unemployed adult Canadians. The non-profit organization overseeing this SIB is Colleges and Institutes Canada. Its goal is to expand the Douglas Colleges program in British Columbia to three additional colleges (in Saskatchewan, Ontario and Quebec) to help 400 unemployed find work. Participants will be tested before and after their enrollment into the program and investors are to be prepaid if individuals have demonstrated skills gains.

►► Assessment of Canada’s SIBs

To assess Canada’s four Social Impact Bonds, three criteria are used: transparency, nature of measurable outcomes and achievement of lifestyle change.

Sweet Dreams SIB:

- *Transparency:* All terms of this SIB agreement and investor funds with the rates of return have been clearly identified and communicated.
- *Nature of measurable outcomes:* This SIB is defined by one simple measurable outcome – 22 mothers and their children need to stay together as family units for at least six months after the intervention.
- *Achievement of lifestyle change:* The primary concern is whether six months is long enough to ensure sustainability of the outcomes. Additional measures may need to be put in place (such as a follow up) to verify the long-term impact of the bond.

Mother Teresa Middle School SIB:

- *Transparency:* All terms of this SIB agreement and investor funds with the rates of return have been clearly identified and communicated.
- *Nature of measurable outcomes:* This SIB is defined by one simple

measurable outcome—82 per cent of students who enter Grade 6 at Mother Teresa Middle School need to graduate on-time from Grade 12.

- *Achievement of lifestyle change:* This SIB ensures a seven-year intervention for each individual because the fifth cohort entering Mother Teresa Middle School in 2016 will complete Grade 12 in 2022. A longer intervention ensures greater sustainability and a lasting impact.

Community Hypertension Prevention Initiative SIB:

- *Transparency:* Due to a lack of consistent information there is considerable difficulty obtaining details on the outcomes and payment structure for this SIB. The final amount of investment was unclear, as the \$2.9M could yield \$3.4M through re-investment. Also, the cost-benefit evaluation of this SIB failed to reflect three years of prior work to develop the bond. Finally, one of the investors was serving as the chair of the Board of Directors for the service provider, pointing to a potential conflict of interest.
- *Nature of measurable outcomes:* Achieving enrollment of 7,000 people under the intake metric is an output rather than a social outcome, yet it would still trigger a payment of \$1.6M, which is inconsistent with the design of the SIB. Moreover, enrollment of individuals is carried out by volunteers, posing potential challenges in consistency, retention and continuity. Regardless of the outcome, the Public Health Agency of Canada is guaranteeing \$1M in investor capital, so the risk is only \$1.9M that 10 investors could lose. It remains unclear why the federal government would not just invest this \$1M directly into the program instead of spending additional resources on building this SIB and potentially have to pay \$4M in the end.
- *Achievement of lifestyle change:* Is six months enough to change habits especially for people over 60 years of age? If the federal government is confident that hypertension is a serious health issue, direct funding may be a better solution especially that the comparison to the federal health budget is miniscule (0.7 per cent).

Essential Skills Social Finance Project SIB:

- *Transparency:* There is very little information available, so the investment and structure of the SIB are unknown other than investors can earn up to 15 per cent return.
- *Nature of measurable outcomes:* The only information available on outcomes is that participants must demonstrate a gain in literacy, numeracy and computer skills. No information is available about how the government plans to measure the gain in these skills.
- *Achievement of lifestyle change:* It is unclear how the potential cost savings to government can be computed if this outcome is based solely on an increase in skills rather than the ultimate goal of employment. With no mention of what the minimum benchmark is for upgrading skills, and no support or measurement following the program, it is impossible to gauge this SIB’s potential impact.

►► Dispelling Common Myths Around SIBs

Aside from a criteria-based assessment of SIBs, it is also important to address common public policy myths that often affect perceptions about their use.

The first is that Social Impact Bonds off-load government responsibility to the private sector. The reality is that the transfer of risk is not the equivalent of privatization. The intent of SIB is to bridge the gap between private and government funding. If the SIB achieves its intended outcomes, the cost savings to government is proven, making it likely for government to fund the program directly following completion of the SIB.

Another common myth is that beneficiaries are “cherry picked”, or selected in a biased way to ensure successful outcomes. In fact, if structured properly, necessary controls are in place to ensure beneficiaries are not favourably pre-selected. For example, if the “cherry picking” logic is followed, Mother Teresa Middle School would be enrolling less risky students, while the opposite is true, and the school admits the most vulnerable children.

A third common myth is that to correctly determine the impact of the SIB, it should have a control group. But the reality is that SIBs are not scientific trial experiments or studies that would require treatment and control groups to establish results. A social impact bond is an evidence-informed pilot for the government to test an innovative approach in addressing a complex social issue. There should be sufficient evidence to show likely trajectory of the group without intervention.

►► Where From Here?

Despite the criticism, the SIB model offers considerable savings to governments, especially when governments are downsizing their support for social services. As a result, the taxpayers also benefit from this innovative approach. The question remains as to how the SIB funding mechanism be improved?

In that regard, governments need to educate the public on any

innovative finance mechanisms it adopts. The fact is most criticism around SIBs results from insufficient knowledge about them. Therefore, government needs to proactively educate the public about the meaning and intention of any innovative mechanisms it plans to adopt. By leveraging social media, governments can expand their reach outside of in-person public forums.

It's also crucial that government takes all costs into consideration during the cost-benefit analysis of SIBs. Cost effectiveness of SIBs may not be accurately measured because all related costs (administrative, intermediary, legal, etc.) to implementing the SIB agreements are often excluded. Additionally, not all potential cost savings and economic benefits are taken into account as they are limited to the clients directly served and may exclude intergenerational impacts.

Transparency is key. Government should ensure all SIB agreements are transparent and effectively communicate all terms. Some outcome funders have chosen not to disclose terms of their agreements, particularly payments and rates. This causes distrust in both the government and social impact bonds as a trustworthy finance mechanism. It is crucial that governments seek investors who are at least as socially motivated as they are financially. It is also important that all key stakeholders be at arm's length to protect the integrity of the SIB by preventing the potential (or perception) of influence on an outcome.

As part of transparency, government needs to provide clear direction and oversight. Clear, coordination, direction and oversight across government with a focus on maximizing impact and integrating learnings from initial SIBs is important. For example, government may want to consider establishing a central coordinating unit similar to the UK's Centre for Social Impact Bonds house at the Cabinet Office. This unit can offer expertise on the development and implementation of projects and can ensure that a selection process is implemented that applies a strategic lens to identifying projects that target the governments key issues.

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