

Feds introduce controversial 'social impact bonds' to fund social services ^[1]

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EXCERPTS:

OTTAWA-The federal government is introducing a controversial new approach to funding social services called "social impact bonds" that can turn a profit for private investors.

Prime Minister Stephen Harper's Conservatives, who have often been accused of short-changing social programs, view the bonds as a valuable source of fresh funding for Canadian communities.

"As we continue to struggle with social and economic challenges that appear to defy resolution - think of homelessness, youth crime and persistent unemployment - we recognize that we must look at new ways to unlock innovation in local communities," Human Resources Minister Diane Finley said in a speech in Toronto.

Under Finley's proposal, the government would contract with a non-profit organization or a private, for-profit business to supply a service, such as building affordable housing, counselling ex-convicts to keep them from reoffending, or working with at-risk youth.

Funds would be raised from investors or charities to finance the project and, if the goals of the project were reached, the investors would be repaid their original investment plus a profitable return by Ottawa. If the project's goals weren't met, the federal government wouldn't pay.

The bonds, which have caught on in a big way in Britain and the United States, are a source of widespread debate. Many praise the idea as an innovative strategy to tap private capital and market discipline to address underfunded social goals.

But critics say the bonds privatize social objectives in a way that gets governments and the public off the hook for paying for needed programs.

"It's a commercialization of social values," said David Macdonald, a senior economist at the Ottawa-based Canadian Centre for Policy Alternatives.

One of the foremost questions about this funding model concerns how the outcomes are measured to decide whether it's a success that leads to a payout for investors.

Macdonald said private-sector investors will learn how to arrange the project and the eventual performance assessment in a way that ensures they don't end up holding the bag.

"What will probably end up happening is that the government will pay dramatically more for programs that 10 years ago would have been funded because they were good ideas," he remarked. "Now they'll run them through this bond system, whereby some private financier makes 10 per or 20 per cent on their investment rather than the government evaluating a good idea and saying, 'Yeah, that's a good idea, let's fund that.'"

Critics have also questioned whether the bond program will lead to reduced funding for non-profit organizations supplying valuable but hard-to-measure services.

Businesses, not-for-profit groups and the volunteer sector should provide ideas to Ottawa on how to proceed with these bonds before Dec. 31, Finley said.

"It's our first, official step in inviting your ideas to the table that can help shape future social policy in Canada - in a new way," she told those attending the Social Finance Forum in Toronto.

"I want to solicit the best ideas that Canadian innovators have to offer, so that we, as a federal government, can chart our path forward on how to support social finance."

-reprinted from the Toronto Star

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