
Social Enterprise – Payment by Results – Social Impact Bonds – Privatization Trilogy?

Social enterprise and social impact bonds are evolving concepts to describe new ways of applying market models and solutions to social problems along with new ways of financing these projects. Contracting for outcomes, while well-understood in business-based contracts is still fairly new in the application to social programs. These are distinct but related approaches that are being touted as a way for government contract for public services and reduce expenditures on social programs.

Social Enterprise

Paul Martin promoted the ‘third sector’ or the social economy as part of his vision for the Canadian federal 2005 budget. The social economy or third sector is the part of the economy between the private and public sectors and includes voluntary organizations, charities, social enterprise, and cooperatives. The social economy and related ideas has been promoted and developed in many countries, including the US, Australia, and Great Britain. More recently, Paul Martin participated on the Task Force on Social Finance. The Task Force focussed on how Canada can mobilize private capital to generate, not just economic value, but also social and environmental value.

Social enterprise is where business strategies are applied to social goals. Michael Edwards, former director of the Ford Foundation, critiques the movement that promises to save the world by applying the magic of the market to the challenges of social change. In his book, Small

Change Why Business Won't Save the World,

he marshals evidence to show that in reality, a market approach hurts more than it helps. Here are some of the concepts he explains in his book:

- Social entrepreneurs are people who work in an entrepreneurial manner, but for public or social benefit rather than for profit.
- Social enterprises are profit-making businesses established to tackle social or environmental need.
- Venture philanthropists use business thinking to advance the social mission of foundations and other forms of giving.

In Great Britain these ideas were rolled into David Cameron’s election platform on the ‘Big Society’. Many major proponents of social enterprise see it as another way to privatize government services and it is within this context that it must be examined.

According to Unison and several other critics, the Big Society involves reducing state provision of public services, and it broadens the definition of ‘civil society’ to include profit-making organisations, which will have an increased role in delivering public services. It involves relying more on volunteers to provide essential public services. This is the idea that seems to have traction with the Canadian Conservative government.

Some of the implicit principles are sensible: empowering communities; encouraging reciprocity; nurturing greater solidarity and compassion in society. But the positive

principles behind the idea of a good, fair and active society should not be used to undermine the delivery of quality public services. David Cameron, argues that "rolling back the state will serve to roll forward society" and that "a strong society will solve our problems more effectively than big governments has or ever will". The biggest flaw with this vision is setting strong public sector in opposition to a strong and vibrant civil society when in fact they are not in opposition to each other. For example, Sweden offers a good example of an alternative view: a society with a strong public sector and a vibrant civil society.

Payment by Results

Deloitte and Touche prepared a paper at the end of 2011, [Hit the Ground Running: Five critical success factors in contracting for outcomes](#).

They noted that payment for results (contract for outcomes) was a growing method to contract public services. It differs from traditional contracting out in that it involves outcomes not output. It is being studied as a solution for welfare and public contracts including welfare to work, prisoner rehabilitation, drug dependence, and children's services. They note that providers in the future for payment for results contracts are likely to be a consortium of large outsourcing companies that partner with smaller businesses and charities.

Social impact bonds are seen as one source of funding for these contracts. Through social impact bonds, private investment is used to pay for services focussed on achieving a social outcome. They note that this is a new largely untested market and social impact bonds do not yet represent an attractive investment for lenders.

Payment for results depends on creating measures for success that in turn trigger payments. One example of payment by results in social services took place when the Ontario

government introduced a pilot project to look at whether privatizing job placement for persons in receipt of social assistance into jobs was done more effectively by the private sector on a pay for results basis.

"There were no incremental reductions in [Income Assistance] that could be attributed to JobsNow," says the [report](#) on the Ontario pilot program produced by Ottawa management consulting firm Goss Gilroy Inc. and dated October 10, 2008. "JobsNow was not more effective than regular Ontario Works programming."

The Ontario program was run by WCG International Consultants Ltd., a company with a head office in downtown Victoria, and later sold to Arizona-based Providence Service Corporation. Ontario paid a \$7.6 million performance fee to WCG, despite the fact the programs were no better than what was already available through the ministry. It cancelled the program after the pilot.

Payment by results in the social sector is a growing trend in Great Britain. However, it is recognized only large commercial outsourcing businesses have the capacity to bid in contracts using this model. The government as a result has introduced social impact bonds as a way that smaller firms, social enterprise, and the third sector can participate.

Social Impact Bonds

Social impact bonds are seen as a way to finance social enterprise and payment by results projects. Social impact bonds require a contract to be negotiated with the government with agreement on the measurements for the outcomes. Once the contract is in place, investment is raised from non-government investors. Philanthropists and social enterprises and other investors are asked to provide advance

funding to support schemes commissioned and delivered by public bodies. They are remunerated by the government on the basis of the scheme's results. The "return on investment" - the amount repaid on top of the initial outlay. Financiers can get nothing back if targets are missed. They have been likened to private finance initiatives (public private partnerships) for the social sector.

According to Mark Rosenman Director of [Caring to Change](#), social impact bonds are the latest push to commercialize the financing of the non-profit world. The idea is both to give nonprofits a way to pay for their programs and to give investors a way to achieve a financial return when they save government money, such as by reducing the number of criminal offenders who land back in prison after they are released. The notion is that instead of using their general revenues to fund social service programs, governments will issue investment-quality bonds in private capital markets. They are to use a contract for outcomes model, employing metrics to monetize the outcomes of nonprofits' programs that may demonstrate a quantifiable economic value. Charities that prove that they achieved the specified targets set in the contract with the government will then be retroactively paid some of the savings yielded from the services that they had performed; bond investors will receive interest payments on the principal. He offers up a critique [Let's Stop Commercializing Services for the Needy](#)

The most well-known pilot of a social impact bond is the Peterborough social impact bond. The financing for this bond was obtained from £5.00 million investment by philanthropic organizations and individuals. Notably, there seems to be no investment by new commercial sources. Working with a group of social service agencies, philanthropic organizations, and Social Finance, Ltd., the U.K. government developed a pilot program to reduce re-offending by

convicts. The program works with a target population at the Peterborough Prison, a private prison run by Sodexo. The parties agreed to performance metrics, with a goal to reduce recidivism within the pilot population by 7.5 percent. Control groups were established at 30 other similar prisons to measure the project outcomes. If reoffending is not reduced by at least 7.5% the investors will receive no payment.

[Dexter Whitfield](#) has also written on social impact bonds and examined the Peterborough social impact bond in his recent paper, *The payment-by-results road to marketisation*.

A social investment market is supposed to enable social projects to obtain private investment, with a financial return via bonds or equity investments. The Government has been dedicating resources to promote a new range of 'investment products'. He makes this critique of them:

Social markets are, in effect, a new form of financialisation, a means of transferring risk and responsibility to individuals to reduce the scope of the welfare state. New charges and fees are introduced for services, personal budgets replace public sector provision of health and social care, private pensions, and private finance of public buildings.

In order to understand social markets we need to situate them in their wider context: one of continued financialisation, personalisation, marketisation and privatisation of public services and of the welfare state (Whitfield, 2011). Behind the rhetoric of commissioning, localism, big society and empowerment, public provision is being fragmented and commercialised. Privatisation has mutated into many new forms designed to widen and deepen the role of the private sector in the design and delivery of public services.

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According to the 2012 Federal Budget, Human Resources and Skills Development is exploring “community-led partnerships”, including pay for performance agreements and leveraging private finance, such as “social impact bonds”. These proposals, while they may appear attractive at

first to organizations that have lost funding for valuable social projects, can also be highly problematic, resulting in commercialization of social services, increased risk for agencies, and questionable results.

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