Q&A: Social impact bonds 'problematic' says director of new social finance documentary 'The Invisible Heart'

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Is a profit motive necessary to motivate cash flows for social good? Do we need a revolution in the way that we tackle social issues?

The Invisible Heart, a new documentary about social impact bonds (SIBs) that premieres in Canada on May 8, raises these and other questions. The documentary, which was filmed over three years in Canada, the United States, and the United Kingdom, profiles a number of SIBs at various stages of implementation.

SIBs, which are also called “pay for performance” bonds, involve partnerships between private investors, governments, and social service providers that permit investors to make a profit from service delivery. The new (and controversial) social finance mechanism – which stakeholders have experimented with in more than two dozen countries since the first SIB was piloted by a UK-based non-profit in 2010 –rewards dividends to investors once a SIB project meets its projected outcomes.

Examples profiled in *The Invisible Heart* include a $17 million SIB that is funding pre-kindergarten education for more than 2600 children in the Chicago public school system, and another from Toronto that traces the design of a SIB that aims to house the city’s chronically homeless.

The film is being released in Canada as recent reports show that the federal government is considering further expansion of social finance models like SIBs under its yet to be released Social Innovation and Social Finance Strategy. Ahead of the premiere of *The Invisible Heart*, *The Philanthropist* spoke with Nadine Pequeneza, the film's writer and director, and Adam Jagelewski, director of the Toronto-based MaRS Discovery District, which has championed the use of SIBs in Canada.

Adam, how are you involved in the project?

Adam Jagelewski: MaRS is not involved financially. We did not have a hand in the curation or the messaging – that was all independent. Nadine and I have been loosely working together for her content. So whenever we held an event here at MaRS, I would let her know. And so she filmed some of the stuff you saw within the MaRS walls. Once the documentary was created, she came to me to see if MaRS would be a media partner. I agreed to do it because I think there was an important voice missing and the focus on outcomes was lost in a scene that was taken over by investors seeking profit. I agreed to take on a role where I would both sit on some of the panels as well as communicate through social media and other platforms this position.

The film does a good job of presenting and illustrating both the merits and criticisms linked to social impact bonds. Where do you fall in this discussion?

Nadine Pequeneza: Rather than make a strong filmmaker [point of view] film, I wanted to include both sides because I wanted to initiate a discussion. A lot of the filming I did I was in rooms and conference halls where people were all very pro-SIB. There weren't a lot of critical questions being asked. By making a film that presented both viewpoints . . . we want that discussion. We want to get people in the same room so that there can be a fuller discussion and analysis on the impact of what impact these bonds will have.

But to answer your question, I think they're problematic. I think entering into outcome-based contracts wherein the delivery of social services and the funding of them is dependent on achieving certain goals can lead to non-profits losing sight of their mission. It can lead to a lowering of success measures of what people would want their programs to achieve. From a financial perspective it doesn't make sense that the government should pay between 7-12% – the returns on the bonds that people are asking for – or that the contracts are being signed for. It's a high rate of return to pay when the government can borrow at much less.

Adam Jagelewski: Our position on social impact bonds is that it's an interesting tool that the growing field of impact investing is exploring, and truly exploring at this stage because there are so few data points that focus on the reorientation of the social spending system within governments on outcomes. The financial model – the actual social impact bond if you want to term it that – is an interesting wrapper in which private investors can be involved. But the core of a social impact bond, managing performance against outcomes, is what we're really interested in and believe that that impetus could permeate into how public service and the public sector is spending their money in the future.

One of the criticisms of SIBs is that they are a partnership between non-profits, investors, and governments with little involvement of the people and communities most affected by them. The example from Chicago illustrated this. Is this a fatal flaw to their continued growth and expansion or something that can be overcome?

Adam Jagelewski: If that was true, I do think that would be very much a flaw. In our experience that's not how they are designed. So, I certainly can't speak to what's going on in the US and what happened in Chicago, but the ones that we're involved in, the users and the beneficiaries are at the centre of focus in the design. The non-profits that will be delivering the service are driving the design of the intervention; they're at the heart of determining the proper metrics to enter into an agreement with; they have a role in negotiating the targets; they have an important role in managing performance, and when performance is going poorly, re-allocating resources to change how things are being done. That's all with the beneficiary in mind. So I think it's a bit of a misnomer that investors are driving the process and that there's a blind spot for how community members and those that are receiving services are being used in the model.

Nadine Pequeneza: I think that people who rely on these programs and who use them could easily be included in the design of a SIB program. And in fact Caroline Mason, who's interviewed in the film, runs the Esmée Fairbairn Foundation and they've invested in a number of SIBs. For her, a good SIB is when you can explain it to the person who's going to be on the receiving end of the program and they say 'you know that seems like a good idea. If you can get us there, then my life will be better.' And so I think that recipients can be involved in the design of SIBs but I do think the bigger problem is the financial equation. It doesn't make financial sense for governments to be entering into these contracts and the danger that the profit incentive is going to jeopardize the goals of these programs or bring them off track.

***The Philanthropist* previously reported that, as of September 2016, 26 countries had taken action to establish SIBs, and stakeholders have proposed 151 SIB projects. Nadine, how did you choose the examples you used in the film and why?**

Nadine Pequeneza: I started talking with the Harvard business lab because they had been giving technical assistance to all the programs in the States, so I thought that was a good place to get a sense of what was happening there. I chose the Chicago example because it has such a long term – returning money over 16 years, up until a child's graduation. And such a distance between the delivery of the program to the measured outcomes: making a link between that one preschool year up until a youth's graduation from high school. And then I wanted to choose a bond that was in development so that we could see the design stage. I wanted to try and capture the life cycle of the bond and that's why I chose two that were in different stages. And then, being Canadian, I wanted to do one that was happening here and see how it was adapted because they are being adapted differently, in different jurisdictions.

Adam, what do you think of the examples used in the film?

Adam Jagelewski: I think the film did an amazing job of capturing how complex and how challenging it is working with vulnerable population groups and how difficult it is to understand what's needed and how to drive outcomes. I think you can really feel that, and being an individual who is working at tackling these issues I think I gained an even deeper appreciation of how difficult it is. So I do think that the film chose good social impact bonds to profile.

SIB opponents believe that SIBs stifle innovation because private sector investors are more risk averse than governments and only large service providers will have the capacity necessary to participate in them. Do you think SIBs encourage or stifle innovation?

Nadine Pequeneza: I think they do neither. It's interesting, someone said to me when I was making this documentary that innovation is not some shiny new thing when you're talking about social services – most of the time it's just doing things better. And so it's about improving the practice but not necessarily reinventing the wheel. The things that I think are great about SIBs is that they make us focus on prevention and it puts an emphasis on evaluation. I think the biggest thing stifling innovation is government. And that's not to say that by moving it to private investment or into the private sector that it's going to be better. I think these types of programs have to involve government, but I think the way government is set up – with different departments, siloed, lack of information sharing – to try to get information, the data that you need to move programming, it's very hard. There are a lot of privacy rules, they don't share information easily. If we really want to start addressing these issues, because they are so interconnected, we need to have a better flow of data. And I don't think SIBs are going to move that forward. It really has to be a change at the policy level.

Adam Jagelewski: At this point in time, MaRS is a proponent of social impact bonds and so it follows that we do believe if designed properly that it does allow for innovation and flexibility. I think it's over-exaggerated how influential, how much involvement, investors have in the actual delivery of these programs. I think the investor function in a social impact bond is important but that's not actually an investor re-shaping or changing how social services are delivered. When it comes down to it, if the social impact bond is designed properly, the service provider can allocate up or down its resources to deliver on the outcome that it's contracted for, and that's a marked change from how current grants and contributions work from within government. So in that sense I think it's a move in the right direction.

There is a great moment in the film when Brigitte Witkowski, executive director of Toronto's Mainstay Housing, following a meeting with investors, turns to a colleague and says, "This is a very serious relationship." The film nicely highlights the difference between how non-profits, governments, and corporate players work and their motivations – as captured in moments like this. How do social finance models like SIBs bridge (or exacerbate) the tension between the three?

Nadine Pequeneza: I think the biggest difference is not how they go about working but more in terms of expectations. What really struck me with Brigitte is when she said, the first meeting that she had with people who were helping develop her business case, people from the finance world, said 'Okay, when are we going to get these people jobs.' If you've ever met most of the population that Brigitte's worked with all of her life, they will not be entering the workforce. I think that's the biggest gap to bridge. And I think social impact bonds put us a step closer to doing that, but they may not be the right tool.

Adam Jagelewski: I always speak about social impact bonds as being an instrument or a tool and, sitting in my position as an intermediary, I'm invited to a lot of meetings where there are these very well-intentioned ideas and discussions around how corporate entities are hoping to partner with non-profits to tackle a social issue, or to fund or be involved in a social program. I think that more often than not, that confirmation of that partnership doesn't happen because there is a lack of aligned incentives for them to work. I found with the social impact bond, where an investor knows its role, the service provider knows its role, both are acting from a place of strength and are aligned around the outcomes that they seek to achieve. Then they can line up behind those motivations and actually use their assets for good. We're seeing that right now in the Heart and Stroke deal that we put together last year where we have 12 different investors all playing a different role, some more active and some very passive, a corporate sector entity – Loblaws, Shoppers Drug Mart –, the YMCA, and the Heart and Stroke Foundation all playing together around this change in blood pressure and I think without a social impact bond most of those entities would say that they probably wouldn't have come to the table and they wouldn't have figured out how they can all play together. But using this instrument and this tool, they've found a way to make it work.

The Invisible Heart *premieres across the country beginning May 8 with screenings and panel discussions featuring local stakeholders impacted by SIBs in each province.*

May 8 at 6:30pm: Regina, RPL Film Theatre, 2311 12 Ave.

May 9 at 7pm: Edmonton, NorthwestFest, Metro Cinema

May 15 at 6:30pm: Vancouver, Vancity Theatre, 1181 Seymour St.

May 17 at 6:30pm: Toronto: Hot Docs Ted Rogers Cinema, 506 Bloor St. W.

May 30 at 6pm: Ottawa: Mayfair Theatre, 1074 Bank St.

For more info visit: theinvisibleheart.ca/screenings

For more on social finance, check out our series on social innovation.