December 4, 2018

The Honourable Jean-Yves Duclos, P.C., MP
Minister of Families, Children and Social Development
House of Commons
Ottawa, ON K1A 0A6

Dear Minister:

I am writing on behalf of 390,000 members of the National Union of Public and General Employees (NUPGE) regarding the recently announced Social Finance Fund.

The National Union has seen social finance used in specific instances as an important tool for economic development. For example, when social finance has provided investment for business ventures and cooperatively owned enterprises that banks and other traditional financial institutions were unable or unwilling to provide. In these instances, what is being funded are projects or enterprises that are outside the realm of the traditional public sector.

The announcement of $755 million for a Social Finance Fund should have been good news. Unfortunately, some of the comments made in the announcement, in the *Fall Economic Statement*, and in the report of the Social Innovation and Social Finance Strategy Co-Creation Steering Group have led to concerns that the funds will be used to privatize public services as well as to promote economic development.

When social programs that historically have been publicly funded are transferred to a social financing model, they are in effect privatized. As with any other privatization scheme, control over the service passes to the investor. This means services are no longer accountable to the public.

It also means a change in priorities for the service. While people providing funds for social finance may not expect the same rate of return as traditional investors, they still expect to make a profit. That means service providers who hope for funding from social finance on an ongoing basis will need to put making a profit for the investors ahead of meeting the needs of the people they are meant to be helping.

Using social finance to fund public services also pushes up costs. In addition to investor profits, there are also the high administrative costs that come with social impact bonds and with other methods for using social finance to fund public services. To provide a sense of the impact, a good example is the $2.75 million the federal government budgeted for its essential skills project to test the use of social finance for public services: the maximum amount the organizations delivering the services were to receive

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was $1.1 million—in other words 60% of the money the federal government spent went to overhead and investor profits.

The additional costs of using social finance to fund public services will eat up money desperately needed for front-line services.

There is no evidence that using social finance to fund public services improves the quality of services. While proponents of using social finance to privatize public services claim that governments will be paying only for outcomes, there are plenty of examples showing how the system is being gamed so that the so-called outcomes are meaningless. In several social impact bond projects where it has been possible to obtain the contracts, it is clear that the selection of participants has been done in a way that increases the likelihood of investors making a profit. With other projects, most notoriously an early childhood education project in Utah, there have been serious problems with how outcomes have been measured.

At the same time, limiting the use of the Social Finance Fund to economic development has the potential to make it an effective tool to address some of the underlying causes of persistent social problems. For these reasons, I hope you can provide assurance that the Social Finance Fund will not be used as a replacement for public funding.

If it is helpful, I would be happy to speak further with you about the issues raised in this letter.

Sincerely,

Larry Brown
President

cc: Elisabeth Ballermann, Secretary-Treasurer
National Executive Board