



# Social Finance pilot projects: Interim report

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Since its establishment in December 1991, SRDC has completed over 300 projects and studies for various federal and provincial departments, municipalities, as well as other public and non-profit organizations. SRDC has offices located in Ottawa, Toronto, and Vancouver, and a satellite office in Calgary.

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## Executive summary

The federal Office of Literacy and Essential Skills contracted SRDC in 2014 to conduct independent evaluations of two pilot projects in Essential Skills (ES) training for low-skilled Canadians. Both feature pay-for-success funding approaches, whereby private investors pay up front for training and are repaid by the government if the training is successful in achieving pre-established outcomes. The pilots represent the first time in Canada that these innovative funding approaches have been applied to ES training. This report describes SRDC's project activities from the time of pilot inception to Fall 2017.

As indicated by the title of this report, the training projects were conceived as social finance models. They are part of a wider Government of Canada movement towards experimenting with social innovation and social finance approaches for improving the effectiveness and efficiency of government funding programs. One of SRDC's first tasks was to examine the features of the two models and position them within the social finance literature. Our review found that the term 'social finance' is most often used as an umbrella term for a range of investments made with expectation of achievement of positive social or environmental outcomes in addition to financial returns. One of the more recent innovations within the realm of social finance is a pay-for-success approach known as *Social Impact Bonds* (SIBs).

Both pilots share the attribute of having pay-for-success funding models with literacy skill gains as the payment metric, and private (non-government) investors. A closer examination reveals that beyond that, the two models are distinctly different. The first is a true Social Impact Bond: led by Colleges and Institutes Canada, *Essential Skills Social Finance (ESSF)* offers ES training to low-skilled unemployed Canadians, through three College delivery partners. Private investors pay up front for the training, and are repaid up to 15% return on their investment if the training is successful in increasing participants' literacy skills. The second project is *Skilling UP*, led by Alberta Workforce Essential Skills Society (AWES). In this workplace-based training intervention, employers receive up to 50% of their upfront investment in training for their workers, if targeted literacy gains are achieved. Since employers are motivated mainly by the financial benefits associated with a more highly-skilled workforce, we consider this model not to be aligned so much with social finance, but to be more akin to a conditional government subsidy for training.

When the projects started in 2014, Social Impact Bonds were a relatively new phenomenon. Logic models portraying the theory of change of these innovative funding models were not found in the literature. In addition to developing logic models for the training interventions, SRDC devised logic models for both funding approaches, i.e. the Social Impact Bond (*ESSF*), and the pay-for-success variant featured in *Skilling UP*. SRDC's evaluation framework is underpinned by these logic models.

SRDC's proposed evaluation plans were based on having sample sizes large enough to conduct an analysis of program impacts and ROI, using an experimental design methodology. As it turned out, both pilots encountered significant challenges in attracting investors, and sample sizes were too small to support these types of rigorous analysis. Accordingly, we adapted the evaluation to examine the pilots as a proof-of-concept of their funding models, while still measuring the effectiveness of the training interventions using outcomes analysis.

Proponents of both pilots proposed, and OLES agreed, that the pay-for-success metric would be a 25-point score gain on a standard literacy test. Specific parameters and data collection methods were not specified at the proposal stage. To establish a benchmark upon which a graduated repayment formula could be derived, SRDC analyzed historical program data of similar ES training models. From this, we conducted probability analyses and prepared risk-reward scenarios to support proponents and OLES in finalizing the reimbursement grid. SRDC field tested a number of standard literacy assessments, and consulted with proponents to select the TOWES *document use* literacy assessment, administered on paper.

SRDC was responsible for independent validation of the success outcome, i.e. literacy skill gains, as demonstrated by scores on a standard literacy test. Post-training literacy assessments for the *ESSF* were a median gain of 19 points, with 41% of participants achieving gains of 25 points or more. This places the results in the second tier of the repayment chart, associated with a 96% repayment of principle to investors. Notably, this level is lower than the benchmark. SRDC is analyzing survey, program and qualitative data from interviews with program staff to examine factors that may have contributed to results lower than anticipated. For *Skilling UP*, reimbursement was made separately for each of the three employers; levels of achievement of the success outcome ranged from the lowest level (30% of training costs repaid) to the second-highest (45% of costs repaid) level, where 50% repayment of training costs is the maximum. As with the *ESSF*, the *Skilling UP* survey, program and qualitative information is being analyzed and will be presented in the final report.

Baseline surveys indicate that participants in both pilot projects were motivated to take part in the training, and felt that it would improve their chances of getting a good job (*ESSF*) or of increasing their productivity (*Skilling UP*). Questions measuring psychosocial variables – behaviours and attitudes associated with positive outcomes in the labour market – were asked on the baseline and on post-training surveys, to gauge outcomes of the training. Post-training surveys analysis is underway, and these results will be included in the final report.

Part of SRDC's role in the pilots is to examine investor motivation when making investment decisions. To better understand the positioning of SIBs or other impact investments vis-a-vis traditional investment for financial return, SRDC interviewed a selection of 20 impact and financial sector investors. The findings indicate that even with growing interest among asset holders, the pool of potential investors ready to consider social impact investment projects remains relatively small. As well, there are a number of barriers to growing the sector: lack of awareness about SIBs and other social impact investments, uncertainty about their risk, and institutional restrictions on investment types, among others. To grow the social impact investing market, there will be a need to address barriers at the individual, organizational and systems level.

Through the development and implementation of the two pilots, and literature reviews, much has been learned about SIBs and about pay-for-success funding in general. Lessons learned to date include:

- Social Impact Bonds are complex structures that tend to have high transactional costs. While the groundwork for the *ESSF* will undoubtedly facilitate future SIBs in Canada, the relative costs of SIBs compared to traditional delivery models – or pay-for-success models without private funding – are worth more attention.

- Attracting SIB investment can be challenging. The SIB model is not yet well-known nor well-understood among potential investors, and will take concerted government effort to support if it is to be grown.
- Engaging employers in pay-for-success models can also be challenging. Although the benefits of workplace ES training are known, employers may be discouraged from the perceived or real administrative burden of a pay-for-success approach.
- Success metrics must be relevant, measurable, and transparent.
  - Metrics directly aligned with outcomes of interest are most resonant for investors and participants alike.
  - If success metrics are to be based on group outcomes such as those used for the pilots (i.e. median gains, and proportions achieving 25 point gains), sample size must be large enough to provide accurate measurement.
- Program innovation and improvement can be promoted with rigorous evaluation. When pay-for-success approaches include rigorous evaluation of program impacts, they can increase the knowledge about 'what works' for future program improvement and innovation.

The findings in this report will be built upon once the 12-month follow-up data has been collected and analyzed, and with additional qualitative information from key informant interviews. A final report will be produced in December 2018.

# 1. Introduction

In January 2014, the federal Office of Literacy and Essential Skills contracted SRDC to conduct independent evaluations of two Essential Skills (ES) training pilot projects. For the first time in Canada, an alternative approach to funding ES training is being tested, whereby private investors pay up front for training lower-skilled Canadians, and are repaid by the government if the training is successful in achieving pre-established outcomes. These pilot projects are part of a wider Government of Canada movement towards experimenting with social innovation and social finance approaches for improving the effectiveness and efficiency of government funding programs.

The pilot project led by Colleges and Institutes Canada (CICan) is providing ES training to unemployed lower-skilled Canadians to receive *Foundations*, an established ES training program developed by Douglas College. Private investors will receive the value of their investment plus a financial return, if training is successful. The CICan pilot project possesses the characteristics of a Social Impact Bond.

Alberta Workforce Essential Skills Society (AWES) is leading a second pilot project, *Skilling UP*, in which private sector employers pay up front for ES training for lower-skilled workers, and are reimbursed 50% of costs if the target outcomes are met. Since there is evidence that ES training for low-skilled workers delivered in a workplace context can produce skill gains and improved job performance;<sup>1</sup> employers are motivated partly by expected returns to their corporate bottom line. While also a performance-based funding or ‘pay-for-success’ model, *Skilling UP* does not possess the characteristics of a Social Impact Bond, as described below.

In both cases, ESDC is interested to learn about the effectiveness of the models, how private investors perceive social finance, what motivates them to consider these types of projects and the returns on investment needed to draw their interest in funding such schemes.

This report presents SRDC’s activities in support of these two projects from their inception to August 2017. In Section 1, we position the financial models of the projects within the social finance literature. The project models, partners, and their roles are presented in Section 2. SRDC’s evaluation framework, including logic models, data sources and data collection methods, is detailed in Section 3. Section 4 describes activities in support of project implementation, including development of the reimbursement formulae, and assessment of ES skills. Profiles of the participants in both *ESSF* and *Skilling UP* are featured in Section 5, along with the results of their pre- and post-training literacy assessments. The sixth section presents the results of SRDC’s interviews with impact and financial sector investors. The report concludes with a description of main themes, or lessons learned, to date.

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<sup>1</sup> See [UPSKILL: A Credible Test of Workplace Literacy and Essential Skills Training](#).



## Background

The two ES training pilot projects are particularly timely and relevant considering the growing interest in social innovation and social finance both domestically and globally.<sup>2</sup> Governments the world over are searching for new approaches to solving multigenerational, complex and intractable social problems. Pressure on public budgets are driving policymakers and practitioners to improve the cost-effectiveness of social programs (MDRC, 2017). The appeal of catalyzing new sources of funding to complement or to amplify existing government funding for social programs is clear. Social finance attracts funding from non-governmental sources and places emphasis on the measurement of positive social or environmental impacts.

The Prime Minister of Canada has mandated the Minister of Employment, Workforce and Labour and the Minister of Families, Children and Social Development to develop a National Social Innovation and Social Finance strategy. On June 8, 2017, the two Ministers announced the creation of a Steering Group, made up of a broad range of non-government experts, to co-create this Strategy. The Steering Group will most likely build on previous work done in this area including the 2010 Canadian Task Force for Social Finance, which identified social finance as a critical and timely lever for accelerating social innovation.<sup>3</sup>

In 2012, Human Resources and Skills Development Canada, now ESDC, invited organizations and individuals across Canada to submit ideas on how government can leverage social finance for addressing social challenges. The initiative resulted in over 150 proposals from across the country, as described in a summary report “Harnessing the Power of Social Finance”.<sup>4</sup> As well, two parliamentary committees have undertaken studies to explore the potential of social finance<sup>5</sup> and many provincial and territorial governments are experimenting with social finance.<sup>6</sup> As interest

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<sup>2</sup> The World Economic Forum Mainstreaming Impact Investing Initiative launched in 2012, The Global Social Impact Investment Steering Group (GSSIISG) established in 2015 and the Vatican Impact Investing Conference held in 2016 are but three examples of this global trend. The WEF initiative launched a “how to” manual for these types of investments. The GSSIISG is the successor to the 2013 G7 Impact Investing Task Force initiated by David Cameron, the former Prime Minister of the United Kingdom, and involving representatives from G7 countries including Canada. Finally, the Vatican just held its second annual Impact Investing Conference to explore ways to harness the power of impact capital to sustain the Catholic Church’s social mission.

<sup>3</sup> The Canadian Task Force for Social Finance was organized by the Social Innovation Generation (SiG). The Task Force put forward recommendations for growing the number and quality of social finance projects.

<sup>4</sup> The report is titled [\*Harnessing the Power of Social Finance: Canadians respond to the National Call for Concepts for Social Finance\*](#).

<sup>5</sup> The two parliamentary committees are The Standing Committee on Public Safety and National Security as well as the Standing Committee on Human Resources, Skills and Social Development and the Status for Persons with Disabilities.

<sup>6</sup> For example, the Government of Saskatchewan commissioned two SIBs, one launched in 2014 and the other in 2016; the Government of Ontario is currently exploring the feasibility of implementing two SIB shortlisted ideas; the Government of British Columbia and the Government of Alberta have had discussions about SIBs; and the Government of Manitoba plans on

and activities in social finance grow, there will be a clear need for empirically driven research into the performance of social finance projects and the social finance ecosystem.

## Defining “Social Finance” and “Social Impact Investing”

Despite the rapid expansion of experimentation with social finance tools and schemes domestically and internationally, there is a lack of consensus on a precise and universally accepted definition of the term. Social finance is most often used as an umbrella term that encompasses different types of investments made with the expectation of a financial return combined with the achievement of positive social or environmental outcomes. These investments can vary from investments into public companies that have strong social or environmental goals, to investments into small community and rural based ideas, initiatives and businesses.

ESDC defines social finance as:

“an approach to investing that involves placing capital to generate both a financial return and measurable social impact. Social finance mobilizes private and charitable capital for public good.”<sup>7</sup>

As will be seen in more detail in Section 6, social finance can be broken down into investment categories that lie along a spectrum, with at one end traditional investments made for purely economic returns, standing in contrast to traditional charitable giving made to achieve purely social or environmental goals at the other end. Social finance encompasses all forms of investments that fall in between these two categories.<sup>8</sup>

The term *Social impact investing* is a narrower term than social finance. Social impact investing can be defined as the act of investing for producing a financial return plus an intentional and measurable social or environmental impact. Consideration for financial return and risk mitigation are secondary to the intent of producing a measurable social or environmental impact.

The Rockefeller Foundation is often credited as having coined the term impact investing, a synonym for social impact investing, in 2007.<sup>9</sup> The OECD (2015) has offered the most comprehensive

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implementing SIBs having issued a request for proposals for consulting services for SIBs in summer of 2017.

<sup>7</sup> Retrieved from the ESDC website: <https://www.canada.ca/en/employment-social-development/programs/social-finance.html>.

<sup>8</sup> Social finance is an umbrella term that can refer to investments made where the investors place more emphasis on economic returns first and consider the social impact secondary, for example, investments in publicly traded companies that are high performers in addressing Environment, Social and Governance (ESG) issues. Social finance can also refer to investments made where the social impact is of primary concern to the investors and the economic return is secondary, for example, loans producing a below-market rate of return to support activities of not-for-profit organizations.

<sup>9</sup> Impact investing was originally defined as “using profit-seeking investment to generate social and environmental good” (Jackson, 2012), however, the definition was later refined in 2010 as, “investments intended to create positive impact beyond financial returns”. The Rockefeller

definition of the term to date. It defines social impact investing as investments made into companies, organizations and funds with the intention for producing not only a financial return, but a measurable social or environmental impact.<sup>10</sup> *Intentionality* and *measurable impact* are central to social impact investing (Jackson, Koenig, & Carriere, 2016). The OECD further refined the definition of social impact investing by outlining four core characteristics: *intentionality, investment with return expectation, range of return and impact measurement*. (Figure 1.1)

Figure 1.1



According to the OECD, for an investment to be considered a social impact investment, the investor must be intentionally looking to produce positive social outcomes. They must be expecting to make a return on investment, however, the return can range from a below market to a market rate of return to an above market rate of return. There must also be a commitment to collect, analyze and report data on the social or environmental performance of the investment. Transparency and accountability are also viewed as important characteristics of impact investing.

Social impact investing or social finance approaches are not new. Credit unions have been investing in social finance ideas, initiatives and businesses since the beginning of the 20<sup>th</sup> century. Jed Emmerson, an internationally recognized practitioner and thought leader on impact investing, advanced the concept of blended value investing – investments that provide both financial and social/environmental returns, often referred to as ‘triple bottom line’ – in the 1990s. In Canada, Community Futures Development Corporations and Community Business Development Corporations have been around since 1985; these funds offer loans to businesses located in rural and remote communities as well as entrepreneurs who face barriers to accessing capital. What is new is the growing interest in these types of tools and approaches, the increased number of actors advocating for and making use of them, and the efforts being put forward by government authorities to move social impact investing from uncoordinated and spontaneous activities towards an increasingly structured sector.

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Foundation demonstrated leadership in social finance market-building when it launched their *Impact Investing Initiative*, a five-year \$38 million funding program. The Foundation’s work and funding contributed to the creation of organizations, rating systems and networks such as the Global Impact Investment Network (GIIN), a network of practitioners, scholars and policy makers.

<sup>10</sup> The OECD (2015) provides a detailed framework for defining social impact investing in their report [Social Impact Investment: Building the Evidence Base](#)

## What social impact investing is not

Social impact investing is not synonymous with Socially Responsible Investing (SRI), Sustainable Investing or Ethical Investing. SRI and Sustainable investing are terms that describe the actions of individual or institutional investors who choose to make investments in either private or public companies that allocate significant corporate resources to Corporate Social Responsibility (CSR) initiatives and are strong performers on Environment, Social and Governance (ESG) indicators. The investments are intended to minimize social or environmental harm and might even be to intentionally produce measurable positive social and/or environmental impacts, but these considerations are secondary to making a financial return. For example, socially responsible investors might choose to invest in Tesla, an automaker that manufactures and sells electric cars, because they believe them to bring environmental benefit. Ethical investing, on the other hand, refers to an approach where investors negatively screen so called ‘sin companies’. Ethical investors do not invest in a tobacco company, for example, nor would they invest in alcohol, gambling, sex-related industries, weapons manufacturers or those that provide goods and services to the military.

Impact investing is not philanthropy. Philanthropy includes raising money for the purpose of providing no-cost programs for those in need or providing grants to organizations that aim to relieve poverty, advance education, advance religion or have some other purpose considered to benefit the community. Money is given without an expectation of it being repaid. In some cases, a charitable receipt is provided as an incentive for attracting charitable donations. However, charitable organizations or foundations can play a part in social impact investing. Canadian foundations have started entering the sector, but community and charitable organizations may have reservations about using grant dollars meant for charitable purposes being used in social impact investing projects.

Social impact investing is different from the concept of “shared value”. Business strategist and Harvard Business School Professor Michael Porter conceived the term “shared value” in 2006 with his colleague Mark Kramer. In the context of corporate behaviour, they propose to incorporate CSR into a corporation’s strategic framework as a means to provide competitive advantage over competitors. Of note, CSR is often a secondary consideration for corporations being relegated as a subordinated unit in public relations departments. Porter and Kramer argue that CSR should be a central consideration for executives and members of the board of directors. Businesses should value investments made externally and within the corporation for the purpose of meeting a societal needs because these types of investments can result in improving productivity and expand into new markets. For example, evidence suggests that making investments into enhancing employee training and development as well as providing employees with good benefits and opportunities for advancement results in reduced staff turnover, absenteeism and increased productivity. In turn this results in lower costs for the corporation, and gives them a competitive advantage over competitors who hold down wages and benefits.

## Actors in social impact investing

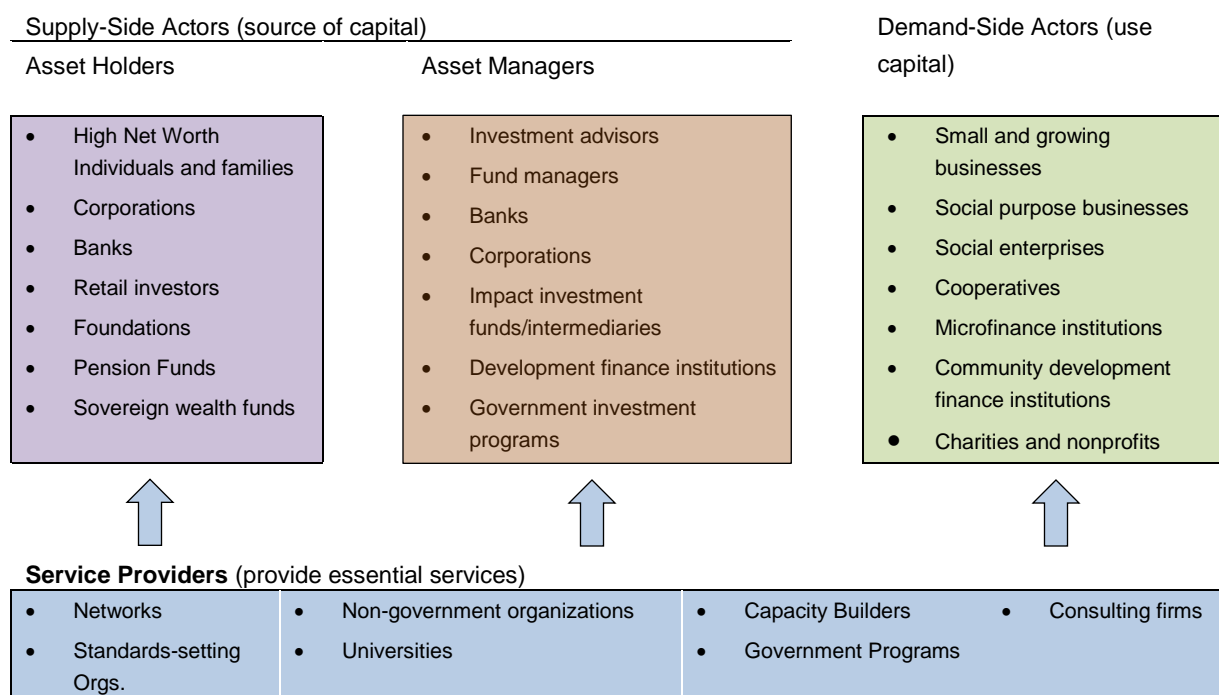
Just as definitions help with concept clarification, it is also helpful to gain an understanding of the actors involved in social impact investing. As the number and diversity of actors entering the social

impact investment sector continues to grow, so does the complexity of designing and implementing social impact investing projects.<sup>11</sup> The social impact investing sector is often divided into supply-side and demand-side actors.

Supply-side actors provide the investment capital or money for social impact investing initiatives, projects or businesses; demand-side actors are those who make use of the investments. In addition, a number of service providers have emerged to provide supporting services such as intermediation, measurement and evaluation of impact, research and analysis, investor education, awareness raising, market data collection and analytics, talent building and organizing events (Harji, Reynolds, Best, & Jeyaloganathan, 2014).

An overview of the actors involved in the sector is depicted in Figure 1.2. Asset Holders (Purple Box) have financial assets to invest. Asset Holders can invest directly in projects, however, they

**Figure 1.2 Actors in the Impact Investing Industry**



**Source:** Adapted from E.T. Jackson and Associates Ltd (2012): Accelerating Impact: Achievements, Challenges and What's Next in Building the Impact Investing Industry.

<sup>11</sup> Actors that have emerged as advocates and so called market builders for social impact investing include the Harvard University Government Performance Lab, the Global Impact Investing Network (GIIN) and the Impact Investing Policy Collaborative (IIPC). These institutions were created for the purpose of offering capacity building for individuals and organizations, produce research for the social impact investment market, and provide access to networks.

often work through Asset Managers (Brown Box) who act as gatekeepers to Asset Holders. Demand side actors (Green Box) try to raise investment by working mostly with Asset Managers, but often aim to have access to Asset Holders. The Service Providers (Blue Box) provides services to all three groups, Asset Holders, Asset Managers and Demand-Side Actors. As will be seen in Section 6, relationships are important for building impact investment projects and all groups of actors benefit from capacity building initiatives and resources for relationship building.

## Social Impact Bonds

Social Impact Bonds (SIBs) are a recent innovation in the social impact investment sector. A form of pay-for-success model, SIBs have attracted much attention from policy makers, social service providers, civil society advocates, union representatives and scholars in recent years. SIBs are a social impact investment instrument where investors intentionally deploy capital for the purpose of providing a solution in the form of a social intervention to a social problem. The primary focus for the investor is the social issue, but there is an expectation that the investment will produce a financial return as well, if success outcomes are achieved.

SIBs have been designed to address a number of different social issues: workforce development, homelessness, child and family welfare, health, recidivism, early childhood education, environment and sustainability and adults with complex needs. Social Impact Bond projects tend to be large in scale.<sup>12</sup> The Government of Canada is currently experimenting with SIBs and views them as one of a range of social finance tools and approaches.<sup>13</sup> The first SIB was launched in the United Kingdom in 2010. Since then, the model has spread rapidly with 89 SIBs in operation globally and over 100 SIBs either in design stages or operation in the United States alone, as of September 2017.<sup>14</sup>

In the SIB model, a SIB commissioner, most often a government department or agency, offers an intermediary a contract for the delivery of a social intervention. The intervention is expected to produce a cost savings for the government department or agency. The intermediary leverages the contract to raise capital from private investors who provide operational funds and performance payments to a social service provider for the delivery of the intervention. The government pays back the investors their principle plus a return on investment if predetermined performance targets are met. An independent validator is responsible for helping track data and measure the success outcome(s), and in some models helps structure the SIB. The intermediary coordinates the multiple stakeholders and partners. Some SIBs have a separate evaluator that evaluates a broader set of project outcomes, not only those associated with success payments.

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<sup>12</sup> The duration of these projects is between five and seven years and investments range from a few hundred thousand dollars to a few million dollars.

<sup>13</sup> See the ESDC website at: <https://www.canada.ca/en/employment-social-development/programs/social-finance.html>.

<sup>14</sup> Retrieved from the Social Finance UK's Impact Bond Global Data Base at: <http://www.socialfinance.org.uk/database/> and the Nonprofit Finance Fund's Activity Map of pay-for-success projects: <http://www.payforsuccess.org/activity>.

The model varies among projects, but there are common characteristics that cut across all SIBs.<sup>15</sup> Government authorities acting as SIB commissioners provide payment of the principal plus a return to private investors if the social intervention meets certain agreed upon targets. The investors provide capital for the service provider's operational requirements. In some SIB models, social service providers are incentivized, in the form of performance payments which are covered by private investors as well. They receive these bonus payments for reaching certain milestones in the project, which is different from traditional government funding models. A conceptual model of the contractual agreements within a SIB is offered in Figure 1.3.

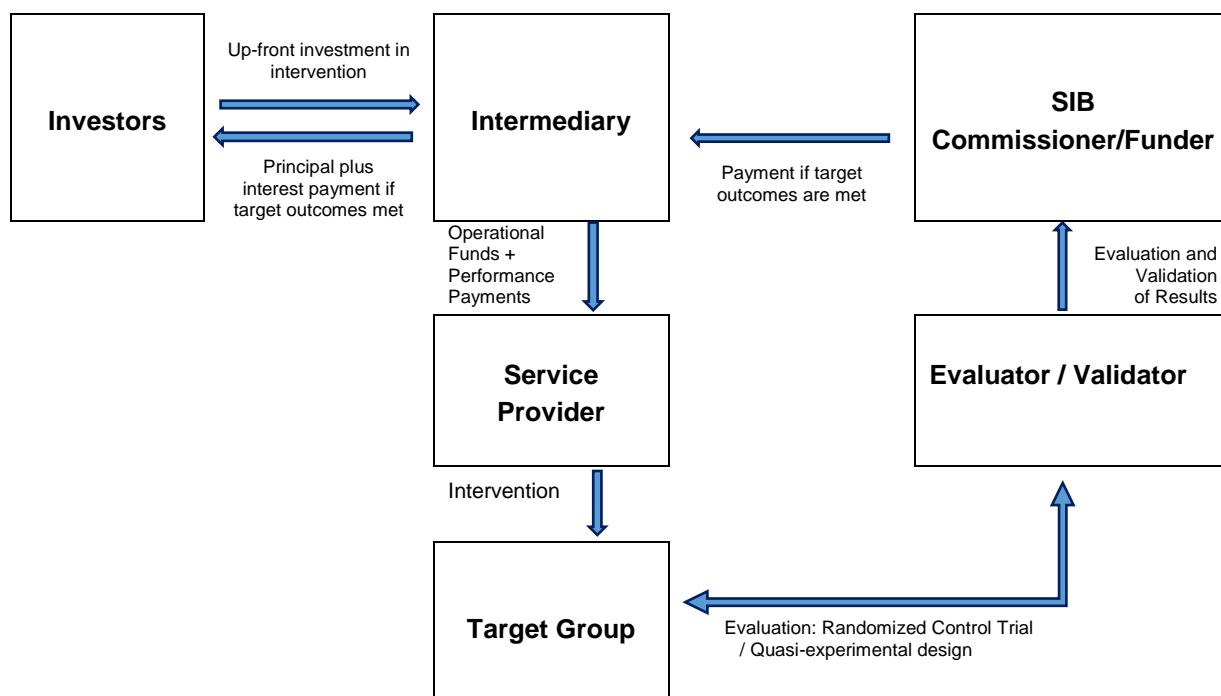
Most of the SIBs in operation have been structured with some form of guarantee or risk mitigation mechanism to draw interest from mainstream investors. Governments or philanthropic funders have provided direct or indirect support for the implementation of most projects. In some projects, the primary source of investment comes from impact investment funds created with seed capital from a national government. For example, Bridges Ventures, now Bridges Fund Management Ltd., and Big Society Capital are the primary investors in many of the UK based SIBs. Bridges Ventures was founded in 2012 with the help of £10 million from the UK government. The UK was also responsible for creating Big Society Capital, an independent social investment institution. Some SIBs include a subordinated investment structure where some or all of the capital provided by the senior lender is protected, or 'backstopped'. For example, the first SIB implemented in the United States, the Rikers Island SIB, included a US \$7.2 million guarantee by The Bloomberg Foundation for the Goldman Sachs' investment of US \$9.6 million.

Advocates argue that SIBs offer a new source of mission funds for social service providers and foster collaboration and innovation in the delivery of social services. The model shifts the risk of funding social services from the public sector to the private sector. As well, the model is said to offer governments the opportunity and resources to fund preventative social interventions instead of governments doing business as usual and funding remedial programs once a problem has become too large to ignore. For example, the Sweet Dreams SIB currently in operation in Saskatchewan provides accommodation and support services to at-risk single mothers and their children. The objective is to keep mothers and children together and prevent the children from entering the foster care system, thereby limiting government spending on providing such services.

The innovation in SIBs occurs at the program delivery level. Social service providers are given more freedom in executing program delivery because the reporting requirements are different from the "check the box" approach of traditional government funding programs. The SIB model focuses on outcomes and gives the social service providers room to modify program delivery as long as they meet the predetermined outcomes.

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<sup>15</sup> In the United States, SIBs are often referred to as Pay-for-Success (PFS) approaches. Typically, PFS models offer financial rewards to service providers who achieve, improve or exceed their performance targets determined by collecting and reporting data on pre-determined outcome measures. Often, the social service provider is receiving payments directly from a government department or agency for the achievement of those outcomes. Because PFS projects do not necessarily have a private investor involved, they are not necessarily social finance approaches.

**Figure 1.3 SIB conceptual model**

SIBs are not bonds in the traditional sense. SIBs do have a defined time horizon with a fixed interest rate dependent on outcomes. However, investors are risking all of their capital if the project does not meet pre-determined outcomes – with the exception of SIBs that incorporate some form of guarantee. SIB investors do take on significant financial risk, and for this reason, they are seen by mainstream investors as being akin to venture capital investments or pure philanthropy. Investor perceptions are discussed in more detail in Section 6.

SIBs are complex undertakings due to the number of project partners involved, scale and their time horizon. Contracts among the multiple stakeholders provide the project structure. It is important that these contracts align the interests of all stakeholders and that consensus is reached prior to the project launch. Much of this responsibility falls on the intermediary.

## Measuring the social impact of SIB projects

Rigorous measurement of social outcomes is the cornerstone of the SIB model since it determines the effectiveness of the intervention and if payments are to be made to investors. Similar to an audit role, an independent validator assesses the level of achieved outcome(s) and reports to the SIB commissioner to determine if investors are to be repaid, as indicated by results.

In addition to measurement and validation of success outcomes, some SIB models require an independent evaluator to measure the impact of the intervention. Evaluators can fulfill other important roles in SIBs. They can provide strategic advice on the design and implementation of the project; they can also have responsibility to perform developmental or implementation evaluation



to learn about the effectiveness of the service delivery mechanisms, and provide ongoing feedback to service providers. Cost-benefit analyses can be done for a more comprehensive picture of overall project success. In many of the SIBs in the United States, a single organization is responsible for both the validator and evaluator role for SIBs.

SIB effectiveness and credibility are enhanced by the use of evaluation methods and tools held in high regard by the evaluation community. Randomized Control Trials (RCTs) offer the most rigorous method for determining what would have happened in the absence of an intervention, and results from these studies can fully attribute the impact of an intervention to the intervention. The Urban Institute (2016) presents the following reasons for integrating a RCT design in a SIB model: RCTs offer stakeholders a high degree of confidence in the results: and SIB projects deliver greater transparency – and with the attention SIBs are attracting by media and the public, clarity of results is important. The Harvard Government Performance Lab is also an advocate for the integration of an RCT design in SIB projects, and about half of the first 16 SIBs in operation in the United States include an RCT design (Urban Institute, 2016).

However, there are challenges associated with RCTs. It is not always feasible to assign participants to a control group that is not entitled to the services being provided. As well, minimum sample sizes have to be reached to obtain statistically reliable results. In such circumstances, SIB projects may be using other evaluation methods such as quasi-experimental designs including regression discontinuity designs, or propensity score matching. Others simply use historical data for comparison with SIB outcomes, relying on pre-post measurement of the SIB participants' outcomes to indicate success.

Regardless of the evaluation method, the design, implementation and evaluation of a SIB should include a theory of change to encourage continuous adaptation of the design and operation of the project (Jackson, 2013). Milner and Eldridge (2016) add that SIB projects require a strong theory of change buoyed by evidence of effectiveness of the social intervention. If SIBs are to generate the innovation they are proposed to achieve, integrating a theory of change in the planning stages of the project is a necessary component of project success.

## Understanding risk

Advocates argue that the SIB model has the potential to strengthen incentives and support innovation in the delivery of social services. However, SIBs carry risk associated with their structure, and their lack of track record as an investment vehicle.

Investors face a range of investment decisions when analyzing different financial products. One rule of thumb in the investment community is that the higher the perceived risk, the higher the expected return. Some impact, philanthropic or socially minded investors will be willing to sacrifice expected returns, or take on higher risk, for the sake of producing measurable social impact, but mainstream investors will not.

The complexity of SIB projects compounds the difficulty of analyzing risk. The Urban Institute (2016) recommends that investors considering investing in SIB projects start with understanding the different types of risks associated with SIB projects. SIBs are associated with **Performance**

**Risk** which they define as “the chance the project falls short of its intended outcomes leading to investors failing to receive a return and losing all or part of its principal.” They go on to specify five types of performance risk:

**Programmatic risk:** Risk that the program does not work

**Implementation or operations risk:** Risk that the program delivery is not executed in a manner consistent with the original design of the program, often because of service provider’s insufficient operational capacity

**Evaluation risk:** Risk that the evaluation fails to accurately measure whether outcomes have been achieved

**Regulatory or policy risk:** Risk that new legislation or policies will change the composition of the target population or undermine service delivery

**Nonperformance or partnership risk:** Risk that the project will end before its scheduled date because one or more actors in the deal do not fulfill contractual obligations

From the perspective of a mainstream investor, SIBs carry significant risk. It is important to be explicit and open about this reality when designing SIB projects to help inform the investor engagement strategy, which will lead to saving time and resources when trying to attract investors.

## The need for more empirical research

A broad spectrum of organizations and individuals have been openly critical of the SIB model. For example, some Canadian unions (e.g., Canadian Labour Congress, Canadian Union of Public Employees, National Union of Public and General Employees and the Ontario Public Service Employees Union) have taken a strong position against the SIB model. The early academic work published on SIBs is exploratory in nature.<sup>16</sup> Some scholars have criticized SIBs for their high transaction costs and have expressed skepticism about the potential of these schemes. Others have expressed concern for the potential power asymmetry inherent in these types of partnership agreements, which include social service provider and private sector organizations. As well, some of pose the question of the potential harm caused to the most vulnerable if SIB projects were to fail.

Only one empirical academic study has been undertaken to date. The Maryland Department of Legislative Services concluded, based on their analysis of the criminal justice system, that SIBs would not produce enough benefit for the associated cost of these types of projects (McKay, 2013). In short, the study concluded that in the criminal justice system SIBs are more expensive than traditional government funding programs. Of note, rehabilitating formally incarcerated individuals is a complex issue, and some practitioners believe that SIBs might not be suited for complex issues. There is, however, consensus among scholars and practitioners that more research is needed before definite conclusions can be reached on the effectiveness and efficiency of the SIB model.

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<sup>16</sup> See Warner (2013); Joy and Shields (2013); McHugh, Sinclair, Roy, Huckfield, and Donaldson (2013).

## 2. Project models and partners

The first section of this report introduced social finance as an umbrella term for private investments made with the expectation of social or environmental benefit in addition to financial returns. The two Essential Skills pilots were initially introduced as social finance projects, but through their detailed development and implementation, much has been learned about their positioning within the context of social finance approaches. While both the CIGan and AWES pilots can be described as pay-for-success models, only the CIGan pilot is conceptualized as a Social Impact Bond. The AWES pilot is neither designed as a SIB, nor does it qualify as a social finance approach. This section introduces the two project models, the partners involved, and their roles.

### **CIGan Essential Skills Social Finance (ESSF) project**

The *ESSF* pilot project is testing the use of a Social Impact Bond to fund ES training for unemployed or underemployed lower-skilled adult Canadians. The training program is based on the *Foundations Workplace Skills Program*, developed by Douglas College. *Foundations* has been shown to be effective at increasing participants' essential skills levels and other outcomes associated with positive employment outcomes in the longer term.<sup>17</sup> For *ESSF*, three private investors have supplied the capital to fund program delivery and will receive their principal plus a financial return, paid for by the Government of Canada, if pre-determined essential skill gains are achieved.

### Partners and roles

Figure 2.1 depicts the relationships among the partners in the *ESSF* project. The role of each partner is described below.

#### *1. Funder:<sup>18</sup> Adult Learning, Literacy and Essential Skills Program*

The Adult Learning, Literacy and Essential Skills Program is an initiative of Employment and Social Development Canada (ESDC). Administered by the Office of Literacy and Essential Skills (OLES) the key objectives of the ALLESP are “to promote lifelong learning by reducing non-financial barriers to adult learning and to facilitate the creation of opportunities for Canadians to acquire the learning, literacy and essential skills they need to participate fully in a knowledge-based economy and society<sup>19</sup>”. OLES is funding *ESSF* operations and research, and is reimbursing private investors according to a graduated schedule based on participant skill gains.

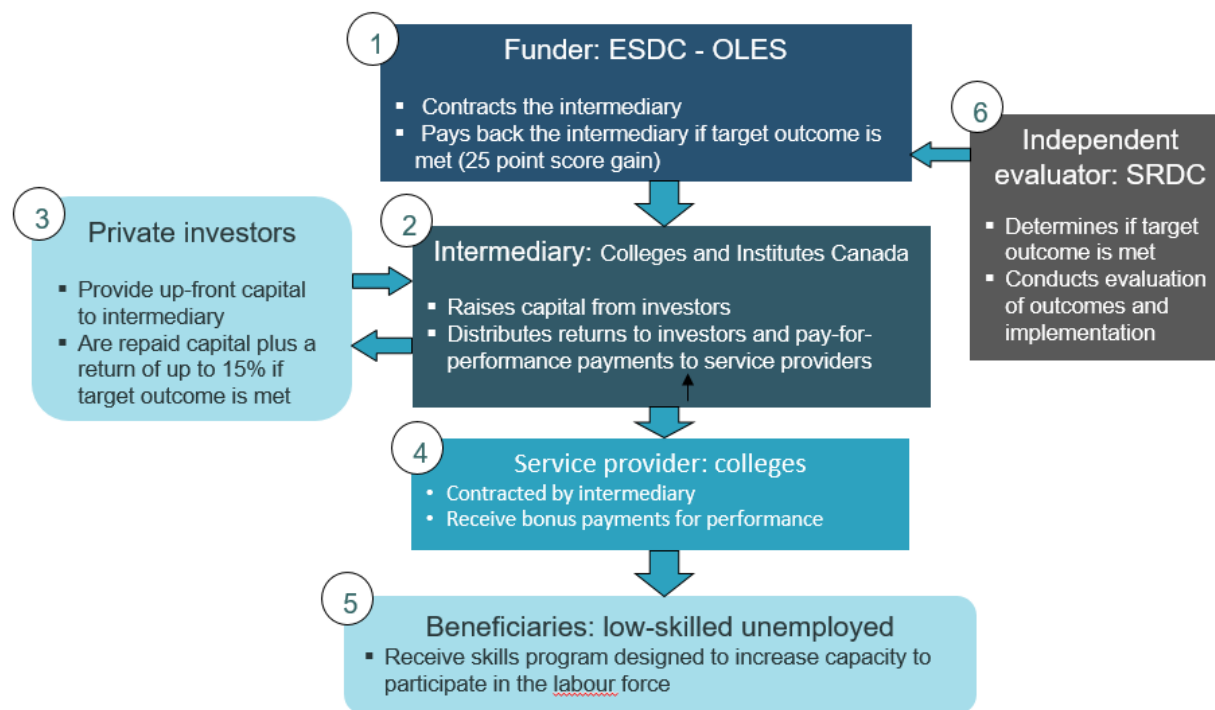
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<sup>17</sup> See Palameta, Nguyen, Hui, and Gyarmati (2016).

<sup>18</sup> May also be referred to as “SIB Commissioner”, as described in Chapter 1.

<sup>19</sup> <https://www.canada.ca/en/employment-social-development/corporate/reports/evaluations/skills-and-employment-2010-may.html>

Figure 2.1 The ESSF Social Impact Bond (SIB) Model



## 2. Intermediary: Colleges and Institutes Canada (CICan)

Colleges and Institutes Canada (CICan), known at the time of project start-up as the Association of Canadian Community Colleges, is the project lead and the intermediary for the *ESSF* SIB. Funded by ESDC, their responsibility in the pilot project is to test whether the pay-for-performance based model supported by a Social Impact Bond funding mechanism is an effective way to increase the literacy and essential skills of unemployed Canadians, and determine the market viability of the SIB instrument. This role includes overseeing the development and project management of the *ESSF* pilot, delivery of the intervention, raising and holding capital from investors, distributing returns to investors and pay-for-performance payments to service providers, and creating a final report from the intermediary perspective.

As a subcontractor to CICan, *KPMG Corporate Finance Inc.* has acted as a financial advisor on the investment and payout structure, provided advice on the legal structure to accommodate the SIB, and supported CICan in preparing investor documentation and securing investors. Borden Ladner Gervais LLP served as legal counsel to CICan and the Limited Partnership created to hold the SIB.

### 3. Private investors

A total of \$250,250 in private capital for the *ESSF* pilot project was raised from three investors, covering ES training for 91 participants. The investors are diverse in terms of their organizations and investments:

- **Conexus Credit Union:** Based in Saskatchewan, Conexus is supporting *ESSF* delivery for Saskatchewan participants through their Community Investment funding. Conexus is also a funder for Canada's first SIB: the "Sweet Dreams" project in Saskatoon.<sup>20</sup>
- **The Catherine Donnelly Foundation:** *ESSF* corresponds to two of the four areas of focus of this Canadian private foundation – adult education, and impact investing.<sup>21</sup> Since investing in *ESSF*, the Foundation has been identified as one of the funders of another SIB, the Canadian Hypertension Prevention Initiative.<sup>22</sup>
- **Dave and Pamela Richardson and Family:** individual philanthropic investors funding a Social Impact Bond for the first time.

Regardless of their motivations for investing in *ESSF*, the three investors must be prepared to accept a range of outcomes from zero return on their principle to up to 15% return on their investment. Because the number of *ESSF* participants is relatively small, it was agreed that repayment would be calculated based on score gains for the whole sample, not by individual College cohorts where smaller sample sizes reduce the reliability of calculating median gains. Therefore investors await repayment (as appropriate) until training at all sites is completed.

### 4. Service provider: Colleges

Douglas College (Coquitlam, BC) is the lead college service delivery partner for the *ESSF*, contracted by CICan to work collaboratively with two other College partners: Confederation College in Thunder Bay (ON), and Saskatchewan Polytechnic in Regina (SK). Colleges were chosen for their demonstrated expertise in delivering ES training programs like *Foundations*, recruiting the target group, and having the ability to work within project timelines.<sup>23</sup> Douglas College is responsible for setting standard elements of the curriculum, training staff across sites, developing and maintaining a program management information system (PMIS) – a spreadsheet for tracking participant enrollment and participation throughout the intervention.

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<sup>20</sup> A news release on this SIB is available at <https://www.saskatchewan.ca/government/news-and-media/2016/june/21/sweet-dreams-project>

<sup>21</sup> <http://www.catherinedonnellyfoundation.org/whatwedo.html>

<sup>22</sup> <https://www.canada.ca/en/public-health/news/2016/10/minister-health-announces-social-impact-bond-heart-stroke-health.html>

<sup>23</sup> A fourth College partner – Collège Lionel-Groulx – was selected to deliver *ESSF* but ultimately declined to participate as they were not able to secure continued income support for participants during training from the government of Quebec. Spaces allocated to Quebec *ESSF* participants were allocated to other sites.

College partners are contracted by CICan under a combined fee-for-service and pay-for-performance structure. The flat fee-for-service component is \$2,000 for each participant who completes the *ESSF* training and post-training assessment. Performance payments are based on skill gains: \$500 for each learner achieving a 25-point skill gain on the post-training assessment, and another \$250 for each one who maintains a 25-point score gain at the final assessment 12 months following.

### *5. Beneficiaries: Low-skilled unemployed*

The *ESSF* targets unemployed or underemployed adult Canadians with lower literacy skills, defined as below Level 3 on the International Adult Literacy Survey (IALS) scale. As Level 3 is often considered to be the minimum level required for full participation in today's labour market, those with lower skill levels will naturally be disadvantaged and are more likely to remain unemployed or become precariously employed. *Foundations* and similar types of ES training have been demonstrated to increase skill levels and employability, thus providing people with the opportunity to receive the *ESSF* training is considered to benefit the participants. Clients targeted for *ESSF* are anticipated to be multi-barriered: lower-skilled, lacking extensive or recent labour market experience, dependent on income assistance, having lower levels of education, caregiving and other family responsibilities, coping with illness, and other barriers.

### *6. Independent evaluator: Social Research and Demonstration Corporation*

SRDC has two main roles in the *ESSF* pilot project:

- To act as a third-party validator of *ESSF* participant literacy skill gains, providing ESDC and CICan with validated results for reimbursement of investors according to the agreed payment schedule; and
- To evaluate the effects of the program on a broad range of employment-related participant outcomes, and the implementation of the pilot.

SRDC's evaluation framework is detailed in Section 3 of this report; Section 4 describes SRDC's activities associated with the role of validator, including developing the reimbursement formula, conducting independent assessments of literacy skills, and preparing reports for CICan and ESDC.

### *The ESSF training program*

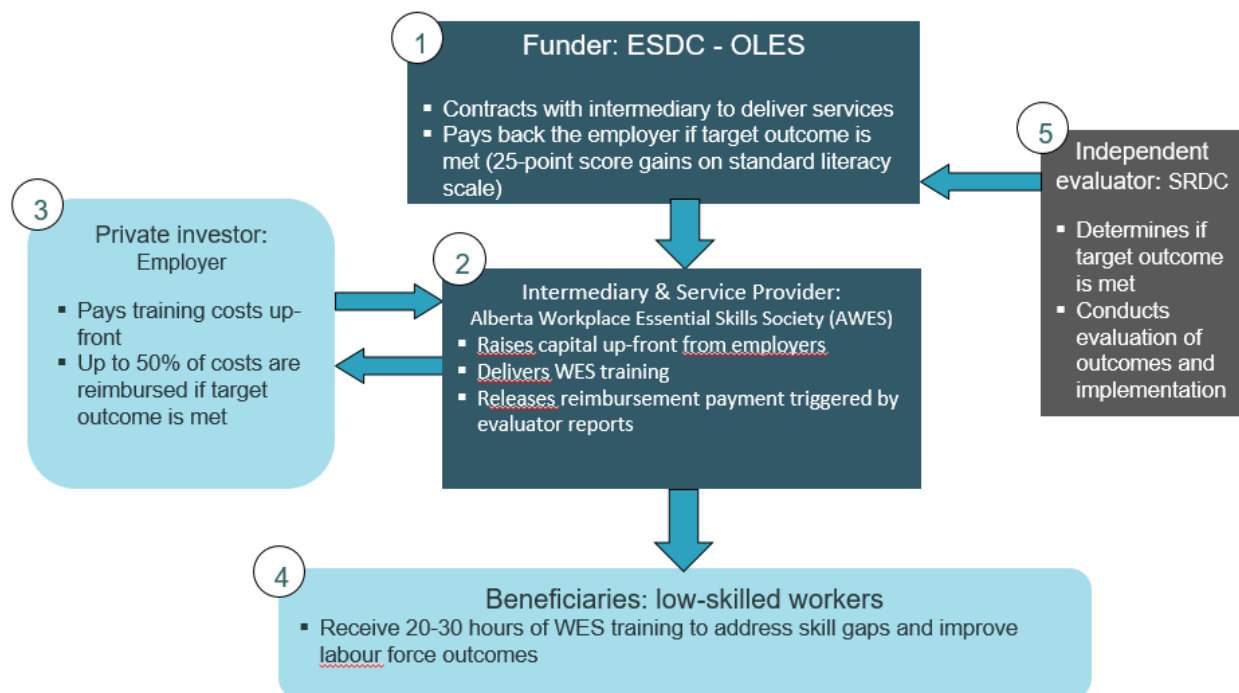
*ESSF* offers a blended-learning model comprised of group and individualized instruction designed to increase essential skills and engage participants. It is comprised of 144 instructional hours, typically delivered 6 hours per day, 4 days per week, for 6 weeks. Curriculum content supports learning in five main categories: document use, writing, digital technology, reading and numeracy. Each has a set of group activities, plus guidelines and resources for individual practice, at lower and higher levels of skill. As part of the curriculum, learners develop and produce their own portfolio of documents and resources to support them in their trajectory towards stable and satisfactory employment. The portfolio is more than a CV, containing materials for individual career exploration and job search, as well.

Initiated by one of the SIB investors, CIG and Douglas agreed to offer *ESSF* more ‘wraparound’ supports than *Foundations* had in the past. These supports would be provided as needed, identified by the participants and facilitators. For example, these could include health and wellness supports, meals (on site), housing assistance for those precariously housed, referrals to other community services. Douglas and the other College service providers acknowledged that inclusion of, and referrals to, these types of supports have been made *de facto*, in similar programs in the past if clients are in need. The difference with *ESSF* is that because many participants were anticipated to have multiple barriers to employment, more extensive wraparound services would be required.

## AWES Skilling UP

The AWES *Skilling UP* Pilot Project is engaging businesses who employ lower-skilled Canadians to provide essential skills training for their workers. In the *Skilling UP* model, employers pay up front for essential skills training and are reimbursed up to 50 per cent of training costs if workers achieve pre-agreed skill gains. *Skilling UP* is a pay-for-success model, however it does not fit the “social finance” label, since employers are motivated to invest in training that increases the productivity of their workers, and not by the prospect of achieving social or environmental benefits. The model more closely resembles a ‘conditional subsidy’ for training.

Figure 2.2 The *Skilling UP* model



## Partners and roles

### *1. Funder: Adult Learning, Literacy and Essential Skills Program*

As stated previously, the Adult Learning, Literacy and Essential Skills Program is an initiative of the Government of Canada run through Employment and Social Development Canada (ESDC). The program is funding the AWES *Skilling UP* project, and is co-funding the training alongside participating employers according to a pre-agreed repayment schedule based on employee skill gains.

### *2. Intermediary and service provider: Alberta Workplace Essential Skills Society (AWES)*

AWES is the contract holder and is responsible for the training implementation including conducting organizational needs assessments, developing curriculum and providing training and quality assurance. As well, they are managing the cost-sharing model for the government and the participating employers. AWES has engaged three partners on the *Skilling UP* project: *SkillPlan* is AWES' training partner, *DataAngel* is examining the effects of training on business outcomes, and *EduData* is hosting the data used to support training delivery.

### *3. Private investor: Employers*

AWES was successful in securing three employers in the manufacturing sector in Ontario to participate in *Skilling UP*. Investors pay \$425 per worker to AWES for providing 20-30 hours of workplace-based ES training, customized to their specific organizational needs and employee skill gaps. Repayment is made according to the agreed schedule, once training is completed at individual employer sites, unlike the *ESSF* SIB model where repayment is calculated based on the entire sample.

Information about the three employers is found below in *Employers and Sites*.

### *4. Beneficiaries: low-skilled workers*

*Skilling UP* is targeted at employees with lower literacy skills, defined as those below Level 3 on the standard International Adult Literacy Survey (IALS) scale. Most jobs in today's workplace require skills commensurate with Level 3 or higher – and this was found to be the case when AWES reviewed skill requirements for jobs in the participating employers' workplaces. Workers below Level 3 are more likely to have difficulty reading or interpreting work documents, or communicating with coworkers, for example, resulting in higher error rates and lower productivity. As workplace-based ES training has been demonstrated to increase literacy skills and have a positive impact on workplace performance, among other positive outcomes, workers participating in *Skilling UP* are anticipated to benefit from the training. In turn, increasing the work performance of individual workers leads to overall productivity gains for the employer; in this sense, employers investing in *Skilling UP* are also beneficiaries in this model.



### 5. Independent evaluator: SRDC

SRDC is contracted by the Government of Canada to measure literacy skills of workers and validate score gains for purposes of determining repayment to employers. Assessments are done three times: at baseline, post-training, and 12 months following the training. SRDC is also responsible for evaluating the effects of the training on outcomes including workers' attitudes and behaviours towards work, wages, and performance.<sup>24</sup>

In addition to supplying the TOWES<sup>25</sup> literacy assessments, SRDC has subcontracted Bow Valley College to facilitate most of the *Skilling UP* assessment sessions at *Skilling UP* sites.

#### *Skilling UP* training

The first step in developing training customized to employer needs was for AWES to conduct organizational needs assessments (ONA). For this process, AWES and partner staff spent up to a full week at each site, talking with senior management including HR, middle managers and supervisors, and front line workers. In addition to interviews, AWES conducted job shadowing to experience first-hand the types of skills needed for various positions, and to observe where gaps may exist. AWES prepared a report for each employer analyzing the findings of the ONA and presenting recommendations and a blueprint for training customized to their workplace and employee needs.

*Skilling UP* training is customized to the specific company's standards or processes as well as to the skill levels and gaps of employees. It does this by incorporating occupationally-relevant learning exercises and materials, utilizing authentic workplace documents to increase buy-in from participants and improve their understanding of the training. Up to 30 hours of training was offered to *Skilling UP* employees, in increments that work best for individual employers.<sup>26</sup>

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<sup>24</sup> The research framework is detailed in Chapter 3, and activities associated with validation of worker skill gains presented in Chapter 4.

<sup>25</sup> [www.TOWES.com](http://www.TOWES.com)

<sup>26</sup> A detailed description of the training is forthcoming in AWES' project report.

## Employers and sites

**Table 2.3 Employer descriptions**

Employer	Description
Chapman's Ice Cream	Chapman's Ice Cream is a frozen dessert manufacturer based in Markdale, Ontario. A family-run business since 1973, Chapman's employs over 300 people working on three shifts: mornings, afternoons and nights. The Skilling UP training targeted employees working in the position of Lead Hand; they direct other workers in production tasks, as well as completing their own production tasks, providing some quality control and reporting production data. The ONA conducted by AWES and SkillPlan identified targeted areas for training including document use, job task planning and organization (e.g., time management), and communication skills. At Chapman's, 19 hours of ES training were delivered over a concentrated five-day period. While ES training is characteristically delivered in smaller chunks of time over a longer period, it was Chapman's preference to conduct all of the training at once, during a plant shut-down.
Cosmetica Laboratories	<p>Cosmetica Laboratories is a cosmetics manufacturing plant located in Toronto, Ontario. In recent years, Cosmetica has grown four-fold from a small family-owned business to a company led by a Board of Directors. Cosmetica's approximately 700 line workers are scheduled on three shifts: days, afternoons, and nights. Management supported ES training, noting that operating in the highly-competitive cosmetics manufacturing industry, business success requires high productivity. Skilling UP training was provided to Cosmetica employees working in a range of positions: Compounders feeding the production lines with product; Technical Services team ensuring lines start and run smoothly; and Quality Line Leaders who monitor quality of the product and productivity of the line. Clear communication among workers in these three areas is essential for productivity.</p> <p>The ONA conducted by AWES prior to training identified document use, communication skills and thinking skills as targeted areas for training that would decrease error rates, improve speed and ultimately productivity. Thirty hours of Skilling UP training was delivered on site at Cosmetica over a six-week period.</p>
THK Rhythm Automotive Canada Ltd.	<p>THK Rhythm Automotive Canada Ltd. is an automotive parts manufacturing plant in Tillsonburg, Ontario. Part of a larger international company, THK ships critical safety parts worldwide, and it is essential that these parts meet quality assurance standards. A loss of experienced staff during economic downturn in 2008-9, and the introduction of unionization for some staff three years ago, are factors contributing to THK's interest in ES training to improve productivity and employee retention.</p> <p>At THK, training was provided to workers in the assembly and machine operations. Targeted areas for essential skills training identified by the ONA included document use (error reduction), effective coaching skills (oral communication, team building, dealing with conflict), and thinking skills (critical thinking, decision making and problem solving). Thirty hours of Skilling UP training was delivered on site at THK over a 10-week period.</p>

## 3. Evaluation framework

### Key research questions

Following a project kick-off meeting with funder (OLES), proponents (AWES, CICan) and evaluation partner (SRDC), research questions from the initial contribution agreement were fleshed out for both the *ESSF* and *Skilling UP* (see Appendix A: *Research questions and activity grid*). Questions and sub-questions were tailored appropriately to each of the distinct projects, as indicated below.

1. How effective are performance-based models supported by social finance to increase the LES skills of low-skilled Canadians?
  - What are participant outcomes following the training, in terms of LES skill gains?
  - Are skill gains maintained in the longer term?
  - What is the impact of the models on LES skills? Would skill gains have been realized in the absence of the training provided in the tested model (counterfactual)?
  - What is the variation of impacts across participant subgroups?
2. What factors contribute to successful models?
  - What are the incentive effects of the reimbursement mechanism?
  - Does performance-based pay for service providers have any influence on participants' outcomes? (*ESSF*)
  - Do outcomes vary according to content and/or dosage of the intervention?
3. What are the minimum rates of return for employers to be willing to invest in this training?
  - What was the return for investors (*ESSF*)/employers (*Skilling UP*) under this model?
  - What is the willingness of participating firms to pay for the training once the project is completed? (*Skilling UP*)
4. How do employers perceive this model and what motivates them to invest in training?
  - What motivates investors (*ESSF*) or employers (*Skilling UP*) to invest in LES training?
  - Why did investors or employers choose not to invest in LES training?

In addition to the initial research questions, SRDC proposed background and contextual questions to build on the body of knowledge about LES training, and to provide lessons learned.

- A. Are the proposed pilot projects a pay-for-success/Social Impact Bond, model?
  - What are the defining characteristics of pay-for-success and SIB models, and do the proposed models possess these characteristics<sup>27</sup>?
- B. How effective are the models in changing workers' overall performance at work/improving labour market outcomes?
  - What is the impact on employment and earnings?
  - What are the effects of the training on intermediary outcomes including attitudes, behaviours, well-being, and other attributes associated with labour force outcomes?
  - Are outcomes sustained over time?
- C. Does a pay-for-success/SIB model yield better outcomes than the traditional model of full government support (*ESSF*)?
  - What is the theory behind the notion that a SIB model should yield superior outcomes?
  - What are the "traditional models" against which the SIB models are being compared, and how do they differ?
  - How does the ROI to participants, firms, and government compare in each model?

## Theory of change and the research framework

The methodology being used for addressing the research questions is based on a theory of change approach. The theory of change is studied under a program logic model that identifies the implicit assumptions for how an intervention is expected to produce a specific result and the underlying steps that would lead to it. Logic models describe logical linkages among program resources, activities, and outcomes. They clarify how the change process will unfold, and places attention on the intermediate changes that need to occur in order for long-term outcomes to be reached.

Although logic models have traditionally been reserved for program interventions, we develop a theory of change for the *ESSF* and *Skilling UP* funding models. These innovative projects call for a conceptual logic model to demonstrate how they may be hypothesized to yield better results than traditional government funding models.

As stated in the introduction, the two pilot project have features in common. However, each project merits a unique logic models because their target population, intervention, and partnership arrangement are quite different. The following section presents two logic models for each pilot project: the first includes outcomes of the project as a whole with a depiction of the project conceptual model describing the financial-partnership structure. The second is a more traditional logic model narrowing down to the outcomes for the intervention.

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<sup>27</sup> For response to this question, see Appendix E: SRDC PowerPoint presentation to OLES March 2014.

## ESSF SIB project logic models

SIBs represent an alternative funding model for delivering social services. In theory, SIBs attract new sources of funding for the delivery of social programs, stimulate innovation in service delivery and increase collaboration between stakeholders from the public, non-profit and private sectors. The new financing model is argued to result in accelerating social innovation and improving performance on the delivery of social programs. Figure 3.1 presents a logic model depicting outcomes of the financial and partnership structure of the overall *ESSF* SIB project. The logic model was developed using a review of the emerging literature on SIBs. The logic model should be read from top to bottom and includes a conceptual model of the *ESSF* SIB as well as the expected intermediate and longer-term outcomes of the overall project. The different actors appear in their respective rectangle and were assigned a specific colour.

### SIB conceptual model

A conceptual model of the *ESSF* SIB is offered in the top third of the logic model presented in Figure 3.1. The SIB Commissioner (tan rectangles), Office of Literacy and Essential Skills (OLES), required a substantial due diligence process before committing to providing an outcome payment to investors which included an agreed upon interest rate. The intermediary (white rectangle), CICA, coordinated the negotiations between the government and service providers, and raised capital from private investors to provide operational funds and success payments to the service providers. The service providers (red rectangles), Douglas College, Confederation College and Saskatchewan Polytechnic provide LES training to the target group (orange rectangles). The evaluator (blue rectangle), SRDC, supported the intermediary on project design and implementation, conceived the reimbursement formula and worked with service providers on the data collection and monitoring processes. In the *ESSF* SIB, the role of evaluator and validator were been combined and this role was simply referred to as the evaluator. The investors (purple rectangles), Conexus Credit Union, Catherine Donnelly Foundation and a HNWI, provided up-front capital for the training and bonus payment to service providers. Intermediate and longer term outcomes for each partner are also described in Figure 3.1.

### Intermediate outcomes

The following intermediate outcomes are expected for low-skilled and unemployed individuals, service providers, investors and the government.

**Low-skilled and unemployed individuals** should benefit from gaining access to more innovative, effective and efficient LES training programs. In theory, SIBs foster innovation in service delivery because service providers are given more independence and flexibility in the program delivery because the reporting requirements in a SIB are different from that of traditional government funding models. In a SIB, service providers are able to customize and change the program if they think such changes will allow them to reach the predetermined outcomes agreed upon by all parties. As well, service providers receive success payments that can be spent at the service provider's discretion. For an in depth presentation of the intermediate outcomes for the target group refer to Figure 3.2 below.

**Service providers** gain access to a new and stable source of funding. In theory, they are given more autonomy and flexibility in the delivery of the training being held accountable for outcomes rather than program outputs. They also receive outcome payments if certain milestones are reached, which also increases their flexibility in delivering the training program. Service providers will acquire experience and skills in the collection and reporting of data engendering a performance management culture within the organizations. Moreover, service providers will increase their knowledge and capacity in delivering LES training.

**SIB Commissioner**, in this case the federal government, benefit from sharing risk of funding an intervention with the private sector. The SIB Commissioner also benefits from having entered into an agreement for launching a preventative approach to solving a social problem in place of funding a remedial program. The federal government should generate cost savings plus deliver on positive social outcomes.

**Investors** benefit from increased awareness of social issues and social programs. They also have the opportunity to share their knowledge and experience with social service providers. Investor involvement may contribute to instill a performance management culture within service provider organizations, from which they may draw satisfaction.

### *Longer-term outcomes*

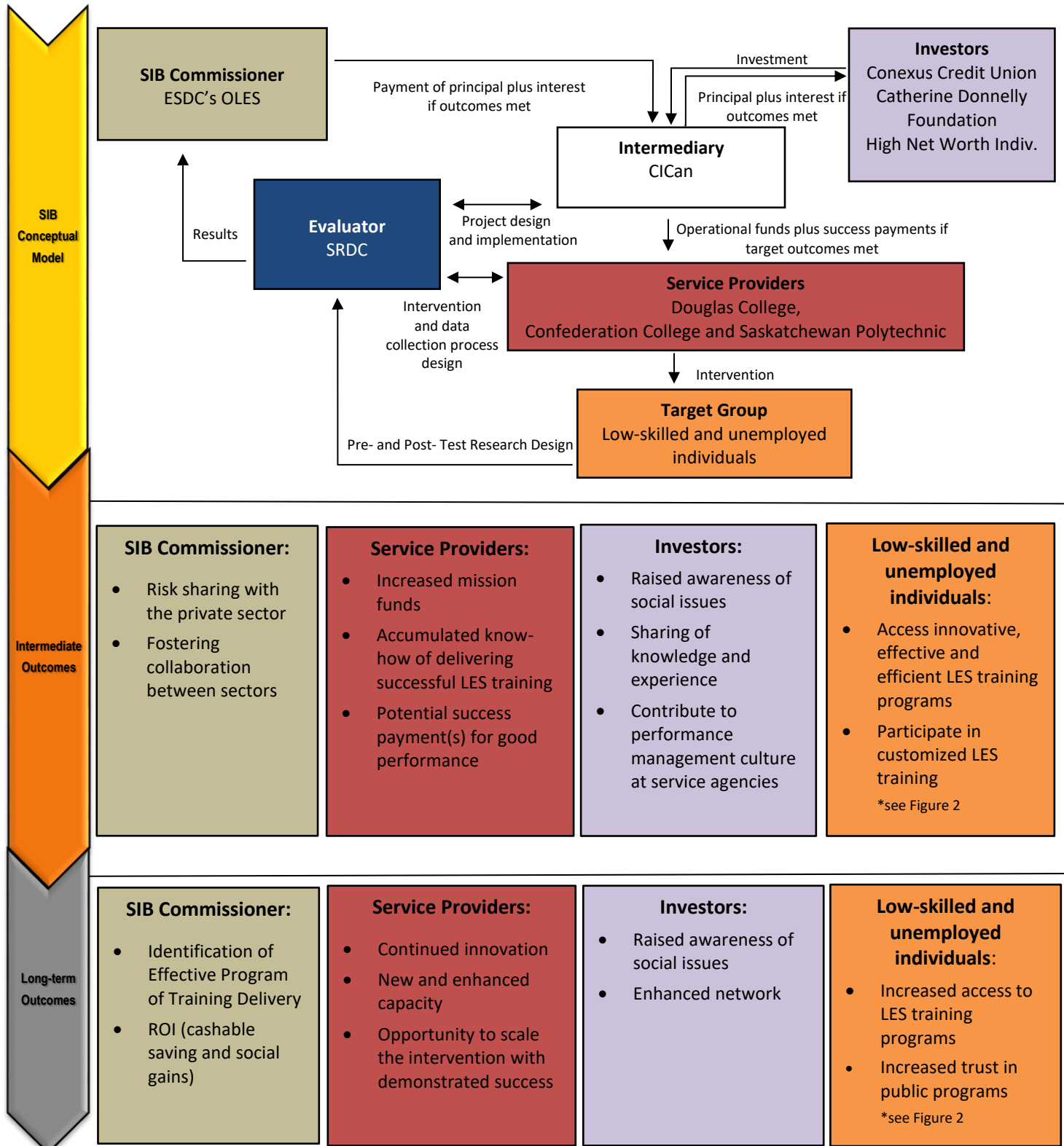
**Low-skilled and unemployed individuals** will gain access to more LES training programs as service providers gain access to stable and long-term funding from investors. Service providers will also be able to use newly collected evidence of their interventions' effectiveness increasing their changes of securing funding from traditional funding streams. Better outcomes for participants should also result in these individuals having more confidence and trust in public programs. See Figure 3.2 below for an in-depth presentation of long-term outcomes for unemployed individuals participating in LES training.

**Service providers** continue to innovate in their delivery of LES training. They also continue to acquire new knowledge and competencies in service delivery. Finally, they receive the opportunity to scale the intervention if results are achieved because of the evidence generated by the SIB model.

**SIB Commissioner** will benefit from collecting evidence to determine if the intervention is or is not effective upon the completion of the project. If the intervention has been demonstrated to be effective, the SIB Commissioner can make an evidence based decision to either directly fund the successful project or chose to raise another round of investment for the intervention. The SIB Commissioner will benefit from improved training quality given that the training providers will be developing programs informed by data generated by the SIB pilot project. Over time, the SIB Commissioner will benefit from better training outcomes by funding programs that have a proven track record.

**Investors** continue to be exposed to social issues and programs thus raising their awareness. Investors contribute to evidence-based decision making in social policy and are given the opportunity to gain access to new networks.

Figure 3.1 SIB project logic model

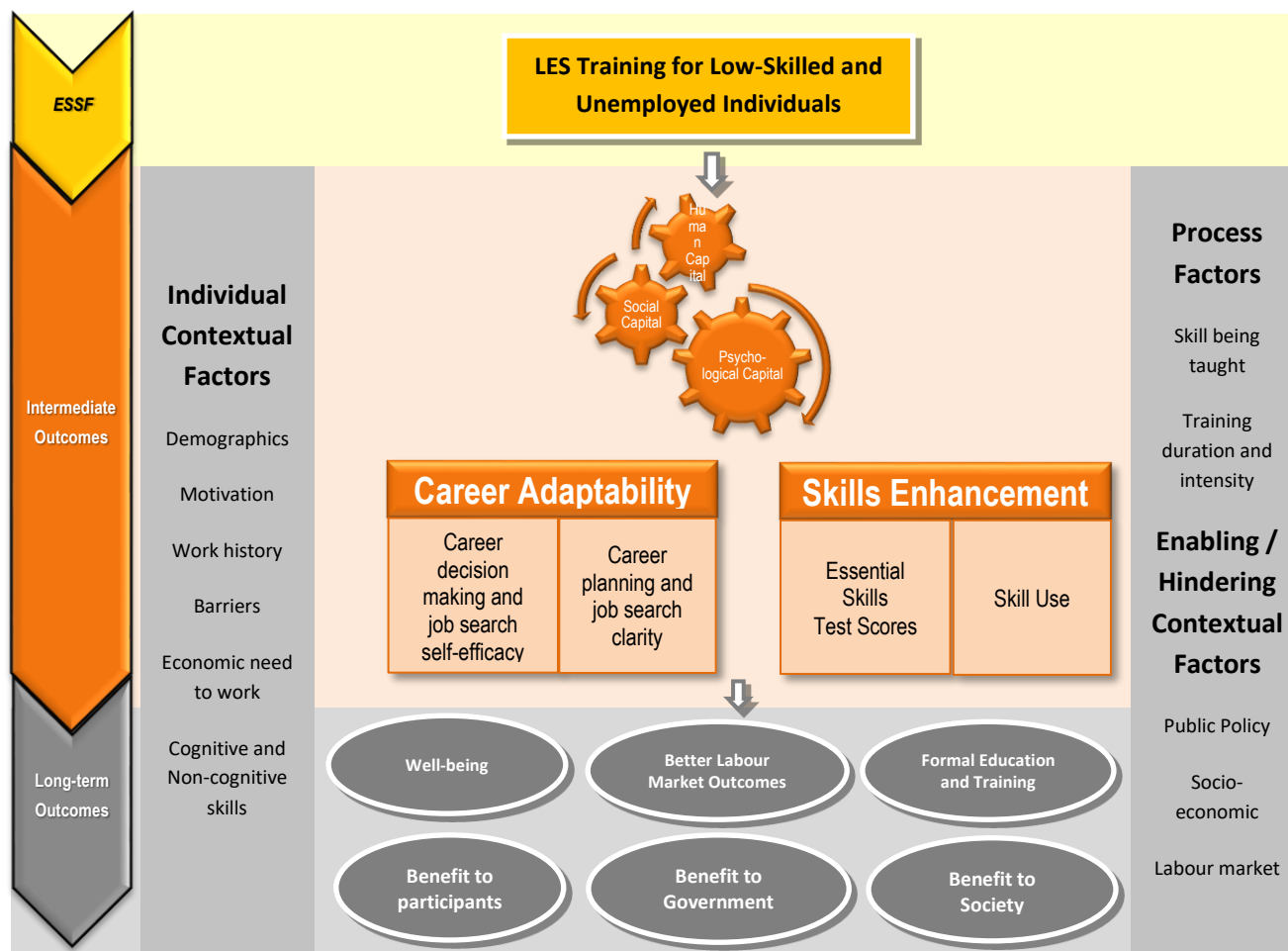


## ESSF intervention logic model

A logic model based on a theory of change for the intervention is presented in Figure 3.2. The logic model demonstrates how the intervention will produce desirable outcomes for low-skilled unemployed Canadians, the government (SIB Commissioner) and in turn society. The logic model was developed from a review of the adult learning literature including a model developed in New Zealand (see Folinsbee & Hayes, 2010), and models SRDC has used to guide other similar projects where LES training was implemented and assessed.

Starting with the essential skills training and the learning process at the top of the logic model and ending at the bottom with the long-term outcomes. In between are intermediate outcomes, many of which are hypothesized to influence the relationship between the LES training process and the stated outcomes. The long-term outcomes for individuals and return on investment (ROI) for governments are likely to take place beyond the relative timeline of this project, and therefore not measured. Surrounding the model are some of the contextual factors that must be considered when capturing outcomes of adult learning. These factors may affect outcomes at each stage in the process. Some outcomes may be pervasive and of a great magnitude, while others may be less common with small magnitude, and, depending on the timing of the post-training data collection, may not be detected.

**Figure 3.2** A logic model for estimating outcomes and returns to LES training





### *LES training process: Implementation factors*

The theory of change depicted by this logic model begins with the LES training process on the right-hand side of the diagram. Included are a group of implementation factors that have been shown to affect training effectiveness. According to the literature, the following features are important characteristics of LES training activity:

**Skills being taught:** As some Essential Skills are likely to be more discrete and can be taught more readily than others and can therefore be more readily transferred, the skill being taught may affect the magnitude of the skills gains resulting from the training.

**Training duration/intensity:** How training is delivered – its duration and intensity – has a role to play. Duration refers to the amount of time spent in the training activity and intensity refers to the amount of training in a particular amount of time, e.g. hours per week or month. The greater the number of hours delivered, the greater the expected effects. Training irregularly spread out over several weeks would have a lower chance of reinforcement of skills being taught and therefore realizing lower gains from training.

### *Contextual factors*

The relationship between literacy training and outcomes may be influenced by a host of contextual factors, at the individual level and externally. The individual contextual factors are measured at **baseline**, indicating conditions of participants at the start of the training. These variables contribute to the effectiveness of the training – i.e., whether it results in positive or negative, weak or strong outcomes. A key point is that the training intervention is only one part of a larger system leading to expected outcomes where other factors play a role in influencing learner behaviour, learner performance, and outcomes. This is an important consideration when measuring the benefits of training.

**Individual level contextual variables** include **socio-demographic and lifecycle** characteristics such as gender, age, household income, marital status and family status, all of which can influence training take-up and success. The learner's current employment conditions can also affect training effectiveness. In this case, all participants are removed from the labour force, and some are far removed from the labour force, which presents its own issues to the success of the training.

**Motivations and engagement:** The effectiveness of the training will also be influenced by the learners' motivation and expectations for the training, as well as by their engagement in it and their understanding of its objectives. In this case, the participants are participating voluntarily, therefore, we would expect them to be more engaged and motivated to complete and succeed in gaining the skills being taught than those who would be forced to participate. Affecting training outcomes as well is learners' participation in the learning activity (e.g., attendance, active participation, completion of learning tasks). Similarly, learners who are convinced of the training's value will be more likely to apply the newly acquired skills.

**Work history:** The work history of the target population indicate the amount of time individuals were engaged in remunerated work. Work experience accumulated by individuals and the amount

of time spent employed is hypothesized to affect completion of the program and long-term labour market outcomes.

**Economic need to work:** The economic need to work may be one of the primary motivations for low-skilled unemployed individuals to consider LES training.

**Barriers:** The LES training will be delivered to a target population that is more distant from the labour market than low-skilled individuals who are employed. The target population will not only be experiencing challenges with gaining essential skills, but will also be facing significant barriers to finding employment. They may have limited education and work experience, lack of job hunting skills and/or limited proficiency in using the English language. They may have children or inability to access transportation. Their reality may impact their success in acquiring LES and have an effect on longer-term outcomes.

**Human, social and psychological capital** are contextual variables that can not only affect training success, but are outcomes in their own right, as will be discussed in the outcomes section below. Contextual variables include human capital related factors such as participants' baseline literacy level, educational attainment level and prior experience in and attitude/receptivity toward learning; psychological capital variables such as their degree of confidence and motivation at work at the start of the training; and social capital variables such as their degree of trust and connection to those around them.

In general terms, it would be expected that those at lower literacy levels and therefore with the greater room for improvement would be expected to derive greater skills gains from the training than those at higher levels of literacy (though this also depends on the literacy level at which the training is pitched). Also, those with positive views on learning and higher levels of confidence and social connections might also be more likely to be positively affected by the training than those who hold negative views of learning and who are less confident and connected.

Training outcomes can also be affected by **external enabling/hindering** factors such as the socioeconomic and labour market context and conditions, as well as the policy, program and institutional environment.

### *Intermediate outcomes*

Intermediate outcomes are the changes in the level of relevant skills, behaviours, and/or characteristics that not only have value in their own right, but also may support the attainment of the long-term outcomes of interest. Chronologically, we might expect these outcomes to occur during, immediately after, or sometime after the program. Ultimately, LES training relate to changes in relevant skills levels, behaviours, and/or characteristics measured after a training activity, such as literacy scores, self-confidence, earnings, and participation in everyday activities. The effect of the training will be measured by comparison of post-training levels of these variables to the pre-training levels.

**The human, psychological capital, social capital outcomes**, the counterparts of which measured at baseline, as described above, capture conditions at the start of the training.

**Human capital** outcomes include improvement in **LES skills** such as reading (documents), writing, oral communication, numeracy, teamwork and problem-solving ability. Beyond skills, training (participation in and successful completion of the training and the skills gains from it) has been hypothesized to lead to outcomes related to other human capital outcomes such as increased desire for and participation in more learning, enhanced social capital (enhanced network size and diversity).

**Psychological capital** outcomes, a key theme in the psychology and education literatures is that education and learning are often associated with changes in how an individual thinks and feels about him/herself. Three “self” variables that may be influenced by LES training are self-esteem, self-efficacy and self-confidence. While self-esteem can affect the motivation of individuals to complete training, it also can be a result of training, though this depends on the type of self-esteem. Research has shown that training has been found to be positively related to self-efficacy (Orpen, 1999). It is sometimes argued that adult learning contributes to the development of resilience (Hammond, 2003). If increased literacy can improve resilience, such as the ability to effectively communicate and deal with problems, then it would be a benefit to the learner.

**Social capital**, another major theme in the training literature is the positive effect that adult learning has on the creation and development of social networks, which are of two types: bonding social capital which refers to relatively homogeneous networks connected primarily by close or strong ties and bridging social capital, which refers to networks that include important connections with those unlike the participant, usually characterized by distant or weak ties. Here the diversity of the network is important. While a large social network may be useful in getting leads to job opportunities, it is less useful if all contacts are in the same walk of life as the individual and know each other. Social capital is seen as playing an intervening role in the realization of socioeconomic outcomes with fellow students and teachers as well as a prerequisite or co-requisite of further learning. For example, Balatti, Black, and Falk (2006) found that adult learning positively affected attachments to social networks, which had positive effects on students’ education and learning, employment and social environments and the quality of working life.

**Career Adaptability** is hypothesized to be impacted by the program. Participants will increase their belief in their ability to identify a clear, realistic career path and search for jobs in a targeted way due to career development services offered during the duration of the intervention. They should be able to better understand the alignment of their own skills with skills required by target occupations to help them define more focused career paths and job search strategies. This should in turn lead the individuals to make more strategic choices in further training to acquire occupation-specific skills or qualifications. The measures of career adaptability include career planning, career decision-making self-efficacy, job search clarity and job search self-efficacy.

**Skills Enhancement** is the key outcome metric for the LES training. The main objective of the project is to close the skills gap of the target population to improve labour market outcomes. Closing the skills gap is likely to improve participants’ foundational abilities and improve their chances of successful entry into the labour force. Participants should gain the confidence to apply these skills in a variety of contexts, whether it be everyday activities or readiness for further formal education and training.

### *Longer-term outcomes*

Longer-term outcomes for LES training are those that are likely to take longer to occur than intermediate outcomes, although they could manifest themselves and be detected sooner. Many of these outcomes could well occur outside the project period, but because some may take place within the project period, data should be collected on all of them. These outcomes may be financial and non-financial, and more or less tangible. The outcomes follow, bearing in mind that some of them overlap with outcomes discussed in the previous section.

**Improved labour market outcomes** refer to long-term outcomes that affect an individual's wealth or income. Individuals may gain access to employment with higher-wage jobs and experience greater job satisfaction.

**Well-being** may be developed by individuals as a result of higher quality jobs and better job satisfaction and a greater sense of control with less uncertainty and less anxiety associated with their future career path and attachment to the labour market. Individuals may improve their overall health<sup>28</sup> and relations with family and friends. Also, the broader adult learning literature identifies several outcomes of adult learning programs that relate to well-being including increased access to services, increased life satisfaction, and lower overall stress.

**Formal education and training** opportunities may be pursued by the target population as a result of the LES training. Individuals may develop an interest and the confidence to pursue additional formal education and training.

**Benefits to participants, government and society** should have been calculated for this project using a cost-benefit analysis, however, due to budgetary and time constraints as well as the unanticipated reduced scope of the project, it will not be possible to do so. Calculating the cost-benefit should be considered as an important post-project activity if the government chooses to move forward with future SIBs.

A cost-benefit analysis includes a calculation of the net cost or benefit of the training activity relative to the cost of similar programs. It is frequently expressed as a ratio or a percentage. The costs and benefit can be measured at the individual, government and society levels. All benefits of the training are given a monetary value, summed, and compared to the costs, including the actual expenditure on (investment in) the training, to determine whether the program yielded a net benefit or cost. In theory, it will not be possible to determine if SIBs can truly deliver on their stated potential until a cost-benefit analysis is calculated for completed SIB projects.

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<sup>28</sup> Another potential outcome of interest here is health literacy, the improvement of which through LES training could contribute to better health behaviour and improved health and possibly more accurate attention to health practices leading to enhanced productivity and reduced food spoilage or wastage.

## Skilling UP project logic model

The *ESSF* and *Skilling UP* pilot projects are similar in many respects including having private sector organizations or individuals investing in ES training, however, the overall project models are actually quite different. The *Skilling UP* project does have a pay-for-success design feature, but it is not a SIB. It is more akin to a traditional government training subsidy with a pay-for-success feature added to the model. In this case, the Government of Canada provides a subsidy of up to 50% of the ES training costs to participating companies if the ES training manages to produce a predetermined skills enhancement for their low-skilled employees. The *Skilling UP* overall project logic model is presented in Figure 3.3.

The pay-for-success element of the project is hypothesized to yield better outcomes than the traditional government funding model for workplace ES training. Numerous studies have established that improving ES for low-skilled employees will improve their chances of succeeding in their workplace and in life in general, however, evidence shows that low-skilled workers face multiple barriers in accessing training compared to their higher skill counterparts (Hui & Smith, 2003<sup>29</sup>). This can be due to prohibitive cost and lack of support, information, cognitive and psychological barriers as well as availability of training. They may not recognize the need to improve their Essential Skills. Also, they may not have the ability to identify suitable training opportunities or be willing to take risks and participate in training. Finally, the training may simply not be available.

Most of the barriers associated with preventing low-skilled employed individuals from accessing ES training can be overcome if employers choose to offer and support the training, however, employers also face barriers to providing training for their employees. For instance, employers often feel the return on investment for ES training of employees is too low. Some employers believe that workers will take their enhanced skills and leave for better opportunities elsewhere. In some work contexts, management or incentive structures are barriers to effective ES training. To address these barriers, governments have been subsidizing training and skills development of low-skilled workers through many different initiatives and programs, for example by providing financial support for workers (through bursary, grants, loans, income support, and so on), free courses, or subsidies to employers for training provision. Unfortunately, not much evidence exists to show that public funded training for low-skilled workers has been matched with their needs, raised their skill level or improved their labour market outcomes substantially (see King, 2004; Myers & de Broucker, 2006<sup>30</sup>).

Publicly funded training models often fail because of a lack of alignment between training content and job performance needs, which may arise either through lack of information on the part of the

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<sup>29</sup> Hui, S.W. and Smith, J.A. (2002): *The Determinants of Participation in Adult Education and Training in Canada*. Unpublished report prepared for Human Resource Development Canada. Available from [http://www-personal.umich.edu/~econjeff/Papers/aets\\_participation.pdf](http://www-personal.umich.edu/~econjeff/Papers/aets_participation.pdf). London, Ontario, Canada.

<sup>30</sup> Myers, K. and de Broucker, P. (2006): *"Too Many Left Behind: Canada's Adult Education and Training System."* Canadian Policy Research Network.

trainers and/or trainees, or through a mismatched incentive structure that provides funding based on service provision rather than outcomes. For example, under a pay for service model, case managers and trainers are required to follow a standardized set of eligibility criteria and deliver training based on a standardized set of assessment/intervention guidelines, regardless of the actual suitability and efficacy of the training.

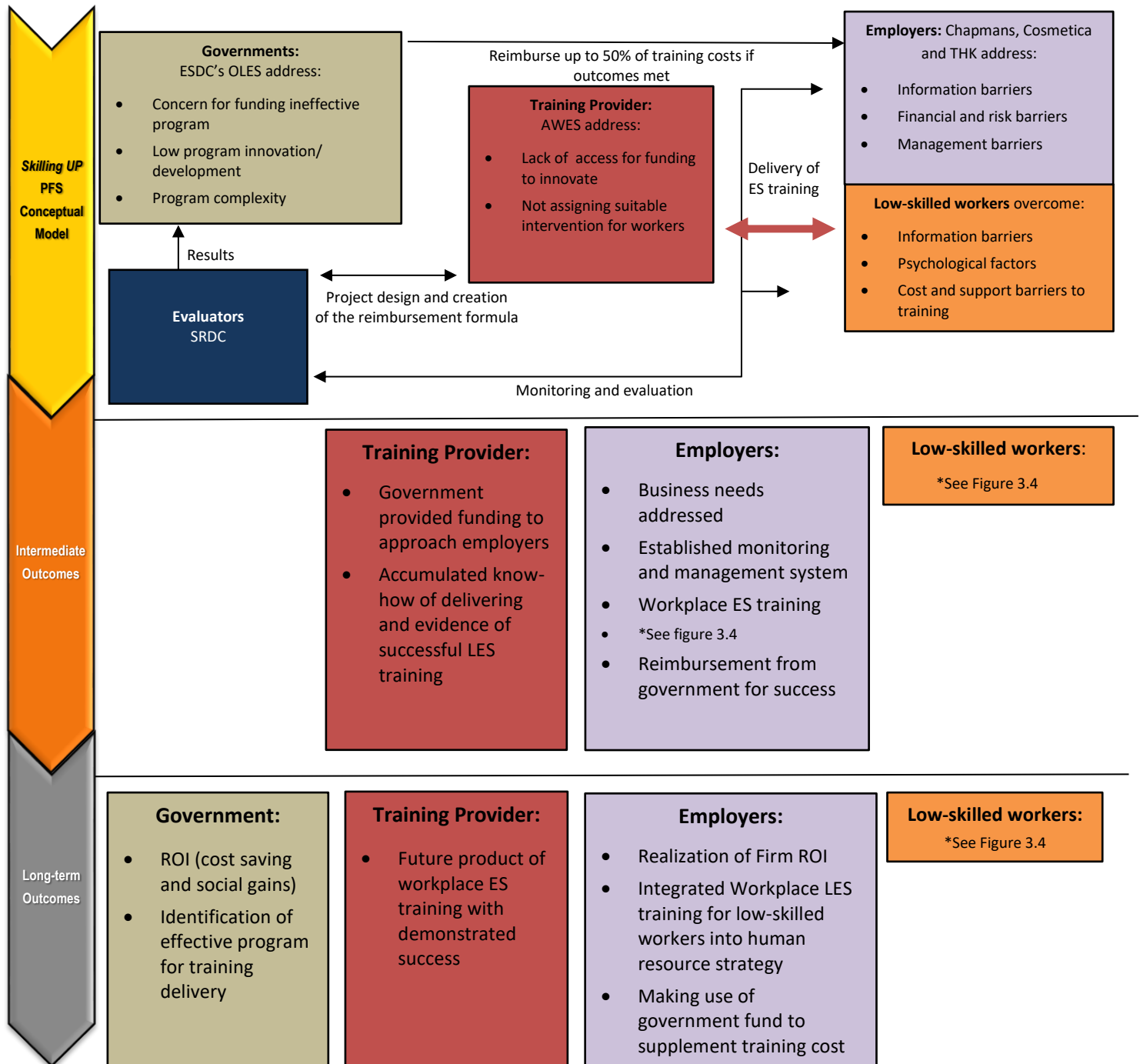
The issue of aligning training with workplace skill needs can be addressed in theory by allowing employers to select the training, under the argument that they are best placed to know their employees' needs. However, employers have an incentive to train workers who can become productive quickly. They may choose employees with high existing skill levels rather than those who are in greatest need and may benefit most from training. Traditional funding formulas seldom provide employers with an incentive to deliver basic skills training to the lowest-skilled workers. In contrast, the pay-for-success model creates an incentive structure for employers to work together with the training provider to target and improve the skill level of low-skilled workers. The main feature of the *Skilling UP* model is that it rewards employers for reaching predetermined and agreed upon outcomes – the government is not obligated to pay if the training does not produce skill gains for low-skilled employees. The model thus provides a potential solution to some of the barriers preventing low-skilled employed individuals from accessing training.

### *Skilling UP* project conceptual model

A conceptual model of the *Skilling UP* project is offered in the top third of the logic model presented in Figure 3.3. AWES (red rectangles) was responsible for approaching employers with the opportunity and to deliver the training to low-skilled employees. The employers (purple rectangles) provided the upfront funding for the LES training and a suitable environment for the training delivery. OLES (beige rectangles) committed to paying a wage subsidy of up to 50% of training costs if the LES training meets predetermined outcomes. The evaluator (blue rectangle), SRDC, worked with AWES on project design, conceiving the reimbursement formula. SRDC was also responsible for collecting data on the performance of the training using a Pre- and Post-test design to measure impact of the intervention. Figure 3.3 also presents the expected intermediate and longer-term outcomes for the *Skilling UP* project.

Measurable indicators as a measurement of success were established by OLES, SRDC and AWES. Once the indicators were chosen, the partners collaborated in creating a pay-for-success reimbursement structure based on outcomes desirable for program participants, employers and society. This was followed by the recruitment of employers to participate in the project.

Figure 3.3 Skilling UP project logic model



### *Intermediate outcomes*

The following intermediate outcomes are expected for low-skilled and unemployed individuals, service providers, and employers:

**Low-skilled workers:** See *Skilling UP* intervention logic model below (Figure 3.4).

**Employers** had an active role in establishing an agreement with training providers in service delivery and established a structure to monitor and manage training delivery to ensure the training addresses the needs of the business. They addressed their employees' skill gaps and increased the probability of success of the training they received. In addition to this, they received a financial incentive from the government in the form of a training subsidy.

**The training provider** received funding from the government to approach employers with an incentive to participate in an ES training program. The training provider received upfront payment for training from employers, providing stable funding. The project provided the training provider the opportunity to accumulate capacity in delivering successful ES training in a workplace context.

### *Longer-term outcomes*

**Low-skilled workers:** See *Skilling UP* intervention logic model below (Figure 3.4).

**Employers** achieve better returns on training investment and address barriers to providing ES training. Employers also receive a government subsidy.

**The training provider** benefits from collecting evidence on their ES training program to demonstrate its success in a workplace context.

**Governments** will achieve a return on investment in the longer term with cost savings on remedial income support programs and other social programs. They will also gain access to data for the identification of effective ES training delivery.

### *Skilling UP* intervention logic model

The logic models for the *ESSF* and *Skilling UP* interventions are identical with the exception of the target group and training delivery context. *Skilling UP* is delivered to employed low-skilled Canadians in a workplace context whereas *ESSF* is delivered to unemployed low-skilled Canadians in the community. The *Skilling UP* intervention logic model for estimating outcomes and returns to workplace ES training is presented in Figure 3.4.

### *ES training process implementation factors*

The ES training implementation factors for training effectiveness are the same for both the *ESSF* and *Skilling UP* projects, however, we must consider the following additional factors for the *Skilling UP* project. The ES training delivery will be influenced by employees' and employers' motivations. Expectations for the training, their engagement and their understanding of its objectives are important factors for success of the ES training. Employees who voluntarily participate in the



training are expected to be more engaged and motivated to complete and succeed in the training than those who are told to participate.

Affecting training outcomes as well is learners' level of participation in the learning activity (e.g., attendance, active participation, completion of learning tasks). Similarly, employees and employers who are convinced of the training's value will be more likely to apply or encourage employees to apply the newly acquired skills in the workplace. Finally, the number of employees in firms participating in the training will influence outcomes at the workplace level: the higher the proportion participating, the more likely we are to observe firm-level impact.

**Alignment to needs:** A strong influence on how effective the training turns out to be is how well the training is aligned to needs. There are two aspects of alignment that should be considered: (1) the extent to which the skills being taught match the skills gaps of the trainees, and (2) the extent to which the learning objectives of the training support business and performance needs of the organization, including improved customer service and customer/client relations and increased productivity (worker sample). Other research has indicated, in behavioural/performance terms, what workers need to do better in order to contribute to stated business needs. Training should be delivered only that meets the skill needs and objectives of learners.

**Instructor:** Instructor experience within a workplace and essential skills setting should have an influence on training effectiveness. If an instructor engages with staff and gets to know workplace processes, he or she can better ensure a fit among the teaching content, the learners' needs and the company's aims. Moreover, the instructor can provide feedback on the learners' progress in the training course to supervisors on the one hand and gain feedback on job demands/issues on the other.

### *Contextual factors*

Workplace-level contextual factors, which influence how workers apply what they have learned to the job, include clarity of roles and expectations of staff, including the existence of clear performance standards; workforce size and the number of trainees relative to workforce size; the learning culture within the organization proxied by the amount of training (per employee) that has taken place over the recent period; employees' engagement and participation in workplace operations; and performance and training incentives offered by the employer.

Another set of contextual factors affecting training effectiveness comprise recent performance leading up to the training in various business outcome areas (which are also areas that could be affected by the training; see next section). The baseline business outcomes to be considered include relations among staff and between workers and management, workplace morale and stress, sales, turnover, learning culture, etc. Note that, at the outset, the effect of these variables on training effectiveness is ambiguous. On the one hand, lower organization performance at baseline could have a dampening effect on training success; on the other, low baseline business performance levels leave more potential room for improvement from the training compared to better performing businesses.

Beyond the workplace, training outcomes can be affected by external enabling/hindering factors such as the socioeconomic and labour market context and conditions, as well as the policy, program and institutional environment.

### *Intermediate outcomes*

**Training Outcomes:** The immediate human, psychological and social outcomes are the same as those described for the *ESSF* intervention logic model. Outcomes relating to practices in which individuals engage in using their skills outside of the workplace are also comparable to skill use in the *ESSF* intervention logic model. One difference between the two logic models is the improvements in **workplace performance** as an outcome of interest. Job performance outcomes include improvements in communicating with colleagues and customers, accuracy and speed of work, organization and planning skills, using workplace instruments, equipment and machinery, completing workplace documents, and working safely.

The order in which skills and performance come is not clear. On the one hand, it is suggested that performance outcomes will not come until after the employee has a chance to apply the acquired skills to the workplace, whereas others say that skills gains are not fully realized until the employee has had the opportunity to work with them on the job. More will be said about skills and job performance outcomes further below. In the diagram, workplace and everyday outcomes depicted as overlapping to illustrate an ambiguous delineation between learners' personal and workplace practices and behaviours. These may include a range of behaviours that provide further opportunities for the practice/use of literacy skills that may support learning.

### *Longer-term outcomes*

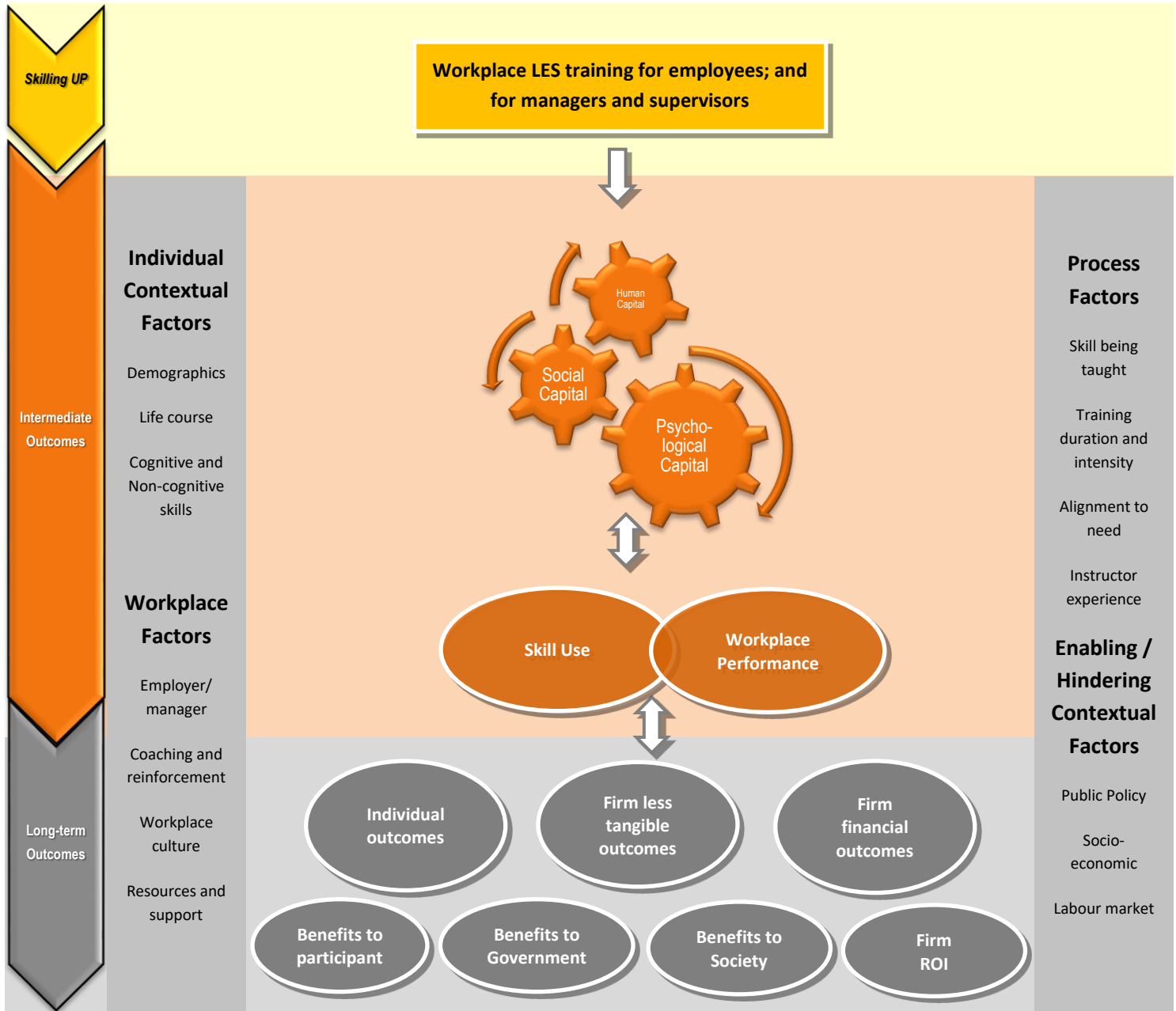
The longer term outcomes for the target population are the same as the *ESSF* intervention logic model. However, these outcomes can accrue to both individual learners and employers. For employers they may be more or less tangible. Business outcomes can be:

**Tangible outcomes:** These include lower error rate, increased productivity, increased sales, better cost control (less wastage), improved customer service, worker retention, reduced absenteeism/"presenteeism" (working while unwell), and improved health and safety (safer workplace), which arguably are the outcomes of most interest in a project that is designed to engage employers.

**Less tangible outcomes** include outcomes that cannot be easily quantified or monetized such as improved workplace morale, cohesion among co-workers, improved relations and trust between management and employees, and an enhanced culture of learning.

**Benefits to participants, government and society and Firm Return on Investment** should be calculated using a cost-benefit analysis. The same issues mentioned for the *ESSF* project apply for this project.

**Figure 3.4 Skilling UP logic model for estimating outcomes and returns to workplace ES training**



## Organizational needs assessments

An important objective of the AWES *Skilling UP* training is to enhance participants' essential skills and thereby improve their job performance as well as key business outcomes for the employer. The literature, and SRDC's *UPSKILL* and *Measures of Success* experience have shown that essential skills training is more likely to meet this objective if it is aligned with identified employee job, business and performance needs of the firm. The question, then, is: What are the key business and job performance areas that need improvement and that would benefit from the training?

For *Skilling UP*, AWES was responsible for conducting organizational needs assessments (ONAs) to i) inform the design of training curricula, by ii) identifying gaps in job performance and underlying essential skills tied to key business needs. A summary of the ONA results is illustrated in Table 3.5. The three organizations involved in *Skilling UP* – Chapmans, Cosmetics, and THK – had broadly similar business priorities, primarily around increasing overall productivity through more accurate completion of work documents, better teamwork, and better ability to troubleshoot emergent issues arising during performance of job tasks. It was thought that improving job performance in these areas would also result in improved workplace safety, reduced absenteeism, and better employee retention. Training activities were thus designed to enhance the essential skills (document use, oral communication, and thinking/problem solving) underlying these job performance areas, using authentic workplace scenarios and materials.

**Table 3.5 Summary of the Skilling UP organizational needs assessments**

Business Needs	Job Performance Areas	Underlying Essential Skills
Increased productivity <ul style="list-style-type: none"> <li>Reducing errors</li> <li>Improving task efficiency and time management</li> <li>Improving decision-making around emergent issues</li> </ul>	Accurate completion of documents	Document use
Improved health and safety	Building and maintaining team cohesion through effective coaching and communication	Oral communication
Enhanced human resources <ul style="list-style-type: none"> <li>Increased retention</li> <li>Reduced absenteeism</li> </ul>	Troubleshooting ongoing issues with equipment and quality assurance	Thinking and problem solving

## Evaluation methodology and data sources

SRDC's evaluation plan initially proposed three components for both pilot projects: outcomes and impact analysis, implementation research and cost-benefit analysis. A randomized controlled trial

(RCT) design – or alternatively, comparison group designs – with large sample sizes (800-1800) were key features of the original evaluation proposal. However, securing private investment (*ESSF*) and employer participation (*Skilling UP*) turned out to be more difficult than project proponents had thought, and there was little appetite for designs that would provide counterfactual data as recommended. As a result, data required for the impact analysis and cost-benefit analysis will not be available. SRDC revised the research framework accordingly: a pre-post outcomes analysis and an expanded implementation research component will respond to research questions and lessons learned. If feasible, a high-level cost effectiveness analysis can contribute to a proof-of-concept for these unique funding models.<sup>31</sup>

Each component of the revised methodology is briefly described below, along with the data sources.

## Outcomes analysis

The outcomes analysis will produce quantitative and qualitative estimates of pre-to-post training change in a range of measures, using the following data sources:

- TOWES assessments of document use skill, conducted at baseline (pre-training), immediately post-training, and 12 months post-training;
- Participant surveys, conducted at baseline, immediately post-training, and 12 months post-training;
- For *Skilling UP*, key informant interviews with employers to gather qualitative longer-term post-training data.

These instruments will allow us to track both short and long-term gains in i) document use, ii) self-reported indicators of employment readiness (e.g., career adaptability) and employment rate for *ESSF* participants, and iii) self-reported indicators of improved job performance and working conditions, among *Skilling UP* participants. SRDC is also conducting qualitative interviews with *Skilling UP* employers to ask about improvements in worker performance.

There is no control group in this study, making it difficult to definitively attribute any gains observed to the training – for example, some gains may occur naturally over time, as a result of other life and work experience. Nonetheless, SRDC has conducted several randomized control trials in similar contexts, and we can make use of historical data to assess the gains observed in the current project against those observed in related projects – notably the *UPSKILL* and *Foundations* demonstration projects.

The *ESSF* program was based on a model developed for the *Foundations* Workplace Skills Project (FWSP), which somewhat facilitates outcome comparisons between the two projects. SRDC will use program data from both projects to identify any differences in service delivery (e.g., hours of

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<sup>31</sup> Some of the documentation produced during this period of framework revision is included in the Appendices as documents of record.

training, course content, timing of assessments and surveys) that may be linked to differences in participant outcomes.

Though *Skilling UP* and *UPSKILL* used similar processes to develop their training models (i.e., both were informed by organizational needs assessments to identify job performance and essential skill gaps tied to business needs), each model was developed in a different sector, making the actual training content that was delivered in the two projects quite different and comparisons of observed gains potentially problematic.

With these caveats in mind, SRDC will explore options to:

1. Compare gains in essential skills and survey measures among *ESSF* and *Skilling UP* participants with those of program group members from the *Foundations* and *UPSKILL* research projects respectively, adjusting for differences in baseline characteristics to make the comparisons fair; and
2. Generate quasi-experimental impacts by using control group data from *Foundations* and *UPSKILL* to construct matched comparison groups for *ESSF* and *Skilling UP* respectively.

## Implementation research

Implementation research documents the conditions of the implementation and the experiences of the project partners in administering a program from recruitment to the administration of the training. It can examine the approaches taken across the different sites, problems encountered and corrective measures taken. It addresses:

- **Recruitment and targeting:** To gauge employer/investor interest in the SIB approach; document how well the recruitment process worked to attract the target group;
- **Context:** To enable interpretation of the program effects in the context of the characteristics of participants and their training environment, as well as of the training itself; and
- **Lessons learned:** To gain insights and collect lessons learned about the delivery of the WES training in the workplace (*Skilling UP*) or at participating colleges (*ESSF*). This knowledge will help the interpretation of outcomes and serve as a document of record for future implementations of programs modelled on the pilot projects.

For the two pilot projects, implementation research includes the following:

- Interviews with key stakeholders, including managers and executive staff at the employer and/or investor organizations;
- Field observations of training delivery, where feasible; and
- The Program Management Information System (PMIS), designed for use by instructors to organize and monitor class composition, and record attendance.

## Cost effectiveness analysis

The initial evaluation designs – with large sample sizes and experimental design – included rigorous cost-benefit analysis. This type of analysis is not supported with the revised sample sizes and research framework. However, SRDC is exploring possibilities for doing high-level estimation of cost effectiveness, particularly of the *ESSF* as the SIB model includes significant set-up or development costs.

## 4. SRDC project development and implementation activities

Both the *ESSF* and *Skilling UP* are complex projects requiring the coordination and collaboration of a number of partners and stakeholders. This section focuses on SRDC activities associated with the development and implementation of the pilots; all activities were achieved in close communication with Cican and AWES respectively, and their subcontractors. As well, OLES was kept informed of the project progress, and issues, and weighed in on many decisions. Cican and AWES are issuing separate reports to OLES detailing the activities of their own organizations.

### Proposing a reimbursement formula

Cican and AWES submissions to OLES proposed literacy gains of 25 points, measured on a standard scale, as the success outcome to trigger reimbursements for the respective pilots. Subsequent discussions with OLES yielded more detailed parameters for the success outcome:

1. Must be based on average of 25 point skills gains as measured on the IALS scale
2. Gains can be one skill domain of the three (reading, document, numeracy)
3. An agreed-upon proportion (x %) of participants achieving 25-point gains to be part of the success outcome
4. Skill gains are to be measured at end of training to trigger a first repayment, and again 12 months later to trigger a bonus repayment for retention of skill gain.

### Benchmarking ES gains

SRDC supported the two proponents in proposing reimbursement formulae that are feasible, accountable, and based on accurate measurement of success outcomes, in keeping with best practices in pay-for-success models. To do so, SRDC analysed literacy gains resulting from previous Essential Skills (ES) training interventions similar to the pilots. The purpose of the analysis was to gather benchmark information on average gains, and probability of  $\geq 25$  point gains for each model.

To begin, SRDC identified ES training projects in settings and with populations similar to the ones proposed, where pre- and post-training ES assessments had been undertaken. *Foundations*, Upskill, Workplace Training Program (WTP), and the ACCC National Framework project all included a baseline and post-training assessment of literacy and essential skills. Upskill and WTP participants were low-skilled workers, more closely resembling the AWES pilot project participants. The ACCC National Framework project sample included both students, and employed persons; the group of employed individuals was retained as a comparator to the employed sample for the AWES project.

SRDC did preliminary analysis on all three literacy domains. Of the core literacy skills, workplace Essential Skills training curricula tend to emphasize document literacy, as it is salient in the majority of work settings. Document literacy was measured in all four reference projects – unlike reading, which was not included in WTP or Upskill assessments. Although all four also measured



numeracy, document literacy was the one primarily reported on, and was chosen as the focus for the social finance pilots as well.

The next step was to analyse microdata sets for *Foundations*, Upskill and WTP, as benchmark projects.<sup>32</sup> The analysis first looked at the percentage of participants in each reference project who achieved the 25-point gain proposed target. Secondly, SRDC conducted a series of logistic regressions to determine the influence of various participant characteristics on the probability of achieving a 25-point skill gain or more. The logistic regressions included sensitivity analysis to identify dataset variables that were good predictors for skill gains, for example baseline literacy level, gender, education, age and immigrant status/home language, Aboriginal status.<sup>33</sup> The regression analysis demonstrated baseline literacy level to be the main predictor of skills gains across all reference projects.

Thus the achievement of performance targets can be influenced by the composition of the sample. For this reason, SRDC proposed that reimbursement calculations for both pilots re-weight scores by baseline literacy level, and gender.<sup>34</sup> This mitigates the potential for score gains to be driven by chance or deliberate enrollment of participants more, or less, likely to achieve 25-point gains than the benchmark sample.

SRDC's methodology included consideration of weighting for all predictive variables, in a stepwise fashion, as appropriate. Low incidence of predictive factors among the populations and overall small sample sizes negated the rationale for including weighting beyond baseline literacy and gender.

## A graduated formula

As agreed with OLES, SRDC prepared an analysis of risk-reward scenarios upon which graduated schemes were proposed for both pilots. To attract investors, SIB schemes are generally based on graduated formulas, whereupon payout is increased for higher levels of success, and lower amounts paid, often for results slightly below the benchmark; this reduces their risk of losing all their principal in addition to returns on investment. The risk to SIB investors of investing in a social impact bond corresponds to the probability distribution of potential outcomes, yet quantifying the range of potential outcomes makes reimbursement formulation challenging and complex.

Using data from the *UPSKILL* project – a large RCT yielding evidence of training impacts – we estimated the distribution of individual impacts. In turn this allowed us to quantify the probability distribution of all potential outcomes from the training. Applying this probability distribution, SRDC was able to prepare risk-reward scenarios comparing the SIB investment to market investments

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<sup>32</sup> Microdata was not available for the ACCC National Framework project.

<sup>33</sup> Regression coefficients, odds ratios, standard errors, and tests of significance were calculated for each benchmark model. For each model, variables that were shown to have statistical significance on the probability of achieving the 25-point skill gain were considered predictors.

<sup>34</sup> Precedent for applying regression adjustment in the calculation of performance measures is found in many pay-for-success projects including some in the employment training field such as Job Corps.

(for the *ESSF*), and to propose levels of repayment for each pilot. In the case of *ESSF*, CIGan provided this analysis to their subcontractor KPMG prior to their proposal to increase the maximum return on investment to 15% from 10% in order to increase the attractiveness of the financial offering.

The graduated tiers of reimbursement eligibility for each project are shown in the tables below. Benchmark levels in both schemes are highlighted.

**Table 4.1 ESSF SIB reimbursement table**

Tier	Median gain	Percentage with 25-point gain	Post-training		12-month follow-up	Total potential payout
			Repayment	Return	Payout return	
0	0-15 points	0-35%	0.0%	0.0%	0.0%	0.0%
1	16-17 points	36-39%	90.0%	0.0%	1.0%	91.0%
2	18-20 points	40-44%	96.0%	0.0%	1.0%	97.0%
3	21-24 points	45-49%	100.0%	3.5%	1.0%	104.5%
4	25 points or more	50-54%	100.0%	7.0%	1.0%	108.0%
5	25 points or more	55-59%	100.0%	10.5%	1.0%	111.5%
6	25 points or more	60% or greater	100.0%	14.0%	1.0%	115.0%

**Table 4.2 Reimbursement of eligible training costs for Skilling UP**

	Target outcomes	Post-test skill attainment	12-month post-test skill maintenance
1.	Median gain ≥ 25 points Percentage with 25-point gain ≥ 50%	Reimbursement of 45% of employer's training costs	Additional 5% of employer's cost
2.	Median gain ≥ 20 points Percentage with 25-point gain ≥ 45%	Reimbursement of 42.5% of employer's training costs	Additional 4% of employer's cost
3.	Median gain ≥ 16 points Percentage with 25-point gain ≥ 40%	Reimbursement of 40% of employer's training costs	Additional 3% of employer's cost
4.	Median gain ≥ 4 points Percentage with 25-point gain ≥ 30%	Reimbursement of 30% of employer's training costs	Additional 2% of employer's cost

## Securing private investment

At the beginning of the pilots, CIGan was seeking \$1.1 million to support training for 400 participants. As described in CIGan's Phase 1 report to OLES, despite their efforts over an extended period of time, they were able to secure investment for only \$250,250. During this time, SRDC played a supporting role to CIGan: providing advice on the model and investor offering including consideration of a loan guarantee, or "backstopping" as an option, additional risk calculations for CIGan/KPMG as requested, and talking with prospective investors who had questions about the reimbursement formula.

Securing employer engagement in *Skilling UP* proved to be similarly challenging for AWES. Their initial proposal included training for 1800 workers, and after extensive efforts to engage employers over an extended timeframe they were able to offer training to 290 workers. During recruitment, SRDC occasionally met with prospective employers as requested by AWES, describing the assessments and surveys, and sharing SRDC reports on the benefits of workplace ES training.

## Program and research design

SRDC's research design initially proposed to use an experimental design to measure program impacts and ROI for each pilot, in addition to outcomes and implementation analysis. SRDC's proposed design was predicated on large sample sizes – 800 for *ESSF* and 1800 for *Skilling UP* – and favourable conditions for piloting experimental design. Soon after the project commenced, SRDC learned from CIGan (then ACCC) that their proposal had not contemplated having 400 participants as a comparison group, and that there was no possibility to add this component. Accordingly, SRDC shifted from an impact study to a pre-post measurement of outcomes. When the proposed sample size of 400 was reduced to 91 funded training spots, SRDC further shifted the research design to focus more on implementation and lessons learned from the *ESSF* pilot as a proof-of-concept for Social Impact Bonds.

In early discussions with CIGan about the SIB models' bonus payments to College partners, SRDC suggested consideration of outcome metrics other than skill gains, or in addition to skill gains. The rationale for this was two-fold: to avoid instructional focus on only one outcome of interest, and to align the success metric with milestones relevant to the low-skilled unemployed, such as overcoming barriers to employment, or completion of training modules, and so on. This idea was not pursued at the time.

AWES had initially proposed to deliver training to 1800 workers at one large firm, and SRDC prepared design options for comparison groups across worksites, or using staggered cohorts at the same site(s) to benefit from temporary counterfactual data. When AWES' efforts to recruit a large firm were not successful, SRDC proposed a design for multiple smaller employers with a reduced but still substantial overall sample size. This design was further revised for the final recruitment numbers. At time of writing, SRDC is continuing to examine potential methods for researching employer motivations for the *Skilling UP* model, with employers beyond the three who participated in the pilot.

## Administering literacy assessments

### Field testing and selection of literacy assessment

Accurate measurement of the success outcome is an integral feature of pay-for-success models. In the case of *ESSF* and *Skilling UP*, we aimed to find an assessment that was optimal in terms of both research and operational considerations, since both will impact accuracy of measurement. The assessment of literacy skills requires an assessment that does not unduly fatigue or frustrate participants, and that can be independently monitored or “invigilated”. SRDC examined the use of both paper- and web-based assessments for the pilots.

The *Test of Workplace Essential Skills* or TOWES,<sup>35</sup> introduced over seventeen years ago, is a paper-based assessment of literacy skills, including document use, which scores learners on a standard 500-point scale developed for the International Adult Literacy Survey (IALS). SRDC is very familiar with TOWES, having used it in numerous past projects. Prior to the field test, we had also used an earlier version of the Essential Skills Group (ESG) online test,<sup>36</sup> but not the newer extended version. Neither had we used the online version of TOWES known as TOWES PRIME.<sup>37</sup>

The purpose of the field test was to assess the precision and operational suitability of these newer online assessments as candidates for use in the pilots.

Douglas College collaborated in the field testing, providing invigilator support, as well as recruiting participants and providing facilities for the sessions. Attendees were a combination of College students and clients in Douglas College employment and training programs – the latter anticipated to have similar characteristics to people enrolled to the pilots. For the field testing, the assessments were administered over five sessions and data was collected from 72 participants.

Differences between the two scores for the same participants indicated the two assessments are not measuring the same skills on a standard scale. This does not propose that one assessment is more precise than the other, but rather that they measure different things. An analysis of results by demographic factors suggested the TOWES Prime may underestimate document use proficiency, notably for immigrants. On an operational level, some participants reported having difficulties with the online assessments, and invigilators noted a few technical difficulties.

So although online assessment tools have proven useful in the evaluation of literacy and essential skills in many circumstances, a number of factors discouraged their use in the pilots: potentially low computer skills of some participants, limited access to computers and/or wifi in the field, and the fact that the historical evidence of point gains used to derive the reimbursement benchmark was based largely on paper-based TOWES. As a result of these considerations, and the lower margin of error of paper-based TOWES, it was selected for use in the pilots. To reduce field time, SRDC

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<sup>35</sup> <http://www.towes.com/en/>

<sup>36</sup> <http://www.essentialskillsgroup.com/>

<sup>37</sup> <http://www.towes.com/en/products-and-services/assessments/web-based-assessments>

requested that Bow Valley College prepare a single-dimension version of TOWES, for document use only.

## Contracting TOWES invigilators

Delivery of the assessments for the Social Finance Pilot Project was accomplished through a combination of SRDC invigilators, trained invigilators from the TOWES staff at Bow Valley College, and local contractors. Contractors were provided with an overview of the project details, including all relevant privacy and security requirements, and training on the TOWES invigilation process. Training for TOWES invigilators is mandatory, and is currently delivered through a self-directed online certification program over the course of several hours. The use of local contractors allowed for flexibility in assessment schedules – often accommodating smaller testing sessions over the course of a longer period of time.

## Operational issues

A number of operational issues emerged in the administration of the literacy assessments. The most common was the length of time required to complete them, and coordinating assessment schedules. This was particularly challenging in the manufacturing environment of *Skilling UP* employers, with 24-hour operations and the need to accommodate the work shifts of participants. Ensuring all potential participants could be assessed prior to training required commitment on the part of the employer and the participant, and flexibility and stamina on behalf of the invigilator, with sessions occurring at beginning and/or end of all three shifts in a 24-hours period. In the case of the CIG training sites, pre-training assessments often needed to be provided to small groups of clients at a time, or even individually, according to their availability. This required repeated on-site visits by the invigilator.

In both pilot models, operational issues with assessments were exacerbated by the need for them to be done by an independent assessor (SRDC). Initially contemplated to take place in larger group sessions, work schedules and urgencies, employee absences on test dates, and general availability of participants all resulted in increased hours of invigilator time and travel expenses. After examining a number of delivery models, SRDC subcontracted most of the invigilation to qualified parties, while also making use of SRDC staff where more practical (e.g., close by, single sessions). SRDC selected Bow Valley College – TOWES developers and professional invigilators – to travel and stay at two of the three *Skilling UP* sites for a period of up to 3-4 days to assess the full roster of eligible workers. Even with extended stays on site, due to worker absences, on occasion SRDC staff made a subsequent visit to complete assessments. SRDC staff covered the third *Skilling UP* site, due to smaller numbers of participants and proximity to SRDC's Ottawa office.

Finding qualified individuals to invigilate at *ESSF* sites was more difficult than anticipated, for a number of reasons:

- College delivery partners typically have a number of staff certified as TOWES invigilators, but for purposes of the SIB the invigilators must be independent of the Service Provider; so this candidate pool was not available.

- Although the role of invigilators is not overly onerous, it is extremely important. Invigilators require a thorough understanding of and commitment to all procedures associated with conducting the assessment – participant identification, consent, tutorial and completion of the assessment. They must have excellent communication skills, be at ease with a diverse range of people, be trustworthy with confidential information, and pay attention to detailed procedures for securely submitting this data.
- For both pilots, invigilators were also tasked with administering the baseline and post-training survey to participants on behalf of SRDC; this required precise matching of names to the participant IDs on the anonymized surveys, introducing the survey, and secure mailing.
- The days and hours of invigilation are not compatible with the availability of an individual who is working full-time, Monday-Friday; thus, this candidate pool is not available.
- Individuals with the required skills/experience, and with flexible work hours, can be difficult to find without a formal recruitment process.

Fortunately, Service Providers' staff at two of the sites were able to identify suitable candidates in their networks who were not (or no longer) affiliated with their Colleges. At the third *ESSF* site, Bow Valley College was able to suggest candidates from their network.<sup>38</sup> In all cases, SRDC interviewed candidates, familiarized them with the *ESSF* project, and ensured they completed invigilator certification through Bow Valley College prior to their *ESSF* assignment. It is worth noting that the erratic scheduling of *ESSF* assessments led to the need to have two different invigilators operate at one site, and four at another.

Nevertheless, having third-party validation of scores for purposes of repayment of the SIB (*ESSF*) and employer training investment (*Skilling UP*) is an integral feature of both models. The pilot tests provide valuable lessons learned about the operational and cost implications of these models. A full costing analysis will be done following the 12-month follow-up assessments, but indications are that the per unit cost of assessments will be significantly higher than anticipated at the beginning of the pilots.

## Reporting of scores

Following the assessment of participants, completed booklets are submitted to TOWES for review and scoring. Results are then provided to SRDC, who distributes the results to delivery partners to inform training needs (baseline), and to inform individual participants of their scores.

For *Skilling UP*, once both pre-training and post-training results are reported for a given employer training site, score gains are calculated, including both the median score gain and the percentage of participants with a 25-point gain or greater. SRDC's analysis of historical data indicated that skill gains are influenced by baseline characteristics, i.e., baseline literacy level, and gender. In order to ensure the reimbursement calculation is not influenced by sample composition, the cohort scores are weighted first by baseline literacy level, then by gender so the proportions reflect the

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<sup>38</sup> SRDC staff also worked as invigilators at this site, as needed.

benchmark data. As a result, when calculating the median gain and the percentage of participants with  $\geq 25$  points, some individual scores may have more of an effect on the group median than others.

After calculating group score gains, SRDC prepares reimbursement reports for OLES. In *Skilling UP*, reimbursements are made by individual employer, as employers were not attracted to a model where results would be pooled with other employers, and it was initially anticipated that sample sizes would be adequate (200+, later reduced to 100+) at each employer for calculating group outcomes. In the *ESSF*, calculation of the skills gains for purposes of SIB reimbursement is done by combining data from all sites, again in order to have group sizes of 100+ for calculation of the score gains. For *ESSF*, following the completion of each cohort, SRDC prepares reports indicating the number of participants who completed the post-training assessments, and the number of participants who achieved a 25-point or greater gain in document use. This is provided to CICan for purpose of distributing bonus payments to individual College Service Providers.

Score gain results are presented in Section 5.

## 5. Preliminary findings

This section presents data from baseline literacy assessments and surveys of participants enrolled up to the end of July 2017. Post-training literacy score gains are presented, as previously reported to ESDC, CICan, and AWES for purposes of reimbursing the investors/employers respectively.

Once all cohorts are finished *ESSF* and *Skilling UP*, a detailed analysis of training outcomes based on post-training and 12-month follow-up survey and assessment data and key informant interviews with staff, participants, and other stakeholders will be completed for each pilot. The comprehensive analysis will include a high-level comparison of findings from the two pilots with the historical projects upon which the reimbursement formulae were based (i.e., *UPSKILL* and *Foundations*). These analyses will be presented in a final report in December 2018.

### ***Essential Skills Social Finance (ESSF)***

#### Participant profiles

Applicants to *ESSF* across the three sites were screened by completing a baseline literacy assessment.

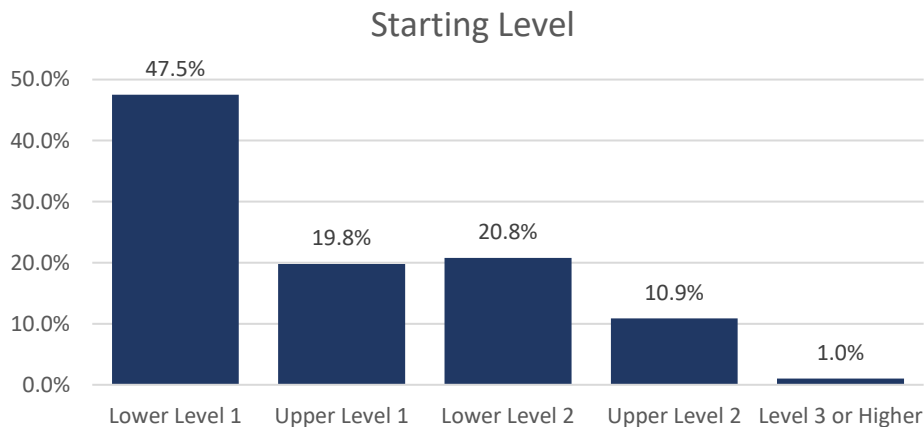
Those scoring below level 3 (275) on the IALS scale were invited to participate in the training. There was some flexibility regarding starting scores, such that if College staff felt that an applicant at the low end of level 3 could still benefit from the training, they could be included. By College site, that included:

College site	Screened	Participated
Confederation college	43	23
Douglas college	50	33
Saskatchewan polytechnic	84	30
<b>Total</b>	<b>177</b>	<b>86</b>



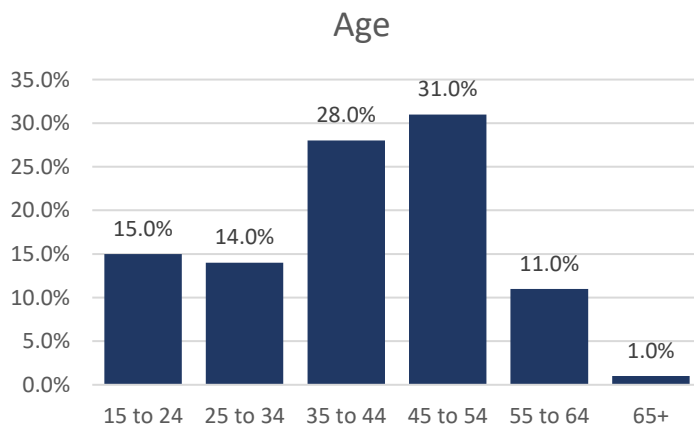
### Starting literacy levels

The average score at baseline was 206, at the upper end of level one. Scores ranged from 116, in lower level 1, to 293, in level 3. Almost half of participants (47.5 per cent) had a score in the lower end of level 1 (a score of below 200). It is worth noting that the *ESSF* group had overall lower starting scores than historical groups receiving *Foundations*, upon which the benchmark for the reimbursement formula was developed (Section 4).<sup>39</sup>



### Demographics

Participants ranged in age, with over half (59.0 per cent) falling between the ages of 35 and 54.



<sup>39</sup> SRDC is currently conducting detailed analysis of the characteristics of the *ESSF* participants in comparison to past *Foundations* participants, to determine potential effects on score gain.

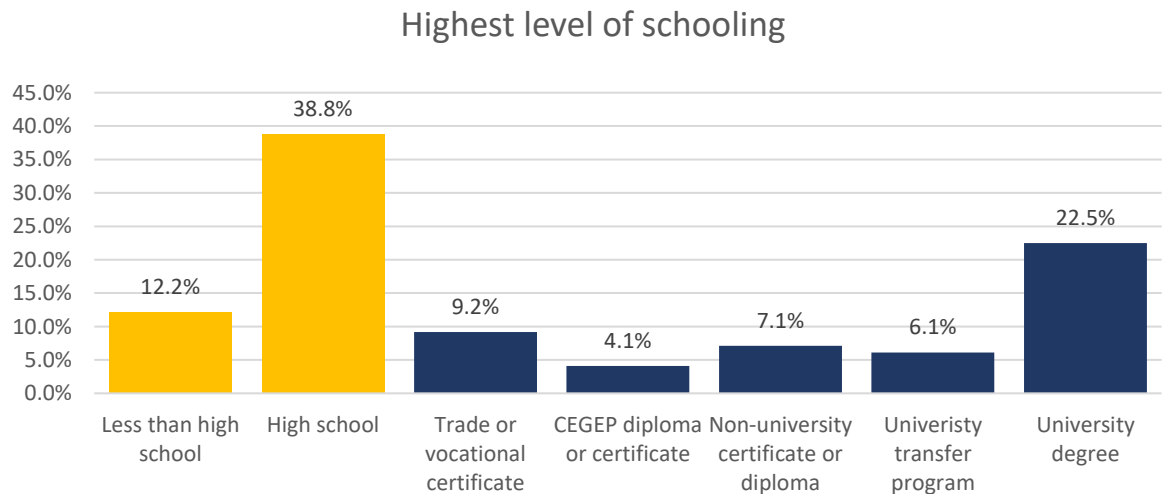
Nearly two thirds of participants are women (62.6 per cent), and a similar proportion were born in Canada (63.6 per cent).



Those born outside of the country had lived in Canada for an average of eight years at the time of the assessment.

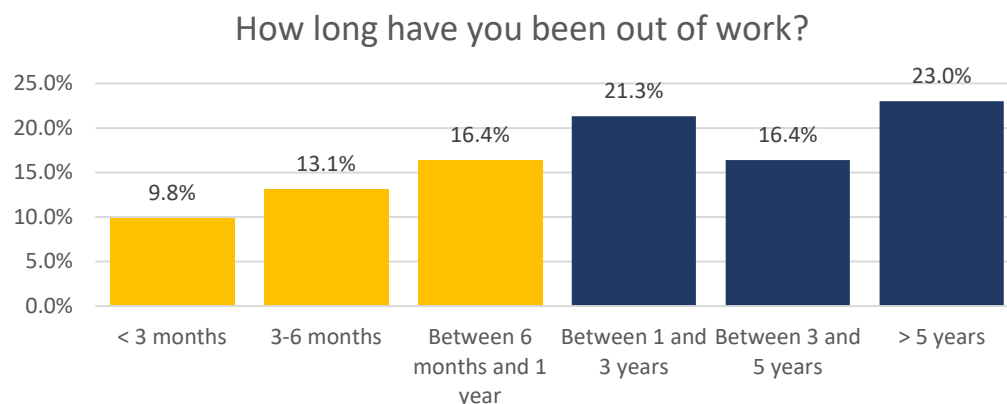
Almost three quarters of participants (72.8 per cent) identified English as the language they first learned at home in childhood and still understood. Over a quarter (29.8 per cent) identified as an Indigenous person (First Nations, Métis, or Inuit).

Half (51.0 per cent) of *ESSF* participants had not completed any type of post-secondary education, with 12.2 per cent not completing high school. At the other end of the spectrum, however, almost a quarter (22.5 per cent) had completed a university degree.



### Labour market participation

*ESSF* targets people who are unemployed/underemployed, and thus it is not surprising that only a fifth of participants (21.4 per cent) were working at baseline, either part-time or full-time. For those not currently working, 77.5 per cent had paid employment experience in the past. The length of time for these participants had been unemployed varied, with the bulk (60.7 per cent) being out of work for over a year, and almost a quarter (23.0 per cent) for more than five years.



Half of *ESSF* participants (50.6 per cent) reported receiving either Income Assistance (IA) or assistance for persons with disabilities at baseline. Another 7.9 per cent reported that they were currently receiving Employment Insurance (EI), and 15.5 per cent reported receiving EI at some point in the past three years.

When presented with a list of 15 potential barriers to finding or keeping a job, participants reported almost three barriers each, on average. Half (52.3 per cent) cited “*limited work experience*” and a third (33.7 per cent) reported “[*need for*] *education*” as potential barriers to employment. Other frequently reported barriers included “*transportation issues*” (32.6 per cent), “*lack of job hunting skills*” (29.1 per cent), and “*difficulty with English*” (26.7 per cent).

### Attitudes towards training

Participants in general had a very positive outlook towards the *ESSF* training prior to starting the course. Virtually all (94.4 per cent) were motivated to do their best in the course, and a vast majority (92.2 per cent) were optimistic about the training increasing their chance of getting a good job.

Participants agree <sup>40</sup> that...	Pre-training
I am motivated to do the best I can in this course	94.4%
I think the training will increase my chances of getting a good job	92.2%
I am looking forward to taking this training	87.8%
People close to me support me in taking this course	86.7%
<b>Overall scale<sup>41</sup></b>	<b>4.3 pts / 5</b>

As well, *ESSF* participants had a positive outlook towards training in general.

Participants agree that...	Pre-training
Learning new things makes me more confident	96.6%
I am more likely to get a better job if I do some learning	92.0%
Getting qualifications takes too much effort (reverse)	30.2%
<b>Overall scale<sup>42</sup></b>	<b>4.1 pts / 5</b>

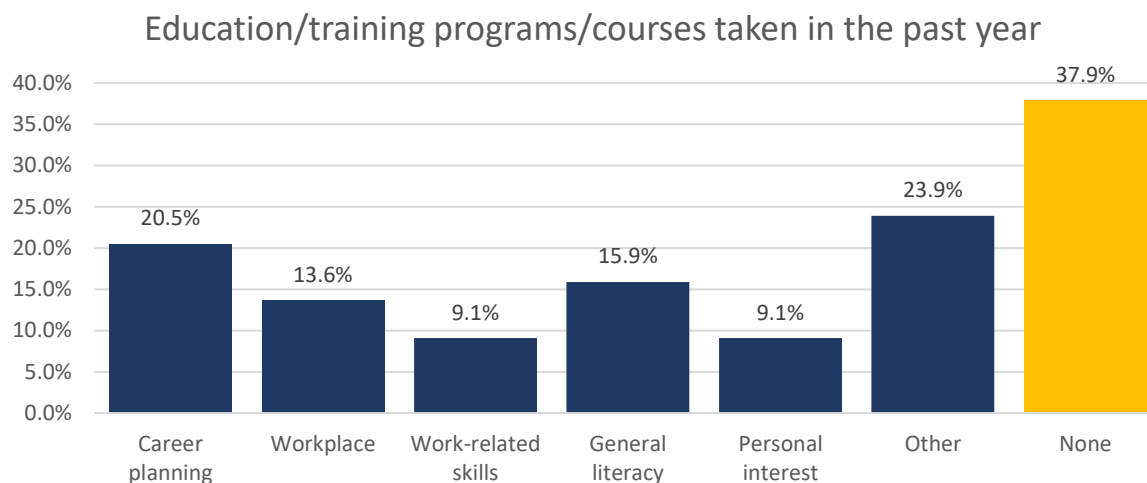
To better understand their motivations for enrolling in *ESSF*, participants were asked to identify from a list of 11 potential reasons. On average, they checked almost six reasons: the most common was *“To help me get a job, or better job”* (75.6 per cent). Other common reasons included *“To improve my reading and writing skills”* (70.0 per cent), *“To improve my speaking and listening skills”* (64.4 per cent), *“To find out how my skills match up with what jobs require”* (64.4 per cent) and *“To improve my problem solving skills”* (61.1 per cent).

<sup>40</sup> “Agree” and “Strongly agree” responses are combined in the tables in this chapter.

<sup>41</sup> The scale presents participants’ average response across all the above items, on a scale from 1 to 5, where 1 indicates *strongly disagree*, and 5 indicates *strongly agree*.

<sup>42</sup> The scale presents participants’ average response across all the above items, with the third item (‘Getting qualifications takes too much effort’) reversed so that a higher score is positive across all items. The scale is from 1 to 5, where 1 indicates *strongly disagree*, and 5 indicates *strongly agree*.

Almost two-thirds (62.1 per cent) of participants had taken some form of training program or course in the past year.



### Attitudes about career and job search

As seen above, *ESSF* participants were highly positive about entering the *ESSF* training, and articulated a number of motivations for doing so. It is fitting, then, that when asked about their job search abilities and career goals, their more neutral responses point to the need for training that will help them advance towards secure employment. Only a slim majority agree that they know what they need to do to reach career goals (59.6 per cent), and approximately two-thirds have a strategy for achieving them (63.2 per cent). About a third (37.2 per cent) have not really decided what their career goals should be (reverse scale in bottom line of table below).

Participants agree that...	Pre-training
I have a strategy for achieving my career goals	63.2%
I know what I need to do to reach my career goals	59.6%
I have not really decided what my career objectives should be yet (reverse)	37.2%
<b>Overall scale<sup>43</sup></b>	<b>3.5 pts / 5</b>

<sup>43</sup> The scale presents participants' average response across all the above items, with the first item ('I have not really decided what my career objectives should be yet') reversed so that a higher score is positive across all items. The scale is from 1 to 5, where 1 indicates *strongly disagree*, and 5 indicates *strongly agree*.

Similarly, as shown in the table below, 36.7 per cent of participants have a clear idea of the type of company they want to work for, and almost two-thirds (64.4 per cent) have a clear idea of the type of job they want. Fewer than half (45.6 per cent) have very clear job search objectives.

Participants agree that...	Pre-training
I have a clear idea of the type of job I want	64.4%
I have very clear job search objectives	45.6%
I have a clear idea of the type of company I want to work for	36.7%
It is not clear to me where I should be looking for a job (reverse)	33.3%
<b>Overall scale<sup>44</sup></b>	<b>3.4 pts / 5</b>

The baseline survey also contained a standard scale to assess participants' confidence in their ability to accomplish a number of tasks related to job searching (see detailed tables in Appendix C). Participants were likely to rate themselves as moderately confident or more on tasks relating to finding information about occupations in which they are interested (95.6 per cent), choosing a career that will fit their abilities and interests (92.2 per cent), and selecting one occupation from a list of potential occupations they are considering (88.9 per cent). Areas in which they expressed very little to no confidence were tasks involving communication skills, such as interviewing, calling prospective employers, and effectively communicating their skills.

### *Life attitudes and activities*

More than one in ten (11.1 per cent) reported that a physical condition or health problem often reduces the amounts or kinds of activities they can do at work, at home, or for recreation. Over a third of participants (36.7%) report that physical conditions sometimes reduce the amount or kinds of activities they can do.

#### **Does a physical condition or health problem reduce the amount or kinds of activities you can do at work, at home, or for recreation?**

Not at all	37.8%
Rarely	14.4%
Sometimes	36.7%
Often	11.1%

<sup>44</sup> The scale presents participants' average response across all the above items, with the fourth item ('It is not very clear to me where I should be looking for a job') reversed so that a higher score is positive across all items. The scale is from 1 to 5, where 1 indicates *strongly disagree*, and 5 indicates *strongly agree*.

Similar proportions (10.0 per cent and 34.4 per cent, respectively) reported having an emotional condition or health problem (such as feeling depressed or anxious) that often or sometimes cause the same limitations.

**Does an emotional condition or health problem (such as feeling depressed or anxious) reduce the amount or kinds of activities you can do at work, at home, or for recreation?**

Not at all	35.6%
Rarely	20.0%
Sometimes	34.4%
Often	10.0%

Despite having some limitations, participants feel relatively satisfied with their life as a whole, ranking their satisfaction at an average 6.3 on a scale from one to ten, with one *very dissatisfied* and ten *very satisfied*.

Participants engaged in common literacy practices just under once a week, on average. While visiting a library or bookstore was a relatively less frequent occasion, more than half of participants reported writing (63.3 per cent), reading (61.1 per cent), and doing math (61.1 per cent) at least once a week. These will be measured again at the end of training, to see whether or not participants increase their literacy-related activities over the period of training.

**Participants reported doing each of the activities once a week or more outside of work...**

**Pre-training**

Write notes, letters, or e-mails	63.3%
Read or use information from books – fiction or non-fiction	61.1%
Math (such as for household budgets, bills, bank accounts or credit cards)	61.1%
Use a library or visit a bookstore	33.3%
<b>Overall scale<sup>45</sup></b>	<b>3.8 pts / 6</b>

Prior to taking the training, participants had somewhat positive future orientation, or belief in the impact of their own actions on their future outcomes, with three-quarters (76.7 per cent) agreeing that their lives are determined by their own actions. Future orientation is associated with positive

<sup>45</sup> The scale presents participants' average response across all the above items. The scale is from 1 to 6, where 1 indicates *never*, and 6 indicates *every day*.

labour market outcomes in the longer term, and will be assessed again at the end of training and on the 12-month follow up survey.

Participants agree that...	Pre-training
My life is determined by my own actions	76.7%
I don't really plan for the future because things change so much (reverse)	32.2%
Since I can't affect the future, it doesn't really matter what I do (reverse)	14.4%
<b>Overall scale<sup>46</sup></b>	<b>3.7 pts / 5</b>

Participants also showed a relatively neutral level of trust, on average finding it neither likely nor unlikely that a lost wallet with \$200 in it would be returned by a variety of people. This question is asked because trust has been found to be associated with better labour market outcomes; findings from the post-training surveys will be compared to these baseline measures to see whether the training may have had an effect.

Participants find it likely that a lost wallet with \$200 would be returned by...	Pre-training
A neighbour who lives close by	64.1%
An employee at a local business	59.6%
A total stranger	19.3%
<b>Overall scale<sup>47</sup></b>	<b>3.2 pts / 5</b>

## Post-training skill gains

From October 2016 to August 2017, a total of 86 participants received the training program across three College partner delivery sites:

- Douglas College (33)
- Confederation College (23)
- Saskatchewan Polytech (30).

<sup>46</sup> The scale presents participants' average response across all the above items, with the second and third items ('I don't really plan for the future because things change so much' and 'Since I can't affect the future, it doesn't really matter what I do') reversed so that a higher score is positive across all items. The scale is from 1 to 5, where 1 indicates *strongly disagree*, and 5 indicates *strongly agree*.

<sup>47</sup> The scale presents participants' average response across all the above items. The scale is from 1 to 5, where 1 indicates *very unlikely*, and 5 indicates *very likely*.



For the 86 participants, the weighted skill gains achieved were:

- Median gain = 19 points
- Percentage with 25-point gain = 41.1%.

These outcomes correspond to Tier 2 as shown on the reimbursement table as shown in Section 4. This is commensurate with a reimbursement to investors of 96% of their initial investment. Note that Tier 4 is the benchmark for gains based on historical data analysis. SRDC is currently comparing *ESSF* and historical data, exploring potential reasons for lower score gains in *ESSF*. It is important to note that score gains are only one outcome specified in the logic model; a full analysis of outcomes including behaviours and attitudes associated with positive long-term labour market outcomes is ongoing.

## ***Skilling UP***

### **Participant profiles**

The following section presents baseline literacy assessments and survey data for the all *Skilling UP* participants. Post-training and 12-month follow-up survey data analysis of outcomes will await the completion of the full sample.

To date, across three work sites, a total of 290 participants have completed a baseline literacy assessment for *Skilling UP*:

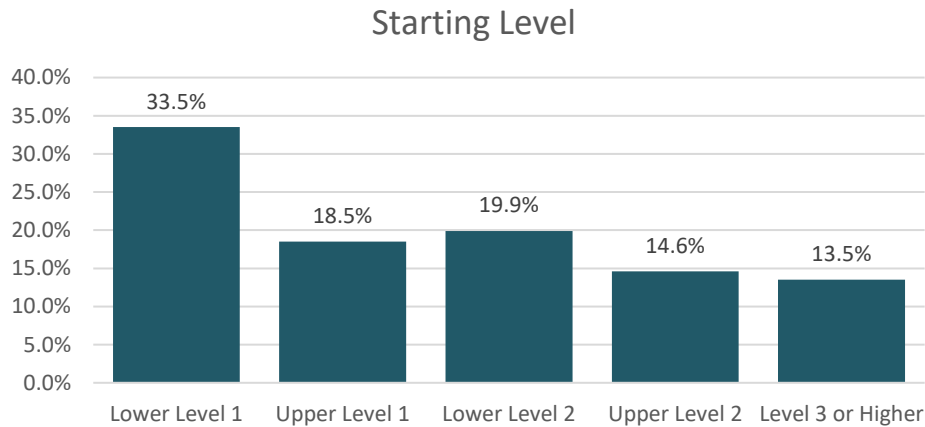
- 35 workers from Chapman's Ice Cream;
- 184 workers from Cosmetica Laboratories; and
- 71 workers from THK Rhythm Automotive.

Of the 290 workers, nine did not answer a sufficient number of questions in order for a score to be calculated, resulting in having baseline scores for 281.

It should also be noted that not all participants who completed a pre-training assessment received training, for various reasons including scheduling, availability, and job departure.

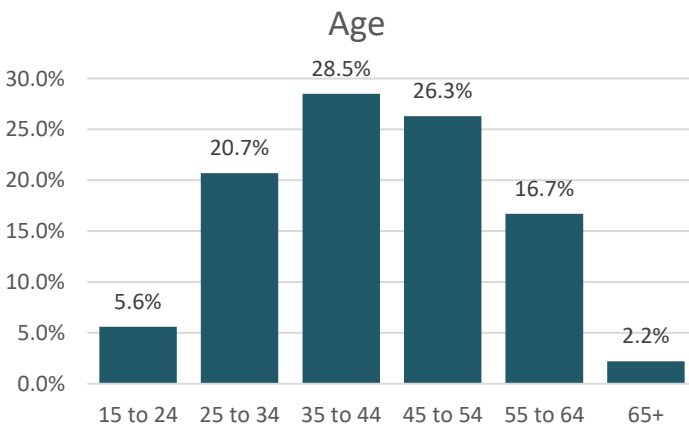
### Starting literacy levels

The average score for all participants at baseline was 222, equivalent to the upper end of level one. Scores ranged from 111, in lower level one, to 334, in level four. A third of participants (33.5%) received a score at baseline in the lower end of level 1 (a score of below 200).



### Demographics

Participants ranged in age, although most (54.8 per cent) fell between the ages of 35 and 54.



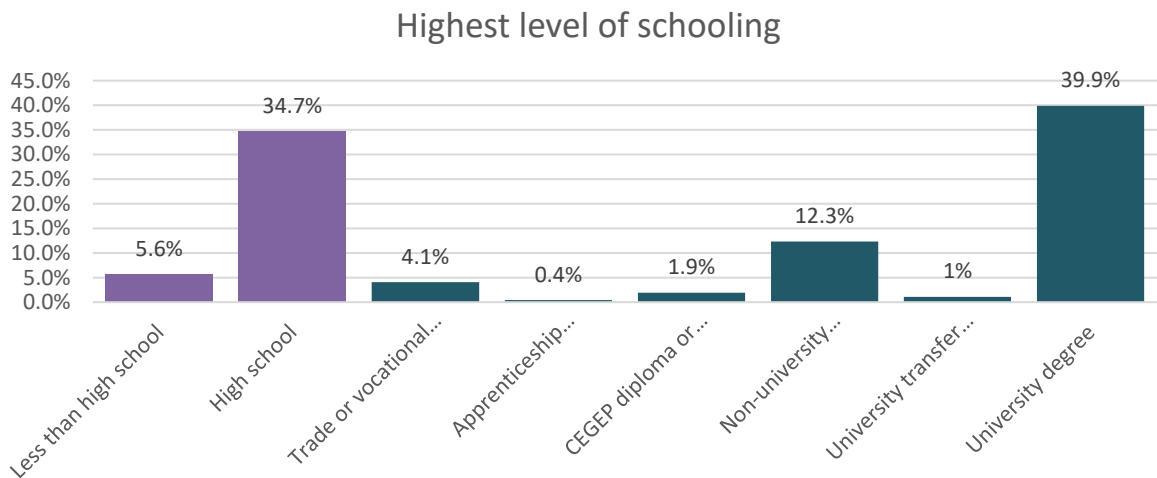
A third of participants (34.8 per cent) were women, and just under half (44.2 per cent) were born in Canada. The Cosmetica site accounted for the vast majority of non-Canadian born *Skilling UP* participants.



Those born outside of the country had lived in Canada for an average of 16.0 years at the time of the assessment.

Almost two thirds of participants (62.8 per cent) identified English as the language they first learned at home in childhood and still understood. A small proportion (4.9 per cent) identified as an Indigenous person (First Nation, Métis, or Inuit).

Over half (59.7 per cent) of participants had completed some form of post-secondary education, with over a third (39.9 per cent) having completed a university degree. Workers born outside Canada accounted for the majority of persons with post-secondary education (80.5 per cent).



Employment

According to baseline survey data, *Skilling UP* participants worked 41.7 hours per week, on average, with 98 per cent of participants reporting full-time hours (i.e., 30 hours or more per week), and an average of 4 weeks per month worked.

Participants reported an average tenure at their company of 7.4 years, with 4.7 years in their current position.

Participants also reported an average salary of approximately \$47,230 a year, and an average household income of between \$40,000 and \$60,000 a year.

### *Attitudes towards training*

On average, participants had positive outlooks towards the *Skilling UP* training prior to starting the course.

Participants agree that...	Pre-training
I am motivated to do the best I can in this course	96.5%
I am looking forward to taking this training	90.4%
I think the training will make me and my co-workers more productive	89.1%
My supervisor supports me in taking this course	83.5%
I think my employer will share any benefits of improved productivity with me	81.7%
I think my employer will change the way my work is organized or performed to allow me to use the skills I learned in this training	74.9%
<b>Overall scale<sup>48</sup></b>	<b>4.2 pts</b>

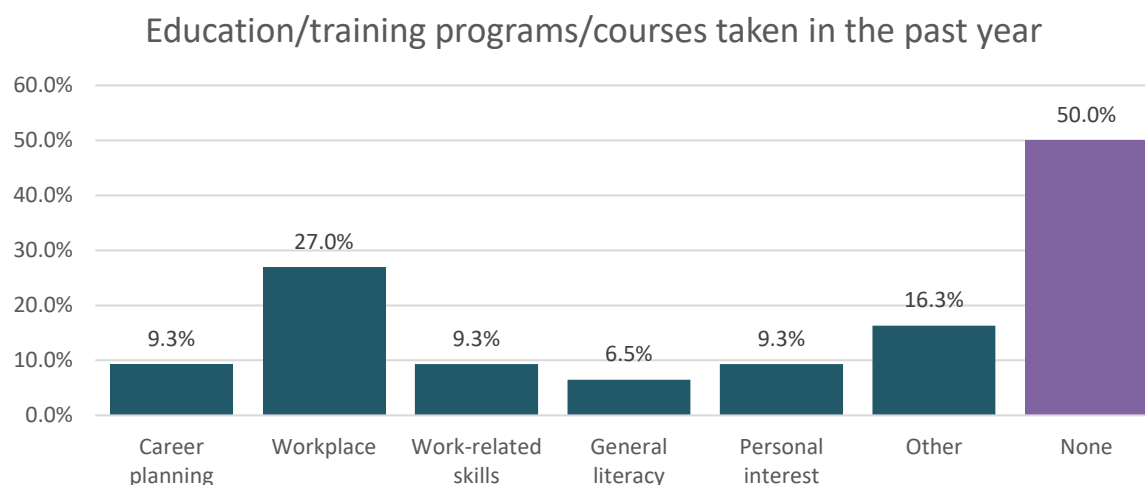
When presented with a list of nine possible reasons for taking the training, nearly all (96.0 per cent) identified at least one reason for taking the training, beyond simply being required to do so by their employer. The most common motivation for taking the training was ‘to help me do my job better’ (84.4 per cent of participants).

Why are you taking this training?	Pre-training
To help me do my job better	84.4%
To improve my problem solving skills	64.1%
Required by employer	59.3%
To improve my speaking/listening skills	58.0%
To improve my reading and writing skills	52.8%
To advance my career	52.0%
To prepare me for further training/education	49.8%

<sup>48</sup> The scale presents participants' average response across all the above items, on a scale from 1 to 5, where 1 indicates *strongly disagree*, and 5 indicates *strongly agree*.

Why are you taking this training?	Pre-training
To improve my math skills	37.7%
Other	6.1%
Don't know	2.2%
<b>Selected any reason beyond 'required by employer'</b>	<b>96.0%</b>
<b>Reasons selected (average)</b>	<b>4.6</b>

Half of participants (50.0 per cent) had not taken any other training programs or courses in the last year. Among those who had, workplace (on-the-job) training was the most common.



Participants overall had a positive outlook towards training in general prior to participating in the *Skilling UP* program, associating training with increased confidence and better jobs.

Participants agree <sup>49</sup> that...	Pre-training
Learning new things makes me more confident	96.5%
I am more likely to get a better job if I do some learning	86.2%
Getting qualifications takes too much effort (reverse)	48.4%
<b>Overall scale<sup>50</sup></b>	<b>3.9 pts</b>

<sup>49</sup> "Agree" and "Strongly agree" responses are combined in this and other similar tables in this chapter.

<sup>50</sup> The scale presents participants' average response across all the above items, with the third item ('Getting qualifications takes too much effort') reversed so that a higher score is positive across all items. The scale is from 1 to 5, where 1 indicates *strongly disagree*, and 5 indicates *strongly agree*.

## Work stress

Participants reported experiencing high levels of stress on the job fairly often, with close to half (45.7 per cent) reporting experiencing high levels of stress a couple of days a week or almost every day on the job.

How often do you experience high levels of stress on the job	Pre-training
Once a month or less	28.3%
A few times a month	26.1%
A couple of days a week	37.0%
Almost every day	8.7%

When asked to select from a list of factors that can cause stress on the job, the most common was *“Not having my work recognized and appreciated”* which 32.1 per cent reported causing them stress a couple of days a week or almost every day. This was followed by *“Ineffective teamwork”* which 27.2 per cent identified as causing them stress a couple of days a week/almost every day.

## Attitudes about work

Participants were asked a standard scale of questions to measure their self-efficacy regarding their jobs. While their responses varied significantly depending on the individual scale item, they were generally positive. It is interesting to note that the vast majority (94.0 per cent) agreed that *“In my job, I can work effectively as part of a team”*, indeed perhaps a reason why *“Ineffective teamwork”* was cited as a major stressor at work for this group. Similar proportions (93.0 per cent) agreed they can succeed in their job even when the work is challenging or difficult, and that they feel accepted by other employees (89.7 per cent). However, only a little more than half (60.7 per cent) agreed that they get all the training they need to do their job well, and two in five (42.4 per cent) sometimes find it hard to keep up with what is required of them on the job.

Post-training survey findings will be compared with the baseline scales to see whether or not participants have increased sense of self-efficacy following the training.

Participants agree that...	Pre-training
In my job, I can work effectively as part of a team	94.0%
I am able to succeed in my job even when the work is challenging or difficult	93.0%
In my job, I feel accepted by other employees	89.7%
My job helps me with my specific career goals	65.4%

Participants agree that...	Pre-training
I get all the training I need to do my job well	60.7%
When doing my job, I sometimes find it hard to keep up with what is expected of me (reverse)	42.4%
I get quite anxious in my job (reverse)	33.5%
I don't think I have much control over how well I do in my job (reverse)	.8%
<b>Overall scale<sup>51</sup></b>	<b>3.7 pts</b>

Meanwhile, participants' satisfaction with their job was mid-range, both overall and across all measures of job satisfaction. On a scale from 1 (very dissatisfied) to 7 (very satisfied), participants rated their jobs on a series of features. Job security, managerial satisfaction, opportunities for learning and using skills, and overall satisfaction were just on the positive side of neutral (ranging from 4.7 to 5.2), while job pay and opportunities for growth were rated below neutral at 3.8 and 4.1 respectively.

Participant level of satisfaction with... <sup>52</sup>	Pre-training
Support from their supervisor or manager	5.2 pts
Your job security	4.9 pts
All in all, how satisfied you are with this job	4.9 pts
The opportunities to use your own initiative and make decisions	4.7 pts
The opportunities to use your skills and experience	4.7 pts
The opportunities for learning new things and developing your own abilities	4.7 pts
The opportunities for career growth and promotion	4.1 pts
Your pay	3.8 pts
<b>Overall scale<sup>53</sup></b>	<b>4.6 pts</b>

<sup>51</sup> The overall scale presents participants' average response across all the above items, with the fifth, seventh, and eighth items ('When doing my job, I sometimes find it hard to keep up with what is expected of me', 'I get quite anxious in my job' and 'I don't think I have much control over how well I do in my job') reversed so that a higher score is positive across all items. The scale is from 1 to 5, where 1 indicates *strongly disagree*, and 5 indicates *strongly agree*.

<sup>52</sup> Participants ranked their satisfaction on a scale of 1 to 7, where 1 meant 'very dissatisfied' and 7 meant 'very satisfied'.

<sup>53</sup> The scale presents participants' average response across all the above items. The scale is from 1 to 7, where 1 indicates *very dissatisfied*, and 5 indicates *very satisfied*.

## Attitudes about life

Prior to taking the training, participants had a somewhat positive future orientation, or belief in the impact of their own actions on their future outcomes. As described in Section 3, future orientation, and trust (presented in the tables below), are both qualities associated with more positive labour market outcomes.

Participants agree that...	Pre-training
My life is determined by my own actions	78.5%
I don't really plan for the future because things change so much (reverse)	30.2%
Since I can't affect the future, it doesn't really matter what I do (reverse)	17.1%
<b>Overall scale<sup>54</sup></b>	<b>3.6 pts</b>

Participants also showed a relatively neutral level of trust, on average finding it neither likely nor unlikely that a lost wallet with \$200 in it would be returned by a variety of people.

Participants find it likely that a lost wallet with \$200 would be returned by...	Pre-training
A neighbour who lives close by	72.1%
An employee at a local business	58.1%
A total stranger	30.3%
<b>Overall scale<sup>55</sup></b>	<b>3.3 pts</b>

## Post-training skill gains

As explained in Section 4, the reimbursement of employer training costs is based on two factors: median score gain, and the proportion of workers achieving a 25-point gain or higher. Unlike the *ESSF* SIB model where reimbursement is based on calculations for the entire sample, investor repayment for *Skilling UP* is calculated for the three employers independently. The findings

<sup>54</sup> The scale presents participants' average response across all the above items, with the second and third items ('I don't really plan for the future because things change so much' and 'Since I can't affect the future, it doesn't really matter what I do') reversed so that a higher score is positive across all items. The scale is from 1 to 5, where 1 indicates *strongly disagree*, and 5 indicates *strongly agree*.

<sup>55</sup> The scale presents participants' average response across all the above items. The scale is from 1 to 5, where 1 indicates *very unlikely*, and 5 indicates *very likely*.



presented here do not include a second cohort of 38 participants at Cosmetica added in Fall 2017, as the calculation of their results is being finalized at the time of writing.

On average, *Skilling UP* training to date has increased workers' document use skill level by 13.7 points. Increases were not uniform across the sample: they ranged broadly from a decrease of 74 points to a gain of 98 points. Just over a third of participants (38.2 per cent) achieved a skills gain of 25 points or more, and just over a quarter of participants (26.4 per cent) showed lower scores after training. It is important to note that decreases in scores are not considered to be indicative of "skill loss". Rather, in addition to being attributable to standard error of the assessments themselves, lower scores post-training may be precipitated by test fatigue, test environment, lack of focus or motivation on the part of the learner.

Chapman's assessed 35 employees at baseline, and 30 employees directly following training. Those 30 employees saw a weighted median gain of 22 points, and half (49.6 per cent) achieved a 25-point gain or higher. This qualified Chapman's for a repayment of 42.5% of their eligible training costs. Twelve months following, Chapman's workers were assessed a third time to measure maintenance of skill gains; the 23 workers who completed the final assessment showed a median gain of 21 points from baseline, and 46.8 per cent achieved a 25-point gain or higher. Chapman's was thus eligible for repayment of an additional 4% of training costs.

Cosmetica assessed 137 employees at baseline, and 119 employees directly following training. Of those 119, 106 employees had sufficient data to compare scores. The remaining employees did not answer sufficient questions on one or both of their assessments for TOWES to accurately report a score. Cosmetica participants saw a median gain of 14 points, and a third (32.8 per cent) achieved a 25-point gain or higher. This qualified Cosmetica for repayment of 30% of their eligible training costs. Twelve-month follow-up assessments are taking place in Fall 2017 and results will be included in the final report.

At THK, 71 employees did baseline assessments, but only 34 completed training and post-training assessments. According to THK staff and *Skilling UP* instructors, the main reason for the large drop off in participation in training was due to work demands and the need to adhere to a manufacturing schedule. However, other reasons were also suggested including some reluctance to engage in the training. SRDC will be analyzing qualitative information from key informant interviews and presenting findings in the final report. The 34 workers who completed post-training assessments experienced a median gain of 39 points, and a full 70.7% experienced a 25-point gain or higher. This qualified THK for repayment of 45% of their eligible training costs. Twelve-month follow-ups are taking place in Fall 2017 and will be included in the final report.

Skill gains for the September 2017 Cosmetica cohort will be included in the final report, along with the 12-month follow-up findings for THK and the earlier Cosmetica cohort.

## 6. Investor motivation

### Introduction

Over the period November – December 2016, SRDC conducted in-depth interviews with financial sector professionals. The purpose of the interviews was to examine how investors perceive social finance, what motivates them to consider investing in social finance projects and the minimum rate of return versus risk needed to draw their interest. As mentioned in Section 1, there are many different types of investors and they operate in a complex environment. This Section adds clarity to the term “investor” as it pertains to social impact investment or social finance projects. It also addresses the following research questions, as presented in Section 3:

What are the minimum rates of return for investors and employers to be willing to invest in social finance models?

How do investors and employers perceive social finance and what motivates them to invest in such models?

To address these questions, SRDC initially proposed to conduct interviews with *ESSF* SIB investors, *ESSF* SIB prospective investors who had turned down the opportunity to invest, and mainstream investors unaware of the *ESSF* SIB. In light of work commissioned by CICan to KPMG at the same time as this research, all parties wished to reduce interview burden on current and prospective *ESSF* investors. Accordingly, while continuing to interview mainstream investors, SRDC agreed to postpone interviews with *ESSF* investors until the following year. Some of the data collected by KPMG from their interviews with the three current *ESSF* investors and surveys with four who declined the offer has been incorporated into this chapter.

The discussion below also aims to add clarity around the design, implementation and operation of social impact investment projects by gaining a better understanding of the financial sector as a whole and the segment of the sector that would act as potential investors for these types of projects. Social impact investment models are complex and they operate in a finance sector that is even more complex and opaque to the majority of Canadians.

### The investment spectrum

Research participants included financial sector professionals operating in both the mainstream financial sector and the social impact investment market. The mainstream financial sector is conceptualized as the sum of financial sector professionals who make investments that are strictly meant to produce economic returns without consideration for social or environmental impact.

Figure 1 presents a spectrum of investment categories that define investment type ranging from investments that focus exclusively on economic returns, to those that are meant to achieve solely social goals. At one end of the spectrum, we find traditional or mainstream investments made by mainstream financial sector professionals. These include, for example, investments made by wealth managers into mutual funds or publicly traded companies on behalf of their clients. At the other end of the spectrum, we find pure philanthropy where charities and foundations provide grants for

social or environmental ideas, initiatives or programs; for example, the United Way awarding grants for a community organizations helping at-risk youth. Figure 6.1 depicts the new and growing paradigm of social impact investing between these two poles. As discussed in Section 1, investor intention and motivation determine where investors fall on the spectrum between traditional investments and charitable donations. Considering the nature of the *ESSF* pilot projects, our particular research interest is in social impact investing, and this drove the design of the interview protocol. We interviewed individuals who could be categorized in Box 1, Box 2, Box 4, and Box 5 in Figure 6.1.

**Figure 6.1 The investment spectrum**

			Social impact investing		
Box 1 Traditional or mainstream Investments	Box 2 Responsible or ethical Investments	Box 3 Sustainable Investment	Box 4 Thematic Investment	Box 5 Impact First Investment	Box 6 Philanthropy
<i>Finance only</i>	<i>A New Paradigm</i>				<i>Impact Only</i>
Pure financial returns  +  no or little social or environmental impact	Financial return  +  Focus on ESG <sup>56</sup> risks ranging from consideration of ESG factors to negative screening of harmful products	Financial return  +  Focus on ESG opportunities through investment selection, portfolio management and shareholder advocacy	Focus on one or a cluster of social or environmental issues  +  Financial return from commercial growth opportunity	Focus on one or a cluster of social or environmental issues  +  Some financial return	Focus on one or a cluster of social or environmental issues  +  No financial return
<u>Example</u>	<u>Example</u>	<u>Example</u>	<u>Example</u>	<u>Example</u>	<u>Example</u>
Investing in real estate without consideration for energy efficiency or alternative sources of energy  Investment in an oil and gas energy company	Excluding companies with high ESG Risk  Screening and excluding companies that sell tobacco, alcohol, weapons, and pornography products from a portfolio	Investing in companies included in the Jantzi Social Index, FTSE4Good, NYSE Sustainability Index	Investing in a Solar energy community bonds  Investments made by Health Care Funds  Microfinance investments	Investing in a Social Impact Bond  Community loans  Issuing a patient capital loan	Foundation awarding a grant to a charitable organization  Corporation awarding a grant to a charitable organization

**Source:** Adapted from Bridges Ventures Research (2012): The Power of Advice in the UK Sustainable and Impact Investment Market.

<sup>56</sup> ESG stands for Environment, Social and Governance.

SRDC's interview participants included 13 executives and senior figures working in the Canadian and American financial sectors. General findings from KPMG's interviews with three *ESSF* investors and surveys with four investors who had considered but rejected the SIB offer are also incorporated into SRDC's analysis. Participants represented the following organizations: BDO International, Catherine Donnelly Foundation, Conexus Credit Union, Deloitte, Goldman Sachs, Grassroots Business Fund, PricewaterhouseCoopers, Raymond James Ltd., Royal Bank of Canada, Toronto-Dominion Bank Group, TMX Group Montreal, TMX Group Toronto and four other organizations. SRDC developed a semi-structured interview protocol tailored to the different categories of investor. Interviews were recorded, and we analyzed and synthesized data according to a thematic matrix using NVivo, a specialized software program for qualitative analysis. Key themes identified during the analysis are presented below.

## Contextual information

To situate the ESDC social finance pilot projects along the investment spectrum requires defining social impact investing. The key informant interviews revealed that to understand the meaning of social impact investing, the term must be differentiated from mainstream finance. To fully appreciate the richness of the data collected during the interviews, the act of investing as understood by mainstream financial sector professionals is defined. We also present the difference between individual investors, foundations and institutional investors and describe the decision making process for investors when choosing an investment product.

An **investment** within the mainstream financial sector (Box 1 in Figure 6.1) is defined as the act of purchasing a financial asset with the expectation that the asset will generate income or appreciate in the future.<sup>57</sup> In financial terms, this means someone is investing money into an asset for the purpose of making additional income or generating wealth in the future. For example, someone can place money into a bond with the expectation of receiving their money plus a return in the future, or they can put their money into a stock, which is a part ownership of a publicly traded company, and hope the price increases allowing for the sale of the stock at a higher price in the future. This perspective guides most decisions made by investors in the mainstream financial sector, however, other factors enter into the decision making process including a calculation of risk versus return, the tax environment, and regulatory requirements. These factors vary according to whether one is an individual investor, a foundation or an institutional investor.

**Individual investors:** Often referred to as retail investors, individual investors choose to make investments to grow their personal accounts. They do not act on behalf of an organization or a company. Individual investors can be of limited – or have substantial – financial resources. The latter is referred to as a High Net Worth Individual (HNWI). Individual investors have much flexibility in deciding where to place their money, however, they most often work with a wealth manager to navigate the complexity of the financial system.

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<sup>57</sup> Retrieved from Investopedia: <http://www.investopedia.com/terms/i/investment.asp>.

**Foundations:** Public and private foundations are charitable organizations. Canadian foundations must have a charitable purpose and are subject to a disbursement quota of 3.5%. The rules and regulations governing this 3.5% are complex, but essentially foundations are required to disburse 3.5% of the total value of their assets in the form of charitable grants with the aim of generating social impact.<sup>58</sup> The majority (96.5%) of their assets are invested through an endowment fund with the objective of producing a financial return. *Foundations* must comply with both federal and provincial or territorial legislations.

**Institutional investors:** Institutional investors are organizations mandated to generate profits for their shareholders and stakeholders. They have many stakeholders and many have a significant amount of money to invest; they therefore answer to different rules and regulations than do individual investors and foundations. Banks, credit unions, finance companies, insurance companies and pension funds are considered institutional investors. Governments set the rules and regulations that govern financial institutions, which differ according to the products and services offered by and the size of the institution. For the purpose of this research, it is worth elaborating on three types of institutional investors. Understanding the differences among the institutional investors can help with the tailoring of an investor engagement and communication strategies when designing social impact investment projects.

Banks provide financial services to individuals, small and medium sized businesses (SMEs) and large corporations. Their key characteristic is having the ability to take deposits from savers and issue loans to borrowers, but they also offer financial services such as wealth management to individual or corporate clients. In Canada, banks must follow regulations set out by the federal government.

Credit Unions are financial co-operatives, locally owned by their members. Like banks, they take deposits and issue loans, but unlike banks, they invest their profits in the communities where they operate. Credit unions are regulated by provincial or territorial governments.

Pension Funds manage pooled money of employee contributions for the purpose of paying out benefits upon these employees' retirement. Pension funds are usually set up by employers, unions or other organizations. They are the largest financial institutions in most countries and have a large number of different stakeholders including contributors, pensioners, employees, and external fund managers. Pension funds have a fiduciary duty prescribed by law, i.e., a legal obligation to act in the best interests of the individuals or organizations with whom they are entrusted with caring for money or property. Most often this is interpreted as maximizing economic returns and contributing to wealth generation. Institutional investors also have restrictive mandates, investment policy guidelines, investment committees and trustees. These characteristics make pension funds conservative and risk-averse financial institutions.

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<sup>58</sup> For more information, see the Government of Canada webpage:  
<https://www.canada.ca/en/revenue-agency/services/charities-giving/charities/operating-a-registered-charity/annual-spending-requirement-disbursement-quota/disbursement-quota-calculation.html>.

The **investment decision making** process varies according to the type of investor. Still, there are some general principles that apply across all investors:

- The process will involve some form of risk-return calculation. As stated above, the basis for all investment decisions is to earn future returns, and investors understand that there is a tradeoff between expected risk versus expected return. For example, a risk free investment will earn a low rate of return; to earn a higher return, investors need to take on additional risk. Different methods are used to analyze the potential future earning of an investment opportunity and the risk attached;
- Regardless of the method used by investors to value an investment product, investors like certainty and plan for the short, medium and long term;
- An investment opportunity's track record, or historical performance of the investment opportunity, is an important consideration in the investment decision making process; only a small fraction of investors – venture capitalists or “angel investors” – will choose to make high risk investments that have little to no history of performance into a handful of companies; and
- Most investors will choose different types of investment products to ensure they hold a diversified investment portfolio.

## Key findings

Research participants were asked about their perception of social impact investing generally and of SIBs specifically. They were also asked about potential motivation for considering these types of projects as well as how risk and return would factor into their decision making process. Investors who were aware of the *ESSF* were asked specific questions about the SIB. The interviews revealed that investor motivation, perception and method for calculating risk and return differs based on the perspective of the investor. Participants who had a history of being involved in philanthropy and/or engaging in social impact investments viewed social impact investing differently from participants who have operated exclusively in the mainstream financial sector. General themes emerging from the interviews are presented below.

**SIBs are seen as experimental:** All interview participants viewed SIBs as experimental and most felt that their experimental nature made them a high risk investment. They compared SIBs to venture capital investments.<sup>59</sup> Most participants felt SIBs would be a challenge for a majority of investors, especially the larger institutional investors. A number of respondents explained that some of the larger credit unions would be an exception to this because of their adherence to co-operative principles and values: concern for their community, a strong history of managing community outreach programs, and being bound by a less restrictive regulatory framework than the larger institutional investors. It was emphasized that out of the hundreds of credit unions in

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<sup>59</sup> Venture capital is money that investors provide to startup companies and small businesses that have difficulty accessing capital through traditional financial channels. These types of investments are high risk for the investor, and the proportion of individual and institutional investors who consider them is very small.

Canada, only the larger ones would consider SIBs; most credit unions are small and would not be willing or able to put their capital at risk.

Most interview participants, especially the mainstream finance professionals, did not see SIBs or social impact investments as investments at all. They believe these types of investments to be either philanthropy or in the case of institutional investors as part of an organization's corporate social responsibility mandate. As one individual who was involved in the investor engagement stage of the ESSF SIB explained, "*There was strong interest among the banks [meaning the big five Canadian banks], as a pilot study. There was very little interest in this as a financial investment ... it was more of a social initiative than a financial initiative.*" Others shared that if the investment opportunity cannot compete on a risk adjusted return basis according to fundamental analysis, it is "foolish" to consider it as an investment and in essence it "becomes a subsidy because it lacks liquidity, it's a relatively short time horizon and one's capital is at risk". An example of a financial institution's Corporate Social Responsibility initiative is the Royal Bank of Canada's Generator Fund, which is a social impact investment fund capitalized with \$10 million. The fund was operationalized through the organization's Corporate Social Responsibility group and this team is responsible for sourcing social impact investment deals, but the pool of capital is held and deals are structured by the organization's private equity group.

The experimental nature of SIBs prevents them from fitting into current mainstream financial models used to make investment decisions. Even the three investors in the ESSF SIB, who have a history of making social impact investments, viewed SIBs as experimental and chose to invest as part of their commitment to building socially responsible portfolios. One institution had decided to dedicate 10% of its portfolio to social impact investing after the organization's senior management reflected on the organization's mission in the wake of the 2008 financial crisis. Another explained that the financial return was not the primary motivator for investing in the SIB; the organization was more focused on the impact of the project.

**Language is important:** Given that social impact investing is a relatively new phenomenon, it is not surprising that there is a lack of clarity around the meaning of the terms 'social impact investing' and 'SIBs'. All of the research participants from the mainstream financial sector had little or no knowledge of social impact investing. Some equated social impact investing with responsible investing and ethical investing. Many found the description of a SIB particularly confusing. Investors perceive bonds as, "*very low risk investments. The portion of the portfolio where clients want to keep money safe.*" SIBs were not seen as bonds at all because of their short time horizon, high risk and lack of secondary market. One individual stated that if SIBs were viewed as an investment product, they would need to compete with other financial products in terms of risk and return because "*competition drives behaviour*". Participants shared that if these types of social projects are to succeed, they need to be marketed appropriately and the term Social Impact Bond would need to be explained to potential investors. Many of the participants believed SIBs should be marketed as a "social play" or a "philanthropic" initiative because "*that's what they are*".

When participants were asked if information about SIB interventions needed to be converted to mainstream financial sector jargon, responses were split. Some felt that investors would require the details of the intervention to be translated into financial jargon. Caution was given as to which



terms to use especially when trying to translate the risk involved in SIBs because different types of investors use different terms. Other participants shared that the most important factor is having a competent person engaging investors; this person needs to have the network and the skills to sell the financial product. Substantial and accurate data supporting the efficacy of the intervention was also seen as essential. *ESSF* investors required clear expectations of their role within the project. As one research participant explained, “They [investors] like clear expectations. The private sector does not have a public policy imperative, but if they do business with government, they do want to be met half-way.” It was also emphasized that the individual or organization explaining the intervention would have to have a solid reputation and track record within the financial sector.

**Interest in social impact investing:** Reputable organizations have published reports demonstrating the growing interest in social impact investing. Reports by The World Economic Forum, McKinsey & Company and the Global Impact Investment Network in collaboration with JP Morgan Chase are but a few examples.<sup>60</sup> Some of the largest financial institutions such as Bain Capital, BlackRock, Credit Suisse, Goldman Sachs and JP Morgan Chase have launched impact funds or started offering impact products to their clients. Financial institutions have offered similar products in the past such as ethical mutual funds originally offered in the 1960s and 1970s, however, today’s products have been branded to fit into the new narrative surrounding socially responsible investing and social impact investing, and the offerings are growing in size and in value. The interviews produced additional evidence supporting the idea that interest in social impact investing is growing. Wealth managers explained that clients are increasingly wanting to live cleaner and healthier lives and this is reflected in their investment decisions; individual investors are having discussions with their wealth managers about responsible investing and/or social impact investing.

Interest in social impact investing within institutional investors is also increasing. We learned that the Royal Bank of Canada’s Generator Fund was created because a senior executive at the Royal Bank was interested in social impact investing and the Generator fund was found to be a means for experimentation within this new marketplace. Some institutional investors are choosing to enter the sector to mitigate reputational risk while others have been driven by shareholders and stakeholders to become more socially conscious with their investments. One research participant shared that “*Nine out of the ten of the biggest Canadian pension funds have become signatories to the Principles for Responsible Investment (PRI) initiative, a responsible investing principle-based framework.*” She also explained “*There is very much a push. When you have asset owners who have embraced this, then this is going to be pushed down to their asset manager.*” At the same time it was acknowledged that asset or wealth managers do need to be educated on the intricacies of

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<sup>60</sup> See McKinsey & Company (2016) *How impact investing can reach the mainstream*, retrieved from: <http://www.mckinsey.com/business-functions/sustainability-and-resource-productivity/our-insights/how-impact-investing-can-reach-the-mainstream>; World Economic Forum (2013) *From the Margins to the Mainstream: Assessment of the Impact Investment Sector and Opportunities to Engage Mainstream Investors*, retrieved from: [http://www3.weforum.org/docs/WEF\\_IL\\_FromMarginsMainstream\\_Report\\_2013.pdf](http://www3.weforum.org/docs/WEF_IL_FromMarginsMainstream_Report_2013.pdf); GIIN's (2016) sixth edition of the Annual Impact Investor Survey, retrieved from: [https://thegiin.org/assets/2016%20GIIN%20Annual%20Impact%20Investor%20Survey\\_Web.pdf](https://thegiin.org/assets/2016%20GIIN%20Annual%20Impact%20Investor%20Survey_Web.pdf).



responsible and social impact investing in order for interest to grow into action. Finally, prominent educational institutions are beginning to integrate responsible and social impact investing within their curriculum. One research participant shared that when she participated in a Harvard executive leadership program for female executives, she was exposed to a full unit on responsible and social impact investing. Other examples can readily be found in business schools at Canadian universities adding specialization in social finance or social impact investing to their programs. For example, Queens University's Smith School of Business offers a Social Finance Academy, a three-day boot-camp for individuals wanting to gain an understanding of the factors which drive social impact investments across different social issue areas.

**Barriers to growth:** Even with growing interest among asset holders, the interviews indicated that the pool of potential investors ready to consider investing in social impact investment projects remains relatively small. Many financial sector professionals are driven by traditional financial models and systems where wealth generation and financial returns are the main drivers of investment decisions.

Only a small proportion of individual investors will be interested in social impact investment projects unless specialized social impact investment vehicles are built or certain policy instruments are used to mitigate risk or incentivize investment. **Research participants felt that only High Net Worth Individuals (HNWIs) would consider investing in SIBs because they have reached financial independence** and have the ability to devote financial resources to initiatives or investment opportunities that go beyond the purpose of wealth generation. Individual investor who are not HNWIs are most likely dedicating all of their money towards reaching financial independence. Some of the research participants explained that individual investors are dependent on wealth managers for making investment decisions because they have little knowledge of the financial systems. They trust their wealth managers to manage their money. This creates two issues for attracting individual investors in considering social impact investment projects.

One issue concerns the method used by wealth managers to analyze investment opportunities based on a risk-return calculation. Wealth managers have traditionally aimed at maximizing return while mitigating risk in accordance with their clients' risk appetite, and most will offer pre-packaged investment products offered by the commercial financial institutions for whom they work. These wealth managers take on more of a sales role. Wealth managers who have more flexibility to offer customized investment products use an appropriate risk analysis for valuing investment products. One of the fundamental factors included in a risk analysis is observing the historical performance of the investment whether it's a private company, a stock of a public company, a mutual fund or an exchange traded fund. Moreover, the size of the return is also an important factor. As one research participant explained, some wealth managers must choose the investment product with the highest returns because their responsibility is to have their clients reach financial independence as rapidly as possible. The same participant also shared that some wealth managers make decisions based on the commission they receive, that is based on the investments' performance. Some are simply risk-averse and will not consider alternative investments for their clients, which presents a barrier to social impact investment projects. Most believed that both responsible and socially responsible investments performed poorly compared to traditional investment products like Exchange Traded Funds or Mutual Funds.

Wealth managers choose to look at their clients' lifespan and if they are not High Net Worth Individuals they take a long investment horizon perspective, because they choose to plan for their clients' retirement and beyond. This means they prefer clarity and stability for investment products because it helps them plan for their clients' financial future. They do not typically see a role for measuring social impacts. However, some wealth managers are philosophically aligned with responsible and social impact investing and build their practice around these themes. They incorporate Environment, Social and Governance (ESG) analysis in investment decision making believing this provides them a competitive advantage, or simply that it is the right thing to do. These wealth managers will perform an analysis that goes beyond the traditional risk analysis.

Credit unions and their members are guided by a different philosophy and are governed by a different regulatory framework than mainstream financial institutions. The credit union investing in the *ESSF* SIB shared that there was interest among their members for projects like these and suggested that some structure or model should be created to allow for retail investors to participate.

The barriers to engaging foundations and institutional investors beyond credit unions are different from those for individual investors. *Foundations* are technically able to dedicate some of their endowment or their grant envelope to social impact investing. The former has been termed Mission Related Investments (MRIs) and the latter Program Related Investments (PRIs). However, foundations are bound by internal documents like Memoranda of Associations, Constitutions, Statements of Investment Policies and Procedures (SIPP), etc. that might not mention nor address social impact investing. This, combined with requirement of abiding by "prudence" standards including in-trust legislation, produces a conservative culture within both public and private foundations. Members of a foundation's board of directors can be reluctant to lead their foundation into a social impact investment project without clarity around the result the investment might have on their charitable status: investing in for-profit enterprises can put a foundation's charitable status at risk.<sup>61</sup>

*Foundations* are not comfortable with putting the endowment's capital 100% at risk if the project fails, and do not have the structure in place to allocate grant dollars towards SIB projects. One of the investors would have considered investing more money in the *ESSF* SIB project if not for regulatory barriers preventing investment through his foundation. It is noteworthy that this particular barrier is being recognized and addressed by government regulators: In the United States, the Internal Revenue Service has changed the regulations to allow foundations to make investments with their grant dollars without losing their charitable status as long as the investment produces below market rates of return. Regulatory barriers are also beginning to be addressed by the Canadian

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<sup>61</sup> A special purpose vehicle which include for-profit general and limited partnerships must be created for SIBs. Investing in these special purpose vehicles can put a charitable organization charitable status at risk.

federal government. In 2015, an amendment to the *Income Tax Act* was made to allow public and private foundations to invest up to 20% of their fund in units of a limited partnership.<sup>62</sup>

Barriers to investing in social impact investment projects are even higher for institutional investors, who are heavily regulated and risk-averse. Institutional investors have a fiduciary duty, mandates, investment committees and multiple stakeholders. Many of the research participants stressed that even though institutional investors are increasingly getting involved in responsible investing, social impact investing would only appeal to their CSR departments. One research participant felt that to engage institutional investors, *“studies need to be done that show if customers would be willing to support organizations that demonstrate better social balance than their peers ... there is also a need to integrate these types of investment in executive training curriculums because until the philosophy changes at the board level, these types of investments will not become mainstream.”*

## In summary

The current research found that mainstream investors view social impacting investing differently from impact investors. The experimental nature of social impact investment projects, especially SIBs, while being of interest, do not lend themselves well to being valued through current mainstream investment valuation methods. Institutional investors and wealth managers, with the exception of co-operative financial institutions, view philanthropy or corporate social responsibility as a means for meeting their social obligations. While consensus is starting to form among scholars and practitioners within the social impact investing community, mainstream professional investors either lack knowledge about impact investing or confuse it with other types of social investments.

**To grow the social impact investing market, there will be a need to address barriers at the individual, organizational and systems level. For instance, the substantial risk involved in investing in some social impact investment schemes preclude most individual investors from participating.**

Also, institutional investors are restricted from being a partner in social impact investment projects because of their internal and external policy frameworks.

There are limitations on these findings due to a small sample size of 20 respondents, and their concentrated geographic distribution (mainly Toronto, Montreal, and Ottawa). The themes that emerged bear exploration with other sources of information about investor perceptions, motivations and behaviour. Expanding this type of inquiry to other jurisdictions is necessary to inform the types of public policies that are most effective in all provinces and territories. As well, **understanding more about social finance policy frameworks used in the United Kingdom and the United States would be beneficial, as both countries have a more mature social impact investment sector than Canada.** In the United States, JP Morgan Chase in partnership with the Global Impact Investing Network has since 2010 conducted an Annual Impact Investor Survey; the findings(s), reveal individual perspectives on how the social impact investment sector has changed and the types of changes they would like to see, in addition to profiling market trends across geographies

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<sup>62</sup> Prior to the passage of this amendment, private and public foundations investing in limited partnerships could lead to the loss of their charitable status, which would have led to the loss of their income tax exemption and their ability to issue donation receipts.

and sectors of the economy. Another potential source of lessons learned may be found in a 2016 study by VBDO in the Netherlands. Findings from its analysis of aggregated quantitative and qualitative responses from questionnaires sent out to the 50 largest Dutch pension funds and 30 Dutch insurance companies allowed researchers to identify investment trends, and determine some of the factors that would attract the attention of mainstream investors in considering investing in social impact projects.<sup>63</sup> Exploring these and other international studies in light of the findings of the *ESSF* investor research could yield valuable insight into the potential for advancement of social impact investing in Canada.

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<sup>63</sup> For more information on the VBDO study: [http://www.vbdo.nl/files/news/ImpactInvestment\\_Final.pdf](http://www.vbdo.nl/files/news/ImpactInvestment_Final.pdf)

## 7. Lessons learned to date

SRDC's role in the design and implementation of the *ESSF* and *Skilling UP* pilot projects was described in Section 4. This experience leads to a number of themes or lessons learned, supported by knowledge from other SRDC projects and from the literature. These are presented below. SRDC is continuing to explore these and additional lessons learned through detailed analysis of the post-training and 12-month follow up surveys and literacy assessments, and through qualitative research with stakeholders including the *ESSF* investors and *Skilling UP* employers.

### **Social Impact Bonds are complex structures with high transactional costs**

SIBs have complex administrative structures and require coordinated effort among partners. This involves substantive transactional costs. At the time the pilot projects were announced, there was clearly political interest and support, but the legal and regulatory environment in Canada had not contemplated SIBs and was not adequately prepared. As a first step, CICan (a non-profit) had to undertake extensive work examining alternative corporate structures in order to be able to receive and administer the SIB funds without jeopardizing their charitable status. After seeking and awaiting approval from Canada Revenue Agency, they were able to do so through creation of a Limited Partnership as a special purpose entity.

CICan has submitted to ESDC a Phase 1 report documenting the SIB development process in detail, including development of the investor Memorandum of Offer, and the investor engagement strategy. While the groundwork laid in this project will undoubtedly facilitate future SIBs in Canada, there remain unresolved and potentially complicated SIB-related issues, such as the tax treatment of earnings and losses from SIBs. And despite the reduction in transactional costs that *ESSF* may bring for future SIBs, there remain costs associated with the complex SIB model itself: administrative, legal and operational costs to support the unique SIB structure; developing success metrics and repayment terms; attracting investment; independent data collection for validation. The relative costs of SIBs compared to traditional delivery models, or even pay-for-success models without private funding, are worth better understanding.

### **Attracting SIB investment can be challenging**

Potential SIB investors range on a continuum, from philanthropic investors with no expectation of profits nor even necessarily reimbursement of their initial investment – sometimes referred to as “impact-first investors” – to more commercially oriented or “finance-first” investors seeking market returns on their investment. SIB awareness is low among finance-first investors, and may not be appealing even if better known; however, some may accept the risk of lower returns if their investment is supporting social and/or environmental good.

In other jurisdictions, the availability of funds for SIB investment has led to more rapid development and implementation of SIBs than in Canada. For example, in the UK, the creation of the *Big Society Capital* independent financial institution, holds a fund of over \$1 billion dollars

(600,000) for this purpose.<sup>64</sup> The funds come from reclaimed amounts in dormant bank accounts (about 400,000 pounds) and from 4 main banks who have contributed about 200,000 pounds.

## **Engaging employers in pay-for-success models can also be challenging**

Up-front costs for training large numbers of employees can be a stumbling block for some employers, particularly if any anticipated reimbursement awaits the calculation of results for multiple cohorts. Some who expressed interest in *Skilling UP* hesitated to make these investments, given “the unknown” of pay-for-success, or risk-shared ventures. Data collection for *Skilling UP* was considered to be onerous by some employers, and the requirement to administer skills assessments was not always viewed favourably. Giving up work time for training is already a sacrifice for employers, but with the *Skilling UP* model, the additional time needed for employee assessments (2-3 hours, three times over the course of the project) was either prohibitive, or viewed negatively. To compensate, employees at one employer were asked to complete assessments half on their own time.

The availability of other grants or subsidies creates alternatives for employers, who may choose them because they are more “known quantities”, or perceived to be simpler in terms of administration. For example, the announcement and availability of the Canada Job Grant may have contributed to a slower response than anticipated from potential investors for the *Skilling UP* pilot.

## **Success metrics must be relevant, measurable, and transparent**

Defining success outcomes, reimbursement terms, and metrics for pay-for-success models is complex. The success outcome for the pilots was defined from the outset to be gains in literacy skills, as measured on a standard scale. To develop a fair reimbursement formula based on literacy skills, SRDC analyzed evidence of point gains from previous Essential Skills training interventions to establish a benchmark. SRDC then calculated risk-reward scenarios to prepare graduated payment schemes for both projects that reward higher levels of success with higher returns on investment. CIG incorporated these calculations into their SIB and revised the ROI upwards to be more attractive to investors; AWES adopted the proposed grid for their agreements with employers. SRDC devised an independent process for the measurement of skill gains that was deemed the most reliable, both operationally and statistically.

Pay-for-success models hold more saliency when metrics for success payments are directly aligned with outcomes of interest. To fit within project timelines, it may be necessary to use intermediate outcomes as indicators of long-term positive outcomes. As well, when desired outcomes may not be readily measurable, a proxy may be used. In the case of the pilots, the success outcome can be considered a proxy – literacy skills are associated with positive employment outcomes, but in and of themselves not particularly salient. It may be more difficult to attract investors with proxy outcomes, and for participants and Service Providers to accept them as the main success outcome.

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<sup>64</sup> <https://www.bigsocietycapital.com/about-us/our-investment-numbers>

Success metrics based on group outcomes, such as the group median and percentage score gains of the pilots, require sample sizes adequate for accurate calculations. In the cases of both pilots, it was initially anticipated that the metrics would be calculated on group sizes no smaller than 200; the smaller samples that resulted did not promote measurement to as high a standard of accuracy as incorporated into the initial design. This resulted in the need for additional statistical analysis and adjustment that would not otherwise have been required.

## **Fostering program innovation**

Pay-for-success schemes should go beyond ensuring that government pays only for successful programs, but also increase the knowledge base about ‘what works’ through rigorous evaluation of outcomes. While measuring success outcomes is adequate for triggering payments, without understanding why and how a full range of outcomes are achieved, program effectiveness is not known. Rigorous evaluation using counterfactual data is needed to determine program impacts, and implementation research is necessary to understand how service provider flexibility and expertise is applied in achieving impacts. This approach will ensure that funds spent on pay-for-success models can inform future program implementation, and foster innovation.

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