

The Centre for Literacy Fall Institute 2012
SOCIAL FINANCE AND INNOVATION
FOR ADULT BASIC LEARNING:
Opportunities and Challenges
October 14-16, 2012
Saint John, NB

SOCIAL FINANCE AND EMPLOYMENT AND TRAINING PROGRAMS

October 15, 2012



**SOCIAL RESEARCH
AND DEMONSTRATION
CORPORATION**

**SOCIÉTÉ
DE RECHERCHE
SOCIALE APPLIQUÉE**

Purpose of paper

- ▶ To examine the potential of social finance to help governments meet their policy objectives in the specific domain of employment and training programs
- ▶ *To what extent are social finance models currently being used to solve challenges and improve outcomes in the domain of employment and training?*

Scope and methodology

- ▶ **Environmental scan** - Identify employment and training organizations that use social finance, and identify distinct models/approaches (Canada, US, UK, Australia)
- ▶ **Literature review and expert consultations** –to better understand features, strengths and limitations of each model
- ▶ **Roundtables** – Government officials and executive directors of employment and training organizations (Manitoba)

Background and context

Policy context

- ▶ Policymakers increasingly asking how we can improve effectiveness of employment and training systems
- ▶ Key challenge: systems are supply-driven and somewhat disconnected from the local labour market
- ▶ Literature suggests that systems should be more demand-focused to better meet the needs of both jobseekers and employers (Leitch Report, 2008)

What is social finance?

- ▶ **For investors:** an approach to managing money that aims to deliver social and/or environmental benefits, and in most cases, a financial return.
- ▶ **For entrepreneurs:** an approach to acquiring capital that lies somewhere between a charitable donation and a loan, and is used to further a social mission to create impact at a scale that compliments traditional philanthropic support or government contributions
 - MaRS Centre for Impact Investing, 2010

Why use social finance?

- **Stimulate innovation** by attracting new investments that infuse an outcomes focus and remove constraints
- **Generate revenue** that can be reinvested and directed to the social mission
- **Transfer risks** associated with innovation to private actors
- **Align interests** so that capital is channeled toward the most effective interventions
- **Generate savings** either by directing govt funds to interventions that generate cashable savings OR by greater reliance on the market
-

Social finance marketplace



Adapted from MaRS Centre for Impact Investing, 2010

Social finance instruments

	No returns	Below-market returns			Market-rate returns	
	Investment-style grant	Sub-market debt	Quasi-equity debt	Sub-market equity	Commercial debt	Commercial equity
Payment structure	None	Fixed	Tied to revenue	Variable	Fixed	Variable
Financial risk	None	Low	Medium	High	Low	High

Social Impact Bonds: payments tied to gov't cashable savings

Adapted from Shortall and Alter, 2009; Bugg-Levine, Kogut, and Kulatilaka, 2012

Key findings

Can social finance solve challenges and improve outcomes for employment and training?

Three key findings:

1. Social finance approaches are already used in the employment and training policy domain (five models plus one)
2. To varying degrees, all models deliver on general promise of social finance (e.g. mobilize capital to infuse market focus)
3. More specifically, our analysis suggests social finance approaches are well-suited to address the challenge of how to shift to a more demand-focused system
 - In all models, the social finance mechanism directly facilitates the shift to a demand-focused approach
 - Social finance mechanism provides the 'nudge'
 - Ongoing balancing of social and financial goals

Social finance models

Broad approaches currently used to deliver employment and training services include:

1. Employment model
2. Fee-for-service model
3. Financial incentive employment model
4. Social purpose business (for profit) model
5. Pay for success financing model (social impact bond)
6. Public private partnership (proposed)

1. Employment model

- ▶ Enterprising non-profit trains and employs target population to sell goods or services to the public in a business related to the social mission
- ▶ Revenues generated from business are reinvested in the organization
- ▶ Used by a wide range of enterprises, serving a wide range of target groups
- ▶ Typically, goal is to ladder individuals to more permanent employment in 'mainstream' workplace
- ▶ Canadian examples: Goodwill, Stella's Circle

2. Fee-for-service model

- ▶ Non-profit commercializes its services and sells them on the market
- ▶ Commonly used in US to offer staffing agency services for individuals with employment barriers
- ▶ Canadian staffing example: EMBERS Staffing Solutions
- ▶ Some training providers also use this approach at least to some extent

3. Financial incentive employment model

- ▶ Non-profit acts as intermediary that offers franchise owners attractive debt financing conditional on hiring individuals with employment barriers
- ▶ Interest rate on loan is directly tied to number of 'community hires'
- ▶ Unique model developed by non-profit organization Social Capital Partners

4. Social purpose business (for profit) model

- ▶ A for-profit enterprise with a social mission as core business operations
- ▶ Based on notion that the enterprise can achieve its intended social impact *and* yield a profit simultaneously
- ▶ Only model that can seek equity investments
- ▶ Less common, we only identified two examples in our scan:
 - ▶ Advanced Learning Interactive System Online (ALISON)
 - ▶ TurnAround Couriers

5. Pay for success financing model

- ▶ Government-led approach
- ▶ Private investors pay for upfront program costs, with promise of a return on if program targets are met
- ▶ Typically, providers also paid for achieving targets
- ▶ Model significantly reduces government financial risk
- ▶ Several variants in use, two in employment and training:
 - ▶ Minnesota's Human Capital Performance Bonds
 - ▶ UK's New Horizons Social Impact Bond (Youth)

6. Private-public partnership model

- ▶ Intermediary engages stakeholders: employers, agencies, staffing firms, and governments
- ▶ Aligns needs and incentives so that all parties invest, share risk, and have potential to benefit
- ▶ Dual goal of making system more responsive to industry needs, and improving employment outcomes
- ▶ Model is currently proposed by Social Capital Partners

Each model engages employers in innovative ways

Model	How model promotes employer engagement
Employment	Provider and employer are one and the same
Fee-for-service	Market competition requires provider to meet employer needs to attract future customers and generate revenues
Financial incentive employment	Provider must meet employer needs as expressed in financial agreement, or else employer is relieved of loan repayment duty
For-profit social purpose	Market competition creates incentive for provider to meet needs of both customers
Pay for success financing	Performance-based funding with employment targets incentivizes providers to meet employer needs

Conclusion

- ▶ All models associated with significant challenges:
 - Not everyone cut out to be an entrepreneur; steep learning curve; high transaction costs; risk of failure
 - Ongoing balance tradeoff between social and financial goals
 - Only one piece of the puzzle
- ▶ ... But by aligning needs and incentives, models have potential to engage employers, foster transition to a demand-led system, and ultimately improve outcomes
- ▶ Further research needed to determine how models could be implemented on broader scale given current complexity of funding arrangements and the regulatory environment