

Gs & Cs & Social Finance

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This Knowledge Project

- Understand, document and share the ways ESDC has used social finance within Grants and Contributions programs
- Complement, but not duplicate, other ESDC efforts
- Did NOT include leveraging
- Internal to ESDC
- Overseen by ISSD, POB & SSPB



Its Objectives

- Understand Treasury Board policies, guidelines and best practices re: G&Cs flexibilities relative to social finance
- Provide case studies
- Identify opportunities and limitations of Gs & Cs as a mechanism to support social finance
- Facilitate learning and inform program renewal processes within ESDC



What's in the Report

- Background
- The Case Studies
- Findings
 - What Worked
 - Challenges
- Opportunities
 - Program and Design Approaches
 - Funding Instruments
 - Policy Changes
- Conclusions



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Social Finance

- “an approach to managing money that delivers social and/or environmental benefits and, in most cases, a financial return.”
- Typically structured as investment, with any expectation of repayment of capital PLUS a return based on social outcomes or fixed financial terms.
- Prior Government indicated support for social finance in multiple ways



Gs & Cs Funding Environment

- Guided by TP Policy, Directive & Guidelines
- Important Limitations
 1. Funding Level – Directive §6.2.1 – amount is at the **“minimum level required”** to further the objectives of the TP program
 2. Amount Paid - Directive §6.4.7 – total amount **“...does not exceed eligible expenditures actually incurred** by the recipient in completing the recipient’s initiative or project...”
 3. Terms and Conditions – required for each TP program



Case Studies – What they contain

- Who – branch, directorate, key contacts, TPP
- Project objectives, description, timing, reference docs, and status at June 2015
- Why social finance, the tool used and how it happened
- GOC budget, solicitation mechanism, total costs, # of agreements and how this fit into the TPP
- Challenges and opportunities related to TP Policy, Ts&Cs, budgeting and accounting, project design and operationalizing
- Unintended consequences and other lessons



Case Studies - All Skills & Employment

	FCR Loans	Career Focus	Pay for Success	SIB-like
Transfer Payment (TP) Program	EI Part II – Research & Innovation	Youth Employment	Adult Learning Literacy and Essential Skills (ALLESP) -managed by OLES	
Social Finance Tool	Loan capital and loan loss reserves	P4P - Pay for Performance	P4P	Social Impact Bond - like
Status	Closed; Budget 2015 has renewed within FCR TP program	Closed	Enrolled over 280 job seekers; SPOs earned >86K in incentives	CIC reaching out to investors; AWES in discussions with employers
Contribution Agreements	9 SDOs + Evaluator	3 SDOs	1 intermediary	2 Intermediaries + Evaluator
ESDC \$\$	\$19.1 million (18.4 to SDOs)	\$1.3 million	\$2.14 million	\$6.2 million
Keys to Success	Government priority	Creative use of Ts & Cs	Co-creation with strong, creative recipient	Tbd – still underway

Findings - What Worked

- Policies that allow for flexibility
- Departmental commitment (at all levels) to making the project work;
- Collaborative project design with more complex approaches benefiting from phased development;
- Voluntary participation by recipients;
- Experienced partners and grant recipients; and
- The availability of standardized measurement tools and data sets, particularly when there are payments tied to performance.



Challenges: Treasury Board Policy Framework

- Recognize that the more complex social finance approaches do not fit neatly into the Treasury Board's bifurcated system of Transfer Payments or Procurement for conveying funds to third parties.
- Allowing for co-creation of these new approaches in active collaboration with the GoC without triggering any of the liability concerns associated with the word “partner.”



Challenges Re: Achieving Priorities

- Appear to be defining the solution – i.e. social finance/P4P – in advance of identifying the problem and project objectives;
- Lack of performance measurement infrastructure:
 - Accepted and standardized measurement approaches and indicators;
 - Databases, analytics and technology tools to support outcomes and impact measurement
- Reality - minimal social investment from non-government players



Challenges Re: Operationalizing

- Varied commitments to social finance within ESDC – appears to be very high for strategic policy, moderate for program policy and implementation staff, lower for POB
- Capacity and time needed to ramp-up
 - Change takes time
 - Bandwidth – at ESDC & with recipients
 - Knowledge – skills, understanding, experience, etc.
 - Lack of clarity on decision-making
 - Culture change – especially with recipients; Push to focus on outcomes rather than outputs...



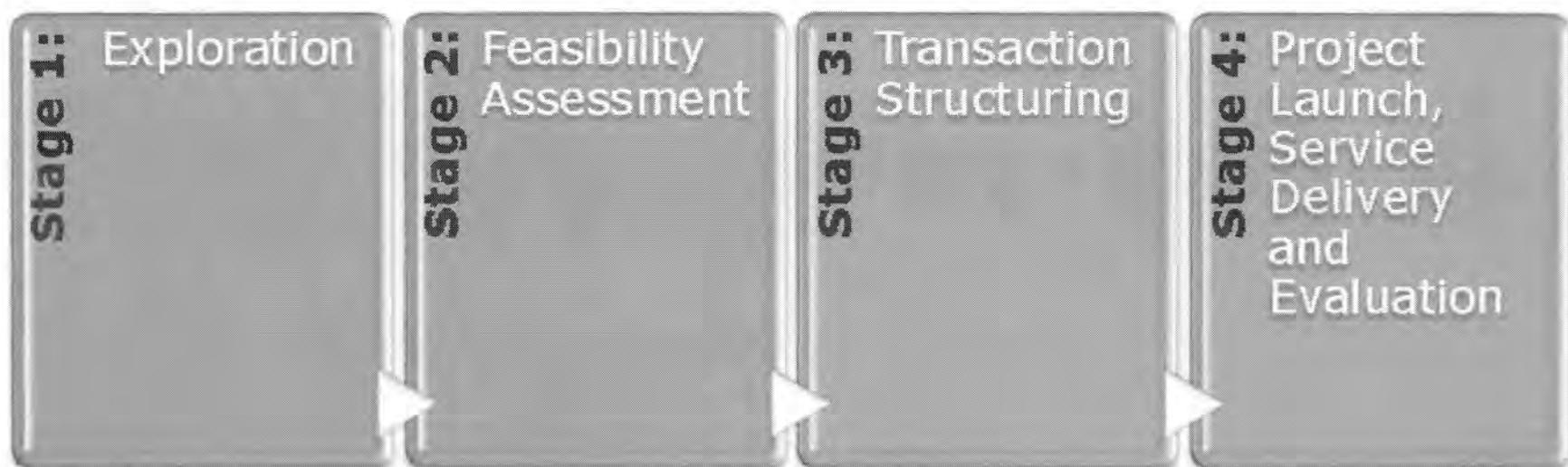
Opportunities - Programmatic

- Targeted TP Program for Innovation/Pilots with allocation of funding (say 1-3% of ESDC TPP)
 - Allow for LOTS of flexibility (and oversight)
 - Once proven, revise appropriate Ts and Cs
 - Rotate staff through; reward participation
- Recognize increased time/costs required for innovation and co-creation



Opportunities - Programmatic

- Separate project exploration, feasibility, design and structuring from implementation and evaluation
 - Earlier phases may need to be procured rather than TP



From Nonprofit Finance Fund, Pay for Success Structuring Competition RFP,
http://payforsuccess.org/sites/default/files/sif_pfs_round_2_application_guide_final.pdf

Opportunities – Funding Instruments

- Consider capitalizing investment funds with “endowment funding”
 - TP Directive defines this as funding “invested to produce an ongoing source of income” Brief description (§8.2.3) in Guideline on Directive
- Consider expanding multiple funding approaches designed for Aboriginal recipients (flexible and block contributions) to social finance/social innovation recipients.



Opportunities – ESDC Policy Changes

- Allow Ts & Cs to be used for loans, loan loss reserves (& bonuses & investor returns?)
 - Replicate from Community Futures Ts & Cs
 - Incorporate tools (contribution agreement, etc) from FCR Loans Pilot
- Consider allowing Ts & Cs to be used for performance bonuses & investor returns



Opportunities – Treasury Board Policy

- Amend sections of the TP Directive that create the greatest obstacles to social finance, specifically:
 - Section 6.2.1 so that grant and contribution amounts may be at the most effective level rather than the “minimum level required” to further the objectives of the TP program.
 - Section 6.4.7 which appears to prohibit “bonus” payments for achieving performance outcomes.
- Amend the TP Policy to allow Ministers to approve Ts & Cs changes in eligible uses.



Case Studies – Key Lessons

- Political support for social finance was a significant asset in facilitating the process of securing amendments to policies and documents.
- The objective and policy goal of enhancing the social finance market is best served by first identifying the problem and a project's objectives for addressing it and *then* assessing if social finance offers an appropriate approach for meeting the objectives and solving the problem (rather than the other way around.)



Case Studies – Key Lessons

- First adopter service delivery organizations face an added reporting burden for participating with social finance pilots and may need additional compensation or incentives to pay for these costs.
- Private sector partners may need faster turn-around times than is typical with government funding.
- If the social outcomes are significant enough, the social finance objectives may become less important.



Case Studies – P4P Key Lessons

- The process of determining an adequate and appropriate incentive formula, milestones and indicators requires **stakeholder participation** and **careful consideration** in order to avoid “creaming” (i.e. targeting the best participants in order to get optimum outcomes), achieve the desired outcomes and reward incremental improvement.
- Projects with multiple players can benefit from the use of a written project charter to clarify roles and responsibilities.



Resources

- Internal to GoC
 - The contribution agreement used by the FCR Loans Pilot
 - The amended Career Focus Ts&Cs which include provisions for costing options.
 - The ALLESP Ts&Cs which allow for investors to earn a financial return.
 - Community Futures Program Ts&Cs
- External
 - SRDC report - Applying Performance Funding to Essential Skills -
<http://www.srdc.org/media/199660/pbf-report.pdf> See p. 32 = Guiding principles
 - Finance for Good - Edmonton Feasibility Assessment –
<http://financeforgood.ca/wp-content/uploads/2013/07/FFG-SIB-Feasibility-Assessment.pdf> See p. 8 Table 2 – Key Facts and Implications



From SRDC

Box 2 Guiding principles for designing a PBF model that works

1. **Use in-program measures** > Focus on in-program measurers that allow providers to track progress and understand where and why clients succeed and where they falter.
2. **Measure gains not levels** > Use measures based on 'gains' that recognize progress regardless of the starting point, rather than measures based on levels that recognize only the ending point and may lead to serving clients who are already closest to the target.
3. **Measure what counts** > Avoid mission narrowing by ensuring that measures and incentives recognize the full range of program objectives.
4. **Identify key milestones** > Identify intermediate milestones that can be used to track the progress of clients who may enter at different points, with different levels of employment readiness.
5. **Monitor system performance** > Build a continuous learning process to respond to strategic behaviour.
6. **'Right-size' incentives** > Ensure performance incentives are neither too big nor too small.
7. **Encourage continuous improvement** > Rather than setting targets, use an open-ended approach to encourage continuous improvement.
8. **Ensure all targeted clients are served** > Link incentives with the intensity of effort required to attain client outcomes. Thus, clients with more barriers are not a disadvantage.
9. **Build provider capacity** > Start with a 'learning period', in which providers are given technical assistance and opportunities to build a community of practice with others facing similar challenges.
10. **Link in-program measures to post-program impacts** > Use longitudinal research to establish a connection between in-program measures and post-program impacts.

From Finance for Good

Table 2: Feasibility Assessment Key Facts and Implications

Pillar	Key Facts	Implications of Evidence
Service Provider Capability	<ul style="list-style-type: none"> Presence of large, established service providers Number of operating 'outcomes-focused' programs Level of existing community engagement 	<ul style="list-style-type: none"> Large organization have experience operating multimillion dollar programs Existing 'outcomes focused' programs minimizes the cultural shift required to embrace SIBs Strong community engagement illustrates clients trust service providers
Political Will	<ul style="list-style-type: none"> Year-over-year funding trends Number of recent government taskforces on the issue Issue visibility to voters 	<ul style="list-style-type: none"> Funding trends outline level of financial commitment to the issue Established task forces highlight a desire to explore all options Highly visible issues are politically more attractive to address
Measurable Impact	<ul style="list-style-type: none"> List of accessible databases for quantitative analysis Existence of commonly accepted measurement approaches 	<ul style="list-style-type: none"> Existing databases reduce cost of measurement Confidence in outcome quantification increases when standard methods of assessment exist
Investor Appetite	<ul style="list-style-type: none"> Amount of historical investment in the local issue Number of identified potential investors Quantification of investor risk 	<ul style="list-style-type: none"> Previous investments in social issue suggest sustained investment interest Several potential investors provides government confidence SIB can be funded The level of investor risks influences return rate required for SIB investment
Potential for Impact	<ul style="list-style-type: none"> Theory of change associated with interventions to address the issue Total number of people in need Number of people a SIB intervention could help 	<ul style="list-style-type: none"> Understanding the complexities of the target demographic helps determine feasibility of addressing issue with a SIB Number in need outlines the immediacy of programming need Based on costs per client, what program size is possible with a SIB
Economic Links	<ul style="list-style-type: none"> Expected financial return to government Time required to realize financial benefits Uncertainty of assumptions in economic case 	<ul style="list-style-type: none"> Financial return to government must exceed cost of the program (for traditional SIBs) Interventions with financial returns within 7 years are easier to finance Economic cases should have a 75% confidence interval

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BIO – Nancy Wasserman

Nancy Wasserman is the Principal of Sleeping Lion Consulting, a firm that collaborates with social innovators to develop products and services that have a positive impact on our communities, societies and the planet.

Nancy has been active in the fields of social finance, program development and policy analysis for over twenty-five years. As the founding Executive Director of the Vermont Community Loan Fund (VCLF), she was involved in developing and operating programs that used social finance mechanisms to support social housing, facilities owned by charities, social enterprises and small business. Nancy was also active in the early development of the CDFI Fund, the US mechanism that has provided over \$2 billion to community-development financial institutions over the past 20 years.

As a consultant, Nancy has helped dozens of charities and businesses make use of social finance. She has also designed and refined social finance programs for government and non-profit agencies. She relocated her business to Ottawa in 2012 and currently works with both US and Canadian clients