The Community Employment Loan Program

Mainstreaming social finance to increase job opportunities for Ontario's most vulnerable

September 2014

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Executive Summary

Introduction

The Community Employment Loan Program (CELP) is an innovative social finance instrument that offers significant potential social and financial benefits to stakeholders across the public, private and non-profit sectors.

CELP provides small business loan borrowers a uniquely structured financial incentive with the objective of improving access to employment for low income vulnerable populations. For every person hired by CELP borrowers through a Community Agency and retained for a minimum defined period, borrowers receive a refund on the interest rate on their regularly-priced term loan.

This innovative program is designed to:

- ***Drive positive employment outcomes for vulnerable populations*** facing barriers to employment;
- ***Help small and midsize businesses*** reduce the interest rate on their bank loan, while motivating them to give back to their communities by hiring from these vulnerable population groups;
- ***Generate quantifiable financial return*** through cost savings for Government and potential market share growth for a partner Financial Institution;
- ***Demonstrate a cross-sector, collaborative solution*** to a long-standing social challenge, creating partnerships to leverage existing public, private and non-profit infrastructure;
- ***Motivate behaviour change and minimize risk to the people of Ontario*** through a pay-for-performance model that links payment with outcomes; and
- ***Align with priority Government initiatives***, including Ontario's Poverty Reduction Strategy and Social Enterprise Strategy.

This document provides the results of a feasibility study conducted by Deloitte on behalf of Social Capital Partners (SCP), with the support of the Ontario Ministry of Economic Development, Employment and Infrastructure (MEDEI).

Through primary and secondary research and analysis, the Deloitte team assessed the feasibility of growing an existing community employment initiative operated by SCP into a province-wide program. As detailed in this report, the study found that the implementation of CELP can generate long-term value for public, private and non-profit stakeholders.

Given the innovative nature of this program and the sensitivity of several key model inputs, a pilot project is proposed to assist in the refinement and testing of specific program conditions and elements to inform full-rollout program design.

The content of this report is intended to provide an initial point of discussion for SCP and MEDEI to convene appropriate stakeholders and determine interest in CELP pilot implementation.

Program Overview

CELP provides small business borrowers a uniquely structured financial incentive to employ individuals from low-income vulnerable populations. Based on hiring from these population groups through a Community Agency and retaining these employees for at least six months, CELP borrowers can receive a refund equal to up to a 2% reduction in the interest rate on their regularly-priced term loan.

By targeting low-income Job Seekers receiving assistance from Community Agencies due to their prolonged unemployment, disability, and / or other barriers to quality employment, Ontario achieves cost savings through the employment of people otherwise eligible for social assistance and other Government support programs and services.

Program Value

CELP incorporates key components of SCP's existing proof-of-concept program that are both successful and distinctive – namely, the tying of a financial incentive (the interest rate reduction) to the achievement of a social outcome (the retention of employees from vulnerable populations). Over the past 6 years, SCP has implemented a community hiring program in over 75 franchise locations across Ontario. The underpinning value of CELP is generated through the leveraging of existing delivery channels – connecting with Employers through a partner Financial Institution's existing retail banking infrastructure and recruiting job candidates through the utilization of the existing employment and training system. In leveraging these channels, the costs of CELP implementation are limited to program coordination resource support -- requiring a low-risk investment from Government. Unlike some pay-for-performance or social impact bond models that require significant funding for new interventions, CELP uses an incentive "pull" towards existing systems and only incurs the core cost (the payout of the financial incentive to the Employer) upon the achievement of an outcome that generates cost savings of greater value.

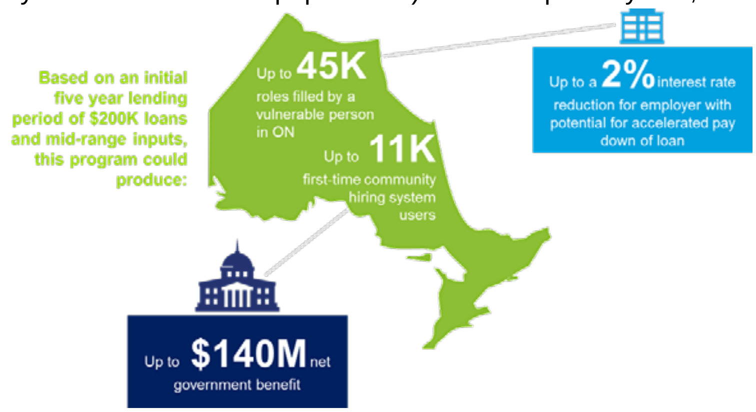


Figure 1 - Summary of Projected Impact

As illustrated in the figure above, under moderate-case scenarios this study's financial analysis highlighted the potential for government net benefit to reach as much as $140 million while driving positive employment outcomes for up to 45,000 unemployed persons from vulnerable population groups. Small business employers themselves also benefit from the program, receiving up to a 2% reduction in their loan interest rate based on their participation.

In driving social and financial benefits as described above, CELP aligns with priority initiatives of the Ontario Government, including the Province's Poverty Reduction Strategy and Social Enterprise Strategy.

Ontario's Poverty Reduction Strategy includes key components such as connecting more people with employment, especially vulnerable populations, and notes that Government is "committed to funding programs based on evidence." (Ontario 2014) The strategy includes a particular emphasis on supporting persons with disabilities, stating that the Province "will support collaborations and partnerships that identify and remove obstacles to employment for persons with disabilities". The focus on vulnerable populations, including persons with disabilities, as well as a defined commitment to evidence-based policy align directly with the design of the CELP program.

In addition to linking to the Province's poverty reduction goals, CELP supports a key pillar of Ontario's Social Enterprise Strategy, namely to create a vibrant social finance marketplace. (Ontario 2013) Through this pillar, Ontario has indicated its intent to work across government and across sectors to make social financial tools available, and to encourage market growth. CELP provides Government with a tangible example of an innovative social finance instrument that drives cross-sector collaboration in support of important social outcomes – outcomes that could not be achieved by Government alone.

Pilot Proposal

The analysis outlined in this document demonstrates a strong business case for a CELP model that aligns with these important goals. The study is based on plausible scenarios supported by research, but given the innovative nature of the proposed program, some inputs cannot be proven without practical field results. Therefore, rather than suggest an all-in approach at the outset, it is recommended that a carefully structured pilot be undertaken to validate inputs and inform design decisions before a more significant program rollout effort.

Through this pilot, Ontario has the opportunity to demonstrate the implementation of an innovative pay-for-performance initiative by designing a controlled experiment and collecting results to inform smart investment decisions. This study proposes a CELP pilot plan to test specific variables and indicators in order to:

- Establish employer demand for CELP loans and achievement of hiring and retention requirements;
- Demonstrate supply of, and success of, low-income Job Seekers from Community Agencies when matched with employment opportunities;
- Demonstrate a change in the hiring behaviour of employers; and
- Identify opportunities to refine the CELP operating model.

This pilot proposes a cost-sharing model, with SCP providing pro-bono the majority of required coordination and administration support (with limited Government staff support to execute activities that require specific provincial involvement), a Financial Institution providing in-kind resource and marketing costs, and Government providing the capital for the financial incentive.

The amount of capital required to fund the financial incentive in a pilot is ultimately determined by the size of the program that is decided upon following design discussions between SCP, MEDEI, a partner Financial Institution, and participating Community Agencies. While this study estimated a range of pilot sizes and associated costs, it is important to note that in all scenarios, the government cost of the interest rate reimbursement is incurred upon the achievement of a cost-saving outcome. Employment of a person receiving social assistance for at least six months, as well as potential tax revenue from this employment, provides a net benefit to government. **The upfront investment to Government is limited to the administrative cost, since all other financing costs will be incurred only if there are superior savings accrued to the Government.** Ultimately, the proposed pilot provides significant upside potential with a low risk investment on behalf of Government.

Next Steps

In order to move forward with a CELP pilot, it is recommended that SCP partner with MEDEI to first and foremost onboard a long-term ministry partner. Such ministry's involvement on a Steering Committee and in the structuring of the pilot encourages more successful long-term program design and provides assurance to the Financial Institution, Community Agencies, and Employer participants that their involvement and investment will be further augmented by Government. Once a partner ministry is determined, a pilot implementation team can begin to determine the number of and specific Community Agencies in each pilot location that are required to reach a significant target audience and to determine the selection process of a partner financial institution.

Definitions

Community Employment Loan Program (CELP): A program currently in a Proof-of-Concept phase conceived and operated by Social Capital Partners, and proposed in this report in a newly designed scalable form for the province of Ontario.

Social Capital Partners: A national non-profit organization founded in 2001 by Canadian business leader and philanthropist Bill Young which focuses on influencing systems change and developing innovative social finance solutions that increase access to employment opportunities for vulnerable populations.

Financial Institution (FI): For the purposes of this document, a lending institution (e.g., bank, credit union) that offers financial products including term loans to business borrowers.

Small Business: What constitutes “small” business varies depending on specific Financial Institution, policy, industry, or organizational context. For the purposes of this document and CELP, it is used to refer to any privately owned corporation, franchise, or sole-proprietorship that can be classified as micro, small, or medium-sized (Industry Canada defines this as less than 500 employees).

Employer: For the purposes of this document, a Small Business that has signed a CELP amendment as part of their loan agreement with a Financial Institution.

Community Agency (CA): Commonly also referred to as “employment services providers” and “community service agencies,” these organizations are members of a network of third-party providers under contract with Ontario’s Ministry of Training, Colleges, and Universities to deliver employment and training programs as part of Employment Ontario.

Job Seeker: For the purposes of this document, a person seeking employment who has been designated as a candidate eligible for individual support due to one or more suitability factors related to low-income or social assistance eligibility.

Vulnerable: The use of this term in this document refers to populations that face barriers to labour market entry and whose low-income situations qualify them to receive social assistance and other Government supports. Populations that fall into this group can include, but are not necessarily limited to, persons with disabilities, persons that are new to Canada, single parents, Aboriginals, at-risk young persons, and persons without educational certifications.

Low Income and Poverty: While there is no internationally-accepted definition of poverty, this report references the term in the context of Statistic Canada’s 2011 low income cut-offs (which reflect a well-defined methodology to identify those who are substantially worse off than the average)**.**

Ontario Works (OW): Provincial program for people who are generally 18 years or older, are out of work, willing to participate in employment assistance programs and activities and pass a means test of limited assets qualifying them for financial assistance.

Ontario Disability Support Program (ODSP): Provincial program providing income and employment supports for persons with disabilities, qualifying people through a means test and verification of meeting definition of “person with a disability” under the Ontario Disability Support Program Act.

Why is a Community Employment Loan Program relevant for Ontario?

> "Only 10% of Ontario Works primary applicants have some earnings from employment, and 40% of cases who leave Ontario Works return within one year."
>
> (Lankin 2012)

Ontario's vulnerable citizens continue to experience a sustained challenge in finding and maintaining employment, resulting in lower social outcomes and driving billions of dollars of cost to the province each year. "Vulnerable" citizens refer to those who face barriers to labour market participation and who are among the many people in Ontario that seek the services of Community Agencies to assist them in finding work. Additionally, these populations often face prolonged situations of low-income, with many finding themselves in poverty. According to the most recent Statistics Canada numbers, 9% of Ontarians live in low-income households – putting the province in the top three highest in the nation. (CPJ 2012) Citizens living in poverty generate profound financial impacts; it is estimated that the social cost of poverty (health, crime, lost productivity, and intergenerational effects) amounts to approximately $11 billion annually in Ontario. (Laurie 2008) Last year, the province spent more than $2 billion on Ontario Works (OW) income assistance alone – a number that is projected to rise. Ontario Disability Support Program (ODSP) income assistance was over $4 billion.

At the same time, Small and Medium-sized enterprises (SMEs) in the province are experiencing a unique period of opportunity. In recent years, Ontario has launched several initiatives in support of innovative start-ups, efforts to increase small business access to finance, and "Open for Business" priorities. Making up 99% of business in Ontario, over one-third of SMEs seek financing each year to grow their business and increase their workforce. (Register 2013) (Bruce 2013) Competition among lenders in this market is intense, and Financial Institutions are continuously seeking new ways to differentiate their product offerings aimed at small business, a valuable and growing segment of their client base.

According to CFIB's May 2014 Business Barometer, **17% of businesses in Ontario identified that a shortage of un/semi-skilled labour was a limitation on sales or production of growth.** (Mallett 2014) According to BDC, 27% of SMEs identified HR recruitment and retention as one of their top concerns, putting it well within the top 10 ranked challenges. (BDC 2011) While the need for employees exists – broad consideration of populations desperate for opportunities does not.

The research, interviews, and analysis conducted during this study suggest that together, these trends provide a unique opportunity to align positive financial and social outcomes for a unique set of players. **Recruitment through Community Agencies presents a personalized solution in which populations with valuable experiences and non-traditional skills are matched with small businesses that do not have robust internal HR structures.** As noted in the province's 2013 Annual Report on Poverty Reduction Strategy, "we all need to work together – community partners and all levels of Government – to break down barriers, provide opportunities and create more prosperity for all" – CELP does just that, with the potential to do so at meaningful scale.

> "Less than two thirds of people with disabilities participate in the labour force in Ontario…we found that there is little focus in ODSP on helping people with disabilities prepare for and find employment."
>
> (Lankin 2012)

There are many paths to be taken and a portfolio of options that can implemented to support access to employment for people in poverty; the Community Employment Loan Program (CELP) described in this paper is just one of these. It is distinctive for several reasons:

1. **CELP builds off an existing proof-of-concept model that has already demonstrated promising results;**
2. **CELP's core cost is incurred only when a cost-saving employment outcome is achieved;**
3. **CELP leverages existing delivery channels, diminishing the need to structure an entirely new program; and**
4. **CELP seizes this opportunity to align the incentives of a multitude of stakeholders.**

Within the retail banking and employment services systems, there already exists an infrastructure to reach small businesses borrowing money to grow. Within the employment and training system, there already exists an infrastructure to connect these businesses with local agencies to assist in the identification, screening, and selection of qualified candidates from populations that most stand to benefit from increased access to employment. All that may be required to scale the impact is a nudge – in the form of an appropriately sized financial incentive, in an effective pay-for-performance structure – to attract small businesses. Additionally, the promise of increased placements should incentivize Community Agencies to reach out to Job Seekers receiving ODSP and OW – two populations that often struggle to connect to employment prospects even though they are searching for a way to participate in the labour market. (Lankin 2012)

The business case for CELP is clear – it drives improved social outcomes for vulnerable Ontarians while generating significant cost savings for the public.

What is the Community Employment Loan Program?

CELP provides small business borrowers a uniquely structured financial incentive to employ individuals from low-income vulnerable populations. For every person hired from this population through a Community Agency and retained for at least six months, CELP borrowers receive a refund equal to a 0.5% reduction in the interest rate on their regularly-priced term loan (up to a maximum of 2%). By targeting low-income Job Seekers receiving assistance from Community Agencies due to their prolonged unemployment, disability, and / or other barriers to quality employment, Ontario achieves cost savings through the employment of people otherwise eligible for social assistance and other Government support programs and services. By providing an exclusive offer tied to a term loan offered via the regular course of business, a Financial Institution is incentivized to promote the program to the provincial business community as a distinctive financial product in the market.

Proven Promise: Current Proof-of-Concept Program

In 2006, SCP introduced a community loan proof-of-concept program through which it facilitates access to subordinated debt financing to small business owners, entrepreneurs and franchisees who commit to hiring those at a disadvantage. Loan terms are linked directly to outcomes: for every hire a borrower makes from vulnerable population groups, the interest rate on their loan decreases. For as long as the individual is employed at the borrower's place of business, the interest rate reduction remains. SCP partners with Community Agencies in each borrower's local area to recruit job candidates that are pre-screened to meet their hiring needs. Borrowers retain 100% control over all hiring and termination decisions. The loans attract community-minded business owners who have entry-level positions that often offer the potential for career growth and advancement. It is a win-win scenario: borrowers gain attractive financing terms and help finding pre-screened employees, and Job Seekers are given opportunities for meaningful employment.

What has been achieved so far?

Since the start of the SCP loan program:

- More than 300 people have been hired
- More than 50 employer borrowers have participated across over 75 locations
- The average employer hires 9 Job Seekers through a Community Agency
- Close to 50% of Job Seekers hired are retained at least 6 months in high turnover industries
- Loans with a total value of over $4M have been issued
- Borrowers earn an average interest drop of 2%

"The amount of work that Social Capital Partners does is phenomenal," said Peter Steele, General Manager at Active Green and Ross. "They have established which agency to talk to in every market we operate."

Having demonstrated the merits of the approach through their existing portfolio, SCP sought to explore the feasibility of a scalable model generating social outcomes beyond those that could be achieved solely with its own capacity and reach. This study sought to leverage existing Government and private sector vehicles by evolving features of SCP's existing proof-of-concept program that could reach a wider breadth of employers across different industries and regions in Ontario. This transition is pivotal to achieving true scale – expanding beyond a stand-alone small-scale program to one that efficiently targets any SME borrowing from a partner Financial Institution. Additionally, by incentivizing behaviour to recruit from the existing community employment system, new access to job opportunities is provided for thousands of individuals across the province.

Designing a Low Risk, Scalable Model

CELP incorporates key components of the existing CELP proof-of-concept program that are both successful and distinctive – namely, the tying of a financial incentive (the interest rate reduction) to an interest rate reduction, attaching the financial incentive to the actual retention of employees – and adapting for a scalable model has generated a proposed program that is truly one-of-a-kind. The underpinning value of CELP is generated through the leveraging of existing delivery channels, requiring a low risk investment: the initial costs are limited to program coordination resource support. Unlike some pay-for-performance or social impact bond models that require significant funding for new interventions, CELP utilizes an incentive "pull" towards an existing system and only incurs the core cost (the payout of the financial incentive to the Employer) upon the achievement of an outcome that generates cost savings of substantially greater value.

The proposed long-term CELP model depicted below incorporates input from a series of recent consultations with stakeholders in an effort to capitalize on existing processes and minimize the effort required by Government to promote, Financial Institutions and Community Agencies to implement, and Employers to sign-on and participate. **Figure 2** explains the mechanics of the proposed program.

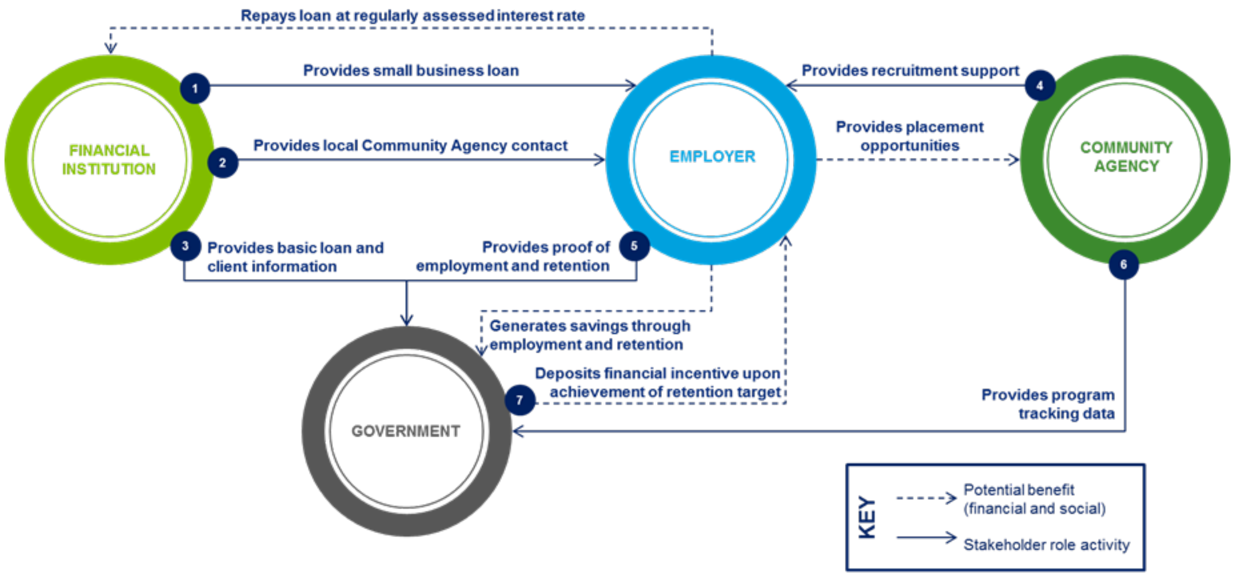


Figure 2: Proposed CELP Model Overview and Step-by-Step Guide[1,2]

1. An "Employer" may qualify up to $200,000 of their required financing as a CELP loan: A partner Financial Institution (FI) assesses the Employer borrower as per their normal process and sets the price of the loan using their risk-adjusted return on capital model
2. FI provides the Employer with a contact person from a local partner Community Agency (CA)
3. FI informs the appropriate program manager (within Government) of agreed upon data points for program tracking, including loan size, term, and interest rate that the program manager will use to calculate individual Employer financial incentive amount
4. Employer works with CA to determine role requirements, and CA identifies candidates from their assisted 'vulnerable' population pool
5. Employer may hire anytime between the financial close of their loan until the last date it is possible for retention target to be achieved prior to the closing of their loan (i.e., if the retention target is six months, they have until six months prior to the end of the loan's term to hire someone) and provides proof of hiring through CA and continued employment to the Government program manager
6. Partner CAs provide ongoing communication and support until at least the six month retention milestone and have signed a Service Level Objective document agreeing to this minimum standard and data tracking requirements
7. Government program manager verifies employment and initiates a lump-sum deposit equivalent to a 0.5% interest rate deduction on the life of the loan per employee hired

[1] "Small Business" definition is provided earlier in this document, but will also be dependent upon the partner Financial Institution lender's portfolio division between retail and commercial banking. Whatever the definition, the partner will need to agree to offer the amendment to a pool of eligible clients sufficient to support program scale.

[2] Employees must be in a role that is a minimum of 30 hours a week, with at least a minimum wage hourly rate to ensure cost savings.

Program Scope

While many innovative initiatives exist globally and in Ontario to address employment challenges, CELP focuses on providing a new mechanism to improve access to employment for populations that are often overlooked and whose employment generates benefit for society both immediately and in the long term. It is important to explicitly state CELP's objectives and boundaries – to effectively measure success, desired outcomes must be understood.

Although the points below would represent valid goals, CELP has not been designed to and does not aim to:

- ✖ Act as a development loan by providing financing that would not have otherwise been provided;
- ✖ Create net new jobs in the Ontario economy;
- ✖ Strengthen the Community Agency system by improving internal processes or cost effectiveness ; or,
- ✖ Improve or broaden the types of services and training programs available to Job Seekers through the Community Agency network to create more employable candidates.

How does CELP differ from a traditional business subsidy program?

While CELP provides a financial incentive to employers for completing a desired action, the program differs from traditional subsidy programs for several reasons:

- The incentive is structured to not just reward hiring activities; but rather the achievement of an employment outcome
- Government is not solely responsible for program communication and encouraging uptake – the partner Financial Institution is incentivized to market CELP as a differentiated product offering and can de-risk a client by encouraging them to sign up, utilize the business support services of the Community Agency, and earn the financial incentive
- Rather than being bound to the tax year timeline, CELP enables employers to achieve the financial incentive as soon as they hire and retain an employee
- The program design is grounded in an understanding of behavioural economics: borrowers are conditioned to value financial incentives framed in the form of an interest rate deduction, so the financial incentive tied to an interest rate provides an attractive incentive to overcome the status quo bias of Employers hesitant to overcome the hurdle of exploring an alternative hiring method through Community Agencies

Instead, CELP strives to achieve both social and financial benefits for Ontarians by:

- ✓ Increasing the number of hires from vulnerable populations that face barriers to employment;
- ✓ Demonstrating a behaviour change in Employers to utilize the hiring support services of local Community Agencies;
- ✓ Increasing the average length of retention of Agency hires by incentivizing a set target length of employment; and
- ✓ Achieving savings for Government through the employment of qualified candidates that receive costly income-tested benefits, as well as generating revenue through new tax payers.

"The value of this program is obvious: it makes my clients stronger, less riskier borrowers."
Bank Director

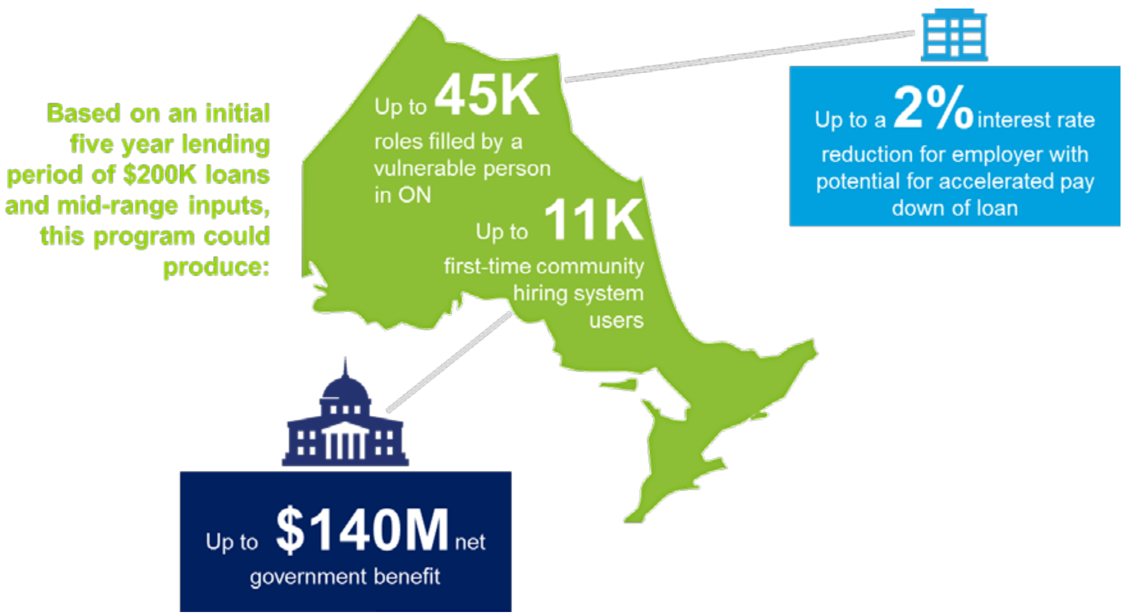
"A program that brings employers with jobs makes a huge impact on our ability to achieve placement targets."
Community Agency Job Developer

"An interest rate deduction is certainly significant for SME owners looking to borrow."
Industry Expert

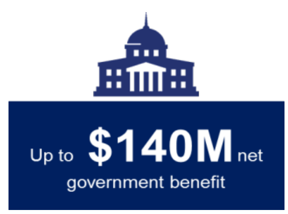
What is the potential for impact as a result of CELP?

Estimated Program Returns

This feasibility study demonstrates that CELP has the ability to achieve significant benefits for participating stakeholders as illustrated in the image below.[3]



Government Return and Assumptions



Reducing unemployment among Ontario's vulnerable and low income groups quickly generates exponential benefits: not only does increased employment achieve savings relief through a decrease in monthly assistance payments, but it also reduces longer-term strain on provincial health, education and justice systems, among others, that result from the cycle of poverty. This model quantifies the monthly cost savings – both current and future – of employment, providing an estimate of the overall benefit of CELP for Government. The calculation of this benefit can be expressed generally in the following formula:

*(*monthly cost savings per person *x* # of persons employed for 6 months*)* + incremental tax revenue – (financial incentive costs *x* # of loans) – administration costs = **net positive financial impact to Government**

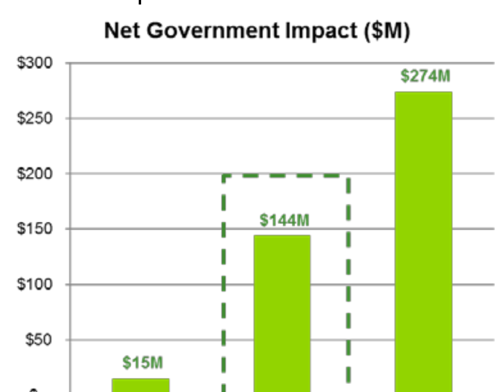
[3] For the purpose of analysis, the financial returns in this report represent a net present value over a ten year program lifetime, assuming a five year lending period with an additional five years for all loans to close. This timeline was based off of the model input of an average 5 year term for a small business loan.

This impact formula is most sensitive to the monthly cost savings of the specific Job Seeker population eligible for the program. Lessons from employment pay-for-performance initiatives in the United Kingdom and the United States emphasize the importance of clearly defining a population that will be served by a program to enable as accurate cost savings calculations as possible. This study explored the public support costs of a variety of populations that face barriers to labour market entry in an effort to attribute a cost savings to distinct ministries. Upon reaching the minimum standard of employment (see assumptions in table below) incorporated in CELP's design, just less than half of OW recipients and all ODSP recipients would provide identifiable cost savings from a reduction in monthly social assistance benefits without negatively affecting their standard of living. Additionally, stakeholder consultations identified these populations as Job Seekers that often rely upon Community Agency assistance, suggesting that these individuals are currently participating in the employment and training system that CELP is designed to leverage.

In the table below, two cost savings scenarios are presented with the resultant estimated net positive direct financial impact to government: (1) a conservative estimate ($561 per month) which accounts exclusively for monthly reductions in transfer payment and employment assistance costs; and (2) a more holistic estimate ($987 per month) that builds upon academic studies that have attempted to quantify broader lifetime social costs of poverty in addition to the transfer payment and employment assistance savings. (Deloitte analysis)

Additionally, the table includes calculations for various scenarios of the average number of persons employed per individual loan. In the highlighted scenario that reaches $140 million in net benefit, the average number of hires is four, a level of hiring that is conservatively below SCP's current proof-of-concept results of an average of six employees hired per loan.

Based on consultations with experts familiar with the UK Work Programme and from Ontario Community Agencies, combined with evidence from SCP's existing proof-of-concept program, the CELP's design incorporates a retention target of at least 6 months. This target is in line with the UK Work Programme's 6 month target, but at the same time, seeks to achieve a better-than-current-state Ontario outcome, as just over half of community hires work for longer than the 6-month target according to interview feedback. Additional assumptions are defined in the table below.



Key Drivers	Low Range	Mid Range	High Range
Avg. Monthly Cost Savings of Job Seeker	$ 561	$ 987	$ 987
Avg. # of Hires	3	4	6

Estimated Government Net Benefit

Total Savings: ~ $269 M
Total Revenue: ~ $16 M
Admin Cost: ~ $1 M
Financing Cost: ~ $127 M

Government NPV: $140 M

*Note: This calculation estimates government returns based on a loan program of loans up to $200,000 and up to 2% interest rate deduction over a 10-year period – the CELP offer is active for 5 years, 5 year close-out of all loans

Assumption	Value	Source / Reasoning
Employment Retention Target	6 months	UK Work Programme benchmark, Community Agency interviews
Minimum Wage	$ 11 / hour	Government of Ontario
Full Time Hours	30 hours	UK Work Programme benchmark, Community Agency interviews
Working Weeks / Year	50	Assumption
Administration Costs	Calculated FTE %	Dependent upon total # of CELP loans, FTE support for employment verification, deposit initiation, reporting and tracking
Total # of CELP Loans	Calculated Value	Function of net new loans for + uptake of expected annual FI customers
# of expected customer loans	Calculated Value	Function of FI Market Share (20%) of SME loans, and participation rate [5%]

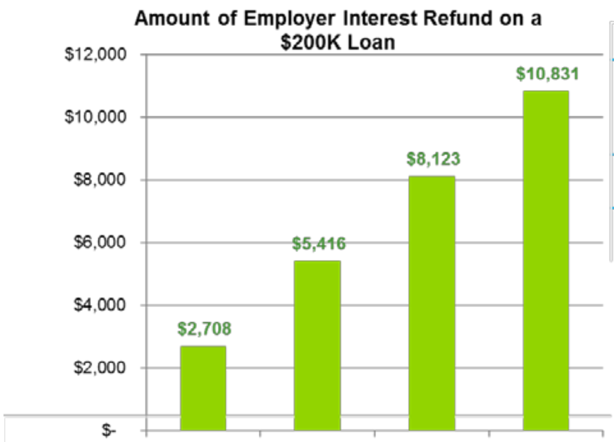
Employer Return and Assumptions

Employer return is dependent upon individual loan agreements – based on the size, term, and price of each loan, a difference in interest payments is calculated by the CELP program manager, and is explained in the formula below:

Up to a **2%** interest rate reduction for employer with potential for accelerated pay down of loan

(total interest payment at original rate of interest – (interest payment at original rate of interest – 2%)) / 4 employees

Each hire retained for at least six months earns the employer a lump-sum deposit in their loan account with the partner Financial Institution. Although the amount of Government payment remains the same for each hire, the total value of this refund to the employer increases should the employer hire early in the term of their loan: as soon as they achieve the retention target, the amount is deposited against their loan principal, thereby reducing monthly interest payments overall through an accelerated pay down of their loan.



# of People Hired	1	2	3	4
Interest Rate Deduction	.5 %	1 %	1.5 %	2 %

Assumption	Value	Source / Reasoning
Maximum Savings Achievable	2 %	Interviews, Analysis of market competitive rate-drop, drop that keeps reimbursement below government savings amount
Average # of Hires	4	SCP Program, CA Interviews, Hiring capacity distribution assumptions
Expected Loan Value	$ 200,000	Industry Canada, CFIB

CELP offers Employers a range of non-financial benefits as well, including the strengthening of their brand amongst their community and customers by participating in a program that provides social benefit, a connection to recruitment and hiring supports offered by Community Agencies, and realizing proven benefits of a diverse and inclusive workforce.

Additional Stakeholder Returns

The benefits of CELP are not limited to Government and Employers. Community Agencies, required to meet annual placement targets, also gain connections to new business clients seeking immediate hires – an approach that minimizes business development and employer outreach efforts. Primarily, it is the target population of Job Seekers that stand to gain from the rollout of this initiative. Not only are they provided increased job opportunities as Employers are now seeking them specifically to fill open roles, but these Employers are incentivized to work with the individual and the Community Agency to achieve at least a six-month retention target. This longer attachment encourages longer-term employment prospects, opportunity for career progression and salary increases, and a higher quality experience overall.

Analysis shows that the program has benefits for a Financial Institution with exclusive rights to this program. During preliminary consultations for this study, representatives from credit unions and banks recognized the value CELP could generate. In an environment in which credit providers are constantly in competition for small percentage gains in market share, a program which offers an interest rate deduction and link to value-adding recruitment and hiring support is considered to provide a differentiated small business product which would generate positive financial returns.

How else can CELP benefit stakeholders?

50% of Canadian employers in a national survey expressed difficulty recruiting appropriate talent
(Conf. B. of CA 2011)

66% of more than 28,000 respondents from 56 countries say they would prefer to buy products and services from companies that participate in programs that give back to society
(Nielsen 2012)

87% of employees feel greater loyalty to socially engaged employers
(The Conference Board 2000)

In the United States, approximately 2/3 of social enterprises concentrate on creating social value by providing employment opportunities for the disadvantaged.
(Eggers, The Solution Revolution 2013)

Walgreens has two distribution centers with large disability workforces - in comparison to other centres in the company, these two had a 40% lower safety incident rate, 67% lower medical treatment costs, 63% lower employee time away from work due to accidents, and 78% lower overall costs associated with accidents.
(Fredeen 2012)

Canadian Grocery HR council estimates that the cost of recruitment to employers is $1,368 while the Saratoga Institute found direct costs of filling a single position averaged $4,500
(Canadian Grocery HR Council 2008) (Saratoga Institute 2010) (Wallace 2011)

How can CELP be implemented most effectively?

Government is seeking to use data to drive better outcomes, maximize the impact and efficiency of resources, and develop timely, actionable, and data-driven evaluations of programs.

The analysis outlined in this document demonstrates a strong business case for a CELP model that aligns with these important goals. The study is based on plausible scenarios supported by research, though given the innovative nature of the proposed program, some inputs cannot be proven without practical field results. Therefore, rather than suggest an all-in approach at the outset, it is recommended that a carefully structured pilot be undertaken to validate inputs and inform design decisions before a more significant program rollout effort.

The proposed CELP pilot is designed to achieve four objectives:

- Establish SME demand for CELP loans and achievement of hiring and retention requirements;
- Demonstrate the supply of low-income Job Seeker candidates from Community Agencies and understand the success of these Job Seekers when in their new roles;
- Demonstrate a change in the hiring behaviour of employers; and
- Identify opportunities to refine the CELP operating model.

Specific test questions have been developed to demonstrate results in the objective areas described above. Data that can be collected to support (or not support) these objectives, and key metrics have also been identified to track throughout the pilot. A control group of non-participating Employers and Job Seekers that is at least as large as the participating groups will also need to be tracked to understand correlated outcomes of the CELP 'treatment'.

The pilot will operate as the previously introduced CELP diagram describes. However, the timeline will be shortened and loan volume capped in order to analyze results to inform a go-forward decision. As such, the proposed pilot will target an agreed upon number of loans (decided upon in design discussions between SCP, MEDEI, a partner Financial Institution and participating Community Agencies) granted over a period of six months. Participating Employers will be eligible to meet hiring targets within one year of the date of their loan.

The financial incentive is recommended to be structured as it would in the full program – a 0.5% interest rate reduction refund per hire – but with a limit of two eligible candidates to reflect potential hiring expectations within the first year of the loan signing. As per normal program process, this refund should be deposited directly to the borrower's loan account with the partner Financial Institution.

Pilot Timeline	Months 1 - 6	Months 7 - 12	Months 13 - 18	Months 19 - 24
Loans Granted	■			
Community Hiring	■	■	■	
Tracking and Reporting	■	■	■	■

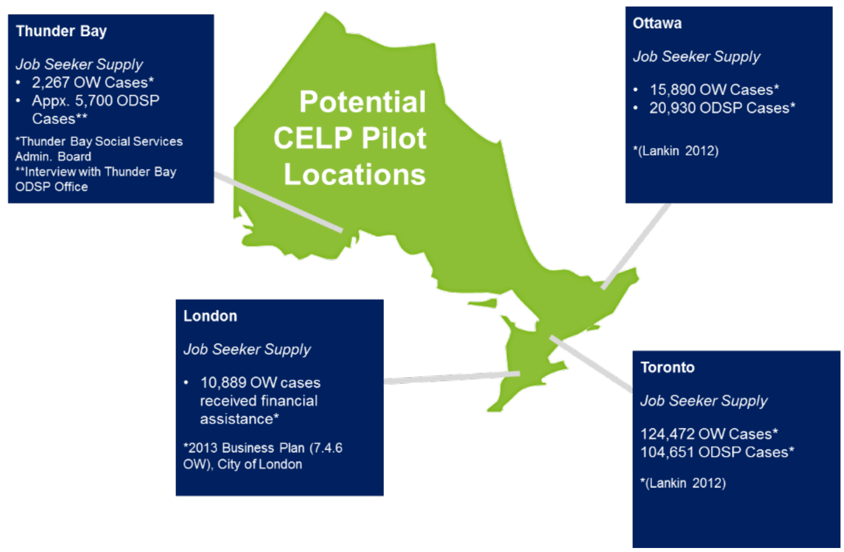
It is suggested that reporting occur quarterly. While the SCP program manager will coordinate these efforts, each stakeholder (Government, Financial Institution, Employers, and Community Agencies) will have a role to play in gathering and tracking data.

Target Population of Job Seekers

In an ideal scenario, the program would aim to maximize the potential pool of candidates by enabling the Community Agency to identify any qualified candidate for the Employer. However, to ensure future success, CELP will need to present a verifiable business case to a partner ministry to justify full program funding. To do this, the pilot must test the supply of candidates from a target program audience that presents clear short-term and future cost savings. The pilot must also confirm the ability of Community Agencies and Employers to support these employees through the target retention period.

Therefore, the proposed scope for the pilot is to define the eligible target audience as persons eligible to receive, or who are currently receiving, social assistance. While this focus narrows the potential pool of eligible candidates for the pilot, it provides a tangible approach for quantifying potential cost savings.

Pilot Locations



To understand the feasibility of CELP province-wide, the pilot should aim to offer a target number of signed loans across geographies representing diverse realities in Ontario. In selecting pilot locations, SCP and MEDEI should consider:

- A geographic distribution across Ontario;
- A supply of income assistance recipients;
- A demand generated from the presence of a small business community; and
- Existing SCP relationships with potential partner Community Agencies that serve the target population

For example, in one scenario explored by this study, Toronto, Ottawa, Thunder Bay, and London met the above criteria. Additionally, all of these locations have a Small Business Enterprise Centre and a competitive market for small business financing.

What will be the role of Community Agencies (CAs)?

As the interface between the supply of vulnerable Job Seekers and the demand from Employers, CAs will serve a critical role in the success of the pilot, as well as of the full-scale program. Participating CAs will need to effectively identify, select and support qualified Job Seekers to meet Employer needs, and thus a minimum standard of service must be agreed upon between the program manager and partner CAs. In exchange for their participation, partner CAs will receive a significant number of placement opportunities with minimal to no business development costs.

Many CAs currently adhere to standard practices; however, some "above and beyond" services are recommended to be written into a Memorandum of Understanding (MOU) to ensure the consistent quality of service across all participating CAs over the life of the pilot. These include:

- Providing responsive, proactive, and client-centered service to CELP Employers including:
    - Documented procedures for identifying client requirements, selection and filter process
    - Welcome call to new CELP Employers (based on information received from program manager)
    - Pre-hiring site visits (if relevant for role / intended candidate)
- A commitment to seek qualified candidates from the CELP target population
- Tracking of specific data for both CELP Job Seeker candidates and control group Job Seekers
- Training and workplan that Community Agency, Employer, and Employee sign
- Follow-up visits and / or touchpoints during Week 1, Month 1, Month 3, Month 6, Month 9, Month 12

Learning Agenda

The pilot is designed to provide an understanding of:

(1) Employer demand (informed by the number of offers that need to be made in order to sign up the set number of loans),
(2) Participation in hiring from CAs (defined as the percentage of CELP loan borrowers that actually connect with a Community Agency and hire one or more Job Seekers); and
(3) Retention success rate (% of hires that remain with the Employer for at least six months).

What indicators does the pilot seek to observe?

The pilot will help to assign values to demand, participation, and success rate percentages:

By tracking additional program indicators beyond those indicated above, a number of other insights can be gleaned beyond the stated pilot objectives. For example, the pilot may address questions such as:

- Are there any gaps that can be observed in the current Community Agency system, in terms of:
  - Serving Employers (e.g., are candidates sourced quickly and with a high percentage of conversion from identification to hire?)
  - Serving vulnerable Job Seekers?
- How do hiring rates vary among industries or types of employers?
- Do certain barriers consistently correlate to a shorter employment retention period?

Pilot Cost

The upfront investment necessary to kick off the CELP pilot can be achieved through a stakeholder cost sharing model. In this program, Government's core responsibility is to fund the financial incentive refund, which is paid upon the achievement of a cost saving outcome (i.e., the six-month retention target of a person currently supported by, or otherwise eligible for, social assistance). In a worst-case scenario in which no Employers participate, and no vulnerable persons are hired and retained, the total upfront investment amounts only to the in-kind resource costs from SCP and the Financial Institution, and the administrative resource cost from Government.

Pending Government commitment, SCP has indicated that it is ready and willing to provide coordination and administration resource support as an in-kind contribution throughout the pilot. This leaves the responsibility of a Government administrator to work in partnership with SCP to verify proof of employment as required by Government, and coordinate the issuing of the financial incentive to the Employer's account with the Financial Institution.

A majority of upfront costs are also proposed to be provided in-kind from a potential Financial Institution to coordinate the marketing, internal training, and administration on behalf of the lender. This would be provided in exchange for the exclusive rights to offer the CELP loan amendment, a critical requirement for FI participation as it is the core driver of benefit to them. Looking ahead to a full program model, this exclusivity could potentially be negotiated on a time-limited, or region-specific basis.

Next Steps

Executing CELP begins with five initial steps:

> "If there's one piece of advice I can give you, it's to have a clear Government partner. Trying to get any more than even two can become quite complicated."
> *Social Finance Organization Representative*

1. Confirm Government Commitment

CELP supports a cross-Government, cross-sector approach to poverty reduction. In a perfect world, a cross-ministry approach would be suggested, in which Community Agencies may select any candidate that they assist, understanding that benefits would be realized across ministries ranging from the portfolios of Social Services, Immigration, Justice, Health, Education and others. This approach would also support a demand-led system transformation with Employers having as broad a talent pool as possible to select from and acquire the skillsets that they need.

While noting this broader context, the most prevalent and consistent advice provided by multiple stakeholders interviewed as part of this study is the need for an accountable and committed Government partner. The participating Financial Institution requires the security of a defined Government entity that will deposit the financial incentive refund in each instance, and the Employer needs a clear method and portal for submission of an achieved outcome. In addition, to attribute clear, quantifiable cost savings that provide the business case for Government involvement, it is recommended that a single Government ministry funder be identified, to which the targeted Job Seeker candidates provide direct cost savings.

This study recommends that in the spirit of piloting an innovative Government mechanism in support of a social enterprise, social finance, and a pay-for-performance model, MEDEI provide the refund amount of the financial incentive for the duration of the proposed pilot. However, the pilot should not move forward without the promise of a dedicated future partner's involvement. The partner ministry's leadership could be involved in a Steering Committee capacity, agreeing to provide additional insight into process design and program structure such that a scalable model is created that they are able to support moving forward. In an effort to strengthen future transition, a partner ministry resource could also work alongside SCP, which will drive the core coordination and administrative efforts.

To harness collective ambition to address unemployment of vulnerable populations and lift Ontarians out of poverty, leadership representation from additional ministries could also be brought into the Steering Committee. This would build broader support for the initiative, as well as present opportunities for collaboration or replication of the model to address other challenges.

2. Mobilize Pilot Implementation Team

Following the confirmation of a commitment to drive the program forward in Government, MEDEI and SCP can work together to define responsibilities for pilot implementation, including the selection of a partner Financial Institution through an open process. While, in principle, SCP is able to execute a majority of tasks for pilot implementation, as noted above, Government involvement is essential to ensure that processes developed are scalable and appropriate as the verification of employment for financial incentive deposits naturally presents logistical requirements. Again, the involvement of the future ministry partner as much as possible is recommended to build internal capacity and relevant processes.

3. Select a Partner Financial Institution

This study included initial consultations with a diverse set of potential Financial Institutions, including a number of banks and credit unions. While preliminary discussions suggest that there is interest among some of these organizations for a program like CELP, interviewees indicated that a major factor in securing a lending partner will be to offer exclusive rights to deliver the program. It is this exclusivity that offers the greatest benefit to Financial Institutions, as it provides the potential to create a differentiated loan product which they can use to compete to gain market share.

Recognizing this likely need for exclusivity (if even on a time-limited or regional basis), SCP will work with Government to determine the best process in selecting the potential Financial Institution partner. The prospective partner should be able to demonstrate its ability to deliver sufficient scale to achieve the loan volume sought by CELP as well as maintain a substantial geographic presence across the province. It is recommended that this process be designed as soon as the pilot implementation team is finalized.

4. Confirm Community Agency Partners

Next, the team will need to connect with Community Agency partners in each of the pilot locations to determine the number of partner Community Agencies required to reach a large enough talent pool of the target program audience. Upon doing so, each agency will need to confirm their willingness to participate, and sign an agreement to the minimum standards of service.

5. Develop and Execute a Detailed Implementation Plan

With stakeholder partners now onboard, the team can move forward with the development of a detailed implementation plan upon understanding specific nuances of Government, the Financial Institution, and Community Agency organizations. Specific items to be designed include:

- The mechanics of connecting an Employer with an appropriate Community Agency upon loan signing;
- The mechanics of Employer financial incentive calculation and tracking by SCP program manager, and relaying of refund amount eligibility to Government;
- The mechanics of submission of proof of hiring through Community Agency and employment verification to SCP program manager / Government;
- The detailed structure and procedure for collecting CELP loan, Employer, and Job Seeker data;
- The detailed structure and procedure for collecting control group loan, Employer, and Job Seeker data;
- The design of surveys for feedback from Financial Institution, Non-CELP / CELP Employers, Non-CELP / CELP Job Seekers, and Community Agencies;
- The development of a long term, sustainable funding model for the financial incentive, implementation, and ongoing administration resourcing budgets with the long-term partner Ministry; and
- The design of an effective, efficient oversight and quality assurance framework.

Conclusion

As emphasized throughout this discussion document, CELP's innovative design is comprised of a number of distinctive characteristics:

- It reaches Employers via a channel through which they already engage (a Financial Institution) in the course of their normal business, and offers them a financial incentive (an interest rate deduction) in a format they are naturally inclined to value when signing a loan at a time when they are likely inclined to be growing their workforce;
- It does not require an involved design of an entirely new intervention or delivery channel;
- It incentivizes the efficient use of an employment system the Government is already investing in and encouraging Employers to use;
- It is structured as a pay-for-performance model where the core cost is paid only upon the achievement of an outcome that reduces overall system cost and generates a new tax payer;
- It brings together a diverse group of supporters from multiple areas of Government (while still having the ability to identify a clear accountable partner), Community Agencies, a Financial Institution and small businesses; and
- It provides a model Ontario could potentially adapt and replicate across sectors and challenges, using social financing to support an increase in positive, measurable outcomes.

Taken together, CELP's design features provide an opportunity to make tangible differences in several areas of priority for the Government of Ontario: the employment of citizens living in poverty; the reduction of social assistance costs; the encouragement of social finance and social enterprise; and the creation of further opportunities for small businesses to grow.

Given the multiple potential benefits of CELP, Government is encouraged to move ahead with a pilot project to validate the model ahead of a full-scale provincial rollout.

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