

Lessons from Canada's first national social impact bond

Social impact bonds (SIBs) are intended to mobilize private capital to finance public services. A new report from SRDC highlights preliminary evaluation results of the federal government's first pilot of this form of social financing.

The Essential Skills Social Finance pilot tested a training program for job seekers financed through a SIB. The SIB's repayment to investors is based on participants' demonstrated skill gains using a standard literacy assessment. The bond was designed to return all of the investors' capital based on a benchmark of 50% of trainees improving their score on a standardized test by at least 25 points, with a group median of 25 points. Investor returns could be higher — up to 8% return on investment — or lower — zero — depending on the results relative to the benchmark.

Overall, 41% of participants achieved skill gains of 25 points or higher, resulting in a 96% repayment of capital to investors. Returns to investors could increase marginally if the skill gains are retained for at least a year.

The Essential Skills Social Finance pilot is managed by Colleges and Institutes Canada. The training program is based on Douglas College's [Foundations](#) model. The program is delivered by Douglas College, Confederation College, and Saskatchewan Polytechnic. SRDC is evaluating the programs' implementation, as well as measuring their outcomes to guide repayments to social impact bond investors.

As a new investment instrument, a general lack of awareness and understanding of SIBs proved challenging in the recruitment of investors. Relatively complex financing arrangements and uncertain tax treatment may also have contributed to low take-up. In turn, difficulties in recruiting investors limited the number of participants that could be enrolled in the pilot, reducing the sample size for impact analyses. In total, eighty-six participants completed the baseline and follow-up literacy tests for the evaluation.

The pilot yields important lessons for the further development of social impact bonds in Canada. Due to the relatively high transaction costs of social impact bonds, the fit of the financing model to each application should be thoroughly assessed versus more traditional alternatives. Work done by Colleges and Institutes Canada on the legislative and regulatory aspects of SIBs can pave the way for more efficient implementation of this funding model in the future.

The report suggests that SIBs, or pay-for-success models in general, hold more saliency when metrics for success payments are directly aligned with investors' and other stakeholders' outcomes of interest. The selection of literacy skills improvement as the sole measure of success meant that the SIB would be repaid within project timelines. However, as a proxy measure for positive employment outcomes, it may have reduced the attractiveness of the offer for potential investors.

The report also concludes that SIBs and other pay-for-success trials benefit from being of large enough scale to include evaluations of program impacts and cost-benefit analyses. Such information would help to thoroughly assess what works best for program participants, employers, training organizations, investors, and funding agencies.

The social impact bond was one of two pilots initiated by the Office of Literacy and Essential Skills at Employment and Social Development Canada. The second project, *Skilling UP*, led by Alberta

Workforce Essential Skills Society (AWES), offers participating employers up to 50% of their upfront investment in training for their workers, if targeted literacy gains are achieved. Both projects have been funded by the Government of Canada through the Adult Learning, Literacy and Essential Skills Program.

A copy of the interim report on the Social Finance pilots can be [downloaded](#) from SRDC's website.