

Ramona Schindelheim, WorkingNation editor-in-chief:

You're listening to Work In Progress. I'm Ramona Schindelheim, Editor in Chief of Working Nation. Work In Progress explores the rapidly changing workplace through conversations with innovators, educators, and decision-makers, people with solutions to today's workforce challenges.

Ramona Schindelheim, WorkingNation editor-in-chief:

One of the big topics of discussion as we come out of the pandemic is, how do we finance career readiness, helping job seekers get the skills they need in today's workforce? Social Finance is a national nonprofit, which is pioneering some innovative tools and creating some unique public/private partnerships to tackle this issue. Tracey Palandjian is the CEO and co-founder of Social Finance, and she joins me to talk about the organization. Tracy, welcome.

Tracy Palandjian, Social Finance CEO & co-founder:

Thank you, Ramona. I'm a huge fan of Working Nation and your Work In Progress series.

Ramona Schindelheim, WorkingNation editor-in-chief:

Thank you so, so much. I really appreciate it. And we're fans too. Why don't we start, Tracy, with workforce development is just one of the many areas in which Social Finance is active today. So I'd love to hear first about your overall mission before we dive into that area.

Tracy Palandjian, Social Finance CEO & co-founder:

Thank you, Ramona. So as you mentioned, we are a national nonprofit. We're a pretty unusual nonprofit in the sense that our mission is about building innovative partnerships and investments that measurably improve lives. So we have investment products, we have advisory services, but it's all about getting the outcomes that we want for our communities in a measurable way. We have been around for 10 years, and over the last decade we've developed a range of tools. You may have heard of the social impact bond, the career impact bond, outcome rate cards, and other impact tools. Whatever the name is, our role is to structure these multi-sector instruments, bring stakeholders from different corners at the same table. Importantly, define the impact we collectively want to achieve and then measure and manage for that impact over time.

Tracy Palandjian, Social Finance CEO & co-founder:

So over the years, we've worked with governments, with traditional nonprofit service providers, with philanthropies, with the investment community to rethink how we make decisions, how we allocate capital with impact at the center and to realign incentives and to share risks in a way to achieve the greatest impact for our communities.

Tracy Palandjian, Social Finance CEO & co-founder:

So, as you mentioned, these are our approaches, Ramona, and we've used these approaches across a range of social issue areas, but we find ourselves sitting in 2021 that the broad category of economic development, workforce development helping people to prepare for the future of work and build pathways to economic mobility to be animating more than half of our portfolio is Social Finance.

Ramona Schindelheim, WorkingNation editor-in-chief:

You recently released a book along with federal reserve banks of both Philadelphia and Atlanta talking about some of these tools and some examples of what's working, some case studies and ideas on what's working now. The book, *Workforce Relined, How New Partnerships Are Advancing Economic Mobility* does touch on some of what you talked about. Explain to me, and this is in the book, but explain to me what the social impact bonds are.

Tracy Palandjian, Social Finance CEO & co-founder:

Social impact bonds are one chapter in the book, and I'm happy to even share an example, which is focused on workforce development, but just to take a step back, how did we even get here? And why did we decide to write this book? I think it's clear to all your listeners that we've been in more than half a century of disinvestment in America's workforce, which has closely tracked the slowdown of economic opportunity for everyone. This is the system. And I think you and I are the similar vintage that the system that wants allowed immigrants to come here with nothing and find a place in the middle of class, that's just not happening anymore, this American dream and intergenerational mobility, however you define it has really stalled.

Tracy Palandjian, Social Finance CEO & co-founder:

I'm sure I don't need to repeat the statistics that you know well from Raj Chetty over at Harvard, that 50 years ago, 90% of children in America went on to out earn their parents. And today it's only around 50%, and that this whole idea, that place really matters, that these numbers are very different contingent on place, the deep south and the rust belt in the reservations are quite different than places like in Salt Lake City or Seattle.

Tracy Palandjian, Social Finance CEO & co-founder:

At the same time, we're seeing that employers are facing massive labor shortages resulting in well over, I think the recent numbers is that we have over 8 million of unfilled job openings right now across the country, which has achieved and surpassed pre pandemic levels. So what all these statistics are telling us is that is something not working or maybe broken in the overall architecture of workforce funding, or the way you introduce this podcast, how we finance a workforce system.

Ramona Schindelheim, WorkingNation editor-in-chief:

Is this what's not working? Do you think it's on a personal level, people can't afford what training they need, or do you feel like this is a systemic government employer problem?

Tracy Palandjian, Social Finance CEO & co-founder:

It's a system. It's a systemic challenge across all of the stakeholders involved, right? There's government, there's employer, as you said, but importantly, there are the schools and universities and training providers that are also part of the ecosystem. Then of course there are the individuals themselves, and the status quo is one that is just not working for the public systems, not working for employers and not working for workers.

Tracy Palandjian, Social Finance CEO & co-founder:

So much of what's going on right now, if you look at the student debt crisis, is about thinking about uncertainty and risk in ways that are not really benefiting from the individual. So there's always been great unpredictability about education and training, and with the future of work changing so

dynamically, and the skills needed tomorrow can be so unpredictable, that set of risks have only compounded. Yet, what is the status quo? Students take on huge risks and debt, take time off from work and incur that debt to go get education and training that may not produce the outcomes that they want, with no promise that it'll pay off, not least mounting to \$1.7 trillion of student debt nationwide.

Tracy Palandjian, Social Finance CEO & co-founder:

Same thing for government. Government spends a lot of money on workforce programs. They take on huge risks to fund these programs, and yet they don't have any certainty whether these programs are working or not. Employers, same thing. They limit their exposure to the cost of training, but at the price of talent gaps and bad turnover. And meanwhile, the schools and the training programs is really where the rubber hits the road. The educational and training delivery partners, they have no skin in the game, no matter what happens with their graduates these institutions collect tuition income.

Tracy Palandjian, Social Finance CEO & co-founder:

So that's the status quo. And that is what the book is about, to really rethink new partnerships, to think about, where are the risks? Where are the right partnerships to reallocate risks and realign incentives so that the system can work much better for workers?

Ramona Schindelheim, WorkingNation editor-in-chief:

As I'm reading this and hearing you talk, the impact, you're looking at ways through your funds and creating tools that the returns are dependent on impact and outcomes, I should say. And so is that outcome for the student?

Tracy Palandjian, Social Finance CEO & co-founder:

Absolutely. So this book highlights 19 case studies with over 30 authors who've contributed to the book, elected officials like Charlie Baker and Gina Raimondo and Paul Ryan, agency leads, academics, educators, philanthropists, large and small employers. They all lift up the voice of workers, but all these case studies are about how to structure partnerships in service of the impact. And that impact is very much about economic mobility, hence the title.

Tracy Palandjian, Social Finance CEO & co-founder:

Now, some partnerships, and you asked about the social impact. Well, maybe we can share an example, which is chapter two written by governor Charlie Baker in Massachusetts with his three secretary, secretary of education, secretary of labor and secretary of ANS, administration and finance to talk about the social impact bond case in Massachusetts. And that does involve investors, but not all of these case studies in the 19 chapters involve the investment community.

Ramona Schindelheim, WorkingNation editor-in-chief:

Yeah. I'd love to hear about that because I fully admit I am not deep into the financing part of this, so I don't understand it. And I think there's probably a few people in our audience that probably don't have a real good grasp on it either. So I'm just asking you straight out, explain it to me.

Tracy Palandjian, Social Finance CEO & co-founder:

Absolutely. So, chapter two in the book highlights a social impact bond example, and this is an example focused on upskilling opportunities for refugees and immigrants in the greater Boston area. So the

Commonwealth of Massachusetts, a service delivery partner called JVS Boston, which is a Jewish Vocational Service Boston, and over 40 investors came together to build this social impact bond. And we call the project Massachusetts Pathway to Economic Advancement. And the idea is to raise investment capital, in this case almost \$13 million from these 40 investors, to provide education and employment opportunities for more than 2000 immigrants and refugees in the area.

Tracy Palandjian, Social Finance CEO & co-founder:

If you really think about the economy in the Commonwealth of Massachusetts, immigrants power more than half of the workforce in key critical sectors, in health care, in hospitality and a few other sectors. And this is a very important workforce that the state is very focused on.

Tracy Palandjian, Social Finance CEO & co-founder:

So one of the tracks in this social impact bond is called English For Advancement. So these newcomer style community, they need to learn English. And this particular track will measure and serve 1000 immigrants and refugees. So of the 2,000, 1,000 ended up in this track. It was a very rigorous measurement methodology. We actually use a randomized control trial. There was a treatment group and a comparison group, and it was extraordinary impact. And mobility just released the interim findings of the RCT results just a few months ago. And it basically said that participant earnings grew on average around \$3,500 after the first two years of enrolling in the program, and with very statistically significant impact.

Tracy Palandjian, Social Finance CEO & co-founder:

So you're basically saying that people enter the program. Two years later, they're seeing a wage bump of north of \$3,500. Investors are repaid based on job placement, based on how many of them go up that economic escalator, and the Commonwealth of Massachusetts will repay based on a formula.

Tracy Palandjian, Social Finance CEO & co-founder:

In the status quo, government would just fund ELL programs and upskilling programs based on outputs, right? How many hours in your job training program? A lot of compliance measures, how much is the program, et cetera. And here, the state is just paying on results, how many people benefited from this program as measured by wage gains and wage stability over time. And we're really excited to see the program wrap up. Our investors have already gotten their principal and return back. And it's been a win-win-win mechanism where investors are getting double bottom line return. The state is seeing these extraordinary results for these members in the community. Seeing that their tax dollars are funding outcomes instead of outputs, and importantly more than 2,000 people are getting on with better lives. And JVS, the service provider, because of these extraordinary results are now getting funded directly from the state to expand this program going forward. So we're incredibly excited.

Ramona Schindelheim, WorkingNation editor-in-chief:

In this particular program, are the people being trained, is there a cost for them?

Tracy Palandjian, Social Finance CEO & co-founder:

Zero cost. They enroll for free.

Ramona Schindelheim, WorkingNation editor-in-chief:

That's fantastic. That's a great outcome and a great return.

Tracy Palandjian, Social Finance CEO & co-founder:

The investors basically took on the risk. They're saying, "You know what? We might lose on money if this program doesn't work," and the government is seeing assurance that they're getting results for that taxpayer dollars being deployed.

Ramona Schindelheim, WorkingNation editor-in-chief:

And then another chapter you talk about the career impact bond, how different is that?

Tracy Palandjian, Social Finance CEO & co-founder:

It's completely different. You think about the social impact bond as a mechanism to enable governments to pay for success. The career impact bond is a mechanism to enable students to pay for their own career success. Earlier, we talked about how students just take on debt right now to finance the educational and training journey, not knowing if the program will pay off or not. And a career impact bond is basically a different kind of income share agreement that places the worker at the center of the model to make sure that students only repay the cost of tuition if they find gainful employment and keep that good job over time.

Ramona Schindelheim, WorkingNation editor-in-chief:

And what is your example in the book of the career impact bond, the income share agreement?

Tracy Palandjian, Social Finance CEO & co-founder:

It's chapter 17, I'm sorry to be nerdy and naming chapters-

Ramona Schindelheim, WorkingNation editor-in-chief:

Oh, I love nerdy. That's great.

Tracy Palandjian, Social Finance CEO & co-founder:

Chapter 17 highlights our partnership with General Assembly. Have you heard of General Assembly, the coding bootcamp?

Ramona Schindelheim, WorkingNation editor-in-chief:

Oh yeah, absolutely. I've actually had Jake on a couple of times.

Tracy Palandjian, Social Finance CEO & co-founder:

Jake is fantastic. And Lisa Lewin is their new CEO. She's fantastic. And Tom Ogletree, who has been just an extraordinary partner from the beginning and, and Tom Leeds, the impact program has really been the co architect of the career impact bond with General Assembly.

Tracy Palandjian, Social Finance CEO & co-founder:

So you're familiar with the coding bootcamp. It's a for-profit and they've had tremendous results. It's an immersive, full-time, 15, 16 week coding bootcamp. They train software engineers, they train people in UX design and other programs. And yet the price is not insignificant, it's \$15,000 to go through that

course. And the people that we care about, and we target explicitly people who are unemployed, underemployed, low income, been on public benefits. We target people who are unemployed, under employed. People who are low income, especially having been on public assistance, been on the earned income tax credit, people who've been in the justice system, et cetera. So we're targeting people who could never afford to pay \$15,000, nor do they have the credit to borrow \$15,000.

Tracy Palandjian, Social Finance CEO & co-founder:

Importantly, these folks also face other barriers beyond the tuition cost. They often have to get wraparound supports, maybe helping living costs, support like childcare, transportation, rent, et cetera. So we built the career impact bond model with General Assembly with this specific mandate in mind, is that how do we help these folks get onto pathways of economic mobility? So we would fund these people that meet our eligibility criteria to take the career impact ... Sorry, let me rewind.

Tracy Palandjian, Social Finance CEO & co-founder:

So basically the career impact bond is built to enable folks who face these barriers get onto pathways of economic mobility. It is basically a student friendly income share agreement model with these wraparound supports that I mentioned with downside protection to make sure that only people who pay are the people who find a job that pays over an income threshold.

Tracy Palandjian, Social Finance CEO & co-founder:

So the four dimensions of an income share agreement, the income threshold, the percent share of the income, the duration and cap of the ultimate payments are all structured in a way that's extremely student friendly. And importantly, the training program here, General Assembly, they actually have skin in the game and they'll only recover their full tuition dollars if their graduates are successful at getting a job and keeping that job. Instead of right now, most training institutions in schools get the tuition income regardless, just based on enrollment and seat time.

Tracy Palandjian, Social Finance CEO & co-founder:

So the career impact bond actually is powered by investors. We became an investment manager in 2019 to launch the up fund, which is our investment fund, a portfolio of career impact bonds as a \$50 million pool of capital with anchor investments from Blue Meridian Partners, Schmidt Futures, the MacArthur Foundation, the Michael and Susan Dell Foundation, other Family Offices and Donor Advised Funds. General Assembly was the first career impact bond in that investment fund. And we're now got four of these career impact bonds and the investment funds underway. In addition to General Assembly, we have one focus on diesel technician training. We have two others that are focused on IT training, and we're really excited to build a portfolio of around 8 to 10 career impact bonds in the fund.

Ramona Schindelheim, WorkingNation editor-in-chief:

Is it too early for results on the General Assembly?

Tracy Palandjian, Social Finance CEO & co-founder:

Too early for results. The enrollment is still ongoing. I think we had enrolled 500 out of the 1,000 targets that we seek for the fund, so it really is too early to tell. And we started the program throughout the pandemic, so it's going to be really interesting

Ramona Schindelheim, WorkingNation editor-in-chief:

Now, General Assembly, obviously it's online, computer, digital, IT as well. I think when we talked earlier, you mentioned healthcare with the social impact bond. Is there any area that you are staying away from, or is this all about in demand jobs, in demand skills?

Tracy Palandjian, Social Finance CEO & co-founder:

Excellent question. It all starts with where the jobs are and what are the skills required to fulfill those jobs. So if you look at BLS statistics and you did a great podcast with our dear mutual friend, Matt Siegelman, we're looking at burning glass data every week. Where the jobs, what are the skills, what are the micro markets? Just because we have national statistic doesn't mean that Oregon's experiencing the same skills gap as New York City, as the middle of the country.

Tracy Palandjian, Social Finance CEO & co-founder:

So it starts with where the jobs are, and what we're finding is that relatively recession resistant jobs are in IT, the skilled trades, especially green energy as well as healthcare. So these are the areas where we're really focused on finding the right train training programs with the right track record of student graduation, job placement and wage growth to finance folks to take advantage of those opportunities.

Ramona Schindelheim, WorkingNation editor-in-chief:

How long has Social Finance been focused on workforce development? Is that a new area for you? I know you said you've been doing this for 10 years, but is this new given the circumstances that we're in?

Tracy Palandjian, Social Finance CEO & co-founder:

No, we've always been issue area agnostic. As I mentioned earlier, our first social impact bond back in 2013 was actually helping people who leave prison get jobs through a wonderful partner called CEO, the center for employment opportunities. So workforce development is deep in our core, and now it's just a growing part of our portfolio here at the organization.

Ramona Schindelheim, WorkingNation editor-in-chief:

How do you hope the book is going to be impactful to this idea of these cross sector, public/private partnerships?

Tracy Palandjian, Social Finance CEO & co-founder:

The book is just trying to shine a light on these extraordinary partnerships, right? And these bright spots, if you will. It's been a labor of love. It's been a book that we have been developing with the Atlanta fed and the Philly fed for over two years now. I think around 2019, we came together and said, "Let's go hunt for these examples of workforce partnerships that are just responding well to the changing economy." This new breed of partnerships, if you will, that are basically rethinking how we look at risk. How we think about who pays, who benefits and who bears the risk.

Tracy Palandjian, Social Finance CEO & co-founder:

So these partnerships, as highlighted in the 19 chapters, don't all look the same. They have a few things in common. And the thing that's most in common is that they carefully balance incentives, making sure, for example, that training institutions actually have a stake in student outcomes.

Tracy Palandjian, Social Finance CEO & co-founder:

These partnerships are also accountable. They are very clear-eyed about what success they to achieve at the outset of the partnership, and then a commitment to measuring progress along the way. And they're all about expanding access to education and training while fairly allocating the risks and benefits of training across all the stakeholders. So our idea is to shine a light on these innovative, accountable workforce partnerships that are actually delivering results for US workers and importantly for US businesses. And hopefully it will spark replications, spark scale. We'll be also holding action groups to help various stakeholders to undertake these partnerships in their own geographies.

Ramona Schindelheim, WorkingNation editor-in-chief:

Have you gotten any big businesses involved in this, coming to you and saying, "We really need to upskill our workers and we'd love to partner with you?"

Tracy Palandjian, Social Finance CEO & co-founder:

Well, let me tell you about chapter nine, Ramona. So chapter nine is a project about Comcast. As you know, Comcast is based in Philadelphia, and Comcast has really been struggling with filling sales reps. These are the B2B sales reps that they really experience over the years deep labor shortages. So Comcast decided to partner with Philadelphia workforce board, it's called Philadelphia Works, to get the pipeline of skilled workers that they want.

Tracy Palandjian, Social Finance CEO & co-founder:

And here Comcast is actually the payer of outcomes, if you will. And they would pay for folks who are successfully hired and retained at Comcast, if Philadelphia Works delivers on the skilled workforce. Philadelphia Works wins because they get paid by Comcast, and Comcast wins because they get skilled workers recruited and retained over time.

Ramona Schindelheim, WorkingNation editor-in-chief:

I love hearing stories about employers getting involved in developing a talent pipeline for workers. So the new book, Workforce Realigned, it's Social Finance and the federal reserve banks of Atlanta and Philadelphia. How can you get that book if you want it?

Tracy Palandjian, Social Finance CEO & co-founder:

Come to www.workforcerealigned.org, and you'll be able to download the entire ebook, as well as the five-part mini-podcast series. We have actually some extraordinary speakers in the podcast series, including a conversation between Governor Deval Patrick and the former speaker, Paul Ryan, the Texas State Technical College Chancellor, Michael Reeser has a really interesting podcast on how TSTC actually has a funding formula that ties 100% of its funding to the workforce outcomes of his graduates. Talk about eating your own cooking and some extraordinary three other podcasts too. So it's all on the website.

Ramona Schindelheim, WorkingNation editor-in-chief:

What do you hope the book will accomplish? Who do you hope it will inspire to join this movement?

Tracy Palandjian, Social Finance CEO & co-founder:

We hope that the book will spark interest among stakeholders across the spectrum, from government and policymakers, from employers, from schools and universities and training institutions to really rethink how they want to show up and partner. We've spent so many decades trending toward polarization and almost atomization. And basically this whole book, the meta-theme is about partnerships, but authentic, real, deep partnerships that are multi-way, that are thoughtfully designed. The kind that shares risk and rewards, the kind that shares data and goals. These kinds of partnerships can be incredibly powerful to usher in the equitable recovery that we're all hoping for.

Ramona Schindelheim, WorkingNation editor-in-chief:

Tracy, thank you so much.

Tracy Palandjian, Social Finance CEO & co-founder:

Thank you for having me, Ramona.

Ramona Schindelheim, WorkingNation editor-in-chief:

Tracey Palandjian is the CEO and co-founder of Social Finance. I'm Ramona Schindelheim, Editor in Chief of Working Nation. Thank you for listening.