

# Strategic Initiatives Evaluation



## Strategic Employment Opportunities Program (SEOP)



Human Resources  
Development Canada

Développement des  
ressources humaines Canada



Government of Newfoundland  
and Labrador

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# **Formative Evaluation of the Strategic Employment Opportunities Program**

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**Final Report**

**Evaluation and Data Development  
Strategic Policy  
Human Resources Development Canada**

**March 1996**

**SP-AH025E-03-96**

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# Acknowledgement

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*The Strategic Employment Opportunities Program (SEOP) is a jointly funded federal-provincial Strategic Initiative being managed by the Newfoundland and Labrador Departments of Development and Rural Renewal (formerly Employment and Labour Relations) in cooperation with Enterprise Newfoundland and Labrador, the Business Development Bank of Canada, the Atlantic Canada Opportunities Agency and Business Development Centres in Community Futures areas. Other government partners included the Departments of Social Services, Industry Trade and Technology, Education, and Human Resources Development Canada-Newfoundland Region.*

*This evaluation study was conducted by the Goss Gilroy Inc., the Institute for Human Resource Development and Omnifacts Research under the direction of the Federal-Provincial Evaluation Committee comprised of representatives from Newfoundland and Labrador Departments of Development and Rural Renewal (formerly Employment and Labour Relations), Social Services, Education, and Human Resources Development Canada.*

*The evaluation team would like to thank all those who contributed to the study, including officials in the Provincial Departments of Education, Development and Rural Renewal (formerly Employment and Labour Relations), Social Services, the Atlantic Canada Opportunities Agency and the Business Development Bank of Canada as well as officials in HRDC--Newfoundland Region and Evaluation and Data Development at National Headquarters. Extensive federal-provincial cooperation was essential to the success of the evaluation.*

*Finally, we wish to thank the many social assistance recipients, students, businesses and sponsors who generously shared information about their experience with SEOP.*

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# Executive Summary

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The Strategic Employment Opportunities Program (SEOP) represents a joint response of the Government of Canada and the Government of Newfoundland and Labrador to the Province's high dependency on income support programs by supporting new and expanding firms in the growth sectors identified in the Province's Strategic Economic Plan. Through wage subsidies, the program is intended to allow these firms to create employment opportunities by pursuing new opportunities available to them. In return for the wage subsidy, participating employers agree to hire individuals who are dependant on, or at risk of becoming dependant on, income support programs. Unlike conventional HRDC programs and the core employment programs of the Government of Newfoundland and Labrador, the intent of the program is not merely to provide individuals with skills and experience which will enhance their future employability. Instead the program aims to support the creation of full-time jobs to be filled by individuals who would otherwise have a high risk of future dependance on income support programs.

The program thus represents a further step by the provincial and federal governments in their move away from "employment programming" as applied in the past by both levels of government in Newfoundland. In particular, "make work" activities which created UI eligibility and provided little or no lasting impacts on either participants or the growth of the economy were not considered under the program.

The rationale for SEOP is particularly strong in Newfoundland both in terms of need and opportunity. In terms of need, the Province has high unemployment and a corresponding high dependance on income support programs. In terms of opportunity, specific industry sectors have been targeted for growth by the provincial government. By targeting its wage subsidies to firms in strategic growth sectors, according to the program rationale, the program offers the potential for greater impacts than omnibus wage subsidy programs. However, neither of these conditions is unique to Newfoundland and Labrador and the program has potential applicability in other Canadian provinces.

The specific objectives of the program were identified in the evaluation terms of reference as follows:

- to create long-term, full-time employment opportunities for unemployed and underemployed workers;
- to direct employment creation efforts to the growth sectors and economic zones identified in the provincial Strategic Economic Plan;
- to link government programs for job creation to those programs that promote economic and business development;
- to improve and coordinate program delivery by various levels of government and delivery agents involved in human resource and business/economic development; and,
- to provide a model of federal-provincial cooperation on integrating strategies to develop human resources and small enterprises.

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## **Framework**

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The SEOP program is a pilot project implemented under the federal government's Strategic Initiatives (SI) Program announced in the federal budget of February 22, 1994. Like other elements of SI, SEOP has been implemented in a single province on a cost-shared basis with the provincial government. SI allows the federal government to experiment with new and emerging ideas about social security supported by provincial governments. By implementing projects on a pilot basis in a single province, HRDC is able:

- to implement projects more quickly than is possible for national programs;
- to learn about the potential applicability of a large number of program options within a limited budget; and,
- to work in cooperation with provincial governments.

In view of the experimental nature of the program, an essential part of the SI Program is that each pilot project be evaluated on a timely basis.

SEOP is one of three pilot programs being conducted in Newfoundland under SI. Unlike the other Newfoundland Initiatives, GESEP and SWASP, SEOP is not directly based on a preexisting provincial program. However, the use of long-

term wage subsidies has been the basis of the core employment programs of the provincial government since 1989.

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## **Program Design and Delivery**

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SEOP was initially expected to create employment for 2,000 un- and under-employed individuals with a current dependence or a risk of future dependence on income support programs. Of the 2,000 participants, 400 were expected to be Social Assistance Recipients (SARs).

Employment and Labour Relations (ELR) has overall responsibility for administering the program and works with a number of government partners in delivering the program. In particular, designated economic development agencies (both federal and provincial) are heavily involved in the program. These agencies (known as DEDA's) include Enterprise Newfoundland and Labrador (ENL), the Business Development Bank of Canada (BDBC), the Atlantic Canada Opportunities Agency (ACOA), and Business Development Centres (BDC's) in Community Futures Areas. The DEDA's promote the program to their clientele and assist clients in the preparation of a program application. In addition, they are responsible for preparation of a viability assessment of the business applying for wage assistance which they submit to ELR. Finally, they are involved through their representation on the Assessment Review Committee in the review of applications submitted. Other government partners — all of whom were represented on the Assessment and Review Committee include Human Resources Development Canada and three provincial government departments — Department of Social Services<sup>1</sup>, Department of Industry Trade and Technology<sup>2</sup> and the Department of Education and Training.

Finally, the Province's Economic Recovery Commission is also represented on the Assessment and Review Committee.

Private sector businesses and nonprofit organizations apply for assistance with wage costs. For private sector firms this assistance is limited to 50% of wages for one year up to a maximum of \$10,000. For nonprofit organizations, up to 100% of wages may be recovered (to a maximum of \$20,000). As intended,

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<sup>1</sup> Which provides broker services for participant firms directed to hire Social Assistance Recipients (SARs).

<sup>2</sup> Which, like the DEDA's is involved in promoting the program.

most program applications to date have been prepared with the assistance of a DEDA.

ELR reviews submitted applications and provides a preliminary assessment of conformance to eligibility criteria and viability. Criteria for eligibility are:

- the new positions identified in the application must not displace existing employees;
- the new positions must be long-term and full-time and must be filled by individuals who are un- or underemployed;
- firms must be new or expanding and operating in one of the strategic growth sectors; and,
- any single firm is restricted to a maximum of \$100,000 in total assistance. However, the Management Committee can and has waived this criterion in special circumstances.

The program seeks to avoid providing an unfair advantage to firms relative to their competition.

Project proposals are reviewed by the Assessment and Review Committee (ARC) and recommendations are made to the SI Management Committee.

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## Summary of Findings

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### ***Program Relevance***

The Strategic Employment Opportunities Program (SEOP) seeks to stimulate both the creation of long-term full-time employment in firms as well as to stimulate employers to engage individuals with a current dependence or a risk of future dependence on income support. Given the high unemployment in the Province and the above average participation in income support programs, programming of this nature is highly relevant in the Province.

The program was linked to the Province's Strategic Economic Plan in terms of its focus on firms in growth sectors; in terms of its availability throughout the Province; and, in terms of the new partnerships among departments and agencies of the federal and provincial governments. Most notable is the development of partnerships involving departments and agencies involved with economic development with those who have responsibility for employment



programming and income support. Key informants were excited by the potential benefits from linkages to the Strategic Economic Plan and the new partnerships. The results of this evaluation indicate that the progress towards these goals (i.e. linkage to the Strategic Economic Plan and partnership between governments) has been somewhat limited and that the future promise is greater than the accomplishments under SEOP.

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## Program Design

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A variety of factors have constrained the development of an effective program design. First of all, the broad objectives of the program have resulted in a diverse group of projects where the risks and potential benefits varied. The application of a common program design to a diverse range of projects has inevitably failed to provide assurances that risks are minimized and benefits maximized. The program has included:

- wage subsidies to private sector firms to stimulate them to accelerate growth and expansion plans and create new long-term full-time employment;
- wage subsidies to new and expanding private sector firms to stimulate them to employ disadvantaged individuals (e.g. Social Assistance Recipients);
- wage subsidies to nonprofit organizations to stimulate them to implement new initiatives with potential for revenue generation and corresponding sustainable development; and,
- wage subsidies to nonprofit organizations to allow them to undertake projects to develop economic infrastructure which will better enable private sector firms to undertake new initiatives which will lead to economic growth in the Province.

All four of the these categories are of high relevance in Newfoundland and Labrador. Moreover the use of wage subsidies is an appropriate approach in each instance. However, the impacts sought and the potential unintended impacts vary substantially among the four categories. This, of course, has implications in terms of appropriate design. The literature review identified relevant experience relating to each of the four categories and this experience is detailed within the report.

The fundamental conclusion of this evaluation is that the attempt to apply a common program design to this diverse range of projects — with differing rationales — inevitably increased the risk of unintended and undesirable program impacts and failed to maximize the beneficial impacts sought.

For example, the risk of deadweight loss (subsidizing activities which would occur without government assistance) is known to be high with the first and third categories. Much experience has been gained which allows the design of a program which provides assurances that the potential for incremental projects is maximized. The design of SEOP failed to include such provisions. This occurred primarily because these provisions would have effectively disqualified worthwhile projects in the second and fourth categories.

Similarly, the broad range covered by the four categories necessitated a flexible definition in regard to the target group for participants. However, the second and fourth category above only provide substantial beneficial impacts if projects are targeted to a specific target group with recognized needs addressed by the experience provided under the program.

A design which explicitly recognized the distinct categories and included appropriate provisions for each category would eliminate these difficulties. This is more important for SEOP than other programs due to the extensive partnership. A more structured design would allow differences in the roles for the various components of the program. With the unstructured design of SEOP, the differences in philosophies and approaches of the various partners became a major issue. Each partner, quite logically, focussed primarily on those groups of projects which fit most closely with their own mandate. A more structured design would have allowed differing numbers of and roles for partners for each component.

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## **Program Delivery**

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Overall, it is the conclusion of this evaluation that weaknesses in program delivery are attributable to constraints posed by the program design. Commitment to the program by the various partners was substantial and the quality of processes put in place was excellent. For example, the quality of administrative processes and administrative databases was high. All partners were provided with data profiling the projects approved and contracted on a regular basis.

In terms of procedures, guidelines for viability assessments of firms submitting proposals were developed which drew on the expertise of the partners. These guidelines were communicated to all of the DEDA's conducting viability assessments and a quality control process was put in place.

Employers were very satisfied with the quality of administrative support on the program and noted that their experiences with program officials were much better than for other government programs they had dealt with.

Weaknesses did exist in selection of projects to recommend for approval to the Management Committee; and, in promotion of the program. However these weaknesses were determined by the Evaluation Team to be inevitable consequences of the program design.

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## **Project Success**

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The evaluation has found high levels of satisfaction among both employers and participants. As well, survey data indicates that most placements are expected to continue for the duration of the subsidy. In many instances, employers and their employees both want and expect the employment to continue beyond the duration of the subsidy.

The design and delivery of the program has provided reasonable levels of protection against program misuse, displacement (i.e. laying off existing employees who are then replaced with program-subsidized employees) and indirect displacement (i.e. one firm hires new employees using program subsidies resulting in layoffs in competing firms). The program generally avoided supporting "make-work" projects. Some potential for "make-work" existed with projects approved on the basis of economic infrastructure development. However, this is attributed to the current lack of regional and zonal economic development plans rather than weaknesses in the program. Since the development of these regional and zonal plans is a priority of the provincial government, similar programming can be expected to be of greater benefit in the future.

Conversely, the program provided limited protection against deadweight loss (subsidizing activities which would have occurred anyway) and program stacking (government support of a single project through more than one program). Revisions to the program design are required to provide improved protection against these risks.

In terms of partnership development, the results are mixed. The design of the program; the large number of partners; and, significant differences between the philosophies, cultures and organizational approaches of the partners, all proved to be formidable constraints. As a result the achievements of the partnership did not reach their full potential. On the other hand, the partners demonstrated a strong commitment to the partnership approach and have learned a great deal about how they can work together more effectively in future.

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## **Cost-Effectiveness**

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The evaluation has concluded that the program offers substantial promise in terms of cost-effectiveness. It has also found that, as implemented to date, the risk of subsidizing activities which would occur without the subsidy is unacceptably high. We have also identified risks associated with:

- subsidizing firms already receiving support from other government programs potentially resulting in a high aggregate subsidy from government sources; and,
- 100% subsidies awarded to nonprofit sector initiatives which are expected to ultimately be self-sufficient without consideration of whether a smaller subsidy would be equally effective.

It is important to note that the evaluation does not provide evidence that these risks have materialized. Instead, it is the conclusion of the evaluation that the program design does not provide sufficient protection against these risks. Since experience in other programs indicates how these risks can be minimized, modifications to the program design, would allow the program to achieve its potential in terms of cost-effectiveness. Based on the findings of the evaluation, this potential is greater than for competing approaches such as “make-work” projects; short-term wage subsidies and on-the-job training.

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# Management Response

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Strategic Initiatives is a series of programs designed to test new labour market operations and delivery approaches. In the Strategic Employment Opportunities Program (SEOP), this involved the provision of wage subsidies and other supports to unemployed and underemployed workers to support employment in growth sectors and regions identified in the Province's Strategic Economic Plan.

Based upon the evaluation findings, the Management Committee is satisfied that the Strategic Employment Opportunities Program made reasonable progress to achieving the objectives of the initiative. The program helped to create long-term, full-time employment opportunities for unemployed and underemployed individuals rather than the short-term, project-based jobs of the past. SEOP focused employment creation efforts to the growth sectors and economic zones identified in the provincial Strategic Economic Plan and provided a link to government programs for job creation to those programs that promote economic and business development. In other words, SEOP attempted to harmonize social, labour market and economic development initiatives. Furthermore, SEOP attempted to improve and coordinate program delivery by various levels of government and delivery agents involved in human resource and business/economic development and established a model for federal/provincial cooperation on integrating strategies to develop human resources and new enterprises.

The Management Committee recognizes that the program was an ambitious attempt to link social development agencies (i.e. Provincial Departments of Education and Training, Social Services and Employment and Labour Relations and Human Resources Development Canada) with economic development agencies (i.e. Department of Industry, Trade and Technology, Enterprise Newfoundland and Labrador, Economic Recovery Commission, Business Development Bank of Canada and Atlantic Canada Opportunities Agency and Business Development Corporations of Community Futures). This is the first time such diverse interests were brought together under common program framework to discuss individual proposals. At times, many of these groups brought their own agendas to the discussion table resulting in lively debate and considerable compromise on behalf of all parties.

In addition to the proposal assessment and review process mentioned above, the partners were responsible for joint budgeting and financial planning. Further-

more, the program was responsible for creating new mechanisms for information sharing and the development of a joint strategic communications plan. The Management Committee is pleased with strength of the partnerships formed by the program. In light of the recent decision to co-manage and co-deliver HRDC's employment benefits and support measures, the links established by this program will be very beneficial in labour market negotiations.

The Management Committee recognizes that there were considerable challenges associated with the delivery of the program including the assessment and approval of applications. In addition, approved sponsors were plagued by start-up delays, ineffective human resource planning and cash flow problems. Even though these factors are beyond the control of program administration, they are a constant source of frustration and irritation. However, these are common issues and concerns for both new and expanding businesses.

Overall, the Management Committee is satisfied with the evaluation of the program. Although placement objectives were not reached, the partnership network established under SEOP will form the basis for future labour market discussions. Lessons learned from the program will be integral in future program design and implementation. The Management Committee is pleased with the fact that there are high levels of satisfaction with the program among employers and participants and that most placements are expected to continue beyond the duration of the subsidy.

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# 1.0 Introduction

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## 1.1 The Context of the Evaluation

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The SEOP Program was initiated less than two years ago. The evaluation has been formative and has not assessed long term impacts. To the extent possible, we have addressed the potential applicability of the initiative in other jurisdictions. Funding for the program, under current mechanisms, is expected to expire in the near term as the Strategic Initiatives Program (SI) comes to an end. However, the rationale for the program is well-linked to Newfoundland and Labrador's Strategic Economic Plan and programming of the nature of what was included in SEOP is likely to be actively considered in the future regardless of the termination of SI. An important goal of the evaluation has thus been to provide information which can support improvement of the approaches used.

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## 1.2 Evaluation Issues

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The Terms of Reference identify 14 issues grouped into four categories:

- Relevance;
- Implementation;
- Success; and,
- Cost Effectiveness.

The 14 specific issues and detailed evaluation findings for each are provided in Chapter 3. In Chapter 4 we provide conclusions in relation to the four issue categories.

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## 1.3 Evaluation Methodology

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The methodology applied to this evaluation has been described in detail in the Methodology Report submitted on September 25, 1995. In brief the following methodologies were applied to the study:

- a **document review** relating to the SEOP program, in particular, as well as to the Strategic Initiatives Program;
- **key informant interviews** with federal/provincial officials responsible for the design and implementation of this initiative and delivery agents;
- **focus groups** with employers and participants;
- a **literature review** addressing the policy objectives and program design of the initiative;
- **analysis of administrative data** via program-specific data bases;
- a **follow-up survey of 130 participants** in the program; and,
- a **follow-up survey of 48** employers.



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## 2.0 Program Description

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### 2.1 The Strategic Employment Opportunities Program

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#### ***The Context of the Program***

Significant differences exist in economic structure and performance between Newfoundland and Labrador and the rest of Canada. These differences — and their implications — were clearly described in the Province's Strategic Economic Plan:

*“Newfoundland and Labrador’s economy is very “open”, which means that it is strongly influenced by the level of economic activity elsewhere, largely because of our reliance on resource-based exports . . .*

*“Because Newfoundland and Labrador’s goods production is concentrated largely in primary-resource industries, the Province’s economy has pronounced seasonality in output and employment, low value-added production and a narrow export base from which to generate new economic wealth. These weaknesses produce persistently high unemployment and low per capita incomes.”<sup>3</sup>*

Data in the Strategic Economic Plan illustrates a rate of unemployment which has consistently, since the mid 70's except for a brief period in the early 1980's, been approximately double the unemployment rate in the rest of Canada. Recent data confirms the continuation of this trend. In the most recent results (February 1996) of Statistics Canada's Labour Force Survey, the seasonally adjusted unemployment rate for the Province was 20.9% compared to 9.6% for all of Canada. The next highest provincial rate of unemployment — at 14.1% — was in Prince Edward Island. An additional important characteristic of the Province's economy is its highly seasonal nature. Research by HRDC<sup>4</sup> concludes that “Employment in Newfoundland remains three times as seasonal as employment

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<sup>3</sup> *Change and Challenge — A Strategic Economic Plan for Newfoundland and Labrador*, Government of Newfoundland and Labrador, June, 1992, P. 4 — 5.

<sup>4</sup> *Issues and Opportunities in the Newfoundland and Labrador Labour Market*, Human Resources Development Canada, March, 1996.

nationally”. One example of the highly seasonal nature of employment cited in the HRDC report is that, in 1994, 52% of the workforce received Unemployment Insurance at some point during the year.

Consequently, employment programming by both levels of government has long been seen to be of special importance in the Province.

Federal government employment programs are generally available across the country. However, in view of high structural and seasonal unemployment, use of these programs is generally higher in Newfoundland and Labrador than in other provinces and the programs have often existed in a different form in the Province than elsewhere<sup>5</sup>. As well the federal government has, until recently, provided funds for “make work” projects which provide short term income for participants and also result in creating eligibility for Unemployment Insurance (UI).

Since 1989, the core employment programs of the provincial government have incorporated the use of wage subsidies and were designed to provide individuals with long-term placements which provided meaningful work experience in order to enhance participants’ labour market employability. The Province — like the federal government — has also offered ad hoc emergency programs which provided short term work assignments of a “make work” nature.

Support to “make work” projects by both levels of government has declined over time. The current policy of both levels of government is to avoid placements of this nature through either emergency programs or within their ongoing employment programs.

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<sup>5</sup> For example under the General Stream of the Job Development Program — a program designed for the long term unemployed, 25% of the program starts occurred in Newfoundland and Labrador which contains well below 1% of the country’s population. As well, the evaluation found substantial differences in the implementation of the program between Newfoundland and Labrador and the other provinces. In particular, projects tended to be briefer and often of a make work nature.

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## Rationale and Objectives

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The SEOP program represents a joint response of the Government of Canada and the Government of Newfoundland and Labrador to the Province's high dependency on income support programs by supporting new and expanding firms in the growth sectors identified in the Province's Strategic Economic Plan. Through wage subsidies, the program is intended to allow these firms to create employment opportunities by pursuing new opportunities available to them. In return for the wage subsidy, participating employers agree to hire individuals who are dependant on, or at risk of becoming dependant on, income support programs. Unlike conventional HRDC programs and the core employment programs of the Government of Newfoundland and Labrador, the intent of the program is not merely to provide individuals with skills and experience which will enhance their future employability. Instead the program aims to support the creation of full-time jobs to be filled by individuals who would otherwise have a high risk of future dependance on income support programs.

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- to provide a model of federal-provincial cooperation on integrating strategies to develop human resources and small enterprises.

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## Framework

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- to implement projects more quickly than is possible for national programs;
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In view of the experimental nature of the program, an essential part of the SI Program is that each pilot project be evaluated on a timely basis.

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## Program Design and Delivery

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SEOP was initially expected to create employment for 2,000 un- and underemployed individuals with a current dependence or a risk of future dependence on income support programs. Of the 2,000 participants, 400 were expected to be Social Assistance Recipients (SARs).

Employment and Labour Relations (ELR) has overall responsibility for administering the program and works with a number of government partners in delivering the program. In particular, designated economic development agencies (both federal and provincial) are heavily involved in the program. These agencies (known as DEDA's) include Enterprise Newfoundland and Labrador (ENL), the Business Development Bank of Canada (BDBC), the Atlantic Canada Opportunities Agency (ACOA), and Business Development Centres (BDC's) in Community Futures Areas. The DEDA's promote the program to their clientele and assist clients in the preparation of a program application. In addition, they are responsible for preparation of a viability assessment of the business applying for wage assistance which they submit to ELR. Finally, they are involved through their representation on the Assessment Review Committee in the review of applications submitted. Other government partners — all of whom were represented on the Assessment and Review Committee include Human Resources Development Canada and three provincial government departments — Department of Social Services<sup>6</sup>, Department of Industry Trade and Technology<sup>7</sup> and the Department of Education and Training. Finally, the Province's Economic Recovery Commission is also represented on the Assessment and Review Committee.

Private sector businesses and nonprofit organizations apply for assistance with wage costs. For private sector firms this assistance is limited to 50% of wages for one year up to a maximum of \$10,000. For nonprofit organizations, up to 100% of wages may be recovered (to a maximum of \$20,000). As intended, most program applications to date have been prepared with the assistance of a DEDA.

ELR reviews submitted applications and provides a preliminary assessment of conformance to eligibility criteria and viability. Criteria for eligibility are:

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<sup>6</sup> Which provides broker services for participant firms directed to hire Social Assistance Recipients (SARs).

<sup>7</sup> Which, like the DEDA's is involved in promoting the program.

- the new positions identified in the application must not displace existing employees;
- the new positions must be long-term and full-time and must be filled by individuals who are un- or underemployed;
- firms must be new or expanding and operating in one of the strategic growth sectors; and,
- any single firm is restricted to a maximum of \$100,000 in total assistance. However, the Management Committee can and has waived this criterion in special circumstances<sup>8</sup>.

The program seeks to avoid providing an unfair advantage to firms relative to their competition.

Project proposals are reviewed by the Assessment and Review Committee (ARC) and recommendations are made to the SI Management Committee.

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## 2.2 Statistical Profile of the Program

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Data in this section is based on program administrative databases relating to participants and administrative records for the program.

### ***Extent and Timing of Program Activity***

Activity under the program commenced early in 1995<sup>9</sup>. Projects, jobs and funding approved and contracted as of the indicated dates are provided in the table. These data have been compiled from status reports prepared for the Management Committee.

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<sup>8</sup> A total of 10 projects have been approved with approved assistance of \$100,000 or more. The three projects approved in fiscal 94/95 all proceeded on a smaller scale than anticipated. Of the 7 projects approved in fiscal 94/95, only three had been contracted by March 31, 1996. Of these, 2 proceeded as envisioned while the third proceeded on a substantially smaller scale

<sup>9</sup> SEOP was initiated in 1994 and some projects were approved that year. However, contracting and initiation of these early projects typically did not occur until 1995.

Date	Proposals Received	Approved (Cumulative)			Contracted (Cumulative)		
		Projects	Jobs	\$'s (000's)	Projects	Jobs	\$'s (000's)
Jan. 16, 1995	64	21	85	\$737.0	N/A	N/A	N/A
Jan. 31, 1995	91	29	101	\$876.3	N/A	N/A	N/A
March 6/95	113	45	138	\$1,294	N/A	35	\$291.3
March 20/95	135	53	157	\$1,452	18	40	\$335.3
April 10/95	152	68	214	\$1,844	19	41	\$345.3
May 1, 1995	175	75	226	\$1,921	25	52	\$455.3
June 5/95	222	83	266	\$2,232	43	110	\$1,021
Nov. 1, 1995	297	132	441	\$3,492	102	270	\$2,192
Jan. 15, 1996	320	162	523	\$4,077	118	308	\$2,634
Feb. 29, 1996	345	173	578	\$4,562	128	352	\$2,953

It is apparent from the above that activity under the program has slowly increased over time. It is also apparent that a lag exists between approval and start-up of projects. By February 29, 1996 the number of contracted projects was less than the number which had been approved as of November 1, 1995. More careful examination of these data indicates that while most of the approved projects have been contracted, many of the anticipated jobs have not yet materialized. By February 29, 1996:

- 128 (74.0%) of 173 approved projects had been contracted; while,
- only 352 (60.9%) of 578 approved jobs had been contracted.

This is attributable to lengthier delays incurred by some large projects and some projects proceeding on a smaller scale than approved.

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## Private and Nonprofit Sector Projects

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As of March 31, 1996 a total of 133 projects had been contracted. Of these 98 (73.7%) involved the private sector and 35 (26.3%) were with the nonprofit sector.

Sector	Number of Contracts	Contracted Jobs	Funding	Funding per Job
Private	98	291	\$2,141,958	\$7,361
Non-Profit	35	74	\$938,583	\$12,684
Total	133	365	\$3,080,541	\$8,440

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## Characteristics of Jobs

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As of July 30, 1995 a total of 376 jobs had been approved. Of these:

- 229 (60.9%) were full-time;
- 123 (32.7%) were seasonal; and,
- 24 (6.4%) were part-time.

The non-profit sector accounted for 108 (28.7%) total jobs but only 49 (21.4%) of the full-time jobs and 57 (46.3%) of the seasonal jobs.

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## Regional Involvement

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The program has approved projects in the five regions of the Province:

Region	Projects		Funding		National Budgets
	Number	%	\$'s (000's)	%	
Avalon	83	48.0%	\$2,469.7	54.1%	44.5%
Eastern	21	12.1%	\$347.8	7.6%	10.1%
Central	38	22.0%	\$1,098.5	24.1%	20.7%
Western	24	13.9%	\$548.2	12.0%	19.4%
Labrador	7	4.0%	\$98.4	2.2%	5.4%
Total	173	100.0%	\$4,562.6	100.0%	100.0%

As can be seen, funding exceeds national budgets<sup>10</sup> in the Avalon and Central Regions. Earlier data (August 25, 1996) indicates that projects had been approved for 15 of the 19 economic zones. No projects were approved in three of the 5 economic zones in Labrador and one zone in the Western region (Zone 10). Zone 19 in the Avalon region accounted for 75% of the funding allocated to the three zones in the Avalon Region.

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<sup>10</sup> The national budgets represent planning targets established by the SI Management Committee in consideration of the population of the various regions, the need for employment programming, and, the perceived extent of opportunities to identify projects conforming to SEOP terms and conditions.



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## Urban/Rural

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Data on projects contracted as of March 31, 1996 indicates that the majority of activity has occurred outside the major urban areas:

Location	Projects	Jobs	Funding	Funding per Job
St. John's	37	84	\$883,568	\$10,519
Mount Pearl	2	2	\$20,000	\$10,000
Corner Brook	4	5	\$65,240	\$13,048
Urban Subtotal	43	91	\$968,808	\$10,646
Rural	98	298	\$2,272,443	\$7,626
Total	141	389	\$3,241,251	\$8,332

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## Employment of Social Assistance Recipients

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The program targeted a minimum of 20% participation by Social Assistance Recipients (SARs). Based on originally projected volumes of 2,000 participants, participation by a minimum of 400 SARs was targeted. As of February 29, 1996, 352 participants had been engaged on contracted projects. Of these, 71 (20.2%) were SARs.

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## 3.0 Evaluation Findings

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### 3.1 Program Relevance

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**Issue 1. a) In what way do the pilot projects reflect the criteria established for Strategic Initiatives (SI)?**

- ✓ innovation/experimentation potential?
- ✓ relevancy to SI objectives?
- ✓ evaluation/information potential for social reform?

**Finding:** Government programs which offer the potential to create long term jobs are highly relevant in Newfoundland and Labrador. SEOP represents an innovative attempt to create sustainable jobs by combining the expertise and experience of government departments and agencies focussed on employment programming with those addressing economic development. The approach used was innovative and offers significant potential for learning.

Newfoundland and Labrador has had an unemployment rate well above the national average for many years<sup>11</sup>. Forecasts of economic growth for Canada in the medium term suggest that the economy of Newfoundland and Labrador will continue to lag that other regions of Canada. Fiscal pressures, high taxation, the continuing closure of the groundfish industry and the imminent completion of the (job-intensive) construction phase of the Hibernia project are all factors which are expected to act as barriers to economic and employment growth in the medium term.

Both the government of Canada and the government of Newfoundland and Labrador have implemented many employment programs in Newfoundland. While a variety of programs have been developed for specific populations, programs with a more general scope have long existed. A share of available resources has historically been allocated to programs which support “make work”

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<sup>11</sup> In the most recent results (February 1996) of Statistics Canada’s Labour Force Survey, the seasonally adjusted unemployment rate for the Province was 20.9% compared to 9.6% for all of Canada.

projects which were primarily intended to create UI eligibility for participants. These programs have, as they were intended, alleviated individual hardship. However they provided limited additional benefits and both levels of government have moved away from programming of this nature.

As well, both levels of government have been involved in the support of training initiatives. Training programs have offered subsidized or funded access to classroom training as well as on-the-job training. The training programs have enabled some individuals to have access to a wider segment of the labour market but have often been criticized as having trained individuals for jobs which do not exist.

The SEOP program represents an innovative approach to employment programming by government. It is intended to stimulate both the demand for new employees and the supply of qualified labour. While this combined approach is innovative, the program has sought to effectively utilize the experience of government departments and agencies whose operational mandates relate to stimulating demand (economic development agencies) and improving the supply of qualified labour (i.e. social/employment departments and agencies). Consequently the program includes many features which are in common use in other programs. The program also involves extensive use of partnership.

While key informants noted many concerns and difficulties about the program, they were virtually unanimous in support of the relevance of the program and saw it as a major step forward from past government programs.

**Finding:** The program is innovative in regards to:

- ✓its focus on employment in growth sectors;
- ✓the development of partnerships between social agencies (e.g., ELR, DOSS, and HRDC) and economic development agencies (e.g., ENL, ACOA, FBDB, and ITT); and,
- ✓its focus on funding of jobs with long term potential.

Key informants consistently raised these three points as innovative aspects of SEOP. See issues 1(b), 3 and 4 for further details.

**Issue 1 b) In what way do the projects reflect the guiding principles of Newfoundland's Strategic Economic Plan?**

Newfoundland and Labrador's Strategic Economic Plan recommends a new approach to community economic development and also identifies a number of

growth sectors which the government of Newfoundland and Labrador intends to support.

The introduction to “A Strategic Economic Plan for Newfoundland and Labrador” published by the Government of Newfoundland and Labrador in June 1992 states:

*“... working together is the key to strengthening our economic and social fabric. Some of the fundamental changes which people say they want to see are:*

- **A change within people.** There is a need for a renewed sense of pride, self-reliance and entrepreneurship . . . most people agreed that education is essential to our economic development.
- **A change within governments.** Governments must focus on long-term economic development and planning . . .
- **A change in relationships** . . . new partnerships must be formed among governments, business, labour, academia and community groups. In particular, better coordination between the federal and provincial governments in the delivery of business and economic development programs is needed.

**Finding:** SEOP is strongly linked to Newfoundland and Labrador’s Strategic Economic Plan by virtue of its focus on long-term employment with firms in identified growth sectors and its emphasis on partnership between government departments and agencies. It has not, at this early stage, developed effective linkages to community economic development initiatives.

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## **Long-term Employment in Growth Sectors**

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As one key informant noted:

*“SEOP is taking make-work money and using it for sustainable economic development in companies in growing sectors in order to create full-time employment.”*

Similar viewpoints were expressed by most key informants in terms of the focus on growth sectors and the transformation of the nature of interventions by government.

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## Partnership

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Most key informants indicated that the extensive partnerships were necessary in order for government to be effective in pursuing the new types of interventions included under SEOP. Virtually all of them stated that SEOP could not have been effectively implemented by any single department or agency of government. First of all, key informants noted the requirement for expertise in both economic development and employment programming which did not exist in any one department or agency. Secondly, the involvement of more than one partner with expertise/involvement in each of the two programming areas was perceived as beneficial both because of the combined reach of all partners and also because of variations in the programming approaches of the various partners.

While the findings of this evaluation indicate that the partnership approach requires improvement, it offers substantial future promise.

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## Linkage to Zonal Economic Development

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The Strategic Economic Plan also advocates a new approach to community economic development which is centred around a planning process within each of 19 economic zones identified in the Province. The government of Newfoundland and Labrador has made a strong commitment to this process and Regional Economic Development Boards (REDB's) are currently under development in each of these zones. Since this process only started recently (after implementation of SEOP) and is not yet in place, it was not possible for SEOP to be linked to economic development plans within the economic zones. Some key informants were concerned that the centralized approach to project approval was in conflict with the decentralized planning process being pursued by the provincial government in regards to economic development. Others indicated that a centralized approach had advantages from the perspectives of efficiency and consistency and did not bar linkages to economic development plans which will be developed for each zone. Since most zones will not have prepared economic development plans before SEOP expires, this issue is not important for the program per se but it will be of critical importance for employment programs in the future.

**Issue 2**      **To what extent do the projects reach the intended target groups? Are participants representative of the target groups? If not, why?**

**Finding:**      A fundamental dichotomy existed among the partners as to whether the clients of the program were businesses or unemployed individuals who are dependant on, or at risk of becoming dependent on, income support programs.

These two perspectives were strongly held and discussed at length in key informant interviews. Many key informants (largely, but not exclusively, from economic development agencies) perceived that the role of the program was to stimulate employment opportunities by assisting businesses in growth sectors to create new jobs by minimizing the risk inherent in start-up and expansion activity. To these individuals, the key issue was selection of the right firms and the characteristics of individuals employed were not seen by them as important. The reasoning was that jobs created in growth sectors would lead to employment of individuals at risk of dependency either directly or indirectly (since the total number of jobs would increase) and that the direct approach was not necessarily better.

Other key informants maintained the perspective of the original program proposal. Their perspective was that because of the high unemployment in Newfoundland, a substantial risk exists of the deterioration of human capital, and that many individuals are at substantial risk of long term unemployment. Since such individuals may not be seen by employers as desirable employees, a wage subsidy may motivate employers, who intend to hire in response to growth opportunities, to engage individuals from this group. These individuals saw firms in growth sectors as effective vehicles to assist the true clients of the program — individuals dependent upon or at risk of dependence on income support.

This dichotomy has not been resolved and has impacted on the projects approved under the program. Based on key informant interviews and a review of program materials, we have identified four categories of projects supported under the program:

***Category 1 Working Capital Subsidies to Private Sector Firms***

Firms with well-defined growth opportunities were accepted into the program so long as the jobs cited were new and offered the potential to be long term and sustainable. Firms in growth sectors were more likely to be viewed favourably.

Firms which were (or would be, with the proposed initiative) in direct competition with other Newfoundland firms were not considered especially if both (all) firms were servicing a limited local market which was currently well-served. Incrementality of the proposed positions and the availability of candidates at risk of dependence on income support were considered in the review of applications. Nevertheless, firms in growth sectors whose plans would

- bring new services to a local market;
- provide goods or services currently imported; or,
- lead to exports of goods or services,

were likely to be accepted into the program even if incrementality was unclear or the individuals likely to be hired had no particular risk of dependence on income support.

### ***Category 2 Wage Subsidies to Private Sector Firms***

Firms in this category were generally similar to those in Category 1 with the exception that individuals with risk of dependency on income support programs were hired into subsidized positions. Like the firms in Category 1, these firms were assessed on their likely ability and willingness to offer long term employment to the individuals they proposed to hire. Also as with category 1, proposals which involved competition with existing Newfoundland firms for a small well-served market were not considered.

### ***Category 3 New Nonprofit Sector Ventures with Long Term Employment Potential***

Proposals from the nonprofit sector were favourably considered when the proposal demonstrated a strong potential for sustainability. Typically, these proposals were required to demonstrate strong potential for revenue generation which would allow continuation of the positions after termination of funding under the program. For example, theater groups and nonprofit organizations operating craft shops at major tourist attractions were funded under the program. Applications which offered economic development potential and economic spinoffs by, for example, increasing the tourist appeal of a particular area were viewed especially favourably.

#### **Category 4 *New Nonprofit Sector Ventures with Economic Development Potential and/or With Potential for Skill Development of Workers***

Some proposals from the nonprofit sector were approved even though they were seasonal in nature and offered no or limited potential for sustainable employment. Proposals which were deemed to be requesting core funding or which involved “make work” activities were not considered. However, proposals which involved the development of infrastructure which would lead to economic benefits for a particular region were considered especially if they also involved the development of new skills in employees who were dependent on income support programs.

**Finding:** Satisfactory procedures were in place to ensure that individuals employed under the program met basic terms and conditions. However, the approval of projects which in effect provided a working capital subsidy to firms in growth sectors detracted from the extent to which individuals with greatest need accessed the program.

Program objectives as well as project terms and conditions required only that individuals employed on approved projects be unemployed or underemployed (working less than 20 hours per week) at the time of their hiring. ELR developed procedures to ensure that employers were consistently informed of this requirement and were contractually committed to this condition.

The terms of reference for this evaluation are somewhat more specific in regards to the target group of the program:

*“The aim is to create employment for 2,000 un- and underemployed individuals who are dependant on, or at risk of becoming dependant on income support programs.”*

“Dependance on income support” is not a straightforward concept in Newfoundland’s economy. An overall high rate of unemployment; a relatively low labour force participation rate<sup>12</sup>; and, the seasonal nature of many of the jobs which do exist, combine to create a situation where many Newfoundlanders receive income support at some time during the year. This is certainly true of SEOP participants. In the survey of 130 individuals employed under SEOP:

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<sup>12</sup> Which is likely attributable, at least in part, to individuals who do not actively seek employment because of the shortage of employment opportunities but would readily accept employment if it was available



- 62.3% of individuals employed had received UI at some point in the preceding year. About half of these had received UI for six months or less; and,
- 18.5% of individuals had received social assistance in the preceding year. Less than half of these had received social assistance for the full 12 months.

It is not entirely clear whether past use of income support is a proxy for future **dependance** on income support or exactly what is meant by dependance. An alternate proxy might be whether employed individuals were likely to be employed without the program. Based on the design of the program and information provided by key informants, there was little attempt to target individuals who would otherwise be unlikely to obtain employment. Survey results indicate that a significant share of participants believed they would have been working or attending school at the time of the survey without the support provided by the program:

- 44.6% believed that they would be currently unemployed if they had not received a job under SEOP; but,
- 10.0% indicated that they would likely be attending school; and,
- 41.5% indicated that they would likely be working<sup>13</sup>.

**Finding:** No effective mechanism was developed to identify positions which could be filled by qualified SAR candidates. However, once an application was approved conditional on hiring a SAR, DOSS followed up with employers with potential candidates. The SAR condition was only rescinded based on DOSS certification that no qualified candidates were available who were in receipt of social assistance.

It was clear from key informant interviews and from our attendance at an Assessment and Review Committee meeting that decisions on whether SARs could be placed in a particular job were haphazard and somewhat arbitrary. No process appears to be in place that provides input to the decision-making process as to whether qualified candidates could realistically be found from the roster of SARs.

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<sup>13</sup> 78% of these individuals expected that they would have obtained employment in Newfoundland while the remainder expected that they would have left the Province to obtain employment.

The lack of such a process appears to have had a number of consequences:

- it effectively limited the participation by SARs in the program both in numbers and types of positions. The Assessment and Review Committee — in the absence of this information — had the difficult task of identifying potential SAR placements. Based on key informant interviews, project approvals conditional on SAR placements were typically selected from projects where the required qualifications and experience for employees were minimal. As well, members of the committee came to view the 20% target for SAR placements as a quota to be achieved rather than a minimally acceptable level of participation;
- it created a major conceptual gap between two types of projects — SAR projects and non-SAR projects. In the SAR projects, the subsidy was clearly tied to the selection of employees whereas on many of the non-SAR projects, the subsidy was tied more to the project than the characteristics of the individuals employed. Although the nature of the treatment (i.e. a wage subsidy) was consistent for the two project types, the impacts sought are very different. Nevertheless the design of the program has not yet evolved to include provisions likely to maximize the impacts from each of the two types of projects; and,
- it potentially increased the stigma associated with receiving Social Assistance.

However, once a project was approved, conditional on hiring SAR(s), DOSS worked with employers to assist them to identify qualified and suitable individuals. When no such individuals could be found, the SAR condition could be waived but only after authorization from DOSS.

**Finding:** Projects approved for the nonprofit sector provide greater opportunity for the hiring of individuals at risk of dependency on income support.

As indicated above, two types of projects were approved in relation to the nonprofit sector. The first comprised positions with a potential for long term sustainability. The second group consisted of positions which were known to be short term in nature but which were intended to provide long term benefits in the form of expanding the Province's economic infrastructure. Cut backs in core funding to nonprofit groups have made these organizations heavily dependent on programs like SEOP in their efforts to undertake initiatives with economic and social objectives. Evidence from the literature, as well as information provided by

key informants, suggests that the private sector may avoid a targeted wage subsidy program if they are concerned about the ability of members of the target population to be effective employees. However, nonprofit organizations are less likely to have this luxury. Key informants indicated that approvals of projects for the nonprofit sector were more likely to be conditional on hiring individuals at risk of dependence on income support.

**Finding:** The level of activity under SEOP has been well below what was anticipated and the program has failed to deliver the amount of stimulation to the economy of Newfoundland and Labrador which had been anticipated.

Program materials state that the aim of the program is to create employment for 2,000 un- or underemployed individuals. By contrast, in the summer of 1995, 160 participants had actually been hired under the program and the SI Management Committee had reallocated some of the funding originally intended for SEOP to other programs included in Strategic Initiatives. By February 29, 1996 — one month from the cutoff date for project approvals — 352 individuals had received employment under the program. An additional 226 positions had been approved by that date but it is unclear how many of those positions will be filled. Approved but not filled jobs have occurred because:

- significant delays have occurred between the approval and implementation of many projects<sup>14</sup>;
- some approved projects have — at least to date — hired fewer individuals than were approved; and,
- some approved projects have been canceled.

Additional placements are still expected under the program. Some of the approved — but as yet unfilled positions — will be filled. As well, new projects will be approved in March 1996. However, since payment of wage subsidies is scheduled to end as of March 31, 1997, some of the positions yet to be filled may be subsidized for less than the intended 12 month period.

This reduced level of activity is attributable to a number of factors:

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<sup>14</sup> This has occurred because many of the projects represent — as intended — new ventures or expansions of existing firms. In many instances, these projects are dependant on a number of factors not solely SEOP approval.

- the program has represented a major departure from employment programs used in the past in Newfoundland and Labrador. The degree of change, the large number of partners and the varying perspectives of partners were all significant obstacles to the design of the program. Without a clearly designed program, the partners were reluctant to extensively promote the program;
- the involvement of the DEDA's has been less effective than anticipated in identifying firms to avail of the program. Only Enterprise Newfoundland and Labrador identified and assessed large numbers of firms/ organizations. Of 345 proposals received, 82 were screened out by ELR. Of the remaining 263 requiring assessment, ENL accounted for 218 (82.9%):

Agency/Department	Applications Assessed	Percent
Enterprise Newfoundland and Labrador	218	82.9%
Atlantic Canada Opportunities Agency	17	6.5%
Business Development Centres	17	6.5%
Business Development Bank of Canada	6	2.3%
Department of Industry Trade and Technology	5	1.9%
Total	263	100.0%

Of the 263 proposals assessed, 173 had been approved as of February 29, 1996. An additional 38 were in process and no decision had yet been made. Rejected proposals accounted for 127 of those received<sup>15</sup>. Twelve proposals were withdrawn and 22 were cancelled; and,

- in the opinion of some key informants, the private sector may not be able to absorb the high number of placements envisioned. In particular, the focus on growth sectors limited the number of available opportunities since the growth sectors represent areas where future potential exists. In general, these industry sectors are not well-developed at present.

**Issue 3      Are the services/interventions provided consistent with the needs of the target groups?**

**Finding:**      The program is highly responsive to the needs of employers.

*In the survey of 48 employers:*

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<sup>15</sup> This count includes the 82 screened out by ELR prior to assessment.

- 30 (62.5%) indicated that they would not have been able to hire without the program<sup>16</sup> and virtually all employers approved for multiple positions would have not hired at all or would have hired fewer individuals;
- 31 (65%) employers described the application process as “not at all complex”. Only one employer described it as very complex;
- 44 (91.7%) described program officials as very cooperative and the remainder described them as somewhat cooperative; and,
- only four (8.4%) were either dissatisfied or very dissatisfied with the procedure to recover the wage subsidy. All of these individuals’ concerns related to the time to receive the funds.

*In the focus group of employers, the program was highly praised. In particular,*

- employers observed that the length and amount of the wage subsidy allowed them to make effective use of the employees and incorporate them into their long term plans. A number of employers noted that they were able to hire more qualified candidates than they otherwise could have and that they were able to make training investments in these individuals;
- employers noted that the program provided sufficient flexibility that they could obtain maximum value from their employment investment. They noted that they were provided flexibility in terms of start date and did not engage individuals until they were needed. It was also noted that flexibility in terms of candidates hired allowed them to find the best individual(s) available and did not require them “to hire the unemployable”; and,
- employers noted the quality of program administration. One employer stated that phone calls were consistently returned the same or the following day and the others agreed. All noted that this had not been their experience on previous government programs.

**Finding:** While the program did not provide special assistance to employees — either program specific or through linkages to other programs — employees were very satisfied with the program because they were employed — with support from the program — in meaningful positions with potential for the long term.

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<sup>16</sup> This percentage applies to both private sector and non-profit sector employers.

*In the survey of 130 participants:*

- 95.4% answered that they contributed “a great deal” to the company or organization they worked for<sup>17</sup>;
- only 3.9% rated their job as poor or very poor in terms of knowing what they were supposed to do;
- only 6.1% rated their job as poor or very poor in terms of opportunities to learn;
- only 8.4% rated their job as poor or very poor in terms of feedback on their performance;
- only 8.4% rated their job as poor or very poor in terms of treatment by management;
- only 5.4% rated their job as poor or very poor in terms of providing the experience they need; and,
- 39.2% indicated that they had received training as part of their job. Of those receiving training, 90% found it adequate for them to do the job effectively. Of those who did not receive training, 82.3% agreed that they could do the work without training.

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## 3.2 Project Design and Delivery

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**Issue 4**      **What are the strengths and weaknesses of the organizational structures of the pilot project? Does the structure hinder or help the implementation of innovative projects? Are the roles and responsibilities of the various partners and service providers (e.g. federal/provincial departments, DEDA’s, employers) clearly enunciated and carried out?**

**Finding:**      The weaknesses in the organizational structures associated with the program were substantial and evolved from the lack of clear agreement among the partners as to the role and objectives of the

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<sup>17</sup>      No-one answered “hardly at all” or “not at all” to this question.

program as well as the (resulting) diverse range of projects considered under the program.

In addressing Issue 2, we describe the two perspectives which existed among the partners in regards to the goals of the program. We have also identified four categories of projects which we understand to have been supported under the program. While the categorization evolved largely from the key informant interviews, it has been developed by the Evaluation Team (i.e. GGI and IHRD). It was certainly not conceptualized at an early stage of the program but it does reflect, with a reasonable degree of accuracy what has been done under the program.

The organizational structures developed under the program involved an extensive partnership of government departments and agencies. These organizations all have responsibility for development of policy and delivery of programs which provide stimulation to the economy. A number of them also have responsibility for providing income support to individuals. However, the philosophies, approaches and organizational structures vary a great deal.

For example, economic development agencies are involved in assisting new or growing businesses. In selecting businesses to support, they evaluate the ability of the business to successfully implement what they propose and they also assess whether a proposed project may provide the business with an unfair competitive advantage relative to its competition. They are not generally concerned with the characteristics of individuals who may be employed by firms they support. Government departments involved in stimulating employment (e.g. HRDC, ELR, and, to a lesser extent, DOSS) operate very differently. Their concern — in those programs which deal with work placements and on-the-job training — relates to the need of the individual for work placements and the quality and appropriateness of the employment opportunity relative to the needs of the individual(s) to be placed. It is easy to see that despite these quite different approaches there is a substantial overlap between the responsibilities of the two types of organizations. Businesses supported by Economic Development Agencies typically will create new jobs. Similarly, departments using wage subsidies and/or on-the-job training will often select new and growing firms for work placements. Partnership between these organizations is clearly a worthwhile experiment and consistent with the philosophy of the Strategic Initiatives Program as well as the Province's Strategic Economic Plan. Equally clearly, such partnerships were bound to be difficult.

A second example of the inherent difficulties in partnership relates to differences in organizational structure and approach. We will illustrate this with the three departments involved in employment programming (HRDC, ELR and DOSS).

ELR is a very centralized organization operating out of offices in St. John's. HRDC and DOSS, by contrast, have a decentralized delivery structure. While all three departments have used similar types of initiatives (e.g. wage subsidies) their approach to implementing these programs is quite different:

- ELR's approach would typically be to market the program to employers and to assess applications received based on adherence to program terms and conditions. Requirements regarding individuals employed are clearly defined to approved employers and are stipulated in a contract between the department and the employer. Recruitment of individual employees is typically an employer responsibility.
- HRDC's approach would be to identify the number of placements available on a national or regional program to individual Canada Employment Centres (CEC's) which would have direct responsibility for implementing the program in their area. Programs would typically be marketed to both employers and individuals. Individual CEC's would also tend to have a more direct involvement in the identification and selection of candidates. Under the HRDC model, selection of a candidate is an employer responsibility but employers are more likely to be provided with a list of suitable candidates or — if they have a candidate to propose — to have their selection vetted by the department.
- DOSS's model is different again. Their employment programs are directly conditional on an employer's willingness to hire a member of their client population (individuals receiving social assistance). Like HRDC, DOSS programs are delivered through a decentralized delivery structure. However, a number of differences exist between the approaches of the two organizations. First DOSS is more decentralized with many more offices than HRDC. Secondly, marketing to individuals and employers is more direct. Typically DOSS case workers would be asked to identify clients who are suitable and willing candidates and would seek to identify employers willing to engage these individuals.

Although all three departments share some of the same philosophies in terms of appropriate types of interventions and may deal with some of the same individuals and employers, their different approaches present an important barrier to partnership.



Finally, the very large number of government organizations<sup>18</sup> involved in the SEOP partnership created additional difficulties and challenges especially in view of the rapid implementation of the Strategic Initiatives Program.

The four categories of projects which we have identified<sup>19</sup> evolved as each organization sought to support projects which it considered worthwhile and which the other partners found to be consistent with program terms and conditions. Since the partners never agreed on what was to be done, they did not develop procedures and responsibilities so that the strengths offered by each partner were used to ensure that “it” was done as well as possible.

If the four categories of projects which emerged had been conceptualized — and a case can be made for all of them — it would have become clear that they all demanded different delivery mechanisms and that the roles of the partners would have differed among the four categories. Within the two other programs included in the Newfoundland Strategic Initiatives Proposal (i.e. GESEP and SWASP) distinct categories or streams were identified. These different streams targeted different client groups and involved distinct programming. In SEOP, such distinctions were not explicitly recognized. In part this occurred because of the apparent similarities in the nature of programming. However, there were major differences in both the types of projects and the conceptual framework of assistance provided:

- in terms of differences between projects, consider the following two examples. One St. John’s project with a nonprofit sponsor involved the placement of 10 individuals who were dependant on income support. The project involved the construction of walking trails in the St. John’s area. The project can be seen as fitting into both categories 3 and 4. It was approved both because of its potential contribution to St. John’s as a tourist destination (infrastructure development) and because of its potential for skill development of the individuals placed who otherwise were at risk of becoming increasingly detached from the labour market. A second project involved the placement of two computer programmers with a small highly specialized software development company. The company was identified as having the potential to satisfy a niche market and a realistic business plan. The wage subsidies were offered to allow the firm to proceed more quickly than its resources would have otherwise allowed

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<sup>18</sup> In total, 10 departments and agencies of the federal and provincial government were involved in the program as well as Business Development Centres throughout the Province.

<sup>19</sup> We note that these categories are conceptual in nature and that some approved projects have characteristics or more than one category.

to bring their product to market. This project clearly fits into Category 1. Both of these projects have obvious merit and both raise obvious concerns about whether government involvement is appropriate. However, the projects have almost nothing in common and the design of a single program to deal with such a range of projects necessitated great flexibility.

- all projects involved the use of wage subsidies but the conceptual basis of this treatment differs among the categories. Experts cited in the literature review were generally supportive of the use of wage subsidies but offered many caveats and identified quite specific risks (and associated design considerations) associated with their use. Most discussions of wage subsidies differentiate between general wage subsidies and targeted wage subsidies. General wage subsidies are offered in order to stimulate businesses to create jobs which they otherwise would not create or would defer to a later time. General wage subsidies are not in favour with most experts but are viewed as most appropriate in an economy like that of Newfoundland and Labrador where unemployment is high. In designing a general wage subsidy program, assessment of applications includes viability assessment of the business; ensuring that the project does not provide an unfair competitive advantage<sup>20</sup>; and, ensuring that the hiring which is subsidized is truly incremental (i.e. would not have occurred without the subsidy). Targeted wage subsidies, by contrast, are offered to stimulate employers to hire individuals whom they might otherwise avoid. Typically, targeted wage subsidies are offered to employers who are willing to hire individuals with a perceived or real employment disadvantage<sup>21</sup>. Screening of applications for a targeted wage subsidy is primarily concerned with whether the individual to be hired truly belongs to the target population. Incrementality is generally not a consideration. It is assumed that someone would have been hired without the subsidy since the subsidy is tied to the individual not the job. SEOP is both a targeted wage subsidy program and a general wage subsidy program. For projects in categories 1 and 3, SEOP offered a general wage subsidy because the projects offered potential for economic growth. For projects in categories 2

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<sup>20</sup> Some experts suggest that it is better to make the subsidy available to competing firms than to disqualify applicants because other firms may be adversely affected.

<sup>21</sup> Experience, cited in the literature review, indicates that these programs are more likely to be effective when the employment disadvantage is perceived since employers will not normally retain less productive employees beyond the duration of the subsidy and will often avoid truly unproductive individuals even if a subsidy is provided.

and 4, it offered a targeted wage subsidy because of the potential of these projects to provide employment to individuals who otherwise would have a disadvantage in the labour market and were identified as at risk of having their skills deteriorate from prolonged unemployment.

Since SEOP was designed and implemented as a single program, it included limited provisions to properly address the risks which are known to exist with the use of wage subsidies.

Similarly, because the differences in intent were never explicitly recognized, it was not possible to develop program design and implementation procedures which took best advantage of the strengths offered by the partners. For example, what we have called Category 1 projects consisted essentially of working capital subsidies to new or expanding businesses. This kind of programming appears to clearly be within the mandate of the DEDA's<sup>22</sup> and the need for their skills in viability assessment and competitive analysis is clear. Since the subsidies are tied to job creation, ELR and/or HRDC would be logical partners who could provide expertise in

- developing processes so that deadweight loss (subsidizing hiring which would occur without the subsidy) was minimized;
- developing procedures to minimize displacement effects (laying off current employees in order to receive the subsidy for new hiring); and,
- assisting employers, as required, to identify candidates for the subsidized positions.

For category 2 projects, the roles of the partners would be very different. The role of the DEDA's would be limited to developing processes which provided assurance that participating firms were viable. The roles of ELR, HRDC and DOSS would need to be much more prominent here and would be focussed on developing and implementing processes which provided assurances that the individuals hired were those targeted for the program and with assisting employers to find qualifying candidates. Employers and/or their employees might also require access to other programs or services of these departments in order to minimize the impacts of the employment disadvantages of targeted individuals on worker productivity.

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<sup>22</sup> Although in their own programming, they have tended to avoid this approach.

Because these two quite different groups of projects were supported under the same program and because these differences were never conceptualized, the roles of the partners were confusing.

In summary, the partnership approach under SEOP presented enormous challenges because of the large number of partners and major differences between them in terms of their conceptual approaches and delivery structures. In the short time available to design and implement the program, these challenges were not overcome and the potential offered by partnership was not achieved. Instead of a partnership, the program was characterized by the involvement of a large number of organizations, each attempting to access program funds to pursue their own objectives. Nevertheless, key informants from all of the organizations strongly supported continuation of the partnership approach. In order for the partnership to achieve its potential, it will likely be necessary to:

- develop a conceptual framework which recognizes that a common treatment (i.e. wage subsidies) has differing impacts and risks depending on the conditions of access and the clients and agents targeted. The four categories identified in this evaluation provide a possible basis for these efforts;
- develop an operational framework which identifies operational targets and budgets for each of the conceptual streams included in the program. This will necessitate clear decisions by management as to whether each of the four categories of projects are to be targeted by future programming and the budgets to be assigned to each; and,
- development of appropriate designs, operational structures and roles for the various partners for **each** of the operational streams included in the program.

**Issue 5 a) Have any operational/legislative/jurisdictional constraints been identified that impinge on the ability of the project to achieve its objectives? How were these handled?**

**Finding:** Government fiscal policy and procedures proved to be a significant constraint in regards to projects involving new or expanding businesses.

The experience of ELR officials primarily related to programs involving established businesses and nonprofit organizations. With these organizations, most projects approved can be expected to proceed rapidly. Program administra-

tors can thus identify the timing of expenditures and determine the specific fiscal commitments arising from project approval decisions. This did not prove to be the case with SEOP. Private sector projects typically experienced a significant lag between approval and fruition and a number of approved projects still have not proceeded or have proceeded on a smaller scale. Both the delays and cancellations occurred because the projects were also conditional on events other than approval of the SEOP proposal.

This created concerns about lapsed funding, which would be difficult to defend for an employment program in a province with such high unemployment. In particular, projects approved early in the program resulted in specific fiscal commitments for the 1994/95 and 1995/96 fiscal years based on expected start dates and duration of projects. When projects were delayed, the anticipated expenditures for fiscal 1994/95 decreased and the risk of lapsing much of the program funding for that year was apparent. One consequence, according to key informants, was an expansion of project approvals relating to the nonprofit sector to reduce the extent of lapsed funding.

ELR attempted to deal with these delays by approving projects subject to their proceeding within a specified time period. However, this was not fully effective. Key informants from economic development agencies noted that such delays are typical when dealing with this client group and that the delivering agency needs to have sufficiently flexible operating conditions so that unavoidable delays do not cause serious problems.

**Issue 5 b) Are the project design features — i.e. operational guidelines that define eligibility criteria, funding limits, etc. — consistent with the stated objectives of the project?**

**Finding:** Project eligibility criteria provided substantial flexibility for inclusion of projects which offered the potential for long-term employment of unemployed or underemployed individuals.

Promotional materials for the program identify eligible applicants (employers) as follows:

*“Preference will be given to new or expanding private sector businesses. Consideration will also be given to nonprofit organizations involved in creating structures that enhance economic growth.*

*“Emphasis will be placed upon identified growth sectors which include but are not limited to the following:*

- ✓ *manufacturing and processing;*
- ✓ *innovative technology;*
- ✓ *information industries;*
- ✓ *export services;*
- ✓ *environmental industries;*
- ✓ *energy efficiency and alternative energy;*
- ✓ *aquaculture;*
- ✓ *adventure tourism; and,*
- ✓ *cultural industries.”*

Criteria for eligible workers were similarly non-exclusionary:

*“Unemployed or underemployed local workers who are experiencing difficulty finding and/or retaining employment and who are, or may be, dependent on public income support measures.”*

As well, the promotional materials stated:

*“In addition to the foregoing eligibility criteria, proposals will be assessed on the basis of incrementality, net economic benefit, commercial viability, and employment created.”*

**Finding:** Operational guidelines were prepared for assessment of applications. The relative responsibilities of ELR and DEDA’s were clearly defined and appropriate. However, an operational framework for selecting projects from applications was not developed.

The program took advantage of expertise within the DEDA’s relating to viability assessment and competitive analysis. With the assistance of personnel seconded from ENL, ELR developed an Assessment Summary to be completed by DEDA’s preparing project applications on behalf of clients. Guidelines were prepared and distributed to DEDA’s regarding preparation of SEOP Assessment Summaries.

ELR personnel responsible for administration of the program:

- reviewed the Assessment Summaries for completeness and conformance to guidelines and conducted follow-up with the DEDA and/or project applicant as required;

- prepared information from ELR files relating to past and current involvement of the applicant organization with other ELR programs;
- assessed the conformance of the proposed project to program objectives<sup>23</sup>; and,
- distributed these materials to members of the Assessment and Review Committee along with other relevant information and ELR's recommendation.

The third step in the process was the consideration of the applications by the Assessment and Review Committee which, in turn, recommended projects to the SI Management Committee. Many key informants noted that no clear operational framework was ever developed upon which applications are consistently assessed by the Assessment and Review Committee and decisions made. The Evaluation Team attended a meeting of the Assessment and Review Committee. At that meeting, review of projects addressed the various considerations noted in program materials (e.g. involvement in a growth sector; viability; competitive analysis; private versus nonprofit sector; incrementality; absence of displacement and economic benefits) as well as availability of qualified candidates receiving income support; recommendations from other departments or agencies; and, the nature of the jobs involved. However, it was unclear how some of these factors affected the recommendations made to the Management Committee in terms of which projects to approve. The potential for displacement effects; business viability<sup>24</sup>; and, competitive analysis, were consistently reviewed and were clear factors in project assessment. Other factors were discussed but did not seemly to clearly enter into decision making. Based on key informant interviews, this relatively informal approach to decision making evolved since no single set of criteria could be found which would result in positive assessments for all of the projects which the partners agreed were to be supported under the program. This is a natural consequence of the wide range of activities supported under the program as previously discussed.

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<sup>23</sup> Conformance to program objectives was not specifically addressed in the Assessment Summaries prepared by DEDA's and the relative responsibilities of the DEDA's and ELR were properly delineated.

<sup>24</sup> "Viability" was also an important issue in assessment of applications from the non-profit sector. In particular, the program avoided projects which were judged to constitute core funding. Conversely, applications from the non-profit sector which demonstrated the potential for sustainable employment through revenue generation were viewed positively.

Two concerns arise in relation to this relatively informal approach to decision-making. The first is operational. The process by which projects were recommended to Management Committee became quite dependent on the individuals who attended a given meeting. A number of the members of the Assessment and Review Committee noted that when a member was unable to attend and sent an alternate, decision-making became very difficult.

The second concern relates to the potential for recommendation of projects which may provide minimal benefits. For example, the extent to which the applications represented incremental activity and the likely availability of SARs or other individuals with an attachment to income support to fill the positions were also factors considered by the Assessment and Review Committee. However, projects which received a strong viability assessment and which were assessed as potentially offering opportunities for economic growth were likely to be accepted. As we understand the project objectives — and past experience relating to the use of wage subsidies — incrementality should be a key consideration for private sector projects unless there was clear evidence that the project would employ individuals with significant real or perceived employment disadvantages.

For the nonprofit sector, criteria for consideration have evolved over time. Initially, involvement in the program by the nonprofit sector was expected to be limited. However, the nonprofit sector accounted for many of the initial applications. Since applications from the private sector were limited and start-up delays were common among approved applicants, excess funding was allocated to the nonprofit sector. Criteria were initially exclusionary in that applications requesting core funding or which clearly related to “make-work” projects were not considered. Over time, informal criteria evolved supporting initiatives which offered the potential for sustainable employment and initiatives which promoted economic development and showed indications for potential economic spinoffs. As with the private sector, however, clear acceptance criteria were not developed.

Since it is our analysis that four categories of projects were supported under the program, further assessments of program design will be done relative to each category. This is simply a matter of practicality since no single design would be ideal for the wide range of projects supported under the program. It is outside the terms of reference of the evaluation to address whether each category is appropriate. As noted earlier, management of the partner organizations will need to decide which of these types of initiatives they wish to pursue in future and what level of resources they wish to allocate to each category. Our findings and evidence address, instead, the effectiveness of the design for each category.



### **Category 1 Working Capital Subsidies to Private Sector Firms**

Firms with well-defined growth opportunities were accepted into the program so long as the jobs cited were new and offered the potential to be long term and sustainable. Firms in growth sectors were more likely to be viewed favourably. Firms which were (or would be, with the proposed initiative) in direct competition with other Newfoundland firms were not considered especially if both (all) firms were servicing a limited local market which was currently well-addressed. Incrementality of the proposed positions and the availability of candidates at risk of dependence on income support were considerations in the review of applications.

Nevertheless, firms in growth sectors whose plans would

- bring new services to a local market;
- provide goods or services currently imported; or,
- lead to exports of goods or services,

were likely to be accepted into the program even if incrementality was unclear or the individuals likely to be hired had no particular risk of dependence on income support.

**Finding:** The partnership existing under SEOP was not ideal for providing general wage subsidies to new or growing firms. A smaller partnership with different roles would offer greater potential for this type of activity.

In particular, delivery of this “category” of the program requires expertise in economic development. Overall management of the program would be best left to an economic development agency. Other DEDA’s could act effectively as agents of the program but would not be needed as partners. Since the subsidies are tied to job creation, ELR and/or HRDC would be logical partners who could provide expertise in:

- developing processes so that deadweight loss (subsidizing hiring which would occur without the subsidy) was minimized;
- developing procedures to minimize displacement effects (laying off current employees in order to receive the subsidy for new hiring); and,

- assisting employers, as required, to identify candidates for the subsidized positions.

**Finding:** The design of SEOP included no provisions to minimize deadweight loss, a recognized problem with general wage subsidy programs.

The literature review provides evidence that general wage subsidy programs are typically characterized with high deadweight loss (i.e. subsidizing activities which would have occurred anyway). The literature suggests that the most effective approach to minimizing deadweight loss is to make the program less appealing to employers who don't need it. For example, a lower wage subsidy; alternate forms of assistance (e.g. dividing assistance into a wage subsidy and a training subsidy); implementing of monitoring mechanisms; and, requiring employers to provide evidence that the employment would not occur without the subsidy, would lower the incentives to use the program. These disincentives would be less discouraging to employers who truly need assistance in order to pursue their plans.

Experience with general wage subsidy programs indicates that self-rationing procedures as described above are generally more effective and practical than assessment of incrementality — which is very difficult — by program administrators. The fact that SEOP provided general wage subsidies without either inclusion of effective self-rationing procedures or consistent assessment of incrementality by administrators is a major flaw in the program design. It is equally important to note that either self-rationing or administrative review of incrementality would be inappropriate for Category 2 projects. The use of a single program design to provide both general and targeted wage subsidies was thus a major barrier to appropriate design of the program.

**Finding:** The design of SEOP includes limited provisions to inhibit program stacking.

ELR officials indicated that funding received from other programs was examined in the assessment of applications received under the program. For example, the ELR Assessment Summary identified applicants' prior use of wage subsidy programs. Members of the Committee were expected to provide information on prior or current involvement of their department or agency with the applicant. However, this information did not have a clear and consistent impact on approval decisions. Key informants noted that a benefit accruing from the program was that the partners became better informed regarding the extent and nature of stacking which occurs.

Participants in SEOP were prohibited from also accessing other government wage subsidy programs unless the total subsidy was 50% or less. There were no restrictions, however, on employers receiving other forms of government assistance (e.g. business development grants or subsidized loans). Since many applicants to the program were clients of DEDA's, the issue of total funding provided by government to individual businesses, needs to be explicitly addressed.

**Finding:** The design of SEOP included provisions to minimize displacement and indirect displacement.

The literature review provides evidence that displacement (whereby some individuals are laid off and replaced with subsidized workers) is a problem with wage subsidy programs. The decentralized assessment of applications by ENL provided protection against this problem. As well ELR's contract with employers dealt clearly with this issue. Another concern identified in the literature is indirect displacement whereby participating firms have a competitive advantage resulting in the elimination of jobs with other firms. Under SEOP, firms which might receive a competitive advantage and affect the prospects of other firms were not eligible for assistance.

**Finding:** The design of SEOP is flexible enough to allow its application to one of the major difficulties of firms in growth sectors — a shortage of qualified workers. However, firms facing this difficulty have no advantage over other applicants in accessing the program and the promotion, design and delivery of the program does not target such opportunities.

Employers in both the focus group and the survey noted that they had, in effect, used the wage subsidy to cover training costs which needed to be incurred for new employees. From a government point of view, the relevance of this activity — subsidized training tied to new employees in growth sectors in a province with high unemployment — is clear so long as the shortage of trained workers is legitimate. While employers have used the program in this way, we have found nothing in the promotion, design or delivery of the program which specifically targets this situation. Firms, in growth sectors, which seek a subsidy to hire qualified individuals they would hire with or without the subsidy would seem to have equal chance of receiving approval.

## **Category 2 Targeted Wage Subsidies to Private Sector Firms**

Firms in this category were generally similar to those in Category 1 with the exception that individuals with risk of dependency on income support programs were hired into subsidized positions. Like the firms in Category 1, these firms were assessed on their likely ability and willingness to offer long term employment to the individuals they proposed to hire. Also as with category 1, proposals which involved competition with existing Newfoundland firms for a small well-served market were not considered. As with Category 1, assessment of applications included a viability assessment of the applicant firm.

**Finding:** Extensive experience exists with the use of targeted wage subsidies intended to encourage employers to offer jobs to individuals with a dependence on or a risk of dependence on income support. Experts generally are supportive of this type of initiative but emphasize the need for an appropriate design of such a program.

With targeted wage subsidies, concerns about deadweight loss and displacement are much less than with general wage subsidies. This is so because the subsidy is offered on the basis of employing a disadvantaged individual not on the basis of creation of a job. With a targeted wage subsidy, the design issues are quite different. The essence of program design is to find the appropriate balance between:

- restricting subsidies to individuals who need assistance in obtaining employment and are likely to realize substantial gains from subsidized employment;
- ensuring employers that the program provides sufficient flexibility to allow them to hire effective and productive individuals and is not overly bureaucratic;
- avoiding further stigmatization of the target group; and,
- avoiding encouraging individuals to accept subsidized employment when better options are available for them.

In the literature review, we have cited a report by Heather Robertson<sup>25</sup> which examines these tradeoffs at length.

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<sup>25</sup> Wage Subsidies to Encourage the Hiring of Unemployment Insurance Claimants, Heather Robertson, Global Economics, November, 1994.

An additional point made by Robertson and others is that targeted wage subsidies have limited appeal to employers, must be extensively promoted and may be expensive to deliver. High delivery costs are typical due to the need to work with employers to assist them to find suitable employees from the target population and to screen members of the target group before referral to employers.

Robertson also notes that restriction of the subsidies to certain sectors is, in general, not recommended. She notes, in particular, that limiting the availability of the subsidy to firms in growth sectors gives them an unnecessary and unfair competitive advantage relative to firms in other sectors. In general, she recommends that subsidies should be made available to all employers so long as care is taken to avoid displacement of current employees.

Robertson also addresses indirect displacement — the loss of jobs in competing firms due to subsidies and ensuing competitive advantages provided to firms in the program. She recommends that this be addressed by making the subsidy available to competitors of the applicant firms rather than making firms in competitive situations<sup>26</sup> ineligible for the program. Indirect displacement is not generally seen as a concern with a targeted wage subsidy since the subsidy is awarded to compensate employers for hiring individuals with employment disadvantages rather than to stimulate additional hiring.

A final point from the literature is that a well-promoted program will attract enquiries from individuals as well as employers. Program design thus needs to include a capability to deal with enquiries. At a minimum, program officials need to be able to determine whether an individual meets the criteria for the target population. Those who are told they do are likely to use their eligibility in their independent job search. A lesson from the literature is that many targeted individuals are likely to have removed themselves from the labour force and may have limited job search skills. Unless the program includes job search assistance, experience indicates that individuals may become further discouraged — the opposite of the intent of the program — by their failure to obtain employment even with the advantages offered by the wage subsidy. A second issue for program designers is that some qualifying individuals may have additional employment disadvantages, and thus be unattractive to employers. Consequently, program administrators will need to be well-informed about other programs to combat employment disadvantages and be able to refer such individuals.

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<sup>26</sup> We emphasize that this argument would not be applicable to the Category 1 projects where the aim is job creation. For those projects the competitive restrictions included in SEOP are clearly appropriate.

**Finding:** The design of SEOP lacks a clear definition of an appropriate target group for a targeted wage subsidy. If a target group was clearly defined, other modifications to the design would also prove necessary to maximize its appeal to employers, to ensure that subsidies are truly conditional on hiring from the target group, and to ensure access to a full range of services by members of the targeted group.

Social Assistance Recipients (SARs) were a clear target group in SEOP. Projects which were approved conditional on hiring SARs constituted the application of targeted wage subsidies.

However, the target group defined under the program covers more than half of the labour force in Newfoundland and Labrador. This flexibility is appropriate for the general wage subsidies provided under Category 1 projects. It is not appropriate for a targeted wage subsidy, however. Informally, the involvement of the DEDA's in regions of high unemployment resulted in applications and approvals for projects where the primary merits related to the individuals employed. However, because target groups were not specifically defined and because — as previously noted — the distinction between general and targeted wage subsidies was not explicitly recognized, the program design provides neither sufficient assurance that the right individuals were targeted nor that the employment experiences provided appropriate experiences for the “targeted group”.

### ***Category 3 New Nonprofit Sector Ventures with Long Term Potential***

Proposals from the nonprofit sector were favourably considered when the proposal demonstrated a strong potential for sustainability. Typically, these proposals were required to demonstrate strong potential for revenue generation which would allow continuation of the positions after termination of funding under the program. For example, theatre groups and nonprofit organizations operating craft shops at major tourist attractions were funded under the program. Applications which offered economic development potential and economic spinoffs by, for example, increasing the tourist appeal of a particular area were viewed especially favourably.

**Finding:** Informal criteria for the review of applications from the nonprofit sector clearly favoured projects which offered the potential to create sustainable employment. Nevertheless, the absence of formal approval criteria and the 100% subsidy (to a maximum \$20,000)

creates risks of deadweight loss and approval of positions where the potential for sustainability was limited.

Many key informants were concerned about over-reliance on the nonprofit sector in the program. However, virtually all key informants cited one or more specific projects which they considered to be an excellent use of program funds. Projects cited shared the following characteristics:

- they would not likely have proceeded without program funding due to the severe cutbacks in core funding to the nonprofit sector;
- they generated revenue and thus offered solid prospects for continuation after termination of program funding; and,
- they stimulated economic activity by, for example, drawing tourists to a particular region and thus offered economic spinoffs to the private sector.

Projects cited typically involved the arts and tourism and were often seasonal. For this reason, some key informants were very critical of the June 1995 decision by the SI Management Committee that “Non-Profit Seasonal Applications will no longer be considered”. Many key informants indicated that clear criteria for project approval would be a preferable approach and that these criteria should not expressly prohibit seasonal activity.

Based on a review of program-related documents and key informant interviews, two areas of program design appear to require attention for this category of projects:

- assessment of the degree of incrementality associated with proposed projects needs to be done consistently and needs to be a factor in project approval. Our evidence suggests that while the potential for sustainable employment was consistently assessed, a risk existed of subsidizing employment which was sustainable from the outset; and,
- a mechanism to fund positions only to the extent necessary needs to be considered. Program materials identified that a wage subsidy was available **up to a maximum** of \$20,000<sup>27</sup>. However, most approved

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<sup>27</sup> As some key informants noted, similar provisions also existed for the private sector where the subsidy was up to a maximum of \$10,000. In the case of the private sector, the increased difficulty of assessing the extent of funding required and the smaller amount of money involved suggest that attempting such assessments would not be advisable.

projects resulted in the allocation of the maximum subsidy<sup>28</sup>. Several key informants noted that this was never the intent of the program. They noted further that the lack of a mechanism to assess the extent of funding required led to approval of maximum funding in most instances and that no mechanism existed to give preference to projects which were partially sustainable.

Other informants expressed the view that cutbacks in government funding to the nonprofit sector will necessitate 100% funding in most instances. This latter point of view is valid if the rationale for project approval is based on the development of needed economic infrastructure or the ability of a project to provide relevant experience and training to targeted workers (i.e. Category 4 projects). However, in cases where the rationale is based on - or includes — the potential for sustainable employment, the use of a 100% subsidy for a lengthy fixed period of time followed by no subsidy, is not an appropriate approach to test the viability of sustainable employment.

#### ***Category 4 New Nonprofit Sector Ventures with Economic Development***

##### **Potential and/or With Potential for Skill Development of Workers**

Some proposals from the nonprofit sector were approved even though they were seasonal in nature and offered no or limited potential for sustainable employment. Proposals which were deemed to be requesting core funding or which involved “make work” activities were not considered. However, proposals which involved the development of infrastructure which would lead to economic benefits for a particular region were considered especially if they also involved the development of new skills in employees who were dependent on income support programs.

**Finding:** The relevance of supporting nonprofit ventures which lead to enhancing economic infrastructure while at the same time providing meaningful employment to individuals dependent on (or at risk of future dependence on) income support is extremely high in Newfoundland and Labrador. However, the program design included no effective mechanism for selection of appropriate projects.

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<sup>28</sup> Seasonal positions received maximum funding on a pro-rata basis; i.e. \$20,000/12 times the duration in months of the subsidy.



Key informants expressed strong and divergent views on this category of projects. However, most supported the concepts but were concerned about the reality.

On the one hand, key informants noted that many areas of the Province suffer from a distinct lack of economic activity and, in many cases, lack the economic infrastructure to support future economic growth. Many believed that the nonprofit sector and government have roles to play in the development of economic infrastructure.

On the other hand, many key informants were concerned that decisions as to which projects to support were made by a committee of government officials, all located in St. John's, **and, that these decisions were made in the absence of any planning mechanism as to what economic infrastructure was required.** Several key informants noted that the Province's Strategic Economic Plan maps out a strategy for ensuring that initiatives of government and the nonprofit sector are of maximum utility. The Strategic Economic Plan identifies a number of growth sectors for the Province as a whole and also identifies 19 economic zones across the Province. Regional Economic Development Boards are currently being established for each zone. The exact role of these boards is still evolving and may differ somewhat from zone to zone. Each board will have, however, a responsibility for preparing a zone-specific Strategic Economic Plan. These plans are likely to include identification of growth sectors which are appropriate in that zone<sup>29</sup> and to identify needed infrastructure which does not exist at present. As noted, by several key informants, these plans, once developed, will provide a much needed context for identification of nonprofit initiatives which will impact on future economic development.

In this context, the implication of the finding is not that the program design was inadequate. It would have been difficult — and, probably unproductive — for SEOP to attempt to include mechanisms to determine needed infrastructure across the Province. However, as the REDB's become operational, the relevance, appropriateness and effectiveness of programming of this nature — development of economic infrastructure in partnership with the nonprofit sector — can be expected to increase. During the time period in which SEOP was implemented, the absence of regional development plans was a significant barrier to maximizing the impact of this category of projects.

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<sup>29</sup> Zone-specific growth sectors need not be limited to the provincial growth sectors identified in the Province's Strategic Economic Plan and some sectors identified at a provincial level may offer limited potential in some zones.

**Issue 6 a) To what extent did SEOP participants also participate in GESEP (and SWASP)?**

**Finding:** SEOP sponsors from the nonprofit sector were extensively involved in SWASP and other programs to provide summer employment for students. Few had been involved in GESEP.

Of 22 surveyed employers from the nonprofit sector, 11 (50%) had also been involved with SWASP but only three (13.6%) had been involved with GESEP. Employers were also asked about their involvement in other government employment programs over the past two years and 13 (59.1%) indicated an involvement. The majority of sponsors had been involved with summer employment programs.

**Finding:** About one quarter of SEOP sponsors from the private sector had also been involved with GESEP. Involvement in SWASP and other government employment programs was well below that of nonprofit sponsors.

Of 26 private sector sponsors which were surveyed:

- 6 (23.1%) had been involved in GESEP;
- 3 (11.5%) had been involved in SWASP; and,
- 9 (34.6%) had been involved in other government employment programs over the preceding two years. No more than two sponsors indicated an involvement with any specific program.

**Finding:** SEOP employees had no involvement in GESEP or SWASP.

Of 130 SEOP employees surveyed, only one had participated in SWASP and none had participated in GESEP.

**Issue 6 b) To what extent did SEOP participants also receive funding from other related federal and provincial programs (TAGS, etc.)?**

This question is answered in relation to the three major income support programs available in Newfoundland and Labrador: UI, Social Assistance and TAGS.

**Finding:** Although TAGS clients were ineligible for SEOP, a small number of SEOP participants indicated that they had received income support

under TAGS prior to their employment under SEOP. No evidence was obtained as to whether any of these individuals received support from TAGS while employed under SEOP. No particular risk exists that individuals would continue to receive social assistance or UI while employed under SEOP.

Key informants noted that TAGS recipients were ineligible for the program. However, of 130 participants surveyed, seven indicated that they had received income from TAGS prior to their employment. Whether these individuals continued to receive income from TAGS after obtaining the SEOP job, was not addressed by the evaluation but can be easily resolved by matching the SEOP administrative file to the TAGS recipient file.

Provisions of the UI and Social Assistance programs limit the potential for employed individuals to receive income support under either of these programs.

**Issue 7 a) What monitoring mechanisms have been put in place to collect information on participants and interventions?  
Are these adequate for measuring project impacts?  
Has sufficient baseline information been collected?**

**Finding:** Comprehensive data bases have been developed in regards to both employers and employees participating in SEOP. The data was obtained from application and registration forms. No formal ongoing monitoring procedures are in place and this formative evaluation provides the first data on experiences of participants and employers in the program. Informal monitoring of placements is haphazard.

These data bases were designed in order to allow profiling of activity under the program. They have been effectively implemented and are used to support this need.

**Finding:** The wide range of projects supported under SEOP does not seek a common set of long term impacts but instead are intended to produce a variety of impacts. Consequently, while it will be very difficult to measure the extent to which impacts are achieved, this is attributable to the lack of focus of the program and not to inadequacies in administrative data.

The potential impacts from the range of projects supported under SEOP include:

- strengthening of private sector firms in growth sectors;

- reducing the risk of ongoing dependency on income support for individuals who are currently dependent on or at risk of dependence on income support;
- supporting initiatives in the nonprofit sector with revenue generating potential; and,
- developing economic infrastructure through the nonprofit sector.

The project design does not include strategies to address the extent to which these impacts are achieved.

**Issue 7 b) Has an evaluation strategy been developed?**

**Finding:** An evaluation strategy has been developed for the program consisting of this formative evaluation and a subsequent summative evaluation. The Evaluation Committee for SI in Newfoundland has responsibility for conducting these evaluations and other activities to assess the effectiveness of the program. The four partners under SI are all represented on the Evaluation Committee. Enterprise Newfoundland and Labrador, a major partner in SEOP, is not represented on the Evaluation Committee.

**Finding:** Based on the findings of this evaluation, measurement of long term impacts of the program — a major goal of the summative evaluation — will be extremely difficult.

The findings of this formative evaluation call for a refocussing of the program and a clarification of impacts sought; mechanisms to be employed; and, appropriate delivery approaches to what is, in reality, four different programs. To what extent SEOP will continue to support the four categories of projects we have identified and to what extent the SEOP partners will develop other programs to promote similar initiatives is impossible for the Evaluation Team to predict. However, all four categories of projects bear strong similarities to programs implemented elsewhere and the literature provides information on appropriate design and expected impacts. Evaluation of a revised SEOP, or new programs developed based on the SEOP experience, should primarily assess conformance to processes which have been found to be effective and benefits/difficulties associated with the partnership approach.

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## 3.3 Project Success

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**Issue 8 a) How and to what extent has the project succeeded in developing successful partnerships among the various levels of government, regional economic partners and small enterprises? To what extent has it succeeded in promoting the joint management of similar services?**

This issue is fully addressed under Issue 4.

**Issue 8 b) Was a decentralized delivery structure set up? If so, did it improve the quality of services?**

**Finding:** No decentralized delivery structure was set up. The program did take advantage of the decentralized structure of Enterprise Newfoundland and Labrador to identify potential employers to participate in the program.

Key informants noted that applications received from ENL were highly variable and that this created difficulties for the Assessment and Review Committee. As well, several key informants noted that ENL had not negotiated with applicants in regards to the extent of the subsidy and that virtually all applications requested a maximum subsidy. While some key informants were critical of ENL's performance, these difficulties would seem to be a natural consequence of previously noted design flaws. ENL officials noted that their involvement in the program led to significant internal dissension and difficulties with clients who had, based on their interaction with local ENL officials, expected to receive support under the program, but were subsequently rejected by ELR or the Assessment and Review Committee. The essential difficulty would seem to be that the flexibility included in the program was difficult to operationalize within the DEDA's. Members of the Assessment and Review Committee indicated in interviews that rejected proposals may have met criteria for eligible employers and workers but did not address program objectives.

However, given the range of activities supported under the program and the decentralized operations of ENL, it was difficult to develop and refine operational processes which identified acceptable projects.

ENL has the capability to support businesses across the Province and can utilize their existing infrastructure to ensure program activity is widely disbursed.

However, the effective use of their infrastructure or any other approach to decentralized delivery is dependent on a more clearly specified program design.

**Issue 9      How satisfied are participants with various aspects of the project, e.g. application and selection, services provided, etc.? To what extent did participants discontinue before their anticipated completion date? What were the main reasons?**

**Finding:**      Participants and employers were satisfied with all aspects of SEOP.

Of the 130 participants surveyed, almost all (95.4%) felt their work contributed a great deal to their employer. These participants report a high satisfaction with knowing what was expected of them (96.1%), the opportunity to learn( 93.9%), salary (87.3%), getting the experience they needed (94.6%), feedback on performance ( 91.6%), and their treatment by management (91.5%).

The focus group with participants also noted high levels of satisfaction. A majority had been involved in other government employment programs and found SEOP jobs to be more meaningful. There was a dignity associated with these jobs and a resulting pride of accomplishment. The length of SEOP was seen as allowing for skills to accrue. ELR staff was highly regarded in terms of responsiveness. Salary was seen as satisfactory, particularly in light of the scarcity of employment opportunities available in the Province.

Participants were satisfied with the level of training offered to them in relation to their positions. Of those who did receive training (39.2%), almost all found it helpful (90.2%). Of the 60.8% who didn't receive training, only 17.7% felt it should have been offered.

A small portion of the sample (18.5%) identified additional services they thought should be offered by SEOP. These included:

- more and better training;
- a larger wage subsidy;
- greater promotion;
- extended funding; and,
- funding to further education.

The 48 employers surveyed also expressed high levels of satisfaction with the program. They found the employees very useful( 100% of those hiring more than one participant, 91.3% of those hiring one participant) About two thirds of those polled thought the application process was not at all complex; almost all found ELR staff cooperative (91.7%); and, 83.4% were satisfied with the recovery of the wage subsidy.

In the focus group with employers, SEOP was seen as superior to other programs in a variety of ways. These included; flexibility of hiring times, speed of decisions, person contact, and program duration. The wage subsidy was praised for being sufficient to allow an investment in training a new employee, which enhanced their value and the likelihood of retention. All said they would recommend this program to others.

Key informants were generally satisfied the private sector wage subsidy was of sufficient size to attract employers and well justified in terms of long-term job creation. There was some interest in allowing higher subsidies in high-tech firms, and two informants called for greater justification for the amount given (generally the full\$10,000). The nonprofit sector subsidy was more troubling for some informants, because they represent twice the investment at 20,000\job. There was concern expressed at the lack of investment required of the nonprofit organizations, the greater likelihood the jobs would not continue, and the diminished reach they allow the program.

**Finding:** Most participants of SEOP expected to complete their work placement, as did their employers.

Of those surveyed in SEOP, 23.8% were no longer with their employer. The four reasons given for leaving were:

- the employer terminated the position (32.3%);
- the employer closed for the season (25.8%);
- the participant resigned (25.8%); and,
- the participant obtained a better job (16.1%).

Of the eight participants that resigned, there were a variety of reasons including moving out of Newfoundland, going back to school, and poor relations with the employer.

More than three quarters of the sample expect to be in their positions for the full year (76.9%). The employers expect to retain those hired for the full term of SEOP ( 92% of those employing more than one participant, 78.3% of those employing one participant), though this is higher for private than nonprofit employers(based on a total of 25 cases). Of the seven employers in total who did not envision their employee completing a year of work, four stated the reason as being the seasonal nature of the work and we assume that this relates to projects which were approved as seasonal projects rather than unexpected early terminations. The other reasons were lack of work, person resigned, and inability to afford costs of the employee.

**Issue 10 To what extent has the project succeeded in removing disincentives to employment and training? Have the projects resulted in long-term, full-time jobs for participants previously receiving UI or SA?**

**Finding:** SEOP has allowed some employers to hire workers they would not otherwise have employed, and to provide training as required. While it is too early to tell if the SEOP jobs will become long-term jobs for the participants, indications are that both employers and employees intend to continue the SEOP positions after the program.

One fourth of the employers with one employee hired under SEOP said they would have hired without the program (26.1%). One third of those employers with more than one employee would have hired without SEOP (36.0%), though 81.8% indicated they would have hired less staff than they did with the subsidy. For employers who hired one participant, one fourth would have hired more if funds were available (27.1%), while for employers of multiple participants, two thirds indicated they would have hired more (68.0%).

More than three quarters of employers with one participant said they intended to retain the employee (78.3%) for the full year. Of these employers, only half (47.8%) thought the position would continue after SEOP, and 86.7% of these said the current employee was likely to continue in the position. For employers of more than one person, detailed tables in the Appendix suggest the majority intend to retain the current employees in their position after SEOP.

The survey suggests that the private sector employers were more likely to retain individuals for the full term, to have hired without SEOP, and to continue jobs after SEOP than the nonprofit sector employers. It should be noted these figures are based on a maximum of 48 cases and in some instances on samples of as few as 23-25.



In the focus group, employers saw the subsidy as a means of providing funds to support training of new employees. They were able to access skilled individuals through program guidelines and with the help of the subsidy. As stated in Issue 9 above, training was offered to those who needed it.

From the participant perspective, about half indicated they would be unemployed (44.6%) if not for SEOP while the remainder thought they would be working or in school. Participants generally believed they would be working with the same employer (70.8%) after SEOP, with most of the remainder saying they expected to hold similar jobs (14.6%) or go back to school (7.7%).

These participant outcomes are in line with the focus group as well. All eight people were unemployed at the time of SEOP and most were in receipt of some form of income support. They generally considered themselves fortunate to have encountered SEOP and to have a job. Two of the participants were reasonably certain they would continue in their positions after SEOP while five others said they were more employable as a result of the program.

**Finding:** About three quarters of the participants in SEOP received income support in the year prior to SEOP. One fourth of the sample had taken part in a government-sponsored employment or training program prior to SEOP.

The breakdown of participants in terms of their receipt of income assistance in the year prior to SEOP is as follows:

Number of months receiving Income Assistance in the year prior to the program	Percentage of Participants surveyed (based on 130 participants)
0 months	23.1%
1 - 3 months	11.5%
4 - 6 months	20.8%
7 - 11 months	24.6%
Full year	20.0%

Eighty-one participants had received UI for some period in the year prior to SEOP, half of these for more than six months. Seven had been TAGS recipients in that time period, while twenty-four had been SA recipients, half for six months or longer.

Thirty-one (23.8%) of the survey participants had taken part in at least one government-sponsored employment or training program in the five years before SEOP. These included student-oriented employment opportunities(SWASP,

Challenge, SEED, WISE) as well as short-term programs to qualify people for UI (Section 25, make work projects).

**Issue 11 Does the project contribute to the UI make work cycle? Is there a mechanism to prevent the misuse of wage subsidies to qualify for UI?**

**Finding:** SEOP does not generally contribute to the UI make work cycle, particularly for categories 1, 2, and 3 of projects, and holds the potential for the creation of long-term employment for participants.

Of 130 participants surveyed in SEOP, only one expected to be on UI after the program, and only 6 thought they would need to rely on income support. There are several mechanisms in the program to minimize the possibility of make work scenarios;

- the duration of program placements generally lasted one year, although for seasonal projects this was not the case;
- business analysis—there are two levels of review prior to the A&R Committee (DEDA, ELR) to filter out such projects;
- partnership—the A&R Committee and the Management Committee represent a diversity of interested government officials, all of which are specifically opposed to make-work approaches;
- policy changes that reduced seasonal projects; and,
- eligibility criteria (long-term full-time jobs, preference to firms in growth sectors, limits on numbers of employees per project).

The key informants generally felt SEOP had not been involved in make-work activities. For category 4 projects, especially if they are seasonal and the skill development aspects are not easily verifiable, some increased monitoring mechanism may be required to minimize the greater potential risk of make-work inherent in these projects. In those projects with less likelihood of long-term employment, key informants noted that emphasis was placed on ensuring that the work was meaningful and that skill development of employees occurred. As previously noted, current initiatives of the government of Newfoundland and Labrador to empower REDB's to identify needed infrastructure can be expected to identify useful and effective projects for the nonprofit sector which will provide further protection against the risk of "make work" projects.

**Issue 12 a) Has the project helped to create jobs in growth sectors and economic zones identified in the provincial Strategic Economic Plan?**

**Finding:** SEOP supported the creation of jobs in growth sectors throughout the Province.

According to program administrative data, SEOP penetrated all regions of the Province. This is substantiated by the survey findings on the size of the communities where projects were located.

Size of community	# of projects	Percentage of projects
0 -100	1	2.1%
100 - 1000	8	18.8%
1,000 - 10,000	20	41.7%
10,000 or more	19	39.6%

Three of the largest six projects took place in communities of 1,000-10,000 people.

One of the determining criteria for each project was its link to a growth sector. This assessment may have been enhanced if the REDB's were in place and could provide more region-specific information on growth potential. However the DEDA's, primarily ENL, provided region-specific analysis. This evaluation has not included a detailed analysis of the extent to which individual projects were tied to growth sectors. However, it is clear that projects were consistently assessed by DEDA's and ELR for linkage to growth sectors and that projects which clearly did not involve these sectors were not considered.

ELR has conducted a number of internal but independent<sup>30</sup> reviews of SEOP which addressed — among other issues — the degree of linkage to growth sectors. As noted, in the most recent review, growth sectors are not precisely defined and some firms could be classified either way. Using a strict definition, the most recent analysis determined that 75% of project approvals related to growth sectors. Using a broader definition to include projects in service growth sectors and projects exhibiting growth sector characteristics, 93.5% of project approvals related to growth sectors.

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<sup>30</sup> I.e. the personnel conducting the review had no involvement in program design and administration.

Based on the literature review, the broader definition is the appropriate one and program conformance to the growth sector criteria was thus excellent. There is a strong logic in focussing both the targeted and general wage subsidies provided under SEOP to growing firms. This is especially true for the general wage subsidies. The entire logic of this approach is to make it easier for sound firms with realistic growth prospects to prosper through their expansion. Experts note that restricting such assistance to firms in sectors which government has targeted for growth is both unfair and unwise. It is unfair since it provides firms in these sectors with an advantage relative to other firms. It is unwise for two reasons. First of all, if firms in these sectors are truly best-positioned for growth, they may have the least — rather than the greatest — need for government assistance. Secondly, restricting assistance to firms in “growth sectors” assumes that the right sectors have been targeted for growth and that “growth sectors” stay the same over time. Such restrictions may thus inhibit government from supporting growing firms in other sectors which otherwise meet the terms and conditions of the program and offer the same potential benefits as firms in growth sectors. This was recognized in the design and implementation of SEOP by targeting growth sectors as priorities for the program but providing sufficient flexibility to approve projects **of equal merit** from other sectors.

**Issue 12 b) Are potential employers in growth sectors able to find skilled employees?**

**Finding:** Employers participating in SEOP reported no difficulty in finding employees with suitable qualifications.

Key informants noted that there is an availability of qualified people to provide personnel for growth sector businesses. They noted, in particular, that the identification of growth sectors in the Strategic Economic Plan was based on analysis of sectors where Newfoundland and Labrador “has, or can develop, a competitive advantage”. Availability of qualified workers was a criterion in this analysis.

Specific evidence collected from employers in the course of the evaluation indicates that availability of qualified employees was not a problem. In the focus groups with employers, satisfaction with employees recruited under SEOP was high. Employers noted the need to train SEOP employees in some instances and noted that the SEOP subsidy had, in effect, compensated them for this necessary investment. This was seen by employers in the focus group as the major rationale for the program. Without the subsidy, some employers indicated that they could not have afforded to pay a salary and training costs for a new employee who initially would not be highly productive.

Survey data provides an indirect indication that finding qualified employees was not a problem. Among those employers who received approval to hire more than one employee, most hired the maximum number of employees approved for them, and found them very useful. A few employers had not hired all that they had been approved for. Two such employers in the focus group, however, had delayed some hirings for business reasons and fully intended to complete their staffing at an appropriate time<sup>31</sup>. Availability of qualified staff was not identified as an issue by any of the employers in the survey or the focus group.

This finding and evidence, however, needs to be interpreted in the context of other findings of this evaluation. As we have noted earlier:

- employment under the program was well below targeted levels. As of February 29, 1996, only 352 jobs had been contracted with additional hirings of 226 approved. The total of 578 approved jobs is well below the initial target of 2,000;
- 71 jobs for SARs had been contracted by February 1996. According to key informants, many of these jobs were at the low end of the skill range and a disproportionate share was in the nonprofit sector;
- many of the non-SAR jobs were likely filled by individuals who were unemployed but — other than the shortage of employment opportunities — had no particular employment disadvantage;
- the program lacked provisions to identify occupations for which qualified SARs and other disadvantaged individuals were available; and,
- the program included limited provisions to assist employers to identify qualified employees (except for SARs where DOSS worked directly with employers who received approval conditional on hiring SARs).

While shortage of qualified employees is not generally perceived as a problem, an expanded program — particularly if the use of targeted (as opposed to general) wage subsidies is to be expanded — will need to include provisions to assist employers find qualified employees from the target group.

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<sup>31</sup> These employers praised the program for allowing them to defer hirings until an appropriate time rather than expecting them to hire employees immediately after approval when they would not be required until a later date.

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## 3.4 Cost-Effectiveness

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### Issue 13 a) What are the benefits to society, participants and the government as a result of the projects?

This issue is addressed separately for private sector and non-profit sector projects.

#### ***Private Sector***

**Finding:** Providing wage subsidies to private sector firms offers the potential for significant benefits to the firms, the individuals employed, society as a whole and government.

The evidence from this evaluation clearly indicates that private sector projects included both incremental activity and non-incremental activity. Some projects which were non-incremental may have employed individuals who otherwise would have had difficulty obtaining employment — as was intended for the category 2 projects — but the evidence suggests that some category 1 projects are non-incremental .

#### ***Benefits From Incremental Projects***

Incremental projects are those where the availability of the wage subsidy allowed private sector firms to undertake growth initiatives which otherwise would not have been pursued.

For these projects a wide range of benefits to all four groups cited in the question is possible. Government and society benefits — at least, in a high unemployment region — from reduced income support to the unemployed and additional taxation income from employed individuals and, potentially, from increased profitability of the firms. This may be true even if the individuals hired had other employment opportunities. When labour supply exceeds demand — as it clearly does in Newfoundland and Labrador — each new job can be assumed to increase the overall number of employed individuals. The exception, of course, is when a new job in one firm effectively eliminates an existing job in a competing firm (indirect displacement). As noted earlier, the design of SEOP provides adequate protection against indirect displacement.

Spin-off effects may further increase these benefits since subsidized initiatives — if successful — may lead to additional expansion of employment opportunities both in the firm supported under the project and in related firms (e.g. suppliers of

the firm). All these benefits may be substantial if the jobs are truly long-term and continue well beyond the time period when the subsidy is paid.

Participating employees benefit from the short term employment income and potentially from the continuation of employment income beyond the period of the subsidy. They also benefit from the development of new skills and a broadening of their employment options.

Employers benefit from being able to pursue expansion opportunities and new ventures which might otherwise be beyond consideration. These opportunities may enhance the profitability of these enterprises.

However, these benefits cannot be assumed. The literature notes that general wage subsidy programs have been abandoned in many countries because of their high potential for deadweight loss, displacement effects and program misuse. While the design of SEOP provides reasonable protection against the latter two, it does not effectively address the potential for deadweight loss. Nevertheless, employers surveyed indicated to a large extent that the employment was conditional on SEOP funding. The two private sector employers who attended the focus group in St. John's were very convincing in explaining why they could not have pursued their initiatives without funding and were able to identify, in a specific sense, many of the impacts cited above. While we do not doubt these claims, we do note that extension of the program with its current design could well lead to support of projects which are, for the most part, non-incremental.

Finally, we note that incrementality is a necessary but not sufficient condition in order to realize the potential impacts identified for a number of reasons:

- subsidization by government of private sector initiatives may not lead to increased profitability but instead encourage inefficiency;
- some projects will fail in which case gains, at most, will be limited to enhanced skills of individuals employed; increased income to individuals and government while the individuals are employed; and, possible reduction in UI or social assistance payments for some participating employees. Costs may be substantially greater, in some instances, if the failure results in elimination of other employment; and,
- the potential for program stacking which exists under the current design of SEOP means that benefits may be attributable only in part to SEOP.

**Finding:** Estimation of benefits deriving from incremental private sector projects will be difficult due to the failure of the program to provide adequate protection against deadweight loss.

All of the specific benefits noted above can be quantified within a range. Consequently, a scenario approach could be used to construct models which would estimate a range of benefits associated with individual projects. The difficulty relates to identification of incremental projects. Evaluation evidence exists, from evaluation of wage subsidy programs elsewhere, as to the extent of deadweight loss which is likely to occur **when the program provides protection against deadweight loss**. Applying these estimates to SEOP is likely to be inaccurate, however, since the program does not include such protection. The only available approach which is likely to provide reasonable estimates of the extent of incrementality among private sector projects is detailed assessment of individual projects.

### ***Benefits From Non-Incremental Projects***

In the case of non-incremental placements, the benefits are much more limited. Non-incremental placements can provide benefits by employing individuals who otherwise would have difficulty obtaining employment. Clearly the individuals employed benefit from the employment and skill development. To the extent that this helps them avoid dependence on income support, government and society also benefit. However, when the target group is broad — as was the case for non-SAR placements under SEOP — these benefits may be cancelled by equivalent losses due to unemployment of similar individuals who would otherwise have been employed. This is especially likely when the supply of labour significantly exceeds demand as in the case of Newfoundland and Labrador.

When the target group is defined based on the employment disadvantages of individuals, other potential benefits are realized as a result of the strengthening of individual abilities. However, full realization of these benefits can only occur in a high unemployment region if economic growth provides new employment or individuals are willing and able to relocate to seek employment.

Non-incremental placements may also benefit employers to the extent that the subsidy increases the profitability of their firms. This **may** spin-off to the other groups in terms of increased employment income for employees; increased taxation revenue for government; and re-investment of profits leading to economic growth which will further benefit all parties.



**Finding:** Benefits from non-incremental private sector projects are likely to be largely due to increased profitability of firms receiving the subsidy.

Key informants with expertise in economic development noted that the wage subsidies may have substantial profitability impacts if they allow the survival of firms which might otherwise fail during the establishment or growth phase.

**Finding:** The concepts underlying SEOP; i.e. the stimulation of long term private sector employment, offer a significant potential for benefits which is non-existent with programs providing short-term “make work” employment.

One expert cited in the literature review noted that Canadians expect their governments to actively stimulate the employment market. In this context, as he noted, the issue is not whether these programs are cost-effective but instead whether they are less costly than other available options.

Key informants offered many criticisms of the program but were unanimous in seeing it as a major improvement from make-work programs.

**Finding:** The targeting of clients of economic development agencies as recipients of wage subsidies creates the risk of high levels of government investment in private sector initiatives. SEOP did not address this risk with clear provisions to address program stacking.

Program stacking refers to projects which are supported by more than one program. In some instances, this may be appropriate. However, it is important that decisions to provide government funding are based on full awareness of previous funding decisions and that guidelines exist as to how previous decisions should affect the current decision. Otherwise, a series of decisions relating to individual programs may result in a level of government funding which is excessive.

Since many of the SEOP applicants were clients of economic development agencies, the risk of high aggregate levels of funding was substantial. This was addressed by providing decision-makers with information on other funding. However, the risk of excessive levels of funding would be further reduced by clear guidelines limiting total levels of funding support.

### ***Non-profit Sector***

**Finding:** Non-profit sector placements offer the potential of benefits relating to the creation of some long term jobs; skill development of currently unemployed individuals; as well as the development of needed economic infrastructure. However, the program design is not sufficiently well-developed to maximize these benefits.

Three potential benefits are noted in the finding:

- creation of long term jobs;
- skill development of unemployed individuals; and,
- development of needed economic infrastructure.

As noted earlier, proposals from the non-profit sector were assessed relative to their potential for creation of sustainable employment. However, assessment and decision-making was not based on the extent of need. This created significant risk of deadweight loss — funding organizations for what they would have done anyway — or, providing funding in excess of what was needed to achieve the desired benefits.

Skill development which occurred on projects with the potential for sustainable employment can be assumed to be worthwhile whether the employment is ultimately sustainable or not. However, for what we have called category 4 projects, there was never an expectation of sustainable employment. Skill development on these projects would be maximized when the projects were well-chosen based on the importance of their contribution to economic development and/or on the level of demand for the skills developed. As noted earlier in relation to program design issues, project approval criteria did not deal effectively with these aspects. In surveys and focus groups, both employers and employees nevertheless noted achievements in terms of skill development of employees.

As noted earlier, there is little reason to believe that economic infrastructure developed under the program will make a significant contribution to the economic development of the Province or specific regions of the Province. The Government of Newfoundland and Labrador has started a process which will result in the establishment of Regional Economic Development Boards (REDB's) in each of the 19 Economic Zones of the Province. Once these REDB's are in place — and a great deal of work has already been done in many of the 19 Economic Zones — non-profit sector infrastructure development projects — addressing priorities identified by the REDB's — can make a much more effective contribution than has likely occurred under SEOP.

**Issue 13 b) Is the pilot project model a cost-effective way of achieving project objectives? Are there more cost-effective ways of achieving the same objectives? How do the results compare with the results of other programs with similar objectives?**

**Finding:** SEOP is not a cost-effective approach towards achieving project objectives. In particular:

- the lack of agreement between partners in regard to the intent of the program and resulting difficulties in the partnership diverted all partners from effectively using skills and resources available to maximize the impacts of the program; and,
- the design of the program(s) provided limited protection against well-known risks associated with wage subsidy programs especially deadweight loss.

Nevertheless, evidence from employers and employees indicates that projects implemented under SEOP were a worthwhile use of government funds. As well, the SEOP program, despite its flaws, offers potential much greater than previous allocations of spending to make-work programs.

**Issue 14**     **What lessons can be learned from this project on interventions to assist the target group? How and to what extent does it contribute to the development of a policy framework for social security reform? Does the project lead to a more efficient delivery of services? To what extent can this project be successfully expanded or replicated in other regions/provinces?**

**Finding:** The major lesson learned under SEOP relates to partnership. Partnership of government agencies provides a means to bring an increased range of skills, resources and experience into the design and delivery of a program. However, SEOP provides clear evidence that this will only be effective when the partners agree on what they are attempting to accomplish and agree to work together to maximize their accomplishments.

On SEOP, the flexible terms and conditions, in effect, created a program which each department or agency sought to use to achieve objectives in accordance with their own individual mandates. As a result, the scope of the program became so wide that development of an effective design was impossible. Many key informants noted that it will be important in the future for the partners under SEOP to work together. While SEOP did bring organizations together which need each other in order to maximize their effectiveness, it does not represent a true partnership.

The program has demonstrated the potential benefits of partnership, however, and key informants noted both benefits in terms of approved projects and learning by the partnering organizations. A redesigned program — based on the SEOP experience — offers the potential for much more effective programming.

***Potential for Expansion in Newfoundland and Labrador***

**Finding:** The SEOP program was consistently described by key informants as a move in the right direction. In particular, the use of partnership and the avoidance of “make work” were frequently praised. Despite significant problems in the partnership and major gaps in the design of the program, this evaluation has found evidence that many of the projects supported were beneficial and responded to the identified objectives of the program. However, continuation and/or expansion of the program will necessitate a major overhaul of the program.

***Specific directions for this overhaul are:***

- determination of which of the four categories of initiatives are to be supported under the program. Alternatively, the categories could be reformulated as distinct programs. In either case planning targets for number of placements and budgetary allocations should be done at the “category” level. The failure to do so in SEOP led to competition between the initiatives and was a serious irritant to the partnership;
- partnerships should be developed at the category level and the same group of partners need not exist for each category. All parties in the partnership need to agree on measurable objectives and roles within the partnership. After initial discussions, objectives and roles should be documented via a Memorandum of Understanding (MOU)<sup>32</sup>; and,
- separate designs should be developed for each of the categories based on the findings of this evaluation and other experience.

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<sup>32</sup> A MOU did exist for Strategic Initiatives between the Governments of Canada and Newfoundland and Labrador. However, it did not address the individual programs in detail and some of the key partners in SEOP were not parties to the agreement.

***Replication in Other Jurisdictions***

**Finding:** The SEOP program does not provide an effective model for development of employment programs for use in other jurisdictions. It does however offer relevance for other high unemployment regions which may benefit from experimentation with similar initiatives.

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## 4.0 Conclusions

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In this chapter, we present the evaluation conclusions relating to each of the four issue categories identified for the evaluation.

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### 4.1 Program Relevance

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The Strategic Employment Opportunities Program (SEOP) seeks to stimulate both the creation of long-term full-time employment in firms as well as to stimulate employers to engage individuals with a current dependence or a risk of future dependence on income support. Given the high unemployment in the Province and the above average participation in income support programs, programming of this nature is highly relevant in the Province.

The nature of programming (i.e. wage subsidies) bears a strong similarity to the core employment programs of both the provincial and federal government. In terms of timing, the implementation of the program corresponded roughly with the elimination of “make-work” programs which both levels of government have historically utilized on an emergency ad hoc basis. Key informants saw these two initiatives as linked and were unanimous in their view that the objectives of SEOP were much more relevant and offered substantially greater benefits than “make-work”.

The program was linked to the Province’s Strategic Economic Plan in terms of its focus on firms in growth sectors; in terms of its availability throughout the Province; and, in terms of the new partnerships among departments and agencies of the federal and provincial governments. Most notable is the development of partnerships involving departments and agencies involved with economic development with those who have responsibility for employment programming and income support. Key informants were excited by the potential benefits from linkages to the Strategic Economic Plan and the new partnerships. The results of this evaluation indicate that the progress towards these goals (i.e. linkage to the Strategic Economic Plan and partnership between governments) has been somewhat limited and that the future promise is greater than the accomplishments under SEOP.

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## 4.2 Program Design and Delivery

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Program design and delivery are addressed separately below.

### ***Program Design***

A variety of factors have constrained the development of an effective program design. First of all, the broad objectives of the program have resulted in a diverse group of projects where the risks and potential benefits varied. The application of a common program design to a diverse range of projects has inevitably failed to provide assurances that risks are minimized and benefits maximized. The program has included:

- wage subsidies to private sector firms to stimulate them to accelerate growth and expansion plans and create new long-term full-time employment;
- wage subsidies to new and expanding private sector firms to stimulate them to employ disadvantaged individuals (e.g. Social Assistance Recipients);
- wage subsidies to nonprofit organizations to stimulate them to implement new initiatives with potential for revenue generation and corresponding sustainable development; and,
- wage subsidies to nonprofit organizations to allow them to undertake projects to develop economic infrastructure which will better enable private sector firms to undertake new initiatives which will lead to economic growth in the Province.

All four of these categories are of high relevance in Newfoundland and Labrador. Moreover the use of wage subsidies is an appropriate approach in each instance. However, the impacts sought and the potential unintended impacts vary substantially among the four categories. This, of course, has implications in terms of appropriate design. The literature review identified relevant experience relating to each of the four categories and this experience is detailed within the report.

The fundamental conclusion of this evaluation is that the attempt to apply a common program design to this diverse range of projects — with differing rationales — inevitably increased the risk of unintended and undesirable program impacts and failed to maximize the beneficial impacts sought.

For example, the risk of deadweight loss (subsidizing activities which would occur without government assistance) is known to be high with the first and third categories. Much experience has been gained which allows the design of a program which provides assurances that the potential for incremental projects is maximized. This experience indicates that self-rationing procedures (which are developed to reduce the appeal of the program to firms which will proceed with or without assistance) are generally more effective than incrementality assessment by program administrators. SEOP did not contain effective self-rationing procedures. Incrementality assessments were performed but did not play a clear role in project approval decisions. This occurred largely because these design provisions would be inappropriate for the second category of projects where incrementality is neither an expected or important criterion. Inevitably, the Assessment and Review Committee were unable to determine the importance of incrementality in project approval decisions. In order to allow approval of worthwhile projects in the second category above, incrementality was given a lower weight relative to other criteria. This increased the risk of approval of non-incremental projects in the first (and third) categories.

Similarly, the broad range covered by the four categories necessitated a flexible definition in regard to the target group for participants. However, the second and fourth category above only provide substantial beneficial impacts if projects are targeted to a specific target group with recognized needs addressed by the experience provided under the program.

A design which explicitly recognized the distinct categories and included appropriate provisions for each category would eliminate these difficulties. This is more important for SEOP than other programs due to the extensive partnership. A more structured design would allow differences in the roles for the various components of the program. With the unstructured design of SEOP, the differences in philosophies and approaches of the various partners became a major issue.

Each partner, quite logically, focussed primarily on those groups of projects which fit most closely with their own mandate. A more structured design would have allowed differing numbers of and roles for partners for each component.

### ***Program Delivery***

Overall, it is the conclusion of this evaluation that weaknesses in program delivery are attributable to constraints posed by the program design.



Commitment to the program by the various partners was substantial and the quality of processes put in place was excellent. For example, the quality of administrative processes and administrative databases was high. All partners were provided with data profiling the projects approved and contracted on a regular basis.

In terms of procedures, guidelines for viability assessments of firms submitting proposals were developed which drew on the expertise of the partners. These guidelines were communicated to all of the DEDA's conducting viability assessments and a quality control process was put in place.

Employers were very satisfied with the quality of administrative support on the program and noted that their experiences with program officials were much better than for other government programs they had dealt with.

Weaknesses did exist in selection of projects to recommend for approval to the Management Committee; and, in promotion of the program. However these weaknesses were determined by the Evaluation Team to be inevitable consequences of the program design.

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## 4.3 Project Success

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The evaluation has found high levels of satisfaction among both employers and participants. As well, survey data indicates that most placements are expected to continue for the duration of the subsidy. In many instances, employers and their employees both want and expect the employment to continue beyond the duration of the subsidy.

The design and delivery of the program has provided reasonable levels of protection against program misuse, displacement (i.e. laying off existing employees who are then replaced with program-subsidized employees) and indirect displacement (i.e. one firm hires new employees using program subsidies resulting in layoffs in competing firms). The program generally avoided supporting "make-work" projects. Some potential for "make-work" existed with projects approved on the basis of economic infrastructure development. However, this is attributed to the current lack of regional and zonal economic development plans rather than weaknesses in the program. Since the development of these regional and zonal plans is a priority of the provincial government, similar programming can be expected to be of greater benefit in the future.

Conversely, the program provided limited protection against deadweight loss (subsidizing activities which would have occurred anyway) and program stacking (government support of a single project through more than one program). Revisions to the program design are required to provide improved protection against these risks.

In terms of partnership development, the results are mixed. The design of the program; the large number of partners; and, significant differences between the philosophies, cultures and organizational approaches of the partners, all proved to be formidable constraints. As a result the achievements of the partnership did not reach their full potential. On the other hand, the partners demonstrated a strong commitment to the partnership approach and have learned a great deal about how they can work together more effectively in future.

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## 4.4 Cost-Effectiveness

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The evaluation has concluded that the program offers substantial promise in terms of cost-effectiveness. It has also found that, as implemented to date, the risk of subsidizing activities which would occur without the subsidy is unacceptably high.

We have also identified risks associated with:

- subsidizing firms already receiving support from other government programs potentially resulting in a high aggregate subsidy from government sources; and,
- 100% subsidies awarded to nonprofit sector initiatives which are expected to ultimately be self-sufficient without consideration of whether a smaller subsidy would be equally effective.

It is important to note that the evaluation does not provide evidence that these risks have materialized. Instead, it is the conclusion of the evaluation that the program design does not provide sufficient protection against these risks. Since experience in other programs indicates how these risks can be minimized, modifications to the program design, would allow the program to achieve its potential in terms of cost-effectiveness. Based on the findings of the evaluation, this potential is greater than for competing approaches such as “make-work” projects; short-term wage subsidies and on-the-job training.