

Public Subsidy as a Catalyst for Private-Sector Solutions: Creating Job Opportunities for People Who Face Barriers to Employment

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As the Obama Administration moves forward with its Social Innovation Fund, Congress contemplates deficit reduction, and the nation faces intransigent high unemployment, it is an especially fitting moment to consider how public policy and targeted subsidy can catalyze the growth of sustainable, cost-effective, and locally initiated solutions that create jobs and put unemployed people to work.

Federal, state, and local policy-makers have experimented for decades with various job-creation strategies and subsidies to increase the workforce attachment of people with low incomes. Policies have included tax incentives for businesses locating in enterprise zones, mandates and incentives for the hiring of specific populations, and targeted commercial lending to businesses located in low-income communities.

While these policy initiatives have helped many low-income people connect to the labor market, few policy initiatives have been effective in increasing the workforce engagement of individuals and families with significant and often multiple barriers to employment. Though there have been some notable innovations in this area, particularly among certain locally based programs, relatively few have reached significant scale.

This paper describes a promising approach that we will refer to as *employment social enterprises*. The model has been effective in reaching this population and in efficient and sustainable use of subsidies. Well-designed and well-administered public policy can leverage these efforts and help them go to scale. An existing national system that helps people with severe disabilities participate in the labor force can serve as a model for a similar program aimed at benefiting others with significant barriers to employment.

Defining the Problem

Millions of working-age adults remain in poverty despite the changes to workforce and welfare policies of the 1990s. Hundreds of thousands of these adults face significant and multiple barriers to employment, including:

- Histories of incarceration;
- Periods of homelessness;
- Mental illness or mental health problems;
- Drug or alcohol dependence; and/or
- No high school diploma.

They face extraordinarily high rates of unemployment, sometimes exceeding 50 percent. Their disproportionately low rates of workforce engagement result not only in poverty, but also in significant public expenditures ranging from the costs of law enforcement and incarceration to emergency, entitlement, and safety net services. Society also foregoes the tax revenues, social benefits, and other positive contributions that would accompany their gainful employment.

For these individuals, persistent poverty exacerbates and protracts already difficult circumstances. Their limited access to employment and education not only result in significant financial and personal costs but ultimately constrict social mobility and civic participation, in many cases for multiple generations.

Even in better economic times, these job applicants are much less attractive to employers than others. When they are hired, they are less likely to retain jobs or advance, often because of underdeveloped work habits and interpersonal skills or economic, health, or personal crises that interfere with work. Employers may also have limited tolerance for these challenges among their frontline workforce, and consider their high turnover a routine cost of doing business. As a result, these individuals remain on the outskirts of the workforce, unable to take advantage of education or training.

While many communities have made great progress in their overall efforts to move welfare recipients from Temporary Assistance for Needy Families (TANF) into the workforce, less progress has been made with young people and other adults who struggle with homelessness, incarceration, mental health issues, and substance abuse in addition to chronic poverty and limited education.

Not only have few communities implemented successful employment strategies for this population, but policy disincentives actually discourage organizations from even trying. For instance, the Workforce Investment Act (WIA) requires grantees to meet pay-for-performance criteria that encourage assistance to people with fewer barriers, who can move rapidly through job training and into full-time employment. Funding is not structured to assist people who may take longer to enter full-time private-sector employment or to help those who may require longer-term support to keep their jobs.

One approach communities have tried is to require that people with employment barriers be hired in large-scale, publicly-funded construction projects. However, the results have been mixed. Even when compliance with these hiring requirements is enforced, there is often little support available to help those with significant barriers get or retain these temporary jobs or to help them move on to other private-sector employment once a particular project ends. While some of the “most able” succeed through these programs, those with the greatest barriers are far less likely to secure long-term employment.

A second approach has been to create temporary job placement agencies to move individuals with severe and multiple barriers into the workforce. The Mott Foundation is currently assessing the results of such a multi-state effort. A 2009 study reports positive results, and Mott is expanding the program while continuing to measure results.¹

A third approach has been to provide subsidized, transitional jobs in for-profit companies, government agencies, or nonprofits. These efforts have demonstrated positive results, and several are undergoing rigorous evaluation. While promising, a major challenge of such approaches is that they depend on government-funded wage subsidies that are unstable, especially in a time of constrained public resources. An example of this is the TANF Emergency Fund created and funded by the American Recovery and Reinvestment Act (ARRA), i.e., the “stimulus bill.” The TANF Emergency Fund, among other things, provided funds in 2009 and 2010 to help states subsidize wages to provide jobs in private- and public-sector settings for several hundred thousand parents. The TANF Emergency Fund ended on September 30, 2010.

Despite these experiments, we have relatively little data on what really works for those with the most severe employment barriers. MDRC, the leading welfare program research institution in the United States, summarizes the status of the field in a policy brief:

We know how to move many welfare recipients into jobs. Less is known about how to (1) help low-wage workers advance in the labor market and (2) *promote employment among “hard-to-employ” individuals* [emphasis added]. A rich body of rigorous research—conducted in a variety of labor markets, during healthy and not-so-ideal economic environments—suggests that the most effective welfare-to-work programs require recipients to participate in employment-

¹ Duane M. Elling, *Study Suggests Staffing Model Supports Success for Workers, Employers*, Charles Stewart Mott Foundation, January 14, 2009. <http://www.mott.org/news/news/2009/alternativestaffing.aspx>.

related activities, provide a mix of job search assistance and short-term education/training, and use financial work incentives to supplement low-paying jobs. Ongoing studies sponsored by the Department of Health and Human Services are examining two key “next stage” questions: (1) how to promote stable employment and wage progression among former welfare recipients and other low-wage workers and (2) *how to promote employment for the “hard to employ” — recipients facing serious barriers to steady work, such as mental and physical health problems and substance abuse. There have been some hints of success, but much remains to be discovered* [emphasis added].²

A Promising Grassroots Approach

One promising approach to promoting employment for people with significant and often multiple barriers has arisen out of local nonprofits’ development of a particular subset of social enterprise that we will call *employment social enterprise*. The Social Enterprise Alliance defines *social enterprise* as “an organization or venture that advances its social mission through entrepreneurial earned income strategies.” An employment social enterprise’s mission is the employment of individuals who are most disconnected from the workforce due to chronic poverty and other major challenges.

With a market-oriented approach focused on creating social value, employment social enterprises leverage private resources with public subsidies to efficiently create and fill jobs with people who would otherwise have a hard time getting or keeping a job. From the sale of goods or services, employment social enterprises earn income, which covers most normal business costs such as wages, benefits, and equipment. Subsidies help cover some of the costs of the support systems to help employees succeed. Employment social enterprises provide their employees with a real job, a paycheck, a forgiving and supportive environment, and coaching and other supports to help them move into the private-sector workforce and retain jobs.

Employment social enterprises provide not only an entry point to employment, but they also develop the individual’s employable skills. Some, especially those focused on young people, also incorporate formal education. The best examples of such enterprises build relationships and pathways to help their employees, once they have achieved on-the-job success, move on to private-sector employment in companies that need prepared entry-level workers, helping to create opportunities for long-term employment and the potential for advancement. Many track outcomes in order to improve performance and achieve even greater success over time.

REDF, a San Francisco-based nonprofit, has for more than a decade invested time and resources into many of the outstanding San Francisco Bay Area employment social enterprises and has now started to expand to other parts of California. This assistance has included start-up or venture capital and business assistance. Groups currently or previously supported by REDF include Buckelew Programs, Community Gatepath, the Community Housing Partnership, Chrysalis, the Center for Employment Opportunities, Community Vocational Enterprises, Juma Ventures, New Door Ventures, Rubicon Programs, San Francisco Conservation Corps, San Francisco Clean City, and St. Vincent de Paul of Alameda County, Urban Strategies (Green Streets), and Weingart Center Association. Common elements of these enterprises are:

- A double bottom line, focused on (1) employment of people with significant barriers and (2) operation of a sustainable business;

² *New Strategies to Promote Stable Employment and Career Progression: An Introduction to the Employment Retention and Advancement Project*, U.S. Department of Health and Human Services Administration for Children and Families, February 2002.
http://www.mdrc.org/Reports2002/era_conferencertpt/era_2000_2001.pdf.

- The sale of goods and/or services to government and/or private-sector purchasers; and
- A supportive operational environment that directly provides or facilitates employees' access to a range of services intended to assist them to retain jobs, move into the private-sector workforce, and advance.

Not all of the enterprises that have entered this field have been successful. Under the best of circumstances it is a challenge to start up viable businesses, let alone ones whose mission is to employ people with significant challenges. Though not all have been able to flourish, promising results have been achieved. Even for those enterprises that have been successful, individual organizations and the industry as a whole has not reached scale. While we do not know with certainty the full scope of the industry, a subset of unpublished data from a survey administered by the Social Enterprise Alliance indicates that a little fewer than half of 135 social enterprise respondents that are focused on workforce development employ between six and 50 people.³ About 25 percent employed five or fewer, and the balance employed more than 50. While we do not have a precise count of such enterprises around the country, we do know that about 600 nonprofits are part of a network that employs people with disabilities supported by NISH/AbilityOne, a national nonprofit dedicated to this purpose.

What We Know about Outcomes and Cost Effectiveness

For more than a decade, REDF has tracked the activities and outcomes of its partner employment social enterprises. The purpose of this effort has been two-fold: to help employment social enterprises learn and improve; and to meet philanthropic and public funders' requests to assess the value of their investments.

REDF devised a set of tools and measures to track the progress of social enterprise employees. This includes collecting demographic data and information on employees' use of public services or incidents of homelessness or incarceration. To track progress, data are collected at the time of hire, and interviews are conducted every six months for two years thereafter.

The results thus far are promising.⁴ Among those interviewed 18 months after hire, 77 percent report working at some time in the previous six months. Enterprise employees' average hourly wage increased by 31 percent and monthly income from employment nearly doubled between time of hire and the follow up. Over time more people move from enterprise to non-enterprise employment.

REDF also measures how employment affects public expenditures such as public safety net costs and incarceration. Pioneering the notion of "Social Return on Investment" (SROI) as an alternative to accounting methods that focus solely on financial return, REDF combines community cost savings with the social enterprise's revenue generation data. The results demonstrate the economic and social value

³ *Social Entrepreneurship: A Portrait of the Field*, Community Ventures, Inc.

<http://www.communitywealth.com/pdf-doc/Field%20Study%20FINAL%207.14.2010.pdf>.

⁴ From 1998 to 2008 REDF partnered with BTW Consultants (BTW), an evaluation consulting firm, to gather long-term data about REDF portfolio social enterprise employees through a series of interviews conducted at time of hire and then at 6-month intervals for up to two years—regardless of whether the employee had left the nonprofit social enterprise. Results from BTW's research involved approximately one-third of the 3,313 employees hired in REDF grantee social enterprises between 1998 and 2006. This evidence is promising, yet has the limitations associated with preliminary evidence. In addition to the lack of comparison data, the loss to follow up was high, and analysis showed those lost to follow up were more likely to have histories of homelessness. More information on this research is available from REDF at www.redf.org.

of employment social enterprises.⁵ Employees are not just working and paying taxes; they are also using homeless shelters or other safety-net programs and going to prison less frequently. Importantly, earned income is covering most of the costs of what public and philanthropic resources would otherwise fund as part of job training.

REDF continues to build on its early measurement efforts, working with its partners to improve and streamline data collection. A new, improved approach to assessing “social return on investment,” incorporating what REDF has learned from previous efforts, is also in the works.

In addition to REDF’s work, there have been other empirical studies on the impact of employment social enterprises and of alternate approaches to employment for people with severe and multiple barriers. A three year random assignment study conducted by MDRC of the transitional jobs social enterprise run by the Center for Employment Opportunities (CEO) in New York City found definitive reductions in recidivism overall, and further that, “CEO had its strongest reductions in recidivism for former prisoners who were at highest risk of recidivism, for whom CEO reduced the probability of rearrest, the number of rearrests, and the probability of reconviction two years after random assignment.”⁶ MDRC is engaged in a major federally funded assessment of employment programs for hard-to-employ people. A 2002 Mathematica study shows the promising results of a transitional jobs approach.⁷ The Joyce Foundation is working with the National Transitional Jobs Network to assess their impact on helping ex-prisoners re-enter the labor force.⁸ As mentioned earlier, the Mott Foundation initiative to create alternative staffing models for people with barriers to work are also yielding promising results.

AbilityOne: A Federal Program that Helped Take the Employment Social Enterprise to Scale

Program leaders and policy makers have struggled to turn successful but limited-scope local innovations to employ people with multiple and significant barriers into sustainable national strategies. The investment required to take a strategy to scale can be substantial; risk and uncertainty are also concerns. How can we assess preliminary results in the absence of long-term control-group studies? Are the program activities necessary and sufficient to reach the desired outcomes? Are innovations duplicable and scalable, and will the efforts be sustainable over time? Can subsidies be used efficiently and effectively to reach this population at scale?

To a certain extent, this is a chicken-and-egg dilemma: the investment necessary to scale a strategy depends upon the ability to answer at least some of these questions; but the answers will only come

⁵ REDF’s SROI measurement toolkit provides only a partial cost-benefit analysis. It does not compare the employment social enterprise model to other methods of moving people into the workforce (largely because the large costs of such an assessment). Also, the SROI model does not allow for explicit attribution of the social return to the employment social enterprise efforts as opposed to other programs or changes in peoples’ lives. Nonetheless, the outcomes suggest it is worth exploring the potential of the employment social enterprise model further.

⁶ Janine Zweig, Jennifer Yahner, and Cindy Redcross, *Recidivism Effects of the Center for Employment Opportunities (CEO) Program Vary by Former Prisoners’ Risk of Reoffending*, MDRC, October 2010. <http://www.mdrc.org/publications/574/full.pdf>.

⁷ Transitional jobs are generally wage-subsidized, time-limited jobs in for-profit companies, nonprofits, and government agencies. Many employment social enterprises provide transitional jobs but with some important differences. Instead of relying on wage subsidies, employment social enterprises pay employee wages through earned income. As such, the earned income approach may offer a useful complement to a transitional jobs strategy. In addition, some employment social enterprises do not require employees to move on to other jobs within an explicit time frame.

⁸ The evaluation is being jointly funded by Joyce, the New York-based JEHT Foundation, the U.S. Department of Labor, and various state corrections departments.

from implementing the strategy in a sustained way. Practically speaking, efforts that diminish risk and uncertainty will be necessary. An example in the disability sphere offers some insights into the use of incentives to create (at scale) enterprises benefiting people with significant barriers to work.

A powerful precedent for the promotion of employment social enterprises is the successful public-private partnership established by the Javits, Wagner, O'Day (JWOD) Act of 1971. This Act revised a federal program initially created in 1938 to employ blind people by purchasing the mops and brooms they manufactured. The federal program, now known as AbilityOne, was expanded in 1971 to include all people with severe disabilities and to include a broader array of goods and services purchased by many different federal agencies. More than 600 nonprofit agencies participate in the AbilityOne network, selling goods and services to the federal government, and thus creating and providing jobs and increased independence to more than 40,000 people with severe disabilities each year.⁹

Three elements of federal policy catalyzed the growth of the AbilityOne network:

1. ***Procurement incentives that promote a sustainable market for the goods and services produced.*** First, federal law provides an incentive—a streamlined procurement process—to federal agencies that choose to procure goods or services through AbilityOne. The enterprises in turn must meet specific goals for the employment of people with severe disabilities. Federal agencies now annually purchase \$1.6 billion of products and services from the network, providing employment for 40,000 people annually.
2. ***Business assistance and other supports that help social enterprises to maximize earned income.*** Several of the social enterprises that are part of the AbilityOne system have flourished and grown not only because of their access to federal contracts but also because these contracts have been stable, allowing the businesses to grow with some predictability. As the businesses have become stronger over time, they have been able to market their products and services to other private-sector customers. For example, a group of social enterprises in California provided document destruction services to the Treasury Department. Once they were running well, these businesses successfully marketed their services jointly to other private-sector clients.
To support and grow these businesses, Congress chartered an independent intermediary with two primary purposes: to cultivate business from federal agencies and to deliver technical assistance to employment social enterprises. The intermediary works to ensure that the employment social enterprises fulfill their contracts and meet their employment objectives. The intermediary is funded by a fee on contracts.
3. ***Subsidies for the necessary support services.*** The third policy element has been the alignment of AbilityOne with an existing workforce program, the Department of Education's vocational rehabilitation (VR) system. The only pure subsidy program among the policy elements described, the VR system is funded by federal tax revenues and provides supportive services to people employed through the AbilityOne network to help them retain their jobs.

Together, these three policies have resulted in the growth of a sophisticated and effective network of nonprofit-run private-sector enterprises that employ tens of thousands of people with disabilities. These sustainable businesses provide jobs through income earned by delivering necessary goods and services to the federal government. While NISH/AbilityOne has published reports on the cost savings

⁹ For more information, see NISH's website:

<http://www.nish.org/NISH/Rooms/DisplayPages/layoutInitial?Container=com.webridge.entity.Entity%5BOID%5B3289C649A4B65B4AB7BF230AC4F5A53F%5D%5D>.

resulting from the employment of tens of thousands of people with disabilities, critics of the model point to two concerns: (1) that too little effort is made to help the enterprise employees transition to private-sector jobs, and (2) that the model is too dependent on public, rather than private-sector, market opportunities. The AbilityOne/NISH program has begun to address the latter through new efforts to market to the private sector; and some of the nonprofit enterprises in its network have expanded job placement efforts, although as numerous studies indicate, people with serious disabilities continue to face a job market that often discriminates against them in hiring.

Taking Grassroots Efforts to Scale

Based upon the results of grassroots initiatives, employment social enterprises appear promising not only for the people served by NISH/AbilityOne who have serious physical and developmental disabilities, but also for individuals with significant barriers to work, including young adults disconnected from school and work, and individuals with histories of incarceration and homelessness. Extending the AbilityOne model to those with other significant and multiple barriers to employment could be a practical pathway to success. This strategy has significant opportunities as well as challenges, as detailed below.

1. ***Procurement policies.*** Incentives and other policies that encourage routine public and private-sector procurement from employment social enterprises would fuel the stability and growth of the sector and create jobs.

Opportunities: Procurement could be increased by state and local governments in the context of new spending, for example, on energy programs, infrastructure revitalization, and redevelopment projects. Private-sector firms, particularly those that operate in publicly regulated environments or whose consumers would respond favorably to socially motivated business practices, could also be incentivized to procure services or goods from employment social enterprises. The Small Business Administration, and private entities like the Supplier Development Council could incorporate nonprofit-run employment social enterprises into their definition of supplier diversity, or new entities could emerge that incentivize increased procurement through various “carrot and stick” approaches.

Challenges: Current procurement policies and related tax incentives designed to drive business toward specific niches tend to favor women and minority-owned businesses, businesses owned by disabled veterans, small businesses, and businesses located in designated low-income neighborhoods like enterprise zones. Nonprofit-owned social enterprises are now rarely part of the equation, although new policies could change that. A clear, widely accepted definition of certification of social enterprises would be a necessary prerequisite. The Social Enterprise Alliance has taken preliminary steps to do create this. In government procurement, there are sometimes restrictions on contracting out, particularly if doing so displaces public employees. Constituencies that oppose outsourcing, especially in a tough economy, may view employment social enterprises as competitors. Both the private and public sector are seeking the highest-quality, most experienced, lowest-cost contractors. Employment social enterprises would have to be competitive on both price and quality, and may also be held to certain wage requirements making competitive pricing more challenging.

2. ***Start-up grants and business assistance to social enterprises.*** Financial investments and business assistance are needed to start up and improve the competitiveness, scale, and

efficiency of employment social enterprises so that they can succeed in obtaining contracts while also fulfilling their workforce development mission.

Opportunities: Foundations and individual donors interested in market-based social innovations may be willing to invest in these costs directly or through intermediaries. A recent federal Social Innovation Fund grant to REDF provides \$3 million over two years for these kinds of investments, and may serve as a catalyst for additional philanthropic and governmental support. Another opportunity is expansion of the federal Community Economic Development/Job Opportunities for Low-Income Individuals (JOLI) Program administered by the federal Department of Health and Human Services, which provides start-up funding that many local nonprofits have used to expand social enterprise and create jobs. The ultimate goal of these programs is economic self-sufficiency for the targeted populations. The programs are now being reduced in size and targeted to the federal Healthy Food Financing Initiative, but increased funding, latitude, and flexibility on use of the funds, and the types of businesses funded, along with providing more resources for in-depth capacity building and technical assistance would fuel expansion of social enterprise.

Challenges: To attract philanthropic funding, donors must see that the other elements that make social enterprise sustainable—such as public and private procurement and financing for wrap-around service supports—are in place so that their resources are leveraging scale. Government has to be convinced of the value of social enterprise to invest in start up and capacity building.

3. ***Subsidies for wrap-around and retention services.*** Subsidies must be available for employee supports—the services necessary to help a multi-barrier population succeed in the work place, connect with educational programs, and prepare to move into the private-sector workforce.

Opportunities: WIA funding is often used for training that develops the soft skills (work readiness) of people with significant barriers; this leaves little funding for work support, retention, and advancement services. Under the employment social enterprise financial model, earned income covers the soft-skills training, freeing up resources for longer-term supports that can help employees with severe and multiple challenges become more successful on the job. Reauthorization of WIA may provide an opportunity for improvements. Another promising opportunity may be offered by a Ford Foundation–supported demonstration project of the benefits of “Lifelong Learning Accounts” (LiLA) through a project of the Council for Adult and Experiential Learning (CAEL). The program aims to increase funding for career-related education and training among all workers, with a focus on low-income adults. An evaluation of the impact on participants is under way.

Other federal programs (Food Stamp, Employment and Training Fund, TANF, etc.) and state programs (criminal justice system efforts to reduce recidivism, for example) as well as local entities (such as community colleges) can also contribute. Reforms to health insurance may also offer some opportunities to access resources for health, mental health, and substance abuse-related employee supports. In some cases, foundations may be willing to subsidize some employee support costs, but their resources are limited compared to the magnitude of the costs and the long-term nature of the need.

Over time, as social enterprises scale, they may be able to contribute a portion of the costs of delivering employee supports through their earned income. Additionally, by offering the on-the-job work experience that is so valuable and hard to come by, social enterprise organizations may find that they can leverage contributions from public and private agencies willing to offer employees work supports, training in hard skills, and assistance with job placement.

Challenges: Because funding for these kinds of services may flow from multiple agencies, it can be costly and inefficient to apply for, manage, and report on. In addition, the performance-based incentives within WIA tend to direct funding toward more able workers, who can more easily meet the job placement goals. Lastly, foundations are reluctant to provide significant funding without knowing that their resources will eventually be replaced with funding from another source.

Conclusion

Employment social enterprises, with their locally based, business-oriented innovations, have shown considerable promise in helping low-income populations overcome significant and multiple barriers to employment. While scaling these efforts nationally faces considerable challenges, well-crafted public policies and private initiatives that not only provide the right mix of services and supports but also build a sustainable delivery system can lead to more effective outcomes and more efficient uses of subsidies over the long term. The AbilityOne program can serve as a model for taking employment social enterprises to scale. The Social Innovation Fund grant to support a project that aims to scale social enterprise in California offers an important opportunity to strengthen the data on results while putting thousands more people to work, and bringing together a broader community of practitioners, funders, and evaluators to hone and articulate a widely replicable, sustainable model that delivers results based on evidence-based practice.

If private and public funders seize this opportunity to influence developing programs to focus on performance and measure progress against clear objectives, they can incentivize desired outcomes such as long-term private-sector job retention and educational pathways that lead to advancement on the job. They can also prioritize services for specific populations such as young adults or those who have been incarcerated.

Well-crafted public policies can address the challenges described above to make the employment social enterprises more effective in helping people succeed at work and become tax-paying, contributing members of society, while reducing the taxpayer costs of poverty, incarceration, and homelessness. As the employment social enterprise industry grows and matures, the approach will be further improved. In addition, ever-improving cost-benefit and outcome assessment will drive smart approaches to the use of subsidy and the pathway to scale.

Carla Javits is the President of REDF. REDF helps to create and grow “double bottom line” enterprises that earn income while employing people with high barriers and oversees REDF’s efforts to build the field by broadly sharing the results of its extensive, multi-year effort to measure outcomes. Prior to joining REDF, Carla was with the Corporation for Supportive Housing (CSH) for fifteen years, helping nonprofits develop housing with services for homeless people. Previously, she worked for the California Office of the Legislative Analyst, and was Director of Policy and Planning for the San Francisco Department of Social Services. Carla serves on the Board of Directors for The Philanthropic Initiative, Northern California Grantmakers, and The Melville Charitable Trust, and holds a Masters of Public Policy and BA from the University of California, Berkeley, and an AA in Hotel and Restaurant Management from SF City College.