

Testimony to the California State Legislature, Joint Informational Legislative Hearing “What is the Role of Social Innovation Financing in California”, June 24, 2013. Carla Javits, President of REDF ([www.redf.org](http://www.redf.org)) (cjavits@redf.org)

My name is Carla Javits, and I am the President of REDF (the Roberts Enterprise Development Fund), a California venture philanthropy and intermediary. Thank you for inviting REDF to testify at today’s hearing.

We know that a job is the best cure for many of the toughest social problems we confront.

Stable employment creates hope, the prerequisite for establishing a good life. Without employment and without hope, individuals and families suffer. But the burden extends far beyond these individuals and families to everyday taxpayers who face skyrocketing costs when people don’t work for long periods of time -- the revolving doors of jail, prison, shelters, hospitals, entitlements and other programs that unfortunately are picking up the pieces when people are completely outside of the workforce, with no hope of getting in. The costs – financial, personal, social – are very high.

The persistence of widespread unemployment is a symbol of market failure, government dysfunction, and, frankly, our ineptitude. A bitter counterpoint to the American dream, leaving all of our communities less secure at a most challenging time when we need all of the strength and optimism we can muster.

While we invest about \$4 billion a year in workforce development through our workforce investment system, and billions of dollars more in community colleges and other education and training programs, the unfortunate reality is that far too many people are untouched by these interventions – particularly those who face barriers to work. The reason is simple -- current incentives are not aligned with the long-term workforce attachment of Americans who can and want to work, but because they’ve been homeless, incarcerated, or have dropped out of school or joined a gang, or even have a history of foster care, seemingly face long odds of getting and keeping a job.

The good news is that there are new tools on the horizon – the subject of this hearing – social innovation financing -- that offer a way forward to sustainably solve these problems. The notion of government paying for outcomes is not new, but at a time of tight government budgets it is perhaps more critical than ever. And some of the new social innovation financing approaches such as social impact bonds offer important added benefits of shifting some of the risk for achieving outcomes to the private sector, and also offer the opportunity to broaden the lens to incorporate cost effectiveness and results.

We do not suggest that social innovation financing and procurement based on results work in all cases for all problems, and many panelists will point out some of the very real challenges. However we do believe that these can be powerful tools that we can and must use in those cases when they can work – where there is an evidence base that demonstrates outcomes, and the potential to drive net reductions in government spending.

I will use the issue of chronic joblessness to illustrate, and then make some specific recommendations for how the state can best leverage social innovation financing in order to create jobs and opportunities for Californians that will result in public savings, tax revenue generation, and the creation of hope that we value so greatly in this State and need so desperately in this country. And I think this is an important example of another key element of deploying social innovation financing effectively – that is to surface and resource the creative ideas that bubble up from the community, city, and county level.

REDF – the Roberts Enterprise Development Fund – has been in business for 15 years in California laying the groundwork for ‘social innovation financing’ to deliver a cost effective solution that creates job opportunities for people who face the most significant barriers to work – those who have been incarcerated and homeless, young people disconnected from school and work, people who deal with the challenges of mental health and addiction problems.

What we have done is simple but has tremendous impact. We have deployed private individual and foundation contributions, and more recently public dollars as the only California-based recipient of a multi-year Federal government Social Innovation Fund grant to revolutionize the way that local organizations deliver job opportunities to people facing great challenges. We have always focused on measuring results, and improving outcomes based upon what we learn, and we have always taken a market-oriented approach that reduces the costs of effective interventions.

We provide the funding and the business assistance and networks that a venture capital firm would deliver to for-profit companies. We select talented nonprofits that are connected with people who face barriers on the ground and help them create market-facing businesses whose purpose is to provide jobs and the opportunity to advance to people who we otherwise think of as ‘unemployable’.

These are people who are willing and able to work, but a combination of their histories and their lack of preparation for work cause most employers to turn them away. The businesses generate significant revenue via the goods and services they sell – making the work experience very ‘real’ for those who participate, reducing the costs of what is essentially on the job training for those left behind by the mainstream, and delivering the supports to keep people employed over time.

In partnership with multiple California counties – from Los Angeles to Alameda, San Bernardino to San Francisco, the businesses, government agencies, faith based and community groups that we work with have enthusiastically contributed to the effort to create and grow businesses – from landscaping to screen printing, ballpark concessions to pest control – that employ people who otherwise cycle

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through streets, shelters, incarceration, and entitlement programs. Over the years we have learned from our work with more than 50 enterprises.

As a result, more than 7,500 people have been employed, 77% of those interviewed were working two years later, their incomes increased, and peoples’ lives were transformed. The evidence indicated promising results that we are now building on, as we continue to learn from further assessing the model and outcomes in partnership with a respected national research firm that is partnering with REDF on the “Mathematica Jobs Study”.

What does this have to do with social innovation financing? It’s important to first define terms. Governor Duval Patrick defined social innovation financing in simple terms: “have government pay for demonstrated success rather than the promise of success.”

REDF’s social enterprise approach is a promising application of social innovation financing because it achieves results with a sustainable model that attracts sustained and increasing market-earned revenue to not only leverage philanthropic and public funding, but focus that funding on what works.

From REDF’s perspective, the potential benefits of social innovation financing include:

- 1) Shifting the financial risk of social programs away from the public sector;
- 2) Generating new capital resources for social programs; and
- 3) Building an evidence base about social programs that will help us generate greater results for the people served, and reduce net costs to the taxpayer.

The more than 50 social enterprises that REDF has worked with in California, including 10 that we are currently supporting are part of a growing national network of businesses which not only seek to be profitable, but that employ people who face barriers, with the supports to help them retain jobs and advance. State leadership and focus on deploying social innovation financing and related tools to expand this approach has the potential to eliminate roadblocks and spur expansion – employing more people, and developing an even more informed base of evidence about what works.

REDF has already dipped its toes into the waters of social innovation financing by being part of an application with the San Diego Workforce Partnership to the US Department of Labor’s “Pay for Success” pilot program. The essence of our proposal is to expand social enterprises in San Diego and San Bernardino counties to employ previously incarcerated individuals and those with disabilities.

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The public would benefit through:

- Reduced costs of Supplemental Security Insurance (SSI/SSP) for people with disabilities who become employed
- Increased payroll tax payments paid by the social enterprise employers of those individuals
- Reduced costs for recidivism to incarceration
- Increased payment of taxes by people now working
- The revenue earned by the enterprises – which reduces the cost of the entire on the job training/services program

Regardless of whether or not our application is successful, our work on this project has made even clearer the value of the government’s interest in result-oriented, evidence-based financing that leverages private sector support.

We proposed that this pilot would employ 650 people over the 3 year period, and that net benefit would total more than \$2 million providing investors a rate of return between 2.9-5.8%.

REDF identified several leading foundations to provide the upfront resources of \$2 million with the potential for the government – through the US Department of Labor – to repay them if we hit the benchmarks we had set out. The California Endowment, the Annie E. Casey Foundation, and the Heron Foundation all made significant commitments, and REDF also put some ‘skin in the game’ with a commitment of our own assets which we intend to use as incentive payments to the nonprofits that run the social enterprises and deliver the supports to achieve the projected results.

We believe that social enterprise offers a great example of the kind of approach that could benefit from social innovation financing in the form of pay for success or pay for results government procurement. It has the potential to deliver even more powerful results at a greater scale by helping people who would otherwise be unemployed – especially those who would otherwise incur significant taxpayer costs through incarceration, homelessness, or receipt of entitlements – to go to work.

In order to achieve these results, we respectfully recommend that the State of California consider the following essential elements of social innovation financing policy. The results will be potent evidence of the strength of America’s market-oriented system in solving our social problems and the state’s leadership in mobilizing private and public capital to have a dramatic impact

REDF looks forward to working with you to get it done.

## Recommendations

1. **Surface the best ideas from local communities.** Survey cities, counties, and nonprofits through a request for information to identify the most promising city and county-level efforts to utilize pay for success financing; and to identify the most promising approaches that have some evidence of results.
2. **Make administrative data more available.**
  - a. In order to cost-effectively assess whether or not net savings result from a specific set of interventions, the state should facilitate access to the necessary administrative data on incarceration, entitlements, and taxes, while respecting the right of individuals to consent and to privacy. Without access to administrative data, programs must resort to costly evaluation programs that require tracking individuals and less reliable data.
  - b. Streamlining and consolidating IRB processes would also allow social impact bond programs to be implemented more quickly.
3. **Work across silos.** Public savings that result from pay for success and social impact bond programs often cut across levels of government, and across public agencies. The state should establish a cross-cutting working group that includes key city, county and state officials, representing criminal justice, employment, health, mental health, drug and alcohol, and social services programs`.
4. **Provide incentives to test the most promising approaches to social innovation financing.** The most critical element will be investor confidence that the state will repay, and that funds set aside to do so will not be repurposed, but will be available. The State Legislature should consider establishing a matching fund for city and county pay for success/social impact bond programs. California could also lead other private funders to consider this kind of investment by deploying insurance funds via COIN or other existing resources to social impact bonds.
5. **Advocate for federal resources.** Deploy California’s advocates in support of federal proposals to expand the availability of federal support for pay for success/social impact bond programs, including incentive funds for state/local commitments