About the Corporation for Enterprise Development

CFED’s overall mission is “to foster widely shared and sustainable economic well-being.” We provide a range of services including policy design, analysis and advocacy, demonstration and project management, consulting, technical assistance, training, research, information, and publication services -- to public, private, nonprofit, and community organizations throughout the United States and internationally. Our work is organized in three main clusters: Building Economies, Building Enterprise, and Building Assets. Their respective goals are:

- To create the policy frameworks for, and the means for measuring, widely shared and sustainable economic well-being.
- To expand the pool of entrepreneurs through improved policy, practice, and support systems for individuals and small businesses.
- To influence private markets and public systems to enhance individual savings and access to capital for business, enterprise and community development.

Across the clusters we seek to address the particular challenges of urban areas and rural communities, and the need to create greater international awareness.

About the Center on Budget and Policy Priorities

Founded in 1981, the Center on Budget and Policy Priorities is a non-profit, research and policy institute that conducts research and analysis of government policies and the programs and public policy issues that affect low- and middle-income households. The Center, located in Washington, D.C., is supported by foundations, individual contributors, and publications sales.

Financial support for the Center’s work on public job creation strategies is provided by the Annie E. Casey Foundation, the Edna McConnell Clark Foundation, the Discount Foundation, the Ford Foundation, the Joyce Foundation, the John D. and Catherine T. MacArthur Foundation, and the Charles Stewart Mott Foundation.
CREATING JOBS:
Public and Private Strategies for the Hard-to-Employ

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PREFACE

The Annie E. Casey Foundation financed the research and writing of this publication, which was originally designed to meet the needs of local communities participating in the foundation’s Jobs Initiative. A six-site, eight-year demonstration project, the initiative seeks to develop new and more effective strategies for helping low-income residents in targeted urban neighborhoods obtain jobs at family-supporting wages. Unlike “work first” models that emphasize immediate job search activities and rapid job placement, the Casey Jobs Initiative focuses on access to good jobs with opportunities for career advancement and on more fundamental reforms of regional labor market systems that promote this goal.

In response to relatively favorable economic conditions, most Jobs Initiative sites have relied initially upon a range of workforce development strategies — including job readiness activities, occupational skills training, and the use of formal hiring agreements with area employers — to take advantage of job opportunities already available in their communities. At the same time, the Annie E. Casey Foundation recognized that public and private job creation strategies could be valuable additions to the portfolios of Jobs Initiative sites as they seek to reach more disadvantaged segments of their target populations. The foundation’s support for this booklet, Creating Jobs: Public and Private Strategies for the Hard-to-Employ, represents an attempt to frame key choices and highlight useful resources that could guide and strengthen the work of the individual sites in this area.

The Corporation for Enterprise Development (CFED) and the Center on Budget and Policy Priorities (CBPP) believe that public and private job creation strategies can be effective in advancing important workforce and economic development goals in all low-income communities. By creating new work opportunities for the hard-to-employ and by targeting additional job generation to the most economically disadvantaged areas, these strategies can help more Americans find and retain employment at family-supporting wages. A focus on public and private job creation also can enable communities to strengthen linkages between their workforce and economic development strategies and to prepare for the onset of the next recession.

CFED and CBPP are grateful to the Annie E. Casey Foundation for its support of this publication. As always, the views expressed herein reflect those of the authors and do not necessarily represent those of the foundation or its staff. Readers who are interested in exploring public and private job creation strategies in more detail are encouraged to contact the authors at their respective organizations.

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INTRODUCTION

In its December 1997 working paper, “Making Urban Labor Markets Work for Low-Income Residents,” the Annie E. Casey Foundation (AECF) summarized key lessons from its Jobs Initiative (JI) and reflected upon the “learning agenda” already underway in its six JI sites. That agenda framed many important challenges for the sites, but two challenges — creating new jobs and reaching those who are hardest to employ — prompt fundamental questions about the ability of JI sites to achieve their core mission and sustain their progress over the course of future economic cycles. This paper is intended to help JI sites and other communities learn more about these challenges by describing both private and public job creation strategies that can be used to supplement private-sector job growth in their communities and to help disadvantaged inner-city residents enter and advance in the labor market.

With sustained support from AECF, the JI sites have an unusual opportunity to develop initiatives that integrate traditional supply-side (e.g., education and training) and demand-side (e.g., economic growth) approaches in a comprehensive effort to improve the way urban labor markets work for disadvantaged inner-city job seekers. Many past efforts have attempted to make progress on one of these two fronts, at times achieving noteworthy gains. Their lasting effects, however, invariably have been limited by an inability to link the two approaches in ways that amplify their impact. One of the essential insights underlying the work of the JI sites is the awareness that simultaneous progress on both fronts is necessary to yield large and durable gains for disadvantaged inner-city residents.

To date, JI sites have tested a broad range of job strategies and projects designed to increase job access and retention among residents in targeted communities. As noted in the AECF working paper, JI sites have placed particular emphasis on sectoral workforce development, enhanced “work first” approaches, and employment brokering services. Some sites also have made progress in forging job development linkages that seek to create new, accessible jobs for disadvantaged young adults through the redevelopment of urban cores. The models described in this paper suggest ways in which JI sites and other communities can build upon their early efforts in areas such as minority business development and “first source” hiring agreements with firms that receive public incentives or investments. The models provide a broader menu of options from which sites can choose as well as a framework for helping sites to weigh those choices.

The two main sections of this paper — on private and public job creation strategies, respectively — are designed to offer an introduction to these fields and to address a core set of questions that may be of interest to community leaders. Discussion of each strategy includes:

- an overview of its purpose and rationale;
- a review of basic program options and models;
- a summary of lessons drawn from past experience; and
- an examination of key choices in developing new initiatives.
Creating Jobs

This introductory material is supplemented by more detailed appendices that may be helpful to communities as they pursue particular strategies or approaches. The appendices contain practical advice on how to get started, a summary of potential funding sources available to support such efforts, and additional resources and references that may be of interest.

“Public job creation” refers to the use of public funds to create wage-paying jobs in public and nonprofit agencies for individuals who cannot otherwise find employment. These publicly-funded jobs typically are structured to help develop participants' work-related skills, and the work projects or assignments are designed to address pressing community needs or otherwise promote the public interest.

“Private job creation” refers to the use of customized business assistance programs to generate additional wage-earning jobs in the private sector. These initiatives typically are structured to address market imperfections that either depress the level of overall job creation or lower the rate of employment for economically disadvantaged individuals or communities.

The impetus to consider private and public job creation strategies may vary considerably across local communities. In some instances, one or more of the approaches described in this paper may be appealing as at least a partial response to aggregate job deficits, or “job gaps,” that persist in an entire region or in targeted, low-income neighborhoods. All of the models described in this paper, if successfully implemented, would have the effect of raising employment levels and increasing job availability within regional labor markets. Many of them also can be designed to increase the supply of jobs in neighborhoods with high concentrations of disadvantaged job seekers. From this perspective, private and public job creation strategies can help JI sites expand the limits of job growth and economic activity otherwise dictated by market forces. This capacity may prove particularly important when and if communities are forced to confront future downturns in their regional economies.

While useful in responding to “job gaps,” private and public job creation efforts also can improve access to family-supporting jobs by linking economic growth and workforce development in innovative and powerful ways. Work-based learning can be very effective in raising skills and bolstering employability; research suggests that it is particularly useful when working with disadvantaged populations that have not succeeded in traditional classroom settings. Yet the low skill levels found within such groups often make them difficult to place in private-sector jobs. Publicly-funded transitional jobs as well as some private job creation models (such as training enterprises) can give hard-to-employ individuals greater access to jobs that include structured learning opportunities. These models address some of the limitations of sectoral training, “work first,” and employment brokering strategies by eliminating the need to convince employers that individuals have attained a minimum level of productivity or employability before placing them in wage-paying jobs.

Community leaders can become involved in private or public job creation initiatives in a variety of ways. They can be catalysts for discussions about the extent of their current “job gaps” and the need for additional work-based approaches through which hard-to-employ individuals can acquire meaningful work experience and skills. They can convene interested parties in an attempt to forge partnerships or consortia to explore, develop, or implement private or public job
creation programs. If necessary, they can directly sponsor or operate pilot projects that demonstrate the feasibility and effectiveness of these approaches. Finally, they can document outcomes achieved as a result of such strategies and use these data to push for broader systems reforms in their communities.

The original AECF vision for the Jobs Initiative placed little emphasis on job creation as a mechanism to improve the way urban labor markets work for disadvantaged inner-city job seekers. As the JI sites have moved through the capacity-building phase of the initiative, the assumptions underlying their efforts have been expanded to acknowledge explicitly the importance of supporting job creation efforts aimed at very hard-to-employ populations. CFED and CBPP believe that private and public job creation strategies can play important roles in strengthening both the economic growth and workforce development agendas of the JI sites. It is our hope that this paper illustrates the potential contributions such strategies can make in improving access to family-supporting jobs for disadvantaged young adults residing in inner-city communities. To the extent that this paper generates interest in private and public job creation strategies within JI sites or other communities, CFED and CBPP welcome the opportunity for further discussion and collaboration.
PUBLIC JOB CREATION STRATEGIES

Purpose and Rationale

In any work-based strategy for raising the incomes of poor families and revitalizing depressed communities, two questions are unavoidable: Are there enough jobs for those who are willing and able to work? Do unemployed residents have the skills and attributes necessary to get and retain those jobs?

The relative strength of the U.S. economy in the late 1990s has created unusually promising conditions for work-based anti-poverty strategies. Unemployment is lower and jobs are more available than at any time in three decades. Although job shortages continue to plague some urban neighborhoods and rural communities, more commonly a lack of work-related skills and recent work experience shuts many poor adults out of even tight labor markets. This “skills gap,” as it often is called, can undermine the effectiveness of initiatives that seek to increase the incomes of poor families through work.

Public job creation — the use of public funds to create wage-paying jobs in nonprofit and public agencies — is one tool that can be used to close the “skills gap” and match jobless workers with available jobs in their communities. A diverse set of current initiatives is demonstrating that publicly-funded jobs can serve as a bridge to unsubsidized employment, providing the entry-level skills and work experience that hard-to-employ individuals often need to succeed in the regular labor market. These initiatives respond to several different sets of policy concerns and developments:

1. As time limits and other new welfare requirements take effect across the nation, an increasing number of states and cities are turning to public job creation as a strategy to help hard-to-employ welfare recipients.

2. Combinations of paid work and education often serve as the basis for programs to help disadvantaged youths gain a foothold in the labor market.

3. Publicly-funded jobs are being tested as a way of assisting non-custodial parents whose children receive welfare benefits as well as refugees who are experiencing difficulties in adjusting to life and work in the United States.

4. Finally, publicly-funded jobs have been used to boost the employment prospects of parolees and other ex-offenders on the theory that proven performance in a wage-paying job can assuage some prospective employers’ concerns about hiring individuals with criminal records.
In all of these circumstances, the underlying belief is that public job creation programs will give participants entry-level skills, work experience, and employer references that enable them to move into permanent, unsubsidized employment.

A renewed interest in public job creation strategies may seem surprising, given that most policy makers believe that the current employment picture is quite strong. Yet publicly-funded jobs respond to a specific challenge—the low levels of work readiness among hard-to-employ adults and youths—and they do so in a manner that is consistent with the “work first” philosophy that now dominates federal and state welfare and workforce development policies. Public job creation efforts also serve as a useful tool in place-based employment strategies and as an insurance policy for states and local communities concerned about the risks of relying too heavily upon private-sector job growth. Publicly-funded jobs can narrow the “jobs gap” in urban neighborhoods or rural communities left behind despite today’s strong economy; they also constitute a model for large-scale creation of publicly-funded jobs if needed to mitigate the effects of tomorrow’s economic downturn.

A number of obvious goals can be advanced through public job creation: participants will acquire new skills, a greater ability to compete in the labor market, and the dignity and economic security that naturally accompany paid work. Other benefits of public job creation may seem less tangible, but are potentially more far-reaching: low-income communities will see increases in their purchasing power and overall income; neighborhoods with pressing needs will benefit from valuable community improvements and services; and society as a whole will profit from a strengthened ethic of responsible citizenship rooted in work and economic self-sufficiency. In this sense, public job creation initiatives can be viewed narrowly as a workforce development strategy or more broadly and ambitiously as part of a neighborhood transformation or community development strategy.

The challenge now is to develop public job creation initiatives that realize this potential and respond to the real and perceived shortcomings of prior public service employment programs. If successful, these efforts can contribute to stronger, more effective linkages between local economic development and workforce development strategies. They also can produce measurable gains for participants and low-income neighborhoods that are directly related to many investor outcomes sought as part of the Casey Jobs Initiative. For all these reasons, finding more effective ways to design and implement public job creation programs is a key task for those seeking to bolster the incomes and employment prospects of unemployed residents in impoverished communities. This paper attempts to chart a course for those who choose to tackle this important challenge.
Program Options and Models for Public Job Creation

Public job creation initiatives typically share a set of common elements. They pay participants wages that are counted as taxable income — that is, the wages are subject to FICA payroll taxes and enable participants to qualify for the federal Earned Income Tax Credit.¹ Jobs are developed by public or nonprofit agencies that engage participants in useful work and provide close supervision at the work site. Some programs place participants with for-profit employers, typically on the condition that they retain successful participants in unsubsidized jobs following a specified period of subsidized employment. Many programs seek to enhance participants’ skills by offering access to vocational training and education on the job or after work hours. Finally, these initiatives usually impose limits on the number of months an individual can spend in a publicly-funded job, even as they attempt to help participants move into unsubsidized employment.

Public job creation programs vary in the extent to which they emphasize one or more of the following goals: skill development; enforcement of a work expectation or mandate; and provision of services or generation of benefits to the broader community. Some initiatives focus heavily upon the acquisition of work-related skills as part of a workforce development strategy. Other initiatives emphasize upon individual work obligations as part of welfare reforms or the contribution that publicly-funded jobs can make to local economic development or community-building efforts.

Many combinations of these goals are possible within any given program. Indeed, the strongest initiatives are likely to combine several of these elements to achieve a more comprehensive intervention — for example, they improve the skills and work readiness of participants while also undertaking work that responds to pressing community needs. Nonetheless, the basic approaches reflected in current initiatives fall into one or more of the following categories:

- “stepping stone” jobs;
- “try-out” employment; and
- community improvement projects.

A brief description of each of these basic models appears below, accompanied by short summaries of current initiatives that illustrate the primary elements and distinguishing characteristics of each approach.

“Stepping stone” jobs — Perhaps the dominant workforce development model among current initiatives, stepping stone jobs are designed to impart transferable skills that will enable participants to move into unsubsidized jobs with a different employer following a period of successful employment in a publicly-funded job. Work sites provide high-quality supervision in order to promote and monitor work readiness. Proposed work roles and tasks at the work site are

¹The Earned Income Tax Credit (EITC) supplements the earnings of low-wage workers. Eligible workers receive a refundable tax credit equal to 34 percent of their earnings for families with one child and 40 percent of wages for families with two or more children. The EITC can increase the total income of low-wage working families by as much as $3,800 annually.
carefully analyzed to identify learning opportunities that can improve participants’ future employment prospects.

Work site employers who sponsor publicly-funded jobs under this model are not required or necessarily expected to retain participants beyond the period during which their wages are paid by the program. Some stepping stone job creation programs encourage job search activities from the very outset, while others view the experience of retaining and succeeding in a publicly-funded job as a precondition for successful transition into unsubsidized employment. In either event, job search activities and assistance intensify as participants approach the end of their prescribed tenure in the program. Attempts often are made to help participants gain occupation-specific credentials when feasible, and programs may even seek to “certify” the work readiness of participants in order to facilitate their movement into the regular labor market.

“Stepping Stone” Jobs: Philadelphia@Work

The City of Philadelphia, in partnership with the State of Pennsylvania, is planning to create transitional, wage-paying jobs in public and nonprofit agencies for 3,000 welfare recipients over the next two years. Participants in Philadelphia@Work will be paid the minimum wage and expected to work an average of 25 hours per week. Participants will spend an additional ten hours per week in training, education, and job search activities. Specially-trained “job coaches” will act as mentors, oversee participants’ skill development, and assist them in finding unsubsidized jobs. These publicly-funded jobs will last a maximum of six months, and participants who find jobs and leave the program before six months will receive cash bonuses.

Some public job creation models that contain many of the features of stepping stone jobs also are designed to ensure that parents meet new work requirements within the welfare system. Federal welfare law now mandates that parents who have received welfare for two or more years engage in some form of community service. Some states have chosen to impose even more stringent work obligations upon welfare recipients, requiring community service earlier in the welfare period or for more hours than required under federal law. Placing welfare recipients in publicly-funded, wage-paying jobs represents one way in which state or local governments can comply with these federal and state community service requirements. This approach — often referred to as “wage-based community service” — offers an alternative to cash assistance in states or communities that are unwilling to cut off aid completely when parents of needy families reach federal or state time limits on welfare.

Wage-based community service may be an attractive option for several reasons. While enforcing work requirements, wage-paying jobs avoid the controversy often surrounding unpaid work-for-welfare (or “workfare”) schemes. They also replicate more fully the expectations and incentive structures of the regular labor market. Over the longer term, wage-based community service may be a politically feasible strategy for helping parents who reach welfare time limits after searching for, but failing to find, unsubsidized employment. State and community leaders should recognize, however, that this approach is not a substitute for attempts to help parents before they
reach time limits or become subject to community service requirements. Parents who exhaust most or all of their lifetime allotment of cash assistance before getting the help they need to enter the labor market will have no safety net to protect them during any future job or family crisis.

**Wage-based Community Service: San Francisco’s Community Jobs Initiative**

As part of its effort to comply with a state law that requires welfare recipients to engage in community service work after 18-24 months of cash assistance, the County of San Francisco has launched a pilot program to create publicly-funded jobs for 200 such recipients. These jobs will be in public or nonprofit agencies and last up to nine months. Participants will be paid for at least 26 hours per week of work at the state minimum wage ($5.75 per hour). While fulfilling the state’s community service mandate, San Francisco also hopes to use these Community Jobs as a way of improving participants’ work-related skills and “adding real value” to the community. If the pilot program run by three community-based organizations is successful, the county plans to make Community Jobs a key component of its welfare-to-work strategy.

Most public job creation initiatives currently are restricted to parents receiving welfare. Stepping stone jobs, however, have the potential to help a broader array of jobless adults and youth make transitions into unsubsidized employment. Federal welfare-to-work grants recently awarded by the U.S. Department of Labor have enabled some states and cities to reach beyond their welfare population and provide wage-paying jobs for non-custodial parents of children in welfare households. For example, a new welfare-to-work initiative developed through a partnership among the City of Minneapolis Employment and Training Program, Minnesota State and Hennepin County child support enforcement agencies, and several nonprofit organizations will test innovative ways to combine publicly-funded jobs and other employment services with flexible child support policies to boost employment rates among non-custodial parents in targeted, low-income neighborhoods of Minneapolis.

Stepping stone jobs may also help ex-offenders return to the regular labor market. Individuals (and adult men in particular) with criminal records face daunting barriers to stable, unsubsidized employment. Employers frequently bar them from entering certain occupations and industries, and some employers simply refuse to hire any individual with a prior conviction. Stepping stone jobs respond to these barriers by documenting ex-offenders’ work readiness and enabling them to develop a work history which, along with work site and case manager references, can overcome employers’ reservations. If implemented effectively, such programs convince employers that hiring ex-offenders who have proven themselves in publicly-funded jobs is a better bet than hiring individuals “off the street” about whom they are likely to know very little.
Jobs for Ex-Offenders: New York City’s Center for Employment Opportunities (CEO)

First established in 1978 by the nonprofit Vera Institute of Justice, CEO’s Neighborhood Work Project provides immediate, transitional work opportunities for men and women returning from jail or prison. Ex-offenders are placed in small crews that perform a wide range of services, including basic maintenance, groundskeeping, and painting, under contract with government agencies. This crew work emphasizes highly structured work activities that instill good work habits and test participants’ work readiness while also enabling participants to earn income that will help them meet their basic needs. Through aggressive job placement and job development efforts, CEO attempts to move participants into permanent, full-time, unsubsidized jobs that provide benefits and above-minimum wages. Since 1992, CEO has achieved an average placement rate of approximately 70 percent. Fees for services provided by work crews also generate about 60 percent of CEO’s total funding.

“Try-out” employment — Similar to stepping stone jobs, “try-out” employment uses structured work experience and close supervision at the work site to improve participants’ work readiness and strengthen their work-related skills. The principal difference between the two approaches is that try-out employment focuses on retention in the same job (or a similar position with the same employer) after the public subsidy ends rather than preparation for unsubsidized employment with a different employer. In this context, try-out employment can be viewed as an informal internship or apprenticeship, allowing individuals to acquire skills needed for a particular position and to demonstrate their ability to perform effectively on the job. Unlike stepping stone jobs, where early departures from publicly-funded jobs are encouraged, try-out employment emphasizes successful completion of a specified term in the job and subsequent “graduation” into permanent, unsubsidized employment.

The success of try-out jobs hinges to a great extent upon the ability of program administrators to identify employers that are able and willing to pledge permanent jobs for participants who meet agreed-upon standards of performance during their period of try-out employment. In communities with high vacancy rates or significant job growth in public or nonprofit agencies, it may be possible to secure at least a modest number of such front-end hiring commitments. In addition, this model can be broadened to include either full or partial wage subsidies for private, for-profit employers. The most noteworthy example of this approach is the Private/Public Service Employment (PSE) program recently launched by the City of Detroit as part of its welfare-to-work initiatives. The PSE program pays 100 percent of wage costs for up to six months to any employer that pledges to retain participants as unsubsidized employees at the end of the subsidy period. The Detroit program does not include repayment requirements in the event that employers fail to fulfill their pledge. The expectation of city officials, however, is that employers who renege on such pledges will quickly be dropped from the program.
“Try-Out” Jobs: Seattle’s Preparatory Employment Program

The Seattle Jobs Initiative (SJI), one of six city-focused workforce development efforts launched by the Annie E. Casey Foundation, has launched a “Preparatory Employment” program that will place 50 hard-to-employ welfare recipients in closely-supervised jobs paying $8.00 per hour. The program emphasizes training, both on the job and at training sites, where the curriculum is closely linked to participants’ roles and responsibilities at work. Work site supervisors receive initial training and ongoing support which enable them to develop clear goals for participants, including expected time frames for mastering predetermined employment competencies. Work site sponsors, which include both public and nonprofit agencies, pay a portion of participants’ wages and are expected to move participants who attain these competencies into permanent, unsubsidized positions within their agencies.

Community improvement projects — All public job creation initiatives seek to engage participants in useful work. When designed to respond to pressing community needs, they do far more than help jobless individuals. The broader benefits achieved through such programs can be as varied as the possibilities for work performed by participants. Child care, after-school care, educational enhancement, environmental protection, family support, housing rehabilitation, health and social services, recreation, renovation of community facilities, youth development, and public safety are just a sampling of the important causes that can gain a major boost through the labors of community jobs participants.

Some programs view these contributions or forms of service to the broader community as a central part of their mission. For example, hundreds of youth corps and YouthBuild programs across the nation now undertake important conservation and environmental work, build or renovate affordable housing in low-income communities, improve urban neighborhoods, and tackle dozens of other useful tasks. Because these and other programs place as much emphasis on community improvements as on participants’ employability gains, work projects are carefully selected to respond to pressing community needs. Extra care is taken to ensure that planned tasks are consistent with participants’ skill levels, and programs are given additional resources to obtain needed tools and materials. In the process, community improvement projects are able to lay claim to a compelling “dual benefit”: they enhance the employability of participants while at the same time filling gaps in public services or completing valuable projects that have been shelved or postponed as a result of budget constraints. This approach, when effectively implemented, generates very strong public support because it invests in disadvantaged individuals as well as the communities in which they reside.
Community Improvement Projects: Milwaukee Community Service Corps

The Milwaukee Community Service Corps (MCSC) is a model urban youth corps which undertakes a wide range of community improvement projects while giving disadvantaged young people much-needed opportunities for work and learning. MCSC projects have included modernization and maintenance of public housing, urban gardening and vacant lot maintenance, recycling, graffiti abatement and other beautification work, reclamation of urban “brownfields” sites, and an array of human service activities. MCSC staff work closely with neighborhood planning groups, union representatives, and other community leaders to identify projects that improve the quality of life in Milwaukee’s low-income neighborhoods while also developing the skills of youth corps participants.

Links to Community and Economic Development

The “dual benefit” described above can be achieved through efforts to link public job creation programs explicitly to broader community-building or economic development strategies designed to improve the quality of life in low-income communities. To the extent that such programs increase the supply of job-ready workers in distressed neighborhoods while also serving as a catalyst for tangible community improvements (e.g., improved community facilities, safer or more attractive streets, or enhanced educational and recreational opportunities for children and youth), they can improve the local business climate and lay the groundwork for future economic development activities. In this way, public job creation and community improvement can work in tandem to open the doors of opportunity for low-income and jobless residents in depressed areas, potentially creating a synergy that yields greater dividends than otherwise would be achieved if each strategy were pursued in isolation.

At their best, public job creation and community-building initiatives share many common features: they attempt to integrate aspects of both community development and human service strategies; they provide a context for forging partnerships; they seek to build on community strengths; they start from local conditions; and they support families and children. Strong community-building initiatives already have taken root in a significant number of communities. Many other communities still need a mechanism for harnessing the indigenous resources in low-income neighborhoods and marrying them with public and private investments by the larger community. In both instances, there are strong arguments for developing public job creation programs that buttress and reinforce more comprehensive community-building efforts and neighborhood improvement activities.

More specifically, there are many opportunities to build strong linkages between public job creation and local economic development initiatives. A range of institutions — including Casey Jobs Initiative sites as well as regional and municipal economic development agencies, local community development banks, and community development corporations (CDCs) — are working to stimulate the creation of new businesses and expand the base of private-sector jobs in...
low-income neighborhoods. Empowerment zones and enterprise communities across the country are pursuing similar goals while also attempting to attract businesses to depressed areas. These efforts could be bolstered through effective coordination with new public job creation programs.

During the late 1970s, at least a handful of state and local governments seized the opportunity to link public job creation and local economic development initiatives through the CETA Public Service Employment (PSE) programs.2 Because CETA’s eligibility criteria (at least prior to legislative revisions in 1978) were quite broad, some well-educated PSE participants were placed in development agencies to enhance their administrative and planning capacity. State and local officials also recognized that PSE wages would generate substantial “income effects” in low-income communities, increasing the purchasing power of residents and the potential economic base for local enterprises. Finally, innovative planners tried to use PSE programs as vehicles for training local residents, upgrading physical resources or assets in low-income neighborhoods, and providing information or technical assistance to new or existing businesses. Some of the most ambitious projects used PSE funds to underwrite wage costs for new business ventures, enabling them to develop a local reputation and identify appropriate markets, needs, and sources of supplies and services before being forced to compete without subsidies in the local economy.

The narrower focus on hard-to-employ individuals in current public job creation programs is likely to eliminate some of these options for supporting or augmenting local economic development initiatives. Despite these constraints, it is worth considering possibilities for effective linkages in three main areas: workforce development, enterprise development, and broader community development.

**Workforce development.** Efforts to improve participants’ work readiness and job-related skills already are part of the core mission of most current public job creation programs, and they will generate some benefits for local economic development initiatives even if no attempt is made to forge explicit linkages between these activities. The challenge is to craft strategies that seek to translate these workforce development investments into larger and more durable gains. For example, economic development officials that are trying to convince firms to locate or expand in low-income neighborhoods can highlight the role of public job creation programs in workforce preparation as evidence that an adequate supply of workers will be available. “First source” hiring agreements can be structured to ensure that unsubsidized employment will be available for individuals who perform successfully in either “stepping stone” or “try-out” jobs. Public job creation programs also can serve as feeder mechanisms that open pathways for hard-to-employ individuals into customized/specialized occupational training, on-the-job training, and apprenticeship opportunities.

Enterprise development. The CETA PSE experience suggests a variety of ways in which public job creation programs could foster enterprise development. Publicly-funded jobs can serve as “incubators” for microenterprise development, allowing individuals to earn wages while working to develop business plans and get their new ventures off the ground. These jobs also can be structured to support and encourage the establishment of cooperatives (e.g., in child care, urban gardening, or crafts) or other support networks for self-employed residents. On a more ambitious scale, public job creation programs can pay wage costs incurred by “training enterprises” or “social enterprises” established by nonprofit organizations, and income generated by those enterprises could be retained as a source of capital for new businesses. (For more information on micro-enterprises and training enterprises, see this paper’s sections on private job creation.)

Community development. Improvements in local infrastructure and facilities are one obvious way to link public job creation and community development. This approach can include a broad range of efforts to renovate storefronts, upgrade parks or other public spaces, and otherwise enhance the appearance and accessibility of local business districts. Restoration of major productive assets in the community, such as abandoned manufacturing plants or mills, can be facilitated through work projects sponsored by public job creation programs. While perhaps less relevant in urban areas, natural resources that provide a basis for economic activity also can be reclaimed or restored to advance economic development goals.

Physical Upgrading and Resource Development

In many Massachusetts communities, CETA workers cleaned up and repaired public areas in neighborhood business districts, including repairs to sidewalks and edgestones, laying of brick sidewalks, and tree plantings. Some communities also employed CETA workers to make facade improvements in such districts or to support “shopsteading” programs in which vacant storefronts were purchased, renovated, and then leased or sold to new businesses. Other projects involving CETA workers included the rehabilitation of a large mill for use as a multi-tenant manufacturing facility and the restoration of clam beds through predator and disease control, habitat management, and rehabilitation of currently barren clam flats.

Even in the era of CETA Public Service Employment, the allocation of public job creation funds within communities typically was not tied in creative ways to incentive structures that enhanced and reinforced broader community improvement efforts. Current initiatives, with their almost exclusive focus on workforce development goals and transitions from welfare to work, have devoted far less attention to the potential “dual benefit” derived from linkages between public job creation and local economic development strategies. Yet the potential for innovation in this area still exists. An important challenge for future public job creation initiatives is to use publicly-funded jobs more explicitly as a catalyst to stimulate local economic development and to support community-based activities designed to improve the business climate and broader living conditions in low-income neighborhoods.
The Record of Past Public Job Creation Initiatives

The three basic models described above differ from most of our nation’s previous public job creation efforts. Past initiatives have been designed and justified primarily as mechanisms for expanding the supply of jobs, particularly during periods of high and rising joblessness caused by economic downturns:

- The first federal programs to create publicly-funded jobs were launched during the Great Depression of the 1930s. Unprecedented unemployment led to the establishment of massive public job creation initiatives, including the Works Progress Administration (WPA) and the Civilian Conservation Corps (CCC).

- Three decades passed before the federal government turned again to public job creation. In the aftermath of an economic downturn in 1969-70, the modest Public Employment Program (PEP) was established in 1971.

- A few years later, PEP was replaced by the CETA Public Service Employment (PSE) program (authorized under Title VI of the Comprehensive Employment and Training Act). The PSE program then was dramatically expanded to help jobless Americans find work during and after the 1974-75 recession.

While a much smaller component of the CETA PSE program (Title II-D) was intended to address barriers to employment faced by the chronically unemployed, the principal thrust of all of these major federal initiatives was to put jobless Americans back to work quickly and thereby to stimulate a faltering national economy.

Conventional wisdom considers these past public job creation initiatives failures. This view has been shaped in large part by the tarnished image of the CETA PSE program, which was marred by numerous allegations of fraud and abuse at the local level. Upon closer examination, however, the story of prior federal job creation efforts seems far more complicated and their legacy more mixed. Careful evaluations of the CETA PSE program found that most participants were engaged in useful work and that many participants (particularly women) earned substantially more in the year or two after they left the program than similar individuals who did not participate. Even some of the abuses and shortcomings of CETA PSE appear to have been the predictable result of a push to reach very large scale (the program created more than 700,000 jobs at its peak in 1978) within a few years, creating intense pressures on local administrators that often precluded careful planning and sometimes compromised program quality or accountability. In any case, it is not clear whether or to what extent this experience in implementing a large-scale, countercyclical program is relevant to the approaches being developed or tested through current public job creation initiatives.

What is interesting and less commonly understood is that a series of smaller-scale job creation projects developed in the late 1970s and 1980s have yielded more unambiguously positive results. Research findings from these projects offer substantial evidence that public job creation can be effective in raising the employment prospects of disadvantaged adults and youths. The evidence also suggests that such efforts can increase the supply of entry-level jobs in depressed
communities and respond to pressing community needs. Some of these initiatives have been the subject of rigorous evaluations that leave little doubt as to their effectiveness. Others have generated data on program outcomes that, while less conclusive, still underscore the potential of public job creation as an important tool for aiding disadvantaged workers and depressed communities. Taken together, these findings dispel the myth that public job creation represents a “failed policy of the past.”

Many lessons can be drawn from past initiatives to guide the development of a next generation of public job creation efforts:

Public job creation programs can be an effective tool in boosting the employability of very disadvantaged individuals, including but not limited to longer-term welfare recipients who now are the focus of federal and state welfare reform efforts. Publicly-funded jobs can provide much-needed work experience and skills for a broad range of hard-to-employ adults and youths who cannot find unsubsidized employment. These efforts are most likely to succeed when publicly-funded jobs are understood to be “stepping stones” that lead to permanent employment and are accompanied by strong job search and job placement activities. Research on Milwaukee’s recent New Hope Project and St. Paul’s earlier Transitions program have yielded encouraging findings regarding the potential for boosting the employment prospects of the hard-to-employ through transitional jobs. This approach now guides a growing number of public job creation initiatives for welfare recipients, including state-administered programs in Washington and Vermont as well as city efforts in Baltimore, Detroit, Indianapolis, Philadelphia, San Francisco, and Seattle.

Initiatives that combine paid work with substantial training or education activities appear to have the greatest impact on participants’ future employment and earnings. Past research on a broad array of employment and training programs for disadvantaged adults and youths suggests that those that combine work and learning are particularly effective. The National Supported Work Demonstration of the late 1970s improved employment and earnings for both welfare recipients and adults with a history of substance abuse. Similarly, participants in the AFDC Homemaker-Home Health Aide Demonstrations of the early 1980s earned more after a period of subsidized employment than their control-group peers. In both instances, earnings gains exceeded those documented for unpaid work experience programs and other more recent welfare-to-work initiatives.

Public job creation programs can be operated at substantial scale; however, models that emphasize skill development pose greater implementation challenges and must be expanded incrementally over time. The track records of CETA and the WPA (which put more than three million unemployed Americans back to work at its peak in 1938) leave little doubt that public job creation initiatives can be operated at substantial scale. The potential to achieve scale at the city level also was demonstrated in the Youth Incentive Entitlement Pilot Projects, which employed 76,000 youths in 17 low-income communities across the nation in the late 1970s.

For a fuller discussion of research findings on promising job creation initiatives, see Clifford M. Johnson and Ana Carricchi Lopez, Shattering the Myth of Failure: Promising Findings from Ten Public Job Creation Initiatives, Washington, DC: Center on Budget and Policy Priorities, (December 22, 1997).
Achieving scale is more difficult, however, in public job creation programs that place a heavy emphasis on skill development. For example, many current youth programs that seek to integrate work and learning — including YouthBuild programs and youth corps operating in many states and communities — typically are quite small, serving fewer than 100 young people in any given site. These programs have achieved scale primarily by replicating their smaller-scale projects in dozens of states and local communities nationwide.

The work performed and services provided through public job creation initiatives add significant value to communities, particularly when project development and work site selection are closely linked to community needs. Although past research on public job creation initiatives has focused more on outcomes for participants than on the value of the work they perform, these additional benefits should not be ignored. Evaluations of both the AFDC Homemaker-Home Health Aide Demonstrations and recent youth corps programs identified the value of services provided through these projects as a key factor in their ability to generate benefits to society that exceeded their costs. Many public agencies, nonprofit organizations, and other groups in low-income communities are eager to participate in publicly-funded jobs programs because of the value they can add to the community. Consequently, current initiatives are having little difficulty finding appropriate work sites, and some YouthBuild and youth corps programs have even been able to launch income-generating projects that support and sustain their work.

Public job creation does not have to be an exclusively federal domain. State, county, and community innovations can play important roles, particularly in tailoring programs to meet specific state or local goals and needs. During recessions, only the federal government is likely to have the resources necessary to finance large-scale job creation programs that alleviate widespread joblessness. Yet, particularly in the context of welfare reform, states, counties, and local communities are playing increasingly important roles in the design and implementation of programs to help hard-to-employ individuals gain a foothold in the regular labor market by creating wage-paying jobs in private nonprofit and public agencies.

Key Choices in Developing Public Job Creation Initiatives

Much remains to be learned about the design and implementation of public job creation programs. Based on past research and current experience, no single model or approach emerges as obviously preferable for all labor market conditions or target populations. What seems most important is that public job creation initiatives should be tailored to respond effectively to local circumstances and needs. While every program must carry out a set of core functions — including selection of participants, identification of useful work, supervision of that work, and payment of wages — the details of how those tasks are performed can vary greatly. The following list of questions is intended to guide policy makers and community leaders through the most important design choices.

1. Who should participate in a public job creation initiative?

There are compelling reasons to include a broad range of jobless individuals (including but not limited to longer-term welfare recipients, non-custodial parents, disadvantaged youths, and single unemployed adults without other means of support) in a public job creation program.
Allowing equally needy individuals to apply for publicly-funded jobs can reinforce an elemental sense of fairness, affirming widely-held beliefs that many different types of people in low-income communities need employment opportunities. In addition, a more diverse group of participants with various skills and interests can engage in a broader array of work projects, which may help minimize any stigma associated with the program. All of these factors can contribute to public support for the initiative and provide a stronger foundation for its preservation or future expansion.

In practice, however, available options for financing a public job creation program may narrow a community’s choices regarding eligibility. For example, if the program relies exclusively upon funds from the Temporary Assistance for Needy Families (TANF) program established under the 1996 federal welfare law, eligibility will be restricted to individuals receiving assistance under the state’s TANF plan. Similarly, the use of new federal welfare-to-work grants from the U.S. Department of Labor will require a focus on longer-term welfare recipients with multiple employment barriers and non-custodial parents of children in welfare households. Current financing options for programs serving unemployed individuals outside the welfare system seem more limited, but may include federal funding for empowerment zones or enterprise communities, YouthBuild programs, national and community service initiatives, and in some instances collaboration with other adult or youth training programs.

Programs that begin on a small scale typically are able to serve only a small fraction of the welfare recipients, non-custodial parents, or other groups that are eligible to participate. For this reason, many initiatives use additional eligibility and targeting criteria to ensure the program reaches those most in need of assistance. Some, for example, use a period of mandatory job search (typically lasting three to six weeks) as a cost-effective way of “testing the market” and moving more employable individuals into unsubsidized rather than publicly-funded jobs. Other programs restrict eligibility to those who lack recent work experience or who have received cash assistance for an extended period of time.

Targeting decisions in the end must reflect a delicate balancing act among competing goals. If eligibility criteria are drawn too loosely, scarce public resources will be squandered on individuals who most likely could secure employment in the regular job market. On the other hand, if targeting choices have the effect of preventing most groups from gaining access to publicly-funded jobs, community support for the initiative may evaporate and the task of finding appropriate work sites for participants may become exceedingly difficult. Every community needs to give careful thought to these tradeoffs, developing an approach that can garner support among potential sponsors of job projects and the broader public while still remaining focused on hard-to-employ residents.

2. **How should publicly-funded jobs be structured?**

The terms of employment — including the number of hours of work provided each week, the wage rate, and the duration of employment — are key variables in the design of any public job creation initiative. Choices in each of these areas will affect both program costs and outcomes.
They also force tradeoffs and sometimes difficult compromises as policy makers and community leaders attempt to strike a balance among competing goals.

Decisions about the terms of employment are difficult because policy makers and community leaders want to meet the immediate employment and income needs of participants while at the same time preserving incentives for them to move quickly into unsubsidized jobs. For example, participants’ earnings must be high enough to reward their work effort and meet their basic needs, but not so high that they discourage transitions into permanent jobs. Similarly, publicly-funded jobs must last long enough to allow participants to acquire meaningful work experience and undertake work projects of value to the community, but not so long that they are perceived by participants or the general public as a substitute for jobs in the regular labor market.

Many current initiatives have responded to this tension by creating part-time jobs at or near the minimum wage that last less than a year. This model typically allows participants to earn more than they previously received if they were on cash assistance, but falls well short of providing a “living wage.” This approach keeps program costs low and provides strong financial incentives for participants to seek unsubsidized jobs with more hours of work at higher wage levels. The approach also has substantial drawbacks: participants in some jobs may be paid less than other workers engaged in comparable work, and it may be more difficult to develop high-quality work sites for participants if they are unable to work on a full-time basis. A few public job creation efforts (such as the Seattle Jobs Initiative’s Preparatory Employment program) are attempting to provide full-time jobs at higher wage rates. These initiatives rely heavily upon job duration limits to preserve a focus on transitions into unsubsidized employment and ensure that participants do not remain in publicly-funded jobs indefinitely.

Publicly-funded jobs programs should keep in mind that individuals with little or no prior work experience are likely to need at least six months on the job to increase their employability. Programs that are targeted to serve more disadvantaged segments of the jobless population may require much longer periods of participation — perhaps beyond nine or 12 months — for acquisition of necessary work-related skills. The use of extensions or reassignment on a case-by-case basis can give programs greater flexibility in responding to participants’ needs while still maintaining a structure that underscores the short-term, transitional nature of publicly-funded jobs.

3. **What kinds of work assignments or projects should be developed?**

A large majority of Americans support the concept of providing work for those who cannot find jobs on their own. That support quickly evaporates, however, when the public becomes convinced that public jobs are not “real” — that they do not focus on necessary or important

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4 Programs serving substantial numbers of welfare recipients must also address questions regarding the treatment of earnings from publicly-funded jobs within their state welfare programs. Many states now have relatively generous “earnings disregards” which allow recipients to keep a substantial portion of their earnings when they work. If participants in public job creation programs are eligible for these disregards, the net income gains they achieve by working will be considerably larger than would be the case if their earnings trigger dollar-for-dollar reductions in welfare benefits.
tasks and therefore squander tax dollars. For political viability as well as programmatic
effectiveness, the selection of work projects is one of the most important elements of any public
job creation program.

Every work assignment or project should allow participants to acquire “soft skills,” including an
understanding of appropriate workplace behavior and a sense of employer expectations in the
regular labor market. Close supervision, clear standards of performance, and a reasonable set of
work responsibilities are some of the elements of a public job creation initiative that can enhance
participants’ work readiness or “soft skills.” Some publicly-funded jobs, however, may offer
opportunities to go further, imparting transferable occupational skills that will help participants
obtain unsubsidized, entry-level jobs. Any public job creation program intended to boost the
employability of participants should consider skill development opportunities as a criterion for
selecting work sites.

No single set of work projects will make sense in every state or community. Many diverse
activities offer promising possibilities, including playground construction, lead-paint or asbestos
removal, school and community center renovations, after-school and summer recreational
programs, child care and home health care services, and community crime prevention initiatives.
In these and many other areas, large numbers of publicly-funded jobs could yield substantial
public benefit. Yet in any particular community only some of these options will respond to
pressing community needs, and it may be necessary to choose carefully among the possibilities
to avoid displacing or otherwise harming the employment prospects of current workers in public
or nonprofit agencies.

Past job creation initiatives relied heavily upon city and county agencies to create appropriate
work sites for participants, typically creating jobs for low-skilled individuals in sanitation, public
works, and park and recreation departments. There are compelling reasons, however, to seek a
more diverse mix of work projects sponsored by both private nonprofit and public agencies.
Community-based organizations can provide closer, more structured supervision for participants.
They may also have a greater awareness of the needs in the neighborhoods or areas in which they
work and the capacity to develop creative, highly visible projects to address them. Finally, the
greater diversity of job creation projects that may be achieved by using both private nonprofit
and public agencies as work site sponsors may make it easier to tailor individual job assignments
to participants’ skills, interests, and needs.

4. To what extent will education and training be provided for participants?

One of the opportunities presented by publicly-funded jobs is the chance to engage low-skilled
workers in education or job training activities that will boost their long-term employability. A
growing body of research suggests that education and training are most effective when closely
linked to work. Through work experience, individuals become more aware of the barriers to
advancement presented by their limited education or job skills. The motivation to improve their
skills can rise when education or training are closely integrated with work activities, either at the
workplace or in classroom settings. Public job creation programs, if structured with an eye
toward skills development, can take advantage of these opportunities to achieve greater and more
lasting gains in the employment prospects of participants.
At the same time, the implementation challenges of integrating or otherwise linking education and training with publicly-funded jobs can be daunting for program administrators. The most feasible approach may be to develop relationships — either through referral arrangements or direct contracts — with existing education or job training providers that have demonstrated a capacity to serve the program’s target population. While it may be possible to offer education and training services at larger work sites, most participants are likely to have to travel to another accessible location for such services. Some adjustment in work schedules will be necessary to accommodate education and training activities, whether by reserving a specific day each week or by making time available each day for such activities. In addition, these components are likely to be most effective if there are opportunities for work site supervisors and teachers or trainers to confer on a regular basis about skill standards, curriculum, and participants’ progress.

5. **At what scale should public job creation programs be implemented?**

Public job creation initiatives can be designed at almost any scale in response to local labor market conditions and budgetary constraints. An effort to serve all hard-to-employ individuals within a state or city would require a very large investment of resources. More modest programs can target particular neighborhoods or communities or serve a narrower subgroup of the jobless population (e.g., long-term welfare recipients with multiple barriers to employment).

Even very successful public job creation programs may find it difficult to reach a scale sufficient to have a major impact on the communities they serve. Budget constraints can force promising programs to start small or shelve expansion plans even when they are reaching only a small fraction of the population in need. Program complexity also can make it more difficult to create publicly-funded jobs on a large scale. Particularly if a public job creation program embraces ambitious goals — for example, by seeking simultaneously to enhance participants’ future employability and to respond to pressing community needs — it often must start relatively small and build incrementally over time.

The ability to move toward full-scale implementation of a public job creation program may depend greatly upon success in controlling costs. Concerns about the cost of publicly-funded jobs are widespread and understandable. Even when paying the minimum wage for only 20 hours each week, the necessary components for high-quality programs (including close supervision, links to education and training, and meaningful work in the community) can push costs up substantially.

A number of strategies can reduce costs without sacrificing the quality or integrity of a public job creation program. As discussed earlier, participants can work part-time rather than full-time, with hours of work established at levels which still ensure economic gains by participants. Programs can also reduce the number of participants or establish pilot projects in selected neighborhoods or communities to stay within budget constraints.

Decisions to provide only part-time work, to operate at a smaller scale, or to establish programs in only a few areas have obvious drawbacks. Yet, when concerns about cost threaten to derail plans for a public job creation program, such cost-cutting measures may be unavoidable.
Programs in which hours of work or numbers of participants are sharply limited can still play key roles in testing new models for creating publicly-funded jobs and building public support for future expansion. Starting small also has advantages — program administrators can pay greater attention to quality in the early stages and can address problems before hiring more participants or replicating the program in additional neighborhoods or communities.
PRIVATE JOB CREATION STRATEGIES

Purpose and Rationale

As stated earlier, private job creation (also called economic development) is the use of customized business assistance programs to generate additional wage-earning jobs in the private sector. This section provides a four-part overview of this topic. First, we delve into the nuances underpinning the definition of private job creation. Next, we look at four “generic” job creation (or economic development) strategies: creating training enterprises; recruiting businesses; promoting entrepreneurial initiative; and delivering business retention, expansion, and modernization programs. Third, we examine the record of private sector job creation efforts. Finally, we explore key choices in developing private job creation initiatives.

What Is Economic Development?

Important as it is to add public sector job creation to a policymaker’s tool kit, it is just as important to pursue private sector job creation, or economic development, avenues as well. And, the reasons?

First, in most circumstances, pushing for additional private sector job generation is an easier political sell than creating more public sector employment opportunities.

Second, private markets are not perfect institutions. There are, in fact, ways that intelligent public investments, coupled with creative partnerships with the private and nonprofit sectors, can make a real difference in the number and quality of new employment opportunities. For instance, a number of possible “market failures” might impede private markets from being efficient in providing enough jobs or sufficiently productive jobs, and thereby might provide some room for customized business programs to improve economic efficiency. Private financial markets may fail to fund worthwhile business projects because of government regulation, inadequate secondary markets or insurance markets, or too short time horizons. Research and job training may be under-funded by firms because one firm’s research or training provides external benefits for other firms. Private markets may fail to provide sufficient information to small- and medium-sized businesses because of difficulties in accessing the quality of information. Land assembly problems may impede private business development. Finally, and perhaps most important, because of involuntary unemployment and underemployment, new jobs provide significant benefits to those who obtain them: the wage paid will greatly exceed the value of their time. In addition, getting an unemployed person into a job opportunity may have spillover benefits for other persons, by reducing crime, strengthening families, and providing role models to others . . . . These market failures do not prove that customized government assistance will solve these problems . . . . The benefits and costs of governments-sponsored customized assistance to businesses
must be compared with the option of doing nothing and the option of more general policies.\(^5\)

In fact, efforts to address market imperfections and increase business productivity or the demand for labor are the bread and butter practice of the economic development field, which could be defined as:

The on-going process of creating wealth in which producers deploy scarce human and financial capital, physical and natural resources to produce goods and services that consumers want and are willing to pay for. The economic developer’s role is to participate in the process of national wealth creation for the benefit of local consumers and producers by facilitating either the expansion of job opportunities and tax base or the efficient redeployment of local resources.\(^6\)

Thus, economic development involves identifying and sustaining the comparative advantage of a particular place. This can be done by enhancing productive capacities (e.g., workforce preparation, research and development, management assistance and education, etc.) and by improving investment locations.

Economic development programs can be further categorized in a number of ways. One simple way to do so is to distinguish between traditional business recruitment strategies and homegrown economic development initiatives. The former use marketing and business incentive tools to attract facilities of larger firms and thereby expand the export base of an area economy. Homegrown (or indigenous) development strategies, on the other hand, are more eclectic approaches that tend to promote innovation by encouraging small business start-ups, business modernization, and technology development. Typically, such efforts aim to correct market failures in the private sector in order to achieve greater efficiency and equity. Market failures, which may demand public action, include discrimination, involuntary unemployment and underemployment, fiscal benefits, agglomeration economies, research spillovers, imperfect human capital markets, imperfect information markets, and imperfect financial markets.

Moreover, different types of economic development programs tend to target their benefits to particular constituencies, to achieve certain goals and not others. Indeed, there are often trade-offs between the field’s twofold goals of job creation and wealth generation. For example, increasing productivity can eliminate employment. Likewise, efforts to build a convention center or attract a major anchor store may add to a downtown fiscal base, but not expand opportunities for the community’s most economically disadvantaged citizens and neighborhoods. Certain approaches to economic development are more likely to expand the economic pie, while others mainly shift jobs to their locale.


Creating Jobs

In conclusion, economic development uses a variety of techniques, targeting large or small firms and benefiting a range of potential constituencies. For the purposes of this paper, we will explore development strategies with two different goals:

- Expanding employment opportunities for the economically disadvantaged; and
- Enhancing successful business ownership among poor and minority populations and neighborhoods.

These are the most likely arenas where action to aid those who need help the most can add to net economic activity.

Where To Begin?

The Casey Jobs Initiative (JI) sites are already engaged in efforts to help the economically disadvantaged by improving workforce preparation systems and by linking these to emerging family-wage job opportunities. By many standards, this represents an economic development practice called a job linkage program, since it involves the coordination of employment training (E&T) and economic development (ED) efforts. Effective linkage tries to ensure that the benefits of growth are targeted to those most in need. The spectrum of linkage activities is wide, ranging from the establishment of complementary goals and objectives to the creation of one-stop employment and economic development shops. Which direction policymakers and program managers take depends on the community’s unique set of problems, resources, and institutional arrangements.

In addition, JI site involvement with workforce preparation and job brokering activities requires that the sites reach out to employers, build alliances with economic development institutions, and design strategies that target particular participants (e.g., single parents, youth, the underemployed, ex-offenders). That is, sites provide good on the job economic development training.

Here it may be important to point out that sites do not have to build economic development programs from scratch if they wish to explore this new direction. Instead, they might partner with a development agency and help to redirect its programs to achieve the goals we listed above – expanding employment opportunities for site constituencies and enhancing business ownership options. The following list details seven ways JI sites can pursue linkage, collaboration, and organizational relationships with existing economic development agencies:

1. **Complementary Goals and Objectives.** A popular approach to linkage is the establishment of complementary and mutually supportive goals and objectives, such as exchanging information, identifying potential areas for pooling resources and combining efforts, etc. cetera.
2. **Joint Planning.** Some states and localities have formalized linkages through joint planning.
3. **Joint Marketing.** Under this arrangement, complementary program incentives and services are joined together, enabling economic development and employment and training agencies to address the financial, management assistance, and human resource needs of business.
Joint marketing should be coupled with cross-training, common tool development, new referral systems, and other such innovations.

4. **Exchange of Personnel.** Under this arrangement, training and economic development organizations remain independent agencies, but employees are exchanged.

5. **Joint Review Committees.** Some areas have established technical committees to review applications for assistance jointly. Others have experimented with “case management teams” to work with firms’ and participants’ full spectrum of needs.

6. **The Creation of Umbrella Organizations.** Establishing an appropriate organizational umbrella represents another way of linking organizations that would otherwise remain autonomous. Umbrellas allow for information exchange and shared strategy formulation.

7. **Integrated Organization.** Employment and training (E&T) and economic development (ED) agencies are merged into a single organization.

There are also a number of program approaches to collaboration:

1. **Closer Coordination and Program Refinement.** Many traditional training and economic development efforts have been hindered by operating in a fragmented fashion. Integrating the planning and administration of these initiatives increases the likelihood that participants are being prepared for real jobs. Increasing the linkage of institutions and goals can also reshape the content and delivery of the training.

2. **First Source Agreements.** Here, program architects and managers move beyond setting joint goals, marketing in new ways, and developing more market-relevant curricula by directly “requiring” that programs deliver job opportunities for their targeted clientele. Local businesses agree to consider on a first source basis persons referred to the firm by local employment and training agencies. In exchange for public financing, tax advantages, or other such incentives, firms agree to work with local E&T programs.

3. **Direct Linkages.** Based on training and assisting people to create jobs, this approach to linkage uses E&T resources to support microenterprise, develops small business incubators and technology centers and links them to E&T resources, undertakes new economic development initiatives that complement E&T activities, and so forth.

We can draw a series of conclusions from reflecting on these lists. First, JI site managers, boards, and program contractors can take the first step in advocating for new economic development approaches to expand opportunities and business ownership among their constituencies by simply becoming more literate about relevant private job creation strategies and using joint planning, marketing, and review committees to craft new initiatives. Second, they can try to encourage systemic change and build from their program experience by advocating for first source agreements and other strong job linkage techniques. Third, they can roll up their sleeves and add a development program (“Direct Linkage”) to their tool kit that picks up where their other initiatives leave off.  

The following sections examine four “generic” economic development options that sites should consider:

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7 The appendix on “Getting Started” walks the reader through the nuts-and-bolts of making these decisions and customizing an appropriate job creation strategy.
Creating Jobs

- Creating training enterprises;
- Recruiting businesses;
- Promoting entrepreneurial initiative; and
- Delivering business retention, expansion, and modernization programs.

Creating Training Enterprises

A natural way to build on a site’s training expertise is to create a training enterprise – a real live income-generating business which turns out two products: a trained worker with a future in a decent-paying occupation and a needed good or service that the market wants to buy.

More precisely, a training enterprise is defined as a business that has been set up primarily and explicitly as a vehicle for training those who work in it. It is created to reach low-income, hard-to-employ groups of people as part of a poverty alleviation and community development strategy. But as a commercial enterprise, it operates in the marketplace, building or renovating houses, repairing automobiles, or providing any other product or service that the market will bear. In addition, training enterprises deliver transitional employment services, since they prepare a majority of their participants for eventual placement with other firms in the same sector. In short, the approach seeks to accomplish both business and training goals.\(^8\)

Such a venture operates on the premise that by shrewdly identifying market opportunities, assembling a well-qualified management team, delivering quality training services, and marketing products effectively, its designers and managers can:

- Prepare workers with marketable skills for a changing employment scene;
- Promote the development of a viable business;
- Reduce the need for charitable and government fundraising by generating real business income; and
- Provide the community with a quality product at an acceptable cost.

Example

The Asian-American Construction Company (AACC) seeks to provide hands-on construction training to low-income unemployed and underemployed Southeast Asians by offering them marketable skills that lead to meaningful employment and self-sufficiency in the community. Now in its sixth year of operation, AACC was created by the Wausau Area Hmong Mutual Association (Wisconsin). A full-time professional Construction Training Manager oversees the company, supervising the trainees’ work and managing AACC’s bidding efforts. AACC works in both residential and commercial construction, including general carpentry, new construction, and remodeling. Trainees study mathematics and English as related to the job. Twenty-two individuals have received training over the course of the program and have completed about 200 residential and light commercial jobs. About 15 to 20 percent of AACC’s budget is financed by Job Training Partnership grants, while the rest is covered by its commercial operations.

Recruiting Business

A business recruitment program works to attract new firms to a community by marketing an area’s strengths, making appropriate investments in the area’s workforce and physical infrastructure, and offering carefully designed and cost-effective incentives.

More specifically, an effective recruitment program creates jobs by exporting products and services, increases tax revenues, and helps to diversify a local or regional economy. Most development professionals know how to recruit, whether they operate at the neighborhood, city, county, or state level; it is part of their traditional role in development. Recruitment, when successful, delivers quickly; once the decision is made, a significant number of jobs can be created in a short time. Growth from business recruitment appeals to the populace, boosts local morale, and provides excellent “ribbon cutting” opportunities for local officials. Moreover, there are a significant number of financial incentives available from local, state, and federal government resources for business recruiting purposes. A well-targeted and -delivered strategy can serve as an appropriate investment for some jurisdictions. For all these reasons, business recruitment can and should be an important component of many communities’ development agendas.

While recruitment seems like a straightforward process, some major pitfalls exist. Not all communities offer opportunities that attract such prospects. Indeed, the odds are long because at any given time there are a limited number of prime projects. Unfortunately, this competitive environment has resulted in today’s incentives “arms race” atmosphere to “give away the store” by providing overly generous financial incentives to prospective businesses. Existing companies can wind up feeling neglected, thinking leaders and development professionals are only interested in new firms. Economically disadvantaged communities face even greater obstacles in attracting plum projects. And landing a prospect even nearby often does little to help their situation if they need transportation and job development and training services to take advantage of it. Focusing too much energy on recruitment efforts also has its opportunity costs. It may discourage policymakers and development professionals from giving sufficient time and
adequate resources to other promising development activities, such as promoting the local “homegrown” economy.

The trick in avoiding these traps is to customize an appropriate strategy by carefully considering the area’s real comparative advantage and attracting the sort of jobs most helpful to the area’s labor market priorities. Does the area really have a chance to recruit outside plants or a key anchor store? How does a business recruitment strategy fit with other community and economic development approaches? How might recruitment improve local amenities? How might a new anchor store aid downtown or neighborhood commercial strip revitalization? How can the recruitment effort be linked with workforce preparation and training initiatives? Where is the synergy across strategies? How can business recruitment efforts improve the overall climate for existing businesses and entrepreneurship? How might it spur efforts to promote a local supplier industry or minority enterprise development? Is the community’s approach to recruitment compatible with its social and quality-of-life goals?

Example

The Multnomah County Strategic Investment Program (MCSIP) seeks to link the provision of tax incentives for attracting companies with a requirement to meet certain job creation, wage, and investment targets and to participate in an area First Source hiring program. One notable example is MCSIP’s agreement with LSI Logic, a semiconductor company which has planned a $4 billion investment and should generate 2,000 new jobs in the Portland, Oregon, area. The company is obligated to create long-term jobs with family wages, benefits, and working conditions. To date, LSI Logic has surpassed its Strategic Investment Program benchmarks in numbers of jobs and amount of pay. LSI Logic also entered into a First Source Agreement in 1995 with the area’s JobNet program. This agreement requires LSI Logic to use the program to recruit entry-level workers. Residents interested in jobs receive an orientation and, if qualified, are referred immediately to the firm for interviews. Unqualified applicants are given opportunities for other job training and placement services provided locally. And LSI Logic contributes an annual fee of $60,000 for its First Source referral services.

Promoting Entrepreneurial Initiative

Job creation advocates should not focus solely on business recruitment efforts. Instead, they must also stimulate entrepreneurship. Younger and smaller companies can explore innovative product strategies and combine resources more easily, more creatively, and at less risk than larger institutions. Such firms lend vitality to local economic development efforts in terms of job creation, profitability, technological innovation, equal opportunity, and asset accumulation—functions that are even more important in economically disadvantaged and depressed communities where the rate of local business ownership, profitability, growth, and stability have been low.
Economic developers can choose from three broad strategies to promote entrepreneurship: increasing entrepreneurial and management capacities, improving market conditions, and increasing the flow of investment capital.

The first challenge in many communities is to enhance entrepreneurial spirit and capacity. This can be accomplished through effective management education, training, and technical assistance services. In communities where entrepreneurial culture has been weak because of over-dependence on a few larger employers, discrimination and the absence of role models, and/or chronically low growth, efforts to expand business ownership and encourage entrepreneurial initiative through youth enterprise and microenterprise programs are essential first steps.

A second challenge is improving market conditions. High costs and risks, as well as thin markets can discourage business start-up and expansion in economically disadvantaged and depressed communities. The costs of land and taxes and the inadequacy of area infrastructure can be addressed through appropriate public action. Entrepreneurs can also improve their market base through procurement access programs and better identification of emerging and growing markets.

Third, small entrepreneurs often face difficulties in accessing financing, in the right amounts, at the right time, and on the right terms. But these firms can gain access to needed investment capital from a range of sources including loan guarantee and insurance programs, new tax policies, revolving loan funds, federal grants, and innovative bank regulation.

For more specifics, consult the detailed Appendix on private sector models, where we have sorted information by youth enterprise, microenterprise, and growth-oriented minority enterprises. We also include discussions of management capacity building, market development, and financing into each of these differing approaches. The following example documents one way to promote entrepreneurial initiative.
**Example**

The Neighborhood Builders Program (NBP) is a project designed to bring contractors from disadvantaged neighborhoods into the mainstream home-building industry in New York City. NBP aims to build the capacity of minority-owned enterprises so they can compete openly for public and private contracts. It uses a variety of tools, including access to financing in the form of construction loans, working capital funds, public subsidies, and credit guarantees; technical training; mentors; and partnerships with area CDCs. Since its inception in 1988, the Neighborhood Builders Program has assisted twenty-five minority-owned builders. Of these, twenty have become “bankable” minority builders – a 100 percent increase in minority presence in the home-building industry since the beginning of the program. Between 1988 and 1998, Neighborhood Builders built a total of 1,433 new homes and created the equivalent of approximately 810 full-time jobs, 75 percent of which were held by minority workers. In addition, 74 percent of the subcontractors and professional advisors employed by the Neighborhood Builders were minority-owned firms or entrepreneurs.

Also, under the auspices of the New York Housing Partnership, a program has been created to nurture minority construction and management corporations as they take title to residential buildings in targeted neighborhoods that have come under city ownership due to tax foreclosure. The Partnership owns the buildings while they are managed by neighborhood firms for a period of two years. Firms receive technical assistance and training over this two-year period. Currently, twenty-two minority firms participate in the program. Since the program started, 5,757 rental units have been managed by participating firms. By December of 1997, 225 jobs had been created, 65 percent of which were filled by local residents. Since 1994, the program has generated over $200 million from public, private, and philanthropic sources for construction loans, working capital funds, relocation, and social services to tenants.

**Delivering Business Retention, Expansion, and Modernization Programs**

Business retention, expansion, and modernization programs aim to expand and retain employment at and investment in local firms, and to improve their overall competitiveness. A typical retention and expansion (R&E) program can readily help communities (specifically, employees and businesses) adjust to plant closures, contractions, or relocations, and attract new firms. A more sophisticated modernization effort can help area companies move from average practice to best practice.

R&E programs seek to improve the flow of communication between local businesses and the larger community, particularly economic development organizations, local government, and other service providers. They aim to help communities understand better the importance and needs of local firms and to inform the business community about local programs. In doing so, they encourage stronger partnerships between communities and their business sectors. R&E programs often provide access to technical assistance and capital and can be instrumental in promoting the growth of “long-established existing small businesses.”
Business retention, expansion, and modernization programs are useful for accomplishing short-term goals such as finding a new site for an expanding firm, and long-term economic development strategies such as ensuring economic growth in the community or town. Successful implementation of such an effort requires widespread commitment and involvement ranging from education and outreach to ensure community and business buy-in, to task force meetings, to recruitment of area firms and volunteers as participants. More complex modernization programs such technology transfer, manufacturing networks, and cluster development also offer great opportunities for developing new products, processes, and markets. The following example provides the reader with more details about how such successful efforts can work.

**Example**

The Westside Industrial Retention and Expansion Network (WIRE-Net) is a nonprofit economic development corporation located on Cleveland’s West Side, an area of 120,000 residents. A membership organization of over 500 manufacturers, WIRE-Net was established to encourage the growth and retention of manufacturing industries, to promote their involvement in local community improvement efforts, and to strengthen public and private investment in the area. WIRE-Net’s staff of thirteen provides business assistance and workforce services, including aid with site finding, advocacy for infrastructure and community improvements, technology modernization and management technical assistance, joint purchasing of services, training for managers and supervisors, and job preparedness training and placement for entry-level workers. In 1997 WIRE-Net retained or attracted over 1,000 jobs. HIRE Locally (a WIRE-NET program) has placed in jobs over 1,500 residents (269 in 1997 alone), many of whom were prior welfare recipients. Its school-to-work program now operates in all the middle and high schools of its target area. WIRE-Net’s latest training program focuses on the machine trades, and now serves 13 students. WIRE-Net has developed a 15-acre industrial park in a brownfield site and has just sold its first parcel to a local employer who needed expansion space. Last year, the organization created four different Learners’ Groups, involving 30 companies and 110 business leaders, that discussed and dealt with human resource issues, ISO certification, and other quality improvement strategies.

**The Record of Private Sector Job Creation**

The four models described above – training enterprises; business recruitment; entrepreneurship; and business retention, expansion, and modernization – are each very different. Their histories, core functions, best practice principles, and relevance vary greatly. However, we believe it is desirable and possible to present an editorialized picture of their records in this section. The lessons offered below should help a JI site staff person sort through their programmatic pros and cons and their broader organizational implications. Let us first look at the economic development “big picture” and then explore a few, more specific factors for successful private job creation.
The Big Picture

- **Economic development practice and policy have changed dramatically in the past two decades.** Twenty-plus years ago, economic development was virtually identical with the terms “industrial development,” “business attraction,” or “smokestack-chasing.” Now, it has broadened to include a wider array of strategies and tools. But while the fields of business recruitment, retention, and expansion are virtually ubiquitous, efforts to promote entrepreneurship are still missing in some communities. Training enterprises and other mechanisms for income generation by nonprofits serving economically distressed populations are still quite rare.

- **There are many hazards in pursuing recruitment that must be borne in mind.** There is a tendency among state and local groups tendency to “give away the store” in the form of financial incentives to new businesses, causing resentment among existing firms. In addition, community expectations for recruited businesses are almost always too high. Perhaps one in 50 inquiries may lead to a real prospect. Recruiting is a long shot. Finally, communities often set their sights on inappropriate targets. For example, they indiscriminately go after everything. Or, they expect a computer company or a foreign investor to relocate to an area that really cannot meet the company’s needs. Many communities have spent significant resources on shotgun approaches to recruitment where a rifle approach may have made more sense, i.e., carefully matching targets to available resources.

- **For most communities, the best initial development approach is strengthening the current business base.** Retention and expansion are important for the following reasons. (1) As a general rule, 80 percent of new jobs will be created by existing firms. (2) Satisfaction with the community among local establishments as a place to do business is the best advertisement one can have to attract business in the future. (3) As the technology and products of existing firms change, so do their demands for new supplier industries. Thus, strengthening local and regional networks of suppliers and markets is key. (4) Local business owners and plant managers usually welcome the opportunity to participate in community growth initiatives. They are an important, often overlooked, resource in local economic development efforts. (5) Local established firms typically patronize a greater number of locally provided services than attracted firms; they are more embedded in the community. As a result, the growth of an existing plant has a greater spillover effect in terms of job and income creation. (6) Lastly, it costs money to relocate. Owners of local facilities generally prefer to avoid relocation decisions.

- **Recognizing a community’s or region’s comparative advantage over other places is a key element in building a healthy and productive local economy.** Traditionally, a region’s comparative advantage – its economic advantage over another region – was based on the area’s command of land, labor, and capital, the classic factors of production. A region may have advantages that result from special natural resource endowments, location (e.g., climate or access to transportation routes), special human resources (its peoples and their distinct strengths) or access to capital. These inherent advantages allow the region to produce a greater volume of trade. But today, comparative advantage encompasses much more than these traditional factors and includes a community’s more diverse strengths – its quality of life, values, history, culture, social capital, institutions, and economic structures – as well as
its innate natural resources, its scenic qualities and built environment, and human resources. Each community must discover and build on its particular assets. After all, market forces Adam Smith’s “invisible hand” – ruthlessly perform their function of allocating investments to the most economically beneficial locations. The real economic development challenge is organizing to win in the marketplace.

- **The models we recommend vary in their size and spread.** Business recruitment and business retention and expansion are virtually ubiquitous – almost every town, city, region, and state has programs. Training enterprises are still highly novel and their practice is restricted to only a few sites. The microenterprise field has undergone explosive growth during the last ten-plus years. Good youth enterprise, minority growth business, and business modernization efforts are not uncommon. The latter, for instance, has been fueled on the state level by major matching investments by the Clinton Administration.

- **The establishment of a defined best practice exists more in some models than in others.** Youth enterprise and training enterprise are probably more underdeveloped than the other approaches. Growth minority enterprise practice is still struggling. The other models – recruitment, retention, expansion, modernization, and microenterprise – are much stronger.

- **Community leadership contributes mightily to economic progress.** There is increasing evidence around the country that those places – both urban and rural – that take the time and make the commitment to understand and improve the local economy and community are the most successful in shaping their economic future. In addition, successful communities typically have a broadly shared vision; strong leaders both in and out of government; sound policies which support economic development, education, and quality of life; and institutions and individuals who take responsibility for key tasks.

- **Negative, unnecessary conflict between differing development models can be avoided by pursuing more “truth in packaging.”** Often programs are sold to the public under misleading slogans. They claim to offer increased employment opportunities for area residents when the actual likelihood is nil. For this and other reasons, mainstream efforts such as downtown development or high technology industrial projects have been criticized by advocates for the poor. A project intended to boost competitiveness and city viability, which are critical aspects of urban regeneration, may have little direct positive impact on the poor. Openness about such facts may help convince critics of a project’s value, and may focus attention on possible complementary opportunity-enhancing initiatives. Moreover, programs should focus on adding value, seeking ways to create higher quality jobs or more value-creating enterprises through such development efforts.

- **Selecting the right model for the situation and customizing its approach is key, since there are multiple routes out of poverty.** The poor are not a homogenous group. They are poor for many different reasons, and their ability to escape from poverty varies greatly. There are the working poor who need permanent, better-paying jobs; the work-ready unemployed who need to re-enter the labor force in more stable jobs; the working willing who may need to augment skills or receive help in finding a job; and the chronically unemployed who may need to learn about the workplace or need help with day care or substance abuse before seeking a mainstream route out of their situations. Economic development, workforce preparation, job placement, and human services need to be linked and customized to match the array of program choices to the needs and skills of the poor and offer real and more appropriate assistance.


**Private Job Creation Lessons: The Specifics**

The diversity in these models makes it rather difficult to draw overarching lessons. First of all, business recruitment efforts focus primarily on improving and marketing locations to outside investors. Thus, economic developers are not typically working to enhance the inner workings of these businesses, as these other strategies attempt to do.

Training enterprises occupy a spot on the other extreme. Here, program managers are engaged as deeply as possible in their firms’ operations because they are running real, for-profit businesses. Four elements are needed to make these enterprises effective, cost-efficient, accountable “social ventures”:

- A business plan for the creation of a profitable “social” business that passes industry-specific expert business scrutiny and has in place from the start a strong entrepreneur/manager or management team with credible experience and commitment.
- Understanding by funders or investors that business creation is always high-risk, that social motivations do not reduce that risk and may increase it, and that businesses in industries that rely mainly on low-skill workers face fierce competition and must have an identifiable competitive advantage that goes beyond access to low- or no-cost capital in their early years.
- Regular access to information about current conditions in the market and the resources necessary to maintain vigorous, responsive marketing/sales efforts.
- Boards of directors and management structure that support the entrepreneurial qualities of the manager, but also hold the manager accountable to clear short-term management objectives and detailed financial reports on a monthly basis.

All the other approaches operate somewhere in between these two poles. They seek to deliver technical assistance and financing services to upgrade the management, capital, marketing, and other core functions of a given firm. For those programs, such as microenterprise; youth enterprise; business retention, expansion and modernization; and minority growth enterprise, where program managers are assisting others to run viable businesses, we cite the following cross-cutting lessons.

- *Most business clients face the same sorts of constraints, whether they are low-income or middle-class.* The key barriers include: (1) lack of resources, especially time and expertise (in product development, market research, etc.); (2) lack of finances (especially to pay commercial rates for marketing, technical support, business information, plant and equipment, etc.); (3) lack of awareness of opportunities and other available assistance; and (4) lack of appreciation for the potential value of external assistance (particularly relevant in the case of business information services).

- *Five key factors help to make these programs effective.* First they offer services people need and want, but cannot get elsewhere —very low-cost, easy-to-understand technical help; small amounts of credit; consistent respect, patience, and personal encouragement; staff commitment to the value of small enterprise activity; and association with others, like themselves, also struggling to operate businesses with limited resources. Second, programs help people help themselves. Third, effective initiatives are strongly results-oriented and
Creating Jobs

fine-tune their approach based on feedback about what is most effective. Fourth, because of the client base for many of these programs, effective initiatives integrate business assistance with personal support services, such as client self-assessment, child care, money management, and life skills training as a comprehensive approach to the disadvantaged entrepreneur’s needs. Fifth, they employ trained staff who understand small business and are sensitive to the effects of poverty and discrimination on clients, making them credible teachers and advisors on both a personal and business level.

- **Appropriate funding and sound financial management are critical to program success.** For instance, programs must be assured of adequate long-term core funding to recruit and retain qualified staff, provide time for learning, build client and community trust, leverage educational support, and free staff to concentrate on program development and management. In addition, loan funds should approach their portfolio management challenges like any other financial services businesses by putting in place the necessary systems to monitor deals and to manage their capital base wisely.

- **Successful business always requires carefully identifying a market niche and mounting appropriate marketing and sales efforts.** This is doubly true if the community-based organization is directly launching and financing a business venture, rather than acting as a source of financing and technical assistance or joint-venturing with a private firm.

- **Programs should develop support and expertise networks with more mainstream business organizations, bankers, and others.** This is crucial for attracting funding, tapping a broader and more specialized knowledge base, and building credibility.

- **Often changes in the regulatory environment are needed to remove obstacles for low-income entrepreneurs.** Welfare disincentives to earning and accumulating assets, costly licenses and permits, fragmented and unresponsive regulatory bureaucracies, inflexible zoning designations, and blanket restrictions on street vending can all be prohibitive for low-income entrepreneurs.

- **Effective programs build networks, or relationships, both among businesses and with the entrepreneurs and institutions that can provide them with needed resources.** Success in business often depends on “who you know.” Businesses can learn a lot from their peers. Moreover, development services can be delivered in a more cost-effective and customized fashion to firms in the same sector. And entrepreneurs can save both time and money if they know where to find quick and easy reliable assistance. For these and other reasons, creating networks, alliances, and partnerships is now a critical element in economic development success.

- **The “reinvent government” paradigm is increasingly reshaping development policies, programs, and practice.** At best, many economic development initiatives are well-intentioned, but fragmented efforts. A more seamless economic development “system” would require directly tackling the turf, funding, design, and accountability issues that mar many development efforts, both locally and regionally. Only by overcoming these challenges will future private job initiatives be able to meet higher standards of customer-friendliness, continuous improvement, fiscal responsibility, cost-effectiveness, and scale.
Key Choices In Developing Private Job Creation Initiatives

No single private sector job creation model is right for all situations. Appropriateness always depends on context. Indeed, best practice is fundamentally a matter of, first, making the right strategic choice and, second, designing and implementing it well. Later, in the Private Job Creation Appendix, we provide the reader with detailed advice on how best to do this. But we also think it would be helpful to acquaint the JI sites with a number of key choice considerations before they read through more specific information on private job creation models and strategic planning.

To begin with, Jobs Initiative sites already mount aggressive sectoral interventions, as well as provide long-term training for high-wage jobs, short-term training for entry-level to mid-level jobs, short-term soft-skills training, job search and placement assistance, and post-placement support and ongoing training. Target populations include the job-ready, the hard-to-employ, TANF (e.g., welfare) recipients, and men of color.

This is already a comprehensive portfolio of services. What would encourage a JI site to further broaden its service mix to include economic development activities? We believe that there are ten varied and possible situations that might prompt sites to adopt one or more of the models discussed earlier.

1. **There is an overall job gap.** Despite the favorable employment conditions that exist in most American communities today, either the number or the quality of available jobs may not meet a site’s needs. Depending on the circumstances, any of the job creation models discussed earlier may be relevant.

2. **A major employer closes down.** Loss of a significant private, public, or nonprofit facility can change a community’s employment picture overnight. A well-designed and -executed business or facility attraction effort is the only strategy that can rapidly replace large numbers of lost jobs.

3. **Business recruitment strategies are targeted at prospects that offer little solace for economically disadvantaged communities and populations.** Most business attraction targets will never locate in these areas. And without supportive job trainin/placement programs or minority enterprise development efforts, little benefit will trickle down from where they do locate to those on the bottom. Highly customized recruitment efforts, along with strong job linkage mechanisms, are the only way to overcome these barriers.

4. **The inner-city neighborhood lacks certain business “amenities,” such as supermarkets, banks, etc.** If there is real unmet demand, national retailers might be attracted.

5. **Evidence suggests that a targeted sector is not reaching its full potential.** Area industries may be under-performing, and an economic development initiative holds promise for turning this situation around. Sectoral interventions, such as a business modernization strategy, should be considered.

6. **Increasing proportions of site clientele are in the hard-to-employ category.** More intensive, supportive workplaces will be required if the hard-to-employ are to gain a foothold in the new economy. Training enterprises, along with public job initiatives, might be appropriate.
Likewise, individuals who have failed in traditional educational and workplace situations might be reached through youth enterprise or microenterprise approaches.

7. *Discriminatory attitudes and behaviors in the white business community constrain the available job pool for JI participants.* Past research has demonstrated that minority-owned firms are more likely to hire minority employees. In addition, there are still deeply held cultural perspectives, along with the phenomenon known as “statistical discrimination,” that shrink the size of the entrance into mainstream economy. Obviously, a concerted minority business development agenda should be pursued if this is the case.

8. *A community possesses a promising minority enterprise base.* Not all minority-owned firms produce products and services with limited market potential, and increasing numbers of minority entrepreneurs have educational and experiential backgrounds that better position them for running growth businesses.

9. *The neighborhood has a weak entrepreneurial culture.* Communities that have been dependent on a small number of large employers and those that have been economically depressed and isolated for decades will not have the indigenous business base and entrepreneurial initiative that others have. Both youth enterprise and microenterprise programs are relevant for this situation.

10. *During the system reform stage, JI sites and their allies wish to ensure that the full array of opportunity options are available.* The economically disadvantaged enter and escape poverty through a variety of routes. “Making jobs” should be as strong an option as “taking jobs.” Are there some missing alternatives? Are programs for youth enterprise, for instance, as strong as those for business modernization or workforce preparation?

Careful reflection about whether any of these situations fit a JI site might be the best place to begin when considering whether to plunge into economic development and thereby undertake the more intensive assessment and planning effort called for in the Appendix on Private Job Creation Strategies.
Appendix One: Resources for Public Job Creation Strategies
PUBLIC JOB CREATION PROGRAMS:
GETTING STARTED

The design and implementation of public job creation programs are complex tasks. Work sites with adequate supervision and learning opportunities must be selected or developed. Linkages between work activities and more formal training or education must be forged. Mechanisms for monitoring participants’ performance and administering payroll must be established. Job development efforts must be mounted to help participants move from publicly-funded jobs into unsubsidized employment.

Even with substantial experience, most public and nonprofit agencies would find these tasks quite demanding. The challenges posed by today’s public job creation initiatives are magnified, however, because few communities have any recent experience in creating publicly-funded jobs and no significant administrative capacity that will help them do so. This capacity must typically be built “from the ground up,” starting at a modest scale and developing the expertise to serve larger numbers effectively over time. Particularly when programs are intended to provide useful work experience and building skills while also meeting community needs, it is important to find ways of bringing together a broad range of partners — including workforce development, welfare, and economic development agencies as well as a variety of community-based agencies — to get the job done.

The following checklist is intended to guide community leaders who are preparing to launch new public job creation initiatives. We focus on initial steps that can promote strong community-level collaborations and make it possible to reap multiple dividends for participants and the broader community.

1. **Take stock of community assets and forge a collaborative effort.**

Except for the federal summer youth employment program, public job creation efforts in most states and communities ended when President Reagan dismantled the CETA Public Service Employment programs in 1981. This long hiatus has left communities with little administrative capacity or programmatic expertise on which to build, and has made it particularly important for them to take stock of the assets they do have before launching new public job creation initiatives.

Many diverse agencies and groups working in low-income communities can be valuable resources in a public job creation program. For example, local Private Industry Councils (PICs) and nonprofit agencies typically have considerable experience in creating summer jobs for teenagers and handling the administrative functions associated with paying their wages. Local youth corps and YouthBuild programs which provide paid or stipended work experience exist in many communities. Goodwill Industries and other nonprofit agencies that operate “sheltered workshops” for individuals with disabilities or other employment barriers may also be a source
of valuable knowledge and administrative capacity. Finally, many agencies have established track records in job development and placement, case management, or the provision of other employment and training services that are likely to be necessary elements of a public job creation initiative. To ensure that these and other assets are not overlooked, an inventory of agencies and groups that have experience or capacity in relevant areas is a great way to begin a planning and program development process.

Once potential partners in the community have been identified, a series of individual meetings or group discussions can be used to explore possibilities for collaboration. The early implementation experiences in Washington state’s Community Jobs Initiative (CJI) suggest that consortia of diverse groups and local institutions (including PICs, community colleges, other employment and training providers, and community-based organizations) provide the strongest foundation for such efforts. State administrators responsible for CJI are so convinced of the merits of a collaborative approach developed in the Tacoma area that they will encourage all sites to adopt this model when the program expands statewide later this year. In addition to tapping the many assets that already exist within the community, consortia increase the chances that public job creation initiatives will become part of broader community-building or neighborhood transformation efforts.

2. **Identify possible funding sources and policy constraints.**

Most of the public job creation initiatives currently operating at state and local levels serve either welfare recipients or non-custodial parents of children in households receiving welfare. These programs rely heavily, and in some instances exclusively, upon federal funds from two sources: the Temporary Assistance to Needy Families (TANF) program administered by the U.S. Department of Health and Human Services and Welfare-to-Work (WtW) grants administered by the U.S. Department of Labor. Publicly-funded jobs can be created under both programs, but TANF funds can be used to assist any family that meets state eligibility requirements while the bulk of WtW funds must be spent on services for a narrower group of hard-to-employ, long-term welfare recipients. TANF funds typically are controlled by state or county welfare agencies. Most WtW funds are allocated on a formula basis to states and then distributed by states to local Private Industry Councils (PICs), but PICs and nonprofit organizations can also apply directly to the U.S. Department of Labor for competitive WtW grants.

There are two principal disadvantages of relying upon TANF and WtW funds to finance public job creation initiatives. First, non-welfare populations (including many noncustodial fathers, other single individuals, and childless couples) cannot be served under these programs. Second, time spent in publicly-funded jobs paid for with TANF or WtW funds counts against the five-year lifetime limit on receipt of assistance under TANF.9

Those communities seeking to serve a broader segment of the unemployed population or to mitigate problems posed by TANF time limits should therefore attempt to diversify their funding.

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9The TANF “clock” can be stopped for participants in publicly-funded jobs if the state uses (or makes available to local communities for their use) separate state “maintenance of effort” funds that it must spend under TANF rather than its federal TANF funds for this purpose.
base beyond TANF funds and WtW grants. Unfortunately, the possibilities for tapping other federal funds appear somewhat limited. Funds provided under a range of housing and community development programs administered by the U.S. Department of Housing and Urban Development — including Community Development Block Grants, Empowerment Zones and Enterprise Communities, the HOME Investment Partnership Program, HOPE VI, and the Brownfields Redevelopment Initiative — in theory could be used to support public job creation initiatives, although many of these options would require creative programs and the cooperation of local housing and economic development officials. Depending upon the requirements imposed by forthcoming federal regulations, it also may be possible to use on-the-job training funds provided through the new federal Workforce Investment Act (WIA) that is replacing the current Job Training Partnership Act (JTPA).

A few communities have succeeded in obtaining private foundation support for public job creation initiatives. The McKnight Foundation invested in a transitional jobs program that operated in St. Paul, Minnesota, in the late 1980s, and a number of large national foundations joined together in supporting the New Hope demonstration project that is coming to an end in Milwaukee, Wisconsin. More recently, Pew Charitable Trusts committed a total of $3 million to establish the Transitional Work Corporation in Philadelphia which is administering that city’s public job creation program for hard-to-employ welfare recipients. While there is considerable interest in the philanthropic community in innovations related to use of publicly-funded jobs, most foundations are unlikely to provide grants for the cost of wages or other operating expenses. They are more likely to focus their financial support on the research and evaluation components of a new program.

3. Develop strategies for moving participants into unsubsidized employment.

The primary measure of success for almost every public job creation initiative will be whether it enables participants to move into and retain unsubsidized jobs. These post-program gains for participants are the explicit goal of the “stepping stone” and “try-out” employment models that now dominate the public job creation field. Even community improvement projects find that their support quickly erodes if they are unable to demonstrate that participants can move from publicly-funded jobs into unsubsidized employment.

Therefore, community leaders and program planners should focus early attention on questions of how to promote successful transitions from public job creation programs into unsubsidized jobs. Many of the challenges and necessary tasks are familiar: program staff must reach out to employers, demonstrate an ability to provide them with job-ready workers matched to their current personnel needs, and earn their confidence and trust over time. Some local agencies may have developed strong relationships with employers already through their involvement in other workforce development efforts. Tapping this existing knowledge and experience through contracts or collaborations will help public job creation programs get off to a strong start.

In “try-out” employment models, most of the employer outreach and job development work must be undertaken at the front end of the program when work sites are identified and commitments from employers to retain successful participants are secured. In “stepping stone” jobs, the issues
of how to integrate job placement and development activities with other elements of the program may be more complex. Because a successful job search can take many weeks, participants in a stepping stone jobs program should be encouraged to start their search, and given the necessary assistance in this endeavor, well before their publicly-funded jobs end. Programs can emphasize the importance of transitions into unsubsidized jobs by reserving a few hours each week for participants to undertake job search activities with guidance from case managers or job developers. The decision about when to begin these activities, however, should reflect an attempt to balance two competing considerations: if the process begins too late participants may end their publicly-funded jobs without having found other employment, but if it begins too early it may interfere with their learning and their success in those publicly-funded jobs and discourage public or nonprofit agencies from serving as work site sponsors.

4. **Select one or more local agencies to administer the program.**

Because most communities have little recent experience or administrative capacity in the area of public job creation, the selection of one or more agencies to administer the program is a key and sometimes difficult task. The entity that controls the funds that will be used to finance such an initiative is likely to assume a “lead agency” role; for example, the local welfare agency might undertake an effort funded under TANF while a local PIC might take the lead in a WtW-funded effort. Particularly if funds from multiple sources are pooled together, other entities within the community may serve as the linchpin for the initiative. In Philadelphia, where TANF funds provided by the state are being combined with federal WtW funds received by the city and a local foundation grant, the mayor’s office led the effort to launch a public job creation program for welfare recipients and then oversaw the creation of a new nonprofit agency to administer the program.

Even when welfare agencies or PICs take a lead role in developing a new initiative, they are unlikely to have the capacity or the desire to assume responsibility for its day-to-day administration or operations. In almost every current or emerging program, these functions are performed under contract by local agencies (typically community-based nonprofits) with an established track record in related areas of employment, training, and social service delivery. These contractors usually are selected through a competitive process at the local level, and their responsibilities, performance goals or standards, and compensation are specified under their contracts with the funding agency. Depending on the scale of an initiative, a number of agencies might be selected as contractors (perhaps with each agency designated to serve specific neighborhoods) within a single community.

5. **Design procedures for screening and referral of participants.**

Any public job creation program should be structured to ensure that it serves only those individuals who genuinely need substantial assistance in moving from welfare into unsubsidized employment. Lack of recent work experience, weak basic academic skills, and residence in high-poverty neighborhoods may be useful indicators to guide these targeting efforts. However, research suggests that it is very difficult to predict — based on demographic characteristics,
educational attainment, prior work experience, or other factors — which individuals might succeed in finding unsubsidized jobs with only limited help.

For this reason, public job creation programs should consider requiring a job search period before enrolling individuals in their programs. This cost-effective method to “test eligibility” also goes a long way toward reassuring the public that participants in such programs truly need assistance. It underscores the “last-resort” nature of publicly-created jobs and may deter less needy individuals from seeking to participate. Three to six weeks appears to be a reasonable amount of time to require an applicant to spend in a structured job search program before being assigned to a publicly-funded job, although special provisions may need to be made in cases in which applicants are not receiving public assistance and have no alternative means of support. Linkages to existing “job clubs” or job search programs operated by other job training or placement agencies may be helpful in preventing this “front-end” job search component from becoming too burdensome for local contractors.

Because virtually all current job creation programs seek to move hard-to-employ welfare recipients into paid employment, the flow of potential participants to these programs is tied to assessment and referral functions within state and county welfare systems. In theory, the process for identifying individuals who may benefit from participation in public job creation programs is relatively simple. Welfare agencies (or in some cases employment or job service agencies working in conjunction with welfare departments) typically conduct an initial assessment of each recipient's circumstances, skills, and needs. They then identify parents who meet specified eligibility or targeting criteria — which often focus on factors such as duration of welfare receipt, extent of recent work experience, and educational attainment — and refer them to public job creation initiatives for further screening and enrollment.

The reality of the referral process within welfare agencies, at least in some cases, has proven to be more complicated. Early lessons from current programs suggest that problems may arise from various sources, including bottlenecks and delays caused by more sweeping changes in the welfare system; inadequate information conveyed to front-line welfare staff about new public job creation initiatives; administrative burdens stemming from the complexity of rules governing these initiatives; confusion about the relative priority of various work-related activities; and fears among local welfare caseworkers that these initiatives might undermine their personal job security. Focused efforts should be made in both the design and implementation phases of any public job creation program serving welfare recipients to anticipate and overcome these or other kinks in the referral process.

6. **Use an RFP process to identify potential work sites.**

A healthy mix of private nonprofit and public agencies is likely to be achieved only if selection processes for job projects and work site sponsors create a “level playing field” upon which all groups can compete for funding. In practical terms, this means establishing a competitive grant process that begins with a broadly disseminated request for proposals (RFP) and evaluates proposals based on objective selection criteria. An RFP process encourages innovative approaches and careful planning in the development of proposed projects. It also creates the
possibility of meaningful public participation in the selection process. For example, a citizen
review panel composed of business, civic, and community leaders could rank proposed projects
and submit recommendations to the administering agency, thereby bolstering public support for
the overall effort.

A competitive grant process can serve as the cornerstone for attempts to engage the broader
public in discussions of the work that needs to be done in their community. Soliciting proposals
for work projects from diverse groups, holding public hearings, and consulting county or
neighborhood planning groups can build a sense of ownership and commitment to a public job
creation program. Entrepreneurial directors of many local youth corps programs already take
similar steps, reaching out to many different segments of the community and then trying to make
a balanced assessment of the value of proposed job creation projects to both participants and the
broader public. By fostering open discussion and debate about community needs and proposed
job creation projects, it may be possible to improve the quality and usefulness of work
undertaken by participants, reduce the likelihood of waste, fraud, and abuse by program
administrators, and broaden constituencies for future efforts.

7. **Assemble a project review panel to prevent displacement.**

Displacement risks are a major threat to public job creation programs that must be addressed
through the selection of work projects. Effective protections against displacement are necessary
both to sustain political support for job creation efforts and to maximize their impact. Support
for publicly-funded jobs may evaporate quickly if they are seen as leading to job losses among
permanent workers in public or private nonprofit agencies. In addition, the programs’
achievements — both in increasing the overall supply of jobs and in boosting the job prospects
of low-skilled individuals — can be seriously undermined if they result in widespread
displacement of workers who may be no more skilled or securely attached to the labor market
than those participating in the program.

The specific nature of displacement concerns varies widely across communities. In one
community, improvements in recreational facilities or services may respond to a pressing need
without presenting any significant threat of displacement, while in another community such
projects may pose serious risks to current workers. This variation suggests that there is no
substitute for local review boards or project planning committees charged with the task of
identifying potential displacement problems. Public job creation programs that have local
mechanisms for review of and concurrence with proposed work projects by representatives of
organized labor appear to be successful in dealing with these concerns.

8. **Design effective linkages to education and training.**

The early months of participation in a public job creation program provide a particularly valuable
opportunity to assess each individual’s basic academic and vocational skills and to identify those
who would benefit from further education or training. After initial assessments and ongoing
supervision, most participants should fall into one of three distinct groups:
individuals who are ready to engage in education or training activities immediately;
• individuals who are not ready to participate in education or training now but may do so after they gain additional work experience; and
• individuals who, due to personal problems, are unlikely to benefit from additional education or training and may require employment in a “sheltered workshop” setting for an extended period.

Judgments of this nature are not always “clear-cut” and may need to be reconsidered over time as circumstances change. Yet they can provide invaluable guideposts for deciding how to allocate scarce education and training resources. For some participants, the availability of education or training opportunities may also be a significant motivating influence, enhancing their commitment and performance while working in a publicly-funded job.

Following the initial assessment process, programs should continue to seek links between publicly-funded jobs and supplemental education and training activities. The ideal situation in many instances is on-the-job training that fully integrates work and learning at the work site. This structure may be possible in “try-out” employment models that focus on occupations within the public or nonprofit sectors and have higher skill requirements and defined career ladders, but education and training options for participants placed in “stepping stone” jobs are more likely to take place away from their work sites. Participants who are working part time in publicly-funded jobs can be encouraged (or even required, as is the case in Philadelphia’s welfare-to-work program) to spend additional hours in other appropriate education or training activities in the community. Concurrent enrollment in community colleges offers another avenue for educational progress and skills development for public job creation participants.

9. **Plan for program expansion to achieve community-wide impact.**

Because the steps outlined above involve careful planning and the establishment of complex service delivery mechanisms, most new public job creation initiatives will (and should) begin at relatively small scale. Community leaders and program planners should work to ensure that small beginnings do not translate into permanently marginalized pilot or demonstration projects by developing an early vision of how the initiative will move toward larger scale. A well-conceived plan for program expansion can help ensure that new contractors are brought into the program in an orderly fashion and that the administrative capacity is in place to handle larger numbers of participants. Such a plan can also play a key role in building public support for the initiative by enabling neighborhoods or groups not served by the program in its initial phases to understand that they have a stake in the program’s survival and growth.
FREQUENTLY-ASKED QUESTIONS ABOUT PUBLIC JOB CREATION

What is public job creation?

The term “public job creation” typically refers to the use of public funds to create wage-paying jobs in public or private nonprofit agencies. These jobs often are temporary and usually are available only to individuals who cannot otherwise find employment in the regular job market.

How do public job creation programs help participants?

Participants gain much-needed work experiences, marketable job skills, and additional income to help support themselves and their families. The skills that participants acquire can include both “soft skills” (e.g., the ability to work effectively with customers and co-workers) and vocational skills taught on the job or in the classroom. Paid employment in a temporary, publicly-funded job can allow participants to demonstrate that they are reliable workers, and the references provided by supervisors can help to overcome the barriers to employment posed by long spells of joblessness or criminal records. The wages earned through such jobs also enable participants to qualify for the federal Earned Income Tax Credit, giving them an extra income boost.

How do public job creation programs help communities?

Communities increase their stock of job-ready individuals, thereby bolstering both individual self-sufficiency and private-sector economic development efforts. At the same time, the work performed by participants in public job creation programs can address a broad range of community needs, providing valuable services and improving the quality of life for the entire community. Participants can work in areas as diverse as child care/after-school programs, community support work, construction, education, environmental/conservation efforts, food services, health services, office/clerical support, public safety, and social services.

Why invest in public job creation at a time when overall unemployment rates are low?

Even when jobless rates are low, hard-to-employ individuals and hard-pressed communities are often left behind. Residents with few skills and little or no recent work experience are frequently considered “unemployable” even in communities with low unemployment rates and tight labor markets. Chronic joblessness remains a major problem in depressed areas even when overall economic conditions improve.

Do publicly-funded jobs last forever? What incentive is there for participants to move from these jobs into regular, unsubsidized employment?
The current generation of public job creation programs typically limits the amount of time that individuals can remain in such jobs. These limits range from six to 24 months, with most set at a year or less. Because most public job creation programs pay wages equal to or slightly above the minimum wage and provide less than full-time work, participants have incentives to move into the regular job market as quickly as possible in order to earn higher wages or work additional hours. Many public job creation programs also attempt to identify public and nonprofit agencies that are willing and able to move at least some participants into regular, unsubsidized jobs within their own agencies when those individuals are able to handle the responsibilities associated with permanent positions.

*Does public job creation really work? How do we know that these programs lead to real jobs? Hasn't this approach been tried in the past and failed?*

Most of our nation’s past job creation efforts have focused on placing the unemployed as quickly as possible into publicly-funded jobs in order to help pull the economy out of a serious recession or depression. Those efforts have yielded mixed results. When public job creation has been used explicitly as a stepping stone to help disadvantaged individuals acquire skills and move into the regular job market, the results have been quite promising. Past experience suggests that they can be run efficiently, at reasonable cost, and in ways that benefit both participants and the communities in which they live. Perhaps most importantly, public job creation programs provide an alternative to welfare that is focused explicitly on work.

*Are there specific elements of public job creation programs that improve the chances of success?*

Combinations of work and learning — including those that link publicly-funded jobs to education or vocational training — seem particularly effective in helping hard-to-employ individuals acquire marketable job skills. Close supervision at the work site and intensive job search and placement assistance also play key roles in promoting successful transitions into unsubsidized employment. Many innovative models are designed to prepare individuals for jobs in growing sectors of the local or regional economy (e.g., home health care and office technologies). Finally, the most effective programs are carefully targeted to serve individuals who cannot otherwise find employment and allow participants to remain in the program long enough to acquire significant new skills and work experience.

*Won't publicly-funded jobs put other public or private employees out of work?*

While the risk exists that public job creation participants will displace other workers, careful selection of work sites and projects within public and private nonprofit agencies can prevent that situation. By consulting with representatives of organized labor, programs can identify and manage displacement risks. A number of labor unions remain concerned about displacement risks but support public job creation initiatives as a positive approach to today’s welfare reform challenges, one that can address the needs of hard-to-employ welfare recipients (and other
chronically unemployed individuals) while also preserving labor standards that protect all workers.

*If they don’t displace other workers, aren’t these programs just creating "make work" rather than undertaking useful work?*

Absolutely not. In every community, many pressing needs go unmet due to inattention or lack of funding. With the ability to pay wages for work performed in public or private nonprofit agencies, public job creation programs can be the catalyst for responding to many of these unmet needs. Youth corps and other initiatives that undertake community improvement projects quickly discover that the problem lies in choosing among proposed projects rather than in finding useful work that needs to be done in their communities.

*Are participants in public job creation programs treated like other workers? Do they pay taxes? Are they eligible for employee benefits?*

Participants are typically treated like other workers. Because they are paid wages, their earnings are subject to payroll taxes and enable them to qualify for the federal Earned Income Tax Credit (which was as much as $3,756 in 1998). If they are placed in temporary positions, participants may not receive health insurance or other fringe benefits through their employers, but they may continue to be eligible for Medicaid and child care assistance. They usually earn at least some paid sick leave and vacation while working, and if their workplace is organized they have the same opportunity as other workers to join and be represented by a union.

*What happens to other forms of public assistance that participants may receive to help them meet their families’ needs?*

The specific rules of the public job creation program — and of the county or state in which they reside — will determine whether participants can continue to receive other forms of public assistance and how much their benefits will be reduced. Many participants will no longer receive welfare benefits once they begin to earn a paycheck, although some parents (particularly those with larger families) may continue to receive cash assistance to supplement their earnings. To the extent that participants earn more than they used to receive in cash assistance, they may also see their food stamp benefits decline. Even with these reductions in aid, most public job creation programs are designed to ensure that participants end up better off financially as a result of their work efforts. As noted above, participants who were eligible for Medicaid and child care assistance prior to enrollment typically continue to receive these benefits while working in public job creation programs.

*How are publicly-funded jobs different from "workfare"?*

Individuals who work in publicly-funded jobs are paid wages and considered to be employees of the state, local, or nonprofit agency administering the program. Welfare recipients who are
assigned to “workfare” projects receive their regular welfare benefits in exchange for their work effort. They are not paid wages (and therefore do not qualify for the federal Earned Income Tax Credit), and they often are not granted the full rights — or treated with the full measure of respect — accorded to regular workers. Public job creation programs give participants the dignity and the financial rewards of a wage-paying job while enhancing their long-term employment prospects. Evaluation results suggest “workfare” programs do not yield the same positive outcomes.

What funding sources can be used to support public job creation programs?

States and local communities have numerous opportunities to use federal funds to support public job creation initiatives. Federal welfare funds provided to states under the Temporary Assistance to Needy Families (TANF) program can be used to finance such efforts for individuals who meet TANF eligibility requirements. Separate federal welfare-to-work grants, the bulk of which go to local private industry councils (PICs), offer another potential funding source for programs serving hard-to-employ welfare recipients and non-custodial parents. Additional possibilities for federal funding include the Community Development Block Grant (CDBG) program and grants to federally-designated Empowerment Zones and Enterprise Communities as well as a range of smaller federal programs which authorize grants to states and local communities. Finally, state TANF funds, state and local general revenues, and foundation grants or other private funds can be used to supplement federal funds. These non-federal funds may be essential to preserve state or local program flexibility, which otherwise may be constrained in various ways by federal funding restrictions and program requirements.

Where are public job creation programs being developed today?

Increasing numbers of states, counties, and cities are operating, planning, or considering public job creation programs as part of their welfare reform efforts. Washington and Vermont have state programs in place and have already created hundreds of wage-paying jobs for longer-term and harder-to-employ welfare recipients. Philadelphia and Detroit recently launched new public job creation initiatives following negotiations with state officials regarding the use of TANF and/or welfare-to-work grant funds, while Baltimore, Indianapolis, and San Francisco are finalizing plans for new programs that will begin in early 1999. Other cities in which discussions regarding public job creation strategies are now underway include Chicago, Memphis, Muskegon (Michigan), Oakland, Rochester, and Sacramento.

Whom do I contact for additional information and technical assistance regarding public job creation strategies?

Several national groups are working collaboratively to assist policy makers, advocates, and community leaders who are interested in developing public job creation initiatives. Numerous papers on the topic can be found on the Center for Budget and Policy Priorities’ web site.
Creating Jobs

(www.cbpp.org) or obtained by contacting Cliff Johnson at 202/408-1080. Other organizations working on public job creation issues include:


In addition, an in-depth review of issues related to both unpaid work experience and publicly-funded job creation programs published by the Welfare Information Network can be found on the WIN web site at <http://www.welfareinfo.org/newwork.htm> or obtained by contacting WIN at 202/628-5790.
PUBLIC JOB CREATION:
SELECTED REFERENCES

Available from the Center on Budget and Policy Priorities  (www.cbpp.org/202-408-1080)

Publicly-Funded Jobs for Hard-to-Employ Welfare Recipients, by Clifford Johnson, March 1999, six pages. A brief overview summarizing the reasons why increasing numbers of states and communities are turning to publicly-funded jobs as a major component of their welfare-to-work efforts. This paper also describes the key elements of such programs and includes short summaries of 11 current initiatives being implemented at state, county, and city levels.

Frequently-Asked Questions About Public Job Creation, by Clifford Johnson, November 1998, six pages. An easily accessible review of basic information pertaining to public job creation presented in question-and-answer format. Topics covered in this paper include the rationale for public job creation efforts, lessons from past and current initiatives, responses to common criticisms of this approach, potential funding sources, and contacts for additional information.

Washington State’s Community Jobs Initiative, by Clifford Johnson, April 1999, six pages. A detailed description of the most recent and most ambitious state-administered program launched to date that creates publicly-funded jobs for welfare recipients. The paper examines the history, program design, and administrative structure of this initiative and identifies emerging implementation issues that may interest policy makers, administrators, and community leaders. Key contacts within the two state agencies responsible for implementing the program are listed as sources of additional information.

Vermont’s Community Service Employment Program, by Clifford Johnson and Mark Headings, July 1998, six pages. A detailed description of the nation’s longest-running publicly-funded jobs program for welfare recipients, with a structure similar to that used in the Washington paper described above. Taken together, these two papers offer an “inside look” at the operations of state-administered job creation programs and the challenges they face.

Shattering the Myth of Failure: Promising Findings from Ten Public Job Creation Initiatives, by Clifford Johnson and Ana Lopez, December 1997, 26 pages. A comprehensive examination of research findings on past and current efforts to create publicly-funded jobs for disadvantaged adults and youth. This synthesis of the research literature presents six lessons to guide the development of future job creation efforts. Lessons are supplemented by summaries of findings from evaluations of ten particularly prominent or interesting job creation models and a list of selected research references.
Toward a New Generation of Community Jobs Programs, by Clifford Johnson (also published by the Corporation for Enterprise Development in its 1997 Entrepreneurial Economy Review),
July 1997, six pages. A broad perspective on public job creation strategies that makes the case for re-examining their past record and future prospects. Rather than calling for a return to previous models or approaches, this article presents nine suggestions for how new initiatives should attempt to build upon past lessons and break new ground to meet today’s challenges and needs.

Work-Study Programs for Welfare Recipients: A Job Creation Strategy that Combines Work and Education, by Clifford Johnson and Esther Kaggwa, August 1998, 22 pages. A thorough analysis of the opportunities to create publicly-funded jobs for welfare recipients through the development or expansion of college work-study programs. This paper includes a brief background discussion of education and welfare reform as well as descriptions of the Federal Work-Study program and a state-funded work-study initiative for welfare recipients in California. It examines key program design and implementation issues that should be considered by policy makers, college administrators, and other state and local leaders interested in work-study models.

Federal Welfare-to-Work Grants: New Opportunities to Create Jobs and Assist Non-Custodial Parents, by Clifford Johnson, June 1998, eight pages. A brief introduction to the arguments for using federal welfare-to-work grants for two purposes: the creation of publicly-funded jobs for welfare recipients and the provision of new services to bolster the employment prospects of non-custodial parents. An appendix to the paper offers a concise, two-page summary of the major provisions of the federal legislation authorizing the welfare-to-work grant program as well as contacts for additional information.

Available from the Center for Law and Social Policy (www.clasp.org/202-328-5140)

Beyond Job Search or Basic Education: Rethinking the Role of Skills in Welfare Reform, by Julie Strawn, April 1998, 54 pages. A comprehensive review and analysis of the research on the two most commonly tried welfare-to-work strategies: “quick employment” programs and “skill building” programs. The paper concludes that the most effective welfare-to-work programs share a flexible, balanced approach that offers job search assistance, education, job training, and work. Twelve informative profiles of emerging program models that reflect this approach are presented at the end of the paper.

Community Service Employment: A New Opportunity Under TANF, by Steve Savner and Mark Greenberg, November 1997, seven pages. A brief introduction to creating publicly-funded jobs through the federal Temporary Assistance for Needy Families (TANF) program. The paper describes how federal welfare reforms enacted in 1996 opened the door to new job creation efforts with state and local welfare programs. It highlights ways in which community service employment differs from traditional unpaid
work experience (or “workfare”) programs and frames key choices for states to consider in designing community service employment programs.

*The Fiscal and Legal Framework For Creating a Community Service Employment Program*, by Maurice Emsellem and Steve Savner, November 1997, 22 pages. A technical guide for policy makers, administrators, and advocates who want to understand the fiscal and legal implications of establishing a wage-based community service employment program as opposed to an unpaid (or grant-based) work experience program. Topics covered in the paper include: wage requirements, tax treatment of wages, worker’s compensation, liability insurance, unemployment compensation, and worker rights and protections. A useful appendix compares monthly costs for a community service employment program and an unpaid work experience program.

*Funding Community Service Employment in the TANF Framework*, by Mark Greenberg, November 1997, seven pages. A concise summary of the rules and consequences associated with various options for funding community service employment under the Temporary Assistance for Needy Families (TANF) program. This paper guides readers through the complex issues of federal and state funding under TANF, specifying when federal time limits on assistance, work participation rates, child support requirements, and other federal prohibitions apply to community service employment programs. A short appendix addresses further questions regarding the treatment of child support in such programs.

*Available from the Center for Community Change (www.commchange.org/202-342-0567)*

*Estimating the Economic Impact of a Public Jobs Campaign*, by Richard McGahey, 1997, 26 pages. An analysis of the economic impact of creating one million publicly-funded jobs at the state and local level, based on assumptions that the jobs are paid for by increased federal grants to states, phased in over three years, and financed by an increase in federal taxes on corporate profits. The paper concludes that a jobs program of this nature would result in higher nominal and real growth rates, stable private-sector employment, and a lower unemployment rate. Its relatively technical findings are based upon simulations generated by a widely-used econometric model of the U.S. economy.

*Federal Revenue Policies That Work: A Blueprint for Job Creation to Support Welfare Reform*, by Jerry Jones, 1997, 30 pages. A presentation of evidence that public job creation efforts are needed and that federal resources to pay for such efforts can be found without tapping budget surpluses or creating federal deficits. This paper is divided into two major sections: the first half reviews national data related to job availability and unemployment; the second half examines revenue options for financing a federal job creation initiative, with particular emphasis on direct and indirect federal subsidies to corporations.
Linking Human Services and Economic Development, by Emily Gantz McKay and Christina Lopez, 1997, 78 pages. A detailed guidebook that focuses on ways to strengthen the link between human services and economic development. Following an overview of current trends in the availability and delivery of human services, this report takes an in-depth look at the potential for creating jobs in three major areas: home health care and supportive services; child care; and neighborhood foster care. While not devoted exclusively to public job creation strategies, the guidebook is filled with useful case studies and other information that could guide the development of public job creation initiatives in these three areas.

Other Papers and Resources

An Early Look at Community Service Jobs in the New Hope Demonstration, by Susan Poglinco, Julian Brash, and Robert Granger, Manpower Demonstration Research Corporation, New York, NY, July 1998, 28 pages. A working paper that examines the design and implementation of wage-paying community service jobs in the New Hope Project that operated in Milwaukee, Wisconsin, from 1994 through 1998. The authors conclude that New Hope was able to create enough jobs to meet the demand for them, that these jobs were perceived as “real” by work sites and participants, and that a substantial proportion of participants seemed to be using them as a bridge to unsubsidized employment. (www.mdrc.org/212-532-3200)

Public Service Employment and Mandatory Work: A Policy Whose Time Has Come and Gone and Come Again?, by David Ellwood and Elisabeth Welty, Kennedy School of Government, Harvard University, Cambridge, MA, October 1998 (draft), 105 pages. A more exhaustive, academic review of the literature on public service employment (PSE) and unpaid work experience (or “workfare”) programs, with particular attention devoted to displacement and program outcomes. The authors contend that poorly-run PSE programs are counterproductive, but that carefully-administered efforts can increase employment, minimize displacement, and produce work of genuine value. (617/495-1121)

Spending to Save: Expanding Employment Opportunities, by Sar Levitan and Frank Gallo, George Washington University Center for Social Policy Studies, Washington, DC, May 1991, 44 pages. A detailed and informative discussion of lessons emerging from public job creation programs since the 1930s, covering both program goals and objectives as well as administrative challenges. The paper ends with recommendations to guide the development of a jobs program for the 1990s. (Out of print)

Thinking Creatively About Welfare-To-Work Job Creation, by the American Federation of State, County, and Municipal Employees, Washington, DC, July 1998, 34 pages. A compendium of local welfare-to-work initiatives undertaken in partnership with labor unions, including descriptions of a number of programs that create publicly-funded jobs for welfare recipients. The report also contains brief summaries of pending legislation and an annotated list of potential funding sources. (www.afscme.org/202-429-1155)
Creating Jobs

*The U.S. Experience with Public Service Employment Programs*, by Burt Barnow, Johns Hopkins University Institute for Policy Studies, Baltimore, MD, September 1994 (draft), 30 pages. Another review of the research literature on PSE programs, focusing primarily on evidence from programs operated during the 1970s under the Comprehensive Employment and Training Act (CETA). The author concludes that PSE has performed fairly well in increasing human capital and providing valuable services, although evidence regarding its contributions to net job creation is inconclusive. (410-516-5388)

*Work Experience and Publicly-Funded Jobs for TANF Recipients*, by Marie Cohen, Welfare Information Network, Washington, DC, September 1998, 12 pages. A concise and very helpful overview of the issues and research related to both unpaid work experience and publicly-funded jobs programs. The paper identifies key policy issues, summarizes relevant research findings, describes innovative practices, and provides a list of resources for additional information. (www.welfareinfo.org/202-628-5790)


*Youth Corps: Promising Strategies for Young People and their Communities*, by J. Jastrzab et. al., Abt Associates, Cambridge, MA, February 1997, 31 pages. A summary of results from a rigorous evaluation of eight youth corps programs across the nation, including four youth corps programs that participated in participant impact and cost-benefit analyses which involved random assignment of program applicants. The evaluation documented strong impacts on participants’ employment and earnings, with particularly strong positive effects for young African-American men, and it found that benefits to society produced by youth corps exceeded their costs. (www.abtassoc.com/617-349-2375)
PUBLIC JOB CREATION:
CURRENT STATE AND CITY INITIATIVES

Washington state: The Community Jobs Initiative (CJI) began operating in five areas of the state with the goal of placing 540 hard-to-employ welfare recipients in part-time jobs in public and nonprofit agencies. The jobs last for up to nine months and pay the state minimum wage (currently $5.70 per hour). CJI is funded through the state’s “WorkFirst” TANF program and administered at the state level by the Washington Department of Community, Trade, and Economic Development (CTED), which contracts with local agencies to operate the program at designated sites. These local contractors develop work sites, provide case management services, and identify appropriate education and training activities for participants whenever possible. The state recently redesigned the program to simplify its administration and increase financial incentives for participants. Under the new structure, CJI participants will enjoy substantial earnings gains as a result of their part-time work, even after FICA payroll taxes and other work-related expenses are taken into account. The state is currently using surplus TANF funds to expand CJI, choosing new contractors that will enable the program to operate in all regions of the state and serve up to 2,500 participants.

Vermont: The state’s Community Service Employment (CSE) program provides publicly-funded jobs for all welfare recipients who are not exempt from work requirements, who have received cash assistance for at least 30 months, and who are unable to find unsubsidized jobs. CSE positions in public and nonprofit agencies can last for up to ten months, with possible reassignment in cases where a subsequent job search is unsuccessful. Participants are paid the state’s minimum wage ($5.25 per hour). The hours of work for participants are set so that their earnings equal their prior welfare grant, although the required work cannot exceed 20 hours per week for single parents with children under age 13 (or 40 hours per week for other parents receiving welfare benefits). A total of 215 CSE placements have been made statewide since November 1995, when the state began operating the program under a welfare reform waiver from the federal government. Based on its early experience with CSE, Vermont is now developing new CSE alternatives that will allow some recipients with multiple barriers to employment to work in more structured and supportive settings.

Baltimore: The city's Office of Employment Development (OED) will launch a new welfare-to-work initiative this spring that places up to 1,000 hard-to-employ welfare recipients in publicly-funded jobs in public and nonprofit agencies. These jobs will provide an average of 25 hours per week of work at $6.10 per hour for a maximum of six months. OED has selected four local agencies to administer the program, but it plans to operate an initial pilot project serving several hundred participants to identify problems that its contractors are likely to encounter. Baltimore’s initiative uses a combination of federal welfare-to-work funds and diversion of participants’ TANF grants to pay wages and cover other costs of program administration.
Detroit: Using its federal welfare-to-work funds, Detroit will create as many as 2,400 jobs lasting six months for hard-to-employ welfare recipients. Its Private/Public Service Employment (PSE) program places participants with for-profit employers as well as nonprofit and public agencies, and seeks commitments from these employers and agencies that participants will be retained in jobs paying livable wages (targeted at $11/hour) at the end of the six-month period of fully subsidized employment. Most PSE jobs begin at 25 hours per week and initially pay wages comparable to those of employees in similar jobs (typically ranging from $6 to $8 per hour). The PSE program is administered by the City of Detroit’s Employment and Training Department through contracts with a wide range of local agencies. Approximately 300 participants were enrolled in the program by the end of 1998.

Minneapolis: With funds from a competitive welfare-to-work grant from the U.S. Department of Labor as well as a grant from the Ford Foundation, the City of Minneapolis is launching a new program that uses publicly-funded jobs and a variety of other strategies to boost employment rates among and child support payments by low-income, non-custodial fathers. The FATHER program (Fostering Actions To Help Earning and Responsibility) will place up to 100 participants in full-time, minimum-wage jobs in nonprofit agencies that agree to provide close supervision at the work site. These jobs will last no longer than six months, although in some instances they may be designed to provide as little as four weeks of paid work experience before participants move into unsubsidized employment. In addition to the minimum wage, the program will place $1.00 per hour in escrow as a cash bonus for participants who successfully complete their publicly-funded jobs and who remain in unsubsidized jobs for at least six months.

The FATHER program is a partnership between the City of Minneapolis Employment and Training Program, Minnesota State and Hennepin County child support enforcement agencies, and several nonprofit organizations that provide employment services in Minneapolis’ low-income neighborhoods.

Philadelphia: Under a new program called Philadelphia@Work, the city plans to place up to 3,000 welfare recipients in publicly-funded jobs over the next two years. These transitional jobs in public and nonprofit agencies pay minimum wages, provide an average of 25 hours per week of work, and last no longer than six months. Participants spend an additional ten hours per week in training, education, and job search activities. Specially-trained “job coaches” act as mentors, oversee participants’ skill development, and assist them in finding unsubsidized jobs. Participants who find jobs and leave the program before the end of the six-month period will receive cash bonuses. A newly-established nonprofit organization, the Transitional Work Corporation, is administering the program. By the end of 1998, about 200 welfare recipients were participating in the Philadelphia@Work program. The City of Philadelphia is using a combination of TANF funds provided by the state, federal welfare-to-work grants, and private foundation funds to finance this effort.
San Francisco: As part of its efforts to implement the state’s TANF program, CalWORKs, the San Francisco County Department of Social Services has launched a 200-person pilot program to test the feasibility and effectiveness of wage-based community service. State law requires that all welfare recipients who have received assistance for at least 18 months (or 24 months at county option) be engaged in some form of community service for a minimum of 26 hours per week. The Community Jobs program responds to this mandate by placing welfare recipients in jobs that pay the state minimum wage ($5.75 per hour) in public and nonprofit agencies. The county welfare agency has contracted with three nonprofit agencies to operate the program, and the San Francisco Private Industry Council will administer payroll and act as the employer of record. If successful, the Community Jobs program may become the county’s primary mechanism for implementing the CalWORKs community service requirement. Funding sources for the program include TANF funds, federal welfare-to-work grants, and general revenues from the City of San Francisco.

Seattle: The Seattle Jobs Initiative (SJI), one of six city-focused efforts launched by the Annie E. Casey Foundation, has developed a “Preparatory Employment” program that will place up to 50 hard-to-employ welfare recipients in closely-supervised jobs paying $8.00 per hour. The program emphasizes training both on-the-job and at training sites where the curriculum is closely linked to participants’ roles and responsibilities at work. Work site supervisors receive initial training and ongoing support to help them develop clear goals for participants, including expected time frames for mastering predetermined employment competencies. TANF funds provided by the state welfare agency cover a portion of the cost of participants’ wages, while the balance is paid by employers and SJI.
POTENTIAL FUNDING SOURCES
FOR PUBLIC JOB CREATION INITIATIVES

Public job creation programs are relatively expensive. Even for half-time, minimum-wage positions, the cost of wages and payroll taxes for each participant exceeds $6,000 per year. The costs of job development, case management, and support services can easily add as much as $2,500 or $3,000 per participant to that total. In this context, it is hardly surprising that one of the greatest impediments to the development of new public job creation initiatives is uncertainty about the availability of funding to support such efforts.

Since the demise of the CETA Public Service Employment program in 1981, there has been no federal funding specifically provided to create wage-paying, publicly-funded jobs for disadvantaged adults. Since 1996, however, states and communities have had new opportunities to use federal welfare funds for public job creation and wage subsidy programs targeted at low-income families who meet state eligibility requirements. In addition, a broad range of federal grant programs focused on economic or community development, housing, crime prevention, environmental protection, and other goals may be tapped to cover at least some of the costs incurred in public job creation efforts.

This overview of potential funding sources briefly describes the rules governing two major federal programs — the Temporary Assistance to Needy Families (TANF) program and the Welfare-to-Work (WtW) program — that currently provide a financing base for public job creation initiatives serving hard-to-employ welfare recipients and non-custodial parents. A list of other possible funding sources is included as a guide for those seeking to establish job creation programs for non-welfare populations or are otherwise unable to make use of TANF and WtW funds.\(^{10}\)

I. TANF Funds

The 1996 federal welfare law (formally known as the Personal Responsibility and Work Opportunity Reconciliation Act) dramatically changed federally-funded welfare programs and their implementation at state and local levels. The Aid to Families with Dependent Children (AFDC) program was repealed and replaced by TANF block grants to states which give them vast new discretion in how to spend funds on behalf of needy families. As one example of that decision-making authority, states now have the option of using federal TANF funds (as well as state “maintenance of effort” funds which they

\(^{10}\)This list of potential funding sources draws heavily from the compilation prepared by the Public Policy Department of the American Federation of State, County, and Municipal Employees (AFSCME) and published in AFSCME’s July 1998 report entitled Thinking Creatively About Welfare-to-Work Job Creation.
must spend as a condition of receiving federal TANF funds) to create wage-paying, publicly-funded jobs for individuals who meet the state’s TANF eligibility requirements.

The opportunity to use TANF funds for public job creation represents a major shift. Under AFDC, the federal matching funds that were provided for cash assistance to poor families could be used to subsidize wages only through a cumbersome “grant diversion” process. Separate funding for employment-related activities targeted to AFDC recipients was allocated to states under the JOBS program, but its regulations explicitly prohibited the use of JOBS funds for any form of public service employment. Both the AFDC grant diversion rules and the JOBS regulations have now been eliminated, opening the door to widespread use of federal welfare funds by states and communities for public job creation initiatives.

Current initiatives that rely upon TANF funds to pay some or all of the costs associated with publicly-funded jobs typically do so in one of two ways:

- **Direct allocation of TANF funds by state or county welfare agencies** — State welfare agencies, either at their own discretion or pursuant to legislative appropriations or a governor’s directive, can earmark TANF funds for a public job creation program which they administer, or they can provide funds directly to other state, local, or nonprofit agencies for this purpose. In county-administered welfare systems, county welfare agencies may also have discretion under state law (subject to approval by the county executive or board of supervisors) to allocate TANF funds or make grants or contracts to other agencies for such programs.

- **Diversion of TANF funds that otherwise would be used to provide cash assistance** — Rather than allocating a lump sum of TANF funds for public job creation, state or county welfare agencies can “divert” cash grants which welfare recipients otherwise would receive and use them as wage subsidies for those recipients when they participate in public job creation programs. This approach allows the state or county to provide funds on a per capita basis with the knowledge that much of the cost of wage subsidies will be offset by reductions in cash assistance to participants. Federal regulations no longer require that welfare agencies undertake a case-by-case reconciliation of diverted grants to ensure that each individual’s cash benefit is used solely for his or her own wage subsidy.

While direct allocation of TANF funds tends to be simpler and easier to administer, states and communities are finding ways to implement both approaches effectively.

Until recently, the principal shortcoming of using TANF funds to create publicly-funded jobs had been that such wage subsidies were considered to be assistance under TANF, meaning that months in which individuals work in these jobs had to be counted against their 60-month lifetime limit on TANF assistance. This policy was reversed in final TANF regulations issued by the U.S. Department of Health and Human Services (HHS) in April 1999. The new regulations state that subsidized employment does not constitute assistance and will not count against the federal time limit. This change in federal policy
does not prevent states from counting months in subsidized jobs against their own state
time limits if they choose to do so. However, state rules can be modified to conform with
the new federal regulations.\footnote{The new federal policy excluding wage subsidies from the definition of -assistance- under TANF may raise other concerns at the state level about work participation and child support requirements. A more complete analysis of these issues is available from the Center on Budget and Policy Priorities.}

TANF funds can be used to serve non-custodial parents if the state modifies its TANF
eligibility rules to include such parents within its definition of eligible families. Beyond
this group, however, TANF funds cannot be used to serve a broader non-welfare
population.

\section*{II. Welfare-to-Work (WtW) Funds}

New federal welfare-to-work grants available to states and local communities beginning
last year provide another potential source of funding for public job creation programs
designed to move longer-term welfare recipients into unsubsidized employment. States
receive the bulk of WtW funds and are required to distribute them to local private
industry councils (PICs) on a formula basis. In addition, PICs, local governments, and
nonprofit agencies are eligible to apply for competitive grants that are awarded directly
by the U.S. Department of Labor. “Job creation through public or private sector
employment wage subsidies” is specified as one of many allowable activities under the
WtW program.\footnote{Further information on the legislation and regulations governing the new federal welfare-to-work grants can be found on the Department of Labor’s welfare-to-work web site (http://wtw.doleta.gov).}

For local communities interested in public job creation, WtW funds have the advantage
of being controlled primarily by local officials (although local flexibility may be
constrained to some extent by policies set by the state). In large cities, mayors have a
great deal of influence over local PIC use of WtW funds. Business and community
leaders who serve on PICs, as well as PIC directors and their staffs, also are important
decision makers at the local level. While not required to do so, many PICs have solicited
welfare-to-work proposals from community agencies and have used a competitive
process to award grants or contracts to service providers.

The disadvantages of using WtW funds can be substantial. Many communities have
struggled to meet the WtW program’s very narrow criteria for individual eligibility. At
least 70 percent of funds under both formula and competitive grants must be used to
serve a highly disadvantaged group of TANF recipients or non-custodial parents of
children in TANF households. Members of this target group must either have received
assistance under TANF for at least 30 months or be within 12 months of a time limit on
such assistance, and they must face at least two of the three following barriers to
employment:

\begin{itemize}
\item[(1)] lack of a high school diploma or GED and low reading or
math skills;
\end{itemize}
(2) need for substance abuse treatment for employment; and
(3) poor work history.

The remaining 30 percent of WtW funds can be used to assist other TANF recipients or non-custodial parents who have characteristics associated with long-term welfare receipt. Individuals or families not receiving TANF assistance (except for non-custodial parents and former recipients who have reached state or federal time limits on assistance) cannot be served under the federal WtW program.

As in the case of federal TANF funds, months of employment in a publicly-funded job subsidized through the federal WtW program do not count against an individual’s 60-month federal time limit on assistance under TANF.

III. Other Potential Funding Sources

Empowerment Zones/Enterprise Communities — The U.S. Department of Housing and Urban Development (HUD) provides approximately $100 - $130 million over a period of up to ten years to high-poverty areas designated as Empowerment Zones and roughly $3 million to a second tier of Enterprise Communities. In both instances, designated communities have broad discretion to use funds to support a wide range of community and economic development services and activities. Many EZs and ECs are still engaged in planning activities and have not yet decided how to allocate the federal funds that have been awarded to them.

Community Development Block Grants — As their name implies, these grants can also be used for a broad range of community development activities, including neighborhood revitalization, economic development, and improved community facilities and services. Because HUD has provided these block grants to states and certain larger cities and counties for many years, however, considerable effort may be required to refocus CDBG fund on new public job creation initiatives.

YouthBuild — This HUD-administered program provides funding for comprehensive employment, education, and leadership development projects that engage economically disadvantaged young adults in the construction and rehabilitation of affordable housing in low-income communities. The YouthBuild model is complex and demanding, including not only wages for participants while employed at work sites but also education, training, mentoring, and extensive support services.

AmeriCorps — Similar to HUD’s YouthBuild program, AmeriCorps funding provided by the federal Corporation for National Service can provide a base of financial support to youth corps and other programs that pay wages or stipends to young people in service-related projects.

Other federally-funded services — To the extent that public job creation programs are designed to engage participants in useful work, a wide range of other federal grant...
programs can be tapped to finance at least portions of their costs. For example, Medicaid and Children’s Health Insurance Program (CHIP) funds could be used by states to pay wages to participants involved in health insurance outreach and enrollment projects. Wage costs for participants who are employed as aides in childcare and preschool programs could be supported by utilizing Child Care and Development Block Grants (CCDBG), Title XX Social Service Block Grants, or Head Start funds. A focus on federally-funded services could lead in many other directions as well, ranging from brownfield cleanup and environmental protection efforts to home health care and other essential social services.

The limitations of this approach are quite substantial, however, falling into two principal areas. First, it is unlikely that several key elements of a public job creation program (including such client-focused activities as education and training, job development and placement, and case management) could be financed in this manner. Second, efforts to tap federal funding sources already available to provide services in low-income communities can heighten concerns about potential displacement of other workers engaged in similar work.
Appendix Two: Resources For Private Job Creation Strategies
PRIVATE JOB CREATION PROGRAMS:
GETTING STARTED

The Jobs Initiative sites are in a good position to tackle economic development roles for the first time. As active players in worker training and placement within a community, sites should be able to expand their service mix with relative ease.

Many communities will be tempted simply to copy what other areas have done to create or retain more private sector employment. Although there is no need to “reinvent the wheel” and it is important to follow in the footsteps of their more experienced peers, it is just as essential to act on the adage that “good economic development is custom-fit, not copy-cat.”

To do this, we would counsel that JI sites conduct some type of strategic audit of their economies. Such analysis entails taking a comprehensive look at one’s area economy, assessing its development resources and its problems, identifying its opportunities and its challenges – all with the aim of determining its past, present, and future comparative advantage(s). A systematic effort to audit a community economy would address the following key elements:

- Has the community defined the nature of the private job generation problem? (“The diagnosis”)
- How is it likely to evolve in the absence of intervention? (“The prognosis”)
- And, has it reached judgments about the best options that exist, whether short-, medium-, or long-term, for doing something about private job generation? (“The prescription”)

Most likely, the JI sites have already conducted some type of sectoral analysis of their economies and spent a great deal of energy identifying their community’s highest priority employment needs and constituencies. Consequently, they may already know which industries are most likely to hire workers that fit the characteristics of the unemployed and underemployed residents in JI communities. Depending upon the depth of this analysis, a JI site may not have to do a lot of new data collection or analysis. But it is important before undertaking a new development effort to believe that a site has good, honest answers to the following five questions:

- How healthy are existing businesses and the industries of which they are part?
- How strong is the area’s entrepreneurial presence?
- Are current development conditions and trends hindering JI target groups?
- Does the area possess the building blocks for future growth (e.g., technology development and access, modern physical infrastructure, available financing, strong labor force skills, decent business development support programs, etc.)?
- What specific opportunities exist for new or reformed development initiatives that would release current constraints and unlock unexploited potential?
Creating Jobs

Data needs will vary, of course, depending on the scope and timing of earlier studies, the ambiguities in recent economic diagnoses and prognoses, the degree to which the community believes in certain economic myths that are slowing progress, and the quality of local research expertise. Obviously, sites must use careful judgment and consider the time and money tradeoffs involved in the whole research enterprise.

Conducting a strategic audit along the lines we recommend is no small task, and there are whole books devoted to showing how. “The Resources Guide To Practitioners” in this appendix will provide some useful references. After discussing a few generic implementation issues, the rest of this appendix focuses on learning how to design and implement a specific model, such as a training enterprise.

Planning and Implementation

All of the development models outlined in the private job creation section have some common requirements for successful implementation. Before diving into unique and situational concerns, JI sites should bolster the following aspects of their organizations:

- **Develop an effective advisory board or steering committee.** Establishment of an effective board is the first step in creating an effective organization. Since the Jobs Initiatives have standing boards, it may not be necessary to create a new board. In the event that the Initiative site wants to create a new entity to address private job creation, a new board may be needed. This is one of the most important aspects of successful organizations and should not be taken lightly. Board members should be selected for their diversity, representation of different sectors (public and private) and success in accomplishing goals.

- **Secure funding for a long-term commitment.** Many organizations face funding issues at some point in their job creation programs. It is important to remember that economic development is not a quick fix solution to entrenched problems, and that it rarely works in the short term. Therefore, organizations/sites should expect to operate several years before seeing tangible results. Even revenue generating programs such as training enterprises need outside funding to cover all costs.

- **Programs should be implemented by a knowledgeable and competent staff.** The daily rigors of operating an economic development program are enormous. Aside from the basic office knowledge and interpersonal communication skills necessary to run an office, staff members’ skills should contribute to program effectiveness. For training enterprises, staff should have both training and business management experience. For microenterprise, a knowledge of banking services, management training, business planning, and lending practices is more appropriate. Each program objective will have its own set of requirements, and the staffing for each objective will be necessarily different.
Private Job Creation Models

This next section of the appendix provides specific details about the workings and successes of the following private job creation models: training enterprises, business recruitment, youth enterprise, microenterprise, growth-oriented minority enterprises, business recruitment and expansion, and business modernization strategies.
TRAINING ENTERPRISES

Purpose

Training Enterprises are businesses created and operated for the purpose of training individuals in an actual working enterprise. Training enterprise programs represent a promising opportunity for those organizations willing to invest time and energy into creating a joint small business and training facility. Training enterprise programs provide training for disadvantaged workers who become employees of a free-standing, real business. The combination of employment and training increases employees’ abilities to move into jobs outside the training business.\(^\text{13}\)

Rationale

Training enterprises represent a combination of two well-established economic development strategies designed to create wealth and opportunities for low-income people:

- They seek to create new employment opportunities in communities where a lack of jobs is considered to inhibit employment among disadvantaged workers.
- They seek to provide skills and increase job preparation for hard-to-employ people in communities where jobs are available to those who have the proper skills.

The gap between job training programs and employment opportunities increases as the clients served are those left behind by other training and employment programs. With the unemployment rate at a twenty-year low, participants in these types of programs are simply the hardest to employ. They often fail to find or keep jobs due to improper training or because they lack what are now called "soft skills." Training enterprises seek to provide the benefits of training with the benefits of employment; they aim to help clients obtain the skills necessary to move from the program into the workforce.

By merging two distinct strategies of community economic development, training enterprises provide benefits for the employees, the supporting organizations, and the surrounding community that other development programs cannot offer.

- Because training enterprises are market-based and seek to provide goods and services at market rates, they generate revenues that help cover the cost of operating the program. By covering part of the costs of operation, training enterprises do not have to raise as much outside financial support as other non-revenue generating programs.

\(^{13}\) The contents of this section are taken from Seedco’s very important work on training enterprises. For additional information on training enterprises, including case studies, see *Working to Learn, Learning to Work: A study of training businesses*, (Seedco, November 1995).
The training portion of the program is effective because it is tied to real work, an on-the-job aspect that is missing from traditional classroom training programs. By providing training that is directly linked to the employee's job, the programs also benefit individuals who have trouble learning in the classroom.

Training enterprises can be targeted towards growth industries, increasing the possibility that a participant can move to a job that pays a family-supporting wage with benefits. In addition, training businesses create jobs and therefore can provide some internal job opportunities for participants. While there are practical limits to internal hiring, it remains a possibility for some individuals as the training enterprise grows.

Human development is the cornerstone of effective training business programs. By adapting to the particular conditions in a community, a program can increase the human capital, skill levels, and income in an area. In addition, the enterprise can provide much needed goods and services in a traditionally underserved area.

Finally, successful training enterprise programs can become cogs in larger community development programs. By creating networks and linkages with other organizations and funders, training enterprises can garner additional support for programs in the community. Also, because of the self-help and revenue-generating aspects of the program, training enterprises will not compete as much with other programs’ fundraising needs.

How It Works

Training businesses are comprised of several elements that make them unique. They are businesses which have been established expressly for training and preparing individuals to find jobs outside the training enterprise. They seek to work with low-income and hard-to-employ groups as part of a larger poverty alleviation strategy. The enterprises are market-based, providing necessary goods and services at commercial rates while also providing employees with on-the-job experience and classroom training.

Organizations that establish training businesses are usually nonprofits that are already working to serve disadvantaged communities. Organizations can define whom they serve in a couple of ways.

- **Place-based.** The targeted population may reside in a particular neighborhood or area of town.
- **Constituency-based.** The training enterprise may target a certain group of people, such as women, recent immigrants, homeless people, or ex-offenders.

The supporting organizations for training enterprises can vary considerably from institution to institution. Supporting organizations that establish training businesses include community nonprofits, community development corporations, or religious
organizations. Some training enterprises may eventually spin off to become independent organizations.

Finally, training enterprises usually require an ongoing subsidy to continue operations. Even though training enterprises generate income, they must devote a considerable amount of time and resources to job preparation and basic skills training. The resources needed to accomplish these goals often exceed their income generating abilities.

**Success Factors**

Successful training enterprises targeted to disadvantaged workers must contend with five challenges in order to operate successfully.

- **Organizational Capacity.** Training enterprise programs face the challenge of running a program that combines elements of enterprise development with worker training. Consequently, they are often more difficult to organize and run than businesses or training facilities. The Seedco report found that most of the programs studied had underestimated the amount of administration that was necessary for basic business accounting and financial reports. To help build organizational structure in training enterprises, supporting organizations should recognize the importance of selecting people with a variety of experiences to serve on the board of directors and run the business and training parts of the program.

- **Management Issues.** Successful training businesses will have managers who are adept at understanding and appreciating both the business and the social aspects of the program. The director should be able simultaneously to identify venture development opportunities and to understand the interests and needs of current and potential trainees.

- **Business Issues.** Several issues related to the business of training enterprises need to be addressed for the venture to become successful. First, it must be in a growing sector, generating jobs that are potentially accessible for the trainees. Second, the board of directors will need to address issues of conflict between the business and training components of the program. For instance, the directors need to feel comfortable with the process of balancing social service goals with the sometimes harsh realities of running a for-profit business.

- **Training Issues.** Training enterprises must limit the scope of work they do for participants. But, while most programs will not have the capacity to provide for the holistic development of the trainees, they can develop partnerships with other organizations for additional services (e.g., daycare and transportation).

- **Funding Issues.** Training businesses require an ongoing source of funding to cover the costs of training, overhead of the organization, potentially lower productivity, and smaller scale of operations that accompany these projects. For the venture to be
successful, it will need funding to keep participants current with industry standards and technology. Despite its income generating elements, most training enterprise groups find the issue of funding to be a major challenge that affects whether or not they survive.

Success Story

Esperanza Unida

*Esperanza Unida* (United Hope) has created a number of training businesses as a way of accomplishing a variety of results concurrently: job creation, job training, and revenue generation. The organization, founded in 1971 as a social service agency, has turned itself into a set of training businesses serving the unemployed across Milwaukee and, in particular, the Hispanic community on the South Side of the city.

*Esperanza Unida* has created bilingual programs in auto mechanics, auto body repair, used car sales, housing rehabilitation, child care, metal fabrication, desktop publishing, and culinary arts. *Esperanza Unida* operates under the philosophy that workers best learn a trade under actual working conditions. Each of the training programs generates revenue for the program, and there is usually a waiting list to join the programs since they prepare workers for living-wage jobs more quickly than traditional trade schools. Trainees do not pay for their training, but they do not receive a stipend or an hourly wage either.

The two largest training businesses are customer service and metal fabrication, each with 40 annual training slots. Programs combine both classroom and on-the-job instruction.

The accomplishments of *Esperanza Unida* stand as testament to the dedication of the organization to provide quality training opportunities in viable business settings.

- *Esperanza Unida* has trained over 1,500 individuals for jobs.
- Seventy percent of graduates find employment, averaging wages around $7.50 per hour.
- Approximately 280 students are trained a year.
- The program now manages a 58,000-square-foot building that houses a job center, a center for the elderly, and the restaurant which is the training business for the culinary arts program.
- The housing renovation business has completed over 20 "gut rehabilitations" of housing units and sold these to its training students and employees.
- About one-half of its budget is generated by the training businesses.

When is a training enterprise appropriate?

Training enterprises respond to a lack of job opportunities for hard-to-employ persons who need more on-the-job training and support than traditional employers can offer. These individuals may never have worked a regular job in the past and may not possess
the soft-skills necessary for full-time employment. Other hard-to-employ persons might have trouble learning in a classroom and may need a more hands-on training approach that can only result from working in a real enterprise. For some communities, training enterprises will be a welcome addition to the training services already offered by the Jobs Initiative.

What are the implementation issues for training enterprises?

Training enterprises blend on-the-job training with actual business development, a strategy that the sites might consider an attractive job creation alternative. However, sites must consider the demands that a training program places on an organization and the additional support necessary to develop and manage a real business enterprise.

Since the Jobs Initiative sites are well versed in providing training programs and employment placement services, their main concern will be how to develop the business. Using the economic base analysis as supporting information, the following steps are necessary in getting started in training enterprises.14

- Establish criteria for selecting a business. What types of trainee outcomes does the organization want to accomplish? Such considerations may include: whether the work is seasonal in nature, the average pay rate after graduation, length of training time, and ease of placement for the trainees after graduation.

- Identify potential business opportunities. Using the criteria for selecting a business, the advisory committee should be able to identify several potential business opportunities for the training enterprise. The business should be in an industry that is present in the local economy in order to place workers after graduation.

- Select a business for in-depth analysis. From the preliminary analysis, one or two businesses should emerge as better choices for the training enterprise. Performing an in-depth feasibility study may include researching the barriers to entry for the business, existing training opportunities in the area, and worker placement agreements with established firms.

- Identify management for the business. Management for the business will differ from management for the organizing group. In many cases, nonprofit organizations establishing a program will want to consider hiring persons with more hands-on business experience to manage the training business.

- Develop a business plan. Like any business venture, the managers of the training business need to do their homework.

Start with a *marketing plan*. A marketing plan will help identify the product, the need it fulfills, and what separates the product from the competition. Marketing plans also help identify characteristics of the customer base for the product.

Follow with a *sales plan*. A sales plan will help determine how to sell the product by focusing on the size and structure of sales staff, the distribution system, and the volume of business the enterprise can support.

Next, the sites should consider an *operations plan*. Before beginning, the training enterprise should consider its technical expertise in the industry, physical facilities for the program, inventory requirements (if any), and the support services necessary to run a business.

Finally, the training enterprise needs a *financial plan*. The JI site should perform general accounting functions for the enterprise. The plan should include the program’s financial requirements, an income statement, cash flow analysis, balance sheet, and a break-even analysis.

- **Secure start-up financing.** Training businesses, like any other venture, need proper financing to develop. In training enterprises specifically, productivity will be less than what other firms produce at the margin. For this reason, training enterprises must attract not only start-up financing but also continued financing to provide for the gap that the revenue from the enterprise cannot provide.

**What are the pros and cons of training enterprises?**

**Pros**

- Training enterprises are a reasonable approach to provide simultaneous training and work experience to individuals who need more than training alone.
- The Jobs Initiative sites are better suited for training enterprises than most community development organizations due to the training programs and facilities that the sites currently control.
- Training enterprises are one of the few development programs that provide some revenue to cover costs.

**Cons**

- Training enterprises are real, live businesses that require skills and organizational capacity quite different from those at current JI sites.
- Training enterprises exist at the mercy of the market and competition: they are forced to enter into an environment where most small businesses fail in the first two years.
BUSINESS RECRUITMENT

Purpose

Business recruitment programs work to attract new firms to a community. When they are properly designed and implemented, they package and market an area’s strengths; they seek to improve the local business climate “product” by lowering operating costs and upgrading factors such as workforce quality and infrastructure; and they offer well-targeted, fiscally responsible, and publicly accountable incentives. Although difficult to pull off, there are also ways to ensure that recruitment efforts generate higher returns for economically disadvantaged communities and individuals.

Rationale

Competition to attract relocating companies is often intense, which places these companies in strong negotiating positions with state and local governments. In essence, the company is looking to meet its needs at the lowest cost and with the shortest possible lead time. However, factors other than costs, such as an area's commitment to creating a conducive business climate and to maintaining a quality of life, are becoming just as important. The following are essential factors in business recruitment, though the importance of each depends on the prospect:

- Location in terms of access to markets and raw materials;
- Availability of skilled or readily trainable workers;
- Quality and quantity of sites and/or buildings, properly zoned and available;
- Necessary infrastructure at the site -- water, sewer, access roads, utilities;
- Energy costs and availability;
- Access to interstate, rail, and air transportation;
- Availability of financial incentives; and
- Ease in obtaining permits and regulatory variances.

Some of the locational determinants are fixed; nothing can be done about them. Others can be improved by local effort. The following are actions a community can take to improve its chances of attracting new business:

- Provide tax or other business incentives comparable to what competitors in other jurisdictions are offering.
• Increase the availability of business loans for assets and/or working capital through local revolving loan funds or state programs.

• Provide capital for infrastructure improvements -- a mix of grants and loans for site-specific improvements.

• Develop subsidized training programs for existing workers.

• Market and promote the community through existing economic development organizations, e.g., local or regional development organizations or councils of government.

• Create or upgrade a local organization and designate people, including business owners and managers, to show sites, discuss community attributes, answer questions, and tackle the potential problems prospects might face (the "red carpet" team).

• Develop pre-researched zoning variances that could be used to meet the special needs of businesses without harming the area’s environment.

An effective business recruitment program creates jobs and increases tax revenue, and can help to diversify a local economy. It will attract industries that can offset the impact of a recession or an economic downturn.

However, success is far from automatic. Recruitment can be a highly competitive strategy since most communities have similar programs. It can also be hit-or-miss; if firms are not recruited, the community can realize few results for its investment. Furthermore, many communities put too many eggs in this one basket and neglect the “homegrown” strategy of working with their existing industries and emerging entrepreneurs.

In addition, recruitment efforts are unlikely to deliver large benefits to economically distressed areas unless the programs are intentionally designed to do so. For example, efforts need to address whether business incentives are restricted only to poorer communities or if all areas receive recruitment subsidies.

Sites must become aware of current business recruitment trends that seem to be shaping firms’ location decisions:

• Communities are no longer just in competition with other rivals in their own state or even within the United States. Localities across the world are now in direct competition for business recruitment. Hence, recruiters must think globally in terms of preparing attractive recruitment packages.

• “Trophy” prospects are few and far between. In most cases, to pin a community’s hopes on attracting Sony or Intel or IBM or Mercedes is to pursue a fantasy.
• Manufacturing firms are smaller than before. Many large companies are breaking up into smaller companies. They can locate in smaller labor market areas, such as urban fringe or rural areas.

• Similarly, firms have greater mobility. They are able to move to locations that may not have been considered before because of increased efficiency of transportation, higher value products, and telecommunications. Because of their mobility, they may not be "locked in" to stay if things do not work out. Technological changes and faster product innovation make it less necessary for firms to remain in a location for a long time period. Companies in this era of “hyper-competition” constantly seek new ways to leap ahead of their competition, trying new product lines, and modernizing their facilities. This makes them more “foot-loose.”

• Given the rate of change, it is critical that recruiters stay in touch with the marketplace and not pursue projects that are soon to be downsized or head off-shore.

• All geographically mobile firms, whether they be manufacturers, retailers, or wholesalers, now expect incentives as a matter of course.

• Shrinking public dollars on the federal, state, and local levels mean that recruitment efforts must husband their research, promotion, and infrastructure improvement funds more wisely and base their strategies on a well-developed and customized plan.

• Large retail firms are starting to eye inner-city areas as sites for doing business.

How It Works

The most critical initial decisions about whether or not to pursue a significant business recruitment strategy hinge on the area’s comparative advantage, project location options, staffing needs and sources, and budget for such efforts.

Whereas all jurisdictions should probably mount a minimal effort involving promotion, hand-holding, and troubleshooting, some communities may not have the resources or the potential to play this game in the large recruitment arena. Likewise, there are definite pros and cons to housing the effort in government, nonprofit, or private sector organizations. Deciding where to place the effort should depend on the credibility, competence, and capacity of area institutions.

Local communities must think about these issues and find the best solutions for their particular areas. The availability of adequate resources (both financial and professional), along with the community’s comparative advantages, should drive these decisions.

So, what does the average business recruitment program look like? Traditionally, a business attraction program has five key components: (1) marketing the location; (2)
identifying prospects; (3) tracking prospects; (4) managing visits; and (5) closing the deal.

But economic developers trying to use business recruitment as a strategy to aid economically disadvantaged communities face another critical dilemma. They must focus on specific industries or recruitment prospects that not only have growth potential and can be well-nurtured by the area’s business climate and locational advantages, but also have the potential to locate in less affluent communities. These businesses must offer jobs that match what the community needs. And even if they are attracted to a contiguous community, the jobs must be accessible to area residents. This is a tall order, and few programs try consciously to include these dimensions.

The basic steps in doing so involve:

- Examining if there are any business prospects that could make a decent return in an inner-city area (e.g., anchor stores such as supermarkets) and determining how they might be best recruited.
- Determining if any of the business prospects which are likely to locate in other parts of the city require workers for entry-level positions and if suitable labor market intervention could connect disadvantaged workers to these jobs.
- Ascertaining if recruited companies need materials and supplies that area firms, especially minority-owned enterprises, could fulfill (and devising, if required, programs to help area enterprises successfully serve these firms).

Success Factors

The most important starting points of a successful effort are:

- Including/hiring should include enough qualified staff to target key industries, prospects, and geographic regions; and
- Performing an honest community evaluation of the area’s development strengths and weaknesses. The staff must also maintain a comprehensive database to provide customized reports that convey the area’s strengths and weaknesses for targeted industries.

In addition, the recruitment staff should possess a “real plan.” Most communities, according to our best survey research, do not have written recruitment plans. Recruitment plans enable staff to spell out their assumptions, their goals, and their strategies for outside review and refinement. Without such a document, those who oversee and fund such efforts will be unable to judge success or failure.

An effective plan sets real, measurable goals. These will differ from community to community. Some jurisdictions will focus on industrial diversification. Others will seek to attract jobs. Some cities might target higher-wage jobs, or employment for local
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minorities. Fast-growing communities will want to tie their attraction and growth management strategies closely together.

If these programs are to help those people and communities currently being left behind by economic change and held back by poverty, they must be intentionally structured to be “inclusive.” First, they must seek to connect the members of a targeted poor community to good and high-growth jobs by seeking to attract companies that can provide such job openings. Second, they must devise job linkage programs that prepare residents to be competitive candidates for these jobs, as well as entrepreneurial support initiatives that use the attracted firm or facility to expand markets for local companies.

Success Stories

The Retail Initiative

The Retail Initiative, Inc. (TRI) is a real estate equity fund whose purpose is to help community development corporations (CDCs) attract, develop, and/or own full-service supermarket-anchored facilities and retail outlets in their low-income neighborhoods. TRI has raised $24 million from institutional investors for a limited partnership, aiming to develop more than a dozen such inner-city projects. After implementing its first set of ventures, TRI expects to create more than 2,500 permanent jobs, enhance access to affordable and quality food, and increase community reinvestment.

When successful, TRI creates true win-win partnerships. TRI – a Local Initiatives Support Corporation (LISC) affiliate – helps large anchor stores make money by tapping underserved but profitable inner-city markets, attracting public sector subsidies and investments for needed infrastructure improvements, easing any local political tensions, and creating valuable links to the community and local municipality during and after the real estate development process. At the same time, this approach enables CDCs to co-venture with experienced for-profit shopping center developers, recruit larger and more professional outside businesses, and encourage banks and other lenders to invest in a complementary neighborhood revitalization effort.

TRI projects will typically have the following traits:

- Five-acre minimum sites with expressed interest from supermarket operators;
- Sites where public sector funding has been earmarked or will be made available for retail and commercial development;
- Satellite tenants, including national franchises, with demonstrated potential for successful operation in inner-city neighborhoods;
- Substantial pre-leasing prior to construction;
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- Experienced shopping center development firms participating as fee advisors or equity partners;
- Experienced property management in multi-tenanted centers; and
- Significant community and public support.


Portland JobNet

The City of Portland has the longest-running First Source program in the country. Developed in 1978, the program consists of private companies that receive public monies (for instance, when being recruited) and agree to use the public sector (and its nonprofit contractors) as the “first source” for new job hires. Portland JobNet acts as the “job developer” on behalf of the private firm, identifying and screening potential workers, arranging training services, and so forth. The private firm is under no obligation to hire these workers, but must interview them before seeking other possible employees.

JobNet serves two neighborhoods in Portland, Oregon, the North/Northeast and Outer Southeast areas where a disproportionate number of low-income, unemployed, and minority residents live. JobNet does not limit its services to low-income or minority residents, though it makes a special effort to reach out to them.

The Portland Development Commission (PDC), which houses JobNet, uses economic development incentives – including tax abatements, relocation assistance, small business loans, and revenue bonds – to motivate firms to expand, remain, or move to the Portland area. Firms that wish to access these incentives must sign a First Source agreement, typically lasting three to five years, with JobNet.

Between 1989 and 1996, JobNet placed over 5,000 job seekers, an average of over 700 workers a year. In fiscal year 1994-95, JobNet placed 1,234 workers, of whom 42% were minorities (remarkable considering that minorities represent only 16% of Portland’s workforce) and 52% had earned low incomes. The median hourly wage across placements was $8.75, and the majority of workers were placed in full-time jobs with benefits.

Shorebank Advisory Services: Attracting Business Investment To Neighborhood Markets

During the past year, Shorebank Advisory Services and Social Compact have been collaborating on how to identify emerging neighborhood markets and how to attract additional business investment to inner-city areas. Social Compact brings together national corporate leaders committed to identifying and developing neighborhood
markets and to creating additional awareness about untapped market potential in less-affluent communities. Shorebank brings 25-plus years of experience in neighborhood-based development banking and demonstrated competence at developing reliable information about overlooked, undervalued, and underinvested markets.

Research has identified a vast market potential in the inner city: unrecorded income and demographic concentration suggest that there is more buying power in low- and moderate-income urban neighborhoods than even in the wealthiest of suburbs. Shorebank and Social Compact are developing systems for collecting, analyzing, and publicizing reliable market data and exploring how such intelligence could be used to attract additional corporate investment. They are also developing case studies of leading businesses that are succeeding in inner-city markets. This research will be used to help businesses identify underrecognized neighborhood assets, overcome entry barriers, and structure investment in ways that are mutually profitable for businesses and communities.

When is business recruitment appropriate?

Business recruitment programs are best suited for JI sites that are experiencing a recent loss of jobs in the community or a labor force that is dependent on one employer. They may be located in an area that has not created new jobs while other parts of the region have been successful. Likewise, the JI target community may be missing critical services (e.g., a full-service supermarket) that a recruited business could fill. While business recruitment is popular with most cities as a form of economic development, JI sites specifically need to market the inner-city community's advantages and/or develop stronger job placement or small enterprise links to such programs. This is something most cities do not attempt.

Getting started in a business recruitment program may be problematic for the Casey sites. Without a doubt, most major cities in the United States already have an ongoing recruitment program. It may be important to review the activity of the city’s recruitment program and to determine if and why it is having trouble recruiting businesses to the city and, in particular, to the neighborhoods where sites are located. Only if a JI site can meet an unmet need in the recruiting efforts of the community should the sites pursue a recruitment program.

What are the implementation issues for business recruitment?

Sites should begin by analyzing the factors that are preventing businesses from moving into the area being marketed. It is often the case that misconceptions about an area will dissuade a company from locating in an urban environment. Sites can work to change the misconceptions that people have about the area. Other factors, such as lack of adequate infrastructure, are more tangible and can be dealt with directly. Regardless of the types of inhibiting factors, business recruitment programs will work only if they are corrected.

Mainstream texts on business recruitment list six components to operating a successful program. These steps uncover concerns that need to be addressed.
• Selecting targets. You must first understand the needs of your primary customers (e.g., the economically disadvantaged) and then explore how recruitment can serve their needs. The key issue is: Can you customize a feasible recruitment effort for JI sites?

• Marketing the location. Based on the research of the JI site, recruitment staff select specific industry groups for an aggressive marketing campaign. Recruitment staff highlight the area's quality of life and economic advantages through:
  
  ❖ Media advertisements in newspapers, magazines, trade journals, and other publications geared to the targeted industries.
  ❖ Printed and visual material such as slide shows, fact sheets, brochures, and economic profile publications and packets targeted at corporate decision makers.

Sites need to understand and work with community limitations and advantages. Often communities fail to market the area to industries that can successfully operate a business in the community and instead go for industries that are clearly not appropriate for an inner-city location. Today, community leaders need to rethink the kinds of businesses they want to attract to include services that may be missing in the inner city. This might include grocery stores, dry cleaners, or restaurants that will employ younger people who need an entry point into the labor force and economic mainstream.

• Identifying prospects. To identify prospects, recruitment officials use:
  
  ❖ Direct mail. This approach, although inexpensive, is often ineffective by itself. It requires careful research of target markets and follow-up phone calls.
  ❖ Telemarketing. This method is cheaper than marketing and advertising, but has rarely proven to be effective because key decision makers are insulated by administrative staff and subordinates.
  ❖ Marketing missions. Routine marketing trips are conducted by recruitment officials and high-level business and government officials. This is one of the most effective methods because officials can respond directly to a prospect's concerns.
  ❖ Trade shows and conventions. This involves attending the targeted industries' trade shows and conventions. The benefit of this effort is that it costs little; unfortunately, key corporate decision makers rarely attend these functions.
  ❖ High profile events promotion. Appropriate for larger or more resource-rich communities, this approach involves inviting corporate decision makers to special, attractive events like golf classics, and then providing supplemental activities for them, including recreational events and site tours.

It is hard to determine in every case exactly what classification of industry can operate profitably in the community. For this reason, identifying prospects is one of the most important steps in business recruitment. Unfortunately, this is also one of
the most expensive parts as well. An area with limited resources might consider working with other organizations, such as the city or a public-private partnership, to engage in joint marketing.

- **Prospect tracking.** Once a prospect has shown interest in the community, time and efficiency are essential to bringing jobs to the area. Recruitment programs use databases and spreadsheet programs to generate customized reports for different industries. The database should be organized before marketing the sites and should be kept up-to-date as much as possible. Prospects will be interested in everything from local zoning conditions, sewer capacity, long-range growth plans, and incentives to the amount of water pressure that can be provided to any available site. The recruitment staff must be prepared to provide current and reliable data for the area.

- **Managing visits.** Traditionally, high-ranking officials accompany recruiters on site visits. Their buy-in and commitment can be critically important to the recruitment process. The sites need to cultivate the interest and conviction of other community organizations and decision makers, including the chamber of commerce and city and state developers.

- **Closing the deal.** In closing the deal, the prospect requires personalized service and attention from someone committed to his firm's interests. Those responsible for the closing should be well-informed and committed to handling the task professionally and confidentially. The prospect should be supplied with all the pertinent economic data, such as local economic trends, workforce skills, labor costs, incentives, available sites, financial resources, and quality of life.

Before closing the deal, sites need to understand the consequences of moving a new company into the community. Does the company bring a history of labor problems or safety concerns? What types of waste products will the company leave on the site or dump in nearby landfills or streams? Communities need to be aware of these issues and any other concerns that might develop.

**What are the pros and cons of business recruitment?**

**Pros**

- Business recruitment, when done correctly and effectively, can produce jobs, which are the most visible form of economic development. It is also easier to explain to the populace than indigenous development approaches.
- Such a strategy can deliver a lot of private sector jobs quickly.
- Targeted recruitment can fill local gaps in services and employment and provide new markets (or suppliers) for existing local firms.

**Cons**

- Recruitment in disadvantaged areas is a difficult proposition without significant support from the region-at-large.
- The costs of mounting a full-scale recruiting program may be prohibitive for a JI site.
• Mainstream developers may be opposed to customizing an approach to meet low-income needs.
YOUTH ENTERPRISE DEVELOPMENT

Purpose

Youth Enterprise programs are designed to encourage entrepreneurial growth and skills by providing basic business and financial understanding to people under the age of 21. Monetary reward through business creation is not so much the goal as developing the ability to understand the world of business. Major themes in youth enterprise are the development of clients' self-esteem, self-sufficiency, academic skills, desire to stay in school, and income-generating ability.

Rationale

Youth enterprise programs are supported by the rationale of early intervention. By showing potentially at-risk youth that there are alternatives to the negative elements that can influence their lives, youth enterprise programs seek to build character, resilience, and the skills necessary to become a productive member of society.

While no agreed upon definition of youth enterprise exists, most organizations and programs on the topic have either a mission statement or working definition on which they operate. A few examples follow:

- “To develop products and services that enable teachers and youth workers to disseminate the concepts of self-esteem and self-sufficiency to low-income youth via entrepreneurship education.” (National Foundation for Teaching Entrepreneurship)

- “To empower disadvantaged youth to develop their own small businesses, avoid drugs and crime, sharpen basic academic skills, and form positive attitudes about themselves as responsible people with a stake in their community.” (The Entrepreneurial Development Institute)

- “To act as a link between business and education to assist teachers in delivering the message: entrepreneurship is a viable lifelong career option.” (Illinois Institute for Entrepreneurship Education)

- “To help kids understand business and the economy through business role models sharing their experiences and correcting misconceptions, demonstrating the importance of staying in school, enriching teachers' understanding of how business operates, and developing and providing interactive materials for teachers, business volunteers, and students.” (Junior Achievement)

Youth Enterprise programs tend to focus on high school students, with some serving community colleges and grade schools. Programs range from simple simulations for
younger children to actual businesses such as school stores or other income-generating ventures for older children.

There is no specific information about the family income of youth served by these various programs. However, a number of organizations and programs gear their services to disadvantaged youth or to persons of color. The term "disadvantaged" is used broadly and can mean youth from poor neighborhoods or youth with some risk factor such as contact with the juvenile justice system or even being behind in a grade level.

**How It Works**

While no one program typifies youth enterprise development, the various programs can be compiled into a typology encompassing five basic approaches.

*School based entrepreneurial education.* The best known and most common, this method teaches the values and basics of creating and running businesses within an educational institution setting. Programs vary for all ages of youth and generally involve having someone from the business community or teachers with special training working with the youths to implement entrepreneurial skills. Examples of this method are Junior Achievement, REAL Enterprises, and the Center for Entrepreneurial Leadership.

*Training the trainers.* In this model, organizations provide support to school and community-based programs by developing curricula and training the teachers or instructors who will work with youth in the program. Examples of this model include Educational Designs that Generate Excellence (EDGE), The National Foundation for Teaching Entrepreneurship (NFTE), and the Center for Entrepreneurial Leadership's Jump Start program.

*Enterprise development.* There are a number of programs designed to provide a range of services that support business start-up and development among young people in a variety of settings. Many have built a network of affiliate organizations or branches to stimulate interest in youth enterprise. Examples include The Entrepreneurial Development Institute and An Income of Her Own (AIOHO).

*Business placement.* This method places young people in small businesses to gain experience and understanding of the world of work. This model is considered experimental. Some of the programs are linked with special business education classes to help the overall development of the youth. Examples include Alliance All-purpose in Boston and Juma Ventures in San Francisco.

*Local initiatives.* Organizations in this category are local to one area and have no intention of expanding to the national level. They have created their own curriculum or have developed one from other organizations. They provide a variety of services from classroom training to enterprise development. Examples include African and American
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Friendship, Start-Up Education, and Southwest Atlanta Youth Business Organization (SWAYBO).

Furthermore, approaches vary with some programs using only classroom training, some combining classroom lectures with more experiential and contextual learning, and others having very little traditional learning and instead focusing on hands-on learning. The business plan is at the heart of many programs, serving both as a learning tool and as a way of measuring success.

A range of youth enterprise approaches have been tried around the country. Earlier research by CFED found programs that are concerned with:

- Teaching youth about the world of business;
- Responding to the development needs of youth through exposure to the world of business, access to mentors, and building self-esteem – stretching their horizons and their expectations of themselves;
- Creating hands-on experience for youth by operating a business – either as a group or team (for example, a school store) or as individual enterprises operated for profit, for the experience, or for income;
- Responding to the employment and school-to-work needs of youth – real work experience;
- Helping youth contribute to the development of their communities – giving them an understanding of how the local economy works and how enterprises can help revitalize an area;
- Providing systematic business growth services to youth entrepreneurs and their businesses, including capital and advisory services to help expand businesses already started; and
- Providing professional development services to youth entrepreneurship educators, including detailed curricula and training in workshop or university settings.

Organizations point with pride to the curricula they have developed to instruct young people in entrepreneurship and free enterprise. While a number of organizations have developed a core curriculum, many retain enough flexibility to change depending on the time available, location of the course, and other factors. Several youth enterprise groups sell the curriculum they developed to other organizations.

In addition to the curricula developed by entrepreneurship programs, the National Council on Economic Education has developed academic economic content standards. The Council and its affiliated network of state councils and university centers is a non-profit partnership of education, business, and labor unions dedicated to improving
economic literacy. The National Council provides teacher training and educational materials as well as content standards. Each year the network trains about 120,000 teachers who then serve eight million students. More than 2,600 school districts, teaching about 40 percent of the nation’s students, conduct programs in economic education with assistance from the network.

Success Factors

Despite the varied and customized nature of youth enterprise programs, programs share several common factors of success.

• Ideally, there has to be a program leader with a strong background in both business and working with young people — an unusual combination of skills. Certainly, good, well-motivated, and experienced staff are essential. Some groups lean toward younger staffs who can understand the needs of participants and are willing to spend time with them. Others stress the importance of staff who have had entrepreneurial success.

• It is necessary to have the right mix of partners in the program, ideally a mix of business, education, and community representatives, with sponsors who are able and willing to take the longer-term view. Adequate funding is essential, although one organization has referred to the fact that developing without outside funding allowed it to create the program the way it wanted.

• Appropriate role models are critical; for example, young women need to have access to successful women business owners, and African Americans need to meet with successful black entrepreneurs.

• A youth enterprise program should be operated with an understanding of the marketplace, both in terms of how the program is meeting customer needs and of steering young people to real market opportunities.

• A program that provides interactive, experiential learning is much more likely to engage young people in the possibilities for business creation.

• A youth enterprise program requires clarity of purpose so that it can better measure progress both of the program as a whole and of the individual participants.

• Programs can learn from the experiences of other youth enterprise, youth development, or microenterprise programs about what tools and techniques may work best in a given set of circumstances.
Success Stories

The Entrepreneurial Development Institute

The Entrepreneurial Development Institute (TEDI) is a nonprofit organization founded in 1991. Its mission is to serve as a catalyst for permanent social change, economic development, and community empowerment for TEDI participants and their families.

TEDI serves mostly young people of color between the ages of seven and 21. TEDI has an intensive 26-week training program designed to assist youth in developing and implementing community-based businesses. The curriculum is divided into three phases of training: basic entrepreneurial training, case study analysis, and hands-on entrepreneurial projects. At the Youth Business Summit, youth from each of the cities where TEDI operates have the opportunity to share information with other TEDI participants. TEDI has established a micro-loan fund for its students. It is working in 22 sites, including three overseas. TEDI has direct service branches in Atlanta, New Orleans, Washington, DC, Cleveland, and New York.

Recently, TEDI has announced that it will shift its emphasis to creating business development centers to serve emerging and existing youth entrepreneurs. Each center would provide access to volunteer opportunities and internships in the community via a volunteer databank, technical assistance, information on fellowships, scholarships, access to a micro-loan fund, and the use of computers and other technology. It is seeking funding to launch a pilot in Washington, DC, and then move to its other direct service branch cities.

An Income of Her Own

An Income of Her Own (AIOHO) was started in 1992 to provide entrepreneurial education for teen women nationwide. Its programs are geared for teen women 13-19 years of age. Since 1992, AIOHO has worked with 15,000 girls. Roughly 25-35 percent are African American; 25 percent are Latina; 10 percent are Asian. They work with both the "poor and the privileged." AIOHO trains educators, parents, and youth leaders in entrepreneurship education and makes programs and entrepreneurial experiences directly available to adolescent girls and teen women.

Programs run include National Teen Business Plan Competition, and Camp $tart Up, a summer camp for teen women who want to explore entrepreneurship. The camp is held in four locations around the country. In addition AIOHO holds one-day conferences around the country to bring together teen women and business owners in order to build awareness of entrepreneurship. Programs are presented in schools and community sites such as YWCAs and Girls Clubs.

AIOHO has recently split into two organizations. The nonprofit organization's mission is research and education on girls and economic development. It will continue to operate
the National Teen Business Plan Competition. The for-profit organization will develop and deliver products and programs around economic education for girls.

**When is a youth enterprise program appropriate?**

Youth enterprise programs are a good way to educate students about the activities and responsibilities of owning and operating a business. Youth enterprise programs are also an effective method of retaining at-risk students in the educational system. If the entrepreneurial capacity in the area is relatively low, a youth enterprise program may be a long-term strategy for increasing entrepreneurship.

**What are the implementation issues for youth enterprise?**

There are a few steps which should be taken to determine if a youth enterprise program is feasible in a given area.

- **Conduct an assessment of activities and issues.** The first task of the JI sites will be to conduct a thorough “environmental scan” to gauge the extent of existing youth enterprise-related activity and the potential for further development. The review should look at the current use of youth enterprise programs in the area and assess the need for new programs or additional support for the existing programs.

- **Survey the needs and views of the target population.** An intensive program of inquiry focused on schools and youth organizations will yield a lot of information about young people’s attitudes towards and interest in youth enterprise.

- **Identify opportunities and barriers.** The next step is to engage in extensive dialogue with each of the four key systems of education, business, economic development, and youth development. The aim is to determine how best to integrate youth enterprise into the existing system so that the proper resources are mobilized for the success of the program.

- **Design the components of the strategy.** For the strategy to be comprehensive, it will need to show how the education, business, economic development, and youth development and support components will work both individually and as an integrated system. Key questions that should be answered include:

  - **Who will participate?** Youth enterprise programs can be developed for any target group, and the sites should determine who should participate. Criteria for decisions can be based on age, gender, race, or whether the program wants to focus more on education or venture development.
  
  - **Who will host the program?** Is the program to be integrated into the local school system or is the program to be part of extracurricular activities such as boy/girl scouts or other activities?
Will the program be original or packaged? There are several worthwhile programs that are available off-the-shelf for organizations to implement. If none of these suit the site's needs, then a new program needs to be created.

What are the pros and cons of youth enterprise programs?

Pros
• Youth enterprise programs are a proactive tool for keeping at-risk students interested in education, while addressing a larger development issue of the community.
• Youth enterprise programs tend to unite the community due to the multiple civic and business components that must be coordinated.
• Youth enterprise programs can be designed as overall youth development initiatives.

Cons
• Youth enterprise programs cannot guarantee an increase in entrepreneurship in the community.
• Any entrepreneurship developed as a result of a youth enterprise program will not necessarily accrue in the inner-city neighborhoods.
• The businesses tend to be small.
MICROENTERPRISE DEVELOPMENT

Purpose

The encouragement of microenterprise as a strategy to support low-income individuals to set up their own businesses as a means of getting off welfare and climbing out of poverty has gained support throughout the country. We regard it as an essential element of any strategy to turn around struggling communities.

Rationale

Successful microenterprise initiatives are underpinned by a definite set of philosophical, design, and operating principles. Fundamentally, they set out to transform the stereotype of poor people as victims into one that shows people taking control of their lives. They seek to expand access to the sorts of capital and management training and assistance that is hard to come by in poor communities. Given this philosophy, there are several fundamental principles that shape the design of the best microenterprise development programs.

- The option of self-employment should be made available to anyone, although it will not be the right choice for everyone.

- Participants must “self-select” to be involved in a microenterprise development program given the level of commitment required to be a successful entrepreneur. This principle continues throughout the program as participants “opt out” at different points without being considered failures.

- Self-selection must be combined with clear expectations regarding program participation. The experience of serious entrepreneurs should not be compromised by individuals who do not share the same level of commitment.

- Programs must combine access to services for developing business owners as well as for developing business. This is particularly important when participants come from economically disadvantaged communities and must overcome many barriers to self-employment.

- Support services, including training and technical assistance, must continue once the entrepreneur has started to run his or her business to lower the risk of failure and enhance the probability of success.
Microenterprise development efforts seek to achieve a wide range of goals:

- To create businesses;
- To increase income levels;
- To promote economic self-sufficiency;
- To create an entrepreneurial culture;
- To provide access to credit; and
- To create jobs.

Some Definitions

There are three definitions that are basic to the field of microenterprise development:

- **Microenterprise**: A sole proprietorship that has fewer than five employees, has not had access to loans from for-profit lenders, and can initially use a loan of less than $15,000. The majority of microenterprises are operated by the owner alone and have annual sales of $250,000 or less.

- **Microenterprise development program**: A program run by a nonprofit or public organization that provides any combination of loans, technical assistance, training, and other business or personal assistance services to micro-entrepreneurs.

- **Microloan**: A very small loan made to a microenterprise. A recent survey by the Self-Employment Learning Project of 108 microenterprise development programs found that most microloans made were under $10,000, with an average loan size of $5,640.

Microenterprises can be found in almost every part of our economy. Most are sole proprietorships, which employ only the owner, while 34 percent have additional employees. About half of the businesses are start-up. Those firms that produced the most job growth include apparel and textile production, sales and service; varied retail and wholesale product sales; and professional services.

Research has documented that 61 percent of micro-entrepreneurs are minorities, in contrast to the self-employed population in the nation as a whole, where 91 percent are white and six percent are minority. In addition, 79 percent are female, in contrast to the self-employed population in the nation as a whole where 29 percent are female. In the sample, 55 percent depend on their microenterprise as their principal source of income for their family, 30 percent work at full- or part-time jobs, and 15 percent receive public assistance while running the business.

According to the Office of Advocacy of the U.S. Small Business Administration, “from 1990-94 micro-businesses with 1-4 employees generated about 43 percent of the net new jobs, while firms with 4-19 employees created another 37 percent of new employment opportunities.” Moreover, “small businesses employ 53 percent of the private work force, contribute 47 percent of all sales in the country, and are responsible for 50 percent of the private gross domestic product.”
How It Works

There are many approaches to establishing a microenterprise development program. As the field of microenterprise has developed, six primary models have emerged. These models are described below. Understanding the key elements of each model is important in order to decide which model, or parts of each model, is right for your city and its neighborhoods.

**Comprehensive business assistance or self-sufficiency model.** This model combines three elements to assist new entrepreneurs: (1) training in personal development and business development skills; (2) access to credit through a lending program; and (3) individualized technical assistance to the business owner on a long-term basis.

**Microenterprise lending model.** The mission of this approach is to fill the “credit gap” within a community by providing small loans to potential and existing entrepreneurs who lack access to the common sources of start-up capital: family, friends, and credit cards.

**Market research model.** This model targets a specific community or neighborhood and seeks to improve the chance of survival for start-up businesses by identifying what types of businesses offer the highest chance for success.

**Incubator model.** The incubator model uses commercial space leased at below-market rates to help launch start-up or emerging businesses. Often sponsors of incubators supply tenants with shared secretarial, telephone, copying, and other office-related services and charge them on an as-used basis. Some even provide technical assistance, training, and financing.

**Entrepreneurial training and support model.** This approach focuses on training potential and existing business owners – typically in a formal classroom setting – and providing limited assistance in business planning and management.

**Cooperative or sectoral business development model.** This model is similar to the market research model because it focuses on available markets. However, it differs from the other five models presented because it takes a group and industry, not an individual and local community, approach to enterprise development. It selects an industry or sector – such as grocery stores, day care, or home health care – that has potential to grow and aids in the formation of a number of related microenterprises that are linked through a cooperative or networking structure.

Success Factors

Effective microenterprise programs for the poor and disadvantaged are characterized by five key factors:

1. **They offer services people need and want, but cannot get elsewhere** — very low-cost, easy-to-understand technical help; small amounts of credit; consistent respect; patience and personal encouragement; staff commitment to the value of small enterprise activity; and association with others, like themselves, who have struggled to operate businesses with very limited resources.
2. The programs help people help themselves.

3. Effective initiatives are strongly results-oriented and revise their strategies based on feedback about what is most effective.

4. Because of the client base for these programs, effective initiatives integrate business assistance with personal support services, such as client self-assessment, child care, money management, and life skill training to provide a comprehensive approach to a disadvantaged entrepreneur’s needs.

5. They employ trained staff who understand small business and are sensitive to the effects of poverty and discrimination on clients, making them credible teachers and advisors on both business and personal levels.

Appropriate funding and sound financial management are critical to program success. For instance, programs must be assured of adequate long-term core funding to recruit and retain qualified staff, provide time for learning, allow client and community trust to build, leverage educational support, and free staff to concentrate on program development and management.

Loan funds should approach their portfolio management challenges like any other financial services business by putting in place the necessary systems to monitor deals and to manage their capital base wisely. If microloan funds do not run themselves as real “businesses,” they will not be able to help their microenterprises “graduate” to obtaining loans from conventional banks and may experience such high losses that they will gradually “de-capitalize” themselves.

Successful business development always requires carefully identifying a market niche and mounting appropriate marketing and sales efforts. This is doubly true if the community-based organization is directly launching and owning a business venture, rather than acting as a source of financing and technical assistance or joint-venturing with a private firm. Community-based nonprofits, with rare and important exceptions, are typically not equipped to run and own entrepreneurial companies, as opposed to being nonprofit housing developers or neighborhood economic development planners.

They develop support and expertise networks with more mainstream business organizations, bankers, and others. This is crucial for attracting funding, tapping a broader and more specialized knowledge base, and building credibility.

Often changes in the regulatory environment will be needed to remove obstacles for low-income, limited-resource entrepreneurs. Welfare disincentives to earning and accumulating assets, costly licenses and permits, fragmented and unresponsive regulatory bureaucracies, inflexible zoning designations, and blanket restrictions on street vending can all be prohibitive for low-income entrepreneurs.
Success Stories

Working Capital

Working Capital is a nonprofit program that works to strengthen low-income communities by providing loans, networking opportunities, and technical assistance to the self-employed. It operates in more than 100 rural and urban sites in Rhode Island, Florida, Delaware, Vermont, New Hampshire, Massachusetts, and Maine. According to its director, one of the primary challenges for micro-credit initiatives is to create programs large enough to reach many businesses at low cost.

More specifically, Working Capital is structured to reach a large scale in lending operations. It is designed to be self-sufficient by providing credit services and by having other organizations provide the technical assistance their borrowers may need. It does not provide capital to start-ups and does not work with clientele who are as poor as those of some other programs. In short, it is a credit-led approach, solely committed to a group-lending model of providing financial services.

Statewide and regional programs are carried out through independent organizations ranging from YWCAs to community loan funds to organizations created specifically to implement the Working Capital model. These "hub" organizations in turn recruit local organizations, such as CDCs, to carry out program functions. Each local organization appoints a staff person, the "Enterprise Agent," who then forms business loan groups and monitors the activity of those groups. Bank lines of credit and program-related investments from the MacArthur Foundation, Calvert, and the Episcopal Church are the primary sources of loan capital. Grants from foundations, corporations, banks, and government subsidize operating costs (these are also partially supported by interest and fees paid by group members).

Working Capital estimates that the businesses assisted by the program have cumulatively created close to 1,250 full- and part-time jobs. More than 500 peer-lending groups have been formed, issuing over 3,000 loans since 1991.

Women’s Self-Employment Project

The Women's Self-Employment Project (WSEP) provides a range of financial and technical assistance services, entrepreneurial training, and peer support to low- and moderate-income women who wish to open or expand self-employment ventures in Chicago. The goal of the agency is to increase women's ability to take care of their families and become economically self-sufficient. Its staff believes that technical assistance is a critical addition to loan programs — that new entrepreneurs require support and training if their new businesses are to survive and grow. More specifically, WSEP focuses on particular communities in Chicago. It works primarily with poor African-American women. It uses both group and individual lending tools and is very
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committed to providing adequate training and technical assistance to its entrepreneurs. Lastly, WSEP operates a tie-in Individual Development Account (IDA) program.

WSEP makes available a comprehensive package of business assistance services. Two loan funds, capitalized with foundation investments and contributions, provide working capital at market rates. First-time borrowers are limited to $1,500, and the cap increases by $2,000 after successful repayment of the loan. Credit limits range from $100 to $75,000. The maximum term of these loans is 24 months. Borrowers can tap either the Full Circle Fund, a group lending program that incorporates peer support and business training into the process of borrowing, or the SBA Micro Loan Fund, an individual lending program administered by WSEP for the U.S. Small Business Administration.

WSEP provides business services and technical assistance to support new ventures, separately or in conjunction with a loan program. Three different training programs are available: one for start-up or very young businesses, one for businesses which have been in existence and are expanding, and one for those entrepreneurs who will become part of a peer-lending group. Checking and savings accounts with no fee or minimum balance requirements are among WSEP's financial services and are offered in cooperation with six area banks. WSEP also conducts demonstration projects and develops and advocates for policies that eliminate institutional barriers to self-employment. The agency is currently developing a network of successful women entrepreneurs from outside the program to serve as mentors to WSEP's customers.

With a number of women opening businesses in textiles and in cooking/catering, the center has sought industry experts to help explore how microenterprises fit into these industries and to advise new businesses. Part of this sector-based strategy has been to teach women how to research these industries themselves, encouraging further independence in managing their operations. Last year the agency opened an in-house resource library to facilitate this process.

All women are eligible for the program, though 70 percent of the participants earn less than $15,000 annually.

Since its founding in 1986, WSEP has helped launch retail stores, storytellers, a trucking company, caterers, clothing and textile businesses, day care centers, and computer service providers, including desktop publishers.

Since inception, WSEP’s loan programs have advanced over $1.9 million through more than 650 loans. Its loan repayment rate is 90%.

When is microenterprise appropriate?

Microenterprise works best when the entrepreneurial spirit is alive in a community but the capital resources are low. If a community is characterized by the upstart and closing of several small businesses a year due to a lack of working capital, then a microenterprise program may have significant impact. In addition, microenterprise programs can aid
areas short on entrepreneurial initiative. They can create new role models and spark a larger interest in self-employment.

**What are the implementation issues for microenterprise?**

The term ‘microenterprise’ can describe many different types of businesses. It is helpful to think of microenterprises along a continuum starting with the very smallest business and moving to a venture which resembles a small business. Identifying where on this continuum the businesses or opportunities lie is essential to designing a program which meets local needs. For instance, are they “starter” businesses? If they are, micro program managers will be more focused on basic business capacity building and on helping the entrepreneurs “grow” in terms of their abilities to operate successfully in the modern American economy.

As with any program, JI sites need to determine if a microenterprise program is feasible. The board of directors can do any necessary research and fact-finding for a microenterprise program. Or a committee can be formed, consisting of technical experts, members of the targeted community, and representatives of key business development and financing organizations, to look at microenterprise opportunities. This group would look at the next set of tasks which include:

- Further researching local market opportunities;
- Compiling an inventory of existing community resources for assisting firms;
- Summarizing findings to identify the right elements or program model;
- Finding partners and volunteers for program start-up;
- Determining the financial feasibility of the program.

If the steering committee recommends that the microenterprise program should proceed, further design effort is required to deal with the particulars of the program, such as:

- *Developing its participant recruitment activities.* Before opening the doors, a microenterprise fund must determine how and whom it will recruit for business. Will the fund limit its lending to any particular industries, size of firm, or entrepreneur characteristics?

- *Organizing its capital raising drive.* In order to be a microenterprise fund, the JI sites must raise the necessary funds to lend to businesses. Other organizations, including nonprofits, local government, and state departments, could be used as funding sources.
Creating Jobs

• **Devising its training curriculum.** Most microenterprise organizations offer some type of training services for their clients. Not only does this help support the development of the businesses, but it also helps ensure repayment of the loans.

• **Structuring its financing services to meet borrowers needs.**

• **Putting in place a management information system to help monitor its progress.** To track progress of loan repayments, delinquencies, and defaults, the fund will use a monitoring system. Any number of database programs are capable of the task, but the organization needs to choose one that will serve its current purpose and allow the organization to grow in the future.

The staff of a microenterprise organization is very important. Since the program does not want to have a portfolio of very bad loans, staff should have considerable experience with lending and financial analysis of start-ups and ongoing businesses.

One possible source of help in creating a microenterprise program is the local city government. A creative city government has an important role to play in the design and implementation process. For instance, it might sponsor the training program for microentrepreneurs to help them become more able business managers and planners. Many micro-programs are tapping community block grant funds, which are allocated to cities by the U.S. Department of Housing and Urban Development. These can be used to capitalize loan funds and defray program operating expenses. Others are finding ways to use their Empowerment Zone and Enterprise Community grants to finance revolving loan fund activities. Although most cities would contract out the management of the microenterprise programs to a local nonprofit or for-profit organization, those with the appropriate business development capacity could run such initiatives.

**What are the pros and cons of microenterprise programs?**

**Pros**

• Microenterprise programs provide small business lending for certain groups that traditional financial organizations do not serve.

• Microenterprise programs can have a direct and measurable impact on the creation and retention of small businesses in the community.

• They are a great way to promote new entrepreneurial role models in economically disadvantaged communities.

**Cons**

• Microenterprise lending is a risky endeavor that could, when done improperly, lead to the financial ruin of the larger organization.

• Microenterprise organizations often lend to small businesses in overly-saturated markets with little hope of producing any significant economic development.
MINORITY BUSINESS ENTERPRISE

Purpose

Minority business assistance programs need increasingly to provide the resources required for minority-owned firms to operate in growing markets. To do so, minority entrepreneurs need access to appropriate business counseling, growth capital, and professional networks that reach into national and foreign markets.

Rationale

Minority entrepreneurs are playing an increasingly important role in the U.S. economy. These entrepreneurs are not only building successful firms, but also providing jobs to those who find employment most difficult. The common wisdom that these enterprises still constitute “second-class” businesses is increasingly being challenged by the facts.

According to Dun and Bradstreet Corporation, the two fastest-growing segments in the U.S. economy during the last five to seven years have been minority- and women-owned businesses. The U.S. Census Bureau also points out that the number of black-owned businesses grew 46 percent between 1987 and 1992, from 424,165 to 620,912, while revenues increased 63 percent from $19.8 to $32.2 billion. During the same period, Black Enterprise magazine reports that “the number of black-owned firms grew 75 percent, nearly triple the growth rate for all businesses; revenues grew from $6.5 to $8.5 billion.”

Despite this progress, it is erroneous to conclude that all minority firms are doing well. Many are hobbled by a number of obstacles.

- The existence of set-aside and minority procurement programs has come under attack – most recently as part of the backlash against Affirmative Action. The Supreme Court has ruled that minority procurement programs were illegal if they focused on correcting discriminations of the past. Maintenance or the expansion of such programs increasingly requires making a strong legal case for continued discrimination.
- Many large governmental and corporate purchasers are now engaging in contract bundling. So, what used to be a $1 million contract has now become a $100 million contract. Competing in this marketplace requires building alliances with other firms.
- Assets are more inequitably distributed by race than by income. And since most capital for a fledgling business comes from friends, family, and associates, minority entrepreneurs find it more difficult to capitalize businesses. A 1990 study by Melvin Oliver and Thomas Shapiro, for example, reports that 67 percent of black households have zero or negative net financial assets compared to 30 percent of white households. Thus, it comes as no surprise that researcher Timothy Bates discovered
“the total financial investment at business start-up among white males was, on average, nearly two-and-a-half times that among blacks.”

- Lack of equity is not the only reason that many minority business owners fail to secure loans for their businesses. Discriminatory credit practices by commercial lenders are another. Researcher Faith Ando has shown that even when all differences in credit risks between borrowers are statistically controlled, African Americans, for example, are much more likely to be rejected for loans than non-minorities, Asians, or Hispanics. Ando also found that the location of the business in the minority neighborhood, and not the amount of equity business, had the greatest influence on the loan amount. Thus, strategies to improve access to capital must address both the financial status of the owner and the issue of geographic bias.

- The average receipts for minority-owned firms are still much lower than those for the average white enterprise. Likewise, they have fewer employees. Most operate in more restricted markets. (Only 0.8 percent of black firms in the U.S. market globally.) And to penetrate new markets, they must be big enough to compete.

- Businesses also succeed on the basis of networks and associations. Minority firms often operate apart from the contacts that they need. Continued discrimination, along with unintentional segregation, make it very difficult for minority entrepreneurs to create the alliances that they need, access credit, and crack new market opportunities.

- Lastly, for a growth business, success is premised on being able to “beat” rather than “ride” the market, as in the case of real estate or personal service firms. The skills of the business owner, therefore, take on extraordinary importance in the eyes of everyone associated with a venture – whether banker, customer, supplier, or employee. In addition, research suggests that entrepreneurial success is greatest when education and income levels are highest. This means that minority groups that have lower level of education and business experience face larger obstacles. Moreover, the ranks of highly educated and affluent minorities have migrated from urban to suburban areas.

So why focus or concentrate on minority businesses?

First, there is a growing pool of more educated, more experienced, and higher income entrepreneurs with which to work. In fact, several studies indicate that the performance of minority firms is at least comparable to that of their majority counterparts.

Second, qualified minority owners and venture propositions are still discriminated against. Overcoming this racism is a win-win situation for American society – the economy grows, and justice is served.

Third, much has been learned from the increasing maturity of minority business support efforts. Close to three decades of experience in promoting minority entrepreneurship has equipped the development field with the tools and strategies to increase the “return” on such programs.

Lastly, it has been shown that the hiring practices of minority-owned firms and non-minority owned firms are significantly different. Non-minority businesses often exclude
minority workers, opting for a largely non-minority workforce. Minority employers, on the other hand, are considerably more likely to employ minority workers. The extent to which minority owners hire minority workers does not change much even when the firms are not located in areas where minorities live but instead have to commute to work.

JI sites should consider a three-pronged campaign to foster growth-oriented minority businesses:

- Increase the community’s entrepreneurial capacity;
- Expand capital access; and
- Focus on market development.

How It Works

_Strengthening managerial talent_ in minority firms is very important. Economic development programs should, then, promote the creation and expansion of mentoring programs which link successful business owners – both minority and non-minority – with the owners of potential minority growth firms. The creation of networks is not only essential to the penetration of new markets; it must be pursued to develop new business and social relationships for minority entrepreneurs. The task is to increase the quality, scale, and reach of these programs so that they can play a major role in strengthening minority-owned growth businesses.

Many areas are experimenting with creating “learning circles” so that peer business persons can learn from each other about total quality management, workforce upgrading, and a host of other topics. Best efforts must be mounted to ensure that these groups have increased minority participation.

Traditional training and technical assistance programs for new, young, and growing firms may need to be customized for the minority market. There are often important cultural issues in attracting minority participants to such programs, and the actual curriculum may need to be structured with the specific minority in mind.

Local developers must not be content with marshalling training and technical assistance services from the public and not-for-profit sectors. Engaging the energies of private providers – certified public accountants, attorneys, management consultancies, etc. – is key to delivering comprehensive services and helping minorities enter networks that could unlock other future opportunities.

Above all, programs need to broker the creation of interdisciplinary service networks. A company’s competitiveness depends not just on management skills, narrowly speaking, but on stable financing, export savvyness, modern production processes, and a trained labor force. Economic development professionals can encourage the development of joint projects or formal teaming mechanisms as holistic providers of these various services.
Second, efforts to provide equity and debt capital that minority enterprises need to reach scale can take a variety of forms.

- Federal and state Community Reinvestment Acts (CRAs) are powerful tools for using regulatory powers to encourage more active minority lending by commercial banks. Depository institutions can comply with these laws in a variety of ways, such as partnering with other community finance organizations, providing additional loan and technical assistance services directly to minority enterprises, and investing in organizations serving these markets.

- Loan packaging assistance is also critical for encouraging banks to increase their participation in the use of U.S. Small Business Administration programs and other federal, state, and local public financing initiatives (such as loan guarantees, direct loans, equity investment funds, etc.). Such efforts seek to overcome bankers’ lack of experience with real estate-based asset lending, cash-flow lending, the use of guarantees for collateral deficiencies, suspicion and hostility to government development programs, and a lack a familiarity with the intricacies of public sector loan packaging. Loan packaging assistance involves promoting and marketing current public finance programs, training bank or other staff in analyzing and packaging deals, providing technical assistance to borrowers, and generating additional deal flow.

- Economic development staff should be sure the community is taking advantage of all existing federal and state development resources. Does the area boast an SBA Small Business Investment Company (SBIC), Minority Enterprise Small Business Investment Company (MESBIC), a 504 Certified Development Company, a Community Development Finance Institution (CDFI), etc.? And are such programs reaching out to the minority enterprise community? Are area banks using existing guarantee and insurance funds? What is the experience of minority firms in the community with such credit enhancement mechanisms? What more might be done to increase their participation?

- Since there is a wide gap between the conservative lending of banks and the more risky, high-upside investing of the private venture capital industry, there may be a need, in some communities, to create new financial intermediaries, such as revolving loan funds, small investment clubs, and seed capital institutions. When well designed, linked to technical assistance and coupled with marketing campaigns focused on the minority market, these are other viable ways to confront the minority capital gap problem.

Finally, programs should focus on market development. Most industries with good growth potential are also those that export, so the path to business success will likely cross regional, state, and national borders (increasingly with the aid of the Internet). The good news is:

- that more minority firms are entering such markets,
- that in the color-blind format of electronic commerce, minority firms can avoid many discriminatory practices,
• that ethnicity can be a strategic advantage in some world markets, and
• that many large corporations are waking up to new markets in inner-city areas.

Local developers should not reinvent the wheel when it comes to market development for minority businesses. Just because existing services may not yet focus on minority needs or prime markets, there is little call to set up a separate market development system. Instead, communities should use financial and other incentives to direct attention to minority clients, or to underwrite training programs and market development events that mainstream programs could not otherwise undertake. Other actions that development program managers can take to encourage market development include:

• **Conducting “opportunity identification” research**, which explores ways that minority firms can take advantage of anchor investments (e.g., convention centers, hospital and university expansions, major recruitment successes, arenas) and the evolution of new business clusters, networks, and sectors. Recent research supports the position that many inner-city areas have more disposable income and underserved market niches than previously thought. A careful assessment could identify opportunities for additional enterprise development.
• **Serving as trainers and back-up advisors for wise use of the Internet.** The future of international commerce will be radically altered by the Internet, and those companies that can move securely and efficiently through the system will be more likely to succeed.
• **Encouraging more minority youth to enter international careers.**
• **Supporting community colleges and Historically Black Colleges and Universities (HBCUs) as centers for training minority businesses in the basics of trade and marketing.** Both types of institutions are already experimenting with such programs, and these efforts should be encouraged with faculty training and support for business workshops. These institutions should also be examined for linkages overseas, with an eye toward developing an inventory and contact list.
• **Organizing peer networks.** Businesses get their best information – trade leads and agent/distributor referrals – from each other. Local organizations can help companies get to know each other and potential private service providers.

To close, despite recent trends regarding the retrenchment of set-aside programs, minority enterprise development tools should not be neglected. Since research demonstrates that the presence of an African-American mayor is one of the largest factors in their success, political will, energy, and creativity can increase the percentage of minority procurement sales. Legal challenges can be avoided by not setting strict quotas and instead defining what constitutes a “best effort” to increase minority procurement. In addition, programs should be linked to other supports, such as mentors, bonding, technical and managerial assistance, and financing. Encouraging new bidding alliances between minority and majority firms is another way to address the “bundling” problem presented by procurement and to integrate business networks.
Success Factors

We propose three principles to guide the development of policies that promote the formation and expansion of minority-owned growth businesses. Any approach:

- Should be market-based and should focus on enabling businesses to achieve genuine profitability in the private marketplace. Reliance on subsidies and set-asides should not be central to the strategy. Most set-aside programs are very controversial, often embroiled in cantankerous politics and restricted by legal challenges. They generally reach only limited segments of the minority business population. Likewise, financing programs that do not require owners to invest some of their own equity and that do not focus on credit-worthy businesses will only lead to failure. There should be a conscious effort to “mainstream” minority entrepreneurs quickly and help them to participate more fully in traditional financing markets. Thus, close links between public or nonprofit financing programs and commercial banks and efforts to create more integrated business networks are musts.
- Must address the three barriers of capital, markets, and entrepreneurial capacity.
- Should develop ties to businesses and institutions in the surrounding region, while maintaining its ties to inner-city labor markets.

Success Stories

Metropolitan Economic Development Association

The Metropolitan Economic Development Association (MEDA) is a local organization that assists minority-owned businesses in Minneapolis/St. Paul. It has developed a joint venture with several banks that allows them to share the risk and to make business loans that would otherwise not be bankable.

MEDA has developed a new loan product for minority businesses: short-term loans to support accounts receivable, inventory, equipment, and even acquisitions. MEDA also expects that each loan will result in the development of new living-wage jobs in the inner-city and minority community. Using an innovative strategy to find capital for this loan product, MEDA put together a consortium of six major banks in Minnesota (Norwest, US Bank, TCF, Marquette, Firstar, and National City) to share the risk of making short- and medium-term loans that would otherwise not be bankable. Each bank commits to make a certain number of loans and to share the risk of the entire bank pool.

Because the loans are not bankable, repayment is based on historical and future cash flow potential, as well as the character of the borrower. In most instances, there are significant collateral deficiencies on these loans. The McKnight Foundation and the state of Minnesota provide capital funds to MEDA, which acts as their agent, in the form of grants. These funds serve as credit enhancement for the loans.
Other factors that serve to mitigate bank risks include extensive due diligence, loan structuring, and MEDA’s intervention with the businesses. For example, MEDA analyzes monthly financial statements that borrowers must produce. Borrowers/clients are also required to make monthly payments on their loans. A MEDA representative contacts each loan client on a weekly basis.

MEDA’s aggregate capitalization is $5.6 million. Banks have provided $3.6 million, foundations have invested $1 million, and other sources cover the rest.

MEDA made its first loan in 1995. So far, MEDA has made 23 loans to 23 borrowers— all minority-owned businesses in the Twin Cities region. The average loan size is $100,000, but they range from $25,000 to $300,000. The terms run for one to five years at interest rates of about 8-10%. Three loans have already been paid off, and only one borrower has defaulted. On average, one job is created for every $50,000 in loans made.

The major challenge for MEDA is to identify quickly the risks that have prevented the borrower from being bankable and to deploy appropriate resources to eliminate those risks. To assist with this process, MEDA has assigned a consultant to address those risks as well as issues reflected in the monthly financial statements. Another major challenge is to assess the borrower’s character. By traditional standards (e.g., good credit habits) many of MEDA’s borrowers would be out of compliance with acceptable norms. However, MEDA looks for improvements or other reasons to trust the borrower’s ability to repay the loans.

**Maryland Small Business Development Financing Authority**

Maryland’s Small Business Development Financing Authority (MSBDFA) began in 1978 to provide financial assistance to “socially and economically disadvantaged persons who own small businesses within the State.” The MSBDFA is set up to help qualifying businesses through four programs:

- **The Government Contract Financing Program** provides guaranteed loan assistance for minority firms that have acquired government or public utility contracts. The program may also provide direct loans for working capital and equipment necessary to fulfill local, state, or federal government contracts.

- The MSBDFA also has a **Long-Term Guarantee Program** for qualifying firms that are not in contract with a government entity. In lieu of guaranteeing a loan, the Authority may pay an interest rate subsidy on a loan made by a lender.

- **The Equity Participation Investment Program** invests up to 45 percent or $100,000 toward the start of a franchise operation. The Authority may invest up to $500,000 towards the acquisition of a profitable business or a technology-based firm.

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Creating Jobs

The last program is *Surety Bonding*, which provides bonding for any small contractor for up to 90 percent of the losses in case a breach of contract occurs. All small businesses are eligible for the bonding program.

The programs offered by the MSB DFA are both unique and exceptional. Their uniqueness stems from the targeted nature of the program. A major criterion for approval is the economic impact and benefit of the proposed project. The impacts are measured in projected number of jobs retained or created and the projected amount of tax revenue generated by the project.

The program is exceptional in that it meets the goals that it established. The MSB DFA has established itself as a leader in minority business development. The program provides important credit needs for its clients and does so with little cost to taxpayers. The program has actually seen a positive flow of revenue in the past few years. The program maintains this record by:

- Financing only minority firms that have experience, capable management, and are financially secure;
- Offering a variety of loan products and terms;
- Linking loan assistance with procurement contracts; and
- Processing loans in a timely fashion and having a staff that is experienced with accounting and auditing.16

When is minority business development appropriate?

Minority Business Development (MBD) programs assist minority entrepreneurs in gaining access to capital and markets. MBD programs seek to help minority businesses that have the potential for job creation and long-term growth.

What are the implementation issues for minority business development?

Since MBD programs are one of the most complex and varied programs to administer, a feasibility study should be performed before proceeding any further in the planning stage. There are several questions that need to be answered before attempting an MBD. Some of the questions will be answered from the initial analysis but other questions will require further inquiry:

- What is the current status of minority business development in the region? Are other organizations operating an MBD effort in the region? Are the conditions right for an alliance-based initiative to serve urban areas better or should a whole new organization be created?

- What industries are most likely to produce minority-owned firms?

• At what point in the development process will the program assist firms? Will the program assist start-ups, ongoing ventures, ventures only in select industries, ventures of a certain size, etc?

• If the program is to provide financing assistance, where will the initial capital be raised?

• Will the program be limited to financing and minority procurement, or will other services, such as mentoring, be offered as well?

Only after establishing the intent of the program should a group proceed with a minority business development program.

For a program that focuses on financing, most of the concerns expressed in the microenterprise section apply to MBD. However, a large part of an MBD program is educating the firms about their options in gaining access to capital. The program staff should be capable of educating firms about alternatives to traditional debt capital. Such alternatives might include leveraged buyouts, private equity capital from venture capitalists or business angels, initial public offerings, or lines of credit. A successful MBD will also educate and prepare firms for the task of taking on debt capital when the time is appropriate.

For procurement programs, the JI sites must provide opportunities and linkages between governments and corporations that will purchase from the local suppliers. The program should foster firms that will naturally provide services that are used by other regional businesses and governments. Only by creating these linkages can an MBD program succeed.

What are the pros and cons of minority business development?

Pros
• MBD programs target firms that are large enough to create substantial economic development opportunities for minority communities.
• Minority businesses hire proportionately more minorities than non-minority firms, regardless of whether they are located in the inner city.

Cons
• Because minority business development programs are coming under legal attack as part of the anti-Affirmative Action movement, finding political support for the program may be difficult.
• Growth-oriented minority businesses, like any business in a growth sector, may have location requirements that prevent their establishment in the inner city.
BUSINESS RETENTION AND EXPANSION

Purpose

Business retention and expansion (R&E) programs aim to expand and retain employment at, and investment in, local firms, and to improve their overall competitiveness. An R&E program’s basic activities can also provide assistance to communities adjusting to plant closures, contractions, or relocations, and can help attract new firms.

Rationale

A business retention and expansion program seeks to improve the flow of communication between local businesses and the community where they operate, particularly with economic developers, local governments, and other service providers. By improving this flow of communication, the community can become a stronger partner in meeting the needs of local firms.

Effective retention and expansion programs perform a number of functions, including:

• Helping to solve local economic development problems by creating new jobs and economic activity;

• Helping firms use public-sector services better;

• Providing early warning of plant closures; and

• Improving the community’s image, quality of life, and knowledge of its local industries,

Some business retention and expansion programs even target particular industries that supply the local economy with opportunities for sustained growth and that provide jobs that pay wages and benefits adequate to support a decent standard of living.17

How It Works

R&E programs must be able to respond to the needs of local industry before the industry either closes or relocates. Important elements in the operation of R&E programs include:

• Developing informed leaders who have a strong sense of the business community’s needs and the area’s capacity to respond to those needs;

• Conducting business visits, during which local firms are surveyed about their needs;

Tackling short-term problems identified by firms through such activities as helping a company work with the city council to install a street light at a plant entrance, working with a firm to forestall a closure, and helping a firm expand by finding a new site elsewhere in the neighborhood or city; and

Designing long-term development strategies for the local economy.

Retention and expansion programs can be divided into two basic categories: those that tap a lot of volunteer assistance (principally, former businesspersons and students), and those that rely on paid professional ED staff. In the case of volunteer-staffed programs, the basic steps are as follows:

- Selling the program to local leaders and a potential volunteer pool;
- Creating a program advisory committee with representatives from business, government, and other key sectors;
- Training and educating program leaders in the basics of retention and expansion;
- Enlisting firms and volunteers;
- Preparing volunteer packets;
- Training volunteer visitors and conducting practice visits;
- Conducting actual visits;
- Collecting surveys and analyzing results;
- Establishing task forces to discuss results and outlining responses;
- Writing a draft report and reviewing and discussing recommendations;
- Publicizing the outcomes; and
- Implementing recommendations and following up.

As noted above, a successful retention and expansion effort will generate information about individual firms, local industry, and general business conditions that can be used over time to increase policymakers’ understanding of business needs and trends and to refine the community’s overall development strategy. For instance, a survey of area firms could lead to programs that address issues such as declining market demand, inadequate transportation, lack of skilled labor, land assembly difficulties, capital market gaps, high or inequitable taxes, regulations, and public services delivery issues.

Success Factors

To begin with, a successful program takes significant community resources, particularly in terms of time. It is imperative that local leaders invest a considerable portion of time and that a wide range of groups participate. The programs rely heavily on volunteers to do the business visits, which are fairly time-intensive. In addition, an R&E program, if it includes both training and the use of a consultant, can require direct cash expenditures. (Obviously, running a more professionally-delivered program will entail more paid staff and a larger budget.)

Since information gathering and communication are the key elements of an R&E program, any volunteers in the business visitation program must be well trained. They
must know about and be comfortable when sharing information on state and federal programs. Fact sheets that explain how to contact local professionals and agencies should be left with the businesses during the visitation campaign.

Given that businesses are more “footloose” than in bygone days, there must be a tight link between attraction and retention strategies to ensure that newcomers remain satisfied and long-term resident companies do not search elsewhere for seemingly greener pastures.

A retention and expansion program requires sophisticated databases and analyses. An inventory of existing businesses is essential. A good database can also be used for economic analyses, for helping companies to buy more “local” services, for developing sector alliances and programs, etc. (And an inventory of sites and facilities is as important for R&E as it is for business attraction strategies.)

There are some pitfalls to watch out for too. Chief among these is to think that an R&E program stops with a visitation-communications-business survey effort. This is an essential preliminary, but must be followed by jointly developed programs (e.g., business-government-nonprofit) that help improve local competitiveness and troubleshoot individual firm problems.

Success Stories

University United is a local development corporation which operates in a corridor near the state capitol (St. Paul, MN) along University Avenue, where most of the city’s downtown manufacturing firms are based. It is a multi-purpose community improvement organization, active in storefront and streetscape upgrades, crime prevention, and economic development. In 1995, University United decided to use the business retention and expansion methodology devised by Professor George Morse to work in collaboration with the University of Minnesota, the St. Paul Port Authority, Concordia College, and Western Bank and Insurance Agency.

The effort raised money, trained volunteers, developed an active steering committee, conducted research and analysis, held a strategic planning retreat, and developed recommendations. The project’s objectives were to:

- Demonstrate the community’s appreciation to firms for their economic contributions;
- Identify the concerns of existing firms to improve the local business climate; and
- Learn the future plans of the area’s firms with respect to expansion and relocation.

First, the retention and expansion initiative developed a target list of 31 companies. These firms were picked because they operated in sectors that were key to the St. Paul economy and had expansion potential. After each interview, the survey volunteers turned over any items for immediate action to the Port Authority, which had committed to respond with answers, options, or suggestions within 24 hours.
Once the data were compiled, university extension staff convened a team of R&E task force members, other faculty, and state and local development experts to discuss the findings and work together on appropriate recommendations. After the list of recommendations was completed, they held meetings with area development organizations to decide if any of the proposals duplicated local efforts or whether local development organizations would be interested in tackling some new assignments.

In addition to troubleshooting any immediate concerns, the University United R&E project decided that its most important priorities were expanding labor supply and quantity and strengthening community partnerships. They sought to do so by tackling three new projects:

- A successful Job Fair, that has become a biannual event;
- A school-to-business partnership focusing on matching students with local businesses; and
- A CEO roundtable, based in the corridor.

The Job Fair has spawned a regular class that teaches workplace “soft skills,” job search advice, work attitudes, and developing new relationships between employers and area training and job placement organizations. The school-business partnership led to changes in the educational curriculum, which has expanded its work-based courses down to the seventh-grade level. And the latest CEO roundtable has negotiated an agreement with area tech schools to route their most senior students into workplace apprenticeships, using the most advanced on-the-job technologies.

Other additional R&E functions include a partnership between University United and the Midway Chamber of Commerce to work with area commercial realtors on maintaining a current database on space, which is used for both expansion and recruitment purposes. University United is also expanding its outreach to retail firms in the area. Lastly, R&E partners agree that their retention and expansion effort has accomplished a lot in terms of forming new partnerships for mutual advantage and in building and networking greater development capacity.

**When are business retention and expansion programs appropriate?**

Business retention and expansion programs seek to retain jobs for residents by combining short-term problem solving and long-term economic planning. A business R&E program is best suited to areas experiencing job losses and a declining tax base resulting from a poor business climate.
What are the implementation issues for a business R&E program?

Business R&E programs serve as an “early warning” system for changes in local businesses and employment. In order to provide this information to area businesses, R&E programs must regularly gather information on companies.

Gathering information on firms usually is done through a well-organized system of site visitations and surveys. Program staff or volunteers conduct the visits. They administer surveys during site visits and by mass mailings.

Collecting data on firms is simply not enough to make a difference in a community. The program staff and volunteers must be aware of how to advise companies so that the information can result in tangible differences in the company’s operation.

A successful R&E program requires careful planning and thorough execution. Before starting a program, the following issues need to be addressed:

- **Staffing.** Is the staff for the program solely responsible for the program or will volunteers be used as well?

- **Training staff/volunteers.** Training for those conducting the visits is an important part of a successful program. The staff need to be knowledgeable about the local industry mix and the trends affecting the industry nationally. Staff should also have a basic understanding of national, state, and local programs that offer assistance to firms.

- **Designing the survey instrument.** The survey needs to be thorough enough to gather useful information, but accessible and understandable enough to require little assistance. The survey can have any number of questions but should not take the respondent more than an hour to complete.

- **Determining who to visit.** Every program must decided how many visits and surveys to administer a year based on the number of available staff and volunteers. In addition to the number, the program must decide which companies to visit. A program could concentrate its efforts in one or two key sectors of the local economy, or it could take a sample from across all industries.

- **Conducting the visits.** For the visitation efforts to be successful, company representatives must feel confident in disclosing information to the visitor or on the survey. Aside from guaranteeing anonymity and coding the surveys, visitors should appear reliable, responsible, and enthusiastic about the program.

What are the pros and cons of business retention and expansion programs?

**Pros**

- Business R&E programs help ensure the survival of firms in the area by providing a venue where their concerns can be addressed.
Creating Jobs

- R&E programs provide information for creating a business-friendly climate that helps other development programs, such as recruiting.
- Existing businesses are in the community for good economic reasons. An R&E strategy seeks to ensure continuation of those reasons.
- Because established businesses are interdependent, helping some local businesses indirectly helps many more.
- R&E efforts can keep more businesses and create more jobs, with fewer development program dollars and direct incentives, than business attraction efforts can.

Cons

- Business retention programs require a lot of resources to remain up-to-date with area firms.
- Many local businesses may be "past their peak" in product life cycle, and are unwilling to make major investments or take risks to reposition themselves.
- In the face of an imminent plant closing, emotions run high, and a bail-out R&E effort may overly extend and preoccupy development staff and program dollars.
- To meet the needs of local businesses, R&E programs may need to address technology applications, plant redesign, expansion financing, worker retraining, plant relocation, etc. A great deal of coordination with outside (state, utility, university) resources is required for effective programs. Here, retention and expansion efforts begin turning into modernization strategies.
BUSINESS MODERNIZATION PROGRAMS

Purpose

An extension of the business retention and expansion program is the business modernization program. The difference between the programs is that the modernization program focuses on increasing firms' productivity and helps companies focus on higher value products, services, and markets. Most such initiatives focus on goods-producing or technology-based businesses – especially manufacturing firms.

Rationale

In the United States, manufacturing jobs have traditionally formed the backbone of the economy. These jobs provide better pay for employees, a primary source of research and development, a foundation for international trade, and a boost to the overall economy through high multipliers. However, between 1970 and 1992, the manufacturer's share of total employment in the United States dropped from 21.6 percent to 13.4 percent. It is now more important than ever to preserve and foster manufacturing and high-growth jobs in the local economy.

Compared with other important economic development programs such as development finance, business attraction, and entrepreneurship programs, the benefits of modernization programs are unique. Instead of developing an industry, modernization helps an existing industry succeed. A small improvement in productivity and/or product line can significantly improve a city or metropolitan economy. An improvement of only 0.1 percent in the average annual productivity growth of smaller manufacturers, sustained over five years, would yield $6.7 billion in savings to customers, $3.8 billion more in payrolls, and $2.7 billion in federal receipts.

But success in manufacturing is no accident. Many manufacturers need an outside catalyst to move them to best practice, and too many managers and workers in such firms are attached to old ways of doing business, limiting their understanding of the new economic climate.

Indeed, in the past 25 years, significant changes have radically altered the competitive environment for U.S. manufacturers. Advances in technology are at the root of these changes. At one time, markets were relatively stable, products were standardized, quality was not a major consideration, price competition was not intense, and foreign competition was not minimal. However, times have changed with a vengeance. The changes can be divided into four categories:

- **Markets** – growing segmentation, volatility, and globalization;
- **Products** – changes in existing products from standardized to tailor-made, and the substantial flow of newly developed, innovative products;
- **Production technology** – enormous increases in productivity and flexibility;
• Organization structure – the rise of “agile” enterprises and virtual corporations.

To be effective, new technologies must be managed in concert with the management of six other dimensions of competitiveness: advanced management practices and techniques; market research and marketing; skill enhancement; work organization; finance; and inter-firm cooperation. Moving most small and mid-sized companies from “average practice” to “best practice” in these areas will typically require an outside modernization resource that skillfully links technology, management, marketing, financing, and training assistance.

How It Works

Most business modernization programs provide the following types of services:

• Awareness building – helping firms understand what they must do to become more competitive, as well as the nature of the changing economy.

• Problem framing – providing tailored diagnostic assistance to firms in areas where they are most challenged.

• Resource finding – helping companies locate and get connected to particular sources of assistance.

• Alliance building – creating collaborations of firms and direct services, and working directly with firms on specific modernization assignments.

These programs can be delivered in two different ways. The modernization program can focus on aiding an individual company or it can work on assisting an industry sector or cluster. Although either approach can ultimately expand opportunities for the economically disadvantaged, sector-based efforts hold the greatest promise, since they can actually target industries with the potential for additional family-wage employment and improved career ladders for the jobless and working poor.

Such initiatives also can be viewed as an expansion and elaboration of what communities traditionally do with their business retention and expansion programs. After all, in these days, businesses operate in fast-moving and uncertain environments. Wherever possible, they want to reduce risks by being located in steady, predictable communities. Thus, the goal of a retention, expansion, and modernization strategy is to reduce costs and risks to local businesses, thereby making the area more attractive for continued operation and expansion.

Truly successful modernization programs often evolve from an effective R&E effort, when it taps or creates programs and services that help local communities address competitive gaps. These can include the creation of flexible manufacturing networks,
finance programs, technology transfer links with higher education, worker training, and technical assistance with modernization and facility layout, among others.

Due to the limited financial and professional resources that most city and state governments face, modernization programs must be highly selective in the array of training, financing, technical, and managerial assistance they choose to enact.

Success Factors

Programs that succeed typically possess the following elements.

First, they ensure that area manufacturers’ interests and needs are met before tackling broader community benefits.

Second, they carefully design outreach efforts to understand company views and secure their involvement.

Third, they tailor program design to meet the particular needs identified in researching the area economy and individual firm concerns.

Fourth, they hire and retain a highly competent, business-savvy staff.

Fifth, they select an active and representative board to provide the credibility and leadership needed to engage the private sector’s interest and participation.

Sixth, a single modernization program cannot do it all. It must work in tandem with other service providers in arenas such as workforce preparation and retraining, financing, marketing, etc. And the initiative must have a good relationship with local government.

Finally, a world-class modernization “system” should motivate design and delivery of modernization services and their continuous improvement. For instance, the design and operational principles listed below should motivate policymakers and program managers to reach higher. The system should:

- Deliver decentralized and locally accessible assistance.
- Be customer-governed and its services customer-driven.
- Be proactive and “evangelistic” in the pursuit of its mission.
- Be “genetically coded” to evolve with the times and with the requirements of meeting global competitiveness standards.
- Provide comprehensive help (or access to such help) for modernization needs.
- Build on the integration and coordination of existing services.
- Discover and implement strategies to reach scale.
- Demand self-help and commitment from its customer firms.
• Be accountable for performance, providing clear financial incentives and sanctions for success and failure.  

Success Stories

The Jane Addams Resource Corporation (JARC) is a community-based development organization located in the North Center neighborhood of Chicago. Created in 1985, JARC takes a holistic approach to economic development and offers a continuum of services, including education and training, manufacturing modernization, and industrial site redevelopment. Its goal is to maintain the jobs that the community depends upon (based around metalworking) and to train residents to qualify for those jobs.

An initial analysis of the local economy, conducted by JARC in the mid-1980s, revealed that the metalworking sector, despite the loss of several thousand manufacturing jobs during the late 1970s and early 1980s, still accounted for over 25 percent of total employment in the North Center and nearby Lakeview neighborhoods. Thus, one of the primary challenges for JARC has been to retain existing firms and help them grow, with the thought that doing so will retain and enhance the jobs area residents depend on. This initial analysis was the basis for the creation of JARC's Targeted Development Program (TDP).

The TDP provides services in two primary program areas:

• **Training programs** - Of all its services, JARC's specialty is education and training. JARC provides training that has been tailored to specific firm needs, as well as basic skills training for young people and adults. Specialized employment training assists companies that are not able to train workers themselves. Both basic level and advanced training is available, with the goal of offering training in manufacturing sectors where a shortage of skilled workers exists and to improve the employability of low-skilled, educationally disadvantaged workers. The Learning Unlimited Program is a basic skills program for teenagers who have dropped out of school to help them pass the GED exam. The Adult Learners Program provides evening tutorial sessions for older students and is designed to improve literacy and numerical skills. JARC recently added a training program for needy unemployed clients. In addition, a computer literacy training program was implemented in 1998.

• **Business services** - While the TDP started with a focus on workers and training, JARC also realized that there was a need to work on the retention and expansion of businesses in order to make sure that jobs would be available. Thus, the TDP provides the number of services to area firms, including: (1) The Metalworking Consortium, a loose "flexible manufacturing network" that was designed initially to create an awareness of the metalworking industry among various metal platers, benders, and welders, and to increase sales among member firms, (2) The Modernization Support Group, a quarterly facilitated meeting of 15-25 manufacturers.

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that addresses key topics, such as licensing, computer technology, workforce diversity, and environmental issues, and (3) the acquisition and renovation of industrial properties to provide smaller manufacturers with affordable expansion space within the city and to combat the conversion of industrial property into residential use.

JARC has enjoyed a great deal of success and accomplishment since it began. In 1998, 35 local firms with total employment of approximately 3,800 used the specialized training services. During the same year, 110 firms received assistance through JARC's business services operation. In addition, from 1991-1998, 1,520 people enrolled in the training programs. To date, the training programs have a completion rate of over 90 percent.

When is a business modernization program appropriate?

Business modernization programs are used to increase the competitiveness of local firms in the market. Such initiatives are appropriate when local firms are experiencing a decline in sales or market share or are not able to respond to changes in the market in a timely fashion. Lastly, they are needed to raise "average firm practice" to "best practice."

What are the implementation issues of business modernization programs?

Business modernization can take several forms. The two most frequently used either help individual firms make productivity improvements or aid related firms in building alliances and economic synergy.

The first type of program is an extension of the business retention and expansion program. The program staff will recognize limitations in the ways a company does business, and offer solutions. Staff look beyond the "simple" issues such as lack of expansion space, poor government services, etc. Instead, they tackle issues of "best practice" in research and development, the diffusion and adoption of innovations in products and processes, customer-supplier-vendor relationships, human resources management strategies, access to specialized business services, etc. For instance, if the machinery used in production is outdated, the program may find a way to assist the firm in acquiring new equipment. In another case where skills of the workforce hinder production capabilities, worker training may be needed to remedy the situation. Programs of this nature require thorough knowledge of national, state, and local economic development programs available for local firms.

The second type of business modernization program involves fostering groups of firms to make regional clusters. Clusters are a set of companies in a region with active channels for business transactions and exchanges of information. These firms share forward and backward supplier linkages, labor force, and opportunities.
Before beginning a program to identify clusters in the local area, one major pitfall needs mentioning; business modernization programs are inherently complicated and complex. Before reinventing the wheel, JI sites should tap into the vast array of resources currently available in state, federal and university technology transfer, and manufacturing modernization programs. These programs may identify additional local concerns and may be able to address these concerns.

The following steps will help the JI sites nurture clusters:

- Identify clusters and supplier/manufacturer linkages. Whether a true cluster exists in the area or not, firms will have some connections to other firms in the community. Sites should learn how these firms interact and conduct business to gain a better understanding of their problems and concerns.

- Encourage communication between related firms and with the program staff. Bringing together business leaders in the community for a discussion can uncover commonalities and initiate collaboration.

- Recruit companies to fill missing linkages. A business modernization program is an excellent way of determining which industries would be welcomed by a community’s existing businesses. The recruiting process then becomes more targeted at certain industries than others.

- Encourage local supplier linkages to other firms in the region. Much like the minority procurement program links minority firms with other companies and governments, business modernization programs can introduce two firms to begin a locally-sourced business relationship.

What are the pros and cons of business modernization programs?

Pros
- Business modernization programs increase the competitiveness of firms, allowing them to expand and increase employment.
- They aim at both modernizing manufacturing firms and the agencies that work with them.

Cons
- Business modernization programs are elaborate and complicated, and may be too resource intensive for most JI sites.
- Network and cluster approaches require a great deal of promotion if firms are going to see the advantage of inter-firm collaboration.
PRIVATE JOB CREATION PROGRAMS:
LOCATING THE NECESSARY RESOURCES

After identifying the nature of the community’s economic problems, assets, and liabilities, economic developers will need to take stock of what resources are in hand and what additional resources must be obtained or created. In short, “where’s the money?”

Tapping Government Resources

This section describes program resources that are available nationwide – such as U.S. Small Business Administration financing programs – as well as examples of resources that states and localities have generated themselves to respond to economic development problems.

It should be noted that this is a vast area to sort through and that entire handbooks are written on guiding the reader through the maze of federal, state, and local initiatives. In addition, we are dealing with a number of potential approaches – training enterprises; business recruitment; entrepreneurship; and business retention, expansion, and modernization. Each has its own funding streams and networks of assistance organizations, trade associations, etc. Hence, what follows tries mainly to give the reader a road map and an introduction to more detailed publications. Furthermore, it seeks to orient the reader on which programs are likely to be most helpful.

Given the constantly changing federal expenditure picture, local developers must keep abreast of the changing program landscape. Organizations like the Council for Urban Economic Development (www.cued.org), the Northeast Midwest Institute (www.nemw.org), the National Association of Towns and Townships (www.natat.org), the National Governors Association (www.nga.org), the Center for Community Change (www.communitychange.org/default.htm), the National Association of Development Agencies (users.ids.net/nasda), the National Association of Development Organizations (www.nado.org), the National Congress for Community Economic Development (www.ncced.org), and the American Economic Development Council (www.aedc.org) can be very helpful contacts for obtaining the latest information on what is available and what is not. Check out their web sites.

Two major reference books are useful for beginning a search for federal help – the Catalogue of Federal Domestic Assistance (www.gsa.gov/fdac/) and the annual United States Government Manual (www.access.gpo.gov/nara/). Both are published by the U.S. Government Printing Office and provide a wealth of information on federal aid programs, such as their purpose, eligibility criteria, application processes, deadline information, and contacts and addresses. Most major local libraries should possess copies.

How can sites determine what federal programs are the most useful for efforts to create private sector jobs in economically distressed communities? The following list suggests programs that local economic developers may want to learn more about:
• Community Development Block Grants (U.S. Department of Housing and Urban Development)
• Empowerment Zones and Enterprise Communities (U.S. Department of Housing and Urban Development and U.S. Department of Agriculture)
• Public Works and Development (Title I) Grants (U.S. Economic Development Administration)
• Technical Assistance (Title III) Grants (U.S. Economic Development Administration)
• Special Adjustment Assistance (Title IX) Grants (U.S. Economic Development Administration)
• Overall Economic Development Plans (U.S. Economic Development Administration)
• Section 7(a) Guaranteed Loans (U.S. Small Business Administration)
• Section 504 Certified Development Company Loans (U.S. Small Business Administration)
• Small Business Investment Companies (U.S. Small Business Administration)
• Service Corps of Retired Executives (U.S. Small Business Administration)
• Small Business Development Centers (U.S. Small Business Administration)
• SBA Microloan Demonstration (U.S. Small Business Administration)
• Community Development Finance Institutions (U.S. Department of Treasury)
• Community Reinvestment Act (U.S. Comptroller of the Currency)
• Manufacturing Modernization Extension Partnership (National Institute of Standards and Technology)
• Minority Business Development Centers (Minority Business Development Agency)
• Minority Business Organizing Committee (Minority Business Development Agency)

Of course, this is but a beginning list. Other institutions could be relevant in addressing local development issues. Furthermore, it is not sufficient to collect written information on these programs. Sites should gain insider information on how they really work by getting to know individuals who administer the programs, or who are very familiar with them. If the program has regional or local offices, that is the place to start.

State programs are even more complicated. They engage in a broad array of activities and they vary incredibly from state to state. Activities include:
• Business attraction;
• Permitting assistance and information;
• Industrial development bonds;
• Development finance authorities;
• Financial and technical assistance for small, minority, women-owned, or community-based enterprises;
• Job training and placement programs;
• International trade promotion and export development;
• Technological innovation and transfer;
• Attracting foreign investment;
• Neighborhood economic development; and
• Tourism promotion.
In addition, all states (and localities) offer a host of on-budget and tax incentives to attract and retain larger employers.

A number of publications authored by the National Association of Development Agencies (users.ids.net/nasda), the Council of State Governments (statesnews.org), the National Conference of State Legislatures (www.ncsl.org), and others can help make sense of this constantly changing economic development puzzle.

Local initiatives also defy easy summary and categorization. They administer many federal and state programs and launch many efforts on their own. The National League of Cities (www.nlc.org), the U.S. Conference of Mayors (www.usmayors.org), the International City Managers Association (icma.org), the National Association of Counties (www.naco.org), the National Association of Regional Councils (narc.org/index.html), and the National Association of Towns and Townships (www.natat.org) can assist in obtaining information on the most promising local models.

Involving Local Private Sector Actors

Successful development programs must involve local private sector actors – businesses, labor groups, and nonprofits. There is no way to summarize neatly these interests’ potential contribution to a local effort – it all depends on the community needs, the availability and quality of governmental aid, and the amount of private resources available. It is also important to point out that small amounts of public investment and oversight can catalyze a great deal of private sector action. And in fact, many business finance programs (e.g., SBA guaranteed loans, Small Business Investment Companies) use this well-proven approach.

For instance, business participation in local private job creation programs can help in a variety of ways:

- Expanding chamber of commerce activities in fostering indigenous development;
- Promoting local purchasing;
- Serving as mentors to small, young, and minority entrepreneurs;
- Taking a role in SCORE and other voluntary small business assistance efforts;
- Creating a private sector long-range planning think tank;
- Donating funds to local entrepreneurial support institutions;
- Conducting technical marketing and business feasibility studies;
- Assigning executive staff to local development agencies and community organizations;
- Sponsoring an area-wide labor-management committee;
- Creating “business angels” investment clubs;
- Training local development personnel; and
- Giving away physical assets or selling land/plant/equipment at a low price.
Most American firms and their trade associations have only limited experience in being involved with these types of development activities, but there are notable exceptions across the U.S.

*Organized labor* has also played a role in some development endeavors. For example, they have been active in designing and running dislocated worker programs; creating job apprenticeship training efforts; investing union pension funds in local development; pursuing “high performance/high wage” business modernization programs, and serving on economic development boards and planning and advisory organizations.

A good initial contact with organized labor is the state chapter of the AFL-CIO (www.aflcio.org/front.htm). Generally known as the General Labor Council, this group is recognized as the coordinating body for labor policy in the state, and represents all AFL-CIO-affiliated unions in the area. Local and regional labor bodies exist as well. And the revamped DC-based AFL-CIO Human Resources Development Institute is the main national technical assistance body, which seeks to encourage unions to become more involved in economic development policymaking and program management. It is now called the Working for America Institute (202-638-3912). Its web site is www.workingforamerica.org.

Central to any locally-tailored and locally-owned strategy is the support of *nonprofit neighborhood development organizations and community enterprises*. They can take advantage of significant economic opportunities in a number of areas: loan packaging; development planning and fundraising; small business technical assistance; incubator management and development; commercial, industrial and residential real estate development; social service enterprise development; and small-firm investing.
PRIVATE JOB CREATION PROGRAMS
RESOURCES GUIDE FOR PRIVATE JOB PRACTITIONERS

This Resources Guide has been designed to assist in the preparation of a comprehensive economic development strategy. The strategy should be a clear, thoughtful, and feasible plan for private sector job creation. The structure of this Guide closely follows suggestions from the body of this text and from the “How To Get Started” appendix.

Although every strategy will be different, reflecting the particular challenges and opportunities of the area, each should include the following elements:

Where are we now? (Analysis of the Area)
• the state of the regional economy (its strengths and weaknesses);
• external trends and forces (its opportunities and threats);
• partners for economic development; and
• resources for economic development.

Where do we want to be? (A Statement of Change)
• a vision (a practical and positive image of the area in the ten- to twenty–year future); and
• competitive advantages (opportunities for the area to excel in five to ten years).

How do we get there? (Strategies, Activities)
• strategies (carefully selected approaches that propose responsibility for implementation);
• activities (actions proposed in the strategies).

How are we doing? (Evaluation)
• evaluation (evaluating progress and outcomes against stated goals).

The Casey Jobs Initiative sites have already conducted strategic planning exercises that meet and may even exceed these recommendations. For some the material will suggest inquiries and planning processes that build on their earlier efforts and are necessary to tackle new private job creation challenges. No matter what the case, we hope this Resources Guide suggests new ideas and resources to JI sites that help them tackle the complex process of planning for economic development.

The Resources Guide discusses and suggests books, manuals, articles, web sites, and organizations that could be helpful in collecting ideas and information.

To start, for a good overview of strategic planning, consult the following:

strategic planning to address economic competitiveness and other regional challenges. The manual includes sections on designing a regional process, analyzing future change, developing a vision and competitive niches, selecting initiatives and strategies, and implementing plans.

**Taking Charge: How Communities Are Planning Their Futures.** By the International City/County Management Association (ICMA), Washington, DC, 1988, (800) 745-8780, 86 pages, $29.95. How to make long-range strategic planning work for your community. This report includes in-depth case studies.

**Regional Excellence: Governing Together to Compete Globally and Flourish Locally.** By Bill Dodge, published by the National League of Cities, 1996, (301) 725-4299, 400 pages, $15. Regions are the basic unit of competitiveness in the global economy. Central cities and suburban communities are not competing with each other so much as they are with other regions. This book is a comprehensive and practical guide to help community leaders and citizens govern together – to compete globally and thrive locally in the 21st century. This book provides the how-to information and best practice materials community leaders and citizens need to achieve regional governance and decision-making excellence.

Now let us track the four-step planning process outlined above and explore the best resources available.

**Where Are We Now? (Analysis of the Area)**

**RESOURCES**

**For socioeconomic data collection and analysis:**

**Using Socioeconomic Data to Understand Your Regional Economy: A User's Guide.** By Andrew Reamer and Joseph Cortwright, prepared under an award from EDA, 1998, 50 pages. One quick and easy way to begin collecting information is to "surf" the web site that was prepared as part of the "Using Socioeconomic Data" research project noted above. The site lists sources of socioeconomic data for economic development analysis, and it includes links to all major federal data sites.

http://www.hevanet.com/lad/sources.html

Consider purchasing the most recent **Regional Economic Information System CD-ROM** from the Bureau of Economic Analysis (202) 606-5360 for $35. It includes income and employment information and economic profiles for all counties, metropolitan areas, states, and the nation from 1969 to 1996 and allows easy exporting of data into spreadsheets for analysis.
**Regional and Local Economic Analysis for Practitioners.** By Avrom Bendavid-Val, Praeger Paperback, New York, 1991, (800) 225-5800, 264 pages, $22.95. This book gives an overview of regional and local economic development planning, and shows the importance of using analysis to build projects around an area’s specific economic needs. The book is written in a straightforward style and is free of technical terms and jargon. It contains everything the practitioner needs to know about regional and local economic development, as well as information on how to plan for, design, and carry out an economic development plan.

**Understanding Your Economy: Using Analysis To Guide Local Strategic Planning.** By Mary McLean and Kenneth Voytek, Planners Press/APA, 1992 (312) 786-6344, $38.95. Forward-looking communities have attained a competitive edge by strengthening clusters of related and supporting industries—not courting individual firms. How will your community know which clusters to strengthen as it negotiates this fundamental shift in development strategy? This book, originally funded by EDA, shows how to conduct local economic analysis to support such strategic planning decisions. The authors show how to structure an analysis; assess local economic performance; analyze the structure and dynamics of a local economy; evaluate local growth prospects; assess local human resources and non-labor resources; and link analysis to strategic planning.

**Local Economic Development: Analysis and Practice.** By John P. Blair, Sage Publications, (312) 786-6344, $49. Blair’s book provides a basic overview of economic development practices targeted at metropolitan and regional areas. It explains basic analytical tools such as shift-share analysis, location quotients, gravity models, cost-benefit analysis, and input-output models.

**For advice on community assets and involvement:**

Check the web site of the National Civic League at [http://www.ncl.org](http://www.ncl.org). Their motto is "transforming civic institutions by strengthening citizen democracy." The web site includes descriptions of relevant publications and resources.

**Community Visioning: Citizen Participation in Strategic Planning.** By ICMA, 1994, MIS Report (40893), 15 pages, $14.95. Case studies from six local governments demonstrate different approaches to community visioning and show how to achieve diversity among participants, help citizens develop informed recommendations, and test public opinion while stimulating interest in local government.

**Community Visioning and Strategic Planning Handbook.** By National Civic League Staff, 1995, (303) 571-4343, 53 pages, $20. This handbook outlines basic steps for communities to conduct a successful visioning and strategic planning process.

**Involving Citizens in Community Decision Making: A Guidebook.** By James Creighton and the Program for Community Problem Solving at the National Civic
Creating Jobs

League, Second Printing, 1996, (202) 783-2961, $30. This is the only public participation manual that focuses specifically on community-level public decision making. Author James L. Creighton has filled some two hundred pages with advice borne of many years of professional experience designing and implementing public participation programs. Creighton takes the reader from the basics through practical issues such as designing, staffing, and evaluating public participation programs, preparing a public participation plan, and understanding the details of many specific implementation techniques. Extremely well organized and readable, this manual is a comprehensive "how-to" guide for every bookshelf.

A Citizen's Guide to Achieving a Healthy Community, Economy and Environment. By the Center for Compatible Economic Development, The Nature Conservancy, Leesburg, VA, 1996, (703) 779-1728. This workbook seeks to demonstrate that communities can improve their quality of life by focusing on local assets — people, natural resources, ecological systems, small businesses, products, processes, culture, and heritage. The guide emphasizes "compatible economic development" and includes sections on the characteristics of healthy communities, assessments, strategies, implementation, and measuring success. See Chapter Four in particular.

Building Communities from the Inside Out: A Path Toward Finding and Mobilizing a Community's Assets. By John P. Kretzman and John L. McKnight, ACTA Publications, 1993, (800) 397-2282, 376 pages, $15. The point of this community-based guide is that local development efforts work more successfully when they emphasize taking advantage of assets rather than solving problems. The first three chapters focus on identifying community assets in people, local organizations, and local institutions. One chapter deals specifically with finding assets in struggling communities. Another chapter outlines a neighborhood planning process. This book is a must for anyone intrigued by the concept of "asset-based development."

Measuring Community Capacity Building: A Workbook-In-Progress for Rural Communities. By the Aspen Institute, Rural Economic Policy Program, Washington, DC, 1996 (202) 736-5800, 155 pages, $45. This book is a resource for urban and rural leaders and citizens who want to build their community's capacity — that is, to improve the ability of individuals, organizations, businesses, and government in their community to come together to learn, make decisions about the future, and act on those decisions. The book can be used to answer: What is community capacity building? Why should we care about it? How do we know it when we see it? The book also includes measures groups can use to gauge progress in building community capacity.

Economic Renewal Guide: A Collaborative Process for Sustainable Community Development. By Michael J. Kinsley, the Rocky Mountain Institute, Snowmass, CO, 1997, (970) 927-3851, $17.95. This field-tested manual describes how a few energetic people can help steer their community toward development which is sensitive to local values and the environment. Filled with success stories, worksheets, media materials, and resources, the book is a do-it-yourself toolkit for anyone who wants to get sustainable economic development moving in his or her community. Hopeful, creative, civil, and
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fun, the Economic Renewal process is designed to defuse factionalism, encourage citizen involvement and collaborative decision making, and lead to practical projects that benefit everyone.

For further advice on the planning process:

At the American Planning Association's website http://www.planning.org/, look at publications and resources.

Planning Local Economic Development: Theory and Practice. By Edward J. Blakely, Sage Publications, 1994, 343 pages, $35. Blakely's popular text explores theories of local economic development that are relevant to dilemmas facing communities today. This edition expands on issues such as the planning process, analytical techniques, and business and human resource development and investigates new areas such as high-technology economic development strategies.

Collaboration Handbook: Creating, Sustaining, and Enjoying the Journey. By Michael Winer and Karen Ray, Amherst Wilder Foundation, 1992, (800) 274-6024, 178 pages, $28. This step-by-step guide demonstrates how collaboration within and between groups helps people accomplish their goals more effectively. The book addresses why collaboration is a necessary and worthwhile tool, and explains in detail four stages of collaboration. It elaborates on a number of practical tasks, such as specifying desired results, forming a structure, determining roles, deciding on staffing, securing resources, conveying an image, and promoting results.

Solving Community Problems By Consensus. By Susan Carpenter, the Program for Community Problem Solving, 1990, (202) 783-2961, 20 pages, $15. This publication explores how to apply consensus decision making around community issues. After an overview of the consensus-building process, ten case studies reveal the value of consensus-building efforts around issues like poverty, unemployment, and historic preservation. A discrete breakdown of phases and steps is included.

Getting To Yes: Negotiating Agreement Without Giving In. By Roger Fisher, William Ury, and Bruce Patton, Penguin Books, 1991, 200 pages, $10. This national bestseller offers a concise, step-by-step proven strategy for coming to mutually acceptable agreements in every sort of conflict. Based on the work of the Harvard Negotiation Project, this book tells how to separate the people from the problem; focus on interests not positions; work together to create options to satisfy both parties; and negotiate successfully with people who are more powerful, refuse to play by the rules, or resort to "dirty tricks."
Where Do We Want To Be? (A Statement of Change)

RESOURCES

For help on visioning:
See resources in previous section which refer to the "visioning" element of strategic planning.

For competitive advantage issues:
Competitive Advantage. By Alan Gregerman, published by CUED. This book outlines a helpful assets and liabilities planning process for economic development, with easy to use matrices.

Creating the Globally Competitive Community. By David Bowes, Partners for Livable Communities and the Manufacturing Institute, Washington, DC, 1997, (202) 877-5990, 75 pages. This publication focuses on environmentally sensitive, export-driven manufacturing firms that are making America more competitive and are generating economic growth in communities across the country. The book has two purposes: to help community leaders and manufacturers better understand each other's evolving needs, and to encourage local public-private partnerships to prepare for a truly global century. This is also a helpful resource for those involved in designing business modernization efforts.

How Do We Get There? (Strategies, Activities, and Evaluation)

RESOURCES

Resources for best practices in economic development:

Harvesting Hometown Jobs: The New Small Town Guide to Economic Development. By the National Center for Small Communities, Washington, DC, 1997, (202) 624-3550, 156 pages, $24.95. This excellent guidebook offers how-to guidance on generating incomes and creating jobs through entrepreneurial development, business retention and expansion, business recruitment, tourism and retirement development, and growth management. Chapters include: Rethinking Local Economic Development; Getting Started; Growing New, Small Firms; Retaining and Expanding Existing Businesses; Recruiting Business and Industry; Attracting Tourists and Retirees; Managing Growth; and Innovative Partnership for Economic Development. See especially the "Getting Started" chapter for a discussion of strategic planning and visioning. Useful for urban practitioners as well.
Economic Development: A Union Guide to the High Road. By the Human Resources Development Institute of the AFL-CIO, Washington, DC, 1998, (800) 842-HRDI, 130 pages. This guide is designed to respond to the needs of workers, unions, communities, and states that want to build healthy, sustainable communities with good jobs, a quality environment, and excellent public services. It discusses economic development in general, how to take the "high road," and tools for strategic planning, building coalitions, research and evaluation, and resources. The guide advocates economic development that is democratic and beneficial to working families.

Achieving Economic Development Success: Tools That Work. By the International City/County Management Association, 1991, 156 pages, $32.00. This book describes the techniques communities are using to achieve their economic development goals.

Strategic Economic Development. By the ICMA, 1994, 19 pages, $14.95. The most productive role a local government can play today is to develop a clear vision of the type of economy it wants and a plan for getting there. Five case studies explore new approaches to building the job base and improving local economies, all of which focus on nurturing existing businesses.

A Citizen's Guide to Achieving a Healthy Community, Economy and Environment. By the Center for Compatible Economic Development, The Nature Conservancy, 1996, Leesburg, VA, (703) 779-1728. This workbook seeks to demonstrate that communities can improve their quality of life by focusing on local assets – people, natural resources, ecological systems, small businesses, products, processes, culture, and heritage. The guide emphasizes "compatible economic development" and includes sections on the characteristics of healthy communities, assessments, strategies, implementation, and measuring success. This is also an excellent hands-on guide to practicing sustainable development.

Sites should try surfing the web sites listed below and following links of interest to their regions:

- [http://www.rurdev.usda.gov/other_sites.html](http://www.rurdev.usda.gov/other_sites.html) A list of Internet sites containing economic development information.
- [http://www.lib.berkeley.edu/ENVI/commdev.html](http://www.lib.berkeley.edu/ENVI/commdev.html) A list of about 30 sites pertaining to community and economic development.

Although not really covered in this book, we advise looking at the growing number of excellent publications on Sustainable Development:

This 200-page report, funded by the EDA, includes a complete overview of sustainability and "how to get there from here." Chapters include: The Web of Sustainability, The Sustainable Economy, Green Jobs, and A Spectrum of Initiatives.

**Reinvention: Strategies for Sustainable Economic Development, Part I.** By Margaret Thomas and Midwest Research Institute, 1996, 167 pages, $30. This publication, funded by EDA, provides technical assistance to the economic development community in introducing a new generation of economic development strategies that:
- Increase profitability and save jobs by preventing pollution and reducing waste;
- Develop new jobs in recycling-based manufacturing and "eco-industrial" parks;
- Create jobs and new businesses through energy efficiency investments in private and public sectors;
- Expand renewable energy technologies and manufacturing; and
- Capture markets in green businesses and environmental technologies.

**Coming Clean for Economic Development: A Resource Book on Environmental Cleanup and Economic Development.** By the Northeast Midwest Institute, Revised and Updated 1996, 170 pages. This publication, funded by EDA, focuses on revitalizing Brownfield sites as a solution to both environmental problems and urban job/training needs. The guidebook, which offers detailed information on state and federal regulations and programs, will help economic development practitioners understand problems, opportunities, and tools needed to integrate environmental clean up into the economic development process. The book includes sections such as "Framing the Issue," "Environmental Considerations," "Financing Tools," Environmental Program Tools," and "Success Stories."

**Building Healthy Communities: Resources for Compatible Development.** By Bill Schweke and the Corporation for Enterprise Development, Washington, DC, 1997, 113 pages, $20. This resource book is based on the proposition that communities can preserve their natural and cultural heritage while still promoting economic development. Three sections — "Creating Effective Development Organizations," "Promoting Business Development," and "Practicing Responsible Land Use" — contain introductory discussions and lists of books, organizations, and websites to help the reader pursue each topic further.

**Sustainable Communities: Task Force Report.** By the President's Council on Sustainable Development, Washington, DC, 1997, 270 pages. This is the second of two reports by the President's Council for Sustainable Development; another one is expected out in early 1999. In addition to policy recommendations, the book includes very good overviews of the many issues and challenges associated with sustainable development. Of particular importance is the chapter titled "Economic Development and Jobs," which focuses on Creation of Strong, Diversified Local Economies, Basic Education, Job Training and Lifelong Learning, Brownfields, and Financing Sustainable Communities. The book also includes many case studies, community profiles, and resources for further information.
To learn more about particular approaches, explore some of the following topics:

Training Enterprise


Business Recruitment

Business Attraction and Retention: Local Economic Development Efforts. By Zenia Kothal, John R. Mullin, and Kenneth Payne, published by ICMA, 1996, (800) 745-8780, 92 pages, $36. This book is for those who wish to establish business retention and attraction programs, particularly local officials. The first chapter presents six basic guidelines for such programs. Later chapters discuss everything from the initial community evaluation prior to implementation of such a program, to measuring progress after the program is underway. The report provides information on established programs, where funding has come from, how they have been staffed, challenges they faced, and common activities. In addition to its wealth of practical guidelines, the report does a good job of presenting challenges that are likely to arise, and suggestions for confronting them.

Fill-in-the-Blank Business Recruitment: A Workbook for Downtown Business Development. By Kate Joncas and others, published by the National Main Street Center/National Trust for Historic Preservation, 1995, (292) 588-6219, 101 pages, $40. After the introduction and a section on determining and testing business opportunities, this workbook presents guidelines for developing business recruitment and retention programs to enhance a downtown business district. Worksheets in seven sections – ranging from a building inventory to a business prospect evaluation form – make the workbook useful to anyone, from community volunteers to economic development officials.

Improving Your Business Climate: A Guide to Smarter Public Investment in Economic Development, by Bill Schweke and the Corporation for Enterprise Development, Washington, DC, 1996, 175 pages, $30. Although this book aims to reshape the policy debate about what constitutes a healthy statewide business climate, it is also useful for local economic development practitioners. Sections on "What We Should Expect From Economic Development," "Making Development Incentives More Accountable," "Investing in Public Infrastructure," and "Making Business Modernization Work" will help practitioners think through difficult issues as they try to educate local and state officials on public investment for economic development. It also discusses the role of business recruitment within a larger economic development agenda.
**Economic Development: Marketing for Results.** By Eric Canada, published by Blane, Canada, LTD, 1995 (630) 462-9222, 148 pages, $100. This book applies business marketing techniques to the specific needs and circumstances economic development officials face. It includes a step-by-step discussion of how to write, gain support for, and launch a marketing plan. A very useful section of the book discusses why some marketing tactics succeed and others fail.

**A Comprehensive Guide to Business Incubation.** Edited by Sally Hayhow, published by the National Business Incubation Association and funded by EDA, 1996, (614) 593-4331, 380 pages, $85. This book is an important reference for existing incubator professionals and those who want to plan an incubation project. It includes ideas for attracting new, young, and small businesses, as well as growing them. The book is packed with detailed information on every aspect of best practices for developing incubators, managing operations, and providing top-notch service to client companies. The 64-chapter book by multiple authors is divided into three main sections: 1) Development: preliminary planning, self-sufficiency, drafting mission statements, funding, tax status, board of directors; 2) Operations: increasing revenues/cutting costs, equity/royalty agreements, volunteers, lease agreements, affiliate programs; and 3) Serving Clients: bootstrap financing, business plans, venture capital, property, management teams. For more information about business incubation programs, go to the website of the National Business Incubation Association, http://www.nbia.org.

Other helpful resources include:


Youth Enterprise

Dabson, Brian and Barbara Kaufmann. *Enterprising Youth In America: A Review of Youth Enterprise Programs*, Washington, DC, Corporation for Enterprise Development, 1998. This report is concerned with ways in which entrepreneurship can be used as a means to engage the energies and talents of young people in America, a generation facing unprecedented threats from crime, gang activity, and a swiftly changing economy. The publication looks at definitions of youth enterprise and provides a current overview of the field. It examines in some detail a number of promising and proven programs and organizations aimed at youth-at-risk.

Microenterprise

*Economic Development Through Microenterprise.* By Andrea Levere and the Corporation for Enterprise Development, 1996, (202) 408-9788, 91 pages, $20. This is the only in-depth, how-to manual on starting and operating an effective microenterprise program. The book guides the reader through the nature of microenterprise, program options, planning an initiative, recruiting and orientation, training, and lending. This book also includes checklists, management forms, and case studies.

*The Entrepreneurial Economy Review (1991) – Special Issue on Microenterprise.* A collection of articles by several authors, published by CFED, 1991, (202) 408-9788. Limited copies available; ask for photocopies. This is a useful publication for newcomers to the field of microenterprise. The collection includes articles on the role of microenterprise in economic development, insights into various microenterprise funding sources and how to pursue them, case studies, and a guide to additional resources. The articles offer specific information and findings.

*The Practice of Microenterprise in the U.S.: Strategies, Costs, and Effectiveness.* By the Aspen Institute (Washington, DC), 1996, 80 pages $18.00. This report documents the experience of seven senior microenterprise programs in delivering credit, training, and technical assistance to low- and moderate-income clients in the United States. Using case materials gathered between 1992 and 1994, it analyzes the strategies, costs, and effectiveness of some 17 microenterprise training and lending programs implemented by seven agencies during that period with a view to understanding better the accomplishments and potential of microenterprise development in the U.S. context.

*Six Strategies for Self-Sufficiency: Greater Ideas for Using State Policy To Get Families Out of Poverty.* By Sandra Van Fossen, published by Wider Opportunities for Women, 1996 (202) 638-3143, 115 pages, $30. The publication looks at poverty reduction strategies, like microenterprise and nontraditional employment, to improve the financial well-being of women, particularly women who head poor families. The chapters discuss the details of microenterprise programs, as well as efforts to create new jobs for this target population, and efforts to improve existing jobs.
Microenterprise Development as an Economic Development Strategy. By Lisa J. Servon, funded by U.S. Economic Development Administration (EDA) and published by Rutgers University, 1998. Instead of trying to channel people into the mainstream economy as wage earners, microenterprise programs teach those with an interest and inclination for self-employment how to strengthen their entrepreneurial skills, and start and stabilize their businesses. The authors focus on the relationship between the microenterprise strategy and the local economy in order to determine whether and how microenterprise programs can help to alleviate economic distress. This report includes case studies of six programs across the country.

Minority Enterprise Development

Minority Enterprise Development. By Nancy McRae and Kenneth E. Poole, CUED, December 1989, 202-223-4735. This is an excellent introduction to minority enterprise development for practitioners. It includes helpful sections on meeting the needs of minority enterprises, reviewing existing minority enterprise development programs, and establishing an effective minority enterprise program.

Race, Self Employment and Upward Mobility: An Illusive American Dream. By Timothy Bates, 1997. This is an important study of the different experiences that various ethnic and racial groups have with self employment.

Major Studies of Minority Business: A Bibliographic Review. By Timothy Bates, Joint Center for Political and Economic Studies, Washington, DC, 1993. Although a trifle dated now, this publication superbly summarizes the findings of hundreds of important studies of minority enterprise, including research on structural barriers to small business entry, the role of human and financial capital, government programs to assist minority firms, and many more topics.

Banking on Black Enterprise. By Timothy Bates, Joint Center for Political and Economic Studies, Washington, DC, 1993. This book looks at the emerging group of minority entrepreneurs who are operating businesses in growing, nontraditional market niches. Next, it examines the hiring practices of black owners and the major constraints facing such firms – inadequate capitalization, court challenges to minority assistance programs, continued discrimination, and the added costs and risks of operating in urban ghettos. The book closes with a helpful policy agenda, which is structured to foster more growth-oriented black enterprises.

“The Minority Enterprise Small Business Investment Company Program: Institutionalizing a Nonviable Minority Business Assistance Infrastructure.” By Timothy Bates, Urban Affairs Review, May 1997. MESBICs are privately-owned companies that are funded by the U.S. Small Business Administration to finance minority-owned businesses. Most MESBICs began operations as nonviable companies, inherently limited in their ability to serve the needs of small firms in their targeted markets. Most of the MESBIC chartered over the last 26 years are out of business today. In the midst of this
generally unsuccessful industry, some MESBICs are growing substantially and operating profitably from their returns on minority business investments. This article differentiates the successful programs from the failures.

The Inner City: Urban Poverty and Economic Development In The Next Century. Edited by Thomas Boston and Catherine Ross, Transaction Publishers, New Brunswick, 1997, (908)-445-2280, $22.95. This special issue of The Review of Black Political Economy focuses on the work of Michael Porter. Business strategist Porter argued in an important article in the Harvard Business Review that a sustainable economic based can be created in the inner city by the same means that has succeeded elsewhere – through private, for-profit, initiatives based on economic self-interest and genuine comparative advantage. This book presents Porter’s ideas, along with those of his critics.

Revolving Loan Funds: Recycling Capital for Business Development. By the National Council for Urban Economic Development, 1995, (202) 223-4735, 80 pages, $29. This is a thorough, technical book on revolving loan funds. It begins with a definition of RLFs and the economic forces that led to their creation, offers practical examples and tools for establishing an RLF, and includes discussions of the capitalization process and necessary management structure for making loans. Case studies, flow charts, and visual aids demonstrate the concepts and possibilities of this tool.

The Design and Management of State and Local Revolving Loan Funds. By Peter Kwass, Beth Siegel and Laura Henze, published by Mt. Auburn Associates, 1987, (617) 625-7770, 167 pages, $30. This report, funded by EDA, discusses the characteristics and impacts of revolving loan funds, and presents guidelines for establishing an RLF. It recommends a design strategy, business targeting, financing, and other organizational structure issues. It also considers evaluation of this tool in light of local financial markets.

Business Retention and Expansion

How To Create Jobs in the ‘90s: A Step by Step Guide To Creating Jobs in Your Community. By Kenneth C. Wagner, published by the Wagner Group, 1994, (617) 232-9954, 178 pages, $30. This book provides a comprehensive overview of job creation opportunities. Twenty chapters are organized into four sections: "How Economic Development has Changed," "Sources of Jobs in the ‘90s," "Building and Staffing Your Program," and "Preparing for Healthy Growth." Each chapter discusses a variety of job creation strategies and how to determine if a community has the necessary characteristics to implement them. The book also includes useful items such as an "assets/liabilities" checklist and sample surveys.

Implementing Local Business Retention and Expansion Visitation Programs. By Scott Loveridge and George Morse, published by the Northeast Center for Rural Development, 1997, (814) 863-4656, $35, video, brochures, and five booklets. This package includes instructions for developing and organizing a local business retention
and expansion visitation program. More information and samples of the materials are available at [http://www.cas.edu/docs/casconf/nercrd/nercrd.html](http://www.cas.edu/docs/casconf/nercrd/nercrd.html).

**Saving and Creating Good Jobs: A Study of Industrial Retention and Expansion Programs.** By Neil S. Mayer, Center for Community Change, Washington, DC, June 1998. This is a good current overview of R&E programs. It includes helpful case studies of a number of promising models.

**Business Modernization, Sector Strategies, and Cluster-Based Development**

**Cluster-Based Economic Development: A Key to Regional Competitiveness.** By Information Design Associates. Prepared under an award from the EDA, 1997, (415) 389-5000, 80 pages. An economic development approach based on understanding industry clusters and meeting their economic infrastructure needs can assist economic development leaders in identifying the industries that are key to the region's economic future and in developing the information and civic collaboration that is essential to achieving the region's economic development goals. This report provides an introduction to cluster-based economic development through case studies and lessons learned from the experience of American regions.

**Industrial-Strength Strategies: Regional Business Clusters and Public Policy.** By Stuart Rosenfeld, published by Aspen Institute, 1995, ISBN Paper: 0-89843-175-1, 148 pages, $15.00. Rosenfeld explains what industrial clusters are, how to identify them in your region, and how best to support them and integrate them into state development planning. Two detailed case studies are included.

**The Network Tool Kit, Volume One: Manufacturing Networks and Competitive Manufacturing; Volume Two: Business Opportunity Networks; Volume Three: Case Studies.** By Regional Technology Strategies, (919) 933-6699, $100. These three volumes provide everything the novice or expert needs to design and run manufacturing networks. The books includes case studies, sample materials, and how-to advice on design and implementation.

**Smart Firms in Small Towns.** By Stuart Rosenfeld, with Philip Shapira and J. Trent Williams, published by Aspen Institute, 1992, 93 pages, $10.00. This book discusses strategies that states are using to help modernize manufacturing in rural areas and highlights promising practices in 12 states. It examines flexible networks, industrial extension services, links to community colleges, youth apprenticeship, and efforts to organize state services to specific industries.

For further advice, see:


How are we doing? (Evaluation)

RESOURCES

For Benchmarking and Evaluation:

Performance Measures for EDA Planning and Local Technical Assistance Programs. By Ed Blakely and Applied Development Economics for the EDA, 1998, 40 pages. This is a study commissioned by EDA to recommend performance measures for EDA planning and local technical assistance programs. The report explains the recommended measures, the process used to develop the measures, and issues EDA must address in order to implement the recommendations.

Municipal Benchmarks: Assessing Local Performance and Establishing Community Standards. By David Ammons, published by Sage Publications, 1996, 323 pages, $45. Municipal Benchmarks provides an excellent introductory discussion of why performance benchmarking is such an important tool. The book explores the design of practical performance measurement systems, the improvement of existing systems, and the establishment of local performance standards. Author David N. Ammons steps beyond the current literature on local government performance measurement by offering benchmarks against which an individual municipality's performance may be assessed. This important volume guides municipal executives, department heads, management analysts, mayors and city council members, citizen groups, and interested individuals beyond the development of performance measures for city government operations. It prepares them for the initial stages of actual performance assessment by presenting relevant national standards developed by professional associations and actual performance targets and performance results from a sample of respected city governments.
