

Social Enterprise and Urban Rebuilding: U.S. Opportunities

Robert Giloth
Annie E. Casey Foundation
October 2003

Social Enterprise and Urban Rebuilding: U.S. Opportunities Robert Giloth October 2003

Introduction

- The U.S. policy and nonprofit environments are encouraging the development of social enterprises.
- Social enterprises seek a double bottom line -- profit and social impact.
- Social enterprises are part of a broader social entrepreneurship and social economy sector.

Introduction

- Two questions about social enterprise and cities in the U.S. require attention:
 1. Can social enterprises make a significant contribution to urban rebuilding?
 2. What policies and investment approaches are required to bring social enterprises to scale?

Introduction

- Answering these questions requires attention to five issues:
 - Factors contributing to urban distress.
 - Social enterprise theory and urban distress
 - Barriers to increasing social enterprise impacts.
 - Scale strategies for social enterprises
 - Policies and investments in support of scale impacts.

Introduction

- Social enterprise is usually thought of as a way to make non profits more effective and sustainable—especially in the arena of human services.
- This presentation explores how social enterprises can be more systemically related to urban rebuilding.
- Key tensions in this discussion are among urban impacts, standardized replication, and geographies of scale.

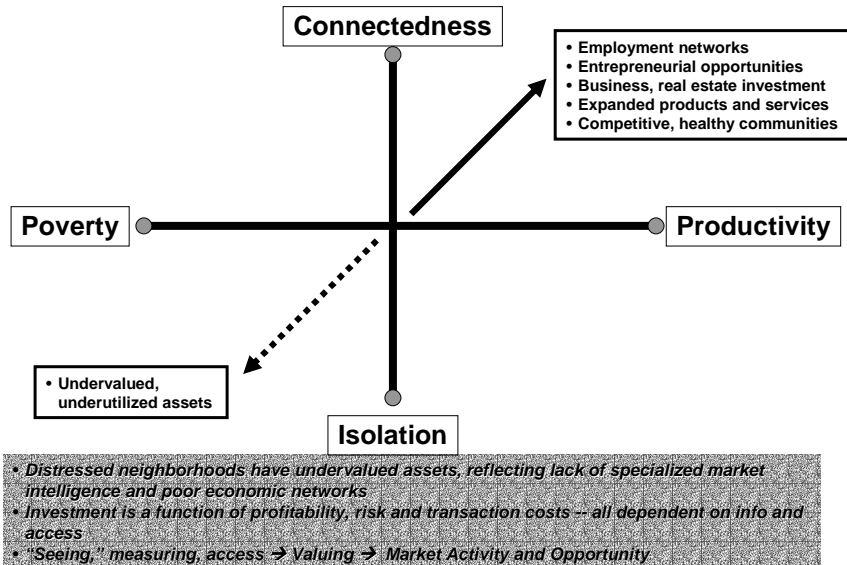
Distressed Urban Communities

- Urban revitalization expanded in the 1990s— income gains and de-concentration of poverty.
- Pockets of poverty remain in cities and many working families remain poor.
- Multiple patterns of urban growth and decline exist—with different impacts on working families.
- Economic downturn has revealed the fragility of many of these gains.

Urban Rebuilding: A Strategy

- Make labor, consumer, and financial markets work for low-income families and neighborhoods.
- Promote equitable access to economic opportunities and fairly priced goods and services.
- Increase local ownership of assets, institutions, and development strategies.

Market Failure in Lower Income Communities



Distressed Urban Communities

Five challenges/opportunities to promoting urban rebuilding:

- Too few jobs, good jobs, and careers
- Skill mismatches of inner city residents
- High costs of working/living
- Untapped economic assets
- Information and intermediation problems

Jobs

- Too few family supporting jobs exist given number of job seekers—even entry level jobs in some cities.
 - Baltimore—deficit of bad jobs
 - Milwaukee—10 to 1 ratio of job seekers to good jobs
- Job creation is still overwhelmingly in suburbs and exurbs—distant from inner city workers
- Moving up in jobs requires community career pathways in and across growth sectors.

Skill Mismatches

- Inner city residents have skill deficits (hard and soft) for higher paying jobs and career advancement.
 - 1,000 hours required to move from minimum to basic skills
- Harder to employ have a hard time getting on the first rung of entry level jobs.
 - formerly incarcerated
 - immigrants and refugees
 - hard to employ (2+ barriers).

High Costs of Working/Living

Low-income families pay more for:

- Access to public benefits—private tax preparation services (EITC)
- Access to financial services—check cashers, payday lenders, predatory home lenders.
- Access to asset-building tools (bank accounts, credit, IDAs, homeownership, etc.)

Untapped Economic Assets

- Unrecognized disposable income of inner city residents.
- Magnitude of human service investments in low-income communities
- Place-rooted economic engines—hospitals, utilities, and universities.
- Failure of public goods and services
- Urban reconstruction and material flows.

Information and Intermediaries

- Little knowledge about inner city markets and populations.
- Lack of bridging mechanisms between neighborhood and region, non profits and markets, and grassroots and policy-makers
- Inadequate connections to the knowledge economy and technology.

Social Enterprise and Urban Distress

- Social enterprises have competitive advantages in being connected to inner city populations.
 - Non-profits a source of inner city market knowledge
 - Non-profit social mission values assets and lower thresholds of profit.
 - Non-profits are a source of underutilized entrepreneurial capacity

Defining Social Enterprises

- Definitions and classifications of social enterprise distinguish corporate form, organizational identity, extent of revenue generation, and degree of social benefit.
- Social enterprises involve innovative products, enterprise organizations, and markets/industries
- Narrow definitions limit urban impact. Overly broad definitions dilute power of double bottom line thinking.

Defining Social Enterprises

A definition attentive to urban impacts includes:

- non profit enterprises generating revenue.
- for-profit enterprises adopting social criteria.
- social investment vehicles like CDFIs.
- entrepreneurial public enterprises.
- social entrepreneurship of economic innovations.

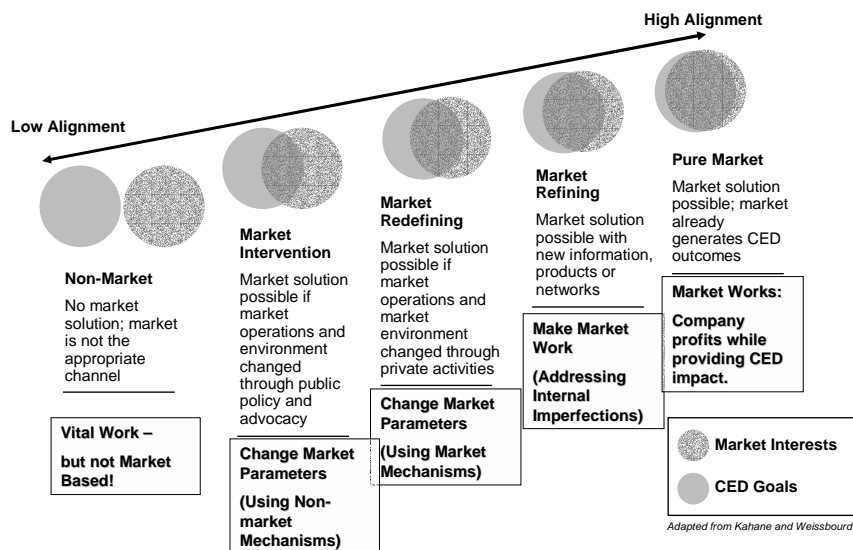
Why For Profit Enterprises

- Cannot reach scale of impact in urban areas without them.
- There are numerous socially responsible businesses (e.g. Inner City 100).
- Segregating non-profit and mainstream enterprise has negative consequences in long run.
- Business incentives drive adoption of social criteria: entering markets, securing capital, solving workforce issues (e.g. turnover), community benefits.

Why Public Enterprises

- Enterprise development an important part of “reinvention” movement.
- Urban governments control purchasing, waste, land, and delivery systems
- Multiple examples of public enterprise related to utilities, composting, and land development
- Policy frameworks direct community benefits and partnerships

Goals: Aligning Markets and Development



Examples of Social Enterprises

Linked to urban distress factors:

- Jobs—community venture capital
- Skill Mismatches—temp firms, training businesses.
- High Costs of Working/Living—credit union/check cashers
- Untapped markets—home health care firms; child care.
- Information and Intermediaries—alternative credit scoring business.

Jobs--Community Venture Capital

- TRF - The Reinvestment Fund, Urban Growth Partners/Baltimore Fund
 - \$45 million targeted to small, job producing companies.
 - Target job growth and wages
 - Provides human resources assistance—access to public benefits, training, and recruitment.
 - Allegheny Child Care—500 jobs.
- 50 Community venture funds

Skill Mismatches—Staffing and Training Businesses

- Non-profit staffing agencies connect residents to jobs, pay higher wages, and promote careers (100)
 - Suburban Job Link
- Training Businesses teach occupational skills in the context of revenue generating businesses.
 - Esperanza Unida, Manchester Craftsman
- Supported, transitional jobs provide work experience for those re-entering workforce.
 - Pioneer Human Services.

High Cost of Working/Living

- Predatory firms fill gaps in financial services and contingent workers have no benefits.
- Social enterprises and partnerships provide affordable financial services and benefits
 - Money Place—community organization, credit union, and check casher.
 - EITC Social Enterprise pilots:
 - Non profit tax prep enterprise/partnerships
 - Working Today—portable benefits for temps

Untapped Economic Assets

- Organizing and improving home care jobs-- Cooperative Home Care
- Promoting good schools—Charter Schools
- Filling needed human services jobs—Staffing agencies
- Leveraging local construction—Georgia Justice Project/Skookum Construction.
- Accessing quality food—Market Creek Plaza

Information and Intermediaries

- Earn,Rent, etc. -- alternative credit scoring based upon rent payments.
- D2D -- online financial services - IDA enrollment
- Beehive -- web-based financial services for community development field.
- Foothold Tech -- client tracking and benefit database tools for human service organizations.
- Win Co. -- new non profit that packages tax credits for groups like Chrysalis, New Community Corp.

Conditions for Social Enterprise Success

- Entrepreneurial vision and capacity
- Market knowledge/business planning
- Corporate partners
- Organizational networks
- Supportive Investors

Barriers to Larger Urban Impact

- Entrepreneur dependent
- Diffused growth vs. urban saturation
- Segregated vs. part of economic mainstream
- Inadequate capital, incentives, and access to markets
- Undeveloped infrastructure for social replication
- Competition and exclusion

What is Scale of Impact

- Level of sustainability and capital expansion.
- Tipping point—multiple adoptions, start ups.
- Saturation of impacts in target areas or with target populations.
- Adoption of approach by key investors.

Scale Strategies

- Seed social entrepreneurs and enterprises
- Replicate effective social enterprises
- Encourage successful social entrepreneurs to launch new enterprises
- Advocate private sector adoption of social enterprise innovations
- Promote inclusion of social criteria in all urban development.

Infrastructure for Scale

- Organized investment system
- Measures and messages—double bottom line.
- Industry networks and learning
- Scalable networks
 - CDCs, nonprofits, local economic development, human service agencies

Scale Example—Charter Schools

New Schools (NS) is a venture philanthropy public charity in San Francisco working:

“to transform public education through powerful ideas and passionate entrepreneurs so that all children...have the 21st Century.”

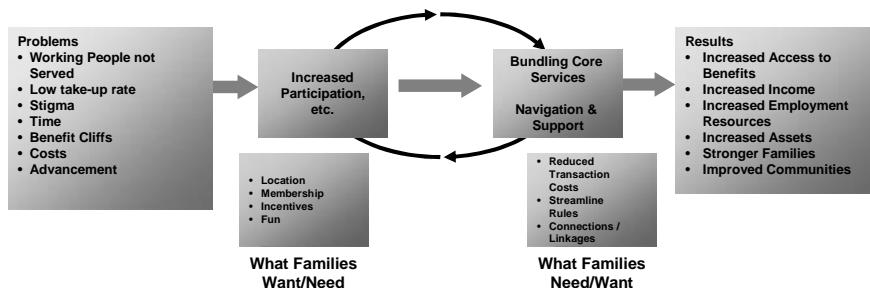
Scale Example: NS Charter Strategy

- Grow in quality and scale -- from 2,000 to 5,000 by 2020
- Local or regional Charter Management Organizations (CMOs).
 - network of like-minded schools
 - hybrid team of educational and business system leaders
 - economies of scale, sustainability
- Build 4-6 CMOs in next several years (150 schools, 55,000 students)

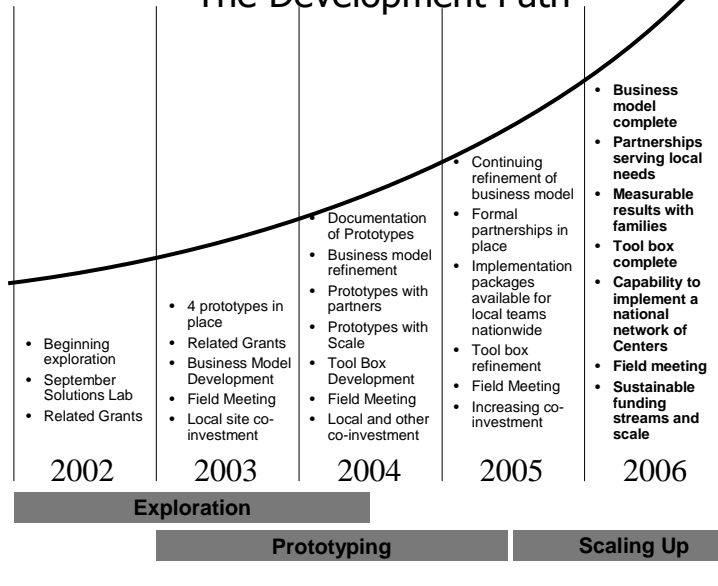
Scale Example: Centers for Working Families

Strategy: Social Enterprise to bundle economic and financial services that are family friendly, convenient, and easy to access.

Theory of Change/Business Model



Scale Example: Centers for Working Families --The Development Path



Scale Example: Staffing Agencies

- Recent surveys identified 100 non-profit staffing agencies and that employment and training agencies the most common platform for social enterprise
- Develop non-profit temp firms as sector and promote inclusion with private firms.
- Capital and TA for temp firms
- Flexible combination of public and private resources
- Reform of non-profit sector contracting and financing.

Scaling Up Social Enterprises

Four Broad Scale Up Strategies:

- Promote social enterprise
- Build social enterprise networks and industry
- Organize social enterprise venture capital
- Promote public policies supportive of social enterprise.

Promote Social Enterprise

- Expand national gatherings and networks of social enterprises
- Expand local social enterprise promotion efforts—Seattle, Milwaukee.
- Promote social enterprise in nonprofit networks—Goodwill, Enterprise Fnd.
- Support social entrepreneur identification and cultivation.

Build Social Enterprise Industry

- Develop local and sectoral communities of practice among social enterprises.
- Document high performing practices and outcomes.
- Invest in peer and adaptive learning among social enterprises.
- Facilitate access to low-income consumer markets.
- Identify and facilitate national partnerships.

Organize social enterprise venture capital system

- Continue and expand social enterprise venture funds like REDLF, NS, and SEEDCO.
- Develop investment plans for social replication of most successful enterprises
- Target social enterprise generation to achieve highest urban rebuilding impact.

Promote Public Policies Supportive of Social Enterprises

- Community Benefits policies
 - jobs, contracts, partnerships
- Reforms in human service financing
 - use of debt and equity
 - multiyear contracts
- Social Purpose contracting
- Linking public enterprise and urban rebuilding

Risks of Scaling Up Social Enterprises

- Dilution of social benefits
- Increased failure rate of diverse enterprises rather than a few tested, standardized business models.
- Scaling up takes time and is nonlinear.
- Expectations outstrip patient capital and investor accountability and support.

Social Enterprises and Urban Rebuilding

- Social enterprises are important and perhaps decisive for the future of cities.
- Broader definition of social enterprise increases urban impact.
- Social enterprise advocates should target enterprise development to key urban distress factors.
- An organized industry and investment system is required to go to scale for to achieve urban impact.