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RESEARCH REPORT

Cost-Benefit Analysis of Innovative Programs to Integrate Groups with Low Rates of Employment

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The study was initiated and funded by JDC-Israel-Tevet

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Related Myers-JDC-Brookdale Institute Publications

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Executive Summary

1. Background

Myers-JDC-Brookdale Institute (MJB) was commissioned by JDC-Israel-Tevet (hereafter, Tevet) to assist with a cost-benefit analysis of three of the organization's programs for the integration of special populations into the workforce:

1. Eshet Chayil in the Arab sector – for Arab women
2. Mafteach – for the ultra-Orthodox population
3. Strive – for young adults with limited resources.

2. Cost-Benefit Analysis

A cost-benefit analysis includes the following:

1. A systematic breakdown of the costs and benefits of the programs and an evaluation of their financial value
2. A comparison of benefits and cost – in this study, the comparison is made using two accepted measures:
 - a. Net benefit: Benefit less cost
 - b. Benefit-cost ratio.
3. Breakdown of benefits and costs not calculated in the financial evaluation.

A standard analysis examines the types of benefit and cost from three perspectives: society (increase in available resources); the government (net savings in the state budget); and the participant (improved financial status). The perspective of society is usually the main one. In our study, we present this perspective in the body of the report; the state budget and participant perspectives are presented in the appendices.

3. Study Method

Method of Assessing the Impact of the Program

The estimated benefit of an employment program is based on the estimated impact of the program. In order to assess the impact or added value of the program, the group of program participants must be compared with a similar group of people who did not participate in the program. The preferable way to do so is to conduct a randomized controlled trial (RCT), which is based on random assignment of candidates for participation in the program and for a control group. If this is not possible, an attempt can be made to identify a comparison group that is similar to the participant group.

Tevet's programs were not implemented with pre-designated control groups, so we had to find comparison groups retroactively. The identification of a suitable comparison group was the main challenge in our study. To do so, we used a methodology developed at MJB for examining employment programs, based on panel data from the Central Bureau of Statistics (CBS) Labor Force Survey.

We assessed the impact of the programs on their participants' integration into employment using two sub-evaluations:

1. The employment rate of program participants one year after they began participation in the program (based on Tevet's database)
2. The employment rate of the comparison group according to the CBS Labor Force Surveys (which also give an indication about the motivation to find work).

We evaluated the impact of the programs on the employment rate of the participants as the difference between these two sub-evaluations.

The Labor Force Surveys make it possible to monitor the respondents for a year. We were therefore able to estimate with relative certainty the difference between the participant group and the comparison group for the first year only. For the second year, the only data available to us were for the participants. They indicated a stable employment rate. We therefore decided to base our evaluation on a two-year period and to assume that the impact of the program continued into the second year to the same extent as found at the end of the first. The impact may in fact be lower in the second year. To redress the balance, our assumptions were significantly "conservative," i.e., such that they reduced the impact of the program. We did not take account of the continued impact of the program beyond the first two years due to the lack of data for the comparison group. Nor did we take into account the possibility that participation in the program might affect not only the participants' ability to find work, but also the type of work that they were able to find. Since the Labor Force Survey does not provide data on wages, we did not take account of the impact on wage levels.

Method of Evaluating the Cost-Benefit of the Programs

This study focuses on cost-benefit from the perspective of society. The cost calculation is based on Tevet's estimate and, in the case of Eshet Chayil, on a request for bids for implementation of the program issued by the Ministry of Social Affairs and Services (MOSAS). The evaluation was made for the average of each program participant, as is standard practice. The average includes participants who found work and those who did not and refers to the 2-year period after joining the programs. Due to the limitations of the data, we could not evaluate a longer period.

In order to present an additional element of the findings, we also calculated the amount of time required for the benefit per participant to equal the cost – i.e., the amount of time required for the program to cover its cost.

4. Findings: Cost-Benefit to Society

The findings demonstrate that two years after participants joined all three of the programs, the benefit to society per participant on average outweighed the cost to society. In other words, the net benefit (benefit less cost) was positive:

- ◆ Eshet Chayil: Net benefit: NIS 6,300–NIS 8,400 per participant
- ◆ Mafteach: Net Benefit: NIS 8,200–NIS 11,300 per participant
- ◆ Strive: Net Benefit: approximately NIS 6,700 per participant.

The reason for the variance in the amounts reported for Eshet Chayil and Mafteach is that two comparison groups were used. In one group, all the participants were interested in finding work, while the other had a mix of individuals, some of whom were interested in finding work and some were not. In the case of Strive, the estimate was based on an evaluation study of the program conducted at MJB,¹ in which the comparison group included only individuals interested in finding a job.

The amount of time required to cover the investment in the program from the perspective of society was less than one year in Mafteach and less than 18 months in the other two programs:

- ◆ Eshet Chayil: The benefit equaled the cost after 1.3–1.4 years.
- ◆ Mafteach: The benefit equaled the cost after 0.6–0.7 years.
- ◆ Strive: The benefit equaled the cost after 1.4 years.

In addition to the perspective of society, we also examined cost-benefit from the perspective of the participants and the government budget.

With regard to the participants, the programs are worthwhile. Tevet programs are not intended for recipients of income support, so the participants do not lose any benefits when they find work. Consequently, the wages they earn when they start working are greater than the expenses involved in so doing. They are not required to pay for their participation in the program.

From the perspective of the state budget, the programs are not worthwhile. Some of the participants who find work are eligible for an employment grant ("negative income tax") and only a few of them attain a wage level high enough to be taxable. And since, as noted, the programs are not intended for recipients of income support, the government does not save these payments.

In short, the programs are worthwhile for society and the participants but not for the state budget.

5. Sensitivity Test of the Outcomes for Evaluating the Impact

We examined the sensitivity of the outcomes for the way that the evaluation of the impact on the employment rate of the participants was conducted. The examination revealed that the programs remain profitable to society about two years after the participants join them, even if the actual impact is 10% smaller than our estimate.

6. Other Aspects to be Considered in Evaluating the Findings

When conducting a cost-benefit analysis, many decisions must be made about the factors to be included in the financial estimates. Fundamental considerations and availability of the information must also be taken into account. The following factors were not included in the financial assessment:

¹ Ziv, A.; Strosberg, N. and Slater, Y. 2011. *The Strive Program: An Evaluation Study*, RR-597-11 (Hebrew).

a. Benefits not considered:

1. Due to the limitations of the data, the evaluation did not consider the impact of the employment programs on participants who were working when they joined the program (with respect to promotion at work). This limitation is relevant to Mafteach, since 17% of the participants were working when they joined.
2. The evaluation did not consider the wider impact of the programs on the employment of individuals who had not participated in them, e.g.:
 - a. On relatives and acquaintances of the participants
 - b. On the willingness of employers to hire more people with similar characteristics
 - c. On the atmosphere in the wider community that encourages similar individuals to start work.

b. Costs not considered:

1. Funding for the program from other organizations (e.g., vouchers from MOSAS; social workers referred to the program who receive their salaries from MOSAS)
2. Costs of support services, such as daycare centers, both to the participants, who pay for them, and for the government, which subsidizes them.

The study was initiated and funded by JDC-Israel-Tevet. The findings are helping the organization to conduct a more in-depth process of effective examination of its programs.

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