A main operating assumption of Community Change Initiatives (CCIs) is that communities in general, and community-based organizations in particular, can improve economic opportunities and outcomes in their communities through community economic development.¹ It is hoped that by stimulating business activity in the local neighborhood, community economic development programs can enhance the quality of economic life by

- expanding access to capital and stimulating asset accumulation;
- increasing local access to consumer goods and services;
- expanding the local entrepreneurial base;
- expanding local employment opportunities;
- giving neighborhoods more control over ownership of local resources; and
- connecting residents and businesses to the regional economy.

It is also assumed that, if operated at sufficient scale, community economic development projects might have considerable potential to help jump-start neighborhood revitalization. It should be stressed, nevertheless, that the challenges can be daunting and failure among specific projects is not uncommon. A principal difficulty is that the local neighborhood is not a self-contained economic
unit, but part of and profoundly affected by larger markets and higher levels of economic activity and decision making.

Moreover, community-level efforts may stimulate a greater number of healthy businesses or additional employment opportunities for local residents without affecting a neighborhood’s overall economic condition. This can happen, in part, because the broad economic trends and governmental policies that were instrumental in creating the conditions that led to isolated neighborhoods of persistent poverty continue to have a major impact.\(^\text{2}\) As Otis Johnson, former Executive Director of the Chatham-Savannah Youth Futures Authority, notes: “it has been difficult for community-building initiatives to establish guideposts for planning around economic revitalization because it is the realm in which poor communities have the least control over what happens.”\(^\text{3}\) All this suggests that even though community residents and organizations are necessary for community economic development, they are not sufficient to bring about the changes needed to reduce community poverty and inequality.

What is especially significant about community economic development as an approach is not just that it focuses on economic development in a specific neighborhood, but also that it focuses on the process of community building. The “community” aspect of community economic development has three important dimensions. First, it is assumed that the community will play an active role in the economic development process and gain access, participation, and ownership of the economic activities in the locality.\(^\text{4}\) Second, it is argued that community development strategies and community-building activities can contribute to sustained economic development (and vice versa).\(^\text{5}\) Third, the field looks for outcomes relating to community building and community development in addition to economic outcomes.\(^\text{6}\) In this sense, community is treated as both an input and an output in community economic development.

From an economic perspective, the primary purpose of community economic development is stimulating local job creation and aggregate business activity. Increasing the quantity and quality of jobs available in the neighborhood and ensuring that local residents are hired are also common objectives, as are altering the mix of businesses in the community so residents can have greater access to basic consumer goods and services. Increasing the access, participation, and ownership of community residents in the economic activities of the locality is another common objective.\(^\text{7}\) Some community economic
development initiatives focus on developing internal community resources by stimulating entrepreneurship, reducing barriers to credit, and providing technical support and assistance to firms and businesses. Others focus on attracting outside investments and metropolitan businesses to the local economy.

Efforts to stimulate business activity in the neighborhood might also produce other beneficial community effects, such as:

- Improvements in the general appearance and physical infrastructure of the community
- Strengthened institutional capacity
- Development of community leaders and role models
- Increased community pride

These outcomes could subsequently help to stimulate additional development, as explained in the next section of this chapter.

Although community economic development has been practiced since at least the 1960s, studies of community-level outcomes that focus on community causes and community agency are still quite rare.\(^8\) It is only in the last twenty years that the effects of communities and community-based organizations on community economic development have been analyzed systematically and that the unit of analysis has shifted from the state, the region, the city, or the metropolitan area to the community or, in some cases, the inner-city.

This literature organizes the array of community economic development activities into a variety of different, sometimes overlapping, categories but there is general agreement on the core or basic activities.\(^9\) This chapter focuses on four strategies available to CCIs for stimulating economic development:

- Strategies to increase asset accumulation and access to capital
- Strategies for improving the general business climate, including physical infrastructure improvements
- Strategies for assisting business development directly
- Strategies to link citywide economic development with employment opportunities for local residents
Workforce development strategies to improve local residents’ preparedness for and access to jobs, which are also important aspects of community economic development, are discussed by Patricia Auspos in the final chapter of this volume.

This chapter discusses several common approaches to community economic development, the expected community-level outcomes, and the extent to which expectations are supported by the empirical literature. In keeping with the emphasis laid out here, the chapter discusses community development strategies and economic development strategies and the interaction between the two. It draws on a variety of sources, including academic treatments; reviews and analyses; case studies that explore and assess particular development initiatives or analyze the role that various types of community groups can play in the economic development process; and government documents and reports. The chapter is comprehensive but is not meant to be an exhaustive review of everything written in the field of community economic development.10

This chapter is primarily focused on laying out potential pathways of change and identifying the kinds of outcomes—both economic and community-building—that CCIs and other community change efforts might produce. A few nontraditional measures or measurement approaches are discussed in the text or endnotes of the chapter, but interested readers are referred to the Aspen Roundtable measurement website (www.aspenmeasures.org) for information on the community economic development measures and data sources that were compiled in preparing this chapter. A detailed discussion of measurement instruments and techniques, both traditional and nontraditional, which can be used to analyze community economic development can be found in a review paper by John Gaventa, Janice Morrissey, and Wanda Edwards.11 Sean Zielenbach presents an index of community-level measures he used to study economic revitalization in low-income communities across Chicago, with a discussion of why the data and measures are not fully able to capture and explain the process.12

It should be recognized from the outset that current data sources and measures are inadequate to the task. As shown throughout this chapter, community economic development efforts need ways to measure changes in social capital and community capacity as they relate to economic development—e.g., strengthened social and network ties, increased local ownership, control, and
access to resources—as well as improvements in economic conditions or the
general business climate. Progress has been made in some areas, but to evalu-
ate fully the kinds of effects described here, additional nontraditional measures
and more data sources on local/small areas need to be developed.

The remainder of this chapter is organized as follows:

Section 1 lays out a composite theory of change for community economic de-
velopment initiatives, identifying the menu of strategies that might be used, a
potential sequence of outcomes, and the ways in which economic development
strategies and outcomes and community development strategies and outcomes
can build on and reinforce each other.

Section 2 discusses the roles that community residents and organizations can
play in community economic development projects, and the activities in which
CCIs typically become involved.

Section 3 analyzes the economic development and community development
approaches in more detail. It describes specific strategies associated with each
approach and their rationales. It then discusses each strategy’s expected out-
comes, the evidence about its effectiveness, and examples of successful imple-
mentation.

SECTION 1 | An Overview Theory of Change

This section presents an overview or composite theory of change that synthe-
sizes the multiple outcomes and pathways of change associated with each of
the strategies discussed later in this chapter. The theory of change laid out
here captures the community aspects of community economic development as
well as the economic aspects and identifies potential synergies among economic
development, housing revitalization, crime reduction, and social capital forma-
tion. Thus, it takes into account both the contributions that community build-
ing can make to economic development and the contributions that economic
development can make to community building, and treats community as both
subject and object of the action. In contrast, there has been a tendency to write
about economic development and neighborhood social conditions as distinct entities rather than as interrelated aspects of neighborhood life.¹⁴

The theory presented here draws heavily on work done by Avis Vidal and by Mark Bendick and Mary Lou Egan.¹⁵ Vidal’s 1992 study of the development activities of Community Development Corporations (CDCs) across the country proposes a sequential pathway of change in community economic development projects and identifies possible outcomes that include community-building outcomes as well as economic ones.¹⁶ Her 1995 article provides additional evidence about long-terms pathways of change and potential spillover effects in revitalization efforts that combine business development with infrastructure improvements and commercial real estate development.¹⁷ Paul Grogan and Tony Proscio’s book on urban neighborhood revival also notes the interconnections among commercial revitalization, housing reinvestment, and efforts to restore public order without elaborating specific pathways of change.¹⁸

Bendick and Egan have looked specifically at the interconnections between community development strategies and business development strategies, the ways progress in one area can stimulate progress in the other, and the potentially synergistic effects of pursuing both types of activities simultaneously.¹⁹ They show how community development can potentially create business opportunities by creating new markets and reducing operating costs; and how business development can potentially contribute to community development by expanding employment, improving consumer services, creating business markets, rehabilitating real estate, and fostering role models and community leaders.

Other studies—notably ones by Lisa Servon and by Ross Gittell and J. Phillip Thompson—highlight the interconnection between economic development and social capital formation by focusing on how community-based social networks can stimulate small business development and how business development efforts can stimulate the formation of social networks that enhance community development in other ways.²⁰

The overview theory of change shown in Figure 4.1 begins on the left with the particular projects a CCI might adopt in order to spur economic development in a community. As discussed in detail in section 3 of this chapter, they can include both targeted economic development strategies and community development strategies, namely:
• Efforts to promote asset accumulation and access to capital among community residents
• Projects to improve a neighborhood’s physical appearance or the safety of its commercial or residential areas
• Efforts to organize community groups around economic development projects or to connect local residents or organizations to outside networks or institutions important to the process
• Targeted economic development projects aimed at developing and expanding local businesses, promoting local entrepreneurship, bringing businesses into the community from the outside, or creating employment opportunities for local residents
• Workforce development and job brokering strategies to prepare local residents for jobs in or outside the community

**Early Outcomes**

The early outcomes that will result from the successful implementation of these projects can include a range of economic outcomes, such as:

• Increased asset accumulation
• Increased community access to sources of capital
• Improvements in the general business climate
• An increase in the number of healthy businesses (as measured by increased sales, increased number of new and repeat customers, and increased income)
• An increase in the number of healthy businesses owned by local residents
• Increased employment opportunities for residents
• Increased entree into the economic mainstream for some residents
• Improvements in the price, quality, or mix of goods and services that are available locally to community residents
• Growth in the size of the local entrepreneurial class
Figure 4.1: Overview Theory of Change for Community Economic Development

**Community Development Inputs**
- Housing improvements
- Infrastructure improvement
- Improved safety and security
- Improved transportation

**Community Development Outcomes**
- Improved quality of space
- More use of commercial district
- Improved organizational capacity and local leadership
- Improved reputation of community organizations among outsiders
- Improved civic pride

**Community-Building Inputs**
- Resident participation in economic development process
- Increased networking and partnership building
- Human resources development

**Economic Development Inputs**
- Commercial real estate development
- Business promotion efforts
- Small business incubators
- Microenterprise programs
- CCI-sponsored business ventures
- Employment linkage programs
- Incentive programs to attract businesses
- Incentive programs to retain businesses

**Economic Development Outcomes**
- Increased access to sources of capital
- Reduced costs of doing business
- Improved business climate
- Expanded market for local businesses
- Increased business activity
- Increased number of healthy businesses
- Expanded access to consumer goods and services
- Increased number of resident-owned businesses

**STRATEGY**

**EARLY AND INTERIM OUTCOMES**
Community Development Outcomes
- Increased employment opportunities for local residents
- Increased network of role models for residents
- Expansion of local entrepreneurial class

Economic Development Outcomes
- Increased demand for consumer and business products
- Increased business activity, etc.

Some community residents move away

Some local business will fail

Increased Investment in the Community
- Better use of resources
- Improved community well-being

LONGER-TERM OUTCOMES
- STRATEGY YEAR
- EARLY AND INTERIM OUTCOMES
- INTERIM OUTCOMES
Cumulatively, these economic outcomes will help plug leaks from the local economy and increase local tax revenues.

In addition, community development and business development strategies can produce positive outcomes on the physical infrastructure of the neighborhood, such as improvements in the:

- Quality of the physical space
- Reach or maintenance of local transit
- Safety of the commercial district or residential sections

Such outcomes benefit residents directly by improving the quality of space in which they live, work, shop, or do business, and indirectly by encouraging more people to come into the commercial area to spend or invest, and by sending a more positive signal to outsiders about the neighborhood. They also help business by creating new markets and reducing operating costs.

To the degree that community groups and community organizations are actually involved in planning, implementing, organizing, or overseeing local economic development activities, other community-building effects are likely to result. These include:

- Improved organizational capacity and enhanced leadership potential in local residents and organizations
- Expanded networks among local business owners
- Expanded connections between local individuals, businesses, and organizations and external groups important to economic development
- Enhancements in the reputation of community groups among outside organizations
- Increased numbers of residents who can serve as resources and mentors for neighborhood youth through their success in employment or entrepreneurship
Interim Outcomes

The interim outcomes will potentially be evident on both the economic development and the community development side, and reflect changes in attitude and behavior among community residents as well as outsiders.

The main interim economic outcomes relate to increases in consumer demand. As a result of the changes described above, residents’ pride in their neighborhood might increase, and more residents and nonresidents might come into the commercial area to work or shop. Their presence could stimulate demand, and business opportunities could further expand. If large enough, these economic effects could have a multiplier effect on the neighborhood economy, stimulating increased asset formation, increased expenditures, and additional business activity. More business activity could lead to additional hiring, which could further increase demand, and so on. The presence of more resident entrepreneurs and more residents who are employed could strengthen and add to community social capital by providing a core of residents who can serve as role models and sources of information about employment for other residents. Increased asset accumulation could in turn contribute to increased homeownership rates among neighborhood residents, which could have additional beneficial effects for the community, as discussed in the chapter by Melvin LaPrade and Patricia Auspos in this volume.

Enhanced organizational capacity, expanded connections, and improvements in the reputation of local groups and the community in general among outsiders are important intermediate outcomes on the community development side. They could contribute to more tangible economic outcomes in the longer term by making it more likely that (1) outside groups will view the neighborhood in a positive light, want to do business or projects in the community, or provide resources to the community; and (2) community groups will be able to put the additional resources to effective use. Expanded organizational capacity and leadership among local groups are important resources that can be utilized in other community projects.21

Long-Term Outcomes

All of the early and interim outcomes are cumulative and build on and reinforce each other. In the longer-term, they can potentially lead to more investment and reinvestment in the community, or what Zielenbach calls “the rein-
integration of the neighborhood into the market system.” Vidal suggests that the restoration of the private investment market can produce improvements in local services and greater political efficiency and Zielenbach argues on correlational evidence that improved economic conditions lead to improved social conditions.

Several additional points should be noted about the theory of change presented here.

First, although the discussion proposes a progression of outcomes stemming from specific types of activities, there are many possible starting points for the process, and many potential points of intersection among separate projects. Whatever the starting point, a particular activity or item might serve as an output in one sequence and an input in another. For example, expanded network ties—among local business owners and between local business owners and outside sources that can provide information, financial resources, or other supports—is an element of social capital that can both contribute to economic development and be created by it.

In addition, it is not clear whether the sequence of actions makes a difference. For example, Bendick and Egan suggest that successful business development can stimulate community development if local business owners use some increased profit to help improve and maintain their storefronts and make other improvements in the commercial district. Conversely, another common approach is to use community resources to improve the commercial district with the aim of stimulating business development. The intersection between the two approaches helps explain the potentially synergistic effects if both are pursued. Bendick and Egan argue that the processes are interconnected and produce interim outcomes that build on and reinforce each other to yield cumulative long-term effects that are greater than either type of activity could produce if pursued separately.

Second, this chapter lays out an array of strategies that are thought to be effective in stimulating economic development at the community level without attempting to judge which approach would be the most effective engine for revitalizing a particular community. There are two principal reasons for this. There is not much evidence to show that one strategy is more effective than another in producing benefits for the community overall. Noting that much of the important theoretical work on community economic development remains
to be done, several authors warn that few if any studies provide good evidence or clear guidance about what communities should do or the relative effectiveness of different approaches. As a result, Vidal cautions, scholars and practitioners must rely on examples from “best cases” to assess whether initiatives are likely to produce the anticipated effects. In addition, the choice of a strategy depends very much on an assessment of local circumstances, resources, assets, capacity, needs, and objectives. An approach that makes sense in one community may not be appropriate for others. It should also be recognized that the programs and strategies discussed here are difficult to implement and replicate.

This chapter does, however, present some information, based on the literature, about the likelihood that the desired outcomes will in fact result, and attempts to identify which outcomes are most likely to result from which types of activities. It is argued, for example, that certain kinds of businesses and business development strategies are more likely than others to generate jobs for local residents, improve resident access to consumer goods and services, or contribute to the development of local role models and community leaders. The specific pathways of change associated with different strategies and approaches are discussed in detail in section 3.

Third, some of the positive effects and benefits of community economic development are likely to be offset or reduced by other results, as indicated by the italicized outcomes in Figure 4.1. If some residents who benefit from the economic development activities—by opening or expanding successful businesses, getting jobs or developing leadership abilities—move out of the community as their personal economic situations improve, for example, there will be a corresponding loss of social capital in the community. This is another reason why efforts to link community development and economic development can produce synergistic effects on community well-being: improvements in other aspects or areas of the community—infrastructure improvements, particularly in housing, improvements in schools, and so forth—may influence the decision to stay in the community. Increased development can also have negative effects on other neighborhood conditions, such as pollution, congestion, noise, and so forth. Similarly, the overall community benefit will be less if competition from new businesses leads older businesses into bankruptcy or forces them to reduce staff, or if increases in speculative investments price the locals out of the real estate market. These examples suggest that the impact of
community economic development might not be experienced as beneficial by all groups in a community.

SECTION 2 | The Role of Community Residents and Groups in Community Economic Development

The previous sections have stressed how important community is to community economic development. This section analyzes in more detail the roles that residents, organizations, and CCI collaboratives can—and should—play in community economic development. As discussed in section 3 of this chapter, involving community residents and organizations in economic development has payoffs—in terms of strengthened institutional capacity and individual or organizational leadership—that go beyond the specific economic products that may result.

There are several stages at which community residents and organizations, including CCI collaboratives, can be involved and several functions they can fill in the economic development process, namely:

- Planning, designing, approving an overall plan of action or specific economic development projects
- Networking and building partnerships among local groups and between local groups and external organizations
- Lobbying and advocating to get the resources, supports, and approvals to carry out specific projects
- Implementing the planned projects
- Monitoring the implementation of specific projects, assessing the results, and modifying plans as necessary

Planning, Designing, Approving Plans

A particularly common form of community involvement is soliciting resident views about the problems that need to be addressed, what can be done about them, and what outcomes should be aimed for. Resident opinion can be elicited directly in public forums or meetings, or through surveys conducted door-to-
door or by mail. Or it can be registered or channeled through individuals or groups representing the community at public meetings or on the boards of local organizations. Residents and community organizations can also play a role in researching economic issues and conditions, or commissioning such work by local groups or outside organizations, such as universities, that have an interest in local initiatives.\textsuperscript{30}

Any strategic attempt to bring about community economic development in poor neighborhoods must begin by taking stock of local groups and institutions in order to involve them in the development, design, and implementation of economic development programs. Several types of community organizations and institutions can help orchestrate resident involvement, including CDCs,\textsuperscript{31} other community-based organizations involved in employment training or workforce development, civic groups, block associations, and faith-based institutions. Other groups that are instrumental in the community economic development process and should be included in the planning and development stages are local business groups and associations, local educational institutions, and political organizations. Developing consensus and an action plan among all these varied constituencies can pose great challenges.\textsuperscript{32}

However, not all communities have organized groups advocating for programs and services. In many neighborhoods, the community economic development process has to be preceded (or at least accompanied) by a community-building process to organize community residents and groups and build local action networks.

Blakely discusses a planning process designed to help communities formulate the strategies that should be pursued to maximize the internal use of local resources and minimize the negative impact of “external forces,” such as economic downturns and recessions, speculation, divestment, and capital flight on the community.\textsuperscript{33} The first step is to identify which sectors play a dominant role in the local economy in jobs, sales, taxes, and linkages to other local industries. The second is to identify important linkages between the local and the external economy. The third is to assess the local potential for economic growth, stability, and decline, and the factors that could initiate each trend. The final step is to identify the major contingencies that are important to the local population and political leadership and that might affect the community’s jobs, sales, incomes, revenues, labor market, and quality of life.
Building Partnerships

The need to develop broad coalitions and partnerships among a variety of local actors is a critical part of the community economic development process that requires network building and networks management.\textsuperscript{34} Coalition building is a social and developmental process and relations need time to be developed, nurtured, and positioned to lead to positive results.

Because external actors can influence the planning, development and execution of projects, it is important for community groups to develop good relationships with outside groups as well as local groups. The main actors that can affect the local economic development process from outside the community, and with which community groups need to develop ties, are city, state, and federal government, for-profit corporations, and banks and other financial institutions.\textsuperscript{35} Intermediary organizations can be helpful in developing these ties.\textsuperscript{36}

Lobbying and Advocating

In addition to registering public opinion and developing an action agenda, a community may also need to mobilize residents and organizations to win support from outside organizations, government agencies, or politicians; gain an equitable share of available resources; or have community residents included in decision making. Efforts to change zoning or tax policies and practices may be necessary, for example, and it may be advantageous at times for communities to join together in citywide coalitions to maximize their strength and address systemic biases in decision making and allocation processes. Typical targets of communal action are city hall, banks, federal grant programs, and big development projects. Public budgeting processes, hearings on public incentives, and the process of planning and winning approvals for large public/private economic development projects are useful vehicles for advocacy efforts. Communities should note, however, that several studies suggest that the process of planning and gaining approval for big development projects or projects that involve government subsidies have provided very limited opportunities for citizen participation.\textsuperscript{37}

Implementing Planned Projects

There are several types of community-based organizations that typically undertake economic development projects and have the necessary experience
and technical expertise to carry them out. Chief among them are community-development corporations, the oldest of which date back to the 1960s. CDCs are community-based in two senses: their work is typically focused on a particular neighborhood, and/or they are resident-driven or community-controlled through resident membership in the organization or its board. There is some controversy, however, about how well CDCs represent the community’s interests, and whether, over time, they tend to lose their grass roots connections.\textsuperscript{38}

Early CDCs had a comprehensive focus on community needs, while subsequent generations of CDCs tended to adopt a narrower approach, focusing on smaller development projects that centered on low-income housing development, commercial real estate development, and other physical infrastructure improvements. More recently, a number of CDCs have begun providing services to residents in CDC-built properties. The most successful have expertise in planning projects, assessing markets, putting together financing packages and deals, as well as physical construction work.\textsuperscript{39} CDCs have also played a key role in helping commercial banks develop business in low-income communities by serving as intermediaries between the banks and fledgling businesses or home buyers in the neighborhood. The CDCs help mainstream banks identify viable business opportunities, assess risk, and develop appropriate loan packages.\textsuperscript{40}

Community development financial institutions (CDFIs)—community development banks, bank-owned CDCs, community development credit unions, community development loan funds, and microenterprise loan funds—represent another type of community-based organization that can play a critical role in implementing projects. Established to fill perceived gaps in credit and financial services in poor neighborhoods, some CDFIs have also been involved in carrying out economic development projects, as discussed in more detail in section 3 of this chapter.

Community colleges can also play a key role serving as workforce development training centers and as sources of technical expertise in small business development programs.\textsuperscript{41} As discussed later in this chapter, Community Based Organizations (CBOs) can play an important role in recruiting, training, and referring community residents for job openings that result from First Source agreements in economic development projects.
The important community-building effects that can result from the involvement of such organizations in community economic development projects are a major theme in this chapter and its theory of change.

Monitoring Projects and Assessing Results

Community residents and community groups can play a key role in monitoring the progress of community or citywide economic development activities and ensuring that their results are well documented. This might entail ongoing oversight to ensure that community issues and interests are represented in planning, implementing, and evaluating economic development projects. The importance of engaging community residents and groups in the process of evaluating community change efforts is emphasized in Brown, for example. Another activity is monitoring to ensure that projects are meeting their goals, proceeding on schedule, and complying with agreements on job creation, hiring standards, and so forth. Community groups can bring pressure on city officials to ensure that this happens. Monitoring the allocation of resources to ensure that the neighborhood receives an equitable share is another potential function for community groups.

CCI Roles

Although CCIs have typically not directly undertaken economic development projects, they have engaged in all of the other activities discussed above. A particularly important role for CCIs and other community revitalization efforts, Robert Giloth suggests, is to facilitate the integration of economic development with employment training and human services provision. Even if they do not undertake a specific economic development project, CCIs contribute to economic development by building or maintaining the social and physical infrastructure of low-income communities.

SECTION 3 | Community Economic Development Strategies and Outcomes

Experts on community economic development have categorized a range of approaches and strategies. This chapter organizes its discussion around strategies that recur in most analyses: strategies to increase asset accumulation and
access to capital within the community; strategies for improving the general business climate; strategies for directly assisting business development, attraction or retention; and strategies to link other economic development efforts to community employment efforts.

**Strategies to Increase Access to Capital and Stimulate Asset Building**

As a substantial literature documents, residents and businesses in poor neighborhoods, especially those with high concentrations of minority residents, have historically had great difficulty accessing capital because they have not been viewed as good credit risks by traditional lending sources. In the past, redlining limited the number of banks in poor urban areas, depriving residents of such traditional banking services as savings and checking accounts. Even where banks do offer services, low-income residents continue to face structural barriers, such as minimum deposit requirements, high service fees, and complex paperwork and procedures. As a result, residents use alternative—and more costly—financial services offered by pawnshops, loan sharks, predatory lenders, and check cashing businesses. Some improvements have been made in recent years as a result of the passage of the Community Reinvestment Act (CRA) of 1977, which requires commercial banks to extend credit in all parts of the markets they serve, including low- and moderate-income neighborhoods. Nevertheless, poor communities, especially those with high concentrations of minorities, still lack access to mainstream economic services, and current trends in the banking industry continue to deter banks from making small loans to low-income customers and businesses.

The lack of access to traditional banking has impeded asset accumulation in poor, inner-city communities, with potentially negative effects on the communities as well as on individual residents. A recent paper by Deborah Page-Adams and Michael Sherraden summarizes the research evidence about the effects of asset accumulation on personal well-being, economic security, civic behavior and community involvement, women’s status, and the well-being of children. A number of the studies they reviewed found positive relationships on many of these outcomes, but it should be stressed that the studies were of varying rigor and many studied the effects of specific types of asset ownership—notably, homeownership and business ownership. The ways in which
homeownership contributes to community well-being are discussed in the chapter by LaPrade and Auspos in this volume. The evidence that business development can benefit the community as a whole is discussed later in this chapter.

Creating alternative banking institutions to serve inner-city neighborhoods. Monitoring compliance with the CRA and exerting pressure on or providing inducements for commercial banks to do more business in low-income and minority neighborhoods is one strategy that neighborhood groups can engage in to increase their community’s access to capital. This might be done in alliance with groups in other neighborhoods or with nationally based advocacy groups.

Another approach is to develop alternative neighborhood financing and banking institutions that can meet the needs of low-income residents and their communities. Several types of institutions and programs have been pioneered in recent years to do this, including community development credit unions, community development banks, community development venture capital funds, and Individual Development Accounts. The challenges, accomplishments, and limitations of operating these institutions and programs are discussed here. It should be stressed at the outset that their successful operation requires considerable technical expertise and good management skills.

CDFIs. Community development finance institutions provide loans, technical assistance, venture capital investments, and basic financial services to individuals or locations that commercial institutions are unlikely to serve because the services are considered too risky or too expensive. CDFIs include community development banks, bank-owned community development corporations, community development credit unions, and community development loan funds. Their activity has been enhanced by the Community Development Financial Institutions Act of 1994, which provides equity investments, loans, and grants.

Community development credit unions. Credit unions are not-for-profit financial cooperatives owned and controlled by their membership. The members typically have some connection with each other, e.g., employment, residence, or church membership. Community credit unions provide low-cost financial services. They charge lower rates for fees and services, and pay higher interest rates on savings. They also help members move into the economic mainstream by
providing financial education and counseling; enabling them to develop good credit histories; and brokering outside resources through partnerships with community colleges, local and state government, mainstream credit unions, banks, and other CBOs.  

Several recent reports suggest that community credit unions can also play an important role in community development by creating network bonds that help “catalyze community interest, commitment and activity” and by providing opportunities for leadership development and community empowerment. Because the membership controls the credit union, which in turn, controls some of the community’s economic resources, they are likely to use their financial reserves to make loans to locally based small businesses, cooperatives, or nonprofits or to low-income housing enterprises, for example. To date, however, these community development efforts have not been well documented and some questions have been raised about the growth and overall financial stability of some community credit unions.

The most recent review of CDCUs concludes that “properly deployed, the CDCU model addresses the needs of low-income constituents and communities in an effective and efficient manner” but also cautions that an estimated 50 percent of CDCUs that started in the 1990s failed. The chief reasons for failure, according to this report, were: unqualified management and boards; inadequate capital, liquidity, bookkeeping and staffing; insufficient range of services; insufficient collaboration with community partners; and inadequate use of existing programs and financial institutions that could support their efforts.

The author concludes that the need for CDCUs continues to grow but the industry faces strong barriers to growth, including a lack of qualified managers. The report recommends the following strategies to strengthen and expand the industry:

- Working more effectively with existing resources in the community
- Developing replicable portfolio and liquidity strategies
- Developing and promoting entrepreneurial training

*Community Development Banks. Community development banks are another financial enterprise that can provide loans and other financial services to low-
income neighborhoods. Their primary mission is to take a proactive role in promoting the comprehensive development of a community, and not just to provide credit and financial services. As of 2002, there were only six such banks in the United States.

The oldest and best known is Shorebank Corporation, which began operating in 1973 when it purchased the failed South Shore Bank in a troubled inner-city neighborhood in Chicago. The intent of the founders of Shorebank Corporation was to show that a regulated bank holding company, working with complementary development organizations, could become a vehicle for stabilizing and revitalizing a neighborhood characterized by years of disinvestment, redlining, and economic and physical decline.

South Shore Bank quickly became profitable. It continues to function as a full-service commercial bank, making both commercial and residential loans, and has helped to develop a large group of small-scale rehabbers who rehab, hold, and manage properties in the neighborhood. Shorebank Corporation has also spawned a number of subsidiary companies and affiliates, including a real estate development company, a minority venture capital fund, and a not-for-profit organization that focuses on human development programs. The corporation began replicating its development banking approach in other communities in 1986, and currently operates in Chicago, Cleveland, Michigan, and the Pacific Northwest. It has also helped establish locally managed loan programs in Bangladesh and Northern Ireland.

Shorebank Corporation reports that since 1973 it has invested more than $1 billion in its target communities and in minority-owned businesses and continues to operate at a profit. In 1994 alone, its development subsidiaries in Chicago rehabilitated or constructed more than 200 housing units and placed 275 individuals in jobs.

Despite such success, the number of community development banks is likely to remain small, a recent case study suggests, because considerable operational challenges are entailed in their development.

Vidal has concluded that although there is limited information about their financial performance and cost-effectiveness, CDFIs are “potentially attractive community development instruments” because they successfully target their services to people and places with restricted access to credit and other financial services and have pioneered effective business practices that can serve as models
for commercial banks. For example, according to Vidal, “leading-edge CDFIs are demonstrating that it is possible to do business profitably in low-income neighborhoods and neighborhoods of color.” In addition, they have developed products and processes that can be used by conventional institutions that are struggling to meet their CRA obligations. CDFIs also serve an important function by handling financial transactions that appear to be too small to be attractive to commercial banks and thrifts.

Vidal cautions, nevertheless, that CDFIs operate on too small a scale and offer too limited a range of services to fill, by themselves, the gap left by mainstream institutions. Their inability to provide checking accounts remains a particular problem, for example. Nor are they equally effective at providing access to all types of financial capital. Vidal notes, for example, that many of these institutions are more likely to make money available for housing development or homeownership than for business start-ups or expansion. She concludes, therefore, that

even if [CDFIs] were to expand substantially . . . they are not the answer to the problem of providing equal access to credit and financial services in poor inner-city communities that have seen massive disinvestments. Continuing pressure on conventional financial institutions to address this issue is clearly required.

Kirsten Moy and Alan Okagaki offer a more pessimistic assessment of the future role of CDFIs in community economic development. They argue that while the size and number of CDFIs has grown tremendously in recent decades—there are now 365 certified CDFIs, with an estimated $4.6 billion in total assets—they are less and less competitive with mainstream banking institutions as sources of financing for low-income communities. Changing conditions and practices in the banking industry (e.g., developments in telecommunications and information technology, mergers and consolidations, increased functional specialization, growth of secondary markets) have left CDFIs at an increased disadvantage in terms of their size, sophistication, and range of financing tools. Moy and Okagaki conclude that considerable effort must be spent on developing the infrastructure of the industry if CDFIs are to continue to be an effective conduit for the flow of capital into low-income communities.
Community Development Venture Capital Funds. Community development venture capital (CDVC) funds make equity investments in businesses, essentially buying a partial ownership share, in order to help create jobs for low-income individuals and strengthen the economy in distressed regions. These venture capital funds target businesses that are likely to be overlooked by traditional venture capital investors because of their size, geographic location, or industry focus. A recent overview report on the field identified more than fifty CDVCs providers across the country that are actively investing or in formation. Banks and financial institutions provide most of the CDVC dollars, followed by philanthropic foundations and the federal government. In addition to focusing on companies that have job creation potential, some venture capital funds apply additional social screens, requiring, for example, that their portfolio companies hire specific populations of workers and provide health insurance and other benefits. Many give preference to companies that are owned by women or ethnic minorities. Most CDVC funds provide intensive technical assistance to the companies in which they invest, in order to increase the companies’ level of knowledge and market readiness. According to the overview report, the relative youth of the industry (most CDVCs were less than five years old in 2001) makes it difficult to draw conclusions about overall financial performance. Nevertheless, two of the oldest funds have created more than 4,000 jobs at an average cost that is considerably less than that of the jobs created through Small Business Investment Companies, the report notes. Most CDVC-created jobs are manufacturing jobs in rural areas.

Stimulating individual savings. The creation of Individual Development Accounts (IDAs) is an emerging antipoverty strategy that promotes asset accumulation among low-income households by providing opportunities and incentives for opening personal savings accounts. IDAs provide matching funds to individuals who make deposits in savings accounts that are to be used for financing postsecondary education or job training, buying a first home, or starting a small business. Participants typically receive financial education and counseling about how to save and how to use their investments wisely. Community organizations began operating IDAs in the early 1990s, and they are now supported by state and federal legislation. As of the end of 2000, there were more than 250 IDA programs in communities across the country.
A key research question is whether participation in IDA programs increases the likelihood of residents not only saving money, but also becoming successful homeowners or microenterprise entrepreneurs, and whether reducing some of the institutional barriers that appear to inhibit saving can increase asset accumulation among the poor. As described in Michael Sherraden, Deborah Page-Adams, and Lisa Johnson, an ongoing nationwide demonstration is documenting the experience of 2,000 participants in IDAs at thirteen sites across the country and addressing some of these research issues.\(^{61}\) In the meantime, preliminary information from an assessment of an early-starting IDAs suggests that IDAs have the potential to facilitate saving and asset accumulation in low-income households, but the provision of support services is critical, and some participants will require fairly intensive case management. In addition, participants who are saving for homeownership and business development capital may need additional assistance in deciding the best use of their savings.\(^{62}\)

**Targeted lending for specific economic development purposes.** A third strategy is the development of targeted lending programs that offer special funding arrangements, counseling, and other supports for low-income individuals who want to buy a home, start a business, or become self-employed. While these programs, like IDAs, typically focus on individuals and measure success in terms of individual-level outcomes, they clearly have the potential to be a component in a community-building or community development strategy. For more on targeted lending programs that help low-income individuals finance mortgages and the connections between housing, homeownership, and neighborhood revitalization, see the chapter by LaPrade and Auspos in this volume. Microenterprise programs that provide entrepreneurial training and financing are discussed later in this chapter in the section on business stimulation strategies.

**Strategies to Improve the General Business Climate**
The community economic development literature discusses a number of strategies for improving the general business climate or environment within a community. They include efforts to

- improve the physical infrastructure, appearance, and safety of commercial areas in the neighborhood (commercial revitalization strategies);
• improve the quality or quantity of residential housing and the safety of residential neighborhoods;
• improve the transportation system that serves the community;
• organize groups of businesses or merchants to work together for common ends; and
• market and promote the local neighborhood as an area for shopping, dining, visiting, etc.

Some of these strategies are considered economic development efforts because they aim to increase the demand for goods and services in the neighborhood and encourage businesses and other institutions to locate or invest in the community. Others are more commonly thought of as community development strategies, but since they also can improve the local business environment, they contribute indirectly to economic development. What both types of strategies have in common is that they all can help create conditions that, in the long run, will encourage businesses to open, enable them to remain economically viable, and stimulate additional investment in the community. The rationale and outcomes or pathways of change associated with the major strategies are discussed here and shown graphically in Figure 4.2.

**Improvements in the physical infrastructure of the community.** Strategies to improve the physical infrastructure of a community can be considered economic development strategies to the extent that they help promote business development and business investment as well as improve the appearance of the neighborhood.

*Improving the physical quality and appearance of commercial areas* can be done by developing commercial real estate to make the building stock more usable and attractive; upgrading building facades and improving window dressing; and improving the appearance of the streets by increasing trash collection, removing graffiti or turning it into a tourist attraction (as has been done in Harlem). Better lighting and streetscaping also help. The direct effects of such efforts are improvements in the quality of neighborhood space or reduction in the area’s physical blight. Such improvements are desirable by themselves, and also set
**Figure 4.2: Pathway of Change for Improving the General Business Climate**

- **Residents mobilize and prepare a plan**
  - Physical revitalization of commercial area
  - Transportation system improvements
  - Improvements in residential property
  - Local business and merchants mobilize for joint action

- **Early and interim outcomes**
  - Improved quality of space
  - More residents and nonresidents use the commercial area
  - Increased safety
  - Increased demand for local business
  - Increased community pride
  - Increased organizational capacity and leadership
  - Enhanced reputation of community groups and neighborhood

- **Long-term outcomes**
  - More businesses open, expand, and remain healthy
  - Increased investment in the neighborhood
the stage for other positive outcomes in the longer term. For example, the improvements can help raise the overall level of business activity in the neighborhood by providing additional space for businesses, merchants, and restaurants, and encouraging more residents and nonresidents to shop in neighborhood stores and patronize neighborhood businesses. As a result, other businesses may become interested in locating in the area, and an overall higher level of economic activity might be maintained.

Vidal lays out what translates into a theory of change about the way that economic development projects can cumulatively have important community-level effects apart from increasing the level of business activity. She suggests that commercial real estate development and other improvements in blighted commercial areas can not only improve the quality of overall space in the community (an early outcome), but also strengthen the capacity of local organizations to do such work and their reputation and relationships with outside groups. Seeing what is accomplished by local groups and experiencing positive relationships when working with them can produce more favorable attitudes about the neighborhood and its organizations among outside groups, for example. These changes in attitude, capacity, and behavior serve as both interim outcomes and indicators of future success. They can result, in the longer term, in an increased willingness on the part of outside groups to fund projects and invest money and other resources in the local community. In the long run, the community benefits from having access to additional resources and experienced organizations with the capacity to use them efficiently.

The physical renovation of a commercial area can also spark other types of investment in the community in the long term. As Bendick and Egan explain,

The appearance of commercial strips along major thoroughfares often is a primary influence on the opinions of decision-makers from outside the community, such as politicians and bankers, about the conditions of the neighborhood. Thus, visible improvements in commercial areas increase the willingness of bankers to grant mortgages to rehabilitated housing on adjacent streets.

Improving the local transportation system by repaving or repairing streets, improving parking facilities, changing public transportation routes or schedules,
or improving waiting conditions by providing benches or shelters, better lighting, etc., can help make travel in and out of the commercial area more attractive, safer, and easier for both residents and nonresidents. This can increase the number of people who come into the area to shop or work, thus expanding consumer markets, increasing the level of aggregate business activity, and making it easier for local businesses to find employees. It has also been argued that increased foot traffic in a commercial area can by itself contribute to less crime and a sense of progress, which increases community pride and encourages investment.  

**Improving the residential housing stock** by new construction or rehabilitation and increasing the proportion of residents who become homeowners can help stabilize the residential population. This can in turn help to maintain or increase consumer demand for goods and services and send a positive signal to potential investors. The strategy can be especially important if it helps retain middle-class residents who might otherwise move out of the community. Housing rehabilitation and construction can also provide employment opportunities for local residents.

**Improving the safety of the commercial area** can be a byproduct of other activities or an action strategy by itself. As discussed in the chapter on community safety by Amie Schuck and Dennis Rosenbaum in this volume, communities or businesses can work to deter crime by improving street lighting, hiring security guards or lobbying for more police presence, rehabilitating abandoned buildings, and developing empty lots. If residents and outsiders feel safer, they are more likely to come into a commercial area to shop. As noted, increasing the foot traffic in a commercial area might by itself help reduce crime.

**Evidence on effectiveness.** Vidal’s study of 130 CDCs in twenty-nine states provides some evidence about the community-level effects of commercial redevelopment. Researchers found that the vast majority of CDCs engaged in commercial redevelopment had made “a substantial improvement in the quality of [office, retail, or industrial] space” and felt that the CDCs would be able to sustain the improvements. However, the amount of property affected was “very modest.” The indirect or spillover effects of these efforts on improving
the neighborhood’s general appearance; increasing interest and activity among bankers, private developers and local government; and increasing residents’ sense of community pride were judged to be much smaller and harder to maintain, according to Vidal.\textsuperscript{72} Nevertheless, she did find that some CDCs had been successful in stimulating other improvements in the quality of community space, increasing the level of interest among bankers and developers, and enhancing local leadership. The vast majority of CDCs engaged in commercial development were judged to have strengthened their visibility and reputation among outside groups. Not surprisingly, Vidal’s study found that “the level of impact on a neighborhood is strongly and positively related to the scale of CDC production.”\textsuperscript{73} Thus, relatively small-scale development efforts produced relatively small-scale neighborhood effects.

The CDCs in Vidal’s study also experienced project failures, typically because of poor or inadequate planning, inadequate organizational capacity, or a weak economic market. Common problems at the planning stage include underestimating construction costs, overestimating the market for a space, underestimating property maintenance costs, and overestimating community support. Inadequate organizational capacity was manifested as weak management, lack of technical skills, and inexperienced staff. To counter such problems, Vidal recommends providing up-front money for planning, providing better or more timely technical assistance, expanding training opportunities and developing mentor relationships for staff, and supporting more community outreach activities.\textsuperscript{74}

**Collective efforts by business owners to improve business conditions and markets.** Organizing local merchants or business owners to work together is another strategy that can produce improvements in the local business environment. A group of store or restaurant owners can together pursue improvement activities or maintenance that would be too costly or difficult for each to do alone. If public supports are lacking, for example, a group of local merchants might share the cost of hiring a security guard or a street cleaning crew, or arrange common opening and closing hours. They could also undertake joint advertising or promotional campaigns to increase consumer demand. Bendick and Egan report on a successful joint effort to promote the restaurants in a Korean section of Los Angeles among a non-Korean clientele, and another suc-
cessful effort to turn a section of Pittsburgh into an area where nonresidents come to dine. Community festivals can be another way to strengthen community ties, promote local businesses, and entice nonresidents to a community. Bendick and Egan note that while there are some successful initiatives, others have had only “minimal” effect. Success is much harder to achieve in areas that lack an ethnic flavor that is appealing to outsiders or have a reputation of being unsafe, they caution.\(^75\)

**Linking business development with community development.** Bendick and Egan explicitly propose that there are synergistic effects from pursuing business development and community development in tandem; the interconnections outlined above help to explain why that should be so.\(^76\)

Other evidence supports the notion that the community-level effects are greater when several revitalization efforts are undertaken simultaneously. In the South Bronx, for example, the combination of significant housing development coupled with efforts to rehabilitate dilapidated storefronts and provide support to local merchants is credited with reviving neighborhood commercial districts and stimulating significant private investment after years of neglect.\(^77\)

**Strategies for Business Stimulation, Attraction, or Retention**

In addition to pursuing strategies to improve the general business climate in the community, CCIs can focus on aiding the creation or expansion of small businesses in the neighborhood; attracting established businesses into the area; or retaining existing businesses that could expand their markets and improve production and reduce costs by relocating. Frequently, these business development efforts are undertaken in tandem with physical revitalization efforts, especially with commercial real estate development.

The theory of change discussed here and shown in Figure 4.3 is derived from a number of studies and what they suggest about the outcomes that might result from the various strategies discussed in this section.

In the short term, business stimulation strategies might result in several **direct economic benefits** for local residents. Specifically, they could help to:

- Increase the overall level of business activity or the number of healthy businesses
Increase employment opportunities for local residents

Increase the number of resident entrepreneurs

Expand, diversify or improve the supply of goods and services available to residents

Stem leakages from the local neighborhood economy

Each of these outcomes could also be a step along a pathway of longer-term economic change. For example, achieving an overall increase in the level of local business activity or the number of healthy companies, and/or improving the local shopping options might encourage more residents to shop locally. This increased demand could, in turn, help promote additional investment, which could lead to more jobs and more business development, a phenomenon known as economic multiplier effects.

Business stimulation strategies can also produce important community-building outcomes by

- developing human resources that have been under utilized;
- increasing the supply and capacity of local leadership;
- developing local role models who can provide mentorship, guidance, and resources for young residents; and
- building networks and social connections among residents, local organizations, and outside groups.

In the longer term, these community-building effects can help improve the capacity of the community to solve its own problems and enhance its reputation with external groups, as well as reinforcing and contributing to economic growth. The added community capacity can be used to bring additional resources into the community and to make better use of what is available.

The evidence suggests that, in practice, different business development strategies may not be equally successful in producing the anticipated outcomes in all areas. As will be discussed, a business development strategy that promotes local entrepreneurship may not be as effective in meeting residents’ needs as consumers as one that brings in a major supermarket, for example. Conversely,
Figure 4.3: Pathway of Change for Small Business Assistance and Entrepreneurship Stimulation

<table>
<thead>
<tr>
<th>STRATEGY</th>
<th>EARLY AND INTERIM OUTCOMES</th>
<th>LONG-TERM OUTCOMES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased access to capital</td>
<td>Increased availability of goods and services for residents</td>
<td>Expanded social capital</td>
</tr>
<tr>
<td>Technical assistance</td>
<td>Residents gain economic literacy, access to financial institutions, enhanced business and employment connections, local role models</td>
<td>Increased level of business activity</td>
</tr>
<tr>
<td>Management assistance</td>
<td>Increased employment opportunities for local residents</td>
<td>Increased level of investment activity</td>
</tr>
<tr>
<td>Assistance with physical location</td>
<td>Increased network formation</td>
<td>Increased local capacity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Increased commitment to and involvement in community affairs among local entrepreneurs</td>
</tr>
</tbody>
</table>
importing businesses from the outside may not have the kind of community-building outcomes or employment effects that local business development produces. Decisions about the best strategy to pursue should depend upon local resources and conditions.

**BUSINESS DEVELOPMENT STRATEGIES: PROMOTING SMALL BUSINESS OWNERSHIP AMONG COMMUNITY RESIDENTS**

This approach focuses on stimulating local entrepreneurship and creating or expanding locally owned small businesses. It includes efforts to create vehicles for asset formation and access to capital and financial services among inner-city residents as well as strategies to encourage the start-up of new local firms, promote entrepreneurship among local residents, and increase the efficiency of existing firms.⁷⁸

A major reason for stimulating local entrepreneurship rather than attracting outside development is to ensure that the benefits of economic development accrue to the community and its residents rather than to external developers.⁷⁹ Locally owned businesses are thought to have several advantages over outside businesses as a source of economic activity and community development within poor, inner-city neighborhoods.⁸⁰ Evidence shows, for example, that small businesses owned by African Americans are significantly more likely than ones owned by whites to hire African-American workers.⁸¹

Increasing the number of resident-owned businesses can also have important community-building effects if successful business owners serve as community leaders and role models. Noting the influence and prestige that entrepreneurs have in American society, Bendick and Egan argue, “If minority ethnic groups or economically distressed neighborhoods do not enjoy a proportionate share of business owners, they are deprived of a political, social, and psychological resource.”⁸² They also emphasize the important role that hardworking, successful, local business owners and their employees can play as role models and resources for neighborhood residents, especially for minority youth. Finally, developing networks of resident business owners can increase the supply of social capital in the neighborhood by potentially developing feelings of trust and reciprocity among residents and strengthening the institutional infrastructure in the neighborhood.

Nevertheless, CCIs and other community-based organizations face considerable challenges in developing locally owned businesses that will be eco-
nomically viable. Small businesses have historically high failure rates because they typically lack access to capital and experience management difficulties; those that are located in inner-city poverty areas face additional problems because of the weak economic markets and generally poor business conditions in their neighborhoods. As a result, scholarly opinion remains quite divided about whether small business development can be a major tool for inner-city economic development and job creation.\(^{83}\)

The literature on community economic development suggests that small business assistance programs must address two primary problems that plague their target businesses: the need for capital for start-up and expansion purposes, and the need for ongoing management support and other technical assistance. A number of recent studies also point out the importance of developing networks that can connect local entrepreneurs to each other and to outsiders in order to increase their access to markets, information, and other resources, and reduce business costs.

**Access to capital.** Small businesses owned by members of minority groups, especially African Americans, have historically experienced greater difficulty than white-owned businesses in getting conventional financing. Bates found that black-owned businesses received smaller loans than white-owned firms with similar characteristics and suggests that unequal treatment by lenders is a major obstacle to raising capital in black-owned businesses.\(^ {84}\) He argues that limited financial capital stunts the potential growth of black-owned firms and depresses firm size which in turn reduces survival probabilities.\(^ {85}\) There is also some evidence that smaller firms have a more difficult time taking advantage of government contracts because programs are structured for larger firms. This too has limited the growth potential of inner-city, minority-owned businesses.\(^ {86}\)

**Technical assistance and other supports.** Poor management and related issues also contribute to small business failures. Programs that tried to stimulate small business formation in poor inner-city areas in the 1960s provided sizeable amounts of money as loans to small business owners, but failure rates were quite high because there was little or no training in how to operate and maintain a business. Current wisdom therefore stresses the importance of providing *ongoing* training or technical assistance and other supports as well as start-up assistance.\(^ {87}\)
Network connections. Recent studies document the importance of both internal and external network connections among small businesses. Several studies of networks among inner-city entrepreneurs (often members of the same ethnic group) show that members’ feelings of trust and reciprocity promote business activity in a variety of ways. They can reduce the cost of doing business because the network members are more likely to transact business through informal arrangements based on trust and thus avoid contract and legal fees. The networks also promote information sharing and joint problem solving, facilitate hiring and recruitment, and function as rotating credit unions, thus becoming a source of cash. However, because the insularity of closed systems can also limit growth and expansion, scholars stress that inner-city businesses also need to be part of networks that can connect them to outside sources of information and resources. All this suggests that efforts to strengthen existing social networks and develop new ones among entrepreneurs and would-be entrepreneurs might be an important component in a business development strategy in the inner-city.

Two promising models to promote and support small business ownership among residents of chronically poor communities are microenterprise programs and small business incubators. These approaches are designed to help the types of individuals who are likely to live in chronically poor, inner-city neighborhoods; they address problems associated with the economic conditions that prevail in such communities; and they foster community building by developing networks among program participants and linking them to institutional resources both in and outside the neighborhood. Worker cooperatives are another option.

Microenterprise programs. Microenterprise programs are revolving loan funds that promote self-employment and entrepreneurship by providing small loans to individuals—most frequently, women and minorities—who have historically been outside the economic mainstream and do not have access to traditional sources of capital. Most microenterprise programs also provide management training and/or technical assistance, although the form and amount of training and assistance varies across the different program models. A 1994 survey documented more than 200 microenterprise programs in forty-four states, which had cumulatively over the previous ten years served more than
200,000 individuals, loaned more than $44 million and assisted 54,000 businesses in disadvantaged communities in both urban and rural areas.\textsuperscript{91}

Although designed to serve the poorest of potential entrepreneurs, microenterprise programs in this country have not been successful in serving the “truly disadvantaged” or enabling most participants to become self-sufficient, according to a study by Lisa Servon.\textsuperscript{92} Rather, the participants typically represent a more advantaged subset of disadvantaged women—ones who tend to be highly motivated, relatively well-educated, and relatively better-off financially—and most supplement their business income with income from other sources. This finding is consistent with the results of an early evaluation of the Self-Employment Investment Demonstration (SEID), which operated in five states between 1988 and 1993 to test the potential of helping AFDC recipients work their way off welfare through self-employment.\textsuperscript{93} It is also consistent with Bates’ finding that “successful loan programs assisting small minority (and non-minority) businesses have targeted higher income, better educated owners who posses appropriate skills and experience for operating viable small businesses.”\textsuperscript{94}

Even if microenterprise programs do not move poor women out of poverty, they can produce important outcomes. Servon notes, for example, that microenterprise programs help participants develop economic literacy skills, self-esteem and a sense of accomplishment, and also contribute to community building by developing networks, relationships, and feelings of trust and reciprocity at both the individual and institutional levels. Their community development potential is an often-overlooked benefit that distinguishes microenterprise programs “from mainstream financial institutions and from many other social welfare programs,” Servon argues.\textsuperscript{95} She explains that the peer group supports and cooperative decision making that were part of the microenterprise programs she studied provided important opportunities for the entrepreneurs to discuss their problems, build confidence, develop trust, and break out of the isolation that characterizes many self-employed individuals. In addition, they helped participants develop professional contacts with other entrepreneurs, business consultants, and financial institutions, enabling them “to access previously inaccessible resources, ranging from credit to mentoring.”

Servon’s research suggests that the experience of being part of such networks also helped develop an interest in “giving back to the community” and led to increased involvement and participation in community affairs on the
part of participants. Nearly 20 percent of the women interviewed for her study said that being part of the microenterprise program had had “a lot” of impact on their civic participation or participation in social activities, and another 25 percent said it had had “some” impact.

Servon also found that the interorganizational connections that microenterprise programs developed—through partnerships or networking arrangements with other service organizations, training or business groups, and banks or other financial institutions—strengthened the institutional capacity of the host organization and the “institutional infrastructure” of the community. While concluding that microenterprise programs have the potential to play a role in community development, Servon cautions that “the scale of the activity is far from that which would be necessary to transform a community.”

**Small business incubators.** Small business incubation programs focus on addressing the ongoing need for technical assistance, management assistance, and other supports in new businesses. They are small business assistance programs that provide entrepreneurs and small firms with advice, counsel, support services, and connections to external resources and networks. Incubators are usually housed in buildings (sometimes renovated as part of a commercial revitalization effort) where companies can co-locate and share rent, space, secretarial assistance, and business services and equipment. Incubator staff provides the incubator firms with advice, mentoring, management expertise, research support and guidance in developing strategic plans, and assistance in making connections with outside groups. The expected outcomes are that business incubators will increase the rate of new business formation; decrease the failure rate of new enterprises; increase the rate of development in new enterprises (i.e., help them grow more quickly and more efficiently); and increase the efficiency of the dissolution process if a business fails. Nationwide, the number of small business incubators has grown from twelve in 1980 to more than 900 in 2001.

Using mainly self-reported data from small business incubators, a nationwide study found that business incubation programs use low subsidies to create new jobs and offer a good return on investment. Overall, incubator companies created jobs and experienced healthy growth, and those that “graduated” from the incubator after two to three years reported high survival rates. Analysis of the macroeconomic effects of business incubators in
four communities found “spillover” effects on the local economy, in terms of indirect job creation and local tax production. In addition, community stakeholders felt that the incubators that focused on empowerment of women and minorities and neighborhood revitalization had done a good job in assisting minorities and female entrepreneurs and enhancing the local business climate. The authors of the report encourage investment in small business incubators as an economic development tool but caution that sponsors should target business incubators that attempt to follow “best practices” and that develop companies that fit with the resources of the local community. The report also highlights the importance of developing standard impact measures and data collection tools that can be easily used at the local level. Several other studies discuss lessons and best practices about setting up and operating business incubators, based on the experience of business incubator practices and programs across the United States.\textsuperscript{100}

\textbf{Cooperative associations.} The formation of cooperative associations is another method to stimulate local entrepreneurial activity and develop a sense of ownership among neighborhood residents. There are two basic types of cooperatives: consumer cooperatives, such as food cooperatives, credit unions, and co-op bookstores, in which the consumers own stock in the cooperative and pool their resources to obtain competitive prices; and producer or marketing cooperatives, in which the workers pool their resources to own, manage, and operate the business.\textsuperscript{101}

Nancy Conover, Frieda Molina, and Karin Morris’ review of more than fifteen cooperatives found that the associations created a median of forty-four jobs per program, and wages were slightly higher than average for the various occupations or industries. Only three of the programs were able to return profits to their members and very few were able to provide fringe benefits.\textsuperscript{102} The cooperatives did, however, provide other services (such as literacy and English language training) to their members. The workers were generally satisfied with working in a cooperative and felt that they were able to develop and exercise their leadership skills.

\textbf{Community roles.} Wim Wiewel, Michael Teitz, and Robert Giloth cite evidence that community-based organizations can successfully operate small
business assistance programs, but Bendick and Egan suggest that specialized organizations that have technical knowledge of business operations may be a more appropriate vehicle to operate such programs and provide the supports and assistance that new companies need. Even if they do not directly operate such programs, CBOs and CCIs can be helpful in identifying and supporting organizations that have the technical expertise to develop such programs; identifying and assessing residents who are interested in becoming entrepreneurs or expanding an existing business; and connecting would-be entrepreneurs to business development programs in other locations.

**BUSINESS DEVELOPMENT STRATEGIES: PROMOTING COMMUNITY-ORIENTED BUSINESSES**

A growing body of work focuses on the potential benefits to be derived from the development of businesses that can not only become viable economic enterprises but also provide products and services that are useful to the community and that build other community assets. These business ventures include childcare services; home health care for the elderly or disabled; food services; transportation services; services related to housing construction, rehabilitation, repair, or management; and businesses that contribute to environmental improvements, such as lead reduction and asbestos removal.

The development of such businesses embodies the principle of “double social utility” because they address two or more problems and have the potential to yield several types of benefits to the neighborhood and its residents. Because they represent a key point of intersection among service programs, employment programs, economic development, and even housing efforts, they are an area to which one might look for synergistic effects. The potential outcomes include:

- **Benefits to residents who receive services**

  CBO- or resident-operated businesses may have greater capacity to deliver services in ways that are more sensitive to and respectful of ethnic or cultural differences and otherwise better-tailored than traditional social service agencies to meet the needs of residents in very distressed communities.
publication notes that these types of business ventures have the potential to provide “more humane and cost-effective services while focusing on making the dependent self-reliant.” Another recent study concludes that community-based service enterprises offer possibilities for introducing systemic change in the way services are funded, conducted, accessed, and evaluated.

- **Benefits to residents, who can be hired as employees or become self-employed**

Business ventures of the sort discussed here are thought to have considerable potential as sources of employment for low-skilled, entry-level workers, especially when they are linked to locally based training and hiring efforts. Local businesses that provide home health care and childcare services are usually seen as having the greatest potential for hiring local residents. These types of jobs may be especially appealing for local residents who lack skills and work experience, do not want to travel outside the neighborhood, or seek flexible or part-time employment. Enterprises that train and hire local residents in asbestos removal, lead reduction, or housing construction have also been successful in placing neighborhood residents in jobs and helping local firms win government contracts for lead removal.

- **Benefits to the owners or operators of the businesses**

Community-oriented business ventures have the potential to become revenue-generating sources for CDCs and other CBOs as well as for individual entrepreneurs. The multiple businesses operated by New Communities Corporation, for example, were begun with contributions from private philanthropy but have become self-supporting. To ensure that this happens, NCCED points out that it is important that these activities be regarded and treated as economic enterprises and not just as service delivery programs. Emily Gantz McKay and Cristina Lopez caution, however, that certain types of community-oriented business ventures—such as daycare centers—are likely to require ongoing subsidies.
• **Benefits to the community at large**

An additional argument for developing local opportunities to operate such businesses is that it makes sense to have the economic and other benefits that can accrue from them go to local residents rather than outsiders.\textsuperscript{111} Such endeavors can help to “reestablish democratic accountability, reinforce community ownership and allow recycling of funds locally,” it is argued.\textsuperscript{112} Social capital and social network theory suggest that the community as a whole can also benefit from the increased organizational capacity that is developed within the community and the strengthened social networks that are fostered by the entrepreneurial activities and the relationship building that occurs among the clients and the employees in the neighborhood.

All of these types of business ventures have been successfully operated by CDCs and other community-based organizations as well as by private-sector entrepreneurs who reside in the neighborhood. If operated by private sector entrepreneurs, the development of such ventures can be stimulated and supported by microenterprise programs, small business incubators, and other types of intermediaries that can provide administrative services, brokering expertise, contract management, seed capital, and serve as liaisons to lending institutions.

**CDC or CBO-operated businesses.** The literature on community economic development includes numerous case studies of successful community businesses providing home health services, meals, daycare, or transportation to community residents.\textsuperscript{113} Prominent and frequently cited examples include large, multifaceted, and mature CDCs such as New Communities Corporation (NCC) in Newark, New Jersey, and Bethel New Life in Chicago. More recently, CCRP, a CCI in the South Bronx, has made this a focus of its economic development efforts.

NCC has developed, for example, an extended-care home health care agency with more than 100 employees, five infant and childcare centers (operated through a subsidiary), and transportation serving participants in the health and daycare programs.\textsuperscript{114} Another subsidiary manages the NCC housing units, and a related company provides security guards. NCC also operates
a food service/restaurant that serves its daycare agencies and elderly programs and sells products in the supermarket chain that NCC was instrumental in bringing into the neighborhood. All these business ventures benefit from the central purchasing, supply, and accounting services that NCC has developed. Though started with philanthropic support, most of NCC’s service ventures have become self-supporting, and the neighborhood has achieved a considerable measure of self-sufficiency in meeting some of the social service needs of its residents.

NCC’s business enterprises have also been linked to workforce development and employment efforts. As a spinoff of its transportation program for residents, for example, NCC set up a vehicle maintenance and repair center for its fleet of vans, and developed a training program for local residents. Successful graduates can be hired by NCC businesses or placed in jobs outside the community, referred by NCC’s employment center.

Bethel New Life in Chicago and CCRP in the South Bronx have also developed local businesses to serve community needs and train and hire residents to fill the jobs. Bethel New Life specifically applies the principle of double utility in its approach to economic development and has pioneered efforts to train locally operated enterprises to win contracts for asbestos removal and lead reduction.115

**Intermediary-based programs.** An article by Ross Gittell and Phillip Thompson discusses another model for developing community-oriented businesses, the Neighborhood Entrepreneur Program in the low-income housing industry in New York City.116 Operated as an experiment by the city’s housing agency and an intermediary, the NYC Housing Partnership, NEP helps local entrepreneurs purchase, manage, and develop low-income rental housing that was taken over by the city when the original owners abandoned it. The Housing Partnership played an important role as an intermediary, according to Gittell and Thompson, because the private businesses that were members of the partnership were able to develop trust relationships with the inner-city entrepreneurs and connect them to important sources of information and financing.

Gittell and Thompson’s analysis of the program and its effects illustrates all of the types of benefits described above as well as the value of developing internal and external networks among inner-city entrepreneurs. The local entrepreneurs who operate the buildings gain income and enhanced capacity and
connections to sources of business expertise and financing provided through the intermediary organization, the New York City Housing Partnership. The tenants gain from living in well-managed buildings. Some also benefit from being placed in construction or maintenance jobs by the local housing entrepreneurs. Overall, however, the project’s employment-generating potential for the tenants proved to be less than anticipated, according to the evaluation of NEP’s employment component.\footnote{117} This report concluded that the results are consistent with those of welfare-to-work programs and demonstrate how difficult and costly it is to employ a population who, like the NEP tenants, are inadequately prepared for work, have significant childcare responsibilities, and long histories of substance abuse, domestic violence, and/or poor mental health.

Gittell and Thompson identify a number of community-level benefits that result from NEP, including an improved environment, increased community capacity, and increased access to resources. According to Gittell and Thompson, preliminary information shows that the neighborhood entrepreneurs operate more efficiently than the city or outside property managers.\footnote{118} They are more cost-conscious and make efforts to establish personal relations with and among the tenants. These relationships and the “information exchange” that results “helps reduce drug dealing and related crimes in the building and the surrounding neighborhood and protects their investments.”\footnote{119}

The community as a whole also benefits because the local entrepreneurs have a vested interest in improving and maintaining the quality of the local environment: They want to ensure that they have good long-term tenants. This leads them to work together and/or with CBOs to “exert significant leverage in negotiating services from local government agencies” and other community improvement efforts.

Gittell and Thompson argue that the NEP approach is particularly useful in businesses in which having a good reputation in the community and knowledge of the target population gives inner-city entrepreneurs a clear competitive advantage. They suggest that community-based health care and employment placement and training are other areas in which local entrepreneurs would have similar advantages and produce synergistic effects, such as reductions in costly patient visits and increased worker productivity.

In a related approach, some CDCs are developing strategies to nurture supplier networks, wherein minority-owned and female-owned businesses can
respond to procurement opportunities with large local corporations, hospitals, military facilities, and governmental agencies or port authorities.¹²⁰

Small business and self-employment examples. Not all efforts to develop businesses that have double social utility need to be as ambitious as NEP. A recent review of the field provides a number of case studies of small-scale service-oriented businesses operated by individual entrepreneurs.¹²¹ For example, Home Health Care Services is a female-owned microenterprise that hires and trains certified nurses aides or licensed nurses to deliver home health care services in an African-American community on Chicago’s south shore. This business is operated from a small business incubator that provided a short-term capital loan and start-up planning. Other successful businesses of this type have been developed by worker cooperatives. Nevertheless, the authors of the review caution that most new service enterprises will require long-term subsidies and ongoing support and management assistance and will continue to operate on a small scale.

CDCs and CBOs can use federal grants awarded through the Job Opportunities for Low-Income Individuals (JOLI) program to provide technical and financial assistance to develop self-employment ventures and other business opportunities for low-income individuals. The Northern Manhattan Improvement Corporation in New York City, for example, is using a JOLI grant to train and support neighborhood residents who are interested in establishing themselves as licensed childcare providers in their own homes. When the women are licensed and registered with the welfare system, the childcare services they provide for welfare recipients and former welfare recipients can be paid by the local welfare department.¹²² Bethel New Life used a JOLI grant to train local contractors in lead abatement and lead hazard control and helped them form a joint business venture. Working together, the local contractors successfully won forty-three lead hazard control projects, worth more than $660,000.¹²³

Business attraction strategies
Proponents argue that attracting new businesses to the neighborhood can bring in more jobs and income than the community could generate internally by developing new small businesses. The opening of a well-established firm or
manufacturing company is also recommended for its high visibility. Large retail stores may also be better able to meet local residents’ basic shopping needs. On the downside, as already noted, outside businesses may be less likely than “home-grown” businesses to hire local residents, especially those who are members of minority groups; offer fewer opportunities to develop community leaders and role models for local residents; and might put some local establishments out of business.

Three approaches are typically discussed in the community economic development literature: combining the physical redevelopment of a commercial area with specific efforts to attract a major retail chain store as an anchor store in the revitalized shopping district; offering tax credits or other business incentives on a project by project basis; or designating the neighborhood as part of an economic zone that offers special tax breaks or other incentives to outside businesses that locate inside the zone. The latter two approaches entail decision making at the city or state level, not just at the community level.

A key decision is what type of businesses to recruit to the neighborhood. Business attraction efforts have traditionally focused on attracting manufacturing firms to a locality. More recently, attention is being paid to super markets, big retail stores, back-office operations, and service-oriented businesses in tourism and entertainment, health care, technology, or insurance. Different types of businesses are likely to have different effects on generating employment, meeting consumer needs, and community building.

**Attracting retail establishments as anchor stores in malls or commercial strips.** Several studies document the potential benefits of a strategy combining the physical revitalization of an inner-city commercial strip or shopping mall with attracting a major retail chain store, such as a supermarket or drugstore, as an anchor tenant in the revitalized shopping district. This approach remains controversial, however, because it can spark opposition from local business owners who worry about increased competition and higher rents. Examples of successful efforts include: The Tacolcy Economic Development Corporation in Miami’s Liberty City neighborhood rehabilitated a small neighborhood mall after riots in the early 1980s and brought in a Winn Dixie supermarket as the anchor. Newark’s New Community Corporation recruited a Pathmark supermarket as the anchor in its Central Ward commercial strip. And after
years of bitter controversy, the Abyssinian Development Corporation and the Community Association of East Harlem Triangle opened a Pathmark supermarket in Harlem in 1999. Encouraged by the early successes in Liberty City and Newark, the Local Initiatives Support Corporation (LISC), a national nonprofit community development intermediary that works with CDCs across the country, launched The Retail Initiative (TRI) in 1994. Supported by ten institutional investors, TRI is a commercial real estate equity fund that works with local organizations to bring supermarkets to low-income neighborhoods. The Harlem Pathmark that opened in 1999 was one of the first TRI projects to reach completion. TRI also developed a shopping center anchored by a Shaw’s Supermarket in New Haven, Connecticut, and has other projects underway in other cities.

**Effects on consumer spending and local business activity.** In all the cases just mentioned, the new supermarkets quickly became profitable, validating the claim of a healthy consumer market to be tapped in inner-city areas. Several other recent economic assessments document the profitability and retail sales potential of inner-city areas.

Research in Newark also showed positive benefits on the consumer spending patterns of neighborhood residents: a local survey found that Pathmark shoppers who had formerly traveled by bus or taxi to suburban markets or shopped at neighborhood mom-and-pop stores had cut their food bills by 38 percent. Anecdotal evidence suggests that in New Haven, residents are also now shopping locally and saving the cost of transportation to outlying neighborhoods.

**Spillover effects.** Drawing customers to an anchor store can generate business for other stores or services located close by, according to Vidal. The Liberty City mall’s viability helped sparked the construction of mid-rise apartment complexes within easy walking distance as well as the opening of a branch campus of a community college across the street from the mall. Similarly, the Community Development Corporation of Kansas City, Missouri’s successful development of a shopping center in an abandoned hospital site helped spark additional investment along a commercial street, resulting in the development of a second small shopping center and the construction of a new branch of the public library. The development of the Pathmark store in Harlem helped
spur private investment in other retail development projects in the immediate neighborhood.\textsuperscript{132}

On the other hand, the introduction of a major supermarket chain may have a negative effect on the sales activity of competing local retailers—such as mom-and-pop convenience stores—and spark opposition from them. Bendick and Egan note, however, that local merchants can protect themselves by offering value-added services that outsider firms and large chains cannot match, such as extended hours, informal credit, staff members fluent in several languages, and auxiliary services, such as check-cashing. To support local businesses, some redevelopment projects have set aside a proportion of available mall space for those who can meet strict standards regarding financial strength and retail ability.\textsuperscript{133} Competition can benefit consumers, of course. Anecdotal evidence from Harlem, for example, suggests that smaller grocery stores in the neighborhood have improved the quality of their products and services since the new supermarket opened.\textsuperscript{134}

\textit{Employment effects.} The opening of a large retail store provides new employment opportunities, but not necessarily for local residents. To enhance this possibility, it might be important to negotiate hiring agreements as part of the initial deal. The literature on the retail development projects already discussed does not provide information on their employment effects on neighborhood residents. However, a family-owned chain of grocery stores that expanded into a racially diverse, economically depressed neighborhood in Cleveland, Ohio, in 1997 is reported to have provided more than 100 jobs for local residents.\textsuperscript{135}

\textit{Community-building effects.} Vidal’s study of CDC’s business development efforts documents some of the community-building potential of such initiatives, in terms of enhancing the capacity of local organizations and leaders and improving their reputations with outsiders.\textsuperscript{136} Another type of community-building outcome was found in Liberty City, Florida, where the commercial revitalization project resulted in the formation of a local merchants’ association, which proved instrumental in helping preserve the shopping area during a second bout of rioting some time later.\textsuperscript{137}
Potential for replication. The retail successes described above are encouraging, but it should be noted that major revitalization projects involve intensive effort, large amounts of capital, and considerable risk. Vidal cautions that CDC efforts at commercial development have been “rarer and riskier” than their efforts to develop affordable housing, explaining that the process is less standardized, appropriate anchor tenants are hard to identify, and not all CDCs are adept at marketing.138 Wiewel, Teitz, and Giloth note that commercial revitalization strategies are most often successful when the neighborhood has moderate income levels, a controllable pace of change, and few nearby competitors.139

Efforts to attract other types of businesses. Economic development initiatives that focus on attracting other, less consumer-oriented types of businesses are likely to have somewhat different effects on the neighborhood economy. Attraction strategies work to the extent that they use local suppliers, labor, and other resources. Bendick and Egan discuss bringing back-office businesses into inner-city neighborhoods, for example.140 While this strategy could increase the level of business activity in the neighborhood, and possibly provide jobs for local residents, it seems less likely than a commercial development project to affect the mix, quality, or supply of goods and services available to local residents, at least in the short term.

Using economic incentives to attract businesses. State and city governments can offer an array of economic incentives to attract businesses, including tax incentives, capital formation assistance, property development, zoning flexibility, and labor-related assistance.141 A related approach that has been increasingly used in the past thirty years in the United States is to offer what amounts to a package of incentives in defined geographic areas, typically known as enterprise zones. Business taxation and regulation are reduced and access to capital is facilitated in order to stimulate economic investment and activity within the zones. A number of states created enterprise zones in the 1980s, and in 1994 a federal initiative designated nine empowerment zones and ninety-five enterprise communities.142 The zone areas typically encompass more than a single neighborhood, but inner-city neighborhoods can be included within the designated zone.
The rationale for offering such incentives is that the market economy has imperfections, and the private sector alone cannot and will not develop the inner-city. Harvard economist Michael Porter has argued that incentives are needed to compensate companies for the added costs of doing business in the inner-city, which has special difficulties stemming from a history and continued prevalence of discrimination against inner-city residents and their neighborhoods. Disadvantages include high taxes and business costs relative to other areas, as well as crime and the increased business risks associated with it.143 Other obstacles are posed by poorly maintained infrastructure, burdensome regulations and permit requirements, environmental pollution, and poorly funded and supported education and training systems.

The ability to offer incentives lies with the city, state, or federal government, and is outside the control of the local community, which may need to lobby or work closely with political and government officials to package incentives or to win empowerment or enterprise zone designation.

A number of questions persist about the effectiveness of the business incentive strategy in general and the enterprise zone approach in particular. Some analysts question, first, whether the offered incentives affect a company’s decision to relocate and what types of businesses may be affected; second, whether the relocating company offers employment opportunities to local residents; and, third, whether tax incentives are a cost-efficient investment, or whether they make the cost of job creation too high.144

Gaventa’s review of the literature notes that many economists and policy analysts consider incentives, including tax abatements, to be an ineffective way to promote business activity. He cites evidence indicating that firms that relocate to the inner-city would have moved there in the absence of incentives, and surveys that show that the availability of incentives is rated quite low on a scale of factors that influence decisions about where to locate a business.145 Greg LeRoy reviews evidence suggesting that large corporations are the chief beneficiaries of tax abatements and credits and that the policy can cost governments large sums of money.146 Similarly, a study of California’s enterprise zones found that zone incentives did very little to influence plant location or increase job creation and business investment in the designated areas.147 LeRoy recommends that to make tax credits and abatements more effective, cities should analyze how much these devices cost them in forgone revenue and monitor
the performance of companies that get the credits. Additional suggestions for making tax credits more effective can be found in writings by Keith Ihlanfeldt and in Larry Ledebur and Douglas Woodward.\(^{148}\)

Vidal’s review concluded that although the data are not always of the highest quality, the weight of the evidence is “not encouraging” about the potential of state-sponsored enterprise zone programs to increase employment among residents in neighborhoods with high unemployment rates.\(^ {149}\) She suggests that these programs were poorly designed, because they failed to offer sufficient incentives for hiring local residents; offered investment credits that were not linked to the types of jobs that local residents were likely to qualify for, and did not provide opportunities to prepare residents for employment. Vidal concludes that the current federal enterprise zone initiative has greater potential for creating jobs for residents of poor inner-city neighborhoods and achieving the goals of community economic development because it addresses some of these issues.\(^ {150}\)

Evaluation of the first round of enterprise zone (EZ) sites is in progress.\(^ {151}\)

Other evidence about the effects of business incentives on increasing inner-city employment is also somewhat discouraging. A study found that three government subsidy programs offered in the 1980s, for example, generated “far fewer job opportunities than anticipated” for individuals who had low incomes, were long-term unemployed, or were members of minority groups, largely because the programs were poorly monitored and enforced. Moreover, the jobs that were created were often of uncertain duration or quality.\(^ {152}\) More promising results from several programs that not only tie incentives to hiring commitments but work to develop a pool of qualified job applicants from poor neighborhoods are reported in Molina and discussed below.\(^ {153}\)

**Business Retention Strategies**

To implement this approach, neighborhood organizations work to promote the stabilization of existing businesses and industrial districts in order to retain jobs, increase the local tax base and consumer shopping and service options, and avert deterioration of local commercial centers. The literature seems to discuss such strategies primarily in terms of averting big industrial or manufacturing plant shutdowns, a situation which is not likely to be the major problem in many poor, largely minority inner-city neighborhoods. However, some of the same strategies might be applicable in efforts to keep
small, local establishments from closing or in conjunction with the type of commercial strip revitalization efforts discussed in the preceding section.

The early outcomes of such efforts are the company closings or relocations that were averted by community action. The longer-term effects relate to the benefits of keeping those companies in the neighborhood: retention of jobs, maintenance of infrastructure, more stable employment opportunities, and so forth.

Wiewel, Teitz and Giloth suggest that local organizations can play several roles in business retention efforts. They can help to identify business problems; organize leaders; provide technical assistance and loan packaging; organize collective services (such as security provision or employment referral); launch industrial real estate projects (e.g., industrial parks or incubators); or advocate for public policies to benefit specific industrial locations, economic sectors, and firm sizes. Chicago’s Clybourn Corridor Planned Manufacturing District (PMD), an ambitious citywide effort of this type, was created to retain manufacturing firms and fight the industrial flight and land speculation associated with rezoning. It is also a good example of the role that community-based organizations and local economic development groups can play in addressing the needs of a particular community and developing a metropolitan policy that has an impact on local economic development.

An approach that has generated considerable interest in recent years is having a local organization or organizations work simultaneously with a number of firms in the same economic sector in order to develop employer networks, set industry-wide training standards, and create client-focused and career-directed employment opportunities for community residents. This type of “sectoral strategy” combines supply and demand side interventions in an effort to increase the employment prospects of low-income persons and, at the same time, change the efficiency, institutional practices, and training routines of employers in key occupations and industries in the metropolitan region. Successful efforts can help employers meet their hiring needs (increasing the likelihood that they remain in the neighborhood) and improve employment opportunities for local residents.

Ordinarily, competing firms in the same sector do not have a clear incentive to cooperate with each other. However, when these firms are located in the same area, they can benefit from working together on employment training, conditions, standards, and other aspects of work that increase the productivity
of the workers and the effectiveness, profitability, and viability of the firms. The Wisconsin Regional Training Partnership (WRTP), for example, an organization with labor and corporate management representation, is designed to build high-performance workplaces that emphasize ongoing worker education and innovation. It encourages members to develop and share best practices in three main areas: workplace education, future workforce development, and plant modernization. By developing a network of firms that cooperates on key issues and works to overcome common problems through collective action, the WRTP is able to increase performance and productivity in the workplaces of its member firms and provide workers with additional education and training opportunities, higher wages, and more employment security and stability.157

Some of the ideas generated and developed out of sectoral strategies have been implemented in broad metropolitan level jobs initiatives, such as the Milwaukee Jobs Initiative. Annette Bernhardt and Thomas Bailey review some industry-specific efforts to implement sectoral strategies around the country, such as Cooperative Home Health Care Associates (CHCA) in the Bronx, Asian Neighborhood Design in San Francisco, Project Quest in San Antonio, Pioneer in Seattle, and the Berkeley Foundation.158 Ongoing projects at the Aspen Institute’s Economic Opportunity Program and Public/Private Ventures are studying the effects of sectoral strategies on improving participants’ employment outcomes and achieving systemic change in the employment sector they target.159 Additional information on several of these sectoral programs and the role of community-based organizations in them can be found in the chapter on employment by Auspos in this volume.

**Strategies to Link Citywide Economic Development Efforts to Community Employment Efforts**

The evidence just presented on the limited success of past efforts to increase local employment by attracting new businesses into inner-city areas suggests the importance of linking economic development with workforce development efforts in the community. A strategy that appears to be more successful in several major cities is offering business incentives in exchange for specific guarantees about hiring community residents and following up with efforts to ensure that the businesses are supplied with a steady flow of job applicants who meet the hiring criteria.
In these employment-linkage programs, city governments pass a local ordinance that ties public subsidies for businesses to job creation efforts for unemployed or low-income residents from specified neighborhoods. A number of First Source hiring agreement ordinances were passed in the 1980s, requiring an employer to consider applicants from a specified pool of job-seekers in exchange for subsidies.¹⁶⁰

A 1995 assessment of such programs concluded that their effectiveness was limited in practice by inadequate enforcement, outreach, and recruitment in the target neighborhoods.¹⁶¹ A new study of mature First Source programs in Portland, Oregon, and Berkeley, California, highlights the potential for using employment linkage programs as a mechanism to increase employment among residents of poor, inner-city neighborhoods and ways to avoid some of the problems identified in earlier efforts.¹⁶²

Program details vary, but two aspects are key, according to the study. First, businesses that receive certain wide-ranging forms of assistance from the city (e.g., loans, grants, or other financing assistance; zoning or building permits, property tax exemptions) are mandated to sign agreements requiring them to hire or consider hiring job applicants from a pool provided through a specified referral network composed of a variety of community-based organizations. Second, community organizations are actively involved in recruiting, training, screening, and referring qualified community residents to the available jobs.

Getting employers actively involved so that they uphold and implement their agreements is also critically important. Staff in both cities feels that penalties for noncompliance are important in getting employers to take the requirements seriously, especially at the start of the program, but over the long term, the ability to provide a stream of qualified, entry-level workers to fill jobs is essential to maintaining employer interest.

The program outcomes reported in Molina’s study suggest that these types of programs can be effective in placing low-income community residents who have limited work histories and multiple barriers into jobs that pay above the minimum wage, on average. The study also found evidence of community-building effects, such as evidence of increased capacity in the organizations responsible for recruiting and referring local residents for jobs, improved relationships between the employers and the neighborhood groups, and expanded
job networks among community residents, who said they had not previously known about the business where they were now working.163

CONCLUSION

This chapter shows that community economic development programs can provide significant benefits to the residents of urban neighborhoods by providing much-needed commodities and services, such as childcare, transportation, and home health care, as well as access to credit and financial services and employment and entrepreneurial opportunities. The role that community-based organizations can play in economic revitalization will continue to be limited, however, by economic actors, trends, and policies that are beyond the control of any one neighborhood.

Although the literature suggests that there should be mutually reinforcing and beneficial effects between community-building efforts and outcomes and economic development efforts and outcomes, there is not yet much evidence of such effects beyond strengthening the capacity of local organizations that do economic development work. The supporting evidence is largely lacking or weak, in large part because there have been few systematic efforts to articulate and then evaluate or document the hypothesized synergies and outcomes.

Similarly, there are not many empirical studies that systematically explore and document the potential synergies between business development, housing development, neighborhood safety, and neighborhood economic recovery. There is some evidence that suggests that large-scale efforts that couple economic development with deliberate efforts at crime reduction and/or efforts to build or maintain low-income housing can be mutually reinforcing, as in the South Bronx, but these examples need to be more carefully documented and analyzed. Whether such efforts can lead to broad-based and sustained neighborhood revitalization without displacing low-income residents also remains to be seen.
Endnotes


10. For a more detailed account of the processes that have contributed to some successful community-based economic development efforts, see Paul S. Grogan and Tony Proscio, Comeback Cities: A Blueprint for Urban Neighborhood Revival (Boulder, Colo.: Westview Press, 2000).


13. Innovative work on developing data, indicators, and models that can be used to identify and measure special market dynamics in low-income inner-city neighborhoods is discussed in Robert Weissbourd and Christopher Berry, “The Market Potential of Inner City Neighborhoods: Filling the Information Gap,” (paper prepared by Shorebank Corporation for The Brookings Institution Center on Urban and Metropolitan Policy, March 1999); Harrison and Weiss, Workforce Development Networks, 1998, discusses the role of network level variables in community-based employment training programs.

14. See, for example, the discussion in Zielenbach, Art of Revitalization, 2000.

15. For essays that discuss different theoretical “schools” or models for approaching or conceptualizing community economic development, see Thomas Boston and Catherine Ross, eds., The Inner City: Urban Poverty and Economic Development in the Next Century (New Brunswick, N.J.: Transaction Publishers, 1997).


25. Bendick and Egan, “Linking Business Development,” 1993. Marcus Weiss points out, however, that commercial real estate owners will not be willing to invest in improvements if adjacent or proximate housing stock seems to be declining rather than improving. (Personal communication from Weiss to the authors.)


29. Bendick and Egan suggest in “Linking Business Development,” 1993, that successful residents who move away can still serve as role models and offer inspiration to community residents.


31. See, for example, Shiffman and Motley, Comprehensive and Integrative Planning, 1990.


37. Center for Community Change, Bright Promises, Questionable Results: An Examination of How Well Three Government Subsidy Programs Created Jobs (Washington, D.C.: Center for

38. See, for example, Randy Stoecker, “The Community Development Corporation Model of Urban Redevelopment: A Critique and an Alternative,” *Journal of Urban Affairs* 19, no. 1 (1997): 1–23, along with responses from Rachel Bratt (pp. 23–28) and Dennis Keating (pp. 29–33) and rejoinder by Stoecker (pp. 35–44).


49. Grogan and Proscio discuss some examples of this in *Comeback Cities*, 2000.
50. Marva E. Williams, *Credit to the Community: The Role of CDCUs in Community Development* (Chicago: Woodstock Institute, 1997).
52. Williams, *Credit to the Community*, 1997. Case studies can be found in Marva E. Williams and Sharyl Hudson, *Building the Savings and Assets of Lower-Income Consumers: Examples from Community Development Credit Unions* (Chicago: Woodstock Institute, 1999).
57. Ibid.
59. Julia Sass Rubin, *Community Development Venture Capital: A Report on the Industry* (New York: Community Development Venture Capital Alliance, 2001). All the information in this paragraph comes out of this report. Also see the website (www.cdva.org) of the Community Development Venture Capital Alliance, an organization that provides technical assistance, consulting services, and other support to CDVC funds.
60. http://idanetwork.org, a website maintained by the Corporation for Enterprise Development.


72. Vidal notes that the study was unable to distinguish the effects of renovation projects from those of the other activities performed by the CDC.

73. Vidal, *Rebuilding Communities*, 1992, p. 98. To measure community-level effects, Vidal’s study looked at the accomplishments of community economic development activity in the context of the overall need. Examples of the criteria that study team members used to assess the effects are: “Substantial impact”: CDC has built or rehabilitated 785,000 square feet of commercial space. “Moderate impact”: business membership increased from 29 to 140 firms, and the CDC was able to avert one of seven plant shutdowns. “Low impact”: rehabbed 8 commercial spaces (7,000 square feet).


76. Ibid.


89. The Aspen Institute’s Self-Employment Learning Project defines a microenterprise as “a sole proprietorship, partnership, or family business that has fewer than ten employees, does not generally have access to the commercial banking sector, and can utilize a loan of under $25,000.” See Aspen Institute, Microenterprise Development in the United States: An Overview, Microenterprise Fact Sheet Series, Issue 1 (Washington, D.C.: Aspen Institute, 2000).


96. Ibid., p. 147.


98. See the website of the National Business Incubation Association at www.nbia.org.


100. Lichtenstein and Lyons, Incubating New Enterprises, 1996; Mark P. Rice et al., Growing New Ventures, Creating New Jobs (Westport, Conn.: Greenwood Publishing Group, 1995).


104. Lichtenstein and Lyons, Incubating New Enterprises, 1996, suggests that the value an enterprise can add to the community should be another criteria for judging the success of a small business incubator program. Another issue is whether a business that is targeted for assistance should be encouraged or required to become part of the economic mainstream. See, for example, Bendick and Egan, “Linking Business Development,” 1993; Bates, “Why Do Minority Business,” 1995; Servon, “Microenterprise Programs,” 1997.


118. Gittell and Thompson, “Inner City Business Development,” 1999. For similar findings on the effect of tenant management in buildings which were abandoned, taken over by the City of New York, and resold, see the chapter by Melvin LaPrade and Patricia Auspos in this volume.


120. Personal communication from Marcus Weiss to the authors.


122. Author’s interview with Julie Levine, the former director of the Northern Manhattan Improvement Corporation in New York.


127. For more information on the initiative, see LISC’s website at www.liscnet.org.

128. Indeed, according to Vidal in “Reintegrating Disadvantaged Communities,” 1995, the Winn


138. Ibid., p. 212.


141. See, for example, Gaventa, Morrissey, and Edwards, _Literature Review_, 1995.

142. For information on the federal initiative, see http://www.hud.gov/offices/cpd/ezec. The federal program was selecting localities for Round III of funding and replacing Enterprise Communities with Renewal Communities in the fall of 2001. The revised program offers a different package of incentives from the original. According to Michael Wolf, there was a shift in emphasis during the 1980s away from efforts to use zone incentives to attract new small businesses to the inner-city, in favor of efforts to attract businesses of any size, and to retain existing businesses in urban, rural, and suburban areas. See Michael Wolf, “Enterprise Zones: A Decade of Diversity,” _Economic Development Quarterly_ 4, no. 1 (1990): 3–14.


145. Ibid.


150. Specifically, Vidal notes that the array of incentives are more oriented toward labor than business investment, the availability of Social Service Block grant funding makes it possible to address issues like job readiness and social isolation, and there is a focus on strategic planning. (Vidal, “Reintegrating Disadvantaged Communities,” 1995, pp. 187–88.) See also Gaventa, Morrissey, and Edwards, Literature Review, 1995.


152. Center for Community Change, Bright Promises, 1990.


156. See, for example, Laura Dresser and Joel Rogers, Rebuilding Job Access and Career Advancement Systems in the New Economy (Madison, Wis.: Center on Wisconsin Strategy, 1997).


161. Okagaki, Developing a Public Policy, 1997, citing a 1995 study conducted by the Association of Community Organizers for Reform Now (ACORN).

162. Molina, Making Connections, 1998. Both are city-sponsored programs that target their employment efforts to residents of particular neighborhoods within the city.

163. Molina, Making Connections, 1998. For more discussion on the importance of the last outcome, see the chapter by Auspos in this volume.
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