Viable ECONOMIES

OVER THE PAST SEVERAL DECADES, to keep pace with changing economies, communities have implemented numerous economic-development strategies with mixed results. Globalization, technology, specialization, and the demands on workers and their companies have changed the prospects of local and regional economies.

The primary purpose of economic development is to stimulate job creation and aggregate business activity. At the community level, economic development efforts can also have other objectives, such as improving residents' access to services or consumer goods and other resources; improving the physical condition of the community; building a diverse economic and employment base; stemming leakage from the local economy; bringing more residents into the mainstream economy; and developing local organizational capacity and leadership.

Globalization, technology, specialization, and the demands on workers and their companies, have changed the prospects of local and regional economies.

Typical strategies in community economic development include efforts to:

- Revitalize or redevelop old commercial centers and downtowns.
- Nurture or "incubate" new business development.
- Develop microenterprise businesses that can help bring disadvantaged individuals into the economic mainstream.
- Develop new business ventures that can provide needed human services to community residents.
- Lure major industries (auto plants, manufacturing units, etc.).
- Make investment capital more accessible.

Economic-development projects are more difficult to implement successfully than other types of community-development initiatives, such as housing development, because there are no standard projects or solutions. Projects require creative adaptation, not just applying an off-the-shelf model (Vidal; Okagaki; Bendick & Egan). We know that:

- Strategies and solutions must reflect local circumstances and be rooted in the local context. Nevertheless, local efforts are impacted by metropolitan, regional, and national markets (Okagaki; Blakely; *About Main Street*; Lichtenstein & Lyons).
- Successful economic development requires strong partnerships and open communication among a variety of players and stakeholders in the public and private sectors. The quality of leadership and day-to-day management is also important, as is effective marketing (National League of Cities; Stillman; *About Main Street*). Community organizations need to be innovative and flexible, able to maintain focus over the long term, and good at assessing markets (Stillman; Okagaki).
- Developing economically viable businesses or revitalizing a commercial area takes a long time. Having some early, visible products can demonstrate progress and build support in the meantime (Stillman; National League of Cities).
- Scale is an issue; projects may successfully serve businesses and create jobs but have little real effect on the economy of the community. This tension must be addressed (Okagaki).

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DOWNTOWN REVITALIZATION

This approach seeks to restore economic activity in abandoned or dilapidated downtown areas. Revitalization efforts aim to make these areas economically profitable again, improve their physical appearance, and—especially in inner-city neighborhoods—increase access to consumer goods and services, and stem the leakage from the local economy that occurs when local residents shop and generate jobs elsewhere.

Revitalization projects typically include some of the following:

- Efforts to improve the physical area by targeted real estate development, rehabilitation of abandoned commercial real estate property, renovation of building facades, restoration of storefronts, and streetscaping.
- Efforts to improve the general business environment by sponsoring marketing campaigns, providing commercial strip management, or organizing a local business association.
- Efforts to develop or attract businesses by providing small businesses with loans and/or technical assistance; establishing special incentives or marketing campaigns to attract new businesses into the area; and making special efforts to nurture new local businesses.
- Efforts to find alternative uses for former commercial real estate, such as converting it to housing, museum space, or government office space.

A review of a broad array of initiatives in 11 cities stresses that physical improvements alone are not sufficient to revitalize a downtown area; it is critical to focus on the economic bottom line and develop or bring in economically viable enterprises. It takes several years to see marked success; early tangible results (e.g., filling vacant lots, renovating buildings, enhancing the streetscape, constructing a parking lot) are important to building support and motivation but should not be equated with long-term economic outcomes (National League of Cities).

One successful model for inner-city commercial revitalization combines physical redevelopment with efforts to bring in a major supermarket chain to serve as an anchor business in a revitalized shopping district or mall (Vidal; Bendick & Egan). Community development corporations have spearheaded such efforts in a number of communities, and the Local Initiatives Support Corporation (LISC) has developed a national program to help uban and rural communities.

Case studies of several inner-city efforts show that the new stores or businesses became profitable, helped to stabilize the commercial area, and have enabled residents to change their shopping habits and save money. In some cases, the commercial redevelopment has sparked additional investments (both public and private) in housing construction or commercial development in the immediate area (Vidal).

A successful model used in major cities and small towns is the Main Street program developed by the National Trust for Historic Preservation. Focusing on historic preservation and retention of the traditional community character, Main Street programs work on physically improving the area, encouraging new real estate development, marketing the district, organizing groups of businesses and merchants, and finding new uses for some of the old commercial space. The Main Street philosophy stresses that successful programs need to be comprehensive (involve a series of projects rather than a single project); incremental (use small projects to develop the skills and support needed for more complex projects); and work on changing community attitudes and habits (*About Main Street*).

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NEW AND SMALL BUSINESS DEVELOPMENT

The substantial failure rate among new and small businesses has been well documented. Poor management and the lack of access to capital are the most frequently cited reasons for failure (Blakely). Strategies to improve the success rate have accordingly focused on providing loans or technical assistance or a combination of the two. The current wisdom is that small business assistance programs, now commonly known as business incubation programs, help self-employed individuals and new entrepreneurs with little or no business experience. They provide ongoing support, technical assistance, and training, as well as start-up assistance and loans.

A compendium guide to good business practices in community-based incubator programs stresses that success depends on the ability of the incubator staff to: 1) identify the kinds of enterprises that will add value to a community and be economically feasible to operate, 2) target their assistance to the specific needs of those businesses, and 3) design an incubator program that will be economically viable (Lichenstein & Lyons). Success can be measured in terms of the ability of the incubator program to 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 faster and more efficiently); and increase the efficiency of the dissolution process if a business fails (Lichtenstein & Lyons; Blakely).

MICROENTERPRISE PROGRAMS

Microenterprise programs are meant to be "lenders of last resort," providing small cash loans and credit to individuals or groups of individuals who seek self-employment but cannot obtain credit through traditional means. They are frequently targeted to low-income women and/or minority women. Designed to serve both economic development and poverty-alleviation goals, they are seen as a way to give disenfranchised populations an entry point into the mainstream economy. A 1994 survey documented more than 200 microenterprise programs in 44 states. Cumulatively over the previous 10 years, the programs had served more than 200,000 individuals, loaned more than $44 million, and assisted 54,000 businesses in disadvantaged communities, both urban and rural (Edgcomb, Klein, & Clark). Even with this level of activity, impact in many respects is inconclusive:

- Research on microenterprise programs in an early demonstration to test the potential of helping AFDC recipients to become self-employed or start their own businesses showed that the strategy was difficult to implement and unlikely to enable a large proportion of welfare recipients to work their way off welfare and out of poverty (Guy, Doolittle, & Fink).

Our job is to help neighborhood commercial districts capitalize on their unique historical, cultural, and architectural assets, while addressing economic development needs.

Emily Haber
Boston Main Streets
Boston, MA

- More recent studies on the participants in microenterprise programs confirm that they do not lift low-income women out of poverty and cannot be counted on to provide a stable, reliable source of income. Many participants supplement their self-employment income with other sources, such as a spouse's earnings or their own welfare benefits (Servon). Microenterprise programs are considered to be successful in helping a more advantaged subset of poor women start or expand businesses and in bringing these women into the economic mainstream. A recent survey showed that the participants typically were very highly motivated, relatively well-educated, and had other sources of financial support (Servon).

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- Operational experience suggests there is a strong need for training as well as financing. Programs that initially offered little or no training have added more training over time. Programs are also increasingly tailoring their training and technical assistance to specific groups among the poor, such as welfare recipients or refugee populations. There is no evidence to indicate which of several training modes (formal courses of several weeks duration, peer-to-peer discussion groups, short workshops, or individual mentoring) is more successful (Servon; Edgcomb, Klein & Clark).
- There is very limited information on the long-term success of the new businesses, but the rate of loan repayment is reported to be high (Servon).
- The long-term financial stability and sustainability of microenterprise programs remain an open question. Measures of cost-efficiency are still being developed, but it appears that the most cost-efficient programs are mixed-service models that allow staff to offer shorter-term, low-intensity services to a large number of people, and longer-term, more-intensive services to a smaller number of clients. Achieving the scale necessary to maintain efficiency poses particular challenges for programs serving rural areas (Edgcomb, Klein, & Clark).

RURAL ECONOMIC DEVELOPMENT

Economic development in rural areas poses special challenges because of the geographic isolation and sparse population in many locations. Common problems that often have to be overcome include poor infrastructure including technology, difficulty in accessing resources and professional services, lack of access to capital, an inadequate supply of trained workers, and limited markets and job opportunities.

Rural economic development strategies in recent decades have tended to fall into two broad categories:

- Efforts to attract businesses to the area or deter existing firms from relocating by developing industrial parks and offering tax abatements and other financial incentives.
- Efforts to stimulate the creation or expansion of small businesses through microenterprise, business incubator, and related programs.

Currently, there is growing interest in:

- Sectoral approaches that combine a number of business-assistance strategies but focus on working with a business "cluster" (businesses that are located near each other and may have other features in common) or a business "sector" (businesses that produce similar products, use the same raw materials or technology, share a common market, or have other similarities).
- Promoting the growth of "homegrown" businesses by using telecommunications and Internet technology to provide isolated entrepreneurs with access to information, technical assistance, professional services and expertise, as well as opportunities to build networks and links to customers and other entrepreneurs within and outside their region.

Rural economic development for us means creating and revitalizing homegrown businesses that make communities and families self-sufficient.

Becky Anderson
HandMade in America
Western North Carolina

- Developing an “entrepreneurial culture” or environment in rural communities that will support and stimulate local businesses.
- Promoting sustainable development by creating a process for citizen engagement and local capacity-building, as well as by initiating broad-based local decision-making that focuses on long-term goals, not just short-term outcomes, and balances the interests of the local economy, ecology, and equity.

Experience suggests that rural economic development efforts should:

- Begin with a rigorous strategic analysis.
- Involve many partners and many local businesses, including government.
- Develop strong local leadership.
- Keep economic development efforts focused and therefore manageable.
- Work for economies of scale in services (such as training).

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Business-attraction strategies have a mixed record. While there are clear successes, as well as models and tools for communities to use, such efforts are not always successful because there is too much competition for too few businesses. Concerns are also raised about the cost-effectiveness of the approach and the influence that a large organization owned by “outsiders” can wield over the rural community [Center for Community Change (CCC), Mountain Association for Community Economic Development (MACED), Appalachian Regional Commission (ARC)].

Microenterprise lending and small business incubation are considered promising strategies that have resulted in business start-up and expansion. But there are concerns that the scale will remain too small to have much effect on rural communities and about the long-term viability of the programs (Lichtenstein & Lyons).

A recent review of rural sectoral programs found that they offer a cost-effective way of helping indigenous rural businesses to survive or grow. They can also succeed in enhancing employment opportunities for disadvantaged populations and produce benefits for the community as a whole—e.g., by helping to preserve the local culture. Programs that aim to help disadvantaged workers need to make this goal an explicit part of the program’s mission and focus (Okagaki, Palmer, & Mayer).

Case studies of mature rural sectoral initiatives suggest there is no single formula for success. Efforts that focus on retaining and expanding existing businesses have been successful in a variety of economic settings, as have efforts that concentrate on creating and developing new businesses in a new sector (Okagaki).

Successful sectoral programs appear to:

- Develop strong connections to the industry they work with, which enables staff to establish credibility, respond to industry needs, and influence its future.
- Use a strategic analysis that focuses not only on the region's industries and economic potential, but also on the ways its history, culture, and geography influence the economy.
- Build supportive partnerships with other institutions that can provide expertise, training, or resources such as schools.
- Identify ways to add value to their members' products or services so the member firms can grow and survive. Typical strategies include direct service delivery, strengthening the support infrastructure, and creating new patterns of information flow and learning.
- Hire staff with specialized knowledge and marshal additional expertise through consultants, industry contacts, and local experts.

Recent research suggests that rural entrepreneurs are especially likely to need technical assistance on the following issues: marketing their products or services; accessing information about available funding sources; managing their workforce; and integrating advanced technology with workforce development efforts (Okagaki; Palmer; MACED).

While it is too early to have information about effective strategies for developing entrepreneurial communities and achieving sustainable development, on-going efforts to develop helpful tools and document effective practices are being undertaken by such groups as the Aspen Institute Rural Economic Policy Program, the Mountain Association for Community Economic Development, the Center for Community Change, Appalachian Regional Commission, and HandMade in America.

ACCESS TO CAPITAL

Members of minority groups and residents and institutions in poor neighborhoods have more difficulty than others accessing capital for household needs and business purposes from commercial banks and other for-profit financial institutions. The *KIDS COUNT Data Book 2000* reported that "low-paying jobs and lack of access to financial institutions make it difficult for many families to save money, accumulate modest assets, establish reliable credit, or qualify for auto loans and mortgages. While the number of bank branches per capita declined between 1985 and 1995, two-thirds of the closures were in low- and moderate-income communities" (p.11).

The primary strategy being used to address the problem is the creation of non-traditional funding sources that offer credit and other financial services to low-income or otherwise disadvantaged individuals and communities in both rural and urban areas.

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These can include the following:

- Community development finance institutions (CDFIs) that provide loans and other 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, as well as venture capital funds.
- Lending programs that provide funding to individuals to finance mortgages and other housing costs (home-ownership) programs or small business start-up or expansion (microenterprise) programs. These programs typically provide financial education and counseling as well as loans.

A recent review of CDFIs (Vidal) concludes that although there is only limited information about their financial performance and cost effectiveness, such institutions 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 because they have pioneered effective business practices that can serve as models for commercial banks. Nevertheless, CDFIs operate on too small a scale and offer too limited a range of services to fill the gap alone left by mainstream institutions. For example, the inability of many CDFIs to provide checking accounts remains a particular problem.

An emerging strategy is to promote asset accumulation among low-income households through Individual Development Accounts (IDAs) that provide matching funds for deposits in savings accounts used for postsecondary education or job training, buying a first home, or starting a small business. Participants also receive financial education and counseling.

Results from a process evaluation (Lazear) of an early IDA program suggests that eligibility for an IDA facilitates saving in low-income households. However, life circumstances continue to make it difficult for low-income households to save money out of ordinary income and participants may need to re-evaluate their savings goals during the course of the program. The study noted that it is critical to provide ongoing support to savers and some participants may require fairly intensive case-management support. Financial-education seminars were an important program component for those who were saving for home ownership or microenterprise development but not as much for those who were saving for education or job training.

Our counseling-based lending provides access to affordable capital with the motto "we don't say no, we say when."

Caryl Stewart
Vermont Development Credit Union
Burlington, VT

Because several studies show a positive correlation between asset-holding and a number of variables relating personal and family well-being and civic involvement at the neighborhood level, it is anticipated that IDA programs will produce positive outcomes in these same areas. Careful research is needed to determine whether the anticipated benefits materialize and if they are attributable to the program effects and not to other influences (Page-Adams & Sherraden).

Evidence on the effects of the IDA strategy on a range of personal, family, and community-level outcomes as well as operational lessons about how best to structure IDA programs will be available from an ongoing, 13-site "American Dream Demonstration" developed by the Corporation for Enterprise Development (www.cfed.org) (Sherraden, Page-Adams, & Johnson).

In conclusion, building viable local economies depends on many factors, not the least of which are state, regional, and federal initiatives. Internal to any strategy, however, is the ability to accurately assess the area's strengths—and build on them—and its weaknesses—and reduce them.

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VIABLE ECONOMIES
STARTING-POINT RESOURCES:

Websites

Appalachian Regional Commission (ARC)
http://arc.gov

Aspen Institute
www.aspeninst.org

Association for Enterprise Opportunity
www.microenterpriseworks.org

Center for Community Change
www.communitychange.org

Center of Excellence for Sustainable Development (CESD)
www.sustainable.doc.gov

Corporation for Enterprise Development
www.cfed.org

Kellogg Collection of Rural Economic Development Resources
www.unl.edu/Kellogg

Mountain Association for Community Economic Development (MACED)
www.maced.org

National Congress for Community Economic Development (NCCED)
www.ncced.org

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