

**Business Development
and the Revitalization
of Underdeveloped
Local Economies**

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Poverty Research Seminar
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April 21, 2002

Economically depressed neighborhoods are underserved in many arenas. Few living outside of such communities are familiar with the local market and fewer are motivated to start businesses there. Anybody familiar with the Boston area has noticed that a Dunkin' Donuts resides on nearly every block downtown and many more can be found in residential neighborhoods and surrounding suburbs. Yet once you enter inner-city neighborhoods, these coffee and doughnut shops are few and far between. There is no lack of demand for Boston's best (and most reasonably priced) coffee in these neighborhoods; in fact the inexpensive product line is very popular with inner-city residents. Yet many franchise holders are generally not from these neighborhoods and are not comfortable opening a store in minority neighborhoods. Those that are opened in inner-city neighborhoods are in highly visible and policed areas such as major intersections and next to subway stations; these precautions are generally not taken in the rest of the city and surrounding communities. Considering that getting a simple cup of Boston's omnipresent Dunkin Donuts coffee is difficult in inner-city neighborhoods, procurement of many other goods can be nearly impossible.

Limited opportunities to procure needed goods and services within inner city neighborhoods force residents to purchase these in other areas. The businesses they patronize outside of their community do not employ their neighbors. Though inner city residents boost the wealth of other communities, they do so at the expense of supporting the underdeveloped local economy. The underlying premise of neighborhood specific economic development projects is that people prefer to participate in their highly localized economy through working and shopping in their neighborhood but currently lack sufficient opportunities to do so. Thus, those promoting economic development seek

to create businesses that will provide services desired but lacking in a community, allowing residents increased opportunities to work and spend money in their economy. These opportunities make a neighborhood more desirable to live in, create increased pride in the community, and increase the wealth of the community as a whole. In addition, these developments help decrease crime by providing more opportunities for employment, more traffic in public areas and more surveillance by police officers and concerned citizens. Overall, the quality of life for local residents increases when economic development in depressed communities provides the opportunity to support a vibrant local economy.

Predictable historical patterns have allowed poverty and associated social problems to dominate many economically underdeveloped communities. Intervening with prevailing free-market forces can help to reverse the cycle of increasing poverty in such communities. By promoting the development of large, mid-sized, and small businesses in underdeveloped neighborhoods, the government and economic development corporations (EDCs) can help to improve the lives of the millions of Americans living in these communities while increasing the productivity and wealth of the nation as a whole.

THE PROBLEMS OF UNDERDEVELOPED LOCAL ECONOMIES

Economically underdeveloped neighborhoods have a profound effect on the lives of their residents. Simply understood, when the availability of goods and services is severely limited in an area, the residents have no choice but to spend their limited incomes in other neighborhoods. Imagine two neighboring communities, Town A and

Town B. Initially, both towns were identical in their composition with a small downtown retail and business district and surrounding residential areas. At some point, various market forces such as the availability of land and local regulations made Town A a more desirable business location than Town B. Businesses faced with the decision as to locate, expand, or relocate in Town A or Town B began to overwhelmingly choose Town A.

Downtown Boston and Dorchester, Massachusetts provide tangible examples of Town A and Town B, respectively. Both neighborhoods were among the first settled by English immigrants in the United States, and economically they remained fairly similar through much of the nineteenth century (though Dorchester was somewhat more rural and residential). While the history of the community is rich, the highly developed and predominantly residential character of the neighborhood created problems for twentieth century urban developers. The layout of roads and density of development in Dorchester made it difficult to route subways through the neighborhood. In contrast, downtown Boston had ample developable land and was relatively easy to construct subway tunnels through the neighborhood. The new subways easily transported people downtown, but only offered limited access to Dorchester, thus business owners could reach a wider audience by locating downtown.

Traffic, business transactions, and the desirability of living in Downtown Boston increased while these declined in Dorchester. The increased desirability of living in Downtown Boston increased property values and rents. Increased sales and property tax revenues from Downtown Boston encouraged the City of Boston government to invest in better schools and a well staffed, funded, and equipped police force to serve this neighborhood. Finally, the increased automotive and pedestrian traffic in Downtown

Boston provided citizens with increased safety since there was little chance of being completely alone at any time of day. The overall quality of life for Downtown residents increased significantly.

The movement of business activities to Downtown Boston coupled with the deindustrialization of the Boston area reduced the opportunities for Dorchester residents to participate in their local economy. Though the Boston area had never been as highly industrialized as some other New England cities, the few factories that had been established in the city began to relocate during the twentieth century. In addition, the underdeveloped urban infrastructure forced the residents of the neighborhood to become increasingly dependent upon automobiles. Automobile ownership in Dorchester created new problems, since the neighborhoods were not created to support heavy traffic.

Decreasing urban conveniences and increasing hassles pushed many Dorchester residents to relocate to the brownstones of downtown Boston or the undeveloped communities surrounding Boston (now the suburbs).

Dorchester's property values failed to increase at the rate of Downtown Boston's. Businesses that could compete in Downtown Boston's more affluent market abandoned Dorchester. Declining sales and property tax revenues took a major toll on the services that the City of Boston provided Dorchester's residents. Schools and police protection were not as good in Dorchester as they were in other neighborhoods because the city was having trouble attracting teachers and police officers to work in the neighborhood. Decreased traffic in Dorchester coupled with an insufficiently staffed police department and fewer employment opportunities in the neighborhood allowed crime to flourish. Ultimately, Dorchester came to be known as a neighborhood people lived in because they

could not afford to live elsewhere. Boston's most recent immigrants and migrants, the Cape Verdean, Hispanic, and African American populations, concentrated in Dorchester and neighboring Roxbury.

The cycle of wealth flowing into Town A and out of Town B will continue until there is intervention in Town B to provide opportunities to participate in the local economy. The Town B government could try to create jobs, similar to how the federal government did in under FDR's New Deal programs, but tax revenues are low and investors are probably not interested in purchasing bonds from the suffering Town B government. Job creation in Town B would be dependant upon the generosity of a higher level of government. Even if this were economically feasible, Town B would have to find more infrastructure improvement jobs to be performed once the roads were repaved. Town B may be able to create a few stable long term jobs for maintaining infrastructure, but these jobs will not be sufficient to revitalize Town B's economy. Politically, widespread job creation efforts to primarily assist Dorchester's population would not have been possible in Boston. In addition, since Dorchester is a neighborhood, not an independent town or city, and there is a disproportionate number of immigrants and non-voters in Dorchester, it is highly difficult for the residents to force the city government to invest in projects that will primarily assist their neighborhood.

Dorchester residents had no option but to travel to other areas to obtain needed goods, services, and employment, as do residents in any generic Town B. Thus, if Town B could revitalize its abandoned commercial district, Town B could begin to counteract the years of wealth flowing out of Town B with a negligible effect on the now prosperous Town A. The question now becomes how can Town B revitalize its local economy?

Under existing market forces, businesses find Town A preferable to Town B.

An economic development corporation (EDC) is essential to revitalizing the neglected economies of Town Bs. In Dorchester, Dorchester Bay Economic Development Corporation (DBEDC) was developed in 1979 in order to provide citizens with the opportunity to participate in their local economy and take control over the evolution of their neighborhood. The organization's primary functions are to provide residents and businesses with the support necessary to assist in the revitalization of the local economy and to facilitate the involvement and social integration of individuals (many of whom do not speak English) in all aspects of the community.

Revitalization of the local economy increases the prominence of the community, traffic, and business transactions. The residents feel more empowered to demand better services from their local government, and the safer community (simply due to an increase in local traffic) makes it a more attractive place to be employed. The quality of public safety, schools, and police forces will improve significantly, there will be increased opportunities to work and participate in a local economy, and the community as a whole will realize increased standards of living. Thus, the establishment of an EDC should provide the groundwork necessary to revitalize a neglected Town B economy, just as DBEDC has done for Dorchester's economy.

BUSINESS-ORIENTED ECONOMIC REVITALIZATION & COMPETATIVE ADVANTAGES

One of the challenges in the alleviating poverty in the long run is finding ways to increase the capacity of the economy to support decently paid workers. Without the option to work and support themselves, people are constrained to living in poverty and

depend on the assistance of the government agencies, other organizations, and individuals for sustenance.¹ Micro-enterprise and development banking projects focus on alleviating poverty in economically depressed areas through increasing the opportunities for residents to support themselves while also increasing the availability of goods and services in these underdeveloped markets.

Microenterprise programs in their most basic form provide assistance to very small businesses. Elaine Edgcomb, Joyce Klein, and Peggy Clark of the Aspen Institute's Self-Employment Learning Project (SELP) identified four key components found in some form in every microenterprise program: a focus on poverty alleviation through economic self-sufficiency of individuals; the self-selection of clients in obtaining assistance; an understanding of the gradual path clients will follow to reach self-sufficiency; and a "non-charity orientation that emphasizes client responsibility" and models open markets by utilizing interest rates and enforcing repayment of loans.² Gwen, a young lady whose story will be elaborated on later, approached the technical assistance staff at DBEDC seeking financing in order to start her own business. The staff explained the organization's lending process, which required the development of a comprehensive business plan, and offered to assist Gwen in building a strong plan. Through the course of the summer, Gwen's original business proposal changed dramatically, she was able to obtain a grant for her business from an outside organization, and Gwen had begun production for her business by the end of the summer.

Development banking takes a different approach to alleviating poverty. It establishes a relatively large enterprise in an economically depressed community.

¹Pfleger & Bennet

Financiers and economic development corporations (EDCs) provide incentives for a company to establish a plant or office in a community. This new establishment will provide services currently unavailable within the community as well as increased appropriate employment opportunities for the residents. EDCs often play a dominant role in these projects, though they typically have to solicit most of the funding from outside sources. DBEDC was able to purchase a relatively large (but polluted) lot of land in the early nineties. Through the rest of the decade, the staff worked to decontaminate the property and find a suitable business to open a plant on that location. After complex negotiations with the City of Boston, financiers, and various companies, DBEDC and the Spire publicity agency finalized plans to open a printing plant in Dorchester.

A third approach to local economic development involves financiers and EDCs aiding in the creation of a small to mid-sized firm that would provide services and employment to the community and in some cases assures that the ownership of the new firm is in the hands of residents. During the summer of 2001, the DBEDC staff was working on obtaining the financing necessary to open a family restaurant and video store in a building the organization owned. While the proprietors of the new business were not from Dorchester, they had extensive experience in retail and food service management and were committed to providing service to the local community. There were no video rental stores in the community and dining options were limited. The new businesses would provide more options for residents to spend money and/or work in their community, and finding an experienced management team to run the business would increase the potential for the new business to succeed.

²Edgcomb et al., p2.

The latter two approaches usually include provisions to guarantee that the organization will hire a considerable percentage of its staff from the supporting community, thus assuring that the jobs created will have a positive effect on the local economy. Thus, development banking aims to improve a community's economic vitality by providing goods and services to an under-served community while committing to provide employment opportunities for the residents. Unfortunately, in urban areas these projects often require massive amounts of planning and negotiating by the non-profits and require a planning horizon of several years before the doors to the business opens. In contrast, microenterprise programs can help someone get a business started relatively quickly. They focus on consulting entrepreneurs in running their businesses and providing financing that would not be available elsewhere. In addition, the microenterprises assisted often do not employ anyone other than the owner on a full time basis; immediate job creation is limited. Yet the upward potential for these businesses is theoretically unlimited, so in the long run jobs are created. The seven programs in Edgcomb et al.'s study had helped start 1,626 businesses, expand 4,204 companies, and extended 3,502 loans averaging \$3,085 each between 1992 and 1995.³ Though figures for individual businesses look small, the benefits to the business owners and the community are immense.

It is essential that employees of economic development programs have an understanding of the community that they serve. They must be able to evaluate the feasibility of the others patronizing new businesses and whether the human capital exists in a community to fill jobs created. An expensive restaurant probably will not be able to attract a broad client base in a low-income neighborhood, though it may employ an

³ Edgcomb et al, p 57.

incredible chef and have an exquisite dining room. In addition, companies requiring employees with advanced degrees may have difficulty finding qualified employees in impoverished neighborhoods and will likely resort to hiring from other communities. It is impossible to easily summarize what development projects will benefit a community and which will not; thus, it is essential that those involved in the planning process truly understand the community.

Hip-hop leather designer M. Antonio Ennis grew up in Dorchester, Massachusetts. When he looked to open his first ready-to-wear store, his instinct was to open it in an inner-city neighborhood. Members of the DBEDC loan approval committee believed that the store would have difficulty achieving sufficient sales in such a location and that it could be a target for crime since the clothing sold is expensive. Yet Dorchester Bay employees were aware that the primary market for Ennis' fashions was inner-city youth and that these customers travel to Boston's high-end retail district to patronize the store. While it is debatable as to whether it is ethical to open stores selling expensive goods in low-income neighborhoods, the reality is that residents will travel to purchase some expensive goods. Ennis worked closely with DBEDC and Main Streets, an organization focused on urban façade design. With this assistance, he was able to design the storefront in a manner that increases light on the street, increasing pedestrian traffic and surveillance after dark, ultimately decreasing crime in the neighborhood. Ennis' store has proved to be viable and successful. Regardless of residents' personal taste in clothes, most agree that the store has increased pride in the neighborhood and has made the area safer.

Throughout the planning process, all parties must be aware of competitive

advantages and act in a manner to maximize their utilization of them. Some advantages are obvious; an EDC can organize community groups and garner support for a project more efficiently than a governmental body, while the government can change tax regulations to serve their goals much more easily than an EDC. A large corporation may have the advantage in obtaining financing for a project through its access to major capital markets, while the government (through Small Business Administration (SBA) guarantees) or EDCs with a strong reputation may have the advantage in securing financing for a smaller firm. Throughout the process, all parties need to be aware that other players may have the advantage in an arena and be willing to delegate duties accordingly. In addition, if the competitive advantages tend to be concentrated with one party in the planning process, the players must start considering comparative advantage. Though a business may not have the contacts an EDC may have with financiers and may encounter more difficulty obtaining a needed loan, it is often necessary and beneficial for the proprietors to apply themselves to difficult but obtainable tasks while the EDC staff works out more complex problems such as decontamination of property.

Many EDCs currently exist and have developed the complex understanding of local dynamics as well as having already gained respect from the community. It would be redundant for the government to try to replicate their expertise. In addition, it would be far less efficient since the government fails to have the grass-roots ties to the community that employees at EDCs often have. Public and private financing must flow through EDCs with a focus on privatized economic development in order to provide increased employment opportunities and improve local markets. These advancements have broad social effects in depressed neighborhoods, and can help to incite increased

economic participation by members of the community. In depressed neighborhoods lacking an effective EDC, specialists in community organizing should be brought in to meet with various community leaders (in particular, the leaders of local religious, social, and business organizations as well as local politicians). This should facilitate the development of an EDC or the revitalization of an existing one. While the development of effective community organizations is beyond the scope of this paper, certain qualities are essential to a successful EDC. It must be focused on being community based organization. This entails maintaining relationships with the residents and business owners and working to understand local issues. The staff must also be trained to look at and act upon larger development issues. The embodiment of these characteristics in an EDC provides it with the competitive advantage in serving a neighborhood over a bureaucratic government office. Yet many governmental powers such as taxation are not duplicated in any other arenas and the government must also be willing to help in an appropriate manner.

The government is effective in collecting taxes and distributing this revenue. The government's role in economic development should primarily be in providing funding for EDCs. Appropriate funding tools that would include grants for operations (staff salaries, office rent, and various bills) as well as the extension of a low interest line of credit economic development programs can draw upon. Fund raising is an important part of a non-profit organization's operations since it builds a sense of community ownership and increases awareness of the organization's activities and accomplishments. Thus, government funding should be aimed at filling in gaps left by private donations. Considering that donors are generally more eager to fund defined projects (such as

building capital in a loan fund) than foot operational expenses, it is likely that government funding will be most useful and effective in funding operations. Yet since many factors effect an organization's ability to raise money, the government should make available avenues for obtaining funding for projects as well as operations. In addition, the SBA should continue to provide resources such as publications and seminars for economic development programs to use and refer clients to.

Under this framework of community organizations assisting in business development and a combination of government and private funding, EDCs should be able to effectively assist in helping build vibrant and locally controlled economies in underdeveloped neighborhoods.

LARGE SCALE INTERVENTION - DEVELOPMENT BANKING

A Case in Development Banking

Development banking is the most capital-intensive approach to increasing economic vitality and has the most noticeable effects on a community. When DBEDC brokered the deal with Spire, it had to act as an intermediary between Spire, local government, Dorchester residents, and financiers. In the decade before DBEDC celebrated the ground-breaking for the Spire printing plant in June 2001, it "negotiated complex arrangements with lien-holders, got a \$9.5 million mortgage forgiven, and bought the 4.7-acre property, ...demolished the [vacant existing] structure, cleaned up the site, and worked closely with local and state officials to get over \$900,000 in back taxes forgiven".⁴ While this process was going on, DBEDC was also looking for an

⁴DBEDC / Spire promotional materials, 2001.

appropriate business to occupy the site, considering over 30 businesses. Ultimately, funding for the project came in the form of both grants and loans from several non-profit organizations; Spire; federal, state, and city agencies; FleetBoston bank; and NSTAR, an energy company.⁵ Spire expects to employ 180 people at the new plant within a year of completing construction in 2002, with a large proportion of the employees coming from within Dorchester.

The role of the EDC

In large economic development projects, the local EDC is going to be the only party that can effectively monitor the interests of all relevant parties, and it will be the EDC's role to act as a diplomat between the varying parties. In addition, the organization must be able to make a critical analysis of the existing situation and act to further the interests it determines to be most relevant. Finally, the EDC must work to find a project that will be relatively stable under changing economic, political, and technological situations.

Dorchester Bay maintains relationships with local government officials, neighborhood organizations, and a limited group of financiers. These relationships allow the organization to discuss neighborhood concerns with development projects and address these in an efficient and effective manner. In addition, the organization had developed the necessary expertise in cleaning up brown fields, lots of land that are undevelopable in its current state due to pollution.

⁵Ibid.

The overall job of the EDC in these projects is to gain community acceptance and excitement about the project, help overcome various hurdles that make the project undesirable from a purely capitalist viewpoint, and to find a corporation that will add to the local economy through increased provision of goods, services, and appropriate employment opportunities.

The role of government

The local government creates many of the hurdles that make these projects initially unfeasible from the purely market standpoint. Had Spire been looking to open a plant at the site it is currently building on in the early nineties, it would have had to conform to government regulations in cleaning up the site and repay back property taxes or take the actions necessary to have them forgiven in addition to the other building codes and regulations a company must conform to in building a new plant. These actions are time consuming and expensive. While repealing such regulations would be problematic for many reasons, the government can make conforming less onerous for interested corporations.

One of the primary tools available for decreasing the burden on firms developing in underdeveloped areas is by offering tax credits. This allows the government to subsidize development through decreasing a firm's existing and future payable taxes. Another tool is state-established loan funds allowing companies to borrow directly from the state at low interest rates for development projects.

While financial incentives to develop in underdeveloped economies will help decrease the encumbrances companies face in developing new plants, the state must also

be willing to invest in increased infrastructure when necessary. In rural areas, this can entail extending highway access to remote locations in order to handle deliveries and shipments as well as increasing the capacity of utility providers to serve large plants. In urban areas required infrastructure improvements will likely entail increased public transit service in a neighborhood, better roads, and increased availability of utilities and public safety to the site being developed.

Though governmental bodies at all levels have the ability to make developing in economically depressed neighborhoods more viable, they must realize that they should not bear the entire burden and should not attempt woo prospective companies on their own. In the early nineties, the State of Alabama decided that it would be beneficial to convince a major car manufacturer (ultimately, Mercedes) to build a plant outside of Tuscaloosa. Though the plant would create 1,500 jobs and could attract Mercedes suppliers to the area, the state's dominance in the deal and the large concessions in land and tax abatements (surpassing \$253 million) raised serious questions among community members. While construction of the plant did take place as planned, the state's ostentatious generosity towards a foreign company certainly did not win the public's affection.

MID-SIZED INTERVENTION- DEVELOPING LOCALLY OWNED AND OPERATED BUSINESSES

Comparative cases in building mid-sized inner-city businesses

During the summer of 2001, DBEDC was working on establishing a small, employee owned print shop in the neighborhood, as well as a family owned restaurant and video store in a building DBEDC had acquired. DBEDC performed huge amounts of

coordinating access to financing, navigation of city bureaucracy, and countless other tasks in these projects just as it had in the Spire project, yet at the end of the summer the restaurant/video store project was on its way to completion while the print shop venture had to be abandoned. The extent of the business' reliance on DBEDC and other outsiders can have a massive amount of influence on the success of the project. Since the owners of the proposed restaurant and video store had a great deal of experience in these businesses, they mainly depended on DBEDC to help them obtain financing and the building. On the other hand, the print shop depended on Polaroid to donate expensive equipment several months down the road as well as contribute a specified dollar amount of business to the shop annually. When Polaroid filed for bankruptcy, the equipment had to be taken immediately and the business plan (including financial projections) had to be drastically revised to make the project feasible. At the end of the summer, the restaurant and video store project was continuing to move along smoothly. The print shop project eventually had to be abandoned since it was no longer financially feasible with increased costs and decreased revenues.

The role of the EDC

Mid-sized businesses have a unique position in economic development. These businesses are generally the ones that the residents will have the most non-employment interaction with. A mid-sized economic development project is often a storefront operation; a restaurant or store that provides goods and services currently unavailable in the community. The investment necessary to start such a business is relatively high; often \$25,000 to \$100,000 is necessary for various fixtures and inventory. The

investment is significantly higher when the proprietor seeks to purchase the corresponding real estate.

EDCs should actively pursue development of new storefront businesses and preservation of existing ones. The organization's understanding of the community is highlighted and these projects provide the opportunity to make some very noticeable changes in a community in a fairly short period of time while preserving the economic activity that currently exists in the community. In Dorchester, the local supermarket, America's Food Basket, had established itself as a purveyor of hard-to-find ethnic foods popular among the community's residents. Yet it may have been forced to close its doors had it not received assistance from DBEDC when it encountered financial difficulties. Had this happened, locals would be forced to purchase their groceries in a less convenient location that most likely does not stock their favorite ethnic items. With assistance from the DBEDC staff, America's Food Basket was able to better manage their finances and expand to other inner-city locations.

The role of government

Storefront development projects are capital intensive. The costs involved in purchasing fixtures and adequate inventory, paying rent, employees, and countless bills associated with opening, and advertising the business add up quickly. This must be coupled with the fact that most businesses are not immediately profitable, and ultimately many new businesses fail. It is difficult for EDCs to lend to these businesses since they are risky and involve such large investments; most EDCs simply do not have the capital available to lend to these businesses. In addition, the risk associated with opening new businesses, particularly in low-income markets, makes these businesses unattractive to

traditional lenders. Thus, the government needs to step in and provide a source of financing for these businesses.

The government does this through SBA backed loans. Though these loans are not specific to certain neighborhoods, the government encourages banks to lend to small businesses by guaranteeing that the government will repay eighty percent of the outstanding principle if the borrower defaults. In addition, the Community Reinvestment Act of 1977 requires that banks loan to local entities and attempts to meet the needs of the communities it locates in (though it does not force banks to take on risky, unprofitable business).

The government has been highly effective in increasing the financing available to mid-sized businesses in underdeveloped economies, and should look to expand these programs as necessary. They have proved to be effective, and play upon the government's strengths while utilizing other parties (banks) to implement the program.

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INDIVIDUAL INTERVENTION- MICROENTERPRISE AND MICRO-LOAN PROGRAMS

A Case in Microenterprise Development

Gwen, a twenty-five year old single mother of three children between the ages of one and seven years, knew that she only had one more payment remaining before she became ineligible for further Temporary Aid to Needy Family (TANF) assistance. With all three of her own children to care for during the summer as well as the son of her fiancé who would be visiting from Maryland for a month, Gwen desperately needed a job that provided her considerable flexibility. Family members were willing to help with childcare when necessary, but not on a full-time basis. Child-care facilities and summer

camps in her inner-city Boston neighborhood were scarce, and Gwen would not be able to afford to send her children to these on the salaries available to a young woman with a GED and limited work experience. Utilizing these resources in other neighborhoods would also be impossible, since Gwen did not own a car and public transportation in Boston is relatively expensive for an individual on a limited budget.⁶ She knew that the best option would be to work for herself, and sent \$40 to a company that in return sent her a catalog of various gift-store products and a solicitation for her to purchase a sample kit for an additional \$400 so that she could establish her own business selling their goods. Lacking any savings to spend on this kit, Gwen inquired about obtaining a loan from the small business program at DBEDC.

When Gwen approached the small business assistance staff with her original plan, the feasibility of gaining economic self-sufficiency through the arrangement was questionable, yet it was clear that Gwen had a strong desire to start her own business. The staff discussed their reservations about her original plan with her and encouraged her to think about what else she could do. After talking to the staff, she returned home to think about how she could apply her past experiences to a new business. The same afternoon as the first meeting, Gwen called and informed the staff that she now wanted to start a beauty supply store, since she had worked in one for several years. The staff was reassured that Gwen possess an entrepreneurial spirit, but also realized that the feasibility of Gwen successfully opening and running a storefront operation was low. She would lack the flexibility she needed for her children, and storefront space was scarce in the neighborhood. Before the next meeting, the staff did some research on home-based

⁶A monthly MBTA pass (allowing holders unlimited access to public subways and buses in Boston and neighboring towns) costs \$57, one-way subway fare is \$1, and one-way bus fare is \$0.75. Children's fares

businesses and spent the next meeting with Gwen brainstorming potential home-based businesses she would be interested in starting. By the end of the meeting, Gwen was interested in learning to make homemade candles and soap and everyone was confident that she could be successful marketing them. The individual attention the staff was able to offer Gwen helped her to find a business opportunity that fit well with her current needs and obligations, increasing the potential for success.

The Role of EDCs in Microenterprise Development

EDCs have two primary areas in which they can assist entrepreneurs: planning and financing. Many of the entrepreneurs assisted in a microenterprise development program lack access to business education and formal channels of financing, yet they often have viable ideas for increasing their personal economic self-sufficiency and provided needed goods and services to their community. Through the provision of training, technical assistance, and financing, an EDC can assist entrepreneurs in their community.

To remain consistent with the “non-charity orientation” of microenterprise programs, the clients must determine how they will run their business. While clients must do most of the planning, the program staff should have the expertise to guide clients in identifying marketable strengths in light of an individual’s circumstances, applying these strengths to market needs, and providing guidance in planning a viable business built upon this foundation. Technical assistance for individual businesses as well as opportunities for traditional classroom- and seminar-style education can provide entrepreneurs with opportunities to increase their understanding of how external forces

are half of adult fares, and those under five years old ride for free. (MBTA website)

will affect their business. This is essential, since the goal of microenterprise programs is to establish viable businesses that will be able to support themselves and possibly grow in the open market.

One area in which micro-enterprise programs have made considerable inroads is in providing small loans to their clientele. In Edgcomb, Klein, and Clark's 1996 study of seven microenterprise programs, the average loan size for the seven programs studied was slightly less than \$3,000.⁷ These loans are not profitable to for-profit banks for two major reasons. First, the administrative costs involved in processing such a loan are high in comparison to the interest revenues made on such loans. The banks' administrative costs in the loan approval process are not tied to the size of the loan and it is simply more profitable for the bank to focus on extending large loans that will generate a higher interest revenues. The second reason banks avoid making these loans is because they are fairly risky. Many of the clients served by micro-lenders have had difficulty managing credit in the past or have no credit. The statistics in Edgcomb et al.'s survey justify the banks concerns. Of the lenders surveyed, the percentage of loans past-due more than 120 days ranged from 0.0% to 22.72%, while the annual write-offs for uncollectable loans varied from 2.40% to 23.75% of the outstanding loan portfolio.⁸ The wide discrepancies may be attributed to varying loan approval procedures, resulting in some organizations making riskier loans than others. The evidence indicates that microlending entails high rates of delinquency and default. Ultimately, banks are for-profit institutions that cannot be relied upon to provide microloans on a large scale at this point.

Most microenterprise programs will encourage clients they suspect could obtain a

⁷Edgcomb et al, p 57.

bank loan to pursue that route. Yet many of the clients will not be able to obtain a bank loan since they lack collateral, have mismanaged their credit or have not established credit, or are simply asking for a loan that is too small or too risky to be profitable for a bank. Thus, an EDC should make every effort to establish a loan fund.

All of these suggestions are capital intensive. Yet it is financially feasible for an EDC to provide access to financing, education, and technical assistance if it works in conjunction with other organizations. While EDCs have the competitive advantage in business planning, there are many other resources which it can draw upon in assisting its clients. Various organizations as well as local colleges provide opportunities for people to learn basics of accounting, financial management, and marketing. Law schools often provide law clinics for low-income individuals and business owners. The SBA provides a multitude of publications, seminars, and various other resources. Thus, the microenterprise assistance staff should make an active effort to monitor what other resources are available to their clients and be willing to refer clients to other appropriate sources. This ultimately should reduce the workload of an EDC in attempting to fully provide for the needs of its clients as well as provide entrepreneurs with a wider array of options and resources.

The role of government

The government's main strength is providing necessary funding for programs, and should investigate how it can effectively serve the needs of microenterprise programs. There are three potential ways in which the government could provide effective

⁸Ibid., pp. 49-51.

assistance to these programs: grants for operating expenses, low interest credit lines for microenterprise loan funds, and a guarantee system similar to the SBA backed loans available through banks.

The employees of microenterprise programs are the most essential component. Yet unlike for-profit businesses, they do not bring revenues into the program at a rate high enough to cover their salaries. Thus, they are dependant upon donations to cover the various expenses of the program, including rent, bills, and salaries. The government could alleviate the fundraising needs of EDCs by providing grants for operating expenses.

The provision of a low-interest line of credit would allow microenterprise programs to borrow money from the government when it is needed for lending, and repay it as the loan is repaid. This should be a relatively low cost program for the government, as the funds would be repaid as loans are, and again would alleviated the fundraising needs of the EDC. It is unclear as to whether this would increase or decrease the total amount of microlending, so it would need to be monitored closely and possibly revised over time. Agencies with high rates of default may be encouraged to be more particular about who they lend to (which could be beneficial to the community), since they will depend on loan repayments to repay the government. Yet agencies with relatively low rates of default and effective loan consideration procedures may lend to more worthy businesses given the greater availability of funds.

Finally, a loan backing insurance program could be beneficial to an organization with effective loan consideration procedures and could encourage them to extend somewhat riskier loans. Yet for programs with high rates of default and ineffective loan

consideration procedures, such a program could encourage the program to take on more unsound loans and ultimately would not promote effective microenterprise development. Thus, such a program would necessitate a staff to evaluate the loan portfolios and procedures of various organizations and provide them appropriate coverage.

CONCLUSIONS

EDCs and governmental bodies can promote business development in underdeveloped economies in various ways, but ultimately both groups must play off of their strengths. The government is most effective in providing infrastructure, changing regulations, taxing businesses, and providing funds from taxes collected. Thus, the government should encourage business development through providing adequate infrastructure, assuring that regulations are adequate but not overly onerous, allowing for flexibility in taxation when necessary to encourage development, and distributing necessary funds to programs that will encourage business development.

EDCs are most effective in maintaining relationships, providing neighborhood specific advice, and assisting with technical business problems that arise. Yet the broad spectrum of responsibilities placed on EDCs also places them in a position where they must be willing to advocate the government to assist them in their work as necessary. Overall, the EDCs are responsible for a great deal of coordination and planning, but they are the only parties with the capabilities to do this effectively.

When the government and the EDCs work to provide increased economic activity in neglected neighborhoods, the residents will ultimately benefit from increased opportunities to for employment and procurement of goods and services in their

communities and an improved standard of living. Thus, it is necessary for the government and community organizations to take steps to assure an effective EDC exists in major underdeveloped economies and create a foothold for future economic development.

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