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In short, CDCs carry out programs of economic development. But unlike other economic development programs (private or governmental), the CDC approach aims to increase power and influence for the low-income community as a whole—not just for a few individuals or groups. For this reason, the CDC operates solely under the guidance of a community-based and community-selected board of directors. By 1975, dozens of communities in at least 30 states had organized CDCs.

Why Are CDCs Needed?

To understand why many communities feel they must have a CDC, start with the fact that any low-income area is in deep trouble—even if the rest of the country is in good shape. And if the rest of the country happens to be in an economic downturn, a low-income area can feel virtually hopeless. There are many reasons—economic, social, and political—for the impoverished conditions of the inner-city slum and the chronic depression of certain rural areas. To understand some of the reasons and to make a plan for dealing with them marks the beginning of hope.

One of the most important keys to understanding a poverty district lies in seeing the interrelation or network of impoverishing conditions. That is, each bad condition reinforces the negative of every other condition. Poor housing holds only the people who cannot afford better, and their low income means that local businesses cannot find enough customers, tax returns go down, local services cannot be paid for, schools are poor, families move away for better educational facilities, the community loses the leadership of concerned families, and political strength of the community is thereby weakened so that it cannot insist on federal or state help for its area—for example, for improved housing—and so on and on.

Low-income areas stay that way because their economic and social environments weaken individual attempts to do something. Only a broad community effort has a chance to reverse the pattern of isolation that handicaps a depressed rural area or the pattern of deterioration that destroys an inner-city neighborhood.

A depressed rural community or a deteriorated city neighborhood is generally the victim of external economic forces that have overexploited or bypassed its needs. The pattern of those forces is continually strengthened at the expense of the low-income areas. It is up to the disadvantaged communities to change that pattern as it affects their own localities, because no one else will.

Poverty in these areas is not a problem of poor individuals and families; it is a problem of a poor community that cannot help its residents prosper. The key long-term solution, then, is development—not welfare payments. (Welfare payments, of course, will always be necessary for temporary misfortune and to aid those who cannot work even though they want to.) The goal of community economic development is to develop—that is, create or improve—economic, social, and other local resources and opportunities.

Only a local group, like a CDC, can do the job of fitting together a comprehensive development program. Outsiders, however well-intentioned, cannot do this. For example, the history of federal efforts to attract outside firms into inner-city poverty areas is dismal. The firms simply cannot be persuaded to identify their interests with the social and financial costs of locating in a depressed area.

Rural regions have the same problem. When a rural village tries to get an outside firm, it often finds that it has paid a price that is too high: Outsiders get the new, good jobs, the firm demands tax rebates and yet requires expensive county services, profits flow away from the area, and still the far-off corporate board room may decide at any time to relocate or close the plant if its profit rate is not attractive enough.

Even an energetic local resident cannot, by himself, effectively start or expand a local business that will help the community. He finds banks will not lend money for a business in a risky community; insurance companies will not give him fire and theft insurance; politicians will not heed his requests for zoning regulations. But a CDC as an institution with broader resources has a better chance to overcome such obstacles. With more political and economic muscle, it can handle these problems either for its own businesses or for local businessmen who need help.

Breaking the vicious circle of community poverty is a matter of a coordinated attack on many levels. It is not possible to cause fundamental change in a community by working on just one of its problems—say, better education, *or* better roads, *or* new housing. When the rest of the community is deteriorating, the better educated will move away, the better roads will carry prosperity through to another location, and new housing will begin to deteriorate.

Success in building a strong community is possible only when the community situation is seen as a whole, with a plan for comprehensive action laid out in step-by-step progression. Only a broad-based representative organization that responds to the community alone, because it is a creation of that community, can prepare and carry out a comprehensive strategy for development.

What Is the CDC Strategy?

The strategy of community economic development is essentially a plan of action to build new resources that will strengthen the community internally *and* in its relations with the larger world. It begins with a coordinating, planning, and action tool, like a CDC, to carry out this strategy.

One of the most important parts of that strategy creates community-controlled businesses and industries. These provide jobs for residents, as well as managerial and entrepreneurial opportunities. They also represent important links with the larger economy. Local business and industry help construct the base for increasing local influence, but new businesses are only one tactic in the strategy.

The land resources of the community are especially critical to development. Most CDCs, therefore, have some plan by which they expect to exert influence on the use of local land. Usually that requires the CDC to own and control large parcels of it. Only by so doing will it be possible to carry out other parts of the CDC strategy. For example, new businesses may need an industrial park. Or to take another example, an economical program for rebuilding dilapidated housing may require large-scale land development. Land then is usually a central focus for CDC strategy.

Another part of the strategy of community economic development aims at what is called "community infrastructure." This is the network of physical and organizational facilities that can make an area a hospitable place to live, work, run a business—or can make it totally unattractive. A CDC will press for the creation or improvement of these facilities by the local government or by others. For example, local government will be pressured to provide better street lighting, sewer and water systems, road resurfacing, parks, schools, and security. Other facilities, such as housing or day care centers for the children of working mothers, might be provided by local government or, with CDC help, by a private organization. In any case, all of these are necessary parts of a growing, improving environment.

Part of the "community infrastructure" is not so much physical as it is simply established ways of doing things—things like not making credit available to local residents, or not hiring them because of their color, or payoffs to building inspectors to get them to pass slum conditions. The CDC has to have a strategy for dealing with this sort of problem too. Changing the practices of the established institutions is a crucial part of giving the community a better chance at the advantages other communities have.

Still another part of the strategy of local development makes sure that the opportunities created in the new businesses, in the new hiring practices of established institutions, and in the new community facilities go to local residents. Plans also have to be made for upgrading skills and developing local talent, so that the community does not have to depend upon attracting outside specialists to relocate there. However, a community will also want to make itself attractive so that it can benefit from the talent and specialized skills of people who may choose to move back to their old neighborhoods or new people attracted by the hope of the area.

All these plans in a development program take money, and a lot of it. That is just what no poor community has. So a CDC must finally face up to the problem of outside capital and financial resources. It is unreasonable to expect that poor communities can do the development job with their own financial resources. The necessary capital *must* come from outside the low-income area. Yet that capital is not going to flow into the area on its own.

The CDC strategy plans for the community to develop its organizations and political strength to make sure that the capital becomes available. An organized community is the only community that can insist that government and private funds are committed to the community—and committed in ways that the community wants, according to priorities that the community sets.

Who Starts a CDC?

CDCs always begin by the initiative of local residents. Sometimes residents have been encouraged by others who are not local residents (for example, a VISTA volunteer, a sympathetic state or municipal political leader, a concerned businessman, a church leader). But local people must take the initiative.

To date, CDCs have been started by people of many different racial and ethnic backgrounds. They have been sponsored by a variety of neighborhood civic groups and churches, by Model Cities Boards, poverty program Community Action Agencies, and by people who just got together without a previous organization and built one up from there.

The individual history of each CDC is a special story in and of itself, but, generally, all are directly or indirectly by-products of the civil rights movement in America. What started with the black minority has been taken up by others, including inner-city white ethnics and rural Appalachians, as well as Chicanos, Native Americans, Puerto Ricans, and others.

Some CDCs were started by coalitions of local community leaders and organizations. For example, the Hough Area Development Corporation, in Cleveland, included as its founding members virtually every recognized spokesman in the neighborhood, from street corner leaders to settlement house directors, lawyers, and politically active welfare recipients.

Some CDCs have been created by Community Action Agencies. Job Start in southeastern Kentucky is one of these. The CAA in Knox County, Kentucky, had been providing job training and other educational and social services to its predominantly white residents only to discover that there would be no jobs in the area no matter how good the training. The CDC was started to remedy this situation.

Some CDCs begin as a limited group and then become a broader community organization. Under the leadership of the Reverend Leon Sullivan, members of Philadelphia's Zion Baptist Church founded

Zion Investment Associates (Progress Enterprises) in 1962, which in 1968 was opened to others besides his church members.

Whatever might be the organizational background of the local CDC, it usually has a special history of some important or dramatic success in attacking one problem and then deciding to move on to a broader campaign. For example, the East Boston CDC grew out of an Italian-American neighborhood's battle against the taking of its houses for airport expansion. The Featherfield Farm project of New Communities, Inc., in southwest Georgia became a vision for black sharecroppers who had organized for voting rights. The economic development program of FIGHT in Rochester, New York, was one outcome of a campaign against discriminatory hiring at the major local industries. Perhaps it is true that no poverty community can launch an ambitious development program until it has experienced success in an important battle on a more limited issue.

What Is the Role of Outsiders?

Although a CDC is a resident-controlled organization, no CDC can get along without assistance from outsiders. In fact, that is one of the jobs of a CDC—to get help, especially financial help, from outside sources, but to get it on the terms that the community can accept.

Outside assistance has been important even in the beginning of many CDCs. For example, the biggest CDC—Bedford-Stuyvesant Restoration Corporation—would not have moved toward its massive community program without the help of Senators Robert Kennedy and Jacob Javits, who mobilized financial and industrial leaders to take an interest in the community. The two senators, in fact, sponsored federal legislation that today provides the single most important source of funds for all CDCs.

Harlem Commonwealth Council in New York City is an example of a CDC started with major help from academic institutions (Columbia University and the New School for Social Research). The academic group made economic studies of Harlem and showed the feasibility of specific industrial and commercial alternatives for economic development, but local leaders actually built the CDC organization and its program.

Other CDCs, such as The East Los Angeles Community Union (TELACU), have begun as the direct result of following the model of another CDC. TELACU was formed in May 1968 when the United Auto Workers gave funds to a group of its Chicano labor union members to set up a broad-based economic development program comparable to the one UAW had sponsored in the riot-torn black area of Watts. The TELACU area contains the largest concentration of Mexican-Americans in the Southwest—over 500,000.

To describe the crucial part sometimes played by outsiders is simply to describe reality. But it is not real to suppose that an impoverished area can be changed with outside help, unless the local leadership is enlisting local energies to guide the outside specialists and to make sure that decisions are made with local approval and according to local judgments about what comes first. For instance, one of the toughest problems of comprehensive economic development is deciding the trade-offs: that is, deciding, for example, what cost in reduced business income should be accepted for hiring and training less skilled employees because they are residents, rather than taking already skilled workers from other areas who would be more productive right away. Outside specialists cannot make that decision—or make it stick. Only people taking responsibility for their own community can make the trade-offs between one benefit now and another later on. In each situation, the decision may be different, depending upon the needs of the program and its community.

Where Does the Money Come From?

The ambitious programs of the CDCs require a lot of money. If you want to rebuild a neighborhood or strengthen a rural area, with housing, new businesses, and community facilities, you must mobilize a whole range of financial resources—for planning, administration, and investments.

There must be money for equity (ownership) investments by the community, and there must be money available as loans to the community, or as guarantees for loans, and a whole host of other complex financial arrangements by which the CDC can pay for what it needs. There must be flexible grant funds and outright gifts which can be used for any investment purpose or indeed held for a while until priorities can be sifted out for their use. Less flexible funds are also necessary. The CDC has to have access to specialized dollars, like sewer grants or mortgage loans or other credits, that are linked to specific purposes.

Funds for CDCs have come from many sources: the local community residents themselves, labor organizations, private industry, private foundations, churches, and government agencies. Progress Enterprises illustrates the potential of community residents' own resources. This CDC began on the 10-36 plan—church members contributed $10 per month for 36 months. By this approach, in about eight years Progress Enterprises had enrolled 6,000 members and had accumulated more than $2 million to invest in its economic development program. However, Progress Enterprises has also received millions in private and government grants and loans. Thus dollars raised in one way can often lever dollars in another way from different sources.

CDCs have received funds from a variety of charitable institutions, but the Ford Foundation has provided by far the largest support in this category. In 1973 it committed itself to grant $75 million to selected CDCs over a five-year period.

The chief support for a very significant proportion of the CDCs in the United States has been the Office of Economic Opportunity (now the Community Services Administration). From 1968 to the end of fiscal year 1974, the Special Impact Program at OEO had invested over $165 million in the support of about 45 CDCs. Other programs at OEO have also offered considerable support, and recent changes in the government structure of the antipoverty programs will probably not affect that. However, one now-discontinued federal program was a source of substantial investment assistance: the Model Cities Program of HUD provided an estimated $50 million to CDCs.

Some sources of support from other national, state, and local government agencies usually are available only after the CDC has been in operation for a while. The Small Business Administration, Economic Development Administration, Office of Minority Business Enterprise, Farmers Home Administration, and other federal agencies have provided both financial and technical assistance. With "seed money" from government agencies, the CDCs have successfully levered additional funds from local and regional banks and other lending institutions. State and local housing authorities have also provided dollars.

In the past, the larger corporations as well have provided support. FIGHT, a CDC in Rochester, New York, received subsidies and technical support from Xerox Corporation for FIGHT's electronics plant. Other business corporations, such as Cummins Engine and IBM, have also assisted CDCs by starting a plant in a CDC's target area, or by giving technical assistance, or by guaranteeing a market for the products of a CDC's new business venture. Aid from the corporate world, however, has decreased considerably in the past few years.

What Do CDCs Look Like?

The operations of the CDCs are as diverse as the problems they face and as unique as the communities they serve. Nevertheless, a few examples will illustrate their possibilities.

Job Start in southeastern Kentucky serves ten counties of about 220,000 people, two-thirds of whom have annual family incomes below $3,000. Job Start itself is the parent or "umbrella" organization for a number of smaller groups; it is a planning body controlled by a 14-member board of directors. Twelve directors are elected from existing Community Action Agencies and from other development agencies in the area. Two state-organized area development districts operating within the ten-county area also each elect one director. The bylaws specify that a majority of the directors be in a low-income bracket.

Job Start's major objective has been to create jobs by establishing its own wholly owned small industries. The CDC currently owns and operates three related woodworking and cut-and-sew manufacturing facilities, under the marketing label of Possum Trot. Although from 1970 to 1972 Job Start created 65 jobs through these three subsidiaries and its own offices, 600 people were on the waiting list for 23 jobs at one of the subsidiaries as it opened. There are more openings now because Possum Trot products have caught on in the marketplace; they are sold through high-quality mail order catalogues in the country and in department stores serving well-to-do customers in major cities. Yet the need for jobs is still overwhelming.

To create a substantial number of additional jobs, Job Start modified its policy of wholly owned industries to invest $250,000 in a corporation it would jointly own and run with a private entrepreneur. This plant, which makes tents and other outdoor recreational products, has produced about 200 more jobs. By 1973, a total of over 400 people were employed through the efforts of Job Start, which had generated an increase in total community income of over $5 million in 1973 alone. The involvement of local people in this endeavor has raised the community spirit and influence. For example, the CDC can now bring improved roads: In an arrangement with the county officials, the CDC furnishes manpower and the use of some equipment, and the counties cover the other direct costs. By this means the CDC groups have gotten the right to decide which roads get county attention.

Harlem Commonwealth Council in New York City is run by a board of directors of 30 members. The original community leaders and founders (or their internally elected replacements) represent over one-third of the board. Another eight are elected by the United Block Association (a neighborhood-based coalition of Harlem residents). The remaining 10 directors are representatives of community organizations operating within Harlem, such as the local branches of the NAACP and the Urban League, and local church groups.

The chief focus of this CDC is to develop a cluster of profitable business ventures, which are technically owned by HCC's holding company. Ultimately, the ownership of these businesses is to be turned over directly to community residents through the sale of stock in the holding company. In 1974, HCC had eight ventures in operation and a nonprofit subsidiary offering technical services to local businesses.

HCC's efforts have produced planned land development, job opportunities, and manufacturing in Harlem. The City Office Building on West 125th Street, owned by a subsidiary of HCC, was built as a joint venture of HCC and a major white-owned firm. Chase Manhattan Bank provided the needed loan. The resulting seven-story, fully modern building, centrally located on Harlem's main street, is the first new office building constructed in Harlem in decades. The upper five floors are rented by city agencies on 21-year renewable leases, and the street floor is leased by small businesses and franchise firms. HCC's own offices and those of another of its subsidiaries, Harlem Commonwealth Tours, are also in this building.

The Shultz Company, the largest manufacturing plant in Harlem, was purchased by HCC in September 1972. Occupying two six-story buildings, the Shultz Company employs 100 to 150 people in its production of specialized display and counter facilities for supermarket chains in the middle Atlantic and southern New England areas.

A small CDC, the Lummi Indian Tribal Enterprise, Inc., is changing the life of approximately 1,600 Lummi Indians, most of them living on a reservation on a small peninsula off the northern coast of the state of Washington (about a 5,700-acre reservation). In 1965 the total annual income for the tribal organization was less then $9,000; the median family income was $2,000, with one-third making less than $1,500. Unemployment was sky high; health care was almost nonexistent.

That year the tribe launched a campaign to gain help and bring attention to their needs. Over a number of years, they prepared proposal after proposal for federal grants from many different agencies, and their success in effectively using the initial grants garnered enough additional money to make massive changes.

By 1973, the Lummis had harvested their first crop from their new tribal business–one of the most extensive and sophisticated aquaculture ventures in the United States. The $2 million that OEO had granted the Lummi CDC, together with substantial other federal funds, was being transformed into three million fish, thirty million oysters, hundreds of thousands of silver salmon, and fifty million seed oysters–an annual output expected soon to gross $6 to $7 million annually.

Ten times as many Lummis were going to college as in 1965, and projections were seriously being made that within a few more years the average attainable net income for each tribal family would be well over $10,000 a year. The Lummis have capitalized effectively on their initial successes to begin a process of community transformation.

The Lummi CDC is run by a board of directors chosen by the 11-member administrative governing body of the tribe, which itself is elected annually by all members of the tribe. This structure is specially adapted to accommodate the traditions of the tribal organization with the requirements of business administration.

TELACU, The East Los Angeles Community Union, formed in 1968, has brought over $40 million to its Chicano neighborhood. An example of its influence is the way it affected a major Los Angeles firm that was to develop the 504-unit Nueva Maravilla Housing Project. TELACU, by bringing together a planning group of residents–welfare mothers and young gang leaders as well as residents with jobs–created the plan for this housing project so that it includes recreation and health care facilities and social services. Nueva Maravilla then received $10 million from Los Angeles County. In order that its constituents might benefit from the jobs that would be created from the project, TELACU obtained $500,000 in manpower training money to train residents and also secured $3.8 million in subcontracts for community businessmen. But TELACU also creates its own projects in business or in housing–for example, the 20-unit Happy Valley Villa.

Membership in TELACU (a federation of organizations) is open only to organizations that either have their principal office in the target area or serve residents in the area. Individuals cannot become members as such. Eligible organizations must have a substantial membership of low-income residents of the area served by TELACU. Each group appoints one authorized representative to sit on the TELACU board of directors. In this way, community control is achieved by the method of indirect representation.

TELACU, the Lummis, HCC, Job Start–these illustrate the very different forms that the CDC can take.

How Successful Are CDCs?

An extensive independent evaluation of the largest federal program of support (OEO's) has estimated that as of 1973 about two-thirds of the CDCs were successful. To be realistic, there are also many CDCs that are not successful. And it is a fact that sometimes a generally successful CDC launches unsuccessful projects. Yet compared to what has happened to other ventures in poverty areas, the CDC record–for OEO-funded CDCs–is excellent, according to the only research available.

The independent evaluators of these CDCs found, for example, that 50 percent of the 250 ventures started by CDCs would be at least breaking even by their fourth year. Nationally, for new, small businesses in general, only about one-third even live to the age of five years. Moreover, in the depressed areas in which CDCs operate, the figures for failure are higher: For example, in Chicago 80 percent of new black-owned businesses folded in 1972; these are the businesses that operate in the same unfriendly economic environment where black (and other) CDC ventures are making a go of it.

Moreover, the OEO-supported CDCs have been able to attract new loans and other investments at a leverage ratio comparable to all U.S. corporations in attracting loans, bonds, and mortgages—in the years studied, \$.61 to every dollar for CDCs, compared to \$.65 to every dollar for U.S. corporations in general. Further, the 30 CDCs evaluated had created 2,066 permanent jobs and 5,500 temporary jobs in an average three-year period. Other detailed statistics show that the training and hiring practices of the CDCs have resulted in impressive job opportunities for local residents.

The statistics of success of the CDCs must not, however, be overweighed against nonstatistical measures—for example, the ways of building a community sense of well-being. To take two cases: in St. Louis, Missouri, the efforts of the Union Sarah Economic Development Corporation, which serves 32,000 people in a 133-city-block area, have encouraged private developers to return to the area. One absentee landlord, whose property abuts a CDC project of townhouses, garden apartments, parking lot, and swimming pool, has not only rehabilitated his own property, but also has moved back to his old neighborhood. In Bedford-Stuyvesant, the CDC has created a black cultural affairs center by renovating a large abandoned building and using it as the centerpiece of an ambitious development of commercial, educational, and housing properties. The children from this predominantly black area come from all the public schools to view performances at the modern theater, and major corporations have competed for commercial space there.

Such local creativity builds hope and pride, necessary ingredients for the future of any community. CDCs, therefore, consider it essential not to measure their performance simply on statistics of business profits or even number of jobs created. There is a lot to building a community that cannot be measured that way. In addition, statistical methods of research are hard to use, and the best available studies have grave limitations.

What Problems Do CDCs Face?

CDCs face three basic problems, as they continue their work. First, they must get more funds, and the flow of capital must be stable, not dependent on short-term grants. Their job is a big one, and it will take big money over many years. Even good profits from their businesses will not support the necessary massive development needed. Second, they will always face tough decisions in their attempt to balance broad community interests with success on any one project. A multipurpose organization will always have to trade off a little success in one goal for more achievement in another. Third, they have to maintain a high level of community participation to keep their energy potent.

The first problem probably boils down to whether or not federal appropriations will grow to match the needs of communities that seek to improve themselves. Private foundations, churches, and others simply will not be able to provide the fundamental capital investment that is required. Ultimately, the proposed creation of a national community development banking system could decrease dependence on annual federal appropriations. But for some years the solution to the financial problem of developing communities will lie in the one possible source of major investment funds—federal tax dollars.

It is important to remember, however, that CDCs do not merely spend the federal funds. They use that money to raise more money from the private capital market. To repeat, many CDCs have just about matched the private corporate world in their ability to get loan funds from banks and other private sources. But debt capital (credit) depends on having equity money to begin with, and that must come from federal grants.

The second category of problems (the tough trade-off decisions) has caused some critics to doubt that a CDC can, for example, establish profitable enterprises with stable jobs. These critics say that a business cannot survive if it has to meet multiple social goals (not to speak of contending with the unfriendly economic environment of the low-income areas). Although the research evidence so far does not support this criticism, inescapable tensions do exist between making a big profit and producing other community benefits. Moreover, trying to create the largest number of jobs usually means selecting businesses in which most of the jobs are low-paying. While community residents may at first be satisfied with such jobs if they have been unemployed, sooner or later they will demand that the CDC produce better jobs.

Choosing appropriate markets for CDC goods and services raises a comparable problem. The need for dollars from outside the community inclines the CDCs to develop businesses that produce goods for export and bring cash to the area. The desire to service the CDC community, however, applies pressure to produce goods and services marketable in the immediate area. Also, the CDC may be torn between a project of assistance to local businesses and a business venture that it starts and runs itself.

The resolution of another conflict is technically difficult. There is a "multiplier effect" for each type of business, depending upon where the money goes for goods and services. If people spend money where they live, the effect of the expenditure can be multiplied into benefits for others in the community. Each business, too, spends money, and the CDC must weigh where that expenditure takes effect and how much difference an investment put in one sector would make compared to another. Yet multiplier effects, themselves, have to be gauged against the different risks of each business as a venture.

Further, budgeting limited time is as hard a decision to make as budgeting limited funds. CDCs deeply involved in successful business ventures will naturally be pressed to sharply diminish their other activities for the community. The CDC director and staff can become so engrossed in running the business operations that they have neither time nor energy to work on other community projects.

This leads to the third problem—how to keep the whole program moving by community participation in the CDC affairs. If residents cease to identify the CDC as theirs and as worthy of the contributions of energy that it takes to keep an organization effective, the CDC will soon run down. At best, it will turn into a minor business operation. At worst, the CDC can be taken over by people who will turn it to their own private advantage. An alert community will strengthen a CDC, and the CDC, as one of its goals, must always be working to keep the community alert.

Most of these program tensions can be reduced somewhat by the thoughtful and active participation of the CDC board of directors. The board of directors has the responsibility as trustees for the community to decide the trade-offs and the allocations of time, money, and energy. That is a heavy responsibility and means a lot of unpaid work by citizen leaders.

To date, the CDCs are only a small effort for social change, carried on without much fanfare. The CDC as an organizational form seems to have promise, and communities are learning what it can do and what it cannot. They are also learning that although the CDC begins from the idea that only a comprehensive multipurpose strategy will work, one organization does not and cannot do the whole job. CDCs have to foster and work with other community organizations that do particular tasks in the overall development strategy. For example, a CDC could assist a food-buying cooperative or help set up an independent credit union. A CDC could invest in a MESBIC (Minority Enterprise Small Business Investment Corporation), which helps the small businessman at the right time with a loan or a shared investment. Also, CDCs can join forces on many projects with local antipoverty agencies, the Community Action Programs.

The CDC cannot attack the problem of poverty without working with all sorts of other groups in the community—and outside of it. Yet not everything can be done at the same time. Thus, operating a CDC is a tough process of choosing priorities, making choices, and learning the differences between the various types of specialized tools that must be used to build the community.

What Are Prospects for the Future?

Assuming that federal support for the community economic development movement continues, CDCs

appear to have a good future. Even though some CDCs have failed, enough have succeeded to demonstrate that they can assist the poor and the disadvantaged to join the nation's social and economic mainstream. Although they are definitely not a panacea, CDCs can carry out social and economic change in some communities, and in others the CDCs can be important at least for purposes of amelioration. The particular role a CDC plays, its legal structure, the problems it faces, and its likelihood of success depend greatly upon the community itself—*and* upon the people who want to make their community a better place to live.

Each community must recognize that the particular social, political, and economic tools it creates for self-development will be different from another community's organizations. There is nothing special about the words "community development corporation." The important thing is the process of development and self-determination that a community undertakes, with whatever councils, cooperatives, corporations, or other organizations. The CDC is *one* powerful form of organization to express and achieve community self-determination.

How to Get More Information

The Center for Community Economic Development and the National Congress for Community Economic Development inform the public about CDCs. The National Congress (with offices at 1126 16th Street, N.W., Washington, D. C. 20036) offers membership and technical services to community groups. The Center is a nonprofit research and advocacy organization in support of groups like the National Congress, individual CDCs, cooperatives, and other low-income urban or rural development councils. Both organizations publish a newsletter, and the Center also maintains a national library and publishes research reports and materials like this pamphlet.

COMMUNITY DEVELOPMENT CORPORATIONS

A community development corporation (CDC) is organized and controlled by local residents to develop the economy of their own community. The CDC is, in fact, a new community tool created by people in low-income areas to gain influence over the economic conditions of their lives. To get that influence to make fundamental changes in their communities, CDCs

- identify and develop local skills and talents
- own and control land and other resources
- start new businesses and industries
- increase job opportunities
- sponsor new community facilities and services
- improve the physical environment

The Center for Community Economic Development (CCED) is an independent research group located at 639 Massachusetts Avenue, Suite 316, Cambridge, Mass. 02139. Its primary function is to conduct public policy research by examining the ongoing problems of community development corporations (CDCs) and of other community-based economic organizations. CCED acts also as a clearinghouse and library for materials and information on community-based economic development, and it has assisted CDCs as an advocate on social and economic problems. Its work is supported primarily by a grant from the United States Office of Economic Opportunity.

This is one of a series of publications. A complete list of publications is available upon request.

Community Dev't Corps

The Permanent Fund has the potential capability of financing a range of social and economic projects within the state of Alaska. When identifying the investment goals of the Permanent fund, it is necessary to consider the unique geographic and social organization of local communities in the state. Given the accelerated growth that many communities will be experiencing with the energy resource development and the variety of ways these communities can participate it is important that the Permanent Fund investigate a form of organization and management that can best fit the decentralized and disparate nature of growth in the state.

Objective:

Community Development Corporations have operated as a development bank for a number of years in Alaska and in other areas of the country. The objective is to investigate the possibility of a decentralized management and investment decision criteria for the Permanent Fund modeled on the form taken by CDC's.

Scope of Work:

1. To provide information on the organizational structure of Community Development Corporations.
2. To investigate the range of CDC investments.
3. To provide information on the management and control of CDC funds.
4. To provide information on investment decision criteria.

Tasks:

1. To identify the impact of leasing oil-rich lands on the Outer Continental Shelf on the economy of coastal communities around the state.

This will be done by evaluating econometric models developed by the Department of Interior to predict growth patterns in Alaskan economy, and from work done by Robert Stobaugh at the Harvard Business School Energy Project on petrochemical industry strategies for less developed countries.

2. To provide information on the organizational structure of Community Development Corporations.

This will be done by identifying how the Alaska CDC is structured and how it differs from other CDC's around the country. The Alaska CDC is one of the most active in the country.

3. To investigate the range of CDC investments.

This will look at the size and type of enterprise and the level of financial assistance.

4. Management and control.

This will investigate who sits on the Board of Directors of a CDC, hires the staff and how investments decisions are made.

5. Investment criteria.

The major emphasis of this report will be to investigate how CDC's evaluate investments in a project. For example, how can the investment criteria accomodate seasonality, flexible work schedules, high threshold costs and ownership patterns reflecting the social organization of the community.

Tasks Schedule:

The results of this investigation will be formally presented in a paper to the Permanent Fund Advisory Committee by the end of December, 1976.

Budget: $5,000

Community Development Corporations--CDCs are revenue generating entities organized and controlled by local residents to develop and direct the economic activity in their area. The CDC is a relatively new community tool created by low-income people to gain influence over the economic conditions that affect their lives. In order to obtain this control, CDCs engage in such activities as (1) identifying and developing local skills and talents; (2) endeavoring to own and control land and other resources; (3) capitalizing and operating new businesses and industries; (4) increasing job opportunities; (5) sponsoring new community facilities and services; and (6) improving the physical environment of the community.

Any or all of these activities may be chosen by a CDC, but the primary purpose of these efforts is to increase power and influence for the low-income community as a whole--not just for a few individuals or groups. For this reason, CDCs operate solely under the guidance of a community based and community selected Board of Directors. A depressed community is generally the victim of external economic forces that have overexploited or bypassed its needs. The pattern of these forces is continually strengthened at the expense of the low-income areas. Self-determination by the community of changes that need to be made and the means of achieving them is necessary, as only the residents can make those decisions and adopt strategies for change that are appropriate for their community.

CDCs are currently operating in communities in more than 30 states. Most CDCs are incorporated under general business or non-profit corporation statutes and therefore are subject to the laws governing corporations.

Funding sources-The chief support for many of the CDCs in the U.S. has been the Office of Economic Opportunity (OEO)--which is now the Community Services Administration (CSA). Other federal agencies which provide financial and/or technical assistance are the Small Business Administration, the Economic Development Administration, the Office of Minority Business Enterprise and the Farmers Home Administration. Assistance is sometimes available from state and local governments, foundations, and private corporations. Aid from the corporate world has decreased considerably in the past few years, however. With "seed money" provided by the public sector, many CDCs have successfully levered additional funds from local and regional banks and other lending institutions. The goals and objectives of a particular CDC, and the type of activities it engages in can determine possible sources of funds and eliminate others. Due to lack of management experience, location within a depressed area, and initial employment of large numbers of unskilled or inefficient workers, such extra costs can be incurred that the demise of a fledgling CDC can occur. For this reason, a continuous inflow of assistance from sources other than its own business enterprises must be assured until sufficient cash flows have been established.

Self-determination and assistance restrictions-Two factors, leadership and institutional strength, seem to increase the ability of CDCs to use outside assistance without sacrificing much local control. These factors are crucial to the raising of equity within the community, which in turn is important for enabling the CDC to acquire outside financing from a position of strength. Without these two vital factors, CDCs may be unable to use the expertise of outside consultants without relinquishing self-determination or retaining control in policymaking areas. Aside from attempting to develop or utilize these strengths, CDCs must choose outside aid with an eye to the types of restrictions imposed on the assistnace and how well the help matches the corporation's goals.

Local Economic Development Corporations--LEDC's are organizations formed to foster economic development in low-income areas. Boundaries of the organization's activities are described in the LEDC's charter, and may be within, coincide with, or exceed the boundaries of a political subdivision. Occasionally, the area served may extend to two or more states.

Goals of the LEDC may be project specific (i.e. building of a supermarket), or they may be open-ended, seeking out and engaging in various projects within a community. Initiative for formation of an LEDC may come from leaders within a low-income community or area, church groups, foundations or concerned local businessmen. Funding for the activities of the organization may also be obtained from diverse sources; it may come from federal grants/loans, state grants/loans, foundations or from slae of stock in the LEDC to members of the community. Although there is no "standard" structure for LEDC's, the type of activities to be pursued and the types of funding sought are important considerations in structuring the organization. Two of the most common corporate formats for LEDC's will be discussed.

Local Development Corporation--LDC's are organized under applicable state laws as stock or membership corporations and the primary goal of such an organization must be, but is not limited to, community development. LDC's so chartered may avail themselves, under Sec. 502 of the Small Business Investment Act of 1958, of SBA loans. Loans are made by SBA to the LDC, which in turn lends funds to approved projects. Limitations exist on loans in this category—$350,000 maximum for each small business/ $1 million limit to any LDC in any one fiscal year. If an LDC's funds are provided by a lending institution under a 90% SBA guarantee plan, the $1 million limitation does not apply. Loans may be used for construction or expansion of existing facilities, not for working capital or inventory acquisition. Working capital is provided by the LDC itself or from funds furnished by private or other sources. By utilizing the LDC format, greater leverage opportunities exist than when the SBIC structure (discussed below) is chosen, as direct LDC participation in a given project is usually 20% or less. However, SBIC's have greater discretion in making loans then do LDC's, who must convince SBA of the merits of each project funded and use the monies for certain purposes only, whereas SBIC's may use their own criteria for determining a project's desirability. Another attractive feature of the LDC format is that initial capital requirements are less.

Small Business Investment Companies--SBIC's are private corporations licensed under the Small Business Act of 1958. A prerequisite of licensing is that the SBIC must raise $150,000 of its own capital; to make this less onerous, the restrictions on banks investing in common stock (under the Bank Holding Act of 1956) have been relaxed to a degree for investments in SBIC's. National banks, members banks of the Federal Reserve system and non-member insured banks are permitted to buy stocks in SBIC's to the extent allowed by state law up to an amount equal to 5% of the capital and surplus of the bank. Initial capital may also be raised by selling part of the SBIC's stock to a foundation. After the initial capital is raised and the corporation is licensed, SBIC's which invest 65% or more of their funds in venture capital can obtain federal financing at a ratio of 3-to-1 for that part of their paid-in capital and surplus which exceeds $1 million. SBIC's can be profit-making ventures, and the law encourages them to make equity investments. Retained earnings may be added to the paid-in capital and surplus, thereby enhancing the leverage capability of the SBIC.

As mentioned in the section covering LDC's, SBA regulations contain only a few prohibitions on the use of funds provided to SBIC's. SBIC funds can be used to provide working capital to a project at the discretion of the SBIC Board of Directors. Conflict of interest regulations are generally more restrictive for SBIC's than for LDC's, however.

Industrial Revenue Bonds

An IRB is a tax-exempt bond, a combination of both corporate bonds and municipal revenue bonds affording to the companies the advantages of both.

IRB's are issued in the name of a municipality and require that the funds be applied towards construction and/or purchase of property, plants and equipment as well as costs incidental to the bond issue itself. By structuring the revenue bond program at a municipal level, the program enables each municipality to regulate its industrial growth and retains the "home rule" feature. Generally, the bonds are issued by the municipality for a specific company and retains title to the property until the bond issue is paid off. If the company defaults, the municipality is not liable and the property is sold to satisfy the claims of the bondholders.

Advantages of Industrial Revenue Bonds

- 100% financing available
- Lower interest costs
- Company control of design and construction
- Tax free interest to bondholders

Federal Regulations Governing Industrial Revenue Bonds

A limit of $5,000,000 is imposed on all issues except those financing pollution control.

Issues of $1,000,000. or less are subject to no restrictions.

For issues above $1,000,000.

1. The capital outlay from any source of funds by any company or its affiliates cannot exceed $5 million during a 6 year period - 3 years prior and three years following the date of the construction contract.

2. Companies cannot avoid this restriction by leasing equipment that is ordinarily purchased.

3. Violation of these restrictions results in the removal of the tax exempt status of the bonds.

The Alaska Industrial Development Authority

The AIDA was initially created as an instrumentality of the state with powers to incur debt for acquiring or constructing industrial and manufacturing plants. It was basically created to entice private industry into establishing themselves in Alaska. The basic problem was that there didn't exist a market for products of same and the AIDA was basically inoperative.

The 1977 Legislature amended the law to allow AIDA activity relating to facilities for air and water transportation, pollution control and waste disposal, and for the local furnishing of electric energy or gas. As such, AK Airlines and Wien Airlines are obtaining financing through this Authority. Bonds issued by AIDA are tax exempt and the interest rate through this type of financing is very attractive.

Community Enterprise Development Corporation of Alaska--CEDC is a community development corporation (CDC) founded in 1968, which receives funding for operating expenses and project loans from the Community Services Administration (CSA), formerly the Office of Economic Opportunity. Its impact area is the entire state of Alaska; excluding the five urban centers of Anchorage, Fairbanks, Juneau, Ketchikan and Sitka. CEDC seeks to foster economic development in rural Alaska by providing technical assistance and feasibility studies, loans, grants and capital investments to various types of commercial enterprises in rural Alaska. Projects that will create employment opportunities, lower living costs and enable village residents to maintain some control over economic activity in their area are those sought by CEDC. Projects considered by CEDC must be unable to obtain initial financing from private sources, but bank (or other private institution) participation can be a component of the final investment package. Additionally, only those projects with broad community ownership (at least 15 individuals) and whose owners fall within the federal poverty guidelines as determined by CSA are eligible for consideration.

Corporate structure--CEDC is organized under Alaska statutes as a voluntary, non-profit corporation. Management of the corporation is provided by a 30-member Board of Directors, comprised of 20 members from enterprises which have received CEDC assistance; 7 members from the ANCSA regional corporations or RurAL Cap regional corporations; and 3 members of the Alaska business community. The entire Board meets three times a year--day to day management is provided by an Executive Committee, which is composed of and elected by the members of the Board.

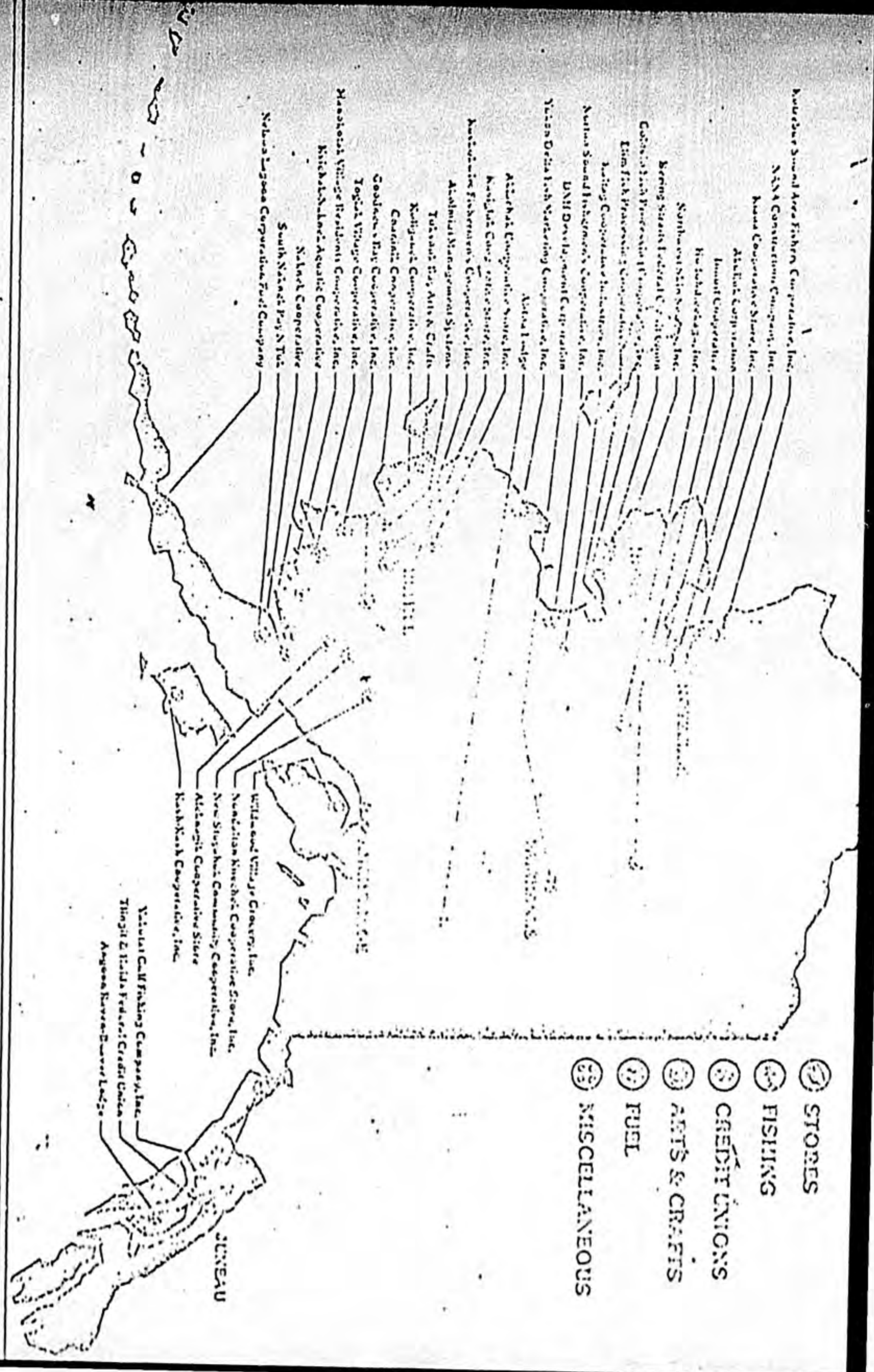
Areas of Activity--CEDC has undertaken projects in such diverse areas as fishing cooperatives, cooperative grocery/variety stores, fuel dealerships, credit unions, hotels/lodges, arts and crafts cooperatives and construction companies.

Types of financing/loans--CEDC's participation in projects takes several forms; loans, grants and equity financing. CEDC intends to concentrate on equity financing to an ever greater degree in order to realize its goal of self-sufficiency from CSA by creating increased cash flows. In addition to participating directly in assisted ventures, CEDC brings together other federal agencies, state agencies and private investors to join in financing and assisting ventures. CEDC has standardized its interest charge for all types of loans to 7.5% per annum compounded simple, in order to return more money to the corporation for operating expenses and other lending activities. For venture capital investments or major loans no maximum limit (other than availibility of funds) exists, loan term is 10 years. These investments/loans must be approved by CSA, which sometimes presents difficulties due to field evaluation timing and differing standards of desirability between CEDC and CSA. A fisheries revolving loan fund totalling $600,000 may be loaned to members to a maximum of $250,000 per loan. Existing ventures may borrow operating capital from the short term revolving loan fund ($15,000 maximum); repayment terms vary but the interest rate is 7.5%. Interest payments, monies returned, etc., are placed in the CEDC revolving fund, which may be loaned to members at the discretion of the Board of Directors. CEDC has a loan portfolio of over $1,500,000, with a loan delinquency rate of .45%. By encouraging other institutions and agencies to participate in project financing, CEDC has achieved a leverage ration of 1:1.36.

Priority areas/goals--CEDC encourages and expects that assisted ventures will become self-sufficient and provides all available expertise to help projects realize this goal. In addition, CEDC is working toward becoming an independent agency that is not dependent on CSA for funding, but does not expect this to happen in the near future. Priority areas are fisheries, tourism, timber and cooperative store ventures, the first three of which are extremely capital intensive. CEDC has received an increase in the number of projects submitted for consideration as awareness of the possibilities of community owned businesses increases in rural Alaska. However, due to lack of funds many of these potentially viable projects cannot be addressed by CEDC.

See other side for additional information.

NAME OF AGENCY	FUNCTIONAL RELATIONSHIP		
	Funding	Technical Assistance	Regulatory
Federal			
ACTION Volunteer Programs		X (Also rep. on board)	
Department of Agriculture			
Cooperative Extension Service (University of Alaska)		X	
Farmers Home Administration	X	X	
Forest Service		X	
Alaska District Engineer		X	
Department of Commerce			
Economic Development Admin.	X	X	
National Marine Fisheries Service		X	
Federal Communications Commission			X
Housing and Urban Development	X	X	
Health, Education & Welfare		X	
General Services Administration	surplus property		
Department of the Interior			
Bureau of Indian Affairs	X	X	
Bureau of Land Management		X	
Internal Revenue Service			X
Interstate Commerce Commission			X
Department of Labor		X	
Land Use Planning Commission		X	
Small Business Administration	X	X	
Department of Transportation		X	X
Federal Aviation Admin.			
State			
Department of Commerce	X	X	
Department of Community and Regional Affairs			
Division of Economic Opportunity		X	
Division of Rural Development Assistance	X	X	
Department of Economic Development	X	X	
Division of Tourism	X	X	
Department of Fish and Game		X	X
Department of Labor	Training	X	
Department of Natural Resources		X	
Department of Public Safety			X
Revenue Department			X
Other			
Alaska Economic Development Office (OMSE)	X	X	
Aleyotka Investment Company (MESBIC)	X		
Campaign for Human Development	X		
American Indian Tribal Commission	X	X	



NAME OF AGENCY	Funding	Technical Assistance	Regulatory
Federal			
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Farmers Home Administration	X	X	
Forest Service		X	
Alaska District Engineer		X	
Department of Commerce			
Economic Development Admin.	X	X	
National Marine Fisheries Service		X	
Federal Communications Commission			X
Housing and Urban Development	X	X	
Health, Education & Welfare		X	
General Services Administration	surplus property		
Department of the Interior			
Bureau of Indian Affairs	X	X	
Bureau of Land Management		X	
Internal Revenue Service			X
Interstate Commerce Commission			X
Department of Labor		X	
Land Use Planning Commission		X	
Small Business Administration	X	X	
Department of Transportation		X	X
Federal Aviation Admin.			
State			
Department of Commerce	X	X	
Department of Community and Regional Affairs			
Division of Economic Opportunity		X	
Division of Rural Development Assistance	X	X	
Department of Economic Development	X	X	
Division of Tourism	X	X	
Department of Fish and Game		X	X
Department of Labor	Training	X	
Department of Natural Resources		X	
Department of Public Safety			X
Revenue Department			X
Other			
Alaska Economic Development Office (OMSB)	X	X	
Alyeska Investment Company (MESBIC)	X		
Campaign for Human Development	X		
American Indian Tribal Commission	X	X