

# **Reintegrating Disadvantaged Communities into the Fabric of Urban Life: The Role of Community Development**

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## *Abstract*

This article analyzes the extent to which systematic spatial variations in opportunities in metropolitan areas provide a persuasive rationale for three current strategies for stimulating the development of urban communities: enterprise zone programs, community development financial institutions, and community development corporations. It examines whether the strategies are appropriately designed to respond to serious deficiencies in opportunities in distressed inner cities and reviews available evidence about their efficacy in addressing those deficiencies.

A review of the literature reveals that poor inner-city neighborhoods, particularly communities of color, have unequal access to opportunities in numerous areas, including employment, credit and financial services, housing, neighborhood shopping, and social networks and services that provide access to information and resources. The limited best-case evidence indicates that the three strategies vary greatly in their ability to address these inequalities.

## **Introduction**

Social science research on urban life has long acknowledged, both implicitly and explicitly, that the lives of urban residents—their experiences, opportunities, and quality of life—are affected by where they live. Anthropologists assume that individual and household behavior can be properly understood only if viewed in context; the residential context, while not the only relevant one, has generally been treated as central. Sociologists focus our attention on the importance of relationships—within and among groups, networks, and kinship systems—and relationships developed in the context of family and neighborhood life have always been treated as fundamental to understanding individual life experiences and choices. Urban economists call attention to the importance of the consumer's location within particular markets, exploring how much the choice of a residential location affects not only the quantity and quality of housing consumed but also access to public services, neighbors and neighborhood amenities, and work.

Public policy development and policy analysis have been much less consistent in their attention to, and acceptance of, the importance of location, and policies specifically intended to help *places* (rather than citizens or firms) have been in and out of favor throughout the postwar period.

At least three factors have contributed to the changing fortunes of such policies. First, it has consistently proved very difficult to sustain political support for programs that seek to target public dollars to a relatively small part of the population and that make differential access to public benefits so clearly visible.

Second, the dynamic character of our cities has sometimes made it difficult for scholars to provide policy makers, on a timely basis, with an adequate knowledge base about how major urban social and economic systems are functioning and how public sector interventions might reasonably be expected to affect their performance and outcomes. For example, the dearth of capital investment during the Great Depression and the constrained pattern of investment during World War II meant that scholars did not find clear evidence of the long-term suburbanization of the nation's employment base until well into the 1960s (Kain 1968). Broader appreciation of this phenomenon came even later (e.g., Hamer 1973; Phillips and Vidal 1983; Sternlieb and Hughes 1977; U.S. Department of Housing and Urban Development [HUD] 1980).

Third, policies and programs that address the problems of places have been of highly variable quality, both in concept and in practice, and have too often been conceived and sold as vehicles for achieving goals they could not meet. The nation's most ambitious urban revitalization efforts—urban renewal, Model Cities, and the War on Poverty—won political and financial support because they were widely understood as attempts to restore the economic and social character of central cities—that is, to turn back the clock. As a result, over the years, enthusiasm for fresh ideas has often been followed by disillusionment, and failure to distinguish among the wide variety of place-based initiatives has led many to reject the entire approach.

The articles included in this volume, starting with George Galster and Sean Killen's (1995) conceptual framework for understanding the geography of metropolitan opportunities, are part of a broad effort in the research and policy community to improve our understanding of the changing face of urban places and thereby provide insight into the design of effective public

policies. This article uses the framework and perspective developed by Galster and Killen to reassess the efficacy of three place-specific policy approaches currently being used in an effort to strengthen disadvantaged urban neighborhoods: enterprise zones, community development financial institutions (CDFIs), and community development corporations (CDCs).

Starting with the Galster-Killen focus on spatial variations in opportunities available to residents, this article assesses each policy intervention in terms of its ability to improve opportunities for residents of neighborhoods in which opportunities are currently deficient. Specifically, each of the major sections of this article examines existing empirical evidence about whether spatial gaps in opportunities provide a rationale for the intervention, whether the intervention is designed to fill such localized gaps in the opportunity set, whether the intervention has actually increased the opportunities available, and whether it shows reasonable potential to do so.<sup>1</sup>

In examining these strategies, I take as given that a wide variety of policies and programs that are not place specific (e.g., efforts to maintain steady national economic growth, broad-based efforts to eliminate racial and ethnic discrimination, and people-oriented efforts such as welfare reform and child immunization) are essential elements of any national strategy to improve the lives of disadvantaged urban residents. The relevant policy issue is not people *versus* place or strengthening poor neighborhoods *versus* dispersing their residents and somehow starting over; rather, the issue is whether and under what circumstances specific interventions targeted to, and tailored to the needs of, disadvantaged neighborhoods have a constructive role in the policy portfolio.

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<sup>1</sup> Given the lively debate in the urban policy literature about “people versus place” (and its predecessor, “city versus sandbox”), it is useful to underscore the importance of assessing each of these approaches separately. Like other types of public policies, policies targeted to places exhibit important variations in objectives, approach, coverage, program design, and program implementation. As noted above, efforts to consider these policies as a set and to judge their efficacy on that basis easily generate more heat than light. Nicholas Lemann’s widely discussed article in the *New York Times Magazine* (1994)—which focuses sharp attention on the unrealistic or overstated goals of some programs but treats all such programs as if they were cut from the same cloth—is an excellent example. As the subsequent discussion makes clear, even the relatively specific strategies reviewed here exhibit considerable program diversity.

## Analytic framework

The strategies reviewed here are commonly referred to as community development strategies. Since the term “community development” has almost as many meanings as it has users, it is important to clarify how the term is used in this article and how the concept relates to Galster and Killen’s conception of opportunity structures that vary spatially. For this purpose, an analogy to the concept of economic development is helpful.

Economic analysis defines economic development as a change in the shape of the production possibility frontier (as opposed to a simple outward shift in that curve, i.e., growth).<sup>2</sup> Although often characterized in terms of investments that introduce changes in production technology, this shift can also be the product of other changes, including change in the institutional arrangements supporting (or providing inputs to) the production process. Examples include international agreements governing tariffs and trade, the legal construction of rights to different kinds of property, and the organizational infrastructure that mediates between workers seeking employment and employers seeking labor.

By extension, communities—broadly understood to have many dimensions, including social, physical, and political dimensions as well as economic ones—develop when investments of either capital or labor produce changes in the institutional infrastructure locally available to develop and sustain productive members of the community.<sup>3</sup>

Sometimes referred to as “social capital,” the community’s institutional infrastructure has both formal and informal elements.

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<sup>2</sup> The production possibility frontier is the set of all combinations of goods and services the economy can produce with existing capital and technology, making efficient use of its resources and given people’s preferences for leisure.

<sup>3</sup> This usage of the term “community development” has the advantage of clarifying the relationships among community development, economic development, and community economic development—terms that are often used interchangeably, with confusing results. Economic development, in the economist’s definition cited in the text, can take place on many geographic scales; hence one finds references in the literature to national, state, regional, and local (commonly meaning city) economic development policy. Community development takes place on a smaller geographic scale, most commonly thought of as a neighborhood or group of neighborhoods, and may occur along any of the dimensions of community (economic, social, physical, etc.). Community economic development connotes the intersection of the two—that is, economic development at the community scale.

The formal infrastructure includes public, private, and nonprofit organizations (businesses, service providers, schools, membership organizations, etc.) and the relationships among them that create working markets or political or social systems. The informal infrastructure includes family and friendship networks, neighboring relationships, and networks formed through participation in leisure or volunteer activities.<sup>4</sup> By hypothesis, this infrastructure may either provide opportunities directly (as schools provide education) or mediate between individuals or households and the opportunities potentially available to them (as guidance counselors help students locate jobs or select colleges).

Changes in the local institutional infrastructure, including its links to resources in the broader metropolitan community, alter the opportunity structure facing individuals and households and thus have the potential to alter their choices. Viewed in this way, spatial variations in the opportunity structure are in part a result of variations in the local institutional infrastructure, and the existence, problems, and perpetuation of opportunity-deficient neighborhoods can be understood in terms of the failure of that infrastructure.

From this perspective, place-based neighborhood development strategies (i.e., community development strategies) are promising policy instruments to the extent that they strengthen opportunity-providing institutional infrastructure and thereby improve access to opportunities for individuals and households in locations where opportunities are deficient.

It must be noted at the outset that the empirical evidence available is not really up to the analytic task of testing the validity of this framework. Much of the available information about spatial variations in opportunities identifies places and populations for which opportunities are demonstrably poor (primarily neighborhoods of concentrated poverty and communities of color), rather than providing a more comprehensive picture of patterns of

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<sup>4</sup> The community's formal institutional infrastructure corresponds to (1) the local portion of what Galster and Killen term the "metropolitan opportunity structure," which includes housing and labor markets and the political, educational, social service, and criminal justice systems, and (2) connections between those local entities and the larger metropolitan system. The informal institutional infrastructure corresponds to what Galster and Killen term "local social networks," which are part of the metropolitan opportunity structure and which shape the values, aspirations, and preferences of network members and their perceptions of the likely outcomes of choices regarding education, employment, and the like.

variation across different types of neighborhoods.<sup>5</sup> To use an analogy, if the metropolitan opportunity structure is viewed as a network, most of the existing evidence relevant to this discussion is about the gaps in the net. The problems this poses for testing the framework analytically are quite serious. From a policy perspective, these problems are somewhat less acute, because poor, distressed neighborhoods are precisely the types of places most likely to be the focus of spatially targeted initiatives.

Specifically, evidence about the impact and effectiveness of the three programmatic strategies considered here is very limited and of uneven quality. No systematic information is available about how these interventions affect individual choices and outcomes. There are three reasons for this lack of information. First, some of the initiatives are recent; if they seek to address structural problems, they would reasonably be expected to take years to produce significant (or even measurable) change, especially neighborhoodwide. Second, all of the strategies are intrinsically difficult to assess rigorously: Relevant outcomes are often difficult to measure, and attribution of those outcomes is always problematic because the initiatives operate in complex systems. Finally, some of these approaches, because of their small scale, have received little attention from the research community.

This article attempts to piece together existing information to frame an assessment of the three strategies—enterprise zone programs, CDFIs, and CDCs—as vehicles for strengthening the economic and social organization and opportunities in disadvantaged communities. In each major section, I examine the evidence about spatial variations in the types of opportunities that the strategy is presumably intended to provide. I then evaluate the intervention strategy in three ways: (1) by examining the degree to which the goals and design of the intervention are well suited to providing opportunities in neighborhoods where they are presently deficient, (2) by reviewing what is known about the strategy's actual impact in such neighborhoods, and (3) by assessing the strategy's potential to effect important changes.

Because systematic evidence about program impacts is not available for any of the three strategies, this review focuses primarily on examination of best cases to assess each strategy's potential for producing the desired effects. Given the character of

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<sup>5</sup> Even some of this evidence is indirect. For example, if banks do not redline but do discriminate on the basis of race, restricted access to credit among African Americans will have spatially concentrated effects because of persistent residential segregation, even though the crux of the problem is not spatial.

the evidence, however, the discussion leaves open many questions that will need to be revisited as improved evidence is developed.

## **Enterprise zones**

Enterprise zone programs are probably the most familiar public sector initiatives currently targeted to distressed areas. Largely in response to congressional discussion of enterprise zones, states began enacting such programs in 1981, and 36 states now have enterprise zone programs in operation (Richard Cowden, executive director, American Association of Enterprise Zones, telephone interview, April 4, 1994). Most of the analysis presented here is based on the states' experience. The potentials of federal empowerment zones and enterprise communities are discussed at the end of this section.

As originally conceived in Britain, enterprise zones were a strategy for stimulating economic activity in industrial areas largely devoid of residents. The idea that the revival of significant industrial or commercial areas was a promising approach to revitalizing adjacent residential areas was a distinctly American metamorphosis of the concept (Butler 1991).

The logic for the linkage between industrial and commercial districts and their adjacent residential neighborhoods has been at least as much political as economic. The promise of employment benefits for unemployed or underemployed workers has provided an attractive rationale for a program that principally benefits business—demonstrating state concern for economic development while incurring little or no on-budget expenditures. Although Butler (1991) notes that both liberal and conservative backers of enterprise zones shared the view that blighted neighborhoods contained untapped resources—both human and capital—that needed to be unleashed, state programs do not appear to have been designed with this end in mind.

There is nothing in the history of the enterprise zone program or in the eligibility criteria used in defining individual zones to suggest that firms in designated zones have greater need than other firms for the benefits the program makes available. Hence, in the terminology of this analysis, enterprise zones are not a response to perceived spatial gaps in the availability of investment or operating capital for firms. If enterprise zones address spatial variations in opportunity, the variations are in employment opportunity.

A growing body of evidence suggests that such variations in employment opportunity exist. Empirical research on the extent to which living in central-city ghettos or high-poverty neighborhoods restricts meaningful access to employment opportunities includes two main bodies of work: (1) analyses of the spatial mismatch hypothesis and (2) research on the social isolation of poor households and households living in neighborhoods of concentrated poverty.<sup>6</sup> Both lines of research have important unresolved issues, but both offer evidence that residents of racially segregated inner-city neighborhoods and neighborhoods with a high concentration of poor households confront a restricted set of meaningful employment opportunities.

### *Unequal opportunities due to spatial mismatch*

The central proposition of the spatial mismatch hypothesis is that the steady dispersal of employment (especially low-skilled jobs) from central cities, combined with limitations on the residential choices of African Americans (which result in highly segregated residential neighborhoods), accounts for low levels of employment and earnings in those neighborhoods.

John Kain, who fathered the spatial hypothesis in the 1960s (Kain 1965), recently reviewed the literature exhaustively in this journal (Kain 1992). While acknowledging that some scholars disagree (Jencks and Mayer 1990), he concludes that

there is growing evidence that housing market discrimination, and the particular pattern of racial residential segregation it created in most, if not all, U.S. metropolitan areas, are important causes of low employment levels of the Afro-American residents of central-city ghettos. (Kain 1992, 436)

At the same time, however, Moss and Tilly (1991) argue that the *impacts* of lower job access for central-city blacks—including the *magnitude* of the effect on levels of employment as well as any effect on wages—remain unclear. They also find that the impact of proximity differs for different groups of workers, apparently

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<sup>6</sup>Two additional lines of inquiry are of potential importance to a full assessment of Galster and Killen's framework vis-à-vis employment opportunities: one on the increasing mismatch between the skills possessed by residents of poor central-city neighborhoods, especially poor people of color, and the skills required by jobs being created in central cities; the other on racial discrimination in the labor market. These topics are not discussed here because they are not primarily spatial in character and because state enterprise zone programs are clearly not designed to address them.

having its greatest and clearest effect on the employment rates of young African-American men.

Analyses by Holzer and Sullivan provide a possible explanation. Holzer's (1987) analysis of the job search behavior of a national sample of unemployed youth finds that (like adults) they use informal search methods (friends and relatives and direct applications without referrals) more often and more intensively than formal ones (state agencies and newspaper ads) because those methods are most productive in generating job offers and job acceptances. However, his subsequent analysis (Holzer 1988) finds that these informal search methods have higher payoffs for young whites than for young blacks, largely because whites are more likely to receive job offers, and that white-black differentials are greater for use of direct applications than for friends and relatives. Correspondingly, Sullivan's (1989) ethnographic work finds that youth in their early teens rely heavily on nearby jobs and that the character of nearby jobs—particularly whether they have the potential to lead to “good” jobs—has an important influence on whether the employment experience of youth in their late teens leads them into stable patterns of work.

### *Unequal opportunities due to social isolation*

Empirical investigations of the extent and effects of social isolation on employment are more diverse and, as a group, still less systematic and cumulative than the research on spatial mismatch. William Julius Wilson's *The Truly Disadvantaged* (1987) provides the framework for much of the recent work. He makes two related points concerning neighborhood effects.

The first is that social isolation, defined as “the lack of contact or of sustained interaction with individuals and institutions that represent mainstream society[,] . . . makes it much more difficult for those who are looking for jobs to be tied into the job network” (Wilson 1987, 60). Wilson reasons that spatial proximity to centers of employment is less salient than social connections that provide information about job opportunities.

Wilson's second point is that the presence of many families in which no one is steadily employed creates a neighborhood milieu in which young people do not learn the routines and behaviors (e.g., punctuality and reliability) that employers seek. Hence social isolation promotes behavior inconsistent with good work habits and is therefore not conducive to developing good work histories.

Evidence to substantiate these aspects of Wilson's provocative hypotheses is accumulating but remains limited. Fernandez and Harris (1992) found that among African Americans, poor inner-city residents have more limited social networks than the non-poor and their networks are less likely to include people who are employed. Social isolation increases with the degree of neighborhood poverty. Lerman (1986, cited in Moss and Tilly 1991) and Van Haitsma (1989) find higher rates of employment among inner-city survey respondents who have friends or family members who are employed. Case and Katz (1990, cited in Moss and Tilly 1991) confirm this finding and link it to the level of neighborhood unemployment, while Holzer (1987) documents the importance of friends and relatives in the job search behavior of young job seekers. Ethnographic analyses of inner-city youth by Wial (1988) and Sullivan (1989) document the importance of networks in locating employment, in forming attitudes and contacts for successful entry into the labor force, and in shaping the type of work found.

Evidence on employer behavior also attests to the firms' reliance on social networks to recruit employees and the adverse effects of this practice on poor African Americans. Kirschenman and Neckerman (1991) found widespread negative attitudes toward inner-city African-American job applicants among Cook County employers, whose techniques for recruiting and screening "good" workers include targeting newspaper advertisements to specific neighborhoods or ethnic groups (*not* African Americans) and increasingly relying on referrals from current employees, which tends to reproduce the current workforce.

Some corroboration of this view is provided by Braddock and McPartland (1987, cited in Moss and Tilly 1991), who find that employer use of social networks in hiring makes whites more likely to be employed in positions requiring a college education. For jobs requiring a high school diploma, African-American high school graduates who attended segregated schools (a proxy for having segregated networks) were as likely as white graduates to find work but got lower wage jobs.

### *Enterprise zones as a response*

Although the evidence is far from definitive, taken as a body it indicates a high likelihood that meaningful access to employment varies geographically within urban areas and that such access is particularly poor in neighborhoods with large concentrations of people of color and poor households, especially those

in which no one is employed. Given this picture, the policy question is whether enterprise zones represent an effective remediation strategy. A review of the evidence about state enterprise zone programs suggests that the answer is no. Most state enterprise zone programs in urban areas include neighborhoods of high unemployment, but they are fundamentally conceived and designed as general economic development programs, not anti-poverty or community development programs. Their design and implementation generally do little to promote the employment of zone residents, and most of the limited evidence available suggests that few zone residents actually become employed in the zone.

*Objectives and design.* Existing state enterprise zone programs vary considerably in at least four dimensions: the criteria for zone designation, the stated objectives, and the type and depth of tax incentives available.<sup>7</sup>

Virtually all state enterprise zone programs include in their eligibility criteria for zone designation measures of the economic need of individuals or households residing in the zone. Erickson and Friedman (1991), in their review of the design of 36 state enterprise zone programs, find that all the programs with stated designation criteria consider the level of zone unemployment and all consider at least one measure of household economic well-being (median income, percentage of households below the poverty line, or percentage of households receiving public assistance, in that order of frequency). Resident need is thus the implied rationale for public sector intervention, and there is no evidence that designated zones do not typically include neighborhoods of relatively high resident need. In this sense, zone programs are well targeted.

Nevertheless, the same review reveals that the stated goals and structure of most state programs are not strongly oriented toward helping needy residents or improving their neighborhoods. Rather, economic development, broadly understood, is the primary program objective, with the general promotion of health, safety, and public welfare as a commonly cited overarching public purpose. Job creation is a stated goal in 17 of the 36 programs reviewed, “often linked either explicitly or *implicitly* to the provision of jobs for zone residents” (Erickson and Friedman 1991, 159, emphasis added). Only 11 programs explicitly state

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<sup>7</sup> Considerable variation among zones also exists within individual states, but very little hard information about these variations and their impact is available.

neighborhood revitalization or community development as a goal, although an additional 4 cite these objectives in their promotional literature.<sup>8</sup>

Following from these goals, Erickson and Friedman report that the preponderance of tax incentives provided for in state legislation are targeted to firms. Tax credits (and, less commonly, financial assistance) to stimulate investment are considerably more numerous than credits targeted to labor, although most states provide some incentive of each type. As James (1991) notes, these credits are more likely to stimulate capital investment than job creation; he refers to evidence on the national investment tax credit that “has suggested that the credit fostered the substitution by employers of physical capital for production workers, and may actually have reduced the supply of low-skilled blue collar work” (p. 232). Nevertheless, also mirroring the stated goals and consistent with the more general revitalization objectives that often motivate program adoption, 16 states provide for some form of wage credit for employers that hire zone residents or other qualified low-income workers, and another 11 make the hiring of such workers a condition for claiming other types of benefits.

*Performance.* Despite the considerable attention given to the enterprise zone concept and to zone programs, remarkably little high-quality information is available about what they have accomplished and how they have done so. Part of the reason for this lack is the short track record of many state programs and zones relative to what they are intended to accomplish, but much of the problem lies in important methodological shortcomings of the impact analyses that have been done. James (1991) discusses these program evaluation issues in detail and makes the case for

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<sup>8</sup> The likelihood that these broader community development goals will be achieved is undercut by the fact that zone boundaries need not be drawn with this goal in mind. Since direct benefits of location in an enterprise zone accrue to firms, designated zones commonly include a core commercial or industrial area in which development is to be promoted—typically a mix of established enterprises and vacant land or structures. The adjacent poor residential areas that qualify these commercial and industrial areas for designation may or may not be neighborhoods (in the sense of having a locally recognized identity or conforming to the boundaries of the service areas of local institutions) and may not even be contiguous. As James (1991) notes, evaluations of enterprise zones have typically paid little or no attention to whether broader community development objectives (housing quality improvement, better neighborhood services, etc.) are being met. Two exceptions to this pattern examine the Indiana enterprise zone program, which provides more encouragement for community development aspects than many other programs do. These evaluations find occasional bright spots but little overall community development activity or impact (Alley et al. 1993; Wilder and Rubin 1988).

the development of a rigorous evaluation framework, preferably one developed at the national level for use at the state level, to stimulate meaty comparative analysis; HUD is currently working on such a framework. In the context of this discussion, common deficiencies in the analyses of employment impacts are particularly important.

At the most basic level, impact evaluation shortcomings include reporting jobs gained (or “retained”) without netting out job losses, or reporting net job change without establishing a link between employment changes and zone program elements.<sup>9</sup> More thorough analyses that attempt to assess whether observed outcomes are attributable to the program have relied primarily on seriously flawed methods (e.g., before and after studies, employer surveys). James points out that these methods tend to overstate economic growth and zone impacts. Finally, we know little about the extent to which net new jobs that at least appear to have been stimulated by enterprise zone programs actually go to zone residents or about the previous employment status of those residents.

With these caveats, the evidence reviewed below on the efficacy of state-sponsored enterprise zone programs as vehicles for increasing the employment of residents of neighborhoods with high unemployment rates is not encouraging. Even in states where program impacts are arguably the greatest, employment benefits to zone residents appear to be quite modest.

Results from a survey of state enterprise zones conducted by HUD, which includes information about zones in 17 states, appear to provide grounds for optimism. Simple statistics from the survey look promising; they indicate that sampled zones had a mean employment growth of 464 jobs and a median growth of 175 jobs over an average period of two years; on average, more than 61 percent of these jobs went to zone residents, and about half went to low-income or unemployed persons (Erickson, Friedman, and McCluskey 1989, cited in Wilder and Rubin forthcoming). Unfortunately, these increases are gross, not net, and the extent to which they are attributable to zone incentives is unknown. This is critical, since the General Accounting Office (GAO), which conducted a very detailed, firm-by-firm analysis of

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<sup>9</sup> Questions sometimes exist even about the reliability of estimates of employment change. Elling and Sheldon (1991), in one of the few comparative analyses of factors that influence state enterprise zone performance, use the number of firms investing in a zone rather than the change in employment as their performance indicator and cite data reliability as the criterion motivating this choice.

the extent to which job gains observed in three Maryland enterprise zones could be attributed to the availability of zone incentives, found no evidence that the program incentives had had any impact (GAO 1988).

In addition, in Erickson and Friedman's (1991) summary of the results of their regression analysis and subsequent interviews with zone managers, they note (as do many other program impact assessments) considerable variation across zones: "Like many programs, however, there are relatively few successful zones that stand in sharp contrast to a multitude in which little growth has occurred since designation" (p. 175). Further, they report that the places in which success is most likely are those with "genuine development potential," including a labor pool with good basic skills.

Among the assessments that examine specific state programs, Marilyn Rubin's (1991) evaluation of the New Jersey program is among the most positive, finding significant job gains produced cost-effectively. One might reasonably expect New Jersey's program to have greater employment impacts than many others, since its program design ranks high in provisions directly intended to produce this effect. However, her data on direct impacts (jobs generated within zones by participating firms) presumably overstate job growth, for reasons identified by James (1991). Even these data show that less than one-third of participating firms credited the program with their reported growth.<sup>10</sup> Rubin had no data on how many jobs went to zone residents, but more than half the total new jobs she attributes to the program are the result of estimated multiplier effects, most of which presumably accrue outside the zone. Hence even this very positive picture of zone program performance provides little indication that the program is significantly improving the employment opportunities of the unemployed residents of designated zones.

Margaret Wilder and Barry Rubin, examining the Indiana enterprise zone program, provide a more modulated but still comparatively positive assessment of program impacts (Rubin and Wilder 1989; Wilder and Rubin 1988). This, too, is an instance in which one would expect to find positive program outcomes. Elling and Sheldon's (1991) comparison of four state programs (which they conclude are only modestly successful) credits Indiana with

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<sup>10</sup> The survey that collected information about jobs created was administered by the state and included only firms currently participating in the program, thus omitting firms that had moved or gone out of business; information about whether reported changes were due to the enterprise zone program also came from employers, who have reasons to overstate program impact.

creating substantially more jobs than any of the other states, and the Indiana program offers a large number of tax incentives, an important factor in determining the extent of economic activity stimulated (Erickson and Friedman 1991). Rubin and Wilder's (1989) most detailed analyses focus on the Evansville enterprise zone, clearly the flagship of the Indiana program.

Examining program performance during its first three years (1983–86), Wilder and Rubin (1988) find that the state's enterprise zones have been "somewhat successful." Relying on state reports that appear to suffer from the same upward bias as the New Jersey data, they find an increase of about 6,600 jobs across the 10 then-existing zones; unlike Marilyn Rubin (1991) they cannot assess directly the extent to which the job gains are attributable to the program. A subsequent shift-share analysis of only the Evansville zone indicates that three-quarters of the new zone jobs are attributable to the zone's "comparative advantage" (Rubin and Wilder 1989); however, James (1991) argues that attributing these jobs to the enterprise zone program incentives is not warranted. Statewide, the data indicate that less than one-third of total new zone jobs went to zone residents. Papke (1988), using data from the same program but for 1986, finds that only 11 percent of new zone jobs went to zone residents.

*Potential of state programs.* These results, viewed as best-case evidence of upside program potential to provide employment opportunities to disadvantaged zone residents, are not encouraging. At least four factors help to account for this disappointing performance.

First, the underlying assumption that generating jobs on land adjacent to poor residential neighborhoods is a strong strategy for increasing residents' job prospects is flawed. Although research on the spatial mismatch hypothesis makes the case that distance between place of residence and concentrations of employment matters, it also acknowledges (sometimes implicitly) that actual commuting patterns are quite complex.

In fact, commuting data from the American Housing Survey (AHS) indicate that few workers work in their immediate neighborhoods. In 1989, only 7 percent of all workers worked within 1 mile of their homes, and only 30 percent commuted less than 4.5 miles; the median journey to work was 9 miles.<sup>11</sup> In that

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<sup>11</sup> These figures exclude workers who work at home or have no fixed workplace. No systematic review has been made of the physical characteristics of state enterprise zones; the distances of 1 and 4.5 miles are reported here

same year, central-city residents had somewhat shorter commuting distances; a little more than a third of workers lived less than 4.5 miles from work, and the median commute was 8 miles. Even among urban workers from households with incomes below the poverty line, who generally live even closer to their jobs, commutes are typically long relative to the size of urban enterprise zones. In 1985, only 12 percent of poor workers in AHS cities lived within a mile of their jobs, and 38 percent commuted 4.5 miles or less. Thus, even if enterprise zones generate new jobs, it is not realistic to assume that significant numbers of those jobs would normally go to zone residents. Alternatively viewed, giving wage credits or other employment-related benefits to zone firms that hire zone residents is likely to seriously constrain employer choice in many cases and lead employers to limit their use of the credits.

Second, to the extent that state enterprise zone programs offer tax credits and other incentives to hire zone residents, those incentives do not appear to be particularly attractive to employers—for example, because they cover a small portion of the employee's cost to the employer, because claiming the credit entails administrative nuisance and cost, or because the credit is inadequate to offset the costs and risks of hiring someone with what may appear to be marginal qualifications. Bishop and Kang's (1991) analysis of the targeted jobs tax credit finds that employers make limited use of the credit; that when they do use it, they do so to claim benefits (often after the fact) for employees they have decided to hire on other grounds; and that a job applicant's eligibility for the credit seems to have a stigmatizing effect in the employer's eyes.

Third, the incentives offered to zone firms to stimulate investment are not necessarily designed to stimulate creation of the types of jobs for which sizable numbers of residents of zone neighborhoods would be eligible. The fit between types of new jobs added in enterprise zones and the skills of zone residents reflects the complex interplay of many factors, including the types of firms and activities for which designated zone locations are well suited, the match between those activities and the types of financial incentives offered, and the match between the jobs those activities entail and residents' skills. Given the analytic

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because they match the AHS categories. A representative number for a "typical" zone probably lies somewhere in between. Federal empowerment zones and enterprise communities (the guidelines for which must accommodate the largest urban places) are limited in size to 20 square miles; Indiana, with one of the oldest programs, limits its zones to 3 square miles.

complexity of these issues and the political climate in which state programs were developed and zones designated, it seems unlikely that the issues received (or are likely to receive) the attention required to produce a set of incentives and designated zones that enhances the likelihood of employment for disadvantaged zone residents.

Finally, state enterprise zone programs do nothing to address issues of social isolation and job readiness. A consistent finding in the state enterprise zone literature is that impacts are greater in zone programs that provide for zone managers who market the zone and in individual zones that hire energetic, effective managers (e.g., Elling and Sheldon 1991; Green and Brintnall 1991; Wilder and Rubin 1988). Hired for their ability to work well with the private sector, and given that as their primary job objective, typical zone managers are unlikely to have the skills and interests required to build networks either within the low-income community or between employers and the community.

Equally important, state enterprise zone programs, designed as economic development rather than antipoverty efforts, provide no incentives or resources for such activity. Adding serious activity of this type would require a substantial reorientation of priorities and reallocation of resources.

*Potential of federal programs.* The provisions of the new federal empowerment zones and enterprise communities programs respond to some, but not all, of these issues.<sup>12</sup> More important, the federal programs differ from the state programs in potentially important ways that make their impacts hard to extrapolate from the state-level evidence.

First, the federal provisions follow the states' lead in emphasizing a link between commercial and industrial areas and poor neighborhoods. The federal zones can be larger than many urban zones in the states and need not be contiguous; hence employers in federal zones that wish to hire zone residents will be somewhat less constrained, since they will have a larger labor pool.<sup>13</sup>

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<sup>12</sup> This discussion considers only the 6 empowerment zones and 65 enterprise communities that HUD will designate in urban areas; provisions pertaining to rural zones are somewhat different. The discussion is limited to program criteria and guidelines, because we have no program experience on which to draw.

<sup>13</sup> This and subsequent comparisons between the federal and state programs necessarily gloss over the many differences among the states.

However, since only high-poverty census tracts are eligible, this larger labor pool will presumably be similar in skills and experience to that available in state zones, so similar results are likely unless localities take direct action to improve job readiness, the link between residents and employers, or both.

Second, the tax credits available in the six empowerment zones to employers that hire zone residents are larger than those available under most state programs that have comparable provisions. In addition, some training costs for such employees are also covered by a credit, a provision found in few states. This credit makes hiring zone residents somewhat more attractive to employers, especially if they combine it with the targeted jobs tax credit. But the provision does not address either the stigmatizing effect of the credit or the administrative cost of claiming it. No federal tax credits are available to employers in enterprise communities.<sup>14</sup>

Third, other direct tax benefits to firms—the cornerstone of most state programs—are small compared with those typically offered by the states. Employers in enterprise communities receive no direct federal tax benefits. The only direct tax relief for firms in empowerment zones is an increase in the maximum Section 179 deduction for depreciable tangible property other than land or buildings; its maximum value to firms is less than \$8,000 per year, and claiming the credit is complex enough that it is likely to be underutilized (Handler 1993). The federal programs thus avoid the common state pattern of subsidizing capital more heavily than labor and may therefore be less likely to stimulate capital-intensive, rather than labor-intensive, firm expansion. On the other hand, firms in state zones respond more strongly to capital subsidies; the stringent limits on those subsidies in the federal programs greatly reduce the likelihood that they will stimulate business expansion.

More difficult to assess is the creation of a new category of tax-exempt facility bonds that can be used to finance purchases of land and business property in both types of federal zones. As an upfront capital subsidy that is typically of substantial value, tax-exempt financing is quite popular with businesses and could be an important incentive for firm expansion. However, the cap of \$3 million per zone will sharply limit its impact.

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<sup>14</sup> Note, however, that states and localities competing for federal zone designation are judged, in part, on the level of their commitment to the zone; they are free to provide any benefits they choose to firms and to overlay proposed federal zones on existing or newly designated state zones, thereby increasing the subsidies available.

Finally, the allocation of Title XX Social Service Block Grant funding for empowerment zones and enterprise communities—likely to be the largest single federal financial benefit in most zones—marks a clear departure from the path charted by the states. These funds could be important, particularly in empowerment zones, in addressing a variety of community issues, including job readiness and social isolation. The \$3 million available to enterprise communities—or even the \$100 million available to empowerment zones—will not, by itself, go very far toward solving the problems of high-poverty neighborhoods, particularly if localities yield to the pressure to spread it broadly across a large zone.<sup>15</sup> Strategically deployed, however, this amount could be used to leverage a variety of other resources, and the flexibility of these funds makes them useful for filling programmatic gaps left after more restricted funds have been pieced together.<sup>16</sup>

Much therefore depends on the quality of the strategic thinking behind the plans developed during the application process, the extent to which the planning process provided meaningful engagement for the full range of relevant local players, and the depth of their commitment to the process and the plans. One advantage of the zone link to Title XX funds, especially in the context of broad language by the administration about the importance of “comprehensive planning” for “sustainable community development,” is that localities have prepared their applications guided by a much broader vision and scope of action than state zone programs have prompted. Unfortunately, HUD’s initial review of community applications is not encouraging. It suggests that many jurisdictions did not think broadly enough either about how to use federal dollars to leverage money to fund their plans or about the range of services (including literacy training needed for job readiness or financial services) their communities need (HUD Completes Review 1994).

Some insight into the efficacy of a mandated strategic planning approach is provided by the preliminary results from an evaluation of a foundation-sponsored program to induce Indiana’s enterprise zones to add community development to their

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<sup>15</sup> To illustrate, the maximum aggregate population of the six urban empowerment zones is 750,000, and localities have a clear incentive to make their zones as large as the regulations allow. Together, the six zones will be eligible for \$600 million—approximately \$800 for each resident.

<sup>16</sup> How effective the federal government will be in prioritizing, streamlining, and coordinating the delivery of the many programs it encourages localities to incorporate into their strategic plans remains to be seen, although past experience is not encouraging. See, for example, Rubin (1994) on Model Cities.

activities (Alley et al. 1993). This program funded and provided technical assistance to each zone to undertake a broad-based strategic planning process and substantial assured funding for an initial community development project identified during that process. Initial impacts of this program depended heavily on the willingness and ability of zone managers to engage in community development and on the degree to which local government (and the governing boards appointed by city officials) supported adding community development to the zone's agenda. Their responsiveness, and the quality of the plans and project proposals they developed, depended both on their view of community development as a legitimate enterprise zone focus and on their comfort with an inclusive planning process. This suggests that the character and quality of the local planning process will provide an important indicator of likely program impact.

### *Conclusion*

In sum, two lines of empirical evidence—one on the spatial mismatch hypothesis, the other on the social isolation of residents of neighborhoods where poverty is concentrated—suggest that employment opportunities in cities do vary spatially. Evidence about the effectiveness of state enterprise zones, both in general and specifically with respect to their record in providing improved access to employment for residents of disadvantaged neighborhoods, is weak. However, the information available about the design of state enterprise zone programs and about performance to date indicates that—whatever their potential virtues as local economic development vehicles—these programs do not appear to represent a promising strategy for addressing the employment problems of poor inner-city neighborhoods. The federal programs differ importantly in design, and the differences suggest the potential for a greater impact on communities. Resources provided are, however, quite limited relative to the problems of the communities likely to be chosen; they must be deployed strategically to make a real difference, and initial sketchy information about the plans prepared is discouraging. Establishing realistic expectations will be critical to good evaluation of these programs.

### **Community development financial institutions**

CDFIs have their genesis in the perception that certain types of communities and credit needs are not adequately served by mainstream financial institutions. Hence, despite their diversity,

they have in common a community development mission, a focus on servicing low-income or otherwise disadvantaged persons or distressed areas, and direct involvement in lending activities, often accompanied by other services.<sup>17</sup>

We have a growing body of evidence that the premise underlying the formation of CDFIs is correct—that is, that access to credit and financial services is unequal and varies spatially. This evidence is consistent with the hypothesis that observed variations in capital availability result from discrimination and that they disadvantage low-income people and people of color, who are spatially concentrated in central cities. However, both data limitations and inadequate statistical models make it very difficult to conduct analyses that definitively rule out alternative explanations, such as unmeasured variations in risk or variations in demand for capital or services. In fact, a wide variety of factors, including ongoing changes in the financial services industry, can contribute to selective failure in capital markets (Parzen and Kieschnick 1992).

The following discussion examines the evidence on spatial variations in the availability of credit and financial services for households and firms and considers the potential role of CDFIs in responding to observed inequalities.

### *Gaps in credit and financial services for households*

Numerous analysts have documented clear racial and income disparities in the volume and amount of home mortgage loans made by conventional financial institutions (e.g., Bradbury, Case, and Dunham 1989; Canner and Gabriel 1992; Galster 1991). The existence of these disparities is not in dispute; what is at issue in the literature is how to account for them. Possible explanations include discrimination against African-American and Latino loan applicants, discrimination against neighborhoods of color (redlining), real but unmeasured differences in

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<sup>17</sup> This discussion considers five types of CDFIs: community development banks, bank-owned CDCs, community development credit unions, community development loan funds, and microenterprise loan funds. All are covered by the Community Development Banking and Financial Institutions Act of 1994. The discussion does not include venture capital funds or other specialized providers of equity for firms, nor does it cover the Small Business Administration's lending programs, which do not have community development as their primary purpose and are not covered by pending federal legislation providing capital for CDFIs.

risk, differences in demand, market specialization by different types of lending institutions, or discrimination in the lending process.

Sorting out the relative merit of these alternative (and not mutually exclusive) explanations in an analytically rigorous way is likely to be a slow process despite several promising works in progress cited by Galster (1992). Although the more detailed Home Mortgage Disclosure Act (HMDA) data available since 1990 permit rigorous modeling, they still do not include a full set of borrower risk characteristics and are not well suited to testing explanations other than discrimination for observed differences in access to credit (Canner and Gabriel 1992; Perle, Lynch, and Horner 1993; Schill and Wachter 1993). These studies continue to confirm the existence of racial discrimination in mortgage lending, as does recent work with enhanced data that include information on borrower risk characteristics (Carr and Megbolugbe 1993). The studies do not, however, find evidence of redlining.

To the extent that the literature makes a case for CDFIs, that case rests on (1) findings of racial discrimination, which surely has spatial impacts (although perhaps not spatial causes), given continuing high levels of residential segregation, and (2) analyses that appear to rule out benign or market-driven explanations for disparities in credit availability. The evidence on the latter point is much less satisfactory than the evidence on mortgage discrimination and is certainly not conclusive. Taken as a package, however, it does undermine the plausibility of the proposition that observed inequalities are the product of well-functioning capital markets. Consider the following items.

First, Bradbury, Case, and Dunham (1989) find no support for the proposition that market specialization by lenders accounts for racial disparities in lending patterns. They report that the lending patterns of independent mortgage companies, sometimes hypothesized to specialize in lending in poor and minority neighborhoods, do not complement those of banks and thrift institutions.

Second, the Association of Community Organizations for Reform Now (ACORN 1991), analyzing the 1990 HMDA data for 20 banks in 10 cities (but in a style very different from that of Canner and Gabriel 1992), contrasts the experience within individual metropolitan areas of large commercial banks that have similar responsibilities under the Community Reinvestment Act (CRA) and that presumably compete for the

same business throughout the city. ACORN finds that these banks sometimes have similar loan application rejection rates for white and minority applicants, but that they vary considerably in the extent to which they attract loan applicants of color and hence in the number of mortgages they extend to minority borrowers. This suggests variations among banks in either the extent or the quality of their marketing in poor neighborhoods and communities of color and reduces the plausibility of low demand as the primary explanation for low loan volumes in communities of color. Similarly, it casts doubt on (but does not eliminate) unmeasured borrower risk characteristics as an explanation of observed lending patterns, since there is no reason to believe that banks serving the same applicant pool would consistently attract applicants with very different risk characteristics.

Third, Bradbury, Case, and Dunham (1989) present evidence that bank practices do in fact affect their lending patterns. They examine the lending patterns of banks and thrifts with offices in majority-African-American neighborhoods and conclude that branches in communities of color are a good indicator of both an institution's outreach efforts and its ability to serve the community.

Fourth, this point is especially salient when considered in light of the widespread physical withdrawal of many banks from distressed inner-city communities (Anti-Black Bias 1992) and their replacement by other entities (check-cashing services and pawnshops) that provide fewer and higher cost financial services (Shlay and Hoffman 1994).

Finally, evidence presented later in this section suggests that some CDFIs (notably community development banks and bank-owned CDCs) have been quite successful in lending actively in inner-city communities of color—another indication that inadequate demand and excessive risk are not the principal issues at the margin and that it is possible to make headway against existing difficulties in assessing and managing borrower risk.

Taken together, these admittedly nonsystematic findings constitute *prima facie* evidence that, whatever the obstacles to providing financial services to residents of low-income inner-city communities, at least some of them can be addressed—and the level of service correspondingly increased—by institutions committed to doing business in poor neighborhoods and communities of color.

*Gaps in credit for firms*

Evidence about the availability and terms of credit for businesses is much more limited; data are less available and consist primarily of statistical demonstrations of unequal outcomes for white and African-American business owners who seek financing from commercial banks.

Ando (1988), using 1984 data on a national sample of owners of established businesses, reports that, controlling for both firm characteristics and the human capital of loan applicants, African-American applicants for loans from commercial banks were less likely than white applicants to receive loans.

Subsequent analysis by Bates (1991), working with the Census Bureau's 1987 Characteristics of Business Owners Survey (superior to Ando's data in several respects), finds that African-American-owned start-up firms received smaller loans from commercial banks than white-owned firms did. He also finds that although African-American-owned firms had higher failure rates than white-owned firms, the predicted failure rates for the two sets of firms would be similar if the African-American firms had not been undercapitalized.<sup>18</sup>

This pattern of lending behavior has clear spatial impacts. Bates (1993) reports that African-American business borrowers get smaller loans if their businesses are located in minority communities and that loans extended to white-owned firms get progressively smaller as the concentration of people of color in the neighborhoods where they are located rises. And, as one would hypothesize, firms owned by African Americans are heavily concentrated in neighborhoods of color. In Bates's sample from 28 metropolitan areas, 71 percent of small businesses owned by African Americans were located in zip codes in which 40 percent or more of the inhabitants were people of color (Bates 1994).

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<sup>18</sup> Both Bates and Ando attribute the differences in capital availability that they identify to racial discrimination. It should be noted, however, that because of the data on which they rely, their statistical analyses are subject to some of the same caveats cited above with respect to analyses of home mortgage availability, including the inability to definitively rule out some alternative explanations for observed differences, such as unmeasured risk associated with the borrower or the business venture. Also note that both Bates and Ando rely on data about comparatively successful firms. All entrepreneurs in Bates's sample have been in business for at least four years. Ando notes that the African-American and Hispanic entrepreneurs in her sample are atypical; compared with the national population of African-American and Hispanic business owners, they have more favorable human capital characteristics (e.g., education) and their firms are better capitalized.

Unequal access to capital by business owners of color and businesses in neighborhoods of color has important implications not only for capital formation but also for access to employment. Small businesses owned by African Americans are significantly more likely than white-owned firms to hire African-American workers. Even in minority neighborhoods, only 38 percent of white-owned firms employ more than 50 percent people of color; in contrast, even in nonminority neighborhoods, 88 percent of African-American-owned firms employ mainly people of color—an outcome Bates (1994) attributes primarily to small business owners' reliance on family and social networks to recruit workers.

### *CDFIs as a response*

CDFIs—community development banks, bank-owned CDCs, community development credit unions, community development loan funds, and microenterprise loan funds—are conceived as targeted responses to gaps in the availability of credit and other financial services from mainstream financial institutions. However, they differ considerably in number, scale, sophistication, and types of credit and other services they offer. The following assessment of their goals, performance, and potential as vehicles for increasing the flow of capital into disadvantaged communities therefore treats them separately when available data permit.<sup>19</sup>

*Objectives and design.* Although all five types of CDFIs are established to fill perceived gaps in the availability of credit and financial services, they pursue this goal in different ways. Community development banks, community development credit unions, and bank-owned CDCs respond principally to spatial gaps in credit and service availability. In contrast, community development loan funds and microenterprise loan funds (to the extent that they serve urban areas) typically provide types of credit that are generally in short supply rather than serving particular neighborhoods, although their borrowers are highly likely to be located in poor neighborhoods.

*Community development banks* are the largest and most financially diversified of the CDFIs. They are for-profit commercial

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<sup>19</sup> Authors writing about CDFIs categorize these highly diverse organizations somewhat differently. The categories and basic descriptions used here follow the framework laid out by Parzen and Kieschnick (1992), although this article examines fewer types of institutions than they do.

banks with a community development mission, and they serve a specific geographic area. They offer the full range of banking services, including federally insured deposit services, and are subject to the same federal regulations as other commercial banks. If owned by bank holding companies, they may be affiliated with other, complementary entities that engage in non-banking community development activities. South Shore Bank, in Chicago, the largest and best known of these institutions, follows this model. As the most complex CDFIs to operate and the most resource-intensive to establish, community development banks are also the rarest; only about six are in operation.<sup>20</sup>

Commercial banks or bank holding companies may—with approval from the Office of the Comptroller of the Currency (OCC), which regulates national banks, or the Federal Reserve, which regulates state banks—establish subsidiary CDCs. These *bank-owned CDCs*, which may be either nonprofit or for profit, are quite different from the CDCs discussed in the next section of this article. Capitalized and controlled by one or more banks, bank-owned CDCs are financial institutions that have the flexibility to make types of loans that do not meet the standards of the banks and to make equity investments the banks cannot make directly. Established in an effort to help the banks meet their CRA obligations, bank-owned CDCs have focused heavily on the provision of affordable housing. As of June 1993, OCC and the Federal Reserve report banks investing in 121 CDCs, and their numbers have been increasing steadily (Federal Reserve System 1993; OCC 1992, 1993).

*Community development credit unions* are nonprofit institutions owned and controlled by their members, who have some common bond. They are distinguished from other credit unions by their service to low-income communities and their corresponding ability (unlike other federally chartered credit unions) to accept up to 20 percent of their insured deposits from nonmembers to augment the capital available to the community. These approximately 300 institutions share the mission of promoting community savings and ownership of assets and of providing affordable credit and retail financial services to low- and moderate-income people, with a special outreach to communities of color (Shorebank Advisory Services et al. 1994). They do have individual focuses, however, such as home improvement and small business lending.

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<sup>20</sup> Parzen and Kieschnick (1992) broaden the category to include “a handful” of union-owned commercial banks that pursue development goals and several dozen minority-owned banks that operate in predominantly poor neighborhoods.

*Community development loan funds* are the most diverse of the CDFIs considered here. They are nonprofit, unregulated financial intermediaries that seek loans from individuals and institutions that are willing to accept below-market rates for their funds and relend those funds, mainly to nonprofit housing and business developers rather than to individual borrowers. They typically assist low-income communities across geographic service areas larger than those served by the institutions discussed above. The national association that represents these funds has 44 members.<sup>21</sup>

*Microenterprise loan funds* are nonprofit, unregulated revolving loan funds that make small, short-term loans to support the formation or expansion of very small businesses. Their loans, most for less than \$10,000, are considered very risky by banking standards. Modeled after the Grameen Bank in Bangladesh, microenterprise loan funds in the United States now number more than 200, most of which are less than five years old and quite small (Clark and Huston 1993). Like the community development loan funds, they seek to serve people of modest means but to have geographic service areas that are citywide or larger.

*Performance.* Analysis of the performance of CDFIs is sparse. Performance is clearly a topic on which much additional research is needed, especially in light of the substantial infusion of new capital targeted to these institutions in the Community Development and Financial Institutions Act of 1994. The information available suggests that CDFIs (1) are effective in targeting their services to people and places with restricted access to capital and services but (2) are currently far too small and offer too limited a range of services to fill the credit gaps left by mainstream financial institutions.

CDFIs generally do a good job of reaching the types of people and places they aspire to serve. For example, the Woodstock Institute estimated that 35 percent of the member households of community development credit unions had annual incomes of less than \$10,000 and that 70 percent had incomes under \$20,000 (Tholin and Pogge 1991). They also found that for more than one-third of the members of the typical credit union, the credit union was their only depository institution. Microenterprise loan funds have a similar record. An analysis of 302 randomly selected

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<sup>21</sup> Members of the national association are generally independent nonprofit organizations. In addition, many CDCs, which are not incorporated as financial institutions, operate a loan fund as one of their community development activities. These funds vary considerably, and no systematic information about them has been collected.

borrowers from five leading microenterprise loan funds found that 66 percent were people of color, 75 percent were women, 61 percent earned less than \$18,000 a year, and of these 26 percent earned less than \$6,000 (Clark and Huston 1993).

Comparable information about the customers served by the other types of CDFIs is not available, but the likelihood that they are channeling their services to communities with limited access to capital seems rather high. Community development banks and loan funds were established precisely to serve such communities, and their ability to attract the social investment capital they need to survive depends on their ability to demonstrate service to those communities.

The bank-owned CDCs represent an effort by their banks to channel funds into neighborhoods where higher levels of activity will improve the banks' CRA ratings; both the banks and their CDCs are thus evaluated on their record in serving these communities, creating a very strong set of incentives for the CDCs and their staffs. These factors create a strong presumption that these financial institutions are, in fact, making a serious effort to target their activities to low- and moderate-income people.

Despite their apparent effectiveness in targeting their resources, CDFIs have important limitations as instruments for meeting the financial services needs of poor neighborhoods. These limitations are a function of their generally small size and the types of services they do, and do not, provide. In combination, these suggest that CDFIs are not a substitute for fuller and more equitable service to poor communities by conventional financial institutions.

The community development banks are substantially larger and better capitalized than other types of CDFIs; even so, they are far smaller than other types of banks. Community development banks are subject to the same regulatory requirements as other commercial banks; it is unlikely that such a bank in a metropolitan area would be approved today with capitalization of less than \$3 million. Community Capital Bank in Brooklyn, which opened in 1991, was required to raise \$8 million (Community Information Exchange 1990); it currently has assets of approximately \$20 million (Mitra 1993). Shorebank Corporation (then called the Illinois Neighborhood Development Corporation) purchased South Shore Bank for \$3.2 million in 1973, at which time the bank had \$38 million in deposits (Taub 1988); deposits now total \$230 million, making it the largest community development bank in the country by far.

Community development banks are the only type of CDFI in a position to provide a full range of financial services. Providing those services is expensive, however, because the cost of handling transactions (e.g., cashing a check, processing a deposit) is high relative to the size of customer accounts and because poor customers tend to make large numbers of small transactions. Bates and Bradford (1979) found that these two factors clearly added to the difficulties facing small black-owned commercial banks chartered in inner cities during the 1970s, and they estimated that banks serving inner-city communities would need a deposit base of at least \$100 million to be economically viable. South Shore Bank, which puts heavy emphasis on good relationships with its community and is committed to providing welcoming customer service, has struggled with this issue from the beginning. The bank was in operation for 12 years before amassing \$100 million in deposits, and the presence of social investment deposits, which are generally large and inactive, has been critical to the bank's ability to serve its community (Taub 1988).

The bank-owned CDCs, capitalized by major commercial banks, vary considerably in scale but clearly have the potential to be significant in financial terms. Banks have invested or committed over \$300 million to bank-owned CDCs. Average capitalization for these CDCs is roughly \$2.5 million, although the median is substantially smaller (roughly \$500,000).<sup>22</sup> The vast majority of these commitments have been made during the past five years, and their numbers are rising steadily.

Unfortunately, we have almost no information about how bank-owned CDCs are using these funds, and the little we have raises real questions about how much of the money is going to meet the types of credit gaps identified earlier in this article. A sizable

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<sup>22</sup> These figures should be treated as rough estimates. Data reported by OCC and the Federal Reserve are not uniform, variously citing capitalization (presumably total to date), initial capitalization (which may have been supplemented), commitments (only portions of which may actually have been funded), and planned investments. Figures typically include only investments by banks but occasionally combine bank investments with investments by other funding partners, and commitments may include forms of investment, such as stocks, that fluctuate in value. Figures provided here are estimates that, to the extent possible given the published information, include only firm bank commitments (as valued by the bank at the time the investment was approved) and exclude funds from nonbank investors. It is likely that these figures are low estimates. In addition, OCC and the Federal Reserve have approved 154 bank investments in community development projects totaling almost \$200 million; in some published reports, these investments—overwhelmingly limited partnership investments in low-income housing tax credit developments—are counted as CDCs.

majority of these CDCs cite the support of affordable housing as one of their primary objectives—often their central objective. Equity investments in low-income housing tax credit limited partnerships appear to be the vehicle of choice for this purpose. They are prominently featured in many CDC descriptions published by OCC and the Federal Reserve. Equally telling, direct bank investments in approved community development projects (also regulated by OCC and the Federal Reserve), virtually all of which are limited partnership investments in affordable housing, are more common than bank investments in CDCs; OCC and the Federal Reserve had approved 154 such investments, totaling roughly \$200 million, as of June 1993. Although no hard performance data are available, there is every reason to believe (based on returns quoted to prospective corporate investors by tax credit syndicators) that these equity investments are significantly more profitable than retail lending to households and firms in poor neighborhoods. As documented later in this article, there is no doubt about the need for affordable rental housing—but if bank-owned CDCs concentrate their capital in equity investments of this type, they will make little headway in addressing the credit needs of poor communities. Information about how bank-owned CDCs are using their funds and whom they are actually serving would be extremely useful.

The other CDFIs are considerably smaller than the banks and bank-owned CDCs, both individually and in the aggregate. Although they vary substantially in size, community development credit unions are very small by banking standards. The typical institution has \$500,000 to \$1 million in assets and serves between 500 and 1,000 members; those with deposits of less than \$1 million find it difficult to support even one paid staff person without an external subsidy. Collectively, they hold between \$400 million and \$500 million in deposits, less than any single regional bank in the country (Tholin and Pogge 1991). Community development loan funds, as a group, are smaller; these 44 loan funds have lent more than \$120 million (Coalition of Community Development Financial Institutions 1993). Five of the oldest and most successful microenterprise loan funds had extended loans totaling just under \$4 million by the end of 1992 (Clark and Huston 1993); 50 loan funds are estimated by the Coalition of Community Development Financial Institutions (1993) to have lent more than \$25 million.

*Potential.* Even if they were to expand substantially, both the modest scale of CDFIs and their inability to provide the basic range of financial services (e.g., checking accounts) strongly indicate that they are not the answer to the problem of providing

equal access to credit and financial services in poor inner-city communities that have seen massive disinvestment. Continuing pressure on conventional financial institutions to address this issue is clearly required.

Proposed revisions to the CRA regulations, originally intended to make the regulations tougher, are one approach to this problem. Although the revised regulations have not yet been issued in final form, it is already clear that they will be much less stringent than CDFIs and other community organizations had hoped. Nevertheless, provisions such as those that require banks to report small business lending by race and gender and stipulate that banks must satisfy CRA standards on the basis of their lending activities (not solely on the basis of equity investments or services such as automated teller machines) are steps in the right direction.

However, the question remains whether some or all of the CDFIs have the potential to play a constructive role either in promoting improved services by the conventional institutions or in performing functions that the conventional institutions cannot reasonably be expected to perform. Three factors suggest that the preliminary answer is yes.

First, it appears that many conventional financial institutions need to relearn how to do business in poor neighborhoods. Thoughtful bankers faced with the hard facts of unequal access to credit admit that many commercial banks do not know how to evaluate the credit history of prospective low-income borrowers, are not well equipped to evaluate the risk of business loans in low-income neighborhoods, and are not well positioned to do effective outreach and marketing in those neighborhoods. The leading-edge CDFIs are demonstrating that it is possible to do business profitably in low-income neighborhoods and neighborhoods of color. In the process, they appear to be creating and demonstrating a “technology” for marketing effectively in poor neighborhoods, attracting credit worthy borrowers, assessing borrower and market risk, and customizing financial products that meet the needs of low-income communities. In the political and regulatory climate created by CRA, these demonstrations make the proposition that conventional lending patterns accurately reflect demand and risk untenable and, at the same time, provide models for institutions seeking to meet their CRA responsibilities.

Second, these institutions, particularly the smaller ones, are willing and able to handle financial transactions that are too

small to be attractive to commercial banks and thrifts. For example, it is common for 30 to 40 percent of the depositor accounts in a community development credit union to have balances below \$200 (Tholin and Pogge 1991), and some small credit unions have maximum loan amounts below the minimum mortgage loan that local banks will consider (Thomas 1993). Microenterprise loan funds specialize in transactions averaging around \$2,500 (Coalition of Community Development Financial Institutions 1993). Leaving aside for the moment the issue that it might be possible for the conventional institutions to provide better service for small-transaction customers, the CDFIs are meeting a real demand from low-income customers.

Third, many CDFIs are nonprofit organizations, are administered by nonprofits, or have nonprofit affiliates. As a result, they have access to philanthropic or social investment capital that conventional for-profit institutions do not, which allows them to offer services needed in low-income communities. These services are especially important to the extent that they better position low-income borrowers to access mainstream financial institutions and services. Community development credit unions, for example, commonly offer members with poor credit histories credit counseling and financial planning assistance to improve their ability to gain access to credit (Tholin and Pogge 1991). Microenterprise loan funds offer would-be entrepreneurs training in basic business practices (accounting, financial planning, etc.) (Clark and Huston 1993). For-profit entities may have a nonprofit affiliate that provides such services; Shorebank Corporation is a prime example.

This good news about CDFIs—their effective targeting toward low-income communities and communities of color and the constructive roles they are performing—makes these institutions potentially attractive community development instruments, but it is only part of the story. Other key issues affecting the decision of whether further investment in these institutions constitutes good policy include their financial performance and the cost-effectiveness of building this new institutional infrastructure. We have very limited information about these matters. What is clear is that these five types of institutions are so different from one another that their performance and promise should be assessed separately.

Community development banks, relatively well capitalized, have many appealing qualities, especially when considered in light of the solid long-term financial performance and dramatic

community accomplishments of the Shorebank Corporation (including South Shore Bank and its community development affiliates), which serves as the national model (Taub 1988). However, the large initial capital requirements, the ongoing need for social investment capital (for the bank, not just for the development affiliates), and the demanding technical requirements of commercial banking make establishing these organizations an expensive, time-consuming venture to be undertaken with great care and caution—a point made first by the founding officers of the South Shore Bank when President Clinton initially proposed establishing 100 such institutions.

The bank-owned CDCs, with access to capital, staff training and development, and other forms of organizational support through their banks, presumably have the greatest real growth potential in the near term. Because they have this support, they are probably the only type of CDFI capable of operating on a significant financial scale in a large number of neighborhoods over the foreseeable future. Bank-owned CDCs are also financially viable enough to meet the regulatory requirements of the bank regulators and the financial standards of their parent banks. Thus, continued expansion of their activities seems to represent a clear benefit to inner-city communities with inadequate access to capital, especially if they focus on meeting these communities' credit needs. However, given their access to substantial bank resources and their genesis as vehicles through which the banks are seeking to meet their CRA obligations, the rationale for providing bank-owned CDCs with public investment capital is not strong. Other forms of public assistance might be both appropriate and useful—for example, some form of insurance to cover loans to undercapitalized but otherwise sound inner-city firms (Mitra 1993).

Less is known about the financial performance and organizational capacity of the smaller, less well capitalized types of institutions, with the exception of a few highly successful ones, or about what would be required to build that capacity.

Information about the financial performance of the loans made by the nonbank CDFIs is spotty. It includes some good news. Members of the National Federation of Community Development Credit Unions report an average loan loss rate of less than 2 percent (Coalition of Community Development Financial Institutions 1993). Members of the National Association of Community Development Loan Funds, lending mainly to nonprofit housing and business developers (e.g., community land trusts,

cooperative housing, worker-owned businesses), report an average loss rate on their loans of less than 1 percent (National Association of Community Development Loan Funds 1994).

Microbusiness loan funds, engaged in much riskier lending, have correspondingly greater losses. Clark and Huston (1993), studying five of the oldest and most successful funds, report that collectively their direct loan programs showed a loan loss rate of 7.7 percent at the close of 1992, and controlling and managing delinquencies is an ongoing concern. More worrisome is the fact that a group of 50 funds experienced a median repayment rate of 95 percent (Coalition of Community Development Financial Institutions 1993); coupled with information about the strong performers, this suggests the possibility that default rates for some funds may be quite high. Ferguson (1994) refers to (but does not cite) information suggesting that many microenterprise funds “have very high default rates.”

Whether community development credit unions and microenterprise loan funds, whose market niche includes handling small transactions, are covering their costs on these transactions is not clear. Both types of organizations appear to have trouble in this regard, although the few analyses of their performance do not clearly separate the costs of rendering financial services from the costs of providing ancillary services such as counseling, training, and technical assistance (Clark and Huston 1993; Ferguson 1994; Tholin and Pogge 1991).

Also unexamined is whether the ancillary services provided by these organizations are cost-effective from the perspective of a financial services institution. Anecdotes about individual borrowers are often poignant, but they are about all that is available. It is clear that these services are part of the process—sometimes a quite lengthy process—of integrating untrained individuals into the mainstream economic system and therefore must be subsidized if they are to be offered. For example, microenterprise loan funds commonly spend considerable energy screening, counseling, and training individuals who never become borrowers; these nonborrowers may constitute as many as three-quarters of the funds’ trainees (Novogratz 1992). Housing these services in a nonprofit setting is quite appropriate; however, the pros and cons of providing them through specialized lending institutions are worth exploring. Those institutions are providing these services now because they see a clear need and no other providers. If we are going to invest in the expansion of the community development financial system, explicit attention to the best way to provide these services is warranted.

Finally, unlike CDCs (to be discussed below), the smaller CDFIs lack a well-developed support system to assist them with such matters as capital accumulation and capacity building or to provide support when they encounter difficulties.<sup>23</sup> Capital growth and some capacity building will surely take place simply because the Community Development and Financial Institutions Act will give traditionally undercapitalized institutions improved access to capital and hence the ability to increase their level of activity; just as CDCs have done over the past 15 years, they will “learn by doing” as new resources become available. Additionally, CDFI fund moneys can be used for grants and technical assistance to increase capacity. But much will depend on how well the new independent agency created to manage the fund does its work. If it takes its capacity-building role seriously—extending support but insisting on reliable and improving performance—it could become the nucleus of a support structure that would make CDFIs as a group more effective and resilient.

A solid evaluation of this expansion of CDFIs is a must. The field badly needs more detailed analysis of whether and under what conditions the performance of the different types of CDFIs makes their expansion a wise investment. Results of any evaluation would properly be assessed in light of changes in the behavior of mainstream financial institutions. While CRA and related requirements press banks, thrifts, and their affiliates to provide poor communities with better service, sweeping changes in the financial services industries are pressing in other directions. *In principle*, a publicly regulated financial system that benefits from publicly provided insurance should provide service to the entire public, and discriminatory service is clearly unacceptable. However, to the degree that the banking system *in fact* shifts toward providing services that are standardized to suit middle-class customers, figuring out how to strengthen community institutions geared to meet the needs of those who lack the means or the history to access mainstream services will assume greater importance.

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<sup>23</sup> Ferguson’s (1994) assessment of the likely impacts of the CDFI legislation argues that a support system for low-income housing production is now in place; he urges that it be simplified and complemented by a support system for business development. However, the housing development support system is exactly that—a system that assists CDCs and other nonprofits in *developing* affordable housing. That is very different from helping small financial institutions make housing-related loans and investments. The support system for community-based financial institutions is still nascent.

## *Conclusion*

In sum, CDFIs are not a substitute for ensuring that conventional financial institutions provide equal access to credit and other services in poor inner-city neighborhoods and communities of color—places where that access is now clearly deficient. CDFIs appear to be playing a useful role both in pressing conventional institutions to do this and in demonstrating how to do it. They are providing financial and other services in underserved communities. They may have a permanent market niche for certain types of activities that will presumably never be attractive or profitable for conventional institutions. Evidence about how well they perform these activities is scarce; the best-case evidence is encouraging, but not equally so for all types of institutions. However, additional evidence is needed on a variety of topics, such as the strategies these institutions are using to manage risk (including their cost, effectiveness, and generalizability), the organizational capacity and financial condition and performance of the smaller institutions, and what would be required to enable them to perform more effectively.

## **Community development corporations**

CDCs are nonprofit, community-based organizations whose mission is to make the low- and moderate-income communities in which they work better places to live. Although their defining characteristic is involvement in physical and economic development, CDCs also engage in a broad range of other, complementary activities.<sup>24</sup> CDCs are typically founded by and grounded in the communities they serve, with residents and other neighborhood stakeholders (e.g., merchants, clergy) constituting the majority of the governing board. Some urban CDCs serve communities that are ethnically defined, but most serve a residential neighborhood or cluster of neighborhoods.

CDCs are most widely known for the housing development work in which more than 85 percent are engaged (National Congress for Community Economic Development [NCCED] 1991). However, fewer than 10 percent are involved exclusively in housing development (Walker 1993). Rather, the housing development

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<sup>24</sup> Sometimes referred to under the more generic name of “community-based development organizations,” CDCs may be incorporated under a variety of names, including “neighborhood housing services,” “local development corporations,” and “neighborhood improvement associations.”

work that has won them recognition is commonly complemented by other activities. Although they vary greatly both in the comprehensiveness of their long-term agendas and in the number and mix of programs in which they currently engage, many CDCs are active in each of a wide range of activities, including housing counseling and related services, housing management, commercial real estate development and other activities to strengthen neighborhood retail districts, advocacy (around a variety of issues), community and tenant organizing (also around a range of issues, including crime and drugs), human services provision and referral, employment counseling and placement, rehabilitation of industrial property, management of community development and Small Business Administration loan funds and other programs to assist small business, and neighborhood planning (Leiterman and Stillman 1993; Sullivan 1993; Vidal 1992; Walker 1993). Over the years, many CDCs have used housing as a point of entry and expanded into other arenas as they built capacity and gained access to a wider variety of resources (Vidal 1992). If this pattern persists, the many young CDCs that now focus mainly on housing are quite likely to broaden their programmatic range over time if funding permits.

### *Spatial variation in neighborhood quality and livability*

The wide range of CDCs' programs and the breadth of their missions complicate the task of systematically assessing specific gaps in the metropolitan opportunity structure to which CDCs are attempting to respond. Enterprise zones and CDFIs are responses to problems that are, by comparison, narrow and well defined. Rather than try to cover the whole picture, this discussion briefly sketches evidence of variations in opportunities in three spheres CDCs are trying to address: affordable housing, neighborhood commercial services, and social networks and services. This section of the article considers CDCs' strategies and records in each of these areas. As in the examination of enterprise zones and CDFIs, the discussion first looks at whether the goals and design of the strategy are well suited to the task and then assesses the available evidence on performance, most of which pertains to best cases.

*Affordable housing.* Nationally, housing affordability for low-income households has become a progressively more serious problem over the past 20 years. The number of renter households with poverty-level incomes has risen, while low-cost unsubsidized dwelling units have been withdrawn from the housing stock much more rapidly than they have been replaced by

subsidized units, and these trends are likely to continue. *The State of the Nation's Housing 1993* reports that in 1992 “the gross rent burden (gross rent as a percent of renter household income) rose to 30.8 percent—a 25-year record” (Joint Center for Housing Studies 1993, 13). The report finds that while structurally inadequate housing is still a concern, especially in central cities and rural areas, high rent burdens have become the primary housing problem confronting very low income households.

Households facing the most severe housing problems—those with worst-case needs—are overwhelmingly very low income renter households, over 40 percent of whom pay more than half their income for rent; the problem is especially acute among families with children (Nelson and Khadduri 1992). Nelson and Khadduri report that these very low income families with priority housing problems give both their housing and their neighborhoods low quality ratings. Although the reliance of both of these analyses on AHS data precludes their assessing the spatial concentration of households with serious housing affordability problems, it seems highly likely (given their incomes, rental status, and self-rated neighborhood quality) that those who live in major urban areas disproportionately reside in disadvantaged low-income neighborhoods.

*Neighborhood commercial services.* Poor inner-city neighborhoods, especially communities of color, have notably poor access to convenience goods shopping. The lively neighborhood shopping districts and small shopping malls anchored by major chain supermarkets that are commonplace in middle-class neighborhoods are conspicuously absent in much of the inner city. For example, middle-class and affluent zip code areas in Manhattan have 43 percent more supermarkets per 1,000 people than poor zip code areas (those with median incomes below \$10,000), with the result that the poor are less well served and pay more for food (New York City Department of Consumer Affairs 1991). Bendick and Egan (1991), on the basis of fieldwork in four large cities and a comprehensive review of literature discussing shopping services available in the inner city, summarize:

One symptom of economically distressed inner-city areas is a dearth of retail and service businesses, particularly larger stores such as chain supermarkets. Minority shopping areas, in particular, generally have fewer and a more limited variety of stores than nonminority neighborhoods, and these stores are more often marginal establishments offering a limited range of goods, lower quality goods, higher prices, less customer service, less attractive shopping environments, and higher credit costs. (p. 7)

The general inadequacy of convenience shopping facilities—including supermarkets, which have particular importance because of the large fraction of their income poor households spend on food—cannot be explained by the low incomes of the households in underserved inner-city neighborhoods. Poor households typically live in neighborhoods that also include substantial numbers of nonpoor ones; even in so-called underclass census tracts, in which 40 percent of the households have incomes below the poverty line, more than half the households may be above that line. Locally recognized neighborhoods (defined in ecological terms) commonly contain households of quite diverse incomes. Further, the density of inner-city neighborhoods often means that substantial aggregate purchasing power can be found within them even if many residents have low incomes. Shopping outside the neighborhood is often widespread enough in the inner city that development of medium-sized supermarkets locally has no apparent effect on the viability of existing smaller markets and other shops (New York City Department of City Planning 1993).

*Social fabric.* The social fabric of a community, including the depth and breadth of informal and formal networks and the variety of services and shared activities available, undoubtedly affects the quality of neighborhood life and the extent to which the community provides opportunities and support to its members. Personal networks and formal organizations not only help connect residents to employment opportunities, but also help individuals and families address and prevent problems and connect them to resources outside the neighborhood. Participation in networks and community activities helps residents build a sense of social and civic connectedness, provides a mechanism for broadening horizons and skills, and serves as a vehicle for investing in the community.

The details of how social networks, community membership and voluntary organizations, and social service agencies vary spatially have not been well studied, nor are we well informed about how such variations affect different types of communities and different groups of community members (children, youth, working parents, etc.). That variations exist, however, seems increasingly clear.

Fernandez and Harris (1992) note the paucity of formal organizations in underclass neighborhoods and the low level of participation in those organizations by the nonworking poor. They also confirm that the friendship networks of the nonworking poor are less dense and less heterogeneous than those of the working poor and nonpoor.

Verification of spatial variations in the network of formal voluntary and nonprofit organizations comes from a 1989 census of nonprofit organizations in New York City, which found that the density and character of nonprofit organizations vary substantially across the residential portions of the city, with the important exception of religious institutions, which are found in virtually all neighborhoods (Haycock 1992). A detailed comparison of an impoverished inner-city Chicago neighborhood and a middle-class suburban neighborhood in the same locality demonstrates that both the density and the quality of organized community resources for youth are dramatically lower in poor communities (Littell and Wynn 1989).

### *CDCs as a response*

The community development movement dates from the 1960s, but the number of active CDCs and the visibility they have attained have increased rapidly over the past 15 years; current estimates of the number of such organizations range from 1,500 to 2,500 (McNeely 1993; NCCED 1991). Most CDCs are small, with a median staff size of seven (Walker 1993). Since organizational size tends to increase with age, older and more experienced groups are larger, and a few have achieved significant size. The Community Development Research Center's national study of a sample of 130 accomplished CDCs found a median staff size of 10 and a mean of 22 (Vidal 1992).<sup>25</sup> The financial scale of CDCs mirrors their modest staff size. Although the 130 accomplished CDCs had a mean annual budget of \$2.4 million and a median budget of \$700,000, a larger and more representative census of CDCs conducted in the same year found a mean of \$542,000 and a median of \$175,000 (Vidal 1992).

CDCs have tended to form as an outgrowth of other neighborhood activities when community stakeholders, both residents and others, have identified problems that no one else was addressing and have also identified a source of financial support (Vidal 1992). They have been, and see themselves as being, "gap fillers." Stated more formally, they arise in response to, and seek to correct, failures in the market and in the social and political infrastructure. In this sense, they are by intent a deliberate response to perceived inequalities in neighborhood quality and

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<sup>25</sup> These numbers are small relative to the ambitions of the organizations and the difficulty of the problems they seek to address. To put them in perspective, however, it is worth noting that the median CDC is larger than one-quarter of the country's small businesses (Bates and Nucci 1989).

livability. This stance is illustrated in each of the three functional areas considered here.

*Affordable housing.* CDCs have won growing recognition for their housing development activity. As noted earlier, more than 85 percent of CDCs are involved in developing housing, the vast majority of it for low- and moderate-income people. Estimated production by these organizations totals almost 320,000 units (NCCED 1991). Walker (1993) estimates that CDCs have accounted for 13 percent of the recently produced federally subsidized housing stock.<sup>26</sup>

This estimate almost certainly understates the scale of CDCs' activity in the poor inner-city neighborhoods in which they target their work. Private developers have done little housing production in low-income urban neighborhoods since the demise of the project-based Section 8 programs, with CDCs and a limited number of larger, non-community-based nonprofits stepping into the breach; for example, unpublished estimates by Local Initiatives Support Corporation (LISC) in Boston (one of the cities where CDCs are most active) indicate that during the 1980s nonprofit organizations accounted for approximately 90 percent of the affordable housing produced in the city.

One of the many reasons that the expansion of the community development movement during the 1980s centered on housing development was the view that in the most troubled neighborhoods—especially those highly visible neighborhoods (the South Bronx, Newark's Central Ward, Central Brooklyn, and Chicago's South and West Sides) hard hit by population loss, widespread abandonment by landlords of rental properties, and even arson—the revitalization process had to begin by stabilizing the community's residential base. CDCs have played a central role in this process.

In seriously distressed neighborhoods, CDCs have acted to stabilize—and in extreme cases reestablish—local housing markets. The South Bronx and Central Newark provide dramatic examples. In the 1970s the South Bronx became the national symbol of urban decay. Widespread abandonment and arson displaced thousands of families and represented massive private disinvestment in the area; the local real estate market virtually

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<sup>26</sup> This estimate includes units produced with direct federal participation; it does not assess production of units in which the only federal participation is the indirect subsidy provided by the low-income housing tax credit.

collapsed. CDCs, some of which predated this situation but many of which formed in response to it, have been pivotal agents in reestablishing both functioning markets and working communities.

Collectively, nonprofit organizations, most of them CDCs, working in contiguous neighborhoods in the South Bronx have developed 15,000 units of housing (Surdna Foundation 1991), including the much-publicized Charlotte Gardens, a single-family housing development where rosebushes and skateboards have replaced the rubble so prominently featured in the campaign pictures of Jimmy Carter and Ronald Reagan when they visited Charlotte Street. The neighborhoods of the South Bronx still have many of the problems that plague inner-city communities, but they are of a totally different character from those of 15 years ago. Working in Newark's Central Ward, devastated by a combination of riots and urban renewal, New Community Corporation has dealt with similar problems on a smaller scale. Its stunning accomplishments include development and management of 2,500 units of housing and a nursing home.

As impressive as these unusually dramatic CDC accomplishments are, however, equally telling evidence of progress lies elsewhere—namely, in the market-rate investments now flowing into these neighborhoods. New Jersey's largest private home builder began developing market-rate town houses in the Central Ward in 1988—the first such housing built there in two decades. More than 600 units are now occupied, and the Society Hill project will have 1,100 town houses when completed (Lewis 1993). In the South Bronx, neighborhood shopping districts have revived in response to the combination of significant housing development, CDCs' rehabilitation of dilapidated storefronts, and their work with local merchants (Vidal, Howitt, and Foster 1986). Significant private investors, including Fordham University, have been making major investments in a central commercial district; private developers have taken over and rehabilitated numerous apartment buildings formerly under city ownership; and the city's bank-owned CDCs are lending actively in the area. While not all of this activity can be attributed to the area's CDCs, they have clearly made a substantial upfront contribution to stabilizing the area's neighborhoods and reestablishing functioning markets for housing and commercial facilities.

In less distressed neighborhoods, CDCs' housing development and property management (usually accompanied by one or more related programs, such as weatherization assistance and home repair programs or loans) help stabilize housing markets facing

disinvestment and decline. Examples of CDCs working in this way can be found in cities across the country (Vidal 1992).

In some cases this work is highly visible, as when projects are large or strategically located. Usually, however, the work takes place on a smaller scale, particularly in lower density neighborhoods where large-scale development is less appropriate than in-fill projects or the rehabilitation of smaller, scattered properties (e.g., buildings taken by the city for nonpayment of taxes or purchased from private landlords who no longer wish to do business in the inner city). In addition to their direct housing benefits, such projects, often unattractive to for-profit developers because of their location and small size, can make an important contribution to sustaining the fabric of the neighborhood and retaining the local purchasing power on which neighborhood commercial centers depend.

*Neighborhood commercial services.* Twenty-five percent of CDCs have built or rehabilitated commercial or industrial property (NCCED 1991), with most concentrating on commercial space, and other CDCs are interested in entering this arena. In addition, CDCs may support neighborhood commercial districts in other ways—for example, by administering loan funds to help merchants with facade improvements or by working with the city to improve streetscaping. CDCs' work in this arena is commonly a response to the inadequate neighborhood shopping services, to the negative signal that deterioration of strategically located commercial buildings sends to potential investors in the neighborhood, or both.

Tacolcy Economic Development Corporation, which serves the Liberty City neighborhood of Miami, provided dramatic evidence of the untapped market potential represented by these neighborhoods. In the early 1980s, in the aftermath of local riots, Tacolcy rehabilitated a neighborhood mall and brought in a small Winn-Dixie supermarket as the anchor tenant; this store rapidly became the chain's leading store in gross sales per square foot and has been consistently profitable.

More recently, New Community Corporation has drawn widespread attention for its development in Newark's Central Ward of a large Pathmark supermarket that has become profitable much more rapidly than is typical of new stores in the Pathmark chain. A local survey estimates that Pathmark shoppers who formerly took buses or taxis to suburban markets or shopped at the mom-and-pop stores in the neighborhood are saving 38 percent on their food bills (Guskind and Peirce 1993).

The replicability of this type of activity is signaled by the fact that LISC, consistently a leader in structuring financially viable mechanisms for supporting CDCs' work, has launched a new retail initiative through which it will help CDCs engage in retail development, emphasizing neighborhood shopping malls in which medium-sized supermarkets will be anchor tenants.

Strategic commercial developments of this type can have an impact belied by the small square footage typically involved. In addition to the hypothesized investment-signaling impact, these developments can stabilize existing commercial areas and serve as anchors for other activities. In the case of Liberty City, for example, Tacolcy also organized a merchants' association that was critical in preserving the shopping district during rioting in neighboring Overtown in the late 1980s and has built its mid-rise apartment developments within easy walking distance of the supermarket—to the advantage of both. And the Dade County Community College system has opened a branch campus across the street from the CDC's neighborhood mall, near the community's main commercial intersection. Community Development Corporation of Kansas City, Missouri, developed the Linwood Shopping Center on the site of an abandoned hospital in the center of the African-American community. This initiated a series of developments along the major commercial street, including a second small shopping center developed by the CDC, some housing development, and the construction of a new branch of the public library.

Commercial development by CDCs has been rarer and riskier than the development of affordable housing. Commercial developments are not as standardized as housing developments; solid, high-volume anchor tenants have not been easy to identify; and not all CDCs are comfortable with, or adept at, the type of marketing that successful commercial development requires. Some CDCs have been quite effective in this area, however, and it appears that bringing supermarkets and related retailing into demonstrably underserved markets could be an attractive niche for CDCs if development financing and technical support systems can be developed—as LISC's retailing initiative suggests may be the case.

*Social fabric.* In addition to their physical and economic development work, many CDCs engage in a wide variety of activities, both formal and informal, increasingly referred to as “community building.” Although the label is relatively new, the activities are not, and building community in a holistic sense has been integral

to the objectives of the community development movement from the beginning.

Two broad types of CDC activity contribute to community building in different ways. Both involve the CDC, in effect, either expanding or strengthening what Galster and Killen (1995) call “local social networks.”

The first activity is increasing resident access to services and opportunities. CDCs use a variety of strategies to accomplish this. Sometimes they provide human services such as child care, counseling, or emergency food services directly; New Community Corporation in Newark, Project for Pride in Living in Minneapolis, and Chicanos por La Causa in Phoenix exemplify this approach. In other cases, the CDC creates or taps into local networks that facilitate referral of community residents to service, employment, or training opportunities either within or outside the community. This has proved to be an effective way for CDCs to help residents obtain employment (Harrison, Weiss, and Gant 1994). In still other cases, the CDC acts as a broker or advocate to get other agencies to provide services in the community. The Comprehensive Community Renewal Program, working with six South Bronx CDCs, is an effort to demonstrate how CDCs can become more effective using this approach. More than 60 percent of CDCs nationwide are involved in one or more community-building activities (NCCED 1991).

The second activity is organizing—a direct effort to bring residents together around one or more specific issues. This is sometimes done formally by a trained organizer, sometimes informally—for example, by a property manager or resident services coordinator as part of a CDC’s housing management activities. The objective may be advocacy (e.g., protesting or mobilizing residents to testify at a public hearing) or collective action (e.g., vacant lot cleanup or construction of a community garden). More than 70 percent of CDCs report that they engage in activities of this type (NCCED 1991). While these efforts are typically described in terms of what outcomes are achieved (the community wins changes in legislation affecting its future, a playground is built, etc.), the process itself is clearly one that builds connections among residents. If effective, these efforts also build residents’ perceptions that their actions can make life better. Many CDCs and other community organizations are themselves products of such a process.

Even less is known about the social impacts of the work of CDCs than about the effect of their physical and economic development

activities. Recent work by Sullivan (1993) and Leiterman and Stillman (1993) documents in some detail what the CDCs most heavily engaged in community building are doing, but includes very little evidence about outcomes.

Sullivan presents anecdotal evidence from focus groups held at 12 CDCs for residents of the housing the CDCs own. These focus groups indicate that although residents often wish the CDC were doing more for them (making repairs faster, doing a better job of controlling drugs and crime, etc.), they clearly prefer CDC-owned housing to their previous residences and to the housing they think they could find if they had to move. The focus groups also suggest that residents are engaged enough in the community to know their neighbors and to be informed about what goes on in their buildings and what the CDC is doing.

Follow-on research by Sullivan and Mueller at the New School for Social Research is using a combination of ethnography and a detailed household survey administered to CDC residents and a comparison group of households to explore the social impacts of the work of three CDCs. When completed, this research will provide the first systematic evidence about what CDCs are and are not accomplishing in this arena. Preliminary (unpublished) findings suggest positive outcomes of CDC work in some spheres, including resident satisfaction and participation in building and community improvement.

Assessments of specific CDC community-building activities also point to positive accomplishments. A recently completed examination of the experience of CDCs and other community-based organizations in the field of employment and training finds that some groups—primarily older, more experienced ones—have been quite successful (Harrison, Weiss, and Gant 1994). On the basis of fieldwork in 10 sites with relatively high levels of community-based employment and training activity, Harrison and colleagues conclude that the key to these organizations' providing access to quality services for residents of their communities is tapping into "existing or evolving networks whose members share information, resources, and access" (p. 8). Framed in the context of this discussion, their findings indicate that successful CDCs working in the employment and training arena are creating in a formal way the types of information networks linking residents of poor inner-city neighborhoods with employment and training opportunities that exist informally in other communities.

Evidence about the efficacy of community organizing in strengthening the neighborhood social fabric is emerging from an ongoing

assessment of a demonstration program conducted by LISC that uses a consensus-based approach to organize six new CDCs in each of three localities. Preliminary findings from the first site to complete the first two years of the program (Palm Beach County, Florida) show clearly that the organizing process identified diverse groups of residents willing to volunteer time and energy to the CDCs; that these groups typically included residents and other neighborhood stakeholders who had not worked together before; and that the process engaged the efforts of many people who had not previously been active in community affairs, including new African-American leadership (Gittell and Vidal 1994). This confirms observations by Gittell (1992) on the constructive results of this approach in the Monongahela Valley, where it was first developed.

These findings about organizing for community development mirror those about established CDCs, which are also involving neighborhood residents and helping develop leadership in communities of color. Among the organizations included in the Community Development Research Center's analysis of CDCs with strong records of performance, neighborhood residents and other stakeholders (clients, religious leaders, and representatives of other community-based organizations) serve on the boards of all sampled CDCs and constitute a plurality of the boards of three-quarters of the groups. Of the 122 CDCs for which data were available, 47 percent had executive directors of color; if one excludes from the sample the 32 CDCs serving predominantly white neighborhoods, this figure rises to 57 percent. For the four next-most-senior professional positions at these same 122 CDCs, 49 percent of the occupants were people of color (Vidal 1992). Similarly, Gittell, Gross, and Newman (1994) find that 43 percent of the professional staff of 284 neighborhood development organizations they studied were people of color and that the racial composition of the boards of those organizations was similar.<sup>27</sup>

*Potential.* Given this evidence about the activities and impacts of CDCs on their communities, the policy question is whether the record warrants efforts to expand their activity. Although many questions remain, the strategy seems promising enough to pursue for at least five reasons.

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<sup>27</sup> By comparison, Rogers and Smith (1994) present 1990 census data to show that people of color constitute 22 percent of the employed population and 14 percent of the professional, technical, and managerial workforce in the nonprofit sector (which, in turn, employs a higher percentage of people of color at senior levels than the private sector).

First, as the preceding discussions of affordable housing and neighborhood commercial services illustrate, CDCs can respond to spatial gaps in opportunity in a strategic way, and having a clear strategy is one of the primary factors contributing to their success (Vidal 1992). In some cases this may mean focusing on highly visible activities, such as developing a supermarket or rehabilitating the prime corner of the neighborhood commercial district. In other cases it may mean a willingness to work at a small scale that is unappealing to private developers—for example, to rehabilitate and manage small apartment buildings whose deterioration or abandonment could put an entire block at risk. In still other cases, it may mean selecting activities that are mutually reinforcing so that their effects are cumulative and produce more bang for the buck.

Second, CDCs have shown themselves to be entrepreneurial, flexible, and persistent. Appraisals of the capacity of CDCs to expand their housing production and management commonly refer to the fact that they must typically piece together both project budgets and operating budgets from a myriad of sources, which themselves are changing over time (Bratt 1989; Vidal 1992; Walker 1993). Their need to rely on this “creative financing” is a negative commentary on the complexity of the current production system for affordable housing and contributes to the undercapitalization and consequent financial vulnerability of many CDCs. The silver lining of this cloud is that it demonstrates clear strengths of CDCs—tenacity, willingness, and ability to work the system on behalf of their neighborhoods. This same quality surfaces in the efforts of CDCs to make their activities mutually supportive (Vidal 1992) and to adapt their services and activities as problems and funding opportunities change (Sullivan 1993).

Third, CDCs are very effective in targeting benefits. One of the long-standing difficulties in implementing policies targeted to places is the political difficulty of preventing benefits from gradually being extended to more and more places, thereby diluting the resources available to the genuinely needy places that provided the original rationale for a targeted policy. The *raison d'être* of CDCs is to strengthen and improve the livability of poor communities and to secure a viable place for poor households in modest but not overwhelmingly poor neighborhoods. They concentrate their activities in neighborhoods that typically have household incomes well below the areawide median, concentrations of households dependent on public assistance, and significant communities of color. Within mixed-income neighborhoods, CDCs target their activities to meet the needs of low- and

moderate-income people. Consequently, the vast majority of the direct beneficiaries of their work (at least 75 percent and commonly as high as 90 percent, depending on the CDC's neighborhood and mix of activities) are low- and moderate-income people (NCCED 1991; Vidal 1992).

On a larger scale, CDCs show considerable promise as agents promoting effective targeting of public development dollars. Even though they are small, it is increasingly clear that CDCs draw strength from their numbers and in so doing become more effective representatives of the interests of their neighborhoods—precisely the sort of social and political capital these neighborhoods often lack. In places where the CDC movement has achieved scale, CDCs have formed associations that provide services to their members and act as a vehicle through which they have a voice in shaping state and local policies and programs that affect their work. This voice creates the potential for CDCs to play a role in keeping place-specific programs for the poor well targeted; Rich (1993) finds that local nonprofit organizations can be an important force in shaping the choices of city and county officials about how and where to spend Community Development Block Grant funds. At the federal level, the housing production accomplishments of a considerable number of CDCs (as opposed to massive production by a few) and the unified voice of CDCs and their supporters were clearly central to the decision to create a set-aside for nonprofits under the HOME program.

Fourth, CDCs have passed a sort of market test. The number of CDCs has been growing steadily for at least a decade, and it is clear that many CDCs have growth potential, particularly in housing, but also in other spheres (Bratt 1989; Mayer 1991; Vidal 1992; Walker 1993). The network of financial intermediaries and technical assistance providers that support their work, which has been growing in tandem with the rapidly expanding capacity at the neighborhood level, shows all signs of being able to build the capacity to assist and support such growth (Vidal 1992).

This growth potential is of special interest because limited evidence suggests the possibility that increasing the scale of CDC activity among small and medium-sized CDCs might make them noticeably more cost-effective. As noted earlier, a few CDCs have achieved considerable size, but most are small. Very small organizations commonly devote a large fraction of their budgets to operating and sustaining the organization—that is, to core operating costs. Unfortunately, few such organizations maintain

records (such as logs of how executive directors spend their time) that permit a rigorous determination of operating versus program costs. Crude estimates of such costs, however, indicate that increasing the scale of a CDC's activities to the point that it is doing at least a million dollars of business a year would significantly reduce the fraction of total expenditures (considered here as a proxy for level of activity) devoted to core operating costs (Vidal 1992).

Finally, growth in the number of CDCs and in the increasingly sophisticated system of support for their work are mutually reinforcing. The birth in the late 1970s and early 1980s of three national intermediaries (LISC, the Enterprise Foundation, and Neighborhood Reinvestment Corporation) and of the first of an increasing number of local public-private housing partnerships working with community-based organizations added greatly to the strength of the community development approach and contributed importantly to its expansion. This support system provides technical assistance and strengthens organizational capacity at the neighborhood level, thereby providing a measure of "insurance" that projects will be done well. Partly for this reason, the national and local intermediaries have helped CDCs tap substantially expanded private sector and philanthropic financial support (Council for Community-Based Development 1993). Private sector engagement has, in turn, broadened the political support for this approach to strengthening poor communities.

This is not to say that CDCs are problem free. Most CDCs are small, and many are undercapitalized (Walker 1993). As in small organizations in all sectors, salaries are sometimes quite low, and practitioners commonly complain that burnout and turnover make it hard to retain people with key skills (McNeely 1993). And many CDCs still need to increase their organizational capacity; for example, many groups that have developed housing are managing their properties (e.g., collecting rents) but have still not mastered the task of asset management (Bratt et al. 1994).

More fundamentally, from a community-building perspective, the resources of the field continue to be most heavily concentrated on housing production. The now-permanent low-income housing tax credit and the increasing skill of the national intermediaries in working with it suggest that production will be a continuing thrust—and it is clearly needed. But continued expansion of the effective scope of CDCs is also needed if they are to fulfill their potential. Finally, much more analysis is needed of

the circumstances under which CDCs are cost-effective. This will require, among other things, careful attention to the question “Compared with what?”—since, like CDFIs, many CDCs are providing services that other agents increasingly do not provide under the same conditions.

### *Conclusion*

CDCs have expanded rapidly in both numbers and capacity over the past 15 years. Many have concentrated their efforts most heavily on housing, where they have found greatest access to funding, and their housing accomplishments have been important in broadening their base of public and private support. Nevertheless, the vast majority of CDCs have a broad community improvement mission and actively seek ways to strengthen the formal and informal institutional infrastructure of the neighborhoods. Although solid analysis of the impacts of CDCs’ work remains limited—particularly with respect to “soft” community-building outcomes—it is encouraging. Both their accomplishments to date and important aspects of the ways they work suggest that this approach has real promise.

### **Concluding remarks**

This article has attempted to revisit the pros and cons of three community development approaches—enterprise zones, CDFIs, and CDCs—in light of the analytic framework proposed by Galster and Killen (1995) in this volume’s lead article. That framework posits that the opportunity structure within which individuals make choices varies spatially within cities in ways that have important negative impacts on the life choices and experiences of the poor. Following that framework, I have evaluated community development strategies in terms of their effectiveness in improving the opportunities to which the poor have access.

A summary review of the literature finds considerable evidence that opportunities do vary spatially in several domains that might be affected by the three community development approaches considered here. Specifically, poor neighborhoods and communities of color confront gaps in meaningful access to employment, household and business credit, good-quality affordable housing, neighborhood convenience shopping and amenities, and effective formal and informal social networks. Evidence about the effectiveness of the three community development

strategies in addressing these spatial gaps in opportunity is very limited, however, and evidence about their effect on the life choices and life outcomes of individuals is virtually nonexistent. The analysis presented here makes the best use of the evidence available; clearly, that evidence is inadequate in many instances, and the conclusions reached here will need to be revisited as we learn more about how these interventions perform and how they affect people's lives.

Given the absence of the types of information needed for a rigorous assessment of these policy strategies, this article attempts three lines of analysis. It first examines information about the stated intent and program design of each of the three interventions; the rationale is that if a program is not intended and designed to address a particular problem, it is unlikely to do so.

Second, it reviews evidence from best cases—that is, evidence about how well the intervention has worked in the cases in which it seems to be working best vis-à-vis the identified problem. Reliance on best cases is driven by two factors. First, successes are more likely to have been studied, so data on them are more common. Second, if the intervention is ineffective even when it is performing at its best, looking at more representative evidence is unlikely to make it look better; conversely, if the best cases look promising, further research, modest program expansion, or efforts to make the typical case look more like the best cases are likely to be worth exploring.

Finally, the article tries to tease out the factors that account for accomplishments (or lack thereof) observed and use them to assess the potential of the intervention strategy to perform better or on a larger scale.

This analysis suggests that the three community development approaches vary considerably in their promise as strategies for improving access to opportunity for poor inner-city residents, particularly people of color. State enterprise zone programs, as currently designed, hold out the fewest prospects in this regard. The states established these programs as broad economic development programs, not as antipoverty programs, and this fact is reflected both in their design and in the program performance that results: Their effectiveness in providing employment for residents of the poor, high-unemployment neighborhoods included in almost all urban enterprise zones remains to be demonstrated. Even those states where analysts argue that enterprise zones have induced job creation, and in which the employment impacts would be expected to be the greatest (based

on an analysis of program design), the number of jobs going to zone residents is quite modest.

The new federal empowerment zone and enterprise community programs have the potential to overcome some of the features of state zone programs that have limited their impact on poor neighborhoods. In particular, the programs explicitly focus localities' attention on broad community development issues and provide funds—albeit very limited funds in enterprise communities—to address them. However, tax benefits to firms are also extremely modest and likely to be underused. The extent to which localities use the limited funds available and conduct high-quality, broad-based planning processes that address the issue of connecting poor and unemployed residents with job opportunities will be an important indicator of the likelihood that the programs will have meaningful effects on inner-city employment.

CDFIs have some potential to address observed gaps in access to credit, but the extent of this potential varies. The five types examined here—community development banks, bank-owned CDCs, community development credit unions, community development loan funds, and microenterprise loan funds—are all responses to identified gaps in the availability of credit and financial services and appear, in fact, to be targeting their services to the types of communities in which financial services are deficient.

The success of cutting-edge institutions in doing business in neighborhoods abandoned or seriously underserved by conventional institutions is an important demonstration both politically and economically. It shows that conventional lending patterns are not an accurate reflection of risk and demand—thereby providing evidence that can be used by CDFIs and other community-based and advocacy organizations (CDCs, ACORN, etc.) to press for stricter CRA regulations and enforcement—and helps demonstrate lending and service strategies that are effective in these settings.

In addition, some of the CDFIs are filling market niches that may never be attractive or feasible for commercial banks and thrifts; others are providing ancillary services that help their borrowers acquire the skills and credit histories that position them to access mainstream financial services.

At the same time, the small size and specialized character of most of these institutions mean that they are not, and cannot be,

a substitute for improved performance by mainstream financial institutions in providing credit and financial services to poor neighborhoods and communities of color. None but the community development banks, which would be very difficult to expand significantly, provide basic financial services such as checking accounts. The others appear to have some expansion potential, particularly the bank-owned CDCs, which have access to private capital. But each also faces distinctive questions—to which we do not now have answers—about how much publicly supported expansion is warranted. Thoughtful assessment of the impact of funds to be made available under the Community Development and Financial Institutions Act of 1994 would be very useful.

CDCs appear to be the most promising of the three initiatives examined in improving access to opportunities for residents of poor communities. Like CDFIs, they are a direct response to the problems of the poor and at-risk communities they serve. Resources permitting, CDCs pursue a diversified agenda aimed at making their communities better places to live and improving the opportunities available to local residents. Available evidence indicates that they have a strong track record in targeting the benefits of their work to needy people and places.

CDCs have become significant producers of affordable housing in the inner city and increasingly assume responsibility for managing that housing. Best-case evidence indicates that—above and beyond the direct services provided—their development of both housing and strategically selected neighborhood convenience shopping facilities can have an important stabilizing influence on neighborhoods, anchoring the community and, in extreme cases, helping to reestablish functioning housing and commercial markets. On the social side of the ledger, effective CDCs connect residents to needed services, either through direct service provision or through networking and referrals; mobilize residents for collective action; and help develop local leadership, particularly among people of color. CDCs appear to have considerable expansion potential, in part because the field has developed a strong system of local and national financial intermediaries and technical assistance providers to support work at the neighborhood level. In this process, CDCs have acquired broader access to both financial and political support from the private sector.

CDCs, CDFIs, and, to a lesser extent, federal empowerment zones and enterprise communities share the virtues of flexibility and potential synergism. Although discussed here principally in terms of service to high-poverty neighborhoods and communities of color, since that is the focus of this volume and most of the

relevant research, CDCs and CDFIs can and do serve varied constituencies. They are active in working-class neighborhoods (both poor and nonpoor), particularly those whose location, housing stock, or changing demographics make them vulnerable to disinvestment. They help immigrant populations establish a foothold. And they serve and create opportunities for poor households in moderate- and middle-income neighborhoods.

Self-identified as gap fillers, they adapt to community needs in ways that complement existing institutions, including one another. The empowerment zone and enterprise community application process generated numerous examples (which beg for documentation) of communities seeking to capitalize on the federal provisions that encourage synergy: Selected CDCs in the zones are eligible for a special allocation of tax credits that can be leveraged to build a capital pool; CDFIs (and selected CDCs that operate loan funds) in zones can augment their capital base under the new CDFI legislation, and so on. This type of response is typical of these institutions and makes them potentially more potent agents at the neighborhood level than their generally small size might suggest.

After examining the case for each of these three strategies as mechanisms for addressing important deficiencies in the opportunities available in inner-city communities, it is worth returning briefly to the fundamental question of whether strengthening these communities is an appropriate objective. Some people may see the three policy approaches addressed in this volume—dispersal, mobility, and community development—as not only logically distinct but also mutually inconsistent. HUD Secretary Henry Cisneros has, in fact, been criticized as inconsistent for supporting programs that facilitate the movement of public housing residents to the suburbs as well as programs that improve the types of neighborhoods from which those residents will move.

This article rests on a different premise: that programs to improve inner-city residents' access to suburban opportunities and programs to strengthen inner-city communities are valuable complements. Vigorous enforcement of fair housing and fair lending laws and programs such as Moving to Opportunity, although important, are likely to take many years to have an appreciable effect on most poor inner-city residents.<sup>28</sup> Residents

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<sup>28</sup> The largest existing program, the Gautreaux program in Chicago, has served a little more than 5,000 households since 1976—an average of about 300 a year (Rosenbaum 1995); the Moving to Opportunity program will serve about 1,300 households.

with strong community attachment will elect to stay even if given the opportunity to leave. And many will continue to find that the opportunities available in suburbia are beyond their means. Equally important, opening real opportunities for poor inner-city residents to improve their circumstances is critical to changing the perceptions of inner-city residents about the range of opportunities available.

The policy challenge community development addresses is to ensure that the residents of poor and at-risk neighborhoods who do not leave have the opportunity to live safer, more civil, more productive lives than is now possible in many inner-city neighborhoods. If this goal is accomplished, these communities may regain their ability to attract and sustain a mix of people—not just very poor, unemployed people, but also people with moderate incomes and connections to the labor force.

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