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Local Government Support for Community-Based Economic Development

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> **Findings**
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> *Business attraction/incentives remain the most common form of local economic development, but they seldom benefit distressed areas. While such traditional economic development strategies as tax incentives/economic development zones and job training (supported by 66% and 63% of responding governments, respectively) can be targeted to low-income communities, most local governments also use alternative strategies, building partnerships with nonprofit community development corporations (53%) and supporting community development loan funds (55%) and welfare-to-work (49%) programs.*

Traditionally, local government economic development policy has focused on attracting new business through incentives and subsidies. However, this approach often does not benefit low-income residents or neighborhoods. In the 1970s and 1980s, as industrial developers pursued the strategy of industrial recruitment, poverty and civil rights activists turned their attention to designing new approaches to community economic development, approaches that could target the poor and still compete in the marketplace. Although initially supported by foundations and new institutions such as nonprofit community development corporations, these efforts to bring economic development into distressed neighborhoods now attract local government support as well.

In its 1999 Economic Development survey, ICMA added a question to see how many community-focused strategies were actually being used by local governments across the country. While case studies of successful community economic development programs abound, this survey sheds light on how common these programs have become and how they compare with the more traditional economic development programs that focus on industrial recruitment and business incentives.

SURVEY METHODOLOGY AND RESPONSE RATE

The survey was mailed in winter/spring of 1999 to the city manager/chief administrative officer of all municipalities with populations of 10,000 and over and to counties with the council-administrative and council-elected executive forms of government. Of the 2,882 municipalities and 426 counties surveyed, 912 municipalities and 130 counties responded for a response rate of 32% (Table 3/1). Respondents were fairly evenly divided across all population categories as well as among central, suburban, and independent jurisdictions. Responses were greatest in the West and lowest in the Northeast. The majority of respondents had a council-manager form of government.

THREE WAVES OF LOCAL ECONOMIC DEVELOPMENT POLICY

Industrial recruitment efforts, characterized by direct subsidies and incentives to individual firms, represent the first wave of local economic development policy and the most common approach used today. The 1980s saw a second wave of local economic development, which recognized the importance of retaining existing firms and helping them expand. While these efforts still rely on providing incentives and subsidies to individual firms, they also address the broader needs of a wider range of local businesses. In the 1990s a third wave of economic development policy emerged; this wave, which focuses on the structure of the local economy, is concerned with how government, through public-private partnerships, can enhance local competitiveness in a global economy. Because poor neighborhoods may undermine the economic competitiveness of a metropolitan region, governmental support for economic development targeted to low-income areas has increased.

Incentives and Recruitment

Local government's traditional focus on business attraction and recruitment strategies for economic development gained great popularity during the 1970s, when growing regions in the South and West were able to attract footloose (geographically mobile) firms from the older, industrial states in the North and Midwest via subsidies, tax abatements, and infrastructure development. Today, business attraction backed by business incentives remains the most common form of local economic development.

Although only one-third of the responding governments reported having a written business attraction plan (up from a quarter in 1994), the majority of governments apparently support business attraction programs without a written

Table 3/1 SURVEY RESPONSE

Classification	No. of cities/counties[1] surveyed (A)	No. responding: No.	No. responding: % of (A)
Total	3,308	1,042	32
Population group			
Over 1,000,000	31	9	29
500,000–1,000,000	56	13	23
250,000–499,999	105	35	33
100,000–249,999	281	111	40
50,000–99,999	508	185	36
25,000–49,999	681	231	34
10,000–24,999	1,646	458	28
Geographic division			
New England	332	76	23
Mid-Atlantic	531	86	16
East North-Central	666	190	29
West North-Central	248	114	46
South Atlantic	468	199	43
East South-Central	161	27	17
West South-Central	289	102	35
Mountain	155	65	42
Pacific Coast	458	183	40
Metro status			
Central	694	225	32
Suburban	1,897	595	31
Independent	717	222	31
Form of government			
Mayor-council	1,019	183	18
Council-manager	1,653	697	42
Commission	73	11	15
Town meeting	93	12	13
Representative town meeting	44	9	21
Council-administrator (manager)	196	79	40
Council-elected executive	230	51	22

[1]For a definition of terms, please see "Inside the Year Book," p. xi.

plan. More than 80% of local governments reported supporting at least one business attraction activity (Table 3/2). Some of these attraction activities involve general community promotion via advertising and Web sites, while others include more expensive activities, such as overseas trade missions. Business incentives, supported by 68% of all responding governments, range from regulatory flexibility to tax abatements and subsidies and tend to be even more costly.

Planning and evaluation of attraction and incentive programs have increased. Whereas only 60% of respondents reported that they require a performance agreement as a condition for providing business incentives, more than 77% said that they conduct a cost-benefit analysis prior to offering such incentives, up from 61% in 1994 (not shown).

But while the political salience of these recruitment strategies is well known, their actual effectiveness has been challenged. Recruited firms may not stay long in an area before moving to another, cheaper location. Moreover, research results, albeit contradictory, generally support the notion that businesses benefit more from governmental investment in infrastructure, workforce development, and quality of life than they do from tax breaks. Experienced industrial recruiters recognize the need to target incentives strategically in order to attract firms that would not come otherwise. Plans must be developed that can accomplish this while providing goals and objectives against which the effectiveness of business attraction policies can be evaluated.

Still, researchers and governments alike recognize the limited ability of government-supported programs to influence private investment decisions. Recruitment efforts have been shown to be most effective as "beggar thy neighbor" strategies, encouraging destructive competition within states or metropolitan regions.[1] Indeed, this survey shows that nearly 80% of local governments now recognize their primary competitors to be neighboring local governments (not shown); this percentage is up from 75% in 1994.[2] Increased emphasis on supporting the local economy and ensuring that economic benefits accrue to community residents rather than to footloose firms has led to increased interest in alternative economic development approaches.

Business Retention and Expansion

Local economic development and job growth are largely determined by the success of local firms. Recognition of this fact in the late 1980s encouraged states and localities to support small business development and business retention and expansion programs focused on enhancing the viability of firms already in the local economy. Small business programs support technical assistance, workforce development, technology transfer, and revolving loan funds (Figure 3/1). Business retention programs identify local business needs through surveys and business roundtables and then respond to those needs in a strategic and targeted manner (Figure 3/2).

While only about a quarter of all responding governments (24% in 1994[3] vs. 26% in 1999) reported having a written business retention plan (Table 3/2), most governments reported support for at least one activity in this area (Figure 3/2). Some of these activities, such as business achievement awards (24%), may be quite limited in their impact, whereas others, such as surveys (60%), revolving loan funds (36%), ombudsmen programs (22%), and export development assistance (11%), reflect greater local government investment.

The limited appeal of business and retention programs stems in part from the quiet nature of the work. Preventing a business from leaving and helping it expand does not garner the political headlines the way that attracting a new firm does, but business retention and expansion programs may be more effective because the assisted firms have already shown a willingness to invest and remain locally.

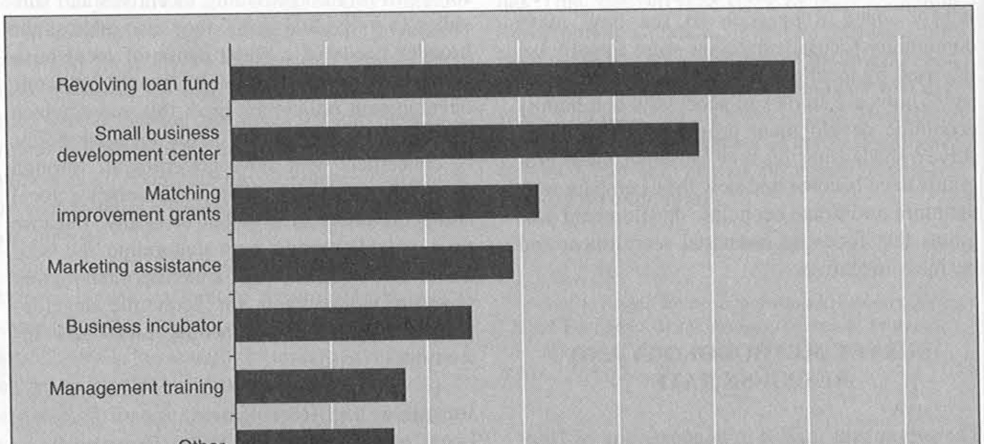
Community Economic Development

Because local economic development often bypassed the poorest neighborhoods, local governments began to experiment with community-based forms of economic development during the 1970s and 1980s. New institutions, known as community development corporations (CDCs) and community development loan funds, emerged to help build and finance business deals. These entities were often nonprofits or only loosely partnered with local government.

Table 3/2 LOCAL ECONOMIC DEVELOPMENT POLICY ALTERNATIVES, 1999

Policy alternatives	No. reporting (A)	Yes No.	Yes % of (A)
Business incentives/attraction			
Government offers business incentives	1,022	699	68
Government supports at least one business incentive	1,042	706	68
Government has written business attraction plan[1]	1,005	322	32
Government supports at least one business attraction activity	1,042	858	82
Business retention			
Government has written business retention plan[1]	1,010	266	26
Government supports at least one business retention activity	1,042	855	82
Government has written small business plan[1]	1,022	173	17
Government supports at least one small business activity	1,042	625	60
Community development			
Government supports economic development zones/tax incentives	900	597	66
Government supports job training	774	489	63
Government supports community development loan fund	740	406	55
Government supports community development corporations	749	395	53
Government supports Welfare to Work	676	329	49
Government supports microenterprise program	594	158	27

[1]These questions specified having a written plan. Many governments do not have written plans, but still support activities in this area.



Note: Percentages are based on 625 governments reporting.

Figure 3/1 *Types of small business support*

Microenterprise programs reflect that for some low-income people, a small business is a possibility if technical assistance and financing can be made available; therefore, strategies were focused on increasing capital investment in low-income neighborhoods and on promoting job training and entrepreneurship among local residents.

COMMUNITY ECONOMIC DEVELOPMENT STRATEGIES

New strategies for local economic development involve planning both to identify key characteristics of the local economy and to design interventions that will enhance local competitiveness and support a cluster of local firms. Characterized by public-private partnerships, these initiatives rest on the role of government and private institutions in providing the information, technical support, and economic development infrastructure needed to support a range of local firms. Through job training and marketing as well as financial support, such initiatives emphasize economic development for low-income communities.

Specifically, these community economic development strategies include economic development zones/tax incentives, job training, community development loans, community development corporations, microenterprise programs, and welfare-to-work programs. In 1999, ICMA added a question to the Local Economic Development Survey to determine how common these various strategies have become.

Economic Development Zones/ Tax Incentives

The most common approach to promoting economic development in low-income neighborhoods is the economic development zone. These zones are geographically defined on the basis of poverty, unemployment, or some other measure of economic distress. By defining these zones geographically, local governments can help target their business incentives to neighborhoods that would not otherwise be attractive to investors; and by offering tax breaks and subsidies to firms willing to locate there, local governments can make these areas more attractive for investment.

Although their effectiveness is debated, these economic development zones have proven popular because they use a familiar set of tools (tax abatements, tax credits, special financing, etc.) to accomplish their purpose. Many states support these zones, and local governments clamor for such designations. Federal interest in such zones has also expanded with the creation of the Empowerment Zone/Enterprise Community Initiative of the U.S. Departments of Agriculture (USDA) and Housing and Urban Development (HUD).

Given this popularity, as well as the fact that they are essentially a traditional strategy applied to a new audience, it is not surprising to find that 66% of all responding governments reported support for economic development zones or tax incentives (Table 3/3). This corresponds favorably with the percentage of respondents that support business incentives (68%) (Table 3/2). Support for these zones is highest in central and independent jurisdictions (83% and 77%, respectively), where concentrations of poverty are higher, and it is lowest in the suburbs (56%) (Table 3/3). In general, however, the level of support for economic development zones declines by population size, with the lowest response (60%) coming from jurisdictions of under 25,000. Economic development zones are most heavily reported by municipalities in the West South-Central (88%) and West North-Central (82%) divisions.

These programs are overwhelmingly provided by government agencies (as reported by 84% of respondents) regardless of region, population size, or metro status. Public-private partnerships are next most common at 22% (Table 3/4).

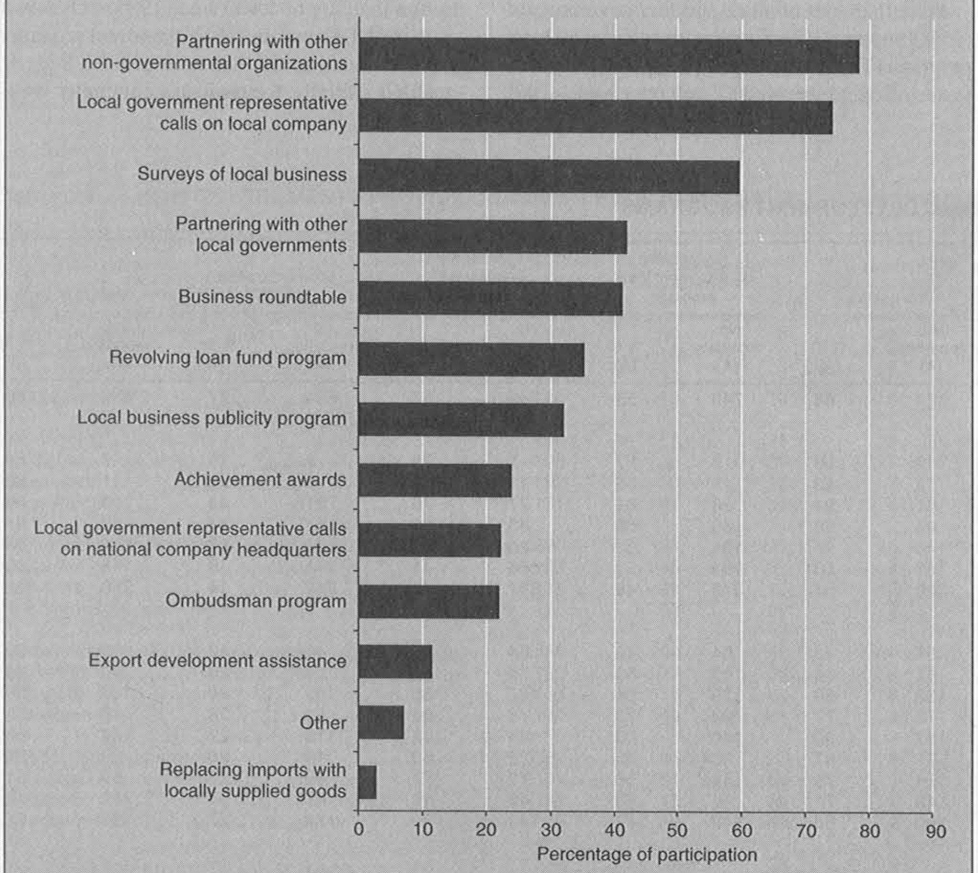
Job Training

Because the quality of the labor force is critical to local economic development, job training has long been part of the economic development agenda. Firm-specific job training is sometimes offered as an incentive under the more traditional business attraction and incentive strategies. In the 1999 ICMA survey, 111 governments (16%) reported support for employee training as a business incentive (not shown). More general programs for job training, which focus on the needs of workers and on a broader range of community businesses, have also been in place for quite some time. From the Comprehensive Employment Training Act programs of the 1970s to the Job Training Partnership Act of the 1980s and the Private Industry Council and Workforce Investment Act of the 1990s, government support for job training has been encouraged.

Over time more emphasis has been given to targeting job training to the needs of industry, and such efforts have been strengthened by involving private industry councils in their oversight. Job training programs range from "Work First," which focuses on basic job readiness skills, to programs that teach actual job skills. Community colleges, often supported in part by local government, have become especially active in creating job training programs—often of a more sophisticated nature—to meet the needs of both industry and workers.

But with welfare reform in 1996 and the Workforce Investment Act (WIA) of 1998, local governments must increase their own emphasis on preparing citizens for work. The WIA requires governments to focus on identifying private contractors who can facilitate job training and job matching of low-income residents.

Just under two-thirds of governments (63%)



Note: Percentages are based on 855 governments reporting.

Figure 3/2 *Types of business retention support* reported support for job training (Table 3/3). Support is more likely to come from larger jurisdictions, but even municipalities of under 50,000 reported support for job training more than half the time. Central and independent jurisdictions are more likely to support such programs than suburban ones (87% and 77%, respectively, vs. 47%). As with economic development zones, support is highest in the West South-Central (78%) and West North-Central (77%) states.

Despite increased emphasis in the WIA on contracting to for-profit firms, few local governments (5%) use for-profit contractors (Table 3/4). Rather, job training is provided by government agencies about two-thirds of the time while public-private partnerships and nonprofits are important in about a third of all cases. There are no major differences by metro status or region.

Community Development Loan Program

Capital is critical for economic development, especially in distressed areas where conventional lending is limited. Many local governments operate their own community development loan funds, using them to recycle Community Development Block Grant monies or other federal and state subsidies. Such funds can be critical in providing seed financing for Main Street revitalization programs, microenterprise programs, or other local small business development. One of the earliest community development loan programs was established by the Economic Development Administration in 1975. Today there are thousands of such programs. They receive support from private foundations; private banks (as part of meeting Community Reinvestment Act obligations); and state and federal government programs, such as the Small Business Administration, USDA, and HUD. These funds, most of which are set up as revolving loan programs to ensure program sustainability, are an important source of credit for small businesses unable to obtain credit from commercial lenders.[4]

Loan fund programs can be sponsored directly by local government or by other civic organizations or financial institutions. They usually receive their capital from government or foundation grants and use it to create a revolving loan fund for affordable housing, small business development, or the construction of community facilities. Loan funds do not have to be directly affiliated with banks or credit unions but will often work closely with private bank partners in marketing loan products, reviewing creditworthiness, and structuring deals.

In the 1990s, increased federal attention was given to creating more independent community development financial institutions (CDFIs), and federal support for technical assistance and capital has been made available through the CDFI Fund. Industry estimates are that more than 500 independent CDFIs now operate in the United States.[5] These CDFIs include banks and credit unions, which provide low-income customers with basic financial services (e.g., checking and savings accounts) as well as with mortgage and small business loans. Some have developed venture capital funds to take equity positions in local economic development projects.

More than half of all responding governments (55%) support a community development loan program (Table 3/3). Again, support is highest in jurisdictions of 50,000 and over and in the West North-Central and East North-Central states (73% and 61%, respectively). Central and independent jurisdictions (73% each) are both nearly twice as likely to support community development loan funds as are suburbs (39%).

Community loan funds are primarily provided by government agencies (66%), regardless of population size, division (except for the Mountain division, which is low), or metro status (not shown). Local funds are provided by nonprofits and public-private partnerships for 27% and 23% of responding governments, respectively (Table 3/4). Nonprofits are more common among central and independent jurisdictions (35% and 29%, respectively), and public-private partnerships are more common among suburbs (26%).

Community Development Corporations

CDCs first emerged in the late 1960s after the War on Poverty as the economic development counterpart to civil rights, and their efforts were targeted to low-income communities. From a few notable experiments primarily supported by foundations (such as Ford Foundation) in the 1970s, CDCs have grown into a movement. By 1980 there were 200 CDCs in the country, and this number increased tenfold throughout the decade despite a generally unfavorable political climate toward community development at the national level. In its 1999 census of CDCs, the National Congress for Community Economic Development (NCCED) (the CDC trade organization) reported 3,600 CDCs across the country (an increase of 1,400 since 1995).[6] Over half of these CDCs are in urban areas and a quarter serve rural areas.

CDCs initially focused on community orga-

Table 3/3 SUPPORT FOR COMMUNITY ECONOMIC DEVELOPMENT PROGRAMS

Classification	Economic development zones/ tax incentives: No. reporting (A)	Economic development zones/ tax incentives: % of (A)	Job training: No. reporting (A)	Job training: % of (A)	Community development loan program: No. reporting (A)	Community development loan program: % of (A)	Community development corporation: No. reporting (A)	Community development corporation: % of (A)	Microenterprise program: No. reporting (A)	Microenterprise program: % of (A)	Welfare to work: No. reporting (A)	Welfare to work: % of (A)
Total	900	66	774	63	740	55	749	53	594	27	676	49
Population group												
Over 1,000,000	9	89	9	100	9	67	7	71	8	75	7	86
500,000–1,000,000	12	75	12	92	11	55	11	64	7	71	11	82
250,000–499,999	29	79	31	94	28	61	27	70	21	48	29	86
100,000–249,999	98	74	95	88	80	68	83	65	64	47	80	81
50,000–99,999	158	72	140	75	131	66	125	60	101	47	121	68
25,000–49,999	202	68	167	53	163	51	165	41	141	18	148	35
10,000–24,999	392	60	320	51	318	48	331	51	252	14	280	32
Geographic division												
New England	67	54	54	43	54	48	54	48	46	17	50	36
Mid-Atlantic	76	53	61	38	66	56	64	47	54	26	60	35
East North-Central	170	72	133	59	129	61	136	56	100	26	108	38
West North-Central	93	82	75	77	80	73	75	64	53	26	59	51
South Atlantic	168	68	157	69	140	50	145	52	112	29	144	63
East South-Central	22	50	21	67	20	55	22	50	19	26	20	50
West South-Central	89	88	74	78	59	56	70	77	40	25	49	51
Mountain	58	74	49	71	44	50	43	49	41	34	42	48
Pacific Coast	157	48	150	60	148	47	140	39	129	27	144	51
Metro status												
Central	195	83	186	87	177	73	177	71	141	56	159	77
Suburban	512	56	420	47	400	39	420	40	340	12	375	32
Independent	193	77	168	77	163	73	152	66	113	34	142	61

nizing and enhancing the political representation of low-income community interests in local economic development policy. They provided an effective voice at the local government level for low-income neighborhoods to ensure that the destructive impacts of earlier urban renewal programs were not repeated and that investment in those neighborhoods occurred instead.

CDCs then proved effective in linking government subsidies to private sector investment to help revitalize depressed inner-city and rural neighborhoods, and as they tightened their focus on housing production (more than 90% focus on housing development),[7] their advocacy role declined. Today, while they occasionally find themselves in antagonistic positions relative to government regarding economic development policy, their growing expertise in affordable housing and commercial development for low-income neighborhoods has brought them increasing recognition from private banks, local governments, and foundations as critical partners in the economic development process. The NCCED reports that since their emergence, CDCs have been responsible for creating over 550,000 units of affordable housing and 247,000 private sector jobs.[8] Yet some analysts argue that CDCs should return to their earlier advocacy and community organizing role, noting that poor communities need community organizing for social and political development as well as for economic investment.[9]

CDCs are based on the notion that they can fill gaps left by the market—"corrective capitalism," as the Ford Foundation called it in an early report on its CDC initiative.[10] While industrial development authorities may be seen as deal makers in traditional economic development arenas, CDCs perform this function with a specific focus on the needs of low-income communities, recognizing the need for managerial and entrepreneurial talent to help negotiate deals and promote development in neighborhoods considered unattractive to private investors. However, the persistence of poverty in inner cities and rural areas has underscored the need to address a broader set of social concerns. CDCs are being encouraged to broaden their strategies to address a more comprehensive range of programs or to join with other community-based associations to meet a broader range of community needs. Job training, day care, and microenterprise development are just a few of the programs that CDCs are expanding or forming partnerships to help address.

More than half of all governments (53%) and two-thirds or more of municipalities and counties of 100,000 and over in population reported support for CDCs (Table 3/3). In contrast, only about 40% of suburbs and communities in the 25,000–49,999 range support CDCs. Support is highest among localities in the West South-Central (77%) and West North-Central (64%) states. On the other hand, fewer than half of the municipalities from the Mountain, New England, Mid-Atlantic, and Pacific Coast divisions report support for CDCs.

Support for CDCs is primarily through nonprofits (52%), but public-private partnerships (37%) and government agency support (30%) are also significant (Table 3/4). Central jurisdictions are more likely than suburbs or independent jurisdictions to support CDCs through nonprofits (63%), whereas suburbs are the most likely to rely on direct government agency support (37%) and independent places are the most likely to rely on public-private partnerships (47%).

Microenterprise Programs

Microenterprise programs reflect the notion that for some low-income people, access to technical training and small amounts of capital can help them start small businesses. Two-thirds of businesses in the United States start with less than \$10,000 in capital, usually from family sources. However, for minorities, women, and low-income entrepreneurs, access to even this much family capital is limited. These entrepreneurs often are considered too risky for regular banks. Small businesses and self-employment can help address the mismatch between workers in many inner cities and depressed rural areas on the one hand and job opportunities in distant suburbs on the other. Small businesses support local services and provide a sense of community, building social capital as well as economic and physical infrastructure. For immigrant groups, self-employment has provided an important way to enter the local economy.[11]

Attention to microenterprise as an economic development strategy got its start in developing countries—most notably through the efforts of the Grameen Bank in Bangladesh—and the model of microcredit has been replicated widely throughout the world, including in low-income inner cities and rural areas in the United States. Microenterprises in the developing world can be quite small; the American Enterprise Organization (the trade association of U.S. microenterprise groups) defines a microenterprise as a business that has five or fewer employees and that requires less than \$25,000 in start-up cap-

Table 3/4 HOW GOVERNMENTS PROVIDE COMMUNITY ECONOMIC DEVELOPMENT PROGRAMS

Program	No. reporting (A)	Nonprofit		For profit		Government agency		Public-private partnership	
		No.	% of (A)	No.	% of (A)	No.	% of (A)	No.	% of (A)
Economic development zone/tax incentives	547	50	9	22	4	458	84	119	22
Central	153	18	12	3	2	134	88	31	20
Suburb	258	19	7	16	6	212	82	59	23
Independent	136	13	10	3	2	112	82	29	21
Job training	486	151	31	24	5	326	67	163	34
Central	163	60	37	11	7	110	68	62	38
Suburb	192	50	26	7	4	128	67	63	33
Independent	131	41	31	6	5	88	67	38	29
Community development loan program	390	104	27	25	6	259	66	91	23
Central	127	45	35	9	7	88	69	27	21
Suburb	148	26	18	12	8	95	64	38	26
Independent	115	33	29	4	4	76	66	26	23
Community development corporation	386	200	52	20	5	114	30	142	37
Central	123	77	63	8	7	30	24	37	30
Suburb	163	75	46	8	5	60	37	58	36
Independent	100	48	48	4	4	24	24	47	47
Microenterprise program	162	85	53	8	5	57	35	52	32
Central	81	51	63	2	3	23	28	26	32
Suburb	42	15	36	4	10	18	43	17	41
Independent	39	19	49	2	5	16	41	9	23
Welfare to work	333	93	28	12	4	243	73	98	29
Central	125	41	33	6	5	94	75	34	27
Suburb	121	32	27	3	3	83	69	41	34
Independent	87	20	23	3	4	66	76	23	26

ital and lacks access to the traditional commercial banking sector.[12]

Microenterprise programs recognize that fledgling entrepreneurs need more than credit. Training and technical assistance (e.g., how to develop a business plan, how to assess entrepreneurial readiness) are key components of these programs, as are efforts to enhance access to markets through joint marketing, participation in trade shows, and incubators. Emphasis is also given to asset development, both financial (understanding banking and savings principles, insurance and tax law) and social (networks, support groups, understanding of local economic and political structures).

The Aspen Institute tracks the number of microenterprise programs through a survey of self-employment loan programs. Its 1997 survey found 328 programs that had helped more than 36,000 businesses and provided up to $126 million in credit.[13] While microenterprise programs traditionally relied on foundations and nonprofits for support, government interest has been increasing, especially with the new emphasis on work in welfare reform. Recognition of the potential of microenterprise has now captured national attention. The Small Business Administration's microloan program, launched in 1992, has provided nearly 8,000 loans worth roughly $80 million.[14]

One criticism of microenterprise programs is that the businesses are too small to yield a living wage and too unstable to provide an effective escape from poverty. Most small businesses fail in the first five years, and for microenterprises, the failure rates may be even higher. Some argue that the loans are too small to help the businesses achieve the scale they need to succeed. Asset requirements, while small, may still exceed those of the poor—especially those who cannot afford to take large risks. However, the need to promote asset ownership among residents in low-income communities is now widely recognized, and local governments can craft economic programs to support such an effort. Asset ownership helps residents develop a stronger stake in their communities, which promotes economic and political development.

The ICMA survey shows that microenterprise programs are the least common of the community economic development strategies used by local government, supported by only 27% of responding governments (Table 3/3). Microenterprise programs are most common in larger places. More than 70% of jurisdictions of 500,000 and above support such programs, but fewer than half of the mid-sized governments (50,000–499,999) and less than a fifth of the small governments (10,000–49,999) reported support. Central jurisdictions (56%) are most likely to support microenterprise programs, but by barely more than half, and only about one-third of independent jurisdictions (34%) do. Suburbs (12%) are least likely to provide support.

Not surprisingly, microenterprise programs are primarily provided by nonprofits (53%) (Table 3/4). Direct government agency support is reported by 35% of responding governments and public-private partnerships are reported by 32%. Nonprofits are more common in both central (63%) and independent (49%) jurisdictions, while government agencies and public-private partnerships are more common in suburbs (43% and 41%, respectively).

Welfare-to-Work Programs

With the passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, otherwise known as welfare reform, local governments are under pressure to place at least half of their welfare recipients into jobs within five years. This pressure has caused social service departments to give increasing emphasis to job training, job readiness, day care, transportation, and other support programs that will enable welfare recipients to transition to work. While welfare rolls have declined dramatically since 1996, governments in depressed economic areas are concerned that there may not be sufficient jobs available to accommodate all welfare leavers. Job shortages are not found everywhere. But while suburbs suffer from labor shortages in low-skill occupations, which may provide ports of entry to the labor force for welfare leavers, welfare recipients are concentrated in central cities and rural areas, where job growth may be lower. Due to changes in welfare reform, local government now bears increasing responsibility to articulate economic development and welfare programs, and to focus economic development efforts on the poor.

Fewer than half of the governments (49%) report support for welfare to work. More than two-thirds of jurisdictions of 50,000 and above report support for such programs compared with only one-third of those under 50,000 (Table 3/3). Support is highest in the South Atlantic division (63%), where poverty is higher. Suburbs are half as likely to support such programs as independent or central jurisdictions (32% vs. 61% and 77%, respectively). Welfare-to-work programs are overwhelmingly provided by government agencies (73%), although use of public-private partnerships and nonprofits occurs more than a quarter of the time (29% and 28%, respectively) (Table 3/4).

IMPORTANCE OF PARTNERSHIPS WITH LOCAL GOVERNMENT

These community economic development programs reflect an important set of partnerships between government and the nonprofit sector. CDCs and microenterprise programs are provided through nonprofits more than 50% of the time, and more than one-quarter of governments use nonprofits to provide job training, welfare-to-work programs, and community development loan funds (Table 3/4). In contrast to the growth coalitions of government and for-profit businesses, which fuel traditional economic development policy, nonprofits (often based in low-income communities themselves) help articulate neighborhood needs and identify economic development potential invisible to more mainstream economic development professionals.

Community development in low-income areas requires a broader, more comprehensive approach, which nonprofits are especially well positioned to provide. Nonprofits combine social support, training, community organizing, and economic development expertise. Relying on government and philanthropic support, these collaborative public-private partnerships increase the scale and impact of what neither local governments nor nonprofits can provide alone. A key difference between nonprofit community economic development organizations and for-profit firms is that nonprofits have a broader community mission and more staying power in low-income neighborhoods.

A challenge for the community economic development movement is how to increase involvement of the for-profit sector. While private sector participation in traditional economic development programs is high (in part because specific benefits accrue to individual firms), many for-profit institutions avoid investing in the development of low-income neighborhoods unless large subsidies or tax breaks are provided. They perceive the profit potential of investment in low-income communities to be limited. However, this perception is often not valid, and community economic development programs, supported by nonprofits and governments, have demonstrated how profitable economic development can be fostered in these communities.

Policies that require for-profit institutions to invest in low-income communities, such as the Community Reinvestment Act (CRA) for banks, have helped banks see new markets among the poor. While banks often complain about CRA requirements, CRA has created a major impetus for banks to participate in community loan funds, CDCs, and microenterprise programs. Private sector participation has dramatically increased the scale and scope of these programs. While only 6% of governments report using for-profit partners for loan funds, this rate of private participation is higher than it is in the other community economic development areas, where it averages below 5% (Table 3/4). For traditional economic development programs by contrast, private business participation averages 55% (not shown). For-profit firms should see investment in community economic development programs, which promote neighborhood revitalization and workforce development, as beneficial to their economic health over the long term. Government policy could make an important difference in encouraging more private sector participation in community economic development efforts.

CONCLUSION

Local governments have a challenging role to play in promoting the economic development of their communities. Economic development requires serious planning and careful evaluation. While traditional economic development strategies, such as business attraction and incentives, continue to be widely used, increased emphasis is being given to supporting existing local businesses and helping them expand. As local governments realize the important links between social welfare and economic development, more are providing support to community economic development approaches focused on bringing economic development to low-income residents and neighborhoods. The 1999 ICMA survey shows that the majority of responding governments support community economic development programs.

The nonprofit sector has proven to be an important partner in these efforts because of its strong ties to local communities and its ability to address social, political, and economic issues in a comprehensive manner. Local governments have a critical role to play in helping community economic development efforts come to scale by providing support to nonprofit community and neighborhood-based initiatives. In the future, they could play a stronger role in brokering support from higher levels of government and encouraging more direct investment by the business sector in community economic development programs.

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[1]Timothy J. Bartik, *Who Benefits from State and Local Economic Development Policies?* (Kalamazoo, Mich.: W.E. Upjohn Institute for Employment Research, 1991).

[2]Adam J. Prager, Philip Benowitz, and Robert Schein, "Local Economic Development: Trends and Prospects," in *The Municipal Year Book 1995* (Washington, D.C.: International City/County Management Association, 1995), 25. However, figures reported in the current article do not agree with those previously published because they have been adjusted to reflect the elimination of communities under 10,000 from the database.

[3]Ibid., 31.

[4]National Association of Development Organizations, Washington, D.C. Available at http://nado.org.

[5]National Community Capital Association, Philadelphia, Pa. Available at http://www.communitycapital.org.

[6]National Congress for Community Economic Development, Washington, D.C. Available at http://www.ncced.org/faqs.html#cdc.

[7]Avis Vidal, "Can Community Development Re-Invent Itself?" *Journal of the American Planning Association* 63, no. 4 (1997): 430.

[8]Ibid.

[9]Pierre Clavel, Jessica Pitt, and Jordan Yin, "The Community Option in Urban Policy," *Urban Affairs Review* 32, no. 4 (1997): 435–458.

[10]Neil R. Peirce and Carol Steinbach, *Corrective Capitalism* (New York: Ford Foundation, 1987).

[11]Margaret Johnson, "Developing a Typology of Nonprofit Microenterprise Programs in the United States," *Journal of Developmental Entrepreneurship* 3, no. 2 (1998): 165–184.

[12]Ibid.; see also Association for Enterprise Opportunity, Arlington, Va. Available at http://www.microenterpriseworks.org.

[13]Johnson, "Developing a Typology."

[14]Association for Enterprise Opportunity Web site.