ICIC Initiative for a Competitive Inner City

Inner-City Business Development:

# Benchmarking Federal Spending and Guidelines for Action

Prepared by ICIC in partnership with PricewaterhouseCoopers

## INITIATIVE FOR A COMPETITIVE INNER CITY

The Initiative for a Competitive Inner City (ICIC) is a national, not-for-profit organization founded in June 1994 by Harvard Business School Professor Michael E. Porter, following several years of pioneering research on inner-city business and economic development. The ICIC mission is to build healthy economies in America's inner cities that create jobs, income, and wealth for local residents. ICIC acts to transform thinking, provide cities with a new vision of economic development, and engage the resources of the private sector to accelerate inner-city business growth.

*ICIC and PricewaterhouseCoopers have entered into a multi-year research partnership to promote business development in inner cities.*

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May 1999

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## Table of Contents

## LIST OF ACRONYMS

| | |
|---|---|
| CDBG | Community Development Block Grant |
| CDC | Community Development Corporation |
| CFDA | Catalog of Federal Domestic Assistance |
| DOC | U.S. Department of Commerce |
| DOD | U.S. Department of Defense |
| DOL | U.S. Department of Labor |
| DOT | U.S. Department of Transportation |
| EDA | DOC Economic Development Administration |
| EDI | Economic Development Initiative |
| EZ/EC | Empowerment Zone/Enterprise Community |
| EEC | Enhanced Enterprise Community |
| GAO | General Accounting Office |
| GPRA | The Government Performance and Results Act |
| HHS | U.S. Department of Health and Human Services |
| HUBZone | Historically Underutilized Business Zone |
| HUD | U.S. Department of Housing and Urban Development |
| JTPA | Job Training Partnership Act |
| R&D | Research and development |
| SBA | U.S. Small Business Administration |
| WIA | Workforce Investment Act |

INTRODUCTION

**Inner-City Prosperity** The persistent economic distress of America's inner cities[1] in the face of consecutive years of economic prosperity challenges the nation to find more innovative approaches to increasing economic opportunities for inner-city residents. This is important not only for the well being of low-income residents but also for the nation at large. Productively utilizing the urban workforce will be critical in the effort to maintain national economic growth in an era of labor shortages.

A myriad of efforts are currently underway in the public, nonprofit, and for-profit sectors to address the problems of poverty, crime, and other social problems that contribute to the isolation of inner-city communities from the mainstream economy. However, these activities often lack a unified strategy.

Efforts to revitalize inner cities have historically revolved around meeting the social and personal needs of inner-city residents through improvements in housing, education, health care, and other social services. Although important components to economic development, these efforts alone will not create a sustainable economic base in inner cities.

Sustainable economic development in inner cities will occur only as it has elsewhere, by employing an economic strategy that emphasizes private, for-profit business growth and job development. A vibrant private sector is the key to prosperous, competitive economies. Competitive businesses located in or near inner-city neighborhoods provide the most accessible employment, income improvement, and wealth creation opportunities for inner-city residents. As many visionary leaders realize, business vitality is not only important in its own right, but will also work to anchor, reinforce, and leverage the success of virtually all other efforts. Job and income opportunities resulting from a strong business base can positively influence educational attainment levels, crime rates, and health outcomes, leading to a virtuous cycle of sustainable economic development.

Hundreds of thousands of businesses are already located in inner cities. Research by Initiative for a Competitive Inner City (ICIC) shows that in Boston alone, there are approximately 4,000 inner-city businesses, while Chicago's inner city is home to 15,000. As in any economy, these businesses vary greatly in size and growth potential. While some serve the local economy, others serve a broader metropolitan, national, or even international market. All of these businesses are important to inner-city economic development; however, businesses that serve a wider market, because of their greater growth potential, can often generate greater benefits for the inner-city economy as a whole, including job growth, wealth creation, and stronger linkages to the regional economy.

*Building and improving upon this existing business base in inner cities is perhaps the greatest priority for inner-city economic development.* Doing so requires a strategy that makes the inner city a more competitive location for business. A strategy for sustainable economic development in inner cities must identify the existing competitive advantages and disadvantages of the inner city as a business location and work to better integrate inner cities into the regional economy.

Based on more than five years of research, including studies of 12 inner-city economies, ICIC has identified four actual or latent competitive advantages for businesses based in inner-city locations:

1 A strategic location in the center of major urban areas and transportation nodes
2 Untapped local markets with substantial purchasing power
3 Growth opportunities for businesses that arise from integration with regional business clusters
4 A large, diverse, and available pool of human capital

Numerous competitive disadvantages of an inner-city location have been identified in this research. These include racism, poor infrastructure, cumbersome regulation, crime, difficulties of land assembly, greater costs of workforce qualification and recruitment, and limited access to capital.

Sustainable economic development in inner cities will occur only as it has elsewhere, by employing an economic strategy that emphasizes private, for-profit business growth and job development.

1 The Initiative for a Competitive Inner City (ICIC) defines inner cities as those urban areas with a 50 percent differential from the Primary Metropolitan Statistical Area poverty and unemployment rates. However, any area with a poverty rate of 20 percent or greater is automatically included as inner city.

The competitive advantages and disadvantages of the inner city as a business location have clear policy implications. Public policy can direct investments into public assets such as transportation systems, building on the inner city's competitive advantage as a strategic location. Likewise, workforce development efforts can enhance the skills of the available pool of human capital. Policies directed at removing barriers to investment such as crime, land assembly, and poor information will help enhance the growth opportunities for inner-city businesses. The Federal government, in particular, has an important role in strengthening the economic base in America's inner cities through fiscal policy, regulation, and direct and indirect expenditures.

To better understand the Federal role in inner-city economic development, this study identifies and examines Federal direct expenditures that influence *business development in urban and inner-city locations.* The pattern of expenditures is assessed using a *competitive advantage framework* to judge the congruence between Federal programs and the factors that are likely to enhance the attractiveness of the inner city as a business location. The study's purpose is to contribute to the design of a comprehensive inner-city business-development strategy and to improve the effectiveness of programs that influence the growth of inner-city businesses.

The Scope of this Study The study addresses the following questions:

- What are the types and levels of Federal direct expenditures related to economic development that flow to America's urban and, in particular, inner-city areas?
- How are these resources delivered to the businesses and individuals that they are meant to assist?
- How can limited Federal resources be better used to enhance the competitiveness of the inner city as a business location?

Our analysis has focused on those Federal programs that influence business development through investment, rather than those that benefit business indirectly through increasing the purchasing power of inner-city residents (boosting *consumption*). Investment in forms of capital — whether physical, human, or financial — that increase production and/or productivity are likely to have greater long-term benefits for the economy. Thus, workforce development programs are included in our analysis because they are investments in human capital, while welfare spending is excluded because its focus is mainly on current consumption needs.

We have used an *expanded definition of business development* to create our inventory of Federal urban economic development programs. Included are not only those programs traditionally associated with business assistance such as *financing* and *technical assistance* but also those programs that affect the overall business environment: *job training, infrastructure* (transit spending, public works), *land acquisition and clearance, environmental remediation, crime prevention* (community policing), *research and development, and economic development planning.* While tax and regulation play an important role in inner-city economic development, such as the Community Reinvestment Act, these areas are beyond the scope of this stage of our work.

We examine the Federal Government role in urban economic development from three vantage points:

- The national perspective, across all Federal departments and agencies
- The local perspective, based on a case study of the City of Boston
- The business perspective, from the point of view of inner-city companies that have received government assistance

The result is a comprehensive picture of Federal Government expenditures related to inner-city business development. Based on this study and other ICIC research, we provide recommendations on how best to leverage Federal resources to create a competitive inner-city economy. While this study does not seek to evaluate the effectiveness or impact of individual Federal programs per se, we hope our work will guide strategy at all levels of government and across the for-profit and nonprofit sectors. We also hope that this work will lead to further discussion and research on individual program design and implementation.

Competitive Advantage Framework The basis of prosperity in any location is high and rising productivity in producing goods and services. Competitiveness, then, is based on productivity. In the modern global economy, cities and regions must compete with other locations for investment and productive activity in order to sustain and increase wages and create new jobs. The roots of productivity in an economy lie in developing *firms* that are productive in their *operations and strategies*. Firms cannot be productive, however, without a supportive *business environment*.

Four interrelated influences that can be depicted graphically in a diamond (as shown below, right) define the competitiveness of the business environment in any geographic area:[2]

1 *Factor conditions*, or the quality and quantity of the basic inputs that firms draw upon to compete (such as human capital; financial capital; and administrative, legal, and physical infrastructure).
2 *Demand conditions*, or the nature of the local market as embodied in local customers that demand high-quality, differentiated products and services. Local demand stimulates the development of distinctive products and services that can also be sold elsewhere.
3 *The presence of related and supporting industries*, or industry clusters. Clusters are geographic concentrations of interconnected companies and institutions in a particular field that both compete and cooperate. Clusters encompass an array of linked industries, including suppliers of specialized inputs, specialized educational institutions, and support services that are concentrated in particular locations.
4 *Context for firm strategy and rivalry*, or the rules and incentives (such as regulations, permitting requirements, and taxation) governing the type and intensity of firm competition.

These four areas are mutually reinforcing in defining the potential productivity and competitiveness of an economy. The effect of each area is contingent on the state of the others; consequently, economic development requires simultaneous improvement in each area.

*Cluster formation* is particularly important because it contributes to beneficial spillovers in all four areas.[3] The growth of clusters not only enhances productivity but also stimulates innovation and new business formation. Examples include furniture making in Grand Rapids, medical devices in Minneapolis, and information technology in Silicon Valley and Boston. The more prosperous an economy, the more clustered that economy tends to be. Clusters are often regional or local in scope and are present throughout the United States and in virtually all developed countries.

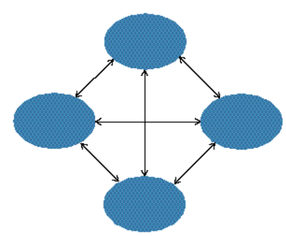
While many cluster studies have been conducted at the state and metropolitan level, this kind of analysis has rarely been applied to inner cities. ICIC research has found, however, that inner cities are home to particular existing or nascent clusters that tend to be similar across cities, in areas such as health care, retail, commercial services, apparel and textile, food processing, and tourism and entertainment. Cluster thinking provides an additional framework for crafting sustainable business development approaches in inner cities.

The public sector can play a significant role in cluster upgrading. Examples of ways in which the public sector can organize resource allocations along cluster lines include specialized education and training programs, cluster-specific efforts to attract suppliers and service providers, organizing government departments to align with clusters, and supporting cluster-specific information gathering and compilation. Government should aim to reinforce the development and upgrading of all clusters, but not choose among them. The success or failure of clusters should be determined by market forces, not by government.

The diamond framework and the concept of clusters are diagnostic tools that help identify the sources of competitive advantage and disadvantage of a business location. Together with subsequent research, they form the basis for the ICIC assessment of Federal resource flows into inner cities and for the ICIC recommendations on inner-city economic development strategy.

The public sector can play a significant role in cluster upgrading... [although the] success or failure of clusters should be determined by market forces, not by government.

2
This framework was developed by Professor Michael Porter of Harvard Business School in *The Competitive Advantage of Nations*



3
Further discussion on clusters can be found in Professor Porter's book, *On Competition* (1998).

Federal Spending on Inner-City Business Development ICIC tracked Federal obligations for urban business development programs for Federal fiscal year 1996. These findings provide a revealing snapshot of Federal spending in cities and inner cities.

- In 1996, the Federal Government spent approximately $16 billion on programs that affect urban business development, roughly *$9 billion* of which affected inner cities. This represents approximately one percent of the $1.6 trillion Federal budget and compares to approximately $28 billion of direct Federal spending on housing (primarily rental subsidies in urban areas) and $19 billion on food stamps for metropolitan areas. Significantly more of the resources that flow to distressed urban areas are for consumption purposes than for investment purposes.
- Federal programs that influenced urban business development in fiscal year 1996 were *highly diffuse*, in terms of both the source and the number of programs. More than *90 programs* that affect urban business development were administered in *14 different Federal departments and agencies.*
- State and local governments play a critical role in *setting the economic development agenda*, by determining how Federal funds are spent and delivered. Seventy-five percent of all Federal direct expenditures initially flow through state and local agencies.
- *Intermediaries*, such as community development corporations and other service delivery providers, both nonprofit or for-profit, are important not only in delivering programs but also in deciding how Federal resources are actually spent. In Boston, more than 130 intermediaries, primarily in job training, were responsible for the implementation of Federal programs in 1996. Of these intermediaries, 59 were nonprofits, 38 were for-profits, 27 were academic institutions, and 5 were trade organizations.
- The central Federal inner-city economic development program, the Empowerment Zone/ Enterprise Community (EZ/EC) Initiative, is dwarfed by the $9 billion that annually flows to inner cities from ongoing Federal programs. In the first round of EZ/EC, approximately $1 to $1.7 billion (no exact figures exist) was directed to urban designations over a 10-year period.

Conclusion: *Federal investment spending in inner-city business development, while considerable, is significantly lower than inner-city-focused consumption spending, such as housing and welfare. A coordinated strategy both at the Federal and local levels as well as across the for-profit and nonprofit sectors needs to be in place to maximize the impact of the existing Federal investments.*

Inner-City Businesses Receiving Government Assistance To better understand how the Federal direct spending affects localities, ICIC conducted a flow-of-funds analysis, tracking fiscal year 1996 Federal dollars to the City of Boston and ultimately its inner city.

- Of the estimated $9 billion direct Federal spending on inner-city business development, Boston received $115 million with $25 million or 22% of this amount flowing to its inner city. The $25 million was supplemented by highly leveraged investments of $7 million in SBA guaranteed private capital and $35 million in procurement contracts to inner-city companies from various Federal agencies.
- This spending reached the Boston inner city in the same or greater proportion than to the rest of Boston. For instance, job training and placement spending per inner-city unemployed ($662) was double the amount of the spending per non-inner-city unemployed in Boston ($321). Also, small businesses in the Boston inner city received $27 in loans per $10,000 in revenues whereas non-inner-city small businesses received $25 for the same amount of revenue.

To better understand the use and satisfaction with these business-development programs, ICIC conducted a survey of inner-city businesses in Boston. Of the 184 inner-city Boston companies identified as having received Federal business assistance between 1995 and 1997, 40 were interviewed for this study. The assistance provided was primarily in the form of loan guarantees and technical assistance.

An overwhelming majority of the 40 companies were *greatly satisfied* with the assistance they received. They also noted the need for greater *investment in the business environment* to enhance their competitiveness.

- Seventy-five percent of the inner-city companies interviewed reported being satisfied or very satisfied with the assistance received.
- The companies noted the top competitive advantages of their inner-city location as central location and reputation in the neighborhood. Central location included proximity to customers, commercial centers, major transport arteries, and public transportation. Reputation in the neighborhood is an important competitive advantage because many of these companies have had a long presence in the community and have good customer relations.
- The top disadvantages listed by the respondents were limited parking, negative perceptions of the inner city, and crime. Notably, limited parking was cited almost twice as often as crime as a major disadvantage.

Most of the 40 companies surveyed were relatively *small, locally focused, and slow growing*. On the whole, these companies do not appear to generate significant job or wealth creation opportunities for inner-city residents:

- *Average sales* per company for 1997 was $970,000, with median sales of $250,000.
- Of the 40 companies, 23 were in business between 1995 and 1997. Of those 23 companies, 17 had a *sales growth rate* of zero percent in that period.
- Most companies *employed less than 10 people*.
- The majority of businesses were in consumer retail or food retail and served a local customer base. Seventy-four percent of companies primarily served a customer base in the inner city, 24% reported a primary customer base in the metropolitan area, and 11% reported a regional customer base.[4]
- Only one-third of the companies interviewed were start-ups founded two years ago or less. On average, the 40 companies had been in business for 16 years.
- The 184 companies identified for interviews proved *difficult to locate* using Federal and city government databases.
- Over a third could not initially be located with the information provided by the government agencies or through the phone directory. Eventually 83 percent were successfully contacted and in business. Eight percent were out of business. The remaining 9 percent of the companies were never found after extensive efforts.
- Nine percent of the companies contacted claimed they never received the government assistance.

Conclusion: *An overwhelming majority of the firms interviewed were satisfied with the Federal assistance they received. They also highlighted the need for greater investment in the business environment. Federal resources that provided direct support to inner-city firms did not appear to be optimized to generate meaningful business and job growth. Assistance was primarily focused on small, inherently low-growth firms and did not leverage opportunities to support companies with high growth potential. In addition, to assess the impact of the assistance, better data and monitoring systems of recipients should be put in place. While these findings are based on a small survey sample, we believe they are relevant nationally.*

Competitiveness and the Inner City Applying the competitiveness framework outlined above to the composition and overall direction of Federal spending leads to the following observations about the Federal role in encouraging inner-city competitiveness.

*Factor Conditions:* Federal economic development expenditures of $9 billion are overwhelmingly directed to improving the *quantity and quality* of factor inputs to business, primarily in the form of job training and leveraging financial capital from the private sector.

4
The customer base totals more than 100 percent because two companies reported an equal (50-50) customer base in different locations. These companies were recorded as having two primary customer bases in two locations.

- *Job training and placement* programs represented the largest direct business-related expenditures of any kind to reach the inner city: $5.4 billion targeted economically disadvantaged individuals, representing 90 percent of all urban spending on job training and placement.
- The significant leveraging of the $300 million in direct Federal spending on *financial capital*, primarily through credit enhancement programs, represents the second largest dollar investment into inner cities. This spending leveraged roughly $2.5 billion of mainly debt capital to inner-city businesses, representing less than a quarter of the $10.9 billion leveraged from the private sector to businesses located in all urban areas.
- *Technical assistance* spending for inner-city businesses was modest — approximately $100 million — constituting a sixth of all spending to companies located in urban areas. Yet there were more programs providing business assistance such as accounting, management, and marketing from more Federal agencies than for any other type of development support — 25 programs in 7 departments.
- *Infrastructure spending*, including transit, public works, and land clearance and acquisition, involved substantial resources — $4.7 billion — but is often disconnected from inner-city business development. Only $1.7 billion of this total flowed to inner cities where the need for infrastructure investment is often greatest.
- Roughly $1 billion of *crime-prevention spending* was focused on inner-city areas, representing more than 40% of all such spending to urban areas.
- Other types of direct spending to inner cities — EZ/EC, *research and development, and economic development planning* — totaled just more than $300 million, about a sixth of all such spending to urban areas.

*Demand Conditions:* The Federal Government has a significant de facto impact on *demand conditions* through $200 billion in annual *procurement spending*. No estimates are currently available of how much of this spending is awarded to inner-city businesses nationwide. Recent Federal Historically Underutilized Business Zones (HUBZones) legislation suggests greater opportunities for expanding the number of inner-city businesses that bid on Federal contracts, as well as expanding the customer base of these companies. However, as with all set-aside programs, they should guard against unnecessarily distorting competition.

- In Boston, 1996 Federal procurement contracts to inner-city companies represented more in dollar terms ($36 million) than all of the Federal direct expenditures tracked in this study ($25 million).

*Clusters:* Very few, if any, Federal programs are directed toward upgrading and enhancing existing and emerging industry *clusters*.

- None of the 90 programs examined in this study supported cluster strategy by design. However, a few Federal departments, including the Departments of Housing and Urban Development and Commerce's Economic Development Agency, have supported research on regional clusters. Greater connection needs to be made between this research and local economic development strategy, particularly around inner cities. Recent legislation, such as the Workforce Investment Act of 1998 to be administered by the Department of Labor, provide opportunities for using Federal resources in cluster-based strategies.
- A number of local initiatives identified through the course of this study have used Federal resources to support the key elements of an inner-city-focused cluster strategy, namely, information and data gathering, private and public collaborations, and resource-allocation decisions.

Conclusion: *Most of the Federal programs that affect inner-city business development focus on improving the quality and quantity of factor inputs, though sometimes without an explicit business development agenda. Notably absent from the design or intent of these programs is a strategy that connects and leverages disparate, scarce resources. Supporting a cluster approach, which allows for local flexibility and innovation, will help Federal resources achieve greater impact.*

## RECOMMENDATIONS

Our research suggests that a number of opportunities exist to better utilize scarce Federal Government resources in improving the competitiveness of the inner-city business environment:

**1 Competitiveness and business development should be a central theme of an inner-city development strategy.** While the Federal Government spends a substantial amount on programs related to inner-city business development (approximately $9 billion annually), this total is far less than that spent on consumption-oriented inner-city programs such as welfare and housing. Investment in business development produces sustainable, self-reinforcing benefits in terms of job, income, and wealth creation for inner-city residents. Progress in the business development agenda will enhance the effectiveness of virtually all socially oriented programs.

- Business development should be elevated in the mix of Federal resources directed to the inner city to make economic development efforts more sustainable.

**2 The elements of an inner-city economic development strategy need to be integrated across Federal agencies and between the Federal, state, and local levels.** Improving the competitiveness of inner cities requires parallel progress in many areas, ranging from transportation to job training to regulatory streamlining. Yet economic development programs and resources are highly fragmented, both at the Federal and local levels. The lack of an explicit and coordinated strategy substantially diminishes their impact. The Federal Government should organize itself to pursue a coordinated inner-city economic development strategy and take a leadership role in integrating state and local efforts.

- A Federal entity should develop guidelines to better leverage resources across departments and agencies and further elevate inner-city business development in national policy.
- The Federal Government should provide grants and incentives to catalyze local government efforts that engage leaders from across public and private sectors to coordinate local inner-city economic development initiatives.

**3 An explicit business development mission should be incorporated into the design of Federal programs that affect inner-city businesses.** Some of the elements most critical to inner-city business development, such as transit, public works, and crime prevention, are not traditionally perceived as connected to business. As a result, these programs are not designed with business development needs in mind. Similarly, other potential resource pools such as procurement spending have not been well integrated into economic development thinking.

- Federal programs that directly or indirectly affect inner-city business development should have explicit business-related objectives incorporated into their design.

**4 Investments should emphasize improving the business environment, rather than supporting individual firms.** Investing in the business environment offers greater leverage and effectiveness because it makes the inner city a more attractive location for any firm. Such investments affect many businesses and generate positive spillover effects. Investing in the business environment, such as in better transportation systems, improved capital markets, and better workforce training, will improve the capacity of a large number of existing and new firms to compete. The market can then decide which particular firms will succeed. Currently, the primary mode of directly assisting individual firms is through financial institutions that provide loans and investments guaranteed by the Federal Government. These credit subsidies are transitional mechanisms to facilitate markets and ideally should be reduced over time and eventually ended. In some cases, individual firms are selected for direct assistance to achieve political ends or by nonprofits with limited business background. An approach focused on the business environment avoids these potential pitfalls and promises greater return on investment.

- The preponderance of Federal Government resources should focus on improving the business environment and making the inner city a more competitive location for any business.

5 Cluster-oriented thinking and cluster initiatives should be integrated into inner-city economic development efforts. The formation of clusters of related firms are essential to productivity growth and a manifestation of competitiveness throughout economies. Cluster analysis results in better understanding of the competitive strengths and weaknesses of a business location and also identifies leveraged ways in which to increase productivity, stimulate innovation, and spur new business formation. Cluster initiatives are a powerful tool for bringing the private sector together with government and nonprofits to constructively improve the business environment. While Federal efforts have supported research on regional clusters, few Federal programs have a cluster perspective. Cluster analysis must also be integrated into local thinking and resource allocation decisions to ensure that economic development strategies are leveraged and build on local competitive strengths. Cluster initiatives should identify and assist *all* existing and emerging clusters, not choose among them.

- Funding should be provided for business cluster analyses to identify the existing and emerging clusters in metropolitan regions and inner cities and highlight potential linkages among them.
- Grants and incentives should be provided to local government to engage leaders from both the public and private sectors in coordinated cluster initiatives. Public/private urban business development councils should lead such initiatives.
- Government resource allocation decisions at the local level should be evaluated based on existing and emerging local clusters. Cluster thinking should be applied not only to the areas traditionally associated with business development such as job training and technical assistance, but also to other areas that affect competitiveness such as infrastructure and crime prevention. Each cluster has its own priorities and needs.
- The Federal Government should act as a clearinghouse for information regarding local efforts across the country to integrate cluster-oriented practices into economic development strategies.

6 Direct assistance to individual firms should be directed primarily at catalyzing the workings of private markets. Assistance should be based in part on impact and sustainability. While direct support to individual firms is less leveraged than improving the general business environment, there may be occasions where working with individual firms is justified, especially to catalyze the development of private markets. Today, many programs that provide direct assistance to firms do so on a first-come, first-served basis, which is an inefficient use of government resources. Moreover, these resources are often focused on assisting businesses that have no prospect of significant revenue or job growth.

- Programs should be designed to catalyze functioning private markets such as bank lending or work through other private-sector entities such as trade associations, cluster working groups, or mentoring relationships. This approach will improve the business environment and encourage greater linkages between inner-city companies and the mainstream economy.
- Programs directly assisting companies should measure and heavily weigh the company's growth potential and linkages to the local and regional economy.

7 The performance of inner-city business development programs should be better monitored and assessed. The inner-city companies interviewed for this study were difficult to find only one or two years after having received government assistance. This suggests that the outcome of assistance efforts is not adequately monitored. Rather than measure outcomes, most government programs measure outputs such as the number of recipients and the amount of assistance provided. Tracking the success and failure of government assistance over time will help sharpen program design, selection criteria, and evaluation of overall effectiveness. The Government Performance and Results Act (GPRA) is a step forward in requiring strategic and performance plans from all Federal departments to measure program outcomes.

- Performance measures for inner-city business development programs should monitor the outcomes of these programs in terms of their impact on business performance, growth, and sustainability. Measures should include business survival rates, revenue growth, market expansion, and relationship to local clusters.

8 The spatial flow of government resources should be tracked and evaluated. Much of the effort for this study was focused on tracking the flow of Federal spending to low-income areas. While some Federal program expenditures easily related to zip codes, the distribution of others required the use of proxies and rough estimates. Understanding the spatial impacts of Federal programs is essential to efforts to ensure that assistance is flowing to those communities in greatest need.

- Every Federal department and agency should collect data to allow for tracking spending to its final destination. This includes both direct spending and indirect spending (such as private-sector dollars leveraged by public dollars). Infrastructure and crime prevention spending should also be tracked based on its geographic impact.
- Responsibility to compile and analyze geographic spending patterns should be assigned to a single government agency or research entity, ideally one that also has a role in coordinating urban economic development policies.

Objectives This study examines the role of the Federal Government in inner-city[5] economic development and provides broad recommendations on how to best leverage Federal resources to create a competitive inner-city economy. Using an urban and inner-city lens, this report provides a comprehensive picture of how Federal direct expenditures and credit enhancement programs influence inner-city economic development, specifically business development.

Assuming Federal funding for cities and inner cities remains constant, it is important to look at all Federal programs that influence inner-city businesses to ensure that scarce resources are efficiently employed and well leveraged and that investments in people and places pay off.

The following questions are addressed in this report:

- What are the types and levels of Federal direct expenditures related to economic development that flow to America's urban and, in particular, inner-city areas?
- How are these resources delivered to the businesses and individuals that they are meant to assist?
- How can limited Federal resources be better used to enhance the competitiveness of the inner city as a business location?

Economic development, whether at the regional or neighborhood level, is a complex process. Many factors, including housing, health care, education, and childcare, contribute to improving economic conditions in low-income areas. These factors alone, however, will not create a sustainable economic base in inner cities. Sustainable economic development in inner cities will occur only as it has elsewhere, by employing an economic strategy that emphasizes private, for-profit business growth and job development. Accordingly, ICIC narrowly defines economic development around business development.

This study hopes to generate more attention to the critical role that government can play in inner-city business development. It offers a starting point for discussion among both Federal policy makers and local economic development experts about the resources that should be considered part of a comprehensive inner-city business development strategy, as well as the challenges and opportunities that exist for implementing such a strategy.

Approach The following summarizes the three components of the research approach used in this study:

1 The theoretical underpinnings of this research are based on Professor Michael Porter's work on competitiveness. This work outlines the key factors that make a location competitive.[6] We have used Porter's competitive advantage framework to assess the congruence between Federal programs and the factors that are likely to enhance the competitive advantages and mitigate the competitive disadvantages of the inner city as a business location.

2 To understand the types and level of direct Federal expenditures that flow to inner cities, a *Program Inventory* of all Federal urban economic development programs was created. This top-down approach provides an overview, across 14 Federal departments and agencies, of Federal obligations for direct expenditure and credit enhancement programs in fiscal year (FY) 1996.[7] Clearly one year of spending will not capture the variation in program spending over time. However, it does provide an indication of the relative magnitude of these programs.
Federal funds in the *Program Inventory* are tracked to Boston and Boston's inner city in a *Flow-of-Funds Analysis*. Boston was chosen as a case study because of its proactive involvement in inner-city economic development and because of the ease of access to its data for ICIC. While the Boston inner city may not be representative of all inner cities across the country, much can be learned from Boston regarding the delivery and coordination of Federal resources at the local level.

5
The Initiative for a Competitive Inner City (ICIC) defines inner cities as those urban areas with a 50 percent differential from the Primary Metropolitan Statistical Area poverty and unemployment rates. However, any area with a poverty rate of 20 percent or greater is automatically included as inner city.

6
A summary of Professor Porter's research on this subject can be found in his recent book, *On Competition* (Harvard Business School Press, 1998).

7
Federal FY 1996 was the latest year for which complete data was available at the time of compiling Program Inventory and conducting Flow-of-Funds Analysis.

3 An Inner-City Business Survey was developed for a bottom-up approach to understanding the kinds of businesses receiving Federal Government assistance, the competitive position of these companies, and their experience with government programs. ICIC conducted 40 in-person interviews with inner-city companies in Boston that had received Federal business assistance between 1995 and 1997.

The Federal Government's role in economic development is complex and multifaceted and raises many questions, all of which cannot be answered in one study. Important questions, such as to what extent the Federal Government should be involved in economic development efforts, the impact of Federal programs, and the role of taxation and regulation in the economic development process have not been addressed here. While these are critical pieces to any assessment of the role of the Federal Government in inner cities, analysis on these subjects has been conducted elsewhere[8] and would go beyond the scope of this stage of our work. It is hoped that this report will lead to further discussion and research in these important areas.

8 For recent discussions on the role of the Federal Government in economic development, see National Academy of Public Administration (1995) and Harrison and Weiss (1997).

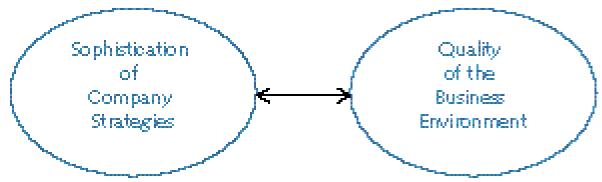
**Defining Economic Development** The term "economic development" encompasses numerous definitions, theories, and practices. Economic development has been defined by the American Economic Development Council as "the process of creating wealth through the mobilization of human, financial, capital, physical and natural resources to generate marketable goods and services,"[9] or more narrowly in other sources as "policies that seek to increase wealth...by providing direct assistance to business."[10] While these definitions focus on markets and business, "in practice, distinctions between social, political, economic development concerns are fuzzy."[11]

The Initiative for a Competitive Inner City (ICIC) defines economic development narrowly around business development.[12] Two critical elements (Figure 1) underlie economic development: (1) developing firms that are productive in their operations and strategies and (2) creating a business environment that supports and encourages competitive firms. Having both of these elements in place results in improved business growth, profitability, and, subsequently, sustainable jobs that raise income and wealth.

These dual imperatives are the cornerstone of economic development. Prosperous areas are those that are characterized by high and rising levels of firm productivity: the value generated by a day of work and a dollar of capital invested. Firm productivity is determined in part by the skill of firm management in developing efficient operations and a competitive strategy. However, it is also strongly influenced by the quality of the business environment. For example, transportation infrastructure can be critical to a firm's ability to efficiently deliver its goods and services. Conversely, difficulty in finding skilled workers can hamper a firm's competitive position compared with like firms in other locations. Both the internal workings of a firm and the business environment are integral to increasing productivity and competitiveness and spurring economic development.

**Location and Competition** How companies compete in a location is strongly influenced by the quality of the business environment. The ability of a firm to compete regionally, nationally, or internationally can be greatly affected by many of the factors that are determined by the business environment. Transportation, land assembly, human resources, taxes, regulation, and the legal system all affect a company's capacity to compete. The public sector, by allocating its scarce resources, can play an important role in enhancing these aspects of the business environment.

Figure 1 The Dual Imperatives of Economic Development




Understanding the business environment in a location is challenging. Porter's framework describes four interrelated influences that affect the competitiveness of the business environment in any geographic area (see Figure 2):

1 *Factor conditions or inputs*. Factor inputs are those inputs that firms draw upon in competing. They include tangible assets such as infrastructure, natural resources, and human resources, as well as information and administrative infrastructure, the legal system, and university research institutes. To increase productivity, factor inputs must improve in efficiency, quality, and specialization.
2 *Demand conditions*. Demand conditions can play a role in upgrading firms from producing imitative, low-quality products and services to competing on differentiation, or creating unique products and services. The presence of local customers who demand high-quality, differentiated products and services can press firms to improve.
3 *The presence of related and supporting industries*, or industry clusters. Clusters are geographic concentrations of interconnected companies and institutions in a particular field that both cooperate and compete. Clusters encompass industry competitors, as well as suppliers, buyers, firms in related fields, specialized educational institutions, and support services that are concentrated in particular locations.

9 Richard Bingham and Robert Mier, Robert (eds.), *Theories of Local Economic Development: Perspectives From Across the Disciplines* (Thousand Oaks: Sage), 1993, p. vii.

10 Timothy Bartik, "The Market Failure Approach to Regional Economic Development Policy," *Economic Development Quarterly*, Vol. 4., No. 4, November, 1990.

11 John P. Blair, *Local Economic Development* (Thousand Oaks: Sage), 1995, p. 22.

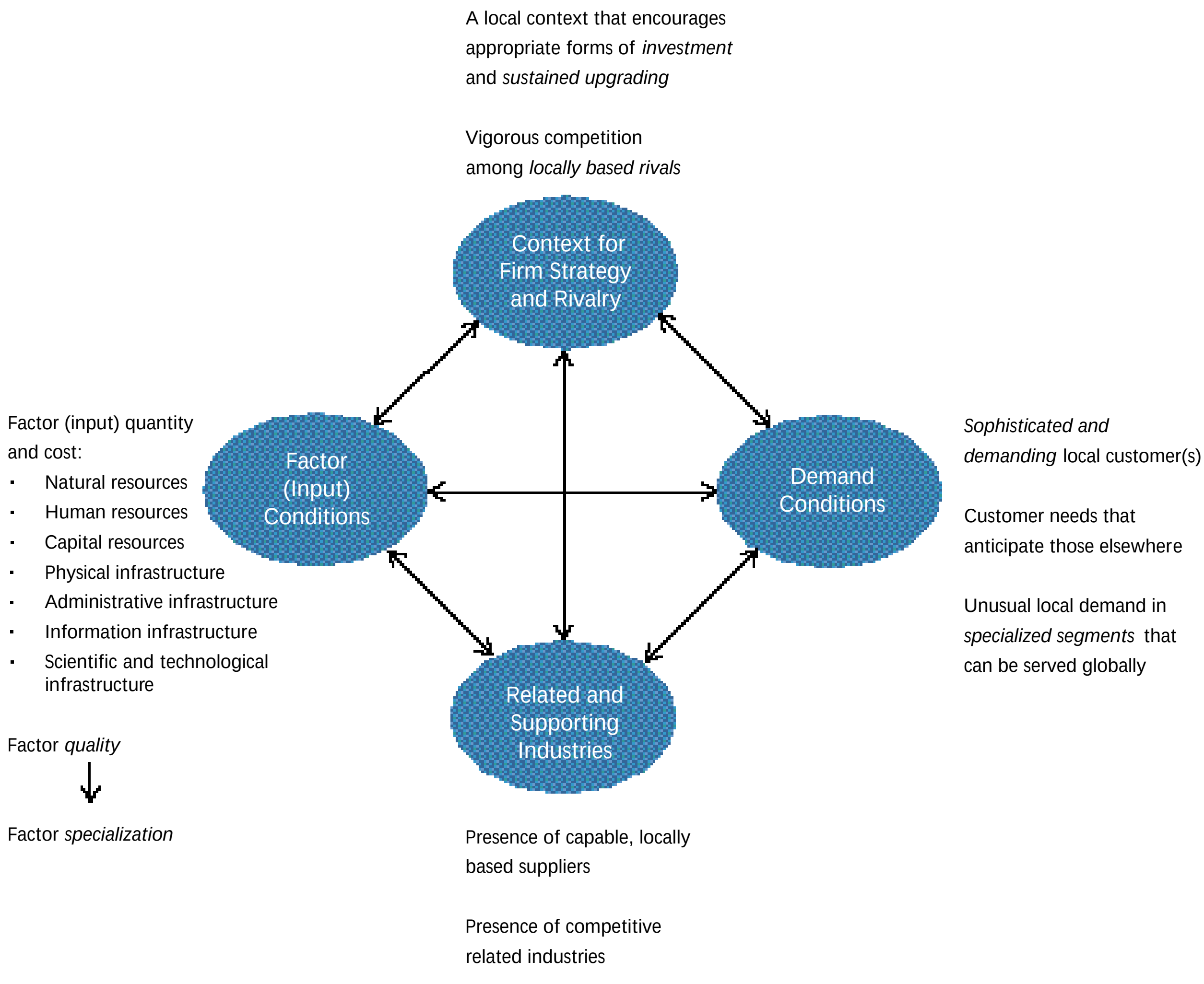
12 This chapter generously draws on the work of Professor Michael Porter of the Harvard Business School as presented in *The Competitive Advantage of Nations* (New York: Free Press), 1990 and *On Competition* (Cambridge: Harvard Business School Press), 1998.

4 *Context for firm strategy and rivalry*. The context for firm strategy and rivalry refers to the rules, incentives, and norms governing the type and intensity of firm competition, including regulation, permitting, and taxation. The greater the local rivalry, the more competitive the economy.

Combined, these four influences are mutually reinforcing. Progress in all of them produces a dynamic, productive, and competitive business environment. The effect of each is contingent on the state of the others. Consequently, economic development requires simultaneous improvement in each dimension.

While clusters constitute one facet of the diamond, they are best seen as a manifestation of the interactions among all four facets. Clusters provide a new framework for understanding and promoting business development.

Figure 2  Sources of Locational Competitive Advantage



## Clusters, Competition, and the Inner City

Clusters are found in every national, regional, state, and metropolitan economy. Examples of clusters include furniture making in Grand Rapids (MI), medical devices in Minneapolis (MN), and information technology in "Silicon Valley" (CA) and Boston (MA).

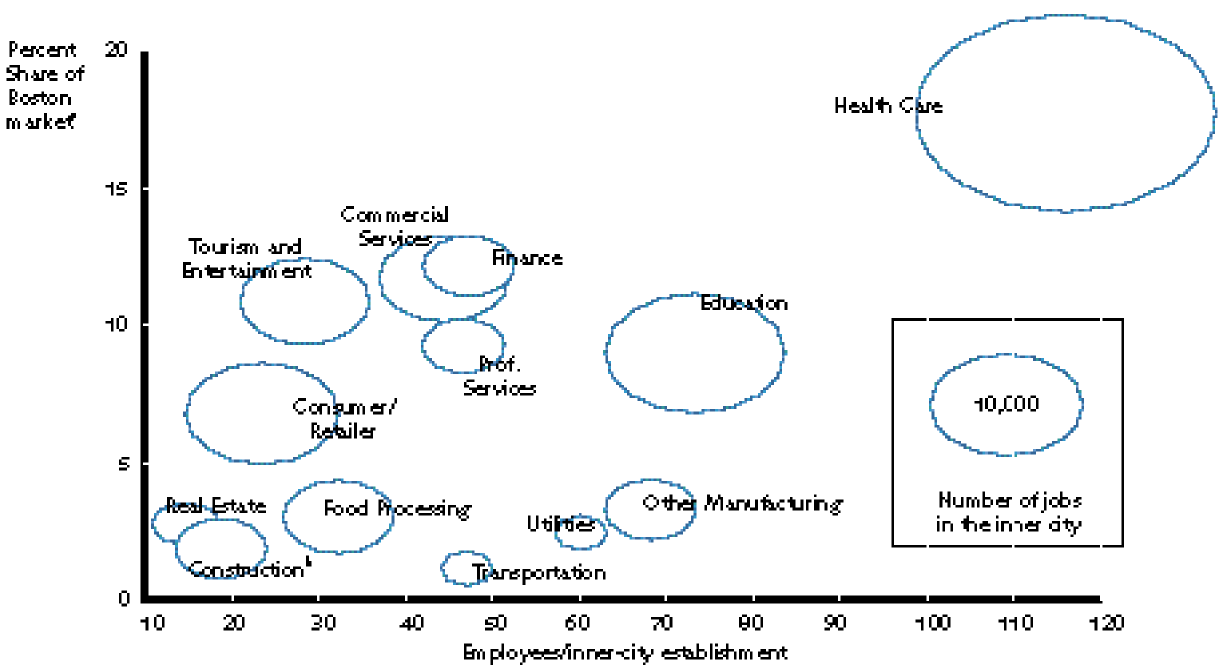
Clusters highlight the importance of location and the business environment to competitiveness. Because access to global markets and networks are available to all companies, competitive advantage can no longer be derived from sourcing inputs from a distance. Instead, the enduring competitive advantages in a global economy lie increasingly in local factors — knowledge, relationships, and motivation — that distant competitors cannot match. Close linkages with buyers, suppliers, and other institutions offer competitive advantages that lead not only to greater efficiency but also to increasing rates of improvement and innovation. Clusters reflect this new competitive dynamic. While what happens inside companies is important, clusters emphasize the vital role that the immediate business environment plays outside companies.

Clusters affect competition in three broad ways: first, by increasing the productivity of companies based in the area; second, by driving the direction and pace of innovation; and third, by stimulating new business formation.

*Clusters and Inner Cities* As in any economy, businesses located in the inner city vary in size and growth potential, related primarily to the market they serve. While some serve the local economy, others serve a broader market that extends to metropolitan or national markets. All of these businesses are important to inner-city economic development; however, businesses that serve wider and larger markets can often generate greater benefits for the inner-city economy as a whole in terms of job and wealth creation and better connections to the regional economy. These companies are often part of existing inner-city or regional clusters or have the potential to link into these clusters.

By understanding the business activity and the cluster base of inner cities, business development strategies can be created that build upon existing assets and better leverage scarce resources. Figure 3 shows the clusters for Boston's inner city. The size of each bubble represents the number of jobs in that cluster. Its vertical position on the chart shows the percentage of total jobs in Boston that each inner-city cluster represents: the higher up the cluster, the larger its market share in Boston. The horizontal position of the bubble represents the average number of employees per firm — the farther to the right, the larger the average firm.

Figure 3 Boston's Inner-City Business Clusters




Source: Strategies for Boston's Inner-City Business Growth, The Boston Consulting Group (BCG) in partnership with ICIC, December 1996; Department of Commerce; Census Bureau; BCG analysis.

Notes: (a) Based on 1993 number of employees at establishments.
(b) Infrastructure projects have the potential to increase share of construction cluster in future years.

Many important insights can be gained by examining the inner-city business base through a cluster lens. First, employment and revenue trends for each cluster can be ascertained, which provides a broader understanding of the strengths and weaknesses of the economy. Second, linkages between industries and companies that otherwise would not be associated with each other can be made, which may provide insight into common business inputs, complementarities, or needs.

Many of the business clusters located in Boston's inner city are found in other inner cities across the country. ICIC research in 12 inner cities shows that inner-city clusters tend to be similar across cities, in areas such as health care, retail, commercial services, transportation, tourism and entertainment, and manufacturing-related industries (food processing, apparel, metalworking, furniture, etc.). This is often due to the competitive advantages that inner cities provide for certain kinds of businesses. The inner city's strategic location — close to central business districts and transportation nodes — creates a competitive advantage for businesses that are time- or logistics-sensitive, such as commercial service, warehousing, and transportation companies. Figure 4 lists a number of clusters found in the inner cities of Boston, Chicago, and Oakland.

Figure 4 Selected Inner-City Clusters

| Boston | Chicago | Oakland |
|---|---|---|
| Healthcare | Healthcare | Healthcare |
| Commercial services | Commercial services | Commercial services |
| Food processing | Fabricated metals | Food processing |
| Education | Education | High tech/multimedia |
| Tourism & entertainment | Transportation | Transportation |
| Retail | Retail | Retail |

Source: ICIC and BCG (1996); ICIC and BCG (1998); and ICIC, Oakland Advisors, and BCG (1998).

## Role of the Public Sector in Cluster Development

Government plays a variety of roles in encouraging and supporting economic development. Besides its overall goal of achieving macroeconomic and political stability, it has an important role to play in improving general microeconomic capacity and competition in those areas outlined by the diamond framework. With regard to factor inputs, developing an educated workforce and the appropriate infrastructure and facilitating the flow of economic information are areas in which the public sector can have a major impact on business performance. Likewise, in designing the rules and incentives governing competition, government influences whether and how companies grow and compete. Finally, through procurement spending, the government can be a sophisticated buyer of goods and services, pressing companies to improve in their operations and strategy.

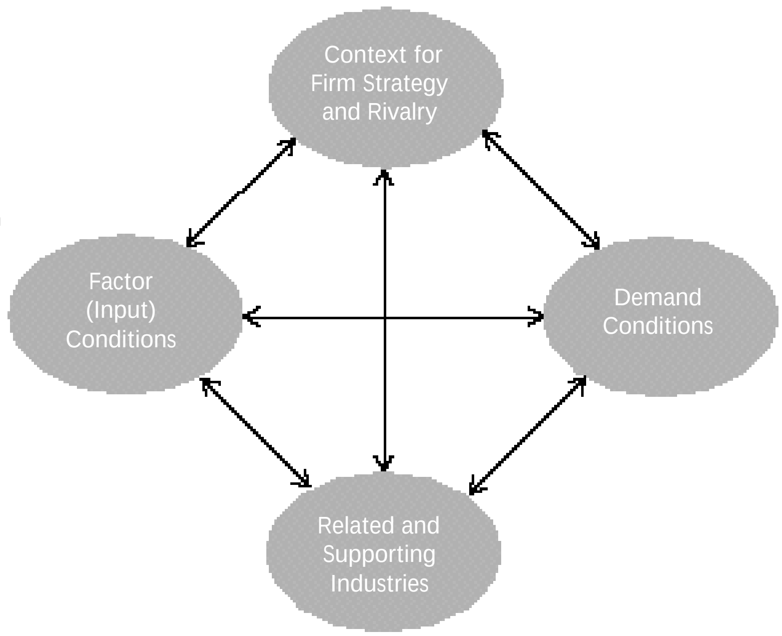
While these roles of government are necessary for economic development, they may not be sufficient. Especially as government begins to make progress in its more basic roles, the role it can play in cluster development and upgrading can take on prominence. Government should aim to reinforce the development and upgrading of all clusters, not choose among them. The success or failure of clusters should be determined by market forces, not by government. All clusters are important to economic development, though efforts to support and upgrade them may have to be sequenced for practical reasons.

Government can play an important role in enhancing the competitiveness of clusters and the business environment in general (Figure 5). As a first step, government must recognize the existence of specific clusters and then work to remove obstacles, relax constraints, and eliminate inefficiencies that hinder productivity growth and innovation in the cluster. Government efforts to upgrade clusters can include (1) improving human capital through specialized education and training programs, (2) cluster networks and information sharing through forums for cluster participants, or (3) public-sector resource allocation through aligning relevant government departments around clusters.

The following chapters present an overview of how the Federal expenditures currently influence business development in urban and inner-city areas. These expenditures are then presented in relation to the Competitive Advantage Framework to understand how the Federal Government might better deploy its resources to enhance competitiveness. Examples of inner-city cluster-based initiatives highlight the leadership role of the public sector in enhancing inner-city competitiveness.

Figure 5
Government Influences on Cluster Upgrading

- Eliminate barriers to local competition
- Organize relevant government departments around clusters
- Focus efforts to attract investment around clusters
- Focus export promotion around clusters




- Create specialized education and training programs
- Establish local university research efforts in cluster-related technologies
- Support cluster-specific information gathering and compilation
- Enhance specialized transportation, communications and other infrastructure

- Create streamlined, pro-innovation regulatory standards affecting the cluster to reduce regulatory uncertainty
- Act as sophisticated buyer of the cluster's products/services

- Sponsor forums to bring together cluster participants
- Cluster-specific efforts to attract suppliers and service providers from other locations
- Establish cluster-oriented industrial parks, or supplier parks

**Historical Overview** During the past four decades, the Federal Government has been an important force in the economic development of socially and economically distressed urban areas. Federal programs and policies with a geographic focus have had variable success. Urban Renewal of the 1950s, through which neighborhoods were razed and replaced by highways, municipal complexes, and housing projects, is generally taken as the model of urban development against which all subsequent efforts were designed. Following Urban Renewal, Federal efforts concentrated on more decentralized and bottom-up approaches to economic development. The Model Cities of the 1960s and the succeeding Grants-in-Aid programs of the 1970s were designed with such devolution of decision making in mind.

Today, the Empowerment Zone/Enterprise Community (EZ/EC) Initiative is the Federal Government's signature urban economic revitalization effort. This Initiative contains elements from prior programs plus some novel approaches. It relies on a bottom-up approach, requiring a comprehensive local strategic plan that not only addresses the economic concerns of the designated areas but also addresses their social service needs. Moreover, it requires significant investment commitments from the private sector. Communities awarded an EZ or EC designation receive a package of direct grants, loans, and tax incentives from the Federal Government.

While EZ/EC remains the main Federal urban initiative, an overwhelming majority of Federal investments reach the inner city through relatively less visible programs that are larger in dollar amounts and that flow annually to the inner city. Among these are formula-grant job training and placement programs, as well as highly leveraged credit programs. These significant pools of resources are often not strategically integrated into inner-city economic development efforts.

Federal economic development tools can be categorized into five types: direct expenditure, credit enhancement, tax expenditure, regulation, and government-sponsored enterprise (GSE) activity.[13] This study primarily examines direct expenditure and credit enhancement programs. Tax expenditures and GSE activities are only cited when benchmarking economic development expenditures against housing expenditures.

**Federal Urban and Inner-City Spending**
Understanding what Federal resources flow to inner cities requires identifying both the Federal programs and the dollar flow to urban and inner-city areas.

*1 Methodology*

To identify the potential universe of economic development programs—the Program Inventory—ICIC searched the 1996 Catalog of Federal Domestic Assistance (CFDA), using 31 key words. These key words included such terms as business development, capital, crime, economic growth, and employment (see Appendix A) and generated a list of 312 programs. An additional 10 to 15 programs were identified from alternative sources.

In order to focus on urban economic development, specifically business development, ICIC excluded from the list of 312 those programs designed for rural areas, general and vocational education, and social and community service (see Appendix A for a full listing of exclusion criteria). The exclusion criteria eliminated 230 programs, with 90 remaining in the universe—namely, the Program Inventory—for in-depth analysis. Figure 6 shows examples of the 90 programs listed in Appendix B.

13
Direct expenditures provide direct funding for job training, direct loans, salaries and expenses for programs, etc. Credit enhancements refer to the use of guarantee facilities and purchase of securities of institutions that provide credit to businesses. Tax expenditures are the dollar equivalent of the taxes forgone by the Federal Government through offering tax credits and deductions. GSE activities refer to institutions like the Federally-chartered Fannie Mae that secure loans and mortgages, making greater amounts of capital available in the markets.

Figure 6 Examples of Programs in the Program Inventory

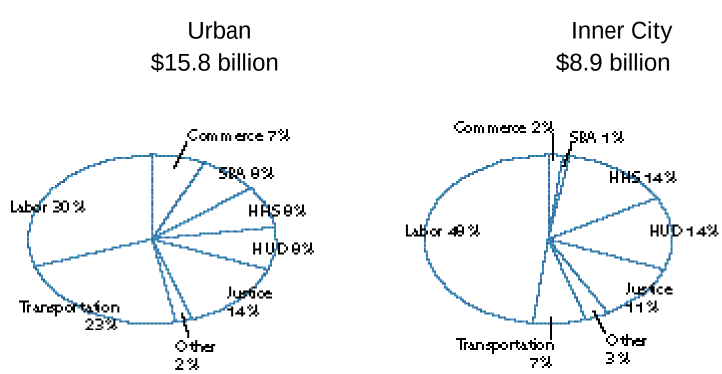
| Type of Program | Examples of programs |
|---|---|
| Job Training & Placement | DOL Job Training Partnership Act;<br>DOL Employment Services; HUD Youthbuild |
| Capital | SBA 7(a); SBA Small Business Investment Companies;<br>HUD Section 108 |
| Infrastructure | DOT Transit; DOC Public Works; HUD CDBG<br>(Acquisition and clearance & public works spending) |
| Crime Prevention | DOJ Weed & Seed; DOJ Community Policing |
| Technical Assistance | DOC Manufacturing Extension Partnership;<br>SBA Small Business Development Centers |
| EZ/EC | HHS Social Service Block Grant (administered by HUD) |
| Research and Development | DOC Advanced Technology Program;<br>SBA Small Business Innovations Research |
| Economic Development Planning | HUD Community Outreach Partnership Centers;<br>DOC State and Local Economic Development Planning |

*Ascertaining Program Spending* ICIC examined the Federal obligations for these 90 programs for Federal FY 1996, the latest year for which complete data was available when conducting the research. Few of these programs break down the flow of expenditures by geography, either urban vs. rural or urban vs. inner city. Ascertaining just the urban portion of spending required making some assumptions and estimations. For example, the predominantly urban-focused programs — e.g., the economic development component of HUD's Community Development Block Grant program — were included without accounting for any potential rural spending. The spending of programs that lacked a clear urban focus were adjusted for non-urban spending. For instance, urban areas received 77 percent of the $2.5 billion in loans guaranteed by the Small Business Administration (SBA) 504 program. Hence, the spending and program size figures for this program reflect only the urban spending portion.

Unless noted otherwise, the spending estimates for credit enhancement programs include only the direct expenditures of the programs, not the leveraged amounts. By leveraged, we mean direct program expenditures that facilitate private-sector lending or investment through guarantee facilities or purchase of securities. The SBA 7(a) program, for instance, had $78.4 million in budgetary obligations that guaranteed a loan portfolio of $7.7 billion.

*Spending Patterns within Urban Areas* After identifying the urban business programs and their spending, programs were further analyzed on their general urban or inner-city focus. The Department of Labor JTPA Adult and Youth Training program, for instance, is predominantly an inner-city-focused program. On the other hand, its Employment Services program does not target economically or socially distressed areas. Many transportation and crime-prevention programs also lack an inner-city focus. In such cases our estimates of inner-city spending relied on proxy data (see Appendix A).

Figure 7 Federal Economic Development Obligations by Department (FY 1996)




## 2 *Findings*

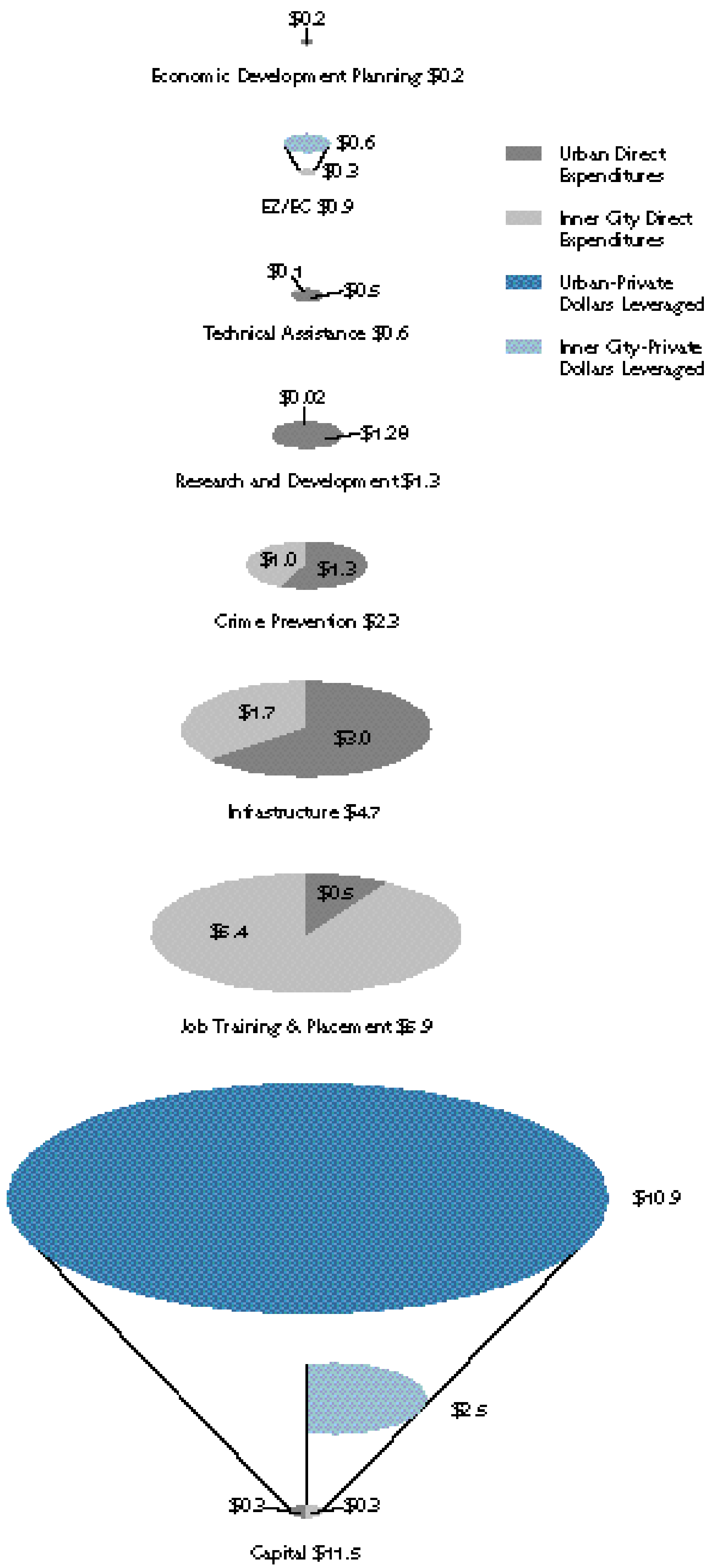
In FY 1996, the Federal Government spent approximately $15.8 billion on urban economic development programs. This constitutes 1 percent of total Federal spending in 1996. More than half of these obligations — $8.9 billion — was directed to inner cities (Figure 7). For comparison, the Federal Government had direct expenditures of roughly $28 billion for housing, primarily in the form of Section 8 rental subsidies, and $19 billion for food stamps in metropolitan areas (see Appendix C). These numbers suggest that a greater proportion of Federal resources flowing to inner cities are for consumption purposes, which meet day-to-day needs, rather than investment purposes, which increase productivity over the long-term.

*Spending by Department* For all urban economic development spending, the Department of Labor (DOL) provides the largest resources in the form of workforce development dollars. DOL spent $4.7 billion, or 30 percent of the total $15.8 billion, in FY 1996. Spending by the Departments of Transportation ($3.6 billion) and Justice ($2.3 billion) follow, with spending primarily on transit and crime prevention.

With regard to inner cities, again the Department of Labor represents the largest share of the direct spending ($4.3 billion), followed by the Departments of Housing and Urban Development ($1.2 billion) and Health and Human Services ($1.2 billion).

*Spending by Program Type* Many Federal departments oversee a variety of programs and activities. For example, DOL, HUD, and HHS all fund job training and placement programs. The following analysis examines Federal spending by activity or type of program to understand the entire portfolio of Federal programs that influ-

Figure 8
Portfolio of Federal Government Business Development Programs (FY 1996, $ in Billions)




ence urban business development. Figure 8 shows Federal spending by types of programs — i.e., capital, job training, etc. The darker shades represent total spending in urban areas for FY 1996, while the lighter shades represents estimates for how much of that spending reached the inner city.

Job training and placement programs represent the largest direct expenditures to reach inner cities. In FY 1996, $5.9 billion was spent on these programs, 90 percent of which was directed to inner cities and inner-city residents.

In dollar terms, the facilitation of capital to inner-city businesses is the second most important flow of Federal resources to inner cities. Credit enhancement programs, while small in terms of direct expenditures, leverage a substantial amount of private investment. Roughly $2.5 billion in capital for inner-city businesses was leveraged by $300 million of direct expenditures, yielding a leverage ratio of 9 to 1. While significant, this amount represents less than a quarter of total capital leveraged for all urban businesses — approximately $11 billion. Direct spending of $600 million for all urban lending therefore results in a leverage ratio of roughly 18 to 1. The differences in leveraging ratios between urban and inner-city programs can be explained in part by the fewer credit-enhancement programs directed to lower-income areas.

After labor and capital, the largest Federal Government expenditures for inner cities are in infrastructure and crime prevention. Infrastructure spending in inner cities, which includes transit, public works, land acquisition and clearance, and brownfields, represents roughly $1.7 billion, or less than 40 percent of the total $4.7 billion spent for all urban areas. Approximately $1billion was spent on inner-city crime prevention, including mostly community policing grants but also some local law enforcement, Byrne formula, and Weed and Seed grants. This amount is less than half of the total estimated spending for all urban areas.

After these four major areas of expenditure, namely job training, capital, infrastructure, and crime prevention, spending drops off significantly for the other major categories.

The signature urban development program of the Federal Government, the Empowerment

Zone/Enterprise Community (EZ/EC) Initiative, pales in size by the $9 billion that annually flows to inner cities from ongoing Federal programs. An estimated $750 million in direct spending was directed to urban designations over a 10-year period. Additional resources of $300 to $900 million (no exact figures exist) were also made available from other Federal programs, primarily through HUD's Section 108 and Economic Development Initiative (the FY 1996 commitments from these programs have been accounted for under "capital" above).

Federal spending on technical assistance (TA) for all urban areas is less than $600 million, with slightly more than 10 percent of this spending directed to inner-city businesses. Compared with credit programs, technical assistance provided to urban businesses amounted to five cents for every dollar of capital invested. In contrast, for inner-city businesses, technical assistance spending amounted to only a fraction of a cent for every dollar of capital invested.

Finally, spending for research and development and economic development planning have limited connection to inner-city business development. The Federal Government spent $1.3 billion for research and development, primarily directed to small businesses through the Small Business Innovations Research program to develop new products and services. Little, if any, of this funding flows to inner-city businesses, though it is not possible to determine exactly how much using current data.

The $200 million for economic development planning represents the total Federal funding available for economic development planning research. Forty percent of this total comes from the Department of Transportation, primarily for transit studies. Nearly one-fourth was obligated to the Department of Defense's Base Reuse Planning. The remaining programs, totaling $72 million, are primarily from the Departments of Housing and Urban Development and Commerce. ICIC estimates that only $14 million of the $200 million are focused on low-income areas.

In sum, the Federal government spent $16 billion on urban economic development programs related to business development, $9 billion of which influenced inner city-areas and residents. Federal credit enhancement programs leveraged $11 billion in private-sector capital for all urban business, $2.5 billion of which went to inner-city companies.

Multiplicity of Programs One persistent feature of Federal efforts is the variety of programs that provide similar assistance run by numerous agencies (Figure 9). There are, for instance, 25 technical assistance programs offered by 7 Federal agencies (though technical assistance is one of the smallest expenditure categories). Also, despite the large consolidation of job-training and placement programs in the early 1980s, there are 18 such programs offered by 4 different agencies. Changes in job-training programs by the Workforce Investment Act of 1998 have further helped to consolidate programs.

Figure 9
Multiplicity of Federal Urban Economic Development Programs

| Type of Program | Number of Programs | Number of agencies |
|---|---|---|
| Job Training & Placement | 18 | 4 |
| Infrastructure | 8 | 4 |
| Capital | 18 | 7 |
| Technical Assistance | 25 | 7 |
| Crime Prevention | 6 | 1 |

Source: ICIC Flow of Funds Analysis

Conclusion on Federal Spending In FY 1996, of the roughly $16 billion in Federal spending that affected urban business development, approximately $9 billion flowed to inner cities. The $16 billion in spending represents approximately 1 percent of the $1.6 trillion Federal budget and compares with approximately $28 billion of Federal direct spending on housing (primarily urban) and $19 billion for food stamps in metropolitan areas. This illustrates that significantly more of the resources flowing to the inner city are for consumption purposes than for investment purposes.

The largest Federal direct expenditures to inner cities are in job training and placement programs. Workforce development spending constitutes over half of all business development expenditures flowing to inner cities. Capital, facilitated by credit enhancement programs, is the second largest resource to reach inner cities, though only a fourth of the overall capital leveraged for urban businesses flows to inner cities.

## FEDERAL PROCUREMENT SPENDING

The Federal Government has long realized the significance of Federal procurement spending as an economic development tool. The New Deal era Works Progress Administration was based on a public-spending model of economic growth. Today, the Federal Government spends more than $200 billion a year on the procurement of goods and services. It also has many programs in place to make these contracts available to socially and economically disadvantaged groups. The SBA 8(a) certification program and its adjunct 7(j) technical assistance program provide certain advantages to qualifying companies in securing Federal contracts. There are currently more than 6,000 8(a)-certified businesses in the country. Several mentor-protégé programs are also concerned with providing business-to-business advisory services to small or disadvantaged Federal contractors.

Despite the effort to address the developmental needs of the economically disadvantaged, Federal procurement efforts have not been explicitly focused in their geographic targeting. In 1997, however, Congress approved the HUBZone (Historically Underutilized Business Zone) legislation that enables businesses located in these zones, which are areas of generally low income and high unemployment, to have a higher chance of securing Federal contracts. HUBZones are located in more than 7,000 urban census tracts and in 900 mostly rural counties. The first HUBZone contracts are to be awarded in 1999, with the first-year goal of awarding more than $2 billion. In five years, this amount is expected to increase to 3 percent of Federal procurement dollars or $6 billion each year. Very much like the annual review of 8(a) contracts, HUBZone-awarded contracts will be subject to an annual review tracking the distribution and type of contracts, as well as the business profiles of the contractors.

Of all the Federal procurement initiatives, the HUBZone offers the greatest potential for inner-city businesses to tap into Federal procurement spending. A great many of the 8(a)-certified companies are not located in inner cities. Although no systematic nationwide analysis is available, the ICIC Boston analysis (see Chapter IV) shows that out of the eight businesses certified by the 8(a) program, only two were located in Boston's inner city. It is too early to analyze the potential impact of this procurement targeting. The simple facts of procurement spending in Boston's inner city, however, reveal an interesting pattern.

Figure 10 Overview of Federal Procurement Spending (FY 1996)

| | Total Dollars (millions) | No. of Contract Actions/Mod[b] | Per Capita Procurement | Percent of Total Dollars to Non-Defense Contractors | Percent of Total Dollars to Small-Business Contractors |
|---|---|---|---|---|---|
| Nation | $197,580 | 14,650,638 | $745 | 28% | 21% |
| Massachusetts | $6,230 | 13,600 | $1,035 | N/a | 13% |
| Boston | $469 | 1,139 | $859 | N/a | N/a |
| Boston Inner City | $36 | 285 | $132 | 20% | 44% |

Source: ICIC analysis of GSA data
Notes: (a) Spending is by place of contractor, not by place where contract performed.
(b) "Mods" stands for modifications. For definition of "contract actions and modifications" see Federal Acquisition Regulation.

In 1996, 8 percent of the Federal procurement spending in Boston was contracted to businesses located in the inner city (Figure 10). Of the total $36 million in procurement spending in Boston's inner city, 53 percent was for supplies and equipment, 28 percent was for construction, 13 percent was for services, and 6 percent was for research and development. The 53 percent for supplies and equipment, however, constituted 77 percent of all Boston contracts in that category. Most interesting, however, the total of Federal procurement spending was 1.5 times the spending level of all of the Federal economic development programs put together (see Chapter IV).

The other major influences on inner-city business development are primarily made up of spending on infrastructure and crime prevention. Assistance directly to businesses in the forms of technical assistance and research and development are miniscule and represent only a fraction of total inner-city spending.

The EZ/EC initiative, while the signature Federal inner-city program, is relatively small in comparison with all of the resources flowing to inner cities on an annual basis.

Many of these programs are delivered through a multiplicity of programs that provide similar assistance across many agencies. In particular, technical assistance, job training, and credit enhancement programs are highly fragmented.

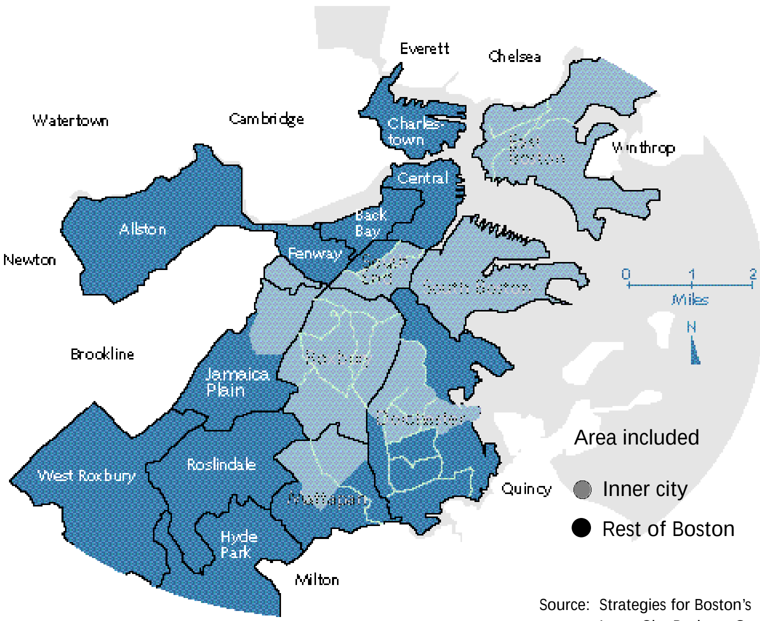
Finally, the substantial amount of annual Federal procurement spending can be viewed as a potential inner-city business development resource, if more contracts are awarded to competitive inner-city businesses (see above). The recent HUBZone legislation is a promising step to enable inner-city businesses to compete in this market, as long as competition is not unnecessarily distorted.

Flow of Federal Funds to Boston's Inner City To examine the influence of Federal urban economic development programs at a local level, ICIC tracked the flow of these expenditures to Boston and its inner city.

1 *Boston Study Area*

Using this study's definition of economic distress (poverty or unemployment rates at least 50 percent higher than those of the Primary Metropolitan Statistical Area or a poverty rate of at least 20 percent), 10 zip codes out of Boston's 31 were identified as inner city and represent the Boston Study Area.[14] These 10 zip codes cover areas of Boston generally considered low income: Dorchester, Mattapan, Roxbury, South Boston, and East Boston (Figure 11). The study area is larger than the one covered by Boston's Enhanced Enterprise Community (EEC), though the EEC covers Chinatown, an area not included in this study.

Figure 11 Boston's Inner City




Source: Strategies for Boston's Inner-City Business Growth, The Boston Consulting Group in partnership with ICIC, December 1996; 1990 Census; Boston Redevelopment Authority.

## BOSTON FLOW-OF-FUNDS METHODOLOGY

Different approaches were used to track the flow of Federal funds into Boston and its inner city. For many credit programs, transaction-level data were available from Federal sources that included the address and zip code of the loan/equity investment recipient. For these programs, the exact dollars flowing to businesses located in inner-city zip codes were determined. For instance, this was the case for all of the SBA credit programs, with the exception of the Microloan program.

In the case of job training and technical assistance programs, the distribution of the spending to Boston and Boston's inner city was estimated based on the utilization or activity rate of the program for each of the zip codes in the city.†

For crime-prevention programs, other than specifically inner-city-targeted programs (e.g., Weed & Seed), the Boston spending was distributed to inner-city zip codes, using the number of police officers in each police area.†† For transit spending, all capital expenditures were allocated to the zip codes in which they occurred. The operating expenditures were prorated, using mode-of-transport and ridership information for each zip code.

In the absence of transaction-level or any other zip-code-level data, discussions with program managers at the local level helped with best estimates.

In all cases where a business was a program beneficiary, the flow to the businesses was deemed adequate as an estimation of the flow to the zip code (i.e., if the business, in turn, used some or all of the funds outside the zip code, that outflow is not captured in our analysis; likewise, if a business outside the target zip codes received funding and spent all or some of the funds inside the target zip codes, our analysis would not capture that fact). This is also true of our analysis of Federal procurement spending.

† For instance, in FY 1996, the DOL spent $1.18 billion on the Job Corps program. The number of Boston residents utilizing the program was 184 out of a national total of 67,774; hence, 0.27 percent of the national total, viz. $3.2 million, "flowed" into Boston. The number of Boston residents who were from Boston's inner-city zip codes was 130; hence, 70.6 percent of Boston's share "flowed" to its inner city.

†† Calculating the flow of crime-prevention spending is a complicated task. First, police zones are not identical to zip codes, nor do they have the same boundaries. Only 6 of the 13 police zones in Boston were made up either entirely of inner-city zip codes or entirely of non-inner-city zip codes. We, therefore, used data from these six "homogeneous" zones and extrapolated from them to the whole city, based on the relative number of residents. Second, the Boston City Police did not keep track of where the non-targeted Federal funds went; therefore, we used the number of police in the six "homogeneous" zones to allocate the non-targeted Federal funds.

14 Based on the 1990 U.S. Population Census, the following zip codes met the ICIC inner-city criteria: 02118-02120 in Roxbury; 02121-02125 in Dorchester; 02126 in Mattapan, 02127 in South Boston; and 02128 in East Boston.

Figure 12 Flow of Federal Spending to Boston and Its Inner City (FY 1996, $ in millions)

| Program Type | Federal | Boston | Boston Inner-City | IC share of Boston |
|---|---|---|---|---|
| Job Training & Placement | $5,873.1 | $14.5 | $10.2 | 71% |
| Infrastructure | $4,682.4 | $33.1 | $2.4 | 7% |
| Crime Prevention | $2,268.9 | $7.4 | $3.4 | 46% |
| R & D | $1,311.1 | $44.8 | $0.17 | 0.4% |
| Capital | $582.0 | $10.9 | $5.6 | 51% |
| Technical Assistance | $588.2 | $1.7 | $0.6 | 38% |
| Empowerment Zone | $300.0 | $3 | $2.2 | 75% |
| Other | $198.9 | $0 | $0 | n/a |
| TOTAL | $15,804.5 | $115.3 | $24.6 | 21% |

Figure 13 Federal Spending in Boston's Inner City: Total $24.6 million (FY 1996)

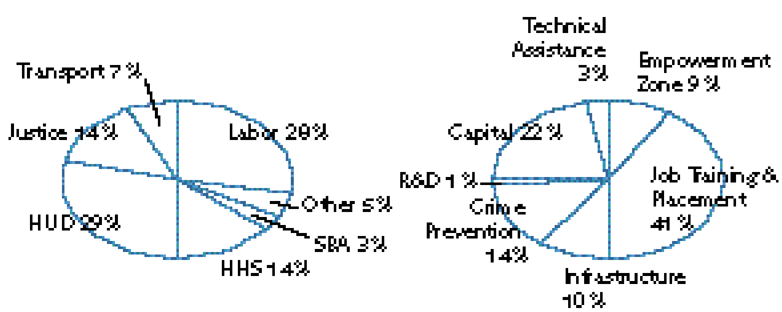
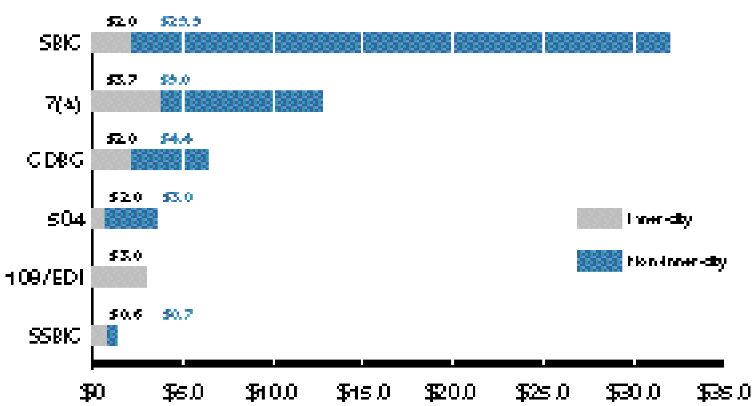



Figure 14 Amounts of Loans and Investments Facilitated by Federal Credit Programs in Boston: Total $60 million (FY 1996, $ in millions)




*2 Boston Findings*

Of the $16 billion in Federal urban economic development programs, Boston received about $115 million. Approximately $25 million of this benefited Boston's inner-city businesses and residents (Figure 12).

In FY 1996, the funds to Boston's inner city came primarily from HUD (29 percent) and the Department of Labor (28 percent), with the HHS (now-defunct) JOBS Training Program and the Department of Justice each contributing about 14 percent of the total (Figure 13).

Similar to spending nationwide, inner-city funds in Boston were primarily spent on job training and placement (41 percent) and capital (22 percent) which includes CDBG business development loans, facade improvement grants, and direct spending on SBA financing programs (Figure 13). The Empowerment Center funding was primarily used for job training and literacy programs.

Crime prevention, mostly in the form of spending on community policing, constituted 14 percent of the Boston total. The 10 percent spent on infrastructure includes transit, CDBG acquisition and clearance, and brownfields pilot spending.

Direct spending of $5.6 million on credit programs facilitated more than $12 million in loans and investments (20 percent of the Boston total of $60 million) to inner-city businesses (Figure 14). Included was a mix of long-term financing from SBICs, shorter-term loans from the SBA 7(a), and variety of business loans and grants from HUD programs. With $5 million in commitments, HUD programs were the largest contributors to direct business financing in the Boston inner city.

*Normalizing Boston Spending* To understand the magnitude of this spending relative to need, spending for Boston and its inner city is normalized in Figure 15 using variables such as small business revenue, number unemployed, number of crimes, and so on (see Appendix C for details). Normalizing allows for a comparison of spending between geographic areas that differ in demographic and economic conditions.

*Job Training:* The $15 million job training and placement funding amounts to $504 per unemployed individual throughout the City of Boston. This represents $321 per unemployed person in non-inner-city Boston and almost double that amount ($662) per inner-city unemployed.

*Crime Prevention:* Crime-prevention spending relative to the number of crimes committed is slightly higher in the inner city than the spending for non-inner-city areas of Boston.

*Credit Enhancement*: The $60 million in credit programs amounted to $25 per $10,000 in revenues for small businesses in Boston, $24 per $10,000 in revenues for non-inner-city small businesses, and $27 per $10,000 in revenues for inner-city small-business.

*Technical Assistance:* Technical assistance programs spent close to $109 per small business in the Boston inner city. This compares with only $41 per small business outside the inner city.

This analysis suggests that in proportion to factors such as number of small businesses or unemployed residents, Federal urban business development spending reaching the Boston inner city was proportionally equivalent to, or greater than, the amount reaching the rest of Boston.

Figure 15 Federal Urban Business Development Programs in Boston: Normalized (FY 1996)

| Spending Type | Boston (Total) | Boston (Non-Inner-City) | Boston (Inner-City) |
|---|---|---|---|
| Job Training & Placement (per unemployed) | $504 | $321 | $662 |
| Crime Prevention (per crime) | $166 | $150 | $191 |
| Credit Programs (per $10,000 revenue generated by small businesses) | $25 | $24 | $27 |
| Technical Assistance (per small business) | $54 | $41 | $109 |

Sources:American Business Disk (1997, 2nd Edition); 1990 Census data, U.S. Census Bureau, Dept. of Commerce; Boston Police Department; and ICIC Flow-of-Funds Analysis.

**Delivery of Federal Business Development Programs** Understanding the delivery system of Federal urban economic development efforts offers insights into both the opportunities and the constraints that the delivery process places on devising and implementing strategy.

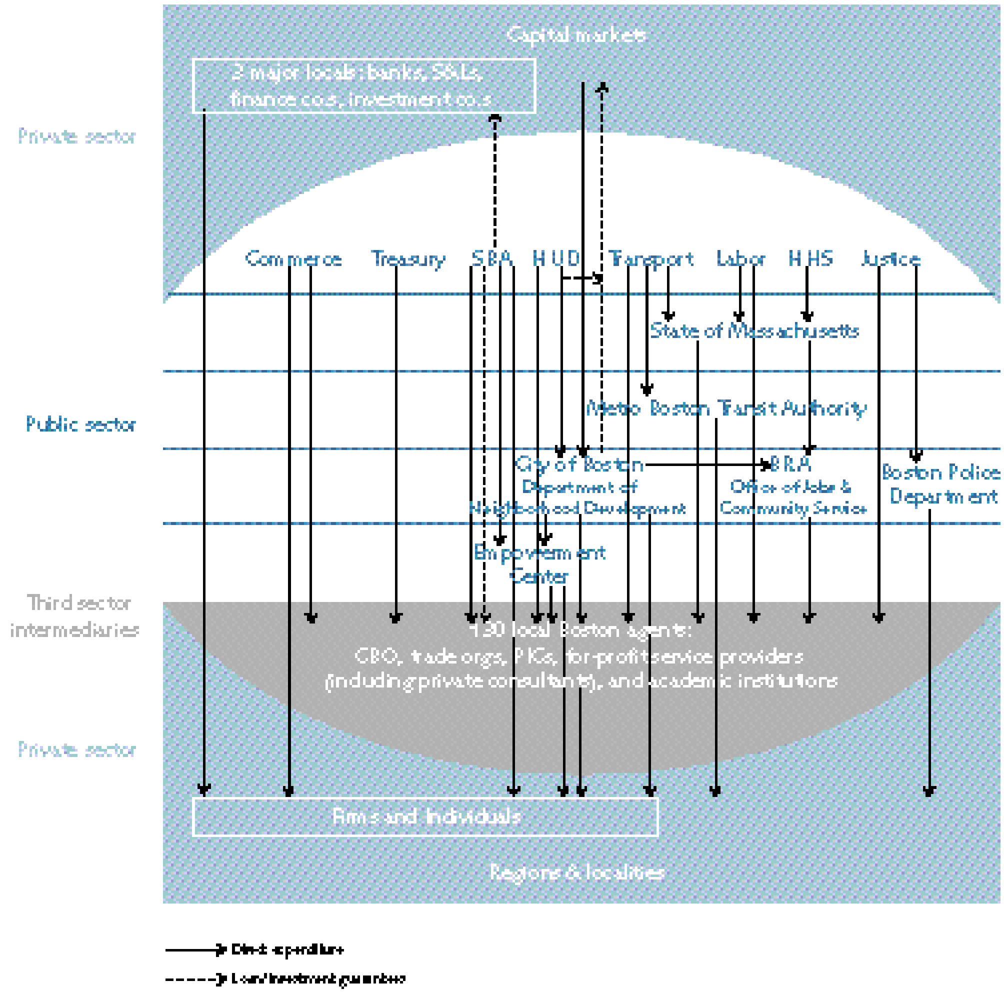
Figure 16 is a simplified sketch of the delivery of Federal programs to the City of Boston. Federal agencies, represented in the top layer of the public-sector "band," deliver their programs through the private-sector financial institutions, state and local governments, third-sector intermediaries, and, at times, directly to firms and individuals. Third-sector intermediaries are non-public-sector organizations, service providers, and the like that work under contract from Federal, state, and local government agencies to implement programs.

The system's complexity is apparent, even in such a greatly abstracted representation. This picture, however, highlights three main characteristics:

- The delivery system is highly fragmented, in terms of both decision-making agents and delivery mechanisms.
- State and local governments play a critical role in deciding how Federal funds are delivered, and therefore in setting economic development policy.
- The third-sector intermediaries play a crucial role in the delivery of programs.

These characteristics show both the opportunities and the constraints for introducing change in strategic planning, coordination, and efficiency of delivery.

Figure 16 Delivery of Federal Urban Economic Development Programs to Boston




*Fragmentation and Diversity* The delivery system is highly fragmented, in both the number of decision makers and the types of delivery mechanisms. Programs often have a “silo”-like flow from the Federal agency to the ultimate beneficiary, with very few points of coordinated decision making across agencies and programs. For instance, spending from the Department of Justice is delivered independently of all other Federal programs. Likewise, in the case of credit programs from HUD, SBA, and the Department of the Treasury, there are very few mechanisms in place to coordinate or deliver the programs more strategically.

Figure 16 illustrates that the Federal Government delivers its programs through six mechanisms:

1 Grants to state and local governments
2 Guarantees to for-profit lenders/investors
3 Guarantees to third-sector lending/investors
4 Assistance to local governments in borrowing from the private sector
5 Direct Federal grants/contracts to third-sector intermediaries
6 Direct Federal to business assistance

Of these delivery mechanisms, by far the largest number of dollars flows through grants to state and local governments.

*Role of State and Local Governments* State and local governments play a very significant role in deciding how Federal funds are delivered. Substantial Federal economic development resources pass through state and local governments, which influence how and where the funds are spent.

Close to $12 billion of the Federal economic development programs examined in this study flowed through state and local governments at the first level of their delivery.

The state and local governments eventually deliver these programs through either their own agencies or the private sector (whether for-profit or not-for-profit). As discussed earlier, program spending might go through several layers of processing and decision making before reaching the ultimate recipient.

*Third-Sector Intermediaries* The third-sector intermediaries play a crucial role in the delivery of Federal programs. Third-sector intermediaries are private-sector entities, for-profit or not-for-profit, such as community development corporations, specialized service providers, and the like, that work under contract from Federal, state, or local agencies to implement programs and deliver business development resources to the ultimate program beneficiaries. With 12 arrows pointing to this sector in Figure 16, it is clear that much of the delivery of Federal programs depends on this sector.

The Flow-of-Funds Analysis identified more than 130 such intermediaries delivering Federal programs to Boston in 1996. An overwhelming majority of these intermediaries offer programs in human services — e.g., job training and placement services (Figure 17).[15] The programs of the Department of Labor rely primarily on these intermediaries (91 in FY 1996). This is followed by HHS (22), HUD (20), and Education (20). There is a sharp drop for all other agencies to 2 to 4 such intermediaries.

The amount of money passing through and the large number of these third-sector intermediaries underscore the importance of these organizations in the execution of Federal economic development efforts. The significance of this sector, however, raises many questions about its capacity to meet the challenges of inner-city business development. Critical to their success is a strong set of business skills and the ability to leverage private-sector resources. A greater understanding of these organizations and their inclusion in any strategy process is critical to the success of economic development efforts.

## What Inner-City Businesses Say — A Survey

### 1 *Methodology*

As part of the bottom-up approach to assessing the role of government programs in stimulating inner-city business development, ICIC developed and conducted an extensive inner-city business survey in Boston. The survey sought to identify both the recipients of the funds and the use and impact of the funds.

The survey focused on four major areas:

- The general profile of inner-city businesses receiving assistance
- The competitive advantages and disadvantages of the businesses and the inner city as a business location
- The location of customers, competitors, and suppliers
- The experience of inner-city businesses with government economic development programs

The majority of interviews were conducted in person with the business owner at his or her place of business. The interview covered 113 questions and typically lasted one hour.

15 The high number and concentration of human service nonprofits in Boston is not very surprising, in light of available national statistics. An Urban Institute analysis of this sector in 1997 shows that close to 37 percent of all 150,000 nonprofits in the country were in human services. The New England states are among the top in the concentration of the nonprofit sector (up to 15 nonprofits per 10,000 population), whereas more than 15 states, mostly in the South, had the lowest concentration—as low as 4 per 10,000 population.

Figure 17 Number of Third-Sector Intermediaries in Boston [a] (FY 1996)

| | Job Training & Placement | Technical Assistance | Credit[b] | Infra-structure | TOTAL |
|---|---|---|---|---|---|
| Non profit | 44 | 7 | 5 | 3 | 59 |
| For-profit (non financial) | 38 | 43[c] | - | - | 38 |
| Academic | 25 | 2 | - | - | 27 |
| Trade Organizations | 2 | 3 | - | - | 5 |
| TOTAL | 109 | 16 | 5 | 3 | 1334[d] |

Source: ICIC Flow of Funds Analysis

Notes: (a) This table captures only the first layer of non profits delivering programs. At times, a third-sector intermediary contracts with other types of intermediaries, for-profit, academic, etc., to deliver programs. Those second layer intermediaries are not captured in these numbers.
(b) Private, for-profit financial institutions, including 10 banks and 3 SBICs, were excluded from the analysis.
(c) This is an estimate based on a survey that we conducted on Boston inner-city businesses. We came to learn that the Empowerment Center, for instance, was primarily relying on for-profit consultants to deliver its technical assistance.
(d) There is a total of 130 third-sector intermediaries. The total here is slightly higher because 3 organizations received contracts to deliver different categories of assistance.

Figure 18 Status of Boston Inner-City Businesses Contacted for Survey

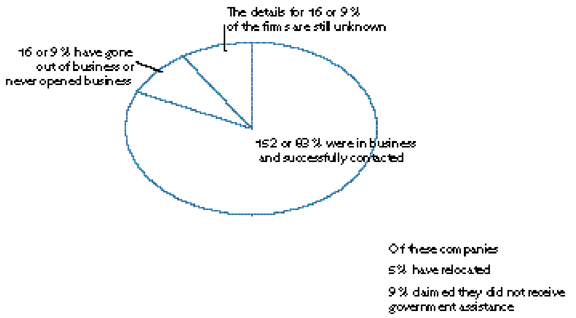
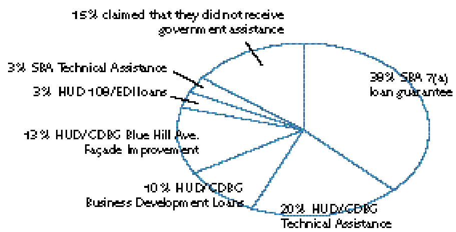



Figure 19 Government Assistance Received




16
The sources used to locate the businesses included the American Business Directory database, the financial lending institutions, the City of Boston Department of Neighborhood Development, the Commonwealth of Massachusetts Corporations Division, the City of Boston Clerk's Office, and the Boston Police Department. The team also made field visits and talked to local business people and residents in an attempt to locate businesses.

17
Forty-eight percent of the inner-city business owners were inner-city residents. Thirty-eight percent of the owners were Caucasian, 33 percent African American, 15 percent Hispanic, and 13 percent other.

*Locating Government-Assisted Inner-City Businesses* Through the Flow-of-Funds Analysis, we identified 184 inner-city Boston-based firms that had received government assistance between 1995 and 1997. The 184 businesses were identified using transaction-level data from the agencies that managed the business assistance funds.

The target companies were very difficult to track down using the information in Federal and city government databases. Over a third of the businesses could not initially be located with the information provided by the government agencies or through the phone directory. While some of this may be explained by relocations, changed names, or business failures, the difficulty in tracking down these companies suggests the need for improved monitoring systems.

ICIC was ultimately able to locate most of the businesses, using a combination of sources.[16] Figure 18 summarizes the status of the 184 potential participants in the survey.

Of the businesses that were successfully contacted, 40 were interviewed, representing a 22 percent response rate. Because of the small sample size, the following survey results are presented only as anecdotal evidence. It is also important to note that these numbers may have been affected by a self-selection bias. Those businesspeople who had a positive experience with a government program may have been more likely to give their time for an interview than those who did not. The findings do, however, provide a valuable descriptive context in which to examine the opportunities and challenges for inner-city businesses and the role that the government can play in assisting these businesses.

*Types of Government Assistance Received* Figure 19 represents a breakdown of the 40 survey respondents by type of government assistance received. The SBA 7(a) program was the most frequent source of government assistance, with a variety of HUD-sponsored programs also well represented.

*2 Findings*

The businesses interviewed were typically small: the majority had fewer than 10 employees, with average sales of approximately $1 million per year and a median straight percentage change in sales growth of zero percent between 1995 and 1997 (Figure 20).[17]

The majority of the companies were in the food retail and wholesale business (35 percent), followed by consumer retail (25 percent) and business-to-business services (15 percent).

*Equity and Debt Capital* Companies reported difficulty accessing both equity and debt capital at the start of their businesses. Seventy-eight percent of respondents rated it very difficult or somewhat difficult to raise debt capital at the start of their businesses, and 53 percent rated it very difficult or somewhat difficult to raise equity capital at the start of their businesses. When asked about accessing capital today, 61 percent said it is somewhat or very difficult to raise debt capital, and 62 percent said that it is somewhat or very difficult to raise equity capital.

When asked about the use of equity and debt capital (not necessarily government assistance funds), the majority of businesses reported using the money for *working capital* (i.e., money used for current operations).

*Location of Customers, Suppliers, and Competitors* The majority of the businesses were in consumer or food retail and did not export their products beyond the local market. Seventy-four percent of companies primarily served a customer base in the inner city, 24 percent reported a primary customer base in the metropolitan area, and 11 percent reported a regional customer base (Figure 21). No company had any noteworthy customer base nationally or internationally. In addition, the majority of the businesses reported that their competitors are located in the inner city, whereas their suppliers are located across the country.

*Company Competitive Advantages and Disadvantages*

"CUSTOMERS ARE TREATED AS FRIENDS."

Inner-city businesses most frequently cited customer service as a top competitive advantage, consistent with the fact that the majority of companies interviewed were small independents in the service sector (Figure 22).[18] Quality customer service often included knowing customers by name, speaking multiple languages, and offering amenities to customers, such as free delivery. Price and product quality were also listed as top competitive advantages. Location was cited as a company competitive advantage for several reasons, including proximity to customers, lack of competition, proximity to the workforce, and transportation access.

"THERE ARE NO LOCAL SUPPLIERS."

"IF I WERE IN QUINCY, MY INSURANCE WOULD BE 40 PERCENT CHEAPER."

The top competitive disadvantages most frequently listed were the lack of economies of scale (specifically, no bargaining power with suppliers), location, operating costs, and a short track record which results in diminished customer loyalty and company recognition.

Location is listed as both a competitive advantage and a disadvantage. Further analysis indicated that location was listed as an advantage for reasons related to proximity, while it was cited as a disadvantage for issues related to infrastructure and space constraints.

The fact that these inner-city businesses cited difficulties with suppliers as a primary disadvantage speaks to the lack of leverage small business-

Figure 20 Sales, Growth, and Employment Characteristics

| Annual Sales (in millions) | 1995 n=24 | 1996 n=26 | 1997 n=37 |
|---|---|---|---|
| Mean[a] | $1.03 | $1.07 | $0.97 |
| Median | $0.25 | $0.25 | $0.25 |

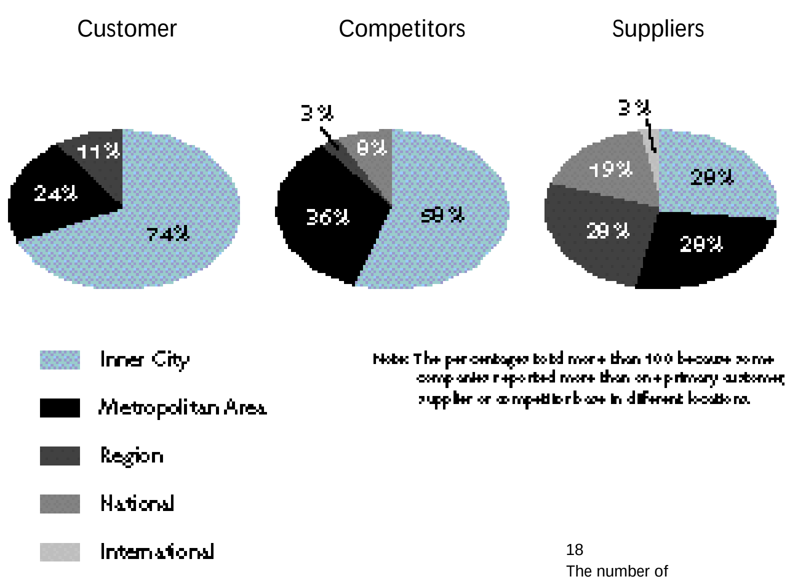
Notes: (a) The growth rate from 1995 to 1997 was only determined for those companies that provided sales data for both years. The mean sales for 1997 were calculated using a larger sample size that included those companies that were not in business in 1995. Therefore, although mean sales from 1995 to 1997 appear to decline (in part because of new companies with low sales), the growth rate for those companies in business from 1995 to 1997 is positive.

| Sales Growth Rates | 95-96 n=24 | 96-97 n=26 | 95-97 n=23 |
|---|---|---|---|
| Mean[a] | -2% | 20% | 28% |
| Median | 0% | 0% | 0% |
| Range | -68 to 68% | 20 to 200% | 28 to 200% |

Notes: See note above

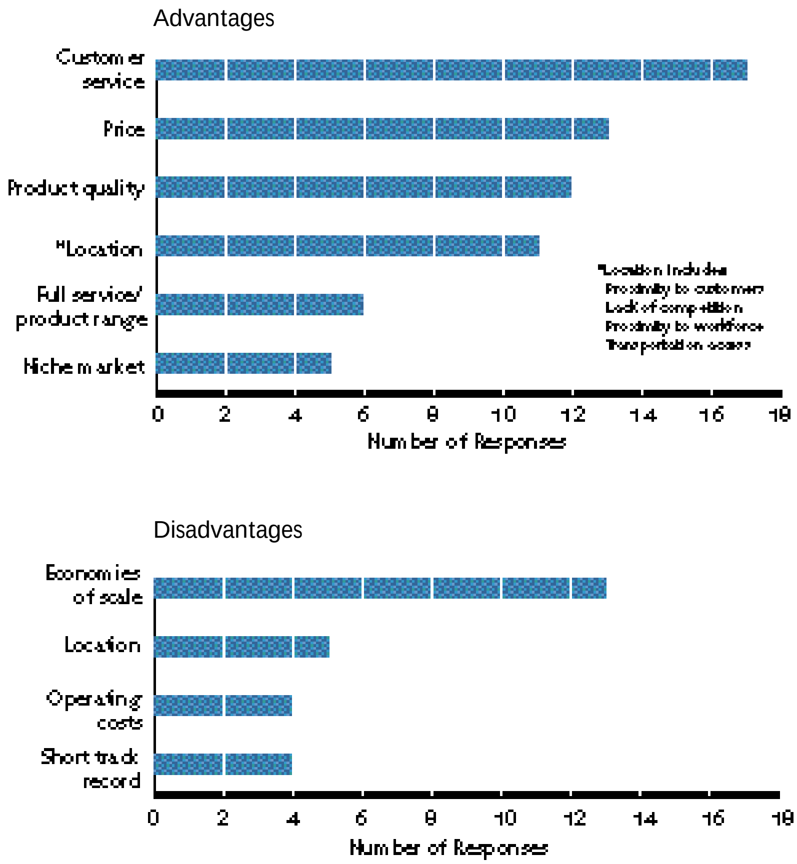
| Employees | |
|---|---|
| 10 and under | 68% |
| Between 11 and 20 | 18% |
| 20 and over | 15% |

Figure 21 Firm Linkages by Geography




18
The number of responses may be more than the sample size of 40, because the chart reflects the responses cited within the top three advantages or disadvantages.

Figure 22 Company Competitive Advantages and Disadvantages




es have with suppliers, compared with that of larger businesses. It may also be explained in part by the fact that less than a quarter of their suppliers are located in the inner city.

Interestingly, not one company reported labor as a competitive disadvantage for the firm, and only two reported access to financing as a disadvantage.

*Competitive Advantages and Disadvantages of an Inner-City Location* In addition to describing their companies' competitive advantages and disadvantages, the business owners were also asked to discuss the competitive advantages and disadvantages of operating a business in an inner-city location (Figure 23).

The most frequently cited competitive advantages of an inner-city location were central location and reputation in the neighborhood.Central location included proximity to customers, a commercial center, a major transport artery, and public transportation. Reputation in the neighborhood is an important competitive advantage because many of these companies have had a long presence in the community and have good customer relations.

"ROXBURY IS NOT KNOWN FOR BUSINESS EXCELLENCE, I AM SORRY TO SAY."

The top disadvantages listed by the respondents were limited parking, negative perceptions of the inner city, and crime. Notably, limited parking was cited almost twice as often as crime as a major disadvantage. Traffic and the cost of doing business were also noted as a disadvantage to an inner-city location.

*Business Alliances, Crime, and the Workforce* In order to better understand some of the factors that frequently affect inner-city businesses, specific questions were asked on business alliances, crime, and the workforce.

"UNFORTUNATELY, I DON'T BUMP INTO OTHER PROFESSIONALS ON THE STREET."

While inner-city locations often do not provide opportunities for regional business networking, 61 percent of respondents said that they participate in formal regional business activities such as trade organizations or conferences. Networking, business advancement/marketing, and industry information were the most frequently cited realized and expected benefits of joining such an organization.

"COMMUNITY POLICING HAS MADE A BIG DIFFERENCE. THE POLICE ARE ENGAGED IN THE COMMUNITY AND VERY RESPONSIVE—THEY RIDE AROUND THE NEIGHBORHOOD ON BIKES."

Businesses rated the perception of crime as somewhat of a problem, while actual crime was rated a small problem. The majority of respondents indicated that an increased police presence could make their companies more competitive. At the same time, many companies praised the effectiveness of community policing.

"NONE OF MY WORKERS CALL IN SICK."

"MY WORKERS KNOW HOW TO DO THE WORK AND DO IT RIGHT."

Ninety-one percent of businesses reported that they were satisfied or very satisfied with their workforce. There was no notable difference cited in the difficulty of finding entry-level workers versus skilled workers in the inner city. Fifty-two percent of businesses rated it somewhat easy or easy to find the workers that they need. The majority said that employee turnover was not a problem at all.

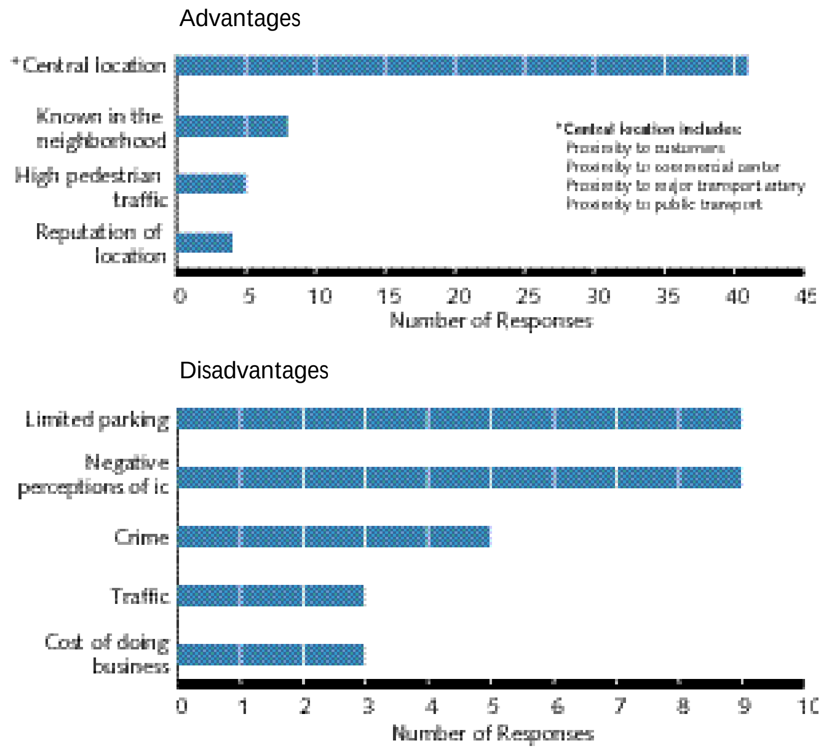
*Government Assistance* Of those businesses that received government business assistance, 68 percent received financing and 29 percent received business and technical assistance. When asked to describe the impact of the government assistance, the majority of companies indicated that the impact was largely around working capital concerns and did not result in technological innovation, process/management innovation, or expanding the number of customers and suppliers.

Overall, companies reported a very positive experience with government programs. Ninety-seven percent of businesses said that they would utilize the government program again, and 100 percent indicated that they would recommend the program to others. Seventy-nine percent rated their overall satisfaction with the program as very satisfied or satisfied. As previously mentioned, these results may have been affected by a self-selection bias. In addition, companies in inner cities are traditionally underserved and therefore may be more likely to view any type of assistance as positive.

Businesses also provided insight into concerns and suggestions for participating in a government business program. One business owner indicated that she decided against participating in a government program because she was “fearful of being permanently slotted as a minority-owned business.” Another requested “choice in technical assistance providers and the opportunity to interview the candidates” and recommended that businesses receiving technical assistance “be very specific about the professional expertise that you need and be prepared to provide 50 to 60 percent of the background material.”

Finally, businesses rated financing and technical assistance equally as the number-one type of assistance that would benefit them the most, followed by infrastructure improvements.

Figure 23 Competitive Advantages and Disadvantages of the Inner City as a Business Location




Conclusion on Boston Of the $16 billion in Federal spending on urban economic development, approximately $115 million in direct expenditures flowed to the City of Boston in Federal FY 1996. Roughly $25 million of this amount reached the Boston inner city. Supplementing this $25 million were $7 million of leveraged private capital and $35 million in procurement contracts.

Similar to Federal direct expenditures on inner cities, workforce development represents the largest amount of spending in the Boston inner city. Direct expenditure for capital programs were the second largest inflow in dollar terms. Approximately $6 million in spending facilitated almost $12 million in loans and investments, with HUD programs being the largest contributors.

On the whole, Federal business development spending that reaches Boston’s inner city was proportionally equivalent to, or greater than, the amount reaching the rest of Boston.

Federal procurement spending in Boston’s inner city demonstrates the significance of this activity for business development. These Federal contracts amounted to 1.5 times the direct Federal expenditures made on inner-city business development.

The delivery system of Federal urban business development programs poses challenges and opportunities for introducing an economic development strategy that is coordinated and comprehensive. The current delivery system is highly fragmented, relies primarily on state and local governments for critical decision making, and ultimately delivers business resources through a large group of third-sector intermediaries. These intermediaries are important not only for the delivery of services but also because they play a critical role in determining how money is spent.

Finally, the survey of inner-city businesses provides valuable insight into businesses located in inner cities and the advantages and disadvantages of the inner city as a business location. While it confirms much of what is known about small businesses and their challenges, it also dispels certain myths.

Like many businesses, inner-city companies compete primarily on customer service, price, and product quality. Access to capital is a challenge both at the start-up phase and during later phases, and capital is primarily used for working capital purposes. The inner city offers several advantages as a business location, specifically proximity and transportation access. It also has disadvantages, primarily in space limitation and the negative perceptions that potential customers have about businesses located there. This speaks primarily to the fact that the perception of crime is much worse than actual crime.

With respect to government assistance, the companies interviewed were generally very satisfied with the assistance that they received, although several factors may bias their view. The few complaints about the assistance focused on how it was delivered, rather than on what product or service was actually delivered.

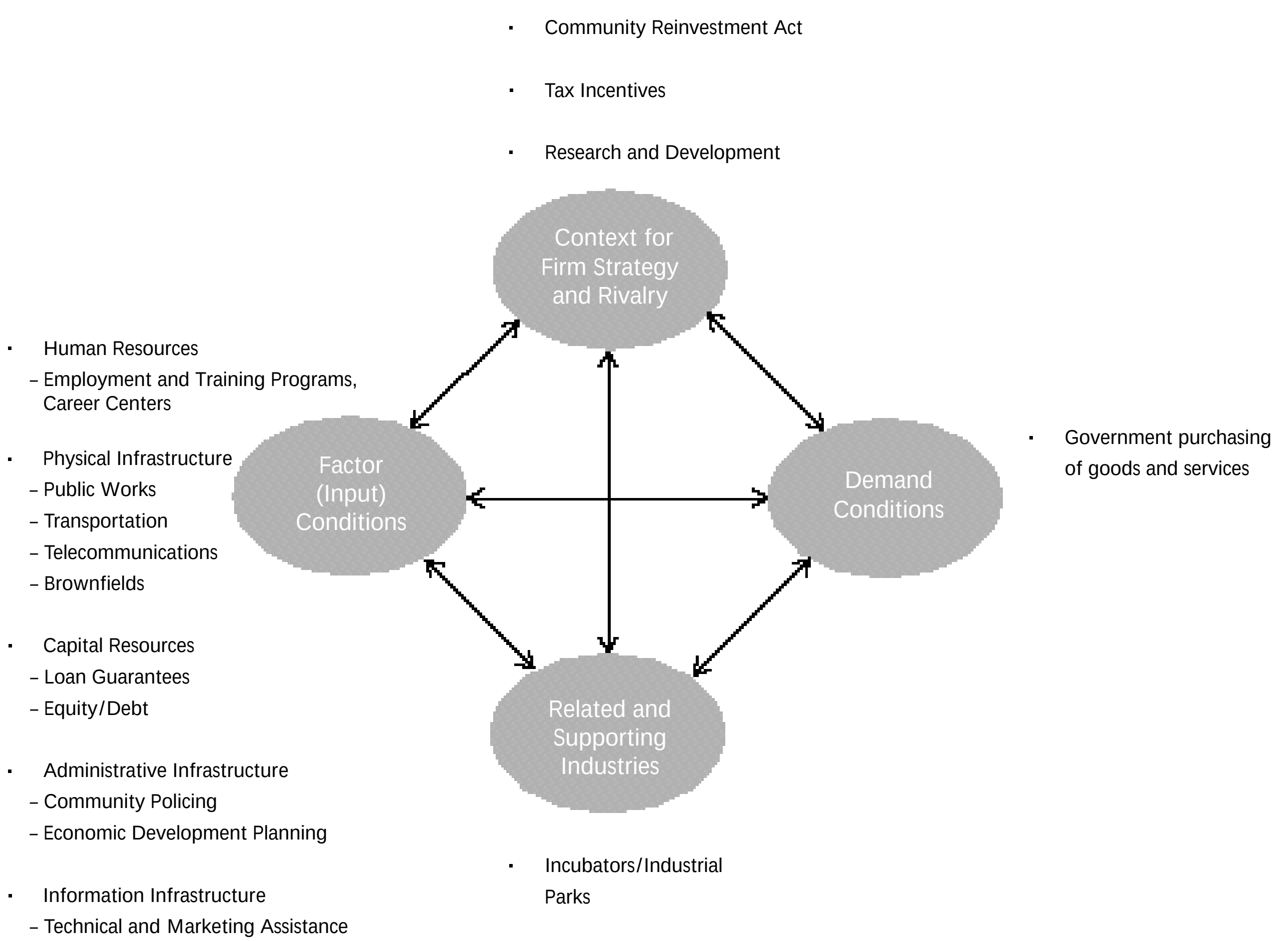
The survey findings raise larger questions about the strategy behind public assistance to these companies. The majority of companies interviewed for this study were small, with minimal growth potential. These are not companies that will generate significant revenue or job growth. The Federal resources that provide direct support to these firms could be better used in leveraging resources to these size firms, as well as working with firms with higher growth potential.

These recipient companies were hard to find, suggesting that little monitoring of impact is taking place. To further understanding of the impact of government resources and to improve future program design, government assistance to companies should be better tracked over time.

**Federal Influences on Inner-City Economic Development** Chapter Two presented the Competitive Advantage framework, which outlines how competitiveness arises, leading to greater prosperity for particular locations. Chapters Three and Four examined the types and magnitude of Federal expenditures that influence inner-city business development, as well as how these resources are delivered on the ground. This chapter attempts to link the theory of competitive advantage with the practice of inner-city business development and provide examples of promising models that bring these two important elements together.

Figure 24 uses the Competitive Advantage framework to summarize the ways in which the Federal Government influences inner-city economic development. The majority of Federal programs, representing almost $9 billion in annual inner-city spending, work to improve the quality and quantity of *factor inputs*, which include improving human resources through workforce development programs and increasing access to capital through credit enhancement programs. Federal expenditures also address physical infrastructure through spending on transportation, public works, and brownfields. "Administrative" and "information" infrastructure, particularly

Figure 24 Federal Government Influences on Inner-City Economic Development



important in inner cities, are addressed through community policing, planning, and business resource and development centers. The majority of this spending works at improving the business environment, broadly defined, but it is often not focused on business or improving competitiveness through a coordinated strategy.

*Demand conditions* are an important element in creating competitive regions and companies by often encouraging companies to upgrade, innovate, and specialize to respond to customer demand. The Federal Government, as a purchaser of $200 billion worth of goods and services annually, can play this role as well. If more procurement contracts are competitively awarded to companies located in inner cities, the ability of these companies to compete and succeed will result in positive spillover effects for the inner city and its residents. The potential danger in using public-sector contracts as an economic development tool is to allow set-asides or subsidies to begin to corrode a firm's ability to expand and compete in larger markets. A noncompetitive selection process, over the long term, results in companies that survive as long as the subsidies are in place.

Tax and regulation are the primary ways in which the Federal Government influences the *context for strategy and rivalry* among firms. While not examined in this study, tax and regulation are tools that the Federal Government has typically used to encourage inner-city business growth. Tax expenditures (e.g., tax credits for investment and employment) and regulatory acts can play an important role in developing a competitive business base in inner cities.

*Clusters*, or related and supporting industries, are fundamental to the competitiveness of locations. Despite this, Federal programs are rarely oriented toward working at a cluster level. While incubators or industrial parks are common, few initiatives to date have a cluster focus. None of the 90 programs examined in this study supported cluster strategy by design. However, a few Federal departments, including the Departments of Housing and Urban Development (HUD) and Commerce's Economic Development Agency (EDA), have supported research on regional clusters. Greater connection needs to be made between this research and local economic development strategy, particularly around inner cities. Recent legislation, such as the Workforce Investment Act of 1998, provide opportunities for using Federal resources in cluster-based strategies.

Working at the cluster level provides a more coordinated and leveraged approach to business development that focuses on improving the business environment and, in turn, positively affects the competitive position of firms in the cluster.

In the course of this study, ICIC found a number of local examples of cluster-based strategies, some of which were partially funded by Federal programs.[19] Most of these examples highlight how cluster approaches can be applied to improve the inner-city business base or the employment prospects of inner-city residents.

**Cluster-Based Initiatives: Los Angeles, Boston, Oakland, Louisville, and Chicago** The following examples, primarily inner-city focused, illustrate the three key elements of a cluster-based strategy: data and information gathering, private and public collaboration, and resource allocation strategies. The Federal Government can play an instrumental role in supporting these key elements, particularly with respect to inner cities. Moreover, it can act as a clearinghouse to disseminate research and best practices on such strategies. Since the mid-1990s, HUD and EDA have played this role through their support of cluster research. This research needs to be built upon and incorporated into local economic development decision making on resource allocations.

*Key Element 1:*
*Data and Information Gathering*

Supporting cluster-specific information gathering and compilation is often the first step to understanding the existing cluster and business base in inner cities. This analysis, in turn, forms the basis of an economic growth and resource allocation strategy. The Rebuild LA analysis of industry clusters in the economically neglected areas of Los Angeles has been the foundation for its economic development strategy for forming and solidifying industry networks. The ICIC Portfolio-Based Analysis outlines the important analysis needed for developing a business growth strategy for the Upham's Corner retail district in Boston.

19
Although there is a growing body of literature documenting some of the best practices in cluster-based approaches, few concentrate on the potential such an approach holds for developing distressed urban economies (Mt. Auburn Associates 1995 and EDA 1997).

*Rebuild LA, Refocused:* Following the April 1992 riots in Los Angeles (LA), the then-Mayor of Los Angeles, Tom Bradley, and Governor Pete Wilson initiated a five-year economic recovery initiative called Rebuild LA (RLA). Two years into carrying out its mandate, RLA began to undertake a very focused cluster strategy for developing LA's "economically neglected areas" (areas with poverty rates greater than 20 percent).[20]

At the completion of its mandate in 1997, RLA had identified six growth clusters in LA's neglected areas. The clusters include biomedical technologies, ethnic food processing, textile and apparel production, plastics, toy industry, and household furniture manufacturing. RLA organized and institutionalized three industry networks: the Biomedical Council of Southern California, the Food Industry Business Roundtable, and the Toy Association of Southern California.

RLA also worked closely with existing trade networks in the textile and apparel industry. A 1995 forum on capital access organized by RLA and the Association of Textile Dyers, and Printers and Finishers of Southern California resulted in a local bank hiring a loan officer with expertise in textiles. More recently, RLA has worked with the LA Trade Technical College (LATTC) and the Textile/Clothing Technology Corporation to provide customized or on-site training to apparel manufacturers. RLA was also able to secure a $200,000 technology grant from IBM to establish an apparel technology resource center at the LATTC.

RLA dissolved its operations in 1997 and transferred its staff and programs to the Community Development Technologies Center (CDTC). The RLA work continues under a joint venture between CDTC and LA Prosper, a nonprofit affiliate of the Los Angeles Community College District. One project to emerge from this joint effort is the Sewn Products Incubator Network. The EDA recently awarded a $400,000 planning grant to support a feasibility study on the development and construction of a small-business incubator for start-up enterprises in the sewn products industry.

*Upham's Corner Main Street in Boston:* Like the hundreds of Main Street initiatives across the country, the Upham's Corner Main Street (UCMS) works on improving the economic viability of its target retail district through a mix of façade and street improvements, as well as business attraction and retention efforts. In mid-1998, UCMS began to work with ICIC to understand the local economic base for attracting new businesses and strengthening existing ones.[21] To aid in developing a comprehensive strategy, ICIC piloted the "Portfolio-Based Approach to Leverage Neighborhood Competitive Advantage," which analyzes the local competitive advantages, local industry composition, and relative position of the local enterprises within each industry.

This approach creates an inventory of all businesses in the target area and identifies the anchor and non-anchor businesses by their composite share of area employment, income, revenue, and occupied real estate. Anchors are defined as those enterprises, for-profit or not-for-profit, that account for the bulk of the economic activity of the target area. Based on this analysis, Upham's Corner Main Street can identify strategic opportunities that link the local anchors to regional clusters, satisfy local unmet demand, and put back into productive use local underutilized commercial real estate.

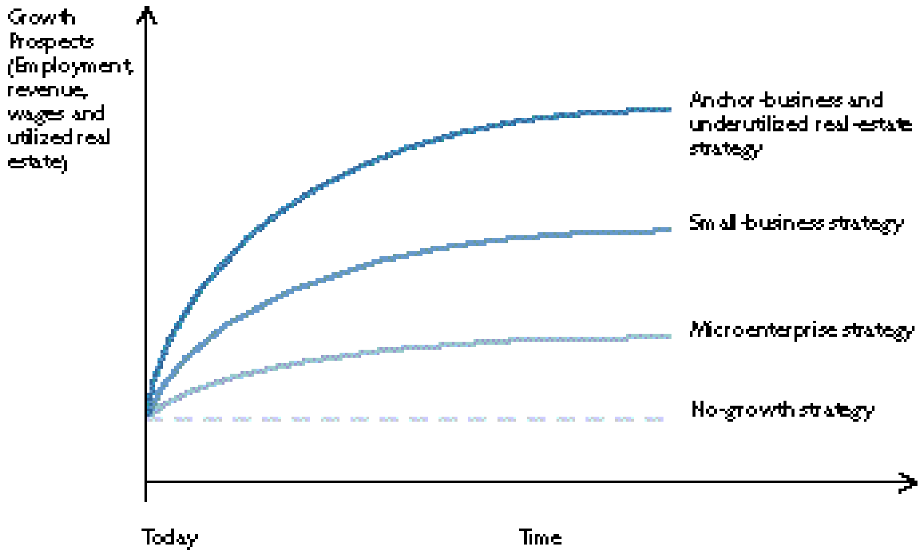
Using this approach, UMCS identified the Strand Theater (currently an underutilized live performance theater) and America's Food Basket (a supermarket catering to surrounding ethnic populations) as two anchors offering the greatest growth prospects to Upham's Corner. Resource allocations around these anchors, along with identifying new development opportunities for underutilized commercial real estate, will yield the greatest growth trajectory in terms of employment, revenue, and wages (Figure 25).

Although too early to evaluate its success, this approach has several inherent strengths. First, it provides objective discussion tools with which local economic development practitioners and community groups can consider alternative growth and resource allocation strategies. Second, it is highly flexible in terms of the economic space to which it can be applied. Although Upham's Corner Main Street is primarily a retail district, the methodology can be applied as effectively to inner-city neighborhoods with manufacturing or other service economies.

20
A great deal of justified criticism directed at Rebuild LA (NAPA 1995) was based on its very poor performance up to 1994. Rebuild LA was fundamentally reorganized in 1994, taking on two programs: (1) creation and strengthening of cluster networks and (2) a retail development initiative. For details on the reorganization, see Milken Institute, 1997.

21
The ICIC affiliate Boston Advisors developed the framework for this strategic approach, in partnership with Andersen Consulting.

Figure




Source: Boston Advisors, an affiliate of the ICIC, 1998.

*Key Element 2:*
*Private and Public Collaboration*

The second key component to cluster initiatives is collaboration among business and between the private sector and the public sector. The collaborations can take many forms. The City of Oakland (CA), as part of its cluster-based economic development strategy, is forming industry councils that will play an important industry cluster information and advisory role. Louisville (KY) Industry Networks Program brings together businesses in specific industries and clusters to meet common needs around training, infrastructure, and supplies. Rebuild LA, described above, has a similar strategy, though entirely focused on inner-city clusters.

*City of Oakland Cluster Strategy:* In 1997, the City of Oakland (CA) adopted an economic development strategy that identifies five primary targets to guide resource allocation decisions for the next three to five years. One of the key targets of this strategy is building on specific industry sectors and clusters.

Based on an analysis of Oakland's economy and regional economic trends, the plan identifies several industries and clusters that have growth potential and tap into Oakland's competitive advantages. The industries identified include business services, health services, printing and publishing, transportation, tourism and entertainment, and food processing. The emerging clusters include software and multimedia, environmental technology, biotechnology, and telecommunications.

The City has adopted several initiatives to pursue this cluster-based strategy. For example, it has reorganized its Business Development and Retention Office along cluster lines and expanded the office from one staff member to six. Experts have been hired in fields related to software and multimedia, biotechnology, telecommunications, and environmental technology.

To better understand the telecommunications cluster and factors influencing the location decisions of related industries, the City is forming a telecommunications advisory group with public- and private-sector membership. The City plans to form an advisory group for each of the emerging clusters identified by the Economic Development Strategy.

In addition, the City has sponsored an independent nonprofit incubator, the Communications Technology Cluster (CTC). The CTC supports telecommunications start-ups through creating networks of non-competing businesses, expert advice through an extensive network of business resources, mentoring, business review committees, and access to industry resources.

*Louisville Industrial Networks Program:* [22] In 1993, local economic development agencies in Louisville identified an innovative and inexpensive way to help small and medium-sized companies become more competitive in the market place. Through the formation of Industry Networks—partnerships between businesses within the same or similar industries—companies work together to create solutions to industry challenges, save money through joint purchasing, and broaden their market opportunities.

Initial industry networks were formed for the food processing, metalworking, plastics, and printing industries. Networks for transportation/trucking, computer repair, and information technology industries followed. The Louisville/Jefferson County Office for Economic Development acted as a facilitator for the networks in the start-up phase, anticipating that companies would eventually assume full control and responsibility for their respective networks.

In the summer of 1998, the Greater Louisville, Inc., Metro Chamber of Commerce (GLI) took over the Industry Networks program from the local Office for Economic Development. Since its affiliation with GLI, the program has initiated three additional networks: a CEO Roundtable, an Arts and Cultural Attractions Economic Council, and a Health Care Council. Plans are underway to start three to four additional networks by July 1999.

Networks have been successful in a variety of ventures: Member companies of the food processing network have saved more than $80,000 in natural gas through joint purchasing; the plastics industry network has developed a 40-hour course in injection molding at a local high school; the transportation/trucking industry network recently developed a curriculum for drivers to be trained through local vocational schools; the information technology network, known as KNITE, has created a number of business partnerships, hosted two job fairs, and publishes an annual membership directory; and the plastics industry network produced a local recruiting video.

Through industry networks companies are more aware of the goods and services of others and they create ways to build on the strengths of one another. Executives of participating companies say that this interaction allows them to pass business on to industry partners according to firm specialties and capacities. These benefits have encouraged some companies not to relocate outside the Louisville area.

The Industry Networks program is funded through local government initiatives and professionally facilitated through Greater Louisville, Inc. Some networks use dues and other fees to coordinate special projects and events. The Commonwealth of Kentucky also makes grant monies available for industry impact studies.

*Key Element 3:*
*Resource-Allocation Strategy*

Resource allocation decisions for business assistance programs are more efficient and effective when organized around a cluster strategy. The Port of Oakland has strengthened the competitive advantage of businesses connected to the Port by assessing the labor force needs of its tenants and collectively organizing the training and job placement process for job applicants. The Chicago Manufacturing Center has provided technical assistance to a cluster of apparel manufacturers and in doing so, leveraged marketing, logistics, and new technologies. The Los Angeles Community Development Bank has embarked on a new investment strategy that focuses on upgrading technologies of key inner-city clusters.

*Port of Oakland — Employment Resources Development Program (ERDP):* The Port of Oakland is a major employer in the Oakland area and is the anchor of an important business cluster. To enhance the competitive advantages of companies connected to the Port, the Port of Oakland established the Employment Resources Development Program (ERDP).

The ERDP assists Port tenants in meeting their employment needs by providing recruitment and referral, employment information, and technical assistance. It recruits and screens a pool of qualified applicants and then refers the most qualified

22
Although this instance of cluster-based economic development strategy has been discussed in other studies (Mt. Auburn Associates, 1995), the additional three years since the publication of that report allows for a longer-term assessment of the program's accomplishments.

applicants to participating companies for interviews. It allows Port tenants to reduce recruitment time and costs through access to prescreened, qualified job applicants. At the same time, the ERDP helps ensure that inner-city residents are connected to jobs at the Port by communicating with 75 different community organizations on a monthly basis.

The ERDP also communicates employment concerns to local training agencies and helps them improve their curricula to better meet tenant company needs. Through the ERDP, Port tenants can also find out about funds that are available through local training programs, on-the-job training contracts, and Targeted Jobs Tax Credits. The Port funds ERDP from its general revenue sources without any public-sector grants.

The ERDP is now the number-one source of employees for FedEx and other large companies affiliated with the Oakland Airport and the Oakland Port. The ERDP has been serving Port tenants for 15 years. By securing a pool of qualified applicants for its tenants, the Port of Oakland has strengthened the competitive advantage of businesses connected to the Port.

*Chicago Manufacturing Center:* The Chicago Manufacturing Center (CMC), founded in 1994, is a member of a nationwide network of 70 independently operated nonprofit centers supported in part by the U.S. Department of Commerce Manufacturing Extension Partnership program. The objective of CMC is to provide assistance to small manufacturers (less than 500 employees) to improve their productivity, expand their markets, and create new jobs. Although it has no mandate to provide these services to groups of firms, it has devised programs that address common needs of a group of businesses.

On several occasions, CMC has also partnered with industry associations to address cluster-wide concerns. For instance, with the Apparel Industry Board, Inc., CMC developed two programs, the Sewn Products Technology Center and Made in Chicago, to help Chicago apparel manufacturers challenge foreign markets for a share of the garment-making dollars. These manufacturers are located primarily in the Chicago inner city.

The Sewn Products Technology Center offers training to apparel manufacturers on the latest technology. It also helps companies access and apply computer-assisted design and pattern-making techniques. Made in Chicago matches local companies with major retailers who need reliable sources of production for their private-label goods. The Made in Chicago program offers four advantages for Chicago area retailers from buying close to home instead of offshore:

- Proximity to major retailers' administrative and warehouse locations
- The ability to quickly provide samples and small production runs
- Faster responses to market and seasonal trends
- Lower transportation, shipping, and tariff costs

CMC also explains that Chicago apparel manufacturers benefit from their proximity to the center of the embroidery industry. Chicago is home to 15 embroidery companies.

*Los Angeles Community Development Bank:* The Los Angeles Community Development Bank (LACDB) was founded in 1995 with an allocation of $435 million in Federal funds.[23] LACDB is the Federal Government's first and largest community development bank with a distressed area focus. Its funding was part of the Federal Government EZ/EC program in which LA was designated as a Supplemental Empowerment Zone, a designation that in February 1998 was upgraded to a full Federal Empowerment Zone.

To refine its investment strategy,[24] LACDB is in the process of implementing a cluster-based investment approach. LACDB developed the Defined Industry Sector Strategy in early 1998, with the assistance of the Community Development Technologies Center, using HUD Community Outreach Partnership Center (COPC) grants and the UCLA Andersen School of Management.

The strategy identifies three initial key industries concentrated in the LA Empowerment Zone that have high-growth potential: apparel, food

23
The bank has a total of $745 million in available funds. LA Mayor Riordan was instrumental in securing pledges for the additional $310 million from private sources (*Los Angeles Times*, June 17, 1997, p. A1).

24
For a discussion of LACDB lending portfolio problems, see the *Los Angeles Times*, Saturday, August 15, 1998, p. D1.

processing, and metalworking. Other industries targeted for the future are biomedical, electronics, furniture, plastics, textiles, and toys. The strategy will focus investments on retention and upgrading of jobs through technological and process modernization of these industries.

Although it is too early to evaluate the impact of LACDB's new approach, the bank already has taken several steps as part of this new strategy. In September 1998, LACDB started accepting joint proposals for projects in the apparel industry. Among the projects sought are an incubator for high-tech design and production training. Also, LACDB plans to expand this approach to the food and metal-processing industries, where they are likely to stress technology upgrading, worker training, and creation of industrial parks where entrepreneurs could share some of the costs and burdens associated with marketing, warehousing, and regulatory issues.

By adopting a cluster strategy, the Bank aims to upgrade and unite key industries so that they can remain competitive and offer higher-wage jobs in LA's inner city.

Rebuilding America's inner cities requires strengthening its business base. This depends on developing competitive inner-city companies and creating a quality business environment that supports these companies. The public sector has a critical role to play in improving the quality of the business environment and catalyzing the development of private markets. Although Federal spending on inner-city business development is a small fraction of the Federal budget and small relative to spending on consumption-oriented programs, these resources are considerable and can have a lasting impact on generating jobs, wealth, and income for inner-city residents.

Through an examination of the type, amount, delivery mechanisms, and ultimate beneficiaries of Federal spending, this study draws a comprehensive picture of the Federal resources available for inner-city business development and highlights the opportunities and challenges that exist for deploying these resources more effectively.

The majority of Federal spending is directed toward improving the business environment through job training, the facilitation of capital markets, infrastructure investments, and crime prevention. While investing in the business environment is preferable to directly investing in individual firms, these resources are often not optimally employed, lacking an overall strategy that coordinates disparate efforts and builds on the local and regional business clusters. Programs that provide direct assistance to individual firms could also benefit from a strategic approach. Today much of the direct assistance is provided on a first-come, first-served basis, often to small and slow-growing companies, further diminishing the long-term impact of these scarce resources.

The challenges to formulating an inner-city economic development strategy are many and are in great part rooted in the existing delivery system, a system that is highly fragmented, relies on multiple decision makers at the state and local level, and ultimately delivers business resources through a large group of third-sector intermediaries. The Empowerment Zone Initiative has introduced a promising coordinating process that can be improved upon and should be incorporated into local resource allocation decisions.

While this report examined numerous aspects of the Federal role in inner cities, many important issues were not addressed. The most prominent of these are (1) the role of the Federal Government in encouraging investment away from cities (hence, tilting the playing field against urban areas), (2) the impact of Federal spending on inner-city business development, (3) the role of tax and regulation in the inner-city business environment, (4) the role of procurement in the economic development of distressed areas, and (5) the third-sector intermediaries' effectiveness in business development. These topics merit further discussion and research.

The recommendations presented in this report address three general areas of inner-city economic development: making the business agenda a central theme, designing strategy, and closing the information gaps that hinder strategic planning. These recommendations are intended to provide broad guidelines for Federal and local economic development experts and suggest action steps that will lead to an effective inner-city business development strategy.

1 Competitiveness and business development should be a central theme of an inner-city development strategy.

- Business development should be elevated in the mix of Federal resources directed to the inner city to make economic development efforts more sustainable.

2 The elements of an inner-city economic development strategy need to be integrated across Federal agencies and between the Federal, state, and local levels.

- A Federal entity should develop guidelines to better leverage resources across departments and agencies and further elevate inner-city business development in national policy.
- The Federal Government should provide grants and incentives to catalyze local government efforts that engage leaders from across public and private sectors to coordinate local inner-city economic development initiatives.

3 An explicit business development mission should be incorporated into the design of Federal programs that affect inner-city businesses.

- Federal programs that directly or indirectly affect inner-city business development should have explicit business-related objectives incorporated into their design.

4 Investments should emphasize improving the business environment, rather than supporting individual firms.

- The preponderance of Federal Government resources should focus on improving the business environment and making the inner city a more competitive location for any business.

5 Cluster-oriented thinking and cluster initiatives should be integrated into inner-city economic development efforts.

- Funding should be provided for business cluster analyses to identify the existing and emerging clusters in metropolitan regions and inner cities and highlight potential linkages among them.
- Grants and incentives should be provided to local government to engage leaders from both the public and private sectors in coordinated cluster initiatives. Public/private urban business development councils should lead such initiatives.
- Government resource allocation decisions at the local level should be evaluated based on existing and emerging local clusters. Cluster thinking should be applied not only to the areas traditionally associated with business development such as job training and technical assistance, but also to other areas that affect competitiveness such as infrastructure and crime prevention. Each cluster has its own priorities and needs.
- Act as a clearinghouse for information regarding local efforts across the country to integrate cluster-oriented practices into economic development strategies.

6 Direct assistance to individual firms should be directed primarily at catalyzing the workings of private markets. Assistance should be based in part on impact and sustainability.

- Programs should be designed to catalyze functioning private markets such as bank lending or work through other private-sector entities such as trade associations, cluster working groups, or mentoring relationships. This approach will improve the business environment and encourage greater linkages between inner-city companies and the mainstream economy.
- Programs directly assisting companies should measure and heavily weigh the company's growth potential and linkages to the local and regional economy.

7 The performance of inner-city business development programs should be better monitored and assessed.

- Performance measures for inner-city business development programs should monitor the outcomes of these programs in terms of their impact on business performance, growth, and sustainability. Measures should include business survival rates, revenue growth, market expansion, and relationship to local clusters.

8 The spatial flow of government resources should be tracked and evaluated.

- Every Federal department and agency should collect data to allow for tracking spending to its final destination. This includes both direct spending and indirect spending (such as private-sector dollars leveraged by public dollars). Infrastructure and crime prevention spending should also be tracked based on its geographic impact.
- Responsibility to compile and analyze geographic spending patterns should be assigned to a single government agency or research entity, ideally one that also has a role in coordinating urban economic development policies.

# APPENDICES

A SELECTING THE UNIVERSE OF FEDERAL ECONOMIC DEVELOPMENT PROGRAMS

B INVENTORY OF FEDERAL URBAN ECONOMIC DEVELOPMENT PROGRAMS

C BENCHMARKING AND NORMALIZATION OF FEDERAL SPENDING

**Selecting the Pool of Economic Development Programs** The following 31 key words were used to search the FY 1996 Catalog of Federal Domestic Assistance (CFDA). This search resulted in a list of 312 Federal direct expenditure and credit enhancement programs. An additional 10 to 15 programs were found from alternative sources such as searching agency Web sites, reviewing General Accounting Office (GAO) reports, and conversing with the staff of the various Federal agencies.

1 Business Development
2 Business Loans
3 Capital
4 Community Development
5 Crime
6 Economic Adjustment
7 Economic Development
8 Economic Growth
9 Employment
10 Enterprise
11 Equity
12 Export
13 Financing
14 Highway Construction
15 Industrial Development
16 Infrastructure
17 Job Training
18 Land Use
19 Minority Business
20 Neighborhood Reinvestment
21 Public Safety
22 R & D
23 Small Business
24 Supplier
25 Technology Transfer
26 Tourism
27 Urban Development
28 Urban Renewal
29 Urban Transportation
30 Vendor
31 Workforce Development

**Selecting the Universe of Urban Economic Development Programs** The study team focused on programs that affect business development in urban and inner-city areas. Thus programs that target or primarily affect the groups or locations listed below were excluded. This selection process yielded 90 programs that constitute the "universe" of urban economic development programs used for this study.

1 All programs which have rural areas as their primary targets
2 All environmental programs except brownfields
3 Disaster relief and economic recovery programs
4 General education (including vocational education) programs
5 Social and community service programs
6 All crime-prevention programs except those targeting urban blight and community policing
7 All R&D programs, with the exception of a few targeted at small businesses or designed for commercialization of R&D (all health and medical R&D was excluded)
8 Programs targeted to Native Americans, women, veterans, and the disabled

**Urban vs. Inner-City Spending of Urban Economic Development Programs** For each of the 90 programs, ICIC obtained the Federal obligations for FY 1996. The percentage of obligations reaching inner cities was calculated in several ways. Programs that had any of the five terms listed below in their program design were assumed to be targeting inner cities. Proxies were used to determine percentage of program spending reaching inner cities when the program was not solely targeting to groups or areas captured by these five terms. For instance, 23 percent of urban lending for the SBA 7(a) Business Loan Program was to minority borrowers. This percentage was used as a proxy to represent the share of SBA 7(a) lending that went to inner cities.

1 Distressed community
2 Minority
3 Disadvantaged (socially and economically)
4 Low-income
5 Renewal/revitalization

In the cases of transportation, crime-prevention, and research and development spending, proxy data were used to estimate the inner-city share of total national spending. Spending patterns in Boston between urban and inner-city areas were used as a proxy for the nation. For example, a fraction of the dollar value of Federal Small Business Innovation Research grants was awarded to companies located in the Boston inner city. That fraction was used as a proxy for R&D grants awarded to inner-city companies nationally.

1 Credit Programs

2 Crime Prevention Programs

3 Economic Development Planning Programs

4 Empowerment Zone/Enterprise Community

5 Infrastructure Programs

6 Job Training and Placement Programs

7 Technical, Marketing, and Procurement Assistance Programs

8 Research and Development Programs

# 1 CREDIT PROGRAMS[a]

| | Program Name & Agency | | Nationwide Program Obligations (FY 96)[b] | | | Boston Program Obligations (FY 96)[c] | | Type of Spending | Delivery — First Tier Recipient | Nationwide Program Size (FY 96) | | | Boston Program Size (FY 96) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Federal Program | Federal Agency | Total | Urban | Inner City | Boston | Boston Inner City | | | Total | Urban | Inner City | Boston | Boston Inner City |
| 1 | Fisheries Obligation Guarantee Program | Commerce | $25,000,000 | $25,000,000 | $0 | $0 | $0 | Loans (direct) | Direct | $25,000,000 | $25,000,000 | $0 | $0 | $0 |
| 2 | Special Economic Development and Adjustment Assistance Program | Commerce | $139,773,000 | $139,773,000 | $0 | $0 | $0 | Discretionary Grants | Multiple | $139,773,000 | $139,773,000 | $0 | $0 | $0 |
| 3 | Job Opportunities for Low-Income Individuals | HHS | $5,500,000 | $5,500,000 | $5,500,000 | $0 | $0 | Discretionary Grants | Non-profit (CDC) | $5,500,000 | $5,500,000 | $5,500,000 | $0 | $0 |
| 4 | Urban and Rural Economic Development Discretionary Grants | HHS | $20,060,000 | $20,060,000 | $20,060,000 | $350,000 | $350,000 | Discretionary Grants | Non-profit (CDC) | $20,060,000 | $20,060,000 | $20,060,000 | $350,000 | $350,000 |
| 5 | CDBG / Entitlement Grants (Economic Development; 7.0% not including TA)[d] | HUD | $214,130,000 | $214,130,000 | $214,130,000 | $6,369,094 | $1,974,419 | Formula Grants | Local government | $214,130,000 | $214,130,000 | $214,130,000 | $6,369,094 | $1,974,419 |
| 6 | Economic Development Initiative | HUD | $94,000 | $94,000 | $94,000 | $1,495,000 | $1,495,000 | Discretionary Grants | Local government | $94,000 | $94,000 | $94,000 | $1,495,000 | $1,495,000 |
| 7 | Section 108 Loan Guarantee | HUD | $10,000,000 | $10,000,000 | $10,000,000 | $1,495,000 | $1,495,000 | Loans (direct) | For Profit (bank) | $433,775,000 | $433,775,000 | $433,775,000 | $1,495,000 | $1,495,000 |
| 8 | Community Development Revolving Loan Program for Credit | NCUA | $1,000,000 | $1,000,000 | $1,000,000 | $0 | $0 | Loans (direct) | For Profit (bank) | $1,000,000 | $1,000,000 | $1,000,000 | $0 | $0 |
| 9 | Bond Guarantees for Surety Companies | SBA | $2,530,000 | $2,530,000 | $262,352 | $435 | $45 | Bonds (guarantees) | For Profit (bank) | $889,960,000 | $889,960,000 | $92,285,679 | $152,850 | $15,850 |
| 10 | Certified Development Company Loans (504 loans) | SBA | $56,000 | $43,238 | $8,375 | $79 | $12 | Loans (guarantees) | Non-profit | $2,486,000,000 | $1,919,440,600 | $371,795,644.22 | $3,440,000 | $532,000 |
| 11 | Microloan Demonstration Program (Direct & Guaranteed Loans) | SBA | $1,640,000 | $1,640,000 | $1,640,000 | $267,862 | $214,289 | Loans (direct) | Non-profit (CDC) | $1,640,000 | $1,640,000 | $1,640,000 | $267,862 | $214,289 |
| 12 | Small Business Investment Companies (SBICs) | SBA | $38,190,000 | $38,190,000 | $954,750 | $813,514 | $50,940 | Debt & Equity | For Profit (bank) | $1,600,000,000 | $1,600,000,000 | $40,000,000 | $31,939,834 | $2,000,000 |
| 13 | Small Business Loans (7a) | SBA | $78,359,000 | $61,417,784 | $14,316,485 | $135,087 | $39,446 | Loans (guarantees) | For Profit (bank) | $7,700,000,000 | $6,032,950,000 | $1,406,280,645 | $12,664,356 | $3,698,000 |
| 14 | Specialized Small Business Investment Companies (SSBICs) | SBA | $209,000 | $209,000 | $209,000 | $2,409 | $1,125 | Debt & Equity | For Profit (bank) | $116,600,000 | $116,600,000 | $116,600,000 | $1,343,821 | $627,770 |
| 15 | Disadvantaged Business Enterprises - Bonding Assistance Program | Transport | $4,815,000 | $4,815,000 | $4,815,000 | $0 | $0 | Bonds (guarantees) | For profits | $14,400,000 | $14,400,000 | $14,400,000 | $0 | $0 |
| 16 | Disadvantaged Business Enterprises - Short Term Lending Program | Transport | $7,275,000 | $7,275,000 | $7,275,000 | $0 | $0 | Loans (direct) | For profits | $9,700,000 | $9,700,000 | $9,700,000 | $0 | $0 |
| 17 | CDFI Bank Enterprise Awards | Treasury | $13,100,000 | $13,100,000 | $13,100,000 | $0 | $0 | Discretionary Grants | For Profit (bank) | $13,100,000 | $13,100,000 | $13,100,000 | $0 | $0 |
| 18 | CDFI Core Program — Direct & Intermediary | Treasury | $37,219,500 | $37,219,500 | $37,219,500 | $0 | $0 | Loans (direct) | Multiple | $37,219,500 | $37,219,500 | $37,219,500 | $0 | $0 |
| | | TOTAL | $598,950,500 | $581,996,522 | $330,584,463 | $10,928,478 | $5,620,277 | | TOTAL | $13,707,951,500 | $11,474,342,100 | $2,777,580,468 | $59,517,817 | $12,402,328 |

## 2 CRIME PREVENTION PROGRAMS

| | Program Name & Agency | | Nationwide Program Obligations (FY 96)[b] | | | Boston Program Obligations (FY 96)[c] | | Type of Spending | Delivery — First Tier Recipient |
|---|---|---|---|---|---|---|---|---|---|
| | Federal Program | Federal Agency | Total | Urban | Inner City | Boston | Boston Inner City | | |
| 1 | Gang-Free Schools and Communities - Community-Based Gang Intervention | Justice | $8,943,000 | $8,943,000 | $8,943,000 | $0 | $0 | Discretionary Grants | Multiple |
| 2 | Weed and Seed Program (Asset Forfeiture Fund) | Justice | $9,000,000 | $9,000,000 | $9,000,000 | $0 | $0 | Discretionary Grants | Local government |
| 3 | Weed and Seed Program (Core + Byrne Discretionary Grant Fund) | Justice | $28,500,000 | $28,500,000 | $28,500,000 | $225,000 | $225,000 | Discretionary Grants & Interagency Agreements | Multiple |
| 4 | Byrne Formula Grant Program | Justice | $478,100,000 | $478,100,000 | $210,364,000 | $172,548 | $75,819 | Formula Grants | Local & state governments |
| 5 | Local Law Enforcement Block Grants Program | Justice | $439,410,000 | $439,410,000 | $193,340,400 | $2,975,784 | $1,307,587 | Formula Grants | Local government |
| 6 | Public Safety Partnership and Community Policing Grants | Justice | $1,304,893,000 | $1,304,893,000 | $574,152,920 | $4,040,210 | $1,775,306 | Discretionary Grants | Local & state governments |
| | | TOTAL | $2,268,846,000 | $2,268,846,000 | $1,024,300,320 | $7,413,542 | $3,383,712 | | |

## 3 ECONOMIC DEVELOPMENT PLANNING PROGRAMS

| | Program Name & Agency | | Nationwide Program Obligations (FY 96)[b] | | | Boston Program Obligations (FY 96)[c] | | Type of Spending | Delivery — First Tier Recipient |
|---|---|---|---|---|---|---|---|---|---|
| | Federal Program | Federal Agency | Total | Urban | Inner City | Boston | Boston Inner City | | |
| 1 | Economic Development - State and Local Economic Development Planning | Commerce | $4,150,000 | $4,150,000 | $0 | n/a | n/a | Discretionary Grants | Local & state governments |
| 2 | Economic Development - Support for Planning Organizations (aka Planning for States and Urban Areas) | Commerce | $20,250,000 | $20,250,000 | $0 | n/a | n/a | Discretionary Grants | Multiple |
| 3 | Economic Development - Technical Assistance | Commerce | $10,193,942 | $10,193,942 | $10,193,942 | $0 | $0 | Discretionary Grants | Multiple |
| 4 | Research and Evaluation Program | Commerce | $500,000 | $500,000 | $0 | n/a | n/a | Discretionary Grants | Direct |
| 5 | Community Base Reuse Plans (aka Community Planning Assistance; includes almost all base closing spending) | Defense | $49,700,000 | $49,700,000 | $0 | $0 | $0 | Discretionary Grants | Local & state governments |
| 6 | Sustainable Development Challenge Grants | EPA | $542,000 | $542,000 | $542,000 | $0 | $0 | Discretionary Grants | Multiple |
| 7 | Community Outreach Partnership Center Program | HUD | $3,141,000 | $3,141,000 | $3,141,000 | n/a | n/a | Discretionary Grants | Academic |
| 8 | General Research and Technology Activity | HUD | $33,210,000 | $33,210,000 | $0 | n/a | n/a | Discretionary Grants | Multiple |
| 9 | Federal Transit Technical Studies Grants | Transport | $39,063,000 | $39,063,000 | $0 | n/a | n/a | Formula Grants | State government |
| 10 | State Planning and Research | Transport | $8,154,000 | $8,154,000 | $0 | n/a | n/a | Formula Grants | State government |
| 11 | Transit Planning and Research | Transport | $30,000,000 | $30,000,000 | $0 | n/a | n/a | Discretionary Grants | Multiple |
| | | TOTAL | $198,903,942 | $198,903,942 | $13,876,942 | $0 | $0 | | |

## 4 EMPOWERMENT ZONE/ENTERPRISE COMMUNITY

| | Program Name & Agency | | Nationwide Program Obligations (FY 96)[b] | | | Boston Program Obligations (FY 96)[c] | | Type of Spending | Delivery — First Tier Recipient |
|---|---|---|---|---|---|---|---|---|---|
| | Federal Program | Federal Agency | Total | Urban | Inner City | Boston | Boston Inner City | | |
| 1 | Social Services Block Grant - Empowerment Zones | HHS | $300,000,000 | $300,000,000 | $300,000,000 | $2,947,368 | $2,210,526 | Discretionary Grants | Local government |
| | | TOTAL | $300,000,000 | $300,000,000 | $300,000,000 | $2,947,368 | $2,210,526 | | |

## 5 INFRASTRUCTURE PROGRAMS

| | Program Name & Agency | | Nationwide Program Obligations (FY 96)[b] | | | Boston Program Obligations (FY 96)[c] | | Type of Spending | Delivery — First Tier Recipient |
|---|---|---|---|---|---|---|---|---|---|
| | Federal Program | Federal Agency | Total | Urban | Inner City | Boston | Boston Inner City | | |
| 1 | Economic Development — Public Works Impact Program & Grants for Public Works | Commerce | $165,200,000 | $165,200,000 | $165,200,000 | $0 | $0 | Discretionary Grants | Multiple |
| 2 | Public Telecommunications Facilities — Planning & Construction | Commerce | $13,903,776 | $13,903,776 | $0 | n/a | n/a | Discretionary Grants | Multiple |
| 3 | Telecommunications and Information Infrastructure | Commerce | $18,600,000 | $18,600,000 | $0 | $710,000 | $0 | Discretionary Grants | Multiple |
| 4 | Brownfield Pilots Cooperative Agreements | EPA | $8,200,000 | $8,200,000 | $8,200,000 | $200,000 | $200,000 | Discretionary Grants | Multiple |
| 5 | CDBG / Entitlement Grants (7.8% Acquisition & Clearance and 22.5% Public Works and Facilities) | HUD | $926,877,000 | $926,877,000 | $926,877,000 | $1,819,356 | $564,000 | Formula Grants | Local government |
| 6 | Federal Transit Capital and Operating Assistance Formula Grants | Transport | $1,855,958,000 | $1,855,958,000 | $590,749,993 | $5,033,268 | $1,601,586 | Formula Grants | State government |
| 7 | Federal Transit Capital Improvement Grants | Transport | $1,693,609,000 | $1,693,609,000 | $0 | $25,284,969 | $0 | Discretionary Grants | Local & state governments |
| | | TOTAL | $4,682,347,776 | $4,682,347,776 | $1,691,026,993 | $33,047,593 | $2,365,586 | | |

| | Program Name & Agency | | Nationwide Program Obligations (FY 96)[b] | | | Boston Program Obligations (FY 96)[c] | | Type of Spending | Delivery — First Tier Recipient |
|---|---|---|---|---|---|---|---|---|---|
| | Federal Program | Federal Agency | Total | Urban | Inner City | Boston | Boston Inner City | | |
| 1 | National Workplace Literacy Partnerships | Education | $12,500,000 | $12,500,000 | $12,500,000 | $377,574 | $302,059 | Discretionary Grants | multiple |
| 2 | School-to-Work Opportunities | Education | $149,000,000 | $149,000,000 | $149,000,000 | $1,058,663 | $577,453 | Discretionary Grants | multiple |
| 3 | Job Opportunities and Basic Skills Training | HHS | $919,000,000 | $919,000,000 | $919,000,000 | $1,133,384 | $906,707 | Formula Grants | State government |
| 4 | CDBG / Entitlement Grants (Employment Training; 0.6%) | HUD | $18,354,000 | $18,354,000 | $18,354,000 | $1,144,973 | $1,030,476 | Formula Grants | Local governments |
| 5 | Community Development Work-Study Program | HUD | $3,128,000 | $3,128,000 | $3,128,000 | n/a | n/a | Discretionary Grants | Academic |
| 6 | Opportunities for Youth/ Youthbuild Program | HUD | $20,000,000 | $20,000,000 | $20,000,000 | $700,000 | $630,000 | Discretionary Grants | Non-profit (Service) |
| 7 | Apprenticeship Training | Labor | $16,000,000 | $16,000,000 | $16,000,000 | $15,008 | $7,504 | Salaries & Expenses | State government |
| 8 | Employment Service | Labor | $762,000,000 | $616,077,000 | $332,681,580 | $1,404,134 | $758,233 | Formula Grants | State government |
| 9 | JTPA — Title II-A (Adult Employment Training) | Labor | $850,000,000 | $850,000,000 | $850,000,000 | $1,582,625 | $1,266,100 | Formula Grants | State government |
| 10 | JTPA — Title II-B (Youth Summer Employment Training) | Labor | $625,000,000 | $625,000,000 | $625,000,000 | $1,440,402 | $1,152,322 | Formula Grants | State government |
| 11 | JTPA — Title II-C (Youth Employment Training) | Labor | $126,672,000 | $126,672,000 | $126,672,000 | $453,916 | $363,133 | Formula Grants | State government |
| 12 | JTPA — Title III (Employment & Training Assistance for Dislocated Workers) | Labor | $1,100,000,000 | $1,100,000,000 | $1,100,000,000 | $1,400,661 | $560,264 | Formula Grants & Discretionary Grants | State government |
| 13 | JTPA Title IV-B (Job Corps) | Labor | $1,184,000,000 | $1,184,000,000 | $1,184,000,000 | $3,214,448 | $2,271,077 | Discretionary Grants | multiple (3rd) |
| 14 | JTPA Title IV-D (Employment Services and Job Training - Pilot & Demo) | Labor | $27,100,000 | $27,100,000 | $27,100,000 | $360,485 | $288,388 | Discretionary Grants | multiple |
| 15 | One Stop Career Centers | Labor | $76,300,000 | $76,300,000 | $41,202,000 | $177,850 | $96,039 | Discretionary Grants | State government |
| 16 | Trade Adjustment Assistance - Workers (NAFTA Benefit & Training) | Labor | $33,000,000 | $33,000,000 | $0 | $0 | $0 | Direct Payment | State government |
| 17 | Trade Adjustment Assistance - Workers (Training) | Labor | $97,000,000 | $97,000,000 | $0 | $0 | $0 | Direct Payment | State government |
| | | TOTAL | $6,019,054,000 | $5,873,131,000 | $5,424,637,580 | $14,464,123 | $10,209,754 | | |

| | Program Name & Agency | | Nationwide Program Obligations (FY 96)[b] | | | Boston Program Obligations (FY 96)[c] | | Type of Spending | Delivery — First Tier Recipient |
|---|---|---|---|---|---|---|---|---|---|
| | Federal Program | Federal Agency | Total | Urban | Inner City | Boston | Boston Inner City | | |
| 1 | Commercial Service | Commerce | $160,947,000 | $160,947,000 | $0 | $228,105 | $22,810 | Salaries & Expenses | Direct |
| 2 | Export Promotion - Market Development Cooperator | Commerce | $1,500,000 | $1,500,000 | $0 | $9,667 | $1,933 | Discretionary Grants | Multiple |
| 3 | Manufacturing Extension Partnership | Commerce | $115,063,000 | $115,063,000 | $3,508,018 | $50,927 | $15,915 | Discretionary Grants | Non-profit (CDC) |
| 4 | Market Access & Compliance (formerly known as "International Economic Policy" | Commerce | $23,364,000 | $23,364,000 | $0 | n/a | n/a | Discretionary Grants | Multiple |
| 5 | Minority Business Development Centers | Commerce | $15,081,609 | $15,081,609 | $15,081,609 | $0 | $0 | Discretionary Grants | Multiple |
| 6 | Minority Business Opportunity Committees | Commerce | $1,732,000 | $1,732,000 | $1,732,000 | $0 | $0 | Discretionary Grants | Non-profit (industry) |
| 7 | Minority Business Resource Development | Commerce | $4,071,000 | $4,071,000 | $4,071,000 | $0 | $0 | Discretionary Grants | Non-profit (industry) |
| 8 | Trade Adjustment Assistance | Commerce | $8,500,000 | $8,500,000 | $0 | $60,000 | n/a | Salaries & Expenses | Non-profit (industry) |
| 9 | Trade Development | Commerce | $56,512,000 | $56,512,000 | $0 | n/a | n/a | Salaries & Expenses | Direct |
| 10 | Mentor-Protégé Program | Defense | $32,345,000 | $32,345,000 | $32,345,000 | $262,257 | $174,838 | Salaries & Expenses | Direct |
| 11 | Procurement Technical Assistance For Business Firms | Defense | $15,170,000 | $15,170,000 | $0 | $0 | $0 | Discretionary Grants | Multiple |
| 12 | Energy-Related Inventions (Inventions and Innovations) | Energy | $5,324,000 | $5,324,000 | $0 | $99,805 | $0 | Discretionary Grants | Direct |
| 13 | Management and Tech Assist for Minority Business Enterprises | Energy | $382,000 | $382,000 | $382,000 | $0 | $0 | Salaries & Expenses | Direct |
| 14 | CDBG / Entitlement Grants (Economic Development, 0.9% specfically TA) | HUD | $27,531,000 | $27,531,000 | $27,531,000 | $220,418 | $68,330 | Formula Grants | Local government |
| 15 | JTPA Title IV-I (Microenterprise Grants Program) | Labor | $1,240,000 | $1,240,000 | $1,240,000 | $113,000 | $90,400 | Discretionary Grants | Non-profit (CDC) |
| 16 | Business Information Centers | SBA | $450,000 | $450,000 | $450,000 | $0 | $0 | Salaries & Expenses | Direct |
| 17 | Management and Tech Assist for Socially & Economically Disad. Businesses (7j) | SBA | $2,045,000 | $2,045,000 | $2,045,000 | $0 | $0 | Discretionary Grants | Multiple |
| 18 | Microloan Demonstration Program (Technical Assistance) | SBA | $15,798,000 | $15,798,000 | $15,798,000 | $153,941 | $123,152 | Discretionary Grants | Non-profit (CDC) |
| 19 | Minority Business Development Program (8a) | SBA | $4,009,000 | $4,009,000 | $4,009,000 | $1,514 | $131 | Salaries & Expenses | For profits |
| 20 | Procurement Assistance to Small Businesses | SBA | $13,812,000 | $13,812,000 | $5,366 | $155,795 | $54,305 | Salaries & Expenses | Direct |
| 21 | Service Corps of Retired Executives Association (SCORE) | SBA | $3,402,000 | $3,402,000 | $1,245,610 | $52,000 | $19,039 | Salaries & Expenses | Direct |
| 22 | Small Business Development Centers (SBDC) Program | SBA | $74,973,000 | $74,973,000 | $1,490,892 | $89,543 | $34,019 | Discretionary Grants | Academic |
| 23 | US Export Assistance Centers | SBA | $2,882,000 | $2,882,000 | $0 | $24,000 | $0 | Salaries & Expenses | Direct |
| 24 | Entrepreneurial Training and Technical Assistance Program | Transport | $1,050,000 | $1,050,000 | $1,050,000 | $55,405 | $31,081 | Discretionary Grants | Academic |
| 25 | Support Mechanisms for Disadvantaged Businesses | Transport | $1,000,000 | $1,000,000 | $1,000,000 | $100,000 | n/a | Discretionary Grants | Non-profit (industry) |
| | | TOTAL | $588,183,609 | $588,183,609 | $112,984,495 | $1,676,376 | $635,953 | | |

| | Program Name & Agency | | Nationwide Program Obligations (FY 96)[b] | | | Boston Program Obligations (FY 96)[c] | | Type of Spending | Delivery — First Tier Recipient |
|---|---|---|---|---|---|---|---|---|---|
| | Federal Program | Federal Agency | Total | Urban | Inner City | Boston | Boston Inner City | | |
| 1 | Advanced Technology Program | Commerce | $317,423,700 | $317,423,700 | $0 | $36,624,395 | $0 | Discretionary Grants | Direct |
| 2 | Fisheries Development & Utilization Research/ Development Grants | Commerce | $6,760,230 | $6,760,230 | $0 | $81,225 | $0 | Discretionary Grants | Multiple |
| 3 | Unallied Industry Projects | Commerce | $5,897,198 | $5,897,198 | $0 | $358,738 | $0 | Discretionary Grants | Multiple |
| 4 | Collaborative Research and Development | Defense | $500,000 | $500,000 | $0 | $0 | $0 | Discretionary Grants | Direct |
| 5 | National Industrial Competitiveness through Energy, Environment, and Economics | Energy | $5,900,000 | $5,900,000 | $0 | $0 | $0 | Discretionary Grants | State government |
| 6 | Small Business Innovations Research (SBIR) | SBA | $917,577,000 | $917,577,000 | $20,117,123 | $7,629,932 | $167,280 | Discretionary Grants | Direct |
| 7 | Small Business Technology Transfer Research (STTR) | SBA | $57,020,121 | $57,020,121 | $0 | $100,000 | $0 | Discretionary Grants | Direct |
| | | TOTAL | $1,311,078,249 | $1,311,078,249 | $20,117,123 | $44,794,290 | $167,280 | | |

[a] Number of important Federal credit programs rely on credit enhancement tools, e.g., guarantee facilities, to deliver programs to businesses. In these cases, the amount the Federal Government spends ("obligates") and the amount of loans actually received by businesses can vary greatly. This fact is reflected in the table by making a distinction between "Spending" and "Size", where spending captures the Federal obligations and size captures the amount of credit extended to businesses. In cases where a program offers loans or makes investments directly to businesses, the spending and size figures are identical.

[b] See Methodology section of Chapter III on how urban and inner-city flow estimates were calculated.

[c] See Box 2 in Chapter IV on how Boston and Boston inner-city flow estimates were calculated.

[d] In 1996, more than $4 billion was obligated to the Community Development Block Grant (CDBG) program. The calculations here reflect only the amount spent on the types of activities that fall within the definition of business development used in this study. Hence, no CDBG housing spending (which accounts for 35% of all CDBG spending by recipients) is included in the Flow-of-Funds analysis. The CDBG spending included are: economic development 7.0% (not including technical assistance), technical assistance 0.1%, employment training 0.6%, public works 23.0%, and acquisition and clearance 8.0%. These spending estimates are based on HUD calculations of actual spending by program recipients in 1994, the latest year for which data exists.

**Benchmarking Federal Economic Development against Housing Expenditures** To provide a comparison to the $16 billion identified as Federal urban economic development expenditures, the Federal Government's housing expenditures have been identified. Housing programs represent the most concerted effort by the Federal Government to meet the needs of economically disadvantaged groups. Although the beneficiaries of Federal expenditures on housing, particularly through tax relief and government-sponsored enterprise (GSE) institutional infrastructure, are predominantly middle- and upper-class households, urban economic development and poverty reduction policies in the United States have primarily depended on housing expenditures. In view of this, housing expenditures provide a useful comparison to economic development investments.

This comparison is limited to those programs that are directly related to economic development and low-income housing assistance in four areas: direct expenditures, credit enhancement, tax expenditures, and GSE activities (Figure 26a). We have omitted tax expenditure programs such as the mortgage deduction and general business tax credits, which benefit a high proportion of nonurban and nondistressed areas. We have also excluded programs that are explicitly rural. However, the urban and nonurban components of included programs have not been disaggregated because of the difficulty of developing such a breakdown.

Using this rough comparison, overall Federal spending for housing programs is significantly higher than for economic development programs (Figure 26b). For instance, direct expenditures on economic development are 40 percent less than direct expenditures on housing while the size of credit enhancement programs for housing is more than five times that of economic development.

Figure 26a Comparison of Economic Development and Housing Programs/Investments

| Type of Program | Economic Development | Housing |
|---|---|---|
| Direct expenditures | Job training, transit, community development grants, etc. | Section 8 rental assistance, public housing capital investments, etc. |
| Credit enhancement | SBA guarantees, security purchases, etc. | FHA credit insurance programs |
| Tax expenditures | Empowerment Zone tax advantages | Low-income housing tax credit, mortgage-revenue bonds, state & local debt for rental housing |
| GSE activities | Federal Home Loan Bank's Community Investment Program | Fannie Mae and Freddie Mac mortgage purchases, FHLB advances |

Figure 26b Comparison of Economic Development and Housing Programs/Investments (FY 1996 $ in billions)

| Type of Program | Economic Development | Housing |
|---|---|---|
| Direct Expenditures | $16,161 | $28,242 |
| Credit Enhancement | $13,250 | $71,441 |
| Tax Expenditures | $530 | $5,120 |
| GSE Activities | $209 | $1,060,003 |

Sources:ICIC Flow-of-Funds Analysis, FY 1998 U.S. Budget, and correspondence with Federal agencies and GSEs.

The use of tax expenditures and GSE activities reveals the sophisticated role that the Federal Government plays in supporting housing markets. Many states, as well as the Federal Government, are beginning to develop similar initiatives for creating small-business loan secondary markets; however, the institutional gaps between housing and economic development activities remain large.

**Benchmarking Federal Economic Development against Food Stamp Expenditures** Another useful comparison is the benchmarking of Federal economic development investments against Federal consumption-oriented spending for inner city residents. Food stamps represent one of the main types of a consumption-oriented spending. In FY 1996, the Federal Government obligated close to $24.3 billion (in benefits and administrative expenses) to the Food Stamp Program. Based on the use of benefits as reported in the March 1997 Current Population Survey, 78% of respondents acknowledging use of Food Stamps were from metropolitan areas. Hence, for FY 1996 Food Stamp spending to all urban areas was estimated at $19 billion.

**Normalization of Federal Program Spending/Size in Boston** Knowing the absolute dollar value of Federal expenditures received by inner-city and non-inner-city neighborhoods is relatively uninformative. To better understand these Federal expenditures in Boston, data were normalized using variables that are indicative of need for economic resources.

Figure 27 summarizes the normalization variables and the relevant data obtained for Boston and its inner city. Figure 15 (in the main body of the text) uses these findings to normalize the Federal spending and lending figures for Boston.

Figure 27 Boston Data for Normalization Variables

| Variable Used to Normalize Federal Spending | Boston (Total) | Boston (Non-Inner City) | Boston (Inner City) |
|---|---|---|---|
| Number of Small Businesses[a] | 31,172 | 25,360 | 5,812 |
| Revenue Generated by Small Businesses[b] (billions) | $23,903 | $19,384 | $4,519 |
| Number of Residents[c] | 620,955 | 347,395 | 273,560 |
| Number of Unemployed Residents[c] | 28,693 | 13,268 | 15,425 |
| Number of Crimes[d] | 44,711 | 26,954 | 17,757 |

Sources and Notes:
a American Business Disk, 1997 2nd edition. Small business is defined as businesses generating less than $10 million in annual revenue.
b American Business Disk, 1997 2nd edition. Revenues estimated by taking the midpoint of ranges provided by ABD.
c 1990 data, U.S. Census Bureau, Department of Commerce.
d 1996 data, Boston Police Department December 1997 Crime Report.

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## Advisory Board Members

John Avault, Assistant Director,
Policy Development and Research,
Boston Redevelopment Authority

Kathleen Bradbury, Vice President and
Economist, Federal Reserve Bank of Boston

Howard Cohen, President,
Beacon Residential Properties

William Ginsberg, Managing Director,
Federal Housing Finance Board

Dewitt John, Director,
Center for a Competitive Sustainable Economics,
The National Academy of Public Administration

Bruce Katz, Director, Center on Urban and
Metropolitan Policy and Economic Studies
Program, Brookings Institution

Langley Keyes, Professor of Urban Studies,
Massachusetts Institute of Technology

Marilyn Swartz Lloyd, Principal,
Management Strategies Limited

Jeffrey Zinsmeyer, Director of Specialized
Developmental Lending, BankBoston

*Ex-officio*
Professor Michael Stegman,
Curriculum in Public Policy Analysis,
University of North Carolina, Chapel Hill

## Consultants

Phil Dearborn, Director,
Greater Washington Research Center

Glenda Fishmann, Consultant

Paul Horn, Community Development Consultant

## ICIC City Advisors

Alvaro Lima, Managing Director,
Boston Advisors

Al Lovata, former-Managing Director,
Boston Advisors

Ursula Powidzki, Managing Director,
Baltimore Advisors

## Annie E. Casey Foundation

Robert Giloth, Senior Program Officer

## U.S. Department of Housing and Urban Development

Xavier de Souza Briggs, Deputy Assistant
Secretary of Policy Development and Research

Deborah Griswold, Community Builder,
HUD New England Office

John Ross, Director of Economic Development
and Public Finance

## U.S. Small Business Administration

John Gray, Associate Deputy Administrator

Mary McAleney, District Director

Sean McKeehan, FOIA Officer

Paul Weech, Chief of Staff

John Wilmath, FOIA Officer

## City of Boston

William Buckley, Manager, Compliance, Boston Department of Neighborhood Development

Charles Grigsby, Senior Vice-President, Massachusetts Cpital Resource Company, and former Director, Boston Department of Neighborhood Development

Mary Knasas, Manager,
Research and Development, Boston Department of Neighborhood Development

Kathy Kottaridis, Director, Office of Neighborhood Business Development

## Cluster Case Studies

William Claggett, City of Oakland

Karen Engel, City of Oakland

Deana Epperly, Louisville Industrial Networks Program, Greater Louisville, Inc. Metro Chamber of Commerce

Denise Fairchild, Community Development Technologies Center (Rebuild LA)

Erin Martin-Rose, Chicago Manufacturing Center
Bibi Minsky, City of Louisville

James Nixon, Progressive Asset Management, Oakland

Anthony Puig, Employment Resource Development Program, Port of Oakland

Helen Squires, Chicago Manufacturing Center

Steve Valenzuela, Los Angeles Community Development Bank

Linda Wong, Community Development Technologies Center (Rebuild LA)

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INITIATIVE FOR A COMPETITIVE INNER CITY (ICIC)

The following ICIC staff members, led by Professor Michael Porter of the Harvard Business School, contributed to this report:

Anne Habiby, Director of Research

Elisabeth Reynolds, Vice President of Research, Project Manager

Alen Amirkhanian, Assistant Vice President of Research

Amelia Alberghini, Research Associate

Deirdre Coyle, Director of Communications

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Christina Chang, Deborah Gruenstein, Stefanie Haug, and Claire Kaplan.

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The following staff of PricewaterhouseCoopers contributed to this report:

John Korbel, Partner
Perry Pockros, Principal Consultant
Francis Speltz, Editor
Randy Miller, Consultant



For additional information on this research contact Dan Simpson, Resource Coordinator (dsimpson@icic.org) at 617-292-2363 (phone); 617-292-2380 (fax).

ICIC Initiative for a Competitive Inner City
727 Atlantic Avenue Suite 600 Boston, MA 02111
phone: 617.292.2363 fax: 617.292.2380 www.icic.org