

2007

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Jeffrey Robinson, *URBAN ENTREPRENEURSHIP: PATTERNS AND POLICY*, 30 W. New Eng. L. Rev. 103 (2007), <http://digitalcommons.law.wne.edu/lawreview/vol30/iss1/7>

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URBAN ENTREPRENEURSHIP: PATTERNS AND POLICY

DR. JEFFREY ROBINSON*

INTRODUCTION¹

*“A rising tide lifts all the boats”*²

Two leaders in the area of urban economic development, Paul Grogan and David Rusk, have chronicled their prescriptions for urban revitalization. In *Comeback Cities*,³ Harvard’s Grogan and co-author Tony Proscio argue that four trends have led to the recovery of many urban communities: (1) the development and expansion of grassroots neighborhood revitalization efforts; (2) the “rebirth” of private markets in the urban communities; (3) the drop in crime; and (4) the decentralization of public schools, the welfare system, public housing, and other bureaucracies.⁴ Their analysis highlights the significance of institutional issues in urban community economic development.⁵

In *Inside Game/Outside Game*,⁶ Rusk takes a different approach to urban development. He stakes the future of urban centers on the use of “inside” and “outside” political and economic strategies by metropolitan areas.⁷ His research and case studies demonstrate how cities can stem the tide of urban decay by reintegrating the urban center with the suburbs. He writes that, “[d]espite the revival of many downtown business districts in the

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1. This Essay contains excerpts from Jeffrey A. Robinson, *An Economic Sociology of Entry Barriers: Business Entry and the Inner City Market* (2004) (unpublished PhD dissertation, Columbia University) (on file with the Western New England Law Review).

2. John F. Kennedy, President of the United States, Remarks in Heber Springs, Arkansas, at the Dedication of Greers Ferry Dam (Oct. 3, 1963), available at <http://www.presidency.ucsb.edu/ws/index.php?pid=9455>.

3. PAUL GROGAN & TONY PROSCIO, *COMEBACK CITIES* (2000).

4. *Id.* at 4-7.

5. *Id.* at 8-9.

6. DAVID RUSK, *INSIDE/OUTSIDE GAME: WINNING STRATEGIES FOR SAVING URBAN AMERICA* (1999).

7. *Id.* at 13.

1980s and 1990s, more and more city neighborhoods became warehouses for the region's poor, particularly blacks and Hispanics. With shrinking tax bases and burgeoning service needs, many inelastic city governments slid into fiscal crisis."⁸ To combat these threats to urban economic vitality, Rusk argues that municipalities should strive to be "elastic" cities that are able to annex or coordinate suburban resources into the city limits.⁹ His approach limits suburban sprawl and taps into the potential of regional economies to address the needs of inner cities.¹⁰ He calls this the "outside game."¹¹

The good news is that both analyses have merit when it comes to understanding the complexities of urban entrepreneurship development. Grogan and Rusk are, perhaps, the most optimistic of the authors who write about the future of inner cities. It seems that the "rising tide" of urban development has managed to raise some urban boats and several communities have benefited from this increased activity. New businesses have entered these markets bringing products and services to underserved consumers, resulting in new jobs.

And yet, the tide has not reached every urban community. Disparities exist among America's major urban centers: New York, Baltimore, Philadelphia, Pittsburgh, Los Angeles, and Chicago. Major retailers have been more willing to enter urban markets in Harlem, New York, than anywhere else in the nation. Major neighborhood employers (e.g., supermarkets, department stores, movie theaters, factories, and financial institutions) have stayed away from North and West Philadelphia, South-Side Chicago, and East and West Baltimore.¹² Minor neighborhood employers (small businesses with less than fifty employees) are only now entering the urban market. How can we explain these disparities? How are business opportunities in one urban market different than business opportunities in others? The answers to these questions are important to the future vitality of the inner cities. In this Essay, I explore the patterns of urban entrepreneurship and discuss the implications of these patterns on urban entrepreneurship initiatives.

8. *Id.* at 5.

9. *Id.* at 4.

10. *Id.* at 9-11.

11. *Id.*

12. See generally RICHARD D. BINGHAM & ZHONGCAI ZHANG, *THE ECONOMICS OF CENTRAL CITY NEIGHBORHOODS* (2001).

I. A THEORY OF SOCIAL AND INSTITUTIONAL BARRIERS IN URBAN MARKETS

Many scholars describe the barriers to urban economic development as being economic and political. These scholars assert that the economic barrier is access to financial capital. The political barrier is the distribution of resources to inner-city areas. While these barriers are real and significant, they are not the entire story.¹³ In the last forty years, urban public policy bridges have been constructed to link these communities to capital resources. But, the disparities continue to exist. How do we explain the continuation of lower levels of business development and general decline of America's urban areas?

In my own work, I have proposed a broad theory to explain the persistence of these conditions in urban America.¹⁴ In summary, I believe that inner-city markets pose a challenge for business managers and entrepreneurs because many do not understand how to overcome significant social and institutional factors.¹⁵ In fact, these social and institutional factors greatly influence the decision to enter inner-city markets. A second point I make in my research is about the relationship between the entry strategy and the performance of the firm.¹⁶ Business strategy in inner-city markets follows patterns consistent with overcoming social- and institutional-entry barriers.¹⁷ In other words, those entrepreneurs who understand the urban market will build more successful firms than those without this knowledge and without these capabilities. The entrepreneurs who build firms more adept at overcoming social and institutional barriers to the inner-city market will be more successful than those whose firms are unable to navigate such obstacles.

My research provides evidence that social and institutional barriers exist in the inner-city market and, by extension, in other markets where culture, networks, public policies, and community-level institutions coexist.¹⁸ Entrepreneurs (nascent or otherwise) perceive that these markets are different.¹⁹ They will not enter these markets even when presented with a lucrative business opportunity. This type of action is certainly a barrier to entry as strong as a pat-

13. Robinson, *supra* note 1, at 130-31.

14. *Id.* at 22.

15. *Id.*

16. *Id.* at 23.

17. *Id.* at 21.

18. *Id.*

19. *Id.* at 92.

ent, distribution channel, or other traditional entry barrier. However, those individuals with urban experience and knowledge in these markets will consider the possibility of founding a business there. Qualitative evidence from the vignette surveys further underscores how the cognitive entry barriers frustrate the consideration of business opportunity in an urban context by those who do not have urban living or work experience.²⁰

Some entrepreneurs do enter these markets. Some of them have local urban experience and some do not. This variation provides a natural experiment for analyzing their financial and business strategies and survival patterns. If social and institutional barriers existed within these markets, then I would expect to see some differences between the firms that entered with solo and partnership strategies mediated by entrepreneurs' experience in the local market. This is exactly what is seen in the data. If connections to the social network and an understanding of community institutions do not matter, there should be no effect for partnership. The results indicate that there are differences, and therefore, I conclude that social and institutional barriers exist in these markets.

II. OVERCOMING SOCIAL, INSTITUTIONAL, AND ECONOMIC BARRIERS TO MARKETS

The traditional approach to economic development asserts that the influx of capital and programs is the solution to urban woes.²¹ However, this is not a practical or efficient solution. Most new ventures are funded by the entrepreneur and his or her friends and family. When poverty is high, local start-up funds are scarce. The next logical argument is that, by providing the start-up capital to these nascent entrepreneurs, "the desert will bloom." However, this overlooks three vital aspects of entrepreneurship and economic development revealed through my research. First, people with urban experience see business opportunities in urban areas. In order to pursue a business opportunity, it must be identified. Still, this does not mean it will always be executed well. Capital-access programs typically scrutinize the entrepreneur's business plan and fund only the best opportunities. Mediocre or marginally successful bus-

20. See generally *id.* at 73-113.

21. See generally PAUL D. REYNOLDS ET AL., THE ENTREPRENEUR NEXT DOOR, AN EXECUTIVE SUMMARY OF THE PANEL STUDY OF ENTREPRENEURIAL DYNAMICS 4 (2002), available at http://www.kauffman.org/pdf/psed_brochure.pdf ("New business formation is one of the most important economic and social activities for any society expecting economic growth and innovation.").

iness opportunities are not funded by these programs. Therefore, these types of program are limited because they only select a few exceptional firms to fund out of all possible business plans. Their selection criteria favor nonlocal entrepreneurs.

Second, local entrepreneurs are embedded in the community networks. Community entrepreneurs have social connections and therefore a higher level of local knowledge than those from outside of the community. This local knowledge is often overlooked by funders. It is trumped by business experience, polished business plans, and often the comfort of the funders (usually banks or private equity funds) with the entrepreneurial team. Local knowledge has value that our economic models cannot account for before the deal. This poses a problem for the financier: How do we value this localness and understanding of the community? My research indicates that local partnerships enhance the survival prospects of the firm. This is important for policymakers and capital access providers. Financial capital alone is not enough for entrepreneurship. The truth we have known for years in the field, but seemingly forgot during the implementation of economic development programs in the 1970s and 1980s, is that social capital plays a critical role in the success of the urban firm.

Third, there is the importance of local institutions to consider. The relevance of formal and informal community institutional structures is also overlooked by simplistic approaches to urban economic development. The influence that these structures have on the identification of business opportunity and the survival of these businesses underscores the complexity of the context. Without a robust knowledge of these structures, entrepreneurs (1) overlook business opportunities and (2) develop businesses that miss the nuances and partnerships (construed broadly) that can contribute to their success.

III. THREE ERAS OF URBAN BUSINESS DEVELOPMENTS

Edward Koch, former Mayor of New York City, once stated, "The main job of municipal government . . . is to create a climate in which private business can expand in the city to provide jobs and profit."²² Because new businesses have to employ residents and provide products and services to a community, business entry into

22. IRA KATZNELSON, *CITY TRENCHES: URBAN POLICIES AND THE PATTERNING OF CLASS IN THE UNITED STATES* 4 (1981).

urban areas is of critical importance for the economic development of inner cities.

While there are many people who believe that entrepreneurship and business enterprise are the keys to long-term economic development and revitalization of urban areas, urban America continues to be plagued by higher poverty rates, higher unemployment rates, and lower business development when compared to the other parts of the cities. To revitalize these disadvantaged areas, municipal officials, politicians, and community activists promise change and specifically implement programs targeted at bringing new businesses to the area.

What is the potential for successful revitalization of the various programs and strategies that have been put forth as public policy? This is a complicated question because different approaches are not equally successful in every city. There is a virtual alphabet soup of public policies and programs that exist to encourage entrepreneurship and to promote community and economic development. In my analysis, these programs can be placed into three areas: community-driven, capital access-driven, and community investment-driven strategies. Table 1 places ten economic development programs into these categories. I discuss the characteristics of each area below.

A. *Community-Driven Strategies*

Community-driven strategies are programs that specifically target community-level programs and services. The two programs and one community development entity highlighted in Table 1 were established or rose to prominence in the 1970s. The Community Development Block Grant program was established by an Act of Congress in 1974.²³ It specifically established a program administered by the U.S. Department of Housing and Urban Development (HUD) that funded programs and projects to improve the quality of life in target communities.²⁴ The funding from these block grants has been directed mostly toward social programs and services: building community centers, senior housing, youth centers, street improvements, and fire houses. In 2003, less than three percent of those grants were directed toward economic development efforts in

23. Housing and Community Development Act of 1974, Pub. L. No. 93-383, 88 Stat. 633 (codified as amended at 42 U.S.C. §§ 3601-3631 (2000)).

24. 42 U.S.C. § 3608.

the form of direct funding of for-profit businesses and technical assistance for entrepreneurs.²⁵

In 1977, Congress passed the Community Reinvestment Act (CRA).²⁶ This legislation was a means to resolve the redlining of financial investment practiced by banks and other financial institutions against low- and moderate-income communities. The purpose was to “encourage” these entities to provide an equal level of service to the areas and groups of people that historically have been underserved or discriminated against.²⁷ Monitored banking entities are reviewed periodically for their efforts in providing services to these communities. Recent successes attributed to the CRA have been related to the rash of bank mergers in the 1990s.²⁸ Because of the extensive community comment process, many communities have been successful in getting new and improved services to their areas. Without community support of a bank’s CRA investment, for example, bank mergers will not be approved by regulatory authorities.²⁹

Community Development Corporations (CDCs) emerged onto the national scene in the 1970s, although the first applications were much earlier in the century.³⁰ CDCs are typically nonprofit, community-based organizations that engage in development activities in a particular area.³¹ They often are involved in medium-scale housing projects and poverty elimination programs.³² During the 1970s, CDCs became a means for many churches to access federal, state, and local funds, and funnel development efforts and resources to target areas.³³

The difficulty I have with these community-driven strategies is that they typically do not include business and entrepreneurship components. I believe that community development of the urban market is limited without entrepreneurship and business develop-

25. Dep’t of Hous. & Urban Dev., Use of CBDG Funds by HUD Administered Grantees (Sept. 30, 2004), *available at* <http://www.hud.gov/offices/cpd/communitydevelopment/budget/disbursementreports/nationaldisbursementshud.pdf>.

26. Community Reinvestment Act of 1977, Pub. L. No. 95-128, 91 Stat. 1147 (codified as amended at 12 U.S.C. §§ 2901-2908).

27. 12 U.S.C. § 2901(b).

28. Lehn Benjamin, Julia Sass Rubin & Sean Zielenbach, Community Development Financial Institutions: Current Issues and Future Prospects 4-5 (2003) (unpublished manuscript, on file with the Western New England Law Review).

29. *Id.* at 5-6.

30. *Id.* at 3.

31. *Id.*

32. *Id.* at 4.

33. *Id.* at 3-4.

ment. Finding more effective methods of supporting fledgling firms is not only good public policy, it is essential for community transformation. In the early 1980s, there were many policymakers that wanted to see more economically oriented community development and they supported more “trickle-down” private-sector strategies instead of federally funded social programs. This shift increased the visibility of capital access-driven strategies.

B. *Capital Access-Driven Strategies*

Capital access-driven strategies direct funding and contracts towards “disadvantaged” business owners. The term “disadvantaged business” has typically been defined as businesses owned by women and members of minority groups. Two sets of federal programs have used a capital access-driven strategy to address business development: the Small Business Administration (SBA) 7(a)³⁴ and 8(a),³⁵ and the Specialized Small Business Investment Company (SSBIC) and Minority Small Business Investment Company (MESBIC).

The SBA’s 7(a) program is a small business loan program. The SBA will guarantee small business loans that are administered by regional and national banks. A loan officer has more flexibility in processing these loans because of the federal guarantee. They are more likely to approve these loans because the 7(a) program lowers the risk of default. Ostensibly, small business owners that qualify for these loans are given access to debt capital that they may not have been able to get without the program. Special consideration is given to minority- and women-owned businesses.

The 8(a) program is completely different. The 8(a) program defines a certification process that designates a firm as a “small disadvantaged business[].”³⁶ This certification can be important in the federal contracting process. Some federal agencies set aside or earmark contracts to be fulfilled by “8(a) certified” businesses. This contracts-oriented approach to small business assistance brings much needed working capital into established firms.

The SBA concurrently runs an equity capital program. In 1958, the SBA created the original Small Business Investment Com-

34. 15 U.S.C. § 636 (2000).

35. *Id.* § 637.

36. *Id.*

pany (SBIC) program under the Small Business Investment Act³⁷ as a means to support small businesses that needed capital investment to grow.³⁸ This program certifies and regulates privately owned venture capital and private equity firms that provide capital to start-ups and growth firms.³⁹ SBICs utilize their own funding resources in combination with funds borrowed at favorable rates from the federal government to make equity and debt investments in small businesses.⁴⁰ The SSBIC and MESBIC programs were created some years later to specifically target minority- and women-owned firms.⁴¹

It is important to note that none of the aforementioned programs were designed to impact a specific location or community. The intent was to provide direct support to the minority-owned business. This may be a reflection of the “Black Capitalism” movement that was promoted by activists in the early 1970s. The idea was that if black and other minority business owners could gain access to capital, they would be able to provide jobs in urban areas and contribute to other aspects of community development. The complexity of the problems in urban communities and the impact of a major economic downturn prevented this strategy from transforming these communities. Urban policymakers reflected upon the successes and failures of previous legislative efforts as they sought a new way to address the problems in these communities.

C. *The Community Investment-Driven Strategy*

During the 1990s a third model, a hybrid of the community- and capital access-driven strategies, emerged as the dominant model of community development policy. Beginning with HUD’s Enterprise Community (EC) program in the early 1990s,⁴² a community investment-driven strategy was deployed to address what was perceived as the lack of a concerted federal effort to revitalize these distressed communities. The EC program relied upon the pri-

37. Small Business Investment Act, Pub. L. No. 85-699, 72 Stat. 689 (1958) (codified as amended in scattered sections of 15 U.S.C.).

38. See 15 U.S.C. § 684(a).

39. *Id.* § 685(a).

40. *Id.* §§ 683(a), 684(a).

41. G.B. Fairchild, *Getting Beyond the Rhetoric: The Inner City Entrepreneur and the Rise of the Inner City* (2002) (unpublished PhD dissertation, Columbia University) (on file with the Western New England Law Review).

42. U.S. Dep’t of Hous. and Urban Dev., HUD’s Role, Community Planning & Development, <http://www.hud.gov/offices/cpd/economicdevelopment/programs/rc/about/hudrole.cfm> (last visited Dec. 25, 2007).

vate sector to spearhead the transformation process by offering enticing tax credits and incentives. This was met with limited success. In its next incarnation, policymakers realized that the tax credits and incentives needed to be coupled with a significant amount of federal funds. The retooled Empowerment Zone (EZ) program provided \$100 million in matched private funds (over ten years) to ten cities (later expanded to ten more EZs) that had serious urban problems, including Baltimore and New York.⁴³ Through this program, investment was targeted at the community level, which encouraged business development, job creation, and the support and expansion of successful social programs.

The inception of a second program, the Department of Treasury's Community Development Financial Institution Program, was an additional sign of the shifting strategy. Through this program, federally certified community development entities (CDEs) are authorized to provide financial services and capital to distressed communities. The CDE raises funds from corporations and banks and can provide tax incentives under the New Markets Tax Credit program.⁴⁴ Of particular note is how the Community Development Financial Institutions (CDFI) Fund functions under investment logic. CDEs make investments into the community through real estate and housing, debt and equity investments into local businesses, housing and homeownership programs, and assistance to area residents directly via financial empowerment and low-interest loan programs. CDEs must be for-profit companies and must have significant local representation on their governing board. Many of the 650 CDFIs are partnerships between an investment company and a community-based organization or CDC.⁴⁵ CDEs also have access to the CDFI Fund and can apply for matched-funds for qualified projects and investments. These projects can include community development venture capital funds, community development loan funds, and community development investment funds. These types of projects target local business owners and social entrepreneurs for investment. They often link these entrepreneurs with outside

43. Eric Siegel, *Goals Met, But Not Hopes, Development: As the City's Empowerment Zone Program Winds Down, Results Are Mixed*, *BALT. SUN*, Dec. 26, 2004, at 1A, available at 2004 WLNR 145684567 (Westlaw) (discussing the implementation of the Empowerment Zone Program and its effects on the city of Baltimore).

44. Cmty. Dev. Fin. Inst. Fund, U.S. Dep't of the Treasury, New Markets Tax Credit Program, http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=5 (last visited Oct. 28, 2007).

45. Benjamin et al., *supra* note 28, at 2.

sources of funding and other resources to bolster their growing businesses.

Both of these federal programs and their legislative offshoots are examples of a community investment-driven strategy that (1) targets a specific distressed community, (2) creates a favorable institutional environment for development, and (3) connects local businesses and organizations with regional and national resources. They have fostered creativity among banking institutions. In partial fulfillment of their CRA commitments, banks have funded microenterprise programs⁴⁶ and backed CDFIs, as well as local organizations that serve as intermediaries to low- and moderate-income communities for financial services. These types of efforts allow the financial investments to be targeted locally. Under the EZ program, the quasigovernmental agency becomes a local intermediary for outside businesses who are interested in entering the market. These types of partnerships are invaluable for the business that is unfamiliar with the urban market. Without this type of partnership, the returns on its investment are not as high and the business may fail, which, in the context of job creation and economic development, does not contribute to the community.

When I consider business development in the urban market, I believe that my research presents a simple explanation for the success of these programs: They address the issue of social and institutional barriers to the urban markets. CDFI and EZ programs allow for actors with local knowledge to leverage nonlocal resources in targeted areas. Local actors will be able to better understand both the social and institutional structures of a community when funding and establishing businesses in a target community. Through the CDFI program, investments are made in local projects and local entrepreneurs. I believe the reason that these programs are successful and will continue to be in the near future has as much to do with the community contacts and knowledge of the entrepreneur as it does with the infusion of capital. These entrepreneurs already have the established networks within the community. They already understand the community norms and values and have learned the intricacies of the existing policies, crime patterns, and practices. These entrepreneurs will, in general, be successful because they now have coordinated their economic, social, and institutional resources to create or maintain a competitive advantage. Business

46. LISA J. SERVON, *BOOTSTRAP CAPITAL: MICROENTERPRISE AND THE POOR* 114-20 (1999).

activity in urban markets must be understood to be embedded within a community context to be viable over the long term.

IV. THREE INSIGHTS

The challenge faced by all of these policies and programs is implementing them in various urban contexts. Each urban area is a different situation, but I believe that the insights revealed in my research are applicable to all of them. Rigid programs often are not transferable. What works in one urban community may not work in another. However, these principles can be guides for creating policies that work.

I offer three insights to guide entrepreneurs and those interested in the economic development of urban areas.

A. *Urban Markets Are Connected to Urban Communities*

Urban markets are, first and foremost, urban communities. Understanding the social and institutional aspects of the market will require that traditional business models be modified to achieve the revenue goals and objectives of the firm. Becoming a part of the community-market nexus may be a prerequisite (or at least a corequisite) for successfully pursuing an urban business opportunity.

B. *Community Entrepreneurship Is Important*

Local community entrepreneurship is important because the level of understanding necessary to (1) see the opportunity and (2) pursue the opportunity rigorously requires insight into the social networks and community institutions that pure market logics often neglect.

C. *Partnerships Can Close the Knowledge and Experience Gap*

Partnerships are an important bridge to the urban markets. They are the social brokers that provide access, information, and timing to the market. Without them, the challenge of overcoming social and institutional barriers to the market may be what an entrepreneur cannot meet. Overcoming these barriers is the challenge for innovative entrepreneurs who are not embedded in the market.

V. PUBLIC POLICY IMPLICATIONS

I believe these insights can also be a guide for national public policy and for local program implementation. The most significant point that emerges from my study is that capital access and technical assistance are not the only issues that deal with the business development of the inner city. To be successful, a certain level of local community knowledge and experience is essential. This can come in the form of community entrepreneurs or partnerships. To be consistent with my findings, national policy should encourage community entrepreneurship and community-business partnerships while continuing to provide access to capital and technical assistance. Administering this policy at the national level is impossible, but setting the policies and guidelines that encourage local entrepreneurship and partnership is possible. The pragmatic local administrators should be able to do what is necessary to implement programs that identify community entrepreneurs and link them to sources of capital *and* identify community partners to work with entrepreneurs from outside of the inner city.

This approach may provide policymakers with a framework for considering the types of policies that will be successful in the inner city and points to policies that encourage and facilitate overcoming social and institutional barriers to these markets by linking entrepreneurs to the social and financial capital necessary to start and grow their businesses.

VI. POLICY PROPOSAL

In an effort to bridge the gap between the community-driven and capital-driven strategies, I propose a more direct linking of these two sets of programs to bring them in line with the community investment-driven strategies. The following is a policy recommendation for inner-city community development that references the insights gathered from my research.

A. *Executive Summary*

This policy memorandum increases the effectiveness of urban economic development initiatives by (1) raising inner-city business development to a national objective status,⁴⁷ (2) providing additional points for Community Development Block Grant and CDFI

47. See 24 C.F.R. § 570.208 (2007) (providing criteria for meeting national objective status).

proposals that specifically initiate business development and create social enterprises in distressed communities, and (3) providing financial support and technical assistance directly to entrepreneurs who live and work in target communities.

B. *Proposal*

The economic development of urban communities is a complex issue that is important to the future of our nation. Various initiatives have been created to expand opportunity and access within distressed urban communities. One of the longest lasting programs is the Community Development Block Grant.⁴⁸

In 1974, Title I of the Housing and Community Development Act, created the Community Development Block Grant.⁴⁹ This program provides federal funds to qualifying metropolitan areas and urban counties for a variety of community and economic activities and revitalization efforts. As part of this legislation, HUD establishes national objectives⁵⁰ for community development used in determining what types of projects qualify for funding.

Recent research conducted by HUD's Office of Policy and Research, and research conducted at University of Virginia⁵¹ and at Columbia Business School⁵² conclude that community renewal without adequate business development does not transform communities as thoroughly as those initiatives that encourage both types of activities.

The research also presents two other findings germane to this proposal. First, social enterprises, for-profit entities with specific economic *and* social objectives, can have a positive impact on distressed communities. Second, entrepreneurs who live *and* work in these communities are more successful at forging new businesses in these communities than those that do not. The intent of this proposal is to advocate this type of inclusion in federally funded economic development initiatives.

To be more effective at promoting the transformation of these communities, I propose modifications to the existing national economic-development objectives, CDBG programs, and related programs. By combining the efforts of the Department of Commerce's

48. *Id.* §§ 570.1-.913.

49. Housing and Community Development Act of 1974, Pub. L. No. 93-383, 88 Stat. 633 (codified as amended at 42 U.S.C. §§ 3601-3631 (2000)).

50. 24 C.F.R. § 570.208.

51. Fairchild, *supra* note 41, at 28-89.

52. Robinson, *supra* note 1, at 146-51.

Economic Development Agency and Minority Business Development Agency with HUD's Office of Economic Development and Office of Block Grant Assistance, we can more effectively transform communities by directly including the business engine in community renewal and development efforts. I propose three changes to the status quo.

First, language should be added that includes business development in target communities to the national objectives. This will raise the visibility of this issue in all aspects of HUD. This requires a review of the current objectives and modifications to all grant and assistance programs announced via Notice of Funding Availability or Super Notice of Funding Availability and funded by HUD, the Department of Commerce, the Department of the Treasury, or other Federal agencies and offices.

Second, significant bonus points (as determined by each funding agency or office) should be awarded to all proposals detailing projects and programs that facilitate business development and local entrepreneurship in target areas. For example, in the HUD Economic Development Initiative Section 108 loan program⁵³ and the Department of Treasury's CDFI Program, bonus points should be awarded to programs that meet the above criteria.

Third, through the various technical assistance programs in the Department of Commerce and HUD, specific funds should be set aside for the financial support and technical assistance of neighborhood entrepreneurs—entrepreneurs with small and medium business enterprises who live within the target distressed communities. These entrepreneurs can be from standard business enterprises or social for-profit enterprises—for-profit entities with specific economic *and* social objectives that meet community needs.

53. Section 108 loans are authorized by Housing and Community Development Act, Pub. L. No. 93-383, § 108(a), 88 Stat. 633 (1974) (codified at 42 U.S.C. § 5308).

**TABLE 1. U.S. COMMUNITY AND ECONOMIC
DEVELOPMENT PROGRAMS**

Program	Type of Strategy	Established	Oversight	Target Populations
Community Development Block Grant	Community-Driven	1974	HUD	Community Organizations & Municipal Governments
CDCs	Community-Driven	1960s and 1970s	None	Communities
CRA	Community-Driven	1977	Federal Reserve	Urban Areas
SBA 7(a) Loan Program	Capital Access-Driven	1970s	SBA	Small Business Owners
SBA 8(a) Designation	Capital Access-Driven	1970s	SBA	Minority & Disadvantaged Small Business Owners
SSBIC/MESBIC	Capital Access-Driven	1958 and 1970s	SBA	Minority Entrepreneurs
EZ/EC Program	Community Investment-Driven	1995 and 1982	HUD	EZ/EC Communities
CDFI Fund	Community Investment-Driven	1994	Treasury	Distressed Communities
Community Development Venture Capital	Community Investment-Driven	1990s	Treasury under CDFI	Target Communities
Community Development Loan Funds/ Investment Funds	Community Investment-Driven	1990s	Treasury under CDFI	Target Communities