FROM THE BOTTOM UP:
A Collection of Program Profiles

Maureen Conway
Fred O’Regan

The Aspen Institute
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By
Maureen Conway
Fred O'Regan

The Aspen Institute
1333 New Hampshire Avenue, N.W.
Suite 1070
Washington, D.C. 20036
(202) 736-5800

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Introduction

Despite being a period of economic growth for the United States, the 1980s was a period of growing poverty and increasing income disparity. This was due to a number of trends, including a continuing decline in real wages, economic restructuring, and indifferent government policies. The recession that began in the late 1980s exacerbated the plight of the poor. Now, in the 1990s it has become harder than ever for the poor to find work which will lift them out of poverty. Physical isolation in inner cities and rural areas often makes accessing jobs in suburban locations, the areas of greatest job growth, next to impossible. Further, new technologies have changed the nature of many jobs, creating a widening gap between existing skills and employer needs.

Given this situation, direct program interventions that seek to address some of the problems of the economically disadvantaged are more important than ever. The programs described in the following pages provide some excellent examples of initiatives which offer opportunity to the economically disadvantaged. Not all of the programs deal with people who would be strictly classified as poor, yet given that the poverty threshold in 1992 was $7,143 for a single person and $14,335 for a family of four, it is clear that many people who are not officially poor may still face a precarious economic position.

The programs described here are organized in four groups, according to the four major types of program interventions described earlier in From the Bottom Up: Toward a Strategy of Income and Employment Generation among the Disadvantaged,* a work to which this volume serves as a companion piece. In determining whether a program should be classified as Self-Employment, Job Training and Referral, Job Creation and Retention, or Community Finance, a program's major activity or focus served as the deciding point. In many cases, however, institutions are active on a number of fronts and making this categorization for an organization as a whole can be problematic. For example, some creative job training programs, such as those operated by Chicago Commons or Esperanza Unida, have elements of job creation or retention to their work, as they seek to ensure that their trainees will actually be able to find jobs in the field in which they were trained. Often too, as in the Delancey Street program, working in a job is an integral part of the training experience. Similarly, some job creation programs, such as CHCA or Watermark, directly involve training as part of their business activities to

* Copies of this report are available for a small fee from The Aspen Institute publications office in Queenstown, Maryland.
make sure that their target population group can benefit from and effectively perform the jobs created. Other groups, such as ACEnet, link with existing organizations in their area to access training for their client group.

The programs described here represent a sample of the programs we visited in the course of our research and are offered to exemplify the typologies described in our report, *From the Bottom Up* as well as to provide additional information on the operations of some innovative programs. Unless otherwise stated, the information presented in these program descriptions comes from interviews with program staff and written materials, such as annual reports, press releases, etc., furnished by the staff. It should be noted, however, that this document is not intended to be a complete list of the “best” programs in the country and that many excellent programs are not included in this volume.

Finally, as mentioned in our earlier report, although there are many innovative and inspiring programs, when viewed from a national perspective, the coverage of these programs is quite thin. Strategies are needed which will support program growth and the spread of information and new methodologies while at the same time allowing for innovation and responsiveness to changing local conditions. The LEAD program is currently engaged in examining some possible strategies and intermediary support systems. We will be publishing a final report which will hopefully offer some insight into these issues.
Self-Employment
Self-Employment

THE ENTERPRISE PROJECT
STATE OF MASSACHUSETTS DEPARTMENT OF EMPLOYMENT AND TRAINING

I. Contact Information

Contact: Ms. Bonnie Dallinger
Director, Special Demonstration Projects
Address: The Commonwealth of Massachusetts
Department of Employment and Training
4th Floor
C.F. Hurley Building
Boston, MA 02114
Phone: (617) 727-1826

II. Setting

Massachusetts has been hit particularly hard by the most recent recession and is suffering from growing unemployment problems. The state does, however, have one of the most highly educated and skilled workforces in the country. Thus unemployed people in this area may be particularly well prepared to attempt self-employment.

III. Project Description

The Massachusetts Enterprise Project is a demonstration program begun in 1990 that allows unemployed persons to participate in entrepreneurship training to help them start their own business while still receiving their unemployment benefits. A demonstration program of this type was specifically called for in an act of Congress. The requirement to actively look for work is waived, but participants only receive benefits for 24 weeks, rather than the 30 for which they are normally eligible when seeking traditional wage and salary employment. Patterned after successful programs in Great Britain and France, the Enterprise Project allows laid-off workers to pursue self-employment as an alternative to re-employment.
As required by the federal enabling legislation, the program includes both participant and control groups, who are carefully tracked throughout the demonstration, in order to reach a more explicit conclusion as to the effectiveness of self-employment in addressing unemployment problems. The Massachusetts Department of Employment and Training funds the administrative and training segment of the program, while the federal Department of Labor provides the resources needed for the evaluation of the demonstration. Participant and control group benefits are, as usual, paid out of the Unemployment Insurance fund.

Since the project is in the demonstration phase, it is being run on a fairly small scale. Individuals who have filed a new unemployment insurance claim in one of seven Opportunity Job Centers around the state are invited to attend an information session designed to help them assess their ability to succeed as a small business owner. Not all individuals receiving an invitation are eligible. For example, individuals with a definite recall date would not be eligible. In order to apply for the program an applicant must have a reasonably feasible business idea. Of eligible invitees, 5.4 percent show interest in the program by attending an information session.

Of those who expressed interest, 63 percent actually submitted an application and less than 20 percent of the applicants were rejected. Rejection is frequently due to a poor business idea, generally determined as one that is too vague or is in a business area in which the applicant has no experience. A business plan is not required. Of the remaining applicants, half will be allowed to participate in the program. They are chosen by lottery, but provision is made to ensure a relatively even geographic distribution. The remaining 50 percent constitute the control group against which the progress of the assisted individuals is assessed.

This program serves the unemployed throughout Massachusetts. It is operating in both urban and rural areas and serves people in a broad range of income brackets. The average age of clients is 41 and the average number of years of education is 14 (as compared to 13 years of education for the unemployed population in general). The majority of participants to date have been white (89 percent) and male (68 percent). Fifty-five percent of participants came from professional, technical, or managerial backgrounds, with another 22 percent coming from jobs in production and labor.

An intensive “Enterprise Seminar” is the first segment of the training. Here participants receive assistance in identifying their strengths and weaknesses and refining their business ideas as well as an introduction to the issues addressed in the workshops. The seminar is followed by six workshops in the fields of marketing, sales and personal effectiveness, cash flow planning, finance, legal and insurance issues, and bookkeeping and tax considerations.
Participants are also assigned a business counselor and may seek as much individual counseling as they feel they need. In hiring counselors, project administrators estimate that a participant will, on average, seek 6 or 7 hours of consultation. In practice, however, successful participants generally seek more counseling than this. The average figure is lowered due to the fact that participants who decide not to pursue their business or decide to accept employment drop out and therefore use fewer counseling hours.

Currently, it takes nine weeks from the Enterprise Seminar to the end of the workshops. Originally the workshops were extended over a longer period of time in order to keep clients meeting with their group, facilitating peer support, as well as to allow more oversight of client progress. The training period was shortened, however, in order to provide participants with enough information to get their businesses running in the early stages of the program. Participants are also allowed to keep any income they make from operating their business during the 24-week program period without losing any of their unemployment benefits, a further encouragement to starting the business early. Recently, a mid-program business presentation session was instituted in which participants, who at this point should have a sufficiently refined business plan, present their business to other members of their group. This process is designed to force participants to really decide whether they are going to start this particular business and, if they are not, to encourage them to leave the program at this point while they still have sufficient time to look for a job before their benefits run out.

If a participant needs additional financing to start his business, small business loans are available through Shawmut Bank, which has branches throughout the state. The project director made arrangements with bank loan officers so that they would make smaller than usual loans—as low as $2,500. Shawmut’s Vice President for Commercial Lending has designated an assistant vice president or vice president level officer in each branch to work directly with Enterprise Project loan applicants. Before approaching the bank, proposals are finalized with the assistance of a project business consultant. Shawmut tailors the terms of each loan to suit the needs of individual clients. To date, however, very few (only 11 of the 108 businesses that have been established) have taken advantage of this service. Other participants (8 to date) have chosen to work with their own local banks. Loan amounts have varied from $5,000 to $60,000.

IV. Initial Results

Immediately after the first group of 105 participants finished the program, 47 percent were self-employed and six weeks after the end of the program this figure rose to
58 percent. Although these businesses do not immediately generate a significant number of jobs, over 35 percent of the first year’s group of participants paid someone to do work for them during their first year in business.

The quality of training and follow-up services provided appears very high, based on observed sessions and talks with participants. At the same time, the caliber of clients is elevated relative to many micro enterprise programs, allowing a more advanced level of training. Typical business starts include personal services, business and consulting services, and small retail stores.

A comparison of the Unemployment Insurance benefits paid to program participants with those paid to members of the control group indicate a savings in benefits paid of roughly $1,400 per participant. Furthermore, to date fewer members of the first year’s participant group have gone back on unemployment than members of that year’s control group. Of the 105 participants in the program’s first year, 62 percent started businesses or found jobs before their benefit period ended. The same was true of only 38 percent of the control group members. One year after program participation, 86 percent of program participants were employed or in business.

Although these results are preliminary and not statistically significant due to the first year’s small sample size, they indicate that the long-term savings in benefits could be much higher than the $1,400 figure. In addition, as unemployment insurance benefits are extended, the benefit savings is likely to grow. Extending benefits, however, could also deter people from joining the program, since participants’ benefits would not be extended and hence they would be giving up even more to participate. Early estimates of the administrative and training costs of the program are roughly $1,200 per participant.

The Massachusetts Department of Employment and Training has been encouraged by the results of the Enterprise Project to date and is looking forward to seeing the outcomes for the entire group of 500 participants.
I. Project Identification

Contact: Duane Moyer
Executive Director
Address: National Foundation for Teaching Entrepreneurship
64 Fulton Street
Suite 700
New York, NY 10038
Phone: (212) 233-3835
(212) 233-1777
Fax: (212) 233-3992

II. Setting

NFTE began by working with groups of inner-city high school kids in impoverished parts of Newark, NJ and New York City. Within these areas, NFTE confronts some of the serious problems threatening the youth of our inner cities: violence, larceny, drug abuse, teen pregnancy, growing high school drop-out rates, and increasing alienation from mainstream economic activities. NFTE has discovered, however, that some of these adversities create certain strengths in inner-city youth; they are resilient, observant, and able to deal with risk and uncertainty. These are valuable qualities for an entrepreneur, but basic educational skills as well as a sense of purpose and hope are too often lacking among these teens. It is with a view to this situation that NFTE was founded. As the problems of inner-city youth occur across the country, NFTE is rapidly expanding and now operates nationally.

III. Project Description

NFTE was founded in 1987 by Steve Mariotti, an entrepreneur turned public school teacher, to teach handicapped and disadvantaged youth business literacy and the techniques of entrepreneurship. Mariotti started the program as a one-man operation with a contract with the Boys and Girls Clubs of Newark to provide entrepreneurship training. Today, NFTE has a full-time teaching staff of eleven with another seven employed as
teaching consultants. By delivering entrepreneurship training, NFTE strives to provide youth with the motivation to learn basic reading, math, and other necessary job skills, and to improve the self-esteem, independence, and personal effectiveness of participants. NFTE's goal is to provide the means for urban youth to break out of the persistent cycle of poverty.

A. Structure and Staffing

Steve Mariotti continues to act as NFTE's president and CEO with oversight from a board of directors, which includes individuals from business, education, and non-profit backgrounds. NFTE has thirteen full-time staff members including an accountant and a bookkeeper as well as program managers and staff involved in curriculum development and teacher training. Most staff are involved in direct teaching and other teachers are hired on a consultant basis. NFTE operates programs across the country, sending staff to different cities for various lengths of time, from a few months to a couple of years.

B. Operations

Currently NFTE has three main functions. First, NFTE conducts student programs in entrepreneurship; second, NFTE trains teachers to conduct their system of youth entrepreneurship training; and third, NFTE sells all the educational materials, such as their BIZBAG™ and WIZBAG™, necessary for conducting their particular educational program. The student training takes a variety of forms. NFTE offers a five-month school term program, which meets during school hours for one 40 minute period three to five days a week. The after school program meets twice a week for two hours and lasts two months. NFTE also offers an Entrepreneurship "Boot Camp" which provides intensive training for youth during school breaks. These sessions can be for one week, involving 35 hours of training over a five day period, or for two weeks, involving 80 hours of instruction.

In each of these programs, participating students receive a BIZBAG™, NFTE's registered trademark name for its version of an entrepreneurial start up kit. Along with the NFTE curriculum and business plan workbook, the kit contains such items as a calculator, an address and date book, a record book, a business card holder, a receipt book and a copy of Entrepreneurs in Profile. During training students receive a small amount of venture capital, $50-$100, to start their own business. In addition to the classroom training on writing business plans and other entrepreneurship fundamentals, students participate in a considerable number of field trips. Teachers take students to open a savings account and meet a banker. In New York, NFTE has gotten banks to agree to waive the monthly fees for an account and students may keep this account for life. Students also tour an ongoing business, visit the stock exchange or an investment firm, and invest their capital in the wholesale district. Students also design and receive their own business cards.
NFTE has found this hands on approach to be very effective in keeping kids motivated and interested in the program, and, more importantly, interested in learning and staying in school. It also seems to be working in terms of the improved skill levels of students at the end of the program, assessed by comparing the results of entrance and finishing exams. Some follow-up on graduates of the program also seems to indicate that these students are more likely to be engaged in profit-making activities following this training. Systematic evaluation is difficult however, given the difficulty in locating many students—one-third of one survey mailing came back stamped “not at this address.”

The program costs range from $850 to $1,000 per student, with about $350 of that going directly to the student in the form of materials and seed capital. This program generally involves students from the eighth grade on, although other curriculum has been developed for elementary school students. Funding sources vary from location to location. In some locations, NFTE receives funding from a local philanthropic foundation, while in others money comes from corporate sponsorship.

NFTE will license its program locally, but in order for a program to go by the NFTE name, they must use NFTE materials and local teachers trained by NFTE staff. Programs can be tailored to address the needs of sponsors. Materials for teacher training are also available, including the WIZBAG™, which contains lessons on 10 well-known inventions of the 20th century, including a sample of each invention.

IV. Results to Date/Future Directions

Currently NFTE works with about 2,500 students per year in over a dozen locations across the U.S., including Los Angeles; San Jose; San Francisco; San Diego; St. Paul, MN; Wichita, KS; Washington, DC; Philadelphia; Detroit; Newport, RI; and New Bedford, MA as well as the New York/ New Jersey metropolitan area. Of these students, roughly 400 to 500 are elementary school children, another 400 to 500 participate in the three intensive summer programs, and the remainder are junior high school and high school students who participate in the program year round.

Follow up surveys indicate that 15 to 25 percent of students continue with their businesses two months after completing the program. Moreover, other contacts indicate that a significant number of students go back into business a year or two after completing the program. Due to limited resources, more specific information on students’ entrepreneurial endeavors, as well as other information concerning NFTE’s impact on participants—such as effect on employability—has been difficult to gather. Recently, however, NFTE received a grant to do a more rigorous evaluation of its programs.
NFTE is continuing to expand its service, with hopes to start new programs in Flint, Michigan and Corpus Christi, Texas and to increase the number of students served in California. While expanding, NFTE has intensified its teacher training programs. Recently they began working with American Management Association to assist them with recruiting new teachers and training teachers throughout the U.S. Finding teachers interested in and knowledgeable of entrepreneurship education has been one of the obstacles to further expansion of the program. NFTE is conducting more and more teacher training to address this problem and to avoid having to send its New York staff to other parts of the country for extended periods of time.

In addition, NFTE has received requests for training and collaboration from organizations promoting entrepreneurial skills in London, Eastern Europe, and the former Soviet Union.
I. Contact Information

Contact: William Bynum
        Director
Address: 4 N. Blount Street
        Raleigh, NC 27601
Phone: (919) 821-1154
Fax: (919) 834-2890

II. Setting

The rural areas of North Carolina cover the majority of the state’s land and are home to a substantial portion of the state’s population; over 43 percent of North Carolina’s population, roughly 2.9 million people, live in rural areas of the state and 75 of the state’s 100 counties are classified as rural. During the 1980s, although the economy and population in both rural and urban areas grew, rural areas grew much more slowly and the gap between the two widened considerably. By the end of the decade, rural areas had a much higher incidence of poverty—16.35 percent of the rural population compared to 10.35 percent of the urban population—and government transfer payments, primarily for income maintenance and welfare programs, accounted for 18 percent of total personal income in rural counties while only accounting for 11 percent in urban counties. Other statistics, such as the quality and availability of housing or of health care and the level of educational achievement in the population, also show rural areas falling behind urban areas.

During the 1980s job opportunities expanded much faster in urban than in rural areas of North Carolina; more than twice as many jobs were created in urban than rural counties. The rate of unemployment in rural counties was also one-third higher than that for urban counties. Rural areas had a significantly larger proportion of blue collar jobs and smaller proportion of white collar jobs than urban areas, with manufacturing acting as the engine of rural economies, accounting for 27 percent of employment. The number of farms and amount of land devoted to agriculture also dropped during the 1980s, as did the number of people who earned their primary income through
farm operations. It is in this context that the Rural Center began their Microenterprise Loan Program as one way to help expand and diversify job opportunities in rural North Carolina.

III. Project Description

A. Goals
The Rural Center was set up to do research and demonstration projects and has already spun one initiative off as an independent entity, the North Carolina Enterprise Corporation. Through the Microenterprise Loan Program, the Rural Center intends to offer access to self-employment opportunities to low income individuals by providing small amounts of credit, ranging from a few hundred to several thousand dollars, in an effective and reasonably cost efficient manner. The Center has learned considerably from their experience to date and has adapted their program accordingly. As this program becomes more mature and self-sustaining, it too could become an entity independent of the Rural Center.

B. Brief Description & History
Given the declining conditions of rural areas in North Carolina, in 1986 the NC Commission on Jobs and Economic Growth recommended the creation of an organization dedicated to leading efforts to improve economic conditions in rural parts of the state. The Rural Center was founded in January 1987 in response to this charge. The Center began by addressing financing needs for small and medium sized businesses and commissioned a comprehensive capital needs analysis. The resulting report noted a variety of credit gaps and recommended the creation of a comprehensive development finance system. In particular, the report stated that the rate of small business formation in the state was constrained by the limited number of people with sufficient personal wealth to finance a business start-up on their own, especially among women and minorities. The report also noted that nearly half of small businesses are begun with less than $20,000 in capital and that banks are generally reluctant to make such small loans due to their relatively low profitability and perceived high risk.

Given this situation and the relative lack of knowledge at that time about microenterprise lending, the report recommended a demonstration program. The Rural Center then designed such a program and began implementing it in the fall of 1989. The program used established community-based organizations to reach clients and provide the necessary direct services, while the Center administered the loan fund and reviewed the operations at local sites. The Center hired an independent group to evaluate the demonstration, assessing the level of demand for microloans, the ability to meet this demand
efficiently and effectively, the role meeting these credit needs would play in improving the economic livelihoods of loan recipients, the impact on the state of the local economy, and the influence differences in local contexts and institutions has on the success or failure of a loan program. The experiences and evaluations from this demonstration period have led to the current form of the Center’s Microenterprise Loan Program.

C. Organizational Structure
The Rural Center is an independent 501(c)(3) organization with a roughly 50-member board of directors that includes heads of universities, representatives of large foundations, appointees of the Governor, leaders from the community college system, and representatives of the business community, among others. Within the Center there are policy programs and direct service programs, with the Microenterprise Loan Program falling under the latter category. The MLP has its own 16-member advisory panel made up of bankers, state representatives, people from community colleges, and others who provide input regarding ongoing program development. The program is staffed by the Program Director, an Assistant Director, and two Program Specialists. The program’s loan operations are carried out through community-based organizations operating in the rural areas the program would like to serve. The relationship and division of responsibilities between the Center and the local affiliates is described in more detail below.

D. Beneficiary Characteristics
While the program does not specifically target any particular demographic group, given the program policies, small loan sizes, and generally depressed areas in which the program operates, it was generally expected that the program would serve low- to moderate-income individuals, since more affluent individuals would have access to less demanding options for obtaining credit, such as credit cards, loans from family and friends, or traditional bank loans. To date this expectation has been borne out; roughly 24 percent of the 340 program participants have incomes below the federal poverty line. Of the 240 loan recipients, roughly 47 percent are women and 54 percent are African American. Loan recipients almost always have at least a high school degree and 21 percent have a degree from a four-year college.

Of the types of businesses which have been assisted, 58 percent are services, 19 percent are retail, and 22 percent are production—largely crafts, as well as some furniture and blacksmith operations. Approximately 58 percent of businesses financed have been existing businesses with the remainder being start-ups.

E. Project Activities
To choose sites for the MLP, the Center sends out requests for proposals to community-based organizations throughout the state. In evaluating these proposals Center
staff look for organizations operating in rural areas with strong organizational capacity and experience in community economic development or small business development. The demand for loans in the organization's target area and the ability of the organization to reach non-traditional business owners are also important assessment criteria. In making awards the Center tries to achieve geographic balance within the state.

Sites may choose to run an individual, group, or integrated lending program. Through the individual lending program, participants may access loans of up to $20,000, priced at between two and five points above the prime rate. The amortization period cannot exceed 36 months and these loans are secured by personal and/or business assets. This approach is for more experienced businesses and detailed business plans and financial records are required to apply for these loans. Site staff review loan applications and assist clients in preparing their application or refer them to outside business counselors in area Small Business and Technical Development Centers or Small Business Centers in the state's community college system, which are quite similar to the SBA's Small Business Development Centers (SBDCs). The application is then sent to a local credit committee, composed of business and community leaders for approval. Although Rural Center staff do review the loan documents before disbursing the loan, the loans have usually been well screened before they get to the Center.

For less experienced entrepreneurs, the group-based lending program provides loans of up to $8,000, with a real annual interest rate currently at about 16 percent. In this program borrowers self-select into groups of four to ten and undergo an orientation and training period. Enterprise agents facilitate the formation of groups and offer information on the program and responsibilities of group members, generally linking up participants to other sources of training such as a series of courses offered by a local SBDC. In order for groups to begin borrowing, someone other than the enterprise agent who is familiar with the program must certify the group. The groups will then meet at least once a month to address loan decisions, collect payments, review the status of loans, and hear member business reports. In addition, each site holds monthly center meetings that all group members and enterprise agents attend. Most group meetings coincide with this monthly center meeting. Center meetings cover loan status reports, recognition of non-delinquent groups, technical assistance and training programs, discussion of center-wide policy issues, Center Reserve Fund activity report, and loan disbursement.

Since beginning the program, Rural Center staff have increased their emphasis on training for both sites and enterprise agents as well as for participants, finding training to be a critical element of program success. To date participant training has been handled primarily through SBDCs located in community colleges or through site staff.
The type and quality of training received by participants has, however, varied considerably. The Center is currently working with a training design team to construct a curriculum specifically geared to its clientele. They then plan to train trainers at the participating sites in this curriculum, with the aim of improving the quality and consistency of the training component of the MLP as a whole. The new training curriculum is planned to be flexible in design so that it may serve experienced business owners, who may be able to utilize certain training components, as well as newer entrepreneurs. Presently most sites operate either an individual or a group-based lending scheme, but ideally, program participants would have a choice between the two upon completion of the training, based on their experience and credit needs. This new training program should facilitate the development of more integrated programs.

In addition, more time will be spent training enterprise agents and site directors as to how the program should run and what they should consider in structuring their own program. The Assistant Director will be primarily responsible for this site staff training, and was hired mainly for this purpose.

F. Finance

The Rural Center receives an appropriation from the state of North Carolina each year that covers most of their operating costs. In addition, the Ford Foundation granted the Rural Center a $2.2 million Program Related Investment (PRI), a very low interest loan, to capitalize the loan fund. The Center had previously contracted with another organization to service the loan portfolio, but to pay for this service, the Center gave up the interest earnings on the loans. As the program matured, the MLP staff felt confident enough to take over servicing the portfolio and now that provides a reliable source of income. Although it is not enough to cover the administrative and other costs of the program at present, the central fund should become self-sustaining when programs reach maturity.

The Rural Center grants new sites $25,000 per year for two years, with the second year's grant being contingent upon satisfactory performance in the first year. Sites use the funds to partially cover the costs of running the MLP and hiring an Enterprise Agent. MLP staff estimate that a mature site would have $250,000 in both group and individual loans. The earnings on such a portfolio, however, would not be enough to cover all the administrative costs of the central fund as well as all the administrative, outreach, training and other costs incurred at the sites. Sites are strongly urged to have their own fund raising plan from the beginning, as the Rural Center has a limited amount of grant money.
IV. Results to Date/Future Directions

As of October 30, 1993, the MLP has formed 79 borrowing groups and made loans to 75 individual borrowers; these represent over 360 existing or planned businesses. Through the MLP the Center has made 271 loans, totaling roughly $1.45 million. The MLP currently operates in 10 sites through 10 different organizations and Rural Center staff expect to fund an additional three to five sites in their next funding cycle. The total default rate is currently 14 percent, but Center staff expect that their new loan policies and portfolio management procedures will improve this performance, bringing the rate closer to 5 percent.

Center staff are in the process of implementing the new training curriculum and do not expect to make any other methodological changes in the near future. Due to the size of the state, however, they are considering establishing regional hubs which would facilitate staff training as well as other administrative matters.
I. Project Identification

Contact: Mr. John Dunne  
Executive Director  
Address: 16 Armory Street  
North Hampton, MA 01060  
Phone: (413) 586-5855  
Fax: (413) 773-3562

II. Setting

The Western Massachusetts Enterprise Fund (WMEF) is a financing network which serves a predominantly rural area encompassing 46 towns with a total (1990) population of close to 254,000. Eighty percent of these towns have populations under 5,000, with the smallest having 115 inhabitants. The largest town has 56,632 residents.

The economy of Western Massachusetts, which lacks the strong financial service and technology base found in the eastern part of the state, did not benefit from the state’s strong growth period in the 1980s. The region’s economy has suffered from plant closings and the inability of small farms to compete with large producers from other parts of the country. In the early to mid 1980s, many larger towns lost half of their manufacturing jobs and some small towns, which had been dependent on a single mill for employment, lost virtually their entire economic base. The retail and service jobs, which have replaced some of the lost manufacturing positions, pay an average of 40 to 75 percent of the former wage rate.

Although some towns have experienced out migration due to the deteriorating economic situation, others have seen population growth due to an inflow of immigrants from Latin America and Southeast Asia. With jobs already scarce, these residents face particular difficulty in finding viable employment opportunities. Thus self-employment becomes one of the few available options for earning an income.

Access to credit has also recently become more of a problem in the area. Commercial bank consolidation has caused the removal of many services and a lack of banks serving
the area which are actually based in the region. Most of the banks now serving the region are based in the Eastern portion of the state. Moreover, as banks consolidated, they called in many notes due from viable enterprises which had sound repayment records, but did not have desirable debt/equity ratios.

III. Program Description

The WMEF, founded in 1989 and incorporated as a non-profit entity in 1990, was created to provide grants, loans and technical assistance to a consortium of community development corporations. The goal is to increase the capacity of CDCs to invest in minority and lower-income enterprises and to create a climate of economic opportunity in the region. The fund was begun by five CDCs in collaboration with the Massachusetts Association of Community Development Corporations and a sixth CDC joined in 1990. Participating CDCs now include Chicopee Development Corporation, Franklin County CDC, Hilltown CDC, Millers River Self-Help Network CDC, North Adams CDC, and Valley CDC, but other CDCs are welcome and expected to join. WMEF welcomes participation of other area CDCs and expects that the number of participating CDCs will grow. The idea behind the fund was that by working together, CDCs could more easily leverage resources from foundations, commercial banks and other funding sources. WMEF offers CDCs technical assistance in the areas of loan fund and financial resource management in addition to acting as a source of credit for the CDCs.

The fund employs a part-time staff person experienced in loan administration and small business and is governed by a thirteen-member board of directors. The board is comprised of one representative from the Massachusetts Association of CDCs and from each of the member CDCs as well as community development specialists, academics, bankers, business professionals, and micro-enterprise owners. The board is responsible for approving loan requests from individual CDCs. The representative from the particular CDC which is to receive the loan does not vote on the loan.

Since a major goal of WMEF is to provide area CDCs with access to resources they could not tap on their own, the fund has looked to national and regional sources for support. Individual CDC enterprise funds may seek additional support from individuals and organizations within their communities. Initial operating support for the fund came from area banks and the Fidelity and Mott foundations. Capitalization of the loan fund consisted of loans from the Marianist Sharing Fund, the Calvert Social Investment Fund, and the Massachusetts Minority Enterprise Investment Corporation, as well as a line of credit from Shawmut Bank and a grant from the Farmers Home Administration.
The fund loans to participating CDCs and the CDCs on lend the money to microenterprises through their own programs. Some CDCs have their own revolving loan pool and seek funds to capitalize this pool. They then make small loans to individuals, often using a peer group lending model. In order to participate in the fund, each CDC needs to lend within the limits set by WMEF; namely, one quarter of the loans should be no larger than $5,000, the average loan size should be no larger than $10,000, and the maximum loan size is $20,000. WMEF borrows at roughly 4 percent, lends to CDCs at 8 percent, and CDCs on lend at 12 percent. The fund is capitalized to a level of $257,000 with a $50,000 grant from the C.S. Mott Foundation providing the loan loss reserve.

Each participating CDC operates somewhat differently, depending on their strengths and the needs of the community. At one CDC, the Valley CDC, the procedure for getting a loan begins with the applicant approaching the director with a business concept or plan. The applicant generally works with the local SBDC in developing and refining the plan. The director and the SBDC staff have a good working relationship at present and the SBDC staff know what will be required in this business plan. The Valley CDC director will work with the applicant on the final part of the business plan. The director then becomes the applicant’s representative at WMEF. This procedure is generally followed for applicants seeking $2,000 or more. The Millers River CDC, on the other hand, operates a peer group lending program while the Franklin County CDC lends through a small business incubator.

The methods of promoting the program and the client mix also vary from community to community. Monthly bulletins in papers, radio announcements, talks to people at homeless shelters, and flyers are among the promotional tools that have been used.

IV. Results to Date/Future Directions

Over its three years of operation, WMEF has issued 87 credits, with an average loan size of about $3,500 and currently has about $120,000 in principal outstanding. No defaults have been registered to date. However, WMEF lends to CDCs, some of whom have covered sub-loan arrearages with internal funds to avoid default to WMEF. Still the overall client performance has been very sound, since virtually all are first-time borrowers who are not bankable.

As its loan numbers continue to grow, the fund is facing increasing pressure to increase loan size. Some clients complain of being under financed while administrators connected with the program feel that the costs associated with issuing numerous small loans will impinge on eventual self-sustainability of the fund. With the increasing credit
gap caused by bank consolidation, the fund could no doubt move upward in loan size to more secure business. WMEF management, however, remains committed to assisting disadvantaged clients, particularly the unemployed and those on welfare.

The impact and appropriateness of loans among different borrower groups is an ongoing concern of the WMEF. In offering loans to particular client groups, the fund president has found women on AFDC to be very motivated, and one woman who was on AFDC is now on the WMEF board. In contrast, people coming from homeless shelters often have other problems which keep them from starting a business and are generally better served by other employment programs.

The fund has also provided technical assistance to CDCs, helping establish two new CDC small business lending programs and supporting the expansion of three others. WMEF also made $50,000 worth of grants to member CDCs which went to the provision of over 5,000 hours of technical assistance for micro businesses.
I. Project Identification

Contact: Mr. Jeffrey Ashe, Director
Address: Institute for Cooperative Community Development
         2500 North River Road
         Manchester, New Hampshire 03104
Phone: (603) 644-3124
Fax: (603) 644-3150

II. Background/Setting

Working Capital is a micro enterprise project which operates at more than 50 sites in Vermont, New Hampshire, Massachusetts and Maine, in both rural and urban settings. New England was been hit very hard by the recession and has experienced substantial job loss. The area has also experienced a considerable influx of immigrants in recent years. Population make-up varies greatly in the towns in which Working Capital operates, with some areas having high concentrations of Latino, Cambodian, Vietnamese, or other minority populations.

III. Project Description

Working Capital, founded in September of 1990, promotes self-employment by offering credit to businesses that do not have access to commercial credit. These small loans enable business owners to expand and upgrade their business operations, allowing them to improve their income and skill levels as well as to make a positive contribution to their community.

Working Capital promotes its program through nearly 30 local organizations ranging from Community Development Corporations to town governments to minority business councils. Working Capital pays each of its “affiliates” $200 per new lending group to defray the costs of administering the program. The local organizations also receive a $100 commission for the first loan to each participating business and $50 for subsequent loans to a business.
Promotion of the program within communities is up to the local agency and the approach varies from town to town. Word of mouth is often the best way programs become known in a community. Organizations have also used other methods in promoting their program, such as flyers or radio announcements.

The Working Capital methodology is based on third world peer lending programs, most notably the FINCA Village Bank program, on which the Working Capital’s director, through his experience with ACCION International and other organizations, is a leading expert. In the peer lending model the initial loans are generally quite small, but the amount of credit available increases rapidly as the group proves its credit worthiness. Peer pressure keeps loan repayment high, since the entire group must be up to date on their payments for an individual member to receive an additional loan. Some groups form savings pools of their own so that, should a member fall behind or default, they can cover the payments and keep their credit line open.

A. Organization/ Structure/Staffing

Working Capital staff consists of the Director, the Assistant Director, and a part time technical resources coordinator. In addition there are currently three student interns who work half-time. The project is carried out locally by Enterprise Agents, who work with the lending groups. Enterprise Agents are employees of a local affiliate and typically work one-half to one day per week on the project. Regional Facilitators supervise the Enterprise Agents and typically work one to one and one-half days on the project. There are six regional facilitators covering the areas of Northern New Hampshire, Southern New Hampshire, Vermont, Maine, Boston, and Massachusetts (outside of Boston).

Working Capital is a project of the Institute for Cooperative Community Development, which is affiliated with the Community Economic Development program of New Hampshire College.

Working Capital receives funding for operations from the Ford and Charles Stewart Mott Foundations, the New Hampshire Charitable Fund, Sun Microsystems, and the U.S. Department of Health and Human Services. Their total operating budget for the current fiscal year, including the costs of training, business planning and technical assistance is $283,695. Funds for the loan pool come from three banks, which have extended lines of credit, totaling $230,000, and the MacArthur Foundation, which has granted the organization a $125,000 program related investment (PRI).

B. Client Selection and Assistance

Any self-employed business owner is eligible to participate in the program, including those who work at their home or only work on a part time basis. The recipients of
Working Capital loans tend to be low-income people—using the Housing and Urban Development Guidelines, 60 percent of Working Capital loan recipients are “low income” and only 40 percent are moderate income.

The design of the Working Capital program deters upper income people from participating. The program offers very small loans to begin with and requires a loan recipient to invest a fair amount of time before they actually get the money. More financially stable people are not likely to need such loans, as they generally have access to commercial credit or have personal savings. Some loan recipients were on public assistance prior to receiving the loan.

Working Capital recently revised its loan application form in order to gain more information about its borrowers. Of the 50 borrowers who completed this application, 60 percent were women and 40 percent were men. The borrowers, although poor, are relatively well educated; only 3 percent have not finished high school while 44 percent have some college education, 18 percent graduated from college, and 3 percent have some graduate education. On average they established their business two years prior to joining a loan group and have nine years experience in their current line of work.

For 64 percent of the sample group, their business is a full-time occupation and another 20 percent work over 20 hours per week at their business. Many (42 percent) supplement their business income with employment, and most pursue business ownership out of choice rather than due to an inability to find work. Only eight percent of the sample said they are in business because of a lack of jobs.

It is up to group members to review and approve loan applications and Working Capital emphasizes that group members should be given as much responsibility as possible. Delegating the work to group members has the dual benefits of forcing the group to learn and giving the group the satisfaction of having achieved their goals on their own as well as lightening the workload of the Enterprise Agent, allowing that agent to work with a larger number of groups. The majority of group members already have their business up and running, although they may be running it out of their home or on some other type of informal basis. The group officers may try to “counsel out” individuals with particularly impractical business ideas.

Working Capital provides local Enterprise Agents with training as well as a manual which delineates the process of forming groups and the stages the groups should go through in preparing to apply for loans. It also clearly sets forth Working Capital policies, discusses all the necessary forms, and provides advice on conducting good meetings and pitfalls to avoid.
As mentioned, most of Working Capital's loan pool comes from banks. The banks loan money to ICCD, Working Capital's parent organization, at the prime lending rate plus one percentage point. Working Capital then lends this money out to individuals at 12 percent and also charges a three to five dollar per month service fee. Two percent of the interest is for their loan loss reserve and four percent goes toward Working Capital's operational costs. The service fee also covers some operational costs. This practice allows the local affiliates to avoid the risk and administrative cost of setting up their own loan fund, although some do choose to do so. All group members receive their first loan at the same time. The first loan is for $500 and is repaid in four to six months. Limits on subsequent loans increase in three stages with $5,000 as the maximum loan amount available.

No monitoring of how the loan is spent is conducted, although it is expected that the loan will be used for business purposes. The main emphasis is simply upon repayment. The loan applications increase in complexity as the loan amounts increase, in turn increasing the level of sophistication with which the business owner must view his or her business. Upon reaching the loan limit, the business owner should have the necessary information and business skills required to obtain a loan from a commercial credit source. In its initial phases the program tried to avoid involvement with technical assistance provision, but as the program began operating, the level of skills of many of the program beneficiaries demanded the incorporation of some type of technical assistance. A training approach is now being designed by a committee of Enterprise Agents.

IV. Results to Date/Future Plans

Working Capital currently has 30 organizations and roughly 40 Enterprise Agents involved in its program. These Enterprise Agents work an average of one day per week or less on Working Capital activities. Enterprise Agents have organized 68 loan groups with an average of five members per group. After 23 months of operations, Working Capital has made a total of 354 business loans, amounting to $229,200, with the average loan size at $736. Most of this work was done with the two full-time headquarters staff and 12 Enterprise Agents. The newest agents only completed their training as of March, 1992.

Working Capital estimates that both the number and size of their loans will grow substantially in the coming year. They predict that by September 1993, local affiliates will have organized about 103 borrower's groups with over 500 business owning members, of whom 323 will hold outstanding loans. Further, the average loan size should increase, as many business members will be through the initial stages. Their estimate is
that the average loan size will be around $1,176. This increase in volume should help further decrease the cost per loan, which, since the inception of the program, has decreased from approximately $1,600 to $500 per loan.

As of June 1992, 48 full time jobs, other than owner of the business, have been created by businesses that received Working Capital financing. In addition, 64 percent of the businesses reported increased sales after the first $500 loan. Working Capital plans to establish themselves as an organization independent of their current parent organization and aims to expand their operations to reach 720 borrowers within two years.

V. Assessment and Analysis/Lessons learned

Working Capital provides an interesting example of an intermediary organization providing loan capital, loan fund management, and expertise to local organizations in order to improve the capacity of these organizations. It effectively demonstrates a way in which different local development organizations can avoid “reinventing the wheel.” Working Capital’s methodology has been kept simple, allowing it to be quickly understood and adopted. The division of labor between the actors involved seems to efficiently draw on the strengths of the local organizations, who know their communities, and those of Working Capital staff, who have more specialized expertise.

The Working Capital program has been modified since its initial inception. The major change has been to incorporate more technical assistance into the development of groups, reflecting the difference in using peer lending in the U.S. versus third world countries. Now members receive their first loan after they complete a five meeting training course, which typically takes a month.

Although they do incorporate some business training, Working Capital still tries to keep this to a minimum. In their view, it is better to offer business assistance after members have operated their businesses for a while and realize they need the assistance. They feel that programs which front-end training spend a lot of money training people to start businesses, but then many or most trainees go on to find a job or just drop out. Since training is costly the Working Capital model tries to limit it to those who will run a business, delivering it at a time when the business owners are ready for the training they will receive.
II

Job Training/Referral
II  Job Training/Referral

THE INDUSTRIAL BUSINESS AND TRAINING PROGRAM
OF THE CHICAGO COMMONS ASSOCIATION
CHICAGO, IL

I. Contact Information

Contact:  Mr. Ric Gudell, Director
           Industrial Business and Training Program
           Chicago Commons and
           President, Chicago Manufacturing Institute
Address:  4100 West Belmont Avenue
           Chicago, IL 60641
Phone:    (312) 685-1010
Fax:      (312) 685-2358

II. Setting

The Industrial Business and Training Program (IBTP) is a city-wide initiative for
training and job placement with six training sites located in low-income and industrial
areas of the city. While unemployment, currently at 7.1 percent, is a growing problem
for the city, there also remain significant shortages of skilled labor in key industries —
metal work, plastics, industrial mechanics and inspection. The program seeks to fill this
gap by providing trained workers from the inner city while at the same time helping to
strengthen these industries for the future.

III. Project Description

A. Goals

The IBTP addresses both training and employment needs in Chicago. The IBTP
trains long-term unemployed poor from the inner city in skill areas which enable them
to obtain well-paying jobs with opportunities for advancement, leaving them with eco-
nomic independence and relatively secure future economic futures. Further, by providing
industries with the skilled workers which they need, the IBTP helps these industries expand and grow, improving the economic prospects for all area residents. The program, through its leadership, has also become an informal networking facility for the exchange of information among businesses, particularly regarding modernization and innovation. The program's dual role, providing employment and contributing to industrial strengthening, is critical to understanding the unique value of the program, as is its continuing success in fostering the participation of industries in the design and assessment of training, the equipping of the centers, and the placement of the trainees.

B. History

The concept of IBTP arose through the efforts of its current Director, Dr. Ric Gudell, a physicist by training who later became a community service and community development manager with Chicago Commons Association. Beginning in 1981, Mr. Gudell began to study employment problems and opportunities for the unemployed in the inner city, particularly the "structurally unemployed," or those, mainly minority males, with little employment history and training. He began a dialogue with local industries—primarily in metal work, which has traditionally been Chicago's leading industry—to assess the gap in skills and education needed for this group to enter the blue collar work and found two things: 1) that, with an education roughly equivalent to the GED, very focused or "occupation specific" training could be given to satisfy entry-level requirements for a number of trades; and 2) that the industries consistently responded that they could not fill a number of skilled job positions due to a lack of sufficiently trained workers. Asked if they were willing to support efforts to specifically link training to job requirements and to placement, the industries responded positively.

Mr. Gudell turned first to Chicago's vocational schools, which he found to be out of touch with the industries and their skill needs and, most unfortunately, not very willing to reorient training to occupation specific curricula with direct industry linkages. Out of this vacuum, the Chicago Commons Industrial Business and Training Program began, with Mr. Gudell first spending the better part of a year working in screw-machine and metal job shops to learn the technical skills involved first hand as well as to get a better understanding of the operations of the specific industries themselves and the metalworking sector on the whole.

The first initiative undertaken was to form a network of industries to support the training by advising on the curricula; by channeling job-opening announcements and requirements; and by donating used machinery to set up the training centers. The first training for forty trainees was initiated in screw machines in 1984/5 with some initial grant support, donated machinery from a participating network of 40–50 medium-sized
screw-machine companies, and JTPA contract funds from the Mayor's Office of Employment and Training (MET). Since that time, five additional centers have opened, each with its own area of specialization (see "Operations" below), and with each program being initiated in response to specific industry demand and having direct linkages to relevant enterprises. Today approximately 300 people are trained per year, and the number of participating enterprises (providing direct support, guidance, and trainee placement) has grown to between 500–600. These businesses are located throughout the greater Chicago area.

In addition, to service the needs of youth in vocational training, as well as those who do not qualify for industrial training, the IBTP has created two sub-programs. In 1989 the West Humbolt Center for Education and Employment was created to provide an integrated approach to adult education and job placement. The West Humbolt center provides intensive life-planning and job counseling together with ESL and literacy education, basic GED education, and on the job training. These employment services, aimed at welfare recipients and the unemployed in this poor, largely Hispanic and African-American neighborhood, are integrated with social support services, including day care, family counseling and health-care provision. The Center places approximately 150 clients, mainly minority women, in jobs each year.

To assist youth in vocational training to secure work-placed training and experience, Project Switch was initiated in 1990, with support from the C.S. Mott Foundation. This experimental program places disadvantaged high school youth in apprenticeship-type positions to gain workplace experience and sharpen skills. The program aims to provide more occupation-based training by placing students in manufacturing firms. Through this program, 32 students, comprising 9 seniors and 23 juniors, have been placed in manufacturing jobs, predominantly in metalworking. Of the juniors, at least 90 percent are expected to work part-time for the same firm during the next school year, either through a cooperative education program or through a direct teacher arrangement.

Chicago Commons staff plan to continue and expand this program with foundation or other funding in the short-term, but seek to make the program an integral part of the vocational training in Chicago Public Schools (CPS). Next year they will work directly with the teachers involved in CPS metalworking programs and anticipate that the number of participating students will increase. They are currently exploring other sources of funding for the program, including grants for "Youth Apprenticeship" and "Work-Based Learning" available through the U.S. Department of Labor and the Department of Commerce and Community Affairs of the State of Illinois. Expansion of the program to include suburban school districts through collaboration with the Tooling and Manufacturing Association could also bring additional support.
C. Organizational Structure, Staffing and Budget

The IBTP is a distinct sub-unit of the Chicago Commons, a community-based human services organization with fourteen community-centers and over 300 staff throughout the city. The centers offer a diverse array of services, including day care, adult education (literacy, ESL, and GED), emergency assistance, health clinics, and community advocacy.

The IBTP itself, has six centers with 30 staff. Each of these specialized industrial training centers has a program director as well as two to three trainers. The trainers are experienced journeymen tradesmen in their field recruited from industry; they are not trainers by profession. The IBTP pays trainers commensurate with what they would earn in the private sector (roughly $40,000 to $50,000 per year), illustrating the salaries to which trainees can aspire.

The Humbolt Center has an additional 25 staff, including counselors, literacy and ESL teachers, and social service workers with administrative staff. Project Switch is operated by Mr. Harry Tobin, a vocational training and job placement expert, and formerly self-employed woodworker, with over twenty-five years experience in the public school system.

The majority of the industrial training costs (averaging roughly $6,500 per trainee) are covered under JTPA through the contract with the MET, as most of the trainees qualify by low income status. The remainder of the IBTP’s $2.0 million yearly budget is contributed by foundations and private industry. In addition, the training uses donated machinery, the depreciated value of which is roughly $3.0 million. The West Humbolt Education and Employment Center is largely privately funded.

IV. Operations

A. IBTP

The IBTP offers training courses in the following areas:

1. Industrial Mechanical Inspection (four months, 450 hours)
2. Industrial Maintenance Mechanics (nine months, 1380 hours)
3. Plastic Injection Molding (five months, 525 hours)
4. Single Spindle Screw machine Set-Up and Operations (ten months, 1290 hours)
5. Spring machine Set-up and Operations (six months, 960 hours)
6. Multiple Spindle Screw Machine Set-Up (ten and one-half months)
Some of the courses are offered twice per year (mechanical inspection and plastic injections molding); the rest are once per year with applications in June and July. The program is promoted through Chicago Commons facilities and through public advertisements in the press and on radio and T.V. Roughly 2,000 applicants are screened per year, out of which 250–300 are chosen. All applicants must be 18 or older, and must be Chicago residents with a high school diploma or GED. All are given a three-hour aptitude test and are interviewed by counselors. Selection is based on test scores, on their background and application form, and upon presentation and perceived motivation as gleaned from the interviews. Drug use, a big problem with any use of industrial machinery, is grounds for non-admission and dismissal at any time during training; drug tests are administered at the outset of training and randomly throughout the courses.

Costs per course, averaging approximately $6,500, can be paid by trainees but the vast majority qualify for JTPA assistance through the MET contract and hence are exempt from paying tuition. Trainees are placed in courses depending on openings and upon experience and aptitude for the different trades. Most training is on the shop floor, although classrooms are used for theoretical and mathematical work. Each course runs according to a tightly detailed curriculum which for each course is designed by representatives of the industries in question with the assistance of a training expert. Originally, the curricula were developed by Chicago Commons staff, and the Director wishes he had switched to the industries doing it from the beginning—again, practice having proven the greater the participation by experienced industries, the better the results, as the industries know exactly what skills they need in order to employ people. As each new training area is taken on, new curricula are developed with the participating industries. These curricula are reviewed each year by an advisory committee for each course. Management is currently giving thought to upgrading the training skills of the tradesmen who provide training, although no major complaints have been registered by the employing industries as to entry skill levels.

Testing is administered on completion of each major training component. Roughly 10 percent of trainees do not finish the course, either for technical or disciplinary reasons. Of those who graduate, 90 percent find employment with area industries, and this equals, in the director’s view, virtually everyone who really wants a job. (See Results, below) To protect its status as a trusted training organization with high participation from industry, each of the centers concentrates on the quality of graduates. To further protect its status, all products produced during training are scrapped. Although contracts could easily be won to gain revenue from trainee production, this would compete with participating industries which are donating the equipment and expertise. In the director’s view, moving in such a direction could endanger such relations very quickly—even if they only accepted sub-contract work from participating industries (as
this would raise the problem of which industries would be gaining in price through subsidized production at the centers). The trade-off presented is thus of internal revenue generation versus continued high impact and job placement.

The work of the IBTP has expanded on the industrial side to providing networking, information sharing and the sensitive advocacy of innovation in what has been a somewhat insulated culture among the metal-working and related industries. Many are family owned businesses with highly skilled owners who have relied mainly on subcontracting and jobbing but are starting to "feel but not articulate" the increased competition from abroad and the loss of secure contracts from larger industries, many of which have moved or shut down. Mr. Gudell is concerned over the future of these critical industries if they do not innovate, expand capacity, and find new markets. In an informal but important manner, he is using his unique position as a person who understands the operations of the industries and has gained the trust of business owners, to act as a facilitator for change.

As a result of these concerns, Mr. Gudell very recently formed the Chicago Manufacturing Institute to provide management, financial, organizational and other support/consulting services to manufacturers. CMI will also be an advocate for the interests of manufacturing firms. Mr. Gudell sees CMI's role as providing more general services to manufacturers, while marketing and technical assistance, which are very industry specific, would be made available through the specific training programs. The idea of manufacturing networks, he explains, has been going on for years among many of Chicago's small-to-medium sized concerns, although no one has called it that. The key missing ingredients are new product ideas, markets, and equipment—in short upgraded entrepreneurship and technologies. Skills and capital will fall into place behind these factors. Mr. Gudell also feels that by filling a specific need for the firms, the need for skilled workers, he has earned the legitimacy in the eyes of the manufacturers to now offer other kinds of technical assistance, which ordinarily these business owners are reluctant to seek or accept. He feels that offering training or marketing services to firms are the two avenues for gaining legitimacy with firms.

Firms are charged for the services provided by CMI and a few firms have already begun paying for these services. Other services which CMI may offer in the future include a tool and gauge library where industries could borrow, for a fee, specific molds and other equipment needed to bid certain jobs and expand capacity without large investment. CMI would also be willing to offer consulting services to organizations in other areas seeking to begin an industrial training program.
B. The West Humbolt Education and Employment Center

The Humbolt Education and Employment Center operates in a quite distinct fashion. Here, given the high incidence of AFDC-dependent women, many of whom do not speak English, significant direct outreach is needed. This function is carried out through schools, welfare agencies, churches and other CBOs. Once entered, clients are assigned a counselor who reviews their life situation (which is often difficult due to domestic violence, general family distress and social problems in the community). The Center organizes peer groups so that mutual support can be gained and day care and health services are provided. Together participants and their counselors agree to a plan involving job readiness, skill development, and basic education in literacy, ESL or GED. The Center strives to engage participants in on the job training as soon as possible, but the main emphasis is on determining a strategy for each client suitable to his/her needs and abilities. Thus the turnover of clients is highly staggered within the program, with an average of 150 per year matriculating into the workforce, and up to 200 being involved. This is a very commendable record given the very disadvantaged nature of the clientele.

VI. Results to Date/Future Plans

Out of the Industrial Training program, approximately 275 trainees are being placed in jobs which pay on average $7.50 per hour. Normally, this will increase to between $9.00 and $10.00 per hour after the first year. Cumulatively, about 1,300 trainees have been placed, and while detailed follow-up has not been undertaken, it is understood that most remain gainfully employed. One concept currently being explored is to form a worker-owned firm by industrial inspectors who have been out of the training program for over five years and now have enough experience. The demand for these services is high and a new service venture could be profitable.

The major constraint to industrial training expansion is not demand but funding. Given that the center is limited in what it can generate internally (due to the conflicts cited above) dependency on JTPA continues, with all of the limitations that come with government contracting. Indeed, the director feels that he is about at the limit as to the level of funding he can expect from the MET, although with additional resources he could significantly expand his operations. This program model has considerable potential for replication in other inner cities with a manufacturing base, and the Commons management is interested in exploring these possibilities.
I. Contact Information

Address: 600 Embarcadero Street  
San Francisco, CA 94107  
Phone: (415) 957-9800

II. Setting

The Delancey Street Foundation serves hard-core criminals and drug addicts from across the country. The foundation began in San Francisco and has expanded its operations to include facilities in Brewster, NY, Greensboro, NC, and San Juan Pueblo, NM. The recently completed San Francisco facility is the largest of the four. With some help from a few outside technical experts, Delancey Street residents constructed their new residence, an impressive Mediterranean-style complex housing 177 apartments, a 150-car garage, 60,000 square feet of retail space, a theater, and a restaurant. Occupying 3 acres of prime downtown real estate near Fisherman's Wharf, the complex offers beautiful views of San Francisco Bay.

III. Project Description

A. Goals

The Delancey Street Foundation seeks to help felons and drug addicts become healthy, productive citizens. The Foundation operates on the premise that helping these individuals become responsible and self-reliant is a necessary step in breaking the social patterns which lead so many people to lives of drugs, crime, violence, and despair.

B. History

Delancey Street Foundation was founded in 1972 by Dr. Mimi Silbert and Mr. John Maher to rehabilitate criminals and drug addicts. When Maher approached Silbert with the idea of beginning a rehabilitation program, he envisioned it as being run by ex-cons for ex-cons. Maher, a former heroin addict, felt that it required the experience of having gone through rehabilitation oneself to fully understand the process. Silbert, a criminolo-
gist who interned as a prison psychologist, believed the rehabilitation system needed to demand that individuals be responsible for themselves, and hence from the outset the Foundation has adhered to principles of self-reliance and self-sufficiency.

They began with four drug addicts in a San Francisco apartment and by late 1972 had 100 ex-offenders crammed into that space. By working and pooling their money, they were soon able to buy an old mansion in Pacific Heights, an upscale San Francisco neighborhood whose residents did not relish the idea of ex-cons as neighbors. They bought the building for $160,000 with a small down payment and a large mortgage and began to refurbish it. To smooth relations with their neighbors, they offered a community watch service, a service they were uniquely qualified to perform. In addition, Dr. Silbert volunteered the residents for any physical work the neighbors needed. From this experience came the idea to start a moving company—it was a business Delancey Street residents had the skills to do and it provided a way to earn their own money.

Delancey Street’s business grew and so did its population. By the mid-80s they were turning many applicants away for lack of space. They secured a 60-year lease for the property they currently occupy and began making plans to build a facility. The $30-million facility cost roughly half that amount to build since the work was done almost entirely by Delancey Street residents. Prior to that time residents had almost no experience in construction. Taught to demand excellence, residents would tear down sections which were not constructed properly and begin again, and yet the project managed to proceed on time. Currently the facility is home to about 500 residents.

C. Organizational Structure

Dr. Silbert is the president of the Delancey Street Foundation, but other than her there is no one within the Foundation who is not a Delancey Street resident. The internal organization of Delancey Street is an integral part of the treatment program. Upon entering Delancey Street, residents are put on “maintenance.” They clean, serve meals, and so forth. As residents progress through the program, they move into different types of jobs and become responsible for overseeing newer residents who are in earlier phases of the program. It is a very structured, hierarchical system, with clear rules regarding conduct, responsibilities, and avenues for complaints.

There are three parallel systems: one which supervises the individual’s personal growth, one which supervises the training schools, and one which supervises the daily operational functions. All are run by residents and through this system of self-governance, residents decide issues ranging from the training school’s monetary earnings through punishments for violating a rule. All of these decisions also require the approval of Dr. Silbert, who alone can ask someone to leave for violating the primary rules.
of Delancey Street. Residents have to work their way up through this system and demonstrate that they are capable of handling the responsibility of a new position.

Delancey Street is a very independent program and does not have any formal ties to other institutions. Residents are encouraged, however, to participate in community service activities and may work with organizations that offer such activities. They also have some informal links with the criminal justice system in that, due to their excellent reputation, courts often suggest to offenders that they contact Delancey Street. In many cases criminals have had their sentences commuted in order for them to enter Delancey Street. In such cases Delancey Street agrees to notify the authorities should the individual leave prematurely.

Delancey Street's other facilities work on a similar basis. The New York site is a castle which houses 125 residents and in North Carolina they operate out of a Victorian mansion with space for 25 people. In New Mexico, on a ranch with capacity for 100 residents, Delancey Street works with youth as young as 12, as well as with adults. Referrals between facilities are common, including referring youth to the New Mexico site. Also, each semester residents can take a "semester abroad" by rotating among facilities. Dr. Silbert selected these sites to cover all areas of the country and to offer a broad range of sizes and hiring types. For example, the New Mexico site, which is located on an Indian reservation, is a very rural site, sharply contrasting with the very urban location of the much larger San Francisco facility. The facilities were started by residents of other Delancey Streets and are supported by the San Francisco headquarters until they can become self-sufficient. Each Delancey Street facility has a Board which reflects the local community in which the facility is located.

D. Beneficiary Characteristics

Delancey Street works with people who have really hit the bottom. They admit homeless people, drug addicts, and criminals. Seventy percent of Delancey Street residents came from jail or were probated through the courts and 30 percent came off the streets. Many of Delancey Street's residents have violent histories and 99 percent have a history of drug abuse with an average of 12 years of hard-core substance abuse. People with serious addictions need to detox before entering Delancey Street, as they do not have medical facilities for that kind of treatment. The skill and education levels of residents vary considerably, but the average resident is functionally illiterate, unskilled, has never held a job for over three months, has been in and out of prison about four times, and is several generations into poverty. The population is very mixed in terms of ethnic group and gender with the average mix being approximately one-third Black, one-third White, one-third Hispanic, and one-quarter women.
E. Activities

Outreach — Most residents come to Delancey Street because they heard of the program by word of mouth—on the streets or in prison—or someone in the judicial system suggested it as an option for them. Judges have generally looked favorably on commuting sentences for prisoners accepted by Delancey Street.

Selection — In order to be considered for admittance to Delancey Street, a person must first write a letter asking to be admitted. The next step is the interview. Some interviews are conducted at the Delancey Street facility, but many are conducted in prisons. Interviewers look for individuals who are willing to ask for help to change their lives. Despite the fact that most applicants are not committed to changing their lives yet, they have to begin by taking some responsibility for their pasts. While new residents plan to manipulate and leave Delancey Street, Delancey Street “out manipulates” them to stay, until they begin to get real hope and stay for the right reasons. Delancey Street candidates should be unacceptable to most other programs; if they are eligible for some other program, they are encouraged to try that first. Delancey Street does not admit repeat sex offenders and arsonists, for they feel that these people need psychological help which Delancey Street is not equipped to offer.

Assistance — Residents commit to staying in Delancey Street for two years when they enter. The doors are not locked from the inside however, and a resident may leave at any time. Violence, threats of violence, and possession or use of drugs or alcohol are prohibited in Delancey Street and breaking these rules is grounds for permanent dismissal from the program. Requiring people to do additional work is the only form of discipline they have in Delancey Street.

The rehabilitation program in Delancey Street is structured in three phases. Although time estimates for each phase are given, participants do not automatically move from one phase to the next. Delancey Street operates on the philosophy that everything you get, you must earn and residents do not move on to the next step until they have earned that right. The first phase of the program is called “Immigration.” Residents start this phase by working maintenance jobs within the facility. Before they are trained in marketable skills, residents work on the general maintenance of the facilities until they learn basic work habits. The maintenance training lasts from two weeks to three months. The maintenance phase generally lasts 90 days. Most participants who choose to leave the program generally do so during this segment. They estimate that about 20 percent of those admitted walk away during this first phase, but of those probably 80 percent call wanting to come back. During this segment residents also go to seminars and participate in group and game encounters. In these encounters residents can air their grievances, but must also listen to people criticize them. Residents are subject to
constant reminders of what they need to change until they change it. Criticisms can range from a particular incident to the general way a person walks—residents are forced to redefine themselves.

The second phase of the program is called The Academy. At this point an individual is moved into the educational segment of the program. During this phase everyone must receive a high school equivalency degree, pass an academic core curriculum, receive training in three marketable skills, including at least one vocational and one communications skill, and develop social living skills, which range from learning to set a table to learning to manage money. in one of Delancey Street’s businesses, which include a restaurant, a moving company, a print and copy shop, and a framing store. A resident might also be assigned to work in Delancey Street’s finance department or to perform some clerical work. The program stresses education and each participant must leave with at least three marketable skills, a labor skill, an office skill, and a people business skill. In addition, each must earn a General Equivalency Degree if they have not graduated from high school. In Delancey Street the rule is “Each one teach one” as those who have skills help others to acquire them. Residents may also acquire skills by attending schools or training programs offered outside Delancey Street, but as always, they must earn the right to do this. Most area schools will make tuition waivers available to Delancey Street residents. Within the course of the Academy, residents generally find an area they would like to “major” in. Initially residents have little say over where they are assigned to work, but as they progress through the program, their requests are more likely to be considered.

The final phase at Delancey Street is called Work Out. In this phase residents prepare their resumes and find a job. After finding a job, residents continue to live at Delancey Street, usually for about three to six months. The money they earn goes into the individual’s “Work Out Fund” which gives the person some money to get started on when they leave Delancey Street.

This progression through training is reflected in other aspects of life too, such as dress and living accommodations. For example, residents are first given dorm space with eight other people, but they can work their way up to having their own bedroom in a two-bedroom apartment.

F. Finance

The Delancey Street Foundation accepts no money from governments or private foundations. Ms. Silbert feels that accepting grant money lessens the ability to empower the residents to become responsible for earning their own way and helping one another. The foundation does, however, accept both cash and in-kind donations.
IV. Results to Date/Future Directions

Approximately 80 percent of those admitted to Delancey Street have kept their promise to stay at least two years, with the average stay running closer to four years. Since its inception Delancey Street has graduated roughly 10,000 former addicts and felons from its program. Today these people are employed in a variety of occupations, including mechanics, electricians, lawyers, teachers, police officers, business owners, firefighters, and counselors.

Delancey Street has been acclaimed as a model program and has received attention from a number of groups interested in how they have achieved such success. As a next step, Silbert recently began the Delancey Street Institute for Social Renewal to provide training and technical assistance in replicating the Delancey Street model.
I. Contact Information

Contact: Richard Oulahan  
Executive Director
Address: 1329 West National Avenue  
Milwaukee, WI 53204
Phone: (414) 671-0251

II. Setting

Esperanza Unida is located in Milwaukee’s near South Side, a poor, largely Hispanic community where one in six Hispanic families lives on welfare. The area is typical of many inner city areas which have undergone a period of disinvestment and decline, with boarded-up store fronts interspersed with a few operating small enterprises and a couple of remaining large businesses. Unemployment, substance abuse, and crime rates are high.

Although Esperanza Unida is located in Milwaukee’s South Side and that is the organization’s primary target area, its services are available to unemployed and low-income individuals throughout the Milwaukee area. During the 1980s, Milwaukee, along with many other midwestern cities, lost large numbers of manufacturing jobs. Most dislocated manufacturing workers were unable to find employment which provided them with salary and benefits comparable to the job they left, with many who had lost $15/hour jobs only able to find $6/hour or $7/hour jobs, often with no benefits. The shrinking of job opportunities fell particularly hard on Hispanics and other minorities in Milwaukee, who often had few skills and no access to networks which would help them find better jobs.

III. Project Description

A. Goals

Esperanza Unida’s mission is to bring low-income residents of Milwaukee into the economic mainstream. They strive to do this through job training, job creation, and other economic development activities. The organization takes a very participatory
approach in its activities, relying on community residents in designing and implementing its programs, realizing that these individuals both have a stake in program outcomes and also will serve as role models for other program participants. Esperanza Unida’s motto is “meter mano” which means “put your hand in,” reflecting their belief that, although problems such as racism and poverty are tremendously difficult, one must seize the opportunities available and do something right now to combat them.

B. Brief Description and History

Esperanza Unida was founded in 1971 as a nonprofit community social service agency which focused primarily on ensuring that the rights of Spanish-speaking workers were protected. Much of the organization’s initial activities involved assisting workers in filing claims for worker’s compensation and unemployment insurance. The organization was founded by Ted Uribe, who ran it as a one-man operation until Richard Oulahan, the current Executive Director, joined him in 1973. In 1978 Uribe left the organization to pursue a degree in vocational rehabilitation, leaving Oulahan to continue their work.

During the 1980s, however, the economy in the area deteriorated drastically, as many large plants were closing or laying off workers. Many of the workers Esperanza Unida had been assisting were now unemployed and a different type of assistance was needed. Esperanza Unida began its evolution into a job training organization and opened its Auto Repair Training Center, which is both a revenue-generating business as well as a training facility, in 1984. Oulahan had been inspired to choose this business by a failed auto parts program for youth, which had shown the promise of this sector despite that program’s particular setbacks, and because auto repair is a relatively recession proof industry.

The owners of an abandoned auto dealership allowed Esperanza Unida to use their building free for one year to establish their training center/auto repair business. Esperanza Unida received $150,000 in Job Training Partnership Act money to begin its training program and $20,000 each from two local foundations. In addition, Wisconsin Electric Power Co. installed $30,000 worth of energy efficient lighting and fire overhead doors and Firestone Tire and Rubber Co. supplied $11,500 worth of auto repair equipment. An area business consultant volunteered his time to help write a business plan and a local union provided an instructor, even though it would be a non-union shop. After one year of training operations, Esperanza Unida purchased half of the building with funds from a Milwaukee County Community Development Block Grant, supplemented by $10,000 in savings from the auto repair business. The next year they received a no-interest loan of $125,000 from the block grant program to purchase the remaining portion of the building.
The auto repair business was not initially welcomed by all in the area, as some saw it as engaging in unfair pricing, due to subsidized labor and other costs. Esperanza Unida has, however, learned to be careful and charge market rates for its services, using revenues to help cover training costs. The organization is now widely recognized as a very innovative job-training program and has served as a model for other communities. They have expanded their operations to include a number of other areas of training and hope to eventually be able to cover all of their training costs through business revenues.

C. Organizational Structure

Esperanza Unida is directed by Richard Oulahan with oversight from a 13-member Board of Directors, composed of community residents, local leaders, and professionals. Although the organization now has a number of different training businesses, these entities are not separate subsidiaries of Esperanza Unida. A few training businesses may keep separate books for management purposes, but these figures are integrated into the financials for Esperanza Unida as a whole for reporting purposes. Since the training businesses create some permanent jobs, as well as provide training for students, Esperanza Unida’s employment has grown over the years and they now have roughly 35 full-time employees, all of whom, other than Mr. Oulahan, are community residents.

D. Beneficiary Characteristics

Esperanza Unida’s target population is the Hispanic community in South Side Milwaukee, but its services are available to any unemployed or under-employed resident of Milwaukee county. Of the people the agency serves, roughly 70 percent are Hispanic, 20 percent black, and 10 percent white. Although the auto repair training business has few female trainees, other programs, including both traditional women’s employment such as the daycare certificate program, and non-traditional employment such as the welding program, have large percentages of female trainees. Many of the organization’s full-time employees are also women.

People coming to Esperanza Unida come from a variety of backgrounds and age groups. Some are older displaced workers who lost their jobs when plants closed; others are young adults who may have dropped out of high school and have some history of drug use or criminal activity. Some may have job skills, but insufficient command of English to use them, while others have no job skills and no familiarity with a work environment. Generally, all trainees are low-income, and many are or have been on welfare.

E. Project Activities

Esperanza Unida has revenue-generating training projects in the following areas: auto repair, auto body work, welding, day care, asbestos abatement, service writing,
and housing rehabilitation. The organization also has a learning center, which provides no cost instruction in English as a second language, GED preparation, and other basic skills programs. These courses are taught in partnership with an area community college, which provides qualified instructors. In addition, Esperanza Unida continues to provide counseling and representation to workers filing for workers' compensation or unemployment compensation through its Workers' Industrial Program.

Esperanza Unida does not need to heavily advertise its programs, since it is well integrated into the community and information about new programs quickly spreads by word of mouth. The organization does, however, put out a quarterly newsletter, which updates the community on their activities, as well as occasional press releases which make their activities more widely known in Milwaukee. The success and uniqueness of the organization has also attracted additional media coverage, both local and national, further advertising the organization's services.

Trainees do not pay for their training, nor do they receive a stipend or hourly wage. For some this lack of pay may preclude participation in the program, but nonetheless Esperanza Unida has a waiting list of people who want to take their courses. The organization does not have entrance requirements and classes are offered in both English and Spanish. Generally, selection is done on a first-come-first-served basis, but in some instances government funding, such as JTPA funds, may require that a certain number of slots go to a certain age group, or some other such restriction.

Of all of their training programs, the auto repair is the oldest and largest, with over 10 instructor/mechanics and training slots for roughly 60 individuals per year. This program is a six-month hands on intensive program which combines classroom work with shop floor experience. Instructors are paid a flat rate of $10/hour while working as instructors and anywhere from $9 to $14/hour doing straight repair work on commission. The shop gets a considerable amount of its business from individuals in the area needing car repair. In addition, people and corporations often donate cars to the training center, which the center then refurbishes and sells. The value of the car at the time of donation is tax deductible. The shop also does volume fleet work for Avis, the Milwaukee Police, and Wisconsin Electric, among others.

La Esperanza del Futuro Child Care Training Center was founded in response to the tremendous need for day care services in the neighborhood coupled with the fact that the organization realized it had been providing training to very few women, and would continue to be unable to assist women unless day care services were available. Through this training program, women can become certified to operate home-based day care operations. In spite of their certification, however, graduates of the program were still
having trouble starting up their operation due to such obstacles as losing health benefits when they leave AFDC or being unable to deal with the English-only licensing and regulatory board. To answer to these problems, three program graduates formed an operating association, Providers of the Future, which is affiliated with Esperanza Unida, allowing association members to buy into the health plan which Esperanza Unida provides to its employees. Customers of association members pay the association for the day care service, then the association pays the provider, minus the cost of contributions to the health plan. Members share other costs through the association as well, such as translation and assistance in dealing with the government. The association also has a small loan program and a toy and material sharing project.

Esperanza Unida began training enterprises believing that workers best learn a trade under actual working conditions. In addition, all trainees perform work which generates revenue to help cover the cost of their training. The fact that trainees generate revenue to cover the cost of their training contributes to trainee feelings of ownership of the program and responsibility toward their work, helping keep morale and performance high. Self-sufficiency is also important to the organization as a whole, since self-generated revenues do not come with the restrictions that government or foundation funds carry, freeing the organization to respond to the needs they see in their community in a manner and at a time they deem appropriate.

Like the auto repair and the day care centers, Esperanza Unida’s other businesses were formed as part of the organization’s creative, entrepreneurial approach to problem solving in the community. These businesses not only provide training and create jobs, they also improve the level of local business ownership. Through subcontracting, purchasing, or other activities, Esperanza Unida tries to support other local businesses as much as possible. In addition, Esperanza Unida is in the process of spinning off its asbestos abatement business to a former trainee, who now has the experience to run this business as a for-profit enterprise.

**F. Finance**

Esperanza Unida’s total annual budget is roughly $1.2 million, with about two-thirds of that being generated through revenues from the organization’s enterprises. Other funding sources have included local CDBG and JTPA funds, local and national foundation grants, and contributions from individuals, corporations, and religious groups. The average cost per trainee in the training enterprises is roughly $5,000, most of which is covered through self-generated revenue.
IV. Results to Date/Future Directions

As of mid 1993, Esperanza Unida had, through its training businesses, trained and placed over 300 individuals in jobs. Moreover, through the establishment and expansion of these businesses, they have created over 35 full time jobs in the community. Currently, Esperanza Unida has roughly 50 individuals receiving training through their training enterprises at any given time and they train over 100 students per year. Seventy percent of their graduates find employment after graduation, many of them returning to Esperanza Unida as employees of the training businesses.

Through its housing rehabilitation program, Esperanza Unida has done ten gut rehabilitations of houses and sold these houses to students and employees. They are currently rehabbing three other houses and are planning to redevelop a four-storey, 65,000 square foot commercial building located in the heart of the South Side community. During construction, pre-apprenticeship skill training will be offered in the areas of carpentry, heating and air conditioning, plumbing, electrical work, and painting. The building is to be occupied by a combination of new and existing businesses, as well as social service providers, with Esperanza Unida developing the new businesses and maintaining ownership of the building. Esperanza Unida has elicited support for this project from the Milwaukee Building and Construction Trades Council, the City of Milwaukee, the State of Wisconsin, and others. So far eleven trainees have been hired by project construction contractors under a “first source” hiring agreement which is part of the bid process.
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I. Contact Information

Contact: Fr. William T. Cunningham, Executive Director,
Mr. Charles Grenville, Development Officer
Address: 1355 Oakman Boulevard
Detroit, Michigan 48238
Phone: (313) 883-7440

II. Setting

Detroit's demise as a job center has been analyzed numerous times as a prime example of urban decay. But a very pertinent point is made by the staff of Focus:HOPE i.e., that the city itself, both economically and politically has been “ghettoized,” not in terms of race per se but in terms of attitude and performance expectations. Economically, the city is increasingly “feeding off itself” with largely government jobs and welfare and decreasing value added activity—particularly with the ongoing downsizing and internationalization of the automotive industry. Politically and socially, public sector corruption, high crime, a miserable public education system, and a legacy of almost wholesale desertion of the city by its former white population have contributed to what is often viewed as one of the most hopeless of urban environments in the country.

It is truly remarkable that within this context, one of the nation’s foremost social and economic development organizations has developed, lending credence to its name.

III. Project Description

A. History and Objectives

Focus:HOPE began in 1968 as a multiracial volunteer organization dedicated to civil rights. After the riots of 1967, racially mixed teams of individuals began visiting churches to promote racial harmony, and from this experience a non-profit organization evolved to address the critical needs of the inner-city community. Despite its enormous growth and diversification over the years (as described below), Focus:HOPE, remains,
in the minds of all involved, first and foremost a civil rights organization. Each year, for example, the organization sponsors a Walk for Justice in which thousands of citizens remind the city of the fundamental cause of social justice. And advocacy remains a key goal: as the organization has grown in importance it has never ceased to speak out for increased awareness of public responsibility.

Programmatically, Focus:HOPE's first venture was the establishment of a commodity supplemental food program, with USDA, that is now the largest in the country, providing a broad selection of highly nutritious foods from USDA's surplus and price-support programs to over 86,000 people per month. Foods are distributed through dignified shopping centers using a state-of-the-art computerized system. The clientele is largely at-risk mothers and infants, preschoolers and the elderly.

In the late 1970s, as an outgrowth of its initial focus on youth, the organization began to examine job development and training. Asking a simple question, where are the blue-collar jobs and who gets them, the organization first identified the metal-work and machining sectors—Detroit's preeminent sectors from the turn of the century onward—and found out two important things. First, despite economic problems in the region, they discovered that there was indeed high demand for well-trained machinists. Sub-contracting to automotive manufacturers was still a viable concern, although the quality of firms—in terms of technology and competitive outlook differed dramatically. Some firms, understanding the need to upgrade in the face of foreign competition, were investing in computer design machining and more training for workers. These firms recognized the need to adopt internal flexible manufacturing, using computer-based machining, and to pursue more diverse markets and sub-contracts. Others, the majority, remained traditional, awaiting the next sub-contract to be completed on standard machinery and would soon, in Focus:HOPE's view be left out of the economic picture.

Second, they found that virtually all of the higher-paid, high skilled machinists were white males in their fifties. Few were young and hardly any were minority. Related to this finding was the fact that many of the existing workers had graduated from the Henry Ford Trade School which had trained generations of machinists but then closed in the early 1950s. Putting together such a training program, with emphasis on disadvantaged youth, became a key strategy of the organization along with a second long-term concern: upgrading the machining sector itself within the area to provide a base of competitive firms that would 1) create more wealth through value-added production and 2) provide good paying, high quality jobs for the longer term. This two pronged approach defines Focus:HOPE's economic philosophy—that contrary to some of the standard myths, economic growth and competitiveness and poverty alleviation are not mutually exclusive goals; indeed they are intimately linked.
This thinking has led over the years to a highly successful multi-faceted technology-development and training approach linking inner city labor, through training and placement, to employers within the region while at the same time introducing innovations in machining technology and production processes for adoption by existing and new firms.

B. Training Programs

Focus:HOPE has three main components in its overall training program. (1) The Fast Track program addresses the need for inner city youth to reach a basic level of competence to either pursue an initial job or receive higher level training. The program currently takes in roughly 1,000 recent high-school graduates from the Detroit area each year who, due to problems in the public school system, generally perform at an eighth grade level in reading and math. Fast Track is an intensive seven-week program which aims at increasing quantitative and verbal skills up to the tenth grade level while providing a transitional atmosphere to accommodate trainees to the rigors and expectations of the work world.

The curriculum combines class work with a competency-based skills-bank computer program that takes students step by step in verbal and quantitative terms skills. Trainees spend roughly 50 percent of their time on individual computers and are tested continuously. The outcomes of Fast Track, as shown through the success of trainees who move on to technical training (described below), have been impressive and most do upgrade their skill on average by two academic years.

In large part the results of this training—as in all Focus:HOPE activity—appear due to a social environment that promotes dignity and respect with a high degree of discipline and solid expectations. From day one in Fast Track trainees are treated like private-sector trainees and are issued training coats and assigned a computer. Expectations in terms of behavior and achievement are made very clear, as are the rewards of completing the training program. Those graduating from Fast Track are promised either placement in a job or more advanced training through the Machinist Training Institute (see below) whichever they wish. But the regimen is strict. Fast Track is managed by a former military drill instructor who stresses pride and discipline. Being tardy costs one disciplinary point; being absent without permission is two points. Three points and you are out of the program (although re-application and re-admission at a later time is left open). The course also offers individual and group work in communication skills, orientation to the workplace, and appropriate behavior. Trainees work eight hours per day, six days per week and their work on computers is monitored through file servers by trainers.
Due to the rigorous disciplinary system, and normal drop-out rates, about 37 percent of the trainees don’t make it through the course. Of those that do, over 90 percent go on to meaningful work either through referrals to the over 300 companies with which Focus:HOPE maintains relations for such placements, or through placement in more advanced training programs (which they usually recommend) including Focus:HOPE’s Machinist Training Institute (MTI). Fast Track job placements are entry-level positions in a variety of occupations including retail, clerical, services, banking, and manufacturing, having a wage minimum of $5/hour and benefits. The program’s reputation is such that Fast Track trainees are in high demand and Focus:HOPE tries to maintain placements with firms that are competitive in outlook and will be around—this is especially true for graduates of the MTI.

(2) The Machinist Training Institute, modeled initially after the former Henry Ford Trade School, and employing a number of former Ford graduates as trainers, offers an intensive 31-week course in basic metal work and machining. Three separate tests are administered for admission (quantitative, verbal reasoning, and mechanical aptitude) and trainees accepted must be able to read at a ninth grade level and perform math to a tenth-grade level (hence the linkage to Fast Track for many of the enrollees).

The course combines classroom instruction in such areas as applied math, measuring instruments and techniques, metals, machining processes, and blueprint reading with hands-on training in machine tool set-up and operation. A self-paced modularized format provides competency testing for every shop-floor activity, as trainees progress through conventional lathes, mills and grinders to computer controlled equipment. Utilizing over ninety fully operating machines on the shop floor, trainees make actual products, including high precision tools for their own machinist tool box.

In 1992, a twenty-six week course—Advanced Precision Machining—was added to prepare trainees for placement as CNC programmers and operators and in CAD/CAM related positions. Formal study of pre-engineering math, computer graphics, geometric dimensioning and tolerancing, advanced quality methods, and CNC/CAD/CAM lab is linked to twenty-hour per week practicum performing advanced manufacturing production contracts.

Of the roughly 900 graduates of the MTI since 1981, over 95 percent have been placed in different machining enterprises. The starting wages range from $7.00 to $9.00/hour, with average wages after four years climbing to $14.00/hour. This highly successful program, like its Fast Track counterpart also relies upon group counseling and communication sessions as well as upon the dignity-with-discipline approach for which Focus:HOPE is noted. The pervasive attitude throughout the institution is that inner-
city residents, from whatever background, deserve the very best in training and support and in turn will achieve the very best.

(3) The Center for Advanced Technology, the next step along the training continuum, is Focus:HOPE's most ambitious undertaking to date. Realizing the dire need to upgrade both technology and workforce skills, the organization has undertaken a unique collaboration among education, industry, and government to develop a national center for the training of "technician-engineers," who represent the new wave of very highly skilled employees needed to operate the flexible production equipment that represents the future of manufacturing.

Operating computer aided machinery that retools and reconfigures to manufacture an open-ended range of products requires operators who can integrate theoretical and practical knowledge of materials, machinery, computers and sophisticated design. In response to this challenge, Focus:HOPE is developing a training and production center in collaboration with four federal agencies (Defense, Education, Commerce, and Labor), local government and universities, local industries and a number of foundations, including the C.S. Mott Foundation, a long supporter of the organization. The basic objective of the CAT is to provide a model, national facility with state-of-the-art technology that offers up to six years of training combining academic and practical pursuits. Trainees finish with an advanced engineering degree, highly developed machining capacity, and basic knowledge of two foreign languages (including German and Japanese as options). The key approach of the training is open-ended learning whereby trainees will delve into mathematical, machining, and materials studies on the basis of problem solving that arises out of innovative tooling and machining techniques. This is driven by the complex nature of state-of-art machines which can tool themselves through computer programming to take on open-ended machining capacity. It is for this reason that academic and practical training must be combined. A key aspect of the training is the linking of trainees to various specialists to provide theory and solve problems thereby supporting the competency-based, rather than classroom or academic, objectives of the CAT.

This $100 million plus undertaking is off the ground. A 200,000 square foot building, formerly an engine factory, has been acquired and renovations are nearly complete. This includes the center's own electrical power generation, slated to produce significant savings though converting electrical energy from natural gas ("Rather than paying twice for the energy through a public utility" according to the Development Officer). New, computer assisted machinery has been acquired which is linked to central computer and audio-visual control and monitoring stations. Through this system, production coordinators can actually observe machining while talking to operators, and com-
puter screens monitor not only the stage of production of a particular product, but the unit cost of the ongoing operation.

The CAT is actually designed to cover a large part of its operating budget through production contracts. It currently manufactures extremely precise parts, with its major contract being the production of over 160 types of internal engine pulleys for Detroit Diesel and aluminum engine parts for Ford Motor Company. The initial 25 trainees (to grow to 400) are mostly graduates of the MTI who have at least one year of work experience. These trainees are paid a professional wage (roughly 10 percent above their last salary, or about $15.00 per hour) since they are engaged in production as well as training and it is expected that demand for their services will be exceedingly high once they graduate. Being mainly black, inner-city residents, the CAT trainees demonstrate the potential for combining investments in human resource development with economic development goals.

To answer to the needs of other age groups, Focus:HOPE has initiated a number of programs. One is a modern day-care, pre-school facility for 180 children through pre-Kindergarten developed within the neighborhood and organized on Montessori principals. Test scores at the pre-K level rank very high in relation to the national average. The school's award-winning architectural design reinforces Focus:HOPE's philosophy that anything developed for disadvantaged citizens must be of the same if not higher standards than that for general society. This in turn reinforces higher self image and expectations and breaks the "ghetto" mold in peoples' thinking, i.e., "this can be done here as well as anywhere else."

In line with its sector-specific economic interventions, Focus:HOPE has developed a company, High Quality Manufacturing, which employs mainly lower skilled, poor adults such as AFDC women in the manufacture of more labor intensive products, including emission control harnesses for cars. To date, management estimates that over 100 women have been employed through HQM, but given foreign competition, it has proven very difficult to raise salaries much above minimum wage. A key lesson involves the need to adjust welfare to accommodate low-wage work while not depriving clients of necessary benefits and the right to work.

C. Organizational Structure and Staffing
From its humble beginnings, Focus:HOPE has grown to a 450-employee organization with a consolidated budget of over $4.0 million annually. Its aggressive fund raising activities have yielded a highly diverse financial base. This base encompasses local private support, training contracts under JOBS and JTPA, production sub-contracts from area corporations, foundation grants and investments, and larger-scale development fund-
ing (mainly for the CAT) from the Congress and federal agencies, including the Defense Department for the development of high-tech production technology and training.

Despite its size and sophistication, however, the organization has retained much of its original voluntary characteristics. As mentioned, it retains an extremely strong advocacy posture, utilizing all of its achievements as examples to promote a broader response both within Detroit and the society at large. In keeping with this posture, the Board represents a mixture of community activists, representatives, and corporate leaders. Civil rights remains the cornerstone of Focus:HOPE's philosophy, and its voluntary nature mandates a salary cap of around $45,000 per year.

IV. Lessons Learned/Future Directions

As stated above, Focus:HOPE has been, and will continue to be a prime example of the thesis that there is no inherent conflict between poverty alleviation on the one hand, and growth and competitiveness on the other. Indeed, the central thrust of the organization is to link job development for the poor with ongoing industrial advancement. This mutual reinforcement answers to the needs of both industry and the poor: industry needs highly trained workers; the poor need good jobs that will stay in the area. While it may seem surprising that a civil rights organization plays such an active role in upgrading industrial technology, the fact is that an enlightened third party, with no inherent competitive motives beyond poverty alleviation, can acquire technical expertise with the leadership and indeed play such a role well.

This provides a key lesson for community based organizations everywhere—namely that socially-based organizations can enter the technical realm, given the disposition and the commitment to do so. Clearly, leadership is the critical factor, with Fr. Cunningham and the other leaders having the fortitude to attract and employ technical expertise and involve the technicians within the civil rights vision of the organization.

In this case, a critical factor was also the concentration of activities within a clearly defined sector—machining. This allowed a generalist organization to become specialized in the economic realm and to integrate training and production while also working to enhance industrial capacity locally. This could not have been accomplished across the board in multiple sectors. The decision to focus on one sector with high pay was critical to success.
PIONEER INDUSTRIES
OF PIONEER HUMAN SERVICES
SEATTLE, WA

I. Contact Information

Contact: Mr. Gary Mulhair
President, Pioneer Human Services
Address: 2200 Rainier Avenue S.
Seattle, WA 98144
Phone: (206) 322-6645
Fax: (206) 325-8009

II. Organizational Description

Founded in 1962, Pioneer Human Services provides an integrated array of housing, employment, training, counseling, and other services needed by individuals living at the margins of society. They focus their activities on their clients, with the belief that every individual deserves the chance for change and has the potential to lead a fulfilling life. At the same time, Pioneer runs their non-profit 501(c)(3) operation as if it were a private enterprise, with the combination of discipline and responsiveness required to be competitive in the marketplace. The organization generates its own revenues to support activities and adds program areas which fit the organization’s resources and capabilities and respond to identified needs of the client population.

Pioneer began as a small agency and grew mainly by adding services as a tangent to activities in which they were already engaged. When beginning activities with which they had less experience, they conducted careful research and developed or hired the necessary expertise to begin each new initiative. Through this approach, Pioneer has grown into a self-supporting agency which employs approximately 400 individuals and expects to generate close to $20 million in revenues this year, up from approximately $5 million in 1984. Care is taken, however, not to be run solely by the business bottom line. The mission of the agency is to serve their client population and a full-time internal auditor monitors the quality and efficiency of delivery of Pioneer services to make sure they continue toward their goals. Pioneer currently employs approximately 400 individuals in all of its operations and serves over 3,000 clients annually. Below is an outline of the service areas and activities in which Pioneer Human Services is currently involved.
Community Corrections
- Four work release facilities with a total of roughly 200 beds
- An electronic monitoring program which can monitor up to 100 individuals in their homes
- A highway clean-up program
- A urinalysis testing service which serves both PHS clients and contracts to other agencies
- An on-call project which provides trained individuals to fill in for employees on sick leave or vacation

Alcohol/Drug Free Living
- Six apartment buildings with a total of 200 units for alcohol/drug-free living
- A 132-room hotel and an 8-person residence providing low-cost housing for alcohol/drug-free living
- A 45-bed secure alcohol treatment facility for civil commitment cases
- An 8-unit building housing pregnant substance abusers and substance abusing mothers and their children

Food Distribution and Food Service
- An institutional kitchen, partly staffed by individuals drawn from PHS residential programs, which prepares approximately 300,000 meals annually for both Pioneer facilities and other nonprofit residential programs and also offers some specialized catering
- A wholesale food organization, staffed by people from Pioneer residential programs, that distributes food to food banks and nonprofit groups in Washington, Oregon, California, Arizona, and Idaho

Youth and Family Programs
- A group home for 12 male youthful offenders
- An outpatient counseling program for troubled youth and their families

Enterprises
- A real estate management division which develops and manages residential and commercial property used in PHS programs. This program includes a general contracting division which manages construction and remodeling projects and a program for the sponsorship of an apprentice plumber, done in cooperation with the local union and a contracting firm. Employees include participants of PHS residential programs
- Pioneer Industries, a precision light metal fabrication and finish facility, described more fully below.
III. Pioneer Industries Training Program

Pioneer Industries provides training and employment opportunities to individuals living at the margins of society, who face considerable barriers to employment. By offering these individuals the chance to acquire skills and develop a work history, Pioneer significantly improves their chances of finding viable employment.

Pioneer Industries was founded over 25 years ago by an ex-offender who found it difficult to convince employers to hire him and realized other ex-offenders faced the same problem. Pioneer Industries did not originally provide training; its goal was to provide an opportunity for ex-offenders to build a work history so that employers would be less reluctant to hire them. After this experience, individuals could then use the skills they already had in another job. The turnover rate among PI employees, however, was very low and PI had trouble accommodating many new releases. Moreover, the employees that were there often needed training in particular skills, such as blueprint reading, and hence training began on a very informal basis. PI formalized its training program in the mid 1980s. This both ensured that they would have regular openings, enabling more individuals to participate, and improved the skills of the "regular" employees of PI, most of whom are hired out of the training program.

PI is a division of Pioneer Human Services and has a total of about 185 employees, 73 of whom are trainees. Training instructors comprise two classroom instructors and three skilled trades people who conduct the training on the shop floor. The instructors all have training and experience in education; for example, one has a master’s in adult education and another has considerable experience as a public school teacher. The trainers working on the shop floor are experienced tradesman, but have also chosen to augment their skills as trainers by taking education classes at South Seattle Community College.

Most of the trainees are referred to Pioneer Industries by the Department of Corrections; others are referred by drug and alcohol rehabilitation programs or community vocational programs. Trainees need to have a referral from some sort of community or social service agency. Ethnically, the trainees are mixed, with about 50 percent being white, 35 percent African American, and the remainder a mixture of Hispanic, Asian, and Native American. Most trainees are not young; the average age is between 25 and 35 years. Approximately one-quarter of the trainees are women, with some coming to PI through a special program with the Washington Corrections Center for Women at Gig Harbor. Five days a week Pioneer transports about 10 women from the Center to work at Pioneer Industries. By participating in this program, women can receive training, work experience, and wages prior to their release back into the community.
Trainees do not need to have a high level of education to enter the program, but must be able to read and write English in order to read shop floor orders and note whether they are done. In general, if an applicant can fill out the employment application forms without help, he or she has the necessary language skills to do the job. Applicants also need to be flexible with regard to the hours they work, as they may be needed to work second or third shift. Turnover and application rates for the jobs tend to be seasonal. Demand for trainee positions is generally lower in the Spring, when there are more construction jobs available, but then increases as cold weather approaches. In interviewing and evaluating applicants, Pioneer staff place greater emphasis on an individual's attitude and willingness to work than on specific skills.

The PI Training Program offers clients individualized training which combines classroom work and on the job training. The training program is designed to last eighteen months, but most trainees do not remain trainees for that long; they either become regular employees of PI or they find another job. The training begins with a two-day orientation session after which trainees begin both the classroom and the on-the-job components. The OJT segment starts trainees with work in simple areas, such as assembly, and gradually progresses to more complex activities, such as computer-aided manufacturing and advanced quality control methods. Classroom instruction covers basic education, with a chance for individuals to earn their GED; manufacturing-specific skills, such as blueprint reading and important math concepts; and life skills, with courses in personal and professional development, job seeking skills, and communications. Supplemental training is also available through the community college. All trainees may participate in individual tutoring sessions. The specific sequence of courses a trainee goes through will vary depending on the individual's ability, interest, and prior experience.

As trainees progress through the training program, they can earn points for such things as high performance ratings or mastering the necessary skills of particular work station. These points enable trainees to buy more training, in the form of training materials, community college courses, or additional computer time. This point system provides trainees with an incentive to do well and a structure for assessing their achievement. In addition, PI pays its trainees, beginning at a rate of $5.25 an hour, for every hour spent in training. After their first six months, trainees receive a raise and benefits. At the end of the 18 month training period trainees may also get paid time to engage in job placement activities.

PI trainees take responsibility for finding themselves a job upon completing training, and, as mentioned above, many find permanent employment before completing the training cycle. PI does however, provide considerable assistance in this process by promoting their trainees among the firms with which PI does business as well as by offering assistance in the job search process.
PI has a particularly strong relationship with the Boeing company, which has supported PI since it was founded. Boeing has hired PI trainees and initially was close to the sole buyer of PI products. PI has since diversified its customer base, but Boeing still purchases roughly 65 percent of PI’s output. Boeing also supports PI’s training activities by paying for training hours, essentially paying for most of the cost of the training program. Boeing contracts with PI annually for a certain number of hours. PI works out a price per hour and includes in that the cost of training hours. Boeing benefits by having skilled workers available to hire and by being able to buy high-quality, low-cost parts from PI.

IV. Results to Date/Lessons Learned

PI admits approximately 200 trainees to its program each year. These trainees stay at PI for an average of six months. Unfortunately, resources for tracking trainees after they leave the program are not available, but trainees generally do go on to some type of permanent employment. PI staff estimate that 57 percent of their trainees leave under what they would consider unfavorable circumstances, but these individuals are eligible to come back into the program after receiving treatment or otherwise demonstrating a change, and many of them do. Approximately 75 percent of regular PI employees have come through work release, department of corrections, an alcohol/drug treatment center, or other rehabilitation program. Employment is not limited to working on the floor; trainees interested in bookkeeping, purchasing, or some other aspect of the business may work toward a position in one of these areas. PI’s annual sales were approximately $7 million in 1991, with Boeing accounting for roughly two-thirds of that figure.

PI staff feel that many of the principles of running a for-profit business can be applied to running a non-profit business; serving the poor and running a profitable business are not necessarily mutually exclusive goals. Non-profit businesses should, however, have a set of measures that they rely on to tell them how well they are doing with regard to their mission, so that they do not lose sight of their original goal in their attempt to be profitable. Non-profit managers should exploit the strengths that they have. For example, non-profit businesses should take advantage of their tax-exempt status to keep their costs low, as for-profit businesses have other advantages, such as in raising capital and methods of earning profits, which are not available to non-profits. Non-profits need to match existing strengths to market opportunities. As Pioneer’s president states, “every town has a Boeing.”
I. Contact Information

Contact: Toby Herr  
Director  
Address: Winfield/Moody Health Center  
1276 North Clybourn  
Chicago, IL 60610  
Phone: (312) 266-6464  
Fax: (312) 337-7616

II. Setting

Project Match, a research and service welfare to work program, serves residents of Chicago’s Cabrini-Green, one of the most notoriously crime ridden public housing projects in the nation. Cabrini-Green consists of a group of twenty-one very large, run-down high-rises on Chicago’s north side with a population of roughly 13,000 people. The projects mainly house welfare mothers and their families and also provide a base for many drug and gang activities. It is estimated that approximately 80 percent of the households in Cabrini Green receive Aid to Families with Dependent Children (AFDC). Project Match itself is located in a community health center set among the buildings which constitute Cabrini-Green. The location of Cabrini-Green is surprisingly close to one of Chicago’s most affluent areas, known as the Gold Coast, which runs along lake Michigan.

III. Project Description

A. Goals

The Project Match program strives to assist long-term public aid recipients out of poverty and to help them achieve economic self-sufficiency. Project Match is based on the premise that leaving welfare does not occur in just one step, getting a job, but rather is a long, complex process about human growth and development. By offering long-term support to individual clients, the program aims to help people keep working toward self-sufficiency and self-reliance as a life goal.
Project Match's objectives are not only to provide clients with direct assistance, but also to learn about the process of leaving welfare and becoming self-sufficient. Thus the program incorporates a strong monitoring and research component in addition to its service activities. Focusing on both providing long-term support for clients and also learning more about the process of leaving welfare in order to provide insights as to appropriate program and policy design, has brought Project Match considerable recognition.

B. Brief Description & History

Project Match opened its doors in 1985. Ms. Toby Herr, then a Research Associate at Northwestern University’s Center for Urban Affairs and Policy Research, developed the program. At that time she had been evaluating a multi-site teen parenting program and noted that these programs lacked an economic focus; problems among teen parents had more to do with being poor than with being bad parents. One of the sites involved in this evaluation was in Cabrini Green, where Herr, prior to her work with Northwestern, had taught for nine years. From these experiences Herr decided to start Project Match in Cabrini Green as a project of Northwestern University. In working on Project Match, Herr noted that many job placement programs viewed a client’s getting a job as the end of the welfare-to-work process. Entry-level jobs, however, did not pay very well and often entailed irregular hours and no benefits, hardly a basis for self-sufficiency. Moreover, no longitudinal data existed for individual clients, since most programs do not have the capacity to do such work. Questions about what happens to people 60 or 90 days after placement in a job could not be answered. Therefore, Herr designed Project Match as both a pilot social service and a research program.

Project Match essentially tries to match clients with appropriate jobs or training programs. The program offers case management and job placement services directly, while trying to broker other services, such as GED and vocational training, daycare, or any other service a client may need in order to get/keep a job. Originally, PM clients came because of referrals by the health care center or other social service agencies. Today word-of-mouth brings most clients in.

The service component is run by a staff of about five, which includes the director, three counselors, and an office worker. Each counselor handles a load of roughly 75 clients, with needs ranging from one quick check-up call per month to intensive counseling every week. Case workers are trained to put the clients first and help them with their problems whenever they come in or call. This policy is part of the very client-oriented philosophy which governs PM. Every effort is made to make clients feel important and welcome. Recognition parties and the posting of achievements, both in the newsletter and on office walls, help to bring clients together and to foster this feeling.
The research component of the program has been run largely by Lynn Olson, Ph.D., who worked with Ms. Herr and two research associates from Northwestern. Since they began operations, PM staff have tracked the progress of their clients. PM developed its own tracking system for keeping these records and now has a valuable data base covering about six years of operation. The research staff have written several papers using this data to discuss the problems of job retention for clients of welfare-to-work programs as well as the various paths toward self-sufficiency which seem to appear in a significant number of clients.

C. Organizational Structure and Funding

For seven years, PM has been a project of the Center for Urban Affairs and Policy Research at Northwestern University. The University took responsibility for signing contracts or making any other binding arrangements with outside institutions, but essentially allowed the program to function autonomously. PM has recently changed its affiliation and is now associated with the Erikson Institute, a graduate program in early childhood development at the Loyola University of Chicago. The service component of PM is funded primarily by the Illinois Department of Public Aid, while the research activities have been largely foundation backed. The total budget for 1992 activities is estimated at around $370,000, with employee salaries constituting the majority of expenses.

D. Beneficiary Characteristics

Of the participants in Project Match, 99 percent are African American, 88 percent are female, and 80 percent are parents. Many are second or third generation public aid recipients, a minority among public aid recipients and probably some of the most difficult to work with. Apart from lacking job skills, many clients also lack the life skills and social skills necessary to hold a job. Violence is common in their lives and their living arrangements tend to change frequently. Just staying in touch with clients can be very difficult because phones are so often out of order and addresses change frequently. Many clients lack role models with jobs; most of the people they know are also on public aid. Often family members, children, or boyfriends will try to dissuade a client from getting a job, either out of fear that benefits will be cut or jealousy that they will not be the recipient of as much attention as before.

E. Activities

Individuals interested in participating in PM must first attend an orientation, which consists of two half-day sessions. PM originally held these sessions every few weeks, but due to funding constraints now holds orientation sessions about every three months. Individuals interested in the program put their name on a list and are notified of the dates of the orientation sessions. PM admits all individuals who manage to show up for both sessions.
Following orientation, individuals begin working with a counselor and together they determine what the first steps on the path to self-sufficiency should be for that person. Because each PM participant works individually with their counselor, there is no fixed sequence of activities for the PM program. For example, some participants may begin by going to school or participating in a training course while others may start with a job and then decide to further their education later.

IV. Results to Date/Lessons Learned

PM has managed to place nearly all of its participants in a job or an educational program within six months of their enrollment in the program. During their time in PM, which currently averages three to five years, 91 percent of participants have been placed in at least one private sector job. PM has found job retention to be a major problem, however, and many need help to stay motivated. Within six months of their initial job placement, 57 percent of PM participants lose their job and within 12 months that rises to 70 percent. Of those who lose their first job however, PM has placed about 66 percent in another job or in an educational program within three months.

PM workers have often found that many participants are not very interested in education programs until they have job experience. Many of them have seen others go through educational programs only to still not have a job later and are therefore turned off by the idea. As they work and see that additional skills are indeed necessary, PM clients become more motivated to acquire additional skills.

PM has also made important contributions to the research and policy aspects of public aid programs. They now have a data base which includes information on the progress of 259 clients who have been with the program for over three years. With this data set, PM researchers have demonstrated various paths toward self-sufficiency that many clients take and have documented some of the job retention problems which were previously overlooked. In 1988, the Ford Foundation and Harvard University selected PM as a winner in the Innovations in State and Local Government awards program, in large part to the program’s effective blending of service, research, and policy considerations.

PM now faces trouble retaining funding from the Illinois Department of Public Aid. This difficulty stems from the state’s implementation of performance-based contracting, a system to which the PM model does not lend itself well. PM will view a client’s holding down of a part-time volunteer position as a valuable first step, while the state will want to base its level of funding on the number of people who maintain an unsubsidized job or participate in a valid educational program for a given period of time, usually 60–
90 days. This dilemma illustrates the difficulty in designing a program which can offer long-term support and investment in individuals, yet can be effectively monitored on a short-term basis.

V. Information Sources


Herr, Toby, Interview at Project Match Offices, Chicago, IL, June 15, 1992.


I. Contact Information

Contact: Martha Brown Hicks  
President  
Address: 434 South San Pedro Street  
Suite 601  
Los Angeles, CA 90013  
Phone: (213) 623-7130  
Fax: (213) 623-2727

II. Setting

Skid Row Development Corporation serves the homeless in the Skid Row area of Los Angeles, a 50 square block area located less than a mile from the Central Business District. The area is also adjacent to little Tokyo and quite near South Central Los Angeles. Skid Row contains primarily industrial buildings, with some Single Resident Occupancy hotels (SROs) and commercial space; there is no housing for families. The industry there is generally light industry, such as silk flower production and garment manufacturers. Although vacancy was somewhat of a problem when SRDC was founded, today most of the industrial buildings are occupied. The fences topped with barbed wire, barred windows, and large locks visible on most buildings hint at the high crime rate which is still a problem for the area.

Area unemployment rates are fairly high, reflecting the high rates suffered in much of California as a result of the recession and cutbacks in military spending. The downturn in the area's economy, coupled with national trends toward deinstitutionalization of the mentally ill and more restrictive eligibility requirements for welfare and disability benefits, has contributed to the growth in Skid Row's homeless population. Rapid population growth due to considerable numbers of foreign immigrants, as well as in migration from other areas of the U.S. has sharply increased the demand for California's public services and the restrictions of Proposition 13 have limited the ability of state and local governments to raise the revenue needed to satisfy these demands. The state's recent budget crisis demonstrates this difficult situation and indicates the declining level of government support which programs will face.
III. Project Description

A. Goals

SRDC's mission is to improve the quality of life for homeless residents of Los Angeles. They work to revitalize the Skid Row area in order to bring in jobs which can offer opportunity to the area's homeless. Similarly, they create shelter, both temporary and permanent, to help meet a basic need of the homeless population and to help individuals stabilize their lives. SRDC strives to help clients to become as self-sufficient as is possible for them.

B. History

In 1975 the city of Los Angeles called for a redevelopment plan for downtown. The revitalization of Skid Row was part of that plan. At that time no single organization existed which provided all the services needed for comprehensive treatment of the homeless. In response, in 1978, the City's Community Redevelopment Agency (CRA) founded SRDC as a non-profit corporation charged with the task of revitalizing the Skid Row area and creating housing and employment opportunities for the area's homeless. The CRA, which receives most of its funds through tax increment financing (TIF),* agreed to fund the annual administrative budget, but SRDC had to find its own funding for other projects.

Martha Brown Hicks, president of SRDC, secured funding from the federal government for initial projects. SRDC received a total of $3 million from the Department of Housing and Urban Development and from the Economic Development Administration. The HUD money facilitated the acquisition and rehabilitation of a vacant warehouse into dormitory space for Transition House, a service-oriented medium-term shelter (see below). The EDA grant went toward the construction of the Commercial/Light Industrial Center (CLIC), 37,000 square feet of leasable commercial/light industrial space. The revenues from leasing this space contributed to the establishment of Transition House, which opened in 1983.

Today SRDC engages in a variety of activities to help the homeless, including the management of 17 units of low-income housing in South Central Los Angeles, which SRDC refurbished in 1981, and of the Renaissance Building, 66,000 square feet of light industrial space renovated in 1987. SRDC continues to operate the CLIC building and the two shelters and also has recently begun Transition Enterprises, a maintenance service company designed to provide employment for residents of Transition House and to generate revenues to support their activities.

* TIF allows a state-chartered agency to issue bonds for financing physical improvements in designated districts. The increases in tax increments which result from this can then be used by the agency to pay off the bonds.
C. Organizational Structure

There are roughly 22 official employees of SRDC. These include the president and vice president as well as a public relations officer/fund-raiser and a bookkeeper. Approximately eight staff members work as counselors for Transition House and another staff member works as property manager and director of Transition Enterprises. Transition Enterprises employs approximately eight former residents of Transition House and these employees are part of the payroll for SRDC.

SRDC is not formally affiliated with any other service providers in the L.A. area, but they do frequently receive clients from and refer clients to other agencies in the area, both public and private.

D. Beneficiary Characteristics

The direct beneficiaries of SRDC’s activities are the homeless of L.A.’s Skid Row area. About three quarters of SRDC’s clients are male and most of them are from minority groups. In recent years there has been a significant decline in the proportion of clients that are white and an increase in the number of Hispanic residents. The figures from April to August of 1992 show that 45 percent of clients were Black, 12 percent White, 42 percent Hispanic, one percent American Indian and one percent Asian. Age ranges for the same period show 44 percent of clients were between 26 and 35, 27 percent were between 36 and 45, and 15 percent were between 18 and 25 years old. Only two percent were 56 or older.

E. Project Activities

SRDC provides assistance to the homeless in the areas of housing as well as employment. SRDC is active in providing shelter in several ways. They run a 138-bed temporary emergency shelter which offers space nightly on a first-come, first-served basis. SRDC’s Transition House offers medium-term shelter combined with job-readiness training and placement services (to be described more fully below). Finally, SRDC owns Move-On Housing, a 17-unit apartment complex, and rents the apartments to individuals qualifying for subsidized housing.

SRDC stimulates employment opportunities in the area by developing commercial and light industrial space. In addition to the 37,000 square feet of space in the CLIC center, SRDC manages the Renaissance Building, a six-story, 66,000 square foot light industrial building which SRDC finished renovating in 1987. In both buildings, tenants with labor-intensive industries are preferred and provisions requiring the employment of Skid Row residents are included in the leases. SRDC also offers employment opportunities by hiring homeless individuals to work for Transition Enterprises, a vendor of maintenance and janitorial services which SRDC began operating in 1988.
Of all SRDC's programs, Transition House and Transition Enterprises focus most explicitly on assisting homeless people to find employment and make the transition from homelessness to participation in the social and economic mainstream. Transition House counselors spend at least one and one-half hours with an individual client at intake during which they ask about individual goals and education and skill levels and look for behavioral clues indicating a client's willingness to change. Transition House admits clients with substance abuse problems, but if medical supervision is needed, they refer the individual to another facility, as Transition House does not have the capacity to handle such situations. Similarly, clients with mental health problems may be referred if their problems are too severe for the staff at Transition House. Once admitted, clients must relinquish any weapons and remain drug and alcohol free. Alcoholics and Cocaine Anonymous meetings are held regularly.

Clients generally stay at Transition House for a period of three to six weeks. In unusual circumstances, extensions allowing clients to stay longer than six weeks may be granted. During their time at Transition House, clients receive training in basic job readiness skills, such as resume writing, appropriate dress for interviews and for work, as well as training in life skills, such as personal money management, stress management, and self-confidence. Residents also perform all of the chores and maintain the grounds of Transition House, giving them a feeling of ownership and responsibility for their living environment. Those who have a job often make small contributions to the house. Transition House maintains an environment which both encourages and supports residents, praising client successes, and demands individuals are responsible for themselves and respect those around them. Since the building is completely paid for, Transition House is able to run a very cost effective program, with costs per client averaging $14.60 per day.

Residents seek out employment opportunities themselves as well as hear about possibilities from the counselors at Transition House. SRDC recently hired a Job Developer to work with employers in the area and find more job openings for Transition House graduates. Residents commonly find jobs as security guards, maintenance workers, telemarketers, home aides, janitors, or clerical workers. Residents are encouraged to secure a job as soon as possible rather than wait until they finish a particular training regimen. The sooner a resident has a job, the more money he or she can save for an apartment deposit and other relocation expenses. Also, counselors can assist residents work through frustrations or other difficulties on the job and can help smooth misunderstandings between employers and employees. Once a resident leaves Transition House, there is no formal follow-up on individual clients, due to lack of resources and the difficulty of tracking people who may not want to be found.
Transition House has space for 94 men and 36 women. The staff has found this to be an appropriate size for their area, although the homeless population in the area is quite large. They find that the homeless population is very diverse and many of them, due to drug and alcohol dependency or other factors, are not willing to really try to make a change in their lives. Thus this program is only appropriate for a fraction of the homeless population. Transition House is usually 80 to 90 percent full, commonly with more vacancies on the women's side than on the men's. Staff attribute this fact to the relatively smaller number of women among the homeless and to the fact that many homeless women attach themselves to a man, often for protection, whom they would have to leave in order to enter the shelter. There is no space for married couples, although they can receive weekend leave passes. There is also no space for children. Women with children are referred to other facilities.

Transition Enterprises employs past and present residents of Transition House. Currently there are eight full-time workers on the staff, all graduates of Transition House. Current residents are often called in on a part-time basis as needed. This arrangement allows Transition Enterprises flexibility in meeting changes in the level of demand for their services, as well as offers Transition House residents the chance to earn some money to put toward relocation expenses. Transition Enterprises does not expect to keep its workers permanently, but rather to provide a more supportive work environment than graduates might find in the private sector, providing their employees with a necessary bridge to meeting the demands of the private workplace. SRDC started the program with a grant of $275,000 from the Charles Stewart Mott Foundation, but expects to break even this year.

**F. Finance**

SRDC receives funds from a variety of sources. Their biggest single source of funding is the CRA which covers their administrative operating budget as well as all of the costs for the San Julian Center and some of the expenses of Transition House. SRDC receives grant money from other public sources as well as from foundations for other projects or to start new initiatives. Some of the funds SRDC has received through the city is Federal money to implement the Homeless Opportunity Program for Employment legislated in Title III of the Job Training Partnership Act.

SRDC staff have been working hard to increase the proportion of their funds coming from private individuals and corporations and have had some success in recent years in developing a relatively reliable pool of corporate and individual sponsors. Finally, SRDC property management ventures generate revenues which they can use to support their other programs. Their total projected budget for the 1992/93 fiscal year was just over $3.32 million and SRDC projects they will cover roughly $375,000 of these expenses through revenues from their own operations.
IV. Results to Date/Lessons Learned

Since their opening in 1983, Transition House has served over 8,000 homeless individuals. Roughly 70 percent of these individuals have gone on to a stable living situation after leaving Transition House. Currently Transition House serves roughly 1,200 clients per year. Not all clients have the capacity to go on to employment, but many do. Since 1988, Transition House has enrolled 357 homeless men and women in its JTPA Homeless Opportunity Program for Employment and placed 242 of these individuals in unsubsidized jobs. Of these, 216 remained in the job in which they were placed for at least 31 days; 91 stayed at least 60 days; and 61 stayed 90 days or longer. The average wage at placement was $5.25 per hour.

SRDC staff feel that employment programs for the homeless must consider the severe barriers to employment many of the homeless face. Homeless individuals often need to learn very basic schedule management, grooming, dressing, and money management skills necessary to get and keep a job. They need to earn an income immediately in order to begin caring for their own basic needs and hence cannot afford to enroll in a lengthy training program. Homeless men and women generally need extensive support services during their first few months on the job. Such services may include, but certainly are not limited to, housing assistance, drug/alcohol counseling, job-related counseling, and personal counseling.
I. Contact Information

Contact: Thomas Seesal  
President  
Address: Seedco  
915 Broadway, Suite 1703  
New York, NY 10010  
Phone: (212) 473-0255  
Fax: (212) 473-0357

II. Setting

The withdrawal of federal money for community development activities in the 1980s left many community groups scrambling for funds. State and local governments, also feeling the pinch of reduced funding, began to experiment in new approaches to service delivery, trying to improve their efficiency and leverage funds from the private sector. Public/private partnerships became common. Seedco’s current approach to economic development fits well with this trend of new forms of collaboration between community-based organizations and institutions.

III. Organizational Description

Seedco is a non-profit organization which provides support to local community development agencies in low- and moderate-income neighborhoods across the country, primarily in urban areas. In particular, Seedco seeks to encourage collaborative development projects involving community-based organizations and public benefit institutions, such as hospitals, colleges, or universities. Such projects may focus on housing, economic development, employment and training, social services, health care, and other related areas.
A. Goals

Seedco seeks to strengthen community development organizations and to improve their ability to work with urban institutions, foundations, banks, and government agencies. By participating in partnerships, community groups can improve their skills and access additional resources, increasing their chances of success in their endeavors. Seedco also hopes to expand the participation of local institutions in the revitalization of their areas and to strengthen their commitment to the community in which they are located.

B. History

In 1976 Manpower Demonstration Research Corporation, a non-profit organization active in job training, created Seedco as a non-profit subsidiary to assist with their Supported Work Demonstration. That program, designed to help people with severe employment difficulties obtain a job, offered individuals jobs for up to 12 months, during which time employment standards gradually increased. The program allowed participants to build a work history while learning how to meet the demands of the workplace. In 1985 Seedco became an independent non-profit organization and, with the support of the Ford Foundation, began its Urban Institutions Program, which promotes partnerships between grassroots community development organizations and nearby public benefit institutions. Since the inception of this program, Seedco has fostered over 30 joint development efforts leading to a variety of visible neighborhood improvements, such as rehabilitated housing and revitalized commercial strips, as well as improvements in social services, the development of neighborhood-based plans and improved planning processes. Twenty-three medical centers and 25 colleges and universities have acted as partners to local community development organizations through this program.

Today Seedco has four major program areas, all of which involve partnership building. These are:

1. The Urban Institutions Program
2. Community Health Interventions Partnerships, (which focuses on health care issues)
3. The Historically Black Colleges and Universities program, which involves HBCUs in the revitalization of their communities, and;
4. Partnerships for Self-Sufficiency, which will be described more fully below.

Seedco receives funding from a variety of foundations, led by the Ford Foundation. Seedco established its National Urban Institutions Program under a grant and low-interest loan from the Ford Foundation. Ford initially provided roughly $3.5 million in grant and program related investment (PRI) funds. Since that time, Seedco has received
grants from 15 other corporations and foundations. This money covers operating costs as well as recoverable grants and development loans to participating community development groups. Seedco resources now include a $3.75 million low-interest loan fund and a $350,000 recoverable grant fund.

The grants and loans are intended to leverage local funding sources and community groups are generally required to match these funds. The match may be in cash or in kind and may come from the resources of the participating organizations, local government revenues, Community Development Block Grant funds, banks, local foundations or any other available source. Seedco seeks to involve local foundations in the partnership process in order to establish a consistent long-term funding source.

C. Staffing

Seedco has a full-time staff of eight, including a president, vice president, three program officers, an office manager, a secretary, and an assistant to the president. There is also a part-time accountant. Extensive use of consultants is made in providing technical assistance to local organizations. Seedco maintains close relationships with the Ford, Joyce, and Mott foundations and Citibank, and receives valuable input from the staffs of these foundations concerning their program design.

IV. The Partnerships for Self-Sufficiency Program

As more community groups have felt the need to engage in job generating activities, new types of collaborations were needed. In response, Seedco has begun a new initiative, the "Partnerships for Self-Sufficiency" program, which synthesizes Seedco’s experience in work-based training and in encouraging collaboration between community-based organizations and institutions. In this program, Seedco seeks to assist local non-profit community development organizations, in collaboration with a local institution and with a local foundation or other funding source, initiate training enterprises. Training enterprises are run as businesses and have a certain number of full-time professional staff as well as a number of trainees who work for the company. Essentially, trainees get the chance to have on-the-job training and valuable work experience which they can then use to find a job elsewhere. The model Seedco uses is based on the experience of Esperanza Unida, a Milwaukee-based CDC which creates businesses in order to produce trained workers as well as new enterprises.* Seedco adapted this model for

* To date, Esperanza Unida has established businesses in auto repair, auto body work, welding, housing renovation, asbestos removal, and child care and is planning to spin off one business through a worker buy-out.
replication by conceiving of the approach as a partnership-based endeavor and by building a planning and feasibility analysis process into the beginning stages of program development. The emphasis here was on designing a process that would help program directors think about the feasibility of their proposed business and where particular programs will lead without imposing a rigid development strategy.

The Partnerships for Self-Sufficiency program focuses on midwestern cities, which have been particularly hard hit by de-industrialization and the loss of manufacturing jobs. As these areas seek to redefine their role in manufacturing within the context of modern methods of production and heightened international competition, it is important to explore new methods for developing a work force to meet these challenges. As this is done, it is particularly important to open employment avenues to the less advantaged members of society, for whom barriers to participation in the economic mainstream grow increasingly difficult to surmount. This group will represent a growing proportion of the workforce as we move into the 21st century. Through the PSS program, Seedco is trying to help local organizations build programs that will not only train individuals for particular jobs, but will also develop trainee thinking skills and will link them with other educational opportunities, enabling trainees to visualize their career progression and to adapt to meet new opportunities.

A. Outreach and Selection:

The site selection process for the Partnerships for Self-Sufficiency program began with a round of letters to midwestern foundations. Since the Joyce Foundation provides the bulk of the support for the project, they asked that mid-western locations be chosen. The foundations were chosen as the point of contact because, as mentioned before, Seedco wanted to ensure that programs had a stable local funding source. It was also thought that local or regional foundations would be familiar with the activities of the community groups in their area and hence could recommend groups for the project. Seedco staff then contacted organizations suggested by the foundations and institutions who had contacted Seedco in the past and arranged visits to sites which seemed promising to assess the group’s interest, ability, and need to carry out economic development projects. Sites were selected based on the interest and degree of commitment evidenced by the local funder, by the community organization, and by the partnership institution.

B. Beneficiary Groups:

As with most Seedco initiatives, the PSS program works with CDCs serving low-income neighborhoods, mainly in inner city areas, and with institutions which are either in or very near the neighborhood served by the CDC. While many of the CDCs Seedco has worked with in the areas of housing and revitalization had considerable
experience in those areas, the community-based organizations in the PSS program
generally have little to no experience in the field of small business development. In the
PSS program, Seedco selected groups in low-income areas in five cities: Milwaukee, WI;
Wausau, WI; Dayton, OH; Canton, OH; and Lansing, MI. The following descriptions of
these sites provide good examples of the type of neighborhoods and institutions Seedco
works with.

In Milwaukee, Lisbon Area Neighborhood Development (LAND), a newly estab-
lished CDC, serves a low-income community with a majority of African-American
residents as well as a significant southeast Asian immigrant population. The majority
(60 percent) of households are female-headed and over 50 percent of area residents are
under 18. The institutional partners include the Wheaton Franciscan Services, Inc., a
hospital system which offers housing, health, and related-services to low-income com-
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In Wausau, The Wausau Area Hmong Mutual Association (WAHMA), serves the
Hmong refugee population, a Laotian ethnic group whose members fought along side
of the U.S. during the Vietnam War and therefore were given preference in resettlement.
Most of the Hmong who came spoke no English and were also not literate in their
own language. This handicap, along with their lack of entrepreneurial experience, has
made the integration of the Hmong into Wausau and its economy particularly difficult.
The unemployment rate among Hmong adults is 50 percent and welfare dependency is
high. WAHMA's institutional partners are the Northcentral Technical College and the
University of Wisconsin, Steven's Point and the local funders include the state of Wis-

In Lansing, Advent House Ministries serves a recently homeless population and
their activities include a week-end day shelter, a soup kitchen, temporary housing,
activities for children and senior citizens, and a Baking/Catering business which pro-
vides job readiness skills for persons who are illiterate, mentally ill, disabled, or lacking
a work history. The neighborhood is mixed, with a 1989 survey indicating 44 percent
of households are white, 41 percent African-American, 11 percent Hispanic, and 5
percent other. The survey also showed that 64 percent of households had annual in-
comes below $15,000. Over 75 percent of the population is female and only 42 percent
of households were headed by a couple. Advent House's institutional partners are St.
Lawrence Hospital, Lansing Community College, and Michigan State University. Fund-
ing sources include the City of Lansing, the Emily George Fund, and the Presbyterian
Self-Development Fund.
In Dayton, three CDCs are participating in the project, two of them working in low-income, predominantly African-American communities and one of them working with an Appalachian population. The neighborhoods face high unemployment rates, averaging around 20 percent. The institutional partners are the University of Dayton, Montgomery County Vocational School, and Neighbor-to-Neighbor, Inc., a non-profit technical assistance group serving CDCs in the Dayton area. The local funders include the Mathile Family Fund, the Campaign for Human Development, Marianist Project Extend, the City of Dayton, and Cooper Industries.

In Canton, The Association for Better Community Development (ABCD), a CDC established in 1972, serves a low-income, African-American population. The area has faced increasing poverty rates over the past decade with a concomitant increase in welfare dependency. Plant closings and high unemployment rates have been major contributors to this trend. ABCD's institutional partner is Stark Technical College and the local funder is the Stark County Foundation. Seedco received funding from Cleveland's George Gund foundation, most of which is earmarked for ABCD.

C. Services Offered

Having considerable experience in partnership building, Seedco is able to assist community groups and institutions in finding areas of mutual interest around which to build a partnership. Seedco then works with the participating organizations as they define their roles in the partnership and helps resolve disputes. Seedco also offers technical assistance to participating organizations in a wide variety of areas. In some areas Seedco staff provide the necessary assistance while in others, Seedco suggests consultants who would be appropriate service providers. Most community groups receive recoverable planning grants from Seedco and loan money is also available. Since this money must be matched with some sort of local contribution, it serves to leverage funds from other sources.

Within the Partnerships for Self-Sufficiency program, Seedco is providing $25,000 in planning grants to each of the participating PSS cites. These grants must be matched 2 to 1 by locally raised funds. Seedco also provides technical assistance in the areas of partnership building, business analysis, and planning. Seedco has held two training workshops designed to teach groups specific skills as well as to facilitate networking. Seedco has also designed a monitoring and evaluation program for the groups to use, allowing them, as well as Seedco and Seedco's funders, to easily assess the effectiveness of this approach to job training and business creation.

D. Funding

Seedco funding for PSS is being made available by the Joyce Foundation, the Charles Stewart Mott Foundation, the George Gund Foundation, and Citibank. Seedco's total
budget for its 18-month planning phase of the project is roughly $336,000, of which roughly $80,000 is for networking, $104,000 is for program management technical assistance and training, and $150,000 is for program grants.

E. Results to Date/Future Plans

As of the end of 1992, of the sites participating in PSS, most are still involved in the business planning stage, but one (Milwaukee) has already completed a plan and started a construction business and staff there are currently exploring options for a second venture. The Dayton site, which is nearing completion of its business plan, also chose construction, and the Wausau group is exploring the feasibility of a construction business. The Lansing site chose to start an appliance repair facility and they are working on the business plan. Canton, which faced some organizational difficulties early on, is still forming an advisory committee, which is to look at transportation-related businesses.

Seedco expects that all five sites will have at least one business started by mid-1993 and they are in the process of seeking funding to provide start-up capital and on-going, but scaled down, technical assistance to these businesses during the first eighteen months of operation. Seedco is also exploring ways these businesses can be managed through a total quality management approach and methods for integrating basic skills training into the curriculum. Seedco is also concerned that programs offer trainees a step on a career ladder, rather than just a job placement, and sees the institutional link as a key element in developing this aspect of the program. Seedco plans to continue networking between sites through annual conferences. Within the next two years, Seedco will commission an outside evaluation of the PSS program to assess its effectiveness and decide whether and how to expand it further.

F. Lessons Learned

Seedco staff have found that for a lot of community groups and others who have been involved in social service organizations and activities, the approach necessary for starting a business is rather unfamiliar and not something with which many board members or staff are comfortable. Therefore, a crucial first step for the community-based organization is to make sure they themselves, and then their board understand what starting a business will mean and the purposes it can be expected to serve.

Community groups also tend not to ask for the technical assistance that they need, perhaps due to difficulty in identifying or articulating exactly what their needs are. To combat this problem, Seedco would develop a rigorous needs assessment diagnostic and offer technical assistance which is specifically tailored to each program.
III Job Creation/Retention
Job Creation/Retention

Appalachian Center for Economic Networks (ACEnet)
Flexible Manufacturing Network (FMN) Project

I. Contact Information

Contact: Ms. June Holley and Mr. Roger Wilkens
Co-Directors
Address: Appalachian Center for Economic Networks
94 N. Columbus Road
Athens, Ohio 45701
Phone: (614) 592-3854
Fax: (614) 593-5451

II. Setting

ACEnet operates in the eleven-county Appalachian region of southeastern Ohio. The area is largely rural and has traditionally depended upon mining and manufacturing jobs for income and employment. In recent years however, these sectors have declined and the jobs, to the extent that they have been replaced at all, have been replaced by lower paying service sector jobs. During the 1980s, poverty increased in the region by 56 percent to now include 26 percent of the area’s population; much of this increase was due to growth in the area’s number of working poor. The region also suffers from considerably higher unemployment rates than state or national averages. The situation has led to the out-migration of many skilled people. Others who choose to remain are often under employed.

The town of Athens, where ACEnet is based, is home to Ohio University, which is the area’s largest employer and offers a base of skilled people. The University also offers support to several economic development initiatives in the area, housing a Small Business Development Center and a small business incubator. As is often the case with college towns however, there is some tension between the university community’s interests and those of the local population.
III. Project Description

Founded in 1985, ACEnet is a non-profit community development corporation which works toward the economic revitalization of the Appalachian region of Ohio. ACEnet evolved from the Worker Owned Network (WON), which involved the same principals and developed a range of worker-owned businesses in the region.

ACEnet's FMN project is designed to assist in the development of higher wage jobs for the area, to gain efficiencies in production and marketing among small firms with excess capacity, and to improve the area's industrial base. Following the flexible manufacturing network model of the Emilia-Romagna region in Italy, ACEnet is encouraging groups of small businesses to engage in cooperative ventures on a temporary basis with the group disbanding at the project's end, allowing the formation of new groups to meet new demands in the market.

Rather than organizing firms within a specific industrial sector, ACEnet focuses on vertical linkages, with different specialized firms in a network contributing to different stages in the production process or producing complementary products. Their first network, consisting of 30 firms in the areas of woodwork, engineering, office and furnishings design, metal work, and electrical work, is producing custom-built "accessible" cabinets and furnishings. These products are designed for the growing market for furnishings suited for disabled and older people.

A. Client Base

ACEnet's activities are designed to reach small firms in the area, mainly those in manufacturing. At the same time, they are committed to providing employment opportunities to people who have been left out of the economic mainstream. In particular, they try to give women access to nontraditional jobs and emotionally and physically disadvantaged access to appropriate employment as well as to provide employment opportunities for other low-income members of the community.

B. Project Design

In designing the project, ACEnet staff did a considerable amount of research on flexible manufacturing networks, trying to understand the key elements to their success and to decide whether it is an appropriate model for their region. They then conducted market research to identify a promising product area. Rather than concentrating on industrial sectors in their search, Holley and Wilkens used the Office of Technology Assessment’s (OTA’s) amenity clusters. Within the housing amenity cluster, they felt that accessible furnishings and enabling devices offered great promise due to the growing number of elderly and the passage of the Fair Housing Amendment and the Americans with Disabilities Act, among other factors.
To produce these accessible furnishings requires the participation of manufacturers from seven different industrial sectors (using two-digit SIC codes). ACEnet staff examined their eleven-county region and found that about 260 firms were within the seven industrial sectors needed for accessible furnishings production. Of those 260, 210 had fewer than 50 employees, the most likely type of firm to participate in and benefit from an FMN. Thus the product seemed to fit the capabilities of the region.

C. Outreach and Promotion

ACEnet began promoting their project by contacting firms within the relevant industrial sectors, sending letters to potential FMN participants to let them know of their activities. They also hired a specialist to interface directly with the firms.

To provide a concrete example of how the FMN should work and what the benefits are, ACEnet began a pilot project for the production of a prototype kitchen unit with motorized cabinets and other features providing easy access. The model was placed in several housing developments in the Athens area to demonstrate the market for the product.

At this point the problems in bridging the gap between producers and consumers became apparent. In response, ACEnet recently formed a for-profit subsidiary, Accessible Designs * Adjustable Systems (AD*AS), to act as a lead firm, coordinating production among firms and finding contracts for the firms to fill. AD*AS draws on a network of designers, engineers and contractors in order to bring market orders to producers. The subsidiary also does some of the final assembly work in manufacturing the product. In performing this latter function, AD*AS should provide opportunities for non-traditional workers to gain experience in order to increase their chances of being hired by another FMN firm.

ACEnet is also promoting their activities to disadvantaged members of the community by strengthening links with local community groups, such as the Appalachian People’s Action Coalition (APAC). APAC offers very disadvantaged members of the community a chance to build rudimentary job skills through working in a used furniture store and other activities. AD*AS can then take the individuals a step further. In addition ACEnet has been striving to involve a variety of actors in collaborative efforts designed to provide the training necessary to ensure skilled workers for FMN production. Last year ACEnet brought together 16 representatives of FMN firms, community groups, human service agencies, and the vocational school to design a 3-year customized training program that includes classroom training at the vocational school and on-the-job training in FMN firms. Of the first seven trainees selected, all were welfare recipients and four were women. This innovative program provides qualified workers for FMN firms and enables low-income people to acquire the skills they need to make a lasting transition off public assistance.
D. Other Services

In addition to its networking activities, ACEnet is currently operating a business incubator which offers tenant firms low-cost space as well as access to computers, office equipment, meeting space, and a library. ACEnet makes these services available to other small firms in the region as well. All firms using the services pay a small fee. ACEnet is trying to convert this facility to being a hub for its FMN by recruiting firms related to accessible furnishings manufacture to the facility. Firms outside the facility can still use the resources located there to build their skills and capacities, hopefully while building the working relationships with other firms necessary to the FMN mode of production.

IV. Results to Date/Future Plans

As of the Spring of 1992, most production orders have come from the University, which ordered some adjustable desks. ACEnet has developed the prototype for the kitchens and staff are currently working on building market links outside of the depressed Appalachian area.

ACEnet is also developing two other networks, one in specialty foods and the other in resource recovery and remanufacturing. The specialty foods network includes ACEnet's specialized kitchen incubator, a facility in which baking and other relatively expensive food production equipment is made available to a variety of small start-up food businesses.

ACEnet has now passed through the initial organizing stage to prototype production. U.S. firms find it difficult conceptually to adjust to the idea of switching to networked production, rather than relying on independent production or sub-contracting. Actual production makes the concept clearer and also more appealing. With a sound product idea, an excellent reputation, significant outreach capacity, and a demonstrated concern for employment among the disadvantaged, ACEnet constitutes a major experiment for FMNs in a depressed area.
I. Contact Information

Contact: Mr. Rick Surpin
President
Address: 349 East 149th Street
Bronx, New York 10541
Phone: (212) 993-7104

II. Setting

Located in the South Bronx, CHCA is operating in one of the most distressed inner city areas in the country. All of the paraprofessional workers and clients of the company are residents of the South Bronx or Harlem.

III. Project Description

A. Background

Founded in 1985, CHCA is a worker-owned agency, currently employing over 270 low-income women, 80 percent of whom formerly relied on public assistance. The agency was founded by its current president, Rick Surpin, and his associates at the Community Service Society, a large New York social service agency.

The idea for the company began with the search for an employment strategy which would create “good” jobs; i.e. those with decent wages, benefits, job stability, and possibilities for advancement, as well as a humane work environment; for low income people. The home health care industry, which was found to be an expanding, labor intensive industry without a high entry-level skill requirement, seemed to offer the potential for creating a large number of jobs. Together with the community development team at CSS, Surpin began evaluating the opportunities for employment offered by the home health care industry in mid 1983.

CSS then enlisted the help of the ICA Group (formerly the Industrial Cooperative Association), a non-profit consulting firm specializing in worker ownership, to assist in the development of a formal business plan to assess whether a worker owned home
care agency could be profitable and meet social objectives. Surpin chose to form a worker-owned enterprise in order to allow workers to have more autonomy and control and to maximize wages rather than profits. Unfortunately, as this assessment revealed, home health care jobs have traditionally offered only part-time employment with low wages and no benefits, not exactly the "good jobs" which were sought. Since the home care industry was projected as a major job growth sector, it was also decided that "good jobs" had to be judged relative to the rest of the industry, rather than the absolute standard. At this point an additional goal was added, that of creating a model home care agency and demonstrating that better jobs would result in better care for patients.

To get CHCA started, Surpin needed to find a contractor who agreed with their theory that better jobs would result in better service. In 1984 their first major contractor, Bronx's Montefiore Medical Center, was found. With the agreement from Montefiore, Surpin and associates began to put together their financing. Alternative sources of finance were necessary since banks were not particularly interested in such a risky endeavor. The ICA Revolving Loan Fund, an affiliate of The ICA Group, acted as the lead lender. Charitable organizations also provided some loan money and CSS and the United Hospital Fund provided some equity financing.

The first two years were rocky due to problems with the contractor as well as with the management. The contract with Montefiore only gave CHCA a license to provide service, but did not give CHCA the ability to make job assignments. The hospital coordinators retained control over that function. Thus CHCA lacked the ability to meld assignments into full-time work for its employees, leaving the initial employees feeling deceived and frustrated. The first general manager, recruited through a national search, was the director of a midwestern home care franchise. In spite of his qualifications, this manager seemed to get bogged down in some of the technical details of the business rather than concentrating on the direction of the company and taking responsibility for making the necessary decisions. Toward the end of 1985 the manager was released from his contract.

In 1986 an attempt was made to hire and train a new general manager from within. In this year a second contractor, the Visiting Nurse Service, was also secured. This allowed growth to about 130 employees and revenues of $1.5 million by the end of the year and the opportunity to offer full-time employment. This did not, however, mean success. By the end of 1986 losses totaled $70,000 and the attempt to train a CEO from within had failed.

In 1987 Surpin left CSS to become full-time CEO of CHCA, with CSS still offering some technical assistance. Prior to this time, Surpin acted as a part-time CEO, focusing on strategy, financing, and marketing issues while also supervising the general man-
ager. Faced with disorganization and high employee turnover rates, Surpin hired a new administrative staff and worked to establish new management systems, encouraging worker participation in management decisions and becoming more personally involved with the workers. In this way Surpin instilled a family atmosphere in the CHCA work environment, an important element of its success. He also secured new home care contracts which eliminated operating losses and allowed the provision of a better benefits package. He was then able to boost morale and achieve the goal of 70 percent full-time employment with benefits.

The original board of CHCA was composed of Surpin and two others from CSS. The plan was that, as employees chose to become members, they would elect representatives from among them to serve on the board and gradually assume the majority of seats. This process went pretty much according to schedule. Since 1987 was the first profitable year for CHCA, workers were now more actively encouraged to buy into the business and become worker owners. Worker ownership was not pushed initially, since the business needed to be stabilized first or there would not be anything to own. Furthermore, the women were unlikely to have the $1,000 needed to purchase a membership up front.

Since 1987 CHCA has evolved into a stable profitable business, providing employees with health benefits, life insurance, sick leave, paid vacation time, and both entry-level and advanced training. It has also become known for providing excellent service, proving its premise that if home care jobs were improved, so would the quality of care available.

B. Structure and Staffing

CHCA is a for-profit worker-owned cooperative governed by a board of directors composed of six worker-owners, the CEO, and two outside members. The board of directors evaluates the performance of the CEO and is very active in overseeing the management of the company. Company-wide meetings are held to discuss major changes or decisions and the participatory structure of worker-ownership has been viewed as one of the keys to the company’s success. Active recruiting of highly skilled managers and trainers is another.

Workers have to earn the right to become a worker/owner through satisfactory performance during their first three months. The workers pay $1,000 to buy in to the company through deductions in their weekly pay checks of about $3.65 per week. After paying $50 dollars, an aide has full voting rights on all major company decisions. Roughly 175 of the company’s 250 aides and 20 administrative and support people are now full worker/owners, having committed $1,000 each over a five year period. Worker-owners elect from among themselves six of the company’s nine board members.
CHCA trains board members and interested worker-owners to help them make informed management decisions and Surpin outlines the choices which must be made and the consequences to be expected at company-wide assemblies.

C. Operations

CHCA subcontracts with certified home health care agencies for the provision of paraprofessional home care services. CHCA's contractors request that CHCA send someone to provide service to a Medicare or Medicaid patient who is now convalescing in their home. This service generally entails cooking meals for the patient, perhaps doing some cleaning, and providing other services that the patient is unable to take care him or herself. Although the paraprofessional does not need to perform any medical tasks per se, they are trained to ensure that the patient is taking their medication and check to see that they are well. CHCA employees are sent to work in people's homes for periods of time ranging from a few days to several months. They do not live in the person's home, but may be expected to spend most of the day there, often dealing not only with the patient, but also the patient's family and friends.

CHCA is not a certified home health care agency, certified to provide services directly to Medicare/Medicaid. In order to be certified they would need nursing and physical therapy as well as paraprofessionals. They did not feel they could compete with the existing agencies in the field, but rather would do better by subcontracting for provision of paraprofessional services, which tend to be less profitable and are more readily contracted out by the well-established agencies serving the area. Currently 70 percent of their business comes from two agencies, with another five making up the remaining 30 percent.

CHCA works very hard to maintain a family atmosphere and workers are expected to treat each other, as well as clients, with respect and consideration. To reinforce this atmosphere, workers are required to come in to collect their paychecks, rather than receiving them through the mail, and frequent group functions and meetings are planned. Such interaction helps workers get the support they need and keeps them abreast of company operations. Workers also see the fruits of their work in the form of yearly bonuses. Thirty percent of gross profits are given out in the form of bonuses. Targeted Job Credits received are also passed along to worker-owners.

1. Recruitment

Workers generally hear of the agency by word of mouth or are referred by social service agencies. A one-on-one interview is conducted by a member of the administrative staff who then makes a recommendation to the rest of the committee regarding hiring. Potential employees are evaluated based on their maturity, interest in the field, and
other personality characteristics which bear on their suitability for employment in home health care. For example, a potential employee may be asked whether, given that she has been assigned to take care of an elderly woman for whom she must make dinner, she would be willing to make dinner for the woman’s husband as well. This sort of question is asked to see how much the applicant is concerned with caring for people as opposed to only doing the job she’s paid for. Only about one in four applicants is accepted.

2. Training

Although in the early years training came through courses at a community college, this was not found to be satisfactory and currently all training is provided in house. CHCA has designed its own training method and manuals and is certified by the state to award the certificate needed to become a home health care aide. In fact, the number of hours of training CHCA employees receive exceeds the state standards. Workers are trained in how to deal with difficult situations which may arise with the patient’s family members or friends as well as how to care for the patient.

The training also seeks to instill in the workers the need to respect their fellow workers and to inspire them to feel a part of the CHCA family and rely on their fellow workers for support. Because of their unique training method, CHCA prefers to hire persons with no prior experience and train them rather than hiring experienced paraprofessionals who will not want to go through CHCA training. Over the last five years CHCA has trained all their new employees in house.

In July of 1991 CHCA established the Home Care Associates Training Institute, which conducts the entry level training program, all policy research and advocacy and in addition offers a nursing education program. Through the nursing education program workers have the opportunity to upgrade their skills and thus some upward mobility along a career ladder is provided. At present, 15 of CHCA’s paraprofessionals are enrolled in a program leading to their becoming licensed practical nurses.

IV. Results to Date/Future Plans

CHCA has shown that its home care agency is a viable enterprise. They have been profitable for the past five years, with annual sales projected at $4 million in 1992. They have a profit rate of 4–5 percent before taxes and have been able to give each worker owner a bonus of between $250 and $500 for the past four years. CHCA is growing at a 20 percent rate, twice as fast as the industry average. They add 50 new employees each year. They do not want to grow beyond 500 employees, however, as they feel it will be hard to maintain the sense of community if they become too big.
CHCA has also been effective in job creation. The company has offered jobs to over 250 low-income Latina and African American women, the majority of whom formerly relied on public assistance. Seventy percent of CHCA's employees are full-time, with benefits. The industry average is only 50 percent of employees are full-time. Their average wage rate of $6.50/hour is higher than the industry average and their employee turnover rate of only 15 percent is much lower than the 50 percent rate in the industry as a whole. In addition, CHCA offers its employees a career track. Its nursing education program is the only systematic program to upgrade home care paraprofessionals in the country.

The worker-owned structure of CHCA has empowered workers. CHCA has a worker centered, participatory style of decision making. Workers feel they are an important part of things at CHCA and, as evidenced by the low turnover rate, are generally satisfied with their job.

Finally, CHCA has gained a reputation as a quality home care provider. Several professional conferences have featured the organization as an example of “best practice” in health care.

As a result of their success, CHCA has become a model for replication. With the initial backing of the Charles Stewart Mott Foundation and recently the Ford Foundation, CHCA has begun a replication program to create home care cooperatives in other cities in the U.S. An initial project in Philadelphia is scheduled to begin this year and another replication in Boston is slated for 1993. Two home care agencies, one in Waterbury, CT and one in Oakland, CA, have already patterned their operations after CHCA.

V. Information Sources


Rick Surpin, Memorandum to the Center for Community and Economic Development Staff—Broadening our Economic Development Agenda, Community Service Society, August 6, 1986.


Interview with Rick Surpin, CHCA offices, Bronx, New York, April 30, 1992.
THE FULTON-CARROLL CENTER FOR INDUSTRY (FCCI)
CHICAGO, IL

I. Contact Information

Contact: Ms. June Lavelle, President
         Mr. Bob Ciesla, Manager
Address: 2023 West Carroll Avenue
         Chicago, IL 60612
Phone: (312) 421-6835
Fax: (312) 421-7567

II. Setting

Located in the West side of Chicago, the Fulton-Carroll Center is a business incubator housing approximately 70 small and micro enterprises which together employ roughly 450 persons. The immediate area around the incubator, known as the Kinzie Industrial corridor, originally housed such industries as food processors, metal fabricators, electrical manufacturers, and job shops. The majority of these firms were fairly small, closely held businesses.

At the time of FCCI’s founding, the area’s industries faced serious problems. Riots during the late 1960s had caused capital flight throughout the 1970s. As businesses left, vacancy rates climbed. Many of the abandoned buildings were burned, often setting fire to adjacent, occupied buildings, causing the demise or departure of even more businesses. As the area declined, insurers stopped providing coverage for local businesses. Sometimes very small operators, who located in the area because the space had been cheap, but had been unable to buy insurance, lost everything.

Racial problems and high crime rates added to the tension of the area. The neighborhood to the north of the facility was largely Puerto Rican, with a smattering of ethnic whites, while the one to the south was almost solidly African American. Gang wars between the two groups were a problem and most employers hired from one group or the other to avoid problems between their workers.
III. Project Description

A. Goals

FCCI was founded in 1980 to reseed the area with new businesses, which would provide productive employment opportunities for the neighborhood’s residents, and to solve a real estate problem posed by the presence of a huge, century-old, multi-story factory which at the time was in demolition court due to its serious state of disrepair. The building, with approximately 350,000 square feet of industrial space, takes up an entire city block. Because of its size, the building was too expensive for the city to demolish, yet a fire in this building would be devastating to the neighborhood. Also, as more businesses left for the suburbs or for other parts of the country, the area’s job base went with it, exacerbating crime problems and leaving more people unable to earn a decent income. Given the attractiveness the area was likely to have to outside investors together with the fact that there seemed to be individuals in the area struggling to operate a business, the logical strategy for rebuilding the area’s industrial base seemed to be to encourage business formation from within the community.

B. History

As the executive director of The Industrial Council of Northwest Chicago (ICNC) in 1980, Ms. June Lavelle purchased the 100-year-old factory destined to house FCCI for $320,000. The money was part of a grant from the U.S. Economic Development Administration (EDA) made to ICNC in 1972.

ICNC had first received a technical assistance grant from EDA to do a strategic plan for the area. The plan developed included establishing an office and training center which would also offer services such as health and child care. In 1972 EDA awarded ICNC a grant of $1.7 million to build the facility, but the grant required a 20 percent local match. Unable to raise the local match, ICNC left the grant unused. By 1978 when Lavelle became executive director, inflation had taken its toll and the amount of money EDA had set aside, while still available, would no longer be sufficient for the original project, even if ICNC could raise the local match, which they couldn’t.

In 1979 a fire on nearby Hubbard Street displaced six or seven small companies, none of whom were insured. They were mostly small wood working shops and were very young, owner-operated companies. They had been unable to obtain insurance because of the condition of the building, but had located there because it was cheap and they could not afford to pay more. Seeing these individuals, Lavelle figured that there must be others in similar situations. She then convinced EDA officials and ICNC that establishing a business incubator would be a good idea and persuaded EDA to waive the local match requirements.
When ICNC purchased the building for the Center, there were several tenants located in the building, including a very large firm which occupied the entire first floor, as well as parts of the second and third floor. Not all of this space was officially leased to the firm however, and the amount of money they paid in rent, amounting roughly to 45¢ per square foot, was not even sufficient to cover the operating costs for that space.

The initial years of operation were rocky. The remaining grant money was spent on necessary repairs and other improvements to the building, leaving nothing left for a reserve. Substantially undercapitalized and with no funds for operating expenses, which the EDA grant doesn’t cover, Lavelle ran up $165,000 in debts to various creditors, including a $80,000 bill with the power company, which she then convinced them she could pay, if they allowed her to pay in installments. The center managed to attract 18 tenants in 1980 and things improved from there. By 1984 the Center had rented the vast majority of its space and was operating in the black, although a substantial debt of roughly $250,000, accumulated in the prior years, still needed to be paid off. In 1986 an additional building was acquired bringing total square footage to 416,800. By 1989 the incubator managed to free itself of its debt burden and actually make a profit.

The incubator’s largest tenant was acquired by another firm in the mid 1980s. This firm then went bankrupt, leaving a wake of unpaid debts, including roughly $100,000 which it owed FCCI. This money was never recovered and Lavelle had to scramble to subdivide and lease the large vacant space left behind. At this point she had run out of money for rehab and could not borrow because of Department of Commerce regulations. To get the needed funds she arranged for one of her credit worthy tenants, who happened to be in the construction business, to get a $100,000 line of credit from a bank. He then performed the construction work which Lavelle needed to have done for which she gave him an unsecured note and then later paid off the note. Another firm then took over a portion of the vacated space and the capital equipment. This company also did not make it and finally in 1989 the current tenant of this space, Edsel, moved in. At this time, Edsel provides roughly a quarter of FCCI’s monthly rent revenues and acts as a valuable anchor tenant. This company only needs the space on a temporary basis, however, and their lease is a year to year lease, with only 90 days notice required.

C. Organizational Structure

ICNC owns the incubator facility and until recently, the management of FCCI were employees of ICNC. In 1990, however, the management incorporated and they now provide management services on a contractual basis. Originally Lavelle ran the incubator pretty much on her own. She had some help from a few maintenance workers, who she recruited from the CETA labor force she had been managing prior to becoming the executive director. She also hired a part-time bookkeeper and her sister acted as a part-time
secretary. Since then, the staff has grown, but still remains fairly thin considering the size of the operation. The staff includes five maintenance workers, two clerical staff who run the business service center, a controller, an on-site manager, and Lavelle as the director.

D. Funding

After the initial EDA grant of $1.7 million, the center did not receive any funding outside of what it could collect through rent and service fees until 1985. At that time it received another grant of $919,000 for the acquisition and rehabilitation of the second building. Other government and foundation funds have been received each year since 1985. This money has largely been used for services, such as supporting the SBDC within the incubator or establishing a revolving loan fund, while rent revenues have covered operating and maintenance expenses.

E. Outreach and Promotion

When the incubator first opened, Lavelle actively recruited tenants for the center. She contacted a variety of groups, including banks, real estate agents, lawyers, business suppliers, and anyone else who might help, to try to get leads on businesses which might be interested in the space and to generally make the existence of the incubator known. Since she had so much space to rent, Lavelle needed to find a large number of firms fairly quickly and, given the state of the neighborhood at the time, many businesses did not want to locate there. As the incubator stabilized and its reputation grew, however, they began to receive referrals from banks, Small Business Development Centers, existing businesses, and others, reducing the need for active recruiting.

F. Beneficiary Characteristics

The center has provided business support and job opportunities to a number of people in the Chicago area. Of the current business owners, 46 percent are minorities or women and of the employees 63 percent are minority or women. Seventy eight percent of the building's employees are Chicago residents.

In screening clients, the management generally considers whether it is a good idea for the business to move into the incubator. Initially, due to the large space which needed to be filled to get FCCI off the ground, Lavelle would take just about anyone interested in moving in who seemed like they would pay the rent. For the most part, this policy has not changed much over the years. Generally potential tenants are assessed through conversations with the business owner about their business to see how well they have thought through their idea and whether the incubator is the appropriate place for them to locate. In some cases FCCI staff may suggest locating elsewhere or operating the business out of their home for a while to avoid the expense of rent. The purpose of this review process is to try to place the business where it has the best chance of success. Since 1988, FCCI has had an application form for tenants, but formal
business plans are still not required. The feeling is that requiring business plans would discourage many of those to whom the incubator is targeted. FCCI does not have specific income requirements of the individual or the individual's business, but by the nature of their operation they don't tend to attract wealthy clients.

G. Services

In 1982 FCCI created a service center for the facility. The center offers business support services on a fee basis. These include typing, photocopying, postage, faxing, phone answering, word processing, and a notary. In addition, FCCI has also struggled to offer some financial services to its tenants. In earlier years, Lavelle would often lend tenants her own money so that they could buy the materials they needed to fill contracts they had received. Later she began loaning some money out of the income from rent. In 1989 FCCI began operating a revolving loan fund, capitalized at $50,000 through a $37,500 grant from EDA matched with funds from the center. The fund was set up specifically to finance purchase orders and tenants were not eligible to borrow until they had secured a contract. The fund loans money, for periods of up to three months, at prime plus three with a maximum loan amount of $10,000.

Business assistance is also available at FCCI. Formal offering of business assistance began with the establishment in FCCI of a Small Business Development Center (SBDC) which offered individual business counseling free of charge. This was done with state support, but this approach was not very successful and funding for the SBDC was removed in 1988. The business counselor spent too much time with individual clients and the volume of businesses reached did not satisfy state guidelines. Lavelle found a consultant with considerable experience who was willing to work with the tenants and charge them reasonable rates. Interestingly enough, the tenants require much less time in working with this consultant and also appreciate his services much more.

FCCI charges mainly below market rate rents, but the amount of rent paid depends on the length of the tenant’s tenure in the facility and the perceived strength of the business. Start-up businesses which have just moved into the building are likely to be paying a lower rent than a business which has been there longer and is more stable. A tenant’s move up the rent pay-scale does not follow a set schedule, but is determined according to the progress individual businesses make. An interesting way in which management staff discover the success of particular entrepreneurs is through the parking lot; when the quality of car the business owner is driving improves, it’s a good indication the business has too.

Clients generally receive one to two year leases, but may even go month to month if necessary. The terms are tailored to suit individual needs. Should a client need to make substantial improvements to a space in order to make it usable, a longer-term lease.
allowing the tenant to amortize the leasehold improvements may be arranged. The space itself is industrial, with high ceilings and loading docks on the first floors and elevators serving the second and third floors, and the location puts them near a customer base in the center of town as well as near an expressway.

Clients are required to carry general liability insurance and are strongly recommended to insure the contents of their space as well, since security is still a problem in the area. The incubator does have a broker that they work with who will offer the small tenants insurance. Thus locating in the incubator makes it easier for tenants to get insurance, as many insurance brokers do not want to handle such small accounts, yet it does not seem to be an advantage greatly appreciated by the clients.

IV. Results to Date/Future Directions

FCCI has had a tremendous positive impact on the business climate and stability of the area. The value of the incubator property has increased by 500 percent and the vacancy rate in the area has dropped from between 20 and 30 percent to 6 percent. The national and international attention the incubator received drew the attention of the City of Chicago to the area, bringing a host of needed infrastructure improvements. The center has provided space to a total of 177 firms with 41 percent of those firms being owned by women or minorities. As of the end of 1991, 71 firms had "graduated" from the incubator, 25 firms had failed and 69 firms remained in the incubator. On average, FCCI assisted in the creation of 14 firms per year.

FCCI estimates that, as of the end of 1991, business start-ups or expansions in the center have created 1,523 jobs, with 80 percent of these staffed by women or minorities. Of these jobs, approximately 22 percent were later lost due to firm failures. Another 13 percent were lost due to work force attrition. The average wage rate in the incubator now is roughly $7.75 per hour.

Although job creation is one of the goals of the center, FCCI staff realize the importance of maintaining healthy businesses, and, as businesses face difficult economic conditions or other problems, they have sometimes had to help businesses shrink their operations.

The average cost per job created in the incubator, based on the level of foundation and U.S. government support FCCI has received over the years, is estimated to be $1,830. This estimate is lower than that for previous years and likely to continue to decline, since the incubator no longer needs large subsidies, yet its job creation capacity continues to be strong.
I. Project Identification

Contact: Dr. Bernie Glassman  
Address: 114 Woodworth Avenue  
          Yonkers, NY 10701  
Phone: (914) 376-3900

II. Setting

The Greyston Bakery, founded in 1984, is a for-profit enterprise founded to employ the disadvantaged in the southwest section of Yonkers. Located in Westchester county, Yonkers is a short commuter rail ride from New York City. Although home to some of New York’s wealthier residents, Westchester county has the highest per capita homeless rate in the country—1 in 200 residents—and more than half of them are in southwest Yonkers. Bernie Glassman, a Brooklyn born son of Jewish immigrants and practicing Zen master, founded the bakery. With the help of a low-interest start-up loan from Yonkers and the support of the Zen community, the bakery was launched and to date has provided training and employment to more than 200 poor, most of whom were chronically unemployed.

Very few of the employees of the Greyston bakery are involved with Zen and there are no proselytizing activities. The Zen influence is seen more in the approach to the community. Glassman takes a holistic approach to the community and today Greyston Bakery is part of the Greyston Network, a coalition of for-profit and non-profit entities which provide the community with housing, training, counseling, and daycare services as well as employment.

III. Project Description

The bakery concept arose from Glassman’s exposure to the successful Tassajara Bakery run by the San Francisco Zen Center. Tassajara employed many members of their Zen community in the production of bread. Glassman adapted this model in order to provide employment to disadvantaged citizens. Greyston Bakery currently produces
gourmet cakes and pies, which have won national awards for their quality, and sells these products through specialty outlets; the bakery does not engage in direct retail. The bakery’s largest product line now, however, is brownies, which it produces for Ben and Jerry’s Ice Cream of Vermont to include in their Chocolate Fudge Brownie ice cream. Ben Cohen of Ben and Jerry’s felt comfortable giving Greyston bakery this contract because the bakery had demonstrated both a commitment to social concerns as well as the ability to run their operation as an enterprise. The relationship with Ben and Jerry’s increased the volume of Greyston’s business dramatically. Current annual turnover is approaching $3 million. The Ben and Jerry’s contract, with 3,300 pounds of brownies being shipped per day, accounts for roughly 50 percent of revenues. The relationship with Ben Cohen has also led to an additional contract for the production of Rainforest Crunch cookies.

Although sales were high, the bakery had difficulty turning a profit in its initial years due to high training and equipment costs, and growth beyond the staff’s ability to manage. Glassman, who has a Ph.D. in applied mathematics and formerly worked as an aerospace engineer, initially ran the bakery. Recognizing that he needed help in managing the bakery, he recruited Jef Hoeberichts, who had previously been a financial advisor to the firm, to manage the bakery. The introduction of a professional manager has increased efficiency, enabling the bakery to run in the black in 1991. Another full-time staff person is employed to keep the accounts.

The bakery currently employs approximately 35 production workers, generally low-income, men and women from a variety of ethnic groups. The workers are divided into three work groups drawn along product lines: Rainforest Crunch cookies, brownies, and cakes and tarts. Each work group has a group leader and it is the group’s responsibility to see that production standards are being maintained and goals are being met. Incentives to improve production are offered. The work groups are generally responsible for hiring and firing, since they can better assess which members of the group are productive, and are held responsible as a group for their particular product line. The management oversees this process to guard against discrimination. Work groups also provide individual workers with most of their training; workers only undergo a brief orientation to the business before they are assigned to a work group.

Workers can earn modest raises as they improve their skills, and having group leaders allows workers to move into positions of increased responsibility. In addition, working in the cake and tart work group offers the chance to develop more refined skills in the baking field. At present, the average wage rate among workers is $7/hour.

Although motivated by social concerns, the Greyston managers run the program as a business. Generally, the management has established a few key rules regarding
worker performance about which they are very strict and very consistent in their application. Absenteeism and other problems which have a damaging impact on production performance are not tolerated. Hygiene and related regulations are strictly enforced. People who require counseling are generally referred to clinics or other service agencies, often within the Greyston Network. In spite of this approach, the Greyston managers do recognize that some of their workers may need a little more help than average. A number of employees find success in their work difficult to deal with and tend toward self-defeating behavior. Peer support in the work group is one mechanism for combating this problem. The management also tries to be sensitive to these problems, but without sacrificing the integrity of the business.

IV. Results to Date/Future Plans

From its initial business in gourmet cakes and tarts, the bakery has grown to include other product lines, which now comprise the majority of its business. The bakery expects annualized sales to be over $3 million by the end of this year. Further, the bakery has provided job skills and training to over 200 poor and homeless people. Glassman is very excited about the success of the bakery, as it is achieving self-sufficiency while pursuing social goals. The success of the for-profit bakery spawned the creation of non-profit social service providers within the Greyston network, strengthening their social function. Glassman sees this coalition of for-profits and non-profits as a way to achieve self-sufficiency while at the same time taking a more wholistic view of development. The following diagram depicts the current network of organizations:
The rapid growth in sales has led the bakery to operate just about at capacity. The bakery currently operates out of one facility, with two shifts per day and the expectation to move to three. Another facility is being sought to house the bakery’s growing brownie business.

Greyston offers an interesting example of a successful production enterprise linked to a network of other services for low-income people. The inclusion of housing, counseling, day care, and employment services within the same network offers both an outreach mechanism and a support service for workers, but keeps these functions separate from the business.
I. Contact Information

Contact: William J. Barrow  
Executive Director  
Address: 611 H Street, N.E.  
Washington, D.C. 20002  
Phone: (202) 544-8353  
Fax: (202) 544-3051

II. Setting

HSCDC operates in an area which includes portions of the District of Columbia’s northeast, southeast and northwest quadrants. The population in this area, which totals almost 48,000, is predominantly African American, with Whites constituting close to 20 percent of the population and other ethnic groups accounting for less than two percent of residents. Although HSCDC’s market area (a slightly smaller subset of the entire service area with roughly 19,000 households) contains pockets of relative affluence in communities adjacent to the Capitol, close to 15 percent of households have incomes of less than $7,500, almost 20 percent have incomes of less than $10,000, and roughly 30 percent have incomes below $15,000. Crime continues to be a problem, with an average crime rate of 17 percent and a violent crime rate of close to 3 percent in 1991.

Commercial activity in the area is primarily retail and services, mainly small, owner-operated businesses which serve residents in the adjacent neighborhoods. Currently 245 establishments operate within the H Street Corridor, from 3rd to 12th streets, N.E. Establishments in the Corridor vary widely and include: grocery, furniture and appliance, and novelty retail stores; personal services such as beauty/barber shops, and cleaners; government offices, such as the Department of Employment Services and Department of Health and Human Services; and other miscellaneous operations including two radio stations, a library, numerous thrift stores, and several churches.
II. Project Description

A. Goals

HSCDC was founded to give the community a voice in the planning and a vehicle for the development of the H Street, N.E. corridor. The organization remains committed to representing the interests of the community and to ensuring that the residents and merchants within the corridor benefit from the anticipated development. HSCDC promotes economic development along the H Street corridor and surrounding neighborhoods, striving to restore the corridor to the booming business district that existed before the 1968 civil disturbances. By upgrading the business skills of community residents, increasing business opportunities, ensuring a supply of affordable housing, and improving the physical infrastructure of the community, H Street seeks to improve the environment for both living and working in the H Street area.

B. Brief Description and History

Formally incorporated in March, 1984, HSCDC traces its origins to a coalition of merchants, residents, and community leaders which formed following the civil unrest of 1968 to address the decline of the once-vital H Street commercial corridor and its surrounding neighborhoods. The H Street, N.E. community, a focal point of the 1968 riots, suffered from the devastation and ensuing period of disinvestment. Disinterested absentee owners did little to improve the appearance of buildings, and many stable businesses in the area either closed or relocated. In 1984, many buildings remained in need of repair and renovation and a significant portion of stock remained vacant. With the financial support of the Local Initiatives Support Corporation (LISC), HSCDC began operations, engaging in the redevelopment of commercial and residential properties, provision of business assistance, and advocacy to prompt public improvements and private investment in the H Street community.

C. Organizational Structure

HSCDC is a non-profit 501(c)(3) organization governed by a sixteen-member Board of Directors composed of representatives from H Street businesses, community groups, advisory neighborhood commissions, local banks, foundations, the Office of the Mayor, and the District of Columbia City Council. This board structure ensures the full representation and participation of all sectors of the community on the Board as well as combines essential development related skills. The Board makes all decisions regarding policy and is responsible for determining the overall agenda and direction of the organization. The full board meets on a bi-monthly schedule. Committees are set up for specific projects and meet on an as-needed basis.
The organization has four basic components:

- Real Estate Investment and Development
- Special Projects
- Business Finance and Technical Assistance
- Administration

The Executive Director is responsible for development functions including implementing, managing, and monitoring the for-profit subsidiaries and managing the project staff who direct the development projects. The Executive Director also is responsible for identifying and analyzing the feasibility of development opportunities. Under the Special Projects section, the Special Projects Manager coordinates the H Street Merchants and Professionals Association programs and activities and is responsible for producing a comprehensive package of benefits which will be available to all merchants who become members of the association. The Business Finance and Technical Assistance branch handles the Business Loan Program facilitated by HSCDC, as well as a broad range of development related technical assistance. The Administrative branch plays a key role in the facilities management of the organization while providing maintenance coordination as well as personnel and benefits management.

HSCDC also has a for-profit subsidiary, the H Street Investment Corporation. HSIC is a wholly owned subsidiary of HSCDC incorporated to assist in the revitalization of the H Street corridor through the purchase, rehabilitation, renovation, development and leasing of real property.

D. Client Characteristics

HSCDC provides technical assistance to over 150 entrepreneurs each year. These businesses are primarily retail and have included, for example, a flower shop, an ice-cream franchise, a jeweler, a deli owner, clothing and furniture stores, small restaurants, a hand car wash business, and a neighborhood farmers market. Typically, the businesses in the area seeking assistance range in size from assets of between $60,000 and $250,000 and annual sales of between $75,000 and $150,000. Income generated by the businesses assisted ranges from $15,000 to $30,000 annually. About 75 percent of the clients are men and 25 percent women. Half of the clients are African-American, 25 percent are Asian, and 25 percent are white, a mix which reflects the diversity of business ownership along the commercial corridor.

E. Project Activities

As mentioned, HSCDC takes an integrated approach to community development and engages in a fairly broad range of activities. With regard to real estate development,
HSCDC has engaged in the development of both commercial and residential properties and facilitates a D.C. down payment assistance/mortgage loan program targeting low-income residents. In the area of advocacy, HSCDC has lobbied the city government to make needed physical improvements in the area and, through the local merchants association, to upgrade police protection, improving both the economic and social atmosphere of the area. One of HSCDC's most distinguishing features, however, is its expertise in business assistance.

HSCDC promotes its business assistance activities in a variety of ways. A newsletter is published on a regular basis to disseminate relevant information and includes a listing and brief description of all the programs available from the CDC as well as highlights of merchant achievements. HSCDC has developed strong relationships with area entrepreneurs and relies on these relationships as another way to publicize their technical assistance and finance programs. In addition, direct mailings, media advertising, and on-going discussions throughout the community are used to advertise HSCDC activities. The H Street Merchants and Professionals Association, which HSCDC founded in 1985 and continues to support, has about 150 members. It is an important mechanism for promoting HSCDC business assistance programs, along with other business networks including the D.C. Chamber of Commerce, the Washington Urban League, the Minority Business Opportunity Commission.

HSCDC provides businesses with both financial and technical assistance. Each business seeking assistance is screened to gather basic information such as the date the business was established, number of employees, types of products and services offered, and aspects of the business needing assistance. Start-ups and businesses with very little experience or knowledge about business ownership and management may be referred to a local Small Business Development Center or other general business information source at this point. For businesses seeking inventory, equipment, working capital and/or renovation loans, elements of the business including management capability, personnel, level of sales, security enhancement and merchandising are analyzed. This analysis results in recommendations for improving management and administration through technical assistance, if needed. It also becomes part of the business plan.

Upon completion of the business analysis, the business plan and loan package are developed with the assistance of staff. Each loan package requires an explanation of the use of the loan funds and a one year financial projection. HSCDC has developed considerable expertise in business planning and loan packaging, and assists many businesses with these activities, even if they are applying to sources other than HSCDC for funding.
HSCDC provides low-interest business loans, facade or rehabilitation loans (primarily through a city-sponsored program), loan guarantees, and venture capital financing. The level of financing has been as low as $1,000 and as high as $125,000. In a number of cases, HSCDC's participation has allowed clients to leverage bank or city financing valued at several times the HSCDC investment.

The criteria used to evaluate any loan application are designed to ensure two things. Like any bank loan, the ability and intention to repay is analyzed through reviews of character, management, finances, and existence of collateral. However, HSCDC criteria also include elements related to community development and HSCDC's commitment to improving opportunities for the community as a whole. These include the business's ability to provide job opportunities (either creation or retention) to District residents, particularly low- and moderate-income persons, and the ability to provide significant economic benefits and services to the community. If the ability to repay is satisfied, priority is then given to those businesses that create the most jobs or provide the most benefits to area residents in terms of services provided and/or physical upgrading of premises.

HSCDC will use legal counsel to pursue court proceedings and litigation in the case of default. Delinquency is handled through mailed notices and personal phone calls and/or visits to the entrepreneur. Intensive follow-up with clients assures early notification of loan performance problems.

HSCDC often provides technical assistance to businesses not seeking or not yet ready for a loan. The range of technical assistance provided by HSCDC staff covers financial planning and record keeping, cash management, preparation of a business plan, inventory control, advertising/marketing, business regulations, taxes, and loan packaging. The most common of these are accounting, marketing, and management.

Typically, technical assistance with a given client includes a number of scheduled meetings with HSCDC staff, both at the HSCDC office and at the business site. In cases where longer-term or specialized assistance is required, HSCDC provides this assistance through a pool of qualified business specialists that they have built up over the past eight years, including certified public accountants and attorneys. Through a three-way agreement between the client, the specialist, and HSCDC, the specialist is contracted for up to a three month period to provide one-on-one assistance to the client. In almost all cases, the assistance is delivered on site, for a total of about 100 hours over the three-month period. Feedback from clients indicates that they have been very satisfied with this system.
In addition to one-on-one technical assistance, HSCDC gives seminars and workshops throughout the year on various business-related topics. These programs are arranged periodically by the business development staff in response to specific demand. For example, if a number of telephone inquiries are received on cash management, inventory management, or merchandising, or several regular technical assistance clients are having difficulty in one area, a seminar might be arranged. Also, each year prior to tax season, numerous inquiries are received on tax forms and accounting. HSCDC therefore now regularly holds a tax seminar during the first quarter of each year which is widely attended. Other seminars have been given in cash management, advertising and marketing, accounting, and franchising.

A typical seminar runs for three hours over two days and includes presentations by HSCDC staff, and/or a specialist followed by questions and discussion. Usually, between ten and fifteen entrepreneurs attend, allowing for the full participation of each business person attending and a thorough exchange of ideas.

F. Finance

The cost of HSCDC technical assistance ranges from $1,800 to $3,500, per client, depending upon the type and intensity of assistance required. Fifty percent of the cost is borne by the client with the rest covered by the CDC. Loan funds come from a variety of sources. LISC has made grants to HSCDC for its loan guarantee program, the City programs administered by HSCDC lend out City money, and funds for the direct loans generally come from earnings on the real estate holdings of their for-profit subsidiary.

IV. Results to Date/Future Directions

To date, HSCDC has assisted over 42 new businesses to either start up in, or relocate to, the H Street corridor, and their ongoing technical advisory support currently reaches roughly 150 businesses per year. Approximately 75 entrepreneurs seek some form of financial assistance each year. Screening and business analysis narrows these applicants to about fifteen eligible businesses. The others either do not qualify or require extensive technical assistance or some training as a prerequisite for loan packaging and financing assistance. Of the fifteen loan packages prepared each year, on average 12 are eventually approved for a loan. These loans may be either direct from HSCDC or issued by banks or the city with an HSCDC guarantee. In the past four years, HSCDC has provided direct loans to eight businesses and provided loan guarantees to five others, while assisting many other businesses in obtaining financing from private lenders. Of the HSCDC loans still outstanding, only one is in arrears.
HSCDC has developed over 340,000 square feet of new and renovated commercial space, as well as 27 housing units, bringing over 345 construction jobs to the area and establishing 35 new permanent retail positions. Examples of these developments include the restoration of blighted and boarded up townhomes, which were made available to low and moderate income persons as well as the development of 22 new townhouses, also being made available to low and moderate income individuals. HSCDC also, in conjunction with a venture partner, purchased and redeveloped a medical center at which minority doctors serve residents of the community and which HSCDC felt was very important to retain.

To date HSCDC's Business Development Program has focused exclusively on storefront small-businesses, but now, with funding from the Small Business Administration, they are beginning a new initiative to reach deeper into the community and assist individuals who are partially or newly self-employed. Many of these potential clients operate very small micro businesses either in their homes or as street vendors. Most have had little or no business training and lack significant know how in regard to marketing their products and services or, more generally, in planning to expand their opportunities. For these clients, HSCDC has formed a new Microloan Initiative which will involve both training and a group peer-lending methodology. Loans under this scheme would range from $500 to $5,000. The growth and increased visibility of HSCDC's small business development activities made possible by the SBA funding is assisting HSCDC in attracting additional funds to further bolster their business development programs, bringing them toward their goal of a comprehensive business assistance program which can assist all levels of entrepreneurs with both financial and technical assistance.
I. Program Information

Contact: Ms. Mary LaPorte  
Executive Director  
Mr. Michael Buccitelli  
Director, Targeted Development Project

Address: 1800 West Cuyler  
Chicago, IL 60613

Phone: (312) 871-1151  
Fax: (312) 871-1187

II. Setting

The Jane Addams Resource Corporation (JARC) is located in the North Center neighborhood of Chicago, an old industrial community on Chicago’s north side. The area is home to many small- and medium-sized manufacturing establishments, with a large proportion of metal working firms. Industrial decline has, however, hurt the area. Between 1977 and 1983 North Center and the nearby Lakeview community lost 7,000 jobs, representing 10 percent of the labor force, primarily in manufacturing.1

The neighborhood is mixed demographically, both in income level and ethnicity. The neighborhood is a mix of Latino, African American, and white residents. Incomes range from poverty level to upper middle class. Approximately 17 percent of the workforce in the two neighborhoods is in manufacturing and much of the remainder is employed in white collar jobs.

Due to the accessibility of public transportation, the area’s proximity to downtown, and the presence of older multi-story manufacturing buildings, pressure to convert industrial property to residential use has also been a threat to the community’s job base and has put upward pressure on the value of real estate in the area. This hurts not only the industries trying to function in the area, but also the lower income residents, who would have difficulty finding and/or paying the commuting costs for a job in the suburbs, the destination of many of the industries choosing to leave the neighborhood.
Although most of the owners of the metalworking industries live in the suburbs, their workers generally live in the city. For manufacturing industries within the JARC service area, 37 percent of the workers live within three miles of their place of work and 82 percent of workers live within the city. The large workforce within Chicago is one of the main reasons many manufacturers would like to stay in the city.

A number of the small metal working firms in JARC's service area are job shops which traditionally have relied upon subcontracts from larger industries. The departure of several large industries, such as Playskool, Appleton Electric, and Sunbeam, from Chicago has caused a sharp decline in the amount of business these firms do. To survive, these firms must find new markets and develop the capability to meet a wider array of market demands.

III. Project Description

A. Goals
   JARC's activities are aimed primarily at serving the economically disadvantaged residents of the North Center neighborhood and its surrounding communities. Its mission is to promote the enhancement of employment and education opportunities, leadership development and self-sufficiency. The organization also encourages investment in the community, including both business investments and investments in the productivity of area residents, and strives to build cooperative arrangements among community entities. Through its Targeted Development Project, JARC aims to retain existing industries and help them grow. The idea is that strengthening the area's industrial base will retain and enhance the jobs area residents depend on and will preserve the vitality of the community.

B. Description/History
   JARC was founded in 1985 as the result of a planning process engaged in by the Jane Addams Center/Hull House Task Force on Economic Development. To fulfill its goals, JARC operates three different programs, the Learning Unlimited Program, the Adult Learners Program, and the Targeted Development Program. JARC took over the operation of the Learning Unlimited Program from Hull House, but the Targeted Development Program (TDP) and the Adult Learners Program originated with JARC.

   Learning Unlimited is a basic skills program for young people who have left high school. In addition to instruction designed to help students pass the GED exam, the program stresses career and job readiness activities, social awareness, and community involvement. The Adult Learners program provides evening tutorial sessions for older students, largely to improve their literacy skills. The program also engages in collabora-
tions with other institutions and tailors curriculum to meet those needs. For example, a collaboration with Project Team, an auto mechanics training program operated by Uptown Hull House, led to developing a basic skills program which uses automotive materials in order to reinforce the auto mechanics skills while improving literacy and other basic educational needs. The inclusion of job-related materials in the course of study often increases the motivation of program participants.

These programs help improve the quality of the workforce in the area, but they do not address many of the issues involved in improving the viability of area businesses. One of the major problems facing JARC's planning task force was to find a way to stem the loss of manufacturing jobs from the North Center/Lakeview community and to strengthen the area's economic base. TDP addresses these issues.

In its first few months, JARC engaged in active research on the area's local economy, involving visits to many of the area's manufacturers in order to understand their needs and employment practices. Through this process JARC identified an industry sector, metalworking, to become the "target" of the Targeted Development Project (TDP). This sector was chosen because of its strong presence in the area, accounting for 26 percent of total employment in the two neighborhoods in 1985, and because metalworking offers decent, entry-level jobs to low-income people. TDP began by interviewing area metalworking firms, to ascertain their views of networking, and then organized a consortium of about 25 firms who expressed interest in forming a network and demonstrated some level of commitment to the idea. The idea behind this network was to increase sales among firms, through more subcontracting between firms within the network as well as through finding purchase orders which could be filled by one or more of the firms in the network. It is hoped that eventually this will lead to joint product development and production.

Today TDP's network includes roughly 35 metalworking firms and offers participants a variety of services, either directly or by linking the firms with appropriate service providers. These services include marketing, technical, and financial assistance, as well as employment referral and placement services. The marketing and sales service is the main service the firms are interested in and is provided directly by TDP staff. The staff act as a representative for the firms and meet with purchasers in order to arrange contracts. For this service, TDP generally charges three percent of the contract amount. When the financials are tight however and payment of the fee would make it impossible for a member firm to get the work and still make a profit, the fee is generally waived. TDP also helps firms understand and take advantage of city and state programs designed to help companies and acts as an advocate for manufacturing interests, particularly with regard to land use issues.
As part of the TDP program, JARC acquired and renovated The Raven, which is designed to provide manufacturers with affordable expansion space within the city. Many small manufacturers who begin their operations in their garages or other private space find it difficult to lease a relatively small industrial space when they are ready to expand. The Raven helps to fill that market gap. At the same time, the development of the facility combats the gentrification which threatens the area’s industrial base by ensuring the building remains industrial. The building now houses several small manufacturing firms and a non-profit training organization. JARC has also acquired an option on the building next to The Raven and plans to develop it in a similar manner.

Another part of TDP is a skills training program designed to meet the needs of the area’s metal working industries. By upgrading the skills of employees, TDP enables businesses to modernize and improve their business practices. In 1990, the program began offering a metalworking skills program to upgrade the skills of workers and provide some of the training that the business owners do not have the time to do. TDP worked closely with area industries in developing the training initiative, essentially allowing the experts to write the curriculum. This program, which involves eight weeks of training, has been well received by employers, who pay their employees wages for the time they spend in these classes. TDP will add a more advanced training program which focuses on CAD/CAM technology in the Fall of 1992.

C. Funding

The TDP program is funded largely through Chicago’s Department of Economic Development, with supplemental funding coming from corporations and foundations. For its educational programs, JARC receives funds from the State of Illinois and from the Mayor’s Office of Employment and Training, which distributes JTPA funds. The state’s Prairie State 2000 program, which supports a variety of work-based training programs across the state, is the sole funding source for the metalworking skills training program and the new CAD/CAM initiative. JARC has also received money from the federal Office of Community Service. Their total budget for the most recent fiscal year was just over $300,000, with salaries and related expenses accounting for over half of their expenditures. Acquisition and development of the real estate projects is budgeted separately.

D. Organizational Structure/Staffing

A 13-member board of directors, the majority of whom come from within the neighborhood, oversees the activities of JARC and provides the Executive Director with considerable feedback and insights. The board was chosen so that it would have an appropriate mix of skills for economic development, with representation from lawyers, bankers, accountants, government officials, corporate leaders, and program partici-
pants. The diagram above depicts the current organizational structure, with several of the positions being added only in 1992. The relationship with Hull House is shown with a dotted line to indicate that it is no longer a formal attachment, but considerable interchange between the two organizations still takes place. JARC also works to build collaborative relationships with other organizations, such as engaging in the joint training programs with the city college.

E. Beneficiary Characteristics
TDP has two interrelated categories of beneficiaries. One consists of the firms, which it helps to become more profitable, and the other comprises the firms' employees and potential employees, who refine their skills and improve their employment opportunities. The firms involved in the consortium are generally small, with median employment around 12 to 15 employees and sales around $500,000 to $750,000. The largest firm participating in the consortium has 175 employees while the smallest has about 4 or 5. Outside of management, about 70 percent of the workforce in these firms is minority. Of the workers participating in the metalworking skills program, 59 percent are Hispanic, 18 percent are Black, 13 percent are White, 5 percent are Asian, and 5 percent other.
JARC’s Adult Learners Program draws students from the local neighborhood and serves a diverse group of people. Participants range from 18 to 70 years in age and the group is a fairly even mix of Black, White, Hispanic, and Asian residents. The Learning Unlimited Program concentrates on youth, working with 15 to 19 year old students, largely high school drop outs or students on probation.

F. Selection and Review

Initially, TDP staff worked to elicit interest in the networking concept from local manufacturers. They sent mailings to area firms explaining their objectives and tried to arrange interviews with as many firms as possible. Anyone who was interested and was willing to spend the required time in meetings and so forth was welcome to join. No dues or other financial commitment was required. Now, however, less is done in the way of recruitment of firms to the network. As firms see the activities of the network and the opportunity for increased sales and technical assistance, they approach members or staff to find out more about it. The network has grown to now include about 35 members and TDP staff will begin charging membership dues in the near future.

IV. Results to Date/Future Plans

The regular meetings of consortium members have spurred more interaction and information sharing among firms. The informal discussions which occur at the meetings have lead to over 80 network relationships, including subcontracting between members, equipment sharing, customer referrals, and joint problem solving. The most popular service, and the main service for which most firms join, is the marketing and sales part. TDP staff is careful that no single firm is the beneficiary of the vast majority of contracts which they arrange and they have found that competition among member firms for the same contract is generally not a problem. Due to the required timing of the order, the particular specialty needed, or particular process control requirements specified, generally only one or two firms from within the consortium are in a position to fill a specific order by a given time. Between July of 1988 and June of 1992, JARC/TDP has secured $475,000 in production orders for members, and they estimate that, through TDP referrals, members have secured another $150,000 in “untracked contracts.”

The other services offered to network members are also pretty widely used. It is estimated that at any one time, roughly 50 percent of participant firms are, in one way or another, taking advantage of these services. TDP’s Employment Referral and Placement service has referred over 200 unemployed, displaced, low-income persons to manufacturers, leading to the hiring of 80 such persons for full and part-time positions. The Metalworking training program has drawn a positive response from manufacturers
over the past year; 49 employees, from 10 different firms, enrolled in the program. Based on pre- and post-testing results, TDP found participants had a 30 percent improvement in their skills and the overall attendance rate was 90 percent. For the coming fiscal year, JARC expects to put 90 workers through the metalworking skills training program and 36 through the CAD/CAM course.

TDP staff would like the program to become more financially self-sufficient in the future. They hope that The Raven will be a profitable endeavor and that income from that venture, combined with membership fees and commissions on contracts, will form their core funding.

As in other networks, staff have found that firms respond best to tangible results, namely purchase orders. If it can be demonstrated that participation in a network will directly increase their potential for sales, then firms will be interested. Other goals, such as promoting modern methods of production and stimulating joint design of original product lines, come slowly as firms see the benefits of this. In one example, a firm who lost a contract because they did not use modern quality control methods, later implemented this procedure. Had they been outside the consortium, the firm may never have been bidding on this contract or may not have had a middle man available to explain to them why they did not get the job.

Notes

2. Includes metal fabrication, tool and die, stamping, metallurgy, roll forming, plating, screw machine, engraving/marking, machining, and secondary services firms.
I. Contact Information

Contact: Mr. Dan Swinney
Executive Director
Address: 3411 W. Diversey
Room 10
Chicago, IL 60647
Phone: (312) 278-5418
Fax: (312) 278-5918

II. Setting

The Midwest Center for Labor Research (MCLR) works both locally, striving to strengthen and retain local manufacturing industries in Chicago, and nationally, offering research and consulting services to a range of organizations struggling with threatened plant closings.

Like many other industrial cities, Chicago has lost a considerable number of its manufacturing establishments during the past decade and many of those remaining could easily follow suit. Some of the closings are due to problems of market share, labor costs, and the lack of modernized industrial buildings in Chicago. Clearly the causes for declining profits in some firms stem from changes in the global market place which are beyond the influence of individual business owners in Chicago. In other cases, however, poor management decisions, such as the failure to modernize production methods or identify alternative markets, have lead to the erosion of firm profits and eventual failure of the firm.

In some instances, the closings have little to do with a firm’s profitability. For example, many smaller firms are closely held businesses with aging owners, who have made no plans for owner succession. As a consequence, when they retire, the business closes and its assets are liquidated. In other instances, outside interests would take over the operations of an establishment in order to gain control of a larger market share or make a quick profit by selling off the assets.
As a result of these conditions, in the 1980s Chicago lost 3,000 of its 7,000 industries and 135,000 manufacturing jobs. Labor unions and other traditional labor representatives seemed to offer little in the way of leadership or guidance to respond to the situation. Dramatic declines in manufacturing employment also occurred in other areas, such as Ohio, Western Pennsylvania, and West Virginia, which together lost over a million manufacturing jobs. It is in the context of this situation that MCLR was founded.

III. Project Description

A. Goals

MCLR seeks to influence economic structures and relationships to produce more stable and equitable economic outcomes in local communities. They feel that the current economic system does not sufficiently hold the corporate community, the "stewards of our economy," responsible for their management, or mismanagement, of our productive resources. In particular, the human costs of management decisions tend to be overlooked, rather than integrated into the decision-making processes of businesses—as they are in Japan, for example. MCLR also feels that the social movement must adequately define its role in preserving and developing our country's productive capacity. In addressing these problems, the relationships between labor, community groups, the business community and government agencies need to be reexamined.

The group focuses their attention on plant closures and relocation, but realizes that these events, which can wreak havoc in local communities, are often the culmination of a series of prior management decisions. MCLR works with grassroots labor and community organizations, as well as local business, to retain industrial jobs and promote economic development. They strive to provide these groups with the knowledge and skills to:

- retain jobs and businesses
- protect and expand the communities' productive capacity
- provide training opportunities on industrial retention strategies and early warning signs, economic trends and corporate evaluations
- sustain and expand the economic health of the community.

(MCLR Mission Statement)

B. Brief Description & History

Mr. Dan Swinney established MCLR in 1982, when the steel forging company for which he worked went under. Mr. Swinney found he and his fellow employees had little time to prepare for the change and the labor union provided little in the way of
leadership. Workers did not understand how management ran the business and whether the business changes they complained of really did force them to take such drastic measures. Unions did not look at the issues concerning how a company is being run. Mr. Swinney felt there was a need for research and action to respond to these plant closings, so he and some other activists got together and formed MCLR.

C. Structure & Activities

MCLR has three main operational units, namely, Chicago Focus, Chicago Project, and general research. Chicago Focus, a wholly owned for-profit subsidiary of MCLR, offers a whole range of services related to mergers and acquisitions. The firm works with both buyers and sellers of manufacturing establishments and will assist in securing financing for acquisitions. Chicago Focus also assists companies with the negotiations involved in a change of ownership and provides a whole range of consulting services to the new firms. Through leads from MCLR staff, trade associations, unions, local governments, community development corporations, and others interested in a stable economic environment, Chicago Focus identifies plants at risk of closing and then seeks buyers who are committed to keeping production local. These buy-outs often offer opportunities for worker ownership or for ownership by minority or female entrepreneurs. Minority ownership is of particular interest in Chicago, which is 40 percent African American and 15 percent Latino. The majority of manufacturing workers tend to be from one of these minority groups, yet ownership is almost exclusively white.

Chicago Focus opened its own offices in downtown Chicago in September of 1989. Its managing director has experience as a management consultant and has been a CEO of two manufacturing corporations. His assistant is a business analyst recruited from within the MCLR ranks. Chicago Focus has a separate board of directors from MCLR. Dan Swinney chairs the board, which includes white, African-American and Latino entrepreneurs and management consultants.

The Chicago Project, an initiative within the non-profit MCLR, involves organizing a pro-active campaign to stem the loss of manufacturing jobs out of Chicago. As part of this project, MCLR has developed an Early Warning Network, in which representatives from the floors of various manufacturing shops monitor their work site for warning signs of a plant closing. MCLR recruits workers through labor organizations as well as community organizations, churches, and social agencies, and trains them on signs they need to look for, including lack of new investment, selling off of any assets, and simply informal information from management. By relying on people inside the organization to monitor the signs, MCLR can get an idea of which companies may be closing much sooner than they otherwise would. This early warning is very important for it allows time to find a buyer or arrange an employee ownership plan before
the current management runs up big losses, leaving the operation in an unsalvageable position.

Through the Chicago Project, MCLR also works to develop linkages between labor, churches, and community organizations in order to develop coalitions ready to fight job loss in their areas. Once a plant has been identified as at risk of closing, MCLR first does a rapid appraisal to determine whether it is viable and then works with local groups to develop a strategy appropriate to the situation. Participation of residents as well as plant workers is important, since the premise is that the factory represents, in essence, a community resource, the loss of which would hurt the entire community.

Based on MCLR's experience in industrial retention in poor communities, Dan Swinney co-authored a paper, "Towards a New Vision of Community Economic Development." This paper articulates a manufacturing-centric approach to community development, argues for greater community and labor involvement in development, and challenges some of the more traditional community development models. Over 200 practitioners from 20 states gathered at a conference in Chicago in 1991 to discuss the practical and strategic concepts outlined in the paper.

MCLR's Research Department, with a national base of clients as well as a few international union offices, engages in a wide range of activities. The research department analyzes the experience MCLR has had in the Chicago area, extracts information which would be useful to other areas, and relays their findings to clients, who can then use this to develop a plan of action for their own area. For example, the research department has trained a variety of groups on early warning signs of plant closings so that local groups can form their own early warning networks. The Research Department has also built on MCLR's experience with successorship problems by producing a national survey of successorship assistance to aging factory owners and doing a detailed study of successorship issues for the Chicago Economic Development Commission, inspiring other cities to look more closely at their own successorship problems. The Research Department actively tracks policy developments and has addressed groups such as the National Governors' Association JTPA Title III conference. Refining their own theories on economic development models also falls within this department's purview and their Social Cost Analysis has been featured on the MacNeil-Lehrer News Hour.

Lastly, MCLR publishes the Labor Research Review semi-annually. The journal describes the challenges facing the labor movement from the perspective of labor leaders, activists, academics, and others, with each issue focusing on a particular topic. In addition, MCLR puts out a variety of miscellaneous publications, often the written results of previous work, such as the national survey on successorship.
D. Staffing & Budget

Mr. Swinney, the executive director, has 26 years of experience in community and labor organizing. He oversees a staff of about ten, including researchers, journalists, editors, organizers, and administrative staff.

MCLR’s operating budget is roughly $600,000, almost half of which comes from fee income, sale of publications, and personal donations. Chicago Focus is breaking even in its third year, and hopefully will be a significant source of income in the future.

IV. Results to Date/ Future Plans

MCLR has provided research assistance to coalitions, state agencies, unions, and city government in a variety of different approaches to retaining jobs, saving companies, and promoting local development. Examples include a campaign in Duluth, Minnesota that saved 280 jobs at Diamond Tool; feasibility studies and educational programs as part of employee buyouts; social cost/benefit studies documenting the ripple effects of a potential plant closing; and training seminars on MCLR’s “Early Warning Network.”

In Chicago, MCLR and Chicago Focus have arranged the local buyout of several small manufacturing companies, and have served as a resource for local governments, labor groups, and local coalitions in a variety of efforts to save jobs and companies.

Currently, MCLR is testing the strategy outlined in the “New Visions” paper in the context of a West Side Chicago community. MCLR is also expanding its organizational capacity to meet the growing demand for its research and consulting services, as well as its participation in national discussions on development strategy.
I. Contact Information

Contact: Dr. Robert A. Meeder
President
Address: 12300 Perry Highway
Wexford, PA 15090
Phone: (412) 935-6037
Fax: (412) 935-6888

II. Setting

SPEDD, Inc. operates a network of business incubators in western Pennsylvania, with the recent addition of two in eastern Ohio. SPEDD began its incubator activities with the opening of the Wexford I incubator in the northern suburbs of Pittsburgh, Pennsylvania. Today the organization manages roughly 17 incubators in urban, suburban, and rural sites.

The region in which SPEDD operates once thrived on steel production, but has suffered severe job loss and distress as the steel companies rapidly downsized, with almost all of these companies eventually closing their area operations all together. As the manufacturing industries contracted, so did the rest of the region’s economy. Industries geared toward serving the area’s steel producers, such as trucking, had to reduce employment, and many service sector businesses, which depended on the disposable incomes of area residents, also faced hard times.

As the area’s residents lost income earning opportunities, the region’s municipalities lost their tax base. The rapid decline and closing of the steel mills meant a loss of wage and property tax revenues for the municipalities. Many of these municipalities also had a fair amount of vacant industrial space. This situation heightened the interest of many communities in the SPEDD incubator program.
III. Project Description

A. History and Structure

SPEDD, which stands for Southwestern Pennsylvania Economic Development District, was founded in 1964 as part of a U.S. Department of Commerce program which created a series of development districts. From 1964 to 1988 the SPEDD service area covered nine counties in southwestern Pennsylvania. Originally SPEDD acted as a liaison between federal and state departments of commerce and served as a conduit for infrastructure development funds. In 1981 however, SPEDD staff began looking for a new direction for their organization, since the federal money which had supported their operations was disappearing. They contacted Dr. Robert Meeder, who had just finished his dissertation on business incubators, to act as a consultant to the organization. They had heard Dr. Meeder speak about the concept of business incubators and thought that incubators could play a part in generating employment and rebuilding the industrial base for the region. In 1982 SPEDD redefined its approach to economic development for the region, hired Dr. Meeder full time, and founded its first incubator. Originally, SPEDD intended to only operate one incubator, but they received requests for help in setting up an incubator from various communities and hence they developed the network. In 1989 SPEDD expanded its economic development activities to include international projects.

SPEDD has remained a non-profit as defined under section 501(c)(3) of the internal revenue code, but reorganized to withdraw from contractual ties to state and federal agencies. As part of its reorganization, SPEDD trimmed its board of directors from 55 members to 15. Current board members include county appointees with such people as the county planning director, the dean of the community college, a banker, an attorney, and an investor. SPEDD does not include any tenants on the board of directors as they feel that would be a conflict of interest for a tenant to both serve on the board which governs the incubators and to be one of those governed. This is especially true given the role the board plays in the management of the incubators. SPEDD staff continually encourage businesses in their endeavors and try to help them with their problems, but when they have a problem collecting rent or any other difficulty with a tenant, the tenant is threatened with disciplinary action from the board.

SPEDD has a total of 21 full time staff members. Most of these are support personnel, as each site has a full time secretary or administrative assistant. These people provide the companies with support services, such as telephone answering and typing, but they also keep in touch with the businesses and keep an eye on what’s happening. No site has a full time manager. SPEDD management has found that a full time manager is too expensive for any one facility to support and also that a manager will end up doing
things for individual businesses that the businesses should do for themselves. Each manager keeps a regular schedule of when he or she will be at a particular site so that clients can plan accordingly. In SPEDD’s experience, limiting the manager’s time at any one site forces clients to be more efficient in the questions they ask and thus meetings between managers and clients tend to be more productive.

The Brackenridge corporation is a for-profit entity affiliated with the SPEDD network. As requests from communities outside the SPEDD district started to come in, key staff and board members of SPEDD formed the Brackenridge Corporation. For the most part, Brackenridge handles activities outside the SPEDD district and SPEDD handles things within the district. Occasionally SPEDD engages in activities outside its service area, if, for example, an institution needs to have a non-profit entity as a partner in order to obtain certain types of funding. In addition, Brackenridge does some things within the district that SPEDD does not want to get involved in, such as various types of service provision. Some of the members of the SPEDD board of directors also serve on the board for Brackenridge.

Of the 17 incubators within the SPEDD network, SPEDD, Inc. owns 11. The other six, which are located outside the original development district service area, are owned by the organization which requested SPEDD’s help, such as a local CDC or the county, and SPEDD acts as a managing partner or as a “turnkey” manager in these.

B. Funding

SPEDD’s total budget for this fiscal year is $3.2 million. SPEDD relies mainly on internally generated revenue to support its operations. Currently, 78 percent of their revenue comes from rents and utility fees. Most of the remainder is generated by fees for services and consulting income. The only foundation money they are using this year is a $45,000 grant from the Heinz Foundation. The organization generally does not apply for foundation funds unless they are introducing a new service. SPEDD has worked with the U.S. Economic Development Administration, U.S. Department of Health and Human Services, and with city and county governments in arranging the financing of a new facility. As they progressed in their operations however, they have acquired a substantial asset base, earned a good reputation, and developed the ability to generate their own capital fund. This has enabled SPEDD to reduce its reliance on government as well as foundation sources of funding; conventional commercial banks are comfortable making loans to the organization.

SPEDD does not run a loan fund or offer any sort of financing to incubator tenants. Rather, they will counsel tenants or recommend an appropriate service to help them present their financial needs and then link tenants to a bank or some other financing
entity. SPEDD draws on creative financing packages which its clients have used in the past as a source of ideas for companies currently needing help with financing. Moreover, they also help tenants take advantage of government On the Job Training (OJT) or Comprehensive Job Training (CJT) funds when tenants need to do hiring.

C. Beneficiary Characteristics

Many of the firms looking to become tenants are very small operations that someone started up in their house and now they are looking to expand a bit. Others acquired businesses which were already operating and still others are starting a new business. In a few cases SPEDD recruited an existing business to become and incubator tenant because their funding source required that they have an anchor tenant.

The average person coming to SPEDD offices to inquire about incubator space is a man in his early 30s who has started a business in which he is currently employed, and is now looking for a suitable inexpensive space outside his home. Of current tenants, women are the majority equity holder in 17 percent and minorities are majority equity holder in over 20 percent. Moreover, of the 215 tenants currently in SPEDD incubators, 28 company owners are from disadvantaged backgrounds and would qualify for some type of federal assistance.

Almost all firm employees come from the community in which the incubator is located and the capacity for generating employment has probably provided the greatest direct benefit to disadvantaged residents of the area. SPEDD staff estimate that the average employment for a tenant firm in its third year of occupancy is 8 to 10 employees, but the median is somewhat lower than that, at roughly 6 employees per firm.

D. Activities

SPEDD begins working on an incubator start up because a municipality, a CDC, a county government or some other group has asked for their help. They do not actively pursue new sites. The first phase SPEDD engages in when working in a new town is their Entrepreneurship Outreach Program. This program serves several purposes. First, and most important, it assists new businesses in the start-up phase in order to promote new business formation. Second, the EOP serves as a market assessment tool to estimate the potential demand for a business incubator in a certain area. Finally, the program acts as a mechanism for identifying potential tenants for a business incubator, but businesses are never pressured to enter the facility.

The EOP begins with an open seminar. The town or some other interested party donates the use of a hall and SPEDD advertises the upcoming forum in newspapers, on the radio, through local banks, etc. Most of the advertising is done 10 days before the
planned event. During the seminar, which is the first of seven sessions in the EOP, Dr. Meeder discusses the "18 patterns of success and 9 patterns of failure" which have been identified in studies of new business start ups. After about two to two and a half hours, Dr. Meeder takes questions and those people who are interested in pursuing the program can make an appointment. All subsequent meetings are individual counseling sessions.

Dr. Meeder estimates that for every 100 people in the room at the initial lecture, approximately 70 will sign up for an appointment, roughly 35 will then come back with their first assignment done and about 7 will actually start a business. Participants must complete an assignment for each session in order to continue in the EOP. By the end of the seventh session, participants generally have a pretty good draft of a business plan. Ordinarily it takes about two and a half months to go through all seven sessions.

Under favorable circumstances, the EOP will be carried out before any commitments have been made as to purchasing, renovating, or building a facility to house the incubator, since the EOP helps clarify the level of interest in an incubator and the types of businesses which will most likely need to be accommodated. SPEDD staff also likes to have some input into the site selection process, as they feel that many incubators fail because they are located in bad buildings—buildings which either provide inappropriate space or are in unsuitable locations for the market they serve. In many cases, however, SPEDD does not receive a request for help until after the building to house the incubator has been determined.

Many incubator facilities attract tenants by offering below market rents, but that is not the enticement which SPEDD uses. Instead, SPEDD concentrates on providing services and has developed an array of services available through its "Passport Program." Each incubator facility has a different Passport booklet, which describes the services available. Services in the booklet cover a range of activities from marketing, sales, and legal advice to clerical and switchboard services to audio-visual equipment and furniture rental. One incubator was formed with a cluster of firms in woodworking industries and their Passport program offers services of particular use to such firms. Many tenants are service providers in the Passport program and incubator managers often try to attract a business which would provide a valuable service to existing tenants. This process can lead to the development of a cluster of complementary firms within an incubator.

As a cluster of firms in a particular sector develops, so does a market for a supplier of materials to those firms. SPEDD has had some success with creating vendor companies for an existing business or group of businesses and then having a low-income person who does not have too much business experience run the vendor company.
With this built-in market, a person with some interest and talent in the field can further develop their skills without stepping into a terribly risky endeavor.

Tenants are charged a fee for their use of services in the Passport program, although limited amounts of some services, such as business plan preparation or conference room time, are offered to tenants at no charge. Other businesses in the community may also join the Passport program for an initial membership fee.

IV. Results to Date/Future Directions

Over the past ten years, SPEDD has developed a network of 17 incubators, comprising approximately 1,830,000 square feet of incubator space. These facilities currently house roughly 190 tenants and have graduated about 33 firms.

As of June 30, 1992, SPEDD facilities housed 215 tenant companies with a total of 1,720 full time and 335 part time jobs. They had also graduated 32 companies which collectively provide 1,120 people with full time jobs and another 221 part time jobs. The combined gross sales of these companies was $332 million in 1991. SPEDD estimates that total job creation from their activities would probably exceed 7,000 full time jobs, due to spill over effects in the regional economy.

In conjunction with the Brackenridge Corporation, SPEDD is planning to sell portions of their facilities to tenant companies as well as to expand their real estate holdings in Pennsylvania and Ohio. The organizations also hope to develop international import/export contacts and field support offices via long-term contractual relationships with Business incubators in Europe, the Caribbean Region, and the West Coast of the United States. They also plan to maintain their active national/international consulting on methods and techniques of providing added value service to entrepreneurs in economic development organizations.
I. Contact Information

Contact: Carolyn McKecuen, Director
         George McKecuen, Director of NEED
Address: 150 U.S. Highway 158 East
         Camden, NC 27921
Phone: (919) 338-0853
Fax: (919) 338-1444

II. Setting

Watermark operates in Northeastern North Carolina, a rural area with fewer than 200,000 people in the ten counties which it comprises. The area is relatively isolated, lacking access to major interstates, airports, or rail lines. The majority of the population is white, but there is a large African American community, generally living in clusters throughout the region.

Employment opportunities in the area are limited. Although much of the land is devoted to agricultural use and many families own land and farm to some extent, very few people in the area rely on farm income as their primary source of support. Approximately one quarter of the workforce, primarily men, commutes to Newport News, over an hour away. There are a few other viable employment options for men in the area, but for women, employment opportunities are even more limited. For the most part, women can work as school teachers or nurses, if they have the education, or, if they are uneducated, there is seasonal employment as maids in some of the coastal tourist areas. None of these options pays very well. By working mainly with women in a “women’s” industry, Watermark offers one of the few income-earning opportunities available to women in the area.

III. Project Description

A. Goals

Watermark is a for-profit cooperative, the main goal of which is to help cooperative members, many of whom are low-income women, earn more money. By improving
their economic situation, these women then have a greater ability to improve other aspects of their lives. The democratic ownership and control of the cooperative also builds the self-esteem of the women, further empowering them to take control over their lives by giving them the necessary confidence to do so.

B. Brief Description & History

A group of local artisans founded Watermark in 1978 to collectively market their products. This group comprised mainly middle-class women with strong crafts skills, but little business experience. The cooperative soon ran into financial problems and by 1981 was roughly $60,000 in debt. At that time Ms. Carolyn McKecuen became director of the cooperative, working essentially for no pay while she helped the cooperative get back on its feet. Ms. McKecuen switched their marketing strategy from a retailing to a wholesaling approach and actively sought out a variety of outlets for their products. Today Watermark earns profits for its members and, although the cooperative still retains a retail shop on site, approximately 95 percent of its revenues come from wholesale sales.

C. Organizational Structure

Watermark is a member-owned cooperative; each member owns one share in the cooperative and has one vote at general meetings. The members elect the board of directors from the membership, which establishes policies and oversees operations. A member share in the cooperative costs $75, but individuals may take up to a year to pay that amount. Once an individual has paid $6.25 on the share he or she is officially a member and may vote at meetings. Watermark also has some preferred stock available for $25 a share. They have only sold 164 of these shares, largely to people such as the mayor who wish to express support for the organization. Watermark does not try to push the sale of these shares.

Watermark has 11 full time staff, including the director. Staff handle all the accounting and bookkeeping, membership development, product pricing, marketing, and other management and administrative functions. Cooperative members are considered self-employed, rather than employees of the cooperative.

Watermark works closely with the Northeastern Education and Development (NEED) Foundation, which was founded in 1986 as a nonprofit training center, offering training in crafts as well as personal effectiveness and money management skills, and is currently housed in the same building as Watermark. NEED's classes are geared to help Watermark members, but are open to anyone in the community. Having NEED established as a separate entity allows Watermark to separate out, to some extent, expenses which are strictly social service from the quasi-social service income-generating func-
tion. This separation improves the viability of the for-profit entity, enabling it to continue offering income-earning opportunities to low-income women, while providing disadvantaged individuals with the additional counseling and skills development that they need through a non-profit entity which is able to solicit foundation grants and other sources of funding unavailable to for-profit groups.

D. Beneficiary Characteristics

Most of Watermark's members are women, but there are a few men, particularly wood carvers. Watermark originally received membership applications from individuals who had some crafts skills, but in recent years the majority of new applicants have lacked these skills. These individuals often require not only more crafts skills training, but also more life skills training. Many of Watermark's members are poor, as determined by the federal poverty line. A number of these individuals receive Aid to Families with Dependent Children (AFDC) assistance and they are careful not to work so much that they exceed the federally mandated income limit and lose their benefits. Watermark often helps women in this by warning them when they are nearing this limit, since the extra income would be insufficient to make up for the loss of AFDC benefits. Watermark has also assisted some of these individuals to develop their skills and work habits to the point where they can leave AFDC rolls and not be worse off.

E. Project Activities

Through its activities Watermark offers women access to a market in which they can earn money, and through the link with NEED, women can also receive training to help them enter and advance in the crafts business. Watermark does not need to spend a lot of time promoting itself in the community; they are very well known in the area and have a large visible retail space. In addition, local media coverage of Watermark's activities and achievements has been very good.

An individual wishing to become a Watermark member must first pass a skills screening test. If the individual does not pass, then he or she is referred to NEED to get training. NEED offers training in three main areas: baskets, wood products, and sewn items. Individuals choose the area they would like to pursue, but are also advised as to the current demand levels for particular skills. Thus the type of training initially chosen will reflect a balancing of the individual's interests and immediate cash needs. NEED's trainers are part-time employees brought in to do particular sessions and may or may not be Watermark members. Members are also involved in training other members in an informal capacity. Involving members in training further enhances their self-esteem and confidence. Initial training generally is not a long process and most people can be given income-generating work to do after one or two sessions. Once a member passes the skills screening test, he or she can become a member and participate in design and
marketing classes. Most members continue to participate in training even after they pass the skills test, refining their crafts skills and developing new ones.

Watermark both markets member products, through trade shows, catalogs, television home shopping networks, or any other means available, and pursues contracts for special projects, such as making buttons for Esprit clothing or napkin holders for Ralph Lauren. All members are encouraged to develop their own product line. When orders are placed for a product designed by a member, that member has "Right of First Refusal." That is, members can fill as much of the order for their product as they desire, but if members feels they cannot or do not want to produce the quantity ordered in a reasonable amount of time, then they may train other members to make the product. Thus if a member develops her own product line, she may become less dependent on special projects or other members' overload to get work. Again, Watermark staff have also found that the development of their own original product is very good for self-esteem building for many members.

This training system also gives Watermark a very flexible workforce, allowing Watermark staff to aggressively pursue new markets with the confidence that they have the capacity to fill orders in a timely fashion without sacrificing quality. This ability to identify and pursue new markets has been one of the keys to Watermark's success. The cooperative is continually developing new products; 30 percent of their products are new at each of the six to nine trade shows per year in which Watermark participates. By participating in these shows, Watermark staff also keep abreast of the trends in the market, enabling them to identify niches and fill them, knowing how much they can charge for a product. The constant development of new products is one factor which helps Watermark compete successfully with overseas competition; overseas firms often copy certain items and are able to produce them at much lower cost. In addition, Watermark can ensure quality and quick turn around time for contract customers. Finally, the diversity of their product lines and sources of revenue guards against dramatic changes in sales volume due to a change in tastes or the fortunes of one particular company.

F. Finance

Watermark is completely self-financing and has never received any federal or state funds in support of its program, although they did recently receive a small grant from the Ms. Foundation for a special project. NEED however, is a 501(c)(3) organization which is largely supported by foundation grants. Watermark carries lines of credit with area banks, but has only needed to use this once. In general they try to keep enough cash reserves to finance receivables. The organization does not have a lot of working capital, however. They do not make anything for which they do not already have an order since they do not have the money to tie up in inventory.
From the time an individual comes in to Watermark to the time they become a member, it costs Watermark an average of $115 to go through screening, counseling, etc. NEED covers most of the other training costs, and individuals are charged a fee for class sessions, ranging from $6 to $15, depending on the materials and time involved. Individuals who cannot afford the class fees are given scholarships. In addition, individuals pay a $10 screening fee for their skills test in becoming a member. For people who find it difficult to pay these fees, some sort of deferment or payment scheme may be worked out. For members in need of financing, NEED operates a very small micro loan fund which offers loans of between $50 and $2,000, largely to buy equipment and materials. Repayments are handled through withholdings from monthly paychecks.

IV. Results to Date

Since it started operations, Watermark has grown to over 700 cooperative members, of which about 300 to 325 earn a substantial monthly salary. Cooperative members generally earn between $5 and $18 per hour. Yearly earnings by craft members range from several hundred dollars to $35,000. Watermark’s total annual sales were roughly $1.2 million last year, 95 percent of which was wholesale, and over the last 12 years Watermark has brought, through member salaries, operating expenses, etc., over $9 million into the local economy. Watermark estimates that, using a multiplier formula, this translates into a $27 million effect on the local economy.

Watermark is recognized as a model of a successful crafts cooperative and now, in conjunction with NEED, operates a national internship program which has trained individuals from over 65 organizations, both U.S. based and international, in business and management skills, primarily marketing.
I. Contact Information

Contact: Gus Kostopulos  
Executive Director  
Address: WoodNet  
127 East First Street  
Suite 4W  
Port Angeles, WA 98362  
Phone: (206) 452-2134  
Fax: (206) 452-7065

II. Setting

WoodNet operates in the four-county area covering Washington's Olympic Peninsula. The Olympic Peninsula is a fairly large area with the mountains of the Olympic National Park set squarely in the middle, making it over 300 miles to travel around the peninsula. The region's economy was traditionally based on the logging industry, with some high schools offering vocational logging programs. Many peninsula residents did not even finish high school before going to work for a forest products company, since they could make up to $20/hour working for such a company. Now, however, many of these mills are gone and the region is struggling to redefine its economic base.

III. Project Description

A. Goals

WoodNet is one of five flexible manufacturing networks (FMNs) funded by the Northwest Area Foundation. Based on European models, these FMN projects were undertaken to combat some of the economic development problems faced in rural areas, strengthen rural/urban linkages, and, in the case of WoodNet, to adjust to structural changes in the wood industry. WoodNet strives to bring wood products firms together so that they can solve common problems and take advantage of common opportunities, while remaining independent businesses. The Northwest Area Foundation started these FMN projects on an experimental basis, with a three-year funding
allocation for four of the five, including WoodNet, and two years of funding for one other Washington project.

B. Organizational Structure and Funding:

Gus Kostopulos, WoodNet's Executive Director, began WoodNet's operations in March of 1991. The organization currently has a staff of three, including an Executive Assistant and a Business Assistance Specialist in addition to the Executive Director. Funding for the position of Business Assistance Specialist came from the Washington Department of Community Development. The Northwest Area Foundation granted just under $300,000 to the Clallam County Economic Development Council, which had applied for the funds on behalf of all four counties within the Peninsula, to cover the first three years of operations for WoodNet. WoodNet is not controlled by the Clallam County EDC however, but rather operates as an autonomous entity. The Northwest Area Foundation also made a grant to the Northwest Policy Center* to act as an advisor to these network projects, to promote networking in general, and in conjunction with a leading expert on networks, to do an evaluation of these initiatives.

WoodNet's Board of Directors is composed entirely of individuals involved in woodworking businesses; no government officials or representatives of philanthropic agencies are involved. WoodNet is organized as an independent nonprofit business association, as defined under §501(c)(6) of the Internal Revenue Code.

C. Client Characteristics:

WoodNet has approximately 450 members on its mailing list, of which roughly 300 are woodworking businesses. Most of these firms are very small, employing only two or three people. About 20 to 30 of the businesses have over 10 employees and only two or three have more than 30 employees. The business owners are primarily white men, but there are a number of husband and wife teams and roughly five percent of the businesses are women owned. The peninsula has very small minority populations. Many of the business owners are first generation business owners who turned to starting their own firm after losing their mill job.

WoodNet does not think of itself as a component of any sort of poverty alleviation strategy, and therefore the organization does not collect information regarding the income levels of their clients. Yet there certainly are a number of low-income residents

* The Northwest Policy Center carries out policy research, designs and evaluates policy alternatives, and fosters a continuous exchange of information among those involved in meeting the economic challenges of the Northwest region, which includes Alaska, Idaho, Montana, Oregon, and Washington. The Center is a unit of the Institute for Public Policy and Management at the University of Washington Graduate School of Public Affairs.
on the peninsula, and a number of the business owners involved in WoodNet are poor. WoodNet staff cite examples of where the limited income of a business owner has become evident, such as a case where a man did not intend to go to a meeting because he could not afford the gas, or a husband and wife who put their income as $600 a month in their business plan, but staff cannot estimate the number of WoodNet participants who may be officially poor.

D. Program Activities:

Mr. Kostopulos began WoodNet’s program by first getting to know his market. He visited many firms on the peninsula, often making cold calls, and tried to find out what people were doing and what they needed. He then tried to fill some part of this need, usually by linking that firm with another firm on the peninsula. Through this process, in which he “under-promised and over-delivered,” Mr. Kostopulos achieved two important objectives. First, he gained credibility with the firms and second he demonstrated how a network can offer tangible benefits. This second objective was particularly important, since most firms are not interested in the abstract concept of networking. Mr. Kostopulos also took every opportunity to speak to groups, such as Lions Clubs or Rotary Clubs, in order to increase WoodNet’s exposure.

After building up this constituency, WoodNet started organizing meetings in order to facilitate networking among firms. WoodNet has held general meetings, as well as meetings for firms within the same geographic area or firms within the same product specialization, such as remanufacturing, cabinet making, or artisan firms. WoodNet arranges for speakers and organizes the meetings around different topics. For meetings of the general membership, attendance ranges around 25 percent, with different firms attending each time, according to their interest in the topic.

WoodNet puts out a newsletter every month. The newsletter announces upcoming meetings and also features articles on opportunities for peninsula firms, such as financing available from a regional revolving loan fund or export assistance available through a state program. In addition, the newsletter contains a classified section in which businesses offering or soliciting a good or service can remain anonymous, with responses to the ad channeled through WoodNet. WoodNet has also developed and distributed a directory of woodworking firms on the peninsula, making it easier for firms to contact each other directly.

Along with linking peninsula firms to each other, WoodNet also assists firms to develop contacts with businesses and markets outside the peninsula. WoodNet has organized joint trade shows for firms and helped them explore new market opportunities, both domestic and international. In offering services such as marketing assistance
or help with a loan application, WoodNet is careful to stress the idea of teaching so that the next time the firm can accomplish this task on their own.

IV. Results to Date

As a relatively young organization, WoodNet's impact on the regional economy of the Peninsula is not yet evident—and it will always be difficult to assess. WoodNet staff can cite examples of their impact, such as a mill processing alder logs which would not have opened without a lead from WoodNet or a firm selling its products in Seattle which would not be in that market without WoodNet's assistance, but they cannot keep track of all the connections between firms, and the concomitant business deals, which have sprung up out of WoodNet. Many of these business connections are made at meetings, through the use of the directory, or in other ways which are impossible to track. The examples that staff see and the increasing interest of the business owners do seem to indicate, however, that WoodNet's activities are having some impact.

WoodNet is a member driven organization, allowing the participating firms to pursue those projects and programs which they find useful. Interestingly, the reason many firms become involved with the network is often not the reason they stay involved. For example, the first thing a number of firms thought of for a network initiative was a joint purchasing arrangement, yet not one such deal has taken place. Similarly, some firms wanted access to financing, yet of the fourteen firms which were invited to apply to Cascadia, a regional revolving loan fund, only one did. Some of this reluctance to pursue financing however can be attributed to the cost—Cascadia charges 11 percent interest, and to the conservative approach to borrowing among Peninsula residents, who have become even more conservative about acquiring debt due to the uncertainty of the wood supply created by proposed changes in environmental regulations. More common outcomes from participation in WoodNet are new buyer/supplier linkages, such as a firm with small pieces of waste wood that finds it can sell those pieces to another firm with a need for small pieces of wood or a firm which has invested in wood drying equipment which it uses on a part time basis that finds another firm willing to pay to use this equipment.

V. Future Directions

WoodNet's future projects include the development of a wholesale buyers guide to Peninsula products, which will include some non-wood products, such as textiles, ceramics, metal work, or specialty food. Interested firms must apply and those accepted
will have to pay $225 to $300 to cover administrative and photography costs. The U.S. Forest Service has also provided $10,000 to support the catalog. In addition, ITT Rainier has invited them to apply for $10,000 and the Washington Department of Economic Development has invited them to apply for $25,000 to support this project. Total cash outlay for catalog would be about $80,000, not including staff time of WoodNet. Other similar efforts have cost much more. WoodNet is also exploring the possibility of a joint export project together with the Washington State Export Assistance Center to promote exports from WoodNet firms WoodNet would like to use the money to put on an International Home Show in Japan. WoodNet is also exploring possibilities for collaboration with other wood products networks in the Pacific Northwest.

WoodNet is considering charging membership fees in the future and/or charging a commission or some sort of fee to firms who land production contracts through WoodNet's services. These sources of revenue, although they will be a help in supporting WoodNet's activities, are not expected to be large enough to make WoodNet a self-sustaining organization in the foreseeable future.
IV

Community Finance
CASCADIA REVOLVING LOAN FUND
PACIFIC NORTHWEST

I. Contact Information

Contact: Patty Grossman
        Executive Director
Term Shapiro
        Associate Director
Address: 157 Yesler, Suite 414
        Seattle, WA 98104
Phone: (206) 447-9226

II. Setting

Cascadia Revolving Loan Fund is a regional organization, making loans throughout
Washington and Oregon. Cascadia concentrates its efforts in distressed rural areas and
inner city neighborhoods. Many of the Northwest’s rural areas have gone through
tremendous economic upheaval with the controversy surrounding the timber industry,
increasing the need for credit as individuals and communities try to redefine their
economic livelihood. At the same time, banks have been consolidating, taking much of
the credit decisions away from rural areas.

III. Project Description

A. Goals

Cascadia seeks to promote equality of access to opportunity for women, minorities,
and low-income individuals and to encourage environmentally supportive technolo-
gies. The Fund serves as a link between investors seeking a social return and borrowers
in need of affordable capital and technical assistance. Cascadia has a vision of indi-
vidual and community empowerment and strives to educate the public as to the poten-
tial social as well as financial return on investments.
B. Background

The idea for starting Cascadia came from a group of individuals from organizations serving minorities, women, and environmental causes. The group came together around access to credit, since the populations group members served all had difficulty with this issue, particularly in the area of business start-up and expansion. Officially founded in 1983, Cascadia's first two years were devoted to forming a nonprofit agency, developing the organization, getting the securities registration and trying to attract investments. Cascadia first began making loans in 1985, in cooperation with Sound Savings & Loan. By 1987, Cascadia had raised roughly $75,000 through investments of between $5,000 and $15,000 from individuals and organizations such as Pudget Consumer Cooperative, Group Health Cooperative, and Sisters of St. Joseph and began making independent loans. In 1992, Cascadia received its first large investment, $100,000 from Group Health Cooperative, and by the end of 1993 was capitalized at $1.2 million.

For its first five years of operation, Cascadia was staffed by an Executive Director and a part-time support person. News of the Fund spread among potential borrowers primarily by word of mouth and in 1991, after the hiring of a new Executive Director, the organization began to grow rapidly. Initial lending was concentrated in the Seattle area, but as the controversy surrounding the timber industry made life increasingly difficult in the rural communities of the Northwest, economic development groups from these areas asked Cascadia to consider lending in their communities. Cascadia has responded to these needs and today lends in both rural and urban communities in Washington and Oregon.

C. Organizational Structure

Cascadia's total staff comes to six full-time equivalent positions, including an Executive Director, an Associate Director, primarily in charge of loans, a Development Director, a Loan Officer, and a Development staff person. The Fund has a very active Board of Directors, composed of about 10 individuals most of whom have backgrounds in finance, business management, and/or community development. Four Board members comprise the loan review committee, which approves all loans. Board members also work on development, promotion of the fund, and other activities. In addition, about two dozen volunteers, primarily lawyers and accountants, have worked closely with Cascadia and with Cascadia's borrowers.

Cascadia recently affiliated with Evergreen Community Development Association, an organization which primarily handles fixed asset financing for small businesses through the Small Business Administration's 504 program. Both organizations have started lending in rural areas relatively recently and feel that they can be more effective in this area by combining their efforts.
D. Beneficiary Characteristics

Cascadia lends to a variety of non-profit and for-profit organizations. It seeks primarily two types of enterprises to lend to: (1) enterprises owned or controlled by low-income individuals, with preference given to women and minorities; and (2) enterprises which employ alternative methods of democratic and cooperative control, in order that the Fund may accumulate and disseminate information on these types of business structures. To date 61 percent of Cascadia’s loans have gone to entities which are owned by or serve low income people, 55 percent of dollars have gone to organizations which are owned by or serve women and minorities, and 27 percent of money lent has gone to worker-owned and democratically controlled cooperatives. In addition, Cascadia seeks to support environmental priorities and, in this vein, has supported recycling ventures, the production of organic foods, and other environmentally supportive enterprises—40 percent of their loans have gone to companies involved in environmental causes.

E. Project Activities

Cascadia receives over 700 inquiries a year from individuals looking to start or expand a business. Word of mouth, press coverage, connections to other community development organizations have all served to make Cascadia known to the borrowers they target—and demand for their loans is high. Most of Cascadia’s borrowers can not get a loan from a bank. With an average loan size of $30,000, Cascadia’s loans are too small to interest most commercial banks and borrowers often do not have sufficient collateral or cash flow for commercial loans.

Due to the large number of requests, Cascadia’s first response to a potential borrower is to send an information packet that lays out the type of documentation which will be needed—and this is substantial, including a business plan, cash flow projections, historical financial statements in the case of existing businesses, etc. After receiving the packet, individuals are invited to call and speak with Cascadia loan staff. Staff try to determine over the phone whether they will be able to help an individual in order to save those they cannot help the considerable effort of applying for a loan. Staff estimate that the result of this process is that of the 700 initial inquiries, roughly 100 call back, and of the people that do end up applying for loans, most get them.

In screening loans, Cascadia staff consider both the social return on the loan as well as financial prudence. Although the Fund’s lending activity is not regulated, it has a responsibility to its investors to make sound loans. In addition, the health of the Fund’s portfolio will determine their ability to raise additional loan capital as well as to recycle the permanent capital they currently have.

Cascadia staff often refer potential applicants to technical assistance groups for assistance in completing their loan application. This allows them to avoid lender liabil-
ity problems as well as the expense of assisting non-borrowers. In addition, given Cascadia's wide service area, referrals may connect potential applicants with resources which are nearer to where they live or work. Once an applicant becomes a borrower, however, Cascadia is much more hands-on in providing technical assistance. Many of the companies receiving loans are new and need a lot of assistance. Staff make frequent checks on their borrowers to make sure any problems are taken care of at an early stage and borrowers are encouraged to call with problems. Problems staff cannot handle themselves are generally handled by area professionals who provide their services on a pro bono basis.

Cascadia develops new loan products and programs based on needs as they arise. The affiliation with Evergreen came about through a desire to respond to the credit needs of rural areas, which had recently become acute. In addition, in a new program, based on Cascadia's experiences with environmentally concerned organizations, Cascadia will make loans to finance the purchase of equipment needed by small businesses such as dry cleaners, printers, and machine shops to reduce the production of hazardous waste.

F. Finance

The majority of Cascadia's loan funds come from individuals who invest a minimum of $500 in the Fund and choose an interest rate from 0 percent to the current money market rate. These investments generally have terms from one to five years. The average investment size from individuals is roughly $3,000 and currently these investments make up 63 percent of the Fund's loan capital. Cooperatives and nonprofits provide another 23 percent, religious groups supply 13 percent, and mutual funds are the source of one percent of capital.

Operating support comes from charitable donations and grants as well as from interest earnings on loans and loan fees. Currently Cascadia covers between 50 and 60 percent of its operating costs through revenue from its loan portfolio.

IV. Results to Date/Future Plans

As of the end of 1993, Cascadia had lent out over $1.7 million in loans to roughly 70 organizations, with roughly 40 percent of these loans going to support small business start-ups and over 80 percent to small business in general. Their loan performance record has been exceptional, with a default rate of less than one percent of their portfolio. This compares very favorably with the performance of commercial banks. Roughly 25 percent of their portfolio gets restructured in some way, but this can vary from
borrowers paying interest only for a couple of months to extending the term of the loan for an additional year.

Currently the fund is seeking to develop equity capital and they are in the process of pursuing a $100,000 matching equity grant from CitiBank. Equity funds will allow Cascadia to broaden the range of eligible loan applicants and will enable the Fund to better serve its goal of providing credit to those who cannot access conventional loans. Cascadia staff recognize that this new lending would have a higher level of risk than current loans and will likely lead to more losses and less impressive loan performance statistics, but feel that such experimentation with riskier lending is in line with Cascadia’s mission. Cascadia is also seeking to strengthen its relationships with banks in order to “graduate” clients to traditional financial institutions, to promote the extension of banking services into underserved communities, and to encourage banks to refer individuals they cannot help to Cascadia.
I. Contact Information

Contact: Katharine McKee  
Associate Director  
Martin Eakes  
Executive Director and CEO  

Address: Center for Community Self-Help  
409 E. Chapel Hill St.  
P.O. Box 3619  
Durham, NC 27702  

Phone: (919) 683-3016  
Fax: (919) 688-3615

II. Setting

The Center for Community Self-Help serves the entire state of North Carolina which has a population of roughly 6.6 million people, 43 percent of whom live in rural areas. North Carolina is a geographically and economically diverse state. For the rural economies, branch plant manufacturers have been one of the major engines of growth. In addition, in the state’s coastal and mountain regions tourism is an important source of jobs and income. In other areas, particularly in the Coastal Plains, agriculture has been a prominent feature of the economy and culture, although employment in agriculture has dropped off considerably and today accounts for less than five percent of rural jobs. The state’s urban areas, located mainly in the central Piedmont area of the state, have vibrant, diverse economies with a notable presence of high-technology firms, advanced research institutions, specialized health and other services, and a range of manufacturing establishments.

From a national perspective, North Carolina has had a relatively strong economy in recent years, with most of the state’s growth occurring in urban areas, although at the time of Self-Help’s founding in 1980, the state was suffering from a large number of plant closings. North Carolina’s recent economic success has, however, contributed to the escalation in housing costs across the state, making it much more difficult for many to own their home. In addition, opportunity has not been evenly distributed among the state’s population, with North Carolina ranking near the bottom of the nation in new
business start-ups among women and minorities. North Carolina also ranks near the bottom in manufacturing wages, and these low-wages lead to large populations of working poor. Rural poverty rates also remain high, as rural areas have not benefited from growth nearly as much as urban regions. Capital for small firms, both new and existing, is often difficult to find, particularly in rural areas and low-income urban neighborhoods, which frequently lack a locally-based bank and are perceived of by regional and national banks as relatively less profitable areas for investment. Self-Help seeks to address the needs of both urban and rural citizens of the state and hence offers services in a variety of economic contexts.

III. Project Description

A. Goals

Self-Help’s mission is to support the efforts of low-income people to achieve self-sufficiency and to increase the economic options available to financially disadvantaged individuals and communities throughout the state of North Carolina. They pursue this goal primarily through the provision of credit and other financial services to individuals and communities typically excluded from or with limited access to conventional financial institutions. The technical assistance and financing Self-Help provides to individuals and organizations improves the supply of affordable housing, enabling individuals to build their personal assets through home ownership, and encourages business development, creating new jobs and enhancing business ownership in disadvantaged communities. By focusing on ownership and asset building, Self-Help assists individuals and communities achieve long-term economic stability.

B. Brief Description & History

Self-Help is a community development “bank” offering loans and technical assistance to low- and moderate-income home buyers, small businesses, employee-owned businesses, and non-profits throughout the state of North Carolina. Martin Eakes, the current CEO, and Bonnie Wright co-founded the Center for Community Self-Help in 1980, concentrating primarily on helping displaced workers start businesses. Initially Self-Help had no office space and worked through staff visits to clients, but with funding from a local foundation, they were able to move into office space in 1982. In 1983 the Self-Help Credit Union and Self-Help Ventures Fund were founded—with $77 raised through a bake sale. Self-Help soon developed a reputation as an innovative and effective program and in 1984 the United Nations recognized Self-Help as one of the most effective rural development groups in the United States. Such recognition helped Self-Help attract the loan capital needed in order for its financial institutions to have impact; in 1985 Self-Help received its first major infusion of funds when the Ford Foundation
invested $1.5 million for loan capital. Today Self-Help works in partnership with a variety of local, state, and federal government programs as well as a range of nonprofit agencies, bringing a variety of resources together to combat the problems of poverty and isolation from the economic mainstream facing many of North Carolina’s citizens.

C. Organizational Structure

As stated above, Self-Help is a community development bank, which they define to mean “(a) that the primary or sole focus of the institution must be on disenfranchised and disadvantaged constituencies; and (b) that the institution be composed of at least a federally insured depository institution and one or more affiliated non-profit organizations.”* In the case of Self-Help, the umbrella organization is a nonprofit 501(c)(3) organization, the Center for Community Self-Help, which has two financial affiliates, the Self-Help Credit Union, a federally insured depository institution, and the Self-Help Ventures Fund, a non-profit revolving loan fund. The Center for Community Self-Help provides technical assistance to borrowers, develops new programs, and engages in policy analysis and advocacy. The Credit Union engages in secured home mortgage and business lending to non-traditional borrowers, while the Ventures Fund, which is less constrained in the level of risk it can assume, provides debt and equity financing for non-traditional borrowers running small businesses and develops facilities for nonprofits and small business incubators. To better serve the entire state of North Carolina, Self-Help opened regional offices. Today there are four such offices, located in Charlotte, Asheville, Greensboro, and Greenville, as well as the main office in Durham.

Self-Help has a total staff of roughly 40, most of whom have advanced degrees in such fields as law, business, economic development, and public policy. Approximately nine of these employees work in the regional offices. Although for accounting and legal purposes different individuals are on the payroll of different Self-Help entities, functionally individuals work for Self-Help as a whole. For example a loan officer for the Credit Union may end up doing a considerable amount of the work for a deal that is eventually done through the Ventures Fund or may assist in the development of policy positions for the Center.

D. Beneficiary Characteristics

Self-Help targets low-income groups for assistance, particularly women and minorities, in both rural and urban settings. The various programs run through Self-Help address, either directly or indirectly, the different needs of these individuals. For example, the home mortgage lending program assists predominantly lower to middle-income

individuals who are unable to access a conventional mortgage due to credit blemishes, insufficient savings for a standard down payment, etc., while through work with non-profits, Self-Help may provide the financing for housing development to meet the needs of very low-income individuals and public assistance recipients. Similarly, in the area of business assistance, Self-Help works with businesses ranging from self-employed AFDC recipients to small firms run by working poor individuals to larger rural firms unable to get an SBA loan from a local bank to worker-owned enterprises such as the Nantahala Outdoor Center, which is one of the major employers in its county.

E. Project Activities

Self-Help's structure enables Self-Help to engage in a variety of activities which encourage home ownership and business development. In promoting economic development, Self-Help emphasizes home ownership as well as business lending, as for most American families their home is their largest asset; hence home-ownership is a very direct means for increasing the wealth of disadvantaged citizens, giving them a financial base against which they can later borrow for economic or educational investment.

Through the Credit Union, Self-Help began offering mortgage loans to low- and moderate-income individuals in 1986. In 1991, with an appropriation from the state legislature, Self-Help began the NC HOME program, in which they offer individuals fixed-rate mortgages with low down payments and relaxed debt to income ratios. This program was a demonstration for Fannie Mae and was so successful that Fannie Mae now offers it nation wide. In addition, Self-Help recently began marketing and offering the Farmers Home guaranteed loans that require no down payment. Self-Help has also made loans in conjunction with various municipal programs. For example through work with the Charlotte Housing Authority, Self-Help assisted nearly 125 public housing residents to become homeowners. Through collaboration with non-profits or other development agencies, the Self-Help Credit Union has also financed the rehabilitation of rental properties for very low-income people. All home loans have been to low- and moderate-income individuals; over 80 percent of these have been to minorities and over 60 percent to single mothers.

In the area of commercial lending, Self-Help has made loans ranging from as little as a couple hundred dollars to as much as $650,000. Self-Help charges a slightly higher rate than most area banks, so these are not conventionally bankable loans. The average loan term is three to five years and in 1992 Self-Help made commercial loans totaling just under $5 million, with loan volume split fairly evenly between the two financing entities. Of Self-Help’s business loans, about two-thirds are made to rural businesses, over 50 percent to minority-owned businesses and over 42 percent to women-owned businesses. Commercial lending is done through both the Ventures Fund and through
the Credit Union, and sometimes a deal may be done with a combination of financing through the two entities, with the Ventures Fund assuming a subordinate position on the loan. Self-Help evaluates loans according to the four Cs: credit, character, cash, collateral. While the Credit Union may bend on one of these factors, if others compensate, the Ventures Fund, an unregulated institution able to engage in riskier lending, might bend on two. Self-Help has specifically chosen not to offer a variety of retail financial services, such as unlimited checking accounts and check cashing services. They found the provision of these services costly and a detraction from lending and they are typically available elsewhere.

To reduce the risk of making unconventional loans, particularly small loans, Self-Help has engaged in niche lending, whereby staff develop expertise in particular business types, in some cases developing specialized loan products for a business sector, and conduct targeted marketing and outreach in these sectors. For example, Self-Help has considerable experience in lending to day care enterprises and has developed special day care facilities loans to encourage business development in this sector. In trying to promote and support the work of other nonprofits in North Carolina, Self-Help has developed lending expertise and specific products for this sector as well. Other areas where Self-Help has developed specialized experience include construction contractors, crafts, food services, and certain specialty retail sectors. Another way Self-Help tries to minimize risk of default is by providing management assistance to businesses through the Center for Community Self-Help, advising them as to how to structure and expand their operations. Self-Help has provided this assistance to many businesses who did not receive loans as well as to borrowers.

To leverage resources and make effective use of existing community development capacity, Self-Help engages in a variety of lending partnerships. For example, in engaging in microlending, Self-Help has worked in conjunction with local community development organizations in order that their particular knowledge of their clientele can be combined with Self-Help’s capacity to attract loan funds and to administer loans. In addition, Self-Help may offer advice on local program design, based on their knowledge of other microenterprise programs. In another partnership arrangement, Self-Help worked with the North Carolina Association of Community Development Corporations to develop a predevelopment loan fund for CDCs which provides financing for feasibility studies, architects’ fees, surveys, and other early costs of housing and commercial development projects. The NC Association of CDCs raised the initial loan capital and put together a loan review committee to make final decisions. Self-Help services the loans and assisted with the planning and implementation of the loan fund. In addition to partnering with local nonprofits, Self-Help has also engaged in partnerships with federal, state and municipal governments, as well as other financial institutions. Part-
nerships with government and private sector financial institutions not only bring in additional resources, but also provide Self-Help with important information for their advocacy work and enable Self-Help to effectively demonstrate community development lending techniques which these entities can adopt or promote.

In addition to lending and technical assistance, Self-Help has engaged in selective real estate development projects which further its mission as a development bank. Examples include daycare centers, affordable housing, and "incubators" for small businesses and nonprofits. Self-Help has found that many of the benefits to small businesses of being in an incubator, such as informal networking, learning from other firms in the facility, taking advantage of opportunities for collaboration, and general mutual support, also apply to nonprofits in an incubator setting.

Self-Help is also an active advocate for development lending, addressing its work toward state and federal policy makers and other lenders and financial regulators. While credit analysis and lending is done through the Credit Union and the Ventures Fund, the policy analysis and advocacy resulting from the lending experience is supported through the Center for Community Self-Help. Thus the link between the different types of institutions comprising Self-Help is not only important for service delivery and financial sustainability, but also for enabling the experience of practitioners to better inform policy development and influence practices in conventional financial institutions.

**F. Finance**

Self-Help has total operating budget of roughly $1 million for all three entities and receives support from a variety of sources. The Center for Community Self-Help and the Ventures Fund, as 501(c)(3) institutions, receive contributions from individuals, religious institutions, corporations, foundations, and public-sector organizations, including state appropriations from North Carolina. The Ventures Fund, with assets of $14.5 million at the end of 1992, also receives long-term, low-interest investments from foundations and public agencies.

The Credit Union raises its capital through deposits. Depositors, a distinct group from borrowers, include churches, other nonprofits, "socially conscious" individuals, and other institutions. Borrowers pay a $20 membership fee to the Center for Community Self-Help and are then eligible to become credit union members and make deposits. Depositors generally receive a market rate on their deposits, although some opt to receive a lower interest rate in order to further the goals of Self-Help. To keep the cost of deposit accounts down, Self-Help limits the number of withdrawals a depositor can make in a month. The Credit Union's assets at the end of 1992 were $33.6 million, including internal deposits from the Ventures Fund and the Center for Community Self-Help.
IV. Results to Date

By the end of 1992, Self-Help had made 521 home purchase loans totaling over $20 million; 133 of these, accounting for $6.8 million, were made in 1992 alone. Of these loans, 88 percent were made to minorities and 62 percent were to single female heads of households. The average income of families receiving loans was $22,000. Self-Help has also facilitated substantial additions to the supply of affordable housing. Self-Help’s housing development loans to CDCs have facilitated the construction or rehabilitation of over 100 rental units for low-income residents.

In commercial lending, Self-Help has made loans to over 600 small enterprises, totaling over $20 million. These loans have created or saved an estimated 3,000 jobs and have provided opportunities for business ownership to disadvantaged North Carolinians. In 1992 Self-Help extended $4.9 million in loans to 138 businesses and nonprofits. Of these loans, 61 percent were made to rural businesses, 47 percent were made to minority-owned businesses, 38 percent were made to women-owned businesses, and nine percent were made to employee-owned businesses, cooperatives, or nonprofits.
**COASTAL ENTERPRISES**  
**MAINE**  

**I. Contact Information**

Contact: Mr. Ron Phillips, President  
Address: Coastal Enterprises, Inc.  
P.O. Box 268  
Water Street  
Wiscasset, Maine, 04578  
Telephone: (207) 882-7552  
Fax: (207) 882-7308

**II. Setting**

Maine is a predominantly rural state, with a high incidence of poverty and unemployment relative to the rest of New England, and like the rest of New England, Maine's economic problems became much worse in the most recent recession. Maine has only nine towns or cities with over 20,000 residents, accounting for 22 percent of the population with the remainder living in villages and towns with average populations of 2,200 or less. Roughly 20,000 jobs were lost in 1991, bringing the unemployment rate to 7.8 percent. AFDC enrollment went up 39 percent in the same period, and food-stamp recipients 60 percent.

Maine's employment structure is oriented toward small and micro business. Approximately 90 percent of the firms in the state employ fewer than 20 workers; 58 percent four or less. In addition, 18 percent of the rural population depends upon self-employment for jobs, accounting for 20 percent of rural income. Although vital to the state's economy, the natural resources of Maine are hard pressed to deliver the jobs and value-added industries that might be expected. The paper and pulp industry is largely controlled by outside interests and is increasingly capital intensive; the depletion of formerly bountiful types of fish in the 1960s and 1970s by foreign fishing fleets immediately offshore, increased environmental regulation, and the State's relative isolation from key domestic markets has historically left the state at a disadvantage; yet despite this picture, the growing capabilities of the small business sector to exploit emerging technologies and specialized market niches hold promise for the state's future economic welfare.
III. Program Description

A. Background

Established in 1977 to create jobs and help strengthen Maine's economy through business development, Coastal Enterprises, Inc. (CEI) is a specialized CDC which incorporates a continuum of financial and technical services in assisting business ranging in size from micro-enterprises to medium-scale industries with turnovers of $10 to $15 million. Despite the range in scale, CEI operates with a consistent methodology which integrates training and technical assistance (as needed) with credit and focuses on job creation and a strengthening of Maine's competitive base. In self-employment, CEI will provide start-up “First Step Loans” and working capital credits to micro enterprises, with training and/or T.A. provided from the stage of business planning through to implementation. In the case of larger businesses, CEI will finance start-up or expansion through different credit and equity taking mechanisms, but only if the investment results in job creation among low-income or unemployed people.

Two other characteristics serve to define CEI's rather unique position in Maine's business development community. First, CEI attempts to target sectors in its portfolio, both to better understand the market in which it lends as well as to pinpoint investments in potential growth areas and thereby maximize impact on job creation and spin-off developments through backward and forward linkages. In the fisheries sector, for example, CEI undertook a feasibility study in 1978 to seek better market opportunities both for common, staple fish as well as for more specialty fishing products, including shrimp, herring and more high priced varieties of fish found in Maine waters. Two interventions that followed have had significant impact. First, a marketing exchange was formed among fishermen in Portland to cut out middleman profits. This included a fresh fish open display auction facility—the first of its kind in Maine—developed as part of the upgrading of the Portland Fish Pier to allow for more efficient delivery, cold storage and packaging. The exchange is currently turning over $30 million in fish sales per year and has shifted much of the primary marketing to Portland that formerly was controlled through Boston.

Second, through CEI's technical support and initial investment, CEI formed the Resources Trading Company to market fish products to domestic and international markets. RTC has developed into a major fish exporter, grossing roughly $10.0 million annually with major export contracts for shrimp to Japan and herring to Russia. As it contracts out locally for the supply and preparation, packaging and shipping of its products, the RTC estimates that roughly 250 jobs have been created through its intervention in the labor intensive industry, and an additional 230 fishing jobs retained. Having spun-off the RTC in 1987 as an independent company, CEI has retained pre-
ferred stock in the company, giving CEI control over 25 percent of RTC’s profits. Profits to date have been reinvested in the business.

Similarly, in seeking to convert a social-service need into an economic development and market opportunity which both helps working parents and enables self-employment, CEI has invested significantly in the start-up and expansion of day care facilities. To date, 50 loans have been made to low income women, to start or improve family and center-based child care services. Over 1,500 preschool children are being served in these projects.

Third, while lending for projects that are not conventionally bankable due either to risk or insufficient collateral, CEI attempts with each deal to maximize leverage from more conventional lenders. It does so through, for example, taking secondary positions on larger loans. To date, CEI has directly lent roughly $20 million to 300 enterprises in Maine, but in so doing has leveraged an additional $60 million.

Lastly, CEI integrates technical assistance and training with its lending program, delivering non-financial services on an as needed basis, particularly for low-income and less educated clients in businesses such as day care and restaurants. CEI has counseled over 4,000 businesses with an average of 25 employees, affecting 10,000 Mainers. In addition, some $10 million in bank financing has been arranged through its counseling program.

B. Program Structure

CEI’s diversified program structure may best be viewed in two dimensions: i.e., by areas of program emphasis and by its financing, or fund structure. Figure One presents the staffing structure for CEI’s staff of 24. As can be seen, CEI has an integrated core staff as well as two subsidiaries, one for venture capital (described in the following section), and one for housing development. The bottom rung of the structure outlines the major areas of concentration: targeted opportunities (sector-specific and other lending); child-care development; women’s business resources; and business counseling. Integrated within CEI’s lending program are targeted approaches both for sectors (as cited above) as well as for specific types of clients including women’s businesses and a pilot self-employment program for AFDC recipients. Lastly, in addition to being a CDC, CEI is also an SBA-registered Small Business Development Center (SBDC) with three full-time staff who provide business counseling to roughly 500 clients per year.

Figure Two outlines the lending structure of the organization. CEI’s central investment fund is subdivided into two program funds: the Development Fund (current capital, $8 million) for small to medium enterprises, and the Enterprise Development
Organizational Chart

Figure One

Figure Two
Fund (current capital $3 million) for micro-to small enterprises. CEI's core activities function around lending from these two funds. CEI is also a licensed SBA 504 loan packager with over $6 million in financing.

C. Program Operations
CEI's professional staff operate in a highly integrated manner, sharing responsibility for outreach, promotion, and marketing and linking clients at various levels on the enterprise scale to appropriate assistance strategies.

Clients find out about CEI through word of mouth from existing clients, through referrals from a range of local service agencies, private and public, with whom CEI coordinates, and through local talks and television and radio appearances by CEI personnel. Commercial banks are also a key referral source for potential borrowers that cannot satisfy conventional credit requirements due, for example, to lack of experience and/or insufficient collateral.

Initial screening of roughly 1,000 potential clients per year relies on specific criteria to direct clients to differing assistance programs, such as, for example, self employment designed to serve welfare recipients, women entrepreneurs and/or low-income or unemployed. For larger projects or start-up small-to-medium businesses, CEI makes an initial determination on the potential impact on employment for unemployed or low-income individuals. Motel development, for example, is often eschewed outright due to the low ratio of jobs to investment dollars.

Once screened in, all potential clients, large or small, are asked to submit a business plan and are assisted in doing so if necessary. The business plan, includes a description of the business and product to be sold, a market analysis, assessment of competition, resume of skills and experience of the principal(s) involved in carrying out the plan and detailed financial statements and projections which justify the size and use of the loan requested. The business plan forms the centerpiece for an assistance strategy, including the planning for training and technical assistance as necessary.

Loan requests are reviewed jointly by the field staff person responsible together with the finance department where the business plan and financial projections are scrutinized. An internal loan committee (staff level) makes decisions on all loans up to $100,000; loans of between $100,000 to $200,000 are approved by the Investment Committee, and loans over $200,000 are approved by the Board of Directors. The review process both renders a basic decision on whether to approve the loan but also pinpoints the type and terms of the credit to be issued. One of the key features of CEI's credit operations is that they match loan terms—principal size and amortization period—to
the individual circumstances of each project. Thus some credits are issued as straight
loans over a one-to-two year period; others might be repaid on a seasonal basis; still
others for longer term capitalization will balloon principal repayment and/or be issued
as convertible debentures. A typical term is 5 to 7 years. At the same time, as men-
tioned, CEI will leverage other investors, especially for medium-scale projects, often
through subordinating their position to other lenders and thus lowering the exposure of
conventional, more highly capitalized institutions.

CEI secures its loan to the maximum extent through registering real estate, equip-
ment and whatever other forms of collateral may be available. CEI will not, however,
forgo loans based on lack of security, and most of its micro loans are under
collateralized by banking standards. Continuous monitoring of loans is undertaken at
all levels, with technical and managerial advising being built in as part of the business
plan. Also, specialized training in bookkeeping, literacy or technical skills will often be
provided by counterpart agencies who in many cases will refer clients to CEI for credit
while keeping up non-financial services throughout the loan period.

IV. Results to Date

As cited, to date CEI has issued a cumulative total of $20 million in credits to 300
enterprises while leveraging an additional $60 million from primarily mainstream
lending institutions. In Enterprise Development Lending, (for firms with 1–15 employees)
over $2 million has been lent to 160 enterprises, with over $2.5 million being leveraged.
The loans have ranged from $400 to $50,000, with an average of $12,500 and a median of
roughly $10,000. The borrowing enterprises employ an average of 3.8 workers.
I. Contact Information

Contact: Jeremy Nowak  
Executive Director
Address: 924 Cherry Street  
Philadelphia, PA 19107
Phone: (215) 925-1130  
Fax: (215) 923-4764

II. Setting

The Delaware Valley Community Reinvestment Fund (DVCRF) operates throughout the Philadelphia metropolitan region, which includes five counties in Pennsylvania and three in New Jersey. The DVCRF concentrates its lending activities in the distressed communities of inner-city Philadelphia, Camden, Chester, and Lower Bucks County. These communities have suffered severely from disinvestment. In North Camden, for example, the median household income is about $11,000, 42 percent of households are headed by single women, unemployment runs at about 25 percent, 57 percent of the residents live in poverty and 75 percent receive some sort of public assistance.* At DVCRF's founding in 1986, individuals and organizations living and working in these communities found it very difficult to get credit to improve conditions and revitalize the area. Traditional banks did not lend in these areas and there were only a few small revolving loan funds.

DVCRF also lends in suburban areas of Philadelphia, which have pockets of poverty and have experienced growth in poverty levels over the last several years. One organization operating in a suburban county noted a four-fold increase in the number of families requiring assistance with their rent as well as a very sharp rise in demand for their food programs over the last few years. Such poverty is less visible and often goes unnoticed by foundations and other sources of capital and credit for community based nonprofit agencies.

III. Project Description

A. Goals

DVCRF is based on the belief that capital must have an identity with place. Capital investment decisions have both physical and social consequences for communities and social costs and benefits should be considered in making such decisions. DVCRF strives to encourage community development by enabling individuals and institutions to invest their capital in a manner reflecting both social and financial responsibility. They seek to forge relationships between investors, community leaders, professionals and others, engaging all in the process of community renewal. By linking people and organizations throughout the region, DVCRF hopes to build regional capital and development systems.

B. History

DVCRF was founded with the assistance of a start-up grant from the Philadelphia Foundation in 1985 and started making loans in 1986. They began with a fairly small capital fund and made loans on the order of $10,000 to $25,000 to nonprofit agencies involved in housing and community facilities development. DVCRF staff did not seek to unduly leverage funds in making these initial loans, but rather sought to retain some measure of control and to learn from these experiences. In 1988 DVCRF received its first sizable infusion of permanent loan capital in the form of a grant from the Pew Charitable Trusts and has been rapidly growing its loan pool ever since. Today DVCRF has roughly $12 million in loan capital, having doubled its capital pool in the last year. Despite this rapid growth in capital, DVCRF maintains a go slow approach when it gets into new lending areas, seeking to begin with small loans and learn the market before gaining a lot of exposure.

In the course of its lending, DVCRF began to complement access to credit with technical assistance in order to enhance loan performance and at the same time improve prospects for community revitalization. The organization gradually broadened the array of technical assistance services offered, basing this expansion on lessons learned through previous deals. As the technical assistance function grew, the need to separate this activity from the credit services became clear and in 1991 DVCRF founded its support corporation, the Community Development Institute (CDI), to deliver most of these services. Separating the technical assistance function from lending both avoids lender liability problems and creates a supportive culture for clients, different from the evaluative function of lending relationships. Today CDI serves both DVCRF borrowers as well as other community-based organizations working in the Delaware Valley area. Through their activities in credit provision and technical assistance, DVCRF and CDI function as a regional intermediary, working with a variety of community based organizations to build development capacity throughout the Delaware Valley.
C. Organizational Structure

DVCRF is a nonprofit 501(c)(3) corporation with a nonprofit technical assistance support corporation, CDI. Together the two entities have a staff of twelve, split roughly evenly between them. It is a diverse staff with a range of professional backgrounds, including finance, organizational planning, neighborhood development, construction management, and resource development. DVCRF is supervised by a Board of Directors, composed of roughly 15 individuals including community leaders, community development specialists, investors, bankers, lawyers, and other professionals. The Board takes a very active role in DVCRF, with responsibility for approving loans, setting general policy, and assisting in fund raising.

D. Clientele

DVCRF loan applicants must be located within the 8-county Delaware Valley region and must be unable to obtain or afford loans from more traditional credit sources. Other than these two restrictions, the purpose of the loan forms the basis for determining an applicant’s eligibility. DVCRF seeks to make loans to individuals or agencies working to effect social and economic change in the Delaware Valley. Loans should provide benefits to individuals other than the primary loan recipient. Thus DVCRF works toward such objectives as improving opportunities for low-income home ownership by lending to community-based organizations involved in housing issues rather than by making direct mortgage loans to individuals. Recipients of DVCRF loans may be for-profit businesses or non-profit agencies, as long as their intent in using the loan and organizational practices are in line with DVCRF’s mission and principles. To date, DVCRF has lent primarily to nonprofit community-based organizations.

E. Project Activities

DVCRF began by providing acquisition, construction, and mortgage loans in support of low-income housing. Lending in support of housing currently makes up approximately 65 percent of DVCRF’s portfolio. The organization’s other three main areas of lending are for the development of community-based facilities, such as day care centers and cultural and arts organizations, bridge financing for non-profits needing credit against contracts, and economic development. In the area of economic development DVCRF has made loans to finance equipment purchases, building renovations, inventory, and working capital.

DVCRF will make loans as small as $5,000 and can make loans as large as $250,000; its average loan size is $90,000. The organization generally requires full collateral on these loans, but this is negotiable. DVCRF tries to be flexible to the needs of clients, but this flexibility must be tempered by responsibility both to investors and to the long-term survival of the Fund. The interest rate and repayment terms on the loan are deter-
mined based on the needs of the client and the purpose and expected impact of the loan. Generally, interest rates are below market rates. Loan applications are screened by DVCRF staff and the Loan Committee of the Board of Directors. Loans which satisfy this screening are then recommended to the full Board for approval.

Although DVCRF clearly communicates to borrowers its willingness to seize collateral or take other actions in the event of default, to date it has not had to do so. One factor leading to DVCRF's record of no delinquencies or defaults over the past seven years is its practice of connecting borrowers to appropriate technical assistance as well as to credit. By keeping in touch with borrowers and linking them with assistance before problems become unmanageable, DVCRF has avoided foreclosing or rescheduling loans. In some instances, the receipt of technical assistance may even be a prerequisite to receiving a loan, although these are likely to be fairly generic recommendations as DVCRF recognizes that as a lender it cannot involve itself too heavily in the organizational practices of its borrowers. DVCRF's careful underwriting procedures and commitment to organizational learning also contribute to the exceptional performance of its loan portfolio.

In addition to extending loans from its own funds, DVCRF seeks to expand investment in low-income communities by drawing in capital from private banks and other conventional credit sources. The organization does this by selling performing loans to private banks, freeing up funds for new investments, and by working with bank collaboratives. With bank collaboratives, DVCRF underwrites and services all loans, according to agreed upon criteria, and charges banks a fee for loan servicing. This arrangement is advantageous to all parties in that the banks get performing loans and credit toward CRA requirements while DVCRF has access to greater capital resources.

Although DVCRF staff have found that technical assistance enhances the performance of loans, the primary purpose of these services, of course, is to further community development. Lending and technical assistance activities complement one another in a somewhat cyclical manner, as credit facilitates growth and technical assistance helps organizations manage growth and develop new capacity, leading to further growth and new credit needs. As DVCRF grew, it made technical assistance services available to non-borrowers as well as borrowers, and eventually, as mentioned above, separated this function from lending activity through the creation of CDI. CDI is independent of DVCRF, but the two share office space and often work in tandem. CDI provides technical assistance in five main areas: organizational planning, neighborhood planning, project management and financing, construction management, and financial management. In providing services, CDI seeks to transfer skills and requires active community participation, emphasizing the responsibility of their clients to learn and contribute to the development process.
F. Finance
DVCRF seeks to raise loan capital from individuals and institutions within the Delaware Valley. The Fund is registered with the Pennsylvania Securities Commission and offers investors Promissory Notes in increments of $1,000. Investors may choose the term, in years, and interest rate, within restrictions, of their Note. The allowable interest rate varies according to the size of the investment and the term of the Note, but generally it is below a market rate. In recent years DVCRF has also attracted investments from the Ford Foundation and other national investors. Currently DVCRF has investments from over 350 individuals (accounting for 22 percent of the Fund), roughly 110 religious institutions (23 percent of Fund), and nearly 100 corporations, foundations, and organizations (55 percent of Fund). DVCRF’s loan fund now totals approximately $12 million.

DVCRF covers 45 percent of its operating costs through interest revenue and fees generated through its lending activity. Another five percent is covered through fees from banks participating in collaboratives and the remainder is covered through foundation grants and charitable donations. The total annual operating budget for the Fund currently runs at around $480,000.

CDI also covers approximately half of its operating budget through fees, with funds from foundations covering the remainder. CDI’s standard fee for work is $65 per hour, which covers staff time and overhead expenses. The organization also engages in pro bono work for community groups unable to afford fees. Foundation funds may be designated for specific programs, such as financial management assistance for nonprofit housing developers, or they may be for general operating support. CDI’s total annual operating budget is currently about $380,000.

IV. Results to Date/Future Directions
Since inception, DVCRF has made over 225 loans or commitments totaling over $13 million and, together with CDI, has provided technical assistance to roughly 50 organizations. Of DVCRF’s loans roughly 90, or $4 million of the total, have been retired. These loans have produced more than 800 housing units and contributed to the financing of 20 non-profit facilities.

DVCRF estimates that roughly 70 percent of their loans have gone to benefit very low income people (those earning 50 percent or less than area median income) with the remainder benefiting low or moderate income persons. DVCRF also tracks benefits to minorities, estimating that 65 percent of loans have benefited African Americans and 26 percent have gone to Latinos.
While striving to build capacity in other organizations, DVCRF has also experienced tremendous growth in its own capacity. The organization has greatly expanded its loan products and services, now making over 40 loans per year, totaling more than $3 million. DVCRF would like to complement its lending activity with an equity fund which would enable the organization to more aggressively promote economic development activities. DVCRF staff are considering developing niches in particular market sectors or finding and supporting successors to businesses in which the current owner would like to retire as possible activities which the equity fund could support.
I. Contact Information

Contact: Mary Houghton  
President, Shorebank Corporation  
Janney Bretz Carpenter  
Managing Associate, Shorebank Advisory Services  

Address: South Shore Bank  
7054 South Jeffrey Boulevard  
Chicago, IL 60649-2096  

Phone: (312) 299-1000

II. Setting

South Shore Bank, a subsidiary of the Shorebank Corporation, serves a low-income, largely African American neighborhood located along the shore of Lake Michigan on the south side of Chicago, about 15 minutes drive from downtown. The South Shore neighborhood is mainly a bedroom community, without a significant business, retail, or industrial area. It covers roughly 250 square blocks, home to about 78,000 people. In the 1940s and '50s, the South Shore neighborhood was a white, upper middle-class community which was considered one of the most desirable places in Chicago to live, but during the 1960s the neighborhood quickly changed and by 1970 the population was approximately 70 percent African American, largely working class. This demographic shift initiated the process of disinvestment in the community, as banks and property owners assumed deterioration would accompany racial change. When the Shorebank management team purchased the South Shore Bank in 1973, much of the community's housing stock, the majority of which is apartments in small three-story buildings, was greatly in need of restoration although still reasonably sound. The neighborhood also had the usual problems of crime and inadequate services, that are found in many poor, inner-city neighborhoods in the United States.
III. Program Activities

A. Goals

South Shore Bank was founded in the early 1970s to catalyze the rebuilding of the South Shore neighborhood of Chicago. The founders believed that an institution which would be effective in rebuilding neighborhoods had to be self-sustaining, in order to maintain a long-term presence and hence have a lasting impact. They envisioned a bank which would combine the discipline of the need to make a profit with the social goals of fostering the rejuvenation of a disadvantaged community and improving the opportunities available to the people living there. This bank would fill the role of a traditional bank, which knows and serves its local community. The Bank was conceived as one of the key elements needed to rebuild a community, but the founders realized that a bank alone would not do the job, and other entities were included under the umbrella of a bank holding company, Shorebank Corporation, as described below.

B. Brief Description and History

The impetus for South Shore Bank came from four individuals—Ronald Grzywinski, Mary Houghton, Milton Davis, and Jim Fletcher—who, during the late 1960s, were running a successful minority small business loan program at Hyde Park Bank and Trust Company, near to where South Shore Bank is today. Although the program was effective in extending credit to individuals, they felt a different institutional structure was needed to effectively rebuild poor neighborhoods. Through their discussions, they developed the idea of a community development bank. The passage of the 1970 amendments to the Bank Holding Company Act, which permitted bank holding companies to invest in Community Development Corporations, provided that it was for the benefit of low- and moderate-income people, allowed the group to conceptualize a specific organizational structure for this institution. The holding company would be parent to a for-profit commercial bank, but would also have other for-profit and non-profit subsidiaries which would handle issues such as housing development, job training, community outreach and planning, that are necessary elements of rebuilding a community, but cannot be addressed through a bank. The holding company and its subsidiaries would then together form a development bank designed for long-term involvement in multiple aspects of community development.

The group formed the Illinois Neighborhood Development Corporation (now Shorebank Corporation) and began looking for a bank to purchase. They found South Shore National Bank for sale, a failing bank in a declining neighborhood. Another investment group had recently tried to purchase the bank with the stipulation that the group be allowed to move it downtown, but the Comptroller of the Currency denied this request and instead, when approached by Mr. Grzywinski and apprised of his plan, agreed to
reduce the book value sale price by reducing the capitalization from $6.4 to $3.2 million. After months of soliciting grants and donations from foundations, religious groups, and individuals, they had a total of $800,000 to buy the bank. Vastly undercapitalized and over leveraged, they opened the new South Shore Bank on August 23, 1973. By 1978 they had the capital and capacity to open two additional for-profit subsidiaries, City Lands and the Neighborhood Fund, and one non-profit affiliate, The Neighborhood Institute. In the last five years Shorebank has added three other affiliates and subsidiaries to assist in expansion activities. These entities are described below.

C. Organizational Structure

Shorebank Holding Corporation is a bank holding company with seven distinct subsidiaries, the largest of which is South Shore Bank. The other six are separate entities from the bank, but play complementary development roles. The City Lands Corporation is a for-profit real estate development company which rehabs large, distressed apartment buildings, manages property and builds new affordable housing, all for low- and moderate-income residents. City Lands also develops commercial real estate. The Neighborhood Fund is an SBA-licensed Minority Enterprise Small Business Investment Corporation which makes equity investments in minority-owned companies, something a bank cannot do. The Neighborhood Institute (TNI) is a non-profit affiliate which produces housing and helps create or access jobs for South Shore residents through a diversity of projects such as rehabbing apartment buildings for cooperative ownership, managing three small business incubators, and training and placing individuals in jobs. TNI has its own for-profit subsidiary which develops rental and cooperative housing for low-income residents. Shorebank Advisory Services is a consulting firm which operates nationally and assists diverse distressed communities in devising economic development strategies, drawing on the lending, real estate, and community development experience of Shorebank and others. In 1992 two new corporate units of Shorebank were formed to foster development in the Upper Peninsula of Michigan. They are NEICorp. (Northern Economic Initiatives Corporation), a 501(c)(3) organization which supports small business development, and North Coast BIDCO (Business and Industrial Development Company), a for-profit, subordinated debt/equity financing company regulated by the state. The diagram on the following page illustrates Shorebank’s organizational structure.

The organizational structure of South Shore Bank itself resembles that of many other commercial banks, with departments for financial services, commercial lending, real estate and installment lending, operations, management information systems, and control. South Shore also has a department for its Development DepositsSM, which are discussed below. In addition, South Shore Bank opened a branch office in 1986 in the Austin neighborhood in the West side of Chicago. The Austin branch does commercial
Shorebank Corporation

- Chicago Operations
  - The South Shore Bank of Chicago
  - City Lands Corporation
- Upper Peninsula
  - The Neighborhood Fund
  - The Neighborhood Institute
  - TNI Development
  - NEI Corp
  - North Coast BIDCO

and real estate lending, but does not take deposits or provide other banking services at this time. Shorebank Corporation handles the senior management, controller, and personnel/ human resources functions for all of its subsidiaries.

At start-up, the bank was staffed mainly by its four founders, who today still make up the management team at the bank, along with many of the employees of the former South Shore National Bank. People hired in South Shore's early years generally did not have any banking experience, but were quick learners and committed to the social aims of South Shore. Today, the South Shore Bank, like other entities within Shorebank Corporation, has no problem attracting talented individuals to work there. The bank is staffed by highly motivated and well educated individuals who are very qualified for their jobs, although the bank tends to prefer professionals without too much experience in traditional banking, as the attitude and goals of South Shore Bank are fundamentally different from those cultivated in traditional banking institutions. Shorebank Corporation employs approximately 300 people, over 200 of whom work in South Shore Bank. New employees go through an orientation session to learn about the functions of all Shorebank affiliates and the general Shorebank approach to and philosophy of community development.
Although the Bank is generally restricted from making loans to its affiliates, the activities of the various Shorebank entities complement each other in other ways, such as by referring clients to another affiliate which can better serve them or combining services in order to meet all of a client’s needs. A good example would be the development of the Jeffrey Plaza shopping center. In this case, City Lands did the actual development and located an anchor tenant; TNI did job training and placed individuals with various Plaza tenants; South Shore Bank provided SBA 7A loans to some of the smaller retailers; and TNF made equity investments in some of the other businesses in the Plaza.

D. Beneficiary Characteristics

South Shore Bank serves the entire South Shore community, providing area residents access to the full range of banking services. The bank also provides credit services to residents of the Austin neighborhood. Both communities are predominantly African American, with high unemployment and poverty rates; Austin in particular suffers from the lack of a significant presence of a stable working population. The income level of loan recipients generally ranges from $20,000 to $40,000, with 60 percent being minority and 10 percent women.

E. Project Activities

At the time of purchase, the bank had a problem with declining deposits, which had dropped from a peak of $80 million to $42 million the day they bought the bank. Initially, South Shore staff tried to attract the available capital from within the community by reducing service fees, lowering the minimum balance to $1, and cutting paperwork. This approach did attract more accounts, but costs went up substantially. The accounts were very small and account holders made many small deposits and withdrawals; because of the more relaxed policies South Shore was inundated with fraud—people trying to deposit stolen or forged checks and draw off them immediately; and South Shore residents still kept their money in the big glass banks in Chicago’s Loop—residents had $90 million in deposits in these banks.

Faced with this situation, South Shore reluctantly raised fees to cover costs, although this would discourage some small savers. South Shore staff also decided to actively solicit deposits from outside the community, reasoning that wealthy communities do not rely strictly on their own resources, but rather money flows in and out. Clearly, money flows out of low-income communities, and reversing this trend is critical to growth. To attract resources, South Shore created Development Deposits™. These deposits take a variety of forms, such as savings, checking, CDs, IRAs, etc.; earn competitive yields; and are FDIC insured. They differ from conventional deposits only in that depositors reside outside the community, but choose to do their banking with South
Shore because they know how their money is used and they agree with South Shore's principles. By aggressively promoting these instruments, South Shore attracted a range of depositors from outside the community—from large institutional investors to individuals with small personal accounts—and today these accounts make up over half the Bank's total deposits of $200 million.

In lending, South Shore Bank initially concentrated much of its energy on small business, trying to revive commercial strips and assist retailing, service, and light manufacturing concerns, start-ups as well as existing firms. Both term loans and lines of credit were offered and the terms were tailored to fit the needs of the business. Although laudable in its goals of empowering people to own their own businesses and improve amenities available in the community, this strategy was unsuccessful. The community is largely residential, with very little commercial, retail, or light industrial activity, so there was no base to attract people from outside the community, and people within the community generally chose not to shop there; shopping malls are generally more popular than commercial strips. In addition, these business loans were complex and expensive to make. All these factors led to South Shore losing a fair amount of money in its early small business lending.

Today, most small business lending is channeled through the SBA(7)(a) loan guarantee program. South Shore Bank tends to lend to existing businesses or to finance acquisitions or franchises—it rarely lend to start-ups. The loan terms are more standardized: term loans for 5 to 20 years, flexible rate at prime plus 2.25 percent for loans under seven years and prime plus 2.75 percent for loans of seven years or longer (the maximum rate allowable under SBA guidelines). The average size of the SBA(7)(a) loans is $125,000 and, for businesses outside the South Shore community, the Bank will not consider making loans of less than $75,000; within the community it has made loans as low as $16,000. Since the SBA loans carry a guarantee of between 75 percent and 85 percent, South Shore can sell these loans in the secondary market, allowing South Shore to earn fee income on the loans and replenish liquidity to continue making loans.

South Shore loan terms allow for consistent monthly payments; the amortization period is adjusted to reflect changes in the interest rate. Should the interest rates get so high that the borrower is not covering the interest however, then South Shore would restructure the loan. Although the SBA program provides a more formulaic approach to small business lending, South Shore continues to act as a character lender. Each loan applicant meets at least two loan officers at the bank and there are from three to six meetings between a loan officer and a borrower, both at the bank and at the business site, before the loan is made. In addition to carefully analyzing the financial aspects of the business, South Shore also considers non-quantifiable aspects, such as the stability
of the borrower, how settled in the community they seem. They generally prefer borrowers over 30 and look for "hands-on" people, not people who only have a financial interest in the business and will not actively run it. Many banks base the loan amount on available collateral; South Shore prefers linking the loan amount to the expected viability and cash flow of the business, rather than to its assets. While most of the SBA loans are for expansion, South Shore also incorporates working capital as part of all its business loans, as staff have found this to enhance loan performance. Most of the SBA(7)(a) loans to date have been made to service and retail businesses, although South Shore is attempting to make more manufacturing loans. On the West side there are currently two loan offices and manufacturing loans represent 40 percent of loan volume for the first three quarters of 1993.

A second area of business loans, although not initially recognized as such, has had a significant impact in local community entrepreneurship—and this is in the housing rehab sector. South Shore Bank made a cautious start in housing lending in the mid-70s. At that time TNI and City Lands did not exist and South Shore was relatively unfamiliar with housing. In 1974 the Renewal Effort Service Corporation (RESCORP), a consortium of 57 savings-and-loans formed to invest in inner-city rehabilitation, selected (with the assistance of intensive lobbying on the part of South Shore Bank) the O'Keeffe neighborhood within South Shore for its first project. In a 4-block area within O'Keeffe, RESCORP spent almost $8 million over the next three years renovating 11 buildings with a total of 302 apartments. Working with RESCORP, South Shore Bank learned much about how to combine different types of financing, such as grants, conventional loans, below-market-rate loans, and various tax credits and rental subsidies.

South Shore began making its own purchase-and-rehab loans in O'Keeffe to capitalize on the greater stability engendered in that area by the RESCORP project. These loans were made to individuals to purchase, renovate and operate small apartment houses. Borrowers had a 20 percent cash down payment and the bank made a conventional mortgage loan for 80 percent of the acquisition cost. The bank would combine this with a loan for 100 percent of the renovation costs, which were roughly 90 percent guaranteed through the FHA Title I insurance program for property improvement loans. These loans are offered at a floating rate which adjusts every two years. Due to the initial success of these loans and the high demand for improved housing in the community, South Shore expanded lending in this area. Given the relative lack of experience of the entrepreneurs, and, usually, insufficient personal collateral to fully secure each venture, this was a high risk venture which other banks were not willing to undertake. Factors contributing to South Shore's success in this area include the simple design of the program, which fit the needs of the borrowers, and the excellent judgment of the bank manager in charge of the program in terms of both the character and capacity of borrowers.
Knowing that no other banks were willing to lend in the area, South Shore could easily set a housing lending policy which incorporated its social aims. South Shore refused to make purchase loans to individuals who were not going to renovate, since renovation was a key aspect to improving the environment of the community. At first the buyers were also required to live in the building, but South Shore relaxed this requirement later. Staff still prefer local ownership, however, since local residents have both a financial and a social stake in the community and hence their goals would be most in line with those of South Shore Bank. The Bank continued to target specific subunits of South Shore in its lending because of the synergistic effect—as some housing units are rehabbed, the area takes on a more stable and optimistic atmosphere, encouraging other small housing entrepreneurs to apply for loans to buy and rehab their own buildings.

The Bank found that by making credit available to a clientele previously considered unbankable (at least in the rehab area), it fueled the creation of a new class of entrepreneurs in the area. Mainly minority and primarily middle- to lower-middle-class residents took advantage of these loans, designing, supervising and often carrying out renovations themselves, and then renting out and managing the units. The payoff has indeed been dramatic.

To accelerate their learning and disseminate ideas, these rehabbers formed an informal group and held weekly meetings on their own to cross-counsel and share experience. In turn, this led to growing numbers of interested parties and to higher quality renovations and management practices. South Shore continues today to build on these relationships, in essence co-venturing with these entrepreneurs on what are still, by conventional practice, undersecured development projects.

IV. Results to Date

To date, South Shore has assisted roughly 200 African American couples and approximately 30 Croatian immigrants in entering the entrepreneurial housing rehab sector. Of these at least a dozen have developed both the technical and financial capacity to do a complete gut rehab of an abandoned building entirely with conventional financing. From 1973 to 1991 South Shore Bank made $215.4 million in development loans and completed real estate development projects in the South Shore community, including the rehabilitation of 7,716 units of rental housing, 30 percent of the area’s rental housing units. This has been a major factor in stabilizing the area and stimulating other investment. Combining activity in Austin and South Shore, the bank currently finances the rehabilitation of roughly 100 multi-family buildings per year. In addition,
South Shore Bank’s SBA(7)(a) loans have been a significant source of credit for Chicago’s small business community. With loans of $91 million in FY1991 the bank’s volume under this program is higher than any other bank outside California and New York. In total, by the end of 1992 Shorebank Corporation had made an estimated $351 million in development investments in targeted Chicago neighborhoods, including investments of affiliates as well as the bank.

Shorebank Corporation has learned to effect community development while maintaining the profitability necessary to ensure the long term sustainability of the institution. The Corporation has been profitable every year since 1983 and the bank’s net loan loss rate and other performance indicators compare favorably with those of its peer group. By the end of 1992 the bank had an asset base of $229.1 million with equity of $14.2 million and the net income for that year was $2.2 million.

Sources Consulted


Interview with Cliff Kellogg, et al., at South Shore Bank, June 17, 1992.
