

PRODUCIR: THE EFFECTS OF COMMUNITY PARTICIPATION IN THE
ESTABLISHMENT OF TWO BUSINESS A SAVINGS AND LOAN
COOPERATIVE AND A BAKERY

by

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Submitted to the Department of Urban Studies and Planning in
Partial Fulfillment of the Requirement for the Degree of

MASTER IN CITY PLANNING

at the

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

February, 1996

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Abstract

In this thesis I analyze if participation in the form of voluntary contributions of community residents provide Community Economic Development Corporations (CEDC) with resources that can be converted into tangible economic assets to help the development of business enterprises. In order to do this I appraise the quality of the voluntary contributions made by community residents and the actual impact it had in helping established two businesses sponsored by a CEDC, PRODUCIR inc., in the rural area of Canóvanas in Puerto Rico. The term "participation" in this context, will mean the voluntary contributions of labor, capital, equipment, information, or knowledge made by community residents to a development project.

My conclusion is that, although community participation has its costs; participation can be converted into tangible economic assets for the development of small business enterprises. Voluntary skilled and unskilled labor donated by community residents can reduce significantly the cost of the business enterprises developed. The use of voluntary contribution and community involvement can also provide other resources as capital and equipment that further reduces of costs.

However, in order to increase the effectiveness of community participation it has to be build into the framework of the developmental process in which is required. My research coincide with Oakley's argument that "... projects which seek to promote participation must be aware at the start of the project as to the likely nature of the participation they expect to promote. The nature of the participation might change, of course, as the project evolves but that project staff should be conscious that they are dealing with an unfolding process." (1991, p.10).

This research has led me to the following assertions:

1. The complexity of the tasks, of the development project or business enterprise, in which participation is requested has to be in accordance with the level of skills available in the community. Community voluntary contributions by itself will be efficient in task where the level of complexity is minimal.
2. In this regard, as the process of business development evolve, the level of complexity increases, and to have an effective participation there has to be a process of skill transfer. A continuous process of education and training is necessary in order for community participation to maintain its effectiveness and efficiency. "As the task change, so will the demands for usable knowledge, and the patterns of task and knowledge are inherently unstable" (Schon, (1983) p.15).
3. That the process of skill transfer or training, necessary to enhance the quality of participation, constitute a cost in terms of resources and time.
4. To enhance the effectiveness of participation the organization that promotes the development must monitor the project where voluntary contributions are being used.
5. Through voluntary contributions local residents reinforce their sense of community, mutual help, and solidarity; and those more involve with the project gain work skills and experience, leadership capacity, and personal empowerment. "Voluntary local investment of labor, time, material, and money to a project is both evidence of popular participation and a necessary condition for braking patterns of paternalism which reinforce local passivity and dependency" (Gow and VanSant, 1982, p.48).
6. The participation of community residents serves as a source of education and diffusion of information to those that do not participate.

TABLE OF CONTENTS

	<u>Page</u>
Notes and Acknowledgements.	8
 Chapter 1: Literature Review on Community Organizing Participation in the Economic Development Process	
Context.	9
Definitions of participation.	10
Three broad definition of how the concept of participation has been most commonly used in the development context.	11
Participation as empowerment.	12
Participation as institutional development.	13
Participation as voluntary contributions.	13
Literature review on participation as voluntary contributions.	14
Arguments in favor of voluntary contributions in the development process.	17
Arguments against voluntary contributions in the development process.	17
A methodology: the measure the effect of voluntary contributions.	18
Other issues regarding the effects of participation as contribution.	20
Efficiency.	21
Using local resources and skills.	21
Should participants be selected?	23
Concentration of power.	23
Conclusion.	24
 Chapter 2: Socioeconomic Context of Puerto Rico and Canóvanas Industrialization Strategy.	
Industrialization by invitation.	26
Social and economic transformation as a result of the adoption of industrialization by invitation.	28
Constant high unemployment.	29
Increase dependence on external sources of capital.	30
Lack of local control.	30
Social problems.	30

Canóvanas.	32
Economic characteristics.	32
Cubuy and Lomas.	33
Experiences of mutual help in Cubuy and Lomas.	34
Chapter 3: PRODUCIR: Economic Development Strategy.	36
PRODUCIR's foundation.	36
PRODUCIR's philosophy.	37
PRODUCIR's organizational structure.	38
The Board of Directors of PRODUCIR.	39
Components of PRODUCIR's economic development strategy.	39
The Savings and Loan Cooperative.	40
The business incubator.	40
The Center of Creativity and Invention.	41
-The Golden Club.	41
-Youth Committee.	41
-La Navidad en el Campo (Christmas in the Countryside).	42
Hydroponic cultivation.	43
Organic agriculture.	43
PRODUCIR's funding sources.	44
PRODUCIR's organizing efforts.	45
Chapter 4: The Bakery.	46
The Bakery "La Cubuyana".	47
Starting Stage: The need for training in business skills.	47
First contributions needed to establish "La Cubuyana": training in bread and pastry baking.	48
Second voluntary contribution: the business plan.	49
Financing Stage	50
Third contribution: community residents' contribution to the bakery.	50
Criteria of lending institutions consider to determined eligibility.	51
The Bakery: an undercapitalized business.	51
Operational Stage: "La Cubuyana" is open for business.	52
Administration.	53
Implications for the use of voluntary contributions.	53
Starting Stage: skilled transfer sessions in bread and pastry baking.	53
Financing Stage: loans made by community residents.	54
Operational Stage: administration of the business.	54

Implications for the CEDC.	55
Conclusions.	55
Recommendations for CEDCS.	56
Starting up again: "La Truinfadora".	58
Financing Stage: participant' capacity to borrow.	59
Operational Stage: community residents contributed information about business performance.	60
The need of selecting business in which skills are easily transferred.	61
Administration.	61
Implications of "La Truinfadora" for the use of voluntary contributions.	62
Implications for the CEDC.	63
General conclusions.	63
Participation contributes to CEDC's goals.	64
Costs of residents participacion.	64
Need for taining.	64
Need for business skills.	65
Business incubator need for additional funding sources.	65
Apprising voluntary contributions.	65
Starting stage - cost of benefits of their contributions.	65
Financing.	66
Operational Stage: administration.	67
Information.	67
Conclusions about the importance of community participation in the development of the bakery.	68
Operational Stage.	69
Information.	69
Training designe according to the population to be served.	71
 Chapter 5: The Cubuy and Lomas Savings and Loans Cooperative.	72
The Cubuy and Lomas SLC's operational status.	73
Services.	73
Personnel.	74
The SLC's legal structure.	74
Board of Directors.	74
Education Committee.	75
Credit Committee.	75
Supervision Committee.	75
Starting Stage: getting the founding members and capital.	76

Costs and benefits of the voluntary work at the starting stage.	76
Establishing operations.	77
Starting operations.	78
The Credit Committee.	78
Criteria to be eligible for a loan.	78
Getting applicant's financial information.	79
Verification of applicants information through formal chanel.	79
Utilization of informal chanel of information.	79
Costs and benefits of having community residents determining the eligibility of loans applicants.	80
Supervision Committee.	81
Cost and benefits of residents' voluntary work in the Supervision Committee.	82
Education Committee.	83
The Education Committee's inefectiveness: the difficulty of guaranteeing that voluntiers will carry out the work.	83
Board of Directors.	84
Evaluation of community participation in the Board of Directors.	84
Conclusions.	87
 Chapter 6: General Conclusions and Recommendations.	 89
General remarks about community participacion.	90
Effects of community participation on the CEDC strategy.	92
Effects of community participation on the business.	94
Some recommendations for CEDCs that want to introduce community participation in the business development process.	97
The selection of businesses according to residents' resources and skills.	98
Selecting businesses in which the future owner/s have experiences on know-how.	98
Selecting participants according to how much they increase the probability of success.	98
Selecting businesses that enhance the social goals of the organization.	99
Summary.	100
Appendix - List of Interviews.	101
Bibliography.	105

NOTES AND ACKNOWLEDGEMENTS

I was admitted to the Department of Urban Studies and Planning at the Massachusetts Institute of Technology (MIT) in September 1990 and I am graduating in September 1995, five years later. In these five years many significant things have happened and I know that as I grow older many other things will enrich my life. Nevertheless, the opportunity of spending two years and graduating from such a challenging academic Institution will always be part of my remembrance, occupying an important place in my journey to adulthood and maturity. The learning experience at MIT has nurtured my desire to work for social justice and democracy not from a romantic perspective but with a greater understanding of the multiple factor that influence and affect social change. In that regard I want to acknowledge the work of professor Bisch Sanyal, Phillip Clay, Don Shown, Melving King and thank them for their support and understanding. In addition, I have to thank the diligent work of Sandy Willford who oversaw that my petition to be considered as a nonregistered degree candidate and reached the pertinent authorities so that I could graduate.

Special mention should be given to my thesis supervisor, Edwin Meléndez, who encouraged me to persevere; and professor Marie Kennedy from the Planning Department at Univesity of Massachussetts, Boston, who I am proud to say is a role model for me and other women.

Thanks to my community in Cubuy and Lomas, in Puerto Rico. The work that the residents of Cubuy and Lomas are doing with the help of Dr. Antonia Pantoja Acosta and Dr. Wilhemina Perry is demonstrating that Community Economic Development Corporation can play a predominant role in the creation of jobs and in the provision of services in low-income communities.

Left to acknowledge are the most important - my mother, husband and daughter. Each one of them inspiring me in different ways have made this accomplishment possible: my mother with her unwillingness to giveup; my husband with his kindness to other human beings and my daughter, who I want to be proud of her mother.

CHAPTER 1

LITERATURE REVIEW ON COMMUNITY ORGANIZING AND PARTICIPATION IN THE ECONOMIC DEVELOPMENT PROCESS

This chapter will provide the reader with a general understanding of the concept of participation used in this thesis. In this work I will refer to participation as the voluntary contribution of capital, work, equipment, information, or knowledge by community residents to be utilized in the development process. This chapter presents the main arguments developed by scholars in favor of and against residents participation in the community development process, along with a methodology for evaluating the effects of people's voluntary contributions. Because participation has been defined in many, I start with a basic definition and move on to summarize the three classifications into which scholars have grouped a wide range of definitions.

Since my aim is to evaluate the economic effects of voluntary contributions on the performance of two businesses (a privately owned bakery and a community-based saving and loan cooperative, both established by a Community Economic Development Corporation in Cubuy and Lomas, a rural sector of Puerto Rico), I will provide a methodology to measure the specific economic effects of the voluntary contributions.

However, because PRODUCIR is interested not only in the economic effects of residents' participation on business performance, but also in the empowerment of the region's residents, I will address some questions raised in the field of Community Development about balancing both goals: citizen participation and efficient organizational and business performance. In other words, I will analyze the dilemmas encountered by organizations that need residents' voluntary contributions for the establishment of small businesses. At the end of the chapter, I will highlight some general

conclusions found in the literature review and discuss how CEDCs can minimize the risks involved in establishing businesses that use voluntary work.

Definitions of participation

Most definitions of participation refer to its human impact, its social benefits, or the good allocation of resources. Others focus on participation as a goal in itself.

One of several definitions in Webster's dictionary refers to participation, as the act of "sharing in." Participation bears the act of looking for ways to share in the process of decision making, in the work, or in its benefits. Participation is the act by which we are included.

To understand what is meant by participation in a particular context it is useful to answer the following questions: In what are we included? and In what are we participating? In the work, in the benefits, or in decision making? We also need to ask how the participatory process will take place? In the case of a business, for example, will participation take place through self-management, through worker's control, or is it merely consultation, like surveys or suggestion boxes? Answering these questions can provide an idea of how to approach this issue.

Scholars have researched different definitions of participation in the community development context, and have classified them in order to understand how the concept has been most commonly used. For example, Peter Oakley has divided the definitions into three categories, according to whether they treat participation as (1) a process of empowerment; (2) as a process through which people create or work in the existing organizations to obtain a goal, or (3) the act of contribution (Oakley, 1991) However, Carolyn Moser argues that "despite the wide diversity of definitions, the fundamental distinction is a simplistic, two-fold one between those which include an element of empowerment and those which do not" (Moser, 1989, p. #5).

I will draw on Oakley's classification to summarize how the concept has been most commonly used.

Three broad definitions of how the concept of participation has been most commonly used in the development context

Participation as empowerment

The first category includes those definitions that refer to participation as **empowerment**, Empowerment is defined as **the process through which participants gain information about the economic and social circumstances that affect their lives, and afterwards assume active positions, questioning and trying to influence the decisions that affects them.**

Paulo Freire employs a similar term of empowerment: "concientización" (Freire, 1976). It means the process through which people gain "consciousness" of the social, economic and political forces that determine the circumstances of their lives, and as a result assume an active attitude toward changing these conditions. A gain in consciousness refers to a change in people's conceptualization of the world, and to their eventual involvement in an organization or political process that pursues changes. People go through a process of "liberation", that implies that they assume the responsibilities that the action of being "free" brings. Liberation implies the involvement in political parties or organizations that pursue changes in the current social and economic condition.

In Oakley's empowerment category and in Freire's definition, participation is perceived to include those citizens who are not represented, who do not have the power to influence the social decisionmaking process. In this definition participation is an end in itself.

Another definition of empowerment refers to it in material terms, where empowerment is obtained if employees have control over the product of their work. It includes having: (1) **access**, not only to jobs, but to the knowledge and resources necessary to create (or retain) them; (2) **participation** in decisions that affect

them economically; and (3) **ownership and control** of productive resources (Cavanagh & Moody, 1989).

The concept of empowerment has been strongly debated, due to disagreement over its meaning and how it should be pursued. Furthermore, in most cases, there is no immediate tangible result to measure how "empowered" someone has become. Empowerment is a slow process of change in people's attitudes, their conceptualization of the world, and their place in it, and some of the ways available to achieve it.

Participation as institutional development

The second category refers to those definitions that explain participation **as the process through which people create organizations or participate in existing ones, in order to exercise power and achieve an objective.** The organizations can take two general forms: (1) those where there is a predetermined organizational structure in which members' participation is required in the decisionmaking process or in the management of the organization, as for example a Savings and Loan; and (2) organizations that address a specific issue. What distinguishes the latter group is that they stress a value, react to a problematic situation, and seek to procure action from the pertinent authorities; an examples is Mothers Against Drunk Drivers.

Miller, Rein, and Levitt have classified some issue-oriented organizations in the United States according to the issues they address. The categories include: (a) umbrella organizations, which are made up of other organizations and are created to bring together different interests to gain greater support around an issue; (b) Grassroots organizations; (c) organizations centered around consumption issues, like quality of life (environmental issues, for example) or cost of a service; (d) identity organizations, which organize around race/ethnic and gender issues (for example, Chicano groups or gay and lesbians organizations; (e) Advocacy organizations, in which one group works on behalf of another group, e.g., the Children's Defense Fund; (f) mixed models, organizations

which seek to carry a service function and an organizing role; and (g) self-help groups which bring together individuals who have suffered similar problems (Miller, Rein, & Levitt, 1990).

In both general types of organization -- let us call them service and value oriented -- participation is a voluntary act, where participants share the values of the organization.

Participation as voluntary contribution

The third category, which will be the focus of this study, refers to participation as the **voluntary contribution of people's labor, capital, information or knowledge, and equipment, targeted to achieve a tangible economic output.**

These three categories summarize how participation has been most commonly defined. Although I am only referring to participation as voluntary contributions, PRODUCIR is a good example of an organization where the other two forms of participation take place. For example, The Cubuy and Lomas Saving and Loan Cooperative is legally compelled to have members administering the institution. For the other part, PRODUCIR promotes resident participation in its ventures for empowerment goals: empowerment is obtained through residents' participation in the CEDC and by the creation of businesses owned or administered by local residents. Therefore, the pursuit of participation for these three objectives is not mutually exclusive. Clearly, the reasons why participation is pursued --and how it is pursued -- will depend on the goals of the organization.

Literature review on participation as voluntary contributions

Most of the literature that refers to voluntary contributions is based on examples of development projects implemented by governments from Developing Countries and international agencies. Participation as voluntary contributions of capital, labor, equipment, information, or knowledge has been pursued as a "means

to meeting material needs that reduces cost and improves impact" and efficiency in project design (Moser, 1989, p. #3). Most projects in developing countries consist of the construction and maintenance of facilities such as schools, houses, health clinics, or sewage systems. As mentioned by Moser, "where participation is a means to achieve a development objective, it is usually included only at the implementation and maintenance phases" (Moser, 1989, p. #7).

Although the development literature is where the effects of voluntary contributions are mostly studied, many other organizations (usually non-profits, such as the ones outlined by Miller, Rein, and Levitt in the U.S.) also capitalize on their constituents' voluntary contributions to reduce operational cost. Participants' voluntary contributions are used by a wide range of organizations in developed and developing countries.

The most common contribution required in Developing Countries is voluntary labor given the excess of labor power versus other inputs such as capital. In Developed Countries a common practice is to request the donation of capital. However, sponsorship an organization that professes a shared value does not have the same effects as does working for the organization. Through the provision of voluntary work the participant and the organization influence and modify each other. This is not present when the contribution only consists of the donation of capital. The most significant contribution is voluntary work because it adds value and has a long lasting effect on the organization and the participant.

Arguments in favor of voluntary contributions in the development process

The main arguments in favor of voluntary contributions are centered on the effects it has on the allocation of resources, because the cost-effectiveness of the program is enhanced. The assumption is that voluntary contributions of labor, capital, equipment, and information reduce implementation costs. They free resources that can then be used for other purposes. This reduces the time it takes to serve a wider portion of the population. However,

opinions diverge on the impact of voluntary contributions on the time span of implementing a project. It has been argued that they reduces the time necessary to assist a wider range of the population.

In addition, a better allocation of resources is achieved because those who benefit from development projects are usually the poorest. Non-profit organizations, government or international development projects, can "be considered as a means to gain access to institutions responsible for the distribution of goods and services to satisfy important human needs" (Shadid et. al. in Galjart & Buijs, 1982, p. #41). Conversely, if a local non-governmental organization (NGO) is in place, governments have an institution through which to channel resources to the area.

Another advantage is that participants provide information about local needs that increases efficiency in program design. Planners, CEDC, NGOs, or government agencies that incorporate people's participation in projects and plan designs gain information about needs, preferences, and values. This helps propose feasible alternatives that have community support. "Using local knowledge and expertise helps planners propose realistic and feasible business strategies. A business can take advantage of local knowledge, information, and experience" (Adejunmobi, 1990). As stated by Donald A. Schon,

When a practitioner becomes aware of his frames [life circumstances that delimitate the alternatives], he also becomes aware of the possibility of alternative ways of framing the reality of his practice. He takes note of the values and norms to which he has given less importance, or left out of account altogether" (Schon, 1983, p. #310).

In places where there is ethnic diversity, the use of voluntary contributions can enhance the quality of the service, because the designer gains information about the clients, such as preferences, needs, traditions, knowledge, and values. An understanding of the needs also impacts the allocation of resources, because it enables them to be used more effectively. An efficient program design

increases people's willingness to sponsor and use the facilities, which can affect significantly the possibilities of success of the program or service. Finally, people's participation in the development process serves as a mechanism of advertisement and information to the non-participants.

For organizations interested in empowerment and in enhancing the values and guaranteeing the continuity of the organization, evaluating the effectiveness of participation in impacting these areas is also important. Many organizations pursue "voluntary local investment of labor, time, materials, and money to a project [because it] is both evidence of popular participation and a necessary condition for breaking patterns of paternalism which reinforce local passivity and dependency" (Gow & VanSant, 1982, p. #47).

For such organizations participation is a goal in itself, valued for its effect on people's perception of the world and their growth as human beings:

The sheer experience of participation in mobilization and group action in ordinary people develops a sense of power, dignity and self-reliance....The experience of power enhances their self-image as persons having dignity and rights. (Takarinda Agere, 1982, p. #213).

Empowerment goals are also enhanced because participants gain skills when they work for the organization. They learn how the organization operates, and they learn how to analyze problems, propose alternative solutions, negotiate, and make group decisions.

Another reason for inclusive grassroots participation is the learning of various skills which broadens the villagers' understanding of community development and makes them more effective participants; such skills include communication, that is, how to participate in debate and learning the give and take involved in making compromises. These help further a more democratic decision-making process. (Adejunmobi,1990, p. #232)

In many instances participants are provided with training that helps them in their work life. People's involvement also provides a personal learning process, an opportunity to experiment with something new.

In sum, participation defined as voluntary contributions enhances an organization's pursuit of its goals in several ways: (1) through the participation process information about the organization's goals is transferred; (2) people learn to work together to reach a common goal, developing the capacity to make decisions as a group; (3) local leaders are identified and developed; (4) the social experience in that area is enriched; (5) more people will become interested in participating in the activities of the organization; (6) and the possibilities of continuity and commitment to the organization are increased.

Arguments against voluntary contributions in the development process

The central arguments against voluntary contribution center around the effects of voluntary labor. Voluntary contributions of participants capital and/or equipment do not raise much criticism because they are usually requested when there is no alternative way of satisfying the need. What should be considered here is that the project selected is in accordance with local availability of capital, capacity to borrow, or equipment. The use of local information or knowledge raises the issue of whether the information gathered is representative of the entire population. However, the designer of the project must verify that the information gathered is representative of the community.

The arguments against the provision of voluntary labor center around the quality of the work and efficiency in the decision making process. Tasks that require special know-how, or where the level of complexity is beyond participants' skills, can diminish the quality of the work performed. This increases uncertainty and can delay the decisionmaking process.

Another argument is that it is difficult for poorly educated people to make informed decisions about complex matters, and that as the level of complexity increases, the decisionmaking process will become more inefficient (Levitt, 1990). Therefore, to make informed decisions participants require training. Additional time has to be invested in providing information about the subject and task. However, if this transfer of information does not occur, the decisions made may be inefficient. The transfer of information takes time, and time constraints create a hopelessly inefficient decisionmaking process. Also, genuine participation does not occur because the centralization of information generates the centralization of the power to make decisions.

In addition, the decisionmaking process can be prolonged more than necessary because interest groups may want to pursue their own benefit and not that of the organization. Communities are not entirely homogeneous: there are different interests and conflicts that may delay the decisionmaking process (Levitt, 1990). Political, religious, and ethnic differences make it harder for people of different views to come together and reach a common objective. In other words, "participation implies the potential for increased conflict" (Gow & VanSant, 1982, p. #49).

A methodology to measure the effect of voluntary contributions

It is difficult to reach conclusions and make generalizations about the effects of voluntary contribution because the results will depend on the particular characteristic of the project and the social-economic setting where it takes place.

Participation is an unfolding process. It takes different forms according to the project and stages of development. Therefore, to be able to measure and compare the effects of the voluntary contributions it is necessary to define the following: (1) the type of project (a service business, the construction of a building, among others); (2) the business development stage in which the contributions are requested; and (3) the type of contribution. In the

case of labor which is the most common contribution, the task performed must be described. This provides information about the level of complexity of the task. In addition, the skills of the person performing the task must be stated.

The development stages will vary according to the specific project and the resources or contributions needed. In general the stages are decisionmaking, financing, implementation, management, and maintenance. In addition the ownership structure will determine if participation is required and in what stages. Different projects will require diverse types of voluntary contributions and voluntary work.

To be able to compare the effects of voluntary contribution the characteristics of the setting where the project takes place must be considered. Different social settings will increase or decrease the difficulty of mobilizing participation. The historical, social, educational, and economic conditions of the community where the participatory venture is taking place must be defined. This will help the researcher determine the availability of resources, the skills of the participants, and the willingness to participate. For example, it has been argued that in places where citizen's participation has been or is currently being promoted, the effectiveness of participation is enhanced. In these settings, participation is part of people's social experience. In the same way, in places where participation is discouraged, getting people's commitment is a harder task. "In countries where the prevailing ideology does not encourage openness or citizen's comments but prefers to maintain the direction and decisionmaking concerning state affairs in strict controlled hands, the prevailing political environment will not be conducive to genuine participation" (Oakley, 1991, p.#12). Defining the social-economic characteristics of the population will help the researcher design an appropriate measurement. In addition, it will help compare the effects of participation in different settings.

A methodology that takes these elements into consideration increases the probability of reaching an accurate form of measuring and comparing the effects of participation. This results in a adequate assessment of the situation and in the design of effective

policies. As Cohen puts it, we "cannot and should not try to measure participation without regard for the real world conditions that surround it. These conditions may restrict the kinds of participation one should look for and thus any effort at measurement should take them into account" (Cohen, 1977, p.# 17). At the same time, if these elements are taken into consideration the generalizations and lessons about the effect of voluntary contributions will be more accurate.

Other issues regarding the effects of participation as contribution

Organizations pursue voluntary contributions because they want to: (1) reduce costs and increase efficiency in the allocation of resources; and/or (2) empower residents and gain their commitment to the organization's goals. Organizations that pursue one or the other have been called "redistributive" or "transformative" organizations. Redistributive organizations' main purpose is to "use the power of government to provide a set of material benefits -- chiefly housing and jobs -- for low-income people." Transformative organizations pursue participation because "community development consists not simply of developing the neighborhood where people live but, first and foremost, of developing the people who make us a community" (Gaston, Kennedy, & Tilly, 1990, p.# 315). Transformative organizations, like PRODUCIR, encounter the dilemma of balancing the empowerment goals with those of efficient service delivery and financial performance of the enterprises developed.

Balancing these goals has raised many questions regarding the effects of voluntary work on project performance, such as: the effectiveness of decisionmaking and the quality of the work when tasks are complex and participants do not have the skills. Maintaining an efficient performance is important because people's participation is based on a calculation of "what's in it for me" (Chetkov-Yanoov in Galjart & Buijs, 1982, p.# 23). Therefore, to encourage participation and obtain contributions, while reproducing

the values of the organization and guaranteeing its continuity, transformative organizations have to prove they can accomplish their objectives.

The dilemma of transformative organizations is how to accomplish both goals simultaneously: the delivery of the services AND the incorporation of participants. Some of the issues raised and answers given by scholars are:

Efficiency: There are views that for the most part poor residents lack experience working or participating in organizations, so they do not know how to work in groups and manage organizations. Chetkov-Yanoov argues that a leadership training course should be provided to cover such topics as

...running meetings, preparing minutes, keeping books, the art of listening, working in small groups, negotiating a compromise, representing a constituency, teamwork, interviewing candidates, learning from experts (but making one's own decisions), doing publicity, knowing local and regional service resources, understanding local politics, and using external resources effectively... (Chetkov-Yanoov, in Galjart & Buijs, 1982, p.# 29).

However, the provision of these skills to participant takes time, and it adds another responsibility to the CEDC's usually overloaded staff.

Another aspect that affects efficiency is that the dependence on voluntary work can increase the time needed to perform work. Participants have to fit into their schedules the time to perform the work; therefore it can take longer than necessary.

Using local resources and skills: Another issue is whether the promoting organization has selected a venture that is in accordance with local availability of capital and know-how or residents' capacity to borrow equipment. If economic empowerment is a goal but foreign investors and numerous outsiders are hired, this could jeopardize local control. Who will be the owners and who will be the workers? In addition, if the work skills needed are not in accordance with local know-how, issues related to the quality of

the work and the need for a monitoring system to guarantee an efficient performance will be raised.

The literature shows that in most development projects where participation has been successful, people's work contributions have been in tasks in which they had previous experience, or that are simple to learn; if not, they had a person who served as an instructor and supervised the project.

In order to reduce the risk of inefficient performance and to guarantee local control, organizations should take advantage of local know-how and develop projects according to the resources available in the community. As mentioned by Adejunmobi "the community must rely mainly on its own resources for any self-help project meant for bringing about desired change in the community" (Adejunmobi, 1990, p.# 226). Community participation will help the project promoter capitalize on the strengths of the locality by providing information about local knowledge, skills, and resources. This will increase local control and provide a sense of ownership to those that participate.

Another aspect to consider is the increase in the level of complexity. If skills unavailable in the community are needed, an outsider should be hired to insure the success of the venture. However, if possible the skills should be passed on to someone in the organization. Skills transfer sessions will increase the receptiveness to the outsider. This may motivate participation at the same time that it increases local control. However, if the skills transferred are complex it is beneficial to supervise the work. This may improve the performance of the project and ensure the venture's success.

The success of the venture is a major goal because a negative outcome could hinder residents' willingness to participate and contribute to the CEDC.

Another possibility of overcoming the problem of increased complexity is for the organization to encourage the participation of skilled residents. However, skill transfer sessions are necessary to decentralize information and therefore power. Although it takes time, it will make the organization more democratic and participatory.

Should participants be selected? To cope with the problem of work performance and accountability, should participants be selected? Should participation be promoted independently of the skills or commitment to participate? How do we guarantee that the work is performed on time? Buijs argues that a mechanism to select who participates should be established because "all over the world there are people who run away with the cash or appear to be otherwise dishonest. It is better to track down these persons while there is still not much at stake" (Buijs in Galjart & Buijs, 1982, p. #61). However, how do we measure the level of commitment? If we do not establish conditions or criteria of eligibility, how do we make them accountable?

A possible way to cope with the problem is to make sure that the ventures selected are in accordance with local skills, resources, and knowledge. The investment of participants' resources will reinforce their commitment and will give them control over the ventures. People will be working for themselves, if they assume the responsibility for the performance of the business.

To gain participants' commitment, organizations interested in empowerment could hold sessions to reflect on the goals of the organizations and the changes it wants to bring about. This will foster an exchange of ideas between members and it will instruct them on the alternative way to go about obtaining the goal and the difficulties they will encounter.

Concentration of power: Transformative organizations run the risk of reproducing the concentration of power they want to reduce. A successful process of participation, producing skills transfer and empowerment, brings its own dangers, especially the danger of replicating the situation that initiated the action:

Because of the growing complexity of the participation process, division of labor and specialization will become unavoidable. A danger exists that such a development will lead to the creation of a small elite. (Shadid, Prins, & Nos in Galjart & Buijs, 1982, p. #39)

The possibility of this is increased if only those who are highly skilled participate.

Therefore, it is important to guarantee the legitimate position of the leaders and to keep the gap between the latter and the other members of the target-group as small as possible. This can be done by the leaders taking part in ordinary daily activities, by the creation of as many functions as possible, and by the rotation of functions. (Shadid, Prins, & Nos in Galjart & Buijs, 1982, p. #39)

If skill transfer sessions are held this could be controlled to a certain extent. However, this could raise the issue of efficiency and time delay.

Knowing that such difficulties could arise helps the organization forecast and, if possible, prevent them. The purpose of this review is to identify some of the dilemmas that practitioners are constantly dealing with and some of the alternative ways of mitigating the effects.

Conclusion

Voluntary contributions are pursued because organizations are interested in reducing costs, increasing their efficiency in the allocation of resources, empowering residents, and gaining residents' commitment to the organization. However, the promoting organization will have to define why participation is pursued and the extent of the participatory process. Participation will always be an unfolding process which will take different forms at the different stages of project development.

The most common argument in favor of voluntary contributions in the development process is that they reduce the cost of establishing a project and that a better allocation of resources is obtained because information about local needs, preference, and cultural values can be incorporated into the design of the program. However, argument against the use of voluntary contributions state

that poorly educated people have neither have experience working in organizations nor the education to make efficient decision about complex matters, making the decision process highly inefficient and time-consuming. Therefore, the dependence on voluntary work could increase the time to perform the work or reach the decisions. In addition, the dependence on voluntary work when tasks are complex can hinder the performance of a venture. Also, without a previous process of information transfer there is no genuine participatory process, because informed participants will centralize the power.

It has been substantially confirmed that the use of voluntary labor in simple tasks or in task in which participants have the required know-how, does not jeopardize the quality of the work. Nevertheless, in evaluating the effects of voluntary labor we must recognize that work required varies according to the nature of the project, the development stage in which the voluntary work is required, and who performs it. In addition, in comparing the effects of voluntary contributions, the particular social, economic, and historical characteristics of the setting where participation is taking place should be specified. In spite of this complexity, there are some conclusions that can be reached. First, communities are not homogenous places: residents with diverse skills, capital, and interest will be found. Second, residents that participate provide information about the projects to those that do not participate. Third, information about local needs, preference, and religious and cultural values can improve the quality of the project design. Finally, an important lesson is that to minimize the risk associated with the use of voluntary labor the projects undertaken should be chosen according to the skills and the resources of the local participants.

In order to establish the particular social, economic and historical conditions in which PRODUCIR operates, in the next chapter I make a brief description of the social and economic situation of Puerto Rico and particularly of the two villages of the town of Canovanas in which PRODUCIR is located.

CHAPTER 2

SOCIOECONOMIC CONTEXT OF PUERTO RICO AND CANOVANAS

Puerto Rico promoted the investment of foreign firms to accelerate the industrialization of the country and to reduce unemployment. However, this development strategy has shown itself inefficient. The constant unemployment and marginalization of a significant portion of the population is creating severe social problems. To deal with this situation community development organizations have been established. The objective of these non-profit corporations is to reincorporate those who have been marginalized from the production process.

Puerto Rico has to look for alternative economic niches to incorporate the marginalized sectors. One such alternative is promoting and assisting Community Economic Development Corporations like PRODUCIR. Community Economic Development Corporations main goal is to reincorporate the unemployed into the mainstream economy. It provides services and training to the population in order to accomplish its goal.

In this chapter I want to prove that areas like Cubuy and Lomas which have a tradition of mutual help are fertile ground for initiatives where community participation is a goal. There are communities where the experience of collective work still prevails, providing a fertile ground for organizations that want to integrate citizens' participation in the search for alternative forms of solving their problems.

This chapter consists of three parts: (1) a general description of the tax laws that foster foreign investment in Puerto Rico and the changes and social problems this has brought about; (2) a description of the economic situation of Canóvanas; and (3) a description of the social-economic situation of Cubuy and Lomas.

Industrialization by invitation

The present economic situation of Puerto Rico could be understood if the tax laws that foster foreign investment are explained. These contains two important featyres: first, foreign firms that fit the definition of "possession corporations" can repatriate profits to the United States free from tax; and second, such companies enjoy a series of state and municipal government tax breaks. The use of these federal and state tax breaks started what has been called Industrialization by Invitation, the foundation of our present economic base.

Policies to foster foreign investment in Puerto Rico started as early as 1945. The first attempt consisted in providing U.S. firms with a rental subsidy, but this was not sufficient to promote the establishment of a significant number of firms.

An additional strategy was to take advantage of two clause of the Federal Internal Revenue Code (section 931 and later 936) in which corporations that qualify as "possession corporations" are exempted from paying federal taxes when they repatriate profits to the U.S. Firms that fulfill the 50-80 test would be classified as "possession corporations." The 50-80 rule established that for a firm to qualify for tax exemption: "(1) The corporation had to derive 80 percent or more of its gross income from the possessions; and (2) 50 percent or more of its gross income from the active conduct of a trade or businesses in the possessions" (Rivera-Torres, 1989, p. #43).

This did not exempt firms from paying local taxes, therefore the federal tax break was still not enough to attract a significant number of firms. To target this problem, in 1948 the first Industrial Incentive Act was legislated. This Act established that possession corporations operating in Puerto Rico were 100% exempt from paying income tax, property tax, license fees, and excise taxes for a period of 10 to 15 years.

The government adopted this industrial development strategy because it understood that it lacked sufficient capital to increase the pace at which the economy was moving from an agricultural to

an industrial economy. Consequently, foreign investment would provide the capital needed.

Puerto Rico was understood as having an excess of low-skilled labor that would be difficult to absorb exclusively through local investment. Therefore, another benefit was that the newly established firms could employ the excess of low-skilled labor that the local agricultural economy was unable to absorb. Companies could take advantage of the low-cost labor and workers would be better off because industrial jobs pay higher wages.

This alternative would free resources that were being used in promoting local investment. Consequently, the government could reassign them to meet other needs, such as education, infrastructure, and social services. It was expected to have repercussions for the entire economy by raising the living standards of those employed by the foreign firms and by generating jobs in other sectors. The multiplier effect these jobs generated would have a positive impact on the entire economy.

Social and economic transformation as a result of the adoption of industrialization by invitation

The strategy of Industrialization by Invitation has brought profound economic and social changes -- the same social, demographic, and economic changes that industrialized nations have undergone. In 1940, 44.7% of the population was employed in agriculture, 10.9% in manufacturing, .4% in real estate and finance, 14.3% in the service sector, and 2.5% in government. In 1982, 42 years later, only 4.9% of the population was employed in agriculture compared with 18.6% in manufacturing, 2.9% in real estate and finance, 18.4% in services, and 23.8% in government (Dietz, 1986). Today, our economy is mostly based on manufacturing, government, and services.

The standard of living of the population has increased. Today most Puerto Ricans live in urban settings, enjoying the benefits associated with urbanization: better-quality housing with water and sewage systems, increased social services, better health care, and

higher levels of education. By 1978, 47% of 18-21 year olds were registered in some form of post-secondary education (Gautier-Mayoral, 1989).

These higher living standards also brought about demographic changes. In 1940, the infant mortality rate was 40%; in 1982, it was down to 22%. Life expectancy has increased too, and the death rate decreased from 19% in 1940 to 6.5% in 1982. As is customary in industrializing economies, the annual rate of natural population growth declined -- from 21% in 1940 to 15% in 1982 (Dietz, 1986).

Constant high unemployment

Although the number of people employed in manufacturing and other sectors has increased, this has not been enough to absorb the increase in the labor force and to provide support to all those who were left unemployed as agricultural production decreased. In 1940, before the policies to foster foreign investment started, the unemployment rate was 15%. It went down to 13% in 1950 and 1960 and 12% in 1970, then rose to 17% in 1980 and 23% in 1983. The average unemployment rate was 15.6% over the 42 - year period (Dietz).

The Puerto Rican economy is characterized as being one where more people are willing to work than actually working. "In 1987, 56% of the labor force fell in the category of discouraged workers; there were more people unemployed than employed." (Torres-Rivera, 1989).

The incapacity of the economic system to absorb the increase in the labor force becomes evident if we consider that one third (3.0 million according to a 1991 source) of all Puerto Ricans live in the United States. It has been estimated that between 1940 and 1970, 834,00 persons migrated. This was 49% of Puerto Rico's 1970 working-age population (Gautier-Mayoral, 1989).

Increase dependence on external sources of capital

In the early 1970s a new element was introduced to cope with the problem of marginalization. There was an increase in the amount of federal government transfers, such as Community Development Block Grants and food stamps, among others. In 1965, total federal expenses as a percent of GNP were 15%; in 1980, 39%; in 1984, 34%, "but never less than 30%" (Gautier-Mayoral, 1989, p.# 23)

Lack of local control

The strategy of Industrialization by Invitation, the promotion of migration, and the dependence on federal transfers have increased the dependence of the economy on factors which our government cannot control. For example, the federal government transfers are not assigned to meet the social or economic needs of Puerto Rico. Also, today Puerto Rico cannot offer firms the same advantages they can obtain in places like Mexico, leaving the island economy in a difficult situation. Moreover the U.S. Congress recently amended Section 936 of the Internal Revenue Code, reducing the incentives provided to U.S. companies located in Puerto Rico. This reduces the island's competitiveness in attracting U.S. investment. Therefore, the economic development strategy of Industrialization by Invitation has not substantially reduce the unemployment rate and, at the same time, has not increased the control of Puerto Ricans over their economy.

Social problems

The economic marginalization that a significant portion of the Puerto Rican population suffers has produced very severe social problems. In 1982, 62% of the population was living below poverty level. In 1980, 58% of all families were receiving food stamps and "70 to 80 percent of the population was eligible to receive them by virtue of their low incomes" (Dietz, 1986, p.# 299). At least half of the population is living below the poverty level.

Continuing poverty is causing many social problems: an increasing crime rate; drug and alcohol addiction; AIDS as a result of drug consumption; increasing school dropout rates (64% of the students who enter elementary school never graduate from high school (Garcia-Blanco, 1990); and most of all, a feeling of frustration toward political leaders who have shown themselves incapable of dealing with these severe social and economic problems.

Although the dependence on United States welfare and government transfers is not a solution to the problem of poverty, it does alleviate its immediate effects by increasing the living standards of the poor. But higher living standard for the poor does not solve the social problems, nor do they produce local economic development. In addition, being consumers only generates dependency. Welfare does not solve the problem of poverty because it does not assist in the development of the economy and does not provide jobs which would enable people to see themselves as something other than consumers. In addition, the profits from consumption do not stay in Puerto Rico as industrial investment, so the spending from the transfers does not spur local economic development.

Puerto Rico has been called the Showcase of the Caribbean and has served as a model of development for other Developing Countries. Nevertheless, the "success" of the economic development strategy of Industrialization by Invitation is highly questionable. Today, 44 years after the establishment of the policy, its ineffectiveness is becoming more evident. Industrialization by Invitation has failed to stimulate the expected balanced and equitable economic development.

To overcome some of the effects of this situation local economic development organizations, such as NGOs and CEDCs, among others, have been initiated in economically depressed areas. Their objective is to provide the services needed to reincorporate the unemployed into the economy productively and/or to stimulate the development of local economic activity.

This is precisely the intention of PRODUCIR: to reconstruct the economy of Cubuy and Lomas, through the development of people and through the creation of businesses and institutions (such as the CEDC and the Saving and Loan) that are necessary for sustained economic development process. Before explaining what PRODUCIR is I will briefly describe the economy of Canóvanas and of Cubuy and Lomas.

Canóvanas

Canóvanas is located in the northeastern part of Puerto Rico, being one of the largest municipalities near the San Juan metropolitan area. In 1988, it had a total population of 36,001, of which 61% lived in the urban area. However, the part of Canóvanas that is the focus of this study -- Cubuy and Lomas --is in the rural section (Junta de Planificación de Puerto Rico, 1988).

Economic characteristics

Canóvanas's proximity to San Juan has made it possible for the population to benefit from the services, commercial facilities, government agencies, and amenities that the city provides. This has made Canóvanas an attractive place for both real estate and industrial investment.

This has helped the economy of the area because many firms have settled here. In March 1990 there were 29 manufacturing firms, employing 1,738 persons. The largest and highest paying sector in Canóvanas was manufacturing, constituting 44% of the jobs. The average hourly wage paid by this sector was \$5.99, for a monthly net wage of approximately \$928.56 (Administración de Fomento Económico, 1990). This monthly wage is considered a moderate one in Puerto Rico. It is probable that those hired by these firms, specially the low skill workers, are resident of Canóvanas.

Compared to the overall economic situation of Puerto Rico and other municipalities, Canóvanas is in relatively good economic condition. The area's unemployment rate illustrates this point. While

the average unemployment rate on the island was 17% in 1980, for Canóvanas it was 15% (Dietz, 1986). For the municipality with the lowest rate in Puerto Rico, unemployment was 7.5% and for the highest, 32.6% (Junta de Planificación de Puerto Rico, 1988). In other words, the unemployment rate for Canóvanas was lower than the average unemployment rate for the island but still almost double that of the best municipality.

However, having a stable job in Puerto Rico does not necessarily mean that families live above the poverty level. In 1987, 64.1% of the population of Canóvanas was living below the poverty level (Junta de Planificación de Puerto Rico, 1988, p.# 98). A family of four with an average monthly income of \$928.56 usually needs additional sources of income to meet their living expenses (Administración de Fomento Económico, 1990). Usually, another family member works, but for many families the additional source of income are government transfers, such as welfare or food stamps.

Cubuy and Lomas

Cubuy and Lomas are two villages located in the rural sector of Canóvanas. The area that makes up Cubuy includes the following: Cubuy Arriba, Parcelas Benítez, Cubuy Central, Marines, Villa Sin Miedo, Condesa, and Los Cafés. Lomas includes Los González, Las Yayas, Lomas Central, Lomas Timo, Las Cuatrocientas, Los Pérez, and Los Casillas.

The social-economic characteristics of the residents of Cubuy and Lomas are representative of those of Puerto Rico generally and of Canóvanas. The major employment sector in 1982 were manufacturing (8.3%), services (8.3%), and government (Centro de Datos Censales de Puerto Rico, Junta de Planificación). The striking thing is that in Puerto Rico as in Cubuy and Lomas, an agriculture economy is nonexistent although unemployment is high. In Cubuy and Lomas there is a 17% unemployment rate and 60% of the population receives some type of government subsidy: 34% receive food stamps, and 7% some sort of welfare assistance (PRODUCIR Inc., 1986). It could be expected that a significant portion of the population is

living below the poverty level because the median income in 1986 was \$9,999. This illustrates that additional source of incomes or just a mere job are needed.

Experiences of mutual help in Cubuy and Lomas

In the early 1960s many rural families constructed their houses and basic infrastructure (sewage, roads, etc.) through community efforts. The Puerto Rican government instituted a policy called Self-Help and Mutual Effort. This policy established that through the voluntary contribution of community residents rural areas would be provided with basic infrastructure, such as houses, sewage and water systems, and roads. To achieve this a government official was assigned to the area to organize the residents, instructed and supervise the construction of the facilities, and provide the materials. Community residents' voluntary contributions was recognized by the government to be an essential element for the success of this policy, to sustain the development process, and as a way of teaching democratic values (Negrón, 1964).

Cubuy and Lomas had a history of prior community development experiences that constituted a fertile ground for PRODUCIR's efforts, and which makes it easier to mobilize community participation. In the late fifties the community was active in the mutual help programs sponsored by the central government of Puerto Rico. Many of the houses in the area at that moment were built or rehabilitated as part of a community effort in which the state provided the materials and the residents helped each other doing the work. This was also the case in the construction of many roads and the water and sewage system in the area.

In the eighties, prior to the foundation of PRODUCIR, the residents of the two villages established an association called "Asociación Cívico Social" (ASC). Its objectives were to help residents in need and to require from government officials and public agencies the provision of services for the area. Through this association the community obtained the location of a police station in the area. The facilities to house the station were constructed by

the community residents and arrangements were made so that the police provided the service. Also, the association carried out the necessary arrangement to request from the pertinent authority the establishment of the telephone system. Third, in the middle of the 1970s a cooperative supermarket was established by the residents. It had to close because of problems with the administration. Finally, donations were requested to help those citizens who were in need: As mention by José Rodríguez, a former member of ACS, if somebody needed an surgery we performed activities to help the person cover the expenses.

In addition the village's population had strong linkages among themselves. A census made by PRODUCIR demonstrated that 62.1% of the people have lived in the area all of their lives, 76% have lived there for more than 10 years; and 62.9% of the residents have at least 10 relatives living in the area.

All these experiences make Cubuy and Lomas a place where mobilizing residents' participation is relatively easy and inexpensive. This rural area, like many others in Puerto Rico has a long history of community effort. The social experience of having worked together made the mobilization of participation a positive element for those organizations interested in gaining residents' contribution in the development process.

CHAPTER 3

PRODUCIR ECONOMIC DEVELOPMENT STRATEGY

In this chapter I analyze the circumstances that resulted in the foundation of the PRODUCIR Community Development Corporation. That will help the reader better understand PRODUCIR's development philosophy and the importance of community participation in PRODUCIR's strategy. Then I will explain the CDEC organizational structure and its economic development strategy.

PRODUCIR'S foundation

In 1985, two professors -- a Puerto Rican, Antonia Pantojas-Acosta, and an African-American, Wilhelmina Perry -- retired and moved to Cubuy. These professors had a long history as educators and activists, Perry in the civil rights movement, and Pantojas as an advocate for equal opportunities for Puerto Ricans in the United States.

The professors bonds with residents started when they hired a young man to help them get their farm and house in working order. They started asking him about his family and his work, trying to find out what the young man thought about his possibilities in life. Before they knew it he had invited other community residents to participate in the informal talks.

Once in the community they started to have talks with youngsters about their different problems. They spoke to them about the economic conditions of Puerto Rico and of Cubuy, and about what people can do if they work together. The word spread of the two professors had moved permanently into the community and of the talks they were having with young people. The members of the local civic association (ACS) decided to invite them to speak about ways in which the economic situation of the area could be improved, given that one of their main preoccupations was the lack of employment

opportunities. The professors informed them about the experience of communities in the U.S.A. that had carried out a community planning process, and of ways to go about creating such an organization. Therefore, PRODUCIR is a spin-off from the local civic association.

PRODUCIR's philosophy

PRODUCIR resulted from the combination of a community that was battling to solve its problems -- while drawing on its history of mutual help -- with the expertise of two professors who had dedicated their lives to work in the field of community development. For PRODUCIR, what defines community economic development is that it can only be obtained if a community residents' organize and create institutions to accomplish the goals they set as a group.

Participation is the central element in PRODUCIR's philosophy. The organization believes that community economic development cannot be obtained if residents do not have a say in shaping and changing the circumstances that affect their lives. Therefore, the CEDC, and the other organizations they help develop should be an instrument to promote the human development of the community people. They should be vehicles of the community's social, political, and economic empowerment.

PRODUCIR is founded largely on the recognition that people can empower themselves through their collective work. This is precisely what the word "producir" means: to produce. The idea is that communities' most precious resource is their human capital, and that people through their work can change, create, and transform their economic and social situation.

The assumption is that all communities have useful resources: land, capital, equipment, buildings, and (most precious of all) the creative capacity of their residents. In most communities not all resources are being used, or at least not to their maximum capacity; or they are spent and used outside the area. There are also external resources that could be targeted to the area: governmental resources (federal and commonwealth programs); resources from private

institutions (universities, research centers, banks, firms); resources from local and foreign foundations. Therefore, communities have resources -- and can identify outside resources -- that can be used to developed themselves. If residents work together they can rebuild their local economy.

Therefore, PRODUCIR pursues residents' participation because empowerment means that citizens' have: (1) access, not only to jobs but to the knowledge and resources necessary to create (or retain) them; (2) participation in the decisions that affect them economically; and (3) ownership and control of the productive process.

PRODUCIR's organizational structure

The first organization created was the Community Economic Development Corporation, PRODUCIR, to achieve two goals: the creation of local sources of employment and the participation of residents in the community planning process. With these goals in mind a Business Incubator was created and different community organizing initiatives have been pursued.

The first initiative to incorporate other participants is the creation of a committee in each of the villages that make up the Cubuy and Lomas region (see Chapter 2). PRODUCIR's intention is to organize a residents committee in each of the 10 villages. Currently, committees exist in 4 of the villages: Condesa, Los Cafe, Añoranza, and Marines. Committees are being organized now in Cubuy Arriba, Cubuy Central, and Parcelas. Two of the villages, Villa Sin Miedo and Las Yayas, have decided not to participate.

These committees are autonomous bodies that establish the priorities, policies and activities to be carried out at the local level. Through community participation, these committees have performed different activities according to their needs. For example, Los Marines was lacking clean water. They needed some filters, which they were able to obtain through PRODUCIR's help, but they had to be responsible for installing and maintaining the filters.

Each committee selects two members for the Board of Directors of PRODUCIR, a permanent member and a substitute. The delegate to the ,Board of PRODUCIR has the responsibility of representing his/her committee by putting forward the needs and priorities in his/her village and informing the village of the decisions reached by the Board. The representative to the board serves as a connector between his/her village and the others, also informing the village of the priorities and needs in the other areas.

The Board of Directors of PRODUCIR

The Board of Directors is the governing body of PRODUCIR. It establishes the policies and priorities of the CEDC. The Board of Directors is made up of one member from each of the villages, the administrators of PRODUCIR and of the Savings and Loan, a merchant, and representatives of other local organizations such as churches, youth organizations, or businesses.

Among its responsibilities are to hire and oversee the performance of the staff of PRODUCIR and of the Saving and Loan, to represent the organization outside the community, and to look for possible sources of funding.

The policy of the Board has been to hire local residents and to request other local organization to follow the same principle. However, as the level of complexity has increased, outsiders with specific skills or know-how, not available in the area, have been hired. PRODUCIR encourages them to move to the area.

Components of PRODUCIR's economic development strategy

In the Community Economic Development Model of PRODUCIR, there are two simultaneous objectives: the creation of jobs and the incorporation of residents' participation. The main vehicle for incorporating residents' participation are the committees. However, there are other components through which participation is pursued and that are necessary to obtain economic development: the Saving

and Loan Cooperative, the Business Incubator, and the Center for Creativity and Invention.

The Saving and Loan Cooperative

Poor areas suffer from insufficient capital, capital flight, and unwillingness of traditional lending institutions to lend or invest in them. To mitigate this problem the creation of a Saving and Loan (S&L) was a central element in the development strategy of PRODUCIR. The S&L is to serve as the financial source for the business ventures carried out by the Business Incubator, for the expansion of the existing businesses, and as a source of capital for local residents.

The Saving and Loan (S&L) was established with voluntary contributions from members of PRODUCIR and other residents. Therefore, most of the members of PRODUCIR are also members of the S&L. The reason for this is that PRODUCIR informs its members of the importance of the S&L in its development initiative and encourages them to use its services.

Although the S&L is an independent legal entity, PRODUCIR subsidizes the salaries of the administrator and of the clerk. It also provides training for those who occupy positions in its governing body. This has given PRODUCIR the prerogative of monitoring the performance of the administrator and of requesting her attendance at meetings of the Board of PRODUCIR. In addition, PRODUCIR has a say in the selection of the employees of the S&L.

The business incubator

PRODUCIR pursues the development of the local economy by the creation and retention of local sources of employment, through the promotion of agricultural production and retail business. However, with the creation of local retail business other objectives are pursued such as providing services needed in the community and retaining resources that would otherwise be spent outside the area, to generate their multiplying effect in the community.

The Business Incubator was established to provide technical, financial, legal, and administrative assistance to existing businesses and to assist and promote the establishment of businesses by local residents. The objectives are: to create local sources of employment, to provide those services needed in the area (such as a drug store), and ultimately, to keep resources inside the community.

In case the service needed by the businesses cannot be provided by the staff of PRODUCIR, because they do not have the expertise, arrangements are made to obtain the service from government or private institutions. The situation is the same in those cases where the amount of capital necessary cannot be provided by the S&L. PRODUCIR will look for alternative sources of financing.

Members of the Incubator pay an annual basic fee of \$120. This amount increases according to the services that have been provided. The sale of these services is one of the few ways in which PRODUCIR finances itself.

The Center of Creativity and Invention

The philosophy behind the Center of Creativity and Invention is that each age group has something to contribute to society and that people's capacities and contributions are enhanced if they have access to information, education, technology, and science.

To enhance the skills and social experience of local residents different programs have been designed according to their needs and age group. Following are some of the programs that have been carried out:

The Golden Club -- The Golden Club is an organization of elderly residents. They meet to tell stories, to make crafts, to cook -- in other words, to share with each other.

Youth Committee -- Adolescents are confronting many social problems. They have the highest unemployment rate, and are

engaging in greater numbers and at an earlier stage in criminal activity, drug abuse, school desertion, and teenage pregnancy. The objective of PRODUCIR is to provide activities that help mitigate the feelings of loneliness and alienation that drive these youngsters to actions that can jeopardize their future. Some examples of summer activities are:

i. Summer Job Program -- Almost every summer a person is hired to coordinate different job and recreation activities with youngsters. During the week they work for PRODUCIR and during the weekend they participate in recreational activities.

ii. Environmental Awareness Program -- Kids were taken to the rain forest to pick up garbage and to receive a training about the different ecosystems in the forest, the need to recycle garbage, and the rapid deterioration of the habitat.

iii. Youth Interchange Program -- Kids from the United States spend a month living with a family with children in Cubuy and Lomas. The idea was to expose them to the rural Puerto Rican lifestyle, and provide them the opportunity of developing a friendship with another person his/her own age.

La Navidad en el Campo (Christmas in the Countryside) -- This activity is carried out every year. Some years it is among all community residents; other years, among members of PRODUCIR. When it is performed for all community residents everyone is invited to participate by offering their artistic skills and food, and by carrying out games. Usually, the school puts together a play about the birth of Jesus.

Other activities are aimed at providing residents with a craft or trade that can be performed with a small investment and that can provide them with an additional source of income. These include:

Hydroponic Cultivation -- A community resident, Hector Correa, was sent to study appropriate technology, specifically, to learn about hydroponic agriculture. As a return contribution to PRODUCIR, he teaches hydroponic cultivation of lettuces. This service is offered mainly to local farmers, though a small number of outsiders are permitted to enroll (the enrollment fee varies according to where the person lives). The purpose of providing this service is to eventually establish a cooperative of lettuce producers. The Business Incubator will have the responsibility of marketing the product and therefore, promoting the production of this good to make this a profitable business alternative.

Organic Agriculture -- Another program is on organic farming. These classes are offered to the community and outside residents for a very low cost. Members of the community interested in producing goods this way can use land that PRODUCIR has provided for this use purpose.

The programs established by the Center of Creativity and Invention are broad, from summer programs to the provision of training to local residents. The reason for this is that PRODUCIR does not limit its priorities to the establishment of businesses and the provision of jobs. PRODUCIR wants to incorporate all age groups in the enterprise of developing the local economy. It pursues a development strategy in which all citizens can contribute.

Further, developing a broad range of programs provides multiple ways through which PRODUCIR can incorporate residents' participation, thereby providing the CEDC the opportunity to inform residents about its social-economic goals.

The People's Economic Development Model of PRODUCIR intends to integrate residents in multiple ways. It wants to redefine economic development in a broader sense, to include people's social development.

PRODUCIR' funding sources

PRODUCIR's ability to implement its development strategy is circumscribed by its funding sources. Like other CEDCs, PRODUCIR depends on the approval of proposals, technical assistance from government agencies such as the Small Business Administration, donations from private firms or local government, and the sale of services.

Grants constitute the major source of funds. These funds are granted by federal or state government and are program oriented, assigned for specific purposes such as youth summer job programs. The problem with this is that CEDCs, and in this case PRODUCIR, have very little money that can be used to cover operational costs, like hiring highly skilled personnel. In addition, it limits the funds available to meet the priorities of the CEDC. In the case of PRODUCIR, funds that can be used to provide the necessary capital and personnel for the Business Incubator are lacking.

The lack of sufficient discretionary funds limits PRODUCIR's capacity to plan and coordinate activities according to the needs and priorities of the area. The type of projects pursued, the establishment of priorities, in many cases the design of the program, and the population to be served are to a large extent determined by the proposals. The types of planning and strategies pursued are defined by the priorities established by the funding sources. This limits the capacity of CEDCs to control and establish the ways their objectives are going to be pursued.

The major sources of discretionary funds are private donations and the sale of services (primarily training). However, this constitutes a very small part of the budget. The fees charged for services are kept at a low rate, to make them accessible to the population and to promote residents' enrollment. The services are directed to achieve the organization's goal, to help local residents, so prices must be kept low. Under these conditions, CEDCs need funds to meet their priorities.

An example of how voluntary contributions help CEDCs gain additional resources is the contribution of Hector Correa, which is a

donation to PRODUCIR. For PRODUCIR and other CEDC, incorporating community participation should be not only a philosophical objective but an economical alternative, because residents voluntary contributions provide resources through their participation.

PRODUCIR's organizing efforts

One of the greatest challenges becomes balancing the different objectives. In other words, what's the cost of opportunity in deciding to do one activity over another? On the one hand, the activities directed to developing skills in the community and organizing people in all the subregions may increase people's involvement in the CEDC and their capacities for the long term. But at the same time, it slows down the process of business development and job creation, and could give the impression that nothing is being done. So there is a conflict between what Kennedy, Gastón, and Tilly have called transformative development and distributive development, between developing people or satisfying a single immediate need, the provision of jobs. Then the question becomes: To what extent should the provision of jobs become a priority over people's development? Are they mutually exclusive? Can a balance be created to foster them simultaneously? Does the development of jobs increase people's willingness to participate?

The answers to these questions are being discovered through the process. There are no clear answers, and not even the certainty that these questions will ever be answered. In the next chapters I approach these questions by examining the experiences of three businesses which PRODUCIR helped develop: two bakeries and the Saving and Loans Cooperative.

CHAPTER 4

THE BAKERY

In this chapter I will explain the community participation process that established two privately owned bakeries. First I will describe the process through which the first bakery, "La Cubuyana," was established and the reasons it ceased operations. Then I will discuss the second bakery, "La Truinfadora," which is currently operating.

PRODUCIR assists low-income residents of Cubuy and Lomas who want to establish small businesses. The purpose is to create sources of employment and to eventually develop a local economy. In some cases participants will receive a private benefit from the work, capital, equipment, and knowledge they invested: But in some cases, like as the case of the bakery "La Cubuyana," the participants provide free work in exchange for the uncertain possibility of obtaining a future job opportunity and/or making some profits. In the context of this poor community, residents voluntary collaborations are indispensable for gaining additional resources that are needed in order for the Business Incubator to develop the enterprises. PRODUCIR cannot accomplish its goals without residents' voluntary contributions. In other words, the lack of sufficient resources constrains PRODUCIR's capacity to create local sources of wealth; therefore, contributions are essential so that PRODUCIR and the enterprise can eventually become economically sustainable.

As presented afterwards, in the case of "La Cubuyana" the four owners were willing to borrow money and to open the bakery although they knew they were not going to be able to get paid in the short run. With the contribution of these women the CEDC was able to provide a new service in the area and to open a business that will in the long run, be a source of employment and capital in the area.

Nevertheless, given the lack of sufficient local resources, additional contributions are needed. Local residents are not the only

ones' who contribute. Private and government institutions provide technical services that the Incubator cannot offer, and that are needed for business development. Contributions are requested from the government, the private sector, and residents because PRODUCIR lacks sufficient discretionary funds to assign to business development.

The Bakery "La Cubuyana"

Starting Stage: The need for training in business skills

PRODUCIR's Business Incubator offers some skill training programs such as basic accounting and hydroponic and organic agriculture, to help increase the employability of local resident and to help them develop their own businesses.

The first training offered by PRODUCIR consisted primarily of business skills. This training was understood as necessary because residents lacked such business skills as accounting and management which are indispensable for business development. In order to upgrade the skills of residents interested in settling businesses and to expand participation within the CEDC, a proposal was submitted to the Right to Work Administration (RWA). The RWA is a government agency that finance training programs or subsidizes employers who hire persons who have been unemployed for a relatively long time.

The RWA granted PRODUCIR \$240,000 to offer the training. PRODUCIR was responsible for training 60 community residents, designing the curriculum, and hiring the instructors. Out of the 60 enrollees at least 45 had to finish the program. The RWA would pay for the instructor and students would receive a stipend. The students were supposed to finish the training by preparing the business plan for the business they intended to open and the RWA would provide them some capital to start operations.

Although the plan was promising, some problems emerged between the RWA and PRODUCIR and the participants were only able to receive an elementary introduction to business development and

management. Only some minimal objectives were obtained: (1) participants obtained a basic training in business operation; (2) 60 enrollees got to know the CEDC's objectives and operations; (3) and four of the enrollees, Myrian Colón-Colón, Monserrate Vega-Torres, Sandra Rivera/-Colón, and Claribet García-Fraguada, decided to invest work and capital to open the first bakery, "La Cubuyana."

***First contributions needed to establish "La Cubuyana":
training in bread and pastry baking***

In general, poor residents' possibilities are limited to businesses that require a modest investment. They can invest in a business where the main input is the owner's labor. However, if they are not already trained in the tasks the business requires, those skills have to be learned.

The owners of La Cubuyana were not trained in the tasks required at the production stage: bread and pastry baking. Therefore, the first contribution they made was to invest time in learning this trade. Claribet García-Fraguada arranged to have a baker provide some basic instruction free of charge. The baker agree to let them observe him work. The training in pastry baking was provided by a community resident and paid for by PRODUCIR. In both cases they were not able to practice.

The rough training that took place was beneficial because the tasks were not complicated. This helped the four residents upgrade their skills and reduced the cost of establishing the bakery. In addition, a service that was needed in the area was supplied by local residents. However, this can also impose a cost because it increases the uncertainty related to the quality of the product.

A lesson that can be drawn from this is that is useful to select businesses in which tasks can be easily mastered. If the skills are easily learned the quality of the service and the work will not be jeopardized and costs will be reduced. Another possibility is to establish businesses that capitalize on local know-how, on skills that already exist in the community. However, this limits the range of services or businesses that can be established by local residents.

In order to expand these possibilities training should be provided in a more formal context and for a longer period of time.

Nevertheless, selecting ventures in which tasks are already mastered or can be easily learned can diminish the uncertainty related to business performance and the quality of the work. It also reduces operating costs. At the same time, CEDC spends less on training and on monitoring work performance, and outsiders do not have to be hired.

Second voluntary contribution: the business plan

To insure the profitability of the bakery two business plans were performed at various moments. The first one was performed by the students in the RWA training; the second one, by Claribet Garcia. The second one was supervised and expanded by a private firm, General Management Assistance Corporation, which was contracted to instruct and supervise Claribet in the preparation of the business plan. They did not assume legal responsibility for the accuracy of the information because they were not paid for the service. This last business plan was presented to financial institutions.

Both business plans established the potential for the bakery of being successful in the long run. It was considered the only source of this service in the area. Only one store sold bread, but it was baked outside the area. The plan also revealed that Cubuy and Lomas are sufficiently dense and that residents were willing to sponsor local businesses, therefore providing a profitable market. The projected location was satisfactory, because it was at a walking distance from a populated area and was visible to drivers. The location offered the business the possibility of an increase in market share, given that the main road leads to a tourist area. In addition, the market share could increase during weekends because of the high percentage of second homes in Cubuy and Lomas.

Preparation of the business plan by community residents had both advantages and disadvantages. The first benefit is that it reduced expenses, because the owners did not have to pay for the service. In addition, it increases the skills of those who performs it

and there is the know-how for other future occasions. However, a business plan performed by community residents could have an adverse effect over lending institutions' willingness to finance the venture. Lending institutions could question the accuracy and validity of the information by questioning the objectivity of those performing the study. They could also claim that it was not performed by persons knowledgeable or experienced in the task.

In the case they obtain the loan, these same reasons could also lead to the business failure if the plan were carried out by untrained people.

Financing Stage

Third contribution: community residents' contribution to the bakery

A bakery is a business that requires a considerable capital investment. According to the business plan prepared by Claribet and supervised by General Management Corp., the owners needed \$63,000 to have the business performing efficiently: \$55,000 for equipment, \$3,500 for repair to the rented facilities, and \$9,500 for the estimated working capital needed for 3 months. The owners applied for a \$55,000 loan.

To finance the bakery two alternative sources of loans were pursued: financial institutions and local residents. To exhaust the first alternative, the owners applied for credit from three lending institutions: the Small Business Administration, the Department of Commerce, and a credit union in Juncos (another municipality). This last loan application was co-signed by Dr. Pantoja and Dr. Perry. To demonstrate the economic potential of the business, the business plan prepared by Claribet and supervised by General Management was presented. However, all three financial institutions denied credit.

The second alternative was to borrow from community residents. This alternative was understood as remedial but it was adopted because credit had not been granted. Nevertheless, it demonstrates the importance of residents' participation for the accomplishment of initiatives like PRODUCIR. According to Jose

Rodriguez, former administrator of PRODUCIR, \$2,000 was loaned by Dr. Perry and \$7,000 by Angel Luis, a community resident, free from interest.

The four ladies opened the bakery with the few resources they were able to obtain. The total investment was estimated at about \$13,000. They received \$2,000 from RWA. In addition, each of them made personal loans for the maximum lent by the Cubuy and Lomas Saving and Loan Cooperative, \$500 and the \$9,000 lent by community residents.

Criteria lending institutions consider to determine credit eligibility

The economic viability of a business is not the only criterion lending institutions consider to determine credit eligibility. Although the viability study established the potential of the bakery profitable this is not sufficient to be eligible for credit. There are other factors that lending institutions consider which the four owners did not fulfill. First, none of them had experience operating a business. Second, they had no formal education in business administration or accounting. Third, they did not have collateral. Fourth, they did not have credit histories. Finally, none of them had a source of revenue to secure the investment. Therefore, the four ladies should have established a business that required a minimal investment. The bakery was beyond their economic possibilities, given the circumstances and the resources available to PRODUCIR.

The bakery an undercapitalized business

The decision to establish an undercapitalized business was to the detriment of the four owners, the business, and the CEDC. An undercapitalized business is limited in its ability to overcome difficulties or fluctuations in the business cycle. Therefore, a small error or problem can impose a substantial cost to the business and its owners. In addition, a default will be detrimental for the owners and the CEDC. A default will hinder residents' willingness to participate. Therefore, before selecting the business the promoting

organization should consider the amount of the investment and the likelihood of the owners to be eligible for credit.

The lack of capital for business development is a problem that CEDCs in low-income communities can be expected to confront. Organizations promoting business development by low income residents have limited options: they must either select a venture where the initial investment is not substantial (or where the main input is labor, like a maintenance service, for example) or select the business according to the participants' eligibility for credit.

The lack of discretionary funds to operate an efficient business incubator could have limited lending institutions' willingness to approve the loan. The lack of funds to hire sufficient and highly skilled personnel -- or to subcontract a private firm, recognize by financial institution as having the personnel to perform market studies -- could have lessened the reliability of the market study and the owners' possibilities for obtaining the loan. In addition, the bakery's dependance on the Incubator for technical assistance might have hurt their chances of receiving the loan. Business incubators are an innovation in Puerto Rico; financial institutions do not have experience working with them, or information about their performance. That was the case with PRODUCIR, which had no track record in financial matters.

Operational Stage: "La Cubuyana" is open for business

The bakery maintained operation for approximately nine months. During that time the owners invested everything they earned, given that the initial investment had not been sufficient. The bakery was basically maintained upon the ladies' voluntary work. It was a hard process because the lack of capital constrained their capacity to operate an efficient business. An example of this was the lack of such essential equipment as the machines to prepare the dough. To overcome this obstacle, they opted for purchasing the dough in Canovanas and baking it in Cubuy. This caused the dough to get ruined many times.

Different strategies were pursued to diversify service and to supplement income. Two types of bread were sold along with a variety of pastries and other goods. To diversify services, catering was offered; to take advantage of the proximity to the school, machine games were installed. These steps helped the business for a while.

Administration

The bakery was going to be administered by the staff of the Business Incubator. In the meanwhile, the owners were supposed to acquire administrative skills and experience and eventually take over this responsibility.

Claribet mentions that the bakery was not efficiently administered. For example, PRODUCIR's employee did not balance the cash register daily; records of disbursements and receipts were not being kept, and some of the bills were not being paid. Afterwards, the owners assume the responsibility for the administration.

Claribet mentions that the bakery was getting ahead and that their main problem was their lack of access to cash. She argues that the lack of capital to cover the damage caused by Hurricane Hugo was the primary reason operations ceased: they lacked the capital to replace the ruined inventory and to repair the damages to the rented facilities. However, it looks as if there were some major problems in terms of the business administration and an underestimation of the financial resources necessary to run the business.

Implications for the use of voluntary contributions

Starting Stage: skilled transfer session in bread and pastry baking

The first lesson is that residents' contributions of labor in task that are easily learned diminish the risk associated with work performance. It does not necessarily jeopardize the performance of the business. If the trade is easily learned it helps to reduce cost,

local resident upgrade their skills, and a service is provided by local resident.

The selection of a business in which skills are easy to learn reduces the cost to the business and the CEDC. For example, Angel Luis, the owner of La Truinfadora, is currently one of the bakers. As we shall see, he had the other business skills that allowed him to run the bakery; learning to make bread was a task easy to acquire.

Financing Stage: loans made by community residents

Residents' participation serves as a source of financing to the CEDC. When residents do not qualify for loans at traditional lending institutions, not because of the merits of the venture but because of their lack of a track record, the community's commitment to the development process can provide resources that otherwise would not be available to the CEDC.

Operational Stage: administration of the business

The most important lesson is that business skills, such as administration and accounting, are not easily transferred. Even allowing for the fact that PRODUCIR's training program was not adequately executed, it can be stated that short-term sessions for transferring business skills do not guarantee that the skills are learned. Experience in business or formal education could have helped improve the quality of the work performed by the owners and the venture.

In addition, a CEDC needs sufficient discretionary funds to hire skilled personnel. The Business Incubator staff was not adequately trained or experienced in business administration. This imposed a cost to the performance of the bakery.

To conclude, the quality of the voluntary contribution of labor in business management was jeopardized by the lack of experience on the part of the staff of the Incubator and the owners of the business. Therefore, the voluntary contribution of non-skilled labor

in business administration jeopardized the performance of the bakery.

Implications for the CEDC

Organizations that promote the establishment of business by low-income community residents should consider the following before selecting a venture:

- (1) the complexity of the tasks that are going to be performed by the voluntary workers in each of the stages of project development (production, management, etc.);
- (2) the amount of the investment and the likelihood of the owner(s) to be eligible for credit;
- (3) whether the tasks required at the production stage, if not already mastered, can be easily learned; and
- (4) the prior entrepreneurial experience of the participants.

Conclusions

From the experience of La Cubuyana I concluded the following:

(1) It is important to make a satisfactory selection of the participants in an economic venture in terms of their prior entrepreneurial experience, access to finance in lending institutions, and access to collateral. PRODUCIR staff did not consider what type of business should be established by whom. Before selecting a venture the promoting organization must consider the owners' skills in the trade and in business, eligibility for credit, and collateral.

It was a wise decision to establish a bakery because it was identified as a need in the community, it had a significant potential of being profitable, and the skills that needed to be learned were easy to master. However, the potential owners were not adequately selected. A lesson that can be drawn is that organization promoting business development by low-income residents should select ventures according to participants skills in the trade or in business, along with their eligibility for credit and the amount of the

investment. In this case, the decision to proceed with the establishment of a business that was undercapitalized was to the detriment of the owners and the CEDC.

(2) The incubator staff should have highly developed business skills. There was not a precise idea of the skills the personnel of the Business Incubator needed in order to carry out its responsibilities. This inflicted a cost to the performance of the business. If skilled personnel had been hired they could have prepared the business plan and known the consequences of opening the business in terms of the capital required.

Recommendations for CEDCs

1. CEDCs should capitalize on local know-how or experience by establishing businesses in which the skills at the production stage do not have to be learned. This reduces the uncertainty related to the quality of the voluntary contribution of labor, and it enables the CEDC to spend less on training cost and on monitoring the performance of the business. And outsiders do not have to be hired.

2. If the know-how does not already exist locally, CEDCs should establish businesses in which the production tasks are easy to learn. The risk related to the quality of the work and service is thereby reduced.

3. Regardless of the simplicity of the production tasks, it is essential to select participants with entrepreneurial business skills or to supply this deficiency with a highly trained incubator staff.

4. CEDC should select businesses based on the participants' access to capital, collateral, and the amount of the investment required.

Establishing a business that is beyond residents' skills and resources is detrimental of the business and the CEDC. Low-income residents who lack substantial skills should not establish ventures that are beyond their financial and technical scope. This increases the risk of maintaining an economically stable business and the amount of resources the CEDC has to spend on monitoring the performance. A business default will hinder residents' perception of

the CEDC and lessen its capacity to accomplish what it set out to do.

5. To search for funding sources that provide resources to cover operational costs, like hiring skilled staff or subcontracting to private firms.

Two problems that can be expected are a the lack of business skills and a lack of capital. Organizations that promote the establishment of business by low income residents can to a certain extent overcome these problems if they hire skilled personnel. If skilled personnel prepare the business plan, financial institutions' willingness to finance the ventures can be enhanced. In addition, the business skills which the owners lack will be supplied by the staff.

La Cubuyana illustrates that training in tasks like accounting and business administration are not easily learned. Therefore skilled personnel are needed to establish an efficient and pertinent business training program, and to monitor the performance while the owners gain experience. Otherwise the CEDC should recruit people with prior experience or formal education in business administration.

6. If possible the CEDC should monitor the performance of the businesses that spin-off from the business incubator.

It can be expected that as the volume of work increases so will the complexity in the management and administration of the business. Development literature illustrates that in projects in which participants do not have the skills and the skills are difficult to learn, an instructor should be appointed to supervise the performance of the venture. In addition, the participation process changes as the level of complexity increases and there is greater need for useable knowledge. The CEDC should forecast the different work tasks that will be performed at the different business development stages.

CEDCs need discretionary funds: for hiring sufficient and highly skilled personnel, for subcontracting with consulting firms, or for meeting other needs. This will enhance the service provided by the organization.

To summarize, various lessons can be drawn from this: (1) CEDCs need resources that can be assigned to meet their particular

needs, such as hiring highly skilled staff or subcontracting consultants; (2) Training in business will not have an immediate effect on residents' skills, and therefore a monitoring system should be put in place. This will enhance the performance of the businesses that spin-off from the incubator; (3) The business incubator should capitalize on residents' know-how, experience, and resources to develop business; (4) The businesses should be selected according to the participants' access to capital and experience administering a business; and (5) The businesses should be one in which tasks are easily learned and do not impose a cost on the quality of the work performed by the voluntary participants.

Starting up again: LA TRIUNFADORA

A few months afterwards, Angel Luis, the community resident who lent the owners \$7,000, was willing to collaborate with PRODUCIR to re-open the bakery. He purchased the bakery and assumed responsibility for the debt.

Angel Luis was a better candidate to establish the bakery because he had a greater possibility of being eligible for a commercial loan, given that he had collateral, experience administering a small business, and capital to invest. Consequently, he was able to borrow \$30,000 to re-open the bakery.

The new bakery, "La Triunfadora," has been serving the community for approximately three years. Currently, it employs five community residents, two part-time and three full-time. One of the bakers is Claribet Garcia-Fraguada, a former owner.

Ana Rodriguez, the employee currently in charge of the Incubator, mentions that the bakery is economically stable. When it opened it was selling approximately \$200 worth of goods daily; currently it sells \$600 to \$700 worth daily, and on Sunday sales increase substantially. As explained in the viability study, the population of Cubuy and Lomas often increases on weekends.

The economic stability of the bakery confirms the accuracy of the information presented in the feasibility studies. Apparently, the market study prepared by Claribet and supervised by General

Management was adequately performed. It seems that having experts supervising the work performed by inexperienced persons helps to deliver an efficient product.

Financing Stage: participant' capacity to borrow

It seems that Angel Luis was a better candidate to establish the bakery because he had capital, collateral, and experience administering a small business. Therefore, he had a greater probability of being eligible for a commercial loan. These could have been the reasons why credit was granted, given that the market studies and PRODUCIR collaboration were constant factors.

However, this raises the issue of how many people can be found in a low-income community with capital, collateral, and business experience. An option could be that CEDCs in promoting the establishment of businesses that require a substantial investment, choose residents who fulfill the requirements for credit.

Nevertheless, a CEDC's objective is to help the sector of the population who have substantial limitations, who lack work experience, who have been unemployed for long period of time, or who have minimal education. An alternative to overcome the difficulty of helping the most disadvantaged is to have sufficient and highly skilled personnel working in the incubator. If convincing and well documented market studies are prepared low-income residents have better possibilities of obtaining credit. At the same time, the risk related to the administration of the business will be reduced because they could train the owners and monitor the performance of the business.

However, the commitment to the goals of the CEDC should also be considered before the resources are spent on the participants. Promoting the participation of residents who will be assisted in the establishment of a business implies that a process of selection should be put in place, in order to obtain as much social and economic benefit as possible from the investment the CEDC will incur.

To summarize, a CEDC should evaluate the tradeoff in order to determine in how to spend its limited resources. There has to be a selection process. The CEDC should evaluate how much economic and social benefit will be obtained from the investment. For example, helping the worst-off of the population could imply that more resources need to be spent on training and monitoring performance, even if it means that fewer jobs are created. The participation process should be inclusive, in order for the CEDC to have more options to choose from. The selection of whom to help should be based on the economic and social benefit that will be obtained.

Operational Stage: community residents contributed information about business performance

At the beginning of the school semester there was a significant decrease in revenues. Staff from the Business Incubator heard comments about the quality of the bread. To obtain information about the quality of the service and to forecast the problem, a suggestion box was established. Residents were asked to express their comment. The information revealed that the bakery was fulfilling a need in the community, but that the quality and taste of the bread was not constant. As a result of this, the baker was replaced. Angel is now one of the bakers. He also made changes in the taste of the bread to adjust it local preferences.

A benefit of using residents' information, in the selection of businesses and in the solution of problems, is that CEDCs will be able to select businesses that are needed and that will have local sponsorship. In addition, it improves the quality of the service because it incorporates local taste and preference in the design. Therefore, CEDCs that incorporate residents' needs and preference in the design of their development plan have a greater opportunity of suggesting businesses that will be sponsored. This increases their probability of being economically profitable. Residents' information is an asset for the CEDC.

The need of selecting business in which skills are easily transferred

Angel's work as a baker reaffirms that the selection of businesses whose skills can be easily transferred reduces the uncertainty related to the quality of the work and decreases cost. In addition, it increases the probability of economic success of the venture. Skills that are easily learned reduce the risk of inefficient job performance.

Administration

The economic stability and growth of the business established by PRODUCIR is a major consideration given the adverse effects that a default could have on citizens' willingness to contribute. In addition, an increase in the market share of the business could mean an increase in the number of local residents employed and in the goals of PRODUCIR.

However, a major obstacle for CEDCs' in poor areas is that local business owners are not interested in keeping accounting records, nor in expanding the market share of the business. They are pleased with the way they have traditionally administered their business and are not interested in expanding operations. Nevertheless, PRODUCIR, in collaboration with private firms and governmental institutions, offers local business owners training in such topics as business administration and accounting.

Angel is an example of a business owner who is not interested in keeping records. A reason may be that he feels he has been efficient with his rule of thumb, and that to invest resources in keeping accounting records will cost him more than the benefits he perceives he will obtain from it. No matter what his reasons are, the lesson is that the social and economic goals of the CEDC are not necessarily adopted by the residents. Maybe the goals of the CEDC are beyond some residents' personal or social convictions or intentions. In other words, what has been defined as a goal by the

CEDC does not necessarily coincide with residents' needs or aspirations.

However, the CEDC is justified in fearing that a business that is a spin-off from the incubator may confront economic problems. A default by a business established by PRODUCIR could increase the cost of mobilizing participation. This can diminish the amount of contributions provided by community residents given that the CEDC would be perceived as ineffective. Then it could not accomplish its objectives of local job creation.

Implications of "La Truinfadora" for the use of voluntary contributions

1. CEDC can capitalize on residents' information to identify the businesses that are needed in the area, to identify problems, and to incorporate local preferences in the service provided.

2. The supervision and training provided by experts of the consulting firm could have helped Claribet gain some skills in the preparation of business plans. This evidence illustrates that the supervision of experts could help poorly skilled residents perform highly technical tasks.

Implications for the CEDC

1. Participants should be selected based on the resources the CEDC has to invest to create social and economic benefits. Transformative organizations that want to balance their economic and social goals must measure how much is going to be invested to generate how many jobs, and how this promotes or hinders participation. Therefore, it is necessary to select participants according to how much the investment will advance the goals of the organization. Maybe in a certain situation investing in participants who are not the worst-off will have a greater multiplying effect, because residents will perceive that the CEDC can accomplish its objectives. However, the CEDC should promote the participation of all community residents in order to have a greater amount of resources to choose from.

2. The lack of accounting records is a problem that CEDC could expect to confront. However, many business owners are not interested in gaining skills to keep such records because they are satisfied with how they traditionally administer the business. Therefore, the expectations of the members of the CEDC are not necessarily the expectations of the community residents.

General conclusions

Community resident participation in the initiatives of the CEDC provides resources that otherwise would not have been available. They also establish a cost, but the cost will vary according to what sector of the population the CEDC is assisting. Residents (like the four women) who lack work experience, business skills, and collateral, who have been unemployed for long periods of time, and who lack capital impose a greater cost to CEDC. They need training in business skills and it is harder for them to be eligible for credit. Consequently, the CEDC has to incur a greater cost in order for them to establish a business and to create jobs. The CEDC must select participants according to how fast they advance their social economic goals.

If the CEDC helps the population that is worst-off, training in business skills will be needed. In addition, the performance of the business should be monitored in order to guarantee its efficient performance. This implies that assisting this population is more expensive for the CEDC, because highly skilled and sufficient personnel are needed in order to help this population overcome some of the obstacles they confront.

CEDC targets resources to economically deprived areas. An efficient performance of the CEDC and its business incubator could help this population become self-sufficient. For example, a well-performed market study could enhance lending institutions' willingness to finance the ventures of this population. In this case, the PRODUCIR Business Incubator's incapacity to offer technical and financial assistance to this populations limited the opportunities available to them. Therefore, an improvement in a CEDC's capacity to address the needs of the most disadvantaged could help them gain access to the mainstream economy.

Participation contributes to the CEDC's goals

It is clear that the only way that PRODUCIR could establish businesses is if residents participate in its ventures. If residents are involved in PRODUCIR initiatives. If the eventual owners are willing to work in conjunction with the CEDC to establish the business. Consequently, participants contribute capital, work, information, and equipment to enhance their individual goal and the goals of PRODUCIR.

Cost of residents participation

Need for training

However, the participation of community residents also establish some cost. The most common limitation CEDC could expect is the lack of skills. This does not represent a limitation to the establishment of business when the skills necessary are easily

master. This is illustrated by how with a very simple training the four ladies and Angel were able to learn how to bake bread and pastries.

Need for business skills

The case of La Triunfadora illustrates that although the owner might have experience administering a small business, he may not see the need to keep some sort of accounting record, to control production cost, and to have a more precise idea of the business cycles and of the disbursement and receipt. Therefore, business skills are not easily learned.

The lack of business skills imposes a cost to the business because it increases the risk of whether the business will be efficiently administered and economically stable. This is illustrated by the lack of accounting records in both of the bakeries. In addition it imposes a cost to the business incubator because it has to invest more in training and on hiring highly skilled and sufficient personnel. In addition the lack of skills from the participants hinders financial institutions' willingness to lend to them.

Business incubator need for additional funding sources

Appraising voluntary contributions

Starting Stage - cost and benefits of their contributions

The main benefit received from the training was a reduction in cost. The salary of a baker is \$200 weekly, so at least they saved \$800 monthly.

A cost this could have brought was a decrease in the quality of the bread and pastries, because in the training they were not able to practice nor did they have the experience in this trade.

The learning that took place enhances PRODUCIR goals because it increased the employability of four community members. It increases the availability of skills in the area. Currently, Claribet

Garcia-Fraguada work in La Truinfadora, as one of the bakers.

The business plans were beneficial because: PRODUCIR nor the owners had to pay to have them done; Angel obtained information related to the economic profitability of the business without having to invest in the studies; and the skills of the women and students were increased.

There is no way of knowing how crucial it was in the determination of rejecting the four ladies loan application. However, I imagine that Angel might have used one of the studies to get the capital and justify the profitability of the business, because no other studied was performed.

Financing

The participation of community residents in the establishment of the bakery brought in financial resources that other wise would not have been available. The four ladies made arrangement to try to borrow the capital. They visited different financial institutions and made personal loans. However, their loan application was rejected in all the institutions, and they were only able to borrow \$500 each from the community based Savings and Loans Cooperative developed by PRODUCIR. An important thing that illustrates their level of commitment is that when personal loans are made the person is responsible for them no matter what happens. Even-though the business failed they had to keep on paying it.

Another factor that increased the resources they had available was that they were not receiving a salary for their work. The provision of their jobs is translated into material worth.

The contribution of capital by community residents was indispensable for the four ladies to maintain the business operating. Without this resource they would not have been able to make some of the investments. These loans were made free of interest and with no special time arrangement for repayment.

Operational Stage: administration

The dependence on the business incubator for technical assistance may impose a cost because financial institutions are not accustomed to working with them and do not have information about their performance. Financial institutions may not be receptive to business that dependent on the administrative assistance of business incubator because this is a relatively new concept in P.R. and financial institutions lack experience related to their performance.

Also, the lack of business skills or experience running a business, by the participants, imposes a cost to the business incubator. This cost is the need to invest in training and in personnel to monitor the performance of the business. An if this is not done, the possibility of failure of the business could jeopardize the community perception of PRODUCIR capacity to accomplish its objective. As I mention before, if this were to happen the community participation and the contributions provided through it could decrease significantly leaving less resources for business development.

Information

Another contribution was the provision of information about the quality of the service and products offer by the bakery. Without this information it would have been difficult for Ana and Angel to determine the reason why sales had decrease. This permitted them to identified the problem and to offer a solution. Another, positive effect is that the community gets a sense that their opinion is important and that the business is their to serve them and that maintaining the client please is an important consideration for the owner of the business.

However there are some cost associated with the inadequate use of suggestion box. The first thing is that if the suggestion box is not left for sufficient time and during the whole day the information may not be representative of the population. That maybe those that

take the time to fill out the form may highly bother or highly please with the service. However, the way to deal with these problems is by getting as large sample. Apparently, this was done because the information obtain seem to be accurate. Although the collection of additional information to determine if the measure taken help solve the problem would have help confirm the accuracy of the previous information.

Conclusions about the importance of community participation in the development of the bakery

It is clear that to rely on community residents voluntary contributions as a way of obtaining economic resources for the development of the bakery imposed some costs to PRODUCIR and to the business itself in terms of the time consumed, inability to obtain external financial resources and in terms of the lacking of a reliable accounting system for the business. However it is also true that in the case of PRODUCIR, the CEDC was able to develop the bakery because of the voluntary contributions provided by community residents in the form of their time, voluntary work, knowledge, sponsoring and financial resources. All these contributions permitted PRODUCIR to develop a source of employment for local residents and to provide a service that were claimed by the community. For PRODUCIR not only is the creation of the businesses important, but also the development of local ownership and new sources capital, incrementing local residents skills and employability, and sustain new experience of self help and community solidarity.

The negative aspects presented by community participation in the development of the bakery do not overweight their advantages, particularly, if considered that many of the situations can be overcome by improving the quality of the services provided by the Business Incubator.

Operational Stage

The lack of an understanding of the need of keeping business records and the skills establish a high cost in the performance of businesses. The only records available was a cash register balance. This was keep for some months. When the research for this document was been performed those records were not being kept.

La Triunfadora like La Cubuyana lacks an accounting system. PRODUCIR has provided Angel with training in business administration and accounting but records are not being kept regularly. This constitute a cost to the business and for PRODUCIR. For the business if the records are not being kept there is no formal information about its performance. A problem this could bring is that if he needed to borrow he would not have records to prove to the banks that this is a economically stable business. Another problem is that it harder to identified the days and the months when the business makes less or more money. These are some of the cost the business could encounter because of lack of formal information about the business performance, the lack of an accounting system.

For PRODUCIR it means that if anything happens to the bakery where it would have to close down this will jeopardize the view the community residents have about the effectiveness of PRODUCIR.

Information

Information was requested from community residents regarding the quality of the goods sold in the bakery. Angel and Ana, the person in charge of the business incubator, establish a suggestion box to know the main complaints and satisfaction with the quality of the goods. The reason was that business had gone down drastically. They were able to document that the quality of the bread was the main problem. With this information Angel took the decision of experimenting with the recipe and to bake the bread himself.

This is a relatively easy and inexpensive way of letting the community know that the service offer is a major concern of the

owner. In addition, the information obtain is can give the owner an idea of what is needed to improve the performance. Without this information it would have been harder to identified the problem.

The provision of voluntary contributions by community residents raises a series of issues related to business performance and the participation process. I will outline some of the lessons we can learn from this experience:

1. The quality of the voluntary contributions are enhance when the task performed are easier.

The provision of voluntary contributions by residents of a low income community raises issues related to the type of task that is been performed. When the level of complexity of the task is minimum the quality of the performance of the task enhance. This means that when the know now exist in the area it is easier to carry out the venture.

When the know now of the skills that the task require does not exist in the area, for example business skills, training and an organizational structures to monitor the performance of the task has to be establish. Their has to be a process of skills transfer to enhance the performance of the business. In order to make efficient business decisions. In addition an organizational structure where that monitors the performance of the bakery and the saving and loan has to be put in place. In both cases, the bakery and saving and loan this is illustrated.

In the bakery because accounting records should be kept by the business incubator given that Angel seen reluctant to keep them. PRODUCIR will have to incur in this cost but the benefit is to guarantee that the business operates efficiently and that PRODUCIR demonstrate to community residents that it can accomplish what it set out to do.

In the case of the saving loan, the business incubator is providing the members of the committees with training to run a lending institution. This will significantly enhance the performance of the institution. However, while the training is being offer and the participants are learning the monitoring of the performance of the saving and loan is indispensable. In other words, PRODUCIR should

monitor the performance of the new administrator and of the committees. PRODUCIR should evaluate the performance of the administrator and at the same time make sure that she offer a series of work shops where she informed the Board and the committees of the basic related to her job. One the administrator job description should skill transfer cessions. Another possibility could be to identified those that are skilled in the different committees give them more responsibility and have them trained the others. However, the establishment of some of these recommendations does not mean that PRODUCIR does not have the responsibility to monitor the performance of the saving and loan. The cost of adding a new responsibility is not as high as the cost of having the saving and loan confront difficulties.

Is important to stress that although the training was necessary it would have been difficult for PRODUCIR to provided it if the proposal had not been approved. As previously mention, PRODUCIR funding sources provides few discretionary funds which can be assign to meet the specific priorities of the CEDC. Therefore, budget constrain can limit the effectiveness of a program and of PRODUCIR.

Training design according to the population to be served

Designing a training that address the needs of the client population enhances the efficiency of the program and the objectives of the CEDC. The grant offered by RWA was targeted to the population that lack work experience, are unemployed, or with a minimum of high school education. This is the population PRODUCIR has define as the client. However, this means that a corresponding training is needed to enhance the effectiveness of residents work contributions. **In other words, the design of the training and the selection of the instructor is crucial to enhance business performance.** Therefore, CEDC need to design reliable training to improve the quality of the contributions of labor and enhance the economic performance of the enterprise.

CHAPTER 5

THE CUBUY AND LOMAS SAVINGS AND LOANS COOPERATIVE

Under Puerto Rican law the Saving and Loans Cooperatives were created to promote saving among their members and to lend relatively small amounts of money for their personal necessities. However, the Cubuy and Lomas Saving and Loan Cooperative (SLC) was conceived also with the intent of solving the problem of lack of capital to finance local residents' business ventures, and as a way of retaining residents' money in the community for developmental purposes. In general, it was established to overcome traditional lending institutions unwillingness to incur the risk of lending to low-income residents and investing in low income areas. This population's access to capital, and to the economic spin-off that is generated from investment, has thereby been limited. The SLC was organized to help overcome one of the barriers that limits low-income residents' possibility of establishing businesses, and to advance local economic development. As a means of accumulating residents' savings for investment purposes, the SLC was conceived as an indispensable tool to foster PRODUCIR's economic development strategy.

The community chose to establish this kind of financial institution because members' participation on the committees and on the Board of Directors is a legal requirement. This provided the CEDC with an additional form of incorporating residents' participation in a venture established at the community's request. At the same time, it capitalize on members' work. This is precisely why this case study is different from the case study of the bakery: the ownership and governance structure of the SLC requires members' participation in the administration and management of the SLC.

In addition, the kind of business, a financial institution, requires a different mix of skills from those required by the bakery.

The complexity of the skills will vary according to the work required in each of the committees and the board. This wider range of tasks will raise a different set of issues related to the effects of the voluntary work on the performance of the SLC and the implications of participation. Therefore, this chapter will consist mostly of an analysis of the obstacles and advantages that voluntary work has for the performance and development of the SLC.

The Cubuy and Lomas SLC's operational status

The Cubuy and Lomas SLC has been serving the community for approximately four years. When it opened operations it had 500 members and a starting capital of \$42,000, for a maximum lending capacity of \$500. Currently, it has about 700 active members (those who have deposits or have requested loans) and 450 inactive. It has approximately \$317,600. in capital, making it possible to offer credit up to a maximum of \$5,000.

Services

In general the Cubuy and Lomas SLC provides the same range of services that traditional S&L's do. It provides the traditional services of loans, deposit and stock accounts, gift certificates, certified checks, and money orders. However, the interest rate charged on loans by the SLC is significantly less (6% vs. 21%) than that charged by small for profit financial institutions that usually are the only sources of finance available for low-income people. In this sense the SLC has helped many resident whose only access to credit had been through such institutions. In addition, the SLC pays higher interest rates on saving deposits and certificates than those paid by banks.

The SLC also provides other services such as collecting the water and telephone bill payments. Arrangements are being made so that the electric bill can also be paid at the SLC. These services constitutes an additional source of income for the SLC.

Personnel

The SLC currently employs two clerks and one administrative manager. The CEDC subsidizes the salaries of the administrator and one of the clerks. The responsibility of the administrator is to implement the decisions made by the Board and to inform the board of the financial transactions performed. The administrator worked two days a week at first, but is now a full-time employee.

The Saving and Loan Cooperative's legal structure

The Cubuy and Lomas SLC was organized under the Puerto Rican Savings and Loans Cooperative Law. This law provides the SLC with its own legal organizational structure and identity. It requires the SLC to be organized and managed by its members. A member is every person who has purchased stocks or has saving deposits. The legislation requires a minimum of 100 founding members and \$5,000 in capital in order to allow its incorporation. All members have the right to one vote which cannot be transferred. They determine the policies and elect the members of the SLC's governing bodies. This law establishes that board and committee members cannot receive any type of compensation for their work in those bodies.

At a general assembly, which should be held at least once a year, the Board and each committee present reports on the accomplishments of the year, and the financial solvency of the institution, and recommend future policies. In addition, elections are held to select members of the Board of Directors and the committees.

Board of Directors

The responsibility of the Board of Directors is to supervise operations and set the financial policies to be followed. They have to make such decisions on matters such as how much and where to invest, how much to deposit in other financial institutions; how much to use for loans, and how much to leave as a reserve. They set

the interest rates on loans and deposits within the margins permitted by law, and they decide the pace at which the institution is going to grow. In summary, they check on the overall performance of the SLC, and look for its financial stability and the quality of the services it provides.

Education Committee

The Education Committee decides on how to inform the community about the services of the SLC and its importance. It has the legal authority to prepare and implement an educational plan for members and to design strategies to incorporate new members. It should submit a report to the Board of Directors every semester. One of them is presented at the annual assembly. The Board of Directors organizes this committee, which can consist of three to seven members. Three of its members can also be members of the Board of Directors or other committees. They cannot be elected for more than three consecutive years.

Credit Committee

The Credit Committee and Board members set the requirements of eligibility for loans. In the Cubuy and Lomas SLC the Credit Committee reviews the loan applications, obtains information about the credit history, and determines the eligibility of the applicant. It should prepare a monthly report to the Board specifying the number of loans approved and what were the criteria for eligibility. It is composed of three members who are elected for only one year.

Supervision Committee

The Supervision Committee has to oversee the financial performance of the SLC. It audits the records as frequently as necessary, but at least twice a year. It supervises the performance of the Credit Committee, checks if the financial records are updated, and verifies the accuracy of the disbursement and receipts. In

addition, it reviews the audit performed by an outside public accountant. The committee prepares at least two annual reports, one for the Government's SLCs Inspector and another for the Board of Directors. The latter report is also presented in the general Assembly, but the Board of Directors can request a report anytime they consider it necessary. The committee is made up of 3 members, who cannot be elected more than three years. The terms of members are staggered subsequently, therefore, there is always one experienced person on the committee.

Starting Stage: getting the founding members and capital

The first thing needed was information on the procedures and regulations for incorporation. The responsibility of performing this task fell to on Dr. Pantojas and Jose Rodriguez. The law requires a minimum of 100 founding members, and \$5,000 in starting capital, in order to be incorporated.

To meet the requirements the CEDC board members went around each of the subregions informing residents about their objectives and the role the SLC would play in its development strategy, and requesting them to purchase stocks. To make it accessible to the residents, stocks were sold at five dollars each. Finally, they obtained 500 founding members and a starting capital of \$42,000 from community residents. Therefore, they obtained significantly more than the law required for incorporation purposes.

Cost and benefits of the voluntary work at the starting stage

The first contribution consisted of the provision of voluntary labor in the task of informing neighbors of the desire to establish a SLC, and requesting them to become founding members. There are no controversies related to quality of the work done, given that tasks were not complex. Board members surpassed the number of founding members and the amount of starting capital required. They obtained

400 founding members and \$37,000 more than the minimum necessary.

One of the arguments against community participation is that depending on voluntary contributions delays the process of putting together a project. In the process of obtaining the founding members and the capital, this did not occur. What delayed the incorporation was the arrangements to meet government regulations. As stated by Rodriguez, "The main reason why the establishment of the SLC was delayed was due to government inaction." Membership and capital requirements were met a year before the government finally authorized the start of operations.

The fact that those who requested the cooperation were community neighbors increased the willingness of residents to sponsor the project. It gave legitimation to the efforts and created confidence among residents. They capitalized on existing relationships. It is easier for people to sponsor initiatives promoted by someone they have known for years and respect. Therefore, the solidarity that exists in a close community like Cubuy and Lomas can be converted into a favorable element in business development at a starting stage. Residents sponsored the initiative because it was their friend, neighbor, or maybe even a family member who requested their help.

Establishing operations

In addition to the starting capital the SLC capitalized on the voluntary contributions of community residents in establishing its facilities. By locating the office in a building that had been built with residents' voluntary contributions of work, equipment, and materials, the cooperative was able to save around \$50,000. This was possible because Board members were members of the local civic association (ASC) which originally promoted the construction of the building. The ASC with residents' voluntary work, equipment, and materials had built the facilities to house a police station. Because part of the building was not being used by the police the community requested permission to locate the SLC's facilities in

that part. Therefore, the SLC saved around \$47,000 estimated for the construction of the facilities needed. The SLC is now located in a protected and visible location in which it pays no rent.

Starting operations

Once incorporated, the SLC started its operations under the direction of the Board. As previously mentioned, the SLC statute requires the designation of its members in its governing body and forbids directors and committee members to receive compensation for their services as directors or policymakers. But in the case of the Cubuy and Lomas Saving Cooperative, the Board and committees are also in charge of executing the committees' different tasks. In this sense it is important to point out that the SLC is saving the salaries it would have to pay for the discharge of the duties designed by the committees in their policymaking functions.

The Credit Committee

The president of the Credit Committee is Mr. Benjamin Jimenez, who did not have prior experience in tasks performed by a credit committee. He explains that the work is divided among the three members. However, because he does not have a job (he receives a veteran compensation) he can dedicate more time to it. They meet once a week, but that varies according to the workload. It is easy to set a time because they live near each other.

During 1990-1991 the Credit Committee reviewed 137 applications, of which 118 (86%) were approved and 19 (14%) were rejected. The total amount of capital lent by April 19, 1992 was \$244,100. Of the loans approved by the committee only one has not been repaid by the debtor, and in that case the co-signer was paying.

Criteria to be eligible for a loan

The Board granted the Credit Committee the authority to set the criteria of eligibility. The two main criteria set are: (1) the

capacity to pay, and (2) the social responsibility of the SLC. "Balancing both criteria in a poor rural community is a controversial and arduous tasks, specially where most of the population you serve can be considered risky borrowers," Benjamin says. The committee members understand that their main objective is to guarantee the economic stability of the cooperative. "It is better to reject an application than having the SLC confronting financial difficulties, because eventually a financially stable lending institution will help more people. However, the criteria have to be flexible and each case has to be considered on its own merits," he concluded.

Getting applicantss' financial information

Verification of applicants ilnformation through formal channels

To evaluate the borrower's capacity to repay the loan the Credit Committee uses the same formal channels that traditional lending institution utilize. They contact former and previous employers, the credit bureau, and anyone the applicant has borrowed from. In addition, the credentials of the cosigner are also verified. Having community residents perform these task provides additional sources of information.

Utilization of informal channels of information

The Credit Committee also capitalizes on the personal relations that exist in a close community. This provides them with additional information and means of verifying the credit applications. They have access to information such as how responsible the person is, his/her reputation in the community, his/her needs, and whether s/he has a job, among others. In addition, they can verify if the information provided in the application is true. "We usually know when someone has submitted a phony employment verification," Benjamin pointed out.

In the case of traditional financial institutions these personal criteria are usually taken into consideration when it comes to their wealthiest clients. Community participation permits the SLC to have

this information to reduce the risk of lending to its low-income population.

Another element they take into consideration is the need the applicant has for the loan. If there is an emergency and the applicant is known to be responsible, there is a greater probability of granting the loan. Benjamin says they know they are people who would not apply if it were not an emergency, and that they will pay at any cost. Still, applicants should meet the established minimal standards.

Cost and benefits of having community residents determining the eligibility of loans applicants

The work performed by the Credit Committee consists of verifying the information offered by the applicant and the cosigner and of evaluating the merits of the application. They contact the credit bureau, the employer, and previous lenders. This task does not require highly technical or sophisticated know-how. Therefore, the use of low-skilled voluntary worker in task that are not highly skilled does not jeopardize the performance of the work and the SLC. The voluntary work of low-skilled community residents in simple tasks can render an economic benefit to the business, because money is saved on salaries. The important factor is how trustworthy are the committee members. The organization promoting the development venture must guarantee that those persons are reliable.

Another benefit is that community residents have access to additional information, not available through formal channels, that facilitates the evaluation of the application. Therefore, community participation can reduce the cost of obtaining information, improve the information evaluation process, and lower the risk. The importance of having access to accurate information increases when the population served consists of risky borrowers, as in the case of Cubuy and Lomas.

However, community participation can also impart a cost because unreliable workers can approve unworthy applications. There will always be persons who will want to benefit from having a friend, a family member, or a neighbor reviewing the application.

Benjamin is aware of the pressure community residents can exert. To deal with this problem the SLC established the policy of not making public the names of the Credit Committee members. The objective is to help them make decisions free from pressure. Another measure is for committee members not to attend meetings at which they do not need to be present as a way of having them less exposed to other members' views and influences concerning their work.

Supervision Committee

Another point the Supervision Committee brought up was the failure of the Education Committee to design a plan to inform residents about the services the SLC provides and about the importance of saving. One of the criticisms made was that 65% of the membership was inactive (had not requested loans or made new deposits) and the major As mentioned above, this committee is responsible for supervising the adequate use of funds. Members of the Supervision Committee audit the records and assess the performance of the SLC. In the annual assembly held on April 19, 1992, they made some recommendations regarding the SLC performance. The first recommendation was for the Board to hire a new administrator. Apparently, the accounting records were not kept updated, too much money was being lent leaving the cooperative with insufficient cash; there was a pattern of excessive spending for daily operations; and there were other managerial problems. Also they stated that one of the clerks recruited (the worn of the administrator) was performing tasks for which she was not trained. They stated that these recommendations had already been made to the Board.

This committee seems to be one of the most active and efficient. Apparently the reason is that its president, Edgardo Marín, has experience working in cooperatives. The other members of the committee say that he has been a source of information for the other members. This was expressed by Genaro Negrón, a member of the committee who has ten years of experience working as an

accountant. He mentioned that when he was elected he did not have a clear idea of what were their responsibilities. He states that training, both in financial matters and in cooperativism, is essential to improve the performance of their work. Felix Ortiz, the other member of the committee, also sustains this point. He adds that he knew even less because he is not an accountant. In the last annual Assembly a community resident who is a former employee of the Government SLC Inspector Office was elected to this committee. As part of his voluntary work he is going to be in charge of the SLC financial books.

Cost and benefits of residents' voluntary work in the Supervision Committee

The election of highly skilled people as members of this committee allowed the work to be performed effectively. The work performed by this committee has been among the best. In addition to the members' personal commitment, one reason is that they had the appropriate level of skills required to do their job. One member had experience working with SLCs and another is an accountant. This has improved the quality of the work they perform. The task performed by this committee requires special know-how. Having a member who has experience working in SLCs has benefited the performance of this committee and the quality of the work performed by the other members. The skilled person served as a source of information and skills to the others. This improved the performance of the committee and the quality of the voluntary work done.

Poor communities are not homogenous. People with different levels of experiences and skills can be found. The participation of highly skilled people can lead to an improvement in the quality of the work. They can become a source of information to others. In many cases, their know-how can be transferred, and the most experienced can supervise the others. Therefore, organizations that promote development ventures should encourage the participation of these most skilled community members to perform complex tasks. Development projects can capitalize on the work of the most

experienced and skilled people not only by the voluntary work they perform, but also by having them train and educate others on how to perform complex tasks. The participation of those highly skilled could improve the performance of the organization as whole and the individual development of other residents.

Education Committee

Basically the responsibility of this committee is to design a promotional campaign to inform residents of the services the SLC offers, so that the membership can be enlarged.

At the Annual Assembly the Education Committee was strongly criticized for its lack of performance. It prepared a work plan that was never implemented. During the year only one promotional activity was performed. The Supervision Committee explained that a strong promotional campaign was needed because 65% of the membership was inactive. The Education Committee is responsible for this work.

It appears that the Board of Director has not supervised or instructed this committee on how to direct its campaign. The Board of Directors has the ability to assign additional committee members.

The Education Committee's ineffectiveness: the difficulty of guaranteeing that volunteers will carry out the work

If the objective was to expand rapidly, the dependence on voluntary work in the Education Committee has been a negative aspect, because the SLC's membership has not increased considerably. In the case of the Education Committee the lack of performance is not related to the complexity of the tasks assigned to it, but to the lack of commitment of the members and lack of supervision by the Board.

In addition to having the necessary skills, what is mostly needed to guarantee the accomplishment of voluntary work is that the volunteers have the time and commitment to dedicate to the

efforts. Given the lack of economic sanctions, volunteers should have a strong sense of responsibility and identification with the tasks that they have to carry out.

It is also important to maintain a close supervision of the work assigned to volunteers. As mentioned above, an issue related to voluntary contributions is how to guarantee that the task is performed in a reasonable period of time. When there is no supervision voluntary workers could take more time than necessary to execute a task, therefore making voluntary contributions ineffective. Thus, the dependence on voluntary work can impart a cost to the venture if tasks are not properly supervised. This was precisely the case of this committee. However, the adequate balance between members commitment and supervision by the Board can assure the effectiveness of voluntary contributions in this committee in the future.

Board of Directors

The Board of Directors determines policies, supervises the performance of the committees, and oversee the financial growth and stability of the cooperative. They are responsible for hiring the administrator and to check on his work.

Many of the problems created by the former administration happened because Board members delegated many of their responsibilities to him blindly trusting in his responsibility and his expertise in financial matters. Their faith was based on his authority and extended time in the organization.

Evaluation of community participation in the Board of Directors

Members of the Board of Directors have some experience in the tasks necessary to execute the work of this committee. The president is an accountant, two members have owned businesses, and Dr. Pantojas has vast experience in administration. Nevertheless, as a body, they delegated much responsibility and did

not establish mechanisms for monitoring the work done by the administrator. They trusted too much the administrator's commitment and responsibility. Because they were more confident in his expertise and know-how than in their own, they surrendered their supervisory.

The lack of supervision over the administrator presents an important issue regarding participation. Poor residents usually lack the necessary skills to make decisions that require sophisticated training, especially in the kinds of business in which the complexity of tasks tends to increase. Without constant training, community participation can make the decisionmaking process highly ineffective and can jeopardize the performance of the business. Therefore, to have a genuine and economically positive process of participation, skills should be transferable. However, the process of transferring skills tends to increase the time necessary to make decisions.

The study of the performance of the different committees of the SLC shows that depending on voluntary contributions by untrained low-skilled residents in tasks that require sophisticated skill and specialized know-how can impose a detrimental cost. It could hinder the quality of the decisions made and could make the decisionmaking process highly ineffective, which may jeopardize the business's performance. In addition, even if there is a process of skill transfer and the capacity of the participants to make financial decisions is enhanced, there is always the problem that they are not experts. Consequently, professional personnel will always be needed.

Another issue states that enhancing the economic and social influence of a few will create a problem the project wanted to avoid: the creation of another elite will be created. This is not necessarily true because it all depends on the how much of capital and authority the new "elite" has. The participation of community residents in the SLC makes leaders out of them but their power lies in their capacity to influence others, not in economic or institutional power. Small business development does not concentrate much economic power, and in the case of the SLC a constant rotation and skills transfer will significantly minimize the

problem of concentration of authority. The inequality in authority and economic means within a community can never be abolished, just minimized. The organization has to look for ways to minimize and prevent those inequalities.

Another issue related to participation is illustrated by the delegation of duties by Board members. Even within a small cohesive community it is important not to relax the functions that should be performed by the inspecting and auditing bodies. "[A]ll over the world there are people who run away with the cash or appear to be otherwise dishonest" (Buijs,). Although the administrator of the SLC had been hired because he showed commitment to the CEDC's social goals, he was an employee of the SLC and he was supposed to comply with his specific duties. Precisely because he was the appropriate person to occupy such a position and no one would even have imagined that he would be irresponsible, the experience shows the importance of always maintaining a reviewing mechanism independent from community participation.

The social relations that exist in communities like Cubuy and Lomas can also impose a cost if a blind faith is deposited in community members. The performance of the business should always be monitored by the inspection bodies and by the CEDC. When specialized skills are needed, a skills training process is necessary so that participants in supervisory functions can reduce their dependence on the people they supervised, and can depend more on their own criteria.

Finally, another cost of having community residents supervising the work done by the administrator was that, once the problems were detected, the dilemma of taking the necessary measures got complicated because of the non-economic considerations present in the relationship between Board members and the administrator. In this sense, the personal bonds and relationships existing among community residents, as useful as they can be in promoting new initiatives, can become an obstacle in making decisions that have to be based mostly on financial or economic considerations. The employer-employee relationship gets complicated when community residents exert both functions. A

necessary decision purely based on the business's economic considerations can jeopardize the sense of unity within the community and the image of the development corporation. So the business decisionmaking process can be affected in time of crisis because of participation.

Conclusions

Community residents voluntary contributions have been crucial for the establishment and development of the Saving and Loan Cooperative. The cooperative was organized and incorporated thanks to the voluntary work provided by residents. Residents provided the initial capital of \$37,000 and constructed the facilities that later were used to house the SLC, which enabled the institution to save around \$47,000. Also, with the exception of the administrator and the two clerks, the SLC is run basically on voluntary labor.

Voluntary work made possible for low-income residents to receive loans at below-market rates and provided venture capital for small business in the area.

However, community participation has presented some costs to business development that have to be considered. When the skills required are specialized, community residents may not have them. To use voluntary work under these situations could jeopardize the development of the enterprise and its capacity to confront economic and managerial difficulties. When the participation is in supervisory tasks there is a risk of surrendering supervisory duties because of their lack of expertise. Continuous training has to be implemented in accord with the pace at which their duties get complex as a consequence of the organization's development. The tendency to relax supervisory functions seems to be greater when there exist strong personal bonds between community residents. Such bonds can introduce non-economic considerations into the business decisionmaking process.

The initial population that participated in the decisionmaking and implementation stage were those most active in the committees of the subregion. They which make up the Board of PRODUCIR and

they are the most informed and committed to the social goals of PRODUCIR. (On the other hand, the population that participated in the bakery were those who wanted to benefit from a service offered by the Incubator.) Afterwards, in the operational stage there could be participants in the SLC who were not involved in the initiation of PRODUCIR.

A distinction must be made regarding who participates in each of the development stages, because this will determine what information and skill should be transferred to enhance the quality of their contributions. The participation of the "Non Committed Participant" will raise issues related to participation and local control; the issues related to participation will be discussed in Chapter 6. Having participants who are not involved with PRODUCIR could impose a cost: the loss of commitment from the member of the SLC to enhance PRODUCIR's goals. This cost can be reduced if information is shared about PRODUCIR's goals and the role the SLC play in enhancing those goals -- in other words, information about PRODUCIR's goals of human and economic development. However, this also constitute a benefit because the involvement of this "Non Committed Participant" gives PRODUCIR the opportunity of informing them. The idea is to educate the residents about the human and economic development strategy of PRODUCIR.

CHAPTER 6

GENERAL CONCLUSIONS AND RECOMMENDATIONS

In this chapter I summarize the main findings of this work regarding the effects of community residents' voluntary contributions (of work, capital, equipment and information) on the performance of the businesses developed by PRODUCIR Inc.

By comparing the role of residents' participation in the development of the two bakeries and of the Savings and Loans Cooperative (SLC), I present my conclusions on the following matters: (1) the impact of community residents' participation in the community development process as a whole; (2) the effects of voluntary contributions on the economic performance of the enterprises developed; and (3) the effectiveness of community participation in the business development process for CEDCs in relation to the resources invested by CEDCs in mobilizing participation.

Finally, I make some suggestions for CEDCs that promote business development by low-income residents, aimed at reducing the adverse effects of residents' participation and increasing the efficiency of business incubators. There are some alternatives CEDCs should consider in order to maximize the social or economic benefit from the investment they have to make in organizing people's participation.

I have structured my findings considering that residents' voluntary contributions not only affect the project to which the participant is contributing, but also affect the organization promoting the venture, the participant, and the community. For example, the establishment of the bakeries in Cubuy provided a private benefit to the owners by way of profits or salaries, but it also provided a benefit to the community by bringing a new service and new job opportunities. And it benefited the CEDC because it

demonstrated to residents that the CEDC's goals had started to be accomplished.

General remarks about community participation

1. The cost of mobilizing the participation and the effects it has on business performance vary extensively, depending on several factors: the kind of development pursued, the tasks required and the skills of those who execute them, and the social, historical, economic and political context in which the participatory process takes place.

In Cubuy and Lomas the residents' history of civic organizations and social cohesion makes mobilizing participation easier than in other rural areas. Among the historical circumstances that facilitate participation are the following: (1) the experience of Mutual Help sponsored by the Puerto Rican government in some rural areas, through which many Cubuy's residents built their houses, the roads, and the sewage system; (2) the existence of a civic association (Asociación Cívico Social) prior to PRODUCIR's incorporation; (3) the fact that most residents have always lived in the area; and (4) the fact that many of the residents have more than ten family members living in the community. These conditions make Cubuy and Lomas a place of strong social ties and a fertile ground to promote residents' involvement in initiatives like PRODUCIR.

At the same time, impoverished economic conditions limit the types of business that can be established in Cubuy and Lomas. Residents are poorly educated and most of them do not have capital to invest in business development. The lack of indigenous capital limits the types of ventures that can be established utilizing residents voluntary contributions. It confines the options of business development to small enterprises that do not require large capital investments, and where the necessary skills to run the business are simple or where there is already local know-how.

2. The information provided by the residents expands the possibilities of suggesting viable and realistic development strategies. Through community participation the promoting

organization gains information about the area, its resources, and its residents' idiosyncracies. This helps promote the adoption of realistic and feasible business strategies because it helps the developers "take advantage of local knowledge, information and experience" (Adejunmobi, 1990).

In the case of PRODUCIR this benefit is illustrated, not only by the use of a market study that identified a bakery a community need, but also by the information about the quality of the bread that was being sold by La Truinfadora, which helped identify the reason why sales had decreased. This information provided the necessary input to make the changes that were required to improve the quality of the service

3. Participants serve as vehicles for delivering information about the development process to the whole community. Residents communicate their experiences with the promoting organization to other neighbors. Therefore, when residents' participation is promoted at the different stages of the development process, the informal channels of communication that exist in small rural communities can play an important role: they can feed information into the community about the promoting organization, and getting the community's support, without having to invest in propaganda.

The informal channel can have a positive effect on community support if the experience of the participants has been good. However, if the CEDC has failed to accomplish some of its goals, or if participants have had a negative experience, that information will also be available to residents. Participants' negative information about the CEDC can increase the cost of mobilizing future community participation. This is an example of the importance of being mindful when structuring residents participation in the process. People's experiences with the CEDC and the businesses that spin-off from it can promote or inhibit community involvement in the development process.

In the case of Cubuy and Lomas people's memories about the cooperative supermarket's failure is still a negative element for the future development of this kind of enterprises.

4. Through participation residents reinforce their sense of community, mutual help, and solidarity.

In Cubuy and Lomas the community development process carried out mostly upon the base of extensive community participation, has tightened the social bonds existing in the community and has encouraged community residents to look for collective ways of solving their problems.

5. Those residents who are closely involved with the promoting organization gain work skills and experience, leadership capacity, and personal empowerment.

Residents who constantly participate gain working experience that can help them upgrade their skills. This is illustrated by the experience of the Credit Committee and the Supervision Committee of the SLC. The members of the Credit Committee did not have experience performing the task required. However, they learned them and are performing them efficiently. In the Supervision Committee, which requires technical know-how, two members were able to learn from the most experienced and to benefit from his monitoring of their work.

In the case of the women who opened La Cubuyana, they gained business skills, personal empowerment, and self-confidence. Some of them later opened a small cafe by themselves.

Effects of community participation on the CEDC strategy

1. The first conclusion that can be drawn from both case studies is that the work, equipment, capital, and information contributed by the participants provided PRODUCIR with resources that otherwise would not have been available for the establishment of the bakeries and the SLC. The resources invested by the CEDC to mobilize participation have been far less than the benefits.

Residents' work and capital contributions were an essential source of resources for the establishment and operation of the two bakeries and the SLC. Residents participation provided the human and financial capital, reducing the risk of establishing the business.

2. Community voluntary contributions can reduce, but not supplant a CEDC's need for technical expertise and access to external financing. In some situations, the promoting organization has to take action in order to compensate for the participants' lack of performance or business skills. In order to do this, the CEDC needs additional discretionary funds to meet the demand for staff to provide technical assistance and to monitor the businesses that spin-off from the incubator.

This point is well illustrated by the experience of La Cubuyana bakery. The four original owners tried every alternative they had in order to keep the business operating, but they didn't have the experience and access to capital required, although two residents lent the women some money in order for them to keep the business operating. In contrast, the owner of La Truinfadora was a good choice for the CEDC to help establish the business. He fulfilled the requirements of be eligibility for a commercial loan and was able to invest the amount of capital necessary to operate the bakery efficiently.

However, residents' contribution are not the only element necessary for the efficient performance of a business and a CEDC. In the case of the Saving and Loan Cooperative, people's voluntary contributions were not enough. The technical assistance provided by PRODUCIR was critical for its establishment.

Another example that demonstrates that participation does not by itself guarantee an efficient performance is the inadequate work realized by the SLC's Board in overseeing the administrator. The promoting organization should closely monitor the performance of the businesses that spin-off from the incubator, particularly when the tasks required get complicated and surpass the participants' skills.

In the case of PRODUCIR most of the funds received are program oriented, that is, they are approved by the donor to be spent for a specific program. This leaves the CEDC with insufficient discretionary funds to meet the demand for technical assistance of existing businesses and the establishment of new ones.

3. To depend extensively on local capital provided by residents' contributions is difficult when the business development process is running parallel to the capital accumulation process.

In the case of PRODUCIR the Savings and Loans cooperative was founded with the aim of accumulating residents' limited economic resources in a community-based organization for business development purposes. However, the SLC has not yet reached the point where it is possible for community entrepreneurs to obtain the needed capital from the SLC. They still need to go to traditional financial institutions.

Effects of community participation on the business

1. In the business operation stage community participation should be carefully matched with the level of skills required for the different development tasks.

The lessons from the bakeries and the SLC lead me to conclude that the work contributions in simple task did not jeopardize business performance. In the SLC this is illustrated by the Credit Committee, whose task consist mostly of verifying credit reference. It is also illustrated by the SLC's task in the financing stage, of informing resident about the desire to establish an SLC and encouraging them to purchase stock. In the bakeries, this is illustrated by the short training in bread and pastry baking that enabled the owners to execute these task efficiently. These examples sustain the point that the quality of the work performed by community workers in tasks that are easy to learn is high enough that it does not necessarily hurt a business's performance. This illustrates that a CEDC can capitalize on residents' volunteer work without jeopardizing the quality of the work and business performance if the tasks are easy to perform or match local know-how.

2. In order to improve the quality of the volunteer work in the management or administrative stage, CEDCs have to carry out an

effective and constant skill training process. Community participation thus requires a process of skill transfer or training which constitutes a cost to the CEDC in terms of resources and time.

Both cases studied demonstrate that as the process of business development evolves, the complexity of the tasks increases. Therefore, most of the difficulties related to the quality of the work arise in the management or administration stage of business development. As mentioned by Schon, it can be expected that "As the tasks change, so will the demand for usable knowledge" (Schon, 1983, p.# 15). Therefore, to increase the effectiveness of the contributions -- especially of labor -- "projects that which seek to promote participation must be aware at the start of the project as to the likely nature of the participation they expect to promote. The nature of the participation might change, of course, as the project evolves but that the project staff should be conscious that they are dealing with an unfolding process" (Oakley, 1991). This will help forecast the types of services that are needed in order to increase the effectiveness of the participatory process.

In the case of PRODUCIR the training offered to the four women in business skills illustrates that training is necessary but might not be enough to upgrade the quality of the voluntary work, and that experience in business is needed in order to master the skills. What happen with La Cubuyana sustains this argument. The training in business offered to the owners was not enough to upgrade their skills and the quality of the work performed in the administration stage. To a certain extent the experience of the owner of La Triunfadora in administering a small business helped enhance the quality of his work and the business performance.

3. In order to mitigate the effects of lack of experience in business skills on the part of the owners or volunteer workers, CEDCs need skilled staff to monitor the performance of the businesses that spin-off from the incubator. The cost of monitoring should be calculated as a cost of participation.

The need for training and of supervision is illustrated in the case study of the SLC. Two members of the Supervision Committee

had not had experience performing the task needed to execute their responsibility. They mentioned that they did not know how to perform the tasks but that the president of the committee, who had experience working in an SLC trained them and monitored their work in order to mitigate their lack of experience.

Another event that underlies the importance of monitoring the business occurred in the SLC. The members of the Board of Director had the skills to perform the tasks required of this committee, however, the excess of trust in the experience and prestige of the administrator made the Board of Directors blindly delegate many of their responsibilities. This allowed him to neglect his work and cause a series of inconsistencies in the administration of the SLC. If the CEDC had monitored the performance of the Saving and Loan Cooperative this problem could have been identified sooner. As it was, they could have severely jeopardized the performance of the Cooperative.

4. Strong social bonds between the members of an organization have been shown to be potentially detrimental to the performance of the business. Participants may trust each other excessively, substituting personal feelings for financial or technical considerations. Strong personal relations between participants can cause them to blindly delegate their responsibilities to others instead of supervising each other's work, or postpone taking action against an irresponsible member because of friendship considerations. This was the situation with the Board of Directors of the SLC on two different occasions. The Board did not properly supervise the duties of the administrator, a long time friend, and did not take action when the Education Committee was failing to perform at its maximum potential.

To summarize, the skills required to manage or administer a business are not easily transferred. To overcome this obstacle, CEDCs that want to promote business development by low-skill community residents should not only provide skill transfer sessions, but should also monitor the performance of the businesses that spin-off from the incubator.

An alternative that can help a CEDC reduce the time and resources invested in training and in monitoring work performance is if to select participants who have the skills needed for the specific task that are going to be performed.

The importance of hiring skilled staff to monitor the business is illustrated by the negative experience that still prevails in Cubuy residents' memory because of the foreclosure of a cooperative supermarket 11 years ago. Scholars in the field of community participation argue that, for residents to come to participate, the organization must demonstrate that it can accomplish what it has set out to do.

Therefore, the foreclosure of a business that spins-off from the incubator will hinder residents' willingness to participate and consequently it will increase the cost of mobilizing participation for the CEDC. In this case, PRODUCIR has to monitor the performance of the businesses that spin-off from the Incubator, in order to increase the amount of contributions and its capacity to choose in whom and in what to invest. This monitoring mechanism should be independent of the participatory process and should serve as a check-and-balance device against the detrimental effects of friendship and intra-community relations.

Some recommendations for CEDCs that want to introduce community participation in the business development process

The practitioner interested in promoting community participation in the business development process should weigh the positive effects of this participation in terms of the whole development process against its possible adverse impact on the individual enterprises that are promoted.

There are various alternative strategies that CEDCs can adopt in order to reduce the cost of helping low income and poorly skilled residents in establishing businesses. Some of the costs of participation in the enterprises development process are the following: the cost of mobilizing participation, the cost of getting

the resources needed, the cost of training, the cost of monitoring work performance, and most important, the potential impact of a business failure on the CEDC's credibility. The following recommendations could help the practitioner to avoid some of the risks related to community participation:

The selection of businesses according to residents' resources and skills. The first and most important lesson is that organizations promoting the development of business by low income and poorly skilled community residents should select businesses carefully. The complexity of the tasks required at the different stages of business development, and the amount of capital necessary, must be in accordance with the owners' or the community's resources and skills. As illustrated by the case of the first bakery, La Cubuyana, the selection of a business that was beyond the owners' skills and capacity to borrow was detrimental to the owners, the business, and the CEDC.

Selecting businesses in which the future owner/s have experience or know-how. A CEDC can select businesses in which the future owners have had experience and know-how to perform the task related to that business. Capitalizing on local know-how will reduce the uncertainty related to the performance of the work. In other words, a CEDC should select businesses that draw on the area's history and economic experience.

Selecting participants according to how much they increase the probability of success. The CEDC can select those participants in whom it is going to invest according to their experience in business or economic resource. In other words, it can select participants who have had experience in those tasks required by the business and who have the resources or capacity to borrow.

This is illustrated by the selection of the second owner of the bakery, Angel Luis. He had a greater probability of being eligible to borrow the amount of capital necessary to operate the bakery efficiently. He had collateral, previous credit history, experience

administering a small business, and capital to invest. He was a better selection to establish the bakery than the four women who did not have collateral, credit history, capital, or experience administering a business.

This is also sustained by the experience of the SLC. The members of the Supervision Committee need special skills in order to perform their duties efficiently. To name a few necessary skills, they need to know how to read a balance sheet, they have to verify that the accounting records are up to date, and they have to verify that all the receipts and disbursements are entered. One of the members who had experience working in an SLC was a source of information to the other members and monitored their performance. Therefore, CEDC that promote the participation of those with special skills are capitalizing on the human resources available in the community. Communities are not entirely homogenous: residents have different skills and resources. If a CEDC exploit this potential, residents with specialized skills can be a source of information to others. At the same time, their participation can increase the quality of the work performed and the performance of the business.

Selecting businesses that enhance the social goals of the organization. Certain businesses will have a greater social benefit to the community than others. This is illustrated by the decision to establish an SLC. The SLC was a good selection in terms of the social impact it has in the community. For example: residents can participate in the SLC committees; residents who are considered risky borrowers by traditional lending institutions, and who usually pay higher interest rates, can receive loans at a lower interest rate; their saving deposits gain higher interest rates. Also, the SLC helps keep financial resources in the community to help finance the economic development process.

In other words, transformative organizations with scarce resources, seeking to promote the development of businesses by low-income residents, should evaluate which investments will have the greatest effect on the community. They must decide how to maximize the social and economic benefits and decide which goals

will be promoted first in order to enhance the goals of the organization.

Summary

The businesses compared required a different mix of voluntary community contributions: work, materials, equipment, information, and capital. The contribution of voluntary work was the most problematic element in terms of its impact on the business development process. CEDCs such as PRODUCIR, which look for community's people economic, political, and personal empowerment, are likely to actively promote residents' participation in the whole development process. However they should be conscious about the potentially detrimental effects of that participation on the enterprises' economic performance. When peoples' skills and resources do not match those required by a particular business, or when in the enterprise development process the skills get complicated, surpassing people's abilities, the CEDC will confront the cost of training the participants and monitoring the business performance. The CEDC probably should have to assume those costs because of the detrimental effect of a business failure for the CEDC's credibility.

The role of practitioners engaged in promoting intensive community participation in the development process cannot be predetermined. It is an unfolding process that will vary depending on the socio-historical and economic circumstances in which that participation takes place. For transformative organizations, promoting meaningful community participation of all kinds will be, generally, a positive enterprise. However, promoting participation should be considered a process subject to continuous evaluation, a constant struggle to channel those resources provided by voluntary community contributions to the right activities at the right time. PRODUCIR, utilizing voluntary community contributions, has had an overall positive impact promoting the economic and social development of Cubuy and Lomas, and provides a valuable experience to learn from.

APPENDIX LIST OF INTERVIEWS

A. PRODUCIR Members

1. Dr. Antonia Pantoja Acosta
Chairman of the Board
2. Dr. Wilhemina Perry
Research and Grantwriter Specialist
3. Ms. Minerva Colón
4. Ms. Ana Rodríguez
Business Incubator Technician
5. Mr. Pedro Betancourt
Member of the Board
6. Mr. Luis Reyes
Member of the Board
7. Mr. José Rodríguez
Former Administrator of PRODUCIR
8. Ms. Socorro Rivera
Former Administrator of PRODUCIR

B. Owners of the Bakeries

1. Mr. Angel Rodríguez
2. Ms. Claribel García-Fraguada

C. The Saving and Loan Cooperative Members

1. Mr. Juan Agosto
2. Mr. Edgardo Marín

3. Mr. Benjamin Jiménez
4. Mr. Génaro Negrón
5. Ms. María Teresa Colón
6. Ms. Raquel Meléndez
7. Mr. Angel Hernández

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