

A Revolving Loan Fund for
Minority Business Development:
Inquilinos Boricuas en Accion

by

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Submitted to the Department of Urban Studies
and Planning on June 12, 1981 in partial
fulfillment of the requirements for the
Degree of Master of City Planning

ABSTRACT

Throughout the last decade, there have been numerous innovations in development finance in the State of Massachusetts attempting to cope with capital market imperfections. The most notable among these have been the Massachusetts Industrial Finance Agency, and the Massachusetts Community Development Finance Corporation. However, the Massachusetts Industrial Finance Agency provides capital in the range of \$500,000 and above while the Massachusetts Community Development Finance Corporation provides capital in the range of \$100,000 and above. There are other agencies like the Small Business Administration that provide loan guarantees of \$100,000 and above, but there are few that meet the capital need for minority small businesses, particularly those in need of less than \$100,000 in financing.

Since private lenders and government agencies have not been able to fulfill their role in the development process of minority communities, some have taken the situation into their own hands by establishing their own financing instrument for business development.

A capital market perfecting mechanism called a Revolving Loan Fund (RLF) has been utilized by community-based development corporation's to efficiently and appropriately place capital in their communities.

In the summer of 1981, Inquilinos Boricuas En Accion will initiate its RLF, which was capitalized by local foundations and corporations. The RLF will be used to finance minority businesses in the Inquilinos Boricuas En Accion designated target area of the South End (see Appendix Two). This client-oriented thesis provides the program design and management plan for that RLF considering the goals and objectives, historical and political development, organizational structure, staff capacity, and financial resources of the agency. Additionally, this thesis examines the technical assistance needs of minority small businesses and presents steps which can be taken to meet

the need. Finally, it provides recommendations to improve the likelihood of successful implementation of the RLF, which builds on Inquilinos Boricuas En Accion's twelve years of experience in community-based housing development and three years experience in commercial development.

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This thesis is dedicated to Jody, my wife, Ailea, my daughter, Rosaria, my mother, Dennis, my father, Clara and Adele, my sisters, Jesse, Michael and Christopher, my brothers, and Gionaro and Adela, my grandparents, for their encouragement, inspiration, guidance, moral support, and unyielding faith in my capabilities. They all, in their own way, gave me the strength to persevere.

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In theory, the purpose of the capital market system in the United States is to allow capital to be put to its most productive use.¹ Since capital placement is the key to "development" it is important that the allocation process is both efficient and appropriate.² To this end, government and private agencies formulate and implement policies which they believe approach a perfect capital market system of allocation.

Unfortunately, capital markets are imperfect despite the policy makers efforts. Investment policy formulation and implementation is largely a political process by which government agencies and private organizations effect development. Historically, the politically and economically powerless people, especially minorities, have been omitted from the policy formulation and implementation process. As a result, neither appropriate nor efficient allocation of capital has occurred in their communities. This phenomenon is called capital market imperfection. The consequences of these imperfections effect low and moderate income neighborhoods more severely than other communities.

In recent times the issue of how to effect the amount and "form (factories vs. stores, open space vs. human capital, ...)" of capital placed in poor minority communities has become extremely important for community-based development organizations.³ In other words, how to effect the external political process has become a crucial element in the development process

for community development agencies.

Inquilinos Boricuas en Accion (IBA - Puerto Rican Tenants in Action) is one such organization. It is a predominantly Puerto Rican agency which has, since 1969, developed successful housing, educational and social service programs for minority residents of the South End of Boston. IBA has been successful in designing and implementing programs for four reasons:

1. community involvement and direct representation in the decision making process (self determination and control);
2. excellent organizational leadership and planning;
3. reinforcement of a strong cultural identity (pride); and
4. effective organization around immediate community needs.⁴

These were not the only reasons for IBA's success in putting government and private capital to its most productive use in their community. However, the four reasons listed above are essential to this thesis. These factors have made IBA a viable political force.

In 1977 IBA began its involvement in economic development activities. Its overall goals were to increase the employment opportunities for residents, provide necessary commercial and retail activities for the community, and increase the community's control of economic resources. The IBA Board of Directors, representing the broader community, approved the economic development goals and the organizational leadership began to guide

this effort.

Up to 1981 there had been limited success achieved in the area of business development. IBA is now attempting to expand its effectiveness by taking a more direct role in the financing of minority small businesses. It desires to establish a financing mechanism which will cope with the following capital market imperfections effecting minority small businesses:

1. Availability of Capital
2. Access to Capital
3. Prejudice
4. Information and Transaction Costs
5. Risk Aversity (Both Real and Perceived)⁵

Moreover, IBA plans to provide technical assistance (direct and indirect) to deal with the operational difficulties caused by management inadequacies:

1. Incompetence or Lack of Managerial Expertise⁶
2. Lack of Experience⁷
3. Insufficient Planning and Marketing
4. Staffing
5. Security

A Revolving Loan and Equity Fund (RLF) is the capital market perfecting mechanism IBA desires to create in order to address the financial and operational needs of minority small businesses. The purpose of this client-oriented thesis is threefold:

1. to define the major problems facing minority small businesses;

2. to indicate the design and management features IBA should utilize to effectively meet the needs of the community and the agency; and
3. to provide specific recommendations to improve the likelihood of the RLF effecting the private lenders existing and future capital placement policies in the South End.

All the RLF program features and recommendations were developed while considering the capacity of the agency and the financing limitations of the RLF.

The central argument of this thesis is that IBA, a community-based organization, has the potential to successfully correct some of the market imperfections which inhibit the growth and development of South End minority small businesses. By using some of the previous elements of their success, and combining them with the RLF, IBA will be adding another effective tool to its economic development effort*.

* Note that there are numerous factors that contribute to a strong economy such as good labor pool, public services, etc., but they are beyond the scope of this thesis.

- 1 Lecture by Belden Daniels, Professor, John F. Kennedy School Of Public Policy, Harvard University, "Financing Economic Development" course, September, 1980.
- 2 Stephen Michelson, Community Based Development In Urban Areas (Binghamton, NY: Conference On Central City Economic Development, State University of New York at Binghamton, October, 1977), p. 1.
- 3 I.B.I.D.
- 4 Luz Cuadrado, Housing Development: A Strategy To Advance The Process Of Barrio Self Determination (Boston, MA: Inquilinos Boricuas En Accion), p. 6.
- 5 Daniels Lecture, September, 1980.
- 6 Curtis F. Tate, Jr., Leon C. Megginson, Charles R. Scott, Jr., and Lyle R. Trueblood, Successful Small Business Management (Dallas, TX: Business Publications, Inc., 1978), p. 7.

SMALL BUSINESS DEVELOPMENTIN THE SOUTH END

The purpose of this chapter is to identify the problems facing minority small businesses in the South End. To achieve this, the following areas are covered:

1. The changes which have taken place in the small business sector of the South End over the last three decades (1950 to 1980).
2. The types of existing businesses within IBA's target area that are owned and operated by various ethnic groups.
3. The numerous barriers minority small businesses encounter nationally and in the gentrifying South End environment.

Since this thesis is primarily concerned with how a Revolving Loan and Equity Fund (RLF) will effect minority owned and operated small businesses, light industrial firms are discussed in general terms because they are not owned by minority entrepreneurs. Nevertheless, the role of the light industrial firm in the South End economic structure is important, especially in terms of employment.¹ Finally, it should be noted that small businesses within the context of this paper refers to those businesses with less than \$1,000,000 in assets or sales.

Business Activity In The South End,
1950 To 1980

7

During the 1950's small businesses flourished in the South End.² Their success was due to the tremendous number of customers that frequented their establishments.³ Because the population peaked at 57,218 in 1950, it was not surprising that the small grocery and liquor stores, variety drug, and fast food establishments were thriving.⁴ Even though the incomes of most of the neighborhood residents were low, the amount of customers kept the volume of goods and services flowing. As a result, profitability was up. The close relationships and familiarity of store owners with customers facilitated an informal system of crediting which increased the customer's ability to purchase.⁵

Mr. Syvalia Hyman, Executive Director of the United South End/Lower Roxbury Development Corporation stated, when describing the South End during the 1950's, that "There were stores on every corner," and along streets like Massachusetts Avenue, Tremont, Columbus, and Washington Streets, rows of stores crowded the lower floors of row houses. The ubiquity of stores provided the residents with a convenient and often pleasurable shopping experience, similar to the way that shopping malls provide human scale, visual stimulation, and security.

According to Ms. Elaine Etheridge, a resident of Roxbury, there were also a number of famous bars and restaurants in the area during this time. The South End "was the place to be if you were Black." Black jazz musicians and dancers would perform

at the local clubs and add a tremendous amount of gaiety to the sometimes depressing social and economic environment. Some South End residents described the neighborhood as the "Harlem of Boston." Boston Redevelopment Authority (BRA) statistics from 1950 indicate that Blacks composed roughly 33% (roughly 19,000) of the total population of the South End (see Appendix One). In terms of concentration and percentage of population of Blacks in a Boston neighborhood, the South End was indeed "Boston's Harlem."

Like Harlem, the South End community contained many small establishments owned and operated by Blacks. In addition to having businesses, many of these Black entrepreneurs owned homes in the South End, so money was often reinvested directly or indirectly into the community.⁶

Other ethnic groups like the Greeks, Lebanese, Irish, Chinese, Syrians, and Jews also owned and operated stores in the neighborhood.⁷ Similarly, many of them lived near their stores and hired relatives or neighbors to operate them.

Another major portion of the local economy were the light industrial firms which were located in the southern "one-third" of the South End.⁸ These manufacturing firms were producing clothing, textile goods, leather products, furniture, and machinery for local or regional consumption. Many of the laborers working in these factories were South End residents and could walk from their homes to their jobs below Washington Street.⁹

In many ways the local economy could have been viewed as healthy. Nonetheless, the social and economic conditions of the

residents were horrendous.¹⁰ Health problems were wide spread. Inadequate heating, plumbing, and ventilation were often identified as the main causes of these problems.¹¹ Overcrowding in the homes and rooming houses exacerbated these difficulties. South End Settlement Houses served as a housing alternative for many immigrant families but could not serve everyone.¹² As a result, privately owned dwellings were "jammed" with people. To the surprise of many, the South End was one of the most crowded lodging areas in the United States toward the end of the 1950's.¹³

However, by the beginning of 1960, the population of the South End dwindled to 34,956.¹⁴ This 39% decline in population alleviated some problems but also created new ones. In the area of housing overcrowding was reduced, but in the area of minority owned and operated small businesses, it created voids. The drastic reduction in population limited the number of small businesses that could operate profitably in the area. Some of the establishments moved with their markets to neighborhoods such as Roxbury, Jamaica Plain, and the Fenway, while others went out of business altogether.¹⁵ There were even some that moved to the suburbs during this decade. Conversely, some of the manufacturing firms relocated to other areas where resources and land were readily available.

Federal housing construction and transportation policies of the 1950's caused much of the demographic and economic out-migration. Simply put, the paved highways to the suburbs provided easy access by automobile and eventually led to the

continued "white flight" in the sixties.

Most Blacks living in the South End did not move to another area. This is evident from the population change between 1950 and 1960 (see Appendix One). In absolute numbers the White population dropped by 16,000, while the Black population dropped by only 5,000. This affected the character of the retail and commercial small business community. Those businesses which met the demands of the modified market survived. Many of these establishments were ethnic food stands, barber shops, drug stores, liquor stores, and bars. However, their profits declined because the volume of customers declined.

Because the incomes of most of the minority residents were low, the profitability of these small businesses declined. Moreover, the exteriors and interiors of the establishments began to show signs of severe deterioration. They could not keep up the maintenance on their businesses because of declining profits and financing of rehabilitation was next to impossible to obtain from banks because of the risk associated with the South End.¹⁶ The high crime rate and weak real estate market kept many lenders out of the neighborhood.

A cause of the weak real estate market was the out-migration of businesses. The exodus of businesses left many of the store fronts of the lower floors of row houses empty.¹⁷ Once these places were boarded up, they added to the deterioration of the general environment. This blighting influence made the survival of the remaining small business community even more difficult. Customers that might have stopped at a store along a thoroughfare like Massachusetts Avenue or Tremont Street could

have been repulsed by the appearance of the store fronts. One factor which further eroded the economic viability of small businesses was the absentee ownership of property.¹⁸ Often the owners of buildings would collect rent for their property and spend little or no money on maintenance and/or improvement.¹⁹ The attachment to the community was severed so reinvestment did not occur at previous levels.

The reduced volume of customers, the drop in the disposable income of the overall population, and the blighting influence of vacant and abandoned property all contributed to the marginal performance of the remaining small businesses, many of which were, by this time, owned or operated by minority entrepreneurs.

By the middle 1960's the BRA had drawn up an Urban Renewal Plan. This plan had no program for assisting the existing small businesses.²⁰ The lack of a unified business community, more than likely, can be identified as one of the causes of this circumstance. Housing was the most politically volatile issue in the South End. Thus, the BRA addressed it first.

The late 1960's was a difficult time for the neighborhood as a result of political struggles that occurred over housing. Even though the needs of the small business community were great, they were not addressed. Regardless of the circumstances, new Puerto Rican owned and operated small businesses opened that served the needs of the Puerto Rican community.²¹

1970 to 1980 was a decade of transition of the South End neighborhood. Middle and upper income Whites began moving into the neighborhood, and their numbers grew from 41% to 46%. The

Hispanic population increased 7% to 19%. However, the Black population decreased from 39% to 29%, and the Chinese population declined from 13% to 6%. The new white residents brought with them a large amount of disposable income and a set of new demands, while the Puerto Ricans took control of the land on which they lived.

During the middle 1970's, IBA began to address the issues of minority small business development. In order to address these issues, IBA retained the services of BFH and Associates, Inc. of Cambridge, Massachusetts. Through a sample survey of the local businesses and residents, BFH and Associates identified some of the problems which have occurred as a result of the rapidly changing market demands.

The first and probably most significant fact that BFH and Associates uncovered was that "75% of the consumers surveyed had a negative impression of the South End businesses. Second, shopping for apparel is done almost exclusively outside the community. Third, 60% of the population purchases groceries outside of the neighborhood. Finally, the lack of security and fear of crime are deterrants to South End shopping."²³

From these survey results taken in 1976, it is shown that the business community's image is negative because the stores are perceived by shoppers as dirty, unsightly, and understocked. A 1978 Consensus Survey indicates that these facts were still true two years later. In the Consensus Survey "the most common complaints concerned high prices, inferior merchandise, shabby or dirty stores, and lack of variety of stores and merchandise."²⁴

The fact that almost all shopping for clothes and 60% of the shopping for groceries is done outside the community displays dissatisfaction with the products and services being offered by businesses. To make matters worse, the fear of crime inhibits the shopping of residents. A mismatch of supply and demand has resulted from the demographic change.²⁵

BFH and Associates performed an analysis of the buying power of South End residents and found that \$43,380,000 was the market area retail spending power in 1975. Only a small portion of this is being spent in the South End. The inability of small retail and commercial business to meet new demands is preventing these small businesses from profiting from the disposable income of new residents.

The survey activity took place in the IBA designated retail trade area (see Appendix Two). At the time when this survey was performed there were 134 businesses in this area.²⁶ This is less than half of the estimated 365 small businesses in the South End geographic area.²⁷ Many of these businesses are minority owned and operated, and are targeted for assistance by IBA's RLF.

In any case, BFH and Associates' survey revealed that there is sizeable demand for the following:

- supermarkets
- shoe stores
- men's clothiers
- women's clothiers
- laundrymats
- bakeries

- beauty shops

while there appears to be an oversaturation of:

- eating places
- florists
- dry cleaners
- liquor stores
- barber shops
- family clothing stores
- meat and poultry stores²⁸

(see Appendix Three).

Since the small businesses were not able to adjust to changing markets, competitors have entered the community to cater to the demands of the gentry. For instance, during the latter part of the 1970's antique shops, prestigious real estate offices, elegant restaurants, and jazz nightclubs have opened up along the borders of the most affluent census tracts (see Appendices Four and Five). Professor Tunney Lee of MIT has stated that one of the final steps in the process of gentrification is the replacement of old businesses by new businesses. The final steps have not taken place in all parts of the IBA target area, as is illustrated in the following section.

Present Business Environment
Of IBA's Target Area

In the Regional/Urban Design Assistance Teams study (May, 1980), there are references to activity centers which should

receive special attention. Four of the five activity areas fall into the retail and RLF target area designated by IBA (see Appendix Six). These areas have been centers of economic activity for a large portion of the minority entrepreneurs of the South End. IBA purposely chose this area to implement an RLF because of this feature.

Presently, in the South End, there are over 200 minority owned or operated businesses.²⁹ Most of these businesses fall into IBA's retail trade and RLF target area. Below, entrepreneurs are identified by ethnic background and the type of business usually owned or operated:

- Afro-American - hardware and liquor stores, restaurants, and florists shops.
- Chinese - Restaurants.
- Greeks - Sandwich shops, grocery stores.
- Puerto Ricans - Laundrymats, furniture, variety, fish, and grocery stores, travel agencies, and restaurants.
- Syrians - Restaurants.
- Whites - Pharmacies, sandwich shops, restaurants, liquor and antique stores, real estate offices, and banks.³⁰

Most of the minority owned businesses are referred to as "marginal" in the BFH and Associates report because of high priced merchandise, shabby appearance, and soiled interior. Unfortunately, the profitability of these businesses is lowered as a result of these problems. A method of overcoming the

physical appearance is through upgrading. In many cases it is estimated that a ten to twenty thousand dollar loan would provide enough capital to upgrade the interior and exterior.

The risky nature of these small businesses has caused banks to avoid making loans to these establishments. Without previous credit it is difficult to obtain financing for upgrading. The majority of the minority businesses are financed through personal savings, family, and friends. Financing is one of the greatest barriers to small business development, and it will be covered in greater depth in the following section.

Besides having difficulty with adjusting to the new market there is a future threat to minority small businesses along Tremont and Columbus Streets. The BRA is closing its Urban Renewal Project. By finalizing the close-out process the BRA must complete its public works projects which include extensive reconstruction of the Tremont and Columbus thoroughfares.³¹ At present, according to the South End Environmental Assessment, BRA, Spring, 1979, there will be an adverse impact from the reconstruction activity. The BRA expects eighteen businesses to be displaced.³² Additionally, Mr. Syvalia Hyman of the United South End/Lower Roxbury Development Corporation (U.D.C.) points out that small business sales can be reduced from 25% to 50% from this construction work. This type of reduction in gross sales can destroy small businesses.

Before discussing the negative aspects of small business it is important to point out the following facts:

1. "66% of the replacement (new) jobs are created by enterprises employing fewer than twenty employees.
2. More than 50% are generated by small independent firms.
3. Fully 80% are created by establishments four years of age. Relatively few replacement (new) jobs are created by middle-sized and large firms."³³
4. Small businesses produce people as well as goods and services for the economic system.³⁴

Besides having these positive attributes, Professor Belden Daniels of the John F. Kennedy School of Public Policy, Harvard University, points out that more than 60% of new innovations occur in small businesses. The photocopying process is just one example. In addition to providing jobs and innovations in technology, small businesses make up 86% of all corporations and 58% of all other businesses.³⁵ In other words, approximately "95% of all business enterprises in the United States are classified as small."³⁶ It is because of these facts that small businesses are vital to the American economic system.³⁷ The purpose of this section, however, is to indicate the problems in small business, both nationally, and in the South End.

There are many barriers which inhibit the development of small business in the South End. These barriers can be divided into two categories: financing and operating. The financial problems tend to concentrate in the area of obtaining capital for the purpose of improving the appearance or functioning of the establishment.³⁸ Operational problems center around the entrepreneur's managerial capabilities.³⁹

In this section the following financial barriers are delineated and discussed:

1. "Availability of Capital.
2. Access to Capital.
3. Prejudice.
4. Information and Transaction Costs.
5. Risk Aversity (Both Real and Perceived)."⁴⁰

Moreover, to fully reveal the difficulties small businesses face, the following operational problems are explained:

1. Incompetence or Lack of Managerial Expertise.⁴¹
2. Lack of Experience.⁴²
3. Insufficient Planning and Marketing.
4. Staffing.
5. Security.

The above-mentioned problems are by no means common to the minority small businesses of the South End. Most of these problems are typical of the estimated 13,000,000 small businesses in the United States.⁴³ Tate et al, in Successful Small Business Management, state that these problems are common and as a result "the threat of failure is ever present." For

instance, "The Service Corps of Retired Executives (SCORE), a group of retired business executives who perform the public service of aiding and advising small business managers, has estimated that about 400,000 small business firms go out of business each year in the United States, and 100,000 of these fail in their first year."⁴⁴

With statistics like these it is not surprising that minority businesses in the South End would be in need of assistance, especially in view of the fact that they have to fight racial prejudice as well. Unlike their White counterparts, minority entrepreneurs have traditionally had a disproportionate amount of difficulty in obtaining financing.⁴⁵

Financing Barriers

Availability of Capital

Capital for small business development comes in many forms:

- short term (less than one year)
- intermediate term (from one to five years)
- long term (more than five years)
- equity (ownership with no fixed interest or principle)
- debt (bond obligations, fixed interest, and principle)
- subordinated debt (a loan which is junior to the senior loan)

- convertible subordinated debentures (a junior loan which can be converted to common stock)

These are the most common forms.⁴⁶ The types of financing which apply to the minority small businesses of the South End fall in the equity, short, intermediate, and long term financing categories.

Each of these four types of financing have risk associated with them. The most risky is the equity mode of financing. Equity is basically ownership. The person who invests equity has purchased part of the business. On the one hand, if the business is profitable the investment can yield great returns. On the other hand, if the business is not profitable it can bring about great losses. Because of the tremendous risk involved in equity investing bankers and lenders do not provide this form of financing for small businesses. In most cases, the entrepreneur and/or his family and friends provide the equity to leverage other capital.

Banks, savings and loans, and commercial credit agencies normally provide short, intermediate, and long term financing for small businesses. The majority of these loans are secured by the asset of the small business owners' property or property of the small business corporation. Collateralization of land, plant, equipment, or other fungible assets is usually used to secure these loans. Even though for the most part these are senior loans, the desire for a "sure" return on the loan is the lender's objective (note that secured senior loans are the least risky of financing modes).

Speaking in relative terms, among senior loans, short term debt is the least risky to lend to small businesses because the pay back period is from one to five years. Long term loans are the most risky. When financing small businesses bankers and lenders are cognizant of the fact that the Small Business Administration (SBA) reports that 40% of all small businesses fail within their first year, 65% fail within the first five years, and 90% fail within ten years. Statistical evidence such as this has caused many potential lenders to avoid lending to small business entrepreneurs. Unfortunately, risk is associated with the size of the business establishment.

As a result, commercial banks, savings and loans, commercial credit companies, factoring companies, sales finance companies, and leasing consulting companies limit their capital available to finance phases of small business operations.⁴⁷ In fact, commercial banks, commercial credit and factoring companies supply the majority of small business development funds.

Another contributing factor which prevents mutual savings banks and savings and loans from providing short and intermediate term financing is a legal ceiling on the percentage of their loan portfolio which can be invested in commercial activities and the limited business and finance expertise of their staff.⁴⁸ Most of their funds are in the area of housing. Consequently, the long term financing that they sometimes provide to small businesses is usually a real estate mortgage.

The South End area has had tremendous problems obtaining financing from banks because of the availability problem.

Commitment from banks and lenders to the area is marginal to non-existent according to the Merchants Association of the South End.⁴⁹ The First National Bank of Boston is presently making funds available through its Urban Marketing Division, but this is only a recent development.⁵⁰ Traditionally, commercial banks have avoided the small businesses of the South End, or have denied applicants loans on the basis of inadequate credit ratings⁵¹ which brings us to our next barrier to obtaining financing.

Access to Capital

Even if capital is available to small businesses from lending institutions, the entrepreneur is not always able to obtain these funds. Some of the most common reasons for denial of financing are:

- inadequate credit history
- insufficient financial records
- low profitability
- lack of experience (typical of start-ups)
- improper planning
- inadequate collateralization⁵²

These are some of the more common problems in accessing the capital which is available for small businesses. Each area itemized is vital to the successful management of a small business. Therefore, it is understandable that lenders deny many

entrepreneurs financing because of failure to meet these criteria. However, there are a few which fall into a "Catch 22" situation. For example, a person cannot establish a credit history without borrowing, or provide capital without being able to leverage and accumulate capital assets.

The South End minority entrepreneurs have been denied loans on the basis of some of the above mentioned criteria.⁵³ Because the prospective small business borrowers have not been able to provide the necessary documentation to obtain loans, or have not had the appropriate formal training, the bank denies loans. But when all of the criteria are met, other factors effect access. In the case of minority small business persons, this factor is racial prejudice.

Prejudice

Professor Belden Daniels stated during a lecture at the John F. Kennedy School of Public Policy at Harvard University that "Prejudice, or rather, prejudgment" of racial groups, legal cooperative structures, and locations have caused capital market imperfections. Professor Daniels, previously President of the First National Bank of Boston, pointed out one of the underlying causes of this prejudice. He states that the "culture" of the banking and lending institutions has given the individuals functioning within their boundaries a biased perspective. It is this biased perspective that causes the

prejudgment, and subsequently, the resulting capital market imperfection.

One of Professor Daniels' suggestions is to create government regulatory mechanisms which would rectify the situation - regulations which would require a financial institution to lend a percentage within a neighborhood, city or region. His recommendations are valid and perhaps may materialize in the future. Furthermore, he suggests some type of subsidy or incentive to reduce lenders' overhead costs for information and transaction costs on these prejudged small businesses.

Undoubtedly, minority entrepreneurs of the South End have encountered the "cloud" of prejudice in their endeavor to obtain financing. However, it is very difficult to prove. Only a comparative analysis of a similar neighborhood with a small business mix like that of the South End might reveal that banks are prejudging. Indirect measures are the only tools which could indicate this difficulty.

Information

It is said that the major cause of a bank's prejudging or "prejudiced" lending policy has more to do with the cost of information and transaction than it has to do with race.⁵⁴ Nationally, some believe that businesses are viewed in the same manner as high fashion by bankers and lenders. Specifically, the business that is in vogue receives the most investment.

High technology industries, as a rule, receive a tremendous amount of attention in the financial world today. They are the "Yves Saint Laurent" in the business world of the 1980's. Their profits are high and the return on investment has, in many cases, far surpassed the rate of inflation.

As a result of their popularity, much information has been produced on how to analyze their financial soundness and investment potential. More importantly, within the firms and the financial institutions, numerous forms and procedures have been standardized. Business profiles of high technology firms play a dual role of marketing the firm and displaying its financial potential to bankers and lending institutions. Of course, the standard auditing procedures and cash flow projections are still required; nevertheless, the system has become streamlined.

This is not the case for most small businesses of today. Mundane firms like tent manufacturers do not receive the necessary capital partially because of the unfamiliarity of the firm to lenders.⁵⁵

This situation is exacerbated when one looks at the small service providing industries like meat markets and variety stores which serve a minority population. Insufficient knowledge of the market demands may cause a bank to deny financing.

Specifically, lack of information about the minority entrepreneur is a more significant factor. To illustrate this point, a South End welder attempted to open a laundrymat in the IBA commercial space on the lower floor of one of their buil-

dings. He attempted to obtain conventional financing from a bank and was denied. Denial was based on the fact that he was inexperienced in this business. His inexperience, however, did not prevent him from eventually developing a profitable laundrymat in the IBA commercial space. A Commercial Development Component staff member at IBA, Hector Melendez, and other individuals, researched the welder's personal and financial background and found him to be quite capable. After extensive negotiation with Maytag, financing was obtained and the laundrymat was operationalized.

If the Commercial Development Component staff at IBA did not research the welder's personal and financial history in a more in depth manner, the laundrymat would not exist today, and a vital service would be denied the community. The cost of obtaining this additional, more insightful information, however, is higher than banks will bear, especially in a minority community.

Risk Aversity (Real or Perceived)

The lack of information often leads to another cause of market imperfection - risk aversity. In the world of investment small businesses are viewed as risky. Often, the smaller a business is, the greater is the association with risk. This is especially true of new small businesses. The fear of investing results from the volatile nature (i.e. failure rate) of small

businesses discussed in the preceding section.

For small minority businesses like those in the South End, risk aversity is definitely a factor in the lending policy of financial institutions. Inexperienced minority entrepreneurs are not perceived as a sound investment, especially in an area of rapid change. "Even those minority entrepreneurs that are experienced and supply the necessary documentation have trouble obtaining financing from banks," states an entrepreneur in the South End Merchants Association.

A loan officer of the First National Bank of Boston states that "'Collections' is a messy business at times, so we try to avoid bad lending. No loan officer wants to have a bunch of risky loans because of the extensive work involved if the loans default." Because the banks do not research the effectiveness of small business, qualified applicants are denied financing assistance.

The purpose of IBA's RLF is to reduce the cost of information and transaction. By reducing these costs it will lower risk aversity and prejudice, and result in greater access of capital to minority small business ventures. This approach can begin to correct capital market imperfections which plague the South End.

Operating Problems

In the area of operations, small businesses suffer extensively. Often this suffering ends in failure.

Incompetence, or Lack of Managerial Expertise

Statistically speaking, incompetence ranks highest among causes of failure. From a sample of 9,915 business failures in 1974, 40% resulted from incompetence.⁵⁷ Incompetence of management manifests itself in the poor operation of the business. Since the life blood of a business is its method of operation, inadequate management often results in failure.

A small staff with one entrepreneur/manager is fine if that person is not specialized. However, if he does not understand some accounting, inventory control, marketing, public relations, and motivation techniques, he will undoubtedly encounter difficulties. Sometimes a decision on a purchase order can upset a small business cash flow for months. Similarly, a lack of coordination of workers can result in a tremendous drop in production or service provision. The talents of a small business manager have to be many and varied to avoid these mistakes.

In the South End there are numerous establishments that do not have a "decent record keeping system."⁵⁸ These businesses do function, but at a marginal capacity. Simple worker organization or coordination problems often cause customers to be mishandled or goods to be damaged unnecessarily. Clearly, these factors contribute to the marginal profit rate.

Through an educational program some of these problems which plague small businesses can be overcome, but without some sort of technical assistance they may eventually go out of business. The intelligent, responsible, honest, considerate, organized,

motivated, diligent, informative, consistent, respectful, creative, and positive thinking entrepreneur is usually the one that succeeds.⁵⁹ All of these positive characteristics are not necessary, but they are valuable for the purpose of keeping businesses viable. Many of these characteristics can be learned more quickly than accounting or inventory control, and can lead to a more smoothly operated establishment.

Lack of Experience, or Imbalanced Experience

As with managerial competence, it is vital that a small business manager possess balanced experience in the venture which he or she operates. That is to say, the manager must understand the purpose, objectives, and operations of the business. If the operation of the firm entails five phases, each phase should be understood. Knowing only two phases of operation can mean that numerous unforeseen difficulties can arise. Conversely, having no knowledge of the operations of a firm can be compared to dealing with the unknown.

Possessing knowledge of only the production of wood pallets, for example, could cause inadequate sales, heavy operating expenses, or other serious inventory problems.⁶⁰ By the same token, knowing only the purchasing and sales aspect of the wood pallet industry could cause production problems. Either situation could mean the death of the business.

Minority entrepreneurs of the South End, like most small

business persons, do possess some knowledge of the business they run, but it is seldom that one finds them having a balanced knowledge. The welder-turned-laundrymat owner discussed earlier had a limited knowledge of the number of financial and managerial tasks involved in operating an laundrymat. The fact that he occupied another job as a full time welder served to increase the amount of time it took him to learn how to operate and manage a business. A strong market for the service and an IBA technical assistance team should receive much of the credit for this venture's success.

At present, there are approximately ten entrepreneurs attempting to start a business in the commercial space of IBA's Plaza Betances. These eight individuals do not have extensive backgrounds in the areas they desire to enter. Consequently, they will probably encounter serious problems associated with business start-up, such as organization of tasks, provision of services, documentation of sales and transactions, and establishment of lines of credit. An educational and technical training process is necessary to avoid these costly problems.

Insufficient Planning and Marketing

Planning is a process of "developing a road map which indicates one's present position and the path necessary to reach some position in the future."⁶¹ Even though planning does not tell one how to operate a business, it provides a guide

to prevent one from experiencing the unexpected. Projections of monthly cash flows and break even analyses provide a set of indicators to reveal possible problems which may occur.

Business plans are not commonly used by minority entrepreneurs of the South End. Often, the plans seem cumbersome and complex to the average small business manager. This type of discouragement can lead to business death, particularly if the market analysis is also overlooked.

Insufficient planning is a major fault of many small businesses. Unplanned growth, unexpected cash flow, fall off from seasonal cycles, and recent competition from nearby businesses are just a few of the circumstances that could be avoided by researching and planning the progress of a business.

Ineffective or insufficient marketing can make a business plan irrelevant. Therefore, it is imperative that a market analysis be conducted. This analysis should include the local competition, demographic mix of the area, and the dollar market demand for the product or service. Unfortunately, the typical small firm does not conduct an extensive market analysis. A poor or nonexistent market analysis can cause one to perceive a market which does not exist. Misperceptions of this type have caused numerous failures.

South End minority entrepreneurs usually fail to analyse their markets sufficiently.⁶² They often rely upon the perceptions of family and friends to analyze their market. Basing a business on a few conversations with family and friends is commonplace, and often causes minority entrepreneurs to

altogether miss the larger non-minority market.

Staffing

In many cases, the entrepreneur/manager hires relatives and friends regardless of their previous experience.⁶³ This process of placing unqualified persons in positions in which they are incapable of handling often leads to conflict and disorganization. Confusion can spread through the business and bring service provision and/or production to a standstill. It should be noted that hiring policy does not need to be "cut and dry" but a level of credibility must be maintained if the business is to survive.

Staffing minority small businesses in the South End usually follows the "relatives and friends" pattern of hiring. This has probably caused some difficulties in the optimal functioning of the business. Family conflicts can sometimes be observed during business hours.

Although there are negative consequences to the "relatives and friends" pattern of hiring, there are also positive consequences. First, when a family member is a part of the income generating aspect of a family, his or her role becomes more vital. This can be observed in the Chinese and Hispanic restaurants. Second, the minority businesses often hire minority employees, and because of this, they meet a community need for jobs. Finally, acquisition of responsibility

and some training takes place in these contexts. The transferrable job experience such as inventorying, accounting, and salesmanship can serve as a leveraging tool for the person to enter into employment with other establishments.

Security

Nationally, the security of a small business has not been the primary cause of failure. Less than .09% has caused failure in small businesses.⁶⁴ Therefore, it is not a very significant matter to grapple with. Nevertheless, in the South End, the lack of security has become a major problem. Armed robbery, vandalism, pilferage, and other criminal assaults have caused tremendous costs to be incurred by the entrepreneur/manager. More importantly, the shopping patterns of residents have been modified to cope with the perceived violent criminal environment.⁶⁵ This has resulted in the loss of potential sales. All of the operational problems can be overcome through direct or indirect technical assistance by IBA's RLF staff.

Conclusion

In the preceding section the financial and operational problems small businesses encounter nationally and in the South End are identified. The manner in which these difficulties

manifest themselves is presented through illustration. These problems all must be addressed to some extent in order to bring about viable small business development. However, before dealing with the issue of small business development, one must understand how IBA views economic development. Furthermore, the manner in which the organization has evolved over time is important to understand its approach to correcting capital market imperfections.

The next chapters summarize the history of IBA to exemplify the evolution of the agency and delves into the Commercial Development Component of the agency and its present program for dealing with financial and managerial problems.

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- 5 Interview with Hector Melendez, Assistant For Development, Inquilinos Boricuas En Accion, March, 1981.
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- 38 Melendez and Ramos Interview, April, 1981.
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- 40 Lecture by Belden Daniels, Professor, John F. Kennedy School of Public Policy, Harvard University, "Financing Economic Development" course, October, 1980.
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INQUILINOS BORICUAS EN ACCION

(Puerto Rican Tenants In Action)

Inquilinos Boricuas en Accion (IBA) has a target area which covers approximately twenty-five acres in the South End of Boston.¹ Its boundaries roughly consist of Upton Street to the east, Washington Street to the south, West Newton Street to the West, and Tremont Street to the north (see Appendix Seven). The main offices are located at 405 Shawmut Avenue in a six storey, 6,000 square foot building. Within this building are many of IBA's community development programs. Specifically, they are:

1. Casa Del Sol - an adult educational program.
2. Areyto - a cultural/educational program.
3. Human Services program.
4. Commercial Development Program.

In addition, the offices of the Housing Development Director, the Executive Director, Assistant Director, Special Assistant to the Director, Accountant, and their support staff are housed in this building.

Other programs of IBA are located within the Plaza Betances (see Appendix Seven). On the lower floor of the mid-rise building is the Credit Union, a for-profit affiliate of IBA and the first Hispanic financial institution in Massachusetts, the Residential Security Program, Esquelita Agueybana, a day care facility, and a Cable Television studio, a part of

the Areyto program. Across the plaza in the lower floor of Unity Tower is the headquarters of the Emergency Tenant Council Management, Inc., (ETC), while on the second floor are the facilities of the Elderly Program. Finally, at 630 Tremont Street are the offices of the Community Organizing/Crime Prevention Program. All these programs along with neighborhood associations and recreational groups thrive in this small geographic area.

The Villa Victoria community's present population is approximately 2,000.² Most of this population dwells in the 625 units of new and rehabilitated housing stock. There are presently 350 IBA members (each member is approximately eighteen years of age or older and pays one dollar a year for dues). 54% of the residents of Villa Victoria are Puerto Rican, 19% are Black, 18% are White, and 7% are Chinese.³ Below is a list of the location, number of units, type, and date of housing completion:

1. "Tremont/Shawmut Rehabilitation Project -
seventy-one units of rehabilitated historic rowhouses for families under HUD Section 236, 1971 to 1972.
2. West Newton Street Rehabilitation Project -
136 units for families under the public housing program, 1973.
3. Unity Tower/Plaza Betances -
201 units for the elderly and handicapped, 1974.
4. Viviendas La Victoria I -

181 units for families under Section 236, 1976.

5. Casa Boringuen Scattered Sites Rehabilitation Project -

thirty-six rehabilitated units for families under Section 8 and state financing, 1977."⁴

There are also 190 units of housing and 8,000 square feet of commercial space under construction. This housing and commercial space will be completed in the fall of 1981.⁵

In summation, the IBA Villa Victoria community is a racially diverse section of the South End, with a large tenant population. However, unlike most large tenant developments, it has extensive amenities and services for residents. This total environment has been growing for more than a decade and has developed into a sophisticated social and political enclave. IBA's development is discussed in the following section.

Origin

During the early 1960's the Boston Redevelopment Authority (BRA) was heavily involved in developing and implementing federal and local urban renewal plans and programs. Because of the BRA's West End demolition activities surrounding the development of the Prudential Center in the early 1960's, numerous people voiced their concerns about the BRA planning process, particularly in the South End. The South End residents did not want to experience the type of wholesale displacement like that of

the West End residents.

Unlike the West End Urban Renewal Plan, the South End Plan was developed from a lengthy process which involved unprecedented levels of community participation. Hundreds of meetings were held with approximately 150 neighborhood organizations.⁶ Nevertheless, the Puerto Rican, Black, White, and Chinese low income residents of Parcel 19 were not consulted.⁷

As a result, the South End Urban Renewal Plan of 1965 met with tremendous opposition by the residents of Parcel 19 once they became aware of its ramifications.⁸ In brief, the plan called for large scale displacement of Parcel 19 residents. Roughly eighty per cent (1,150) of the 1,450 residents would have been displaced by the BRA's proposed slum clearance.⁹

Since many of the Parcel 19 inhabitants were immigrants arriving from Puerto Rico, the southern United States, and other parts of the world, within the previous decade their level of organization and political sophistication was low.¹⁰ Therefore, the first priority was to develop an organization to represent the people of Parcel 19. The Emergency Tenants Council (ETC), a group of Parcel 19 residents, held an informal series of meetings during the spring and summer of 1967 with the help of Helen Morton, a long time South End resident, and Reverend William Dwyer of St. Stephen's Church.¹¹

From these meetings which focused their dialogue around the BRA's plans for Parcel 19, the need for a more intensive organizational effort arose. "By the end of the summer of 1967 those involved in the meetings at St. Stephen's were considering the

possibility of forming a church sponsored, non-profit housing corporation with the emphasis on providing low rent housing units for large families and individuals (church sponsorship was the type of arrangement the BRA approved).¹²

As with many organizing efforts during the late 1960's the effort gained support from groups like the Cooperative Metropolitan Ministers, Inc., Urban Field Service (Harvard Student Placement Service), and Volunteers in Service to America.¹³ Two seminarians, Richard Lampert and Houston Horn, both bilingual, were the first to begin going door to door organizing the community. During the process of organizing the community Richard Lampert began to see the need for the community to control its own destiny. In August of 1968, a year after the initial meetings, a dramatic shift occurred - St. Stephen's Church did not become the housing sponsor. Instead, the entire community was incorporated and designated the sponsor to control the process of low and moderate income housing development in Parcel 19. The ETA, the organization that eventually became known as IBA, was incorporated in August, 1968, and Richard Lambert was named the Executive Director.¹⁴

Organizational Development

Though respected in the community, Richard Lambert was not a professional organizer, so, in the fall of 1968, Israel Feliciano, a professional organizer, was hired.¹⁵ In Eric

Berne's The Structures and Dynamics of Organizations and Groups, he states that "The psychological leader is the one who is most powerful in the private structures of the members." Israel Feliciano was such a leader. He was the first charismatic Puerto Rican leader the people of Parcel 19 ever had, and as a result, he stimulated the residents to begin organizing themselves.¹⁶ The difference between self-organization and being organized is what catalyzed the collective action movement of the residents. Finally, Feliciano's focus on addressing the immediate social service needs of the people resulted in large scale participation. "It is a well known fact that addressing the short term needs of people sustains the momentum of collective action."¹⁷

"In February, 1969, ETC held its first annual convention, which was attended by 500 residents" and received extensive media coverage.¹⁸ Elections were held and the first formal corporate steering committee was formed. "It consisted of six Puerto Rican and four English speaking residents."¹⁹

The following goals stated in the summer of 1967 were to be promoted by ETC:

1. Low rents for lower income families and the elderly.
2. An adequate supply of multi-family housing.
3. Scattered site public housing.
4. More stores in and near the area.
5. Improvements of the Blackstone Park and more playground supervision.²⁰

These goals represented a milestone on the residents' path to community development.

Israel Feliciano, filling his leadership role, wrote to Hale Champion, a BRA administrator, saying:

It is our desire to work with the Boston Redevelopment Authority and the City of Boston... Your action will determine whether we will be able to do this or not. The responsibility is upon you. If we are designated 'Sponsor Redeveloper' the responsibility will be ours. We fully realize the difficulties we shall encounter. We have acquired competent technical and ample financial resources to guarantee success... We want the responsibility to determine our destiny, we are tired of other people making our decisions.

ETC developed from a group of concerned tenants who first acknowledged that they had a right to control the development of their community, then organized and demanded the right. This is one of the basic laws of self-determination which Melvin King, Massachusetts State Representative and South End resident, often speaks of.

In 1965 the BRA, through flagrant neglect, created and endorsed plans that would eradicate, through displacement, a population of what they (the BRA) perceived as powerless people. However, the tenacity of the people of Parcel 19 aided them in grappling with their own self image, and subsequently led to the building of a foundation of human power. It was this foundation of power that forced the BRA to address the residents' demands once ETC displayed to them their seriousness about taking control of their own lives. "Under the motto, WE SHALL NOT BE MOVED FROM PARCEL 19, residents negotiated an acceptable

redevelopment program for their neighborhood and then proceeded to incorporate in 1968 as a group capable of implementing the program."²¹ From the point of incorporation to the first annual ETC meeting, the group gained recognition from the South End residents and the greater Boston area through the mass media. Other organizations and individuals acknowledging the power and rights of Parcel 19 residents is what made the difference. As stated in the Introduction, the character of a neighborhood is often determined by the character of the people which inhabit it. The people of Parcel 19 changed their perceived image, and changed the character of the area from powerless to politically powerful. Once the BRA designated ETC as the developer of Parcel 19 of the South End Urban Renewal Plan in December, 1969, ETC had control of their destiny. In the words of Melvin King, control of land is power, and ETC had control, and therefore, power.

The ETC Board of Directors began implementing a strategy developed with the assistance of an architect/planner from Urban Planning Aid.²² The new team based their approach on five prerequisites:

1. Maintenance of strong and unified neighborhood organization capable of providing political pressure when necessary.
2. Creation of a more extensive data base and a better plan for Parcel 19 than that of the BRA's.
3. Development of an extensive information network to inform residents to avoid giving the BRA the

opportunity to negate plans on the grounds of not informing all residents.

4. Maintenance of initiative during the negotiation process with the BRA.
5. Involvement of an advocacy planner and resident representative in all phases of the negotiation process with the BRA.²³

This strategy allowed ETC's representatives to argue from an advantageous position during negotiations with the BRA and lead to their phenomenal success during the following years. In summation, it was people, political organization, and the use of outside expertise which helped ETC to succeed.²⁴

Goals and Objectives

During the initial stages of development, ETC used the following statement of corporate objective as a guide:

The Corporation is formed to combat poverty and community deterioration through charitable and educational programs aimed at:

- Promoting community participation in the planning of housing development under the South End Urban Renewal Plan.
- Preventing the disbursal of residents and minimizing dislocation under the impact of urban renewal.
- Generally improving the housing and living conditions of community residents.²⁵

Through the years, they have expanded to include the following operational objectives:

- Prevent the displacement of residents (mainly low and moderate income) of Parcel 19, now Villa Victoria.
- Develop family and elderly housing with low rents and unit sizes compatible with the needs of residents.
- Create an exciting neighborhood with quality design work providing attractive and usable open spaces and a sensible traffic pattern.
- Develop cultural activities to strengthen the identity of the community.
- Provide services to insure the success of the residents in the area living environment.
- Promote improvements in the economic standard of living of the residents of Villa Victoria as well as overall economic activity and commercial services.
- Develop a total neighborhood with residential, institutional, and commercial activities.
- Guarantee long term community control over the entire area.
- Mobilize public and private resources in the area to build new community facilities (schools, clinics, etc.) to benefit existing residents.²⁶

It is clear from the broader objectives that cultural identity and education became important elements to sustain ETC's drive.²⁷ Basically, the reinforcement of community values served as a protection against those who would come from an external environment and do harm.

Using the aforementioned goals and objectives as a guide, Israel Feliciano, Luz Cuadrado, and Jorge Hernandez led ETC into its successful developments. From 1971 to 1972 the Tremont/Shawmut rehabilitation project was completed (seventy-one units). Then, in 1973 the West Newton Street project was completed (136 units). ETC Developers, Incorporated (a for-profit corporation that handles the bulk of housing development after closing), ETC Development Council (the Board that initiates development) and ETC Management Company, coordinated their efforts and broadened their focus. In 1973, the name was changed to what it is known by today - Inquilinos Boricuas en Accion.

In 1974 Unity Tower/Plaza Betances (201 units) and IBA headquarters building opened. During this same year the Areyto cultural program and the Elderly Services component were initiated.²⁸

Even though the development of IBA appeared rapid it was well controlled and planned growth. The IBA staff and Board of Directors stayed away from "large quantities" of federal monies in order to permit the organic growth of the organization.²⁹ It was important to the long term survival of the organization to develop its own indigenous talent and only rely on outside talent for that expertise outside the community's capabilities (i.e. legal, architectural, and planning).³⁰

From 1974 to 1976 IBA focused its efforts on internal

development and the construction of Viviendos La Victoria I (181 units). 1977 saw the completion of Casa Boringuen (thirty-six units) and Channel Six Communications program was initiated. Like 1974, 1978 marked a large expansion in IBA's capacity and function. The Security Patrol Program, Day Care Center, Crime Prevention, and Commercial Development Program all were begun in this year. This growth was met with enthusiasm and created many jobs for community residents. The first business venture was launched, and in 1980, Viviendas La Victoria II was started (190 units).³¹

IBA's overall budget is now \$2,500,000 and has supported all the aforementioned programs, and has succeeded in providing:

- Eighty per cent permanent jobs.
- "Payment of three forty-year mortgages with a value of over \$8,000,000.
- Payment of almost \$200,000 in real estate taxes to the City of Boston.
- Payment of utility bills, insurance, and other items that benefit Boston's private sector.
- Hiring of several small contractors for special jobs such as plumbing, electricity, some repairs."³²

During all phases of IBA's organizational development, residents of Parcel 19 were involved in the planning and implementation. Because of this community involvement in these processes the indigenous people became capable organizers, planners and managers. Though outside expertise was used to guide most of the legal and technical activities, the thrust of

the effort came from the people of Parcel 19.

The close cultural ties of the Puerto Rican people, and the ability of the diverse racial groups to accept differences and work together had a substantial effect on the organization's success. Establishing credibility within the Barrio (as Luz Cuadrado calls it) environment, then externalizing that credibility and using it to leverage political bodies in the external environment is what made IBA so effective.

Organizational Structure, Staff Size,
and Corporate Relationships

The organizational structure of IBA has a great deal to do with its responsiveness to community needs. As one can see from the chart (Appendix Eight) the IBA Board of Directors (elected at large by IBA members on a three year staggered basis) is at the top of the decision making structure. All programs are ultimately answerable to the Board, even if they have a separate board for their individual program. In essence, the IBA Board of Directors determines the speed and direction of the organization.

First it should be noted that the IBA Board receives and reviews proposals for new programs and project proposals, while the day-to-day operation of the individual programs is left to the program directors and their respective boards.

Second, if a decision for an individual project proposal

is approved by any individual or entity affiliated with IBA it is not ratified until it receives the Board's approval. Thus, a project which may be perceived as good for IBA by a program director may contradict the fundamental objectives of the agency and could be rejected on those grounds.

Third, the Executive Director is empowered to oversee the activities of IBA and its affiliates. The Executive Director has the power to override decisions that he or she believes are not in the best interest of IBA on the basis of social, political, or economic reasons. Like most executive directorships, this one carries a very profound filtering characteristic which, if not monitored, could impair the ability of the agency to address community needs. The discretion of the Executive Director to discard those ideas which are perceived to not be in IBA's best interests can be a formidable problem.

For instance, programs that may help the community grow in terms of membership can be stopped before they reach the IBA Board. Filtering of proposals can be as significant a strategy to increase power as the approval power of the Board. If only one person's approved proposals are presented to the Board only one person's approved goals are being promoted. Fortunately, IBA has had a succession of honest, strong leadership with a deep commitment to its membership.

Finally, the composition of the IBA Board is confined to twenty residents of IBA's redevelopment area. The membership elects the Board members each summer and selected members serve in staggered three year terms. This method of selection has

kept the interest of the IBA community foremost in the decisionmaking process and maintains the community control IBA was built upon.³³

IBA's parent board is "structured as a non-profit corporation with two affiliated corporations (one for-profit - ETC/DI, and one non-profit - ETC/DC).³⁴ Both deal with housing development.

The Parent board members are members of ETC/DC (Development Corporation), a private, non-profit corporation that engages itself in the initial stages of housing development activities through seed money loans from church groups, foundations, etc. The IBA Board, which in turn appoints the board of ETC/DI (Developers, Incorporated), a for-profit corporation that handles the bulk of the housing development effort (after initial closing), serves as general partner of the syndicated partnership that owns the housing and acts as its management agent... The board of ETC/DC and ETC/DI are composed of a combination of neighborhood residents, other South Enders, government employees, technical professionals, and other individuals whose presence facilitates the direction of the work of the organization in a manner consistent with neighborhood priorities and government and private sector interests. Participation of the board members is very high since the board deals with matters which affect residents on a daily basis: rents, maintenance of housing, security, day care, social services, commercial services, new housing, etc.³⁵

As was previously mentioned, the Parent Board oversees the Executive Director, who in turn, deals with program modifications and proposals on a daily basis. Though the Parent Board makes decisions that effect the day to day functioning of IBA, they do not make daily decisions. The Executive Director oversees the Assistant Director, Special Assistant, and Executive

office. His or her decisions are often felt within a short period of time.

The Assistant Director and Special Assistant to the Director spend a large amount of time developing proposals and obtaining funding for general operating and program development. A network of information flow has been created between the individual programs and the assistant directors. This information flow includes data on current fund raising drives, types of funds being sought (i.e. foundation, federal, city, corporations, bankers, lenders, state), specific agencies being approached, the amount of money being requested and for what purpose. Furthermore, these individuals occupy a critical role in the lobbying of political clout for programs in the Congress and Senate. The role of these individuals is vital to the survival of the agency, so the Executive Director works closely with these individuals.

Information and data flow between the Program Directors and Staff is constant. Because of the constant interaction revolving around the states of the financial condition of each program, updates on possible program changes are exchanged. This type of feedback loop is vital to keep the Executive Director informed on the comprehensive picture.

Each program director guides his or her program in accordance with the objectives laid out in its proposal. Reporting requirements that are demanded by funders are the responsibility of each individual program, but are usually sent through the Executive and Assistant Directors for approval. This process

also occurs with proposals in order to keep quality consistent and objectives alligned with those of IBA and the funding agency.

Needless to say, the interrelationships and staff size within programs are unique (see Appendix Eight) because each program is designed to meet a specific need in the community. The Commercial Development Component is no exception. It has a staff of four persons: one Program Director, two staff workers, and an intern. Since this paper focuses on the activities of the Commercial Development Component, more detailed analysis of its structure and capacity is presented in the following chapter.

Objectives and Present Activities

In the eyes of many outsiders IBA is the optimal model for comprehensive community development. IBA has surpassed the expectations of many of its own members. Even though it has been very successful it is still growing. Its organic nature implies that the corpus is constantly developing. As a matter of fact, this is true. IBA is now branching out into areas of development which will make it a more stable and autonomous entity.

For the last twelve years IBA has been provided vital nutrients (i.e. land, labor, and capital) to establish a foundation for its people. But now it is at the point where it

must engage in activities which will provide its own resources for the extensive support system it has created. The cultural/education, day care, and other programs must begin to obtain their support from internal sources, because the Regan administration and the generally conservative political mood of the United States will not continue to support these services.

One direction IBA has begun to explore addresses the issue of stability. The majority of the housing owned or managed by IBA has subsidies that are effected by the income of the tenant. For instance, if a tenant has a low income, that tenant pays a low rent - usually a percentage of the income. Conversely, if the tenant has a high income he or she pays a high rent. Within the last few years IBA has lost some of its families because of their rising income. Initially, the family benefited from the subsidy because their income was small, but as their job situation improved their income rose, and resulted in their departure.

Some tenants leave to move to areas where rents are unsubsidized, or in other words, where rents are determined by the market. Others purchase homes. IBA is now investigating a middle income cooperative housing development. Theoretically the co-op housing will meet the needs of the families that want to stay in the community even though their income has made IBA subsidized housing prohibitive in terms of cost. This model is supposed to create a more stable environment and cut down on the turnover in the community.

Another area which IBA is investigating which concerns the

development of control of economic resources. IBA contains a large low and moderate income population. Nevertheless, these individuals have banking needs. As of April 1, 1981, IBA opened the first Hispanic run financial institution in the State of Massachusetts and probably New England - The Credit Union. Its membership are able to deposit capital, draft on their deposits, earn an interest yield and borrow money for purchases. The actual lending and drafting have not yet been fully operationalized, but they will be before the end of 1981. Addressing the banking needs of the community is IBA's first step toward control of economic resources.

Additionally, IBA's Commercial Development Component is refining the administrative and management plan for a Revolving Loan and Equity Fund (RLF) for small business development. The RLF should be fully capitalized at a minimum of \$65,000 or a maximum of \$100,000 by the end of May. The design and function of this RLF is the focus of this thesis.

First, IBA's ability to deal with the problems of financing small business development with capitalization is addressed. Second, an appropriate strategy is discussed, given the constraints IBA has. Finally, recommendations for future plans are made which IBA should consider.

The author of this thesis argues that the perception of the financing community of low and moderate income communities has tremendous impact on its amount of lending activities. This is particularly true of small business. Moreover, race also enters the equation. Although it is not quantifiably

detectable, it is manifested in the disproportionate amount of lending denials. The fact that the minority small business community has not developed a strategy for rectifying this condition is not strange.

Unlike IBA, the minority small business entrepreneur is involved in a personal endeavor. That is to say, his profits from a loan will benefit him. There is no federal policy that states that all minority small business entrepreneurs, marginal or not, are entitled to receive money from banks or lending institutions.

Therefore, in order for the minority small business entrepreneur to change the perception of the banking community, he or she needs to be given a chance to prove the viability of the chosen business. IBA's RLF can work as a mechanism to help minority small businesses gain bank credibility and eventually seek lending on their own. Before delving any further into this matter it is necessary to discuss the Commercial Development Component of IBA in greater detail.

- 1 Interview with Jorge Hernandez, Executive Director, Inquilinos Boricuas En Accion, April, 1981.
- 2 Inquilinos Boricuas En Accion staff, "Case Study: Community Control Model" (Boston, MA: Inquilinos Boricuas En Accion, June, 1979), p. 19.
- 3 I.B.I.D.
- 4 I.B.I.D., p. 4, 58.
- 5 Interview with Ann Kerry, Director of Housing Development, Inquilinos Boricuas En Accion, March, 1981.
- 6 Langley Keyes, The Rehabilitation Planning Game: A Study In The Diversity of Neighborhoods (Cambridge, MA: MIT Press, 1969), p. 82.
- 7 Television Interview with Jorge Hernandez, Executive Director, Inquilinos Boricuas En Accion, "Nuestra Comunidad Transplantada," (Boston, MA: WGBH, January 22, 1981).
- 8 Luz Cuadrado, "Planning And Organizing The Barrio," (Boston, MA: Inquilinos Boricuas En Accion), p. 31.
- 9 Inquilinos Boricuas En Accion staff, p. 25.
- 10 Marianne Sealos, "Viva Villa Victoria," an unpublished paper, (Medford, MA: Tufts University, February, 1981), p. 16.
- 11 Inquilinos Boricuas En Accion staff, p. 50.
- 12 I.B.I.D., p. 51.
- 13 I.B.I.D., p. 52.
- 14 Cuadrado, p. 30.
- 15 I.B.I.D., p. 30.

- 16 I.B.I.D.
- 17 Ernestine Ross, Director, Pasadena Community Anti-Crime Program, Seminar on Organizing Pasadena, California, summer, 1979.
- 18 Inquilinos Boricuas En Accion staff, p. 53.
- 19 I.B.I.D.
- 20 Cuadrado, p. 24.
- 21 Inquilinos Boricuas En Accion Staff, p. 2.
- 22 I.B.I.D., p. 53.
- 23 I.B.I.D.
- 24 Guest Lecture by Jorge Hernandez, Executive Director, Inquilinos Boricuas En Accion, "Financing Economic Development" course, November, 1980.
- 25 Inquilinos Boricuas En Accion staff, p. 28.
- 26 I.B.I.D., pp. 28-29.
- 27 Luz Cuadrado, "Barrio Self Determination," a rough draft (Cambridge, MA: Massachusetts Institute of Technogy).p.14.
- 28 Inquilinos Boricuas En Accion, p. 58.
- 29 Kerry Interview, March, 1981.
- 30 I.B.I.D.
- 31 Inquilinos Boricuas En Accion staff, p. 58-59.
- 32 Inquilinos Boricuas En Accion staff, "Plaza Betances Business Promotion And Revitalization Project" (Boston, MA: Inquilinos Boricuas En Accion, 1979).
- 33 Inquilinos Boricuas En Accion staff, pp. 5-6.
- 34 I.B.I.D., p. 3.

35 I.B.I.D., pp. 3-4.

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36 Interview with Talo Odria, Assistant Director, Inquilinos Boricuas En Accion, January, 1981.

COMMERCIAL DEVELOPMENT COMPONENT OF IBA

Over the last twelve years IBA has built an outstanding reputation in the area of community controlled housing development and social service delivery. It was not until 1976 that IBA began to take serious steps to actively participate in the economic development of the South End. As in previous development ventures, IBA members knew that developing well defined, logical goals and objectives based on substantiated data was the best method for entering an area in which they had little or no expertise.

To this end, the IBA Board of Directors retained the services of BFH Associates of Cambridge, Massachusetts to perform a market study in the primary impact area described in Chapter Two.¹ This market study served as a guide for the IBA Board to develop an economic development strategy. The policy guidance of the Board and the approval of the majority of the IBA membership has helped IBA maintain its community control, and has contributed to its recent success in the area of commercial development.

The purpose of this chapter is fourfold: first, to define IBA's economic development strategy; second, to present IBA's Commercial Component accomplishments, goals and objectives; third, to describe the commercial development staff organization; and, fourth, to indicate the manner in which the various activities interrelate. In the final part of this chapter the

manner in which the RLF relates to the other development activities is discussed.

IBA's Economic Development Strategy

The study by BFH Associates revealed numerous facts about the South End market and its population's shopping characteristics. From IBA's perspective, one of BFH Associates most significant findings was that several businesses could be successful "in a Villa Victoria location" and that "a small Hispanic-oriented shopping center could be successfully located in Plaza Betances."²

To capitalize on the market conditions of the South End and to provide jobs for Villa Victoria residents, "IBA/ETC revised and expanded its neighborhood revitalization strategy to include the following business development/job creation strategy:

1. Create jobs (through initial charitable funds) for community residents in organizing and social work activities that would help the organization implement its long range development plan.
2. Create temporary jobs through housing construction (to date, over 1,000 jobs).
3. Create permanent jobs through the need to service the housing (management, commerce, social services, maintenance, security). This has resulted in the establishment of IBA and its

various subsidiaries, and in the creation of 125 permanent jobs.

4. Generate unrestricted funds from the housing development activity to invest in business ventures that will:
 - a. create jobs and income for community residents;
 - b. provide goods and services for community residents;
 - c. expand IBA's expertise in economic development;
 - d. strengthen the economic base of Villa Victoria and the South End; and
 - e. serve as sources of income for future investment.
5. Generate additional unrestricted funds from these initial business investments that can be used to make equity investments in larger-scale retail and manufacturing projects that will:
 - a. generate additional income;
 - b. further expand IBA's economic development; and
 - c. provide many more jobs for South End residents.
6. Use the income generated by previous investments to start up and operate large-scale manufacturing concerns so as to create a large number of

jobs and further strengthen the economic base of the South End.³

As one can see, the intended strategy is to build on an existing expertise in housing and social service delivery (Steps One through Three) and expand into business ventures by using unrestricted funds from housing development activity (Step Four). Inasmuch as steps one through three were already common experience, Step Four did seem like the next logical step. The income generated by the initial business venture would then be recycled to form equity investments for larger-scaled projects (Step Five) in retail or manufacturing.

The transition from Step Four to Step Five is a difficult one because it contains crucial milestones. One milestone would be the identification of a successful small business venture to invest in. Another would be the generation of enough profit from this small venture to form an equity investment of a larger retail venture. Formation of capital for investment is difficult for many profit-making organizations, so it is safe to assume that it would be even more difficult for a profit agency with a non-profit parent. The level of managerial expertise for such an operation would have to be developed within the agency over time or from an outside source at great cost.

Step Six would be worthwhile to take if Step Five is successful. However, if it is not successful, Step Six cannot take place. To date, IBA is grappling with Step Four.

Commercial Development Accomplishments,
Goals and Objectives

After the overall strategy was developed, the IBA Board of Directors and Staff members developed a general proposal which would provide the basic level of commercial goods and services for the Villa Victoria residents.⁴ Moreover, this plan included an entrepreneur identification and training program with an emphasis on assisting entrepreneurs to secure financing for their ventures.⁵

The proposal for funding was accepted in 1977 by the Office of Neighborhood Development (OND), the Department of Housing and Urban Development (HUD), and IBA hired a four member staff in 1978 which researched several prospective businesses in detail, determined the proper store mix, identified spacial needs, identified potential sources of financing for business development, began preliminary discussion with interested entrepreneurs, worked with the Boston Private Industry Council to set up training programs, and generally planned the development of the shopping center.⁶ Staff of the Commercial Development Component also submitted, within a year, a proposal to the Economic Development Administration for a \$546,455 grant to develop 17,000 square feet of additional commercial space "along the only remaining undeveloped side of Plaza Betances", identified alternative facilities for the social service programs which were located in the existing 8,000 square feet of commercial space, and set up IBA's first commercial venture - a laundrymat

which met the needs of the community, as well as the entrepreneur.⁷

Other accomplishments of the Commercial Development staff that came within the second year were as follows:

1. Negotiated the purchase of nearby church facility, developed plans and initiated a fundraising campaign for its rehabilitation so that it could be used to relocate several service programs.
2. Expanded the size and capability of IBA's security force so as to provide a safe residential and business environment.
3. Began planning the expansion of IBA's closed-circuit television station into a city-wide Spanish language cable franchise.
4. Began organizing a credit union to provide needed banking services for residents of the area.
5. Began working with existing South End businesses to organize a merchants association.
6. Began working with the American Institute of Architects' Regional/Urban Design Assistance Team to develop a comprehensive strategy for upgrading and developing the South End's commercial corridors.
7. Began working with two minority entrepreneurs who planned to establish an electronic component parts manufacturing business that could employ

as many as seventy formerly unemployed South End residents.

8. Secured a \$20,000 grant from the Massachusetts Executive Office of Communities and Development and initiated a fundraising campaign to raise an additional \$45,000 to \$80,000 for the establishment of a \$65,000 to \$100,000 Revolving Loan and Equity Fund (RLF).⁸

By the middle of 1980, two years after initial funding by HUD, the Commercial Development Component had established a good track record. To date, May, 1981, the Component has already opened the first Hispanic financial institution in New England - The South End Credit Union. It has also established a technical assistance linkage with the Small Business Development Corporation, developed designs and store mix for the new commercial space under construction along the eastern border of Plaza Betances, initiated the relocation efforts for social service agencies in existing commercial space, created plans for business promotion, and obtained \$55,000 of the needed \$65,000 to capitalize the RLF.

The staff's pragmatic approach to the needs of the community has contributed to the success of the Commercial Development Component. Furthermore, the support of the community, the IBA Board of Directors, and Director Jorge Hernandez have augmented the effectiveness of staff members. Finally, the planning of the activities in an interrelated fashion has kept the tasks of the Commercial Development staff comprehensive.

The goals of the Commercial Development Component are synonymous with those of IBA's economic development strategy. However, the objectives are as follows:

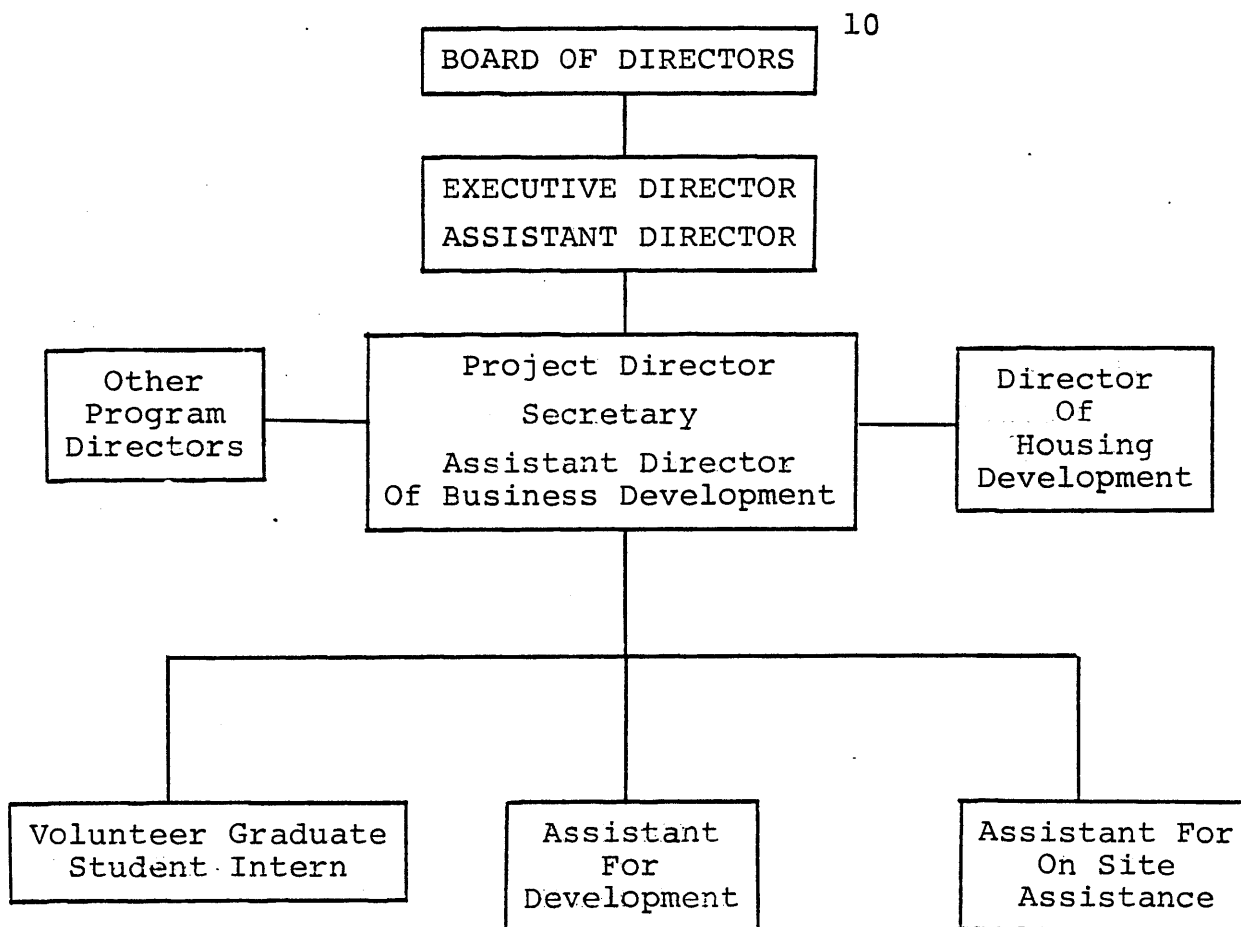
1. To expand the services of the Credit Union to include personal and commercial lending, savings certificates, check cashing, and other functions.
2. To complete plans for the new commercial space and relocate local entrepreneurs into that space.
3. To negotiate lease agreements to include all fees necessary to sustain and secure commercial space once it is operationalized.
4. To complete capitalization of the RLF and to have the design and management plan ratified by the IBA Board of Directors, and to operationalize the RLF.
5. To raise funds to rehabilitate the All Saints Church for the purpose of housing the social service agencies occupying existing commercial space.
6. To relocate users of commercial space to new space.
7. To finalize business promotion plans for the Plaza Betances shopping area.⁹

These objectives are leading to the goals implicitly stated in Step Five of the economic development strategy, which is to generate unrestricted income to invest in business ventures. Unrestricted income may be obtained from the percentage

of sales which IBA will receive from the businesses utilizing the Plaza Betances commercial space.

Commercial Development Staff Organization

IBA's Commercial Development Component is just one of the many programs described in Chapter Three (refer to the Organization Chart Appendix Eight). The Commercial Development Component is organized in the following manner:



"The business development staff reports to the Project Director on general matters and to the Business Development Assistant Director for technical matters. Close coordination exists between the Project Director, his assistant, and other program directors. Project staff report to the agency's Assistant Director on personnel and internal administrative matters and to the Executive Director on project directions and external resources. Work on implementing IBA's economic development plans has been assigned as follows:

1. Luis Ramos, Business Development Director
 - a. project administration, staff supervision from an organizational and scheduling point of view.
 - b. coordination of activities with existing business people.
 - c. organization of an advisory committee to oversee RLF program activities.
 - d. selection of potential tenants for the new shopping center (responsible for organizational, public relations and selection aspects as well as resource location).
 - e. coordination of church rehabilitation project."¹¹
2. Hector Melendez, Assistant for On Site Assistance
 - a. organization of business planning sessions for local entrepreneurs.
 - b. ongoing assistance to La Plaza Laundrymat.

- c. on site assistance to new and existing businesses, especially those locating in the new shopping center.
 - d. improvement of security capability.
 - e. RLF management.
3. Peter Candelerio, Assistant for Development
- a. organization and operation of credit union.
 - b. performance of financial analyses.
 - c. assisting Luis Ramos, Business Development Director with the development of guidelines for businesses desiring to locate in the new shopping center.
4. Victorio Hoskins, Volunteer Graduate Student Intern
- a. completion of capitalization of the RLF through follow-up and updating outstanding corporations and foundations, and meetings with prospective donors.
 - b. creation of RLF program design and management plan.
 - c. finalization of reporting and contractual requirements with the Office of Communities and Development.
5. "Jorge Hernandez, Executive Director
- a. overall supervision.
 - b. relation with Board of Directors and the government.

- c. new initiatives.
 - d. ongoing evaluation.
6. Talo Odria, Assistant Director
- a. personnel.
 - b. internal management.
 - c. support of Jorge Hernandez, Executive Director, in the Board of Directors and government relations, and overall supervision.
 - d. troubleshooting.
7. Nydia Cepeda, Secretary
- a. performance of secretarial duties."¹²

Interrelationships of Activities

Each person in the Commercial Development Component occupies a vital position because all the projects are interdependent. To illustrate this interdependency, one need only remove one of the projects. For example, if there was no All Saints Church Project the Business Promotion and Assistance Program would have to be reduced and deal with fewer businesses, to identify alternative space for social service agencies in present commercial space, or to find funds to construct new commercial space for prospective tenants.

The Revolving Loan and Equity Fund:
Its Relationship to Other Development Activities

The RLF has a direct relationship to the Business Promotion and Assistance Project because it will be providing some capital to entrepreneurs to meet their financing needs. Because of its role in this Project, the RLF also relates to the All Saints Church indirectly.

Like the Credit Union, the RLF is designed to meet the financing needs of the community. The Credit Union will focus primarily on personal financing needs and the RLF will focus on business financing needs. Nevertheless, the Credit Union and the RLF will work together in participation loans to assist larger business financing projects.

The RLF will be managed by the RLF management team and its relationship to the Board of Directors and government agencies will be handled by the Executive Director and the Assistant Director through their defined tasks. Finally, the overall coordination of the RLF will be deligated by the Business Development Director (See Appendix Eight for more detailed information).

Conclusion

Even though the commercial development activities at IBA began in 1978, only three years ago, it has achieved a considerable amount of success. The accomplishments have added

to its credibility and augmented the skills of its staff. Activities of the Commercial Development Component are now focusing on Step Five of the economic development strategy of IBA, and are relating to one another in an interdependent manner to produce a comprehensive strategy. Because of the importance of the Commercial Development Component's projects, every effort is made to make the project plans materialize. In the next chapter the methodology of making the RLF materialize is discussed, and the design and management plan presented.

FOOTNOTES

- 1 Inquilinos Boricuas En Accion Commercial Development staff, "Plaza Betances Business Promotion And Revitalization Project" (Boston, MA: Inquilinos Boricuas En Accion, 1979), p. III.4.
- 2 I.B.I.D.
- 3 I.B.I.D., pp. III.4 - III.5.
- 4 Inquilinos Boricuas En Accion staff, "Case Study: Community Control Model" (Boston, MA: Inquilinos Boricuas En Accion, June, 1979), p. 19.
- 5 I.B.I.D.
- 6 Inquilinos Boricuas En Accion Commercial Development staff, p. III.5
- 7 I.B.I.D., pp. III.5, III.6.
- 8 John Riordan, Assistant For Development, "Proposal To Establish A Revolving Loan And Equity Fund For Minority Small Business Development" (Boston, MA: Inquilinos Boricuas En Accion, 1980), pp. 7-8.
- 9 Luis Ramos, Director of Commercial Development, Inquilinos Boricuas En Accion, "Commercial Development Work Schedule, 1981-1982" (Boston, MA: Inquilinos Boricuas En Accion).
- 10 Riordan, p. 8.
- 11 I.B.I.D., pp. 8-9.
- 12 I.B.I.D.

Chapter Four
REVOLVING LOAN AND EQUITY FUND
FOR
INQUILINOS BORICUAS EN ACCION

Chapter One discusses the major problems confronting the minority small businesses of the South End. Once the problems are defined, Chapter Two provides an overview of IBA, an agency interested in minority small business development in the South End. By describing the elements of the strategy which IBA uses to effect the external political capital placement process, a framework for successful implementation of a market perfecting mechanism such as an RLF is then laid out. Chapter Three describes the previous business development efforts of IBA and the persons that will be involved in the RLF implementation process. This chapter focuses on the appropriate design and management plan for IBA's RLF in light of the community's needs and the agency's goals.

Definition

"A Revolving Loan Fund is a pool of money used by... a community development organization or other non-profit agency "...for the purpose of making loan guarantees. As loans are repaid by borrowers, the money is returned to the Fund to make other loans. In that manner, the Fund becomes an ongoing or revolving financial tool."¹

This definition summarizes the manner in which most RLF's operate, with one important exception - RLF's vary in the way they finance ventures. Briefly, some of the most common uses of RLF capital is to provide direct loans, loan guarantees, loan insurance, and subordinated debt. There are even those which provide equity. The RLF IBA proposes to establish will provide three types of financing: loan guarantees, direct loans, and equity investments. Thus, it is called a Revolving Loan and Equity Fund (please note that an interest subsidy will be given in special cases). For the purpose of simplicity, this thesis refers to it as an RLF.

Even though the financing of RLF's differ their program designs are very similar. There are usually six basic components:

1. Community Outreach.
2. Assessment of Lendees Elegibility and Financial Capabilities.
3. Selection and Approval Process.
4. Monitoring of Outstanding Loans.
5. Fund Management.
6. Program Evaluation.

The RLF's purpose usually determines whether or not it has more or less of these components. For instance, if the need for technical assistance in the community is great, there may be a Technical Assistance component.

Background

Throughout the last five years, RLF's have been used in Boston for various purposes such as business development or housing repair. Specifically, the East Boston Community Development Corporation (EBCDC) has successfully utilized its \$250,000 RLF guarantee program to meet the financing needs of its community's small businesses. It has done significant leveraging, but has not provided direct financing. From January, 1976 to February, 1979, on a \$250,000 grant from the Community Services Administration, the Revolving Loan Guarantee Fund (RLGF) program of East Boston served twenty local entrepreneurs with loan guarantees totalling \$276,650, and bank financing amounting to \$611,300; total financing, including the investment of principal, amounted to \$979,700.² To date, the RLGF has financed over thirty-five ventures and leveraged \$3.54 in banking dollars to every \$1.00 of RLGF dollars.³

The businesses that received financing through EBCDC/RLGF were refused conventional financing before obtaining a loan guarantee. Banks are willing to provide financing for these small businesses with greater information and reduced exposure which it obtains from the RLGF program. With an annual default rate of only three per cent the RLGF can be considered a viable market perfecting instrument for community development.⁴

Another successful RLF is run by the Neighborhood Housing Service (NHS) of Jamaica Plain.⁵ NHS's focus is on housing repair and the level of capitalization is below \$50,000.⁶ It

provides direct short term loans for housing repair which are revolved in the same manner as all other RLF's.

During the fall of 1980 in Dorchester the Massachusetts Urban Reinvestment Advisory Group's Community Reinvestment Revolving Loan Fund (CRRLF) was capitalized by the Economic Development Administration, the State Street Bank, and New England Merchants National Bank of Boston, at \$1,500,000. This fund is targeted at central business districts throughout the neighborhood. Unlike the EBCDC/RLGF, the CRRLF will provide reduced interest loans, direct loans, subordinated debt, and loan insurance for small businesses.⁸ In addition, the Massachusetts Urban Reinvestment Advisory Group (MURAG) will continue reducing the bank's information and transaction cost through its program. The potential for the CRRLF to act as an effective tool for community development is great.

All of the above examples use various approaches to achieve the same goal. EBCDC and MURAG both emphasis guarantees and leveraging, while NHS stresses direct lending. In any case, they are all attempting to cope with capital market failure by either directly filling the financial gaps or indirectly influencing the lending policy of banking institutions. The following section describes the design and management plan of IBA's RLF and how it will respond to the financing and operating needs of its small business community.

Goals And Objectives

Primarily, the purpose of the RLF is to do the following:

1. Improve the economic viability of existing small businesses by providing organizational, operational, financial, and managerial assistance (directly or indirectly) to lower costs and raise profits.
2. Provide the minority businesses of the South End with the appropriate capital to facilitate growth and development.
3. Create and expand businesses to generate new jobs for unemployed members of the community.⁹
4. Increase community residents' control of neighborhood land, labor, and capital resources.¹⁰
5. Deliver needed services to community residents.
6. Select potential entrepreneurs from the local community that may be capable of operating a new business venture.

Capitalization

IBA decided to capitalize its RLF through a challenge grant from the State of Massachusetts' Community Enterprise and Economic Development Office (CEED), and donations from

corporations and foundations. This allowed for flexibility in the RLF use guidelines because state grants and philanthropic donations do not have the restrictive requirements of federal organizations like the Community Services Administration.

As of April 31, 1981, the following organizations have committed funds to the RLF:

<u>Organization</u>	<u>Amount</u>
CEED (challenge grant)	\$ 20,000
Charlestown Savings	1,000
Cornerstone Charitable Trust (New England Merchants National Bank)	10,000
ETC, Inc.	10,000
Honeywell	1,000
Mac-Gray	1,000
New England Nuclear	100
Suffolk Bank	2,000
Vingo Trust II	5,000
Warren Charitable Trust (Shawmut Bank)	<u>5,000</u>
T O T A L	<u>\$ 55,100</u>

The total amount necessary to meet the CEED challenge grant requirement is \$9,900. This will make the RLF a minimum of \$65,000. It's maximum projected size is \$100,000. Other foundations and corporations are being approached for the remaining portion.

Guidelines*

The guidelines for administering the Revolving Loan and Equity Fund are as follows:

I. Eligible Uses

A. The following activities will be eligible to receive financial assistance from the Fund:

1. Land and/or building acquisition for industrial or commercial uses, if it results in creating or saving jobs.
2. Construction or renovation of buildings for industrial or commercial business, if it results in creating or saving jobs.
3. Purchase of machinery, equipment and fixtures by industrial or commercial business, if it results in creating or saving jobs.
4. Working capital financing, but generally only when the loan can be secured by inventory or accounts receivable.

B. The Revolving Loan and Equity Fund program funds can be used in the following ways:

1. To guarantee bank loans for an amount not to exceed the Fund's share of the total loan.
2. To subsidize the interest on bank loans.
3. To make direct loans to businesses.

* These guidelines were developed by the Commercial Development staff and the IBA Business Advisory Board.

However, to the extent possible, any long term direct loans will be limited to local development corporation injections, since this allows for maximum leveraging. (IBA has been in contact with United South End/Lower Roxbury Development Corporation, which is planning to establish a South End-wide local development corporation, about how to coordinate our efforts.) In circumstances in which IBA is unable to make use of a local development corporation, our direct loans will generally be limited to short term, working capital-type loans, especially when such loans serve to induce a bank to provide longer term financing for the business. Direct loans will be used to leverage as much of the total loan amount as possible. Entrepreneurs must be willing to contribute at least ten per cent and banks sixty-five per cent.

4. To purchase stock in a corporation so as to improve its equity position and thereby qualify it for conventional financing. (This will generally only be done when our equity option is below fifty per cent of the common stock and when the number of high

quality, permanent jobs created or retained justifies the investment.)

II. Beneficiaries

- A. The program's beneficiaries will be limited to socially and economically disadvantaged entrepreneurs who want to expand or upgrade an existing business or to establish a new business. Preference will be given to South End businesses, particularly those locating in the proposed Villa Victoria Shopping Center and those in the immediate vicinity. Non-South End businesses will be considered only in the event that they will provide a significant number of high quality, permanent jobs to South End residents. Since IBA will be attempting to leverage Massachusetts Community Development Finance Corporation funds or other private financing, IBA will use \$5,000 of program funds per job created/saved as a rule-of-thumb in determining our prospective involvement.

III. Criteria

- A. Because of the relatively small size of the Fund, participants in the program will have to show proof that acceptable financing is not available from other sources, or that Fund involvement is needed to be able to successfully use conventional sources.

- B. Entrepreneurs will be asked to submit a business plan. The business development staff and its advisory board must determine that the business is economically viable. Entrepreneurs must then agree to conform to special conditions of the Business Plan and its revisions while the loan is outstanding.
- C. The entrepreneur must demonstrate that he/she has had prior experience in the type of business requesting financing, or has had related experience.
- D. The principals must demonstrate that they do not have an unsatisfactory credit record.
- E. Applicants may be required to personally guarantee loans made by or through the Fund.
- F. All applicants must be majority owners of the business for which the application is submitted and must reveal all minority ownership positions before receiving funding.
- G. All financial assistance must be exclusively for business purposes.

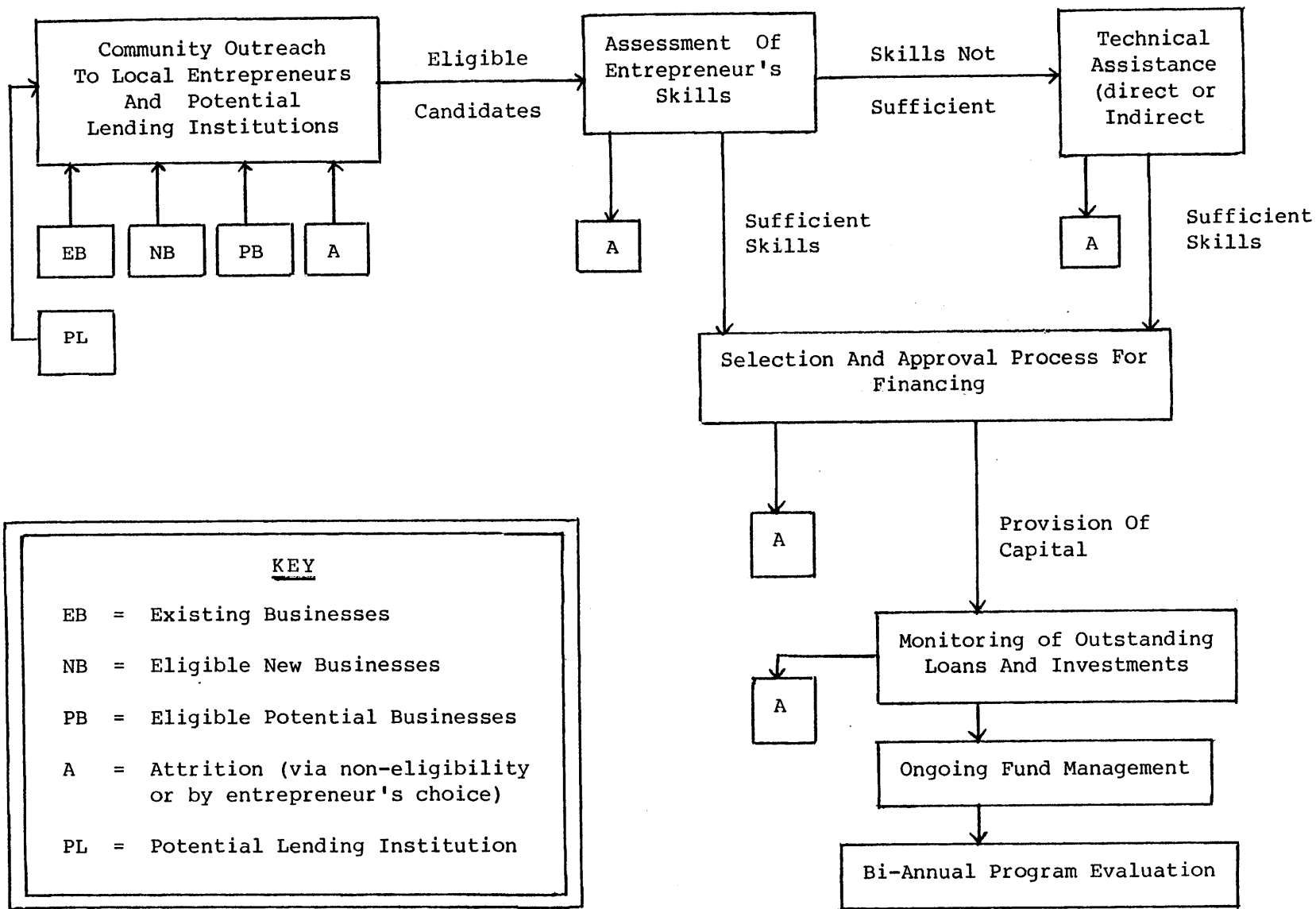
Program Components

To meet the goals and objectives of the RLF, IBA should include the following program components in its RLF:

1. Community outreach to local entrepreneurs and potential lending institutions.
2. Assessment of entrepreneur's skills.
3. Technical assistance (direct or indirect).
4. Selection and approval process for loan guarantees, direct loans, and equity investments.
5. Monitoring of outstanding loans and investments.
6. Fund management.
7. Program evaluation.

On the following page is a diagram of RLF program components.

RLF Program Components



KEY

EB = Existing Businesses
 NB = Eligible New Businesses
 PB = Eligible Potential Businesses
 A = Attrition (via non-eligibility or by entrepreneur's choice)
 PL = Potential Lending Institution

Each of these components is necessary for IBA's RLF to succeed in improving the capital placement problem in the South End. Below the function of each component is outlined along with the rationale for its existence in the RLF program design. (Note that a full time loan officer/manager and a part time accountant will compose the staff of the RLF).

Community Outreach
To Local Entrepreneurs And Lenders

First, the purpose and function of the RLF should be communicated to the local minority businesses before lending ensues. A program of community outreach which would include a marketing brochure in both English and Spanish, information sessions, and on site visits should be executed in the two to three weeks before operations or processing of loans begins. This type of marketing campaign is necessary to avoid resistance from the entrepreneurs and to find out if they feel that the established procedures are acceptable. Many potential lendees may view, for example, the proposed auditing process every three months as too frequent. Additionally, the dissemination of accurate information may prevent non-eligible persons from applying, thereby reducing unnecessary workload.

Second, as far as IBA is concerned, it is important to create a cooperative (not competitive) atmosphere between itself and the local business community. There are some local

businesses that view IBA's commercial development activities as competition to their businesses. IBA should make every effort to work with local businesses and to clarify its purpose in commercial development to insure credibility and avoid conflict.

Finally, the purpose and function of the RLF should be communicated to bankers, lenders, government and non-profit agencies which effect the South End business community. Agencies such as the BRA, the Massachusetts Community Development Finance Agency, Boston Neighborhood Development Agencies, the Small Business Administration, and others, should be informed of the purpose and function of the RLF through a letter and other secondary information (i.e. brochure). Informing these agencies will facilitate coordination and improve the possibility of leveraging capital through the use of existing programs.

Bankers and lenders should be contacted by letter and through personal presentations. An in-person presentation is necessary to begin establishing a personal relationship with local lenders. Developing a rapport and a level of trust with the banking community is extremely important to the loan guarantee portion of the program. The idea must be "sold" to banks in order to get them to participate. Therefore, a concise, effective, professional presentation of the RLF should prove invaluable. Since the loan guarantee portion will be more than likely the largest portion of the loan portfolio because of its lower risk to the RLF, this step is crucial.

The materials and presentation on the RLF should:

1. Introduce the purpose, goals, and function.
2. Articulate the guidelines and limitations.
3. Define the approval process.

As time progresses and loans are guaranteed and lent out, photographs of assisted businesses could be put in local papers to attract more participants and add to the credibility of the fund.

Assessment Of The Entrepreneur's Skills

Business skill assessment of entrepreneurs is necessary for identifying problems of specific business persons. It may be discovered, for instance, that poor coordination of purchasing may be repeatedly causing cash flow problems of a business. This purchase coordination problem may reveal that the entrepreneur does not prioritize purchases or fails to plan adequately. Identifying these problems before the selection and approval process can save a tremendous amount of time. Those entrepreneurs needing technical assistance will be assisted directly or referred to another agency for more extensive assistance.

Technical Assistance

Direct technical assistance (TA) and TA linkages should

be provided through the RLF via the staff, particularly the loan officer/manager. During the process of outreach and entrepreneur skills assessment the loan officer/manager should be able to identify the most severe problems confronting the minority small business. If the loan officer/manager discovers that none of the business persons have experience in business planning he or she could then contact an agency like the Small Business Development Corporation (SBDC). The SBDC provides training in business planning. Additionally, they offer TA in other facets of small business development.

On the other hand, if the problems the minority small business persons have are minor, like completing application forms or identifying a supplier, the loan officer/manager should provide direct assistance. The accountant could serve as an educator in the area of bookkeeping. It would not be appropriate to have the accountant set up the books of all small businesses in the South End. However, he or she should be able to offer advice on general record keeping problems.

Advice on upgrading the facades of businesses and the importance of interior maintenance should be provided by the loan officer/manager. Since appearance and product line are identified as two of the major deterrents to local shoppers, it would be wise to identify a contractor or group of contractors that could help minority small businesses improve the exterior and interior appearance. Moreover, if the businesses could be organized so that abutters would all share the cost of constructing a new facade, this could reduce the overall cost to

every participant. The loan officer/manager should encourage cooperation and cost sharing among minority small businesses. A security service could even be provided through a share cost arrangement. Because IBA has a security patrol already, perhaps this service could be purchased from it.

The product lines of minority small businesses should begin to shift to the new market if they are going to survive and raise profitability. Suggestions on the types of products the new market is demanding should be given by the loan officer/manager.

Selection And Approval Process

First, the most unacceptable, risky, and non-eligible loans should be "weeded out" early. This is necessary to reduce the amount of unnecessary work. A credit check through the local credit bureau or TRW, the national credit agency, would reveal those individuals with horrendously poor credit histories. Checking will not reveal all candidates, because some candidates may not yet have a credit history. Nonetheless, it will serve to catch those that do have unacceptable credit histories. A record of all rejections should be kept in the files and presented to the Business Advisory Board during regular meetings. This will allow the Board the opportunity to reconsider a candidate if they feel some potential is evident or special circumstance should be considered.

Second, after the "weeding" process is complete and the potential lendeer has completed the application and business plan these materials should be forwarded to the Business Advisory Board for evaluation, along with the loan officer/manager recommendations. Sufficient time for review should be allowed before the meeting of the Board, loan officer/manager, and the lendeer. Since there will be three types of investments: guarantee, direct loans, and equity investments, three types of criteria should be used. Because of the risk and the potential for losses, an equity investment should have the greatest return in terms of jobs, dollars, or service to the community. Direct loans should have the second greatest return in terms of jobs and service to the community, while guarantee loans have the least in all categories. The rule should be that "The amount of risk justifies returns." (see Appendix Eleven for cost-benefit analyses of each type of financing). With these costs and benefits in mind, the financing terms and business plans should be examined.

For those candidates applying for any form of RLF financing, the process of evaluation must be thorough, because the credibility of the IBA RLF will be at stake. Reduction of transaction and information cost, risk aversity, and prejudice can only be achieved through a success rate which is perceived by banks as reasonable. The collection and evaluation of accurate personal and business background information is key to the success of the RLF. These responsibilities fall on the loan officer/manager and the Business Advisory Board.

As was previously mentioned, the entrepreneur will be evaluated by the loan officer/manager who will then make a recommendation to the Business Advisory Board. The evaluation of the entrepreneur and the business plan will be done by the Board. Additionally, in the case of a direct loan or equity investment, the Board should review the terms requested by the candidate and those recommended by the loan officer/manager. If the recommendations of the loan officer/manager are consistent with the request of the entrepreneur, then the Board will compare them to their own. If the Board recommends considerably different terms, a process of negotiation should take place. Hopefully, some agreement can be reached between the three parties.

Third, upon completion of the evaluation by the Board, the entrepreneur will be either rejected or sent to the IBA Board for approval, along with recommendations from the Business Advisory Board. The role of the IBA Board should be to insure that appropriate processes were utilized by the Business Advisory Board, criteria and guidelines were followed, and the best interests of the IBA community are being served. Only upon approval by the IBA Board will any type of financing be provided.

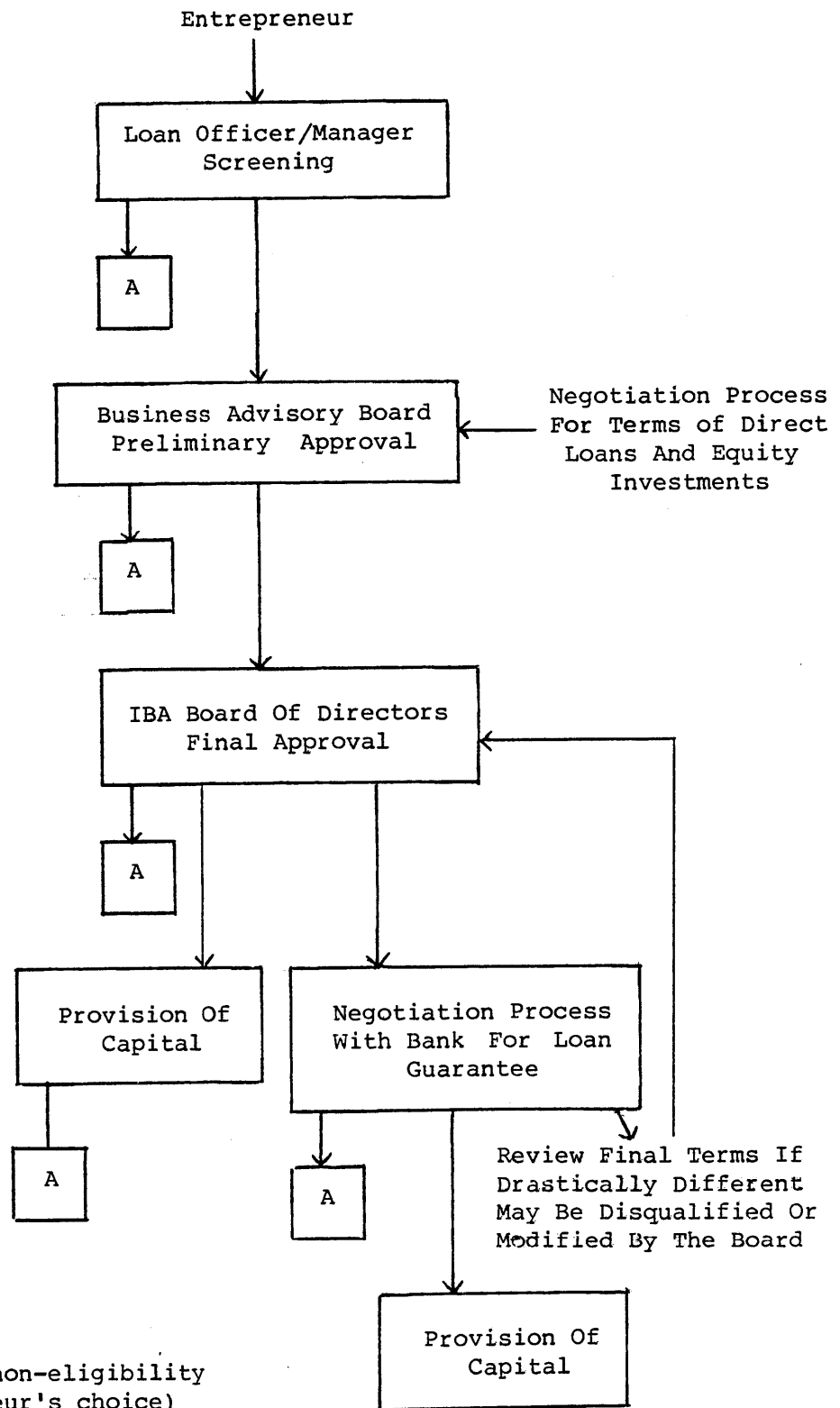
In the case of a loan guarantee, once the IBA Board approval has been obtained, the negotiation process for final financing terms should take place with the lender. During the negotiation process with the banker or lender, the loan officer/manager should be present, along with the lender and

and the lende. The loan officer manager should be an advocate for the entrepreneur. The loan officer should assist the lende with case presentation, and should clarify the position the RLF will take in the financing package. Any question concerning supporting documentation should be answered by the lende or the loan officer/manager. The most favorable terms for the lende and the RLF should be what the loan officer/manager strives for. Then, after terms are agreed upon between the RLF, the bank, and the lende, the IBA Board should have the opportunity to review the final terms. If this review is positive, a contract should be signed between the RLF, the bank or lender, and the lende. This contract does not replace the contract that should be signed between the lender and the lende. The legal counselors of IBA should assist in the contractual preparation for guarantee, direct loan, and equity investment. (Note the Selection And Approval Process diagram on the following page).

Monitoring Of Outstanding Loans

Outstanding loans should be monitored formally and informally. A simple telephone call to the lender once a month is important to make sure that a guarantee recipient is not delinquent with payments. A site visit to the business itself should also prove useful to see how work is progressing. In the case of direct loans, monitoring of the businesses'

Selection And Approval Process



monthly progress could mean the difference between a solvent loan and a defaulted one.

Fund Management

First, IBA's RLF monies should be held in a commercial bank yielding the highest interest possible with the least amount of risk. During the first two months of operation, a large percentage of the capitalized amount could be locked into a high interest bearing account like a certificate of deposit, a three month treasury bill, or a money market certificate. The percentage recommended to be put in such an account is eighty percent for the first three months. Because the first loans will take a considerable amount of time to process, only one of two loans will probably be disbursed by the end of the first three months. Therefore, it is not necessary to have all the capital in a ready asset account at a bank.

Second, during the third and fourth month, as processing of loans becomes more expeditious as a result of streamlining of the process, more money should be placed in shorter term accounts so that it can be lent out.

Third, it is safe to assume that the ceiling on loans should be around \$10,000. Because of the RLF's size, only a few businesses should receive this amount. The loan guarantee should be no greater than twenty percent. Most loan guarantees should be around \$5,000 and should leverage roughly \$20,000

from private lenders. These projections are based on conversations with other RLF managers and research on lending policy. Of course, these projections can be effected by the capitalization level. The terms of the loans, whether direct or guarantee, should be around six months to three years.

Fourth, interest earnings from guarantees should be reinvested in the RLF to maintain its level of capitalization. During the sixth month of lending an effort to seek other monies to capitalize the fund should be made. These monies could be obtained by pointing out the success of the fund in previous cases.

Fifth, default policy should be established by the Business Advisory Board, and approved by the IBA Board of Directors. However, it is recommended that an option preventing default be included in the legal agreement between the bank or lender, the RLF, and the lendee.

Program Evaluation

The performance and outcome measures of a program can reveal the success or failure of design features or methodology. Some of the process and outcome measures that are relevant to IBA's RLF are listed below:

1. Process Measures
 - a. The number of existing entrepreneurs assisted by the RLF.

- b. The number of new entrepreneurs assisted by the RLF.
- c. The number of potential entrepreneurs identified and assisted by the RLF.
- d. The number of loan guarantees, direct loans, and equity investments administered by the RLF.

2. Outcome Measures

- a. The number of jobs generated by RLF-assisted businesses.
- b. The number of existing and new businesses improved by the RLF.
- c. The number of businesses provided with capital that facilitated growth and development.
- d. The number of failed businesses assisted by the RLF.
- e. The number of previously unemployed persons now employed as a result of the RLF.
- f. The number of defaulted loans.

Implementation Strategy

IBA has been successful in its housing, educational and human service development programs for numerous reasons.

Nevertheless, there are four which stand out:

- Community control over the decision making process.
- Excellent organizational leadership and planning.

- Reinforcement of a strong cultural identity.
- Effective organization around immediate community needs.

All four of these factors have been central to the successful development strategy of IBA. Each step has been well planned and executed with the community's approval and the leadership's direction. A strong cultural pride has been evident throughout the entire process.

The issues at hand, in IBA's early stages of development, were how to deal with housing and providing services for residents. Now the emphasis is shifting to the creation of employment for unemployed workers and obtaining necessary commercial and retail services simultaneously. The former problems involved IBA deeply in the local governmental political process, but the latter entails becoming involved in the financial institutional political process. Instead of modifying government policy, IBA will be attempting to change private lending policies.

While struggling to change governmental policy IBA used direct action and community mobilization tactics (i.e. sit-ins, demonstrations) to effect the political process. Then through an educational process IBA began using sophisticated data base and plans to convince the government of its ability to plan and develop its own community.

Today, in the struggle to change private lending policy, IBA has chosen not to use the direct action tactics of previous years. Instead it is relying upon the community to support the

businesses that it finances. Having the support of the community includes giving the community the businesses it believes provide a vital service and are consistent with the cultural identity.

Moreover, as with the government, to effect lending policy, the sophisticated data base and plans are necessary. The organizational leadership and planning is vital to exemplify to bankers and lenders that IBA has a commercial development program which is capable of identifying profitable ventures and constructively planning for the future of its community.

As far as community control over the activities of the Commercial Development Component, there is a substantial amount. The control comes in the form of the IBA Board of Directors, which is made up of twenty members elected by the IBA general body. The community residents on this Board of Directors work effectively in guiding the programs. More importantly, they have for the past twelve years clearly represented the voice of the broader IBA body. The IBA Board should remain the final voice on commercial development decisions.

Now, there is a Business Advisory Board, a subcommittee of the IBA Board, which is made up of outside professionals. This Advisory Board will work directly with the Commercial Development staff on RLF selection and approval of ventures to finance. However, at least two IBA Board members should be on this Business Advisory Board to insure maintenance of the community's best interests. The evaluative role which the Business Advisory Board occupies gives the IBA Board a close

view of the RLF program so it can make more informed decisions. This structure is already partially in place and will serve well to fill a possible information gap. Two IBA Board members should augment the Advisory Board's effectiveness. Advisory Board members should make recommendations to the IBA Board on what ventures to finance with the RLF.

To institutionalize the RLF program IBA could integrate into the South End Credit Union. The integration should be slow to allow the inexperienced staff of the South End Credit Union to learn about commercial lending. Perhaps a position on the Business Advisory Board could be occupied by the loan officer of the Credit Union. Moreover, the Credit Union would work well as a servicer of outstanding RLF direct loans. Making the South End Credit Union part of the RLF program will probably improve its chances of success and would certainly continue to foster the well integrated and comprehensive planning approach IBA has used in the past.

FOOTNOTES

- 1 United States Department Of Commerce, "Economic Development Administration Revolving Loan Fund Guidelines" draft (Washington, D.C.: Economic Development Administration Directives System, June 9, 1980), p. 2.
- 2 East Boston Community Development Corporation staff, "Revolving Loan Guarantee Fund" proposal (Boston, MA: East Boston Community Development Corporation, February 13, 1979), p. ii.
- 3 Interview with Fred Macgrane, Manager, East Boston Community Development Corporation, Revolving Loan and Guarantee Fund, January, 1981.
- 4 I.B.I.D.
- 5 Interview with Syvalia Hyman, President, United South End/Lower Roxbury Development Corporation, April, 1981.
- 6 I.B.I.D.
- 7 Betsy Churchill, Steve Klionsky, and Betsy Manning, "Revolving Loan Funds And Community Investment: The Case Of MURAG And The CRRLEF," an unpublished paper (Cambridge, MA: John F. Kennedy School Of Public Policy, Harvard University, January, 1981), p. 9.
- 8 I.B.I.D., p. 34.
- 9 Lecture by Belden Daniels, Professor, John F. Kennedy School of Public Policy, Harvard University, "Financing Economic Development" course, September, 1980.
- 10 Lecture by Melvin King, Professor, Department Of Urban Studies And Planning, Massachusetts Institute Of Technology, "Community Development In Urban Neighborhoods" course, March, 1980.

Chapter Five

THE EFFECTIVENESS OF IBA's RLF
AS AN ECONOMIC DEVELOPMENT TOOL

Major problems in minority small business development in the South End divide into two categories: financial and operational. The financial problems result from market imperfections and operational difficulties arise from managerial inadequacies. The ability of the RLF to effect either of these areas determines its use as an economic development tool.

Ability To Cope With
Capital Market Imperfections

By providing capital specifically for minority small businesses, the RLF begins to work on one of the major problems confronting the South End entrepreneurs - capital availability. Availability of capital is key to development, but the amount and form is just as important. The amount of capital the RLF is making available to minority entrepreneurs is between \$65,000 and \$100,000.¹ Through leveraging it is projected that this total amount may triple to \$195,000 and \$300,000, respectively. Even though this is not a substantial capitalization when compared to the MURAG/CRRLF or the EBCDC/RLGF, in relative terms, the impact on the IBA community may be great because IBA is concentrating in one small area.

MURAG and EBCDC, on the other hand, are covering a large geographic area and target population. MURAG's CRRLF, for instance, covers the Dorchester neighborhood which is approximately fourteen times the geographic area of the IBA RLF target area (see Appendix Ten). Furthermore, IBA is concentrating its efforts in the South End Plaza Betances and surrounding shopping area (see Appendix Seven), while MURAG is covering eight commercial nodes in the Dorchester neighborhood.²

The area IBA is attempting to effect has only one lending institution located within its neighborhood boundary, so making capital available from the RLF and banks outside of the South End neighborhood will be significant.³ It is clear that whatever the circumstances, making more capital available for minority business development is correcting a market imperfection.

Facilitating access to capital resources previously "untapped" is one of the main purposes of the RLF. By reducing a bank's exposure to risk through loan guarantees previously inaccessible capital will hopefully flow into financing of minority small businesses. Reduction of transaction and information cost will also serve as an incentive to induce banks to invest. Modifying bank lending policy by incentive is, theoretically, how the access is achieved. The EBCDC/RLGF program has shown empirically that this is possible (see Chapter Four's background section for more detailed information). Simply put, without reduction of costs, risks, or some type of incentive, banks would not place the capital in the financing of minority

small businesses. Since the RLF has this feature and others (i.e. direct loan and equity investments) to reduce banks risks it will probably achieve its goal of correcting the access problem.

In addition, it is hoped that individuals given a guarantee or some other sort of assistance, that successfully pay off their loan to a bank, will be able to approach the bank without the assistance of the RLF. A rapport, trust or credibility bond will be nurtured between the lender and lendee by the RLF. This bond may lead to lending without RLF assistance. The RLF could be the community-based link which will bridge the financing gap.

The market imperfection of prejudice is dealt with directly by lending only to those minority entrepreneurs who have been refused financing. Obviously, every minority entrepreneur that is refused financing before coming to the RLF will not have been prejudged by the lender. However, those whose applications receive racial or geographic prejudice will be dealt with.

Indirectly, capital placement policy may be effected by the fact that the RLF officer/manager interacts with the lender. Once a rapport between the RLF officer/manager and the lender is established, it is hoped that the lender might begin to see that people of a particular race or geographic area are just as reliable as others. The lender's perceptions might also be effected by those candidates that are lended to through the RLF. If these candidates demonstrate that preconceived notions about racial group or geographic area were incorrect, the prejudice problem could be further ameliorated. It is hoped that the

lender may generalize the positive perceptions of the RLF officer/manager and successful lendees.

The cost of information and transaction is lowered directly by the RLF's design features - specifically, the assessment of entrepreneur's skills, technical assistance, the approval process, and monitoring of persons receiving RLF assistance reduces these costs. By weeding out the most risky candidates the RLF reduces unnecessary paperwork for the bank.

The cost of information is further reduced by the selection and approval processing requirements. Background and plans of the minority entrepreneur and his or her business are required. Also, a credit check is performed through the Boston Credit Bureau and/or TRW to further validate an individual's creditworthiness. Finally, personal data collected from community members that are knowledgeable of the entrepreneur's general reliability, trustworthiness, and other personality characteristics may be collected.

Transaction costs to the lender could be reduced by the RLF monitoring process. Updates on business progress can be provided within a few days on a request from the bank. These incentives could induce a lender into a RLF deal and thereby effect the capital placement policy of the lender.

The risk aversity of a lender should be directly affected by the reduction of both real and perceived risk. Real risk could more than likely be reduced by the RLF weeding process which includes:

1. Assessment of the entrepreneur's skills.
2. Selection and approval process.
3. Monitoring of outstanding loan process.

The collection of data on the personal character of the entrepreneur, coupled with the liaison role of the RLF officer/manager may reduce perceived risk. Finally, both real and perceived risk may be lowered by an RLF guarantee, direct loan or equity investment. All of these features of the RLF program design add to its ability to reduce risk aversity.

In summation, the design features of the RLF cope with the market imperfections of the South End minority small business environment described in Chapter One. The design and management components of the RLF vary in their ability to cope with the capital placement problems, but it is clear that the community-based RLF can be an effective tool for correcting market imperfection and subsequently, economic development activities. The next section pinpoints the manner in which the RLF attempts to resolve some of the operational problems of minority small businesses.

Ability To Provide Technical Assistance

Competence and managerial expertise can be acquired through education or experience. IBA's RLF program does not have the staff capacity nor the economic resources to provide the technical assistance necessary to overcome the severe managerial inadequacies of many of the minority small businesspersons of the South End. To begin resolving some of these managerial difficulties, IBA is providing some direct technical assistance in the form of advice on marketing, inventory changes, and store improvements. This sort of assistance is not extensive, but it can have far reaching effects.

In an effort to expand its technical assistance capacity, linkages will be established with the Small Business Development Corporation and the Small Business Administration. These agencies offer seminars which train small businesspersons in financial planning, marketing and business management. The services of these agencies can be obtained either free or at a nominal cost.

In addition to these resources, it would be wise for IBA to investigate the possibility of utilizing some of the educational resources in the Boston/Cambridge area. By working through community relations offices of an educational institution, the IBA RLF program might be able to arrange a special workshop.

By providing direct and indirect technical assistance IBA will be helping the inexperienced entrepreneur. However, it is important to note that education can never replace practical

experience. The goal of IBA's RLF program will be to assist the entrepreneur in avoiding the most detrimental problems.

The technical assistance will help small businesses cope with insufficient planning while IBA's business promotion program for Plaza Betances will improve part of the marketing problem. Many of the first entrepreneurs assisted by the RLF will be located in the Plaza Betances commercial space due to open in November of 1981. This space, located on West Dedham Street will provide business promotion through the local media for the Plaza in general. Nevertheless, marketing for specific businesses inside and those located outside Plaza Betances must still be done. At present, the technical assistance is available to fill this void.

Minority small business entrepreneurs of the South End, like those throughout the United States, often hire relatives to fill positions in their businesses. This often cuts down on overhead costs and sometimes insures the owner/operator that the employee has an interest in the business. There is, however, one great problem with this method of staffing - the family member or relative is not always appropriate for the position offered in the business.

For instance, an entrepreneur may hire his cousin to wait on customers. The cousin may have a bad disposition. Since the interpersonal manner of a person serving a customer can effect whether or not the customer returns, a poor disposition could effect the viability of the business.

The RLF cannot effect the hiring policy of the entrepreneur but it can make contingencies in its financing package. These contingencies could be targeted at the staff person's attitude in the above-cited example. These contingencies should be designed to improve the businesses' viability.

The problem of security can be alleviated by the RLF in numerous ways. One way is to encourage the businessperson to share the cost of hiring a security guard. Another is by contracting IBA's existing twenty-four hour security service. For the RLF program, participants moving into the Plaza Betances commercial space will be charged a security fee, to be incorporated in the rental fee of the space.

The effectiveness of IBA's RLF as an economic development tool is limited by its initial capitalization, staff capacity, and economic resources for operation. Since the RLF target area and population are small, its potential for success is enhanced. The resourcefulness of the staff operating the RLF and their ability to identify good candidates for financing will determine its overall effectiveness.

FOOTNOTES

- 1 John Riordan, Assistant For Development, "Proposal To Establish A Revolving Loan And Equity Fund For Minority Small Business Development" (Boston, MA: Inquilinos Boricuas En Accion, 1980), p. 4.
- 2 Betsy Churchill, Steve Klionsky, and Betsy Manning, "Revolving Loan Funds And Community Investment: The Case Of MURAG And The CRRLF," an unpublished paper (Cambridge, MA: John F. Kennedy School Of Public Policy, Harvard University, January, 1981), p. 9.
- 3 Interview with Hector Melendez, Assistant Director of Development, Inquilinos Boricuas En Accion, March, 1981.

Chapter Six

RECOMMENDATIONS AND CONCLUSIONS

The following recommendations are divided into sub-categories for organizational purposes. Sub-categories are recommendations relating to the RLF:

1. Staff
2. Technical Assistance
3. Selection And Approval Process
4. Credibility
5. Fund Management
6. Expansion

Staff

The RLF loan officer/manager should have knowledge of basic finance and accounting principles. Additionally, he or she should be bi-lingual (Spanish and English) and aware of the financial and operational needs of minority small businesspersons.

The person monitoring the outstanding loans, loan guarantees and equity investments should have, at a minimum, a Bachelor of Science in Accounting (preferably, Public Accounting Certification).

Since the RLF staff will be working in conjunction with the financial, governmental and local community members, it

is imperative that the staff is capable of working effectively with people of diverse interests and ethnic backgrounds.

While negotiating with lending institutions, the RLF loan officer/manager should advocate on behalf of the minority entrepreneur. The loan officer/manager's objective should be twofold: first, to clarify the case of the potential lendee and second, to obtain the best financing terms for the lendee and the RLF.

Technical Assistance

It is essential that technical assistance in the form of planning, bookkeeping and marketing be provided by the RLF program to successfully cope with the operational problems of minority entrepreneurs.

Because the staff capacity and financial resources of the RLF are limited, the RLF should establish technical assistance linkages with the Small Business Development Corporation, the Small Business Administration, educational institutions (i.e. Northeastern University) and government and private agencies, which can assist minority entrepreneurs. Educational seminars and training sessions should be promoted by the staff during the community outreach to assist those entrepreneurs with operational problems.

One of the objectives of community outreach should be to facilitate the organization of an active business association.

This will promote self-sufficiency among the businesses in their endeavor to build political and economic strength. A formal political voice from the business community could possibly effect the placement of capital in the South End. The "grass roots" political approach was critical to IBA's development and will be critical to the business community's development.

Specifically, the minority entrepreneurs should be encouraged to:

1. improve the exterior and interior appearance of their establishments;
2. diversify their product line and marketing approach to capture more of the upper income market;
3. improve their bookkeeping methods; and,
4. reduce the crime near their businesses.

In all the above cases, pooling of costs should be encouraged and, if possible, arranged. For example, security services could be contracted from IBA and supported by a fee from the entrepreneurs. In another case, an accountant which specializes in small business bookkeeping could be identified by an RLF staff member and, subsequently, contracted to do the books of group of businesses with similar accounting needs.

Selection And Approval Process

The role of the loan officer/manager should be to recruit, screen, and recommend candidates to be considered for assistance

by the RLF. In addition, the loan officer/manager should assist the entrepreneur with the preparation of business plans for the establishment. The role of

The role of the Business Advisory Board should be to evaluate the business plan and entrepreneur, and make recommendations to the IBA Board of Directors for final approval.

The role of the IBA Board should be to:

1. insure that appropriate criteria for selection and evaluation were utilized by the Business Advisory Board in the consideration for RLF financing;
2. make sure that the community's best interests are being served by the venture; and
3. have the final approval or disapproval power over over financing of a venture.

The IBA Board represents the community. Therefore, allocation of RLF resources should ultimately be determined by the IBA Board.

The selection and approval process should be streamlined as much as possible to avoid unnecessary work. Standardization of applications, business plans, and evaluation forms could result in a more fluid flow of information and, thereby, reduce the amount of time involved in processing.

The Business Advisory Board should have at least two members of the IBA Board on it to increase the IBA Board's awareness of commercial development activities and the RLF evaluation process. Having IBA Board members on the Business

Advisory Board would also put the IBA Board in a more active position in the RLF financing process.

If the RLF program is going to become institutionalized it should begin working with the South End Credit Union. This credit union was initiated by IBA and has close political and cultural ties. Since it is the first Hispanically owned and operated financial institution in New England, it is the type of institutionalized entity which could assist in the continuation of the RLF program after the staff positions are defunded. To begin an interactive process, it would be wise to appoint one credit union staff person to the Business Advisory Board. By doing this, the staff person will gain an intimate understanding of the workings of the RLF. Detailed knowledge of the program can lead to easier incorporation of the RLF into the credit union.

Credibility

Initial loans should be used to establish credibility in the lending community and the South End business community in the target area. This means carefully scrutinizing the first seven to ten ventures. Close examination of personal background and business plans will reveal an entrepreneur's potential for success.

Records of all rejections and acceptances should be kept so that the important indicators can be isolated, and serve as

a guide to improve the selection of successful ventures. A tremendous amount of learning will occur in the first seven to ten ventures financed. Therefore, risky ventures should be avoided. That is to say, start-ups and equity investments should not be financed in the first nine months of RLF operation to preserve credibility.

Loan guarantees and direct loans which leverage private or public capital should compose ninety percent of the RLF loan portfolio in the first year.

First priority for RLF financing should be given to those ventures locating in IBA's Plaza Betances commercial space, who provide a vital service, cultural enriching service, or employment to community members. Ideally, the owners of these establishments assisted will be residents of the South End.

A monitoring process should take place monthly and a formal process should take place quarterly. High risk lending (both perceived or real) requires close attention. Therefore, a site visit to the establishment, or a phone call to the lender concerning guarantees should not be considered abnormal.

An evaluation process should take place semi-annually. The process and outcome measures specified within this text should be used to assess the effectiveness of the RLF program and to reveal whether some modification is necessary.

To avoid conflicts of interest during the selection and approval process, IBA Board and Business Advisory Board members who are either friends or relatives of a potential lendeer should be temporarily replaced by impartial members of both Boards

for the duration of the evaluation and approval process.

Fund Management

1. Loans should not exceed \$10,000 for an RLF operationalized at \$65,000 and \$100,000.
2. Loan guarantees should not exceed twenty percent of the total financing package.
3. The lendee should be required to contribute between ten and fifteen percent of the total financing package in liquid or fixed assets.
4. Loan collateralization should be kept flexible, however, items such as equipment, real estate, inventory, automobiles and other physical assets, with a bluebook or resale value approximately equivalent to the size of the loan, will probably be required by the lending institution. Similar collateralization should be used for direct loans.
5. Any interest earned on RLF loans should be added to the pool of capital to maintain it's "real" value.

Expansion

1. The South End Credit Union and the RLF should establish a matching commercial lending program where both put up an equivalent amount of capital to increase public and private

leveraging potential. This should be encouraged after the RLF has provided its first few loans or if a large non-risky project becomes available.

2. RLF staff should encourage persons that have received assistance previously from the RLF to pursue conventional financing. Hopefully, the creditworthiness of the entrepreneur will have been enhanced by the RLF track record and, subsequently, banks will be more willing to lend.

3. After the first nine months, and once some loans have been issued, alternative sources for increasing the RLF capital pool should be sought. Using the RLF track record and reputation gained through working with lending institutions, money could be obtained from corporations, foundations, or the government.

4. After the first nine months, RLF staff should begin to develop a strategy to more deeply involve banks in the RLF program. They should request amounts matching RLF capitalization and indicate how the RLF can lower risk, and information and transaction costs.

CONCLUSION

The central question of this thesis is whether or not IBA, a community-based development organization, can successfully guide the appropriate and efficient placement of capital in its community and, subsequently, gain greater control over community economic resources by utilizing the RLF program. IBA's organizational development and record of achievement in housing, social service, and to a limited extent, commercial development, indicates that the agency has the vital elements necessary to effectively utilize a capital market perfecting mechanism.

The organization's ability to mobilize the political power of its community and determine its own future is evident. In addition, the leadership's knowledge and responsiveness to community needs reveals a critical link between the member and the decision making process. This link, along with a strong cultural identity, has served to keep the community united against outside forces. These characteristics, along with well planned and executed development activity, have all contributed to IBA's success.

In the attempt to implement an RLF program which will cope with both the financing and operational needs of its minority entrepreneurial community, IBA must re-educate financing institutions with regard to lending policies for minority small businesses, and provide technical assistance

to minority entrepreneurs. This dual educational process is both political and economic in its implications for policy formulation.

IBA's ability to achieve the above mentioned tasks is limited by the level of capitalization of the RLF, the number of staff persons available to provide technical assistance, and the receptiveness of lenders and minority entrepreneurs to IBA working as a liaison. In spite of these limitations and seemingly overwhelming objectives, IBA will be able to effect the placement of capital in its target area and thereby gain greater control of economic resources.

The use of political power to effect external institutions is not new to IBA. Even though these institutions are mostly private, they nonetheless do respond to the demands of communities. The success of organizations like the East Boston Community Development Corporation and the Massachusetts Urban Reinvestment Advisory Group support the fact that financing institutions can serve the capital needs of all communities, even those with low and moderate income residents.

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Appendix One

Residential Distribution Of Different Population Groups
In The City Of Boston, 1950-1970

Population in 1,000 persons

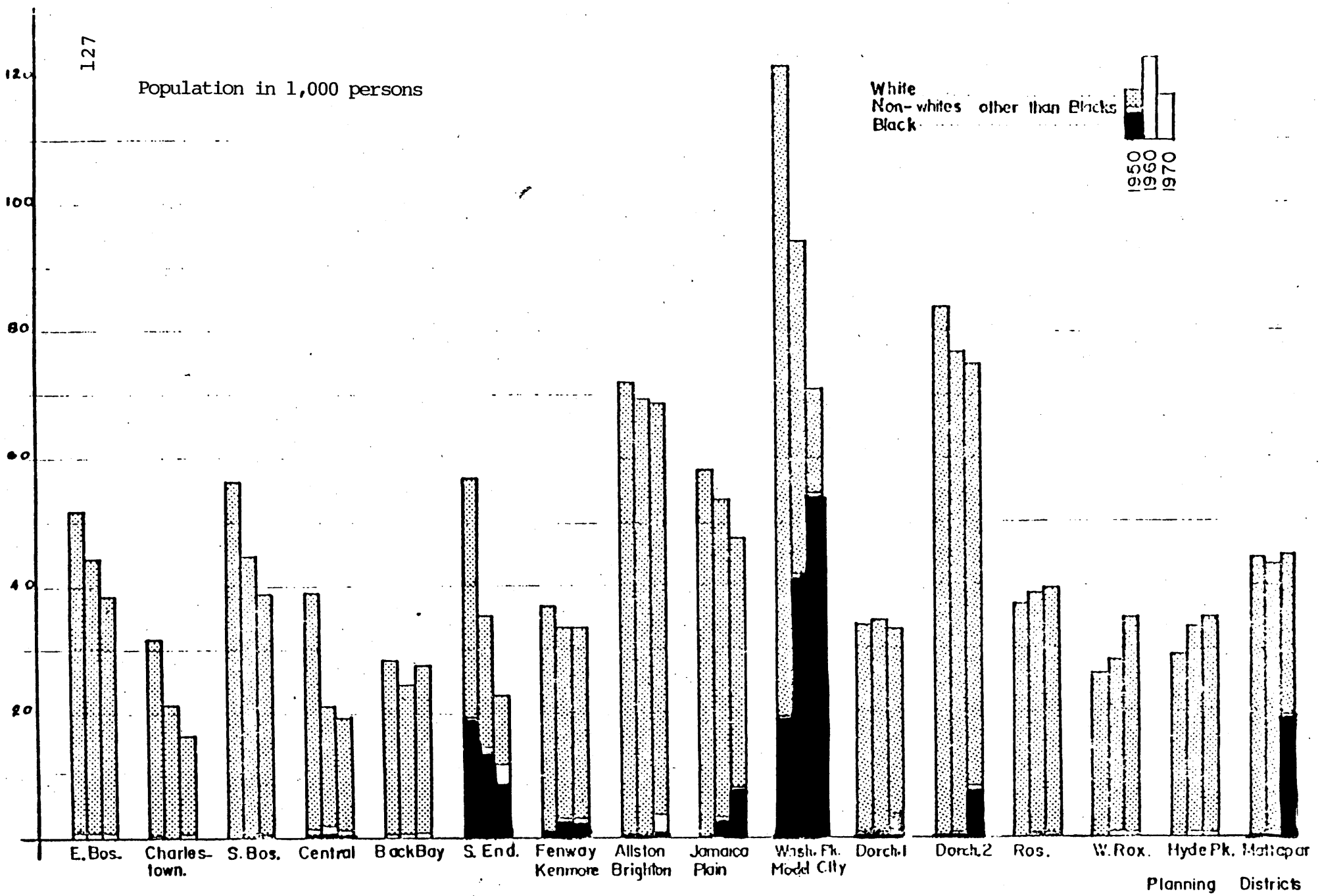
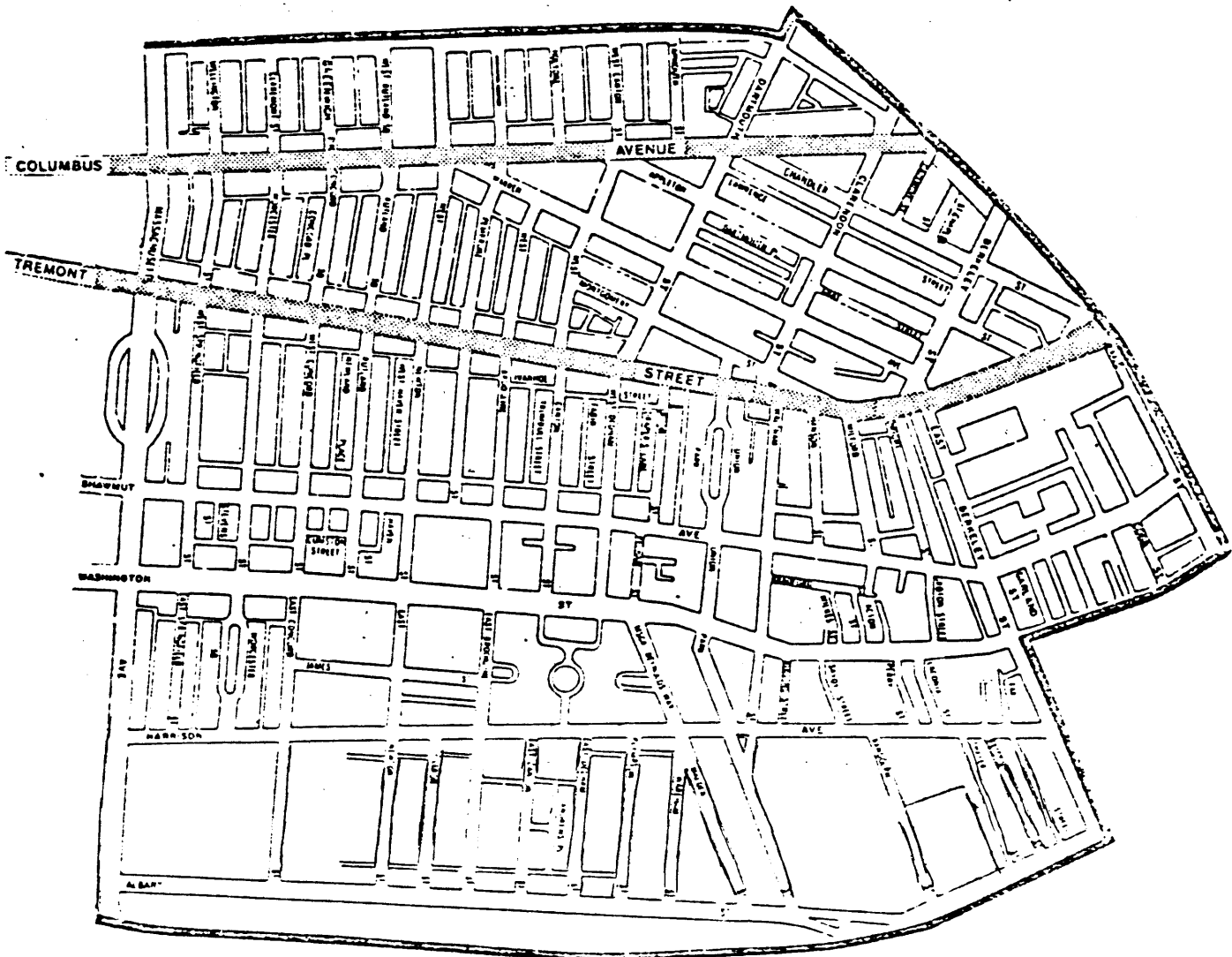


Figure 2 Residential Distribution of Different Population Groups in the City of Boston
1950 1960 1970

Appendix Two

Villa Victoria Primary Market Area

Villa Victoria Primary Market Area.



Appendix Three

Computation Of Gap Between Sales
And Potential For Market Area Retailers

COMPUTATION OF GAP BETWEEN SALES AND POTENTIAL FOR MARKET AREA RETAILERS

<u>Business Type</u>	<u>No. of Outlets</u>	<u>Square Footage of Outlets</u>	<u>Estimated \$ Sales/Sq.Ft.</u>	<u>Estimated \$ Sales</u>	<u>Sales Potential</u>	<u>Sales Gap</u>
Discount Department Stores	0	0	48	0	5,184,000	5,184,000
Eating Places	32	38,000	51	1,938,000	1,305,738	(632,262)
Supermarkets	2	25,000	133	3,325,000	18,940,000	14,295,000
Grocery Stores	27	22,000	60	1,320,000		
Florists	9	10,000	50	500,000	74,000	(426,000)
Drugstores	6	10,000	65	650,000	2,450,970	1,800,970
Dry Cleaners	5	9,500	34	323,000	143,000	(180,000)
Liquor Stores	10	21,000	80	1,680,000	469,000	(1,211,000)
Hardware Stores	3	12,000	43	516,000	551,000	35,000
Drinking Places	16	20,000	NA	NA	NA	NA
Barber Shops	11	6,500	39	253,000	165,000	(88,000)
Shoe Stores	1	500	36	18,000	161,000	143,000
Men's Clothing	1	500	68	34,000	265,000	231,000
Women's Clothing	1	500	63	31,500	252,000	493,500
Family & Other Clothing	2	6,000	66	396,000	256,000	(140,000)
Laundramats	1	1,500	15	22,500	95,000	72,500
Bakeries	0	0	48	0	100,000	100,000
Beauty Shops	5	4,000	50	200,000	239,000	39,000
Meat & Poultry	2	5,000	180	900,000	330,000	(570,000)

Appendix Four

1975 Per Capita Income By Census Tract

1975 Per Capita Income By Census Tract

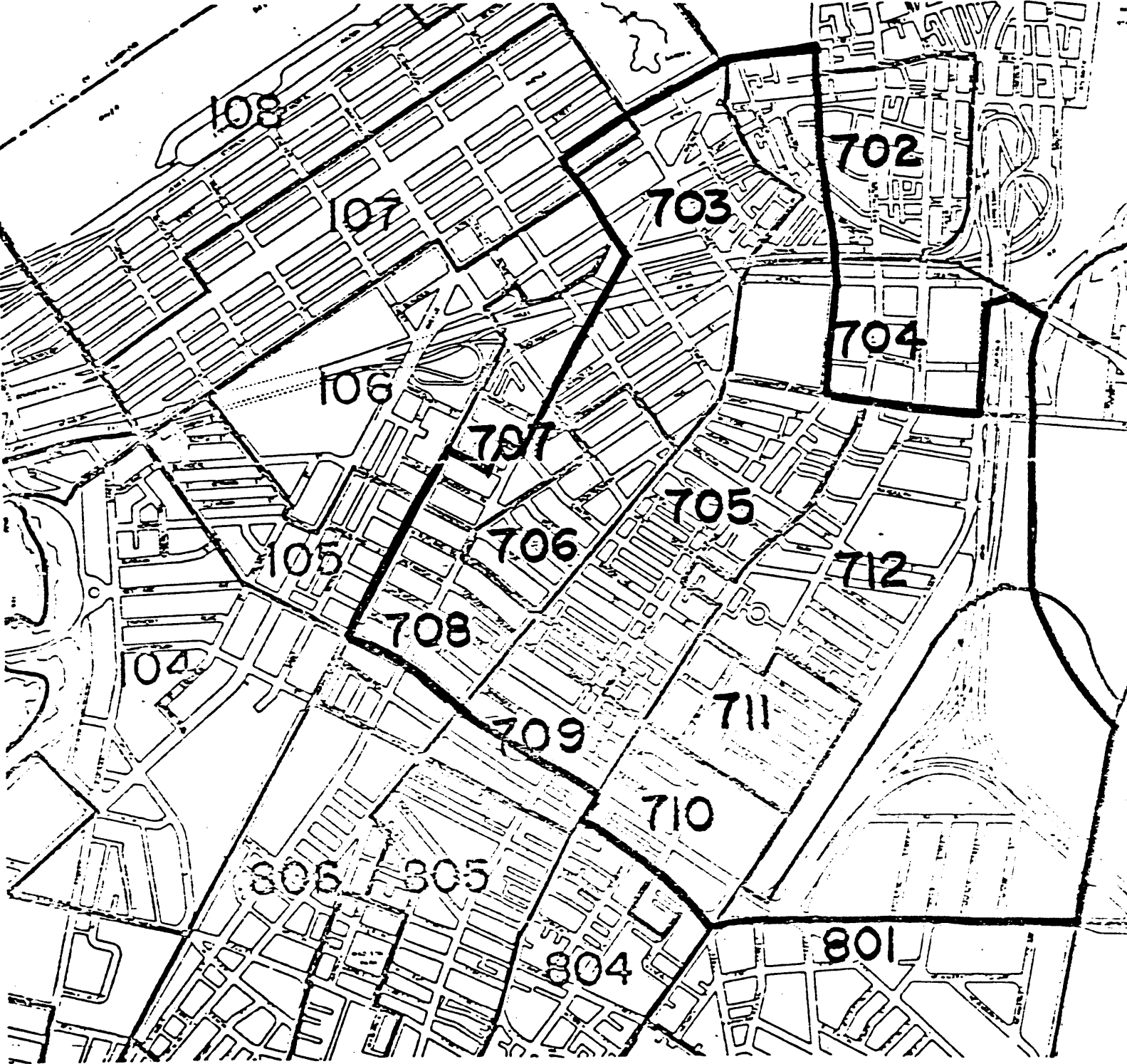
<u>Tract</u>	<u>Mean Income for Families and Unrelated Individuals</u>	<u>x</u>	<u>Total Families and Unrelated Individuals</u>	<u>= Total Income</u>	<u>÷ Total Pop.</u>	<u>=</u>	<u>Per Capita Income 1970</u>	<u>Per Capita Income With 35% Inflator*</u>
703	\$ 6172		2137	\$ 13,189,564	2968		4444	\$ 6000
704	5177		614	3,178,678	1708		1861	2512
705	5294		2544	13,467,936	5051		2666	3599
706	5134		1692	8,686,728	2465		3524	4757
707	4907		378	1,852,578	696		2662	3594
708	4383		1580	6,925,140	2379		2911	3930
709	4364		1144	4,992,416	2046		2440	3294
710	3480		901	3,135,480	1201		2611	3525
711	4466		554	2,474,164	733		3375	4556
712	4243		940	3,988,420	2407		1657	2237

* Adjusted for inflation between 1970 and 1975.

Appendix Five

Market Area Map By Census Tract

Market Area Map by Census Tract

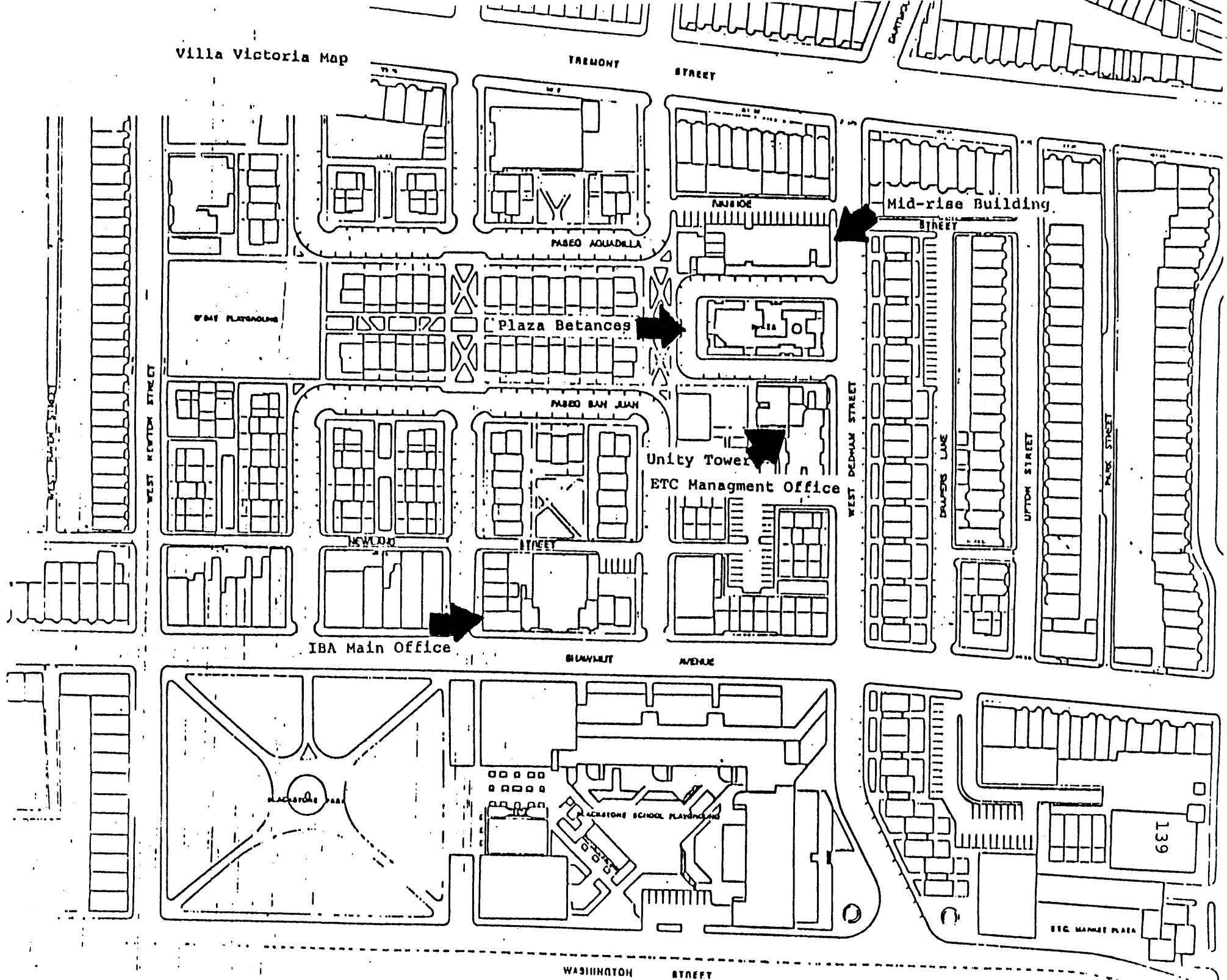


Appendix Six

South End Activity Centers Plan

Appendix Seven
Villa Victoria Map

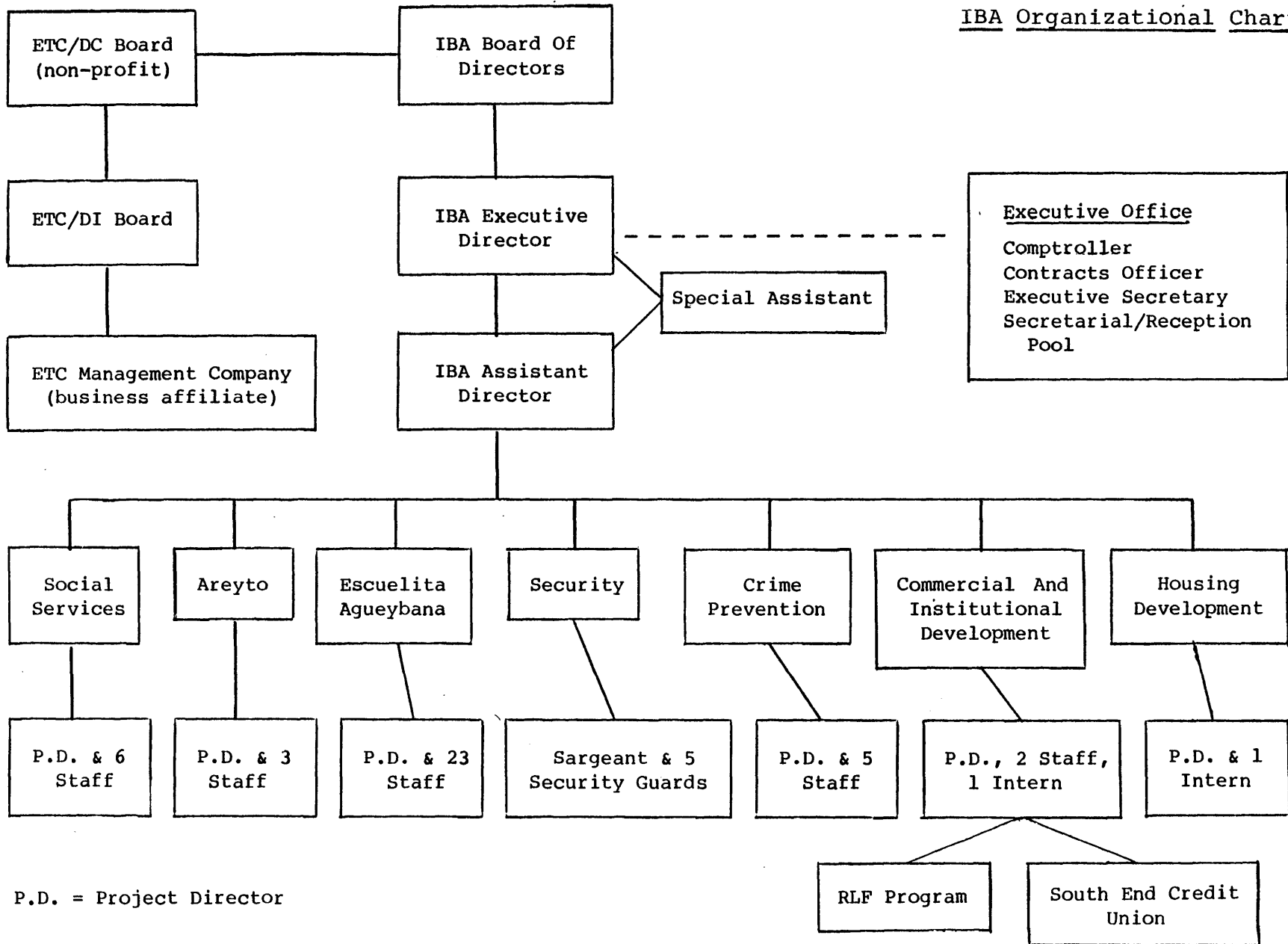
Villa Victoria Map



Appendix Eight

IBA Organizational Chart

IBA Organizational Chart



P.D. = Project Director

Appendix Nine

Methodology Of Research And Design

Methodology Of Research And Design

The Process

This thesis is the culmination of over twenty-seven interviews and approximately 100 informal and formal meetings. The process of research and design consisted of self-initiated and client-initiated tasks. Unlike many academic research endeavors, practically every aspect of the program was scrutinized during the development process.

During the first two weeks of interaction with the client, a bond of trust and mutual respect had to be established. The purpose of these bonds were to insure the quality and applicability of the product. Without an honest and egalitarian interactive process between the consultant and client, quality and applicability would have been questionable.

This thesis is a "snap shot" of space (i.e. IBA) and time (i.e. spring, 1981).¹ By freezing the activities of the organization of human beings, the "participant observer" role, which the researcher occupied, can be clearly delineated² and juxtaposed to that of the client in some instances. However, in other instances, the "participant observer" takes on an "objective analyst" position and it is difficult to detect because of the researcher's preconceptions and certain vested interests which conflicted with the interests of the client.³ This is one of the dangers of the involved process of planning/

implementation on the community level.⁴

The Roles During Capitalization,
Design of RLF Components,
And Management Plan Phases

In the first two weeks of thesis research, the author, for the most part, occupied the role of the objective analyst. Once the problem was defined, the organization understood and the tasks laid out shifted the role of the author to implementor.

The implementation activities consisted of writing letters to foundations and corporations in the name of the client. Also, telephoning and interviews, on behalf of the agency, were necessary. All these activities combined to form a belief, in the author's mind, that he was in fact inextricably interwoven into the fabric of the organization. Admittedly, the amiable behavior of the staff members and constant reinforcement that his behavior was appropriate, nurtured this perception. Since capitalization of the financing mechanism was so critical, the author felt justified in becoming imbued with the thought of becoming a member of the agency.

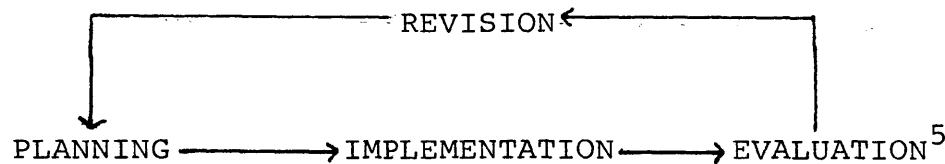
As task emphasis shifted from capitalization to design of the RLF program, the consciousness and demeanor of the author adapted. The design tasks necessitated that the author take a more objective approach. Returning to the role of the objective analyst, he began gathering and analyzing data on other RLF's in

the Boston area. Additionally, the author sought and obtained extensive amounts of information on the development of small businesses. Interviews, statistical data bases, and client needs guided much of the research.

Once the information was compiled and analyzed, the design phase began to take on two dimensional characteristics - that is to say, the author began formalizing the information into a report. This preliminary design report forced the author to move into the role of the planner. By visualizing the possible vicissitudes of the organization and the future community needs, the author planned a flexible design which would permit the projected organizational and community changes.

With the completion of the program design, the author returned to the client to discuss the feasibility of the design in terms of the organization's needs and capacity. Moreover, the acceptability of the design as far as the community was concerned was a tantamount consideration. On the one hand, the fact that the client had not reviewed and analyzed all the information that the author compiled put the client at a disadvantage. On the other hand, the author's lack of knowledge concerning the organizational and community politics put him at a disadvantage. Clear, honest appraisal of the institutional constraints from the external and internal perspectives created a mutual learning and educating interactive process between client and author. By the end of the interaction (one week of meetings with revisions and approvals) the client and the author both were pleased with the results.

Conceptually, the process of design looked like this:



To illustrate this point, initially the author had assumed that a staff of three persons was not unrealistic. Nonetheless, when discussion of implementation began it became apparent that this subject begged evaluation. A quick evaluation revealed that the man hours involved would cost too much for the agency to handle, so revision ensued to adjust to the new manpower situation.

In the management plan section, information on investment criteria and indicators of business viability had to be obtained. The research again took the form of personal interview and secondary research. Analysis and compilation of this information moved the author into the objective analyst role. This role also led the author to literature on capital placement in communities of color.

With the analysis complete, the role of the planner, and the cycle of planning, implementation, evaluation, and revision returned. The fact that the RLF would not be regulated by the federal government's normal rules for financial institutions provided advantages, but made this process crucial to the operationalization of the fund.

Observations

While working at IBA the author made numerous observations on the organizational characteristics of the agency. Since specifics are not necessary to clarify a valuable point, generalizations have been developed to indicate the characteristics the author thought were valuable in making the agency and the project successful (i.e. effective in implementation):

1. Strong, well-defined leadership.
2. Relaxed working environment.
3. Trust between staff members.
4. Pride in the Puerto Rican culture.
5. Commitment to the community's development.
6. Slow, organic growth of the organization.
7. Task orientation in implementation.
8. Community participation and support of projects.

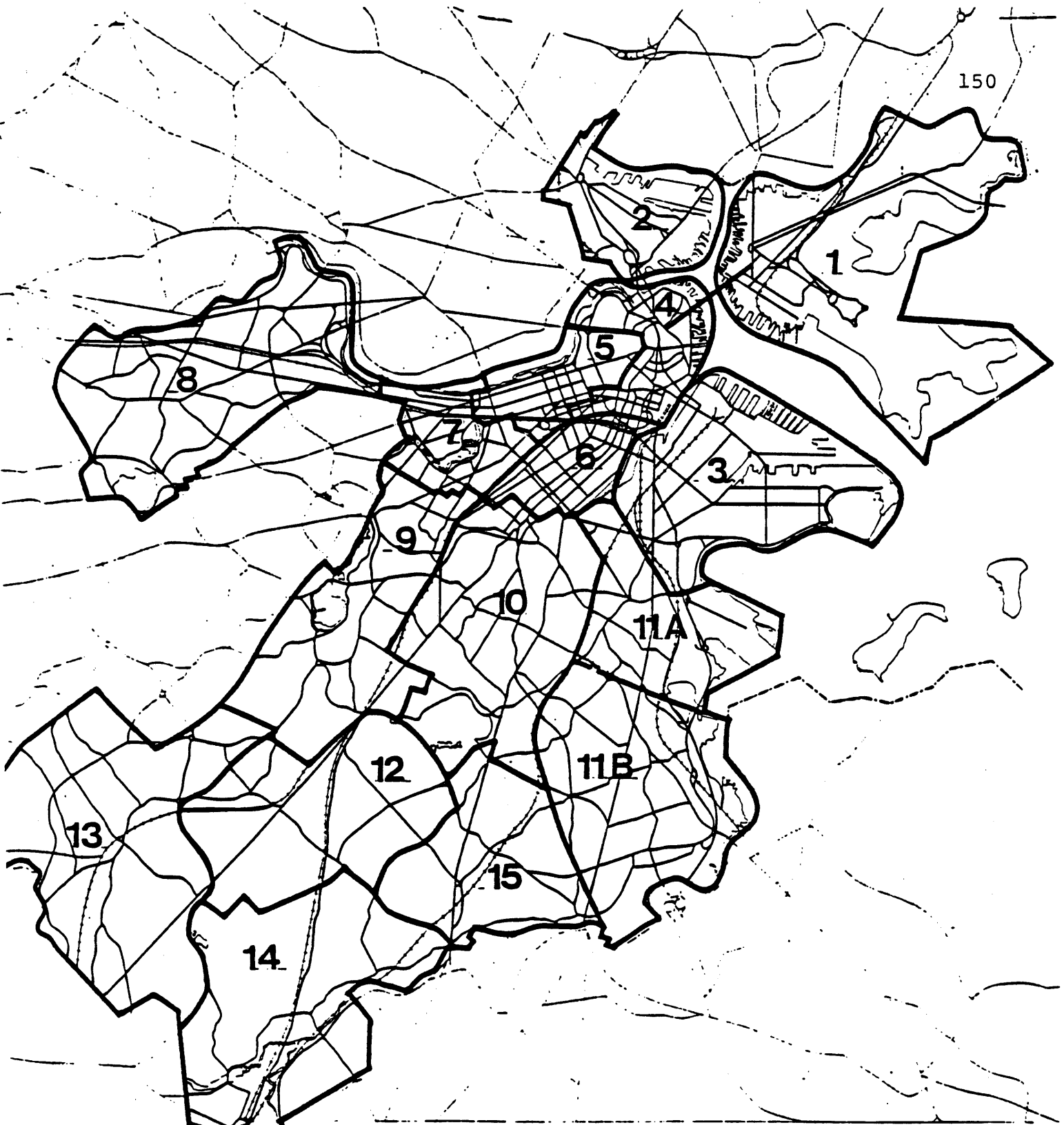
These factors may be generalized to help other agencies, but are difficult to measure in quantitative terms.

FOOTNOTES

- 1 Discussion by Frank Jones, Professor, Department Of Urban Studies And Planning, Massachusetts Institute Of Technology, May, 1981.
- 2 Kenneth B. Clark, Youth In The Ghetto (Harlem, NY: New York Youth Opportunities Unlimited, Inc. (HARYOU), 1964), p. 58.
- 3 I.B.I.D.
- 4 Jones Discussion, May, 1981.
- 5 I.B.I.D.

Appendix Ten

Planning Districts, Boston, Massachusetts



- | | | | |
|---|----------------------|-----|-------------------------|
| 1 | EAST BOSTON | 9 | JAMAICA PLAIN |
| 2 | CHARLESTOWN | 10 | ROXBURY |
| 3 | SOUTH BOSTON | 11A | DORCHESTER (North) |
| 4 | CENTRAL | 11B | DORCHESTER (South) |
| 5 | BACK BAY/BEACON HILL | 12 | ROSLINDALE |
| 6 | SOUTH END | 13 | WEST ROXBURY |
| 7 | FENWAY/KENMORE | 14 | HYDE PARK |
| 8 | ALLSTON/BRIGHTON | 15 | MATTAPAN/FRANKLIN FIELD |



PLANNING DISTRICTS
Boston, MA

Appendix Eleven

Cost-Benefit Analysis Of Alternative Financing

On the following page is a rough cost-benefit analysis of the alternative methods of lending and investing which are included in the RLF guidelines. It should be noted that cost-benefit analysis is merely a framework for comparing alternatives for decision making.

Cost-Benefit Analysis Of Alternative Financing

Quantitative Criteria Alt. Methods	Costs					Benefits				
	\$ Risk	\$ Leverage	# Staff 1st. Yr.	Control of Fin. Terms	\$ For Servic- ing	\$ Risk	\$ Leverage	# Staff 1st. Yr.	Control of Fin. Terms	\$ For Servic- ing
RLF Guarantees	Low		1	None	Low	Low	Bank: RLF, \$3:\$1	1		Low
RLF Direct Loans	Medium	Variable	Minimum, 1.5		High		Variable		Total	
RLF Equity Investments	High	Variable	Minimum, 1.5		Medium		Variable		Total	

Qualitative Criteria Alt. Methods	Costs				Benefits			
	IBA Community Image	Innovat- ive Fin. Arrangmt.	Community Control	Bank/Lender Community Image	IBA Community Image	Innovat- ive Fin. Arrangmt.	Community Control	Bank/Lender Community Image
RLF Guarantees		None	Very Little		Good			Good
RLF Direct Loans					Very Good	Some	Much	Good
RLF Equity Investments					Excellent	Much	Much	Very Good