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# MUNICIPAL SPECIAL CORPORATIONS: PUBLIC AND THIRD SECTORS HYBRID ORGANIZATION

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**Resumen:**

Las Corporaciones Especiales Municipales (CEM) en Puerto Rico promueven el desarrollo y bienestar de los ciudadanos mediante diversos servicios sociales. A pesar de la separación de poderes que establece la ley, el municipio puede proporcionar apoyo económico, y dos tercios de la junta de directores son nombrados por el alcalde. Esta investigación explora la estructura organizacional de las CEM, su relación con los municipios y sus estrategias para abordar las necesidades sociales. Se realizó un estudio de caso, entrevistando a los directores de tres de las nueve CEM activas y se analizaron indicadores socioeconómicos de los tres municipios representados, contextualizando los cambios desde 1990 hasta 2022. Entre los hallazgos se encuentran las características híbridas de las organizaciones y su autosostenibilidad.

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**Palabras clave:**

Organizaciones sin fines de lucro, corporaciones especiales municipales, organizaciones híbridas, gobierno local, índice de bienestar

**Abstract:**

Municipal Special Corporations (CEMs) in Puerto Rico were created to promote the development and well-being of citizens through diverse social services. Although the separation of power provided in the law, the municipality can provide economic support, and two thirds of the CEMs board of directors are appointed by its mayor. This research explores CEMs organizational structure and relationship with the municipalities and their strategies in addressing social needs. A case study was conducted interviewing the directors of three of the nine active CEMs. Socio-economic indicators for the three municipalities represented by the studied CEMs were analyzed to contextualize the changes from 1990 to 2022. Among the study's findings are the organizations' hybrid characteristics and their successful achievement of self-sustainability.

**Key words:**

Nonprofit organizations, municipal special corporations, hybrid organizations, local government, well-being index

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**Sumario del Trabajo**

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## I. INTRODUCTION

One of the theories that frames the relationship between the nonprofit sector (also known as the voluntary sector or the third sector) and the government defines it as complementary, supplementary or adversarial (Young, 2000). The author states that nonprofit organizations (NPOs) could work in any of these roles, but primarily supports the complementary one. This opinion was developed after decades of multiple groups having contrary opinions of the interaction of NPOs with the government and the discussion is still ongoing (Young & Casey, 2017). Government and NPOs complement each other; the government provides funding and tax incentives, which are the principal source of nonprofit income (Salamon, 1995; Young, 1999), and NPOs provide their knowledge to execute efficient services.

The government has the option of requesting the services of NPOs to complement its own. However, what happens when the government creates its own NPOs to deliver services it is already expected to provide? Puerto Rico's Autonomous Municipalities Act of 1991, repealed in 2020 by the Puerto Rico Municipal Code, Act 107 (hereafter, Municipal Code), empowers municipalities to authorize the creation of municipal special corporations (CEM, by its Spanish acronym). These private non-profit entities, with legal personality independent and separate from the municipality in which they are constituted, were created "to promote any municipal, state, and federal activities, companies and programs, aimed at comprehensive development and that result in the general well-being of the inhabitants of the municipality through the growth and expansion of various areas" (Municipal Code, 2020, Article 5.001).

Although the formal separation of power, the municipality can provide economic support and two thirds of the CEMs board of directors is appointed by its mayor. This organizational framework does not allow determining whether they have a complementary, supplementary or adversarial relationship. Moreover, given that municipalities have endorsed several CEMs, it can be speculated that they recognize NPOs as being more agile and efficient in delivering services for the well-being of their citizens.

To delve into these arguments, this research explores CEMs in Puerto Rico to understand: (1) their organizational structure and relationship with the municipalities

and (2) their strategies in addressing social needs. To obtain a comprehensive understanding of CEMs a case study methodology was employed. Three out of the nine active CEMs were visited and interviewed to investigate these two areas. Socio-economic indicators for the three municipalities represented by the studied CEMs (Trujillo Alto, Ponce, and Toa Baja) will also be analyzed to contextualize the changes from 1990 to 2022, recognizing that the outcomes and well-being of the inhabitants depend on factors beyond their work alone. This period reflects the development of each municipality prior to the CEMs beginning operations, up to recent years.

The article begins by examining the theories and conceptual framework associated with the relationship between NPOs and state and local governments, emphasizing their interdependence and the various hybrid organizations and collaborative models that exist among them. This is followed by the presentation of several human well-being indices to identify converging variables that will be used to scrutinize changes across the three municipalities represented. Next, the methodology of the study and the discussion of the three cases are introduced. Then, an analysis focused on the two main issues to explore and the municipal human well-being profile, leading to the conclusions. The findings aim to understand the relationship between CEMs and the municipalities and their organizational strategies that contribute to the well-being of the citizens.

## II. NPOS AND GOVERNMENT RELATIONSHIP

The relationships highlighted in the literature between the government and NPOs (voluntary or third sectors) have consistently been characterized as complementary, supplementary, or adversarial. According to Young and Casey (2017), NPOs assist the government in providing services and receive financial support in return through a complementary model. Bartosova and Podhorska (2021) suggest that NPOs play an essential role in complementing the work of governments, especially in the delivery of public goods and services. Based on the analysis by Bartosova and Podhorska (2021), NPOs often step in to address gaps in areas such as health, education, and social services, particularly in regions where state resources or capacity are limited. Despite their value, Bartosova and Podhorska (2021) draw attention to common obstacles NPOs face, including reliance on uncertain funding sources and regulatory environments that can hinder their work.

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Young and Casey (2017) also note that NPOs can address unmet service demands through a supplementary model and influence public policy by challenging the government via an adversarial model. It is evident that the government's relationships with nonprofit organizations have evolved in response to economic failures in both the market and the government, as well as changes within the third sector. The influence in the relationship between NPOs and the government has evolved from traditional public administration, to the New Public Management (NPM) and more recently to the New Public Governance (NPG). Salamon and Toepler (2015) argue that "traditional public administration and the NPM focus on the internal operations of public agencies as the central unit of analysis, the [NPG] shifts the focus instead to the distinctive tools or instruments" (p. 2166). The approach of the NPG is more aligned with the relationship between the government and NPOs, as this managerial approach seeks to transform, impact, generate trust, collaborate, and engage responding to government priorities (Brock, 2020).

Salamon (1987) articulated arguments that delineated the relationship between the government and NPOs as one characterized by interdependence, through an assessment of the strengths and weaknesses of each sector. Philanthropic insufficiency (limited funding), particularism (continuing focus on a particular group, excluding others), paternalism (difficulty in empowering, perpetuating the welfare state), and amateurism (limited professional staff) are some of NPOs' weaknesses raised by Salamon (1987; Salamon & Toepler, 2015). Furthermore, in theory, the government underscores strengths to address these weaknesses, including: the ability to provide funding to address shortages; prioritizing equity to combat favoritism; establishing transparent procedures for accessing benefits (rights) instead of relying on gifts, thus reducing paternalism; and the capacity to develop standards for recruiting and retaining high-quality employees to enhance the professionalism of the workforce (Salamon & Toepler, 2015).

On the contrary, Salamon (1987) points out weaknesses exhibited by the government such as: excessive bureaucracy, lack of flexibility, employees more focused on power than public interest, and insufficient resources to respond effectively. NPOs can address these weaknesses as they tend to be the opposite. Additionally, they operate on a smaller scale providing more personal human services, have greater access to private

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funding and volunteer support, and effectively promote social values. In summary, the government's role as a funding source and the NPOs' efficacy in service provision are strengths mutually benefiting both sectors. Sustaining such relationships effectively necessitates agreements related to “resource allocation, division of responsibilities for meeting community needs, and joint public-private ventures” (Salamon, 1987, p. 46). This systemic approach aims to maintain clear responsibilities and expectations.

Thirty-four years after Salamon's propositions, Le Roux and Wright (2021) argue that “researchers have yet to demonstrate in any systematic way whether hollowing out the state and relying on nonprofits as service delivery partners yields positive benefits for service users, citizens, or the public more broadly” (p. 4). According to Kabalo and Almog-Bar (2023), many authors have suggested that governmental-voluntary sector relationships are detrimental to the provision of social services. In fact, in 1987, Salamon identified various risks that the voluntary sector is exposed to when collaborating with the government, such as (1) the loss of autonomy, (2) the development of “vendorism” according to governmental interests, and (3) bureaucratization due to accountability requirements. These risks could be among the factors that have contributed to the detrimental provision of services.

On the other hand, Kabalo and Almog-Bar (2023) examine the positive view of Salamon’s interdependence theory in two Israeli women’s voluntary organizations established way back in 1948, decades before his theoretical propositions. The Council of Women’s Organizations (CWO) and the Organization of Inductees’ Wives (OIW) “focused on service provision for soldiers on the front, internally displaced persons, and, as time passed, inductees’ wives and families” (Kabalo & Almog-Bar, 2023, p. 370). These organizations were created during a time when approximately 40% of wives did not participate in the workforce outside their homes. Both successfully established various programs such as vocational training and childcare to enable mothers to pursue employment opportunities, with the support of young government entities, aiming to benefit families where the inductee serves as the household's primary provider. The government compensated for the weaknesses of these organizations, and reciprocally, these organizations addressed the government's shortcomings, resulting in a successful relationship, although tension, competition, and control coexisted as well (Kabalo & Almog-Bar, 2023).

RIGL
REVISTA IBEROAMERICANA DE GOBIERNO LOCAL

### II.1. NPOs, local governments, and hybridity

NPOs play an essential role in complementing the work of governments, especially in the delivery of public goods and services. Based on the analysis by Bartosova and Podhorska (2021), these organizations often step in to address gaps in areas such as health, education, and social services, particularly in regions where state resources or capacity are limited. Despite their value, Bartosova and Podhorska (2021) draw attention to common obstacles NPOs face, including reliance on uncertain funding sources and regulatory environments that can hinder their work. Amid these challenges and the evolution of both government and the third sector, hybrid organizations - the combination of multidimensional characteristics from the public and private sectors (Karré, 2023) - have emerged to serve a variety of purposes.

One of these hybrid organizations is social enterprises, which combine characteristics of both nonprofit and for-profit entities (Cordes et al., 2017), to create social value or pursue profits. According to Cordes et al. (2017), there are at least nine modalities of social enterprises, ranging from pure nonprofit and nonprofits partnering with for profits, to for-profits contributing to nonprofits. One reason to engage in an NPO - private partnership is "to increase their capacity to promote charitable causes" (Cordes et al., 2017, p. 266).

Canada presents another hybrid modality where not only nonprofit and for-profit (private) sectors are partners, but also the government. At the government's initiative, the three sectors form policy hubs and innovation laboratories (PILs) "as advisories bodies to achieve policy results desired by the government" and to collaboratively handle "complex policy problems" (Brock, 2020, p. 258). This mechanism is associated with the NPG by fostering collaboration to address government priorities. Although the initiative is commendable in validating governance principles, risks of politicization and the time-intensive process of securing funds are some of the challenges the Canadian government faced.

Some of the most well-known types of private NPOs developed through partnerships or independently for the sole benefit of local development in the United States are Local Development Corporations (LDCs) and Community-Based Development Organizations (CBDOs). LDCs are "often created by, or for the benefit of, local governments for

economic development or other public purpose [..], mainly to finance local government operations and projects" (DiNapoli, 2011, p. 3). They acquire and develop real estate properties discarded by local governments, benefiting from tax exemptions and other incentives. Local governments partner with the nonprofit sector to transfer the risk and leverage their strengths, such as established clientele connections, regulatory adaptability, and a concentrated focus on specific missions (Deslatte et al., 2019). However, Deslatte et al. (2019) examined the performance of LDCs in implementing smart growth and social equity policies, finding a negative correlation with smart growth land-use policies aimed at promoting social equity.

On the other hand, CBDOs "focused on improving conditions for people earning low incomes, households of color, and the communities in which they live" developing "housing, commercial, and community facilities"; providing "loans, grants, and investments"; and serving "residents and businesses with technical assistance, services, and advocacy" (Payton Scally et al., 2023, p. 1). According to a recent study conducted by the Urban Study (Payton Scally et al., 2023), there are approximately 6,275 CBDOs in the United States serving mostly neighborhood, cities, counties, and multiple counties. It also shows that rental, development, or rehabilitation (38%), home repair and weatherization (31%), owner new construction (26%), and owner rehabilitation (24%) are their principal types of activities performed by CBDOs. In addition to property development, these organizations engage in advocacy and provide services for any basic needs and for any population. Although CBDOs engage with local governments, it is strategically to "reduce permitting processes' monetary, social, and political capital, and time costs" (Payton Scally et al., 2023, p. 52). Like other NPOs, CBDOs receive an average of 3.4 distinct sources, including local, state and federal governments, foundations, and their own income.

The Area-Based Initiatives (ABIs) is another strategy developed in the 1980s in Europe to improve the quality of life in disadvantaged communities, involving municipalities and "third-sector organizations through co-production" (Trætteberg et al., 2024, p. 315). ABIs' main strategy is citizen participation in the decision-making process of the programs, posing a challenge to balance co-creation priorities of all parts. Just a few examples of countries with ABIs are highlighted, acknowledging that there are many other stories across the European continent. In Sweden, ABIs began in the 1990s,

targeting areas with high immigrant populations, aiming to increase employment rates and enhance social cohesion (Grander et al., 2021). It has a high degree of connection "to the increasing social inequalities and segregation" in their cities, despite being "one of the most equal countries in the world with regards to disposable income" (Grander et al., 2021, p. 247).

In Denmark, ABIs were established in 1998 by the Danish Urban Regeneration Act, providing municipalities with frameworks to operate cultural activities, youth programs, crime prevention, and elements of social policy (Jensen & Agger, 2022). The programs are designed for five years, co-funded by the state and municipal governments. As Jensen & Agger (2022) established, Danish ABIs main interest is to improve the physical and economic conditions of the communities in collaboration with local civic associations. The experience of seven ABIs in all five Norwegian cities shows independence and autonomy of the third sector organizations, supported by municipalities (Trætteberg et al., 2024).

In Germany, around 80% of its municipalities established ABI coping with educational challenges, an initiative that started in the earlies 2000s (Duveneck et al., 2021). The findings of a survey involving 180 experts in the field of education revealed that 78.6% view ABI as a model for tackling challenges in education (Duveneck, et al., 2021). They concurred that its improved learning outcomes and reduced social disadvantage. However, the authors also concluded that, despite a decade passing since the intention and implementation of the ABIs, discrepancies persist between these two stages, an issue to monitor moving forward.

Despite participants' individual achievements, Grander et al. (2021) conclude that ABIs need to work towards their main goal of "reducing segregation or enhancing democracy on a grander scale" (p. 252). Even though there are weaknesses and challenges that may arise from contracting or establishing alliances between local governments and LDCs, CBDOs, or ABIs, it is undeniable that they have the genuine mission of improving the quality of life of people and communities and providing a more efficient and effective public service, "overcoming the risks of opportunism inherent in public-private relationships" (Deslatte et al., 2019). Later on this article, the focus shifts to CEMs, the

primary focus of this research, yet one that has received limited attention in the literature.

As these examples demonstrate, hybrid models and partnerships between NPOs and local governments are strategic tools to meet complex social challenges. Their effectiveness, however, cannot be fully understood without assessing their impact on people's lives. For this reason, before exploring the specific cases of CEMs in Puerto Rico, it is essential to understand how human well-being is defined and measured. Section III introduces key indices that will later serve as a framework for analyzing the extent to which CEMs address socio-economic needs in the communities they serve.

## III. HUMAN WELL-BEING INDICES

Throughout the years, a multitude of indices have emerged to gauge human well-being, encompassing objective (measurable), subjective (perceptible), or hybrid dimensions (both). A study conducted by Fuchs et al. (2020) identified at least nine indices measuring well-being and sustainable development in countries, with up to 21 variables. To measure well-being, it identified social, political, and economic aspects, and for measuring sustainability, it considered environmental and inter and intra-generational aspects. However, in terms of well-being, there is almost a consensus that it should measure the social and economic dimensions. As a side note, it is important to mention that political conditions and stability within governments are fundamental factors in safeguarding people's basic rights, thereby fostering security and other benefits associated with personal success.

Arévalo et al. (2020) define social well-being as aiming "to establish the necessary conditions to achieve a high level of prosperity in society" (p.294). This objective can be achieved through the implementation of policies that enable economic efficiency. In the case of economic well-being, Arévalo et al. (2020) define it as people's access to basic needs and a minimum level of inequality. Gini coefficient, created in 1912 by the Italian statistician Corrado Gini, is an example of an index used to measure income inequality levels on a scale from 0 to 1, where higher values indicate greater inequality. To put in context, since 1970, Puerto Rico's Gini coefficient has fluctuated between 0.5 and 0.55, indicating a sustained high level of inequality for over 50 years (Instituto de Estadísticas de Puerto Rico, 2018). This is comparable to Colombia (0.55), Brazil

(0.52), Zambia (0.52), and Angola (0.51) which have the highest inequality coefficient as of 2023 (Our World in Data, 2024).

The Sustainable Society Index (SSI), developed by the Dutch Sustainable Society Foundation, is published every two years since 2006 (van de Kerk, 2023). It considers these three dimensions of well-being, human (social), economic, and environmental, to measure and rank the sustainability of countries (SSIndex, n.d.). Among 154 countries measured in the SSI, the top three well-being ranked are Norway, Switzerland, and New Zealand. On the contrary, the countries with the lowest well-being are Mozambique, Yemen, and the Central African Republic (Fuchs et al., 2020).

The Organisation for Economic Co-operation and Development (OECD) Better Life Index or Well-Being Framework is the result of "recommendations made in 2009 by the Commission on the Measurement of Economic Performance and Social Progress" (OECD, n.d.). It addresses 11 topics related to living conditions (housing, income, jobs) and quality of life (community, education, environment, civic engagement/governance, health, life satisfaction, safety, and work-life balance). Most of quality of life aspects, including life satisfaction (how people evaluate their life as a whole rather than their current feelings), community (social network), environment (satisfaction with water quality), civic engagement, and life satisfaction depend on individual perception. The aim of conducting this measurement is to acquire objective data for crafting public policies that effectively improve people's lives.

Puerto Rico is not included in the SSI, nor the OECD. However, the Youth Development Institute (2023) in Puerto Rico created the Municipal Wellbeing Index (MWI) in 2013. It integrates 17 variables derived from the World Bank's Knowledge Assessment Methodology. Sixteen variables are categorized across the following five dimensions:

1. Economy: children living below the poverty threshold, median income of families with children, teenagers between 16 and 19 not working and not enrolled in school, and families with children and at least one unemployed parent.
2. Family: children in single-parent families, grandparents living with and taking care of their grandchildren, and households with children receiving NAP.

3. Education: children aged 3 to 4 not enrolled in school, children and youth aged 3 to 17 not enrolled in school, women aged 15 to 50 who gave birth without a high school diploma, and teens aged 16 to 19 not in school and not high school graduates.
4. Health: infant mortality rate, low weight births, children without health insurance, and teen births (100,000)
5. Security: mortality in teens between 15 and 19

One of the 17 variables ranks and compares the 78 municipalities across the island. Given that children and youth are the primary focus of the MWI, the variables in the five dimensions include indicators specifically aimed at this population. As a result, the MWI reflects only the well-being of children and youth in each municipality.

The variables in the dimensions that comprise measuring human well-being vary according to the definition of each index, most specifically in the number of objective and subjective indicators. This variety is palpable according to the purpose of the SSI, the OECD Better Life Index, and the MWI, presented above. However, there are consensus on social and economic dimensions, commonly agreed in the literature, to measure well-being. For the purposes of this research, the terms as defined by the OECD will be used to get an overview and scrutinize changes from 1990 to 2022 across Ponce, Toa Baja, and Trujillo Alto, the three municipalities where the studied CEMs are located. Population, housing, education level, median income, employment and unemployment rate, and poverty level are the selected indicators to be explored, which are most closely associated with the housing and economic approaches of the three CEMs. Local economic development aims to improve "the standard of living and enhance community well-being" (Deslatte et al., 2019, p. 92). Although quality of life indicators is important, they are subjective, and there is no available data to analyze them.

## IV. CEM'S CASE STUDIES

This qualitative study aims to understand: (1) CEMs' organizational structures and relationships with municipalities and (2) their strategies for addressing social needs. By 2020, there were 16 active CEMs in Puerto Rico out of the 60 that came into existence following the provision in the original Law 81 of 1991. López-Rodríguez (2020)

RIGL
REVISTA IBEROAMERICANA DE GOBIERNO LOCAL

identified the development priorities of these 16 CEMs as follows: economic (27%), social (19%), housing (15%), and community (15%). As of December 2023, after reviewing the corporate registry, only 9 of the 16 CEMs active in 2020 were still in existence. A new CEM was incorporated in February 2023, the first since October 2016, but it was not included in this study due to its nascent status. The development priorities of the nine active CEMs are similar with those of 2020, with economic (56%), social (44%), housing (44%), and community (44%) needs remaining prominent.

To accomplish the purpose of this research, a multi-case qualitative design was used, relying on in-depth interviews and document analysis provided by the organizations. All nine CEMs were invited to participate via email and phone; three accepted: Corporation for Economic Development of Trujillo Alto (CDETA, for its initials in Spanish), Corporation for the Development of the Free Zone of Ponce (CODEZOL, for its initials in Spanish), and Housing Development Special Corporation of Toa Baja (HDSCTB). These organizations are long-standing, having been in operation for between 29 and 41 years.

Between December 7 and 14, 2024, the researcher conducted interviews with the executive directors of each organization at their respective facilities, using guiding questions to steer the conversations. The questions aimed to gather information about the organization's profile (mission and services), operational structure and strategies (strategic plan, evaluations, achievements, human resources, sources of income, and sustainability mechanism), relationships with the municipality where they are located, and their direct or indirect contributions to well-being indicators.

### IV.1. CDETA

CDETA is situated in Trujillo Alto, a municipality of relatively small land area, ranking 70th out of 78 in Puerto Rico. It was incorporated on March 14, 1986, prior to Law 81, but in 2003 began full time operations after securing a grant from the Community Foundation of Puerto Rico (CFPR) to fund the executive director's salary. Its mission is to promote social/economic development by creating jobs, guiding them on possible financing for commercial and industrial micro-entrepreneurs, as well as offering affordable housing to low and moderate-income individuals (CDTA, n.d.-a).

RIGL
REVISTA IBEROAMERICANA DE GOBIERNO LOCAL

Initially, CDETA offered microloans to women entrepreneurs through a now-defunct partnership with a bank and the CFPR, thus fulfilling one of the mandates established in its mission. Its current main services include housing and a nursing home. By 2009, the corporation had built six-housing units (Parque CDETA) for low-income individuals and two rental apartment projects (Los Altos and Los Arcos), totaling ten units for low-income elderly or families with children (CDETA, n.d.-a).

These apartments, rented at approximately $475 per month (including utilities and maintenance) are currently undergoing solar panel installation. The nursing home, Aires del Manantial, has 120 fully occupied units. Rental income from these properties serves as a recurring revenue stream, ensuring organizational sustainability. Other services include a "cyber center" providing computer and internet access and a food warehouse that supports nursing home operations.

CDETA has a five-year basis strategic plan, evaluated and updated annually by its board of directors, who meet regularly, according to needs. However, although the executive director mentioned having goals and objectives, these were not clearly identified in the documentation. Due to a small staff, the organization does not conduct formative or summative monitoring or evaluations, but complies with external audits requirements.

The executive director mentioned a noteworthy initiative called “COVID Sequels” funded by a two-year grant. It gathers data on elderly residents and was scheduled for an update in January 2024. CDTA’s staff includes the executive director, two part-time administrative workers, one full-time manager for the nursing home, two social workers to assist nursing home residents, a marketing employee, and a retired police officer. They expressed a need for volunteers to assist with various tasks, particularly food shopping, nursing home support, and data collection and reporting, as staff time is mostly spent on fundraising.

At the beginning of operations, federal grants were the main source of income, reaching $1,000,000. Currently, CDETA have diversified their sources of income by: (1) the rental of housing elderly units, (2) grants from Enterprise Holdings NPO, FEMA and the Puerto Rico Department of Housing, among other, and (3) state legislative

donations. They have been able to become self-sustainable, turning to community development, understanding that it was the only way to be respected.

Trujillo Altos' municipality has not collaborated with CDTA's projects, or contributed financially, or appointed members to the board of directors (despite legal provisions established in the Municipal Code). However, according to the executive director, past administrations showed informal support and wanted to take credit for their work, but ended in 2008 with a political party change. CDETA has established good credibility as a result of the success of its various projects. The organization is focused on avoiding political-party intervention to ensure freely addressing housing needs. According to their executive director "CEMs must cease to exist and the Municipal Code Act must be amended to achieve this" (Participant 1, personal communication, December 17, 2023).

This organization directly addresses living conditions (housing) related to social well-being. It also promotes community, civic engagement, environment, and safety, three quality of life areas in the OECD Better Life Index. Housing is their main service area, having their developed projects as evidence. These projects also created community for families or single people, as well their activity center where families, work groups, association, among others come together to carry out events. They engage in civic activities participating in community events. The environmental dimension is part of their assessment in all their development projects, following local and federal construction guidelines and ensuring that properties are not affected by flooding. This was validated after major flooding during Hurricane Maria in 2017, which did not affect any of the properties. Security can be observed indirectly, according to the executive director, both by people who purchased homes or rent apartments, and by well-developed properties. CDTA does not formally measure its impact, so its effects may align with municipal indicators based on perception.

### IV.2. CODEZOL

CODEZOL is located in Ponce, the 2nd largest municipality in Puerto Rico by total land area (114.9 square miles). It was incorporated on November 25, 1983, prior to Law Number 81. Their mission is "to provide economic advantages and support services to companies and investors through a free trade zone program that promotes socioeconomic development and local and international commercial exchange". It

officially began operating as a CDC in 1996, when it replaced the Puerto Rico International Distribution Center and Free Zone, Inc. (PRIDCFZ) established by the Ponce Chamber of Commerce (Chamber) and functioning as Ponce's free trade zone. To put it into context, in 1989, PRIDCFZ received approval by the Free Zones Regulatory Board in Washington, DC to become the concessionaire of a free trade zone in the port of Ponce. However, after seven years since the approval of the free zone, they still had not started operating, which put the granted license at risk.

Since CODEZOL took charge, they approached the mayor who granted them $400,000. Subsequently, they received monthly contributions from the municipality of $10,000 between 1996 and 1998 and $5,000 between 1999 and 2001. By 2002, they achieved economic self-sufficiency and have not received economic contributions from the municipality since then. CODEZOL shares its annual fiscal information with the municipality, but the latter does not intervene in the organization's affairs. The primary source of income for CODEZOL is the annual fee charged to the sub-zones within the free trade zone, which currently stands at 29. It also has six users who pay rent for each vehicle stored in their distribution warehouses, which becomes another significant source of income. Sub-zones and users benefit from advantages such as tax payment deferral and a 100% tax exemption on inventory stored in or exported from the Zone outside of American territory. These measures effectively lower their operational expenses.

The operational structure of CODEZOL consists of a board of directors, composed of 15 individuals from among its approximately 66 members, who must be residents of Ponce. The board meets once a month and the members meet once a year. Another component of their organizational structure comprises six administrative employees, including the executive director, and one student serving as an intern. They do not have volunteers.

The organization has a strategic plan with four pillars: business and socioeconomic development; operational excellence; marketing; and financial sustainability. The results of their objectives are monitored weekly by strategic groups at CODEZOL and monthly by the board of directors. Additionally, they use a dashboard and a scorecard as monitoring mechanisms. They have achieved various accomplishments associated with

each committee; here are a few noteworthy ones. The business and socioeconomic development committee established an alliance with NPO Causa Local in Ponce, whose participants have benefited from talks by the Small Business Administration. They also demonstrate civic commitment by financially contributing to NPOs whose mission is associated with theirs and supporting students pursuing academic degrees on disciplines associated with economic development. The marketing committee created a promotional video which won an award at the United States Free Zone Conference.

The financial sustainability committee sets the objective of recruiting one new client per year (a new free trade zone). In 2023, they exceeded this objective by attracting two new clients. According to CODEZOL executive director, he identifies potential clients in TV news and newspapers and contacts them via email. This effort led them to exceed the objective of recruiting new clients. The executive director is confident that the organization's mission is being accomplished. As he prepares to retire from his role, he is actively investing in training the deputy director as part of the succession plan. From the strategic plan and the results, it can be inferred that they directly address the economic component (income) for the well-being of people in the municipality. Additionally, they demonstrate a civic commitment to NPOs focused on economic development and to individuals undergoing academic training in related disciplines.

### IV.3. HDSCTB

HDSCTB is located in Toa Baja, a municipality ranking 66th in the island in terms of its 23.2 square miles of land. This corporation was incorporated on June 9, 1995, with the purpose of rehabilitating and developing housing. They acquired a plot of land during the incorporation process to develop two projects: one for low-or moderate-income people and another for people over 60 years of age. The first one, Brisas del Campanero, consisted of 856 housing units, of which 47% were aimed at low- or moderate-income families and the remaining 53% at people with a higher income, but still within the parameters of social interest. The construction of this project had three phases starting in 2000 and ending in 2009 with the sale of the last home.

The second project, Elderly (“Golden Age Tower”) consisted of a six-story building with 160 apartments for rent. The costs of the project were covered with a contribution of 77% from investors under the Federal Tax Credit Program, 4% and the land from the

RIGL
REVISTA IBEROAMERICANA DE GOBIERNO LOCAL

municipality, and financing for the remaining 19%, which has already been paid. Elderly has maintained full occupancy since 2002; however, they sold it and now have a fund from the profits. This corporation built its offices in a building adjacent to Elderly, which includes an activity center. They use this center as a source of income by renting it for events, with a capacity ranging from 250 to 350 people. The annual budget of HDSCTB is $381,804. Income from activity center rentals, savings, and bank investments cover the annual operating expenses. Toa Baja municipality does not provide funds to HDSCTB, limiting its historical contribution to an initial $500,000 and the land for Brisas del Campanero Project. In fact, in July 2023, HDSCTB donated $1million to the municipality for the rehabilitation of homes owned by people over 60 years of age, thereby contributing to their purposes.

The fiscal health of this CEM allows them to have self-sufficiency and the economic stability and solidity needed to continue their operations. Operationally, they have six employees (including the executive director) and a board of directors composed of 13 members, four of whom are appointed by the mayor, as established by the Municipal Code. The board produces annual reports and meets at least 13 times a year. Their work plan is in force, covering the 2023-2026 periods. The activities in the plan consist of continuing the management and operation of the activity center, identifying new land for development, and keeping the administrative area on track. Although they have land to develop, it has limitations due to being in protected natural areas. The plan reflects that after almost 30 years they are in a reevaluation period for new projects, considering that there are no longer available lands in the municipality. As CDETA, HDSCTB directly address housing's living conditions as a well-being indicator. The organization also promotes quality of life through community and civic engagement. This is evidenced by the creation of the activity center, which fosters a sense of community among attendees, and their financial support for the municipality's initiative to renovate homes for elderly individuals.

### IV.4. ANALYSIS

This analysis includes CEM's structure and relationships with the municipalities, their strategies in addressing social needs, and its contribution to their citizens' socioeconomic conditions. The three cases examined in this article illustrate a distinctive autonomy, functioning entirely independent of the municipal government

structure. There is no interdependence as Salamon proposed. The prominent complementary, supplementary or adversarial roles between the government and the third sector were not identified as described in the literature. The expected complementarity between the government as a funder and NPOs as service providers is absent. CDETA, CODEZOL, and HDSCTB managed to remove from the equation the widely conceived role of the government as a fund provider, simply not relying on it at all. CODEZOL and HDSCTB received funds from the municipalities in their early stages, but they have been self-sufficient for more than 20 years. Certainly, having a current strategic plan that serves as a guide, aiming for self-sufficiency, having committed board members, and consistently holding board meetings are some of the organizational strategies enforced by the CEMs. They evaluate their plans regularly, though not in a structured manner (formative or summative). This is not different from many NPOs, which, due to staffing limitations, prioritize service provision.

A contrast between the CEMs and the municipalities is the capacity for self-sustainability. While these CEMs have managed to become self-sustainable in a short period, the municipalities continue to depend on intergovernmental transfers, whether from the central or federal government (López-Rodríguez, et al., 2019). López-Rodríguez et al. (2019) specifically emphasize that uneven social and economic development creates pockets of prosperity and disparities in economic activity. This has prompted the central government to allocate hundreds of millions of dollars over decades to support municipalities in both recurring and non-recurring activities. However, these transfers have diminished as the central government grapples with its own fiscal crisis.

CEMs have been able to retain control over their organizations, remaining faithful to their missions and goals. The latter is one of the risks outlined in the literature, which has been effectively managed. This finding bears similarities to organizations in Israel as previously presented by Kabalo and Almog-Bar (2023) in the NPOs and government relationship section. Although, CWO and OIW were not able to avoid dependency on government support, they maintain autonomy, with hardly any government involvement, in the structure of their programs (Kabalo & Almog-Bar, 2023).

While the non-profits provide their services, the government did not complement it. In fact, the complementary role was reversed in Toa Baja's CEM, where the NPO became the funder for the municipality to deliver services related to housing repairs. It also cannot be concluded that CEMs supplement services that the municipalities are unable to provide due to either lack of resources or high demand. Instead, they have focused on developing economic and housing initiatives based on needs identified independently of municipal origins. The adversarial model is also ruled out, as none of these organizations indicated being involved in changing public policies that could affect them.

Clearly, none of these three relationship models are present. So, how can be define the CEMs and what happens when the government creates its own NPOs to deliver services it is already expected to provide? Probably CEMs incorporate characteristics of social enterprises, LDCs, and CBDOs hybrid models, as they arise through agreements with the government and have defined roles. All are social enterprises, by creating profits and as in the case of CODEZOL, contributing to charitable causes. They are created with the municipality's mayor approval, similar to LDCs, but operate like any independent NPO, with their own work agenda and the authority granted by law. Supporting initiatives that benefit the municipality is likely well-received by the public, thereby benefiting the mayor. However, CEMs do not fulfill LDCs purpose of financing local operations or projects as defined. CEMs focus on improving socioeconomic conditions and providing housing to people in need, similar to CBDOs. The characteristics of innovation laboratories in PILs and co-production in ABIs are not identified within the CEMs.

The three CEMs have made significant contributions to their municipalities. CDETA and HDSCTB have created thousands of housing units for individuals, families, and seniors. CODEZOL has provided economic benefits to multiple businesses, impacting their employees. Additionally, they have reinvested in the community by providing financial support to other NPOs and individuals. Probably, these CEMs could execute their projects under the legal structure of a regular NPO, free from the municipality's influence, whether positive or negative.

RIGL
REVISTA IBEROAMERICANA DE GOBIERNO LOCAL

The contribution of these NPOs to the socioeconomic and living conditions of their citizens from 1990 up to 2022 can only be identified indirectly through indicators such as population, housing, education level, median income, employment and unemployment rate, and poverty level. CDETA and HDSCTB primary social contribution is in housing and CODEZOL on economy. As seen in Table 1, the population in Puerto Rico has decreased by 6.71% from 1990 to 2022. Ponce and Toa Baja experienced a decline of 26.77% and 15.83%, respectively, in contrast to Trujillo Alto, whose population increased by 10.83%. Population change could be correlated with the availability of housing units, but the population reduction did not hinder the growth of housing units. The highest percentage increase in housing units is observed in Trujillo Alto, which was the only one with positive population growth. Additionally, the CEMs in Trujillo Alto and Toa Baja have developed housing units, which have, in some way, contributed to this growth.

**Table 1**

*Percentage change in population and housing units from 1990 to 2022*

| | Population | Total housing units |
|---|---|---|
| Trujillo Alto | 10.83% | 56.44% |
| Ponce | -26.77% | 11.39% |
| Toa Baja | -15.83% | 26.45% |
| Puerto Rico | -6.71% | 34.42% |

*Note.* Calculated from the U.S. Census Bureau, 1990 Decennial Census and the 2018-2022 American Community Survey 5-Year Estimates

The education level, median income, employment and unemployment rate, and poverty level are indicators that reflect human economic health. The percentage changes for each of these indicators are presented in Table 2.

**Table 2**

*Percentage change in economic indicators from 1990-2022*

| | Bachelor degree or higher | Median household income | Employment rate | Unemployment rate | Poverty level |
|---|---|---|---|---|---|
| Trujillo Alto | 164.36% | 138.83% | -6.23% | -31.48% | -32.82% |

| | | | | | |
|---|---|---|---|---|---|
| Ponce | 74.07% | 123.91% | -26.70% | -49.61% | -14.74% |
| Toa Baja | 141.32% | 169.26% | -2.28% | -37.88% | -32.60% |
| Puerto Rico | 108.39% | 168.06% | -11.34% | -50.00% | -29.20% |

*Note*: Calculated from the U.S. Census Bureau Census of Population 1990: Social and Economic Characteristics of Puerto Rico; U.S. Census Bureau 2018-2022 American Community Survey 5-Year Estimates, and U.S. Census Bureau 2022 American Community Survey 1-Year Estimate

Both the number of people with a bachelor's degree or higher and the median household income increased substantially from 1990 to 2022. Trujillo Alto and Toa Baja are the municipalities with the largest increase in academic attainment and the largest reduction in the poverty level, surpassing the overall percentage for Puerto Rico. The employment rate (population 16 years and older) has decreased from 1990 to 2022 in all three municipalities and Puerto Rico. The largest reduction is in Ponce (26.7%), which contrasts with the decrease also reflected in the unemployment rate (49.61%). Fewer people of working age are employed, while at the same time fewer people are actively seeking jobs. In general, all three municipalities show socio-economic improvement after CEMs. As previously mentioned, these results cannot be attributed solely to their actions; however, they indicate a positive correlation that presents an opportunity for further research.

## V. FINAL THOUGHTS

The primary purpose of this case study was to acquire a comprehensive understanding of the CEMs in Puerto Rico. The gathered information facilitated a deeper insight into their operations, strategies, and accomplishments achieved over the years. The CEMs and the municipalities do not function as one; they are separate entities. They exhibit characteristics of hybrid organizations, operate independently from municipalities, and achieve self-sustainability. Their creation under the government's auspices appears to be unnecessary, beyond initial endorsement and seed funding. These contributions are also seen in traditional NPOs, where the municipality is not involved and board members are not imposed by the mayor. At least these three CEMs have proven effective in implementing programs that align with their purposes. They can serve as a model for other CEMs, particularly for the most recently incorporated one in 2023.

A limitation of this study was the difficulty in obtaining data from the organizations to assess their direct impact on the well-being of the municipalities they serve. These organizations tend to quantify outputs, but do not typically measure broader or long-term impacts. This highlights the need for further research into the data limitations, institutional capacities, or other constraints faced by these organizations, as such factors hinder a more comprehensive understanding of the impact of their services on the municipalities they serve.

In summary, focusing solely on these six indicators of well-being, the three municipalities where the studied CEMs are located demonstrate higher educational and economic levels, along with a lower poverty rate. Expanding the scope of well-being remains a pending task for future research. While the exact impact of the CEMs on these outcomes cannot be precisely determined, the evidence may suggest that there is some relationship between the work of the CEMs and the improvement of well-being in the communities they serve.

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