

Rural CDFIs Give Voice to a Brighter Future in Rural Regions

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In many ways, the current economic and social context of rural states and regions has remained constant during this decade. Rural regions account for approximately two-thirds of the nation's land mass, yet only 14 percent of the U.S. population, or 46 million people.¹ By most measures, these regions remain older, whiter, less well-educated, and poorer than metropolitan areas.

That said, the context for rural community development has experienced significant changes. Unemployment rates have decreased nationally, including in rural regions. Despite the apparent decrease in the numbers of people looking for work, there are clear signs that the lower unemployment rate is not yielding greater economic opportunity, as worker productivity gains over the past two decades have not translated into higher wages. Increasing numbers of people between the ages of 16 and 64 are out of the workforce, particularly middle-aged white men. Opioid use and domestic violence are on the rise. Poverty rates and children qualifying for free and reduced lunch have increased. And finally, rural voters vaulted their economic frustrations onto the national electoral stage by voting in larger numbers for economic populist candidates in 2016. Throughout the campaign season, the national conversation was about how the U.S. economy was not working well for most people—and was particularly not working well for people living in rural regions. These changes present new challenges, as well as new opportunities, for community development financial institutions (CDFIs) working in rural regions.

In her *What Works* essay on rural community development, Cynthia “Mil” Duncan, research director at AGree, referenced the idea that people in underdeveloped economies have three choices: exit, loyalty, or voice.² Based on the work of economist Albert Hirschman, the choices reflect the generalized notion that people in rural communities can leave for opportunity elsewhere (exit), accept conditions as they are and uphold the status quo (loyalty), or stay and speak up and act for change (voice). As a rural CDFI, Coastal Enterprises, Inc. (CEI) has chosen to stay and be a voice for change. In this essay, we summarize some of the lessons we have learned from working at the individual client level, the systems level, and from related fields, and we reflect on the future of community development in rural regions.

1 D.J. O'Brien and M.C. Ahearn, “Rural Voice and Rural Investments: The 2016 Election and the Future of Rural Policy,” *Choices* 31 (4) (2016).

2 Cynthia Duncan, “Community Development in Rural America: Collaborative, Regional, and Comprehensive.” In *Investing in What Works for America's Communities: Essays on People, Place, & Purpose*, ed. Nancy Andrews et al. (San Francisco: Federal Reserve Bank of San Francisco and Low Income Investment Fund, 2012).

Supporting Community Development in Rural Maine

CEI was incorporated in Bath, ME, in 1977 with no balance sheet and ambitious goals for investing in communities in rural, mid-coast Maine. Today, CEI grows good jobs, environmentally sustainable enterprises, and shared prosperity by integrating finance, business and industry expertise, and policy solutions. It has almost \$700 million in capital under management across the United States.

Early on, CEI's team realized that rural regions were not monolithic. Although relatively racially and ethnically homogeneous, many of Maine's rural towns have important differences based on historical industries. There are also obstacles based on legacies of exploitation of both the natural world and Maine's first residents, the Wabanaki people. Some communities are shallow economies, dependent on single industries and employers; others have more diverse economies and a mix of residents who grew up there and others who come "from away." CEI approached this diversity by developing industry expertise and connections to communities to meet the needs of businesses and people where they are. CEI's fisheries and aquaculture work in mid-coast Maine expanded to programs serving farmers, loggers, manufacturers, child care providers, women, and immigrants. For example, CEI developed a seminar series for women in business, with the participation of Maine's technical college system, and continues to manage a statewide Women's Business Center, serving 850 women annually with one-on-one advising and workshops. In addition to providing targeted services to women, CEI targets similar services to immigrants and entrepreneurs in economically distressed parts of Maine.

CEI also built on its original natural resources-based programming. Since 1977, CEI has channeled investment in natural resources-based industries, partnering with capital providers, state agency and university scientists, food-system nonprofit organizations, and businesses to support innovative farmers, fishermen, value-added food processors, and distributors. CEI believes that the future of the Maine economy will continue to be fueled by growth in our natural resources-based industries, as they are the state's competitive and comparative advantage economically. Natural-resources programming is core to CEI's efforts to create opportunity for people often left outside the economic mainstream in predominantly rural communities—communities that rely on their natural-resources assets for economic productivity.

A hallmark of CEI is innovation, in both the products and services it uses to meet its mission and the evolving needs and challenges of the communities it serves. In its food-system work, CEI aims to support the creation of new food businesses. Its long-term strategy is to help weave these individual enterprises into integrated value chains, whereby Maine producers source raw inputs from Maine vendors, Maine value-added processors source ingredients from Maine producers, and Maine distributors supply high-quality and traceable Maine-made food products to local, regional, national, and international markets. This requires more than individual transactions that add impact. CEI is now exploring more integrated approaches to multiply impact. It is also working to fill infrastructure gaps, such as capacity to process and add value, that constrain growth and profitability of small- and mid-sized businesses operating along the food and beverage value chain, from the grower to the consumer.

A key lesson from CEI's work is that the market on its own will not always provide the products and services necessary to create and maintain healthy communities, especially for low-income, underserved, or marginalized populations in rural areas. This "market failure" creates a need for alternative strategies, such as community development finance. However, transactions are not ends in themselves: investment is one of the most powerful tools in CEI's toolbox, it is often insufficient on its own. Looking beyond the transaction is critical to having impact, which is why robust business advising and workforce development partnerships remain central to our work. In addition, we engage in policy research and advocacy to improve the systems that drive economic opportunity and strategic investment, such as aligning training with the needs of growing industries to help people secure good jobs and advance in their careers.

The Role of Innovation and the Emergence of Technology-Based Economic Development

The Nobel Prize winning economist Robert Solow has estimated that innovation has been responsible for 80 percent of job growth during the modern age. In Maine, two of the three companies that earned over \$1 billion in 2016 were WEX and IDEXX—companies with information technology at their core. The third was L.L. Bean, the venerable sporting-goods, clothing, and housewares company synonymous with Maine's outdoorsy, Yankee brand. At its founding in 1912, L.L. Bean itself was based on two innovations: a hunting boot with a rubber bottom and a leather side, and the notion that marketing by mail to the list of people who had bought hunting licenses would yield interested buyers. Today, the company has global sales and retail outlets from Freeport, ME, to Tokyo, Japan. Most of its products are manufactured outside of the United States, but its iconic boots continue to be stitched locally.

On the surface, rural regions appear to be at a disadvantage in the innovation and technology arena. They have fewer large, wealthy research universities and lower rates of patenting, a traditional measure of innovation. They often have higher concentrations of industries that traditionally have invested less in research and development (compare the biotech industry with the paper industry, for example). However, some rural regions have invested intentionally in the ingredients needed to support a culture of innovation and entrepreneurship; as a result, they are punching above their weight. They have learned that it requires a long-term view; identification of their regional, industrial, comparative advantages; investment in entrepreneurship, as well as technology; connecting the dots between invention and successful commercialization; and, once a critical mass of activity is taking place, the promotion of the region's strengths in that industry cluster.

Oklahoma is one rural state that has taken this approach. According to Scott Meacham, the CEO and president of i2e, a nonprofit partner of Oklahoma's Center for the Advancement of Science and Technology (OCAST), Oklahoma's preferred direction is to "invest in new companies that add homegrown jobs that take less state dollars per job to create and

are more likely to remain in Oklahoma long-term.”³ Other examples of initiatives investing in rural innovation include Minnesota’s Agricultural Utilization Research Institute, North Carolina’s BioNetwork, and the Maine Technology Institute—all of which are pursuing innovation as a strategy to grow good jobs and economic opportunity in less-populous regions.

The Business of Entrepreneurship

A region needs more than inventive ideas to translate new discoveries into economic benefits. It needs the capacity to evaluate these ideas for their commercial potential. It also needs people with the business skills and experience to develop them into marketable products and—importantly—into profitable companies. To achieve this at a scale that generates meaningful new jobs and wealth requires an ecosystem that fosters these connections, provides early-stage capital, and nurtures a critical mass of entrepreneurs with the drive and experience to succeed in running the gauntlet from high-potential invention to profitability.

The past decade has seen a proliferation of efforts to expand entrepreneurship in rural states. Merriam-Webster defines entrepreneur as “one who organizes, manages, and assumes the risks of a business or enterprise,” which sounds a lot like any small-business owner. However, people use the terms in different ways. Small-business owners are seen as having great ideas, but at a community scale, growing at an incremental pace. Entrepreneurs are viewed as having big ideas, embracing risk, and focusing on big ideas and disruptive growth. Small-business owners are seen as being committed to, or even sentimental about, their companies. Alternatively, entrepreneurs are viewed as working to grow their companies fast, with the goal of achieving an “exit”: selling all or the majority of the company to a larger investor—a strategic partner that is usually a larger company with a complementary product mix—or, in a rare instance, to the employees of the company through an employee stock ownership plan.

Over the past decade, the interest in entrepreneurship development as a springboard for economic growth and opportunity has exploded. Company accelerators and initiatives, like StartUp Weekend, have proliferated across the United States and around the globe.⁴ National philanthropies, such as the Kaufmann Foundation and the Blackstone Charitable Foundation, have funded research on entrepreneurship, supported entrepreneurship development activity, and promoted public policies to catalyze entrepreneurship. This investment in entrepreneurship as a strategy for economic development has even turned global. The U.S. Agency for International Development’s Partnering to Accelerate Entrepreneurship initiative was launched to build economies and create jobs in nations where high unemployment contributes to poverty and hopelessness that might provide a breeding ground for radical action. And leading universities have gotten into the game; for example, the Regional Entre-

3 Scott Meacham, “Innovation Can Boost Oklahoma Economy from Within,” *The Oklahoman*, January 24, 2017.

4 StartUp Weekend ran in over 1,000 cities around the world in 2016. Globally, GUST surveyed 387 accelerators that worked with 8,836 startup companies, investing over \$190,000,000 in their growth.

preneurship Acceleration Program of the MIT Sloan School of Management works with cross-sector groups from regions and countries around the world to develop and execute entrepreneurship development initiatives.

However, the popular image of an entrepreneur as a 21-year-old college-dropout-turned-billionaire is belied in rural regions. Many individuals starting their first business in rural regions are mid-career, not recent college graduates, and a higher proportion of these startups are bootstrapped, meaning they don't receive financing from venture capital sources, but grow using their revenue base, savings, credit cards, friends, and family members. Where possible, they also tap grants or investment from state, nonprofit, or private mission-investors, such as CDFIs. Programs cultivating entrepreneurship have sprouted not only in Boston and San Francisco, but also in Portland and Bangor, ME (Top Gun), Mountain Village, CO (Telluride Venture Accelerator), and Danville, VA (The Launch Place).

Often ignored in this debate is that regions have and depend on a diversity of small-business types.⁵ In a recent paper, Karen Mills, former administrator of the Small Business Administration and now a faculty member at Harvard Business School, described the different types of small businesses and the different roles they play in the U.S. economy.⁶ Twenty-three million are sole proprietors; they provide income to their owners but don't have employees. Four million are "Main Street" companies that serve consumers and other local businesses. They are the local pizzerias, dry cleaners, and auto repair shops that make up the fabric of our communities. Most focus on maintaining or boosting profitability more than expansion and significant jobs creation. One million are suppliers to other businesses in the trades sector. And approximately 200,000 are fast-growing, innovation-driven businesses. The latter two categories of small businesses focus more on growth and have a disproportionate effect on the U.S. economy by anchoring and nourishing supply chains in the United States and by contributing to job growth.

CDFIs that focus on small-business development have typically dedicated their financing and business advising activity to the first two categories: sole proprietors and steady-growth, "Main Street" companies. Data increasingly show the importance of extending supply chains, adding value, and boosting value chains to grow industry clusters, boost productivity, and increase wages and job quality. Rural CDFIs have an opportunity to leverage their industry knowledge to identify industry-wide barriers, partner with industry leaders and trade associations to find industry-wide solutions to barriers that are constraining growth, and advocate for policy and regulatory changes that can help these industries to grow.

A recent example was an effort organized by CEI and its partners in the Maine Woods Consortium, an open association of nonprofit organizations, businesses, and government agencies dedicated to advancing a "triple bottom line" approach (economy, environment, community) to development and conservation in the Maine Woods region. In 2015, the

5 The Small Business Administration defines small businesses as firms with fewer than 500 employees.

6 Karen Mills, "The 4 Types of Small Businesses, and Why Each One Matters," *Harvard Business Review*, April 30, 2015.

Consortium conceived of legislation to create Rural Destination Areas and a criteria-based process for rural regions to develop plans and secure this designation. The Consortium also proposed the delivery of targeted technical and financial assistance to Rural Destination Areas. The idea was to direct the Maine Department of Economic and Community Development to lead an interagency initiative to identify, develop, and deliver a package of targeted technical and financial assistance to leverage private investment and accelerate development of high-quality, marketable Rural Destination Areas.

After discussions with legislative and relevant agency leadership, the state committed to supporting the concept with existing resources and creating a position that can work with rural tourism businesses on destination development. This was a good outcome that aligned with the original goal of expanding economic development through a network of marketable Rural Destination Areas where clustered amenities—natural attractions, trail systems, water access, service-oriented businesses, transportation infrastructure, and vibrant downtowns— attract visitors, businesses, and new residents.

From Transactions to Rural Business Growth: The Role of Workers and Workforce Development

As a rural CDFI that channels \$15-20 million annually into micro- and small businesses in Maine, CEI has a front-row seat in the process of job creation. Companies come to us seeking financing when they are poised to invest in their operations and grow. This is the very same time when these businesses often need to hire additional front-line workers and middle managers. Yet the average small-business owner or entrepreneur does not have a deep bench of human resources staff, networks with organizations that provide skills training or employment-related supports, or knowledge about public resources available to fund apprenticeships, training stipends, or English as a Second Language programs. CEI's Lending and Investment team can reach out to our Workforce Solutions staff to assist individual companies or coordinate training resources in support of multiple employers in a region.

One of CEI's wholly-owned subsidiaries, CEI Capital Management LLC, is a New Markets Tax Credit Financing CDFI that financed the addition of a new tissue paper machine at Woodland Pulp and Paper, adding over 80 new papermaking jobs in Baileyville, ME, a town of approximately 1,500 near the Canadian border. The company needed new employees with both hard skills to operate state-of-the-art papermaking equipment and soft-skills, such as teamwork and communication. Woodland Pulp and CEI, as well as partners that included Washington County Community College, Maine Department of Labor, and other organizations, came together to launch a Maine WorkReady "soft skills" training program and a 20-week, fully paid High Performance training program. Washington County Community College delivered the training in standardized skill blocks, which instilled a uniform set of pre-operational vocational competencies among all workers. Entry-level positions at the company pay higher-than-average wages and benefits, and workers receive increases in their hourly pay as they complete subsequent training modules.

CEI has also coordinated the Portland Jobs Alliance, a partnership of service providers, employment practitioners, educational institutions, and businesses building a coordinated approach to providing employment services that help low- and moderate-income job seekers find work. This initiative, funded by the John T. Gorman Foundation and a Community Development Block Grant from the City of Portland, helps Portland companies to meet their hiring needs by creating an integrated and customized job training, referral, and retention support system.

As unemployment rates have fallen, companies are more and more willing to partner with others to solve their workforce needs and hire workers from new populations. CEI has increasingly served as a bridge to populations with higher unemployment, such as new immigrants and refugees. When equipped with language and skills training, mentors who can provide assistance with job applications or transportation solutions, or internships to build experience in a new type of workplace, these new entrants to the labor force can become highly productive employees. Supporting these workers requires us to collaborate with practitioner partners and to develop and advocate for policy solutions that help build ladders to good jobs and economic opportunity, such as a liveable minimum wage, public funding for skills training, and other employment-related support.

The Lure of Impact Investing: Mirage or Accelerant?

Pioneers of the community development finance field motivated by the civil rights movement and the War on Poverty were the early mission or triple-bottom-line investors, although the term “impact investor” was coined more recently. Community development pioneers in the 1960s and 1970s saw economic empowerment as a fundamental driver of social justice and viewed community development finance as a battering ram to break down systemic disinvestment and other barriers that keep people of color, women, immigrants, and other underserved groups from fully participating in American society.

Over the past five years, the field of impact investing has grown and evolved, as people and institutions have increasingly sought to invest their resources more consistently with their values. According to the Global Impact Investing Network (GIIN), survey respondents dedicated over \$15 billion to impact investment in 2016. These investments are financing companies and social enterprises whose activities span community development, as well as the fields of education, social enterprise, health and wellness, climate-change mitigation, energy, and water. For the past five years, a constant theme within community development finance circles has been how CDFIs can better tap these investment dollars and channel them into investments in their communities—to yield a financial return, help low-income people earn a better livelihood, or boost environmental sustainability.

In 2016, with the help of a graduate student from Yale University, CEI interviewed investors, consultants, and foundations to understand how the impact investment industry views CDFIs, what hurdles exist in terms of further CDFI investment, and what roles CDFIs fulfill in the impact investment environment. Challenges that surfaced during these inter-

views included: 1) the lack of large-scale investment tools and portfolios that hinder CDFI growth; 2) an understanding of risk and impact that limits investment flow, particularly at the advisor/intermediary level; 3) the growing need for blended funding, which, without playing a role in meeting this demand, will limit CDFIs' ability to secure capital; and 4) impact metrics that are not sufficiently standardized, with the corollary that standardization may not be possible or easily accomplished.

These challenges are magnified for CDFIs working in rural regions. Large-scale investment opportunities in rural regions are less common and more geographically dispersed. Risks are sometimes higher—and are often perceived as being higher—both of which deter investment. There are fewer available and sophisticated investors, so building a capital stack of investments with varied risk and return thresholds can be more difficult. That said, CEI and other CDFIs that specialize in rural community finance have developed specialized knowledge (which can mitigate risk) about natural resources based industries, such as agriculture, fisheries, food manufacturing, nature-based recreation, and bio-based and renewable energy.

Until larger flows of impact investment from foundations, banks, and other investors are channeled to businesses in smaller towns across America, capital from federal agencies, such as the Community Development Financial Institution Fund, the Economic Development Administration, the Department of Agriculture, and the Small Business Administration, will remain critical sources of community development financing in rural regions. Similarly, the New Markets Tax Credit Program and other financial tools will continue to be needed to leverage private capital—both impact and traditional. CEI's subsidiary, CEI Capital Management LLC, has deployed New Markets Tax Credits in rural states, including Maine, Georgia, and Hawaii, yielding good jobs with benefits, contributing to thriving arts institutions that then attract tourism as well as new residents, and retaining families in small communities that otherwise would have suffered from depopulation.

The Evolution of Metrics

In the movie *It's a Wonderful Life*, Clarence the angel shows George Bailey how his Bedford Falls neighbors' and community's destiny would have been different if his savings and loan had not existed. This alternate reality is stark. The Savings and Loan has closed, Bedford Falls is a dark place full of poverty and pain, and relatives and neighbors have been in prison and mental institutions. Why? Because the people of Bedford Falls are unable to access the capital they need to pursue opportunity. The challenge facing CDFIs is to show how their investments, partnerships, business counseling, affordable housing development, and policy advocacy make a difference in the lives and communities they serve. The old way of raising investment and grant dollars based on stories and trust is no longer sufficient. The diverse group of investors in CDFIs are demanding better, more credible metrics that show how CDFIs are translating their dollars into impact (i.e., improving livelihoods through affordable housing and quality jobs) rather than outputs, like numbers of loans made to small businesses, or units of affordable housing built or maintained.

Rural CDFIs are often playing multiple roles to address the diverse needs in rural communities, so the activities and impact they need to track are varied. The needs in their communities require financial and nonfinancial assistance, as well as harder-to-quantify activities, such as convening partners, workforce intermediation, informing public policy and regulatory reform at the state level, startup support, and capacity-building of new organizations. Tracking the impact of these functions in ways that are accurate and can help connect the dots along a theory-of-change logic model requires investment in information systems, metric development, staff capacity, and communications skill. We have seen firsthand how difficult—and expensive—it is to collect, aggregate, analyze, and communicate credible impact data that demonstrate the value of our work, but that also inform our work as practitioners. CEI’s strategic priorities for the next three years are to grow good jobs, environmentally sustainable enterprises, and shared prosperity in Maine and—through our regional and national subsidiaries—in rural communities across the United States. Developing internal data management capacity and information technology infrastructure to measure and communicate our impact will be the next step in our journey. We are confident that it’s possible.

Looking Forward to a Brighter Future for Rural Regions

The future is not a zero-sum game between urban and rural America. Rather, the future will depend on rebuilding and recognizing the connections and interdependence between the two and the continuum of communities that grade from urban to rural. As we continue to remind ourselves, the 2016 election season emphasized the chronic reality that the economy is not working for everyone. Also, as Kentucky-based writer Wendell Berry reminds us, without prosperous local economies, the people have no power. We can argue over the definition of “local,” but the important reality is that healthy economies are diverse in size and scale and need to work for everyone, not one socioeconomic class or one scale of community. In addition, economies must ultimately work within the constraints imposed by Earth’s natural systems—another topic ripe for further exploration by the community development field.

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Keith Bisson is the president of Coastal Enterprises, Inc. (CEI). Prior to that, he was the senior vice president for Program Management and Development, where he managed CEI’s small-business counseling, natural resources, and workforce development programs. He was also responsible for developing and managing CEI’s \$12 million Northern Heritage Development Fund and \$5.5 million Working Partners Initiative, winner of the 2011 Wells Fargo NEXT Award for Opportunity Finance; monitoring and participating in federal rural development policy; and developing and managing foundation and investor relations. A graduate of McGill University and the Yale School of Forestry & Environmental Studies, Keith is active in the community and currently serves on the Board of Directors of the Opportunity Finance Network, the CDFI Coalition, and the Family Focus Early Learning Center. He also serves on the advisory board of Four Directions Development Corporation, a CDFI serving Maine’s four Native American tribes.