



LEARNING JOURNEY DEBRIEFING

Emerging ChangeMakers Network visits Coastal Enterprises Inc.

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On November 15, 2010, a core team from the Emerging ChangeMakers Network (ECN) traveled to Wiscasset, Maine, on a learning journey, to meet with Coastal Enterprises Inc. (CEI) to gain knowledge about building an investment value chain that supports historically disenfranchised communities. CEI has a long history of providing capital to communities in Maine that would otherwise be overlooked by conventional banks while overlaying their loans with a focus on triple-bottom-line impacts.

The idea to visit CEI was born from a desire to see the workings of an investment value chain that actively worked on triple-bottom-line or community wealth-building strategies. Our first objective was to find an organization that could help us explore a value chain that demonstrates the relationship between investors (banks, individuals, foundations, churches, pension funds), triple-bottom-line enterprises, technical support and other related intermediaries. Our next objective was to identify an organization that could also be evaluated against the seven forms of community wealth: political capital; individual capital; built capital; intellectual capital; social capital; natural capital; and financial capital — this made finding an organization that met this criteria more difficult.

Not your ordinary CDFI.

Obviously, there are other Community Development Financial Institutions (CDFI) located in the Southern region that do exceptional work. The argument could be made that an organization registered as a CDFI would naturally adhere to a triple-bottom-line practice, provided that its location and lending sectors speak to this. For our purposes, we wanted to look at a CDFI that required, encouraged and supported transformation of their operations to one that builds community wealth. CEI manages to make this agreement happen partially because it also operates as a Community Development Corporation (CDC). CEI is both a CDC and a CDFI; we learned that they consider the use of seven interventions as necessary to take a holistic approach to moving capital.

Ah-Ha Moments: About CDFIs

I was pretty surprised to learn how much money CEI received from the Department of Treasury because of their CDFI status. Early on, I had decided that Emerging ChangeMakers Network (ECN) *would not* become a CDFI because there were other organizations that were in this business and had a track record. I knew that having a proven track record was critical for this project. But I never realized that we could potentially be leaving money on the table by not pursuing a CDFI. Now I am thinking: “How do we make this structure work for us given this information? Is it critical for us to have direction over a CDFI?” —Jessica Norwood

CEI’s 7 Interventions

1. Financing
2. Technical Assistance/Business Development Services
3. Targeted Economic Sectors
4. Targeted Populations
5. Partnerships
6. Public Policy
7. Asset Development

CEI calls this blend of CDC and CDFI the “Alternative Banking” industry. CEI is the third largest of this type of organization in this industry and the largest handling new market tax credits.

HOW DOES SOMETHING SUCH AS CEI GET STARTED?

Our team was really pleased to learn the connection of CEI to the CDC movement of the '60s and early '70s. The strategy during that time period was to fully attack poverty and spur economic revitalization, and to attract private capital to invest in capital-starved communities that would, in turn, create jobs and affordable housing. This history helped us understand the moment in time when CEI was developed and gave us insight into what the CDC and CDFI architects theorized would happen in communities around the country. For CEI, this connection to community helped shape the “why and how” of getting started.

Ah-Ha Moments: About CDCs

I know a good deal about civil rights but I never tied the community development movement with CDCs. But right around the time of the late '60s and early '70s is when CDCs really started coming up. This connection was really powerful for me because it helped me put into perspective what CDCs mean to a community or what they should mean to a community. —Charles Lewis

Getting Started...

1. Have a local connection.

Ron Phillips, President of CEI, said that the CEI was started at the request of the state of Maine and was given seed money through the State’s Office of Community Services, which administers Community Action Programs (CAP), the complementing arm of CDCs. The state paid his salary and travel expenses while Ron worked to launch the organization.

2. Have a project that the community can rally around.

The first project that CEI did was the financing for a fishing harbor. Ron contends that this project was the “spark” that ignited CEI because the idea came from within the community itself, and the community had a vested interest in seeing the venture succeed.

3. Develop a Business Plan.

Just like any other business, the investment organization needs to have a business plan. This business plan should include a really compelling project as an example of the community that you plan to support.

4. Find your Financing.

Here are some sources of financing:

1. *Government:* As a CDFI, the organization can apply to the Department of Treasury for a grant. This can provide a significant portion of funding. The process is competitive as several organizations apply for a limited pot of money. As a CDC, apply to HUD, SBA, DOL and HHS to receive funding.
2. *Private Foundations:* View “PRI Makers Network” and “More for Mission” to see which foundations are a part of this network and develop your outreach strategy to them.
3. *Banks:* The Community Reinvestment Act (CRA) requires banks to meet the credit needs of low-wealth communities where they are located.
4. *Faith-Based Institutions:* CEI got some of its early money from these institutions!
5. *National Intermediaries:* Calvert Foundation and Seedco Financial are some well-known national intermediaries. If you are doing sector specific funding then there may be other intermediaries that are worth seeking out.
6. *Individuals:* Limited but viable resource. May not be the best place for seed capital. It could take years to cultivate a donor/investor.

Ah-Ha Moments: About Government Financing

There are a lot of intricacies involved in using the legislative and federal systems to obtain monetary assistance for communities. The fact that CEI uses these systems on a regular basis was an “Ah-Ha” moment. —Abina Billups, Esq.

Getting Motivated Investors

The main goal of ECN’s Impact Investing objective is to stimulate, create and catalyze a financial investment pipeline that will support low-wealth communities. Because this is our goal, our main focus is around the exploration of investors and the investments. While CEI is an investor, it also functions as an investor’s intermediary, which is a place that ECN hopes to hold.

Ellen Golden, managing director of CEI Investments Notes, Inc. (CINI), raised \$1.3 million over the past year by reaching out to accredited investors through the CINI notes program. The average investments were around \$25,000 to \$50,000. We were fortunate to meet with Ms. Golden (as an investment manager) and have one of their investors, Chip Newell, speak with us about why he chose to invest in CINI.

Top Three Reasons to Invest from the Investor’s Point of View:

1. **You feel connected to the community and “the story.”** Chip said that Maine is small enough that you could “get your arms around it” and feel like you could make a dent in some of the challenges the communities face.
2. **You feel comfortable with their track record.** There are a growing number of people who feel uncomfortable with Wall Street and would like to see their

money concentrated on things that have a tangible effect along with a proven track record of success. Also, having a well-written, polished offering document and pitch is important.

3. **You want to give something back and make money too.** Helping a community is important, but sometimes people are just not able to do it from a “gift” standpoint, so investing in triple-bottom-line businesses is an attractive option.

Ultimately, finding an investor is about networking. Ellen suggested that meeting with financial advisors helped her reach some of the best groups of people. Both Ellen and Chip shared their belief that, after a meeting, if you don’t end up with an investment, you could still end up with a lead. If you find someone interested in the program, that encounter is also a great opportunity to bring him or her into your organization in an advisory role.

Ah-Ha Moments: About Accredited Investors

I was under the assumption that CEI had more investments from individuals. So it’s an “Ah-Ha” that the CEI notes program just started in the past year and it was also an “Ah-Ha” about how much money it had raised already. The next “Ah-Ha” was that only folks with high net worth, due to the Securities Exchange Commission regulations, could invest. For me, that was interesting. —Charles Lewis

THE ART OF PICKING A GOOD INVESTMENT

There are several different scenarios, suitable for various locations and circumstances, that could serve as a roadmap for success. Since it has never been done, how can we be sure which road is best? Ron talked about the early days of founding CEI and said, “Welcome to the world of not knowing what you’re doing. It’s all about learning as you go.” When you start out, he said it’s about connecting with a CDC or entrepreneur first because they typically have the project and/or idea that is going to attract investors, and they have the passion and expertise to see the project through to success. Here are some of the successes and flops that CEI felt were important to note:

Great Successes

Success for CEI can be seen in:

- The successful businesses in which they have invested;
- The networks of which they are a part;
- The reputation and relationships they have with investors;
- Their ability to build a good model for moving capital;
- Their work in both the natural resources and childcare sectors;
- Their low default rate;
- Being at the top of great success stories in the alternative banking industry.

Great Flops

There is a tendency to stay with something too long, then find it too hard to back out. Ron shared that this should be a flop to avoid. Secondly, understand that just because you are good at raising money does not mean you are a good asset manager. This illustration refers to the "leaky bucket" example, whereby you are good at raising money faster than you are losing it. The third flop is the notion of running a business yourself. The classic CDC owns and runs a business; as a startup, this is going to be something that will have to be decided when you initiate your venture.

Here is the discussion Earl and Ron had about running your own business...

EARL: You made a comment about not creating businesses yourself and that you can't run businesses. So the question I have is about "not creating." Today, when we were at the bakery we visited, the owner mentioned that 50K to 60K tons of wheat flour comes from inside the state but they still have to go outside of the state for white flour. He said that if he could purchase white flour in the state he would be ordering 500K tons of white flour but it would be expensive [to develop] because it would probably cost \$2 million dollars to develop and set up the facility. Well my thought was, "Why doesn't CEI create that?" I know, from your core philosophy, you don't run businesses. But it seems to me that it would help your other partners if you did. Where does that line get set between creating an industry and not getting too involved [yet] realizing that there is a hole that you could fill that would actually make more wealth?

RON: I don't know where the starting point in Alabama might be. It could be your own venture that is owned by the CDFI or CDC at 51% or some dominant share. I don't know that you should rule that out. It is a business model and it is a way to go but it has its own perils because your primary goal is to get that business solvent and that can often be a distraction when you have another business, which is the validity of the sponsoring institution. You have to be able to attend to the very hard work of the business itself and keep your own operation going by getting grants and things; it's very difficult. So my experience with that was negative and that is all I am saying. But the Delta Foundation's model was to set up companies and that worked for a while as long as money was flowing from Washington DC to subsidize it. But at this point, you start playing with the market if you try to blend your own operations with the reality of just trying to do business. And in the end, they weren't successful [with that endeavor]. Now with that said, we do invest equity in companies and we do take positions on boards and we have, in effect, helped start up companies in the early stages and are a part of their core management teams. There are models to get more intimately involved. But we would rather have the entrepreneur and other investors and stakeholders do the business than to have them depend on us because sometimes the money coming to us can... unlevel the playing field. We can sometimes create an artificial value of that enterprise through our subsidy and never quite know if it is "us" that is holding it together or market principles. But it will all come down to the balance of things in your own community.

Ah-Ha Moments: Business Development

I am a bit concerned about the notion of not developing businesses that could further support the community. From our initial scan of businesses in the Black Belt, we saw that many of the existing companies in the area did not distribute any real wealth. To operate under the assumption that all we need to do is simply wait for an existing business to come to our door and ask for money is no different than current CDFI strategies. This strategy is just not robust enough for me. I can fully understand why ECN may not want to own or run a business because it would take us away from our core mission and the viability of our organization but, at the same time, we will have to have much more of an active role in shaping what we think the economy can and should look like. Obviously, we have to do this in relationship with partners who know the industries we think show interest. I really believe that we have to come out in front of this and pace this process and not let this process pace us. Otherwise, we are only reinventing the wheel. —Jessica Norwood

THE PROCESS OF MAKING A TRIPLE-BOTTOM-LINE (TBL) LOAN

Al Moroney, who worked for the banking industry for many years and serves as the Senior Loan Officer at CEI, said that they have a standard loan application that looks at the same information that the banks do but they also look at demographic information and another checklist of items that would give more information about the applicant and the area where they will be working. The process goes something like this:

- Step 1.** Inquiry is received.
- Step 2.** Business plan must be done (if not, then they are referred to SBDC office for support).
- Step 3.** Review of cash flow projections to see if there is detailed thought process worked out.
- Step 4.** Fill out an application.
- Step 5.** Internally, they review which loan product will work for the applicant. There are different loan products available at CEI, from micro loans which start at \$1,000 to larger loans that reach up to \$1.5 million which are used for real estate acquisition, building and construction.
- Step 6.** Approval of loan. If under \$50K, it requires two signatures. If over \$50K, it needs approval from the loan committee of the board.

Ah-Ha Moments: About Banks and Lending

I was surprised by how closely CEI worked with banks. I actually imagined that CEI took the place of a bank but to hear that in some circumstances CEI can be secondary to a bank was a real surprise. I would have thought CEI would be in more competition with these banks but there appears to be a great degree of cooperation that happens. I wouldn't say this was an "Ah-Ha" moment but definitely a surprise. —Earl Hilliard Jr., Esq.

Can you expect your investments to follow TBL?

There are other CDFIs that make investments, but overlaying that practice with a triple-bottom-line frame is what makes CEI unique. While they have always had a lens toward socially good benefit and maximizing economic impact, the truth is that they still struggle with balancing it all. To aid them in adding a TBL metric on their loans, they created a “tag” system whereby loans would be “tagged” with special requirements. Such tags include a green tag, fish tag and an e-tag or employment tag. With these tags, CEI is able to track information through a database or score card that shows how well their loans are performing with these tags and that data can correspond with the traditional loan information.

The idea behind the tag is to try and get businesses to think about new ways of supporting low-wealth workers or preserving and enriching the environment. Rynel, one of the companies that received loans from CEI, talked to us during a visit and said that when they first got a CEI loan, they had an e-tag that said they needed to hire from disadvantaged communities and they did. But once the loan matured and the tags were removed they could not find the economic value for making these kinds of hires. For Rynel, TBL is all about what makes the most sense from a financial standpoint and, while they may not be able to employ disadvantaged workers, they feel good about using ecological efficiencies in design of facilities as a TBL outcome because in the end, it saves them money.

Can you nurture an investment to follow TBL?

Embedded in the reflection from Rynel was the understanding that the people who were running the companies make the decisions on how and why a company functions the way it does. It became easy to see why picking the right kind of person, nurturing that person and sticking with that person’s vision is what is going to ultimately have the best chance of creating a triple-bottom-line.

Independent of the urging of CEI, Borealis Bread’s owner found himself connecting to an organic farmers network and the Maine Businesses for Sustainability network that lobbied for higher wages for their workers. Noticing the natural places and communities where the owner of the company is focusing helps a great deal to ensure that TBL will be a priority for the recipient.

Ah-Ha Moments: Investing in People

Ron talked a great deal about why it was important to invest in people who have an initial idea or business plan. I noticed, during our site visit to the bread company and the foam company, how much of these financial investments were made because the people at the helm of those companies were talented, knowledgeable and cared about not only profit, but also about community. These owners and presidents are sitting on councils and boards related to their field, and they are actively working to bring new people, products and businesses to the table because they not only benefit from a business standpoint, but it also further builds community wealth. This is not a criteria that I had ever seen valued in a lending situation. Because so much of my work with the Emerging ChangeMakers is about understanding and investing in people, this really resonated with me. I could easily see how the criteria that we use to identify ChangeMakers could be transferred to an investing frame. —Jessica Norwood

Building Future TBL Businesses Starts at Point of Inquiry

CEI also works closely with the Small Business Development Center (SBDC) to reach out to communities that might otherwise be overlooked by the traditional banking system. They make sure that their literature and outreach reflect the communities they want to target and host an outreach committee that gives feedback on how CEI and SBDC are doing in the community. In addition to this, they offer free counseling services, a comprehensive education on TBL, technical assistance in writing their business plans to reflect a respect for the community and have a goal of hiring from disadvantaged communities as well as encouraging smart environmental practices.

Ah-Ha Moments: About Communities

One of the “Ah-Ha”s that I didn’t see coming was when Ron said community development was a civil right. For me, my natural philosophy is that affluent communities can afford to think about community development and survival communities have to think about financially surviving first. I often wonder if, as a community, you can focus on the triple-bottom-lines when [you] need to focus on financial viability, but hearing Ron speak said to me “Hey, this can be just as important as the financial aspect.” —Balla Masemola

ECN CORE TEAM ON IMPACT INVESTING

Last	First	Location	Occupation / Involvement
Billups, Esq	Abina	Selma, AL	Economic Development Consultant — Black Belt — Attorney
Bouyer	Mayor Melanie	Lipscomb, AL	Mayor - Seedco Financial
Crawl	Joelette	Epes, AL	Forestry Management — Black Belt — Federation of Southern Cooperatives
Hilliard Jr.	Rep. Earl	Birmingham, AL	State Representative, past candidate for U.S. Congress, Black Belt region, Attorney
Lewis	Charles	Birmingham, AL	Birmingham Change Fund, Mechanical Engineer at Southern Company
Masemola	Balla	Mobile, AL	Engineer, Alternative Energy
Norwood	Jessica	Mobile, AL	Founder, Emerging ChangeMakers Network
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