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CAPITAL ACCESS IN THE BLACK BELT

A REGIONAL RESOURCE FROM THE SLC

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WHAT IS THE BLACK BELT? WHERE IS THE BLACK BELT?

The Black Belt is a string of counties that stretches from east Texas, through the deep South, and up into eastern Virginia. It is the largest, poorest, most rural region in the country. While definitions vary, the region typically is considered to encompass upwards of 623 counties across 11 states, mostly rural, crossing several smaller regions, including parts of the Mississippi Delta, Coastal Plain, and the Piedmont. The Black Belt is not a contiguous region, with small breaks scattered intermittently. It is this geographic irregularity that has, in many ways, hindered the development of a comprehensive strategy to address the challenges in the region as well as the development of a regional identity, such as those that helped to steer resources to the Appalachians and the Mississippi Delta.

Booker T. Washington famously used the term "black belt" in his 1901 work Up from Slavery, noting the earliest meaning may have been a reference to the dark, rich soil of the region, but also acknowledging the later racial distinction of where black residents exceeded whites. The richness of the soil helped give birth to the plantation system, which was dependent upon slave labor and offered few opportunities for industrial or other economic development. Following the civil war, sharecropping replaced slavery as the economic model of production, which altered the underlying system very little. The legacy of this production system is a region dominated by large agricultural holdings, few major towns, and limited industrial development.

The dominance of agriculture in the region contributed to the limited scope of economic pursuits available. The few businesses that moved into the area in the early period of industrialization tended to be manufacturing companies, dominated by low-wage, labor-intensive activities. Most were still tied in part to a resource-based economy and featured jobs that were easily outsourced or automated. As the urban South developed broad-based industrial infrastructure, the rural South remained starkly entrenched in a narrow range of economic options, most of which have declined precipitously in the past several decades. The absence of new options in the region became a "chicken and the egg" situation for communities. Without new industrial development, there was little impetus to diversify or develop the infrastructure needed to host new industries; but without the diverse skills and experiences of the residents and the necessary infrastructure, few incentives exist for new industry to enter the region.

The social conditions of the Black Belt—characterized by very limited mixing across racial and economic lines—has further contributed to its deficiencies. Racial separateness effectively denied minorities access to education and work experiences, sharply limiting their ability to develop the kinds of social and human capital that is necessary for a community to develop. This has, in turn, resulted in a workforce that is less educated, less skilled, and less experienced in the very kinds of work that are now most in demand. This cycle has been exacerbated by outmigration, largely because these migrants tend to have higher levels of educational attainment and greater skill sets.

The Black Belt also is home to more poverty, substandard housing, unemployment and underemployment than any other region in the country. Educational attainment is lower in the Black Belt as well, particularly among the black population, and there is an exceptionally high number of female-headed households. Financial institution penetration in the region is low, even when compared to other rural communities. Health services are sparse and the ratio of residents to primary care providers is unusually high. Each of these factors contributes to the next and creates a circle of interdependence that is confounding in its complexity.

KEY OBSTACLES TO ACCESS TO CAPITAL IN THE BLACK BELT

THE BLACK BELT IS RURAL

Rural areas have a marked deficiency in access to capital for all purposes, but particularly for business and community development. Bank consolidation in the past decade, and the growth of branch banking and interstate banking, has lead to a slow decline in rural-rooted banks. Changes in banking regulations over the past few years have reduced the community reinvestment requirements for mid-sized banks, further reducing the flow of capital to rural areas. Furthermore, urban banks and loan officers often are unfamiliar with the kinds of businesses that rural America will support and are extremely risk averse, particularly given the recent turmoil in the capital markets due to the mortgage crisis.

THE BLACK BELT HAS HIGH NUMBERS OF MINORITIES

Minorities and communities of color are affected disproportionately from an inadequate supply of capital for community development, regardless of whether they are located in a rural or metropolitan setting. Minority communities tend to have fewer full-service banks and higher levels of access to alternative credit mechanisms that feature higher rates of return and offer extremely limited financial tools. While it is true that general financial literacy among Americans is poor, the financial literacy among minority populations is lower than the national average, placing minority entrepreneurs and businesses at a disadvantage when dealing with financial service providers.

THE BLACK BELT FEATURES BORROWERS WITH LOW OR NO COLLATERAL

Collateral is an essential component for much of the capital used by small businesses when first getting established. For the most part, the collateral in question is a dwelling, the business itself or equipment related to the business. A defining characteristic of the Black Belt is relatively low costs for land and real estate. While this provides the Black Belt with one of its most important advantages (low costs of operation), it also limits the value of any item of collateral a business might have to secure a loan. Furthermore, many rural businesses, including manufacturing, agricultural product processing and resource extraction, utilize equipment that, while costly, has limited resale value and, thus, is not particularly attractive to banks as collateral, causing rural enterprises to overcollateralize their loans.

THE BLACK BELT HAS HIGH PROPORTIONS OF RESIDENTS WITH LIMITED OR NO CREDIT

Possibly one of the most important considerations for banks when deciding whether or not to issue a loan is the creditworthiness of the borrower. Many residents of the Black Belt have very limited experience with credit and generally have relied on a very thin range of financial options, which hinders the development of a strong credit rating. Furthermore, for many families, credit cards are essentially the only form of capital available and, when used in an undisciplined, excessive manner, can detrimentally affect a credit rating. Lower overall incomes compound this problem, making it difficult for people to build up assets and easy for unanticipated expenses to snowball into mountains of debt. As an example, due to lower rates of utilization of health insurance in rural places, when a family member gets ill in rural America, the family often slides into debt. The absence of primary care and preventative medical services in these areas amplifies this problem, as it discourages individuals from seeking help until their problems are more acute and thus more costly.

THE LACK BELT SUFFERS FROM DEFICIENCIES IN HUMAN AND SOCIAL CAPITAL

Human and social capital—the sum of the skills, experiences, and capabilities within a community—can have an enormous impact on how well a community is able to guide and manage its own development. Formal and informal education, diverse professional and personal experiences, and commonly held social institutions all contribute to the net social capacity of a place. The Black Belt has low high school completion rates and even lower numbers of college graduates, coupled with an economy that historically has been dominated by low-skill, low-wage manufacturing and natural resource-related industries that do not foster skill development. As these industries have moved out or closed, the remaining population lacks some of the essential experience and skill necessary to diversify. Among these are accounting and bookkeeping, leadership and organization, innovation, and marketing among many, many others.

The Black Belt abounds in some kinds of social capital that are perhaps lacking in urban areas, specifically the relationships of trust and mutual obligation which foster cooperation and coordination. These relationships are, however, highly stratified along class and racial lines with very little interaction among groups, thereby limiting their beneficial application at the broader community and regional level. Working across these divisions often is very difficult due to long-standing and unresolved grievances and limited histories of trust.

THE BLACK BELT LACKS A REGIONAL IDENTITY

One final disadvantage is the nature of the Black Belt as a region lacking contiguity or compactness or, for that matter, even a clear definition. While this may appear to be a minor limitation, the absence of these conditions makes it difficult to identify champions who are key to the development and advancement of the interests of the region. Furthermore, the Black Belt overlaps in some areas with other areas of identity, including the Delta, South Carolina's Low Country, and North Carolina's Piedmont, whose cultural identity works simultaneously to bind them together and exclude their association with the larger Black Belt.

THE CREDIT CRUNCH

Banks are facing a serious credit crunch. Major banks have been forced to write off billions of dollars in loans during the dissolution of the sub-prime mortgage market. This liquidity crisis has trickled out into every corner of financial and capital industries, with conventional debt and venture capital alike seeking safe havens. With major investment banks in freefall, there is a very reasonable concern that capital will be restricted to only the most attractive, low-risk, highly collateralized investments.

In the Black Belt, far from the vaunted avenues of Wall Street, this crisis will be felt in a general drying up of capital for business investment. Loans will be harder to secure, funds for start-up companies and new enterprises will require greater amounts of collateral and be offered at less favorable terms. Borrowers with limited credit histories likely will find it hard to secure financing. Venture capital, seldom a common site anywhere in rural America, will flee elsewhere to ride out the storm. The crunch will even be felt in the philanthropic community, which lubricates so much capital in the region, as their portfolios take a hit from stock market declines.

While this is a grim forecast, it need not be a prescription for disaster. The absence of conventional capital in the Black Belt in this instance would have limited impact, so long as alternative financing and investment are cultivated and encouraged. This will make the role of community banks and community-based organization all the more important. It also underscores a need for closer interconnectedness between these partners in order to better coordinate and share resources and experiences.

The credit crunch also underscores the need for rural entrepreneurs to be financially literate. As conventional credit becomes more scarce and the terms of its issuance become less favorable, it is critical that rural business owners be savvy about both their finances and their businesses. The increased importance of financial skills underscores the need for high quality, on-site technical assistance and training for low-income, limited-resource entrepreneurs.

Bank liquidity has long been a concern for rural banks, and this is now even more of an issue. Deposits have not kept pace with loan demand in rural areas and, as the economy slows down, this situation will only worsen. This disparity between deposits and loan applications discourages banks from extending capital for even moderately risky businesses, which crimps the flow of funds for many rural start-up and expanding businesses. Furthermore, bank consolidation allows deposits made in rural places to fund loans in other places where the risks are not as great. While there are no easy fixes to a liquidity crunch, the situation does highlight the need to make better use of the programs intended to ease loan risk, if not infuse cash. Among the sources for doing this are recourse to Small Business Administration (SBA) and United States Department of Agriculture's Rural Development guaranteed loans.

Banking on the "Unbanked"

Rural residents in general are less likely than their urban peers to have banking and, in rural places with high minority populations, this situation is even more pronounced. The effects of this absence are profound, as it increases costs for everything, from utility bills to cashing checks, for low-income rural residents. According to 2004 Federal Reserve Bank statistics, about one in 12 families does not have a bank account; the ratio drops to one in four among families earning less than $18,900. The amount of money these families' incomes represent is significant—possibly more than $500 billion in "absent" deposits. For the unbanked themselves, the fees they spend on check-cashing, pay-day loans, and cashier's checks or wire transfers to pay bills limit on their liquidity. In communities with high levels of the unbanked, financial institutions are denied access to these assets, assets that could be used and reused in the community in the form of debt equity.

This is not to say that everyone is ignoring these individuals. Indeed, a handful of non-banking institutions are working to extend banking services to this population, including H&R Block and Wal-Mart. Community-based financial institutions have been moving into the arena as well, as have some conventional banks, albeit more slowly. With the exception of community-based institutions, however, the additional funds that these new banking services generate will not remain in the community and, as some of these operations are not oriented toward extending capital at all, they offer very little in the way of community reinvestment. In recent years, community banks and regional banks have begun to focus more on this sector of the market, providing entry-level checking accounts with low minimum balances, no fees, and limited transaction allowances.

WHAT KINDS OF CAPITAL?

There are two principal forms of capital available for economic development: debt and equity. Debt capital is the most familiar, coming in the form of loans from banks. Entrepreneurs and businesses secure loans by pledging an asset against the value of the loan. Banks review credit history and business plans in order to assess the risk associated with the loan, with high-risk borrowers and projects receiving less favorable terms or being rejected. Banks typically do not become directly involved in the operations of the enterprise and the entrepreneur retains ownership of the company so long as the conditions of the loan are met. Loans are predictable for the entrepreneur insofar as the borrower knows or can ascertain the amount of money that must be returned to the bank and on what schedule. In this way, however, debt capital is impatient, requiring repayment to begin almost immediately.

In order to access debt equity, of course, it is necessary to have access to a bank that is able to make a loan. Over the past 15 years, changes in the banking industry have decreased the number of banks in rural areas and accelerated the shift of operations to urban areas. The growth of branch banking and changes to federal law permitting national interstate banking has had a paradoxical effect of expanding opportunities for bank presence and reducing financial options in rural areas. In part because of the nature of branch and interstate banking, these institutions tend to be more risk-averse. Furthermore, because rural bank deposits grow less quickly than within urban areas, there is almost always unmet demand for conventional capital from rural banks, which causes them to deny capital to moderate risk applications.

Equity investment involves an infusion of capital from an investor in exchange for a share of ownership in the company. Equity investment can come from a variety of sources, including venture capital funds, individual investors, and nonprofit organizations. The terms of an equity investment can vary markedly from deal to deal, but typically implies, if not requires, a degree of control over the enterprise. Equity capital is more patient than debt, being willing to wait years for repayment, but expects higher returns over initial investment. Because the terms of investment involve a partial share of the company, repayment typically involves the sale of the company or the buying out of the investor. Equity investments are complex arrangements legally and financially, requiring entrepreneurs to have relatively sophisticated financial skills.

Equity investment tends to cluster in fast-growing, high-return industries. In recent years, capital has flowed to high-tech companies, bio-technology, and biofuel facilities, to name a few. With the exception of biofuel plants, equity investment is rare in rural areas, which often are seen as having insufficient concentrations of investment-ready companies in the "right" areas to attract and retain investors. Furthermore, since most venture capital is located in urban centers and focuses on a narrow band of high growth industries, rural investment opportunities typically are less familiar and harder to identify for venture capital.

THE TOOLBOX: WHERE CAN WE GET CAPITAL FOR COMMUNITY DEVELOPMENT?

In the Black Belt, the most mature form of capital comes in the form of debt financing from a variety of sources, including credit cards, informal loans from friends and family, conventional bank loans, loans guaranteed by the U.S. Department of Commerce's Small Business Administration, and financing from community banks and community development financial institutions (CDFIs). An emerging source of debt financing in the Black Belt is microcredit, mostly through nonprofit organizations and CDFIs. Equity financing remains very limited in rural areas, and in the Black Belt in particular. While the more established forms of financing function in the Black Belt, there is ample opportunity to expand access to these forms of financing and to increase the options available. For those forms of financing that are emerging or are immature in the region, there is a need to focus on how to adapt these mechanisms, which are effective in other places, to the conditions of the Black Belt.

ESTABLISHED FORMS OF CAPITAL IN THE BLACK BELT

CREDIT CARDS

It bears noting that an unfortunately high number of rural entrepreneurs have very little access to either debt or equity capital and finance their businesses through a combination of loans from friends and family and credit cards. The latter item is of particular concern as extensive use of credit cards represents the most expensive capital an entrepreneur can use and can degrade, instead of develop, good credit history, particularly if the entrepreneur has a business with inconsistent revenues. Furthermore, using credit cards or acquaintance capital to build a business does not allow for the development of a reliable, predictable capital inflow, discourages fully capitalizing an enterprise (since only necessary expenses are likely to be covered, with no allowance for contingencies), and can, with respect to the latter form, cause extreme personal stress and discomfort.

DEBT CAPITAL

Debt capital—essentially loans—can be available from a range of sources, including most importantly community banks. Other financial institutions, such as community development financial institutions (CDFIs), nonprofit organizations certified by the United States Treasury and chartered to provide financial services, credit and other services to underserved markets and populations, and regular commercial banks also help to extend liquidity to rural places. Loans from banks, regardless of their charter, often are the most available and the most readily utilized by rural entrepreneurs. They are easily understood by entrepreneurs and typically involve local institutions. However, access to this source of capital has several requirements that residents of the Black Belt may not be able to fulfill. Among these are the need for collateral and credit history, both of which can be serious obstacles in communities lacking the opportunity to build them. These obstacles are compounded by a scarcity of banks in the region and, among those that are there, a general practice of risk-aversion among rural banks and branches keeps them from having much of their loan portfolio tied up in unconventional business loans.

COMMUNITY BANKS, COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS AND INTERSTATE BANKS

For most rural entrepreneurs who seek capital for business establishment or expansion, the first (and possibly last) stop is their local bank. In the Black Belt, however, the local bank may not be particularly local. Branch banking has caused a slow but steady consolidation in the region, reducing the banking options available and shifting the priorities of the banks that remain. This situation makes things particularly difficult for start-up entrepreneurs for whom there is little business history for banks to follow up on.

Community banks are essential players in rural communities everywhere. In the Black Belt, even as consolidation has thinned the ranks of local banks, an opportunity has emerged for community banks to return to areas that no longer are being served by national banks. The void also is being filled increasingly by CDFIs.

Community banks and CDFIs both are likely sources of debt capital for entrepreneurs, with some CDFIs also providing limited equity investments. Typically, community banks do not offer services directly to clients, although they may require or recommend that borrowers seek them from approved organizations as a condition of credit. Both banking models require some collateral for loans, although with CDFIs the collateral at times may be intangibles of some kind (such as receivables).

SMALL BUSINESS ADMINISTRATION LOAN GUARANTEES

The Small Business Administration (SBA) guarantees loans to small businesses that cannot otherwise secure financing on reasonable terms through normal lending channels. Through Section 7(a) Lender Programs (named after the section of the Small Business Act that authorizes them), firms become eligible for loans that the SBA will guarantee for up to 85 percent of the loan value (for loans less than $150,000) and a minimum of 75 percent of the loan value (for loans greater than $150,000 up to a maximum of $1 million). Interest rates on the loans are not to exceed 2.75 percent over the prime lending rate, with some exceptions.

The SBA loan guarantee program does not create new capital for community development, but it does lower the risk for banks making loans to entrepreneurs and businesses that most often are left out of the loop. Because banks can receive up to 85 percent of the value of the loan back from the SBA if the loan goes into default, banks are encouraged to provide credit to businesses outside the credit system.

The limitations of the SBA guarantee program are twofold. While the program reduces risk, it does not create incentives to extend credit. Thus, while banks are more able to provide financing to rural, low-wealth entrepreneurs, they are not necessarily more likely to do so. SBA loans are a very valuable tool for those community development financial institutions that make use of them. For the greater run of commercial lenders in rural areas, however, they are rarely utilized. This exacerbates the second limitation of the program: its bureaucratic complexity. Loan-making institutions must comply with very specific paperwork requirements. If an institution fails to complete the forms correctly or insufficiently documents the loan, an otherwise qualified loan may be rejected or have the guarantee stripped from the loan should it go into default, exposing the bank to the full obligation. Because of this, banks that give a few of their loans through this program do not develop the facility for the paperwork requirement of participation, and other banks are discouraged from participating at all.

To remedy this, SBA rolled out the Small/Rural Lender Advantage program aimed at lenders who make fewer than 20 SBA Section 7(a) loans a year on average. The program offers a simplified application process for loans of less than $350,000; an expedited processing time for routine credits; reduced financial documentation requirements; simplified loan eligibility questionnaire and specialized assistance to small and rural lenders on complex eligibility issues. The SBA has actively promoted the program throughout the Black Belt in the past year, seeking to encourage banks to make more Section 7(a) loans, expanding access to more underserved borrowers. It is noteworthy that while this will potentially expand the number of SBA Section 7(a) lenders and loans in rural areas, the overall trend is for banks to leave the program, with over 400 lenders discontinuing activities between 2006 and 2008.

USDA RURAL DEVELOPMENT

An important source of financial support for rural community development is the United States Department of Agriculture (USDA). The USDA Rural Development program includes several grant programs that support community development activities and a loan guarantee program to offset risks assumed by conventional banks making loans in rural areas. The Intermediary Relending Program helps create revolving loan funds for small businesses and community development. Direct loans at 1 percent interest are extended to eligible intermediaries, such as nonprofit organizations, public agencies, Native American tribes, and cooperatives with an established track record of serving rural businesses. In turn, these funds then help create a loan pool for rural businesses.

The Rural Business Enterprise Grants (RBEG) program provides grants for projects that "finance and facilitate small and emerging rural businesses." The program is particularly important as a source of funding for technical assistance and business training. A wide range of public and private organizations is eligible to receive funds, with priority given to smaller grant requests. RBEG funds can be used for a host of rural development purposes, from land and equipment acquisition, construction, and pollution control and abatement to training and technical assistance, distance learning and project planning.

The Rural Business Opportunity Grant (RBOG) program is expressly intended to provide grants for training and technical assistance for rural communities with extreme needs. Public and private nonprofit rural organizations are eligible to receive grants for up to $50,000 for a single state and $150,000 for multi-state projects. The Rural Community Development Initiative (RCDI) provides grant funds for training and technical assistance that develop the capacity of intermediary organizations to conduct housing, community facilities, and community and economic development activities. Grants from the RCDI program have a dollar-for-dollar match requirement. Additional funds are available from USDA Rural Development for housing activities, including loans to support single and multi-family housing.

EMERGING FINANCING TOOLS

MICROCREDIT

Microcredit is an approach to financing that serves markets most conventional banks typically do not serve. The approach extends small loans to entrepreneurs, typically bundled with management support, for start-up and expansion. Loan amounts can be for as little as $1,000 to $15,000 (in some cases the upper limit is higher). Microcredit systems do not rely on standard risk calculation tools to determine creditworthiness, which renders the limited credit history of many low-resource entrepreneurs moot. Furthermore, loans often are not collateralized, which further eases the burdens for business owners with little to risk. Because these characteristics align closely to the entrepreneurs in the Black Belt least likely to have access to established financial tools, microcredit is an approach that merits special consideration for the region.

While the idea of loaning money to individuals with no credit history, no collateral and little experience may seem like a recipe for write-offs, microcredit has a strong record of performance. The presence of wrap-around services (which may include business planning, accounting, systems and technology training, regulatory compliance and more) associated with the loans certainly is a factor in the success of the borrower in paying back the loan. It also is indisputable that for many first-time borrowers, the experience of being trusted with a loan is an occasion of such great moment that they make every effort to fulfill their obligation.

Some microcredit programs in the United States have shifted their focus from finance to providing technical services to limited-resource entrepreneurs. In part this represents a decision that the loan amounts in the programs were either insufficient to have impact (on the lower end of the scale) or were being served by commercial banks (on the upper end of the scale). Microcredit in the United States has struggled to find the right measures for assessing risk, particularly for programs that either do not collateralize the loan or do so only to a limited amount. Furthermore, microlending programs often are not designed to be self-sustaining and thereby dependent on infusions of capital from outside to continue the loans or the support programs associated with them. Finally, microcredit competes in the United States with credit cards for business financing as increasing numbers of low-income entrepreneur resort to this financing path of least resistance. The obvious limitation of credit cards is that the interest rates can exceed 25 percent, which makes them the most expensive form of financing available.

In large part, microcredit is still evolving in the United States as models used in the developing world are adapted to U.S. cultural and economic realities. As this approach has been implemented in various parts of the country, a number of sound practices have emerged. A strong starting point is to identify the intended population the program will serve. Many microcredit programs attempt to serve clients across a broad spectrum of experience, from new entrepreneurs to existing business owners to the unemployed and underemployed. By identifying the target population, the other components of a microcredit program can be established, including the types of training necessary, the manner in which it will be delivered, the forms of social and technical support required, and so on. Microcredit relies in large part on relationships of trust, which require time and commitment on both sides. To accomplish this, loan officers work with borrowers in an ongoing manner prior to and following any financing to monitor the client's progress and offer assistance as needed. While the repayment of the loan is an important aspect of microcredit, equally significant is the development of human and social capital among borrowers. Finally, microcredit programs offer stepped services for borrowers of varying stages of readiness. Extending small loans coupled with essential services to entrepreneurs with nascent business and finance knowledge and larger loans with more complex support for entrepreneurs who already have had some experience with the process represents an example of such an approach. Should microcredit be expanded in the Black Belt, building on this experience and best practices will increase its success rate and impact.

The Aspen Institute's Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD), in its 2005 review of microenterprise in the United States, found that at least 517 microenterprise programs providing loans, training, and technical assistance. These programs served a total 626,277 participants over their history and made 37,883 microloans valued at more than $288 million. In the fiscal year covered by the survey (FY2002), FIELD found that half of all microenterprise programs had a client base comprising more than 50 percent minorities, nearly 70 percent had a client base that was more than 50 percent female, and almost 80 percent reported serving a client base that was more than 50 percent low income. Operating expenses for these organizations were split among federal sources (34 percent), private sources (26 percent), local government sources (15 percent), state government sources (14 percent) and other sources (11 percent). For most microenterprise institutions, operational funding is derived from a mixture of these sources.

There are several successful microcredit programs in place in the United States, including ShoreBank, an Illinois CDFI which was among the originators of the approach, ACCION-USA, which is a subsidiary of the Latin American pioneer in microfinance, and the North Carolina Rural Center's Microenterprise Loan Program. The Small Business Administration makes funds available to nonprofit community-based lenders for the purposes of making individual loans of up to $35,000. The U.S. Treasury supports microfinance as well through the Community Development Financial Institutions Fund, which provides monetary awards and tax credits, including the New Market Tax Credits program (which promotes equity investments). Other potential funding sources for microenterprise activities include the USDA Rural Development programs Rural Business Opportunity Grants, Rural Business Incentive Grants, and Intermediary Relending Program, and a handful of programs from the Department of Health and Human Services. Furthermore, a number of foundations have a history of supporting the development of targeted microcredit programs, including the Charles Stewart Mott Foundation and The Ford Foundation.

EQUITY INVESTMENTS

Equity investment in businesses can be a major engine of prosperity, as it provides capital on terms that are intended to create wealth for both the investor and the entrepreneur. Equity is concentrated in urban areas, principally, and that equity investment that does flow to rural areas typically does not reach the Black Belt. There is a movement to affect this situation, but the nature of equity capital poses several hurdles. Equity investment in the Black Belt requires a shift in expectations and approach to reflect the conditions of the region.

Equity funds for community development can be either private or public. Private funds can be from individual venture capitalists or venture capital groups, private charitable organizations, foundations and philanthropies, community groups and organizations and, of course, banks. Public funds are available at the federal, state, and local level. Public funds (and sometimes private funds) often are used to leverage private investments by either minimizing risks or providing guarantees for loans. More often, however, equity capital is used to help set-up or build businesses directly.

Equity capital works differently from debt capital. With loans, borrowers know with a high degree of certainty how much money will be expected to be repaid to the bank on a given day, how long the borrower will have to return the "investment," and how much input and oversight the financier expects to have over the project (typically none). Debt capital expects repayment to begin in the month following the loan, and penalizes the entrepreneur if returns on investments are not immediate, steady and predictable. Debt capital must be collateralized with hard assets in most cases, which poses additional barriers on limited-resource entrepreneurs who may not have much to pledge.

Equity capital generally is much more patient. Equity investors provide financing on more open-ended terms in exchange for partial ownership of the company, which entails varying degrees of input into the project and an expectation of a financial share of profits realized by the company. Because of this, equity investors tend to seek out high-margin investments and specialize in a limited range of activities. In recent years, equity capital has flooded high-tech and biofuels companies in particular, seeking to make large profits from industries that have high growth potential and are significantly undercapitalized. While equity capital is more patient than debt capital, it generally is not conducted as a public service, and equity investors expect a return on their investments either through the public offering or sale of the company, or a buyback of the original investment plus dividends, often on a three-to-five year cycle, and sometimes less. They also seek higher returns from their investments than banks demand, often 20 percent or more annually, and are thus highly skeptical of entering unfamiliar fields which do not indicate high earning potential.

Equity capital comes in two varieties: venture funds and angel investments. Venture funds invest the pooled resources of a number of individuals and groups and are managed professionally. Venture capital in the rural context is very rare, given the demand for venture capital across all industries and the tendency of high-growth industries to concentrate in urban areas. Venture capital funds also tend to prefer to make limited numbers of large investments (at least on the scale of rural businesses), and tend to shy away from providing much oversight or management. Angel investors generally are high-wealth investors who are making decisions independently and choose companies that most appeal to them. Angel investors are more often willing to invest smaller amounts of money (indeed, they typically want to invest smaller sums), and will be more likely to extend advice and support to the start-up organization. Because of this, angel investors represent an opportunity for the Black Belt to attract equity investment.

In a rural context, and particularly for the Black Belt, equity investment will require targeted appeals. State tax credits and write offs for angel investors are in place in several states, including Oklahoma, Wisconsin and North Dakota. Unfortunately, these efforts typically are not focused on rural areas and may, in cases that target high-tech industries, tilt investment away from rural areas. States also offer guidance and support to angel investors on how to conduct their reviews of companies in the state and how to identify likely investments.

Guiding equity investment to rural areas is especially challenging. Angel networks connect entrepreneurs with investors. They often are a group of accredited investors who work together to review companies for their investment potential. Nonprofit organizations also can play a role in helping investors find rural entrepreneurs, and may provide some guidance to rural businesses seeking investors on how to develop their business plan.

Equity investment is a good match for some rural entrepreneurs, but not every rural business is an appropriate match for equity investment. Small business owners in general are resistant to surrendering total control of a project and for rural businesses, the cultural differences between the typical urban investor and the rural context of the operation require efforts to bridge. Furthermore, few rural businesses have the kinds of growth potential that equity investors seek. Equity investment has an important role to play in a rural setting, however, particularly because it erases the disadvantages of low-collateral and poor credit that are common in the Black

Belt. Equity investments in the Black Belt may need to be structured differently from other parts of the country to accommodate the different environment, and may need to include nonprofit, community development partners.

Indeed, a potential model for this is an investment fund managed by a local community development organization, or CDFI, that would use this capital to make targeted equity investments with clients who also participate in other services (such as training and technical assistance) but for whom conventional financing is untenable or less appropriate. Under this strategy, a single investment from an angel investor is distributed among a number of smaller businesses that would typically be below the threshold of interest for a single (or institutional) investor. In so doing, the local group managing the fund is able to spread the risk associated with the investment across several businesses (borrowing a strategy from venture capital funds) and provides greater expectation for returns to the original investor.

EQUITY AND "RURAL SCALING"

Equity investment is a tough fit for rural places for several reasons. One of the most significant barriers is the different scales on which the two parties operate. Equity investors look to make large investments of a million dollars or more. A huge number of rural enterprises that could benefit from equity capital are not able to utilize this size of an investment. Rural businesses also don't typically have the rates of return that equity investors want, requiring longer periods before the company is either sold or the investment can be returned. Furthermore, rural businesses are not "familiar" to investment groups, which increases the perception of risk and decreases the general appeal. Thus, equity investment should be scaled for rural businesses. For this to be successful, rural organizations, including banks and community groups, should work together to cultivate rural-focused equity investors.

PHILANTHROPIES AND FOUNDATIONS

Philanthropic foundations have a very large presence in rural community development. A handful of philanthropies are very active in investing in rural places, but they represent a tiny sliver of the total philanthropic community. A 2004 study by the National Center for Responsive Philanthropy indicated that of the 65,000 or so grant-making foundations in the United Sates in 2001 and 2002, only 306 referred to rural communities in their grant descriptions, and a mere 184 extended their philanthropic activities to rural development specifically. The Southern Rural Development Initiative, based in North Carolina, underscored the rural philanthropic disadvantage in a 2004 report that found that rural foundation assets represented 3 percent of total philanthropic assets, and moreover, concentrated in a handful of rural counties.

This means that while foundation support is of high value to rural community development, it is neither widespread enough, nor large enough, to represent a single solution to the problems plaguing places like the Black Belt. This being said, a concerted effort is underway to encourage more funders to shift resources into rural areas, and many urban-based foundations are acutely aware that there are needs in rural places as well.

Local philanthropy also is receiving a fresh look, with efforts underway to capture local giving in a way that benefits local communities. An example of a mature system can be found in Nebraska, where the Nebraska Community Foundation helps local community funds to become established, allowing them to use the statewide organization's nonprofit tax status to channel donations from local (and in this case, rural) residents back to foundations operating in their communities. This system has created the infrastructure for local philanthropic giving across the state in communities where the capacity independent of a statewide organization was not likely to have been present.

Philanthropies are more than a source of grants and project funds. A great number of foundations support community-based organizations with technical assistance, managerial consultation, and other services. Some connect their grant recipients together into support networks or build other connections to provide a platform for shared experiences. The advantages of foundation-associated nonprofits to amplify their impact through the shared experiences of others are considerable. Foundations are natural repositories for this social capital, and community organizations involved with entrepreneurs should avail themselves of this resource to the fullest extent possible.

While grant funds are an essential source of funding for nonprofits that provide counseling to businesses and entrepreneurs, it is important for plans to be in place to move from dependency to independence. Grant-funding for essential services often is a necessity to establish a program and develop services and procedures. After time, however, most foundations are interested in a demonstrated ability to make these programs sustainable. Even for those rare foundations that are willing to entertain open-ended support, the vagaries of the grant-making process are such that ongoing support (outside certain federal programs), can lead to uncertainty and instability. Particularly with programs that provide training and support services to businesses or engage more directly in financial services (such as CDFIs), it is very feasible that programs can be self-supporting, or, at a minimum, have self-supporting components. Planning for this transition at the outset of a program makes it more likely that programs and services will continue to be available when grant funding ends or unanticipated interruptions in funding are experienced.

LOCAL PHILANTHROPY

In looking for capital for community development, it is very easy to forget to look close to home. As Jason Gray, research and policy director of the Southern Rural Development Initiative notes, "There is more money in these communities than you would think." Local philanthropy is a growing opportunity for communities to make the most of the wealth that they have. There are a handful of models available on how to boost community development with a focus on local assets. The Home Town Competitiveness (HTC) program uses a comprehensive approach that calls upon rural communities for the four key areas of leadership, youth, entrepreneurship and charitable assets. By developing, strengthening and sustaining charitable giving in a local context, the HTC approach creates an endowment that local communities can draw from to support activities that are local priorities, supporting local civil life and institutions, and providing investment capital for local economic development.

An HTC partner putting this in practice is the Nebraska Community Foundation (NCF), which is a statewide nonprofit that coordinates and guides rural Nebraska communities in setting up local foundations. In this way, NCF has built a network of local organizations serving small towns and rural places that would otherwise be isolated. Because local philanthropic organizations are complex to establish, NCF extends the opportunity to use their tax ID and nonprofit status to local charities, supporting these affiliated funds with a toolbox of best practices, services and training. The organization also works with financial planners to encourage local philanthropic giving.

WHICH KIND OF FINANCING IS "BEST" FOR THE BLACK BELT?

Economic development relies on a mixture of both debt and equity financing. Equity capital is extremely demanding of all parties. Because of this, rural communities lacking sufficient business infrastructure and rural businesses lacking the full complement of financial skills often are unable to use equity capital. As a tool for "getting the ball rolling," debt capital is very useful, although at times inadequate for the task. Equity capital is in such limited supply in rural areas that the rare infusion of investor money often is hard to place. Limited experience leads to difficulties at every stage of the deal-making process, which discourages investors from extending equity in rural areas, which further limits experience, continuing a vicious downward spiral.

Given this, the near-term demands for capital in the Black Belt include an expansion of the amount of debt capital that is available and to whom. In the long-run, like much of the rural America, the region will need to identify, cultivate, and build relationships with angel and venture capitalists in order to fuel prolonged economic development. The general expansion of the role and volume of debt equity for communities with very limited experience with financial markets should help to build financial literacy and foster economic sophistication that is lacking in many rural communities but attractive to investment capitalists.

FIRST THINGS FIRST

For rural communities everywhere, and particularly the Black Belt, being ready for capital is a key concern. Rural communities face a significant capital readiness gap. There is a need for capital to foster economic and community development, but there is a limited amount of social and human capital in the community to make the most of investments. This dilemma is most pronounced among very low-income communities which historically have been excluded from the benefits of the broader economic life of the region.

A range of factors contributes to the credit readiness gap, including educational inadequacies, social barriers, and historical economic isolation. Bridging the readiness gap requires focused efforts to extend appropriate support across the range of business skills and beyond. These intensive efforts are time consuming and typically require patience on the part of the entrepreneur or business person, as well as the person providing the assistance. The tools that help to improve access to capital through skill development also help to build social capital, and once these skills are transferred, they become a renewable resource for the community.

A capital-ready entrepreneur is someone with the ability to manage the finances of their growing business, plan effectively for the future, and market their business. Start-up businesses must be able to accurately estimate start-up and overhead costs, set profit expectations, manage cash-flow, marketing, licensing and record keeping. Growing and mature businesses may have some of the same needs, as well as legal and contractual concerns, regulatory compliance and other more complex needs.

When an entrepreneur approaches a bank for a loan to either start up or expand a business, banks might provide initial support to help secure the loan, including referral to a Small Business Development Center (SBDC) for specific support, but will typically provide little in the way of support services after the loan is issued. The SBDC office provides a wealth of services for small businesses and, in some instances, this may be sufficient to prepare the entrepreneur. Others, including a great many low-wealth, minority, and rural entrepreneurs, need more intensive help to develop financial and business skills prior to seeking financing. All too often, however, there is no infrastructure in place to help them develop these skills.

While it is possible for the rural entrepreneur to become capital-ready independently, it is more common that this will be the result of participation in a program associated with a community development corporation (CDC) or organization. It is not uncommon for individuals to be referred to a CDC or other provider when applying for a loan. In other instances, the providers of services may be a source of capital as well. Some entrepreneurs seek business support services without immediate plans to seek capital. In the end, the development of business skills among entrepreneurs helps to build social capital in the community and the overall capacity of the community for economic development.

There are several examples of programs in place that offer strong technical assistance for borrowers, including a number which do not presume a need for financing at all. A common theme across these programs is the development of a close relationship between client and consultant, the delivery of services at least partly on-site in order to fully understand the issues at hand, and a commitment to a long course of assistance by both parties. Added features that show promise include the use of peer-to-peer and group settings to provide some services, which help to create networks of skilled individuals and foster social connections that are highly valuable after a participant "graduates."

By establishing partnerships between financial institutions, investment groups and technical assistance providers, risk is reduced for both the entrepreneur and the lender or investor. If a client has been certified by a partner-provider as being capital-ready, a financial institution or investor can extend capital with greater confidence.

TECHNICAL ASSISTANCE AND MANAGERIAL ASSISTANCE

A component of some CDFI loans is the provision of technical assistance before and/or during the period of the loan. Such services can run the gamut from basic tax review and legal support to full wrap-around services that make sure that the entrepreneur or business is able to cope with the infusion of capital, can manage their operations as well as any expansion, and has the skills and knowledge necessary to succeed. Getting entrepreneurs to be capital-ready can involve a narrow band of very specific skills and information, or a much more comprehensive set of business and professional tools.

Technical services are important remedies to the deficiencies in human capital that are typical throughout the Black Belt. Technical assistance is commonly defined narrowly by both the client and the financial institution recommending recourse to a training program. In many instances, the kinds of technical assistance are those that are most immediate—computer training, bookkeeping, basic business law, business plan development, regulatory support, and the like—and take as a given that as a whole, these components are necessary to run and grow a business. This is not always the case, however, and in many instances, management assistance is as necessary for the success of a business as any hard, technical skill.

While requiring technical assistance as a condition of a loan is beneficial, often the technical assistance is provided simultaneous to the consideration for financing. While this provides coverage on the technical aspects of running a business, it may overlook some of the more important deficiencies that the client has; deficiencies which, while not directly related to the loan or the business in question, nonetheless may have profound impact on the success of the enterprise.

Technical assistance provided in discrete packages in Small Business Development Centers offers entrepreneurs and small businesses with the option of targeting the skills that they feel they most need. These centers serve as a strong resource in some ways, but for communities and individuals with very limited social and human capital, they are often insufficient for the task. Furthermore, while business owners may sense that they lack specific skills and capacities, they may not be aware of other deficiencies that hinder their growth or performance.

A MORE PRACTICAL, EFFECTIVE METHODOLOGY

Moving from technical assistance provided in this manner to a model that provides comprehensive managerial assistance on-site to integrate the many pieces of assistance into a functional whole has several distinct advantages. First and foremost, a managerial model builds relationships of trust between the provider of services and the client, and places the provider in a strong position to guide changes in a measured, appropriate manner. Many small businesses are hampered by a hesitancy to change that is in part seated in uncertainty and risk-aversion. By developing trust in the person or organization providing managerial support, the business owner is made more comfortable with changes to their business strategy. Also, having a presence on-site allows for a much greater understanding of what services are really needed and how those services can be pulled together. Furthermore, by providing managerial assistance to clients up front, ahead of other financing consideration, the risk associated with either debt or equity financing is greatly reduced and the client becomes more attractive to both banks and investors.

A managerial assistance model is much more demanding on the organization providing the services in a number of ways. In the Black Belt, a commonly raised concern is that the quality and capabilities of current technical assistance is uneven and not always up to the tasks of the existing a la carte approach. For managerial assistance to be meaningful, the consultants need to have both a high level of competence with the technical demands of businesses as well as the ability to synthesize these elements, the drive to deliver these services over a large geographic area and the facility to work across social groups. Such models also are more expensive to implement, which creates a further barrier to implementation, although by no means an insurmountable one.

HUMAN AND SOCIAL CAPITAL

Human capital is the sum of a person's skills, knowledge, abilities, and experiences. Social capital is the network of people and organizations available in an area. Individuals with high human capital tied into networks build strong social capital. The Black Belt has gaps in both its human and social capital. Low formal education rates, limited numbers of professionals and limited workforce skills all are indicators of poorly developed human capital. Bridging the human capital gap requires coordinated, cooperative action toward improving schools, improving employment, and improving social and cultural opportunities.

Social capital in the Black Belt is limited by social separation and long-standing mistrust, which means that social and business networks do not extend across racial lines. Further, this class stratification and racial stratification are socially enforced, limiting sharing of experiences and skills. While this stratification has contributed to some very strong social institutions inside the communities, these institutions essentially are isolated from one another, and there are signs that they are beginning to fray.

Poorly developed human or social capital limits the opportunities for financial solutions to community development problems. Without adequate human and social capital, communities are unable to make full use of what financial tools they have at their disposal. The absence of either amplifies the effects of the deficit, further complicating efforts to bridge these gaps and underscoring the need for concerted community efforts toward the goal of building up both human and social capital

Building human and social capital helps to enable and empower Black Belt residents to drive their own development forward. This requires the conscious, continuous effort of the full range of groups in the community to come together to solve a truly shared problem. In addition, this requires the forging of formal and informal bonds across lines of cleavage, improved educational opportunities, and workforce development that leads to jobs that, in themselves, have growth as a component. Human and social capital deficiencies guarantee that the Black Belt is the necessary target of the development process.

BEING ENTREPRENEUR-FRIENDLY

Rural economic development all too often is perceived as landing new jobs from the outside—a new auto parts plant, steel mill, call center or distribution warehouse. For some rural communities these "lotteries" pay off, but for others, the big investments in promoting their assets to outside industry never pay off.

Missing in this paradigm for many rural places is support for local entrepreneurs. Homegrown talent is far too often overlooked by county and regional economic development officers. This is not entirely their fault. A local entrepreneur on the surface may not be all that attractive an investment. At best, they may employ a dozen people, and may not employ more than one or two. They have very limited sales or revenues and don't have ready links to outside markets. However, with some support, local small businesses can grow into larger firms and, down the line, are unlikely to abandon their rural homes even as they grow. Even "mom and pop" ventures that are essentially family-run operations have the potential to grow into small businesses.

Small businesses account for nearly two-thirds of all rural employment and 60 percent of all firms in rural areas. It is no exaggeration to say that they are the backbone of the rural economy. All too often, however, rural county community development offices forget about this component of the local economy when developing plans. The scale of these businesses makes them difficult to target for services by state agencies, and few state offices of economic development focus very heavily on the needs of small businesses.

This situation is changing, and the needs of Main Street in small towns are getting more traction at the state and local level. Supporting small businesses by being entrepreneur-friendly must be considered a top priority for states with large rural populations. Job and income growth in rural communities can be built through the small expansion of thousands of operations in rural counties.

State and local economic development money in the rural South has been oriented on "chasing smokestacks." This approach takes a narrow view of economic development, pursing a "lottery mentality" in which it only takes one big plant to turn the community around. For some communities this has been the case, but for every large auto plant or smaller industrial facility one place wins, dozens of other communities lose out. The strategy often fails to build on local assets and capacities, ignores local and regional advantages, and pursues a development model based on what has worked elsewhere. It also tends to bypass as well as divert resources from local entrepreneurs and small businesses who already are providing jobs and fueling the local economy.

By placing a focus on being entrepreneur-friendly, a community can help to develop its own assets well. Georgia has established a program at the state level to help guide local communities to this end. The Georgia Department of Economic Development's Small Business and Innovation Division has worked with communities throughout the state since 2004 on programs that incorporate entrepreneurs and small businesses into the community's overall economic development strategy. The program involves a certification process that allows local leadership and organizations to focus on the issues of support for entrepreneurs and barriers to their success.

State regional project managers help communities fulfill each step of the Entrepreneur-Friendly Community process, beginning with the identification of the local organization that will take the lead role in moving the process forward and the formation of a committee of stakeholders that is inclusive of the whole community. The committee's work begins with education- and awareness-raising activities around the benefits of economic development rooted in the community. The committee is expected to strengthen existing ties to outside resource providers, including federal and state agencies and offices, as well as pull these entities together with local leaders to develop a stronger network. The committee identifies local entrepreneurs and unique local resources that present an opportunity for regional advantage. Information gathered from local entrepreneurs becomes part of a review process to help the community focus its efforts to improve support for these individuals and businesses. The end result is certification by the state, the development of an implementation plan for strategies that emerge from the review, and a shift in orientation at the community level toward genuine support for small businesses. While any community in Georgia can seek certification, it has been especially promoted among rural communities and has had its greatest success there.

A TIERED APPROACH

Access to capital for community development requires a multi-tiered approach. At the ground level, there needs to be an availability of the kinds of technical and managerial assistance that will ensure that entrepreneurs are capital-ready. At the community level, it is vital that small businesses and entrepreneurs are at the center of a community development plan. Community asset mapping helps to identify the opportunities and deficiencies and helps in the development of a plan for moving forward. This process needs to be actively inclusive of all stakeholders, even reluctant participants, and is vital to building the strong social networks needed to connect entrepreneurs and small businesses with capital and commercial services.

At the next level up, activating the financial system—the providers of credit, equity, and financial services—into a connected network with service providers at the local and regional level is critical to improving capital flows to communities and entrepreneurs. This linkage in turn helps to identify potential investments for financial providers by serving as a bridge between local entrepreneurs and regional investors and banks. Such a system can also reinforce the potential for local charitable giving by providing an infrastructure for doing so.

Also at the regional level, community organizations, local government and individuals should make connections to organizations operating within the South, such as the Southern Regional Development Initiative and the Delta Regional Authority, which provide access to valuable resources. One of the greatest disadvantages rural places have is isolation, which limits information, access, and innovation. Consciously reaching out to regional groups provides an open channel to new ideas and solutions to common problems.

And finally, at the national level, there are a number of organizations that are active and involved in community development. While the number of philanthropies that specifically serve rural places is limited, there are a great number working on poverty, income improvement and community development that serve as strong resources, if not sources of funds, for community-based organizations regardless of location.

By strengthening the roots of a community in its entrepreneurs and small businesses, connecting them to the broader world of financial services, and tying into the vast network of regional and national organizations, it is possible to grow the economies of local communities.

STATE POLICY LEVERS

State government can foster greater investment in the Black Belt through tax policy and the use of state loan guarantees to supplement federal programs. The state of Oklahoma has developed a program of this kind, Rural Enterprises Incorporated (REI), which makes loans of varying sizes and provides limited technical assistance. REI serves as a clearinghouse for a wide variety of federal programs and also provides loans that are backed with a guarantee from the state, which allows them to extend credit to competent borrowers with some relief from the associated risk.

Another significant strategy is the creation of venture capital and angel capital vehicles within state investment strategies that target rural, female and minority businesses. As noted, venture capital in rural areas is very scarce. States typically have large and broad investment portfolios that could include investments in rural areas. By creating a resource to connect equity capital and rural entrepreneurs, the state (or a state-chartered, privately run organization) can bridge the information divide and bring willing investors together with strong candidates for capital. Kentucky Highland Investment Corporation is an example of this approach that has provided more than 500 businesses with more than $165 million in financing since 1968, making it one of the largest development venture capital investors in rural America.

States also can enter into public-private partnerships with capital and investment companies to serve targeted audiences. State tax credits can offset the risk cost for these capital funds (much in the same way that state technology investment funds operate), which are then able to seek strong candidates for growth, realize a return, and expose the state treasury to a minimal degree of debt. There also is an opportunity for direct state investment, where appropriate, through state pension and other investment portfolios. States are traditionally very conservative investors and, in many ways, rural businesses within their state are a good match. This approach tends to need little more than legislative prodding and the presence of a competent, transparent, experienced investment manager to direct a state investment fund for rural areas.

A related tool in a state arsenal that can be used to increase access to capital in undercapitalized areas such as the Black Belt is a dedicated revolving loan fund. Revolving loan funds require a small amount of seed capital to begin operation, extended by the state, with new funds generated by repayment of loans from initial borrowers. In many instances, revolving loan funds are perfectly suited to microcredit lending models, which require relatively small amounts of capital.

State investments in workforce development and expansion of services for small business offered through state technical colleges represent another opportunity. Two-year institutions supported by the state have a very clear mission to serve a workforce development role, training workers to accomplish new tasks and develop new skills for local industries. They are less oriented toward offering programs that are tailored for existing and aspiring small business owners. And while most two-year colleges have begun to think of workforce development and economic development as key parts of their missions, serving the small businesses located in rural communities remains a need.

Finally, there is ample opportunity for state support of increased liquidity in financial institutions. By reducing the risk on loans in targeted, high need communities, through the use of loan guarantee programs, banks are able to extend more credit due to relaxed loss reserve requirements. While such programs are available at the federal level, amounts are limited and the paperwork burden is considerable. Streamlining these programs and simplifying them for banks and CDFIs would serve to increase liquidity and expand opportunities.

WHAT DOES A BLACK BELT BUSINESS "LOOK" LIKE?

As has been observed, one of the hurdles businesses in the Black Belt face in accessing capital is that there businesses are not always familiar to financiers and bank loan officers. To be certain, there are a great number of small businesses in the Black Belt that would be equally familiar to urban and suburban banks, but there also are a number of operations that are not. Because the Black Belt has a greater than average proportion of female heads of households and low-income and minority residents, entrepreneurs in the region should include more women and minorities.

Because of the nature of the region, the Black Belt may have more natural resource-based industries, including produce handling and processing, lumber extraction, hauling and milling, game ranches, and energy-related companies. Many of these areas are seasonal or have large irregular swings in production and profitability, which both increases the complexity associated with them for loan officers and the uncertainty for lenders and other financial institutions. Other businesses are perhaps familiar, but are unlikely to be typical financial customers, including businesses that in urban centers would not necessarily resort to financing at all. Included in this group are a number of small retail and service operations that require start-up and expansion funds.

Among the businesses supported by Arkanass' Alt. Consulting over the past 10 years have been such familiar small businesses as catering and restaurants, an auto detailing shop as well as more atypical operations such as a waste-hauling business. In North Carolina, Mountain BizWorks has extended services to florists, computer repair shops, a small lumberyard operation, alpaca farms, and much more. In Alabama, Black Belt businesses include bed and breakfasts, daycare centers, and home health services.

This vast range of opportunities reflects the diversity of the region and underscores the lack of a "typical" Black Belt business. While a diversified economy could be an asset for the region, the relatively low capitalization of these businesses and small scale makes them more dependent on a strong financial system than elsewhere. Moreover, the diversity of operations constitutes a challenge for financial institutions in assessing risk and providing guidance on business decisions.

PROGRAMS OF NOTE

MOUNTAIN BIZWORKS

http://www.mountainbizworks.org/

Operating in Western North Carolina since 1989, Mountain BizWorks provides in-depth business planning courses, ongoing technical support and advanced training, as well as loans to small businesses, for up to $50,000 through its affiliate, Mountain BizCapital. Smaller peer loans are made for up to $2,500. Over the past 19 years, the organization has provided training to more than 3,000 entrepreneurs, helped with the creation of more than 1,000 locally owned businesses, and brokered loans for more than $2 million. As a certified Community Development Financial Institution, Mountain BizCapital is able to provide a broad range of financial tools to clients of varying size and tailor financial tools to each particular businessperson or enterprise.

What sets Mountain BizWorks apart is the business development training it provides. In addition to conventional approaches to training and development, Mountain Bizworks works to build their clients into cohorts and networks, using program graduates as mentors for new entrepreneurs and staying connected with program participants at all stages of their businesses. This model has helped to stitch together a very close relationship not just between the organization and the businesses it serves, but among small businesses in the region as well.

THE KENTUCKY HIGHLANDS INVESTMENT CORPORATION

http://www.khic.org/

The Kentucky Highlands Investment Corporation (KHIC) is one of the oldest rural venture capital funds in the country, serving nine counties in southeastern Kentucky. Founded in 1968 as one of the original Title VII community development corporations, it undertook a mix of social programming, industrial recruitment, community development and economic development. KHIC began working on venture capital activities in 1972 and has since invested more than $90 million in 175 business ventures. KHIC is notable for several reasons, chief among which is the degree to which it supports entrepreneurs.

Kentucky Highlands offers extensive hands-on technical assistance to the entrepreneurs it serves in order to develop the business and management capacity they need to thrive. The Corporation works one-on-one with a business after they join the KHIC portfolio in a wide range of business skills, training that is also available to non-participating entrepreneurs for a fee. Second, KHIC may take over management of a company in its portfolio if the company defaults on its equity or loan agreement or place conditions on future equity investments or loans. Third, KHIC offers technical assistance through its business planning center, The Launching Pad. KHIC is also a partner with Southeast Community Capital in Southern Appalachian Fund, a New Market Venture Capital firm.

ALT. CONSULTING

http://www.altconsulting.org/

Alt. Consulting operates in the Mississippi Delta region as a nonprofit organization providing on-site managerial assistance to businesses in low-wealth communities, particularly minority- or female-owned rural businesses. With 10 years experience, Alt. Consulting provides a wide range of customized, on-site managerial services to clients across a 60-county area. The organization provides clients ranging from manufacturing and retail to services with customized packages that draw upon Alt. Consulting's 40 products and services including tools addressing financial management, planning, loan packaging, operations, analysis, training (one-on-one and group), and software implementation and training.

Alt. Consulting charges clients on a sliding scale depending on their stage of development and the maturity of their enterprise. They have established strong relationships with area financial institutions and have recently chartered their own Community Development Financial Institution to assist in the extension of equity capital in the Delta. Perhaps the best measure of the success of their managerial support approach is the low number of charge-offs on loans associated with their clients—two out of 131 loans issued since 2004.

An obstacle often noted with rural equity investments is the hesitancy of investors to risk capital in companies without an understanding of when or how they will be able to recover their investment. In their equity capital work, Alt. Consulting addressed this obstacle by developing an investment pool that will allow for multiple "exit strategies" for the investments. Further evidence can be found in their success rate in securing financing for clients, half of whom are able to get loans from banks for their businesses, a very high success rate for businesses in the Delta.

The most significant difference between Alt. Consulting and other related service providers is their presence in the communities in which they work. The consultants with Alt. conduct much of the initial work with their client on-site, learning about their business and observing how it operates. This promotes a high level of trust between the client and provider, and helps the managerial support to be better tailored to the needs of the entrepreneur. The relationship also helps the technical advisor provide greater assistance in identifying and pursuing the appropriate financial tools for the company.

Alt. Consulting charges clients for services on a sliding scale, with lower rates for start-up companies, slightly higher rates for established companies with cash-flow problems or other limitations, and a higher rate for companies seeking to grow and expand. To offset the costs of services that are not covered by client fees, the organization draws upon a host of private funds. Alt. Consulting also has been successful in securing USDA funding through the Rural Business Enterprise Grants (RBEG) and Rural Business Opportunity Grants (RBOG) programs to fund some of their managerial assistance.

SEEDCO AND SEEDCO FINANCIAL

http://www.seedcofinancial.org/

Seedco is a national nonprofit organization that works with local partners to create economic opportunities for disadvantaged job seekers, workers and neighborhood entrepreneurs. Seedco takes a three-pronged approach to helping low-income job seekers and entrepreneurs find the opportunities they need and build the skills they require to take full advantage when presented with those opportunities. Seedco works with individuals to improve their access to employment, workplace skills and key benefits; foster job security to develop economic stability; and promote long-term economic options through advanced skill development. In addition, Seedco works with employers, institutions, and entrepreneurs to address root sources of unemployment and underemployment and thereby improve jobs and workforce supports. Seedco operates several regional offices, including those in Alabama, Louisiana, and Tennessee, to provide community support services.

Seedco's community and workforce efforts are supplemented by a subsidiary organization, Seedco Financial, which provides loans and assists with financing of businesses and individuals. Seedco Financial operated within Birmingham since 1999, and has recently expanded to serve clients statewide. Seedco Financial's current loan balance is heavily focused on serving small businesses, with at least two-thirds of its outstanding loans committed to this category. Currently, Seedco has not extended training and technical assistance programs to match the presence of its financial services arm, but the organization is considering adding this aspect to its operations in the coming year.

ENTERPRISE CORPORATION OF THE DELTA:

http://www.ecd.org/

The Enterprise Corporation of the Delta (ECD) is a private, nonprofit community development financial institution that provides commercial financing, mortgage loans and technical assistance to support businesses, entrepreneurs, home buyers and community development projects. The organization was founded in 1994 to address pressing economic and development needs in the Mississippi Delta region within Arkansas, Louisiana, and Mississippi. Since that time, the organization has expanded into mortgage lending, technical assistance and consumer financing.

The Enterprise Corporation of the Delta was initially capitalized with a mixture of private funds which in part paid for a staff person to seek philanthropic capital. Over the next few years, the ECD collection of funders expanded to include most of the major philanthropic foundations providing funds in this area, including the Winthrop Rockefeller Foundation, The Pew Charitable Trusts, John D. and Catherine T. MacArthur Foundation, C.S. Mott Foundation and the Kaufmann Foundation. In time, however, it became clear that for ECD to continue its mission, it would need to move from a philanthropic-based funding arrangement to a more conventional one based upon deposits. In order to do this, ECD utilized the New Market Tax Credit program to establish the Hope Federal Credit Union, which now operates five branch offices and offers traditional bank services within its service area. Because Hope Federal Credit Union has branches in metropolitan areas, the relationship helps shift capital deposited in urban areas to rural projects, essentially "reversing the flow" of capital.

ECD also utilizes loan guarantees provided by the USDA and SBA to the greatest extent possible, which helps to minimize risk for the institution overall as well as increase liquidity, since lower loss reserves are required. In 2004, 45 percent of all loans to businesses that were new to the portfolio received a guaranty of some kind. ECD also seeks out partnerships with conventional, commercial banks to leverage its capital and extend credit to businesses lacking strong collateral.

Because ECD is a mission-driven lender, its loan portfolio fills the gaps that are found in its service sector. In addition to extending credit to individuals and businesses lacking extensive credit or collateral, the ECD portfolio is disproportionately tilted toward women and minorities—traditionally underserved by conventional institutions—with 77 percent of ECD loans made to women or minorities.

THE NEBRASKA COMMUNITY FOUNDATION

http://www.nebcommfound.org/

Founded in 1993, the Nebraska Community Foundation (NCF) is a nonprofit charitable organization that aids local communities with financial management, strategic development, and education and training. The NCF is a Hometown Competitiveness partner, working to build long-term, sustainable rural communities. An asset that the Foundation extends to rural communities across the state is the use of affiliated fund status, allowing communities and organizations the benefits of operating under the NCF nonprofit status without having to form their own legal entities. This extends the tax benefits of nonprofit status, including the ability to raise charitable donations, to smaller community groups for which the barriers to forming a nonprofit would exclude them from the opportunity to raise funds. The Foundation has extended assistance to 179 communities and has distributed $76 million for community projects throughout Nebraska.

ENTREPRENEURIAL LEAGUE SYSTEM® FROM COLLABORATIVE STRATEGIES

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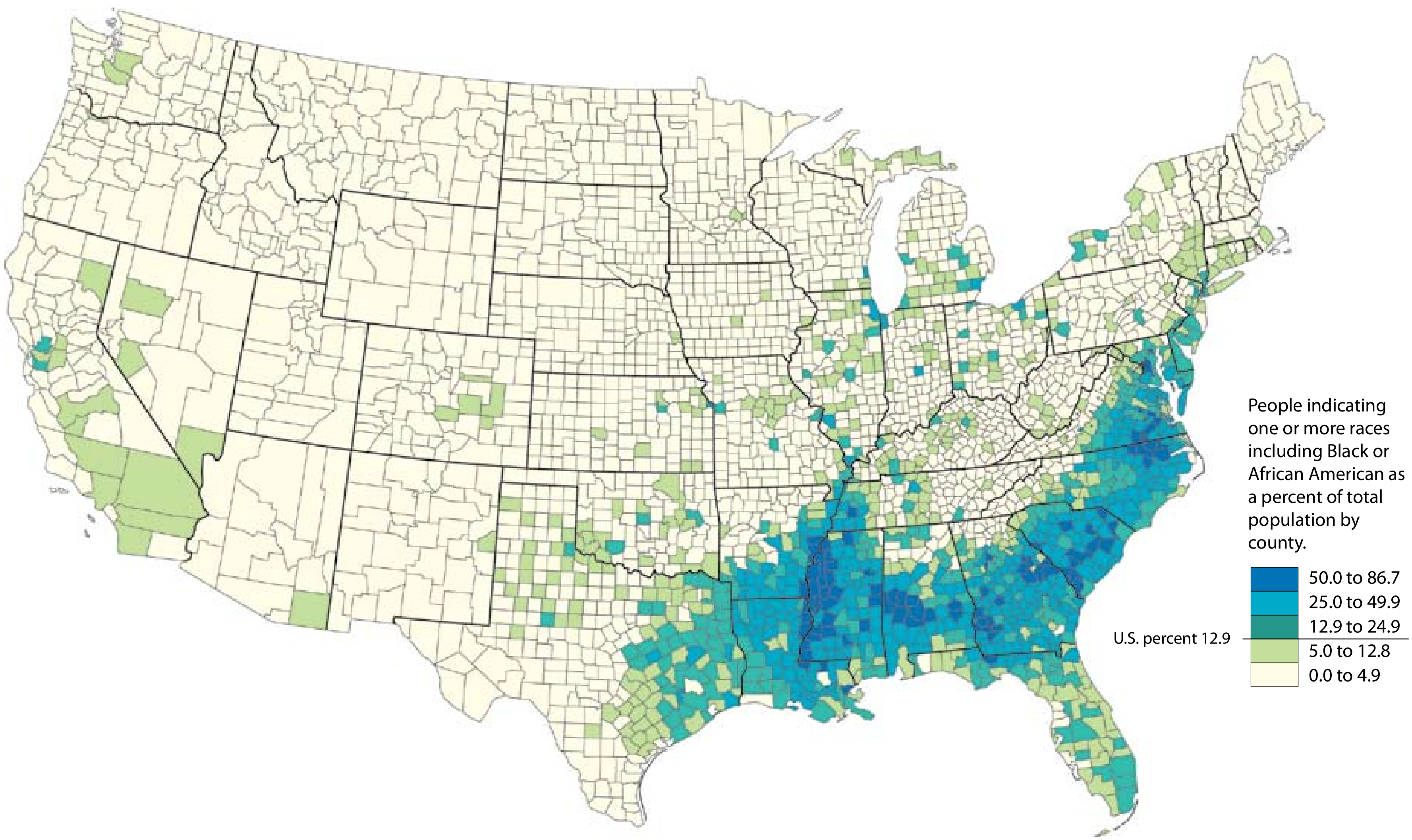
The Entrepreneurial League System (ELS) is a proprietary approach to developing entrepreneurs' skills based upon the farm system in baseball. Crafted by Collaborative Strategies (with whom communities contract for the service), the system organizes individual entrepreneurs into teams based upon their skill in creating or growing a business. The League consists of Rookies, A, AA, and AAA entrepreneurs, with beginner entrepreneurs working with skilled entrepreneur-coaches in both one-on-one and group meetings with their peers, along with tri-annual league-wide meetings. The League approach helps entrepreneurs connect with others at the same stage of development and skills, creates a network of individuals tied in to mentoring relationships and builds social capital among entrepreneurs across a region, which in turn builds up the community's economy.

The ELS approach is a comprehensive approach consisting of specific business activities that communities can pursue to create enough entrepreneurs with highly developed skills and competencies in order to change a regional economy and develop individual and community assets. A further strength of the ELS approach is its organization of service providers into a coherent system to help entrepreneurs access the appropriate financial and technical assistance for their needs. The League builds a system of local champions for the community that sustain the approach by creating and managing the entrepreneurial community from within.

PERCENTAGE OF THE POPULATION BLACK OR AFRICAN AMERICAN, ALONE OR IN COMBINATION, BY COUNTY, 2000



Source: Data from U.S. Census Bureau, Census 2000 Redistricting Data Summary File; map adapted from Jesse McKinnon, *Census 2000 Brief:The Black Population: 2000,* U.S. Census Bureau, Washington, D.C., August 2001.

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