

PRINCIPAL IDEAS: HOW CAN WE SECURE ENDURING CAPITAL FOR EQUITABLE RURAL PROSPERITY?



CONTEXT

The Field Perspectives in this brief offer a call to action to restructure and reorient public, private and philanthropic capital in ways that increase their impact across rural America. The challenge? Put in place the infrastructure and systems that will ensure ready and adequate flows of financial capital that is reliably available, easily accessible and affordable, and consistently, strategically and equitably invested to address needs and create opportunities in rural communities and economies.

Broken systems coupled with misguided and discriminatory policies and practices have led to massive disinvestment and decline in many rural regions and Native nations in the United States. Despite that, there is a wealth of talent, innovation and determination in our small towns, rural regions and government and private systems upon which we can build a more fair and prosperous future. Together, seven seasoned rural development practitioners and experts provide insights in this brief about what it will take to structure and direct capital to where it is most needed in rural America – and offer examples where transformation is already in progress.

The topic of capital formation and investment in rural America is complex and multifaceted. This brief makes no claims of being comprehensive or in any way definitive. It is intended to provide starting points for productive discussion and lead to informed decision-making and action that meets the challenge. For those not steeped in the concepts and language of development finance, a glossary is included to help better appreciate some of the ideas and perspectives presented; when a term is **highlighted** in text, you will find it in the Glossary on page 20.

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Tony Pipa and Natalie Geismar of the Brookings Institution take a hard look at the current design of federal investments in rural America and the modernizing steps needed to increase their scale and effectiveness.

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Lisa Richter of Avivar Capital underlines the critical importance of organizing effective and locally savvy sources of “first-in” capital for rural health and development investment using new regional vehicles in California’s San Joaquin Valley as a model.

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Jesse Fripp of Shining Rock Ventures describes innovative forms of capital that are needed to invest in “next economy” enterprises and entrepreneurs, with his focus on the multi-state Appalachian region.

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Deb Markley of LOCUS Impact Investing makes the case for transformational community-rooted philanthropy as a new and growing source of locally owned and controlled capital that can both lead the way in community change and leverage needed partner investments.

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Chrystel Cornelius of the Oweesta Corporation calls out the critical role and importance of Native-owned and led community development financial institutions to strengthen sorely needed investment in tribal communities – and calls for the momentary interest in Native CDFIs to solidify into an enduring, well-resourced movement.



FEDERAL POLICY AND RURAL CAPITAL

MODERNIZING FEDERAL INVESTMENTS FOR RURAL PROSPERITY



Tony Pipa

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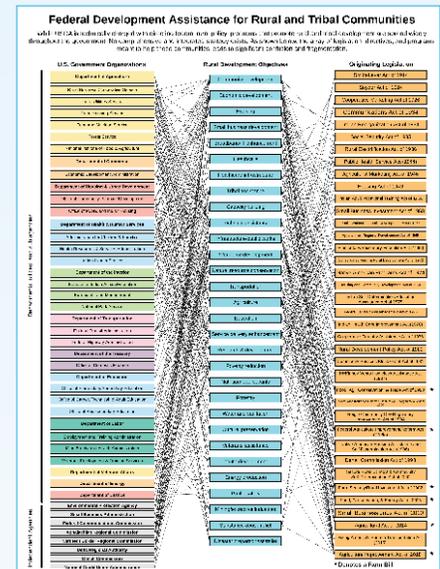
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FEDERAL FUNDS FOR RURAL DEVELOPMENT: THE CURRENT LANDSCAPE

Federal resources have historically played an important role in helping rural places thrive. Yet the legacy of that federal responsiveness is today’s wide-ranging landscape of more than 400 programs currently available for rural community and economic development – a complex system¹ that is especially challenging for distressed communities to navigate (See *Federal Development Assistance graphic*).

About one-quarter of these programs focus specifically on supporting *rural* places or efforts. To access the other programs, rural areas must compete with metropolitan regions. Rural areas are often at a disadvantage in this competition because programs have spending formulas or eligibility requirements that exhibit a “**structural urbanism**” – for example, because they prioritize absolute numbers of people served over percentages of area population, require local matching funds scarce in rural places, or fail to adjust for the higher fixed costs of delivering services in remote places.



Federal funds mostly reach rural areas in one of two forms: debt financing (loans and loan guarantees backed by agencies) or grants. Most of the federal funding targeted specifically to rural development comes via debt financing. Out of the 93 programs across the federal government that exclusively focused on rural development in FY2019, the overall ratio of loan to grant dollars was 15:1. By itself, if the U.S. Department of Agriculture (USDA) were a bank, it would be the 11th largest in the U.S. based on total assets.² USDA-Rural Development (USDA-RD), which provides just over half of the federal funds exclusive to rural community and economic development, boasts roughly a \$235 billion loan portfolio – but provides only a bit more than \$1 billion in grants.³

Yet it would also be a bank without a coherent vision or strategy. Its loans are tied to specific Congressional authorities that each narrowly aim at producing a specific output. Often, these outputs are tangible “built” items such as water infrastructure, broadband, housing or community facilities. These loans are organized without a policy approach that incentivizes or enables rural communities to use the different elements of available assistance to implement an integrated community vision. This is reflected in the measures of success these programs use, which are often transaction-based, focusing on factors like dollars out the door, miles of road paved, or number of jobs retained rather than the long-term community prosperity or improved livelihoods or health.



The disadvantages facing rural communities in the competition for federal funding show up in the dollars themselves. Just 10 percent of the loan dollars delivered between FY2010 and FY2021 through the Small Business Administration’s 7(a) loan program, that agency’s largest and most popular program, went to businesses in nonmetropolitan areas – an alarming reality given that small businesses make up more than 90 percent of businesses in nonmetro areas.⁴⁵ The U.S. Department of Housing and Urban Development’s community development block grant (CDBG) program, a cornerstone economic development program launched in the 1970s, reserves 70 percent of the funding for metropolitan “entitlement” areas that receive funding by formula, leaving state governments about 30 percent to allocate to smaller “non-entitlement,” largely non-metro, communities that typically must compete for the dollars. Thus, unlike their urban counterparts, not every rural area receives CDBG funding, and they must do more work to secure it.

Overall, federal dollars for community and regional development have been declining steadily since the 1970s. Despite a boost from COVID-19 stimulus funding, federal resources are projected to begin to wane again after 2022.⁶ Funding for 14 of 17 major federal block grant programs also declined between their inception and 2020. New funding from the CARES Act and American Rescue Plan in the wake of COVID-19 for state and local governments (\$500 billion) and the Department of Commerce’s Economic Development Administration (EDA) (a combined \$4.5 billion, which is more than a tenfold increase in EDA’s typical annual budget for the period 2010-2019) represents an immediate expansion of support. However, deploying these funds without changing the underlying structures that disadvantage rural applicants risks adding further complexity and leaving those communities behind.

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A FEDERAL CAPITAL WAY FORWARD

To improve the scale and effectiveness of federal capital for rural prosperity requires three structural changes:

- 1 **Increasing the flexibility, scale and consistency of federal investments is fundamental** to modernizing assistance for rural community and economic development. The current landscape, dominated by loans that are siloed to create specific prescribed outputs, makes it difficult for rural communities to act creatively and implement comprehensive and integrated solutions to multifaceted challenges. Flexible grants, ideally offered in large amounts over multi-year time horizons, would prove to be a much more effective on-ramp for striving and distressed rural communities to adapt their approaches to the demographic, economic and social conditions – and any disruptions – they are facing. This would also be a useful tool for many rural communities of color and Native nations that are working to overcome legacies of historic racism that shaped previous government policies.
- 2 **Investing in a network of national and regional intermediaries** that can work with local communities, offer appropriate technical assistance, and help strengthen local capacity will be critical to maximizing the effectiveness of grants and sustaining efforts over time. The severe lack of investment in the leadership, talent and organizational “software” that makes a community run is a key challenge. Rural leaders⁷ continually demonstrate the need for resources to invest in: sufficient staff capacity and training; technical expertise; strong and healthy nonprofits, community associations, and public administration; and connected networks and trusted relationships among different constituencies who are communicating and collaborating.

If federal investments are to support local leadership and the implementation of their strategies as the starting point for successful, equitable rural prosperity, strengthening this type of community and civic infrastructure must be a central focus. That will require putting scaffolding in place at the national, regional and local levels – including intermediaries that have relevant and appropriate expertise for supporting BIPOC, immigrant and other underserved communities.



3 **A sharp focus on and strong commitment to equity will be essential to the viability and success of an equitable federal rural development agenda.** Federal resources (whether in grant or loan form) must be designed to benefit the places that need them most. These include the persistent poverty counties, of which rural counties make up 86 percent.⁸ Since about half of Black and Native American rural residents live in an economically distressed county, as compared to only 18 percent of rural whites, equitable rural policies⁹ must center the priorities and voices of communities of color. Agencies must be held accountable via rigorous and independent evaluation of their ability to reach the lowest-capacity rural communities, relieve economic distress, and improve community well-being.

NEXT STEPS TO TAKE

Modernizing federal rural policy requires improved coherence and new tools. The Rural Partnership Program (RPP), a \$1 billion grant program that is currently one component of the Build Back Better bill, could be a catalytic first step.¹⁰ The RPP seeks to create a new, long-term flexible array of financial resources to invest in locally led strategies and partnerships for rural economic and community development, offering multi-year grant funding to organize and implement local strategies, alongside technical assistance grants to help grantees strengthen community readiness, skills and impact.

Yet the scale of the challenges and depth of spatial inequality affecting rural communities suggests the need for more. One approach could be a new federal development corporation, which would measure its success solely against improvements in the well-being, self-sufficiency and economic resilience of distressed and vulnerable U.S. communities. A sophisticated research and evaluation arm would invest in high-quality rural data and tie funding decisions directly to results. And a financing arm would centralize the currently siloed funding mechanisms available across agencies and develop a coherent, strategic outlook for its package of tools.

One thing is clear: New, bold solutions that incorporate these principles will be necessary – and will pay long-term dividends for both the country and its distressed rural communities.

FISCAL POLICY AND RURAL CAPITAL

INNOVATING FISCAL POLICY TO POWER ENDURING RURAL PROSPERITY



Mark Haggerty

Mark Haggerty is a senior fellow on the energy and environment team at the Center for American Progress. With a reputation as a nonpartisan expert committed to practical solutions, Mark is engaged in efforts to develop a comprehensive national policy that aligns climate, energy, and public lands conservation goals with rural communities' economic success.

After decades of global and domestic industrial and economic restructuring – a process that has concentrated wealth and employment growth in cities – rural America is struggling. Even so, rural America today generates tremendous value for the nation. In fact, non-metro counties continue to produce vital commodities and contribute substantially to the national GDP.¹¹ And increasingly, rural assets, knowledge and innovation are advancing creative resource-based local and regional economies tied to national climate, equity and conservation goals.

However, too much of the value that rural communities and people produce for others is largely decoupled from improving prosperity locally. The fact that producing value is no longer a guarantee of reliable employment is already a well-known dilemma.¹² What is less understood is how the design of fiscal policy at the state and federal levels can do damage to rural economies now as well as their potential for the future. Indeed, the critical role that fiscal policy and public finance play in the urban-rural wealth gap is invisible to many and largely underappreciated.



Of course, place-based assets and functioning public institutions such as good schools, access to health care, parks and libraries, and healthy natural environments are essential to more prosperous and equitable rural economies.¹³ But those functioning public institutions and enduring, equitable rural development also depend on a new public revenue and investment framework designed to maximize local wealth retention in rural communities. Although this is true in relation to every type of rural economy, I focus here on communities that rely on natural resource use extraction – like timber, mining or fossil fuel energy production. My hope is that explaining the situation in these industries will spark thinking about parallel situations in building other economies around recreation, renewable energy, and restoration activities.

UNDERSTANDING KEY GOVERNMENT DRIVERS: FISCAL POLICY – AND THE PUBLIC INVESTMENT MANDATE

Fiscal policy is one of those things that many people talk about but not everyone understands. So, first a definition: **Fiscal policy** includes all the ways that governments design to raise revenue from economic activity – whether using taxes, fees for services, or royalties on resource extraction, for example – and then how governments use these revenues to pay for services and priorities such as roads, schools, police, workforce and business development, and hospitals. There is fiscal policy at the local level, state level and national level.

In addition to fiscal policy, government plays an essential public investment role in local places and economies. It does this in several ways: by providing early-stage financing that leverages other private and philanthropic investment into significant community projects and business development, by funding basic and applied research to drive innovation, and by using government procurement policy and partnerships to accelerate commercialization and economic growth.¹⁴ This “**public investment mandate**” is critical because government investing can be more flexible, risk-tolerant and accessible as compared to private capital investment; the latter often demands higher rewards and shorter timelines which do not work for rural economies. Private capital is averse to funding early stages of research and innovation that cannot be easily or quickly monetized.

Unfortunately, the existing U.S. fiscal policy landscape is unable to deliver on this public investment mandate, particularly in the case of rural areas that are dominated by primary natural resource industries like timber and forestry, farming and mining. Three reasons explain why:

1 Unreliable resource revenue. Some corporations must pay fees or royalties to the government to extract natural resources (like timber or oil) from rural places for the industry’s use elsewhere. This revenue, required by varying state and federal statutes, generally goes to state or federal government, which typically shares some of it back with rural jurisdictions. State and local governments tend to treat this like reliable recurring revenue. Local governments use it to fund annual operating budgets and to maintain low local tax rates. For example, Oregon counties that received the highest federal timber revenue-sharing payments¹⁵ maintained the lowest property tax rates. But this is **not** reliable recurring revenue if the natural resource is non-renewable and thus being used up, or if the demand for it enters a bust cycle due, for example, to the ups and downs of the economy, changing policy environments or unanticipated crises like the pandemic. Over time, periodic busts result in underinvestment in savings, infrastructure and local institutions as government responds to recurring fiscal crises. And once resource extraction ends, communities are left with too little to show for decades of wealth extracted and exported to outside markets.

2 Preempting diversification. Communities are often blocked from diversifying their revenue streams by state and local limits placed on tax rates, tax assessments and spending authority.¹⁶ (This is an example of “preemption” – when a higher government authority restricts lower governments from a certain action.) For example, local governments in Utah receive no net revenue benefit from any new renewable energy generation (wind and solar) that is developed in rural counties because of state rules that limit local property tax. Such taxation and expenditure limits (TELS) undermine the ability of rural communities to benefit from new economic growth, which locks-in dependence on revenue from resource extraction.¹⁷



3 Business relocation tax incentives. Conventional tax incentive programs¹⁸ provided by state and local governments for private businesses to build, expand or relocate tend to undermine the long-term development goals of rural and underserved communities. For example, Louisiana’s Industrial Tax Exemption Program (ITEP) offered local tax incentives to industry without the approval of local governments and lacking any assessment of their likely efficacy.¹⁹ Rural and historically marginalized communities often have been left to shoulder the resulting burdens of hosting heavy industry with few accompanying public resources to mitigate impacts or to diversify their economies.

MORE PERMANENT, RELIABLE AND RESILIENT PUBLIC CAPITAL OPTIONS

The promising news? Exemplary efforts are emerging that prove the viability of structuring and using fiscal policy related to natural resource revenues in ways that create more permanent and reliable capital available for local public investment. These efforts not only can drive more equitable rural development; they can also increase local ownership and authority.

- State-based solutions using fiscal policy include **New Mexico’s Land Grant Permanent Fund**, which has been built from royalties paid by private industries when they lease state trust lands for oil and gas extraction. The permanent fund is structured to provide stabilized revenue insulated from the uncertainty and volatility of oil and natural gas markets and policy.²⁰ The fund, which has amassed to \$24.5 billion in FY 2021, will provide more than \$1.2 billion annually to public schools – in perpetuity, even if no new deposits are made. Moreover, the State Investment Council is using the public capital in the land grant permanent fund to finance renewable energy development in the state²¹ consistent with calls for integrated and mission-oriented rural development policy.
- **Montana’s Hard Rock Mining Act** enables communities, local government and other local institutions to save money from extraction today for long-term economic diversification – including a rainy-day fund with resources to use when a mine closes. A state law forged and passed in the 1980s requires that, in order to receive a permit to operate in Montana, any mine enterprise must contribute to these special fund structures as part of their “social license to operate.” Private mine developers must pay into a fund set up by local governments and/or other local organizations upfront – *before* they start mining. The fund can be used to mitigate impacts associated with the development of the mine and to invest in community improvements – which the local fund leaders can spend when needed. Once the mine is operating, mining companies contribute to a second fund held by local government. These longer-term savings grow from fees on a mine’s production; the fund revenue becomes available when the mine closes to deal with mine-closure impacts.²²
- The **Southern Ute Indian Tribe** in Colorado offers another example of re-centering wealth locally. Historically, tribal resources have been leased to private companies for unfavorable terms, resulting in wealth being exported from tribal communities, and perpetuating poverty and dependence in reservation economies.²³ Rather than lease energy resources to private companies that make the profit, the Southern Ute Indian Tribe created their own corporation and developed their own natural gas resources. Profits are dedicated to improving the Tribe and are invested in two funds. The Ute Indian Tribe Permanent Fund supports tribal infrastructure and services, using an endowment fund model that spends only interest. A companion Growth Fund makes per capita payments that support the income of tribal members. Local ownership, permanent savings, and public capital reinvested into tribal assets have led to greater wealth and autonomy for the Tribe.²⁴



CAN FEDERAL POLICY INNOVATE?

Revenue policy focused on rural economies must shift away from the idea that we can use annual revenue to support rural communities. Because it is volatile and not permanent, reliance on natural resource revenue often leads to anemic institutions unable to maintain the services and infrastructure central to success in a changing economy. States and the federal government have sometimes stepped in with bailouts funded by appropriations. The result is short-term, politically uncertain – and declining – assistance that has failed to build capacity and provide for consistent and flexible resources.²⁵ And we know from previous economic transitions that the transition process is slow and uncertain.

Many rural communities will continue to depend on natural resources and traditional rural industries, even as the primary activity in those industries may change from fossil to renewable energy, or from mining-dependent to tourism-dependent economies. Purpose-driven policy that aligns rural development and fiscal policy with climate, equity and rural development goals should be built around a framework that captures and reinvests public capital in permanent and durable assets. A new revenue model can build wealth and support locally led strategies without bailouts, just by rethinking the way rural value is captured and reinvested into the communities where it is produced. State and tribal solutions like those found in New Mexico, Montana and the Southern Ute Indian Tribe can inform new federal policy and aim to increase public investment in resource-dependent and historically marginalized rural communities.

One proposed federal approach²⁶ would create a federal endowment and a national development corporation, reforming the fiscal relationship between natural resources and resource-dependent economies, and changing the rural development framework in the U.S. Like any endowment, the federal endowment would stabilize and grow public revenue over time, rather than spend down physical (natural resource) endowments via annual revenue-sharing payments. The endowment would also provide public capital and dedicated funding to the development corporation, allowing the corporation to employ a long-term view for the rural development assistance it would deliver²⁷ – along with autonomy from the annual Congressional appropriation process and budget negotiations. Importantly, the endowment would act as public investment capital that can attract and leverage private, **community development financial institution (CDFI)**, **community foundation**, and philanthropic investment in purpose-driven rural development strategies.

In essence, such an approach would turn the physical endowment of our natural resources into a financial endowment that can be used to advance locally led development as well as more strategic federal investment in rural. Rural economies need sustained public investment focused on both resilience and economic diversification – along with a set of fiscal policies and institutions to deliver both. Matched with other new program innovations, like the proposed Rural Partnership Program or a new development corporation that can package and deliver long-term, flexible grants, a new fiscal model could deliver much needed public capital for use in and by all types of rural communities.

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INNOVATIONS IN REGIONAL RURAL CAPITAL

“FIRST IN” CAPITAL: PROPELLING RURAL COMMUNITY HEALTH AND PROSPERITY



Lisa Richter

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ENTERPRISING RURAL CAPITAL: ALIVE AND GROWING

Even as reports of the demise of rural America have persisted, numerous high-performing rural investment initiatives have been established in recent decades. These enterprising rural efforts often simultaneously advance the inclusive, health-promoting, and environmentally sustainable approaches needed in urban and rural communities alike. Examples range from Coastal Enterprises, Inc. (CEI) in Maine to the regional **Community Development Financial Institutions (CDFIs)** that participate in Appalachian Community Capital, to the Lakota Funds on the Pine Ridge Reservation, to Craft3 in the Pacific Northwest, and to Southern Bancorp and Hope Enterprise Corporation in the Delta Region, among many others. They demonstrate both the resiliency of rural communities and the attractive social and financial investment returns that a diversity of rural regions can generate.

Underlining the need for such efforts, the pandemic has again revealed that the health and economic success in our communities are inextricably linked. As the disease has persisted, its toll has been more deadly in low-income and rural communities,²⁸ particularly low-income rural communities of color. This disparity points out the persistent need for both public investment in rural health systems and private investment to ensure that rural regions can build communities and economies grounded in positive social determinants of health for all residents.

Fortunately, funds and collaborative investment platforms are emerging to aggregate impact investment capital into still underserved rural regions. Examples include the San Joaquin Valley Impact Investment Fund, Invest Appalachia (*see the Box on page 13*), New Mexico Impact Investing Collaborative, and Wisconsin Impact Investing Collaborative. Each is designed to recruit capital to their regions to support strong local CDFIs, development organizations, and new initiatives in rural and tribal areas along with neighboring urban areas. These initiatives attract health system, corporate and family investments, as well as more traditional foundation impact investors.

BUT STILL SCARCE: THE ESSENTIAL FIRST-IN CAPITAL

But, still too often, what remains lacking is the “first in” capital that can fill the gap in a **capital stack** to help jump-start regional efforts, particularly sufficient allocations of public and private capital that can catalyze rural success. First-in capital is especially needed in rural communities, which typically lack the concentration of philanthropic assets found in urban areas. In urban places, local foundations are often a source of risk capital used both for inclusive planning efforts and to capitalize regional financial intermediaries that then champion regional investment for years to come. By contrast, rural communities often need to recruit both grant and investment capital from larger, outside statewide and national institutions to advance their visions for inclusive, healthy and sustainable regions.

What difference can such first-in capital make in rural places? The San Joaquin Valley Impact Investment Fund (SJVIIF) is an example. Its regional impact investment strategy, made possible by bold first-in capital investors, was launched to counter limited locally available philanthropy and **community investment** capital. Designed to sustain and scale the health equity agenda of its sister (grant-funded) San Joaquin Valley Health Fund (Health



Fund), the SJVIIF's investment strategy reflects the Health Fund's resident-driven policy and grassroots grantmaking strategy. SJVIIF investments boost health equity through "upstream" (community-based versus clinic-based) strategies that advance immigrant integration, health, housing, education, environmental justice, and land use and planning. The Center at Sierra Health Foundation, CommonSpirit Health and an anonymous family philanthropy are lead investors in the SJVIIF's current and pipeline investments. Those investments include CDFIs and mission-driven community-based organizations that are helping to dismantle disparity while diversifying the rural economy, promoting local asset ownership, advancing climate solutions, and providing quality affordable housing, other services and cultural amenities.

The SJVIIF's investments and pipeline leverage the power of strong CDFIs and community-based organizations to combine public and private resources in ways that increase access to opportunity, including (but not limited to) increasing the wealth-building local ownership of both business and residential assets. They also fuel innovation to improve the quality of services available to low-income rural residents. Consider these SJVIIF investments:

- **AccessPlus Capital.** Launched in 2008 by this California region's community action agency – the Fresno Economic Opportunity Commission – AccessPlus Capital (APC) is an African American-led CDFI. It fuels diverse entrepreneurial efforts across the San Joaquin Valley, including as a microlender for Small Business Administration (SBA) loans. APC has deployed over \$27 million in almost 800 small business loans: 70 percent of that amount has gone to entrepreneurs of color, 67 percent to low-to-moderate income individuals and/or communities, and 33 percent has reached rural counties throughout the San Joaquin Valley. While APC was not itself a Paycheck Protection Program (PPP) lender, it partnered with other CDFIs in the region to ensure access to PPP loans for rural borrowers.
- **RCAC.** Sacramento-based RCAC is a nonprofit organization that provides training, technical assistance and financial resources to rural communities and tribes across the western United States. It was one of the CDFIs that ensured delivery of SBA PPP loans to rural communities in the San Joaquin Valley. Through an unprecedented partnership with Ceniarth LLC (a private "family office" company that manages one family's wealth and investments), RCAC was able to rapidly raise capital to originate \$15.5 million in 209 rural PPP loans with an average loan size of \$71,100, saving 2,056 jobs. Among RCAC's PPP borrowers, 92 percent of applicant businesses requested less than \$150,000, 88 percent had fewer than 10 employees, and 48 percent operated in a persistent poverty county. Further, 10 percent of the loans went to nonprofit organizations, 48 percent to women-owned businesses, and 28 percent to an American Indian and/or Native community.
- **Self-Help Enterprises.** Rural organizations are also spearheading inclusive and innovative approaches to addressing broader development needs. Incorporated in 1965 to serve the San Joaquin Valley's Visalia community, Self-Help Enterprises (SHE) is the most prolific mutual self-help housing organization in the country. In SHE's program, cohorts of rural low-income families collaborate to build each other's single-family homes that each family then owns, all located together in a community formed through the building process. SHE has consistently expanded its services and footprint to meet evolving needs across eight San Joaquin Valley Counties. SHE's activities now include development and management of multifamily rental housing (using Low Income Housing Tax Credits); providing homebuyer education and flexible mortgages to first-time homebuyers; administering loan programs on behalf of regional municipalities; providing infrastructure development for real estate projects that ensure access to clean water; spearheading community energy projects and transportation programs; and providing emergency supports in times of crisis such as COVID and regional forest fires.
- **ConferMED.** A nonprofit social enterprise launched by Connecticut's largest Federally Qualified Health Center (FQHC), ConferMED works with other FQHCs and community-based primary care providers to ensure that low-income patients have rapid access to specialty care when needed, while avoiding the frequent cost burden and inconvenience of unnecessary specialist referrals. Flexible, early-stage investment by SJVIIF will fuel ConferMED's expansion in the San Joaquin Valley and its growth strategy in primarily rural markets nationwide.



THE WAY FORWARD

Given the range of dynamic organizations working to address regional and rural development needs and aspirations, how can additional capital be secured to catalyze, sustain and scale their efforts? With American Rescue Plan Act and other federal funding poised to channel significant public resources to rural as well as urban communities, it is timely to consider both public and private strategies for introducing first-in capital. In both the near and longer-term:

Local governments can:

- Partner with community philanthropy and community-based organizations to assist residents in articulating local investment priorities.
- Cultivate local entrepreneurialism and ownership, versus recruiting external major corporations and/or turnkey retail operations whose interests can seldom be fully aligned.
- Work with CDFIs and similar partners to leverage public programs and provide a broad range of financing to support local entrepreneurs, nonprofit organizations and households.
- Cooperate and share learning between regional development organizations agencies in these efforts.
- Promote the public health benefits of vibrant local economies, as well as the economic benefits of a healthy local population.

[COVID's] toll has been more deadly in low-income and rural communities, particularly low-income rural communities of color. This disparity points out the persistent need for both public investment in rural health systems and private investment to ensure that rural regions can build communities and economies grounded in positive social determinants of health for all residents.

Regional and national philanthropy should work with local philanthropy to:

- Structure first-in investments that catalyze local efforts designed to build inclusive, healthy and sustainable communities.
- Ensure that community voice is incorporated into regional investment decision-making.
- Partner with the range of potential impact investors to recruit investment capital into the region. Partnerships should include regional bank regulators, CRA-motivated bankers, and regional health systems fulfilling community benefit obligations and anchor institution strategies, as well as corporate and family-office investors who share an interest in seeing their region achieve both health and prosperity.
- Direct capital into high-performing intermediaries, organizations and/or projects serving rural areas – through expansion efforts of existing intermediaries and/or organizations or, where needed, cultivation of new entities. Targeting can be accomplished by aggregating capital into regional funds such as the SJVIIF and Invest Appalachia or by creating shared-services platforms, such as the New Mexico Impact Investing Collaborative, that assist investors in finding and investing in local opportunities.
- Provide resources to strengthen regional “entrepreneurial ecosystems” of support for the range of entities that can benefit from learning about and using impact capital to fulfill their organizational objectives (whether that objective is growing a business, serving more patients/clients and/or buying or upgrading workforce family housing).

Almost 60 years of impact investing in rural America demonstrates that carefully stewarded capital can generate the economic and community supports needed to create inclusive, healthy communities. With more affluent rural as well as urban communities reporting better health outcomes, the experience suggests that access to capital is itself a likely health determinant. With conducive public policy and new models to facilitate the investment process, there has never been a better moment to invest in health and prosperity for the nation's crucial and increasingly diverse rural communities.



INNOVATIONS IN REGIONAL RURAL CAPITAL

MAKING VINEGAR PIE: THE CASE FOR AGILE CAPITAL



Jesse Fripp

Jesse Fripp is Principal & CEO of [Shining Rock Ventures](#) and a Southern Appalachian native based in the region. Jesse is globally recognized as a strategy, leadership and governance expert with nearly 30 years of experience in North America and in dozens of emerging markets. With specialization in inclusive and digital finance, as well as impact and agile capital, he supports boards and executives through dynamic transformation and disruption. His experience includes roles within the Aga Khan Development Network, Triodos Bank Group, ShoreBank Corporation, Oikocredit, BearingPoint, Global Communities and Vitas Finance.

The region of rural Appalachia stretches over 13 states and 205,000 square miles, with a population of nearly 25 million people. This heartland of rural America has been an enduring symbol of rural struggle and decline from the start of the national War on Poverty in the 1960s through the end of the 20th century and the decline of much of the highly concentrated, largely extractive, commodity-dependent regional economy. Contrary to common perception, significant and often multi-generational communities of color live across the region. For example, in the southern Appalachian sub-region²⁹ of the area served by the Appalachian Regional Commission, nearly 35 percent of the residents identify as non-white – primarily Black, but also with significant Native and Hispanic communities – many of whom often face deeply ingrained historic exclusion from financial access and [entrepreneurial support ecosystems](#).

Innovation and ingenuity also run deep in the cultures of mountain Appalachia. The much beloved late 19th century recipe for vinegar pie – also known as “desperation pie” – captures this perfectly. Absent more conventional fruit and nut pie ingredients at the time, rural cooks got creative and made something delicious from almost nothing (vinegar!), and came up with an adaptive, highly localized but regionally recognized solution that fueled the hearts, minds and appetites of generations of mountain families.

Today, in an age of cookie-cutter public and private finance mechanisms and approaches designed for 19th and 20th century industrial economy realities, Appalachia, like much of rural America, needs to create new recipes to bring adaptive, localized, relevant and agile capital solutions to bear for 21st century sustainable and “next economy” opportunities. Agile capital, like vinegar pie, must be generated, demand-driven and tailored to the specific needs of the investee enterprise. Angel and social venture equity funds are examples of agile capital. They contrast with supply-driven and more generic financing products that are usually offered by banks and conventional private equity funds.

NEXT-ECONOMY RURAL INDUSTRIES: CAPITAL OPPORTUNITY KNOCKING

Emerging “next-economy” industries like regenerative agriculture, sustainable forestry, nature-based enterprise solutions, wind, water and solar energy generation, and even cutting-edge carbon capture and return technologies are all ideally suited to the natural and human resource capacities of Appalachia, and indeed more broadly to rural America. This is due both to the practicalities of natural geography – undeveloped land, forested mountains and fertile valleys – as well as rural communities’ often deep and multi-generational knowledge of place that is preserved by residents. Not least, next-economy ventures can readily tap into the re-deployable skillsets within mountain communities long tied to the land, along with their vinegar-pie ingenuity and resilience in the face of a challenge.³⁰



APPALACHIA

13 states
205,000 sq. miles
25 million people



of the residents in Southern Appalachia identify as non-white – primarily Black, but also with significant Native and Hispanic communities



Without suitable capital access, however, these opportunities' potential will wither on the vine. America's **community development financial institutions (CDFIs)** have done much good in recent decades, including their essential role in the health and survival of America's small business economy during the COVID crisis. But term lending is a blunt instrument, best suited to established business models that align with a relatively low-risk, cookie-cutter, non-agile lending approach. Their emphasis on verifiable cash flow, formal accounts, real collateral, conventional (and SBA-compliant) credit history, and formal business experience creates hurdles for historically underinvested entrepreneurs from communities of color, from backgrounds of deep rural poverty, and for women.³¹ It also means that entire new sectors of innovation and tech-driven enterprise models that might realize tangible and enduring benefits to rural communities are effectively locked out from realizing their potential. Unfortunately, out of over 1,100 certified CDFIs in America today, only 17 – or less than one percent – are focused on deploying much beyond plain-vanilla term loans.³² Despite the visionary leadership of high-potential social venture capital investors like the Bronze Valley CDFI in Appalachian northern Alabama, the financial landscape is not yet fully aligned to the needs of the rural-next economy.

GETTING AGILE WITH THE CAPITAL PIE

There is an imperative to break free of risk-averse and heavily regulated banking models in favor of more demand-driven and agile finance delivery models. These include risk-tolerant social venture capital, **convertible debt** and **patient equity** and equity-like capital, angel impact investing networks, and innovative crowd-funding approaches enabled by new, more inclusive regulation.³³ In turn, these instruments must be delivered within and reinforced by an expanded continuum of enterprise support and information marketplace services. This capital must be deployed in a fashion that broadens and deepens access to emergent entrepreneurs and enterprises that are not conventionally bankable, or that need sustained growth capital.

Specialized new fund management vehicles focused on filling critical finance gaps, like Invest Appalachia (*see Box on page 13*), can generate regional momentum, provided that sufficient patient, equity-like capital is available from traditionally risk-averse foundation and philanthropic donors and PRI investors. To complement, regional-level CDFI support institutions like Appalachian Community Capital can enable regionalized efficiencies in capital-raising and deployment, capacity-building and new technology applications.

At the same time, new digital technologies have the potential to remove other barriers that limit access to capital by historically excluded communities and businesses. The low volumes associated with dispersed rural geographies and the limitations of conventional credit scoring – which is far removed from traditional relationship-based lending and investing – may be challenged by digital loan origination platforms such as SPARK and alternative character-based risk assessment tools such as those provided by Lokyata AI Analytics.

Even before the COVID pandemic drove a wave of urban relocation into the rural American hinterlands, some parts of Appalachia were experiencing an influx of climate and lifestyle refugees – typically professional or retired urbanites seeking quality of life opportunities and respite from more climate-impacted parts of the country. While this influx brings new pressures and challenges, it also brings new expertise and know-how, as well as potential new-investor sources of locally based capital. This is beginning to happen in Appalachia, a region long held back by extractive capital models, where a new generation of locally committed **angel investors** is emerging to chart a new path. For example, eight regional angel funds affiliated with the Appalachian Investors Alliance have invested more than \$10 million over the past three years into seed and early-stage Appalachian ventures – a small but measurable start that addresses a crippling **entrepreneurial ecosystem** blocking-point.

This kind of place-based capital mobilization is essential to sustaining local jobs, addressing an essential funding gap, increasing opportunity, and retaining upside benefits within the region. Creative regional partnerships to fashion these gap-filling solutions are the vinegar-pie capital recipes for the 21st century, within the broader framework of public and private capital action and innovation. This time, however, these recipes are born not out of desperation, but out of an abundance of opportunity that demands capital instruments and approaches with the agility and creativity to transform rural Appalachia – and rural America – for generations to come.



INVEST APPALACHIA

Invest Appalachia is a regional investment fund newly launched in 2021 to help advance a more equitable, sustainable and resilient Appalachia economy. It is the result of four years of collaborative effort among seven organizations (Appalachian Funders Network, Appalachian Regional Commission, Fahe, Appalachian Community Capital, Virginia Community Capital, Central Appalachian Network, and the Center for Community Investment).

Four things make Invest Appalachia unique.

- 1 It brings together catalytic capital to advance regional opportunities in the form of grants, credit enhancements and investment capital and to support investable opportunities using participation loans and co-investments. Its design is based on deep analysis of the investment ecosystem in the region and is responsive to identified capital needs.
- 2 It pursues a collaborative, value-added approach to strengthening the ecosystem. It is designed to build on and enhance the work of regional partners, using these new pools of capital to allow existing partners to do more. Invest Appalachia has aligned its priority industry sectors with those that the Appalachia Funders Network and the Central Appalachian Network have supported over the years – clean energy, community health, creative placemaking, food and agriculture. Its investment policies are designed to strengthen and leverage the assets of Appalachia’s community finance intermediaries.
- 3 It is committed to make visible the “investability” of Central Appalachia – a predominantly rural region. By lifting up investment opportunities and supporting locally rooted practitioners and financial institutions, Invest Appalachia is reflecting a new narrative about the region to outside investors – presenting Central Appalachia as a place of opportunity and vision.
- 4 Its investments must drive inclusive prosperity and community wealth across the region’s “hills and hollers,” targeting persistent poverty areas and historically under-resourced groups like women, people of color, and displaced workers. Equity also shows up in the commitment to build the capacity of diverse ecosystem partners along the way, bringing new actors into the system through deep engagement, training, and community feedback mechanisms.



Invest Appalachia is distinctive in its systems approach to investment. It:

- Focuses on pinch points and catalytic deals that can accelerate a sector or industry.
- Invests in clusters of enterprises or projects that collectively strengthen a sector or industry.
- Connects under-served geographies to revenue-generating market opportunities.
- Builds community infrastructure, place-based capacity, and “investability” along the way.

Sources: <https://www.investappalachia.org/> and <https://locusimpactinvesting.org/news/blog-articles/invest-appalachia-innovating-community-capital-in-central-appalachia.html>



LOCAL FOUNDATIONS AND RURAL CAPITAL

TRANSFORMATION IN PROGRESS:

RURAL-ROOTED PHILANTHROPY IN THE COMMUNITY CAPITAL SYSTEM



Deb Markley

Deb Markley is Senior Vice President, LOCUS Impact Investing, leading the team that partners with place-focused philanthropy to educate stakeholders, develop and implement strategies to redefine their role as capital providers, and unlock endowments for community investment. Deb has worked across rural America supporting entrepreneur-focused economic development while encouraging community philanthropy's participation as an active partner in the work. Deb's ongoing passion is to support communities that build on their assets and create new pathways to more equitable and inclusive prosperity.

Achieving a vision of equitable, prosperous and sustainable rural communities will require philanthropic partners that place a priority on investing directly in community change over (or at least equal to) their charitable grantmaking. **Community foundations** and other place-rooted philanthropy (like family and health legacy foundations) must shift from a primary focus on accumulating assets to one that, through an inclusive process, leverages assets they already control to address the most critical community opportunities and challenges – for example, accessible and affordable broadband, housing, entrepreneurship, childcare and health care, among others. Few other rooted institutions have the mission-imperative and asset base to become a true force for local change. And that change is needed now more than ever.

WHY DO WE NEED TO TRANSFORM THE COMMUNITY FOUNDATION MODEL TO DO MORE, AND BE MORE CREATIVE, WITH ITS CAPITAL?

- 1 The need for blended capital stacks.** There is a demonstrated need for “blended capital” in rural places. Rural business investment opportunities often require a **capital stack** that includes traditional capital – like loans or equity – combined with more catalytic capital. Catalytic capital might take the form of a capacity-building grant for technical assistance that helps a prospective borrower fully articulate their business model. Or catalytic capital could be a loan guarantee that helps a financial intermediary make a loan that has high community impact but also carries increased uncertainty and, therefore, risk. As one example, early research to make the case for Invest Appalachia (*a social investment fund serving a six-state region – see Box on page 13*), identified unmet capital demand of over \$330 billion in the region – including the need for a mix of loans, grants and credit enhancements. Community philanthropy is in a unique position both to provide grants to build an ecosystem of help for enterprise development and to make concessionary, catalytic lending and equity investments in for-profit and non-profit local enterprises themselves.
- 2 The need for flexible capital.** Even in rural regions served by a diverse set of community development financial intermediaries, what is often in most limited supply is flexible capital. A community foundation (or other local foundation) can use grantmaking dollars, specially raised funds, or part of its own endowment investment portfolio to make local **“impact investments”** structured with flexible terms – for example, lower interest rates, longer payback periods, payment forgiveness in the early years, or interest-only loans with balloon payments at the end. For example, the Hutchinson Community Foundation, serving rural Reno County, Kansas, recently provided a lower interest loan in partnership with a community bank to enable a downtown workforce housing townhome development to become a reality.



3 The need to leverage now for a better future. For many communities, especially rural ones, a community foundation may be the primary or only local philanthropic asset that can be leveraged. There is, of course, great variation in the field of rural-rooted foundations. Some local foundations struggle to identify donors and raise funds to stay viable and remain relevant; others garner wealth from their communities but invest it all elsewhere. Since many community foundations remain largely donor-driven and less focused on strategic community impact, there is an urgent need to transform the culture of community philanthropy in order to maximize its potential to leverage local capital for local benefit. The goal must be to aggregate and invest assets for community impact now, in place. As evidence of the change that can happen, community foundations in rural places across the country are moving from sitting on the responsive sidelines of community and economic development to leading from the center with a focus on building more equitable and sustainable prosperity. They are investing their assets in line with these values, and forming partnerships with mission-aligned financial intermediaries, community development organizations, diverse advisory groups, and even local government so that these investments are made with community engagement and input.

4 The need to leave no rural community assets untapped. Community foundations nationally control assets approaching \$100 billion. Imagine if more community foundations could step confidently into the role of community investor, guided by principles of equitable local impact investing: It would mean that a portion of this \$100 billion in endowed community capital – which is currently typically invested in stocks, bonds and other traditional vehicles that benefit businesses and shareholders located elsewhere – could become investments in rural places. In essence, it would unleash a new source of *already* locally owned, community-controlled resources to help rebuild and reimagine rural communities that work for all.

WHAT WILL IT TAKE TO ACHIEVE THIS TRANSFORMATIVE VISION FOR COMMUNITY PHILANTHROPY?

In many ways, the field of community philanthropy has been moving in this direction. In response to a visionary and pivotal 2005 study about the future of community foundations,³⁴ many in the field have slowly but surely begun to refocus and revamp to take on a “community leadership” role that emphasizes partnering to pursue a community’s greatest opportunities and address its most critical challenges.

To be truly transformative, however, this community *leadership* role must be extended to embrace a community *investor* role. Moving in this direction requires both a shift in mindset (for staff and board) and the policy, tools and partnerships needed to invest foundation assets in place. While this feels like a big leap, community foundations large and small are making local impact investments in rural communities in Arkansas, Indiana, Kansas, Michigan, Ohio, Vermont and Wisconsin, as just some examples.

There is an urgent need to transform the culture of community philanthropy in order to maximize its potential to leverage local capital for local benefit. The goal must be to aggregate and invest assets for community impact now, in place.





WHAT DIFFERENCE CAN THIS TRANSFORMATION MAKE?

Three examples of rural community investments made when a community foundation stepped into this community investor role demonstrate the power of this new vision for community philanthropy.

- The **Community Foundation of Grant County** in rural Indiana partnered with a local credit union to provide an alternative to payday lending. The foundation provided a guarantee that enabled the credit union to provide lower-interest consumer micro loans for unbanked and underbanked individuals, helping them pay off the high interest predatory loans, and thus retain more of their hard-earned dollars, improve their credit scores, and establish savings.
- The **Arkansas Community Foundation**, which works statewide, provided a low-interest loan in 2017 to the state's oldest community loan fund to enable them to lend to rural small businesses that were not being served by traditional financial institutions. A recent grant also equipped the loan fund to provide technical assistance to these same small businesses as they navigated through the disruption caused by the pandemic, keeping rural businesses open and serving their communities.
- The **Whatcom Foundation**, serving a relatively rural county anchored by the city of Bellingham in Washington State, established a revolving loan guarantee fund – in partnership with the local Habitat for Humanity chapter and a local land trust – to help address the county's affordable housing crisis. The foundation has engaged donors to build the fund, which reduces borrowing costs for affordable housing developers and recycles dollars to help ensure that more permanently affordable homes are built for the region's childcare workers, nurses, teachers, farmers and others.

When rural philanthropy steps into this new role, several things become possible:

- Truly catalytic local philanthropic capital can **unlock other private and public capital** to invest in rural housing, Main Street businesses, childcare centers and other assets that make rural communities places of opportunity.
- Community-rooted philanthropy can become a **value-added partner with national and regional philanthropy**. Catalytic local foundations can make visible the investment opportunities in rural communities and can leverage their commitment to authentic community engagement to create bridges between BIPOC communities and national and regional partners.
- In return, national and regional philanthropy can **support the capacity building – staff and board learning, and policy and systems development** – needed to implement this transformative vision and role for community philanthropy across the country. And both can be co-investors with community foundations, demonstrating what is possible with the embrace of this new vision.
- Community philanthropy can **prioritize equity in the way that investments are sourced, assessed and packaged**, signaling a new way of doing to financial intermediary partners and demonstrating how capital can be a tool to advance equity and better serve BIPOC, immigrant and low-wealth communities.
- Community philanthropy can **dispel the myth that rural communities are not “investable”** and instead demonstrate that what rural investments require is creativity in aggregating and stacking capital.

The needed transformation among community foundations is an achievable vision, one currently being practiced by a growing number of foundations across both rural and urban landscapes. It is a vision that can support a movement toward more inclusive, equitable community capital systems across the country.



NATIVE CDFIS AND RURAL CAPITAL

A MOMENT OR A MOVEMENT? THE RISE OF THE NATIVE CDFI MODEL



Chrystel Cornelius

Chrystel Cornelius is the President & CEO of the Oweesta Corporation, a national Native CDFI intermediary predominantly serving Native communities across the United States, Alaska and Hawaii. Chrystel has more than 23 years of experience working in the Native economic development field. She serves on the board of the Community Reinvestment Fund (CRF) and is Treasurer for the Red Feather Development Group, and was previously on the board of the Native CDFI Network (NCN) and Opportunity Finance Network (OFN). She is an enrolled member of the Oneida Nation of Wisconsin and a member of the Turtle Mountain Band of Chippewa Indians located in North Dakota.

At the 2021 Annual Capital Access Convening³⁵ organized by the Oweesta Corporation, participants asked a pivotal question several times: *Are we in a moment or in a movement?* The question arose out of the nationwide flurry of activity in response to the health, community and economic impacts of the pandemic, and to the public awakening about racial justice. In the wake of this flurry, governments, corporations and philanthropy discovered **Community Development Financial Institutions (CDFIs)** to be effective vehicles for channeling financial resources into communities of color, persistent poverty, and long-term disinvestment. As a result, Native CDFIs are now more widely recognized as appropriate and authentic conduits for directing capital into Native communities.

NATIVE CDFIS: TRANSFORMATIVE AND UNDER-RESOURCED

Although other types of Native financial institutions have been operating for many decades, the first Native CDFI, the Lakota Funds, was established on the Pine Ridge Reservation in 1982. There are now 76 certified Native CDFIs, most of which are in isolated, rural geographies. These include loan funds, credit unions, banks, thrifts and depository-institution holding companies that share the mission of supporting development in American Indian, Alaska Native, and Native Hawaiian communities. An important 2016 report³⁶ commissioned by the U.S. Department of the Treasury's Community Development Financial Institutions Fund and produced by the Native Nations Institute, described Native CDFIs as **transformative** institutions: They not only provide financial services and loan products tailored to the needs of Native communities but also contribute to the overall movement toward increased Native community self-determination.

Native CDFIs [are] transformative institutions: They not only provide financial services and loan products tailored to the needs of Native communities but also contribute to the overall movement toward increased Native community self-determination.

Despite that assessment, a 2018 survey³⁷ conducted by Oweesta showed that even with significant recent growth in the capacity and operational sustainability of individual Native CDFIs, the Native CDFI field remains undercapitalized. The survey analysis identified two reasons: limited Native CDFI engagement with traditional lending sources, particularly foundations and banks; and the challenges posed by using conventional underwriting criteria that are too inflexible to take into account the specific conditions or needs of Native CDFI lenders and borrowers. One key problem is lenders' and investors' perceived risk of lending in Indian country, due to their lack of familiarity and understanding of the Native CDFI model. Native CDFIs, typically anchored within their communities, exist to uphold and invest in the expressed interests of the local community, for example, financing homeownership and small business, or protecting local jobs. Their lending tends to be embedded as a companion with development services that help advance these community interests, like technical assistance for business start-up and development, or training to help families learn about and prepare for homebuying. These Native CDFI services, bundled with financing in a design that builds trust and relationships, are being squeezed out in more traditional lending because they tend to be time-consuming and expensive.



Photography courtesy of Tiwa Lending Services.

TRANSITORY OR TREND?

The “moment or movement” question arises out of concern over whether the COVID- and racial justice-induced attention centered on Black, Indigenous, and people of color communities is something ephemeral or something that will endure and lead to transformation. This has generated conversations about the future of capital access and wealth building in Native communities in general, and specifically the future of Native CDFIs. Speakers at the 2021 Oweesta conference focused their attention on two elements important to that future. The first is attracting capital in a form that matches the development realities and needs in Native communities – “redefining lending the Indian way” – and the second addresses the broader need to remake the system to decolonize funding, lending and investment processes.

Indeed, another 2018 study³⁸ – this one by the First Nations Development Institute – called out the dearth and restrictiveness of philanthropic dollars awarded to Native-led nonprofit organizations, which amounted to just 0.23 percent of total giving in the period examined. Recently, in response to COVID-19, more than 800 foundations signed a Council on Foundations-led pledge³⁹ to change the way they provide grants and communicate and partner with grantees, which may offer Native organizations some hope, assuming these pledges translate into action.

However, for Native communities to create an upward trajectory toward financial security, advancements must ensure not only equitable *distribution* of capital but also *sustainability* of wealth creation. For example:

- Native and rural communities alike require that the private and philanthropic sector **engage with them in a long-standing partnership**. Too often, the relationships that drive investment or philanthropic opportunities are largely superficial, focused narrowly on achieving immediate outcomes rather than subverting systemic inequities.
- The philanthropy and private sectors need to **incorporate initiatives, programs or projects to focus on rural communities in their overall giving endeavors and focus areas**. They must consciously set aside a portion of their giving or investment portfolios to be directed to rural and Native communities. The reality is that even though much of the wealth in this country was built at the expense of Native people, the opportunities to obtain reinvestment in these communities are scarce or come with many stipulations. Rather, the private and philanthropic sectors need to look holistically at Native communities’ needs and opportunities, and invest holistically as well.
- The philanthropic and private sectors must develop a **deeper understanding of the existing, underutilized resources in Native communities into which they can direct capital**. In these places, Native CDFIs and Native-led organizations are untapped resources for getting money into communities that need them the most.



THE GENERATION OF CHANGE

Changes are already happening, in part springing from new generations of Native Americans who are willing to craft both innovative funding partnerships and better ways of pursuing economic and community development. They are seeking to address historic barriers, while at the same insisting on authenticity and transparency from investors and greater representation in decision-making.

- The **Oweesta Corporation** exemplifies the capacity and promise of realizing economic sovereignty in its role serving as an intermediary institution, providing capital, technical assistance and training, and financial education to established and emerging Native CDFIs across the country. Having revolved over \$67 million in investment capital to Native CDFIs and their respective tribal communities over its more than 20 years of lending history, it has been pivotal in building assets and creating avenues of wealth that align with cultural values and community needs. In 2018, 13 Native CDFIs leveraged their balance sheets and existing relationships, developing a cooperative financing vehicle housed at the Oweesta Corporation.
- Another example of Indigenous-led financing for Native nations is the NDN Collective. This Indigenous-led organization is focused on building Indigenous power through organizing, activism, philanthropy, grantmaking, capacity building, and narrative change. It has established the **NDN Fund**, an emerging Native CDFI, to deliver what it calls integrated capital solutions and capacity for Native nations, by redesigning from the ground up how capital is assembled and deployed in line with principles of regenerative and just economies. NDN is committed to investing in large-scale renewable energy development projects and businesses, community development and housing, resilient and sustainable infrastructure, social enterprise and regenerative agriculture.

These, and many other examples of explosive creativity seen over the years from Native CDFIs and Native-led organizations, demonstrate that there are high-capacity institutions in place in Native and rural communities, if only governmental and philanthropic institutions have a desire to work in partnership with these organizations.

A MOMENT OR A MOVEMENT?

It may be that the challenges 2020 brought us may indeed unleash a new determination to change the trajectory for Native nations and unlock capital to achieve their aspirations. If we were to witness such a capital flow to tribal communities, we could tell our children and younger generations that they do not have to leave their homes to have a better life or pursue opportunity. We would have collectively created that platform of a healthy economy together for Native (and rural) generations to come.



GLOSSARY

Angel investors are high-net-worth individuals who provide financial backing for start-up ventures and entrepreneurs in exchange for ownership equity in the company. They are often organized into networks that orchestrate connections between investors and those looking for investment.

Capital stack refers to the layers and types of capital (debt and equity) that must be combined to comprise a doable investment deal. Stacking different types of capital in a deal is typically needed to address risk; for example, one lender in the stack may provide a guarantee that reduces the risk for another lender and thus enables the second lender's funds to join the investment. In fact, for large investments, it is often necessary and desirable to have a range of capital types, each with its own expectations of risk, returns and terms.

Community development financial institutions (CDFIs) are private financial institutions dedicated to delivering affordable lending to help low-income, low-wealth and other people in underserved and disadvantaged communities join the economic mainstream.⁴⁰ There are over 1,100 CDFIs in the United States, including 68 Native CDFIs, targeting underserved people and communities.⁴¹ According to the Opportunity Finance Network, 28 percent of CDFI borrowers are rural. Four main organization types have qualified as CDFIs:

- **Community development banks:** Regulated for-profit corporations with community representation that provide capital to rebuild economically distressed communities through targeted lending and investing.
- **Community development credit unions:** Regulated nonprofit cooperatives owned by their members that promote asset ownership and savings and promote affordable credit and retail financial services to low-income people.
- **Community development loan funds:** Nonprofit organizations that provide financing and development services for microenterprises, small businesses, housing, and community service organizations.
- **Community development venture capital funds:** Either for-profit or nonprofit organizations that provide equity or debt-with-equity financing for small- and medium-sized businesses in distressed communities.

Community foundations are grantmaking public charities dedicated to improving the lives of people in a defined local geographic area.⁴² They bring together the financial resources of individuals, families, and businesses to support effective nonprofits and other local efforts and enterprise in their communities. There are more than 750 community foundations in the U.S. varying widely in asset size, ranging from less than \$100,000 to more than \$7 billion. They have been described as a “community savings account” comprising a collection of restricted and unrestricted permanent endowments and other funds created from the giving of multiple donors.⁴³

Community investment comprises transactions designed to improve social, economic and environmental conditions in communities that lack adequate investment, while producing an economic return.

Convertible debt is a form of lending to businesses that allows for the debt at some predetermined time to be converted into equity ownership. This is often a feature of early-round venture capital.⁴⁴

Entrepreneurial ecosystems comprise networks of actors – including funders, investors, philanthropies, businesses, entrepreneurs, community and economic development intermediaries, policymakers, regulators, researchers, educators, trainers, advocates and others – who provide the environment and context for identifying, aggregating and deploying capital and related technical assistance to meet local entrepreneur, business and community needs for investment and enterprise success.

Entitlement (and non-entitlement) communities refer to the status of communities in the allocation of government funds. As one example, Community Development Block Grant (CDBG) dollars assist local governments with various community development projects and programs. Major cities, satellite cities, and urban counties within metropolitan areas receive 70 percent of available CDBG funds directly if they are qualified as “entitlement communities.” That qualification is based on one of two formulas — one concerned with population, people in poverty, and overcrowded housing units; the other with growth lag, people in poverty, and age of housing stock. The remaining 30 percent of CDBG funds goes to state governments, which conduct a



GLOSSARY

process to administer funding to areas that do not qualify for entitlement grants, most of which are rural; often this is via a competition, and there are some winner and loser communities.

Impact investments (also social venture capital) are investments made with the intention and expectation of generating positive, measurable social and environmental impact in addition to financial return.⁴⁵

Patient Capital or Equity refers to longer-term investments for which investors are prepared to wait many years before seeing a financial return. When these are also impact investments, maximizing the positive social or environmental impacts takes precedence over maximizing immediate financial returns to investors.

Structural urbanism, originally identified in relation to rural health care,⁴⁶ refers to a bias (often unintentional, but sometimes not) toward places with large populations that is embedded in elements of system and program design, market structure, and preferences for efficiency over equity.



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A SUMMARY PERSPECTIVE

RESTRUCTURE & REORIENT: ENDURING CAPITAL FOR THRIVING RURAL PROSPERITY**Brian Dabson**, *Field Perspectives Series Editor*

Brian Dabson, a pracademic with over 40 years in community and economic development policy and practice in the United Kingdom and the United States, consults, researches and writes on rural and regional economic development, entrepreneurship, and regional collaboration and governance. His prior experience includes leading the Corporation for Enterprise Development (now Prosperity Now), the Rural Policy Research Institute, and Institute for Public Policy at the University of Missouri.

These perspectives point the way toward achieving equitable rural prosperity through some systemic shifts in the way financial resources are accessed and deployed for development across rural America. Specifically:

- Modernization of federal investment in rural America to make it more strategic, flexible, integrated and intentionally equitable will go a long way to dismantling the exclusionary systems and criteria that place rural communities and economies, especially Black, Indigenous, Latinx, and other populations of color, and regions of entrenched poverty, at a structural disadvantage when resources are allocated.
- New wealth retention and creation policies and structures can reverse the practices that extract wealth from natural-resource-dependent regions, prevent communities from creating new revenue-generating opportunities, and exclude them from decisions that impact their livelihoods.
- Community-rooted philanthropy, when directed to local impact investing and partnered with national and regional philanthropy, can together be effective and leading catalysts for strengthening the voice and capacity of rural communities, especially where historic and existing unfair and discriminatory policy and practices have disadvantaged specific rural places, populations and cultures.
- New forms of collaboratives among organizations focused on improving health and economic outcomes for rural low-wealth populations can be highly effective in leveraging private, public, and philanthropic resources at the local, regional and national levels.
- Creative approaches to financing development and businesses are emerging, which use new technologies and mechanisms to exploit innovative economic opportunities in rural regions and remove structural barriers that reinforce geographic and racial inequities.





The good news is that there are many examples of local and regional organizations, programs, and initiatives that are showing what these shifts look like on the ground in many different contexts across rural America. The perspectives highlight some important common themes:

- There is no shortage of opportunities for revitalizing rural economies and communities if only outdated institutional barriers and practices can be removed and appropriate financing tools put in place. Importantly, many of these opportunities may be in the “next economy” addressing pressing challenges such as climate change, alternative energy, and sustainable food production.
- Nor is there any real shortage of financial resources for rural development, but much of it is ill-structured, unduly constrained, and misdirected. It is essential that these resources are unlocked, aggregated and purposed in creative and more effective ways.
- These opportunities and measures to reverse decades of disinvestment require effective collaboration across sectors (public, private and philanthropic) and jurisdictions (local, state and national) pointing to the need for investments in regional intermediaries.
- There are concerns over limited capacity in rural communities and local governments, and these need to be addressed as integral parts of catalytic financing from philanthropy or federal and state funding.
- The priority must be to ensure that investment flows to where it is most needed and can do the most good. This means driving investments at scale into historically underinvested communities and businesses for purposes that are locally defined and controlled, using demand-driven, situation-sensitive, institutional and programmatic mechanisms, and structuring investments in ways that are patient, flexible, and wealth-building.

ABOUT THE FIELD PERSPECTIVES SERIES

The series aims to catalyze more effective and fair rural policy and practice.

In this series, we ask thinkers and doers with rural experience and expertise to propel and deepen understanding about rural issues and realities, shine a light on rural innovation and investment opportunities, connect and align fields of practice and interest, and call for constructive changes in the design and implementation of key public and private systems – all toward achieving this outcome:

Communities and Native nations across the rural United States are healthy places where each and every person belongs, lives with dignity and thrives.

Community 
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This work is supported by the Robert Wood Johnson Foundation.

The **Aspen Institute Community Strategies Group (CSG)** convenes, equips and inspires local leaders as they build more prosperous regions and advance those living on the economic margins – with our primary focus on rural America since our founding in 1985. Committed to increasing opportunity and equity, CSG advances an asset-based and systems-building approach to improve economic, social and health outcomes through community and economic development.

The **Thrive Rural Framework** is a tool to organize learning, strengthen understanding, and catalyze and align action around what it will take for communities and Native nations across the rural United States to be healthy places where each and every person belongs, lives with dignity, and thrives. CSG helps connect national and regional organizations as they learn from rural practitioners, conduct needed research, analyze systems, spark innovation, and create useful information and tools for policy, practice and systems change – change that will generate the Framework’s outcome of more widespread and equitable rural prosperity.