# RURAL "ENTERPRISE DEVELOPMENT INTERMEDIARIES"

A Report to

The Ford Foundation

By

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### I. Introduction

As the 1960s drew to a close, it became increasingly apparent that innovations in public policy and social programming were not likely to emanate from either the public or the for-profit sectors. Even in a more hospitable political and economic climate, it is difficult for government to be the source of policy and program innovation. In recognition of this, foundations such as Ford and others created organizations such as the North Carolina Manpower Development Corporation, now MDC, Inc.; Manpower Demonstration Research Corporation; Public/Private Ventures; the Mountain Association for Community Economic Development; and the Local Initiatives Support Corporation -- nonprofit organizations which are able to anticipate problems and design solutions independent of government constraints. In the lexicon of the late 1980s, these kind of organizations -- with the capacity and flexibility to inculcate new ideas and experiment programmatically, aggregate learnings from grassroots organizations and from their own projects to inform policy, and identify and encourage policy change -- came to be known as intermediaries. And their importance increases as tight federal and state budgets further limit the potential for governmental innovation.

There is a special need for innovation in rural areas. Rural development demands not just the creation of jobs. Job growth will not ensure prosperity for rural residents unqualified to work in them or in rural places lacking the roads and telecommunications capacity to retain them. Rural leaders must be equipped to manage successfully what we refer to as the four basic but interdependent "building blocks" of development: business development, workforce development, physical infrastructure, and social and institutional infrastructure. Each building block is essential to obtaining a stronger economic foundation and higher standard of living, but each alone is insufficient.

State-sponsored development efforts are proliferating, but most have an economic growth focus that leaves many poor communities and people behind. Building an institutional infrastructure for rural social and economic progress is critical. This infrastructure includes capable state and local government, grassroots organizations able to carry out development projects, institutions able to analyze and develop rural development policy, and advocacy organizations capable of pushing for change. Intermediary organizations have an important place in this infrastructure.

The word "intermediary" has been used to describe many different types of organizations. We see at least two primary types:

- **Policy intermediaries.** These intermediary organizations primarily focus on policy innovation and development. These types of intermediaries generally have a broad geographic and substantive mission, including economic development. Using our building blocks vocabulary, these organizations would work in several or all of the building blocks to identify and develop model programs, stimulate policy changes, and conduct other activities. These types of intermediaries do not manage ongoing programs. While they may run programs for periods of time, the purpose of these programs is generally to demonstrate an effective model and the goal would be to spin off the program over time. Examples of such organizations would include MDC, the Southern Growth Policies Board, the North Carolina Rural Economic Development Center, and the Foundation for the Mid South.

- **Program intermediaries.** These intermediary organizations primarily use the management and development of ongoing programs to achieve their goals. Often they have a more tightly focused geographic or developmental mission that concentrates primarily on one of the building blocks. Learnings from the programs are used to influence the policy development process, but the organization's goal is not necessarily to spin off developed programs. Organizations such as MACED, the Delta Foundation, and the four organizations which are the subject of this paper are examples of this kind of intermediary.

These intermediary organizations must also be distinguished from the array of nonprofit organizations working at the community level to deliver programs or advocate for policy changes. Each type of intermediary has its corollary in community-based organizations working at the local level. Policy intermediaries share some similarities with advocacy organizations working to change policies at the local level; program intermediaries share characteristics with organizations focused primarily on managing economic development programs or projects in a specific local area. The word "intermediary" implies serving as a conduit or communicator between two entities. Both program and policy intermediaries serve this function between community-based organizations and the larger arena of funders, public and private leaders, and the policy community.

The purpose of this paper is to look at four program intermediary organizations, all suggested by Ford, which focus primarily on enterprise development. Through an analysis of the activities, experiences, and major learnings of these four organizations, we have drawn some conclusions about their distinguishing characteristics, constraints to organizational effectiveness, lessons learned, and opportunities for future support. These four organizations -- Coastal Enterprises Inc. (CEI), the Center for Community Self-Help (CCSH), First Nations Development Institute (FN), and Southern Development Bancorporation (SDB) -- were selected as among the most mature rural intermediaries engaged in enterprise development. However, they still represent a limited sample that is not representative of all rural development intermediaries, and the paper's conclusions should be viewed in that context.

The four organizations have many similarities but contain key differences as well. The appendix provides a quick overview of each organization. It shows that three of the four organizations have been in existence for at least a decade, allowing them to learn from experience in adapting and evolving their program focus. SDB, on the other hand, has only been operating for just over four years, putting it at a very different phase in an organizational life cycle from the others. In addition, SDB began with a comprehensive set of programs, all in their start-up phase and demanding significant resources, as opposed to the slower evolution of programs developed by the other institutions.

Another distinction is that all but FN have a distinct geographic focus on a state or substate region. FN's national focus provides it with additional challenges and expenses around issues such as resource utilization and selection of new sites. In addition, FN decided not to become a development lender in part because of the difficulty of doing this nationally. Three of the four organizations use development finance as a primary program focus, and all except FN see their financing activities as a critical tool in building organizational self-sufficiency. CCSH and SDB both use regulated depositary institutions as critical components of their strategy. This enables them to leverage their internal assets significantly by attracting deposits from around the country. CEI and FN use revolving loan funds for their financial activity. Their dollars are leveraged externally through participation with private lenders on a deal-by-deal basis.

Although each organization believes that technical assistance is a key component to effective development, each has developed different approaches to its provision. Three of the organizations see policy impact and development as a goal integrally linked to their program management and development, while SDB places less of a conscious emphasis on policy impact.

Each organization's program emphasis grows out of a slightly different critique of the development process. CCSH's program strategies underscore the belief that building ownership of poor individuals in homes and businesses is a key component in successful economic development. SDB's strategies focus more on strengthening the economic base of rural regions and using sectorial and geographic targeting or programs to build a critical mass of interventions necessary to turn around poor communities. Similarly, CEI targets specific sectors for technical assistance, lending, and policy initiatives. However, its approach grows out of a grassroots, community organizing perspective that influences its strategies to build coalitions within defined constituencies. FN has the most holistic view of the development process of the four organizations, believing that traditional development ignores important links to the social and human development of communities. In addition, it seeks to make all development culturally appropriate to its Native American constituency.

To describe these organizations, we have coined a new term, rural Enterprise Development Intermediaries (EDI). This defines them as program, not policy, intermediaries, although each is active in policy development. In addition, their primary program focus is on enterprise development. None are simply financial intermediaries. They provide technical assistance and focus more broadly on enterprise development, although each uses access to capital as a primary development strategy. And they are not just enterprise development organizations which undertake projects in a particular service area.

This paper attempts to focus on unique aspects of EDIs, as exemplified by these organizations. Interviews revealed that strong entrepreneurial leadership, skilled dedicated staff, and stable funding are all important to the success of intermediaries. However, these characteristics are generic to successful organizations, not just to enterprise development intermediaries.

We used the following methodology in developing this paper. Research consisted primarily of 5-8 hours of interviews with senior staff in each organization. Interviews were confidential and were conducted after a review of internal documents, grant proposals, strategy papers, annual reports and other relevant documents.

## II. What Is an Enterprise Development Intermediary?

The four intermediaries which are the subject of this paper do not see themselves exclusively as lenders, though all engage in some form of development lending. They do not describe themselves as program managers, though all manage some level of development programming; and they do not identify themselves as policy organizations, though all are active advocates. How then should one define an EDI?

An EDI can be distinguished from an organization focused on enterprise development program management and from policy intermediaries in a variety of ways. EDIs combine the activities of core functional areas to leverage and increase the impact of program successes. They focus on building capacity at local levels and long-term financial self-sustainability as a key strategy. EDIs are not community-based but instead combine features of program management organizations and policy intermediaries to achieve their development agendas. However, if one were to attempt to provide a brief description of an EDI, the description would likely read:

> An EDI strategically identifies barriers to enterprise development and resource gaps in rural communities and uses program-based expertise to develop innovative approaches to lower these barriers and close gaps, leveraging the impact of program activities through direct advocacy, partnering, and the development of model programs. Typically, EDIs have well-developed strategies for financial self-sufficiency that involve the development of an asset base for subsidy generation.

Some of the distinguishing characteristics of EDIs include:

o <u>The synergies generated by the variety of functions performed within EDIs distinguish these organizations from other enterprise development organizations that focus on program management</u>. Taken individually, these functions may not distinguish EDIs from a policy intermediary or program management organization. However, taken together, these characteristics distinguish EDIs from other types of intermediaries and community-based organizations. The ability of EDIs to translate program learnings into policy initiatives, to use their programs to build institutional self-sufficiency, to strategically and comprehensively address fundamental barriers to development, and to engage in program innovation and development creating site-relevant programs drawing on best practices worldwide enable EDIs to more effectively complete their missions. It is the way in which EDIs amplify program learnings and activities to create scale through a synergistic blend of functions that sets them apart from traditional service providers and local economic development organizations. As stated by a CEI staff member,

> We see ourselves primarily as a program manager; but the learnings, insights, and credibility gained from these programs are essential to our broader success in areas such as policy development.

The synergies and broad range of functional activity found within EDIs demand staff with a range of sophisticated skills, particularly more sophisticated financial skills. Similar synergies and associated staffing requirements are also found within policy intermediaries; however, these organizations do not manage programs and have other, unique organizational goals.

o <u>EDIs seek long-term financial self-sufficiency and employ asset-building strategies to reach this goal</u>. Many local development organizations and other intermediaries continue to rely on public and foundation support for operations or hope to raise endowments -- a time-consuming and difficult fundraising task -- to provide long-term financial stability. Some inherent deficiencies to this funding strategy include: the marginalization of program impact should funding diminish and an increasing orientation towards the requirements of the funding agency and a resulting lack of responsiveness to the constituency. Self-sustaining organizations, organizations that generate revenues to support their operations, ensure their continued survival as long as they are responsive to their constituency. Many EDIs provide a particular core program service -- lending to consumers and businesses -- as a revenue-generating activity to support overall operations. Three of the four organizations studied for this paper use their lending programs as a strategy for developing self-sustainability as a core part of their development strategy. First Nations does not look to its lending program to generate revenues for other program operations. Instead of building its capital assets to generate revenues, FN is looking to its marketing program to generate funds for operations.

Differences in program structure and program goals among the EDIs interviewed reveal different targets for the development of an adequate capital base and related levels of subsidy generation. Depositary institutions will have higher asset goals than institutions with a revolving loan fund. CEI staff project that external support will be required for 40 percent of its activities even at the anticipated capitalization level of $20 million. This capitalization will result in approximately $70 million in total financing. CCSH, currently at $30 million in assets, aims for a $60 million asset base, a level that staff feel should completely support advocacy activities with lending profits. SDB, now at $95 million in assets, finds it is unable to fully support its program activities, given its relative youth and the broad range of its activities, including the operation of a retail bank. However, SDB staff anticipate that three programs -- Elk Horn Bank, Southern Ventures, and Opportunity Lands Corporation -- should all be self-sustaining eventually. FN looks to individual program activities such as its marketing activities to earn income for operations. Its goal is to generate one-third of operational income from marketing programs and one-third from an endowment.

o <u>EDIs are not community based</u>. Many enterprise development organizations manage programs that focus on the needs of a specific community and are led by indigenous community leaders. These local organizations, typically resource poor, often lack the capacity to tap resources and ideas outside their communities. EDIs often define their service areas broadly, either as an entire state or a region of a state, and are not led by locally constituted boards but by coalitions of local partners, public and private sector supporters, and independent program developers. With this broader view, EDIs are able to act effectively as a conduit to disseminate learnings from innovative new initiatives, introducing new program options for CBOs modeled on national and international experiences. EDIs can also act as an interface between CBOs and major philanthropic organizations and federal agencies, channeling support and needed recognition to promising local efforts that otherwise might go unnoticed in the national economic development landscape.

However, EDIs employ a variety of strategies to maintain close relationships with target communities, particularly emphasizing partnerships to ensure that efforts are relevant, practical, and acceptable. FN conceptually bases its development approach on engaging local communities in appropriate site-specific interventions and can spend as much as six months working with a potential site to build successful relationships with the community. CEI and SDB both undertake sectorially focused projects, engaging not local communities but extended networks of related organizations. For example, CEI strategically targets business sectors and not geographic or political communities in its Day Care and Natural Resources projects and underscores the need to work with these business constituencies <u>as a group</u> in order to achieve more than individual and fleeting success. In this way, CEI believes that it is still community-based, but it is expanding the traditional definition of community to include a specific sector or constituency such as a welfare population.

SDB has found that partnerships enhance the effectiveness of program activities and in both the Good Faith Fund and Opportunity Lands Corporation programs has worked to involve local organizations to improve its chances of success. CCSH has strategically undertaken community-based initiatives in two ways: (1) opening branch offices in targeted communities, complete with locally constituted boards, that are relatively autonomous in program orientation and (2) developing capacity-building strategies aimed at providing CBOs with the skills needed to better undertake indigenous development efforts.

o <u>Intermediaries leverage the impact of their programs in a variety of ways, including direct advocacy, partner relationships, sectorial focus, the development of model programs, the leveraging of financial assets, and capacity building</u>. Traditional enterprise development program managers and policy intermediaries employ many of these strategies, but it is the scope and range of these functions that distinguishes EDIs. Through this diverse range of activities, EDIs are able to assume the best characteristics of both program management organizations and policy intermediaries, effectively managing enterprise development programs while retaining the vision, perspective, and leverage common to policy intermediaries. By leveraging their learnings from one program or geographic area, EDIs are able to increase the scale of their impact through program replication or policy change. Intermediaries often focus their initiatives within sectors, facilitating the development of substantial staff expertise in a field, enabling staff to craft more effective and innovative program interventions.

Partnering activities, both formal and informal, have proven effective in amplifying program impact and expanding the resources available to rural communities. For example, CEI has worked to establish strong relationships with the local banking community through informal linkages such as regular meetings and now receives 25 percent of its deal stream as direct referrals from private bankers. These banks often participate directly in the loan packages as well, enabling CEI to leverage a $2.3 million investment in local enterprises four-fold with monies from private banks. The CCSH has established formal lending partnerships, providing financial and technical assistance to community-based and nonprofit loan pools. For example, the Self-Help Credit Union administers a loan pool for the Coalition of Farm and Rural Families. If the Coalition proves effective in managing its locally invested portfolio, the Self-Help Credit Union will participate as a lender, expanding the Coalition's available capital pool. Additionally, the Self-Help Credit Union will train community development organizations in the best practices for making credit decisions, underwriting guidelines and, if appropriate, loan servicing.

Intermediaries also attempt to build networks among relevant, often sectorially focused institutions to leverage program learnings and enhance policy impact. CEI, in its Day Care Project, has created an institutional network of over 60 service providers throughout the state which serves to both multiply program learnings among participants and enhance the potential policy impact of program outcomes through the development and support of an active constituency. CCSH has been instrumental in the formation of a North Carolina network of community economic development organizations to facilitate communication and mutual learning.

Model and demonstration program development enable intermediaries to introduce and promote effective new concepts. CEI's ability to participate in a Farmer's Home Administration loan fund resulted in a policy change at FmHA, and now SDB and other financial intermediaries are able to leverage the same multimillion-dollar loan pool. Similarly, CCSH's negotiations with the Federal National Mortgage Association (Fannie Mae) to package and resell home loans from low-income borrowers will, if successful, provide a vehicle for lenders all over the country to access this secondary market, dramatically accelerating home ownership opportunities for low-income persons. FN also has been very effective in translating its program learnings into policy development.

Model development also places demands on intermediary organizations to share knowledge, provide technical assistance, and build capacity within CBOs. While this assistance is important in spreading learnings and ideas, these costs are often not compensated through grant funding or recognized in the outcomes achieved by each organization. The development of new partnerships to build local capacity can be an important way to increase impact and dissemination of programs, and perhaps funders and intermediaries should expand such mechanisms to make sharing information more cost-effective. For instance, FN hopes to work with tribal colleges to teach economic development strategies using a curriculum developed by FN, thereby building a capacity at the local level to do some of the education that FN currently must do. CCSH, through the establishment of its lending partnerships and the creation of a state-funded technical assistance center for minority development credit unions, has strategically focused on building capacity at an institutional level. CEI, in a variety of programs, has focused on building capacity at the enterprise level -- among client firms targeted within specific programs -- but has attempted to develop the capacity of other community economic development institutions in only a limited informal fashion. SDB, while not having strategically identified capacity building as a priority program activity, has pragmatically assisted partner organizations on a project-by-project basis to achieve the level of skill needed to effectively participate in programs such as Opportunity Lands Corporation and the Good Faith Fund.

## III. Constraints to Organizational Effectiveness

Interviews with staff at the four intermediaries highlighted several constraints to building an effective organization, but only the difficulties related to attracting and retaining skilled staff are unique to rural situations. Other constraints such as program limitations due to resource constraints, the need for broader definitions of measures of success, and the implicit restrictions imposed by unique characteristics of target communities are not unique to rural settings but are nonetheless significant organizational obstacles. Some of these constraints can be ameliorated -- for example, by basing EDIs proximate to urban areas to improve staff retention and recruitment or balancing an organization's emphasis between subsidy generation and program development -- while other constraints must be accommodated.

### Staff Recruitment and Retention

Rural development organizations often have difficulty recruiting and retaining skilled staff. The perception of limited cultural opportunities, small communities of "progressive" colleagues, and isolation all detract from a rural organization's ability to recruit and retain staff. The isolation of rural areas concerns staff who have children and are seeking quality educational opportunities, as well as single staff members looking for partners. The difficulties rural organizations have retaining staff makes training more costly than in their non-rural counterparts -- in some instances requiring staff-in-training positions and in all cases limiting the program and management functions of senior staff engaged in training efforts. As a staff member at SDB's Elk Horn Bank indicated,

> We can afford to have one nonproductive [in training] loan officer at any time, and we put enormous investment in training folks but they often leave. We had an excellent loan officer who left the bank after a year and a half. It's a fact of life in rural areas: You train them and they leave -- even though our salaries are competitive.

Some of the intermediaries have overcome this barrier by locating central offices proximate to attractive urban areas. For example, CEI, in Wiscasset, is within commuting distance of Portland and Augusta. CCSH is based in North Carolina's Research Triangle and has branch offices in the similarly attractive urban locales of Asheville and Charlotte. From these urban centers, CCSH staff serve its rural constituency. FN, though staff spend extensive time in the field, is based near Washington, DC. FN is unique, however, as some staff prefer to be located on-site but are required to spend a portion of their time at the central office to facilitate communication and spirit within the organization. SDB, located in Arkadelphia, is more isolated from appealing urban amenities.

**Measures of Success**

All development organizations face the constraint imposed by traditional measures of success. Intermediaries, however, are poised to tackle this question and offer new approaches to measure success. As intermediaries expand their activities, some have found that traditional measures of success such as job creation, loans made, demographic analysis of impact, and clients served do not capture all the data relevant to creating vibrant rural economies. As most of those interviewed have found, in rural areas business owners and communities often lack necessary skills or access to expertise such as accounting, management, and marketing assistance. These skills must be built before effective business growth and job creation can occur. As one interviewee noted, if numbers of jobs created is the primary criteria for measurement, the creation of a service job and a manufacturing job would be valued equally. However, the former is often easier to create, yet produces less wealth and long-term economic impact for the region. Some intermediaries have attempted to define new, more holistic and appropriate criteria -- such as program quality, advocacy impact, and institutional strengthening -- that evaluate organizational effectiveness in a broader, inclusive fashion. These measures often evolve from the values and beliefs that organizations hold about the development process. By evaluating outcomes instead of measuring outputs, these measures encourage intermediaries to target the most pressing needs of rural communities.

Of the four organizations, FN has the most comprehensive view of the development process and has spent the most time considering what measurements would be most appropriate to monitor. CEI is also working to develop broader measures of success. FN has developed a matrix that emphasizes intangible, cultural, and community outcomes. FN uses criteria such as community/social measures, individual development, control of assets and environmental balance, and cultural integrity and social respect within the context of the individual, the community or tribe, and the nation to measure successful development. For example, the broad social health of a community would be evaluated from:

- o the individual perspective with such measures as alcoholism, life expectancy, elder/child treatment, and the importance of the family;
- o the community perspective with such measures as domestic violence and emigration rates; and

- o the national perspective with achievements in policy areas such as Trust Fund and Land Consolidation policy.

Two different tribal approaches to economic development provide a good example of the importance of clarifying goals and measures, as described by FN staff. Two tribes, the Passemaquoddy and the Saginaw/Chippewa, both received large federal land settlements and were attempting to identify significant projects for investment. The Passemaquoddy chose to purchase the state's largest cement facility. The Saginaw/Chippewa took a longer-term view of development and decided to invest in providing quality educational opportunities to young tribal members. The cement facility successfully created hundreds of jobs. However, the tribe continues to have low "quality of life" measures such as high suicide and alcoholism rates as well as a high percentage of youth leaving the reservation. In contrast, the Saginaw/Chippewa successfully implemented their educational program and have increased their quality of life measures. By many standard measures, the Passemaquoddy strategy would be considered to have been the more successful investment; yet from a broader view of development, the Saginaw/Chippewa strategy may have been more beneficial.

Clearly, there is a need to develop appropriate new measures for enterprise development intermediaries. It is also important to establish a reasonable time frame over which outcomes should be measured. All of the intermediaries interviewed are engaged in long-term efforts to effect change and are experimenting with new and innovative ways to impact their target communities. Yet, funders and others often expect results in relatively short periods of time. For example, SDB has only been in existence for four years. All staff interviewed agreed that to date they have been focused on determining and refining the most appropriate development tools and that their immediate challenge is to increase the scale and impact of their programs. Yet, funders are demanding results. Perhaps this is an area where formal collaboration between funders and a targeted group of EDIs could prove valuable.

**Financial Self-Sufficiency**

Achieving self-sufficiency is an important goal, particularly if EDIs are to be used as a replicable organizational model. Three of the four intermediaries examined use an asset-development strategy to attain some degree of self-sufficiency. While FN does not have an asset-development strategy, it does have self-sufficiency goals. As mentioned, FN is looking to its marketing program to generate revenues. It is also considering mechanisms to make housing and land loans on reservations a potential source of revenues. Pursuit of this strategy would increase its similarity to the other three organizations. CEI anticipates two-thirds of its support can be generated through profitable program activities but still looks to foundations and the public sector to support policy development activities. SDB anticipates that Opportunity Lands Corporation and Southern Ventures will "run in the black" and successfully generate subsidy and, along with Elk Horn Bank, provide the bulk of the subsidy for SDB. However, Arkansas Enterprise Group, including the Good Faith Fund, is anticipated to continue to need funding, most likely from external, non-Southern sources.

An intermediary's ability to achieve some degree of financial self-sufficiency directly affects its organizational effectiveness. Its ability to afford talented staff, its strategy and focus as an asset-based organization versus a program developer, its commitment to asset growth, and ultimately its independence are all affected by its ability to generate and raise funds. Costs for program management are often higher for rural organizations due to extensive travel, the limited availability of partners, and a constrained base of community resources, highlighting the importance of internal subsidy generation and external support.

An emphasis on financial self-sufficiency may lead an EDI to emphasize activities that generate subsidy, such as lending, over direct assistance activities, such as technical assistance, which may be more critical. All of the intermediaries interviewed found the need for technical assistance in management and marketing assistance to be crucial barriers to enterprise development in rural areas. Resources in the form of accountants, marketing consultants, and other professionals are less prevalent in rural areas, even if the enterprises could afford them. Government-supported small business assistance centers vary widely in the quality of their services. As a result, intermediaries must wrestle with how to provide access to these services. SDB and FN have developed specific technical assistance services in response to this need, with marketing cited as a particularly strong need but a difficult and expensive service to provide. FN has targeted Indian artists as a sector to assist; SDB is experimenting with an 800 number and other mechanisms. CCSH does not have a formal technical assistance program but does provide a lot of assistance to its lending partners. CEI has devised a creative response, leveraging state dollars to provide technical assistance through a Small Business Development Center which is housed at CEI. Thereby, CEI can control the quality of the assistance without having to use its own resources to cover the expense.

The ability to afford talented staff is another way in which financial self-sufficiency impacts organizational effectiveness. Intermediaries often attract staff aligned with the mission of an organization who are willing to receive diminished compensation. However, as intermediaries grow and require greater staff sophistication and specialized expertise, pressure increases to pay market salaries for specialized talent, and market salaries become critical if intermediaries hope to attract qualified minority applicants. Of course, ample subsidy generation or funding is required to support these higher salary levels. SDB indicates it pays market salaries to staff. FN and CEI appear to pay below-market salaries but are only developing the staff functions that require specialized expertise and regularly command market salaries. CCSH indicates it pays below-market rates and contends that this salary structure does not inhibit the recruiting of staff with specialized skills. However, some CCSH staff state that most professional staff must have other sources of financial support -- either family or spouse -- to afford to work at the Center. Clearly, the ability of an organization to afford the skills and talent required to effectively complete its mission is of critical importance.

**External Constraints**

External constraints, unique characteristics of the target communities, can also serve as barriers to organizational effectiveness, requiring modifications in program and strategy. SDB found that usury laws in Arkansas limited both the bank's development potential and program flexibility and instead pushed it towards venture financing and technical assistance as more effective tools for development. For example, SDB anticipated that Elk Horn Bank would provide significant development financing. But Arkansas usury laws limit the upside potential on higher-risk loans, leaving SDB unable to adequately subsidize loan risk or take full advantage of SBA loans. FN also has had to adjust strategy to external constraints. One reason that it has not pursued development lending on reservations is the lack of any private sector activity or partners, which limited development lending potential. FN also decided not to pursue state and federal funding sources, which the other three organizations have tapped, because of the history and cultural impact of Indian dependence on government funding. FN programs also require intensive on-site work and relationship development, ensuring that activities are site appropriate but significantly raising program costs.

The costs of development efforts in rural areas are significantly higher than similar efforts in urban areas. Long distances hamper effective communication and increase budgets for both travel and staff expenditures. The intermediaries interviewed have dealt with this constraint in different ways. FN requires field staff to wear several hats at once, brokering new projects in addition to supporting continuing programs. Similarly, SDB intends to cross-train Good Faith Fund field staff to serve as more effective marketing agents for the broader range of Southern loan products and services. CCSH has dealt with these constraints creatively. After having initially opened branch offices in other urban centers, CCSH staff soon realized that the costs of establishing branches in smaller communities throughout the state would be prohibitive and through partnership lending activities has effectively broadened the geographic scope of its lending. The Center's lending partners raise their own capital, which is matched by CCSH, and provide the staff for program management. CCSH provides technical assistance in best practice for credit decisions, underwriting guidelines and, if appropriate, loan servicing. CCSH has even taken this approach one step further by committing to pay partial staff costs for an organization which has demonstrated strong capacity for additional lending activities.

## IV. Lessons Learned

Several parallel themes emerged in the interviews with staff of the four organizations which highlight underlying opportunities to support and strengthen intermediaries. These lessons are not exclusive to rural organizations but are particularly important to developing effective intermediaries and relate to:

- **Organizational dynamics.** EDIs manage two sets of organizational dynamics: They must balance the dynamic between subsidy generation and direct poverty alleviation and manage the tensions between program development and policy impact. If astutely managed, these two separate sets of dynamics strengthen intermediaries, highlighting the need for EDIs to share these and other related experiences -- lessons that can be invaluable to building successful organizations.

- **Partnerships.** Partnering is critical for an organization working in a resource-poor community, including rural communities, as a single development group is unable to provide all the resources needed for effective community development. There is a significant opportunity to promote and exchange learnings pertaining to the creation of successful development partnerships, an essential ingredient in intermediary strategy and program implementation.

- **Organizational development.** Intermediaries also grapple with a set of developmental issues such as being sufficiently flexible to allow failure and to learn from and change strategies based on those failures; developing adequate internal control systems; and having ample staff expertise to manage increasingly sophisticated programs. These developmental issues highlight opportunities for funders to continue to support EDIs even when programs fail and to encourage implementation of and provide the funding for the internal systems required for management and control.

### Organizational Dynamics

Two types of organizational dynamics, if properly managed, are essential for EDI effectiveness. The balance between subsidy generation and poverty alleviation, on the one hand, and program development and policy impact, on the other, can create synergies enabling intermediaries to pursue their agendas with greater success. These dynamics are evident in many of the organizations interviewed and present significant opportunities for EDIs to share the experiences and lessons that were so valuable in creating and maintaining the balance between these unique and critical dynamics.

An organization's emphasis on self-sufficiency influences organizational strategies, and hence organizational success, as EDIs often have to balance priorities between asset development for income generation and program development for poverty alleviation. The allocation of organizational resources to directly support technical assistance activities, expand and improve aid programs, and create new programs must be weighed against the need to profitably manage the income-generating programs that are so important to maintaining a viable organization.

At FN, the Oweesta Fund is its single capital asset and therefore has the greatest potential for income generation. However, the Fund is constrained in its ability to generate subsidy for the rest of FN's activities because it chooses to make its loans at only slightly above cost in order not to place an undue burden on its borrowers. However, as mentioned, FN is considering new kinds of lending to increase revenue potential. Similarly, the Good Faith Fund is SDB's program that reaches the lowest-income population, yet it also has demonstrated the least ability to generate income. A lack of balance between these two important factors -- asset development and poverty alleviation -- can limit overall organizational success. Unrealistic expectations from funders can further hamper intermediary effectiveness as well. Funders often expect intermediaries to address both issues simultaneously: building the asset base and reaching down further. Timing may be an important consideration here. CCSH has focused on building its asset base over the last several years and is now at a point where it is better able to take on income-draining projects which reach lower incomes, such as the new microenterprise demonstration.

In a similar fashion, successful intermediaries must balance their emphasis on advocacy, partnering, new program development, and policy impact with the need to support and improve the efficiency and effectiveness of existing programs. This is most challenging during times of rapid growth or organizational change. CCSH grappled with this issue directly -- using staff retreats, tools like the Meyers-Briggs personality test, team project management, and an elected management council. These mechanisms encouraged communication between the program-oriented Self-Help Credit Union and Self-Help Ventures Fund -- the "practitioners," in the words of one Credit Union staff member -- and the policy-oriented Center staff -- the "visionaries." This dialogue alleviated concerns among some practitioners that existing program areas were receiving insufficient attention and support and, as stated by the same staff member, resulted in "the development of new strategies by practitioners and... the improvement of product offerings by visionaries." FN and CEI manage the dynamic between policy impact and program development in a different fashion, incorporating unified program management functions and policy development responsibilities into each component of their organization's activities. At this point, SDB has a reactive rather than conscious approach to policy development. The organization has responded effectively to requests to address legislative committees or regulatory bodies but does not have an organizational strategy to use its program learnings to impact policy development.

**Partnering**

Partnering is a critical ingredient for effective community development for organizations working in resource-poor, rural communities. Limited technical, social, and economic infrastructure can handicap development efforts; but partners can help overcome the isolation that undermines many development efforts. All intermediaries interviewed listed partnering as a priority, yet they pursue these activities differently and with varying degrees of effectiveness. Although the sample size of the interviewed base is not significant, partnering appears to be a key ingredient to increasing the scale and impact of programs.

- FN indicates it could not undertake any of its programs without the partnerships it develops at the reservation level. Collaborative relationships are both central to the organization's philosophy and an essential component of its development strategy.

- CEI works closely with partners both at the board level and program level. For example, one of the first activities undertaken by the manager of the Child Care Development Project was to form a working group of 39 Maine-based child care groups and three state agencies to address a broad range of policy issues. This was the first time that representatives from all three child care constituencies -- home-based, nonprofit centers and for-profit centers -- worked in collaboration to develop coordinated policy in the state. CEI also effectively partners at the board level, allocating 60 percent of the seats on its Investment Committee (loan review committee) to local financial institutions which often participate in CEI-structured investments.

- CCSH has recently developed strong partner relationships at both the program level and the board level subsequent to more autonomous operations in earlier years. As previously described, its partnership lending program has helped expand its lending presence. Examples of other collaborative activity include the North Carolina Home Ownership Loan Program, where the Center partnered with other state credit unions, private mortgage insurers, and secondary market organizations to stretch a $2 million state appropriation into a $50 million affordable home loan program. The Center has also broadened the representation of North Carolina-based community development organizations, financial institutions, and rural businesses on its Board of Directors.

- SDB has found that certain programs such as the Opportunity Lands Corporation and the Good Faith Fund have had to develop local partners to be effective. Opportunity Lands Corporation uses local real estate professionals in its projects, and the Good Faith Fund will not expand to a new site without the presence of a local partner. Good Faith Fund's welfare demonstration in partnership with the Arkansas Department of Human Services and others is an example of a project that could not have been successfully undertaken alone. SDB has had difficulty effectively developing partnerships in other program areas, partly because it is a relatively new organization still developing trust and credibility in the community and partly because it is modeled after an urban development bank, a model that places less emphasis -- an emphasis appropriate to an urban environment -- on partnership activities.

The art of developing partnerships would be a fruitful area for further exploration. Interviews revealed that partnerships around specific real estate or business ventures are easier to develop, while successful partnerships for longer-term projects take more time to develop. For example, Good Faith Fund staff worked a long time to develop the welfare demonstration project, and both SDB and the Arkansas Department of Human Services staff were initially unsure about each other's motives and capabilities. Several lessons emerged from this process related to effective partnering, including: (1) the usefulness of smaller initial partnerships, (2) the importance of clear expectations, and (3) the length of time required for a successful relationship to develop. Several intermediary staff mentioned the need for organizational "humility" in approaching local partners. Many intermediaries have more highly educated staff and wider experience, which could make them think that they have the "answers," that local organizations do not possess the necessary talent to undertake a project, or that the intermediary can go it alone without local assistance.

As foundations and federal agencies increasingly rely on intermediaries to act as conduits to community-based organizations for expertise and even for financial support, the importance of the relationship between CBOs and EDIs is highlighted. Intermediaries must identify effective ways of creating partnerships with these indigenous, often minority organizations. These partnerships must build capacity within local communities and apply the program design capabilities of the intermediaries to local development barriers, but they must also be partnerships that leverage the delivery mechanisms and community trust of CBOs. A limited number of community-based leaders were interviewed for this paper. They revealed a certain discomfort with their relationship, or lack of relationship, with intermediaries. Some intermediaries were perceived as absorbing substantial amounts of foundation dollars, resulting in limited support for other development efforts in the state. Other intermediaries were not considered potential partners of CBOs due to geographic constraints defined by the intermediary, a particularly unfortunate situation as many funders view support of an intermediary as support for development efforts statewide. This calls on foundations and intermediaries to be clear about role definition in partnerships.

**Organizational Development**

Intermediaries, and organizations generally, are confronted by a series of issues related to the growth and development of the organization. These developmental issues can often arise at one point in an organization's history and reappear later in a slightly altered form. Each of these developmental issues provides a unique opportunity for a broad range of supports, and the issues described here -- the acceptance of program failure, the development of appropriate control systems, and the development of adequate staff expertise -- are particularly relevant to sustaining viable intermediaries.

o **Adjustment to program failure.** The start-up of an organization, described by a CEI staff member as, "Birthing, the search for a mission or market by the development organization," is typically followed by an expansion of activities, enhancing and emphasizing successful activities and eliminating or redefining less effective projects. As these programs expand, EDIs often have to face a particularly troubling developmental issue -- failure and the need to objectively and harshly reevaluate program strategies in the light of experience. Given the innovative approach employed by EDIs and the severity of the problems on which the intermediaries focus, programmatic or organizational failure should not be unexpected. In the late 1970s, CEI had developed substantial "internal venture" projects which were fully managed by CEI staff, projects such as the Kennebec Valley Growers Cooperative, which consumed substantial quantities of the organization's management expertise and assets. This project eventually failed, and the lessons learned from these failures -- the risks associated with internally managed ventures -- enabled CEI to subsequently design more effective development initiatives that instead supported externally managed ventures. Similarly, CCSH's initial exclusive focus on the development of employee-ownership opportunities and loans to businesses that combined many social criteria proved ineffective and too costly to continue, and the Center incorporated the lessons from this four-year experience into their high-impact development lending programs. In both these instances, the foundation community continued to provide essential support, allowing these organizations to redirect their focus to more effective program areas.

Neither SDB or FN has yet had to face a reexamination of some of its basic assumptions about development, although both have integrated learnings back into their overall program design. FN has reorganized how it carries out development and significantly rethought the relationship between field work and model and policy development based on its experience. SDB is now at a point where it may have to assess some of the basic strategies on which it was premised. For instance, the role of the bank as a critical development lender as well as income generator might need to be assessed. This ability to assess objectively and adjust the effectiveness of development strategies based on learnings is a critical ingredient in the success of any organization and a sign of maturity. However, it is especially important for intermediaries, given their research and development nature.

o **Development of appropriate internal controls.** As an organization matures, the design and implementation of adequate internal management systems critically impacts organizational development, as these systems are essential to effectively manage, assess, and initiate program activity. The need for systems for accounting control, strategy development, board oversight, and staff participation and development change as an organization matures, requiring new and differing levels of sophistication and appropriateness. Many of the intermediaries reviewed are going through, or have just completed, an internal review to identify gaps and recommend improvements in these systems and find the process invaluable. Therefore, it is important for foundations to be willing to invest in this organizational infrastructure.

o **Development of staff expertise and the quest for financial stability and self-sufficiency.** These are also developmental issues facing intermediaries, particularly for

EDIs. All organizations mentioned the need to build a strong management team and the importance of skilled staff. These organizations are financially complex and require persons with specialized skills. As programs expand, mature, and become increasingly sophisticated, additional expertise is required to achieve both substantial program and policy impact. This expertise is often costly, highlighting an opportunity for funders to support the costs of training -- or the hiring of additional skilled staff -- required for continued organizational growth in specialized areas. Therefore, support of EDIs' strategy to build financial self-sustainability is critical. A stable revenue base allows EDI staff to effectively pursue program activities and not "chase" funding, as highlighted by a FN staff member:

> Our staff is marginalized by a lack of financial resources. The time and effort that goes into attracting funding is immense, and we always feel like we are running for election. We need to stabilize funding, identify funds to build management and information systems, do staff training and development, build data bases, develop communications capacity -- all critical components of a successful organization.
>
> Sometimes we have funds and not enough staff, and other times we have ample staff and not enough funds. This can jeopardize programs because we have committed to a tribe and if the funding is delayed, and hence the work is delayed, our credibility is jeopardized.

## V. Opportunities for Funders

A review of the four organizations discussed in this paper reveals two types of opportunities for funders interested in furthering the effectiveness of rural enterprise development intermediaries: opportunities to encourage the exchange of learnings among intermediary organizations and funding approaches.

### Exchange of Learnings

The opportunity to improve the effectiveness of all intermediaries through an exchange of experiences and approaches is apparent. Based on our interviews, the following areas would provide particularly fruitful topics for discussion:

- **Organizational dynamics:** Some organizations have balanced the dynamic between program management and policy or new program development through channels of open internal communication while others have structurally incorporated this dynamic into program design. It appears that the struggle between subsidy generation and poverty alleviation is an ongoing dialogue within most intermediaries. Clearly, all EDIs could benefit from a sharing of their learnings and insights related to management of these important dynamics.

- **Developing partnerships:** Partners are critical for intermediaries in increasing the scale of their impact. This is especially true for organizations working in rural areas because resources are so limited that no organization can be comprehensive enough in its approach and resources must be linked. It appears that there is an opportunity for EDIs to share experiences and learnings from the effective and ineffective partnerships of other development organizations, enabling intermediaries to choose from a wider variety of models and apply the most appropriate framework to a given activity.

- **Measures of Success:** Further thought needs to be invested in determining appropriate measures of success that more fully encapsulate the broader goals of intermediary organizations working on development issues. The development of such measures would benefit both grantees and funders.

- **Building capacity at the community level:** Intermediary organizations cannot achieve effective enterprise development in poor communities without effective community-based development organizations to work with at the local level. This is particularly true in rural areas where such organizations are often lacking entirely or need significant assistance in increasing their effectiveness. Yet these local organizations must often struggle for resources and are not sure of the best ways to relate to intermediary organizations. Intermediaries, on the other hand, must struggle with how to avoid competing for resources with those local organizations with which they are working. An exchange of learnings and experiences around effective ways to build local capacity could help intermediary organizations further this goal. In addition, forums between CBOs and EDIs could be valuable to identify optimal conditions for partnership development.

**Funding approaches**

These four intermediary organizations were selected because they were considered to be among the most mature in the country. However, interviews highlighted many of the ways in which these organizations continue to need grant support before achieving some measure of self-sustainability, including:

- **Development of internal controls:** Intermediaries need to periodically assess these internal systems, allocating sufficient staff resources to conduct thorough internal assessments. Similarly, funders have an opportunity to encourage and support the internal review process and to recommend skilled partners who can assist with assessment activity.

- **Development of staff expertise:** There is an opportunity for funders to stabilize intermediaries financially, allowing for greater focus on program activities and expansion of requisite staff expertise. The use of program-related investments and private placements to develop a subsidy-generating asset base has proven an effective financing strategy for EDIs reviewed.

- **Organizational Development:** Organizations need to be flexible -- not locked into narrow strategic approaches but instead open to developing programs and letting lessons from successes and failures point to new future directions. Funders need to support EDIs through failures as well as successes, providing room for growth, redirection, and risk-taking. This means foundations must balance the need for clear success measures and the flexibility to change those measures as EDIs gain experience and learnings evolve.

However, funders must also deal with the question of whether to try to encourage proliferation of intermediary organizations. This presents somewhat of a funding dilemma in how a funder balances continued need for support among established intermediaries with support for emerging or new ones. The level of support and time needed to make a difference is so great that funders may want to look for other opportunities to help support emerging intermediaries in addition to grant funds. For instance, a mentoring program between established and emerging intermediaries might serve to increase the cross-fertilization of ideas and learnings among intermediaries. As these four organizations demonstrate, there is not a static intermediary model. However, there are principles for effective intermediaries. By actively promoting and distributing learnings from existing successful organizations to developing intermediaries, local models can evolve in response to regional conditions and issues.

## VI. Conclusion

Although this has not been an impact analysis of the work of these four organizations, it is clear that enterprise development intermediaries have an important role to play in rural development through developing new models, bringing new resources into rural communities, and leveraging program learnings into policy impact. As new organizations develop to address the needs of underserved rural communities, the lessons to be applied from existing intermediaries are substantial. Certainly, an emphasis on the core functions of program innovation, program management, partnership development, and strategic approach will strengthen a new organization's effectiveness. However, the most important lesson EDIs can share with other newly created intermediaries is that external solutions are only a starting point. Each program must be shaped and tailored to a community's specific conditions, not only to address strategically fundamental barriers to community development, but to conform to a community's cultural and social fabric. Newly created EDIs must also be given the time to develop as organizations, to undergo the transformative experiences and learn the lessons which can not be adequately assimilated through reports or avoided through astute planning. And most importantly, new EDIs must be allowed to fail. Without an acceptance of failure, new and innovative approaches to development will be constrained.

# APPENDIX

**Organizational Profile: Center for Community Self-Help**

Geographic Scope: State of North Carolina

Date Began Operations: 1980

Major Program Shifts: 1984, Creation of Self-Help Credit Union and Self-Help Ventures Fund

Size - Number of Employees: 33

Size - Operating Budget: $1.4 million

Financial Vehicles:
SHCU ($25M+)
Self Help Ventures Fund ($10M)

Core Activities: Development Lending

Programs Include: Partnership lending; NC Home Ownership Program, Microenterprise Lending Demonstration, Risk-Sharing Loans; Direct Business Assistance; Policy and Advocacy; Technical assistance to other intermediaries.

Development Philosophy: Creation of economic opportunity -- and justice -- throughout the state by bringing the successes of the civil rights and women's movements into the economic arena. CCSH believes that ownership provides the essential motivation for disadvantaged individuals and communities to improve their economic positions.

Development Approach: CCSH employs a development banking strategy focusing on housing loans to low income persons and business loans to minorities and employee-owned businesses. The Center has broadened its geographic scope by establishing regional offices in the state.

Note: Operating Budget does not include loan loss reserves.

**Organizational Profile: Southern Development Bancorporation**

Geographic Scope: Southern Arkansas

Date Began Operations: May 1988

Size - Number of Employees: 66

Size - Operating Budget: $9.3 million

Financial Vehicles:
Elk Horn Bank ($87 million)
Southern Ventures, Inc. ($2.3 million)
Arkansas Enterprise Group ($2.1 million)

Core Activities: Development Lending and Investment

Programs: Development lending; Elk Horn Bank, Southern Ventures, Inc., Good Faith Fund; AEG Manufacturing Services (including Good Faith Fund).

Development Philosophy: A development bank model that permits SDB to be a sustainable engine for economic growth in rural southern Arkansas, providing economic transformation for the region's poorest citizens.

Development Approach: SDB employs a sectorially focused strategy, concentrating on business segments most likely to expand the economic base within the geographically targeted area. SDB also attempts to bring an array of interventions together in a targeted geographic site and supplements development banking activity with technical assistance for enterprise development.

## Organizational Profile: Coastal Enterprises Inc.

Geographic Scope: State of Maine

Date Began Operations: 1977

Major Program Shifts: Asset Development Strategy, 1980s

Size - Number of Employees: 22

Size - Operating Budget: $1.5 million

Financial Vehicles:
- Development Fund ($8 million)
- Enterprise Development Fund ($3 million)
- *Housing Fund ($1 million)
- Venture Fund ($1 million)
- SBA 504 Program ($5.5 million)

Core Activities: Development Lending, Technical Assistance, Policy and Advocacy

Programs Include: Small Business Finance & Employment Training Project, Child Care Development Project, Small Business Development Center, Natural Resource Development Project, Housing Development Project, Microenterprise Development Project, Research and Public Policy

Development Philosophy: To provide financial and technical assistance for enterprise development, mobilize resources to support the needs of individuals and communities, create social and economic opportunities for at risk families and individuals, and engage in research and policy development.

Development Approach: A holistic sectorially focused strategy, linking technical assistance, access to assets, and policy initiatives. CEI utilizes a community oriented, "organizing" approach to development, creating networks within defined constituencies.

* These funds have leveraged approximately $3 for every $1 invested.

**Organizational Profile: First Nations Development Institute**

Geographic Scope: national, Native American nations

Date Began Operations: 1979

Size - Number of Employees: 18+

Size - Operating Budget: $1.4 million

Financial Vehicles:
Oweesta Fund ($2.3 million)

Core Activities: Catalyst, Capacity Building

Programs: Research and Data Bank, National Policy and Advocacy, National Tribal Marketing Program, Tribal Commerce and Enterprise Management Program, Oweesta Program, Field Operations.

Development Philosophy: First Nations supports the American Indian struggle for self-determination by creating opportunities for Indians to control their economic livelihood. FN believes that adherence to traditional values is the starting point for successful economic development with Native Americans.

Development Approach: FN engages local communities in jointly developing appropriate interventions and brings an array of initiatives into tribally focused development programs. FN uses field work at the tribal and community levels to formulate policy interventions and to develop culturally relevant programs.