



Enterprise Financing for WealthWorks Value Chains: Overview and Guide

WealthWorks Initiative
www.WealthWorks.org



The WealthWorks Initiative

This initiative (formerly Wealth Creation in Rural Communities), funded by the Ford Foundation, is a seven-year multi-stakeholder initiative to articulate and test a new systems approach to rural development. WealthWorks is an approach that brings together and connects a community's assets to meet market demand in ways that build livelihoods that last. The initiative has produced various other reports, which can be found at

<http://www.yellowwood.org/wealthcreation.aspx>.

Also see www.WealthWorks.org.

Accelerating Impact Project

As part of WealthWorks, the Accelerating Impact project is aimed at articulating the role of finance in supporting WealthWorks value chains in rural areas. Over two years, this project of the Tellus Institute has worked with ten projects on the ground in Central Appalachia and the Deep South, doing assessments of financing needs and assisting projects in advancing toward their financing goals.

The goal of this report is to advance the initiative's broad aim of creating a comprehensive framework of community investing, ownership, and wealth control models that enhance the social, ecological, and economic well-being of rural areas.

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Table of Contents

- I. Focusing in on Enterprise Finance** 5
- II. The Promise of Stakeholder Approaches** 6
- III. Investing Inside a WealthWorks Value Chain** 7
 - Are there investments in common infrastructure that can help an entire value chain to thrive? 7
 - Are there particular investment approaches that can help unlock potential across entire value chains? 7
 - What is the role of the coordinator in attracting financing for the whole value chain? 9
 - Does it help to attract investments if value chain enterprises are both profitable and creating multiple forms of wealth? 9
 - How do various kinds of financing blend to make a value chain work? 10
 - Are there ways that operating inside a value chain can reduce risk – for investors, for enterprise, and for the broader value chain itself? 11
 - How can a central coordinator use various innovative stakeholder approaches to finance an emerging sector? 11
- IV. The Myths of Stakeholder Finance** 12
 - Myth No. 1: The problem is rural areas have limited access to financial capital. 12
 - Myth No. 2: The way for foundations to support value chains is with traditional grants. 13
 - Myth No. 3: Once value chain projects are operating, then it’s time to think about reaching out to investors. 14
 - Myth No. 4: Attracting impact investments is about getting the names of the right people to approach. 15
- V. Building Blocks of Success** 16
 - Understanding the life cycle of value chains and enterprises. 16
 - Being investment ready. 18
- VI. Selecting the Right Stakeholder Approach** 20
 - Crowdfunding 20
 - Community loan funds 21
 - Slow Money 22
 - Local angel investors 22
 - Impact investors 22
 - Direct Public Offering 23
 - Cooperative financing 24
 - Royalty financing 24
- VII. Conclusions and Recommendations** 25
 - Where is stakeholder investment now occurring and where is it needed? What are the gaps? 25
 - What will it take to encourage the investments that are needed? 27



There's a 79-year-old farmer in Marengo County, Alabama—we'll call him Richard—who has about 50 acres of farmland he works with his grandson, who is learning to carry the business forward. Richard needs a loan of \$1,500 for seed and labor to help with the upcoming harvest and planting season. He makes about \$18,000 a year, has no credit score, and—like many African-American farmers—is justifiably reluctant to pledge his land as collateral. He cannot obtain a bank loan. Richard's story is similar to many in the Deep South, where lack of access to capital was reported as the number one obstacle faced by value chains of small, low-wealth farmers, at a September 2013 WealthWorks convening. Hospitals, schools, and grocery stores want to buy these farmers' collard greens, turnips, sweet potatoes and pink-eye peas. But to meet that demand, the farmers need equipment and working capital to scale up production. How can they obtain financing?

- A Southern value chain getting started in the tourism industry hoped to attract equity investors for a small business it planned to launch, which could benefit multiple communities. Yet when their concept was presented to a Vermont social investing adviser known to invest in small, early-stage socially responsible companies, he waved the possibility away. He would never advise clients to invest in what was solely an idea. There needed to be an actual business with a track record. What kind of capital could this company attract at the seed stage?
- An affordable housing organization—the Federation of Appalachian Housing Enterprises (FAHE) of Berea, KY—was constructing a value chain to pilot a new green mortgage product, and sought to raise \$5 to \$10 million. Because that mortgage product was slightly different from FAHE's standard mortgages, it did not yet qualify for USDA loan guarantees, which meant FAHE could not attract capital from its traditional sources. FAHE hoped it might financing in part from impact investors. What investors should FAHE approach and what deal should it offer them?

These are real questions of capital access faced by value chain projects in the WealthWorks community. We might think of them as puzzles. Each one has a potentially successful solution.* But how can WealthWorks value chains find their way to those

* A solution to anecdote one is described on page 12; to anecdote two on page 20; to anecdote three on page 23.

financing solutions? Helping value chains understand how to put together the puzzle pieces of success in enterprise finance is one aim of this report.

Another aim is to provide a broader overview of larger questions of value chain finance—such as how various kind of capital (philanthropic, government, private) can work together to help entire value chains thrive; what role the coordinator plays in attracting finance for the whole chain; and how operating inside a value chain might reduce risk for enterprises and investors. These broad issues are inseparable from more specific issues of enterprise finance—such as which approach to use—because investing inside a value chain is in key ways different from investing in isolated individual enterprises.

This report was written after two years of work with rural value chains in the Deep South and Appalachia, through the Accelerating Impact project led by Tellus Institute; this

WealthWorks

WealthWorks is an approach to community development that brings together and connects a community's assets to meet market demand in ways that build livelihoods that last. It has been tested thus far primarily in rural areas. Among its key elements are:

- **Collaborative development** – involving multiple kinds of players working together in a sector—including philanthropy, government, higher education, and the private sector—rather than isolated individual enterprises.
- **Value chains** – interconnected chains of economic actors in a single sector, bound together by common values, mutual economic self-interest, and concern for the common good.
- **A focus on creating and maintaining multiple forms of wealth** – such as individual skills; the social capital of networks; the intellectual capital of new approaches; etc.
- **Local and broadly shared ownership of enterprise**, which roots wealth in locally.

The WealthWorks approach has been tested in at least ten on-the-ground project in low-wealth areas of the U.S. and today involves a community of hundreds of practitioners, academics, and consultants.

To learn more visit www.WealthWorks.org.

project is part of the larger WealthWorks initiative, financed by the Ford Foundation, in which Tellus has participated in various capacities for five years. The WealthWorks initiative is a multi-stakeholder initiative to articulate and test a new systems approach to rural development that keeps wealth local, is sustainable, and includes the excluded.

For the Accelerating Impact project, Tellus was asked to do assessments of the financing needs of eight to ten value chains, help them advance toward their financing goals, and synthesize the common lessons involved. The insights offered here are drawn from the real-life experience of these projects, which spanned industries from sustainable wood and energy efficiency

to housing, tourism, and food. On occasion, this report also draws on projects outside the WealthWorks initiative, for the relevant lessons they provide.

This report is one in a series produced by Tellus Institute on financing value chains. Others in this series are Financing the Evolving Role of the Value Chain Coordinator; and Guide to Rural Crowdfunding. An additional report will focus on telling your business story effectively.

As a set, these guides are aimed at helping value chains put together the tools they need to create success in financing. All of these reports can be found at www.WealthWorks.org.

I. Focusing in on Enterprise Finance

Every value chain is made up of multiple kinds of players—including enterprises, nonprofits, government representatives, and colleges and universities. The value chain connects them as links in a values-based economic chain in a single sector, starting with the market and reaching back to encompass distributors, processors, and raw materials suppliers. In the WealthWorks approach, value chains in low-wealth areas are convened by coordinators, who hold the larger vision of the whole chain and look for interventions that can help the whole chain thrive.

Financing the role of the value chain coordinator—a role often but not always played by a nonprofit entity—is the subject of a separate report in this series. The particular focus of this report is finance for value chain enterprises. The enterprises might be those launched by a coordinator to fill a gap or capture an opportunity in the value chain. Or they might be enterprises launched by others or already active in a value chain.

Enterprise finance comes into play largely during the implementation and institutionalization phases. Private capital has a key role to play in getting to scale. And the need for private capital plays a role in encouraging value chain interventions to become more businesslike, and to move toward self-sufficiency.

Enterprise finance introduces a different mindset into value chain work, because it is most often about attracting private capital that requires a return—in contrast to the philanthropic and grant funding that has been the major source of support for many

value chain projects in the WealthWorks community. Philanthropic funding and government grants play a vital role early in the life of value chain exploration and construction. But these sources of funds do not, in general, last in perpetuity. They are usually aimed at launching economic development projects, not providing their sole income over the long term. In addition, philanthropic and government dollars are under pressure today because of the economic downturn, and they are becoming increasingly hard to obtain. For these reasons, enterprise finance is a key developmental concern for value chains to reach maturity and become sustainable.

Figure 1. Phases of Value Chain Development

1. Exploration

As coordinators strive to select and understand a single sector for interventions.

2. Construction

As the coordinators construct the value chain, which can mean hosting a convening or connecting players in other ways.

3. Implementation

As the coordinators implement the interventions they have devised that can best help the entire value chain to thrive.

4. Institutionalization

When the interventions are past the pilot stage and are taking on a more independent, institutionalized life.

Over time, economic development necessarily bends toward self-sufficiency. As value chain projects grow and mature, they often find it necessary or beneficial to shift functions toward the enterprise model. That can mean focusing on increased earned income for value chain coordinators, and it can mean creating and supporting enterprises that can do much (or all) of the work of sustaining the value chain. When value chains are well served by embedded business members—like WoodRight, the Ohio certified wood products brokerage business—the whole chain becomes more sustainable, because it is less dependent on philanthropy. If grants for some reason become more scarce, the value chain as a whole need not fall apart, because that imbedded, self-sustaining business member is still there helping to hold it together.

While government and philanthropic capital are vital, private capital can be the most transformative type of financing, because it calls on value chain coordinators to think more like enterprises. Thinking like an enterprise goes hand in hand with focusing on revenue, locating major demand and meeting its needs, and thinking how to scale up impact and achieve institutionalization across sectors. Value chain coordinators are wise to think like a business from the start—not as an after-thought.

A central tenet of the WealthWorks approach is employing shared ownership structures as a way to keep wealth local. But this can only happen over time, and at scale, if these entities are capable of taking in investment—which means being capable of generating a return on investment. For

Private capital can be the most transformative type of financing, because it calls on value chain players to think more like enterprises.

value chains, this means thinking about shared or community ownership as vehicles for providing a return on investment. Some shared or community ownership designs—such as cooperative and municipal ownership—are eligible for both grants and investments, which makes them particularly well suited for playing key roles in value chain functioning and coordination.

II. The Promise of Stakeholder Approaches

If enterprise finance is critical, traditional sources of that capital—such as family funding, bank lending, and venture capital—are often unavailable for projects and enterprises in low-wealth areas. Yet there are emerging approaches that bring a greater likelihood of success. As a group, these can be termed *stakeholder financing* approaches. They are about obtaining capital from those who have a stake in a

project’s success because they share common aims, such as a commitment to community benefit and the common good. Stakeholder investors might be part of the value chain and want to see it succeed; they might be local and care about the region; or they may be interested in socially responsible and ecologically sustainable projects. Because stakeholder investors care about the same benefits that value chains produce, they have non-financial, values-based reasons to invest. That makes them potentially more accessible, more willing to invest on friendly terms, and “stickier”—less likely to flee or give up when value chains hit a rough spot.

The various forms of stakeholder finance include crowdfunding, Slow Money, local loan funds, impact investments, cooperative finance, direct public offerings, royalty financing, and other approaches explored in Part VI of this report. These are all evolving rapidly today and hold promise for low-wealth rural areas.

Government financing is also highly relevant to

Figure 2. Traditional vs. Stakeholder Capital

Traditional Sources of Capital	Stakeholder Sources of Capital
<ul style="list-style-type: none"> ▪ Credit cards ▪ Family ▪ Bank debt ▪ Venture capital ▪ Private equity ▪ Sale of company 	<ul style="list-style-type: none"> ▪ Crowdfunding ▪ Community loan funds ▪ Slow Money ▪ Impact investors ▪ Local angel investors ▪ Direct public offering

many value chain enterprises, but because that source of finance is so varied—including local, state and federal sources; spanning sectors such as agriculture, small business, energy, and housing—offering a comprehensive guide to government finance is beyond the scope of this report. Government finance will be referenced largely in instances where it has been used by particular WealthWorks value chains, and for purposes of understanding the interaction between different kinds of financing.

III. Investing Inside a WealthWorks Value Chain

Enterprise finance through various stakeholder approaches can apply to any business. But it's important to recognize that deploying stakeholder finance approaches inside a value chain is different than deploying them for isolated, single enterprises. In a value chain context, other questions come into play. Below is a series of key questions our research explored, followed by some of the lessons we learned.

Are there investments in common infrastructure that can help an entire value chain to thrive?

One example we encountered was the need for a refrigerated truck that could allow farmers in the Deep South to pick collard greens earlier, and still preserve their freshness while they are shipped to market. A single truck could serve a variety of farmers, who in this instance were operating inside value chains served by nonprofit coordinators. The question then became: *who would buy the truck and be responsible for loan payments?* In cases where farmers are organized into a cooperative business with a proven revenue stream, that collectively owned cooperative can become the loan recipient. But in the case we encountered, the organizations wanting to share a truck were all nonprofits. None were in a position to take on the debt.

Trying to organize investment in common infrastructure for value chains will always involve this issue: *investments must be made into a single enterprise or organization.* A diverse value chain, as a whole, cannot qualify for an investment.

When the single enterprise at the core of a value chain is a cooperative, it can attract both private capital and grant funding. An example is the group of Evergreen Cooperatives of Cleveland, which

While stakeholder finance is values-based, it is not like philanthropy. Investors are not making a gift; they want their money back plus a return. Some will be willing to accept below-market rates of return. Others will want market rates of return (on a risk-adjusted basis, which means returns comparable to other investments of a similar risk profile). All investors have their needs, and their limits. Few investors, for example, are willing to tie up funds at concessionary rates for long periods. Understanding the needs of particular investor groups is critical to making a match.

were launched by Cleveland Foundation and the Democracy Collaborative. To launch the Evergreen Laundry—an employee-owned cooperative aimed at creating community wealth in a neglected neighborhood—project directors were able to call on a wide variety of funding. As a cooperative, the enterprise had access to more financing sources than, say, a locally owned family-owned enterprise would. The project employed federal Housing and Urban Development funding, New Markets Tax Credits, Economic Development Administration funding, City

In one case, several agricultural organizations wanted to share a truck, yet they were all nonprofits. None were able to take on debt to buy the truck.

of Cleveland Empowerment Zone funds, as well as other grants and bank loans, creating a powerful mix of government and private capital to fuel the launch of this social enterprise. Because of their ability to attract both non-profit and for-profit financing, cooperatives are uniquely suited to becoming vehicles for infrastructure investments that can help an entire value chain to thrive.

Are there particular investment approaches that can help unlock potential across entire value chains?

Some kinds of investment approaches can be more transformative than others. Among the most powerful examples we discovered were *credit enhancements*, such



Kevin Rowe from WoodRight Products project created by Rural Action and Appalachian Sustainable Development.

as *loan guarantees and loan loss reserves*. We found these played a key role in three value chains we studied.

- **Sustainable wood products brokerage:** In the sustainable wood products value chain being constructed by Rural Action of Trimble, OH, and Appalachian Sustainable Development of Abingdon, VA, the coordinators sought to create a brokerage business called WoodRight. That company was designed to fill a coordinating gap in the value chain, connecting manufacturers of sustainable wood products (such as flooring or stair rails) with architects and builders seeking green building products. To manage cash flow, WoodRight needed a working capital loan. It had arranged to obtain one from a local community development financial institution, Mountain Association for Economic Development (MACED), which was an active member of the value chain. In order to offer this financing for a risky startup business, MACED needed a loan guarantee. After some searching, a foundation was found to supply that guarantee. This was an instance where a seemingly minor financing tool, a loan guarantee, proved a linchpin that helped unlock activity all along the sustainable wood value

chain—from forest owners to manufacturers to architects and builders. It is an example of how a loan guarantee can anchor an entire value chain and unleash activity all through it.¹

- **Affordable green mortgage pilot:** The same was true with the affordable housing green mortgage value chain that FAHE was constructing. As mentioned earlier, FAHE was piloting a new green, affordable mortgage product, the Power Saver Mortgage, which—because it was slightly out of the box—did not qualify for the USDA loan guarantees that FAHE traditionally relied upon. That pilot had the potential to unlock an entire value chain—from home owners to builders to appraisers to lenders. It involved a mortgage approach that might itself be replicated nationwide. FAHE needed a guarantee to make the pilot possible. Again, a loan guarantee was the linchpin that could enable a broad swath of beneficial activity, perhaps permanently changing the mortgage business.²
- **Farmer-friendly lending pilot:** In still a third example, Emerging ChangeMakers Network (ECN) of Mobile, AL, needed a loan loss reserve to enable a revolving loan fund to offer pilot loans in farmer-friendly lending. This approach to underwriting had been tested and proven by groups like Coastal Enterprises Inc. in Maine, but was new to Alabama.³ This pilot was the solution to the challenge described in the opening anecdote of this report. Farmer-friendly lending is aimed at allowing low-income farmers—previously excluded from wealth creation—to scale up production and potentially become larger players in a local foods value chain. Such a value chain stretches from farmers to schools, hospitals, and grocery stores, and from such institutional buyers to Alabamians needing access to fresh, local, healthy food. The loan loss reserve was the linchpin that helped the entire chain to function.⁴

Credit enhancements such as loan guarantees and loan loss reserves are transformative for a key reason: *they form a bridge that allows value chains to access private capital*. They are a form of leverage in the public interest. In the various projects described here, new approaches were being tried that were out of the box, which made traditional capital uncomfortable with the risk. By reducing risk through credit enhancements—a form of program-related investment—foundations and government can play a transformative role of the highest order.

What is the role of the coordinator in attracting financing for the whole value chain?

A powerful example here is that of the Arkansas Green Energy Network (AGEN), convened by alt.Consulting of Pine Bluff, AR, as it works to launch an initial group of three micro biorefineries in Arkansas. The project calls on innovative refinery technology pioneered at a local college, and will utilize inputs such as waste vegetable oil and seeds from Camelina grass. Key aims of this value chain are creating renewable energy that will be produced and consumed in the region, creating local jobs, and enabling local farmers to grow an additional crop and enjoy higher income.

Project coordinators foresee five community micro-refineries by 2018, and ultimately 25 micro-refineries across the Arkansas Delta, followed by expansion into surrounding states. In the initial pilots, the presence of active value chain collaboration has helped catalyze various kinds of investment throughout the value chain.

There are 25 active members of AGEN, including farmers, entrepreneurs, community colleges, elected officials, and others. The value chain has the potential to create or benefit multiple local enterprises, including farmers growing Camelina, entrepreneurs or municipalities starting micro-refineries, and businesses that grow and crush seeds, and businesses collecting waste oil. AGEN's goal is to see 20 new businesses launched by 2018.

Initial Ford Foundation funding for alt.Consulting enabled it to convene AGEN, conduct feasibility studies, work with 10 farmers to grow test crops of Camelina, and engage three potential sites for micro-refinery operations. Beyond Ford funding, the value chain has leveraged additional investments of

Loan guarantees are transformative because they create a bridge to private capital.

\$732,500 from multiple sources, including federal and state funds, private equity investments, and loans. These funds have flowed to multiple value chain players (not to alt.Consulting), financing the town of DeWitt, AR, to purchase a municipally owned micro-refinery and begin

waste vegetable oil collection; funding a community college to begin online entrepreneurship training; financing the state university to conduct Camelina research; and funding a launch event to bring visibility to the entire project.

AGEN financing through September 2013:

- **\$276,877:** USDA National Institute of Food and Agriculture grant to Arkansas State University for Camelina research.
- **\$102,590:** Federal Economic Development Administration grant to Phillips Community College of the University of Arkansas for online entrepreneurship training.
- **\$155,000:** Arkansas General Improvement Fund grants to City of DeWitt for waste vegetable oil collection equipment.
- **\$50,000:** Federal Delta Regional Authority grant to City of DeWitt for municipal micro-refinery.
- **\$50,000:** Private equity investment into entrepreneur-owned micro-refinery.
- **\$8,000:** Arkansas Advanced Energy Foundation (state) funding for October 2013 launch event.
- **\$90,000:** Southeast Arkansas Economic Development District loan to City of DeWitt for micro-refinery.
- **\$732,467 Total.**

Because all these investments are flowing together into a coordinated effort—the AGEN value chain network—they *add up to a whole greater than the sum of the parts*. A green energy sector is beginning to take shape in an impoverished region. A pilot project is laying the groundwork for replication across multiple states.

While the value chain coordinator played a role in catalyzing all these investments, *the presence of the value chain itself proved the enabling environment*. Various players in the network also played key roles in unlocking various flows of investments. For example, a local politician helped make the connections that allowed a \$50,000 grant to the City of DeWitt to be made by the Delta Regional Authority.

Does it help to attract investments if value chain enterprises are both profitable and creating multiple forms of wealth?

Not all value chain enterprises will be fully self-supporting, nor should they be. For example, Appalachian Harvest at Appalachian Sustainable Development (ASD) is a food aggregation and processing

hub that runs a good deal on earned income, but finds it must subsidize about 10 percent of its costs. It is, in other words, 90 percent self-sufficient. Yet it creates many kinds of wealth for its region and the farmers who participate, and these are the forms of “return” it can emphasize in making its pitch to investors.

For value chain enterprises that create multiple kinds of wealth—and are profitable—there is an additional universe of investors who become available. For example, in the AGEN value chain, the micro-refineries are all designed to be self-sufficient and profitable, ultimately. This has allowed one of these micro-refineries, owned by an entrepreneur, to raise \$50,000 from private equity investors.

Other financing of AGEN involves other kinds of return. The state of Arkansas is investing in DeWitt to help it stabilize fuel prices and reduce waste into the sewer system. The federal government is giving grants to colleges to build intellectual capital.

The story of AGEN offers an instructive tale about how an emerging value chain can catalyze multiple forms of investment, with many kinds of returns. It shows how collaborative action can benefit all players, and how financing can be a dramatic example of the benefits that flow. It demonstrates how the social capital of the network, combined with the intellectual capital of micro-refinery innovation, can be used to unleash financial capital.⁵

Creating profit is one kind of wealth that matters, and in the right context an important one. But WealthWorks value chains are fundamentally about creating multiple kinds of wealth. When the two combine, it can be powerful.

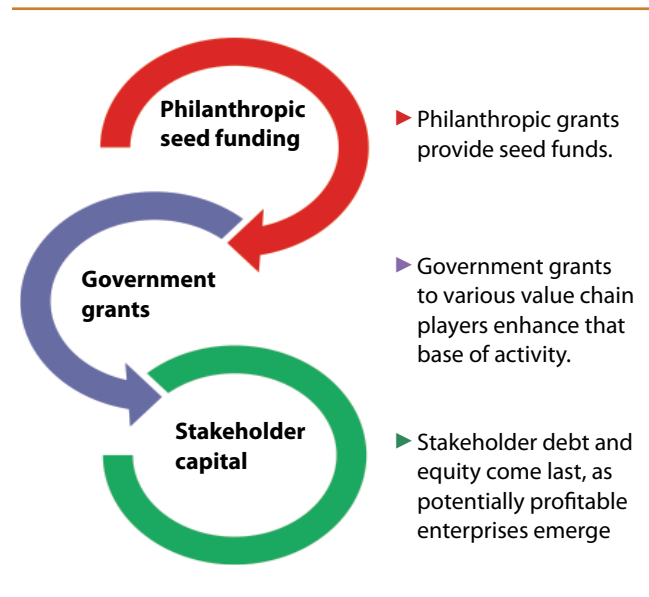
How do various kinds of financing blend to make a value chain work?

In the AGEN example, we see how various kinds of financing blend together to help a whole value chain thrive. **Philanthropic funding** from the Ford Foundation provided the seed capital to launch the value chain project. **Government funding** built on and enhanced that base of activity. For example, government funding, both state and federal, financed research and training to support the refineries and educate farmers, workers, and new entrepreneurs. In addition, a state grant is allowing a community to purchase equipment to begin collecting waste vegetable oil. As the value chain build-out occurs and enterprises begin to take form, **stakeholder investments** are becoming possible. Equity investments

from local investors are helping one refinery entrepreneur get started. In another case, a government loan (government is another kind of stakeholder) is allowing a municipality to purchase refinery equipment.

We see in this example the outline of an emergent system of financing for value chains. Philanthropic grants provide seed funds that enable a value chain to begin exploration. As it finds its niche, it can attract government grants to various players in the chain, which enhances the initial base of activity. As potentially profitable enterprises emerge that can provide a return on investment, stakeholder debt and equity become possible. Ultimately a value chain enterprise might grow to the stage it can access traditional forms of capital.

Figure 3. An Emergent System for Financing Value Chain Enterprises



This is one model of financing. It’s important to note that not all value chain development is led by philanthropy. In some cases private businesses, or cooperatives, play the role of value chain coordinator, and these projects might be financed more with private capital.

This is partially the case, for example, with the Carolina Textile District, a new manufacturing value chain aimed at revitalizing the textile industry in North Carolina, in a sustainable way. In this collaboration, a network of textile-related companies works collaboratively to connect clients to the District’s resources in sourcing,

design, testing, patterning, production, and distribution. For example, manufacturers in need of a common Client Intake System pooled funds to support its creation. The project also received grant funding for initial seed work. Over time, this is the kind of project that might be funded more by private business—such as large apparel companies transitioning production back to the States.⁶

Are there ways that operating inside a value chain can reduce risk—for investors, for enterprise, and for the broader value chain itself?

As the story of AGEN shows, support from value chain partners can help in attracting capital. But are there other ways that operating inside a value chain can benefit both enterprises and their investors? Can the enabling environment of the value chain itself reduce risk for all players? The jury is still out on this question. But it seems intuitively right, that an entrepreneur supported by a whole network of players—with a shared interest in his or her success—will be less likely to fail than someone out there alone. Operating in a context of shared values, mutual support, and common interests is different than operating in an environment of strictly transactional relationships.

The truth of this has been seen, for example, in the Mondragon cooperatives of Spain. There, a large collection of cooperatives operate as a single business group—Mondragon Corporation—which holds 256 companies within it, comprising a total of 83,000 employees and revenues of \$14 billion. That entity has its own bank, and the corporation helps launch and finance new cooperatives. By being part of that network of support, these new businesses have shown

Operating in a context of shared values, mutual support, and common interests is different than operating in an environment of strictly transactional relationships.

a higher rate of success than is common among startups in general.⁷ Will this prove true in the AGEN network of micro-refineries and the Carolina Textile District? Time will tell, but there is reason to hope the

answer may be affirmative.

How can a central coordinator use various innovative stakeholder approaches to finance an emerging sector?

The Emerging ChangeMakers Network value chain project is an exploration in this question. Its value chain work is about creating multiple ways to finance a single sector—local food and agriculture in low-wealth areas of Alabama—using innovative stakeholder financing techniques aimed at including those normally excluded.

In Alabama, 92 percent of all food dollars now leave the state, while many residents lack access to healthy food, and many farmers remain in poverty. The value chain that might connect local consumers with local growers is broken.

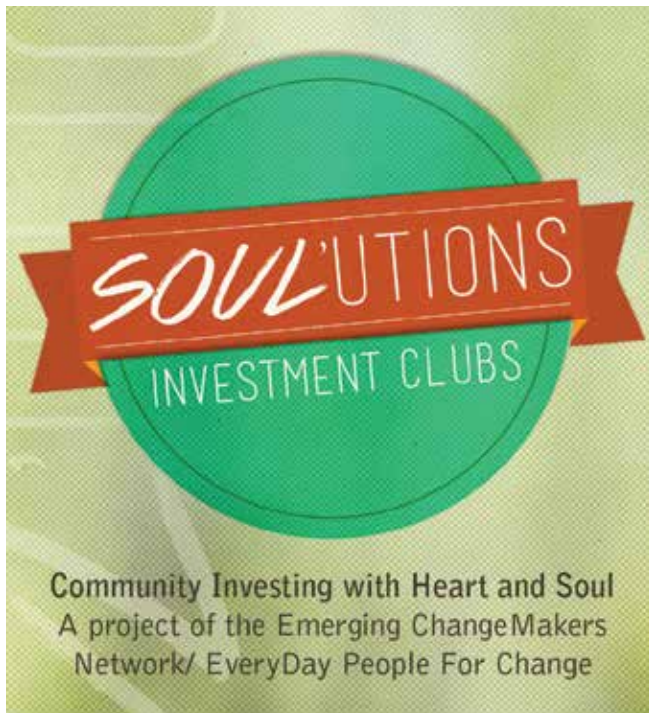
ECN is bringing various innovative stakeholder financing techniques to Alabama—intellectual capital developed in other regions—to demonstrate how finance can help rebuild a local food value chain, reclaim a portion of lost income, and create local wealth.

In one pilot, ECN is partnering with other organizations —Policy Link, The Reinvestment Fund, and The Food Trust—to bring the Healthy Food Financing Initiative (HFFI) to the state. This initiative was initially developed in Pennsylvania, then adopted at the federal level. HFFI is today a federal public-private grant and loan program that calls for more than \$400 million in investments, including \$250 million in New Markets Tax Credits designed to encourage private investment.⁸

As ECN Executive Director Jessica Norwood said, “We are embarking on a mission to create food hubs for distribution, more supermarkets, food cooperatives—even small food trucks—so that people in our underserved communities will have healthy food, grown locally.” ECN hopes to use the HFFI process to catalyze the capitalization of a \$2 million publicly



Ines Polonius from alt.Consulting.



Emerging Change Makers Network is creating new pathways for investing in the US South through its **SOULutions Investment Clubs**.

funded CDFI for Alabama healthy foods.⁹

In a second pilot, ECN is starting a Southern version of Slow Money, a network of lending groups that invest directly in food enterprises. Dozens of these have formed nationwide, but ECN's is the first in Alabama. Its state-wide investment club, called SOUL'utions, is starting in June 2014 with 17 members. The initial aim was to raise \$20,000, but the group raised \$32,000. (For a video on

SOUL'utions, see <http://youtu.be/w9Yn4hPi97M>.)

In a related initiative, ECN is helping small farmers increase their investment attractiveness by focusing on capacity, financial strength, and marketing through a business accelerator. Farmers graduate from the accelerator and are matched with ECN's partners, such as North Alabama Revolving Loan Fund and the SOUL'utions investment clubs. The initiative will test farmer-friendly lending techniques developed elsewhere, which do not require farmers to pledge land as collateral.¹⁰ The farmer Richard, whose story opened this report, will be positioned to receive a loan through this pilot.

In these various innovative pilots, ECN is demonstrating how stakeholder financing approaches can meet local food financing needs in ways that create wealth for low-wealth areas. The financing involved might be small, such as tiny farmer-friendly loans of \$500 to \$2,500. It might be medium-sized, such as loans made through Slow Money. Or finance could be for larger, mature projects, through a CDFI loan fund. Together, these pilots show how stakeholder approaches can help finance an emerging sector.

ECN's experiments are worth watching, for instead of focusing on lending to individual enterprises—as many CDFIs do—this project takes the opposite approach. It starts from the perspective of the emerging sector, and narrows in on those gaps where financial intervention will benefit the excluded. This is quintessentially a value chain approach to finance.

IV. The Myths of Stakeholder Finance

It may hold lessons from which others can learn. While the value chains of WealthWorks have made enormous strides in accessing finance capital, many began with myths about the nature of stakeholder approaches that have proven untrue. We at Tellus have also had to let go of misperceptions with which we began. And we've encountered still other myths in the heads of investors and foundation managers. Among these myths:

Myth No. 1: The problem is rural areas have limited access to financial capital.

Certainly it is true that enterprises in the Deep South and Appalachia often have difficulty accessing the

financial capital they need. Small farmers in the Deep South have called this their number one constraint. And Earl Gohl of the Appalachian Regional Commission told the Wall Street Journal, "there is a chronic credit crunch in some of these distressed areas" of Appalachia. Yet lack of capital is often not the root issue. We were told again and again by CDFI leaders operating in these areas, "*Capital is not the limiting factor. It's the entrepreneurial capacity.*"

Even for those lenders actively seeking to lend in these distressed areas, we were told, finding capital to lend out is not the problem; *the problem is finding places to put that capital*. The Ford Foundation, for example,

placed large program related investments with several CDFIs in the WealthWorks community, but those lenders have faced difficulty in getting these funds out the door to borrowers. Lenders describe this as a problem of “absorptive capacity.” What are missing are the enterprises capable of absorbing capital and providing a return.

In the language of systems thinking, the most important input for any system is the “limiting factor”—the particular input that is constraining the system at that point in time. As systems theorist

The limiting factor for distressed rural areas is often not financial capital itself, but the forms of wealth needed to attract financial capital—primarily individual and social capital.

Donella Meadows wrote, “Bread will not rise without yeast, no matter how much flour it has. Children will not thrive without protein, no matter how many carbohydrates they eat.” No matter how much nitrogen is put into soil, grain will not thrive if what is lacking is phosphorus. Then again, it doesn’t help to pour on phosphorus, if what is lacking is potassium. In economic terms, Meadows continues, “Rich countries transfer capital or technology to poor ones and wonder why the economies of the receiving countries still don’t develop, never thinking that capital or technology may not be the most limiting factors.”¹¹

Rural areas are rich in natural capital, like forests and agricultural areas. What they lack—the limiting factor that distressed rural areas face—is not financial capital itself, but the forms of wealth that are needed to attract financial capital: primarily individual, social, and intellectual capital. This is a key insight of the WealthWorks approach to finance.

Low-wealth rural areas may lack the culture, institutions, and family traditions that nourish entrepreneurial drive and skill. There may be a history of discrimination and exclusion that has

dampened hope and created distrust of lenders. There may be a lack of the social networks that can support entrepreneurs. What is lacking might be the intellectual capital represented by new ways of operating or accessing markets – such as knowledge about certified wood and organic growing methods. Other intellectual capital lacking might be an understanding of forms of ownership that can attract capital while keeping wealth local and shared. In financing terms, low-wealth farmers may lack the network of family and friends that entrepreneurs in more prosperous regions rely on at critical early stages. In the Deep South, a conservative region, there may be limited access to the progressive networks of groups like Slow Money.

For reasons like these, it’s critical that community development finance always be done in partnership with people in the region, attuned to regional culture and history. It’s often critical that value chain financing be led by philanthropic funding, which can be used to develop individual skills and social capital. It’s important that enterprises operate inside supportive value chains, rather than be left to struggle on their own in undeveloped economic sectors. And it’s important that philanthropy learn better how to work hand in hand with private capital, and vice versa, so that long-term sustainability (thinking like an enterprise) is built in from the start, and so that capital stops imagining it can simply parachute in from another region and serve as the single input that can make an enterprise thrive.

There are reasons that distressed regions are excluded from the mainstream economy, and reasons that

Figure 4. Rural areas need to cultivate the forms of capital that can attract financial capital.



economic development, when it occurs, tends to create wealth that doesn't stick but instead leaves the region. The people, talents, skills, social networks, and knowledge base of these regions need to be systematically cultivated so that capital can flow in, and so that much of the resulting wealth can stay local.

Capital cannot see itself as parachuting in and serving as the single input that can make an enterprise thrive.

Myth No. 2: The way for foundations to support value chains is with traditional grants.

We observed, in this project, occasional struggle among grantees to fit their needs into the traditional frame of philanthropic grants. Based on the experience of multiple grantees, it appears that there are particular approaches that philanthropy can adopt to best support the creation of WealthWorks value chains:

1. Providing flexibility in the way funds are disbursed and used.

In one instance, a nonprofit launching an enterprise—ultimately aimed at being self-sustaining—found that a grant required that all funds be expended within a two-year period. Any startup enterprise aims instead to husband its early capital, reserving it for unexpected surprises down the road. Funders might be wise to accommodate this flexibility in the terms of their grants.

2. Systematically encouraging movement toward greater self-sufficiency.

Rather than making generous philanthropic grants that suddenly stop—which can leave emerging value chain coordinators and enterprises struggling to sustain themselves—grant-makers might consider an approach that has been termed “enterprise philanthropy.” It is practiced, for example, by Acumen Fund, in areas like South Asia and Africa, where the fund uses a combination of grants and investments to support social enterprises that are aimed at becoming self-sustaining.¹² In enterprise philanthropy, follow-on grants can, for instance, be structured so as to be

obtainable only if certain commercial milestones are met. Grant funding streams might also be gradually reduced over time, to encourage the development of other revenue streams.

3. Allow grant dollars to be used as seed funding for commercial purchases.

In one instance, a grantee wanted to purchase a piece of equipment so that it could demonstrate proof of concept for the kind of enterprises it hoped to launch in its value chain. This equipment would be leased out to emerging entrepreneurs, so it was more of a commercial investment than a typical nonprofit expenditure. The grantee sought and ultimately obtained the permission needed from its funder, so it was able to make this purchase with grant dollars. But it took time and a series of conversations at various levels. Foundations wishing to finance value chains might try to find ways to accommodate such requests up front in the terms of grants being made.

The need for these kinds of accommodations demonstrates that value chain philanthropy is, in many ways, different than philanthropy for, say, disaster relief. One approach is about creating safety nets, while the other is about creating wealth. More of a commercial mindset is valuable in philanthropy aimed at creating wealth. That does not mean that the value chain enterprises or coordinating bodies should be required to become profitable, as traditional businesses are. But it does mean recognizing that value chain coordinators and enterprises will be more robust, more resilient, more effective when they rely to a greater extent on market income, rather than wholly on grants and subsidies. Attunement to the market is integral to the WealthWorks approach. For WealthWorks philanthropy to be most effective, it needs to match this approach in the way grants are given.

Myth No. 3: Once value chain projects are operating, then it's time to think about reaching out to investors.

As WealthWorks projects began, the grantees we worked with had all learned about reaching out to partners based on self-interest, and they had learned about “value propositions”—making the case for how economic cooperation creates value that benefits all players. Some value chain coordinators, however, tended not to apply these lessons to financial investors.

As they cultivated their local value chain groups, they tended not to envision these as including financial investors. This could be because these were nonprofit leaders, some of whom were not accustomed to business or financial thinking. Financial investors seemed to be thought of as people “over there” somewhere, to be engaged later. But over time, it became clear that people already involved in the value chain could be excellent sources of capital—even in rural areas with seemingly little financial wealth.

One of the best examples of this was alt.Consulting’s AGEN group and its micro-refinery project. The Accelerating Impact consultants convened a group of capital advisers and brought the micro-refinery concept to them for analysis. Where could these projects find capital? Our advisers emphasized how risky these projects would look to outside investors, because the technology was untested at commercial scale; collection of waste oil was possibly subject to competition and price variability; and there were all the risks to which any startup business is subject. One capital team member asked, where is the demand in this value chain? Who stands to gain the most? Another commented, “farmers need to have skin in the game.”

Their conclusion: On a purely financial basis, these micro-refinery enterprises would not yet be good investments. *The project could best attract investments at this early stage from those with a stake in the projects’ success*—those who had more than a financial reason for investing. The value chain coordinators needed to

Coordinators should think of investors as part of their value chain, not outside it.

look close to home. As Ines Polonius later reported at a WealthWorks convening, “Marjorie’s team told us to look for investors locally. When we did, we were so surprised to find: Every single potential farmer-investor we met with was interested” in becoming an investor. The self-interest of these family farms was to grow Camelina, she explained. And in order to grow it, they needed those other businesses, such as waste oil collection and micro-refinery enterprises.

A similar unlocking of unexpected local wealth in low-wealth rural areas can occur through crowdfunding, via on-line approaches such as Kickstarter. Crowdfunding bundles small amounts of donations, often as little as \$10 or \$25, into the seed capital that a project needs to advance. These campaigns draw on existing networks of support, often local. And there are many examples of proven success in low-wealth rural areas. (See Section VI of this report.)

The larger lessons here might be drawn this way: *Coordinators should think of investors as part of their value chain, not outside it.* They should begin cultivating potential investors not at the moment investments are needed, but much earlier, drawing them in as value chain members near the start.

Myth No. 4: Attracting impact investments is about getting the names of the right people to approach.

This was a myth we at Tellus Institute believed in at the start of this project, and it was a myth we encountered often in the minds of WealthWorks coordinators: Connecting to impact investors was about getting the right names. Because we at Tellus personally knew a wide network of impact investors, we imagined we could help these projects connect with the patient capital they needed. On the part of individual grantees, they saw us as possessing the contacts that would meet their capital needs. As time passed, it became clear this assumption was naïve.

What projects primarily lacked was *investment readiness*. Many lacked business plans. Or they had great ideas for enterprises, but had not yet demonstrated proof of concept. Some projects lacked a business model, an idea of how the project might generate revenue in sufficient quantity. Others had many of these pieces, but were still operating their project in a nonprofit environment, and did not know how to structure the enterprise to enable it to take on private investments. Should they create a cooperative, and if so, who would be the members and how should they be engaged, and when? Should the emerging entity be separate, or a subsidiary social enterprise?

All these issues impacted the ability to attract financial capital. Here was the problem of capital absorption capacity, up close. From the point of view of enterprise, it was a matter of not being ready for investments. This is the topic to which we turn next.

V. Four Building Blocks of Success

Experience on the ground suggests that the building blocks of success in attracting stakeholder capital can be seen as fourfold:

- 1. Understanding the life cycle of enterprise:** Different investment approaches are useful at different stages in the development of WealthWorks value chain enterprises.
- 2. Being investment-ready:** To qualify for different kinds of investment, enterprises need elements like seasoned management, a business plan, and a track record of successful operation. Investment readiness varies from one life cycle stage to another.
- 3. Selecting the right stakeholder financing approach:** Only food and agriculture projects qualify for Slow Money, for example. Crowdfunding works for both for-profit and nonprofit organizations, but only at small to medium levels of funding. Debt is different from equity, and both can take multiple forms. Each approach has its nuances.
- 4. Preparing your pitch for investors and doing outreach to the right parties:** Once your project is in itself investment ready, it needs to tell that story effectively, in a way attuned to the investor audience you have chosen.

This portion of this report, Section V, deals with the first two building blocks (life cycle analysis and investment readiness). Section VI of this report deals with the next building block, selecting the right stakeholder approach. The fourth building block, preparing your pitch, is dealt with in a separate report, a companion guide to be published next in this series of reports.

Understanding the life cycle of value chains and enterprises.

Investment readiness varies through the life cycle of enterprise. We can think of enterprises as moving through four stages—Seed Stage, Emerging Stage, Growth Stage, and Exit or Scale Stage.

Seed Stage: In this initial stage, an enterprise exists as mostly an *idea*. The coordinator launching it is succeeding at attracting grant funding, or other forms of very early stage risk capital. Yet it is searching for its

business model: How can this enterprise become self-sustaining? What are the best sources of revenue? What is its market? How can it efficiently serve that market? Most value chain enterprises we worked with were at the Seed Stage.

Emerging Stage: At the emerging stage, an enterprise is beyond simply an idea. There is *proof of concept*. With AGEN, for example, proof of concept will be reached when the micro-refineries are shown to work at commercial scale, when farmers succeed in growing Camelina, when it is shown that waste oil can be collected successfully and at reasonable cost, and when operating costs have been found to be manageable. The *business model* is fairly well developed at the emerging stage; the project knows how it will make money. In addition, the *ownership model* is now in mind that will be capable of accepting an investment and offering a return.

Growth Stage: Here a business is no longer a youngster. It has *experienced management*, a substantial *track record* established, a *proven market*, successful *forms of operating*, and years of *financial statements* to show. At growth stage enterprises can generally qualify for traditional investments. They meet ordinary financial requirements, and need no longer rely

Figure 5. The Four Stages of Enterprise Development



solely on stakeholder investments. The Federation of Appalachian Housing Enterprises is an example of an organization that meets these criteria. Yet its pilot mortgage product is in emerging stage. Once the pilot is complete, the Power Saver mortgage can move quickly into growth stage.

Exit or Scale Stage: In this stage, a value chain enterprise has proven itself, found its footing, and is going to scale. This stage will be reached for FAHE’s Power Saver Mortgage once it has moved into a successful rollout, and it is licensing the concept to others across the nation. At this stage, FAHE might create a subsidiary or division within FAHE to oversee ongoing licensing, taking the concept to scale.

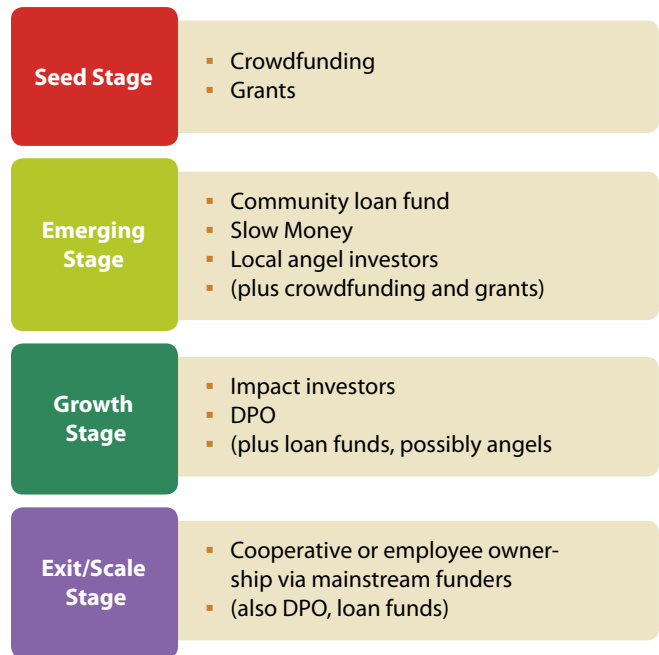
In another version of this stage, value chain coordinators might choose to sell or spin off a successful enterprise and let someone else run with it. This is the exit stage. Mountain Association for Community Economic Development (MACED), a community developer and CDFI in Berea, KY, may do this with its project How\$martKY. This is a pilot in on-bill financing for energy efficiency improvements to homes, in which energy upgrades are provided at no cost up front and paid back through savings realized in energy costs. MACED has said it may spin this project off and possibly have it operated by the utility cooperatives in its value chain.

Life Cycle of Stakeholder Approaches

At different stages of an enterprise’s life cycle, different kinds of stakeholder approaches can come into play.

- At the seed stage, an enterprise is ready only for limited kinds of stakeholder investment, such as philanthropic funding, crowdfunding, or friends and family.
- As it enters the emerging stage—finding its legs, becoming more sophisticated, and developing a track record—it is ready for different kinds of investment. It now becomes eligible for loans from a community loan fund, is ready to go before a Slow Money group, or might find local angel investors.
- At the growth stage, the enterprise or project becomes qualified for traditional kinds of financing, such as bank debt; it can also find capital from impact investors, or consider doing a direct public offering (DPO) to its stakeholders.
- At scale, the same kinds of financing apply as at growth.

Figure 6. Life Cycle of Stakeholder Finance



- If an enterprise instead takes the exit route—being spun off or sold—still other kinds of stakeholder financing can come into play. Funds particular to cooperatives or employee ownership might be used, for example, if an enterprise is turned into a cooperative or sold to employees.

Note that forms of financing for one stage often remain available into the following stage, as seen in the below chart. For example, crowdfunding applies at both seed stage and into emerging stage. It would not likely be used at growth stage, where the investments needed are too large.

Similarly, community loan fund financing becomes available at emerging stage, and remains available into growth stage, and on into scale or exit stage. Direct Public Offerings would not be available at seed or emerging stages, yet become possible at growth stage, and carry into exit or scale.

In this way, forms of financing available can apply to more than one stage. Also, the categories presented here are illustrative rules of thumb. There can be exceptions. The below chart does not show angel investors as an option at the emerging stage, for example, yet some angel investors might invest at emerging stage if the enterprise concept has enormous growth potential paired with experienced management.

Being investment ready.

As we have seen, investment readiness varies from one stage to the next. Essentially, as an enterprise moves from seed to emerging to growth, it is becoming more sophisticated, more successful, with more of a track record to show. To step up the ladder of investment readiness, enterprises need elements like seasoned management, a business plan, proof of concept, and a track record of successful operation.

To move from seed to emerging stage: An enterprise will need to develop a *business plan*, complete with market analysis and financial projections. The enterprise will also need to demonstrate *proof of concept*. Does the idea hatched in seed stage actually work? Can it attract customers and revenue? In

Not every enterprise needs to “go to scale” in the traditional sense of becoming large. Rather than the endless expansion of a single organization, scale can also be reached through replication of a model by others.

addition, the enterprise will need to have an idea of its *ownership model*. Approaches like Slow Money or local angel investors cannot be used when a project is still operated inside a nonprofit, with no clear aim of becoming a separate enterprise.

To move from emerging to growth stage: An enterprise will need *experienced management and successful years of operation*. Often the aim here is simply to become economically sustainable; the organization is growing in maturity but not necessarily in size. In low-wealth rural areas, many social enterprises will find that operating at relatively small scale is ideally suited to their region and sector.

To move from growth to scale stage: If growth stage is about reaching maturity, going to scale is about enabling full rollout of your concept. For example, FAHE might take its Power Saver

Mortgage to scale by creating a subsidiary or separate division. How\$martKY might go to scale by spinning off the project into a separate entity. By contrast, AGEN’s micro-refineries might go to scale by being replicated in other communities, by unrelated organizations. Not every enterprise needs to go to scale in the traditional sense of becoming large. Rather than the endless expansion of a single organization, scale can also be reached through replication of a model by others.

To move into exit stage: Here an enterprise is ready for an independent life, perhaps as a subsidiary of a nonprofit, or perhaps being sold to an employee group or other suitable party. For a value chain coordinator, this stage is reached when the pilot has been proven, and the parent organization is ready to let someone else run it.

Because most WealthWorks projects thus far are in seed stage, the information presented below concentrates on steps needed to move from seed into emerging stage. We look here at various aspects of becoming investment ready.

The Business Plan and Business Model

In a number of instances, we found value chain coordinators with aspirations of launching an enterprise, but with no formal business plans. If an enterprise is to move out of seed stage and become an emerging enterprise, it should undertake the discipline of creating a business plan that is rigorous and thorough.

Launching any business is difficult, and launching a social enterprise from within a nonprofit, which coordinators do when they seek to embed their organizations in the value chain, adds additional complications. When projects add in community involvement in the value chain, the potential for differing visions and differing goals poses additional risk. Clarity of vision is critical to success, if a project is to focus a diverse community of players on common goals. That requires strong management and a clear business model. Both of these are demonstrated in the business plan.

A business plan is a written expression of the business model. A business model is simply what makes a business work: Who are its customers? What is its formula for attracting and keeping them? How does the enterprise stack up against

competition? How does it market itself? Writing the business plan forces one to become clear on the critical factors that will lead to success. It is also a way of communicating clearly to others, such as collaborators and investors.

Potential investors will use your business plan as they conduct due diligence on your enterprise. *Due diligence is simply the careful analysis of all aspects of the planned project, to assess risk and likelihood of success.* Keep in mind that a business is assessed differently from a nonprofit. A nonprofit is measured on mission and quality of social impact. A social enterprise is measured on both of those—as well as on the ability to generate revenues.

This means that a fundamental consideration is the business feasibility of the enterprise. Will it stand on its own feet as a business? Can it attract customers in accordance with its plan? Can it accurately project and then manage costs? Is there management in place that can manage through the inevitable setbacks in order to meet benchmarks and hit milestones? Until these questions are adequately answered in the minds of a potential investor, no business will be able to attract private capital. It will still be in nonprofit mode, relying on charitable donations. These questions are answered in the business plan. As Ron Phillips, founder and CEO of Coastal Enterprises put it:

“The business plan is the platform from which all else flows. Is the business idea credible? The business plan is not just a vague collection of words, projections, and pictures depicting the operation. Rather, it is a test of the entrepreneur’s ability to capture the essence of the project, the vision of his/her team, and create a level of comfort that there is leadership to chart a course headed toward success. This is the most important ingredient in success, and the business plan is designed to launch this conversation.... Then follows the question, is there sufficient and appropriate capital to finance the enterprise? One can have a great idea and all the money in the world, but if management can’t be persuasive on his/her ability to execute the plan, all else is meaningless.”¹³

Business plans are essential for all businesses in the value chain, not just embedded businesses started by nonprofit coordinators.

Proof of Concept

As one socially responsible investment manager told us, “There has to be a business.” He emphasized that he would not recommend his clients invest in any business that is only at the idea stage. It needs several years of operating experience. It needs proof of concept—a demonstration that its idea will work in the real world. For AGEN and the micro-refineries, for example, this means proving that waste oil can be collected at reasonable cost, Camelina grass can be grown, the refineries can operate at commercial scale, and overall costs can be managed.

Ownership Model

Having the right ownership model is critical to being able to receive investments, and this proved to be a non-trivial issue for many of the value chains we worked with. When the initial focus is on the entire value chain, and on devising interventions that will make the whole chain thrive, resolving the issue of who will own what is not immediately obvious. Questions of creating the right ownership design for value chain interventions arose in at least four value chains we studied.

For example, one value chain coordinator wanted to start a tourism business, but wrestled with the right ownership design. Coordinators originally conceived of starting multiple businesses in the various communities being visited by tours, but the Accelerating Impact

The business plan must create comfort that management can execute the plan.

consultants instead suggested that a single over-arching management structure was critical for viability. There needed to be one company, running tours to multiple locations.

Once the coordinator agreed with this assessment, a second issue arose: Should that single business be a cooperative, or a subsidiary of the parent nonprofit? And what was its relationship to the broader value chain network that was also being created? Who was managing whom? There was more than one way these elements could be arranged.

In another case, Rural Action and ASD planned to grow WoodRight as a project inside a nonprofit, then sell it to a cooperative of forest products manufacturers. We assembled a team of nonprofit development and legal experts, to help them wrestle with questions like these:

■ **Tax implications for operating a business inside a nonprofit:** A nonprofit that has too much unrelated business income risks losing its tax-exempt status. Also, it must pay taxes on unrelated business income. In general the activities of a tax-exempt nonprofit must be classed as charitable, which includes educational activities, as well as offering services to disadvantaged parties. Did wood products manufacturers in Appalachia qualify as disadvantaged?

- **Forming a subsidiary or a cooperative:** One design discussed was a limited liability corporation, in which the parent nonprofits would be investors. Another alternative was to create a cooperative which the coordinators would start, and over time producers could become members.
- **How to create member engagement in a cooperative:** WoodRight organizers expressed concern about generating enthusiasm among wood products manufacturers for joining a cooperative. Our cooperative expert emphasized that member involvement needed to be there from the start.

VI. Selecting the right stakeholder approach

Once a value chain enterprise grasps which stage it is, and understands how to begin moving to the next stage, it is ready to select the right stakeholder approach for seeking enterprise financing. Here we offer a brief overview of the most relevant options.

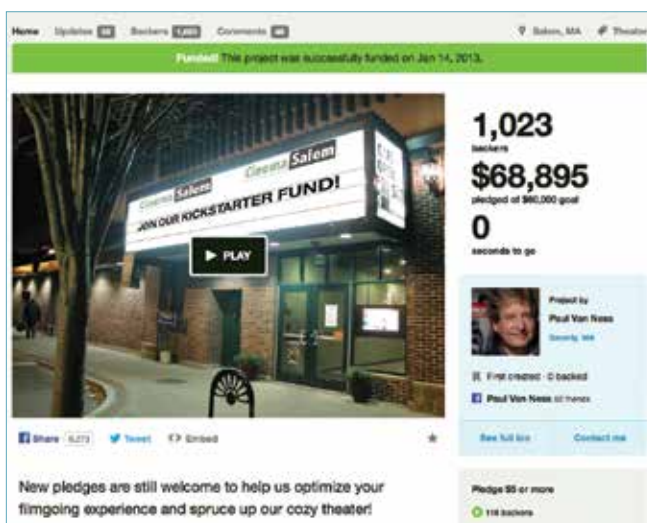
Crowdfunding – Stages of development: Seed and emerging

Definition: Using small amounts of capital from a large number of people to finance a project or business. Amounts contributed can be as small as \$10 or \$25. This approach can be used by both nonprofit and for-profit businesses.

How it works: Crowdfunding uses social networks—such as websites, email, Facebook, Twitter, and LinkedIn—to get the word out about a project and attract funds. Online platforms include Kickstarter and Indiegogo. On Kickstarter, the most popular site, 44 percent of projects succeed in hitting their fundraising goal, which means 56 percent fail. Smaller projects are more successful than larger ones. Among successful campaigns, two-thirds are in the range of \$1,000 to \$10,000.

Examples: One rural example of crowdfunding success is Wild Ramp in Huntington, West Virginia, a nonprofit community-supported market staffed entirely by volunteers that sells only local foods and aims to benefit local farmers. It is filling a need in downtown Huntington for a grocery store that sells healthy, fresh food. Wild Ramp set a Kickstarter goal of \$11,500 and raised \$11,763 within 30 days from 173 backers. It used the proceeds for equipment, signage, and tables. Visit their Kickstarter site at <http://www.kickstarter.com/projects/wildramp/ramp-up-the-wild-ramp-a-local-food-market>

In another example, the small locally owned movie theater, CinemaSalem in Salem, MA, raised \$68,895 in donations from 1,023 supporters, to finance its shift to digital projection equipment. What is notable about this is that the theater was a private, for-profit company. It illustrates the fact that crowdfunding donations can be raised by both for-profits and nonprofits, if the enterprise has a demonstrable community benefit.



CinemaSalem launched a successful Kickstarter Campaign in December 2012.

In one example that did not succeed, Snowville Creamery attempted to raise \$50,000 via Kickstarter, but garnered pledges of only \$20,000. Because Kickstarter has an all or nothing policy, the creamery received zero dollars. Snowville Creamery at the time had \$4 million annual sales, which put it beyond emerging stage. It was a growth stage enterprise, and in general these may be too large for Kickstarter-type funding.

For more see the *Guide to Rural Crowdfunding* at www.WealthWorks.org.

Community loan funds – Stages of development: Emerging, growth, exit/scale.

Definition: Local lenders whose mission is to provide capital to under-served communities. Many of these are community development financial institutions (CDFIs), certified by the federal government. There are 1,000 CDFIs nationwide. Some CDFIs are banks and credit unions, but the majority are community loan funds. The WealthWorks community has a number of CDFI loan funds active within it, including:

- **Natural Capital Investment Fund**, focusing on financing projects involving natural resources. Active in the states of WV, NC, VA, TN, KY, OH, and GA.
- **Mountain Association for Community Economic Development (MACED)**, doing lending and community development in areas such as small business, forestry, and energy. Active in the states of Eastern KY and Central Appalachia.
- **alt.Consulting**, doing lending, consulting, and development in areas such as small business and renewable energy. Active in states of the Mississippi Delta, AR and TN.
- **Federation of Appalachian Housing Enterprises (FAHE)**, active in real estate lending and is the home of a network of affordable housing developers. Active in Appalachian states.
- **North Alabama Revolving Loan Fund**, working with ECN on its pilot in farmer-friendly lending. Active in the state of AL.

What they do: Community loan funds provide loans and technical assistance to those not well served by traditional financial institutions. Some are also community development corporations (CDCs), organizing community development projects as well as financing them.



Leahy Farm in Lee, MA, borrowed money to purchase dairy processing equipment with the assistance of the Carrot Project.

Examples: ECN's farmer-friendly lending pilot with the North Alabama Loan Fund is one instance of a value chain project working closely with a community loan fund. In another instance, WoodRight partnered closely with MACED, obtaining a \$100,000 working capital loan there; MACED assisted in project conceptualization and vetted the business plan. MACED also is running its own value chain project, How\$martKY, as is FAHE with its Power Saver mortgage pilot.

Outside the WealthWorks community, another example of a loan fund for rural areas is Whole Foods Local Producer Loan Program. This program makes loans from \$1,000 to \$100,000, at interest rates of 5 – 9 percent. Collateral is required, and existing vendor relationships are preferred. Funds can be used for expansion, but not for operating costs. This is an example of a loan fund geared explicitly to enterprises in growth stage.

Another fund, geared more toward emerging stage farm enterprises, is the Carrot Project. It runs four loan programs in the states of ME, MA, and VT. The Carrot Project partners with other lenders, and often reduces risk by having investors pledge inactive bank accounts as loan guarantees. These guarantees take the place of collateral, so farmers can borrow money without pledging their land. As these examples show, every loan fund has its own focus, and its own geographical territory.

Slow Money – Stages of development: Emerging and growth.

Definition: Slow Money is a national organization of individuals and groups interested in direct investing in local food enterprises.

How it works: Slow Money hosts an annual national meeting where food and farming entrepreneurs apply and are selected to pitch directly to interested investors, enabling them to seek financing on friendly terms. In addition, there is a national network with 17 local chapters and six investment clubs that do local investing.

Example: Slow Money North Carolina has thus far inspired 53 individual loans to 26 food entrepreneurs, for a total investment of \$580,000. In 2013, the group hosted an event called Funds to Farms, where 33 farmers applied to make a pitch and five were selected. They had the opportunity to pitch to 120 investors at a fund-raising dinner.

In another example, an Ohio Slow Money group facilitated a \$50,000 loan from one individual to Snowville Creamery, which enabled the company to add a new milk truck. Note that the Creamery failed in a Kickstarter campaign, but succeeded via Slow Money. This illustrates the importance of choosing the right approach for your stage of development.

In Texas, \$2.4 million has been invested so far in 16 companies. At the 2013 Slow Money annual conference, Homestead Organics—a value chain coordinating company that serves hundreds of organic farmers, with



More than 120 people enjoyed fresh, local food at the January 2013 fund-raising dinner of Slow Money North Carolina.

\$7 million in sales—was seeking to raise \$1 million from Slow Money investors. Both small enterprises and those of relatively substantial size can find funding through Slow Money.

Both small enterprises and those of relatively substantial size can find funding through Slow Money.

Local angel investors – Stages of development: Emerging and growth.

Definition: Affluent persons providing capital for a business start-up, usually in exchange for ownership equity or convertible debt (which is debt that can later be converted to equity ownership). Ownership equity means owning shares that represent a portion of the company's total value upon sale, and having a right to dividends (a portion of annual profits).

How it works: Angel investors are generally local. They are often business people interested in helping young businesses get started. They generally have expectations of high financial return, because they are taking great risk. Return can come in the form of dividends, and in the form of the future sale of the company. If angel investors are members of a value chain—as with farmer investors in AGEN's biorefineries—they may see their "return" as coming in multiple forms of wealth, such as a thriving community and the increased success of their own farming businesses.

Example: In the AGEN value chain, one start-up micro-refinery is being launched by an entrepreneur who is seeking equity investors among local farmers and others.

Impact investors – Stage of development: Growth and scale.

Definition: High-net worth investors and institutions interested in investing for social and environmental impact and financial return. Sub-groups include religious investors, socially responsible money management firms, foundations, and family offices.



Jim King of FAHE.

How it works: Impact investors are generally reached through their advisers and money managers. The project seeking financing will generally (but not always) make a pitch to the adviser, not to the individual. The adviser then carries out a process of “due diligence,”

exploring the feasibility of success, the nature of the market, the qualifications of the entrepreneur, and so on. High due diligence costs often make impact investments in small, emerging companies prohibitive for financial advisers, who cannot recoup their costs through management fees. Advisers generally do these deals because of high client interest. Client retention and satisfaction are often more important to the adviser than fees directly generated from the deal.

Example: FAHE has impact investors among its investors, including the Calvert Foundation, Tides Foundation, and religious groups like the Sisters of Loretto. But impact investors represent a small portion of FAHE’s overall capital base, and rarely has FAHE targeted social and environmental investors in any concerted way. For its Power Saver Mortgage pilot, FAHE saw an opportunity to cultivate this market because of the strong, measurable environmental and social impacts of the energy efficient affordable housing its members were developing. FAHE may offer short-term notes of two to five years to impact investors.

In initial calls with potential investors, Jim King of FAHE said he often had 30 seconds to two minutes to make his case. “The pitch is the rate of return, how the loan is securitized, and its term,” he said. While many value chain coordinators might expect impact investors to be near-philanthropists, that is often not the case. Jim said his first impact investor was the Adrian Dominican Sisters. “This is their retirement money,” he explained. “It’s very important they get their money back, with a targeted return.”

Similarly although green investors may appreciate the environmental attributes of FAHE’s work, they too often expect market-rate returns that compensate them for the risk of investing in challenging geographies like rural Appalachia. In order to overcome misperceptions about the region, sustained outreach to the impact investment community is needed.

For more on religious investors doing community investing, see the “Community Investing Toolkit for the Faith Community,” http://www.ussif.org/files/Publications/FaithBased_Toolkit.pdf

Direct Public Offering – Stage of development: Growth, exit, scale.

Definition: Direct Public Offerings (DPOs) are the original crowdfunding investment model. A DPO is an offering of debt, stock or other investments directly to an organization’s group of stakeholders. There is no middle man. The Internet need not be involved (as it is in crowdfunding). Amounts raised are generally substantially larger than crowdfunding.

How it works: The advantage of a DPO is that it allows an enterprise to advertise openly for investors; to reach both accredited and non-accredited (non-

A Direct Public Offering to an organization’s stakeholders can raise far more than crowdfunding.

wealthy) investors; and to do this without breaking securities laws. The legal cost for a DPO is about \$25,000.

Examples: Real Pickles, a 12-year-old company with \$600,000 in revenue, recently raised \$500,000, to enable a transition from family ownership to a worker cooperative. The company did this via a DPO, where the minimum investment was \$2,500. The company enlisted 77 individuals and organizations in Massachusetts and Vermont as investors, in just two months.

In other examples, Quimper Mercantile, a community-owned store in Port Townsend, WA, raised \$590,000



Quimper Mercantile, a community-owned store in Port Townsend, WA, raised money via a Direct Public Offering.

in equity through a DPO, bringing in 1,042 investors. People’s Community Market in Oakland, CA, raised \$654,000 by selling preferred stock paying 3 percent, plus 1 percent in store credit.

One organization that is part of the WealthWorks community and specializes in DPOs is Cutting Edge Capital. See <http://www.cuttingedgecapital.com/resources-and-links/direct-public-offering/>

Cooperative financing – Stages of development: Emerging, growth, exit, scale.

Definition: Particular pools of financing are available to enterprises legally organized as cooperatives. A cooperative is an enterprise owned and governed

by those it serves.

Types include worker cooperatives, consumer cooperatives like food stores and credit unions, and producer cooperatives such as farmer marketing co-ops. Multi-stakeholder co-ops can also be formed.

How it works: One of the Rochdale Principles by which cooperatives are



CoBank, a national cooperative bank.

governed is the principle that cooperatives support cooperatives. In fulfillment of this principle, various financing organizations have been established explicitly to meet the credit needs of cooperatives.

Examples: The Farm Credit System is a nationwide network of cooperative lending institutions providing credit and financially related services to farmers, ranchers, and their cooperatives. It has been in existence for more than 75 years and is the largest provider of agricultural credit in the U.S. Other sources of cooperative financing include USDA’s Rural Development, St. Paul Bank for Cooperatives, National Cooperative Bank, state Rural Development Offices, and CoBank. Cooperatives also raise capital by selling preferred stock to members and others in the community.

CoBank—national cooperative bank operating in all 50 states—has a Growing Rural America initiative, aimed at meeting the financial needs of small and emerging cooperatives. Its Co-op Start program is designed to boost small agricultural cooperatives through innovative financing, business mentorship, and training. The program is made possible through partnerships with co-op development centers across the nation. A related program aims to provide credit to young, beginning, small and minority farmers, through the Farm Credit System.

For Growing Rural America, see http://www.cobank.com/About-CoBank/~media/Files/Searchable%20PDF%20Files/About%20Cobank/Growing%20Rural%20America/GrowingRuralAmericaBrochure_v4.pdf

For the Farm Credit System (more appropriate for established and larger farms) see <http://www.farmcreditnetwork.com/about>

For a national list of cooperative development centers see http://www.rurdev.usda.gov/BCP_Coop_Resources.html

Royalty financing – Stages of development: Emerging, growth, scale.

Definition: In royalty financing, a company pays back a loan using a percentage of revenue—generally up to a certain cap. Traditionally used in industries such as mining, film production and drug development, royalty financing is today being seen more among early-stage firms with growth potential.

How it works: Royalty financing is a way to obtain “equity-like” financing—early stage, relatively high risk, with a variable return based on performance. It is a way that founders can bring in risk capital, without having to give up a percent of ownership in perpetuity. Royalty investments are “self-liquidating,” which means payback and exit is built into the design from the start; there is no “exit event” required. This allows entrepreneurs to avoid the necessity of selling the firm as a way to allow investors to get their money back. In this way royalty financing is more appropriate than traditional equity, if the goal is to keep wealth local and retain local ownership. However, royalty financing is generally only appropriate for established firms with predictable cash flow.

Example: The New Hampshire Community Loan Fund is a pioneer in royalty financing, with its “Vested for Growth” program. According to a presentation to the Opportunity Finance Network

in February 2012, the program had at that point done 18 transactions. The average transaction was \$280,000. On 15 deals, the fund had gained \$1.2 million, and on two deals it had lost \$137,000. That meant the Vested for Growth program had an internal rate of return of 15.5 percent.

Rick Larson of Natural Capital Investment Fund, a participant in the WealthWorks community, said that “we’ll be seeing more of this type of financing among CDFIs.” It is a way for loan funds to take advantage of upside potential if sales grow; and it gives enterprises breathing room if sales fall short of plan.

New Hampshire Community Loan Fund, Vested for Growth: <http://www.vestedforgrowth.com/>

Natural Capital Investment Fund: <http://www.conservationfund.org/our-conservation-strategy/major-programs/natural-capital-investment-fund/>

Conclusions and Recommendations

Where is stakeholder investment now occurring and where is it needed? What are the gaps?

Our research shows that innovative stakeholder approaches to financing are emerging rapidly in the food sector, with approaches like Slow Money. Since 2010, the national Slow Money network has spawned more than two dozen local chapters and local investment clubs nationally, with \$30 million invested in small food enterprises.

Slow Money activity is occurring in a variety of states, including Ohio, Missouri, Louisiana, Illinois, Maine, California, Massachusetts, Wisconsin, Colorado, and Texas. In the South, there are Slow Money groups and activities in Florida, Georgia, Kentucky, Louisiana, North Carolina, South Carolina, and Virginia. The expansion of this activity represents a potentially significant opportunity for value chains in food and agriculture.¹⁴

Notably absent are states like Alabama and Mississippi, where the Deep South Wealth Creation Network—a WealthWorks project—reports a serious lack of farmer access to capital.¹⁵ “Friends and family” often supply the early-stage capital needed for these and other value chain enterprises. As Jessica Norwood of ECN has written, “What if we could create a culture of investing locally that would make all of us invest like ‘friends and family?’”

That’s what Slow Money does. In low-wealth areas, individuals may not have friends and family with the wherewithal to finance them, which makes patient capital like Slow Money more important than ever—yet too often sorely lacking in some low-wealth areas. ECN is creating a Southern version of this with its SOUL’utions Investment Clubs.



Jessica Norwood from Emerging ChangeMakers Network.

If Slow Money is a direct investor-to-enterprise model emerging in the food and agriculture sector, similar approaches are largely absent in other sectors, such as manufacturing, energy, and local retail. Enterprises in these sectors can call upon crowdfunding portals like Kickstarter and Indiegogo. But what is lacking are sector-specific portals. One exception is the

recent emergence of Solar Mosaic, a crowdfunding site devoted exclusively to connecting investors directly with community-owned solar projects. Its mission is “to fundamentally change the way energy is financed.” Through October 2013, Solar Mosaic had enabled \$3.8 million in direct financing of community-owned solar projects on charter schools, affordable housing developments, a convention center, and a reservation-based Navajo project.¹⁶

Sectors such as manufacturing and retail can generally turn to CDFIs for friendly, stakeholder financing. There are 1,000 CDFIs nationwide. There are a number of CDFIs in the WealthWorks community, particularly in Appalachia. Community loan funds like these are important to enterprise finance for value chains. But again, this infrastructure is under-built in the South. One exception is the tiny North Alabama Revolving Loan Fund—a community loan fund that is not a certified CDFI—working with ECN on its pilot in farmer-friendly lending. Alabama as a whole has 20 CDFIs, but they are all traditional depository institutions like banks and credit unions. There are only a handful of CDFI loan funds operating in the state, and none headquartered there.

Many high-poverty rural areas currently receive too little CDFI financing, even from sources that might be expected to favor communities in need. Consider, for example, the federal CDFI Fund, which provides government grants to community development financial institutions, which by definition target the

financial needs of under-served communities. In the period from 2000 through 2011, Alabama received just 18 of these grants, Mississippi received 33, and Arkansas received 39. Massachusetts in the same period received 102—more than those other three states combined. For Wisconsin, the number was comparably high at 98.

Similarly in Appalachia, studies by the National Community Reinvestment Coalition for the Appalachian Regional Commission have repeatedly shown a structural lack of access to capital and credit for businesses in the region. Small business lending is 18 percent lower in Appalachia than the nation as a whole, and banks are less successful making Small Business Administration (SBA) loans in Appalachia than nationwide. Only 1 percent of the \$26 billion in New Markets Tax Credit allocations have gone to the region, despite the fact that nearly half of Appalachia’s geography is eligible to participate in the program.¹⁷

Despite these financing challenges in persistently impoverished rural areas such as central Appalachia, numerous initiatives are afoot. The Appalachian Regional Commission has recently encouraged the creation of a new regional financial intermediary, Appalachian Community Capital, to provide \$42 million in place-based impact investment that will capitalize some of the high-performing CDFIs in the region. (See sidebar page 27.)

As part of its Appalachian Capital Policy Initiative, ARC has also provided support for the formation of



Slow Money’s second national gathering.

Appalachian Community Capital

An emerging example of the kind of collaborative approaches needed is a new central bank, **Appalachian Community Capital**, being created by the Appalachian Regional Commission, a federal/state development agency serving 13 Appalachian states. This new central bank, announced June 2013, is aimed at providing 13 high-performing CDFIs with grant capital and leveraged debt from funding sources not available to, or underutilized by, individual CDFIs. The 13 CDFIs will make up its board. Among them is Marten Jenkins of Natural Capital Investment Fund in Shepherdstown, WV, a member of the WealthWorks community. ARC is investing \$3.2 million to launch the bank, and has commitments for another \$39 million from

philanthropic foundations, public investors, and large commercial banks. Over the coming two years. The bank aims to leverage an additional \$233 million in private capital. The goal is to create 2,200 jobs.

Because this new central bank will pool the capital needs of all its members, it can attract investors that are seeking to place larger amounts of money. "We've recognized there is a chronic credit crunch in some of these distressed areas," ARC federal co-chair Earl Gohl told the *Wall Street Journal*. "This is a way to connect Wall Street with Appalachian Main Street." The new bank will help CDFIs raise capital as a group. "It is better to do things together than individually on our own," Gohl said.

five new angel investment funds in Ohio, Kentucky, West Virginia, southwestern Virginia, and Tennessee. The Appalachian Funders Network, a group of 35 philanthropic groups with programmatic interest in the region, has committed additional support to fostering more entrepreneurial startups in the region. Some of these same funders are also exploring more creative deployment of their funding through program-related investments (PRIs).

Sustainability-oriented impact investors concerned about risks associated with climate change and fossil fuels are also beginning to look more closely at investment opportunities in the region, particularly in the context of the "Appalachian Transition" from coal-based economies. Depending on their sectoral themes, many rural value chains may find opportunities for friendlier forms of financing from these kinds of sources.

What will it take to encourage the investments that are needed?

Slow Money development: There is a need for more Slow Money groups in places like the Deep South and central Appalachia, to meet the financing needs clearly expressed by the Deep South Wealth Creation Network and the Central Appalachian Network (both part of WealthWorks). There could be potential here for value chain coordinators or other consultants to help launch such projects. After ECN builds its experience launching a Southern version of Slow Money, it may be in a position to help others. It also might be possible for

Southern and Appalachian groups to partner with sister organizations in New England or other areas.

Collaborative investing: There is also a need for more ways for investors to work together toward shared goals, and for investors to work more collaboratively with government and philanthropy. As noted earlier, investors in high-poverty areas cannot imagine they can simply parachute in and serve as the single input that can make enterprises thrive. Investors need to learn how to work with philanthropy, particularly community foundations, which are inherently place-based. This effort should also include CDFIs and CDCs, for they are generally the ones to lead development efforts that are place-based, triple-bottom-line, and aimed at including the excluded.

Collaborative demonstration projects: There are a few emerging examples of the kind of collaborations needed. The Healthy Food Financing Initiative, mentioned above, is one. It uses a blended finance approach—federal, state, private—using tools such as New Markets Tax Credits to bring impact investors into regional food financing.

Another example is **Appalachian Community Capital**, also mentioned earlier. There may be opportunities for similar collaborative approaches in the South. One small example is the **Delta Regional Commission**—a federal/state initiative serving portions of eight states—which sponsored a launch event for the Arkansas Green Energy Network value chain. Another Southern player might be Southern Bancorp, based in Little Rock, Arkansas,



Michelle Obama announced the Healthy Food Financing Initiative on February 19, 2010.

which concentrates lending in poor communities in the Mississippi Delta. In general, the role of banks in catalyzing and financing value chains needs more development. As the experience of ECN with one major bank suggests, it may be possible to receive philanthropic funding for value chain work from the grant-making arm of a bank; the self-interest of the bank is then to generate lending opportunities further down the road.

Sectoral collaboration: A collaborative piece that seems to be missing is an initiative that allows investors to work systematically alongside philanthropy, in some kind of regional or sectoral project. This is not something we have seen happening anywhere in the Deep South or Appalachia. The need is for more than technical assistance. What is needed is cross-sectoral awareness of the need for deliberate collaboration among various funding sources. There is also need for early-stage philanthropic support that can jump-start a value chain, yet that is designed from the start to create investment readiness later in the life of the value chain. CDFIs and community foundations may be the ones to coordinate this work. It is critical for more players to grasp the synergies between different kinds of dollars as they might mix to support value chains.

Educating CDFIs about value chains: In order to consciously invest in value chains, and not simply individual enterprises, CDFIs will need government or philanthropic assistance and training. Early experience

of the CDFIs engaged in the WealthWorks community indicates that it is very difficult for them to generate interest in forming value chains. Coordinators are needed to serve as catalysts, and coordinators need philanthropic funding to do so. It also is not clear that most CDFIs have the skills to invest across value chains. Training and support may be needed. Tools also need exploration; for example, could loan covenants be used to encourage value chain work? How could CDFIs incorporate credit enhancements to support value chain work?

Enterprise philanthropy: Foundations focused on rural communities may be best positioned to lead the collaborative work needed. They have the social capital in terms of regional contacts, and the financial resources via grants, to help convene value chains and lay the seed stage groundwork that can enable value chain enterprises to later attract private capital. Community foundations can build place-based communities of practice. But these foundations may need training and support in order to embrace enterprise philanthropy approaches that help catalyze investment. Their love of place can provide the values bringing parties together who might otherwise never collaborate, if left strictly to market forces.¹⁸

Model development: The experience of ECN deserves further attention and exploration. It is a rare financing initiative that does not begin with individual enterprises, or with pools of capital. It instead takes the opposite approach—starting from the perspective of the entire value chain, and narrowing in on those gaps where intervention will benefit the whole chain. This value chain model of finance bears watching for the lessons it might offer.

Helping impact investors think differently: Conditions need to be created such that impact investors and CDFIs begin to think of investing not just in individual enterprises, but instead focus on entire rural value chains. For investors, this means turning around the traditional focus. Instead of thinking about asset allocation, competitive returns, and deal sourcing, investors might learn to focus on the community first: what are the financing needs of low-wealth areas and how could they be met? The example of Richard, with whom we began this report, is instructive. A whole series of interventions are needed to meet Richard's needs. Thinking these kinds of challenges through, together, is the hard work that is needed if economic development is to include the excluded.

Bringing social investment to emerging domestic markets in U.S.: Impact investors could use encouragement and structures to help them focus more on Appalachia and the Deep South, which tend to be excluded from communities of progressive investors. For the U.S., these areas are our own emerging markets. Progressive investors, in general, seem to be more comfortable investing in emerging markets overseas, as seen in the wave of microfinance into India. In the South and Appalachia, a legacy of exclusion and discrimination means there are difficult cultural issues that are quite different than investing overseas. Value chain participants will need to make a compelling case to bring impact investment dollars into their regions.

Cultivating stakeholder finance as part of value chains: Often struggling businesses within value chains feel a need to pursue conventional forms of financing, at disadvantageous terms, and lack access to or understanding of potentially friendlier forms of stakeholder finance. These forms of finance could be more strongly cultivated as part of value chains. Stakeholder finance should be understood—and strategically mapped—within value chains, not seen as something exogenous to them.

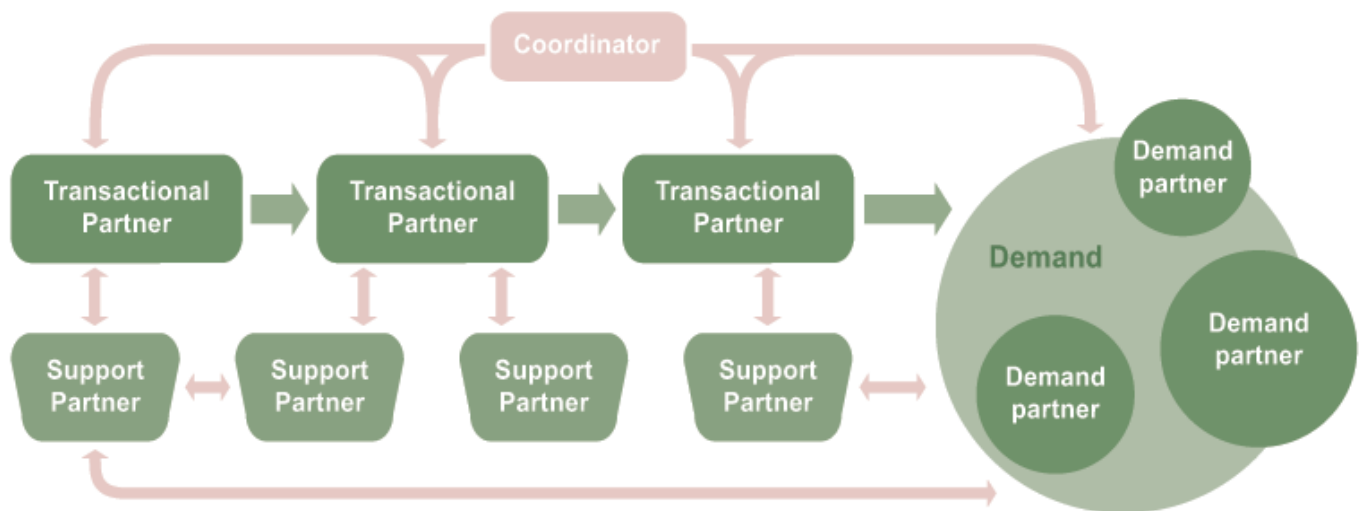
Coordinators becoming more businesslike: Another need for change has to do with the nonprofits leading value chain development. They may need to begin thinking more like businesses from the start of value chain development, and can benefit from model development and training in this.

Developing the right PRI structure for foundations wishing to support value chains: CDFIs in the WealthWorks community report that too many restrictive covenants make it hard to get money out the door. When covenants require loans to be made within certain time limits, or to show direct job creation among low-income people, it can be counterproductive. These and other restrictions limit the ability to use creative judgment and take risk. CDFI leaders suggest PRIs should be unrestricted money focused on value chains—to be deployed for either debt or equity, within flexible time frames. PRIs should also be accompanied by grants for value chain exploration.

Helping foundations offer more credit enhancements as forms of PRIs: These forms of PRI may be more transformative than making direct investments out of assets, because loan guarantees leverage larger amounts of private capital. They help value chain enterprises come closer to market rates of return, since there are two ways to offer market rates: one is to offer high returns, the other is to lower risk. Foundations and government have a key role to play in decreasing risk.

In general, there is growing opportunity for enterprise finance in rural value chains in areas like the Deep South and Appalachia. There are emerging models and collaborative experiments that are potential learning laboratories. There is a need to develop, grow, and spread these models and approaches. It is the belief, and hope, of this report’s authors that the financing explorations of WealthWorks value chains can offer valuable lessons from which others can learn.

Figure 6. Making Finance Part of the Value Chain



Finance partners – for example, through crowdfunding, Slow Money, or a loan fund – should be seen as support partners inside a value chain, not outside it.

Additional Resources

Appalachian Community Capital: http://www.arc.gov/news/article.asp?ARTICLE_ID=402

The Capital Absorption Capacity of Places: A Self-Assessment Tool, Oct. 2012, Living Cities: <http://www.livingcities.org/blog/?id=28>

Sample template for a business plan: <https://www.agecon.purdue.edu/aicc/resources/businessplan.doc>

Guide to cooperative development: "Considering Cooperation: A Guide for New Cooperative Development," Cornell University, http://dyson.cornell.edu/outreach/extensionpdf/2001/Cornell_AEM_eb0101.pdf

Endnotes

¹ http://wealthworks.org/im/CRC2013SharingWork_09_RuralActionWealthFromForests.pdf

² http://wealthworks.org/im/CRC2013SharingWork_01_FAHE.pdf

³ http://foodsystems.msu.edu/uploads/file/FFUS_Strengthening_Metrics_report.pdf

⁴ <http://www.youtube.com/watch?v=gK6qHCN7yR8>

⁵ http://wealthworks.org/im/CRC2013SharingWork_07_AltArkansasGreenEnergyNetwork.pdf

⁶ <http://carolinatextiledistrict.org/>. For a webinar on the Carolina Textile District, see <https://energizingentrepreneurs.adobeconnect.com/a1005885391/p4o2aeyaamf/?launcher=false&fcsContent=true&pbMode=normal>.

⁷ <http://www.mondragon-corporation.com/language/en-US/ENG/Frequently-asked-questions/Corporation.aspx>

⁸ <http://www.policylink.org/site/apps/nlnet/content2.aspx?b=5156723&c=lkIXLbMNjRE&ct=7976291>

⁹ <http://www.ereleases.com/pr/emerging-changemakers-network-collaborates-healthy-food-activists-alabama-150927>

¹⁰ "Financing Farming in the U.S.: Strengthening Metrics and Expanding Capital Access, Michigan State University Center for Regional Food Systems, May 2012. http://foodsystems.msu.edu/uploads/file/FFUS_Strengthening_Metrics_report.pdf

¹¹ Donella Meadows, *Thinking in Systems: A Primer*, White River Junction, VT: Chelsea Green Publishing, 2008, p. 101.

¹² Vinay Nair, "How enterprise philanthropy can unleash the potential of impact investing," *The Guardian*, Nov. 29, 2012; <http://www.theguardian.com/social-enterprise-network/2012/nov/29/smart-move-enterprise-philanthropy>

¹³ Ron Phillips, "Financing Maine's Food Enterprises," *Maine Policy Review*, Winter/Spring 2011; view at mcpolicycenter.umaine.edu/?q=MPR

¹⁴ <http://slowmoney.org/>

¹⁵ http://wealthworks.org/im/CRC2013SharingWork_04_DSWCN.pdf; <http://www.aspenccsg.org/wrldocs/CoadyOct.pdf>

¹⁶ <https://joinmosaic.com/about-mosaic>

¹⁷ Earl Gohl, "ARC: Improving Economies and Lives in 13 States," *Community Developments Investments*, Office of the Comptroller of the Currency, US Department of Treasury, November 2013, available at <http://www.occ.gov/publications/publications-by-type/other-publications-reports/cdi-newsletter/rural-development-nov-2013/rural-development-ezine-article-2-appalachian.html>

¹⁸ See "Rural Mission Investing: The Role of Foundations in Catalyzing Social Investment Markets That Benefit Rural Communities," by David Wood of the Initiative for Responsible Investment, <http://hausercenter.org/iri/wp-content/uploads/2010/05/Rural-Mission-Investing.pdf>