

# Community Development INVESTMENT REVIEW

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## Rural Entrepreneurs Need More than Good Advice

*Jarratt Applewhite*

*CEO, New Mexico Community Capital*

Rural entrepreneurs are talented at their work, but growing their businesses and creating new jobs is a challenge because they lack both capital and the know-how to expand. Capital of course is important, but our experience in New Mexico makes us believe that capital cannot come into play until the organization develops the internal capacity to manage its growth. And building that capacity requires more than a technical assistance grant or training class; it requires skilled partners who are willing to get into the trenches with these companies and help them develop.

The mission of New Mexico Community Capital is to deliver disciplined development investment capital to underserved areas in our state. Our problem is that sometimes our most compelling financing opportunities are with enterprises that are not yet in a position to accept our capital. We can provide financial backing only to companies that have a clear vision of their future and precise plans for how to secure that destiny.

The issue is not that these businesses are not led by talented people; the leaders are experts on the product or service they sell. More important, they have strength of character, an amazing work ethic, and impressive intuitive intelligence. Although many of them do not have a college degree and none of them knows how to use the Black Scholes model, it would be a privilege to be their partner.

To fulfill our mission, therefore, we have to assist our investment prospects in acquiring the skills they need for capacity building. A direct correlation seems to exist between the degree of rural isolation of potential investees and their need for capacity-building services. Our ability to achieve our social objectives (primarily the creation of good jobs) in these communities is almost impossible unless we learn how to help companies acquire an array of skills ranging from finance to marketing and product development. And there's the rub.

In even the most remote communities, entrepreneurs have access to basic business instruction, and most of them are also supported by economic development personnel at the regional, state, and federal levels. But there are several problems with these services. First, most of these businesspeople are consumed by the day-to-day challenges of their jobs, and they usually work extraordinarily long hours just to meet their work and family demands; they don't have time to attend classes. Second, few of these entrepreneurs prosper in an academic environment; the vast majority is more attuned to experiential learning. Finally, people with little hands-on operational experience provide the vast majority of this schooling, which may not be the right kind of teacher.

In addition to education, business consultants can be sources of expertise and capacity building. But truly competent advisors are expensive, and their services are often beyond

the financial reach of most entrepreneurs in underserved locales. The bigger issue, however, is that even if small business owners had the wherewithal to hire experts, the resulting work product would have little utility without an aggressive implementation plan. Most of the companies we encounter are managed by individuals who have startling insight into their own operational deficits. They can give themselves good advice!

We find the best strategy to translate an entrepreneur's intuitive insights into a business plan for growth is a partnership with an advisor who is immersed in the enterprise, shoulder to shoulder with the local team. This strategy is immensely difficult but hugely rewarding. Finding experts in different fields who are willing to get in the trenches with a promising company is a challenge. Recruiting practitioners ranging from executives on loan from existing companies to retired businesspeople who embrace our mission and are willing take an active role in building great companies is a large part of my job. We partner with companies as advisors, too. For example, our CFO spends half his time performing financial services for our investees and providing hands-on help to entrepreneurs, as do I.

New Mexico Community Capital is in the early stages of developing its delivery model, but it is underpinned by two principles:

- Our capacity-building services are distinct from our financing activities. Our advisees do not have an inside track to our capital. In fact, if we can help a company increase the scale of its operation to the point that it becomes a viable candidate for other investors or lenders, we consider this a very satisfactory outcome.
- The work we do is valuable, but much of its worth would be lost if we provided our services for free. Doing so would exacerbate a grant/handout mentality that is pervasive in New Mexico. This environment stifles innovation and fosters a risk-averse culture. While we subsidize the cost of the services we provide, we insist that our customers pay a reasonable amount. We typically negotiate a manageable down payment and tie the balance of our compensation to meeting a specific goal, such as acquiring predetermined revenue or acquiring new capital. We would consider receiving some consideration in the form of a sweat-equity position if we could be certain that doing so would not create unmanageable future conflicts.

Community development investment organizations are absolutely capable of generating respectable double-bottom-line results. But when investing in these entrepreneurs—especially in rural communities—elbow grease trumps instruction or advice.

*Jarratt Applewhite is a founder of New Mexico Community Capital ([www.nmccap.org](http://www.nmccap.org)) and serves as its CEO. He has a broad array of entrepreneurial and public service experience spanning three decades, including founding several successful businesses and holding elective office as a member of the Board of Education in Santa Fe.*