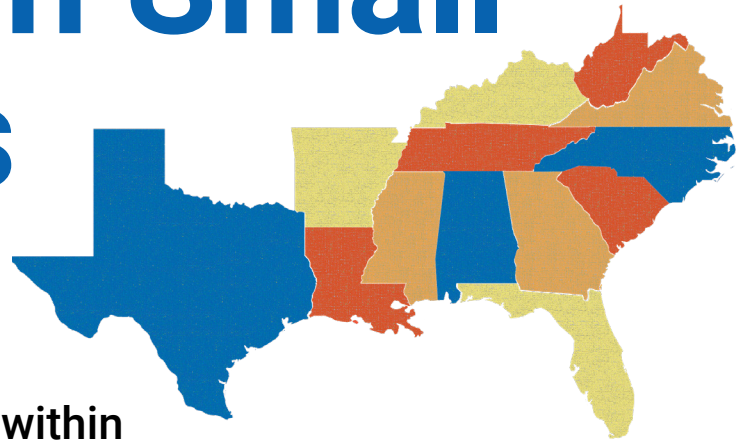
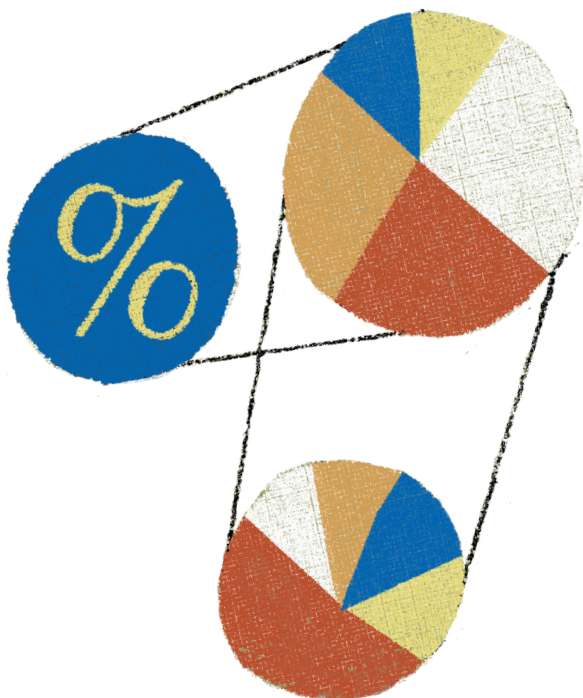


Leveraging CDFIs for Southern Small Businesses



Community Development Financial Institutions (CDFIs) in the Southern¹ United States arise from and operate within a unique combination of circumstances that make them particularly well positioned for philanthropic investment that creates meaningful and lasting impact on small businesses, jobs, and local economies.

As noted in the companion publication [Leveraging CDFIs to Increase Wealth Generation and Equity](#), “The most significant racial- and ethnic-wealth related disparities are in real estate, investment, and private business assets. Thus, targeted small business asset accumulation is a viable strategy to increase wealth equitably.”² In this addendum, we use the lens of the South to explore five factors and provide context for funders interested in investing to support small businesses in the region.



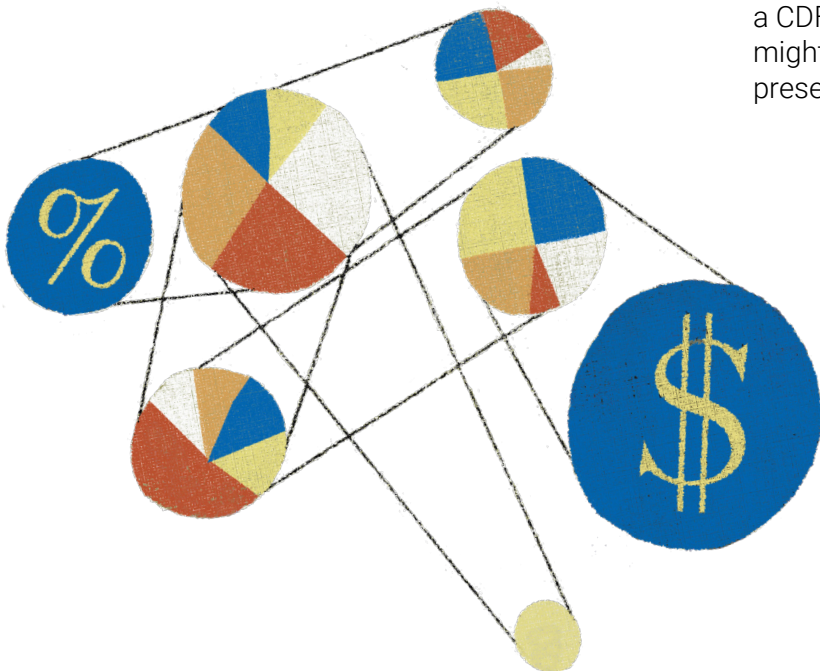
WHY THE SOUTH?

While there are indications of recent increased philanthropic investment in the South,³ “institutional philanthropy has typically overlooked the South.”⁴ Recognizing this trend, a recent report from the Dorothy A. Johnson Center for Philanthropy notes, “These gains represent strong philanthropic investments in the region, but they will require sustainable commitments over time to keep up with growing need and the compounding effects of historical underinvestment.”⁵ Philanthropic investment in CDFIs that work with Southern small businesses are on a path of making such commitments. These financial institutions have a critical collective history, provide a model for work in rural areas, are particularly prevalent in the region, and frequently provide businesses with both financial and nonfinancial support. Additionally, they help create the entrepreneurial ecosystem, business environment, and infrastructure needed for businesses to start, grow, demonstrate resilience, and thrive.

Collective History. During the 1994 event for the signing of the Riegle Community Development and Regulatory Improvement Act of 1994,⁶ then-President Bill Clinton, a former Southern governor, noted his admiration of what became ShoreBank in Chicago and how it contributed to the launch of what is now Southern Bancorp in Arkansas.⁷ He spoke specifically of the role of such institutions in providing access to capital for small businesses. The South’s long history⁸ of CDFIs has influenced the federal approach to community development finance. This approach includes the provision of patient capital that can improve establishment, growth, and resilience of small business.

Rurality. While the South is not wholly rural, nearly half (46.7%) of the U.S. rural population is in the South, and, except for Florida and Texas, all Southern states exceed overall U.S. rurality (20.0%).⁹ Rural areas have higher rates of self-employed entrepreneurship¹⁰ and the establishment, growth, and resilience of those businesses (and the jobs they create) depend in large part on access to capital. CDFIs in the region are well-positioned to meet that need, especially with support from strategic funders.

Also, residents of rural and rural-adjacent communities often have more or different types of social capital than those in other regions¹¹ and the resulting relationships can facilitate the growth of small businesses. For example, People Trust Loan Fund grew out of a barber college when the proprietor made several successful loans to customers.¹² What started as informal lending in Little Rock, Arkansas, is now a CDFI loan fund and credit union. The initial loans might not have been possible without the social capital present in the region.



Density. CDFI Fund data¹³ from June 2024 shows 1,430 certified CDFIs, on average serving 236,448 people per CDFI. Of the 15 states with the smallest ratios of residents per CDFI, six are in the South: Mississippi (27,997), Louisiana (43,149), Arkansas (63,911), Alabama (121,630), West Virginia (126,434), and Tennessee (139,735). This suggests that community development financial institutions are filling a financial access need that is particularly prevalent in certain Southern states. Funders continue to invest in CDFIs in the region, many of which are focused on small business finance and development. For example, Hope Credit Union used funding from the Rockefeller Foundation to design its Supplier Diversity Pilot Project, which helps business owners navigate the contracting and procurement processes at large institutions like municipalities, utilities, and hospitals.¹⁴ The project also facilitates the financing and technical assistance that the businesses need.¹⁵

Business support. In addition to capital needs, small businesses often need nonfinancial support at various stages of development. Given that, many Southern CDFIs provide business technical assistance and other support that complement their lending and other capital products. This is particularly needed in rural and low-wealth communities where standalone technical assistance providers may not exist. Just as CDFIs ‘stand in the gap’ to improve access to capital, they also fill existing gaps in nonfinancial services. Funders are encouraged to consider the variety of ways they can support CDFIs that support small businesses. In addition to loan capital and loan loss reserves, program support is also a critical need.

For example, Southern Bancorp Community Partners, a CDFI loan fund, launched its Minority Business Empowerment Program,¹⁶ which supports Black and Latino entrepreneurs with business technical assistance and funding readiness, including digital technology integration, sales and marketing, financial management and accounting, human resources, management and leadership, and operational efficiency training. Support for the program was provided in part by Simmons Bank.

Entrepreneurial ecosystem. Small businesses need a strong multicomponent business environment for the best outcomes. Utilities, employee housing, public policy, and other factors can determine whether a business can grow in place, attract customers and employees, or even get started at all. In addition to financial roles like filling gaps in capital stacks, Southern CDFIs help pilot and scale economic mobility efforts that are critical for aspiring and emerging entrepreneurs.

For example, Communities Unlimited is a CDFI that works in seven Southern states to increase “broadband access and equity.”¹⁷ This technology can be critical for businesses to access customers, professional services, employees, and other resources. Recognizing the importance of the policy environment, the Center for Responsible Lending, an affiliate of Self-Help Credit Union, works on small business lending policy advocacy and other issues. These efforts are informed in part by businesses and other lending that occurs at the credit union.¹⁸ Stable, affordable, decent housing is often a prerequisite for stable employment and homeownership. In addition, home equity can provide a source of capital for business development. For these and other reasons, Hope Credit Union helps families invest in homeownership.¹⁹ CDFIs also recognize the power of collective engagement and action in supporting small businesses. For example, the Texas CDFI Coalition has been recently reestablished to facilitate “comprehensive community development.”²⁰ Similar networks exist in Memphis,²¹ Arkansas,²² South Carolina,²³ and elsewhere. In addition, federal agencies such as the Federal Reserve System and the Consumer Financial Protection Bureau regularly conduct research that can inform program and product development at CDFIs and priorities for funders.²⁴

The entrepreneurial ecosystem is particularly important for small businesses owned by people from underserved communities. Recognizing this, in 2023, Truist Foundation announced a \$1.5 million grant to Urban Strategies Inc., which will use the funding to support its CDFI in establishing a bridge to capital and wealth creation for underserved entrepreneurs, including women- and Black-, Latine- and Indigenous-owned small businesses in Norfolk, Virginia; Fort Myers, Florida; and Baltimore, Maryland.²⁵

Recommendations, with Southern perspective.

CDFIs in the South can be strong partners for funders interested in supporting small businesses. Their cultural and regional competency, ability to provide financial and nonfinancial services, and their history and prevalence in the region all provide opportunities for philanthropic support, particularly at this critical moment. The companion publication, [Leveraging CDFIs to Increase Wealth Generation and Equity](#), offers six recommendations for funders — all of which are relevant for the South:

1 Support CDFIs led by people of color in accessing federal government programs through administrative grant support to increase capacity.

Several of the CDFIs mentioned herein are led by people of color. There are also trade associations for CDFIs led by people of color including the African American Alliance of CDFI CEOs, the Native CDFI Network, and the National Alliance of Latino CDFI Executives. Some of their membership has operations in the South.

2 Optimize resource sharing and expertise utilization through talent-sharing programs.

Support of technical assistance and other nonfinancial assistance programs can also help small businesses build capacity and creditworthiness so that they can work with larger financial institutions should they choose to do so.

3 Expand wraparound services and ecosystem-building programs.

Such support is particularly important in underserved areas, including rural and low-wealth communities, both of which are overrepresented in the South.

4 Promote organizational responsiveness and sustainability through flexible capital solutions, allowing CDFIs to provide the right capital for growing businesses.

The number and variety of Southern CDFIs — large and small, emerging and established, depository and nondepository, for profit and nonprofit — mean that funders have numerous options for how they might invest in CDFIs to support small businesses. Funders can also support research on the prevalence of CDFIs in states or regions and their ability to address small business needs and opportunities.

5 Foster accountability by standardizing data collection and reporting processes.

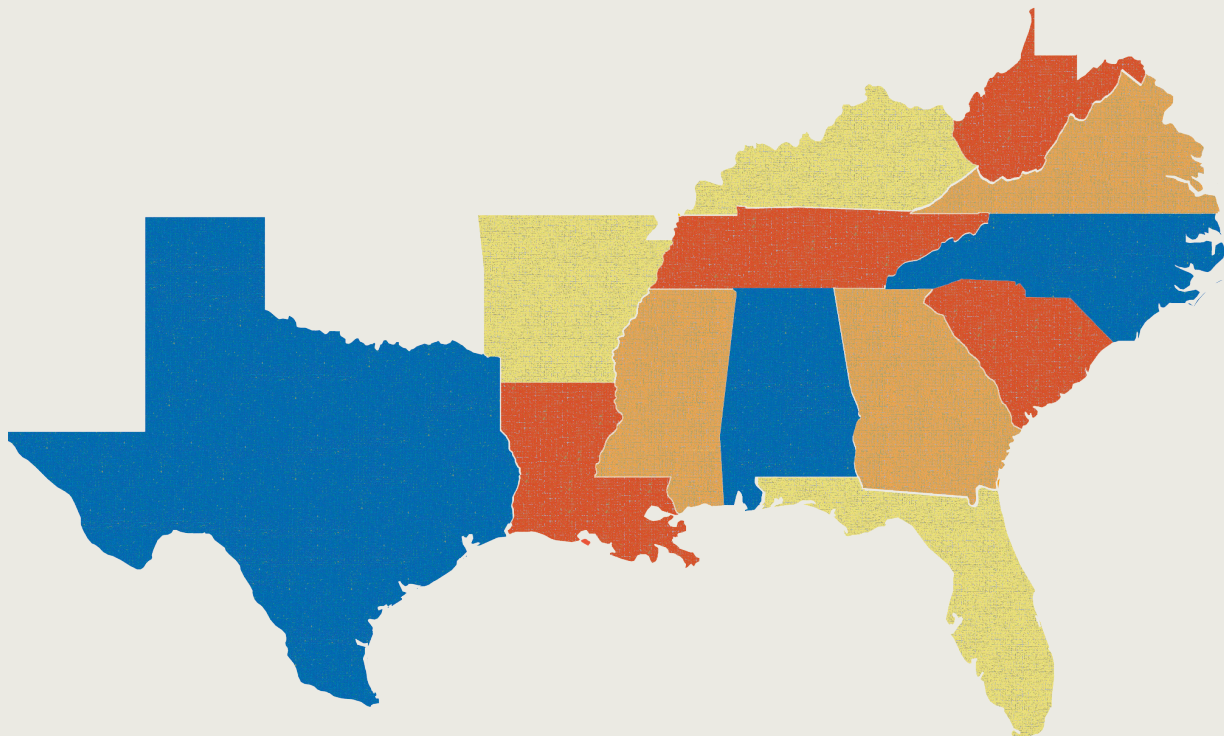
There may be aspects of Southern economies that warrant specific research on the interactions between CDFIs and small businesses, particularly given the five factors discussed herein.

6 Support innovative solutions for employee ownership, longevity, and succession planning in minority-owned businesses.

Southern CDFI credit unions and CDFIs with employee stock ownership plans (or ESOPs) can be good models for other businesses interested in collective ownership. There are also CDFIs that are helping home-based child care providers develop their business models and purchase the homes in which they run their business to provide a stable business environment and long-term asset for themselves.

Conclusion

Funders interested in small business development in the South should look to the work of CDFIs in the region and consider the numerous ways they can support their work as part of an effort to help families and communities build wealth. These mission-driven financial institutions provide critical financial, technical, and other support to small businesses, especially in regions, common in the South, that do not have other intermediaries. **Given the history of philanthropic underinvestment in the South and the significant growth and ethnic diversity of the region, now is the time to invest in businesses that invest in Southern economics and communities.**



Endnotes

- 1.** For the purposes of this document, we use the 13-state definition of the South from AFN peer, Grantmakers for Southern Progress. They include the following states in the region: Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Texas, Virginia, and West Virginia. See <https://g4sp.org/resources/map-of-grantees/>. Not all sources cited herein use the same definition.
- 2.** Gina Nisbeth, Kyle Nisbeth, Joseph A. Antolín, and Amanda Arizola, "Leveraging CDFIs to Increase Wealth Generation and Equity," July 31, 2024, https://assetfund.org/wp-content/uploads/AFN_Leveraging_CDFIs.pdf.
- 3.** Philanthropy Southeast, "2019 Southern Trends Report," accessed July 13, 2024, from <https://www.issueab.org/research/35847/35847.pdf>.
- 4.** Trish Abalo and Tory Martin, "A Wake-Up Call for Investing in the South" in 11 Trends in Philanthropy from Dorothy A. Johnson Center for Philanthropy, <https://johnsoncenter.org/wp-content/uploads/2024/01/11-Trends-for-2024-Report.pdf>. This work also notes the significant growth and ethnic diversity in the South, "Nine of the 15 fastest-growing large cities in the country (populations of 50,000 or more) are located in Texas and Florida (U.S. Census Bureau, 2023). More than half of Black Americans (56%) live in the South (Tamir, 2021). As a region, it is home to the fastest-growing Latino (Zong, 2022) and Asian American (Devarajan, 2023) populations in the country."
- 5.** Trish Abalo and Tory Martin, "A Wake-Up Call for Investing in the South."
- 6.** The Reigle Act established the Community Development Financial Institutions (CDFI) Fund as a new federal agency within the Department of the Treasury and authorized the first federal funding for this class of financial institutions.
- 7.** At 25:35 in https://youtu.be/dyj9zqo_6to?feature=shared from the Clinton Presidential Library as recorded on September 23, 1994. Clinton's commitment to community development finance was so well known that it became part of popular culture as noted at 1:44 in this 1992 Saturday Night Live skit https://www.youtube.com/watch?v=eYt-0khR_ej0.
- 8.** Other Southern financial institutions also predate the Reigle Act (and Southern), including Self-Help Credit Union in North Carolina founded in 1980 (<https://www.self-help.org/who-we-are/about-us/our-story>) and Communities Unlimited in Arkansas 1976 (<https://communitiesu.org/careers/>).
- 9.** U.S. Census, "Rural America," 2010, <https://mtgis-portal.geo.census.gov/arcgis/apps/storymaps/collections/189aa1dbd64c4c81b3b4a2b71124f6c6?item=1>.
- 10.** Andrew Dumont and Marysol McGee, "Supporting entrepreneurship for rural economic development," 2022, <https://fedcommunities.org/supporting-entrepreneurship-rural-economic-development/>.
- 11.** For examples, see Sandra Hofferth and John Iceland, "Social capital in rural and urban communities," *Rural Sociology*, 2011, <https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1549-0831.1998.tb00693.x> and Georg Wiesinger, "The importance of social capital in rural development, networking and decision-making in rural areas," *J. of Alpine Research*, 2007, <https://journals.openedition.org/rga/354?lang=en>.
- 12.** John Hoffner, Christine Turner, and Maya Chesley, "One Man's Fight to Close the Racial Wealth Gap, in 'The Barber of Little Rock' The New Yorker, January 10, 2024 <https://www.newyorker.com/culture/the-new-yorker-documentary/barber-of-little-rock-arlo-washington-wealth-gap>.
- 13.** Current data available from the CDFI Fund at <https://www.cdfifund.gov/programs-training/certification/cdfi>.
- 14.** Hope Credit Union, "2024 First Quarter Report," <https://hopecu.org/2024/05/2024-first-quarter-report/>.
- 15.** Hope Credit Union, "2024 First Quarter Report"
- 16.** Southern Bancorp, "Southern Bancorp Launches, Opens Applications for Minority Business Empowerment Program," June 7, 2024, <https://banksouthern.com/southern-bancorp-launches-opens-applications-for-minority-business-empowerment-program/>.
- 17.** Communities Unlimited, "About Broadband at Communities Unlimited," accessed July 13, 2024, from <https://communitiesu.org/broadband/>.

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- 18.** Center for Responsible Lending, “Small Business,” accessed July 13, 2024, from <https://www.responsiblelending.org/issues/small-business>.
- 19.** Hope Credit Union, “Housing and Homeownership,” accessed July 13, 2024, from <https://hopecu.org/homeownership-housing/>.
- 20.** Texas Association of Community Development Corporations. “Texas CDFI Coalition,” accessed July 13, 2024, from <https://www.tacdc.org/texas-cdfi-network>.
- 21.** Memphis CDFI Network, accessed July 13, 2024, from <https://memphiscdfi.org/>.
- 22.** Communities Unlimited, “Arkansas CDFI Coalition,” accessed July 13, 2024, from <https://communitiesu.org/blog/2023/02/02/arkansas-cdfi-coalition/>.
- 23.** South Carolina Association for Community Economic Development, “Certified CDCs and CDFIs in South Carolina,” accessed July 13, 2024, from <https://www.scaced.org/certified-cdcs-cdfis>.
- 24.** For examples, see the Federal Reserve Bank of Richmond, “Regional Data and Analysis,” https://www.richmondfed.org/region_communities/regional_data_analysis/regional_matters and Consumer Financial Protection Bureau, Director’s Notebook: What We’re Hearing: Financial Challenges Along the Gulf Coast, July 31, 2024, <https://www.consumerfinance.gov/about-us/blog/what-were-hearing-financial-challenges-along-the-gulf-coast/>.
- 25.** Truist Bank, “Truist Foundation grants \$1.5M to Urban Strategies Inc. to assist small businesses supporting community revitalization,” accessed July 13, 2024, from <https://media.truist.com/2023-07-25-Truist-Foundation-grants-1-5M-to-Urban-Strategies-Inc-to-assist-small-businesses-supporting-community-revitalization>. Also note that the U.S. Census includes Maryland in the Southern Region.

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