

# Rural Research Report



Winter 2015  
Volume 25, Issue 1

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Published by the Illinois  
Institute for Rural Affairs

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## Community Supported Businesses: Grassroots Entrepreneurship

Community supported businesses (CSB) are gaining popularity in rural areas for business startup ventures and expansions. This *Rural Research Report* describes CSBs, mainly based on experiences in rural Vermont, where this entrepreneurial phenomenon is well developed, and discusses issues and opportunities for wider application elsewhere.

### Community Supported Businesses Explained

CSBs are based on a closer relationship with customers than the simple commercial transaction involved in the sales of products or services. As the word *supported* implies, CSBs not only have a relational, but also a *financial* connection with their communities, either directly on a personal basis, through an intermediary, or sometimes through a public agency. In addition to patronage, finance is typically in the form of advance payments for goods or services, with or without interest, as well as through loans, grants, or, less frequently, equity—frequently in place of or in addition to traditional bank loans.

The word *community* usually implies people in a specific location, but it can equally apply to people who share similar interests. Often, these two types of community overlap. In Vermont villages and small towns, for instance, many people share an interest in eating locally produced or organic food. There is also likely to be two-way support such that money recirculates within the community through businesses buying local products and services. The proximity of financing sources reinforces the sense of community.

CSBs are frequently modeled on Community Supported Agriculture (CSA)—a widely known and understood way for farmers to sell their produce to subscribers ahead of production, thus helping to finance the cash flow for their activities early in the season when there is little or no revenue. In addition to selling to individuals directly from the farm, farmers often sell CSA “shares” at farmers’ markets—over 8,000 in 2012, according to the U.S. Department of Agriculture (USDA). The USDA defines a CSA as a “community of individuals who pledge support to a farm operation so that the farmland becomes, either legally or spiritually, the community’s farm, with the growers and consumers providing mutual support and sharing the risks and benefits of food production.”<sup>1</sup> In 2012, the USDA reported that 12,617 farms in the United States marketed products through a CSA. Vermont has 98 farmers’ markets and 143 CSAs, with a population of fewer than 627,000, making it #1 in the U.S. on the 2014 Strolling of the Heifers Locavore Index based on USDA and Census figures, weighted by population. Illinois, by comparison, ranks 44th.

Very few of the businesses that are community supported actually describe themselves as CSBs. Paul Bruhn, Executive Director of The Preservation Trust of Vermont,

on the other hand, describes them as CSEs—Community Supported *Enterprises*. The Business Alliance for Local Living Economies (BALLE)—an excellent source of information and support for CSBs—also refers to them as CSEs.

The means of financing varies from direct methods within the community to more arm’s-length schemes, akin to crowdfunding. Other funding agencies support CSBs through grants and loans. Another funding approach uses Direct Public Offering (DPO),<sup>2</sup> raising equity capital through advertising directly to customers, employees, suppliers, distributors, and friends in the community. A DPO requires a legal strategy to make sure everything complies with state and federal securities laws. DPOs involve fees, though significantly less than an IPO, but are not suitable for small or microfinance, especially since trading of the stock is severely limited. As examples, Real Pickles raised \$500,000 from investors living in Vermont and Massachusetts; and Quimper Mercantile raised \$750,000 to open a community-owned store in Port Townsend, Washington.

CSBs are of many different types, including those in traditional corporate forms, such as limited liability companies (LLCs), limited liability partnerships (LLPs), or corporations; foundations; or other 501c3s. Co-ops, especially food co-ops, are community supported, including by community members who buy shares to become shareholders.

The various ways to organize CSAs may be useful models for future CSBs:

- *Farmer managed* – A farmer sets up and maintains a CSA, recruits subscribers, and controls management of the CSA.
- *Shareholder/subscriber* – Local residents set up a CSA and hire a farmer to grow crops; shareholders/subscribers control most management.
- *Farmer cooperative* – Multiple farmers develop a CSA program.
- *Farmer-shareholder cooperative* – Farmers and local residents set up and cooperatively manage a CSA.

## Community Supported Business, Social Enterprise & Nonprofits

CSBs are social enterprises in that they place a high premium on their social role, in addition to their economic or environmental roles, similar to social enterprises with a triple bottom line. As with CSBs, social enterprises are often difficult to categorize. In Vermont, at least, there is more and more overlap between entrepreneurially run nonprofits and socially driven businesses.

A *social enterprise* is an organization that applies commercial strategies to maximize improvements in human and

environmental well-being rather than simply maximizing profits for shareholders or a business created to further a social purpose in a financially sustainable way.

On the other hand, a *nonprofit* usually has an equally social but different kind of value exchange. Rather than the individual recovering up-front investment in the future, the value of an individual’s donation to a nonprofit delivers a social good to someone else.

## The Context for Doing Business in Vermont

Vermont’s population is roughly 626,000 (2013) of whom nearly 200,000 live in the state’s only metropolitan area, Burlington, in the north. The remaining 450,000 people live in small towns and villages or in completely rural surroundings, though it is the 30th most densely populated in the U.S.

Vermont is the nation’s 45th state by area and 50th in population and Gross Domestic Product. There is a higher than national average of people over 65, and its median age is the 2nd highest in the nation at 40.4 years.

Vermont has the largest share of self-employed jobs of any state (10.2% of all jobs). In November 2014, Vermont’s unemployment was 4.3%, one of 10 lowest

states in the U.S. (Illinois is 35th). According to Vermont’s Small Business Profile released by the Small Business Administration in 2010, 96.3% of all its businesses are considered small (less than 500 employees), and 23% of the firms have one to 19 employees (compared with 18% nationally). Most businesses in Vermont are very small: 76.3% are no employee firms, whether they are sole proprietorships, LLCs, LLPs, or corporations. Having no employees does not preclude them from taking a corporate legal form. Companies and organizations in the arts and cultural cluster employ upwards of 4,000 Vermonters across 3,279 businesses. The creative class is widespread in Vermont among those applying technological, economic, as well as artistic and cultural creativity.

On the other hand, Vermont outperforms many larger states in the rate of business creation—its 2012 startup rate was 520 per 100,000 adults, making it 2nd in the country. Vermont has more than 4,000 nonprofits (#2 state with fewest people per 501c3) with total annual revenues of \$4.1 billion or 18.7 percent of the Gross State Product. Nonprofits are also the source of 42,000 jobs, or 12 percent, of total employment.

Thus, Vermont may be a useful model for rural entrepreneurship when considering “entrepreneurship” in its widest sense, not simply applied to business startups. Vermont ranks #1 in the national *Opportunity Index* (how opportunity measures up in a community). More than half of Vermont’s banks (54%) are classified as “community banks” by the FDIC—10th highest in nation.

## Vermont Institutions Assisting Community Businesses

The State of Vermont has a number of institutions that foster small business creation and development, several of which could be used in other states and regions:

*Community Capital of Vermont* – CCVT is a 501c3 (and a CDFI—see below) that helps small businesses and lower income entrepreneurs by providing flexible business financing. CCVT’s micro-loans (\$1 to 100K) can be used for startup or growth and expansion. It specializes in providing loans to business owners lacking the collateral or credit history to qualify for traditional bank loans, in helping with the creation and retention of jobs, in building wealth, and in enhancing downtowns and the working landscape. CCVT administers the Vermont Job Start Initiative and attracts both program funding and community donations. CCVT-funded entrepreneurs are required to use mentors, giving them a greater chance of both business survival and loan repayment.

The Preservation Trust of Vermont provided technical assistance or modest financial support to several CSBs, often playing a pivotal role—for example, Latchis Hotel and Theatre in Brattleboro, Claire’s Restaurant, Bee’s Knees Restaurant, and the Putney General Store. As Paul Bruhn, the executive director, says, “Mixing charitable investment, charitable contributions, community support through share or certificate purchases, and entrepreneurship is a way to provide these essential services and places to a community.”

*Brattleboro Development Credit Corporation (BDCC)* – One of 12 Regional Development Corporations in Vermont, BDCC is a private, nonprofit organization which serves as a catalyst for industrial and commercial growth in southeastern Vermont. BDCC owns an industrial park and two business parks/incubators, offering low-cost viable rental space to non-employer and small businesses. BDCC recently announced the 2015 Windham Regional Business Planning Competition in collaboration with the Strolling of the Heifers (see above) and support from the Windham Foundation (see below) among others, including Marlboro College. The total award is \$68,000. Since 2006, previous competitions led to the creation of well over 200 jobs, and 80% of winners are still in business. The special Farm/

Food Divisions of the competition cover both existing businesses and startups.

*Vermont Sustainable Jobs Fund* – Created in 1995, VSJF (a CDFI) aims to accelerate the development of Vermont’s green economy. It provides early stage grant funding, technical assistance, and loans to entrepreneurs, businesses, farmers, networks, and others interested in creating jobs and markets in the green economy. The VSJF Flexible Capital Fund L3C focuses on clean technology, agriculture, and forestry, and it makes revenue-based loans to businesses. It is a 501c3, which is funded partly by the state but also through fees-for-service, mentoring, grants, and donations from high net worth individuals in the community and seven other states with similar values. One investor (of \$850K) is Slow Money Vermont. VSJF is a “high-touch” lender, making loans to businesses based on the management team above all other factors.

*USDA-RD Vermont* – The USDA-RD in Vermont, similar to all states, is a major force in rural development and a significant contributor to community businesses in that sector. Among other ventures, the department has made grants to the West Townshend Country Store (see below). They also supported ventures for dairy farm manure digesters to produce methane to generate electricity, of which there are more than a dozen in Vermont. USDA-RD also offers Rural Business Enterprise Grants.

*Vermont Council on Rural Development* – VCRD is a 501c3 and a member of the National Rural Development Partnership. Among other activities, it has initiatives on agricultural viability, value-added forest product development, the creative economy (very important in Vermont and most frequently involving non-employer businesses), the structure of the planning system, in-state energy development, the future of Vermont, and advancing the Vermont working landscape.

*Vermont Land Trust* – Since 1977, this 501c3 has permanently conserved more than 1,775 parcels of land covering more than 535,000 acres or about 8% of the state’s private, undeveloped land. It includes more than 775 working

farms, and the Farmland Access Program provides farmers with opportunities to purchase or lease affordable farmland to start or expand agricultural businesses.

*Incubator Without Walls* – The Center for Rural Entrepreneurship at Lyndon State College hosts the Incubator Without Walls program which offers affordable technical assistance for small businesses. Startups are also fostered through Vermont with six maker-spaces, nine co-working spaces, and three accelerator spaces. The Vermont Center for Emerging Technologies is one of eight business incubators in the state.

*Vermont Food Center* – The Center is a multi-use food processing facility in Hardwick. Users of the center include Vermont Baby, Vermont Cranberry Company, and many others. It is part of the Center for an Agricultural Economy, which also has the Vermont Farm Fund for food and businesses.

A similar operation that supports local food producers is the Mad River Food Hub—a fully equipped, licensed vegetable and USDA-inspected meat processing facility located in Waitsfield, Vermont. Their users include Vermont Bean Crafters and Mad River Distillers.

## Community Supported Businesses in Vermont

Vermont has a wide range of CSBs that address unique opportunities and/or services needed in rural, small town, and village environments. In some instances, under the right legal and social environment, as well as with authorization and/or support from the state government, these business types could be started elsewhere and are worth exploring in more detail. Each case is special and depends heavily upon the initiative of individuals or small groups:

*Sun Farm Community Solar, Putney* – Vermont’s largest utility, Green Mountain Power (GMP), and the Clean Energy Collective (CEC) have plans for another community-owned, utility-scale PV facility to serve Vermont ratepayers, following the success of the 1st community-owned 567-panel solar array in Putney (pop. 2,634). Completion of this facility would make community solar available to nearly 70% of the state’s electricity customers. Any GMP customer can participate, including renters, those with shared property, nonprofits, and households with modest incomes. Unlike rooftop systems, purchases in an Area Community Solar Array can involve one panel, costing \$1,125 or \$3.75 per watt, to as many panels as desired, with the same incentives as rooftop system owners. The state aims to use 90% renewable energy by 2050. Vermont’s NRG Solar worked with GMP to enroll customers in a central solar lease program in Rutland. This pilot allows customers to sign up without up-front costs and become part of a solar community. GMP has a goal to transform Rutland into the Solar Capital of New England.

*The Gleanery Restaurant, Putney* – This restaurant uses ingredients from local farmers and producers and is a community-supported restaurant that pays members back in monthly credits at the restaurant. The community supports The Gleanery, The Gleanery supports the local economy, the local economy benefits from a destination restaurant, and more money recirculates through Putney.

In Morrisville (pop. 2,030), The Bee’s Knees is a CSA-type restaurant where, in exchange for a \$1,000 loan, investors receive coupons that they can redeem for meals at the rate of \$90 a quarter over three years. This is a meagre return on investment, but in the first six weeks of launch, the Bee’s Knees restaurant raised \$20,000. The venture was followed by Claire’s Restaurant in Hardwick (pop. 3,100), a CSB that raised more than \$40,000, although it failed later because of management shortcomings.

*The Putney General Store* – Severely damaged by fire in 2008, the owner sold the building housing the general store to the Putney Historical Society (PHS), whose members voted to pursue both ownership and reconstruction. PHS obtained \$67,000 from the Vermont Housing and Conservation Board that also runs the Vermont Farm & Forest Viability Program; \$200,000 from the Vermont Community Development Block Grant Program; and \$100,000 from the Office of Senator Patrick Leahy and the Vermont Preservation Trust through a Village Revitalization Grant. In addition, it collected \$10,000 from the Windham Foundation (see below) and \$100,000+ in community donations. In spite of a second fire, the PHS continued raising funds in the community, and the new store is now leased to an operator who has added a pharmacy. This is an example of a tiny community that was able to marshal resources from a variety of sources to provide essential services locally.

West Townshend Country Store, another community store, is part of the West River Community Project and has a café and deli. It provides space for the local Farmers’ Market in a village with only 418 people.

The Bee’s Knees, Green Mountain Spinnery (Putney-based worker co-operative), and Vermont Islands (manufacturer of food service stations) in Brattleboro are among

150 CSBs that have received loans from the Vermont Community Loan Fund over the past 25 years.

*Brattleboro Food Co-op (BFC)* – Vermont has 15 food co-ops. By comparison, Texas has five food co-ops with 43 times the population. If there were a proportionate number of co-ops in Texas, there would be 645! The U.S. has about 30,000 co-ops and, by definition, most are *locally* owned. Personal experiences on the Board of the BFC demonstrated huge community support with about \$1.2 million in shareholder loans for a new store. Today, the co-op is a 14,580 square foot natural foods market and deli, above which are co-op offices, a commissary kitchen, a cooking classroom, and 24 apartments. The building was co-developed with the Windham Housing Trust, and BFC partnered with Co-op Power, a consumer-owned sustainable energy cooperative, to install a solar roof.

Another Vermont co-op is Cabot Creamery with 1,200 farmer members. Credit unions are community cooperative, not-for-profit financial institutions, and Vermont has 22 of them. One, the Opportunities Credit Union, is a community development credit union, uniquely committed to Vermonters of low wealth with a mission to build wealth, community, and opportunity through a fair and affordable financial system.

*The Commons* – Brattleboro has an interesting hybrid called The Commons, run by Vermont Independent Media (a nonprofit) that promotes local, independent journalism. It provides a forum for community participation by publishing a weekly free newspaper, run on commercial lines, which promotes civic engagement by building local media skills through a media mentoring project.

*Latchis Hotel and Theatre* – In 2003, Latchis Arts acquired the Brattleboro property that currently houses a 30-room

boutique hotel and four theatres. Funds were raised in the community, from grant-making bodies as well as from operations. The executive director of the Latchis describes his back-to-back 501c3 and LLC as a hybrid organization. Hybrid organizations will proliferate, not on account of the Internal Revenue Service or another government mandate, but in response to the needs of communities, both physical and virtual.

*Windham Foundation* – This foundation, another hybrid, promotes the vitality of the Village of Grafton (pop. 650) and other Vermont rural communities through its philanthropic and educational programs. Its subsidiary operations also contribute to them. Windham is a Private Operating Foundation, a not widely represented IRS category of 501c3, and has operating (for-profit) subsidiaries: The Grafton Inn, a traditional Vermont inn; Grafton Village Cheese, with two production plants, each with a retail store; Grafton Ponds, an outdoor activities center; and the Retreat Farm, 475 acres with a petting farm, where early discussions are underway about creating a retail and manufacturing cluster in underutilized farm buildings. Grafton Village Cheese is a member of the Vermont Cheese Council—a dispersed rural cluster.

Vermont also has about 40 ESOP (Employee Share Ownership Plan) companies. Many Vermont entrepreneurs are approaching retirement age and exploring options to exit their businesses—by selling to another Vermont owner, employee ownership, or passing it on to a family member. The Vermont Employee Ownership Center (VEOC) helps Vermont companies move into employee ownership and administers the Vermont Employee Ownership Loan Fund. ESOP companies are yet another way that communities can give expression to the notion of CSBs without formal status since most, if not all, employees are “invested” in their places of work (through buying shares) and live in the community.

## Community Supported Businesses in Other States

There are an increasing number of CSBs in different forms in other states. Local circumstances mean that Vermont’s approaches are not necessarily adopted wholesale in other states, but the following are examples of several approaches used across the U.S., and readers can pursue more information by contacting them directly:

*Art* – CSB approaches have been used to promote the arts and to attract creative people. Minnesota Artists and Springboard for the Arts were created to support local art, artists, and collectors. Handmade in America is a North Carolina CSB that trains local craft entrepreneurs to develop the skills needed to be innovative small business

owners, and it helps rural communities spark economic renewal through asset-based creative place-making.

*Bakery* – Greyston Bakery is one of the country’s leading social enterprises. It provides individuals in Yonkers, New York, with employment, skills, and resources to lift them out of poverty, and it is owned by the Greyston Foundation, a 501c3. There are a growing number of “community bakeries.” One is Barrio Bread (Tucson, Arizona), whose business model is a CSB. It has no retail store; instead, the bread is offered at different locations in the community. Production is driven by a pre-order system at the Farmers’

Market and Thursday School Bread or a Bread Share at the Tucson Community Supported Agriculture events.

*Banking* – Urban Partnership Bank in Chicago is not strictly a CSB, although it does raise funds in the South Side and re-lends them locally. The bank is a community development financial institution (CDFI), providing financial products and services to underserved communities. It partners with community organizations to increase commercial activities, grow small and mid-size businesses and new jobs, and support nonprofits. CDFIs were established by the Community Reinvestment Act (1977).

*Books and Broadcasting* – Examples of community-supported publishing operations are South End Press, an independent, nonprofit, collectively run book publisher in New York, and The Head & Hand Press in Philadelphia. 88.7 The Bridge is a community-supported, non-commercial radio station in Delaware.

*Dining* – Portland, Maine, has a community-supported kitchen run by Local Sprouts, a cooperative that provides local and organic prepared food year-round to members, similar to a CSA system. Awaken Cafe is a live music venue, espresso bar, craft beer & wine bar, and organic restaurant in downtown Oakland, California, with the mission to bring people together and launch movements. The owners pre-sold gift cards, which, priced at \$1,000, could be redeemed for \$1,250 once the café opened.

*Energy* – Project Resources Corp (PRC) develops wind and solar projects in the upper Midwest with a goal of expanding the Minnesota WindShare program. Minnesota WindShare was created by PRC to enhance economic value for communities, landowners, and small businesses.

*Fisheries* – Sitka Salmon is a community-supported fishery (CSF) in Alaska that has opened CSFs in Illinois (Galesburg), Iowa, Minnesota, Indiana, Michigan, and Wisconsin. Port Clyde Fresh Catch is a CSF in Maine, where investors sign up for a weekly share of wild-caught shrimp. Fourteen-week shares at \$210 offer 10 pounds of shrimp a week or half shares (\$105). Conservation International Hawai'i partners with more than 50 community groups, local nonprofits, government agencies, and other groups. It has also funded over 36 grants across the state, totaling \$1.8 million, to increase access to sustainable and locally caught seafood. Yet another example is CS Fishery in Oregon.

*Food & Drink* – House of Brews in Madison, Wisconsin, is a CSB (brewery), and MobCraft Beer has launched a new business model for making beer based on crowd-sourcing opinions of its online supporters to determine what is brewed and when. Boise Brewing is another CSB that makes a unique beer for their owners monthly and allows members to fill their growlers. Illinois now has two CSB breweries: the Beygyle Brewery in Chicago has 6-month and 12-month memberships; and Sketchbook Brewing Co in Evanston raised \$25,000 on Kickstarter.

In Albany, New York, All Good Bakers shareholders receive freshly baked loaves and baked goods made with local flours on a weekly basis. They also call themselves a CSB (bakery). Three Stone Hearth in California is a CSK—a community-supported kitchen.

*Health & Fitness* – The Yoga Matrika Studio in Pittsburgh offers the ability to invest in the studio by purchasing shares, and it gives students an opportunity to invest in an economical way in both their personal practice and the studio. Third Root Community Health Center in Brooklyn, New York, is another example of a CSB that offers yoga, acupuncture, massage, and herbal medicine.

## Opportunities for the Future

The growth of CSBs and other forms of community engagement in supporting and financing businesses clearly indicates the growing interest in alternative ways to stimulate business activity and commerce in rural areas. While local initiatives and conditions may be the main driving forces, equally important is that state regulations and programs allow and support these types of efforts. Also, many different alternative creative solutions are being established by diverse organizations. This section describes several key opportunities for the future, especially those concerned with funding the development of CSBs.

**Local Investing Networks.** Michael Schuman's book, *Local Dollars, Local Sense: How to Shift Your Money from Wall Street to Main Street and Achieve Real Prosperity*, is a useful place to start in considering the future of CSBs. Americans' long-term savings in stocks, bonds, mutual funds, pension funds, and life insurance funds total about \$30 trillion. But not even 1% of these savings touch local small business—even though they generate about half the jobs and output in the private economy.

Another useful reference is *Locavesting: The Revolution in Local Investing and How to Profit from It* by Amy Cortese

who introduces readers to the pioneers of the local investing movement and explains the process. She defends the case that, by investing in local businesses, rather than faceless conglomerates, investors can earn profits while building healthy, self-reliant communities.

In East Jefferson County, Washington, LION (the Local Investing Opportunities Network) creates opportunities for local businesses, nonprofits, and citizens to network. Membership consists of residents who support local businesses and invest their money to work within the community. Individuals are able to make such investments directly, where there are so-called pre-existing relationships, striking their own deals with the businesses they know. Another example is Whatcom Investing Network in Washington State. Investing networks are likely to proliferate in the future.

**Crowdfunding and the JOBS Act.** Crowdfunding is discussed extensively in relation to CSBs. The JOBS Act was supposed to usher in a new era of *equity-based* crowdfunding. However, Title III rules that would make that possible are bogged down in the Securities Exchange Council (SEC) rule-making process. Title II rules are established, and several crowdfunding sites are open for equity-based investment but only for Accredited Investors—high net worth individuals. There are only about 5 million such people in the U.S., so only *reward-based* crowdfunding is currently open to most people. Some CSBs are beginning to use this opportunity. When the SEC publishes its crowdfunding rules, the CSB culture and practice will grow exponentially.

The Kickstarter and Indiegogo crowdfunding platforms, and many others, currently only offer rewards. Two examples of Kickstarter-funded businesses are Driftless Café, a locally focused, farm-to-table restaurant in rural Wisconsin, and the Creative Arts for Rural Development Project, which features notecards designed around the works of aspiring artists in rural, remote areas. Community Sourced Capital exists to help small businesses and local economies thrive. As a registered Social Purpose Corporation in Washington State, the people who run Community Sourced Capital, by helping businesses raise capital from their local communities, are able to make decisions in the interest of fulfilling this purpose instead of serving only in the interest of maximizing profit.

In several places, people are not waiting for the SEC. In January 2014, Oregon joined 15 other states, including Texas, in implementing new rules that allow startup businesses to raise money through intrastate crowdfunding investments in ways similar to Vermont's VSBOE mentioned above. Other countries have gone beyond this, liberalizing controls that give power to stock exchanges and lawyers, allowing individuals to make their own investment decisions, using *equity-based* crowdfunding.

**Microfinance.** Microfinance is generally seen as funding micro-enterprises in the developing world. However, it is also a growing field in the U.S. There is a special division of Kiva, called Kiva Zip, where one can post local finance needs. Kiva Zip has already loaned more than \$5 million to ventures, usually between \$5,000 to \$10,000. There are many examples in the food and agriculture sector: an urban farm, a café/bakery, produce for at-risk families, a nonprofit community coffee house, and others.

Accion US Network connects small business owners with the financing and advice needed to create or grow healthy enterprises. Since 1991, the five network members have given loans to over 45,000 people, Accion US brings affordable loans to micro-entrepreneurs, helping to grow small businesses and strengthen the communities they serve. Accion Chicago is also a CDFI. The Opportunity Fund in California offers, "Working Capital for Working People." Grameen America is dedicated to helping women who live in poverty build small businesses to create better lives for their families. They offer micro-loans, training, and support to transform communities and fight poverty in the U.S. Delivered via a financial institution, the SBA Microloan program is another opportunity for CSBs.

**Private Sector Grants to Entrepreneurs.** An "unseen" form of local startup support is through large corporations providing funds for new ventures in their sphere of interest. Many sources exist in the U.S. Here are a few examples, focusing on women and on food:

- *The Eileen Fisher Women-Owned Business Grant Program* – Seeks applicants from 100% women-owned businesses that are founded on the principles of social consciousness, sustainability, and innovation, and that are ready to move on to the next phase of development.
- *Cartier Womens' Initiative Awards* – Aim to identify and support initial-phase female entrepreneurs through funding and coaching; foster the spirit of enterprise by celebrating role models in entrepreneurship; create an international network of female entrepreneurs; and encourage peer networking.
- *Whole Foods Local Producer Loan Program* – Provides up to \$25 million in low-interest loans to independent local farms and food artisans.
- *Huggies Mominspired Grant Program* – Provides inspired moms with \$15,000 in seed money as well as business resources to further develop original product ideas and startup businesses.

**Increasing Variety in Means of Financing.** There are more and more ways to finance startup businesses, especially in rural settings. Traditionally, the kinds of options open to a small rural startup involved using one's own resources (e.g., savings, credit cards, and other accessible money); resorting to family and friends—either for gifts, equity, or loans; applying to main street banks for mortgages, home equity, and commercial loans; and using trade credit, either pre-arranged or through late payment of payables (see Appendix 1).

But there are now many newer forms of finance available, including the CSB *payment up-front* financing. So-called *bootstrapped finance* has become a much more sophisticated process, typically using OPM (Other People's Money) in some form or another. In this report, we have shown several kinds of organizations offering differently structured forms of finance and several types of funding with differing levels of risk. Appendix 2 places them on a continuum, from debt at the low-risk/low-reward end to equity at the high-risk/high-reward end.

**Changing Forms of Corporate Governance.** Since the CSB field defies an easy definition, there are many routes to helping local businesses become better connected to the community in which they are located. Some of this connectivity involves corporate governance.

A new corporate form called the *Benefit Corporation* (B Corporation) was created in Vermont, the second state to pass such legislation, which is now in 27 states (including Illinois) and projected for 14 other states and likely will be followed across the nation. The initiative springs largely from the efforts of B Lab, the initiator of the B Corporation. There are over 1,000 such companies certified as BCorps, which should not be confused with a state-registered Benefit Corporation. Several Vermont businesses are both BCorps *and* registered Benefit Corporations; examples include King Arthur Flour (which is also an ESOP company) and Sun Common.

In Vermont, a Benefit Corporation means a corporation defined as

- providing low-income or underserved individuals or communities with beneficial products or services.
- promoting economic opportunity for individuals or communities beyond the creation of jobs in the normal course of business.
- preserving or improving the environment.
- improving human health.
- promoting the arts or sciences or the advancement of knowledge.

- increasing the flow of capital to entities with a public benefit purpose.
- accomplishing any other identifiable benefit for society or the environment.

Another corporate form in Vermont and seven other states, including Illinois, is the *L3C* (low-profit limited liability company). This is a legal form of business entity created to bridge the gap between nonprofit and for-profit investing by providing a structure that facilitates investments in socially beneficial, for-profit ventures. It simplifies compliance with IRS rules for program-related investments (PRIs), a type of investment that private foundations are allowed to make. Michigan had the largest number (265), followed by Louisiana (207), Illinois (177), and Vermont (168) as of November 2014.

**Fostering Local Investment.** The SEC rules for any public offerings are complex and onerous, even though there is an Intrastate Offering Exemption that facilitates financing local business operations. To qualify, a company must be organized in the state where it offers the securities, must carry out a significant amount of its business in that state, and must make offers and sales only to residents of that state. As this report describes, Direct Public Offerings are usually restricted to specific geographic areas, but in addition, several individual states have introduced special provisions to foster local investment. Vermont, as an example, has a Small Business Offering Exemption (VSBOE) that allows raising up to \$500,000 in an offering to 50 or fewer share purchasers. Requirements of this exemption include the seller's principal place of business, and a majority of its employees must be in Vermont; general solicitation is permitted, but the advertising material must be submitted to the Securities Division. Each prospective investor must receive an investment brochure containing specified material, and a notice must be filed with the state Securities Division. However, this has not been a widely used provision, with only one or two offerings a year over the 15 or more years that it has been available.

**Additional Sources of CSB Funding and Information.**

Given the perennial problem rural startups have in finding funding via traditional bank sources, there is a growing list of organizations, some of which are nonprofit, from which they can find financial support (see Appendix 3). Many of these mission-driven organizations offer an especially receptive and less cumbersome means of raising equity and/or loan finance. They may also be better listeners for rural businesses, which tend to be small and fragile.

Since a high proportion of rural enterprises are based in food and agricultural industries, a predominance of these organizations are in that sector. The USDA is often a



jumping off place for farming and food production businesses, and their staff members offer considerable support and creative ways to fund rural startups.

Community Development Financial Institutions (CDFI) target early-stage firms and other companies not deemed so “bankable” by traditional funding sources. CDFIs exist in every state. Vermont, for example, has the Community Capital of Vermont, mentioned above, and four other CDFIs. *The CDFI Locator* is a searchable listing by state from the Opportunities Finance Network.

**Hybrid Organizations.** In western Massachusetts, BerkShares, Inc. is the place-based, democratically structured nonprofit organization that issues BerkShares, a local currency for the Berkshire Region, which is one of the more successful local currencies. BerkShares has now set up Community Supported Industry, an initiative aimed at creating a culture of support for entrepreneurs interested in more labor-intensive, small-batch local production. A BerkShares loan program will provide a flexible and community-directed financing tool for import-replacement businesses that are the goal of their community-supported industry initiative.

Prosperity Candle, founded by Ted Barber, also located in Massachusetts, works at the intersection of business and philanthropy. It is organized in three overlapping but not formally linked forms. Prosperity Catalyst, the nonprofit, trains women in war-ravaged communities overseas to make candles and develop entrepreneurial skills. The Prosperity Candle LLC, registered in Massachusetts, runs the sales operation for the candles, and a Vermont-registered L3C enables Prosperity Candle to attract program (PRI) money. This is perhaps the most complex kind of hybrid since the operations of the three elements must be kept at arms’ length so as not to break IRS rules. It is interesting that Eileen Fisher, the fashion house, makes grants of up to \$12,500 to businesses that operate as a “traditional for-profit business or as a social enterprise for-profit/nonprofit hybrid.”

**Opportunities for Rural Community and Economic Development.** Opportunities are many, both for state agencies, nonprofits, microfinance providers, investment networks, and community businesses themselves. Creativity and innovation are the only limiting factors. When the JOBS Act Title III rules are finally published, the floodgates

of equity-based crowdfunding will open, and the opportunities will be almost limitless. The Vermont experience shows that the entrepreneurial spirit pervades ventures in both the for- and nonprofit fields as well as in the public sector. New venture creation is seen as a positive contributor to flourishing communities by all economic and social partners.

**Rural Clusters.** There are rural clusters of CSBs that occur serendipitously as in the Vermont village of Putney, which has several CSBs. However, the rural cluster movement is growing. CSBs could also be planned at the community level (see Rural Cluster report below and Sustainable Food Systems Cluster, Vermont Style), generating local wealth, opportunity, and sustainability through rural clusters.

The Village of Hardwick in Vermont is an intentional rural *food cluster* with several businesses interlinked, like Vermont Natural Coatings, making wood finishes using whey protein, a cheese making byproduct, and The Center for an Agricultural Economy. The book by Ben Hewitt, *The Town that Food Saved: How One Community Found Vitality in Local Food*, is an excellent resource. The collective power of “small” and “networking” provides the basis of why business clusters can be so effective. In a rural state like Vermont, inter-related clusters can develop. For example, dairy production, small-scale dairy manufacturing, and renewable energy sources can be natural partners.

**However, CSBs Are Nonetheless Businesses.** In the case of all these initiatives, the CSB still must be run as a business. Hence, in raising funds, the promoters must develop a business plan. The business plan may not necessarily be a 50-page document with dozens of appendices. It may not even be the type of document expected by a traditional bank lender. However, it must be a plan and built on a sound business model to demonstrate how the product or service will generate sustainable revenues. This approach means defining a very clear value proposition that describes the benefits customers or users will receive. Chances are high, though, that financial data will not be the only factor needed to convince funders—either organizations or individuals. High importance will be placed on ensuring that the values of the offering business and the potential lenders or investors are in sync. The whole reason for CSBs is that they can deliver something wanted by consumers in the community, plus added social, and sometimes intangible, benefits.

## Endnotes

<sup>1</sup> 1993 & 2014

<sup>2</sup> See a useful comparison table at Cutting Edge Capital ([www.cuttingedgecapital.com](http://www.cuttingedgecapital.com)).

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U.S. Bureau of the Census?

USDA, 2012?

## Appendix 1: CSB Financing Definitions

**Bank Loans** – Term loans, commercial mortgages, and lines of credit made with conditions by banks, credit unions, and others.

**Convertible Debt** – Asset-backed loans that can require the owner to give up equity at some future date.

**CSA Model** – A business raises subscriptions to be repaid with or without interest at a later date in the form of goods or services.

**Direct Public Offering (DPO)** – A company raises capital by marketing its shares directly to its own customers, employees, suppliers, distributors, and friends in the community.

**Family & Friends** – Can be either loan or equity money and should always be contracted using a promissory note that defines repayment terms and consequences in the case of default.

**Grants** – Contribution, gift, or subsidy bestowed by a government or other body for a particular purpose.

**Investment Networks** – Way to connect entrepreneurs looking for funding with investors looking to invest.

**Microfinance** – Banking service provided to unemployed or low-income individuals or groups who would otherwise have no other means of gaining financial services.

**Micro Loan (SBA)** – Small short-term loans for working capital or the purchase of inventory, supplies, furniture, fixtures, machinery, and/or equipment available to designated intermediary nonprofit lenders.

**Program-Related Investments (PRI)** – Investments by foundations to support charitable activities that involve the potential return of capital within an established time line.

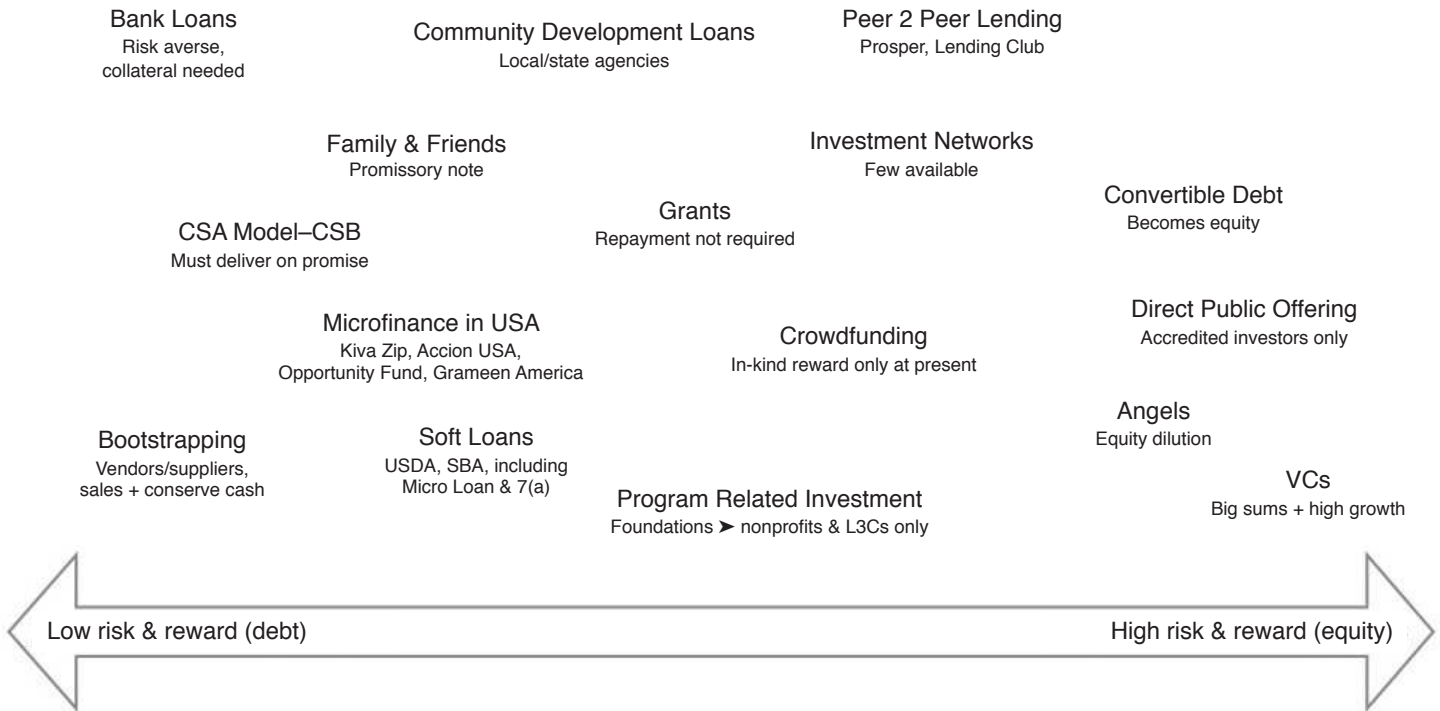
**Peer-2-Peer Lending** – Small loans (generally \$2 to 35K) at Lending Club and Prosper, for example.

**SBA 7(a) Loans** – SBA's most common loan program; includes financial help for businesses with special requirements.

**Soft Loan** – A loan with no interest or a below-market rate of interest.

Vermont, March 2015

## Appendix 2: CSB Financing Continuum



Source: Will Keyser, Marlboro College Graduate and Professional Studies, MBA in Managing for Sustainability, will@gradschool.marlboro.edu., Venture Founders LLC, <http://startupowl.com>

## Appendix 3: Additional Sources of CSB Funding and Information

*AgFunder* is a marketplace for ag startups seeking to raise investment capital from accredited investors.

*AngelList* is a platform for startups to find angel investors. It is well worth putting a profile up, especially if it concerns a tech startup. The traditional route to business angels requires the entrepreneur to find personal connections, whereas this platform provides the young business with exposure to investors.

*Advantage Capital Partners* invests in entrepreneurial small businesses in communities that are underserved by traditional sources of capital, partnering with state and federal economic development programs. It also administers the USDA's \$150 million Investment Funds to Grow Small Businesses.

*Association for Enterprise Opportunity* is a national membership organization and voice of microbusiness development in the U.S. For more than two decades, AEO and its hundreds of member organizations have helped more than two million entrepreneurs support themselves and their families, and contribute to their communities through business ownership.

*The Center for Rural Entrepreneurship's* mission is to help community leaders build a prosperous future by supporting and empowering business, social, and civic entrepreneurs.

*Community Foundations* are grant-making public charities that are dedicated to improving the lives of people in a defined local geographic area. They bring together the financial resources of individuals, families, and businesses to support effective nonprofits in their communities. Community foundations vary widely in asset size, ranging from less than \$100,000 to more than \$1.7 billion. The Vermont Community Foundation spends about \$12 million a year on loans and programs.

*Community Sourced Capital* is a new platform that provides loans to small businesses using capital sourced directly from people in their community. Businesses run campaigns on their website to raise capital for their loans, and CSC manages the behind-the-scenes magic that makes small business lending simple for everyone involved.

*Community-Wealth.org* has a good list of community-based economic development strategies and models.

*Kauffman Foundation* helps individuals attain economic independence by advancing educational achievement and entrepreneurial success.

*The Local Investing Resource Center* was founded in 2012 by James Frazier with the mission of expanding local investment into small businesses and nonprofits nationwide. It supports investors, for- and nonprofit entrepreneurs, and community leaders. It has a directory of local investing groups.

*RSF Social Finance* has three focus areas: (1) food & agriculture, (2) education & arts, and (3) ecological stewardship. It invests and lends to individuals and enterprises committed to improving society and the environment.

*Rural Business Incubators* can be a way to focus business development in small communities, often operating as nonprofit networks.

*Rural Clusters: Generating Local Wealth, Opportunity, and Sustainability Through Rural Clusters* is a research project which was initiated in Burlington, Vermont, in 2008. The report has valuable information for CSBs.

*Slow Money* members have invested more than \$38 million in over 350 small food enterprises around the U.S. since mid-2010. Twenty local networks and 13 investment clubs have been formed.

*WealthWorks* is a 21st-century approach to local and regional economic development that belongs in every community and economic development toolkit. WealthWorks brings together and connects a community's assets to meet market demand in ways that build livelihoods that continue.

*The Rural Research Report is a series published by the Illinois Institute for Rural Affairs to provide brief updates on innovative best practices on rural issues. Rural Research Reports are peer-reviewed and distributed to public officials, libraries, and professional associations involved with specific policy issues.*