

In his 2000 book, [The Mystery of Capital](#), Peruvian Hernando De Soto makes a powerful case for the role of access to capital as foundational to high-performing market-based economies. De Soto illustrates why Western economies have developed and evolved while former Soviet Union countries have struggled. Where there is widely-shared access to capital, the potential for development increases, and can create opportunities for individual mobility and grow more vibrant communities.

Background and Introduction

e2's **Entrepreneurial Capital Guide** provides information on available resources relevant to a high-performing rural (or urban neighborhood) **Entrepreneurial Capital System**. Our Guide is organized into the following topics:

1. Capital Access and Rural
2. Continuum of Entrepreneurial Capital
3. Model Entrepreneurial Capital System
4. Ord, Nebraska's Entrepreneurial Capital System
5. NetWork Kansas' Entrepreneurial Capital System
6. Conclusion – Capital Access for Underserved Entrepreneurs
7. Resources

Capital Defined

“What Does Capital Mean in Economics? To an economist, capital usually means **liquid assets**. In other words, it's cash in hand that is available for spending, whether on day-to-day necessities or long-term projects.”

Investopedia, 2022, www.investopedia.com

Capital – loans, investment, lines of credit, etc. – is the fuel to buy a building, purchase inventory, fund marketing and new market development and nearly every other aspect of entrepreneurial venture development. Access to the right kinds of capital is core to a community-centered **Entrepreneurial Capital System**.

For more information contact...

Don Macke – Senior Vice President
e2 – Entrepreneurial Ecosystems by NetWork Kansas
Cell 402.770.4987 - don@e2mail.org – www.energizingentrepreneurs.org

Our next stop is **Capital Access and Rural**.

Hundreds of millions of dollars are flowing to states, territories, tribal governments and major cities in the United States associated with the **State Small Business Credit Initiative** (SSBCI). This initiative is possibly the largest infusion of federal funds for small business development since possibly the Great Society program in the 1960s. The U.S. Treasury, administering the SSBCI, defines much of rural America as “socially and economically disadvantaged,” therefore qualifying for these funds.

Capital Access and Rural

Rural America is loosely defined and very diverse. Because of this complexity, entrepreneur capital access can vary widely from one geography to another. Figure 1 includes **e2's Rural Community Typology** with commentary on likely capital access challenges.

Figure 1. Rural Places and Likely Capital Access Challenges

Capital Access	Secondary Type	Characteristics
Type 1 – Frontier		
Very Challenging	<i>812 Counties or Over 25% of All U.S. Counties</i>	Rural Village - Area with Fewer Than 6 Persons Per Square Mile - Isolated Based on Travel Distance to Hub Cities - Example – City of John Day and Grant County, Oregon
Type 2 - Rural - Census Defined Non-Micropolitan and Non-Metropolitan		
Challenging	Type 2A Light Population Density	Typical of Eastern OR the Central Great Plains - Moderate Isolation - Distributed Smaller Communities with Rural Areas - Example – Sidney, Nebraska
Challenging to Adequate	Type 2B Nanopolitan	Smaller Hub City Anchoring a Rural Region - Both Urban and Rural Landscapes - Both Urban and Rural Sociology - Example – Ord, Nebraska
Adequate	Type 2C Heavy Population Density	Typical of the Eastern United States - Limited Isolation - Multiple Related Hub Cities, Towns and Villages - Example – Keene, New Hampshire
Type 3 – Micropolitan Adjacent		
Adequate	<i>Growth Tied to Micropolitan Area</i>	Socio-Economically Connected to the Micro Example – Minden and Kearney, Nebraska
Type 4 - Micropolitan		
Adequate to Strong	<i>Census Defined Cities of 10,000 to 50,000 Residents</i>	Hub City - Employment Hub – Service Center - Example – Klamath Falls, Oregon
Type 5 - Metropolitan Adjacent		
Adequate to Strong	<i>Growth Tied to Metropolitan Area</i>	Socio-Economically Connected to the Metro - Example – St. Helens, Oregon
Type 6 - Metropolitan		
Strong	6A -Rural Anchors	E.g., – Missoula, Montana - 75,000 Residents – Rural Region
Strong	6B -Small	Example – Spokane, Washington - 219,000 Residents
Robust	6C - Medium	Example – Omaha, Nebraska - 480,000 Residents
Robust	6D -Large	Example – Portland, Oregon - 650,000 Residents
Robust	6E - Metro Corridor	Example – the Los Angeles Basin – 20 Million Residents

SSBCI and SEDI

Federal, state and philanthropic credit access initiatives and programs have always targeted populations and communities based on lack of access and need. Historically, poverty, unemployment and minority status have been criteria for program priorities. These historic criteria have often technically excluded much of rural America, despite other access to capital challenges facing rural entrepreneurs. The U.S. Treasury with its new ***State Small Business Credit Initiative*** has introduced a new criteria called SEDI-owned businesses. SEDI stands for ***Socially and Economically Disadvantaged Individuals***. SEDI classifies most of rural America as disadvantaged and targeted for SSBCI credit access.

Entrepreneur capital access and credit support is highly variable across rural America. It is situational, based on banking/credit union structures, availability of gap financing programs and other resources. However, as we move more rural (e.g., lower population densities) and isolated (e.g., distance from other rural communities and other rural communities) chances are good that there is less capital access locally. There are other factors at play requiring more granular state, regional and local analysis to evaluate capital access conditions. Consider these factors:

Banking Structure. Many parts of the United States have experienced massive bank consolidation removing banking access and local decision making from rural communities. In other parts of the country there are still numerous and active locally/regionally owned and operated community banks. Having community banks enhances capital access.

Availability of Credit Unions. In many parts of the country, particularly where bank consolidation has removed local lending resources, credit unions are filling this gap with local capital access and decision making. Availability of community and entrepreneur-centered credit unions are important.

Gap Financing Programs. Access to well-capitalized and operated gap financing programs are critically important. Access to gap financing is very situational from community to community across rural America.

Equity Investment Programs. Most communities do not have LLC (i.e., Limited Liability Companies) equity investment infrastructure. All rural communities have potential higher net worth family investors. While traditional “venture” and “angel” investor groups are less important in “more-rural” America, access to LLC investors stretches deal flow and empowers more entrepreneurial talent.

Impact Investing. Philanthropic and foundation-hosted impact investing is very situational across rural America as is the presence of robust community foundations. For communities with impact investing, more entrepreneurs and deals become feasible.

Entrepreneurial Ecosystem Infrastructure. For example, Ord, Nebraska, for which e2 has completed detailed case study work, is a Nanopolitan Community. It has a robust capital access system with multiple community banks, gap financing programs and LLC investors. This strong capital system is a result of two decades of entrepreneurial ecosystem infrastructure development.

Next by way of background, let's review the continuum of entrepreneurial capital.

Financial capital is not monolithic. Matching the right type of capital to appropriate entrepreneurial needs is core to high impact entrepreneurial capital access systems.

Continuum of Entrepreneurial Capital

Financial capital is foundational for any vibrant venture development and operation. Capital is one of the primary investments or inputs (e.g., other investments include human talent, products and services, etc.) critical for ventures to thrive. Understanding the types of ventures at work in our rural communities and the types of capital relevant to these ventures is important context.

First, let's be clear as to the kinds of ventures that are the focus for our development efforts. Figure 2 overviews the three primary types of ventures found in all rural communities.

Figure 2. Primary Types of Ventures Found in Rural Communities

For-Profit Businesses	Nonprofit Organizations	Governmental
For-profit businesses are obvious and typically represent the majority of ventures in most rural communities.	Nonprofit organizations are increasingly important in rural communities, often providing social services and health care.	Government ventures include political subdivisions, public education, public health care, agencies and enterprises (parks).
<p>Community Ventures. Community ventures, particularly in smaller and more remote rural communities and distressed urban neighborhoods, are increasingly important. They are often hybrids including for-profit operating models, nonprofit and government involvement and support. Think: community grocery stores, health clinics, community centers with coffee shops and the like.</p>		

Figure 3 provides a high-level overview of the continuum of entrepreneurial capital types. This continuum can be more complex specific to the nature of the deal being capitalized.

Figure 3. Continuum of Entrepreneurial Capital Types

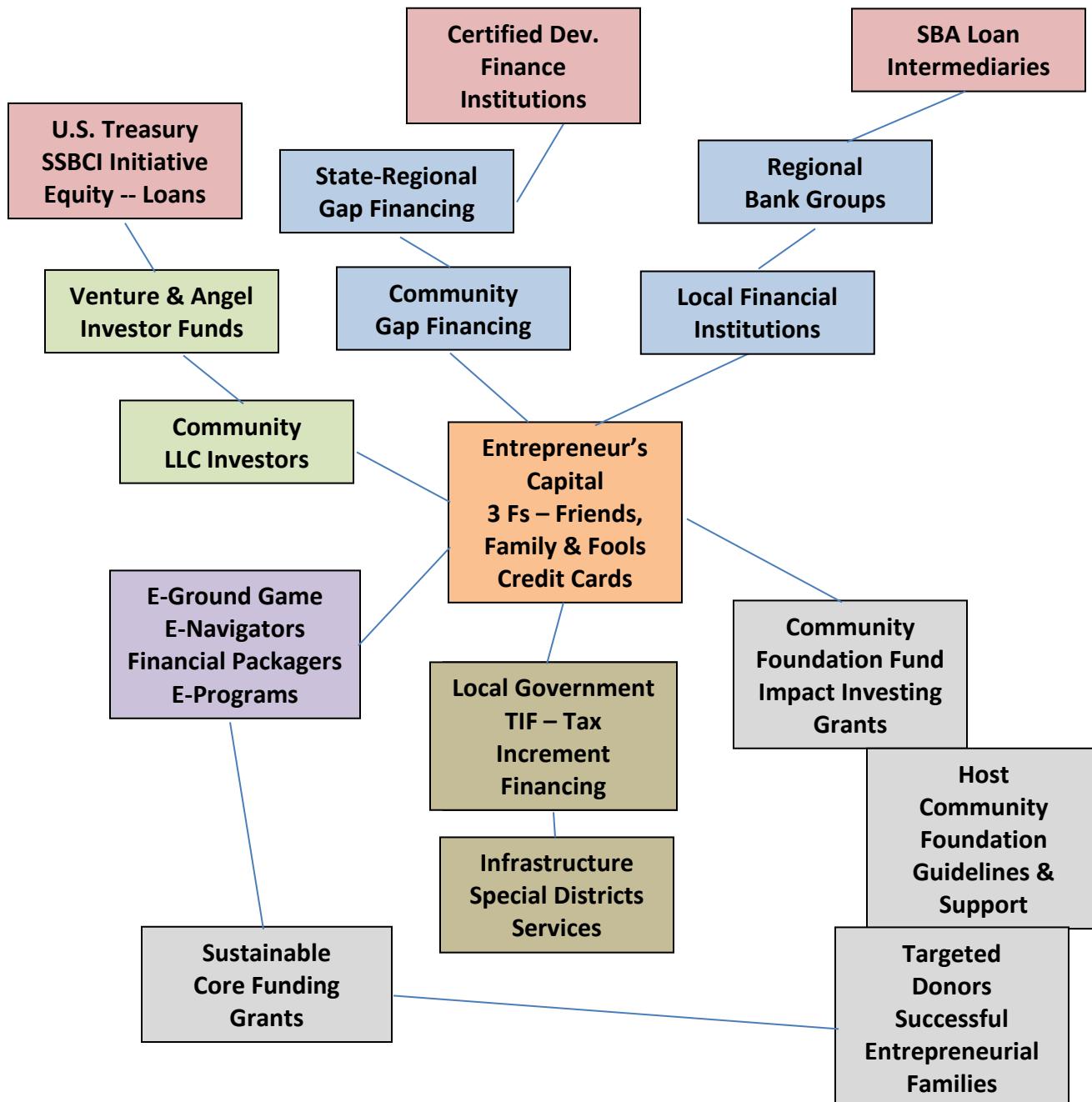
Type	Role & Function	Risk & Return
Entrepreneur Capital	The starting point for all for-profit businesses and includes owner equity, family loans and credit card debt.	High risk, particularly with weak deals, inexperience and soft markets.
Debt Capital	Debt in the form of loans and loan guarantees are core to any venture deal.	Typically procured with strong due diligence and secured with assets.
Equity Capital	Equity investments are set up to provide capitalization and return on investment.	Depending on equity vehicle risk and return varies widely.
Working Capital	Essential for any venture with high input costs relative to revenues and profits.	Typically secured like loans with due diligence and collateral.

Our next topic is an illustration of a Model Entrepreneurial Capital System.

Model Entrepreneurial Capital System

The following graphic with the following descriptions illustrates an optimal or model rural entrepreneurial capital access system:

Figure 4. A Model Rural Entrepreneurial Capital System



Color Codes:

- Orange – Entrepreneur’s Capital
- Rose – Federal Government Programs
- Purple – The Community’s Entrepreneurial Ground Game
- Green – Equity Capital Resources
- Blue – Loan Programs and Resources
- Grey – Philanthropic Resources

The following are descriptions for the capital resources illustrated in Figure 1 on the previous page.

Entrepreneur’s Capital. An entrepreneur should be expected to bring capital to a financial packaging deal. However, “disadvantaged” entrepreneurs may have significantly less capacity to provide capital for their venture deal. Sources of entrepreneurial capital include the classic “3Fs” or Family, Friends and Fools, as well as the use of credit cards and lines of credit secured by homes.

Federal Government Programs. The federal government (as well as many states) have long provided access to capital. For much of the U.S.’s history, land grants were a powerful form of capital access and empowering land-holders with a way for capital formation and then access to lending, for example. Currently there are four major federal government programs (often in partnership with states and metropolitan areas) active in the capital access space:

Revolving Loan Funds. Growing out the Great Society Program of the 1960s, there are legacy programs through federal agencies like:

- *HUD & CDBG – Housing and Urban Development, Community Development Block Grant Program*
- *EDA – Economic Development Administration, Department of Commerce*
- *SBA – Small Business Administration, Department of Commerce*
- *USDA Rural Development – U.S. Department of Agriculture*

These federal agencies, and others, provide credit for for-profit businesses, nonprofit organizations and even local governments (e.g., infrastructure), often in partnership with communities and/or regional development districts or councils of governments. In many cases, as this credit is repaid, communities (regions) can retain this capital and redeploy it through local gap financing programs.

CDFIs - Certified Development Finance Institutions. The U.S. Treasury hosts the CDFI program creating and capitalizing often regional finance agencies and programs. Often these CDFI’s have specific areas of capital focus such as housing, businesses, health care, food, and the like. CDFI’s work better when they partner with more localized institutions like NetWork Kansas (more detail on page 10).

U.S. Small Business Administration. SBA’s mission is small business (e.g., defined as any for-profit business with fewer than 500 employees) development and finance. SBA operates a Loan Intermediary Program in partnership with commercial banks and credit unions. SBA programs can provide gap financing and loan guarantees enhancing small business financial packages working with area financial institutions.

Treasury's SSBCI Initiative. Coming out of the pandemic crisis and associated economic challenges, the federal government created and capitalized a massive new credit access initiative hosted by the U.S. Treasury called the **State Small Business Credit Initiative (SSBCI)**. Federal funds, provided through the U.S. Treasury empower states, larger metropolitan areas, the District of Columbia, tribal nations, U.S. territories and other instrumentalities, to provide a wide range of credit access to businesses.

Community Entrepreneurial Ground Game. Accessing credit and capital, particularly for disadvantaged individuals and communities, is a demonstrated challenge. Within a community or regional entrepreneurial ecosystem can support what we call the **Entrepreneurial Ground Game**. Key elements of an entrepreneurial ground game include navigators, financial packagers and programs that can help entrepreneurs develop sound deals and access necessary capital. *We have a paper referenced in the last section detailing the Entrepreneurial Ground Game.*

Equity Capital Defined

Merriam-Webster Dictionary defines equity capital as “**capital (such as stock or surplus earnings) that is free of debt especially : capital received for an interest in the ownership of a business.**” Access to appropriately matched equity capital can enable a wider range of venture deals and empower a broader spectrum of disadvantaged individuals. For many venture deals, too much dependence on loan financing is not viable, and access to more patient equity capital is important to a sound financial package that positions both funders and the entrepreneur for greater success.

Equity Capital Resources. There are four primary equity capital resources within e2’s Model Capital System:

U.S. Treasury's SSBCI Equity Program. The new State Small Business Credit Initiative provides capital to support equity investments in small businesses in/for socially and economically distressed communities and individuals.

Venture Capital Funds. Venture funds, most often headquartered in major cities, provide equity investment into high-growth ventures, often rooted in some kind of technology or business model innovation. Venture funds seek larger deals with relatively quick exit strategies and double-digit capital returns.

Angel Investor Funds. Angel investor funds are a type of venture capital play, but are often rooted in the region or community. In most cases angel investors are seeking defined exit strategies with growth ventures and associated higher capital returns.

LLC Investors. Rural America has a rich history of LLC (i.e., Limited Liability Corporation) loan and equity investing. Area investors organize as an LLC to provide community-centered equity and loan funding to necessary and desired local ventures (e.g., a community betterment investor motivation).

Loan Programs and Resources. There are a suite of relevant loan programs and resources including:

Local Financial Institutions. Local banks, credit unions or other financial institutions provide secured loans, lines of credit and working capital through loans to area ventures.

Regional Bank Groups. Often local financial institutions, particularly community banks, have relationships with regional or statewide bank groups to make possible larger loans than would be possible by the community bank.

Community Gap Financing Programs. Gap financing is a quasi-public/private form of lending and sometimes investing. Gap financing fills the financial gap between the entrepreneur's investment and most typically a bank loan. Gap loans are often subordinate to the bank loan and can become more flexible and patient capital.

State and Regional Gap Financing Programs. In addition to community gap financing programs there are typically comparable regional (e.g., often within regional development districts) and statewide gap financing programs. These programs can meet the full gap financing needs within a deal or compliment local gap financing.

U.S. Treasury's SSBCI Loan Program. The new State Small Business Credit Initiative provides capital to provide loans to small businesses in socially and economically distressed communities.

Cooperatives

Cooperatives are a well-established and defined venture model where members provide capital enabling the venture, e.g., a farmers' cooperative, to be developed and operated. Being a coop member confers purchasing and marketing advantages, and often provides an annual payment back to members based on their capital contribution. Rural grocery stores, health clinics and even coffee shops are organizing as cooperatives in rural America.

Philanthropic Resources. Philanthropy through foundations has increasingly become engaged in providing credit access to for-profit businesses, nonprofit organizations and government agencies through what is now called "impact investing" targeting disadvantaged individuals and communities. Additionally, foundations can provide grant funding, including perpetual endowment operating grants.

Ord, Nebraska has experienced transformative change empowered in part, by mobilizing capital. Our next topic focused on Ord, Nebraska's Entrepreneurial Capital System.

Long running community case studies can provide powerful insight between cause and effect employing natural experiment frameworks. Ord, Nebraska, Valley County and Ord's region, represents a powerful entrepreneurship-led transformation story. Central to this rural community's remarkable success is its ability to mobilize and attract capital fueling a wide range of development.

Ord, Nebraska's Entrepreneurial Capital System

Ord is an area hub city (2020 population of 2,102) and county seat for Valley County (2020 population of 4,103) anchoring a very rural farming and ranching region of just under 10,000 residents. Ord and Valley County committed to entrepreneur-led community economic development around 2000 and have sustained this approach at a robust level for more than two decades. Ord and its region have been able to mobilize local investment and attract significant development capital. Based on e2's detailed case study, between 2000 and 2020, **more than \$250 million** in documented net new investment has been made. This is a huge capitalization value for a community of this size and situation. Major categories for allocation of this capital include:

- ✓ \$100 million in small business deals impacting about 100 entrepreneurs
- ✓ Major area and external investment into the ethanol value-added complex
- ✓ Brand new hospital and health care complex
- ✓ Public investments into schools, municipal and county facilities, fire service and parks
- ✓ Nonprofit investments into the Husk Performing Arts Complex and other public amenities

For a rural place of this size and situation, Ord has significant banking resources including:

1. Heartland Bank – Loan Production Center - Ord
2. BankFirst – Ord
3. First Interstate Bank – Ord
4. Pathways Bank – Ord
5. First National Bank of Ord – Ord
6. Farm Financial Services - Ord

Access to community banking is core to Ord's entrepreneur capital access system, but there are at least three other key elements:

1. Investors' Club and LLC Investor Groups for Specific Deals
2. LB840 and the City's Gap Financing Loan Program
3. Use of TIF or Tax Increment Financing

This rural community's ability to capitalize private, nonprofit and government investments and deals is impressive and somewhat unprecedented in the central Great Plains. Additionally, Ord is exceptional at infusing capital to all three venture types and purposes and from small to very large projects.

Ord is a story of one relatively small rural community. Our next story is a statewide entrepreneurial development initiative, NetWork Kansas.

The Ord, Nebraska story is one rural community's development success empowered in part by its ability to mobilize and attract capital. NetWork Kansas is a statewide story of how access to capital has fueled entrepreneurial development throughout the Sunflower State from neighborhoods in metropolitan Wichita to first-generation immigrants in meat-packing towns in southwestern Kansas to a wide range of communities throughout all Kansas regions.

NetWork Kansas' Entrepreneurial Capital System

In 2004, NetWork Kansas was created by an act of the Kansas Legislature. Over the past 19 years, NetWork Kansas has grown, innovated and possibly become the leading statewide entrepreneurial development ecosystem builder in the United States. NetWork Kansas is a **capital-led** entrepreneurship strategy. Working with entrepreneurs through their communities in partnership with community banks, NetWork Kansas deploys primarily gap financing loans to empower deals. The following are some key capital-related highlights from the NetWork Kansas experience:

- ✓ North Star focus on providing capital to under-served entrepreneurs and communities
- ✓ Started with a rural focus and now provides capital and programs across the state
- ✓ Began with providing capital to for-profit businesses and now can provide gap financing and even grants to nonprofit and governmental ventures
- ✓ Rapidly deployed capital to stressed businesses during the pandemic
- ✓ Created innovative capital products for challenged entrepreneurs and communities

NetWork Kansas' October 2022 **Performance Report** documents \$209 million in active deal flow throughout Kansas. Over its life NetWork Kansas has contributed to nearly a billion dollars of entrepreneurial deal flow. NetWork Kansas has scaled up, is high-performing, experiencing broad reach and making capital accessible to under-served and distressed entrepreneurs and communities.

NetWork Kansas's North Star is assisting under-served entrepreneurs and their communities.

NetWork Kansas is attracting capital to be redeployed to entrepreneurs from foundations, the State of Kansas, major banks, corporations, CDFI's ((Certified Development Finance Institutions) and now the new U.S. Treasury Department's SSBCI or State Small Business Credit Initiative. The State of Kansas has turned to NetWork Kansas to deploy both loan and equity to "socially and economically distressed" individuals and their small businesses. NetWork Kansas now represents a powerful model.

*To learn more about **The NetWork Kansas Financial Capital System** checkout e2's paper from August 2021. A hyperlink to this paper is available in the resource section.*

Time to wrap up with some final thoughts on the paramount importance of capital access for under-served entrepreneurs.

At the beginning of Muhammad Yunus' 2007 book Creating a World Without Poverty, Social Business and the Future of Capitalism he shares the following statement.

"To everyone who wants to create a world where not a single person is poor."

Yunus founded the micro-credit organization the Grameen Bank in Bangladesh and was awarded a Nobel Prize for his innovative work. Following the 1980s U.S. farm crisis, Yunus' Grameen Bank inspired Gene Severens with the Center for Rural Affairs to create a farm and small town version empowering rural residents in the central Great Plains.

Conclusion – Capital Access for Underserved Entrepreneurs

If you are affluent, have a great FICO score and live in a community with rich banking resources accessing capital is relatively easy. However, if you are working low-income or poor, have a moderate or weak FICO score and live in a community with limited financial resources, access to capital is a profound challenge. True to Muhammad Yunus' premise, creating capital access for those most in need of development opportunities is foundational to growing better lives and economies. Figure 5 overviews the three categories of people and communities most challenged in accessing capital.

Figure 5. Capital Access Challenged Groups

Under-served Under-served are those entrepreneurs and communities that have unintentionally more limited access to capital and other financial resources.	Marginalized Marginalized are those entrepreneurs and communities that because of intent or circumstances have a challenging time accessing financing and financial resources.	Discriminated Discriminated-against individuals and communities are victims of intentional and systematic barriers to capital. For example, bank "red lining" of neighborhoods in the 1970s.
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In America, discrimination continues to exist based on race, religion, education, national origin, gender, gender expression and other factors. Socio-economic segregation is intensifying, creating default discrimination best described as intentional to unintentional marginalization. For much of more remote and distressed rural America, while there is both discrimination and marginalization at play, the low-density and high-cost markets result in under-served conditions. There simply are not as many banks, programs and other capital resources available.

The U.S. Treasury's SSBCI is committed to reaching and benefiting "Socially and Economically Disadvantaged Individuals" (SEDI individuals and communities). Understanding why rural entrepreneurs and their communities are "disadvantaged" with respect to capital and credit access is important if we are to provide pathways to greater prosperity.

Entrepreneurial Capital Access Resources

1. ***The NetWork Kansas Financial Capital System, A Model for Other Regions and States.*** e2 Entrepreneurial Ecosystems. August 2021. https://www.energizingentrepreneurs.org/file_download/0cd6d354-c409-4884-842f-60754aa0a03e
2. ***Investors for Entrepreneurial Ventures, Insights from Republic County, Kansas.*** e2 Entrepreneurial Ecosystems. April 2022. https://www.energizingentrepreneurs.org/file_download/58cacec4-46bc-429b-98ee-859e8c5192c8
3. ***Entrepreneurial Capital System Elements.*** e2 Entrepreneurial Ecosystems. September 2022. https://drive.google.com/file/d/1dW5IFnOtVNIX2I5gFjsSqeKjb1FG23P9/view?usp=share_link
4. ***LLC Investors Profiles.*** e2 Entrepreneurial Ecosystems. October 2021. https://drive.google.com/file/d/1hWhn2YaMMvCfl96NPAVSkfYtd7MdTW0L/view?usp=share_link
5. ***Entrepreneurial Ecosystem Building in Rural America, Four Decades of Learning.*** e2 Entrepreneurial Ecosystems. June 2020. <https://www.energizingentrepreneurs.org/library/theme-papers/subjects/entrepreneurial-ecosystem-building.html>

Other Resources Referenced in this Guide

- ✓ Page 1 - <https://www.amazon.com/Mystery-Capital-Capitalism-Triumphs-Everywhere/dp/0465016154>
- ✓ Page 1 - <https://www.investopedia.com/>
- ✓ Page 2 - <https://home.treasury.gov/policy-issues/small-business-programs/state-small-business-credit-initiative-ssbci>
- ✓ Page 3 - <https://www.irs.gov/businesses/small-businesses-self-employed/limited-liability-company-llc>
- ✓ Page 3 - Ord, Nebraska Case Study - <https://www.energizingentrepreneurs.org/library/theme-papers/subjects/ord-nebraska.html>
- ✓ Page 3 – Philanthropic Impact Investing - <https://www.energizingentrepreneurs.org/library/theme-papers/subjects/ord-nebraska.html>
- ✓ Page 4 – Nanopolitan Communities – https://drive.google.com/file/d/1XPKeDY0vqFZQmPT42S2PyEdUa3sWWEg-/view?usp=share_link
- ✓ Page 6 – CDFIs - <https://www.occ.gov/topics/consumers-and-communities/index-consumers-and-communities.html>
- ✓ Page 6 – The Great Society Initiative - https://en.wikipedia.org/wiki/Great_Society
- ✓ Page 6 – U.S. Small Business Administration - <https://www.sba.gov/>
- ✓ Page 8 – Cooperatives - <https://en.wikipedia.org/wiki/Cooperative>
- ✓ Page 9 – TIF – Tax Increment Financing - <https://urban-regeneration.worldbank.org/node/17>
- ✓ Page 10 – NetWork Kansas - <https://www.networkkansas.com/>