

# Learning Community Development Finance

*Doing Development in Arkansas*, by Richard P. Taub

REVIEWED BY STEWART E. PERRY

*Doing Development in Arkansas* is a rich and fascinating case study of community development finance. It reminds us forcefully of all the pieces we must juggle in this field and so often do not manage well at all. The book has the added significance that the case is part of the story of the creation of a federal community development finance program in the U.S. and demands careful reading as we seek to shape a federal community development finance program in Canada.

The case, Southern Development Bancorporation in Arkansas, arose out of a 1986 invitation from the then-governor of Arkansas to ShoreBank Corporation, an effective community development bank in Chicago, to help the most marginalized section of his state. Governor Bill Clinton of course went on to become President, and he eventually got Congress to establish the Community Development Finance Institution branch of the federal Treasury Department. It continues to provide funds and technical support to CED-related lending and venture capital activities, most importantly to such community-based and successful groups as Coastal Enterprises, Inc. in Maine.

Taub got involved in studying Southern because he had already done a case study of the early history of ShoreBank (*Community Capitalism*, 1988). ShoreBank officers asked Taub to follow their work in Arkansas (they were to be concurrently at work expanding into

Ohio and Michigan). From 1988 when Southern was incorporated until 1997, Taub lived and worked for much of the time in southwestern Arkansas, and the authenticity of his fieldwork as well as his personal candor makes his book ring true for this CED practitioner. The people at ShoreBank and at Southern gave him unprecedented access to their work, and they deserve a lot of credit for allowing him to paint the picture of their work with all its warts. For to tell the truth, the initial process at Southern was not promising.

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Perhaps ironically, a brief recapitulation of ShoreBank’s history reveals some of the reasons why Southern’s performance was so disappointing in the period Taub reports. A small group of socially responsible investors in Chicago (initially with perhaps US\$8 million in capital) bought South Shore National Bank to demonstrate how a bank could operate on principles responsive to the revitalization needs of a small, mostly black neighbourhood, abandoned by Chicago’s financial institutions.

For years, ShoreBank struggled to learn how to make profitable the home and other mortgages that helped transform the neighbourhood. Its record

in business lending was less successful. ShoreBank built a relationship with neighbourhood needs through an array of divisions and subsidiaries, including a nonprofit that worked with neighbourhood groups on the needs of the lower income residents.

Partly because they were locals, the founders had useful connections in the city and elsewhere with which to lever additional resources. Within the first dozen years, Taub reports in the first book, they were responsible for bringing in more than \$150 million for housing,

infrastructure, and employment projects. Key members of the bank’s staff were South Shore residents and involved otherwise in that community’s activities.

Now, contrast that with the Arkansas situation. The Chicago founders had no ties to the area. They were invited by a governor who, while born *in* the target area, was not *of* it. Most of the board members recruited for Southern were also high-profile Arkansas personalities from outside the target area. This target was at first to be the Delta (southeast Arkansas) but was redefined as southwestern Arkansas – some 21,000 square miles with 650,000 in population. Unlike the small, declining neighbourhoods of

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## Résumé : Apprendre comment faire du financement de développement communautaire

Le livre de Richard Taub *Doing Development in Arkansas* (Faire du développement en Arkansas) décrit la première décennie tumultueuse de travail de la Southern Bancorp (Southern) pour revitaliser une région rurale en suivant l'exemple et les instructions de la Shorebank à Chicago.

La tâche de Southern était de rendre accessible du crédit à des entrepreneurs afro-américains de l'Arkansas. Une plus grande accessibilité encouragerait l'entrepreneuriat, créerait des économies locales et relancerait l'économie régionale. Mais l'évaluation du programme était mesurée en volume de prêts et non en impact économique. Les attentes étaient beaucoup trop grandes et le temps alloué beaucoup trop court, surtout pour un si grand marché cible. Southern a cherché peu de partenaires institutionnels, corporatifs et d'agences sociales avec qui partager le fardeau et l'expertise. De plus, Southern a fait du crédit pour les entrepreneurs sous-desservis le pilier de sa stratégie de développement. Ce qui a grandement sous-évalué la complexité des problèmes sociaux et économiques qui accablent les communautés qui se détériorent.

Ce n'est peut-être pas « l'histoire à succès » que plusieurs d'entre nous aimons entendre, mais la capacité des praticiens canadiens d'apprendre de cet exemple est de la plus grande importance pour nos efforts de créer un programme fédéral de financement de développement communautaire.■

Chicago, set within a major metropolitan area of myriad resources, southwestern Arkansas has long been marginal, depressed, and enjoyed only a limited relationship with a far-off urban center (Little Rock, the state capital).

Rather than concentrating on housing and related development as ShoreBank had, Southern's task was to bring credit to local (black) entrepreneurs whose businesses would be the start of a regional transformation. Little credit was thought to be accessible to such entrepreneurs. Thus the thinking was that greater accessibility would encourage entrepreneurship, build the local economy, and, moreover, send some of the benefits into the lower income residents (as employees, etc.).

The Chicago team and the board they recruited in Arkansas sought a bank to purchase and repurpose, after the ShoreBank model. After looking for over a year, they finally settled on one in a town far from the Delta region and in competition with two other local banks. ShoreBank made the purchase with capital from national foundations and two major Arkansas foundations, but by federal law could not actually own and operate it. It instead became a subsidiary of the newly-established Southern Development Bancorporation (now "Southern").

The Chicago team flew in every so often to be guides, mentors, consultants, and somehow bosses, if only tenuously, of the development bank staff they had newly recruited. With the exception of the president of the purchased bank (who left within a year), the most important recruits originated almost exclusively in cosmopolitan east or west coast settings. They were enthusiastic, highly-trained, and impressive people, but they were not thoroughly experienced in the specific kinds of development tasks with which they were charged. Of course, they were also personally unfamiliar with the intricate mores of the American South and its rural and racial contours.

Southern's board included such Arkansas luminaries as Hillary Clinton, Wal-Mart's Rob Walton, and Tom McRae (president of the Winthrop Rockefeller Foundation). But they did not manage to raise additional capital or generate business for the bank, and they and the managers never developed a close working relationship, as had been true at ShoreBank. The scale of capitalization (under \$13 million) was far below what could have a major impact on such a large and needy area. Beyond that, the network of related and subsidiary financial elements, separate corporations designed and set up for different specialized tasks as at ShoreBank, never saw themselves as partners in a common mission. They operated instead with their own individual aims and incredibly limited resources. A real estate investment company used up its capital in its first deal; the venture

capital arm had only enough funds to do about a dozen deals; and a lending company, pushed to become self-sufficient, undertook excessively risky deals to generate operating income.

Readers of this review, enmeshed in marginal communities whose problems outsiders (usually government officials) have long tried to solve with disjointed and limited programs, will readily recognize some of Southern's initial handicaps. It is no wonder that in its first six years or so the corporation accomplished very little of what its founders set out to do.

Just as the ordinary CED group experiences it, the main funders made unrealistic demands on the bank and its programs for self-sufficiency. Outside and inside assessment of progress was tied to volume of activity rather than to evidence of impact – a pitfall to which CED workers and their supporters are often prone – and all too understandable, given the scale of the CED task. Expectations were set much higher than the initial resources could have achieved, especially in terms of the size of the target area. Moreover, as we have learned over the years, impact can come only by enlisting many local and distant institutional, corporate, and social agency partners in the effort. Southern rarely spent any energy on that partnering process, and instead tried to do the work of development by itself. Little use was apparently made of lessons already learned by others, the insights reported in 1993 by Julia Ann Parzen and Michael Hall Kieschnick in *Credit Where It's Due*, for example.<sup>7</sup>

But probably the most significant handicap was the theory on which Southern was founded: that development would come primarily by providing credit to previously under-served entrepreneurs. That is simply not the theory of community or regional economic development, for it set one chief financial tool as the answer for what has to be

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<sup>7</sup> For a review of *Credit Where It's Due*, see Perry, "Practical Suggestions," *Making Waves*, 9,4 (Winter 1998): pp. 16-17. Incidentally, Taub unfortunately does not himself draw upon this essential book for his analysis of Southern Bancorp.

recognized as a complex socio-economic network of long-term problems. A single institution can successfully tackle a single problem in the complex of underdevelopment, but it can do so only in close concert with other specialized institutions focussed on the other major problems. Most ordinarily a lead institution (like a community development corporation) will be engaged with several issues and still need partners focussed on others. The fundamental insight of CED is that we cannot succeed in turning around a local economy except by a comprehensive system of efforts. The theory behind Southern ignored that.

Southern took on an enormous task and responsibility. All those associated with the effort deserve unstinted credit for their commitment to what was neither as easy nor as remunerative as a conventional finance career. Taub's book is a sympathetic but clear-eyed look at what could have been a doomed enterprise, unless it was redesigned. (Taub himself, departing from his role as observer, even occasionally intervened with advice.)

But that, after all, was the intent of the case study – to gain useful insights in the future of Southern for the staff and board. Because of the time limit to the study, Taub can't supply insight into how Southern (and ShoreBank) learned and acted on the "formative evaluation" that they commissioned. It has now been about four years since Taub's analysis has been available to them. The events and troubles that he documents are ten years

or more in the past. But they will form a critical backdrop to fully appreciating what has (or has not) occurred at Southern in the meantime.

I suppose in this time when "success stories" are the basis for so much journalism, some people will find Taub's book disheartening. Don't make that mistake! As the field of community economic development becomes increasingly sophisticated, we need to attend to community development finance in all its complexity, known and unknown. We can't do that without also confronting serious errors, honestly, clearly, and sympathetically.

Two other recent books are worth citing as a means of increasing our sophistication. In *Economic Development Finance* Karl Seidman details (to the neglect of some other important subject matter) the management challenges involved in various community development finance institutional formats. Dan Immergluck's *Credit to the Community* documents the rationale for community development finance, and why it must be part and parcel of reform in conventional finance institutions. True, marginalized communities have to be creative in constructing unconventional means of financing CED. But if their CED initiatives are to have significant long-term impacts, adequate access to conventional means of banks, insurance companies, and the like – and the strenuous advocacy needed to make that happen – are also essential.

Each of these works, like that of Taub, has its strengths. But take them together, and add Parzen and Kieschnick's work to the roster, and you have in hand the basis for a first-rate, self-organized orientation to community development finance today.



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The books cited in this review are:

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