SOUTHERN BANCORP

REVITALIZING THE RURAL SOUTH

Part of the *Partners in Progress* series from the Winthrop Rockefeller Foundation

Contents

For more than 35 years, the Winthrop Rockefeller Foundation has invested in our nonprofit partners to help improve the lives of Arkansans. With them, we are engaged in the long-term, complex, and essential work of helping people and places move from poverty to prosperity. WRF is deeply grateful to our nonprofit partners who engage so thoughtfully with us in setting and monitoring outcomes, learning from experiences, and grappling with tough questions and challenges.

We are often asked about what we are learning through our grantmaking, investments in nonprofit capacity building, and mission- and program-related investments. This monograph is the first in a series we have named *Partners in Progress* where we will share grantee stories and our collective lessons learned. We are publishing these reports in the spirit and practice of transparency, which is a core value of the Winthrop Rockefeller Foundation. We also want to document our grantmaking investments continuously to capture, reflect on, learn from, and adapt to the most effective charitable investment process. Documentation allows all stakeholders, not just grantees, to reflect on their ability to impact, influence, and leverage resources for positive change in Arkansas.

In the pages that follow, we tell the story of Southern Bancorp and WRF's 25-year partnership. We attempt to capture, share, and encourage conversation around some of the challenges and lessons learned during our partnership. This is not a story that has a precise and clear ending, or universal answers. Long-term strategic investing for positive change through grants, capacity building, and mission-related investing is an ever-evolving process. It is our hope that sharing this journey will reinforce the idea that it is philanthropy's responsibility to understand how its investments are playing out in homes, on the streets, and at the policy-making tables.

The Foundation will continue to engage deeply with grantees on defining, monitoring, and learning from their progress and setbacks. Over time and with future monographs, we hope to create a comprehensive map of the impact, lessons, and changing conditions in our state that will guide the recalibration of the Foundation's overall strategic direction, as appropriate.

As always, we welcome comments, questions, challenges, and wisdom from you regarding this report and our ongoing work. We also welcome new partners as we strive to help people and places in Arkansas move out of poverty. Contact me at swest@wrfoundation.org.

Sincerely,
Sherece Y. West, Ph. D.
President and Chief Executive Officer
Winthrop Rockefeller Foundation

The Winthrop Rockefeller Foundation, Governor Bill Clinton, and other significant business, community, and philanthropic Arkansas leaders founded Southern Bancorp in 1986 to provide access to capital to chronically under-served communities in rural Arkansas.

Southern Bancorp's innovative partnership with the Winthrop Rockefeller Foundation has evolved to meet new needs and challenges of rural development. The ability of this great partnership—the Foundation and Southern—to adapt, grow, and reach deeper levels of impact is something I think Governor Rockefeller would be very proud of.

This publication offers a thorough and candid perspective of Southern's history. It is important to note both successes and failures, as each leads to greater understanding. Our bottom line has and always will be how best to build the communities and change the lives of those we serve. Successful community development depends on a willingness to adapt and retool when necessary. As 19th-century Spanish philosopher George Santayana famously noted, "Those who cannot remember the past are condemned to repeat it." Lessons learned are a powerful and critical component of Southern's long-term success.

The generous support and partnership offered by the Winthrop Rockefeller Foundation during the last quarter century have enabled Southern's social mission impact and financial performance to set the gold standard for community banking in the United States. We believe that the three pillars of our long-term mission—helping children graduate high school and go to college, advancing rural economies so individuals and families can find work, and reducing the number of people living in poverty—are critical in these challenging economic times, and we look forward to another quarter century of partnership between the Foundation and Southern.

Sincerely,
Phillip Baldwin
President and CEO
Southern Bancorp

PARTNERS IN PROGRESS

A Report for the Winthrop Rockefeller Foundation, Volume One Prepared by Frontline Solutions, Inc. / Written by Kathryn Hodge Matchett, Marcus Littles, and Bianca C. Williams / Photography by Cade Collister and Jamaica Woodyard Gilmer / Edited by Brian Baughan

Background and Methodology

Dedicated to bringing to life the vision of its founder, Winthrop Rockefeller, and transforming the lives of all Arkansans, the Winthrop Rockefeller Foundation (WRF) has been committed to promoting change for more than 35 years. By engendering systemic change in the areas of education, economic development, and economic, racial, and social justice, WRF continues to use grantmaking and other forms of strategic investments as tools for empowering local communities.

In an effort to assess the progress the organization is making in these endeavors, and to gain insight from best practices and persistent challenges, WRF has commissioned a series of publications to examine some of the Foundation's long-term investments. This series is titled *Partners in Progress*. Volume One profiles Southern Bancorp, an institution that WRF has partnered with for 25 years. With over $10.5 million invested in Southern Bancorp, the nation's largest rural Community Development Financial Institution, WRF has committed to Southern's vision of creating and maintaining a community development model that helps rebuild and transform rural communities in Arkansas and Mississippi.

For this project, WRF engaged Frontline Solutions, a national research organization committed to supporting organizational learning and development of philanthropic and nonprofit organizations. Frontline acquired the assistance of Arkansas-based researcher Kathryn Hodge Matchett, a research consultant and expert in international development, in order to understand fully the impact WRF's investments, and Southern's work, are making in Arkansas.

Hodge Matchett gathered the data for this project through face-to-face and phone interviews with past and present members of WRF and Southern; analyzing the Foundation's reports and internal documents; acquiring community responses and assessments through external books and archived newspaper articles; and making site visits to locations where the physical impact of these investments could be seen and observed. In this report, Hodge Matchett discusses the best practices, challenges, and lessons learned from Southern, in order to provide insight into the best strategies for improving the opportunities and economic outcomes of Arkansas residents.

Here are some highlights from Hodge Matchett's findings:

Best Practices

⋆Collaboration and community participation are crucial for making change

A collaborative approach to change has been significant for Southern Bancorp, as its participatory and comprehensive model of community development requires the cooperation and participation of, and collaboration with, residents, nonprofit affiliates, and financial and educational institutions in the communities it serves. For Southern's programming to have a long-term impact, various members of these Arkansas communities must be on board and dedicated to the mission.

⋆Turning research findings into action

WRF's financial support for Southern's research needs *and* for the staff to act on the findings from that research have been a crucial part of Southern's success. Frequently, grants only provide enough support for the research to be completed, and do not take into account the financial requirements of putting that research into action. This support has enabled Southern to directly impact public policy at the state level.

Challenges

⋆Working through initial losses and institutional changes

Southern has faced challenges that are familiar to many institutions trying to make community change happen. Overcoming obstacles that may arise in the preliminary stages of executing programming, such as initial losses or direction changes, *and* learning lessons from these early challenges are crucial for becoming an anchor institution that can weather the storm. Eventually, Southern was able to negotiate and bring together the varied approaches and ideologies of the banking and nonprofit industries to establish a complex organization that benefited from the best of both worlds.

⋆Documenting impact

Southern Bancorp found it somewhat difficult to document the direct impact its initiatives have had on the communities served, particularly when it came to showing the impact of long-term struggles for public policy change. Since much of the work completed by Southern is initiated by long-term investments in communities, and is geared toward systemic change (instead of short-term gains), documenting the results can be hard to do. This sometimes makes it challenging for WRF to fully realize the impact its strategic investments are making in Arkansas.

Lessons Learned

★Providing "patient capital" yields important returns

The long-standing support and patience that WRF has provided Southern have greatly impacted not only the type of work Southern has been able to accomplish, but also *how* the organization has been able to advance its institutional mission. Repeatedly, interviewees pointed out that, without WRF's long-term economic support, much of Southern's programming would have fallen by the wayside. Through economic downturns, shifting political environments, organizational growing pains, and leadership transitions, WRF stuck by supporting the vision of Southern. By investing in long-term policy and systemic change, instead of short-term and cosmetic fixes, WRF helped Southern do what is *best* for Arkansas residents. For Southern, it was important to receive WRF's continued investment and "patient capital" in order to allow a clear program model to emerge over time. Engaging in this type of commitment can be risky business; Southern is grateful for the confidence WRF has shown in this partnership, and in return shows its appreciation by harnessing WRF's resources to create real change in Arkansas.

★Social innovation and risk-taking are necessary for successes in community change

In addition to assuming the risks of engaging in long-term commitments with institutions, WRF has continued to take bold action by supporting pioneering models of social innovation and experimentation in relation to community engagement. However, funding innovation is not a one-time investment; rather, it takes supporting an institution or an idea long enough so that the organization can fully emerge after recovering from inevitable failures. Combining banking and nonprofit organizations can be difficult to do effectively, and WRF provided consistent support for Southern throughout the complicated, yet innovative, process. Southern's theory of change was developed and honed over the course of the 25 years in which WRF has been a supporting partner.

SOUTHERN BANCORP: Revitalizing the Rural South

Southern Bancorp was first funded by the Winthrop Rockefeller Foundation in 1986 and is currently the nation's largest rural Community Development Finance Institution (CDFI).[1] The success and longevity of Southern's programming can be attributed to the organization's dedication to a community development model that is participatory, comprehensive, and long term. Southern is like other banking institutions because it provides the expected menu of financial services. Yet, its model is unique because it also has a targeted focus on helping rural communities in Arkansas and Mississippi transform themselves. Southern can be described as a bank with values, which are articulated in the organization's stated mission to "improve education, increase employment, and reduce poverty."

In its early years, Southern immersed itself in program construction and processes that would immediately address the most important issues the organization observed in its target communities. However, these strategies often lacked the necessary focus on long-term and sustainable change. After fifteen years of investing in rural communities, Southern took an honest, hard look at the impact of its work, and what it discovered led to a courageous decision to transform its approach to rural community development.

This profile explores the evolution of Southern's innovative rural community development model and the impact it is having in Arkansas and Mississippi. The opportunities and challenges unique to a rural CDFI are highlighted, bringing to light the complexity of rebuilding distressed communities. Furthermore, it describes the lessons learned in a 25-year partnership between WRF and one of its long-standing grantees.

The research for this profile looked specifically at the history and impact of Southern's work on the state of Arkansas. The methodology was relatively straightforward and consisted of the following: data analysis and document review of Southern Bancorp and WRF internal documents; review of community strategic plans and notes; reading and summarizing independent impact evaluation conducted on Southern's work; Internet research; literature review; and interviewing key informants among Southern staff members, board members, and community constituents.

WRF's investment is also highly valued by Southern because it helps fill a void in rural development funding. Though 20 percent of Americans live in rural areas, less than

1%

OF U.S. GRANTMAKING FOUNDATIONS ALLOCATE MONEY FOR RURAL DEVELOPMENT.

THE INVESTMENT: A Risky Investment and a Fruitful Partnership

In the early 1980s, WRF was searching for a meaningful investment opportunity and exploring the idea of creating a self-sustaining organization to serve the people of Arkansas. At the same time, then-Governor Bill Clinton was looking for a way to increase economic opportunity in the Delta. It was in 1986 that WRF and Governor Clinton combined forces to announce a new finance institution modeled on Chicago's South Shore Bank (ShoreBank), an urban CDFI. The goal was to provide rural Arkansans with much-needed access to capital to buy homes, get an education, and build businesses.

As the initial primary investor, WRF provided funds to cover the development expenses required to establish a CDFI in Arkansas and jump-start program-related investments[2] (PRIs) through stock purchases.[3] Over the years, WRF has made non-stock PRIs and purchased additional stock up to the legal limit.[4] In addition to these investments, WRF has awarded multiple grants to Southern's nonprofit affiliates and, in 2009, transferred its regular banking services to Southern as part of an overall effort to advance its community development objectives in all aspects of business operations.

In total, WRF has invested $10,556,065 in Southern over the years. Instead of expecting a financial return in the form of dividends, WRF requested a social return on its investment—the development of rural Arkansas communities and real change in the lives of Arkansans.

WRF's investment in Southern was indeed a risky investment for a foundation to make. A bank by its nature is highly leveraged and at risk of failing if not managed well. In the mid-1980s the CDFI was an unproven concept, and this type of equity investment was new for a foundation. According to WRF President and CEO Dr. Sherece West, the initial investment was a "stretch" in that it represented a large percentage of WRF's available funds.[5] And, though the model seemed like a brilliant idea, no one knew if it would work in rural Arkansas.

There are a few particularly noteworthy aspects of WRF's investment in Southern. First, the Foundation was willing to forgo a financial return on its investment, enabling Southern to reinvest those dollars in its community development work. Second, WRF and Southern have taken steps to ensure a long-term partnership. Having a stable funder in WRF has afforded Southern the luxury of time to better understand how to help revitalize rural communities. These insights have influenced the way in which Southern engages with a community, the services and products it provides, and the construction and transformation of its own internal structure. Furthermore, WRF's investment is also highly valued by Southern because it helps fill a void in rural development funding. Though 20 percent of Americans live in rural areas, less than 1 percent of U.S. grantmaking foundations allocate money for rural development.[6]

Southern decided to focus deeply on a few counties, setting three 20-year goals for each: 50 percent reduction in poverty; 50 percent increase in the high school graduation rate; and

50%

INCREASE IN EMPLOYMENT.

THE DRIVE: The Evolution of a Community Development Model

A cold winter day in 2004 found Phil Baldwin driving through the Arkansas Delta on one of his biweekly visits to the town of Helena.[7] The Southern Bancorp President and CEO was feeling good about the investments the organization had made since its inception. At the time, Southern had provided over $1 billion in loans to create thousands of jobs in rural Arkansas and Mississippi. But as Baldwin drove into town, satisfaction gave way to sadness as he was greeted by the all-too-familiar empty streets, dilapidated houses, and shuttered storefronts, all reminders that Helena had not yet been revived as the vibrant, bustling river town it once was. In fact, he noticed for the first time that the town looked worse than it did the year before. "The Drive," as this story is now referred to at Southern, was a powerful moment of clarity that caused the organization to change its course.

Baldwin realized during "The Drive" that Southern's goal of providing capital to three-quarters of Arkansas was an "inch-deep, mile-wide" approach. Southern Senior Vice President Ben Steinberg explains, "Making a loan in one community and another two counties away was not achieving social impact. It was not changing trajectories. Communities were still spiraling down. Providing access to capital was only part of the solution. We decided to look at all the constraints to community development."[8]

Southern and the Walton Family Foundation subsequently entered into an intensive yearlong study to determine how to make a significant positive impact in rural Arkansas. A review of 295 published articles on community development projects in the Delta revealed that 90 percent had never been implemented and, of the 10 percent that had been, 90 percent had failed. According to Baldwin, "The two primary reasons for failure were short-term funding and the project being conducted by outsiders leaving behind a piece of paper no one believed in."[9]

The study also underscored the complexity of community development. A community cannot attract business without a skilled workforce, which a failed education system cannot produce. Lack of employment opportunities leads to an out-migration of the population. A dwindling population leaves no market to support retail and service providers. Southern and the Walton Family Foundation concluded that all of these interconnected factors must be addressed simultaneously. According to Baldwin, "When asked the age-old question, 'Which comes first, the chicken or the egg?' we answer 'Both.'"[10]

Following this study, Southern's mission of providing access to capital to under-served rural communities expanded to a more comprehensive mission of revitalizing rural economies, which required an "inch-wide, mile-deep" approach. As a result, Southern decided to focus deeply on a few counties, setting three 20-year goals for each: 50 percent reduction in poverty; 50 percent increase in the high school graduation rate; and 50 percent increase in employment. A new geographic focus concentrated Southern's community development efforts within a 50-mile radius of its bank branches. To reach these three 20-year goals, Southern facilitates a participatory strategic planning process through which a broad spectrum of residents—teachers, business owners, government officials, health care providers—came together to produce and implement five-year strategic plans that address five pillars of community development: economic development, education, health care, housing, and leadership development.

Southern's ability to provide loans and grants, and to leverage funds from other sources, helps it play a key role in turning strategic plan goals into reality. One such success is the investment in Arkansas's first "24/7" childcare facility, established in the Clark County Industrial Park. The facility was funded through a combination of a $690,000 grant from the U.S. Department of Health and Human Services, a $300,000 USDA grant for loan funds, and private financing. Southern also provided substantial technical assistance to help launch the center, which today serves more than 100 children, employs more than 20 people, and offers a strong recruitment and retention tool for businesses.

Another creatively financed program investment is the Boys & Girls Club of Phillips County, which was built through the combination of a donated facility, $500,000 raised from individuals and businesses, and $240,000 from Southern's Delta Bridge Project, funded by the Walton Family Foundation. According to Southern Bancorp Capital Partners Chair Brian Miller, "The next generation of leaders in Phillips County is being raised right now in our Boys & Girls Club."[11] Southern also leveraged federal dollars to help finance Helena-West Helena's Southern Place Apartments, which is fully occupied with low-income residents transitioning into home ownership. Southern Place is one example of the 175 affordable rental housing units Southern has helped build or renovate.

These examples of Southern's work illustrate the organization's community development model and how it plays out in communities. Essentially, Southern changed strategic directions and, as demonstrated in the Phillips County example and others, the institution has implemented a community development and change model characterized by: 1) deeper engagement in fewer rural communities, 2) long-term strategic plans informed by local stakeholders, and 3) the leveraging of investments with federal monies. These characteristics, while not novel, are unique in the extent to which they have been scaled in the rural context. WRF's investments in Southern over nearly a quarter century have been more than mere grants to an institution; they have been investments in an emerging model for providing economic opportunities for low-income Arkansans, particularly in rural communities.

Key Components of Southern's Community Development Model

Supplementing Southern's "inch-wide, mile-deep" approach to investing capital in rural communities is its dedication to three components of the organization's community development model: a participatory process that engages a broad spectrum of the community, a comprehensive approach that addresses the interconnected factors of community development, and a sustainable funding mechanism. Southern believes that a long-term focus on these three practices is critical to sustaining community development.

Southern's engagement of people from all sectors of the community in creating and implementing a shared vision and goals is built on the principle that it is the people themselves who best understand their strengths, needs, and aspirations. Because participatory development is driven and "owned" by the community, it tends to be a long-term endeavor, as opposed to a short-term fix by an outsider. A participatory process builds capacity by strengthening partnerships, capitalizing on individual and organizational skills, and fostering community pride and hope. Dr. Wesley Kluck, chair of the Clark County strategic planning steering committee, credits the participatory strategic planning process with "turning what was our biggest weakness, divisiveness and lack of unity, into our biggest strength, unity and a common purpose for our county." Kluck adds that the unified vision and the committee structure created through the strategic planning process enable the county to respond quickly to new economic development opportunities as they arise.[12]

Another key component of Southern's model is its comprehensive approach to community development. WRF believes its three investment areas—education, economic development, and economic, racial, and social justice—are highly interdependent, with education the catalyst for the other two areas. Similarly, Southern recognizes that it must invest in the five pillars of community development simultaneously because the health of each sector depends on the vitality of the others. When transformation in one sector influences change in the others, there is a synergy that would not exist if each area were addressed in isolation.

A final aspect of Southern's community development model that must be emphasized is its unique funding mechanism. Short-term infusions of capital or time-specific grants provide temporary boosts to the local economy but are no replacement for generating capital and credit from within the community, or for attracting capital from outside the community.[13] The ability of Southern's nonprofit affiliates to provide grants and below-market-rate loans, combined with the capacity of its bank to provide market-rate loans, makes it an invaluable resource in a community. Southern's unique financing ability, coupled with its capacity to mobilize resources from within the community and to leverage funds from external sources, births a rare and powerful sustainable community development funding mechanism. Southern Senior Vice President Ben Steinberg predicts, "Southern's model will become a national model for a new type of philanthropy."

THE IMPACT: Southern's Imprint on Rural Arkansas

Southern's community development model, the output of its work, and the impact it is having on lives and communities are evident in the two connected roles the organization plays: that of direct provider of asset-building services and public policy advocate. The following are brief descriptions of these roles with examples.

Direct Provider of Asset-Building Services

Many low-income communities lack access to credit because most financial institutions find it too costly to service them. Southern specializes in providing credit to these "unbanked" individuals and communities.

- In 2008, Southern made 4,018 loans, of which 56 percent were for less than $10,000. These small loans, which help rural residents start small businesses, repair homes, purchase transportation, and access health care, are key to reinvigorating rural economies. To date, Southern has made $2.3 billion in loans in high-poverty areas.[14]

- Southern's Asset Builders Program helps low-income families acquire homes, small businesses, and higher education. Clients receive economic skills training and one-on-one counseling, and save money through matched savings accounts, such as Individual Development Accounts (IDAs).[15] To date, 610 asset purchases have been started or completed, and clients have saved $1.98 million through their own deposits and matching funds. Southern has also opened 651 children's matched savings accounts to help families save for college education.[16]

- Southern partnered with WRF to support the promotion of a state-level Earned Income Tax Credit (EITC) and the launch of three pilot Volunteer Income Tax Assistance (VITA) sites. Southern is working to secure funding to develop and sustain proven VITA site models throughout the state, which could result in low-income Arkansans netting $104 million annually in additional income.

- Southern's nonprofit loan fund, Southern Bancorp Capital Partners (SBCP), has made over $55 million in small business loans and helped secure nearly $6 million in loans and grants from other sources for business development and education.

Tawana Dunlap was a single mother sleeping on family members' couches when she learned of the availability of childcare assistance for students in Southern's Career Pathways Program. Today, Dunlap, who has also taken advantage of Southern's other asset-building services, is a proud Registered Nurse. "It really feels good to have my own vehicle, my own home to come to, my own stuff in my house—and I own my own couch!" Dunlap explains. "You never know what kind of help someone needs and is afraid to ask for. To get someone who knows how to open doors for you and allow you to walk in them with your head up…" Her voice trails off as she fights tears. "I appreciate what Southern has done for me throughout the years. If they can help anyone who

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gets in hardship… it's the best investment anyone can make."[17] It is a value that CEO Phil Baldwin and the Southern community share with Dunlap. Says Baldwin, "The ultimate goal is human dignity."[18]

Public Policy Advocate

Andrea Dobson, WRF's Chief Financial Officer, counts her Foundation's support of Southern's policy research and coalition-building efforts among its proudest contributions to addressing poverty in Arkansas.[19] Southern's public policy program increases the impact of its mission beyond direct service and touches the lives of low-income Arkansans throughout the state. "Some organizations conduct policy research to shape thinking," explains Dr. Karama Neal, Interim Director of Southern Good Faith Fund (SGFF), a Southern affiliate that includes public policy among its activities. "Others work to pass legislation. Southern does both."[20]

Southern achieved its first policy victory in 1999 as the lead advocate for Act 1217, which created the Family Savings Initiative and established Arkansas's IDA program, which is funded by the state at $1.7 million per year. A 2006 research survey on the effectiveness of the IDA program found that,

in addition to having a significant impact on asset accumulation among low-income households, the program encourages sustained savings, increases the use of traditional banking services, and promotes greater economic self-sufficiency. More than half of the survey participants who had received public assistance when they enrolled in the program no longer received such assistance when they graduated.[21] Another successful coalition-building effort led by Southern against predatory lending triggered a government response that resulted in the last payday lender in Arkansas closing shop in July 2009. Payday lenders, who charge exorbitant interest rates of 400–500 percent, had been taking more than $45 million annually from Arkansas households.[22]

Southern also directly influences public policy at the state level by demonstrating how successful programs can be scaled for broad impact. Southern's Career Pathways Program (CPP) provided the model for the Arkansas Career Pathways Program, a cooperative initiative of the Arkansas Department of Higher Education and the Arkansas Department of Workforce Services. Since 2005, $44 million in funding has been secured for the program, which now serves students in 25 two-year colleges. The statewide CPP program is an education policy success that has significant economic implications. In a 2009 speech, President Obama stated that jobs requiring at least an associate's degree are projected to grow twice as fast as jobs requiring no college experience. "We will not fill those jobs—or even keep those jobs here in America—without the training offered by community colleges."

In addition to effecting policy at the state level, Southern has influenced federal policy. President Clinton's creation of the Community Development Finance Institutions Fund in 1994 was a direct result of his experience partnering with WRF on the Southern banking model. The CDFI Fund expands the capacity of financial institutions to provide credit, capital, and financial services to under-served populations. Since its creation, the CDFI Fund has awarded $1.11 billion to community development organizations and financial institutions. In FY 2007, the nation's CDFIs leveraged $621 million with private investments, financed more than 4,000 affordable housing units, and capitalized businesses that created or maintained nearly 30,000 full-time equivalent jobs.[23]

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THE HARD ROAD: Challenges Southern Has Faced Over the Years

The impact that Southern has been able to have in rural communities has not been without mistakes and roadblocks. The following are a few of the challenges that Southern has faced during its existence.

The Early Years: False Starts and Errors

The establishment and early development of Southern presented a plethora of challenges, many of which are outlined in Richard Taub's book *Doing Development in Arkansas.* According to the author, the initial challenge of raising more than $12 million, purchasing a bank, and establishing a complex organization was no small feat and one for which the initial investors should be commended. However, the early days were filled with mistakes and disappointments, including high loan losses; the collapse of Southern Ventures, a venture capital arm of Southern; and a failed housing project. Southern's history also includes painful stories of previously healthy businesses becoming over-extended and failing once credit was provided to them. Taub lays out a laundry list of causes for the failures, including a lack of coordination between the bank and nonprofit affiliates; an inability to create partnerships and leverage resources; inadequate financial and human resources for the scale of the problem; and the appointment of a staff of Chicago "outsiders" who did not connect with the community.[24]

The challenge for WRF during those tough times was finding the patience and conviction to stick with the partnership. WRF CFO Andrea Dobson recalls, "The board did some real soul searching."[25] A program officer once asked, "What happened to the idea that this was an experiment with lots of unknown parameters and opportunities to learn? It is now perceived as a business that is expected to automatically succeed, and people are unreasonably impatient with false starts and errors. This is about learning."[26]

Today's Challenges

A turning point came in 1996, when the bank was taken over by local Arkansas managers who began forming partnerships and leveraging resources, both critical to the development of local economies. Over time a new model evolved that addressed many of the problems of the early days. However, the complex and dynamic nature of community development ensures that Southern will always face challenges. What follows are three challenges the organization faces today:

Providing Capital to Under-Served Groups
Increasing lending to under-served groups like African Americans and low-income individuals has been an objective since Southern's inception, and is crucial to accomplishing WRF's aims for racial, economic, and social justice. However, lending to these under-served groups has never reached levels that Southern or WRF seek due to the inherent challenges of lending in a distressed market and the lack of preparedness of some individuals to manage a loan. Recognizing the need to build capacity, Southern is looking for innovative ways to augment its financial education, technical

support, and training services to reach these under-served groups over time without incurring financial losses.

Managing a Hybrid Organization

The combination of for-profit and nonprofit elements introduces a cross-cultural dynamic to Southern's team: nonprofit employees tend to be passionate and driven by the organization's mission, while bank staffers tend to be more numbers-oriented and concerned about the bottom line. The diversity of perspectives and backgrounds enhances learning and spawns more creative and successful solutions. However, at times there can be tension between a philanthropic goal and the bank's bottom line, and the staffs of the bank and nonprofit affiliates have had to learn to recognize when an idea presents a good opportunity to work together and when it poses a threat. Phil Baldwin says his biggest challenge is "keeping the nonprofits running like nonprofits and the bank working like a bank"—a lesson the organization learned in the early days when it nearly collapsed due to management's failure to make this distinction.[27]

Building Hope in Historically "Hopeless" Places

SBCP President Joe Black has devoted some reflection to how difficult it is to provide access to economic opportunity in communities that have been historically marginalized. "There is a psycho-social component of poverty that breeds distrust. The distrust, cynicism, and lack of hope make the social aspect of community development more daunting than the economic aspect," says Black.[28] "In much of the South, where agricultural economies thrived on the exploitative labor of African Americans, the lingering effects of oppression heavily shape the social aspect of community development."

Southern aspires to espouse a brand of community development that brings together diverse groups of people to develop and implement a unified vision that has the power to change mindsets and build hope. Phil Baldwin recounts numerous stories in which he can point to a tangible role that Southern's work had in "building hope." However, the history of social and economic isolation and marginalization in many of the communities that Southern reaches has left a legacy that poses a continual challenge for the organization.

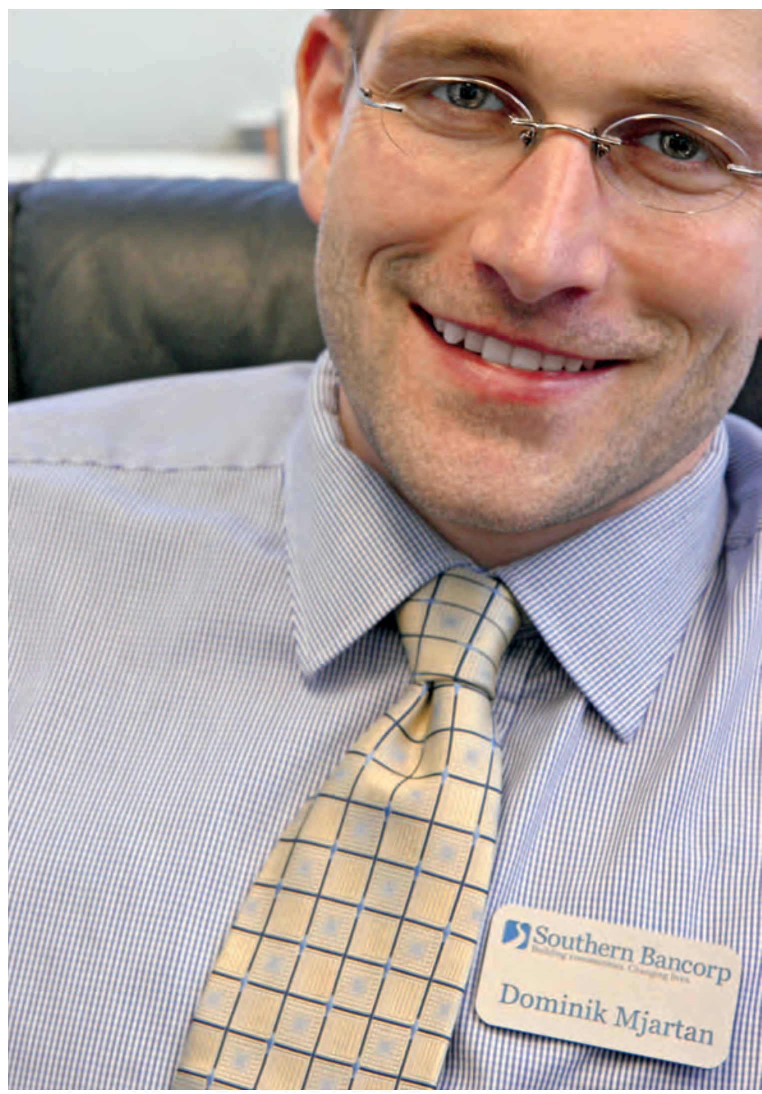
THE LESSONS: Reflections from a Long Journey

Southern Bancorp is not only an important organization in the state of Arkansas, but an anchor institution. This chapter has documented and recounted numerous ways in which Southern provided access to economic opportunity for rural communities. Examples range from the Boys & Girls Club of Phillips County to the compelling story of Tawana Dunlap. WRF and Southern have learned a lot over the course of their 25-year partnership, about the hard work of empowering low-income communities and about how funders partner with local organizations.

Four particular lessons stand out:

1. Taking the Right Risk Will Yield Rewards

Perhaps the most important lesson WRF has learned from the Southern "experiment" is that taking the risk to pioneer a new model of philanthropy can pay off. WRF invested in an idea. Southern was entrepreneurial in its planning and growth over the years, and WRF continued to support the emergence of an institution and a model. The risk produced a



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BANK—the nation's largest and most profitable rural development bank and the second-largest CDFI, with 45 locations in Arkansas and Mississippi, more than 250 employees, two nonprofit affiliates, and a community development model that continues to make an impact.

tremendous return on investment—empowering individuals and communities to build roads out of poverty. "It is easy to get on a moving train," explains SBCP President Joe Black. "It is harder to start a train from a complete stop. That is what WRF did."[29] The story of WRF and Southern should encourage philanthropy to continue to support tested ideas while recognizing the crucial importance of continually supporting and nurturing emerging ideas and institutions. This usually requires risk.

2. Patient Capital + Social Innovation Can Produce Anchor Institutions

Southern credits WRF's 25-year partnership with giving it the freedom to learn, grow, and evolve. The mistakes during the early years led to a different management style, and the realization that its efforts were not revitalizing communities led to a dramatic change in how it approached community development. Continuing to support Southern during difficult periods required WRF to have what Southern Vice President Dominik Mjartan calls "patient capital."[30] It also required maintaining that Southern stay the course of experimenting and testing unproven strategies, which allowed space for learning and innovation. WRF had the courage to invest patient capital, and Southern was a good steward of this investment by bringing a dogged persistence and commitment to innovative strategies that would best serve low-income rural Arkansas communities.

3. "To Research or Not to Research" Is an Important Strategic Question

There is often a necessary tension within philanthropy around supporting research. In some cases, foundations will over-invest in research at the expense of providing sufficient resources for organizations to do their work. In other cases, foundations undervalue the importance of research and instead funnel their resources to ideas or institutions that lack empirical or qualitative research to support their theory of change. The tension between these two (extreme) schools of thought is palpable and even constructive. WRF has not by any means mastered the perfect balance. However, the story of WRF's partnership with Southern validates the necessity for this tension. WRF invested in Southern Bancorp to research and plan in addition to supporting it to implement and "do." Most organizations need support for both processes to be maximally effective in serving their constituency.

4. Rural Models Must Be Supported Long Enough to Test Their Effectiveness

Generally, there is a scarcity of rural development models that have received sustainable resources from philanthropy in order to develop sound best practices and models that are proven effective in the rural context. Funders such as the National Rural Funders Collaborative, Foundation for the Mid South, Fund for Appalachian Ohio, and WRF are just a few examples of philanthropic entities that are either charged to invest in rural communities or whose geographic area comprises mostly rural communities. It is vital that these foundations, as well as others, invest in promising models over the long term so the field has more models to reference. Similarly, it is also important for philanthropy to invest in documenting the current models that have proven to be effective, such as Southern Bancorp.

THE DRIVE CONTINUES: The Road Ahead to Economic Opportunity for All Arkansans

Twenty-five years and several reincarnations later, Southern Bancorp is a $1.1 billion bank—the nation's largest and most profitable rural development bank and the second-largest CDFI,[31] with 45 locations in Arkansas and Mississippi, more than 250 employees, two nonprofit affiliates, and a community development model that continues to make an impact. Profits from the bank are funneled into the affiliates, whose services can be easily accessed by community members in the bank lobbies. Southern Bancorp Capital Partners (SBCP), a Southern affiliate, specializes in comprehensive community development activities and community development lending. Another affiliate, the nonprofit Southern Good Faith Fund (SGFF), provides low-income residents with a range of asset-building services.

Today, when Phil Baldwin drives into Helena-West Helena, he sees a community transforming itself. In the town center, abandoned buildings have been razed, a park is being created, and historical structures are undergoing renovation. A few blocks away, students in suits shake the principal's hand as they leave KIPP, one of the highest-performing schools in the state. Across town, black and white, young and old are utilizing the new 45,000-square-foot Delta Area Health Education Center, the largest construction project in the county in a decade.

And statistics are changing. In a county with a teen birth rate more than double the national rate, there have been no teen pregnancies among the 500 members of the Boys & Girls Club of Phillips County since its opening in 2006.[32] One hundred percent of KIPP graduates are going to college, compared to the county's average college enrollment rate of 10 percent. The high school graduation rate in Phillips County increased by 16.3 percent between 2003 and 2007, compared to a 2 percent increase statewide, with Southern's investment in the public school system receiving credit for the sharp increase.[33]

Yet there is still much work to be done. During that 2003–2007 period, Phillips County saw an increase in out-migration, a drop in per capita income, and a decline in employment growth.[34] Southern remains focused on reversing these negative trends, and in ten years Helena-West Helena will have produced a critical mass of college graduates predisposed to returning to and investing in their hometowns. Casey Perry, a senior at KIPP, is on his way to the University of Arkansas or Auburn to study industrial engineering. On the subject of returning home, Perry says, "I believe I will come back. I should give someone else a chance."[35] Phil Baldwin believes that to attract kids like Perry, Southern must help rural counties achieve the three 20-year goals: 50 percent reduction in poverty, 50 percent increase in high school graduates, and 50 percent increase in employment. Southern is committed to it. Baldwin has devoted his life to it. "On my tombstone, I want it to be written that we accomplished this."[36]

Endnotes

1 A Community Development Financial Institution (CDFI), as defined by the CDFI Fund (www.cdfifund.gov/what_we_do/programs_id.asp?programID=9), provides a range of financial products and services in economically distressed markets underserved by traditional finance institutions. CDFIs include community development banks, credit unions, loan funds, and venture capital funds. Accessed Jan. 11, 2010.

2 Program-related investments (PRIs), as defined by The Foundation Center (www.foundationcenter.org), support charitable activities that involve the potential return of capital within an established time frame. PRIs include loans, loan guarantees, linked deposits, and equity investments in charitable organizations or in commercial ventures for charitable purposes. Accessed Jan. 11, 2010.

3 Other founding investors included Walton Family Foundation, MacArthur Foundation, Ford Foundation, and Mott Foundation.

4 An entity that owns 25 percent or more of a bank is defined by law as a "bank holding company." From FDIC, www.fdic.gov/regulations/laws/rules/6000-300.html#fdic6000sec.2a. Accessed Jan. 10, 2010.

5 Sherece West, personal interview, Jan. 7, 2010.

6 "Rural Nonprofits Must Overcome Significant Hurdles to Attract Funding." National Committee for Responsive Philanthropy, Aug. 7, 2007, www.ncrp.org/news-room/press-releases/106-822007-rural-nonprofits-must-overcome-significant-hurdles-to-attract-funding. Accessed Jan. 11, 2010.

7 In 2006, Helena consolidated with West Helena and is known today as "Helena-West Helena."

8 Ben Steinberg, telephone interview, Dec. 8, 2009.

9 Phillip Baldwin, personal interview, Dec. 4, 2009.

10 Ibid.

11 From *Southern Bancorp: Building Communities, Changing Lives* video, Jan. 2010.

12 Wesley Kluck, telephone interview, Feb. 11, 2010.

13 Kretzmann, John P., and John L. McKnight. *Building Communities from the Inside Out: A Path Toward Finding and Mobilizing a Community's Assets* (Chicago: ACTA Publications, 1993), p. 293.

14 High-poverty areas are U.S. census tracts where at least 20 percent of residents fall below the federal poverty line, www.census.gov/hhes/www/poverty/definitions.html. Accessed Jan. 11, 2010.

15 Individual Development Accounts (IDAs) are matched savings accounts that enable low-income families to save for homes, education, or small businesses. The framework emerged in the early 1990s through "asset-based" policy research that advocated asset-building programs to alleviate poverty. From FDIC, www.fdic.gov/bank/analytical/quarterly/2007_vol1/IDAs-and-banks.html. Accessed Jan. 11, 2010.

16 This figure represents 576 accounts of the Aspiring Scholars Program, which offers matching funds to Arkansans who contribute to the Section 529 plan, plus 75 SEED accounts. The SEED (Saving for Education, Entrepreneurship, and Downpayment) Policy and Practice Initiative was a ten-year pilot that set the stage for national asset-building policy for children and families. From CFED, http://cfed.org/programs/abc/childrens_savings_initiatives. Accessed Jan. 11, 2010.

17 From *Southern Bancorp: Building Communities, Changing Lives* video, Jan. 2010.

18 Ibid.

19 Andrea Dobson, personal interview, Jan. 14, 2010.

20 Karama Neal, personal interview, Dec. 9, 2009.

21 "Arkansas IDA Program: Survey Shows Broad Impact," *Policy Points,* vol. 28, Oct. 2006, www.southernggf.org/_pdf/pub_pp/pp_v28_9_06.pdf.

22 "Remarks by the President on the American Graduation Initiative," White House Press Release, July 14, 2009 (www.whitehouse.gov/the_press_office/Remarks-by-the-President-on-the-American-Graduation-Initiative-in-Warren-MI). Accessed Jan. 11, 2010

23 From CDFI Fund (www.cdfifund.gov/impact_we_make/overview.asp). Accessed Jan. 10, 2010.

24 Taub, Richard T. *Doing Development in Arkansas* (Fayetteville: University of Arkansas Press, 2004), pp. 115–131.

25 Andrea Dobson, personal interview, Jan. 14, 2010.

26 Taub, 115.

27 Phillip Baldwin, personal interview, Dec. 4, 2009.

28 Joseph Black, personal interview, Jan. 19, 2010.

29 Joseph Black, personal interview, Dec. 17, 2009.

30 Dominik Mjartan, personal interview, Dec. 1, 2009.

31 Among urban and rural CDFIs.

32 In 2006, the teen birth rate in Phillips County was 86.3 compared to 59.1 for Arkansas and 42 for the United States. Sources: "Phillips County Health Facts FY 2008" www.healthyarkansas.com/publications/Countypercent20Healthpercent20Factspercent20Brochures/Documents/PHILLIPS.pdf) and the CDC's National Vital Statistics Report, vol. 57, no. 7, Jan. 7, 2009 (www.cdc.gov/nchs/data/nvsr/nvsr57/nvsr57_07.pdf). Accessed Jan. 12, 2010.

33 Lionel J. Beaulieu and Roberto Gallardo, Southern Rural Development Center; Deborah Tootle and Richard Moss, University of Arkansas Cooperative Extension Service; Mark Harvey, Florida Atlanta University. *Annual Evaluation of Delta Partners Geographic Initiative*. April 2009.

34 Ibid.

35 Casey Perry, personal interview, Jan. 19, 2010.

36 Phillip Baldwin, personal interview, Dec. 4, 2009.

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