

Terri Johnsen: Sorry, we don't have dollar coins under the seat.

Good morning, and welcome to the Federal Reserve Board this morning. I'm Terri Johnsen, and I'm the associate director of Community Affairs here at the Board. We're excited to be co-hosting this meet, the Rural Community Development Venture Capital Conference, long name, along with the Federal Reserve Bank of San Francisco, who is co-hosting the event with us.

The mission of the Community Affairs department of the Board, as many of you know, is to promote fair and informed access to financial markets for all consumers, recognizing the particular needs of underserved communities. While very different from the macroeconomic policy focus of the Federal Reserve, the work of the Community Affairs Offices is complimentary of the Fed's broader mission by recognizing that not all markets work efficiently and that different approaches are necessary to overcome market failures in many communities.

In partnership with other Reserve banks across the Federal Reserve system, the Community Affairs Offices accomplish this effort in a number of ways, such as your biennial Community Economic Research Conference, publications that we put out, publications that you have at your desk, like the *Community Development Investment Review*, events and convening such as the one we're having this morning.

Each of the 12 Federal Reserve districts has a Community Affairs office and have staff and cities where there are Federal Reserve Bank branch offices. Many of you here today have worked with our offices across the country, especially in the Appalachian region.

Ruth Clevenger is here. Ruth, raise your hand. She's with the Federal Reserve Bank of Cleveland and has a long record of partnership with rural community and economic development. One of the first meetings I attended of the Appalachian Regional Commission was held at the Pittsburg branch in the Cleveland district.

We also have Alfreda Norman. Alfreda, raise your hand. She's from the Federal Reserve Bank of Dallas, and she's a community affairs officer there. While not in the Appalachian region, certainly rural areas throughout Texas. Colonia is one example that comes to mind readily where rural and economic development and capital accumulation is very important.

We also have folks that work in offices in Atlanta and in Richmond here. We have folks here from the Federal Reserve Bank of Atlanta. Jessica, who has worked hard and long in rural development issues. And so, across the system, we are very interested in these issues and have worked long and hard with many partners who are here in the room to promote this kind of information.

This conference, specifically, is a continuation of the work that the San Francisco Federal Reserve Bank's Center for Community Development Investment has undertaken. It dedicated an entire issue of its journal, this *Community Development Investment Review*, to the topic of rural Community Development Venture Capital, and I'd like to take this opportunity to acknowledge Scott Turner. Scott, can you – there you are, right over there. Scott is a community affairs officer at the Federal Reserve Bank on San Francisco who leads the effort. He worked with David Erickson, who is the manager of the Center who initiated the idea for this conference and worked along with Kerwin Tesdell and John Moon and with Ray Daffner of the Appalachian Regional Commission to organize this conference and bring everybody together.

I know the first hand the importance and critical challenges of rural development, having lived and worked in the Kansas City Reserve Bank for a number of years, and in the executive branch of Kansas state government. I worked in Kansas state government at a time when rural economic development was critical. It was the time of the oil and energy crisis and the agricultural crisis where banks were closing every week. You'd wake up to the Thursday morning that this number of banks would close throughout the state of Kansas, and it was a dire time.

We are pleased to host this esteemed group that represents the vital sectors and institutions involved in rural venture capital, and our sincere hope that the presentations and discussions today will generate creative and thoughtful approaches in addressing the challenge and opportunity of tapping venture capital funds for sustainable rural economic development.

This morning you will hear also from Kerwin Tesdell and Anne Pope. Kerwin is the president of the Community Venture Capital Alliance, and he brings a rich background to the discussions today. He's been a law professor. He's been a Ford Foundation program director, Legal Assistance service provider and a consultant to venture capital providers and bankers. One theme has generated

his interest throughout his career, that theme of fostering economic growth and development through work and finance and job creation. He has a consistent record of finding opportunities to engage a variety of partners in efforts that support policy development and innovation leading to economic growth.

I'm also pleased to say that this morning you will hear from Anne Pope, and Anne Pope has also an illustrious record of working on these issues. She's the federal co-chair of the Appalachian Regional Commission. In Colorado, folks say you can't water the fields with thunder, and Ms. Pope, like Kerwin, has proved that actions speak louder than words. Anne, as I said, has had a distinguishing career promoting economic development in the public and private sector. Her work began in Tennessee and now reaches throughout the 13 states that comprise the Appalachian Region. She is well acquainted with the needs of rural populations and works with conviction to promote economic vitality and build opportunities for rural businesses and residents.

We at the Fed share your enthusiasm for these important efforts that are going to take place today and in the future, because we are going to talk later about how the proceedings of today will be captured and published later. We look forward to seeing you and talking more personally with each of you today and look forward to the discussions.

Anne, I welcome you.

*[Applause]*

*Anne Pope:*

Thank you, Terri. It's great to be here, and I'd like to just take a moment and thank Terri and John Moon and John Olsen, who is with the San Francisco Federal Reserve, and everybody in the Federal Reserve system. It's so good – we're so glad to be here, and it's really great to work with you in this initiative. I'd also like to acknowledge – I don't know if Tom Dorr is here, who's the undersecretary at the U.S. Department of Agriculture, one of ARC's best partners. It's great to have one of our best partners here with us.

I'm so pleased to be here to welcome you to this conference on behalf of the Appalachian Regional Commission. For those of you who are not familiar with our agency, the Appalachian Regional Commission – or as we fondly call ourselves, ARC – is a unique organization. It is a federal/state partnership, and I represent the federal part of the partnership, and the state side of the partnership

is the 13 governors from the 13 Appalachian states, which run from New York to Mississippi, and our state partner is represented here today by Bobby Lewis.

Bobby, will you stand? Bobby's from West Virginia – *[Applause]* and each year, the governors from the 13 Appalachian states elect a state's co-chair, and Governor Mansion from West Virginia is this year's state's co-chair, and Bobby Lewis is therefore, most all the time, is the state's co-chair for ARC, so it's great that Bobby could be with us.

ARC was created by Congress in 1965 to be an advocate and partner for the people of Appalachia, to help create opportunities for sustaining economic development and improved quality of life. We cover a large territory, as I say – 13 states, 410 counties, and another way to look at it, 200,000 square miles and nearly 23 million people. Our goal is to help bring Appalachia to social and economic parity with the rest of the nation.

We've made a lot of progress doing this. Since ARC's inception in 1965, poverty rates have been cut in half in the Appalachian region. High school graduation rate is at or above the national average. Infant mortality is now below the national average, and tens of thousands of jobs have been created in the Appalachian region, and not least, we have built over 2,500 miles of safe interstate quality highways to promote commerce with the rest of the country.

But serious challenges remain in Appalachia. As a result of globalization, the world has been changing in dramatic ways, and it has also in Appalachia. Structural changes and declining sectors in our region such as textiles, apparel, steel, coal, mining and tobacco have hit Appalachia particularly hard. They threaten to reverse some of the economic gains that have been made in our region, so that means that Appalachia, like a lot of the country, has to change, and ARC must change with it. So our focus of making strategic investments to advance Appalachia have changed over the years, and that's why we've adopted a variety of strategies to address these new economic challenges that face Appalachia.

Growing businesses to create jobs, that's our mantra. That's what we're about. We're about job creation, and that's at the forefront of ARC, and to that end, we established several years ago an entrepreneurship initiative, a multi-year program to build entrepreneurial economy across our region. It builds on traditional revolving loan funds programs to increase debt capital available to

emerging businesses in Appalachia. These funds have already made some 1,800 loans worth over \$118 million to support business activity in our region.

But the entrepreneurship initiative engages ARC on an entirely new level. It has four major objectives. One is improve access to investment capital. Two, educate current and future entrepreneurs through new training programs in middle schools, high schools and community colleges. Three, nurture new businesses by creating technical assistance networks through business incubators, we have more than a hundred across our region; association development; and private sector resources. And four is strengthen local economies by identifying and capitalizing on particular industries in which communities in Appalachia have a particular competitive advantage.

Through the over \$31 million that ARC has invested in entrepreneurship projects, it has leveraged another \$45 million from other sources and created over 1,200 new businesses in our region and 5,000 new jobs. We have also directly invested over \$4 million in ten rural equity programs that serve our region, and to date, these equity programs have raised over \$120 million in investment capital from range of sources including private capital, treasuries, new markets, tax credit program and SPA's new markets venture capital program. As of 2005, they have helped create over 60 businesses and well over a thousand jobs.

Key to this success has been our dealmaker, our deal man as we call him at ARC, Ray Daffner. Ray, can you stand up. He's our entrepreneurship manager – *[Applause]* and he has worked very hard and, let me just say, in a very entrepreneurial way to help promote business and help entrepreneurs in our region. We're always wondering what Ray is going to come up with next, and he has been good with ARC to make us think entrepreneurial as an organization, and I really think he has helped move entrepreneurship in Appalachia to where we're at the forefront in many of our initiatives, and I really credit that to Ray. So thank you, Ray.

I think our work at ARC in entrepreneurship has taught us one overriding lesson. The region's future economic vitality, a large measure depends on nurturing homegrown firms that encourage innovation and risk taking and enhancing investment in new businesses.

Two capital credit studies that we have undertaken have

underscored how important equity capital funds are to expanding businesses in the region and how important the role of the Federal Reserve Bank is. The Federal Reserve Bank, your ability to shape opinions and highlight opportunities in both investment and policy worlds is unsurpassed. We are pleased to be a partner with the Federal Reserve, both today and in the future, to partner with you to – Terri and I were talking earlier, and she was talking about the Federal Reserve being an honest broker that can bring people together, and I think that’s very true. But I also think that the Federal Reserve can and is being a catalyst, certainly in our region, to make investing in rural America cool and successful. So thank you, Terri.

We’re also pleased to partner with the Community Development Venture Capital Alliance. They are a leader in the field and have worked tirelessly to support and grow the investment industry. Working together, we can strengthen the culture of entrepreneurship that is gradually taking root in Appalachia and in all of rural America, but sometimes that means we have to look at the same things in a different way.

Agatha Christy, the famous mystery writer, once was asked what it was like to be married to an archeologist, and she said, “Oh, it’s wonderful. The older I get, the more interested he is,” and that applies to investments as well. There are obvious places in which to invest in this country, urban areas with strong prosperous economies. But let’s not forget the rural areas and even those areas that are economically challenged. They may be less obvious, but they too can hold great potential.

Consider one of the most economically distressed areas in the United States, Mingo County in the state of West Virginia. It is where West Virginia Aqua was started in 1999, a thriving agriculture company that makes use of abandoned coal mining water to raise arctic char. That is water which you may be surprised to know is very pristine and very cold. It is ideal for raising that kind of fish. West Virginia Aqua is now raising more than 450,000 pounds of arctic char every year. It owes its strong growth to its investors, including the ARC-supported Natural Capital Investment Fund, who has driven it to the top of the agriculture industry. Not only is it generously rewarding its investors, it has created scores of new jobs and is looking forward to a bright future.

That is just one example. There are many others I could cite. What they all have in common is creativity, hard work and

investors willing to take a chance. That's a recipe for success, and it can be made in Appalachia, and it can be made in all of rural America. Thank you very much.

*[Applause]*

*Kerwin Tesdell:*

Good morning. My name is Kerwin Tesdell, and I am the president of the Community Development Venture Capital Alliance. We are the association of venture capital funds that provide equity capital in underinvested areas, including rural areas in the United States, including urban areas of the United States, inner-city urban areas, and also international. There are now funds in the developing world, in Western Europe, in areas all over the world. So this is a model that translates internationally.

On the other hand, I'm gonna steal the thunder of one of my slides that's coming up in a talk I'm going to give in a moment and say that this is really a strategy, a model that was invented in rural America, and rural America is still the place where developmental venture capital is at its highest level, and you'll hear from some of the practitioners, some of the members of CDVCA, in an hour or so about what they do, and I think this is a very important conference, where we're going to look at this strategy and think about how we can move it forward.

And I just again want to thank Terri and the folks at the Fed and also Anne Pope and the folks at ARC for cooperating and pulling this together, particularly our colleagues here, David Erickson, John Moon, Ray Daffner, who I've spent a fair amount of time on various conference calls and putting together lists and so forth, and I think the results are here in this room, and I think we're gonna have a terrific meeting.

I wanna say a little bit about why we're here and the charge for this meeting. First of all, you should know that you are a select group of people. This was not an open invitation. This is not a conference. This is a meeting of peers who – and you were all chosen because you bring something to the table, and while there will be panels who will be discussing specific issues, all of you, we believe, have something to add to this conversation, and we're looking forward to having a conversation with you.

The meeting is laid out in three panels and a final wrap-up discussion session. These three panels represent three important constituencies, three important ways of thinking of this problem. Our first panel is a panel of practitioners, the people who are out

there raising money from investors in rural areas, investing in companies, helping them grow and then exiting those investments and returning market rates of return to their investors, and we're gonna hear from them about how they do their work, but also what the challenges are in doing this kind of work in rural areas and some of the ideas that they have about how their job can be made easier.

Likewise, we'll hear from a group of investors who invest in funds in rural America. We'll hear about what they do. We'll hear about their challenges. And we'll hear about their ideas about how their work can be facilitated. And finally, we'll hear from a panel of experts in public policy, from academia, from the Hill, from government agencies about what they do and some of the policy ideas they have to push this field forward.

So the idea of this meeting – it's not the typical talking heads kind of conference. This is intended to be a conversation. We are hearing from some particular people who have a particular place in this industry first about their ideas, but after each panel and then finally in the final session, the wrap-up session that'll be lead by Malcolm Bush from the Woodstock Institute, we really intend to have a conversation among all of us about the purpose of this conference, which is to really think about where this field is, rural developmental venture capital, what it means, where it's going and what it needs to advance to the next level. And from this process, we'll be putting together a publication that will review the field with some data and information about the field but also which will capture the policy recommendations that come out of this meeting, and our hope is that this will be a launching pad for a real policy effort to push policy at the federal level, at the state level, to try to encourage what we think is really an important and promising strategy of rural developmental venture capital.

So that's what we're about today. Again, I want to thank our partners in organizing this meeting, but I also want to thank all of you because you're important participants in this process.

I am going to give a quick overview of the industry, but first we thought it would be helpful – I know it's a big room, but the idea of this conference is to bring you folks together and get you folks talking, get your ideas, also to get you to share your ideas. So if we could fairly rapidly just go around the room, give your name, organization you represent, I think that will help our conversation as we go through the day.

Maybe Hank, do you want to start?

*[Audience Introducing Themselves Off Mic.]*