RETHINKING RURAL DEVELOPMENT

CFD

Rethinking Rural Development

Corporation for Enterprise Development

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Preface

What Is the Corporation for Enterprise Development?

The mission of the Corporation for Enterprise Development (CFED) is to promote economic vitality and opportunity for all, but particularly for low-income people and communities. It views itself as an advocate for socially responsible economic development and seeks to achieve this mission through a mix of:

- Policy analysis, development and experimentation;
- Technical assistance and training; and
- Public education and leadership.

In essence, CFED can be described as a research, development and dissemination organization. The Corporation differs from most research institutes and think tanks in that CFED also tests its policy ideas in the field through consulting, technical assistance and training activities. The lessons from this work, in turn, are fed back into its policy analysis and development activities. These applied efforts constitute CFED's "laboratories": They help staff experiment with new approaches, evaluate their viability and generate new ideas.

States, Rural Communities and the New Economy

This approach to its business has served as CFED's starting point for designing and implementing its rural development work during the last 13 years. CFED staff have actively worked with rural communities that have been hit by major plant closings. We have also designed strategic planning processes for small towns and counties and piloted them in a number of states, designed training courses on the topic, helped states implement programs to increase the development planning skills of regions and individual communities, and crafted sustainable development agendas for rural settings.

During this period, we were also struck by the enormous changes rural areas are undergoing:

- The American economy is no longer the world's top performer and is facing tough new competitors. Foreign competition has profoundly affected the agricultural and manufacturing sectors — the foundation of many rural economies. For instance, rural manufacturing is increasingly vulnerable to lower-cost or better-skilled competitors overseas, and has restored only a fraction of the jobs it lost in the last recession. Similarly, employment in family farm agriculture has continued to shrink and the farmers forced out of agriculture during the late 1980s tended to be younger, more well-educated and commercially-sophisticated than earlier ones who lost their farms. In addition, as technology changes ever more rapidly, it spreads to every corner of the world. No community or business, no matter how geographically remote, can rest on its laurels.

- Government at all levels is caught in a fiscal squeeze. The monstrous federal budget deficit closes off the option of large national investments in rural America. Voters will continually balk at new or increased taxes. Continued suspicion of government's ability to solve problems will persist. And voters will insist on efficiency and better performance measures in the public sector.

  Simultaneously, more responsibilities are being pushed to the local level by state and federal governments — but often without the funds to pay for them. Ironically, despite the growing anti-government sentiment among segments of the populace, many citizens want more from the public sector. Indeed, they desire a thoughtful and active government that can grapple successfully with the growing problems of unemployment, crime, education and the environment.

What does this mean for rural communities? First, *rural development needs to be rethought* in the light of the conditions and trends that today's state and local policymakers and civic leaders face. No longer should rural development be synonymous with agricultural extension services, attracting footloose plants, or earmarking (always insufficient) funds for rural infrastructure projects. Second, states must adapt their policies and programs to reflect the wider variety of businesses and economic sectors in today's rural communities and regions. A policy approach of *"one size fits all" will not work.* Third, rural policies and programs have to leap ahead in terms of the quality and impact of their program delivery, their customer service and friendliness, and their effectiveness and accountability. Given the complexity of today's rural problems and the scarcity of public money, *government as usual will not succeed.*

Fourth, state governments have a critical role to play in building the capacity of regions and communities to make effective development choices, based on real comparative advantages, and to act on those choices. Indeed, if many rural communities are to survive in our "brave new world," *better leadership is absolutely critical.* More citizens must become active in solving community and regional problems and these new leaders must possess a vision of new possibilities. Leadership also must become more diverse, representing all segments of the community. Finally, *greater knowledge of best practice* in economic and community development and enhanced expertise in motivating action, resolving conflicts and building new organizational partnerships and coalitions for change are required. These ideas became the guiding lights for a new rural development project at CFED.

CFED's State Rural Economic Development Project

Given this broad view of our "mission," we sought to focus our efforts on testing CFED's ideas concerning the need to improve the quality and impact of state policies, to devise a strategy that recognizes the considerable diversity of rural areas within most states; to explore regional, as well as local, options; and to build the capacities of regional and community leadership to identify and sustain their comparative advantages. This broad program then took the form of a series of discrete but interrelated initiatives.[1]

Thinking and Advising

We began by writing two versions of a "think-piece" on principles for effective rural development that was used to guide much of the discussion and planning in a separately-funded project managed by the Council of Governors' Policy Advisors (CGPA). This Aspen-financed CGPA effort entailed working with 15 states in two separate "rural academies" that devised rural development strategies. CFED staff also acted as part of its on-site faculty.

Networking

CFED staff conducted research on alternative approaches to rural networking and put together a directory of state and local policymakers and practitioners (almost 1500 people and organizations) engaged in community and economic development in rural areas.[2]

Shaping State Strategy in Texas

To explore how best to customize an appropriate rural strategy and integrate it into a larger planning effort, CFED created a partnership with the state of Texas. This experiment grew out of a major Texas initiative, the "Forces of Change" project, to re-examine state economic development policies in the face of economic restructuring. Texas policymakers sought to:

- Examine the impact of this restructuring on traditional industries in the state;
- Determine the likely growth sectors of the future;

- Assess how restructuring would affect Texas' urban and rural economies;
- Determine which sectors and geographic areas would benefit the most from intervention; and
- Evaluate how the state should use its key investment tools — its tax policies, direct appropriations and other development policies.

The Forces of Change project was intended to shake traditional views of the Texas economy, build a consensus around likely future trends and develop a common vision and strategies for action.

CFED staff acted as rural advisors to the project, participated in planning sessions, advised other researchers and produced two papers. The first, entitled "Ten Myths and Realities about the Future Texas Economy," synthesized the results of dozens of studies undertaken in the Forces of Change effort. The second, "Texas in Transformation," raised major issues facing regions in Texas and was organized into three broad categories: (1) An Economy in Transformation; (2) People in Transformation; and (3) Government in Transformation. This piece concluded with policy recommendations and case studies of relevant examples to guide the state's new approach to assisting lagging substate regions.[3]

Exploring a New Regionalism

Given the changing nature of state economies and the difficulties that small communities face in positioning themselves effectively in the global marketplace, we believed the project should explore regional approaches to development. We tried out three options.

Organizing Resource Providers Through a Statewide Network

First, we piloted a "top-down" initiative with the state of Nebraska, which sought to develop a model for organizing communities and resource providers into a statewide development network, and reorient state agencies and programs to work through that network. Like most states with a significant rural population, Nebraska is characterized by a large number of widely scattered small communities.[4] Most lack the information and capacity to make sound choices about development strategies and to act on those strategies. With communities increasingly asked to take an active role in determining their development future, building the capacity to effectively use financial and technical resources is essential to effective state development efforts. Yet most states lack the resources to work with more than a handful of communities each year. Other organizations provide strategic planning, leadership or other capacity-building services but face similar financial constraints. Additionally, since resource providers lack a common vision or set of tools to build local capacity and are often unaware of the resources of other providers, communities typically face difficulties in finding appropriate sources of assistance.

To tackle these problems, Nebraska policymakers wanted to design a statewide Community Development Network that would organize resource providers into regional associations; use working groups (e.g., recruitment, ag/food processing, development finance, community development, etc.) to devise better tools and approaches to service delivery and capacity building; create an information system for better state decision-making and program monitoring; and reorganize delivery of state programs and services to take advantage of the resources the Network could provide.

CFED was asked to help design effective tools and information systems for the network to use, as well as to advise the Rural Development Commission and the network steering group, which was overseeing the initiative. We worked with Nebraska development staff on identifying measures that could eventually be used to enable each of the state's eight regions to apply a similar set of economic, demographic and social indicators to track substate and program performance. Other work entailed counseling policymakers on developing the Network's business plan; on designing network support functions, including electronic databases, a Community Academy training curriculum for resource providers, a simple community assessment approach, and a regular newsletter; and on establishing a new set of roles and performance indicators for managing how the state government's Division of Community and Rural Development would operate within the proposed network.

Building Capacity Through Self-Assessment

In Indiana, CFED chose to work with the Indiana Economic Development Council (IEDC), a quasi-public policy and planning organization specializing in state economic development. In contrast to the state-driven Network approach, IEDC wanted to start smaller, but still initiate a longer-term process to generate greater regional and local capacity to act, and promote greater regional cooperation and leadership awareness of the breadth of rural issues (which still tend to be equated with agricultural interests).[5]

This lab focused on testing two analytic tools to assist state policymakers and regional leaders to better understand the economic development needs of substate areas. The first tool was an economic health assessment that analyzes the overall status of a region's economy, relative both to the state and to other similar rural areas across the nation. The second tool was a policy impact assessment that analyzes the effect of state policies on economic development in a specific geographic area.

Rural communities are too numerous, too diverse and have problems that are too entrenched for short-term applications, such as one-time technical assistance or marginally funded initiatives, to have any real effect on those communities.

The findings from these analyses were discussed in regional forums and used to determine key issues for action. Further CFED research focused on how existing state policies and programs discouraged regional cooperation to build and upgrade water and sewer systems in rural communities, and this led to recommendations for state reform and regional action.

Enhancing Regional Performance Through Benchmarking

Our successful Indiana work encouraged us to further refine our economic health assessment methodology. Thus, our third regional project involved devising a more sophisticated Regional Performance Benchmarks System. This would allow state and regional policymakers to determine exactly how well their regions stack up against their peers in terms of economic performance and capacity. By doing so, they could better understand the economic structure of a substate region, help regions to pinpoint their chief competitors and analyze their own relative performance and opportunities, challenge misconceptions about rural economies and their economic structure, appraise the comparative strengths and weaknesses of all of a state's regions, and adjust state policies to meet their particular needs.

Test runs of this benchmarking tool in six pilot states (Florida, Indiana, Maryland, Minnesota, Nebraska and Texas) confirmed the basic lessons of our Indiana work. It provided revealing information on the ability of various regions to employ such strategies as manufacturing modernization, tourism/retirement/retail, high value services, resource-based development, self-employment/small business and "bedroom" communities.[6]

Reinventing Program Delivery Systems

"God and the Devil are always in the details" goes the adage. In practical terms, this means policymakers can possess the greatest insight into what's wrong with rural development and how it should be fixed. But if program delivery is poor, success will elude their grasp.

In addition, it could be argued that development programs must be judged by a higher standard. Given funding constraints and the anti-tax fever among citizens, state policymakers are asking for trouble if they fail to explore new methods for achieving a lasting impact on rural issues. Rural communities are too numerous, too diverse and have problems that are too entrenched for short-term applications, such as one-time technical assistance or marginally funded initiatives, to have any real effect on those communities. And more intensive one-on-one assistance is usually too expensive to deal with the thousands of communities in a state. What is needed are new approaches to create better development support systems of public, private and nonprofit partnerships that move beyond doing the right thing to really making a difference.

Creating a Voice for Rural Issues

These reflections suggested that we help the state of Virginia structure a rural development office, the Center on Rural Development (CORD), to serve as the central voice on rural policy. CORD was housed in the Department of Housing and Community Development and, unfortunately, given by the Governor and the legislature an impossibly broad mandate and a tiny budget.

The purpose of this laboratory was to enable CFED to help design an effective way to mobilize rural policy across departmental lines and to help CORD speak for rural issues and communities.[7] To be effective, CORD had to answer three key questions:

- Which particular roles is it best suited to play?
- In which policy areas is it most likely to have an impact?
- How best can the policy development role be carried out without alienating departments mandated to deliver programs?

CFED then collaborated closely with CORD's staff and its Advisory Council by:

- Researching best practices in other state rural development offices;
- Facilitating regional meetings across the state to generate citizen and organizational input into CORD's design;
- Conducting a policy scan of Virginia's rural development system; and
- Writing a proposal to organize the state's rural policy functions through the Center on Rural Development that described more specifically how its mission, philosophy, goals, strategies, service mix and organizational structure can be tailored to build local capacity and improve state policies and programs outside the Center's immediate span of control.

Establishing New Standards for Effective Business Development

Our second effort to reinvent delivery systems focused on rural business development policies and programs. This work rested on the assumption that, while industrial recruitment remains an important component of state development policy, it is less and less fruitful in most non-metropolitan areas, which generally lack the conditions to attract globally competitive manufacturing. And while states have adopted an array of homegrown business development strategies over the last decade, they typically have focused outside rural areas.

Could these business development programs work in rural America? After all, program delivery problems are often magnified in rural areas. Program scale is more limited than in urban areas, with initiatives often funded at marginal levels while still seeking to serve hundreds or thousands of widely dispersed small companies. The lack of professional capacity in many regions leads to a state monopoly on program delivery. Many states tend to centralize services in the capital and not explore other more decentralized approaches. Firms in rural communities are frequently less well informed and isolated from key pieces of market intelligence than their urban counterparts. State accountability and management information systems often prove inadequate to the task of monitoring such far-flung state operations.

To address these problems, CFED staff evaluated nine business development programs in states, targeting manufacturing, microenterprise and natural resource-based development.[8] These three sectors were exhaustively assessed, using what CFED calls a "Third Wave" perspective. At its core, the Third Wave is concerned with the governance and accountability of economic development programs. Its key concern is: how to do more — and do it better — for less. Moreover, a common thread runs through the new governance approaches exemplified in Third Wave approaches to development, and it can be recognized in five strategic objectives:

- *Involve customers.* Before launching a program and during its operation, Third Wave policymakers consult with the people or firms it is designed to benefit to help identify development needs and devise more effective services and methods of delivery. Indeed, these customers, so to speak, often are formally involved in designing, revising or operating the program.

- *Increase customer options.* A Third Wave initiative introduces a range of service options from which customers may choose according to their needs and circumstances. It uses incentives not to restrict choices, but rather to increase the pool of economic growth options.

- *Build capacity.* Third Wave efforts enhance the capability of people, firms and organizations to take action and make rational choices for their own benefit and that of the community.

- *Leverage development effort.* To achieve sufficient scale, Third Wave programs leverage government resources and activity to attract the participation of private sector and nonprofit institutions in addressing a development need.

- *Link the economic with the social.* Third Wave strategy recognizes that, in a globally competitive economy, business development depends on human development. It strives to craft strong ties between business assistance, social service and education and training services, or even to fully integrate them, eliminating cross purposes and heightening government effectiveness and efficiency.

After the research was completed, we wrote a lengthy report consisting of detailed case studies and the lessons learned.

Rethinking Rural Development

This publication is a digest of this array of activities. It maps out a new direction for rural development policy, one that focuses on building smarter and more agile rural development institutions. Chapter One describes how rural development needs to be rethought. Chapter Two outlines why regional, and not just local, strategies need to be pursued for rural development efforts to succeed. Chapter Three introduces CFED's concept of the Third Wave. Chapter Four applies it to two program areas: creating rural development offices and designing and implementing business development initiatives. Chapter Five walks the reader through the steps in tailoring an appropriate rural development effort. And Chapter Six, the conclusion, wraps up the argument and summarizes our main points.

Chapter 1

Rethinking Rural Policy

Rural America has been hammered by a wide variety of economic and demographic shocks generation after generation, but since the 1930s the basic rural development strategy has clung to the same formula:

- Rely on federal leadership and funding;
- Support the modernization of the family farm-based agriculture;
- Recruit the branch plants operations from major companies; and
- Extend infrastructure development into under-served rural areas.

In years past, this formula worked on a massive scale to ameliorate extreme poverty and deprivation by bolstering rural America's agriculturally-based economies and by bringing it basic amenities and jobs. But today the needs of a competitive and profitable local economy are quite different. As Thomas Bonnett puts it in his new book, *Strategies for Rural Competitiveness: Policy Options for State Governments*: "Cheap land and cheaper labor costs, in domestic terms, were yesterday's comparative advantages for rural communities; tomorrow's comparative advantages, in a globally competitive environment, could be the work ethic and skill levels of the rural workers; the quality of rural America's telecommunications infrastructure; and the adaptability and flexibility of rural communities to changing economic conditions."[9]

Specifically, the traditional rural development formula falls short because:

- The size of the federal deficit will continue to forestall an increase in federal spending.
- Rural America is no longer agricultural America. During most of their history, farming was the foundation of rural economies. But now only about one-fourth of rural counties, mostly in the Midwest, can be regarded as truly dependent on agriculture. And these areas account for less than seven percent of the U.S. nonmetropolitan population. In fact, manufacturing now contributes a larger share of employment in rural areas than in urban communities.
- Despite the continued willingness of states and localities to focus their economic development energies on recruiting large branch plants (what some observers call the "buffalo hunt"), the overwhelming evidence suggests that the majority of new jobs comes from the expansion of existing facilities and new business starts. What's more, small businesses account for the lion's share of these new jobs.
- Despite infrastructure development's importance as a catalyst for economic development, it is only a necessary, but by itself insufficient, foundation for growth. If you build it, they do not necessarily come. Strong leadership, entrepreneurial initiative, progressive schools and a decent quality of life are also key ingredients. Furthermore, infrastructure development is overrated in a world where the entire globe offers a site relocation option and where a major deal — like attracting a BMW plant — is the exception, not the rule.

The rest of this chapter will propose that state rural development advocates need to rethink rural policy in a way that addresses these new realities.

Changing Requirements for Economic Success

With the rise of a more interdependent, global economy, the requirements for a competitive economy have been transformed. The changing nature of competition has entailed a restructuring in the internal structure of firms and in their relationships with their suppliers and customers. As firms have changed, so have their demands on their business environment: in the level and quality of government services, in the types of infrastructure, in access to transportation, in surrounding amenities and in the quality of the workforce. In essence, globalization also has transformed the conditions for successful economic development initiatives. While rural communities must face these challenges just as their urban counterparts do, they are usually far less able to adapt.

As firms have changed, so have their demands on their business environment...

How the Traditional Concept of Rural Misleads Policymakers

These economic changes also raise questions regarding the distinction between urban and rural communities. Defining "rural" was easier when the division between rural and urban communities was sharper and largely based on economic roles: rural areas produced food, fiber and energy sources, while urban areas consumed or processed these goods. But this simple dichotomy is no longer useful; it can lead to misguided policy prescriptions, since now many rural areas have less in common than urban areas.

The key point for state and local policymakers and practitioners is that effective rural policies will not be based on traditional definitions of urban and rural, but on an understanding of the economic and social structure of a particular region, its links to the surrounding economies, and the particular problems and opportunities that these structures and interrelationships present. Second, they need to better comprehend the regional and local impacts of state-wide policy decisions and emerging economic, technological and demographic trends. Third, they must use this understanding to craft policy strategies and programs to build the capacities for taking advantage of new economic opportunities. This holds true for rural and urban communities alike.

One Size Does Not Fit All

Because rural areas are evolving into distinctly different economic entities from their traditional specializations, an off-the-rack federal strategy or state development policy based on outdated assumptions about rural areas is likely to be ineffective. With the possible exception of the smallest states, variations across states in regions' economic structures, and thus their array of development problems and opportunities, will require a policy that can grapple with these differences. Certainly a single federal rural policy makes little sense. Instead, state and federal policymakers should focus on building local and regional capacity to use flexible programs and tools, designing effective delivery systems and creating supportive development institutions.

New Substate Policy Principles

In our view, "rural development policy" is something of a misnomer. "Rural" economic and community development policy is simply the application of specific development principles, theories, and tools (ranging from microenterprise programs to flexible manufacturing networks) to the particular environments of certain substate areas.

The following principles provide useful starting points for crafting effective rural policies and programs:

- An effective economic development policy will address aggregate state economic performance, as well as the participation of different people and places in that performance.

- Rural advocates must work to ensure that mainstream programs are designed so that rural people, as well as urbanites and suburbanites, can benefit from them, and to ensure that rural community leaders are well-equipped to be active and equal participants in local and regional development efforts.

- Effective urban and rural development policies cannot be developed separately, but instead must recognize their interrelationships. Thus, regional strategies are increasingly important.

States Can't Do It All

State government, however, cannot possibly intervene effectively in every town and county in a state. Local economic development requires effective local action. In fact, this is a classic "Third Wave" challenge (for more on this concept, see Chapter Three). Rural communities are too numerous, too diverse, and their problems too entrenched for short-term applications, such as one-on-one technical assistance or insufficiently funded rural development programs, to have any real effect on these areas. How, then, does a state rural policy achieve economies of scale? How does it enhance the strategic planning and project implementation skills of hundreds of communities and all its sub-state regions?

. . . the real purpose of state development policy is to improve the competitive positioning of communities and regions . . .

Goals for Rural Policy

Our answer starts with a vision of rural development as a process of bolstering the ability of communities and regions to compete in a changing environment. State policies cannot guarantee communities will succeed. But they can provide more communities with a reasonable chance of responding to economic change successfully than they would without an effective state policy. Therefore, the real purpose of state development policy is to **improve the competitive positioning of communities and regions in an increasingly competitive environment.** This mission also suggests several related goals for a state rural development policy:

- Increase the capacities of communities to think and act strategically.

- Build permanent public, private or nonprofit institutions to provide resources to rural communities.

- Incorporate a set of values that support successful adaptation in a fast-changing global economy in which the use of knowledge and constant human investment are essential.

- Create delivery systems to ensure broad and equal access to opportunity resources, including continuing education, training, technology, financial capital and business services.

- Provide access to information and technical support for understanding the impact of economic activities on the area and monitoring the performance of public interventions.

- Support the development of a basic physical infrastructure to meet human health and service needs and to accommodate economic growth.

Enhancing an individual's capacity for choice is also a necessary element in a state development policy if there is to be both effective and broad-based community participation. Both remote rural regions and isolated inner cities are in danger of becoming repositories of families that are stripped of the capacity to make the early choice to advance. In addition to considering the development capacities of places, states should insure that the individual ability to choose is not handicapped from birth. States should work to eliminate inadequate pre-natal care, poor nutrition, lack of access to developmental day care, few health care options and unsanitary or unsafe home environments.

Chapter 2

Regional, Not Rural

As the structure of the national and global economy changes, new economic regions are emerging. While it once made sense to talk about a town's economy in an era where rural America met much of its own needs, today people travel across city and county lines to work and shop.

Given the growing importance of regions, economic development advocates need to know what makes their region tick. Indeed, to build effective plans, communities must understand the economic health of the entire substate (or multi-state) economy of which they are a part — and how they fit into that economy.

This also means that an area's former competitors now may be their best friends. Success will require collaborating with other communities that they may have competed against in the past, because new jobs and economic activity in other areas will strengthen the regional economy and bring benefits to all.

The Goals of a New Regionalism

A new concept of regionalism also recognizes that it is urban areas that principally drive most state economies. Similarly, they easily consume the majority of resources in state development programs. Many states attempt to counterbalance this inherent urban bias by creating rural set-asides or separate policies and programs for rural communities. Despite its superficial logic, this urban/rural dichotomy creates a false foundation for building state competitiveness policies. Carving the state into urban and rural territories:

- Cuts the heart out of substate economies characterized by urban centers tightly linked to neighboring rural counties;

- Disguises significant variations between substate regions, even between rural areas, in their needs, their strengths and their challenges; and

- Marginalizes rural development programs through chronic under-funding and through isolation from the mainstream policy structures.

Business as usual has failed to sufficiently stimulate rural development, and policymakers need to recognize that encouraging new regional collaborations is one of the most promising approaches. We suggest four goals for the new regionalism.

Help state and local leaders identify the boundaries of the emerging "metroplexes" in their state and to restructure policies, programs and even entire departments around them. Although county lines and "rural" labels will not disappear, states can weave urban and rural leadership and program networks into more effective delivery systems. Rural policy needs to be mainstreamed into a new regional approach for state economic development that serves rural areas as effectively as urban ones.

Build the institutional capacity in the substate economic regions and their communities. Competitiveness today is determined by a myriad of factors, ranging from school quality to telecommunications capacity to community race relations. State and federal governments have the ability to muster program resources, but the activities that bring about change occur at the local level, where children are educated, business deals are closed, roads are built and leaders collaborate.

At the same time, abrupt program decentralization is not advisable. Simply telling local leaders to figure things out for themselves can have the same effect as unfunded mandates, further separating the haves from the have nots. Indeed, if homegrown approaches to economic development are to succeed in rural America, its civic infrastructure must be enhanced. Further, the overworked professional staff in these communities will be unable to do this job on their own; what is also required is a set of regional and local leaders with the vision, skills and understanding to enable their areas to adapt effectively to changing economic conditions.

Develop new incentives for rural leaders to think and act. Such initiatives do not come easy. Rural leaders need funds and technical assistance to develop comprehensive rural strategies — not just the occasional ad hoc project.

State and federal governments have the ability to muster program resources, but the activities that bring about change occur at the local level . . .

Encourage rural leaders to set higher and more appropriate goals for their development endeavors. One of the most helpful tools for doing so is called benchmarking. It was created in the private sector as a diagnostic tool to dramatically improve competitiveness. So-called "personal bests" are not enough in the business world. Rather than declare victory for, say, exceeding last year's sales record, benchmarking requires a firm to compare itself against its most successful competitors in the world and to systematically identify and adopt the factors that lead to success. In public sector planning, benchmarking has the potential to help regional leadership identify their true competitors, to identify challenging, but appropriate goals, to widen horizons, and to make programs more accountable.[10]

Barriers to Regional Economic Development

Building this new regional agenda will prove challenging. There are many obstacles that discourage regional collaborations and lull rural leaders into thinking they can thrive independently.

Collaboration is undermined by past rivalries. Rural political, economic and social leaders rarely develop partnerships among themselves, much less with urban centers. They may be unfamiliar with working together, and they may only loosely identify with each other as a region. In addition, beggar-thy-neighbor development policies, racial and ethnic divisions, concerns over political control and even longstanding sports rivalries contribute to the impression that a community's worst competitor is the big city down the road — or even a neighboring rural community.

Increasing complexity demands greater expertise. Regional economies are abstract and difficult to understand. Issues change in importance as they move up the regional ladder. As they do, no longer is the topic the neighborhood school: Instead, it is the region's post-secondary institutions. On a regional level, if it is an infrastructure issue, it might be growth corridors or flood control, not a new industrial park. Business strategies are more likely to be sector-based and complex: They seek to modernize an entire industry, not help out a single firm with its accounting. The solutions to region-wide challenges like these require greater amounts of professional and agency expertise.

Consensus is harder to achieve. Collaborative, or "win-win" solutions, are harder to find. For example, although all of a region's residents may benefit, the siting of a key tourist facility like a new ski lift and lodge will provide tax revenues only for the jurisdiction in which it is located. Pointing out its broader geographical effects in job creation and income generation may fail to excite politicians whose tax coffers will not be filled. As a result, those who espouse regional strategies must invest much greater time and energy in building consensus and educating leaders.

Many who practice local economic development recognize that better collaboration between jurisdictions would benefit their community. Most are powerless, however, to act on their insight. Building regional alliances may take years of sustained effort merely to overcome suspicions about who stands to gain the most. Local officials facing reelection pressures can ill afford to champion a controversial, long-term cause. And top local economic development staff are often given even less time than politicians to prove their worth. County developers have scant incentive to collaborate with colleagues down the road when renewal of their job contracts hinges on recruiting a plant within their first year.

Institutions are ill-equipped to meet need. Existing regional development institutions, such as government councils, may lack any influence in overcoming inter-jurisdictional competition. Regional entities are often organized around very narrow agendas, such as delivering federally-supported housing and weatherization programs, and their staffs often supply no more than traditional physical planning services, number-crunching, grants-writing and other technical support. Rarely do these regional institutions truly lead. Instead, they limit their agendas to providing defined services.

Persistent and Misleading Myths

Persistent myths about rural life, rural economies and program effectiveness are less visible but equally powerful barriers that discourage state and local officials from understanding the mutual dependence of rural and urban life.

Rural America is a pastoral paradise. The most powerful of these mythologies is that of rural America as Eden. The word "rural" itself conjures up images of isolated communities scratching a living off the land, sometimes downtrodden but always blessed with pristine environments, inner strength, and widespread mutual aid. It's Lake Wobegon, "where all the children are above average." There is still enough truth in these images to reinforce the stereotype, but this myth also often casts urban areas as Sodom and Gomorrah. This reinforces divisions within America and may encourage urban and rural leaders to regard each other suspiciously.

In truth, the problems facing urban and rural areas are quite similar. One rural development expert comments:

> I would argue that if you asked groups of rural citizens and groups of urban citizens to list the most pressing issues facing them and their communities, the lists would be virtually identical. You would find, on both lists, such critical concerns as housing, crime, education, jobs, taxes, the environment, health care and transportation.[11]

Moreover, like America as a whole, rural economies are complex mixtures of manufacturing and service industries that draw on regional and even national or global markets. As a result, although large urban areas dominate state economic performance statistics, rural areas may mimic urban counties in their make-up of the economies — and share their fate. Moreover, smaller urban areas may be faring just as poorly as some of the worst-off rural areas.

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Texas provides a good illustration of a simple urban-rural dichotomy that camouflaged wide differentials in state economic performance. Over the past several decades, the state has usually outperformed the national economy. While growth principally occurred in the service sectors, Texas has exhibited modest growth in manufacturing employment, counter to the national experience. When Texas examined nonmetropolitan and metropolitan rates of growth, state officials found a picture much like the rest of the country. That is, metropolitan areas showed relatively strong growth, while nonmetropolitan areas were growing slowly or not at all.

When the data were examined in greater detail, however, they revealed a strikingly different picture than that painted by dividing the economic universe into nonmetropolitan and metropolitan areas.

Smaller metropolitan areas in Texas were generally performing as poorly as rural areas. Most of the metropolitan growth was in fact being generated by the three large urban metroplexes: Dallas-Fort Worth, Houston and Beaumont/Port Arthur. If these three metropolitan areas were removed from the analysis, urban and rural Texas alike were plagued with slow employment growth or actual decline.

Further, the Office of the Comptroller found a number of rural counties with rapid rates of employment growth. The reasons varied. Some benefitted from increased trade across the Mexican border, some gained from the expansion of a major employer, others derived benefits from a nearby regional university, and still more exhibited generalized, robust growth that could not be attributed to any single source.

Rural America's economic problems are cyclical. A second factor discouraging regional development approaches has been the "it's just a phase" myth that explains the current economic distress in rural America as a low point in the traditional boom and bust cycle of agriculture and natural resources. A short-lived "Rural Renaissance" in the late 1970s and early 1980s, attributable to high natural resource prices and the migration of manufacturing branch plants to nonmetropolitan areas, perhaps reinforced this lingering perception that rural communities need only wait for their turn to come again. But, in reality, the recent shocks to an increasingly industrialized rural economy are structural, not cyclical, in nature.

Some of the best so-called rural policies, then, may be regional policies that build local capacity and tie program aid to regionally-developed strategies.

Rural problems need only rural solutions. A third powerful myth that acts as a wedge between urban and rural areas is that "separate makes it equal." For example, whether the issue is small business development or workforce training, education spending or infrastructure development, it is assumed that only special rural programs or rural set-asides can guarantee a fair share of program benefits to rural areas, as though development was just another form of income redistribution.

In truth, the segregation of urban and rural program structures serves neither very well. New strategies that link urban and rural areas in regional efforts are needed. Moreover, rural programs typically define "rural" so broadly that they encompass most of the state's communities and land area, in effect turning rural programs into statewide programs and providing money to both communities that need it and those that do not. Finally, the typical modest funding levels for rural set-aside programs make it virtually impossible to leave a lasting impact on the communities they intend to serve.

Think Regional, Act Regional

Some of the best so-called rural policies, then, may be regional policies that build local capacity and tie program aid to regionally-developed strategies. Examples of this approach are provided by Nashville, western North Carolina, Indiana and Nebraska.

<u>The Citistate Approach</u>

For instance, the 1992 Commission on the Future of the South glowingly praised Nashville's "citistate" approach:

> Nashville is one of the South's modern success stories. More and more, CEOs are rating Nashville as an excellent place to do business. It is also reversing earlier perceptions about poor school performance; newspapers report that citizens in outlying counties want to move their children <u>into</u> the city school system. This renaissance did not happen by accident. Nashville consolidated its city and county governments nearly 30 years ago. In 1989, Nashville's business leaders organized Partnership 2000, a four-year strategic plan designed to address the city's economic and human resource needs. From the outset, they had their eyes on implementation, broad citizen input and measurable goals. They surveyed 300 business and community leaders to find out what people thought was

needed to maintain and create the community wealth that would guarantee the long-term quality of life and work that Nashville wants. To date, the Partnership raised its full $6 million goal and has invested in 98 business and community development initiatives, and it has met or even exceeded seven of its nine performance indicators. Most importantly for our point, Partnership 2000 has committed itself to regional action. The planning process for the next four- to six-year strategic plan will extend beyond the current eight counties in the Nashville metropolitan area to include another nine.[12]

The Collaborative Approach

In western North Carolina, rural development groups themselves initiated a regional approach to economic development. Western North Carolina is endowed with an abundance of natural resources that have served as the basis for both its traditional industries, such as forestry and agriculture, and the emergence of tourism and recreation. Despite these resources, the region's 17 counties share an economy whose performance lags that of the rest of the state and the nation.

To tackle these problems, individuals from Western Carolina University's Center for Improving Mountain Living, Western North Carolina Tomorrow (a regional leadership group) and other organizations launched the Regional Economic Strategy Project (RESP) in early 1988. The project secured funding from the state legislature, the North Carolina Rural Economic Development Center and the Tennessee Valley Authority. RESP's goal is to develop an explicitly regional economic strategy. It rejects local initiatives that are limited in their ability to produce significant change, and place the region's counties in competition with one another. It assumes that no community or county in western North Carolina can realize its economic potential while the overall region continues to lag economically.

RESP initially convened a series of forums that involved 400 people from all of the region's 17 counties. The sessions were designed to garner ideas from a broad base of the region's residents about how to move towards an ideal economy for the region. These ideas then were put before a technical committee that reached a consensus on four immediate objectives:

- Improve the availability of business capital;
- Reduce solid waste and improve its management;
- Increase the value-added contributions of tourism; and
- Develop the region's leadership resources.

RESP is currently focusing its activities in two major areas:

- *Mountain Capital Lending Consortium.* Several banks have agreed to pool $1 million in a fund to make riskier deals. (However, it has taken longer than anticipated to begin lending these funds because loan officers have been slow to adapt to the less stringent criteria for lending from this fund.)
- *Leadership development.* RESP has just finished a first cycle of training and graduated 38 out of 40 participants. One of the recommended parts of this leadership training is to engage in an actual development project once the training has been completed (RESP provides staff support for this exercise). One example of this is the Western North Carolina Competitiveness Campaign, a project started by 18 members of the first leadership training class who chose to address the needs of workforce preparedness and education in the western North Carolina region. The Campaign plans to publish a report on the region's relative strategic position, follow this with an extensive publicity campaign, and then convene a series of regional forums to discuss the role of education and training in the competitiveness of the region. Coincidentally, this whole process should also help to identify new leaders for the next round of leadership training.

RESP has been quite successful, even celebrated. Those that might copy it, though, must understand that RESP did not bear fruit immediately. This type of cooperative effort is unlikely to succeed without some type of institutional commitment to see the idea through to completion.

The Regional Investment Approach

CFED's Indiana work provided technical support for a regional strategizing initiative, including facilitation assistance and the conducting of an Economic Health Assessment of the sub-state area. Participants at a retreat in the Kokomo region identified problems arising from the proliferation of small, fragmented and ultimately unsustainable water and sewer systems. Constructing a water or wastewater system is likely the largest capital investment a community will make. Adequate service is essential to the health and safety of local residents. And without modern facilities, the location or expansion of manufacturing operations may be impossible to undertake. Increasingly tough environmental standards and the demise of federal and state infrastructure grants make sound financing, good technical expertise and economies of scale more imperative than ever. Sadly, CFED researchers found few state incentives for communities to explore cooperative efforts in designing systems on a county-wide or regional basis to capture the efficiencies of larger systems, or to form networks of jointly controlled smaller systems that would, at least, make strong professional management affordable.

Further interviews with state and regional experts led CFED staff to recommend several changes in state policies that would encourage greater regional cooperation and more strategic and professional facility planning. These included: (1) mandating stronger regional water, sewage and solid waste district powers; (2) providing state financial incentives for ceding local management to these districts; (3) creating a state task force to explore these issues in greater detail; and (4) incorporating water and sewer planning and management into statewide rural leadership training programs.

The Statewide Regional Network Approach

Nebraska shows how states can begin making the new regionalism happen on a statewide basis by organizing regional service providers into a new service delivery system. In 1991, Governor Ben Nelson created a Rural Development Commission chaired by Lieutenant Governor Maxine Moul. The Commission was charged with:

- Focusing public attention and public policy on the opportunities and needs of rural Nebraska.
- Advocating for rural Nebraska by proposing solutions to rural issues.
- Encouraging greater cooperation among communities and service providers in regions.
- Building local development planning and implementation capacities.
- Improving the information flow to local communities in a variety of ways, including the establishment of a clearinghouse on rural challenges and needs, development services, model initiatives, available resources, and service providers.
- Integrating existing rural development goals and recommendations as contained in Nebraska 2000, New Horizons, and other statewide strategic planning initiatives.
- Enhancing the evaluation and oversight of rural development initiatives and service providers.

Three themes run through the specific directives in the Governor's executive order. First, it instructed the Commission to increase cooperation between all levels of government and between communities in particular regions. Second, service providers were also encouraged to collaborate in their strategizing and delivery activities. Finally, there is a strong theme of community capacity-building.

The Commission wished to foster sustainable community action, which meant that Nebraska towns, counties, and regions had to acquire the ability to plan and act for themselves.

The Network became operational by late 1992, although many elements remained to be fully developed or made available throughout the state. The major components that were in place by then (with some assistance from the Corporation for Enterprise Development) included the following:

- A governance structure had been created, composed of a Forum of participating organizations chaired by the Lieutenant Governor; a Network Office inside the Department of Development, headed by its director; and a policy and management group, which was examining long-term issues like creating an independent nonprofit organization to institutionalize further the Network.

- Eight regional groups of rural service providers were organized around economic regions/trade centers in the state.

- The Commission launched the Nebraska Development Academy to coordinate, organize, and carry out educational and training programs on topics like leadership development, workforce development, and regional economic and community development, as well as serve as a broker for technical assistance and project planning needs of local communities.

- Nebraska Online was designed to function as a computer-based, interactive information and communications vehicle to provide ready access to necessary intelligence and to promote communication among rural communities and service providers.

- The state devised a Nebraska Intelligence System to provide usable economic intelligence to communities and regional groups. The Intelligence System is intended to serve as uniform source of data on the economy, on small and medium-sized firms, on key industrial sectors, and on individual communities. And ultimately, it will be structured to permit performance benchmarking to appraise state and regional economic progress.

- A variety of working groups also were established to explore new program and tool development. For instance, the Community Development Working Group looked over 13 different community appraisal tools and processes which were currently being used in the state. They then sought to address the confusions caused by such a variety of planning techniques and processes through designing a new community self-assessment protocol that it wished to market to Network providers and be tested in regional and local settings.

- In an effort to begin creating more outcome-based performance measures for evaluating and monitoring development progress and monitoring Network service providers, the state asked the Division of Community Development to develop a new set of goals, measures, and benchmarks for guiding the community development block grant program. This was successfully accomplished as well.

The Nebraska experience highlights a variety of lessons on how to implement a new regionalism. First, the Nebraska Development Network is a powerful unifying idea for pulling together a diverse array of service providers around the vision of building the long-term capacity of rural communities. Second, the high profile given the effort by the Lieutenant Governor and the executive order were important in developing momentum and overcoming bureaucratic resistance. Third, "form" often tended to overtake "function." From the start there was the typical governmental tendency to focus on structure and on reshuffling agency boxes and relationships, rather than dealing with designing the actual functions, operations, and services of the Network. A better approach might have been to test the concept and a fuller array of activities in a few regions and then expand it statewide. But political imperatives encouraged policymakers to create a statewide structure before there were products to be delivered. Fourth, the Network is concentrating more on changing the behavior of existing service providers, rather than establishing still another organization for service delivery. And it is attempting to do this by supplying new useful tools and better information and intelligence as the incentives for change. The jury is still out on whether this will work, but it is an approach worth watching. Fifth, only some agencies and offices within state government have been willing to explore the fuller implications of a Network strategy, like performance-based goal setting and budgeting. Others have been much more reticent. Finally, the use of data and best practice information must be tailored for the recipient. Many of the early Network products had to be simplified for the smaller communities.

New analytic techniques . . . combined with good strategic planning and consensus-building processes hold the promise of creating new regional visions and alliances.

Conclusion

It will not be easy to overcome the obstacles to more regional development action. But four driving forces may help those who wish for it to happen:

- Increased global and domestic competitive pressures and further industrial restructuring will encourage the more progressive and entrepreneurial leaders to explore new strategies, like regional initiatives, for leaping over their counterparts.
- Money, or the lack of it, means that communities will have to become more creative in mounting development efforts that can make a difference. Regional strategies are an excellent method for better mobilizing and leveraging an area's resources.
- New analytic techniques, like CFED's Regional Benchmarking System or its Economic Health Assessment Methodology, combined with good strategic planning and consensus-building processes hold the promise of creating new regional visions and alliances.
- State leadership like Nebraska's can be the catalyst to get the regional ball rolling.

Chapter 3

What Is the Third Wave?

Most state and local leaders are aware, at least to some degree, of the new economic realities at work in rural America. The rhetoric of rural economic development has changed, but that has not always translated into changes in how economic development dollars are spent.

The history of U.S. development since the mid-19th Century has been a nearly uninterrupted transfer of population and economic activity from nonmetropolitan to metropolitan areas. Cities were the locus of the new industrialization. The labor force in the cities swelled as city-based manufacturing provided better jobs and technological advances on the farm displaced millions of rural laborers. The Industrial Revolution shaped state and federal rural policy into patterns that persist today. Consequently, without any regular effort to question policy goals and context, the traditional means for rural development (for example, agriculture assistance, and, more recently, industrial recruitment and infrastructure development to support new plants) have tended to become ends in themselves. This chapter will discuss the evolution of economic development strategies and propose a better way of achieving quality and impact in development. This imperative to rethink not just the goals of development policy, but also the means, is called The Third Wave.

The First Wave: Industrial Recruitment

CFED characterizes these industrial recruitment efforts as the First Wave of state development policy. The seminal program was Mississippi's Balance Agriculture With Industry Program, launched in 1936 to provide relocation incentives to out-of-state manufacturers. Over the next several decades, variants of Mississippi's policies were adopted across the South and the nation. The First Wave strategy combines governmental marketing with state investments to:

- Underwrite the plant's move by paying for or developing the site;
- Overcome deficiencies in public financing for infrastructure; and
- Offset routine business expenses by offering customized training or below-market financing.

The Rural Renaissance in the 1970s was initially taken as evidence that these state development policies were valid. News stories heralded new rural employment centers that encouraged the return of former rural residents and the relocation of city slickers escaping urban decline. By the early 1980s, however, the Rural Renaissance was clearly over. The recession of the 1980s hit rural manufacturing hard, and the subsequent recovery brought scant new job growth. Global competition heated up for the mid-range, typically small and medium-sized, supplier industries that were thought to be rural America's long-term source of jobs. Now, the larger American manufacturers that these firms had long supplied were just as likely to buy overseas as domestically.

The Second Wave: Supporting Homegrown Development

Despite these trends, alternative strategies debated in the policy community had little impact on rural policies. In the 1970s and 1980s, state governments began to experiment with a number of programs

. . . the essence of the Third Wave can be captured in three words: quality, accountability and impact.

to nurture small business, stimulate research and development, and commercialize new technologies. Among these were:

- Business finance programs, such as revolving loan pools, loan guarantees and seed capital programs;
- Small business and government procurement assistance centers;
- Technology transfer programs run out of community colleges, industrial extension services and other organizations;
- Import substitution programs, aimed at identifying local suppliers for regional buyers;
- Export promotion programs;
- Downtown revitalization and other tourism development programs; and
- Small business incubators.

This plethora of Second Wave innovations has since begun to percolate into non-metropolitan areas. The problems generally identified with Second Wave programs, however, are often magnified in rural settings. Despite marginal funding levels, Second Wave programs are often stretched to cover broad geographical areas that encompass hundreds of small communities and thousands of firms. Services tend to be centralized in the state capital, with limited attention to making them more accessible. Program coordination, accountability and management information systems are often lacking. For many programs, the limited resources and staff capacity as well as political factors divert services away from the growth-oriented firms they were designed to target. Such liabilities are compounded by the fact that rural areas often lack information about markets. They are unable to diagnose their competitive needs, let alone assemble an appropriate response.

The effectiveness of these Second Wave programs is further complicated by their co-existence with First Wave industrial recruitment efforts. Recruitment continues to absorb the bulk of agency program resources and leadership attention. Since Second Wave programs tend to focus on the aggregate state economy, their applicability to rural development problems is at best uncertain. Indeed, officials implicitly or explicitly acknowledge that technology promotion further concentrates employment in and around urban centers.

How, then, can state policymakers stimulate aggregate growth in a modern, urban-dominated economy while boosting growth in lagging areas? The old methods clearly supply no solution. The same thing that Robert Woodson, president of the National Center for Neighborhood Enterprise, says about social policy also applies to other issue areas like rural: "If we keep on doing what we're doing, we're gonna keep on getting what we've got." While there is no simple answer, a consensus has begun to emerge which CFED has characterized as a Third Wave in economic development policy.

What Is the Third Wave?

The term "Third Wave" was coined to describe the steps that states are taking to make their economic development programs more customer-driven, to leverage resources from other sectors, to encourage competition, and to create stronger accountability mechanisms. It is a new focus on *how* development is done, not just *what* is done.

CFED believes the essence of the Third Wave can be captured in three words: *quality*, *accountability* and *impact*. For instance, a *quality* economic development organization will have three key characteristics. It will be customer-centered. It will search to continuously improve all aspects of its operations. And it will focus on prevention, seeking to predict and respond to issues before they become major problems.

Accountability encompasses two elements. First, we emphasize the identification of goals and outcomes and the development of quantitative *performance measures* against which progress can be openly and publicly assessed. Second, we advocate a greater customer orientation in development programs particularly the *integration of policies and services* around outcomes that relate directly to the needs of the customer, as well as the use, wherever appropriate, of market-like approaches to allocating resources as the most effective means of responding to complex and rapidly changing customer needs.

The third and perhaps the most crucial concept is *impact*. Here we emphasize that programs must mobilize resources on the *scale* of the problem. They must seek to *leverage* the full range of appropriate governmental, private sector and nonprofit resources. They must invest for the long haul, (especially in capacity building). And they must try to take a *systems-orientation*. This last term means that any program change must fit into the wider system of actors, thereby attempting to change how they operate as well. (For additional detail, see box on "Success Factors in Third Wave" design.)

Mixing the Waves

Despite the use of the "waves" metaphor, we do not suggest that each wave succeeds and thus replaces the one before. This is not the case. Indeed, carefully designed business attraction strategies (the First Wave) remain an appropriate and important component of many state and local efforts.

Third Wave principles can be applied to the industrial recruitment field by insisting upon clearer accountability mechanisms, establishing more equitable sharing of risks and returns between the public and private sectors, developing strategies that deliver not only jobs but training and other benefits, and crafting attraction initiatives that serve an area's other development goals.

The "wave" idea also does not imply that regions need not be concerned with encouraging communities to adopt, where appropriate, Second Wave approaches. To date, most state governments have added indigenous development initiatives to their business recruitment tool kit. But much needs to be done to encourage counties, cities and towns, especially in rural areas, to explore homegrown economic programs along with their recruitment activities. Far too many localities still view economic development as an exclusively attraction-oriented agenda.

Success Factors in Third Wave Design

Strategic Focus — Third Wave innovators undertake formal, well-designed studies that provide a thorough analysis of a state's needs, and existing public and private services that address those needs. Clearly, crafting development goals to address those needs and identify new directions also involves including actors from key program constituencies in defining the strategy and approach.

Achieving Scale — Third Wave programs seek to identify the size and scope of the problem to be solved, and create programs designed to provide an effective strategic direction to meet the full scale of that need. This often requires that programs be designed to *leverage* other public and private resources. This is sometimes accomplished by delivering (e.g., "wholesaling") programs through existing organizations that can bring additional resources to bear, and by including *leveraging requirements* in the program design.

Building Systems — Third Wave programs recognize that needs cut across traditional department and program boundaries. They seek to fill gaps or address problems not only by providing services directly, but by working with other providers (public and private) to help create a more effective system for providing services.

Responsiveness to Customer Needs — Third Wave efforts are focused on strengthening program quality by placing greater emphasis on the needs of customers, often letting customers help to define or drive the program. There are five key elements to responding to customer needs:

- ***Customer-specific service*** — Tailoring services to the needs of a specific customer or set of customers. This is sometimes achieved by wholesaling services through local or regional entities that have a close connection to the customer and the local market, or by letting each customer choose the services he or she needs.

- ***Market feedback*** — Giving customers the opportunity to evaluate the services provided and using this input to refine program activities.

- ***Competitive selection process*** — When relying on intermediaries or private or non-profit organizations to deliver all or part of a service, the government agency uses a competitive process that rewards performance based on both cost and the projected quality of services.

- ***Accountability*** — Third Wave programs are held accountable for solving the problem or meeting the need they were created to address. This requires a standard benchmark to which programs are held clearly accountable and clearly identifying to whom the program is accountable.

- ***Performance-based management*** — Third Wave policymakers base decisions about renewed or increased public funding commitments directly on a program's performance.

Chapter 4

Applying the Third Wave to Rural Development

Third Wave is not only an intellectual construct or a new policy and program prescription. It is also a means of describing and assessing existing organizational moves to improve accountability and enhance access and delivery of services.

But is the Third Wave already happening in the rural development field? Can the Third Wave work for rural development? After all, the limitations of most business recruitment and indigenous development initiatives are magnified in rural areas. Resources are smaller. Distances are longer. Rural businesses and policymakers are often less connected to critical intelligence on what works. And rural America lacks the service provider options that most urban areas possess.

Given the constraints facing rural leaders and development practitioners, we decided to examine how programs might be delivered with greater quality and impact and chose to deal with two policy areas, rural development offices and rural business development initiatives.

Creating a Voice for Rural America: State Rural Development Offices

How States Have Organized Rural Development Offices

In response to the economic hardships many rural communities faced during the 1980s, many state governments have established offices responsible for rural development or rural affairs. Proponents believe that these offices help to draw state policymakers' attention to rural areas. These offices, most of which were created in recent years, vary considerably in size, structure, activities, placement within the bureaucracy and funding levels. To gain a better understanding of various rural development offices, CFED surveyed the office or entity in each state with designated lead responsibility for rural development. The survey found:

- At least 32 states have assigned some responsibility for rural issues to an individual or agency within a branch of government or to a quasi-public entity. Of these, 22 have created a specific office or organization with sole rural responsibilities.

- Of the 22 states that have created a "rural office," three major types emerge: state agencies, offices within the governor's office, and quasi-public nonprofit corporations.

- While the particular activities and programs of the offices differ, we organized basic roles by one or more of the following categories:

  Advocate: influences public opinion and awareness of rural issues and influence opinion makers.

  Capacity Builder: builds the capacity of local and regional organizations for planning and implementation.

  Convener: brings together various organizations and constituencies for consensus-building and joint problem-solving and action.

Institution Builder: creates or supports institutions to provide rural programs and services.

Policy Innovator: uses research and demonstrations to devise new approaches to rural issues.

Service Deliverer: directly delivers state program services.

Technical Assistance Provider: provides direct advice and technical support in local planning, local program and project design, and implementation.

- Of these seven roles [for state rural offices], the most common functions are service deliverer and technical assistance provider. The least typical functions are institution builder, policy innovator and convener. (Later, in our recommendations to the Virginia Center on Rural Development (CORD), we judged which of these roles seem to make the most sense.)

Of these seven roles [for state rural offices]... The least typical functions are institution builder, policy innovator and convener.

Based on further research and a series of in-depth interviews with representatives of six rural development offices, each with somewhat different roles and structures, we distilled the following best practice lessons:

- An effective rural development office must commit to issues over a period of several years in order to succeed.

- It is difficult to resist the pressure to act like any other bureaucratic organization, rather than a catalyst for innovative thinking and solutions; this is especially true in offices located in traditional line agencies.

- By serving as a catalyst to bring others to the table around a common agenda, a rural development office can make maximum use of its limited funds and those of other development agencies.

- To maintain its central role in helping build local development capacity over the long term, it may be preferable for a rural development office to have some independence from state government and operate as a quasi-public agency.

- Successful offices institutionalize their perspective and activities, in part by building partnerships with other state and local institutions that support their agenda, that wholesale some of the rural office's programs and that operate complimentary initiatives.

<u>Facing the Challenge: The Case of Virginia's Center on Rural Development</u>

CFED's policy laboratory in Virginia gave us the chance to observe first-hand some of the opportunities and constraints faced by one particular rural development office, Virginia's Center on Rural Development (CORD). CORD grew out of a new rural policy generated by Governor Douglas Wilder. One of the principal recommendations of this new policy was the creation of CORD, which would serve to "broker and facilitate innovative actions to enhance and expand rural development over the long term."

CORD was conceived as a clearinghouse, a center for policy advocacy, a catalyst for innovative ideas and action, a local capacity builder, and a broker with other state departments on issues affecting rural Virginia. CORD's central mission was to bolster the ability of communities to achieve economic vitality while preserving rural values. Specifically, CORD was charged with enhancing the delivery of services to rural areas, placing rural issues on the state's policy agenda, and influencing policy decisions made by executive departments and legislative committees that affect rural Virginia.

The variety of issues that CORD was charged with addressing ranged across the board, from strategic planning to sustainable development to small enterprise development. Yet, reflecting the lean fiscal times affecting Virginia and most other state governments, this broad mandate was not accompanied by a large allocation of resources.

Not surprisingly, in our analysis of CORD, we found that:

- Because of its size, CORD could not serve as a major technical assistance organization or service deliverer;

- Despite the need for better information on rural resources and assistance, CORD could not devote substantial funds or energy to serving as a principal clearinghouse or one-stop information center, since the resources demanded by these activities are almost always underestimated and the services seldom fully appreciated;

- CORD faced difficulties in acting as a rural advocate, since as a government agency, it lacked the independence, clout and constituent base to do so; and

- The need to build a constituency by delivering services posed one of the principal barriers preventing CORD from making more use of Third Wave design features. (CORD staff knew how to bolster their political support by providing a service to a specific constituency, but were not clear on how to do so by playing Third Wave roles like being an advocate, a convener, a policy innovator, and so forth.)

Reinventing State Rural Development Offices

It could well be argued that a separate rural development office is a poor policy choice: They will always be under-funded and lack the autonomy to be a true advocate. A free standing nonprofit funded, for example, by corporations, foundations, and church sources might be better positioned to tackle this problem.

However, in Virginia we sought to help CORD overcome these constraints by refining its mission and operations. In carrying out this task, we were guided by two central questions:

- How does a small organization have a substantial impact on the wide range of issues facing rural Virginia communities?

- Are there specific issue areas or activities on which CORD should principally focus its resources and energies?

In answering these questions, we concluded that, to be truly effective, CORD must embrace Third Wave principles, and use its funds and staffing to become a stronger catalyst or a broker — thereby engaging the energies of businesses, nonprofit organizations, other state and local governmental agencies, and communities — rather than a direct service provider. Building upon which activities have worked best in other rural offices and the particular circumstances of the state, we proposed that CORD assume the roles described below. These roles are also recommended to any state eager to reinvent its state rural development office.

State rural development offices must become:

- **An Entrepreneur.** Most offices of rural development cannot succeed if conceived and managed as a standard-operating government bureaucracy. Even if these offices continue to provide quality services in their assigned areas, they will only scratch the surface of the rural areas' needs. Thus, these offices must exercise much more leadership than the typical governmental agency. They cannot be motivated by the adage, "Let me find out where my people are going, so I can follow them there." Instead, these offices must take a much larger, more strategic point of view. They

Most offices of rural development cannot succeed if conceived and managed as a standard-operating government bureaucracy.

must operate more like an entrepreneurial nonprofit organization than the typical government agency, and should be constantly exploring and making deals with public, private sector, nonprofit and foundation actors.

- **A R&D Laboratory.** Offices of rural development must use their limited funds to fulfill a variety of roles. This means moving beyond a few well-defined programs to developing prototypes for new rural development solutions, testing them and replicating the most promising models. Indeed, while the staff in most rural development offices do a top-notch job of working with individual communities, they are hard pressed to meet the full range of rural communities' needs and demand for assistance. Experience has shown that the best way to meet these needs and demands is to tap the talents of active and innovative leaders at the community level. Rural development offices should not restrict themselves to providing intensive consulting services to a handful of communities. Rather, they must begin developing tools and partnerships that will have a much more extensive impact. For example, they might develop and maintain an easy access data base for local strategic planning purposes.

Rural development offices should not restrict themselves to providing intensive consulting services to a handful of communities.

- **A Builder of Institutions.** The typical rural development office is fairly new, with a limited track record, a narrow constituency and few resources. Yet development is a long-term proposition and a long-term commitment is required. By building on partnerships with other, more established actors and creating new membership-controlled institutions that have more political clout than the office, rural development offices can sow the seeds for permanent improvements in rural communities.

- **A Clearinghouse.** Rural communities desperately need information on funding sources, successful development tools and ways of achieving consensus on cooperative development efforts. Unfortunately, investing substantial resources into serving as a clearinghouse is often perilous: It takes a lot of staff time, databases become outmoded quickly and it is often a low priority use for scarce resources. One method of dealing with these difficulties, as well as using the effort to build partnerships and constituencies, is to create a rural resource consortium with other in-state data organizations. Rural development offices should identify partners to collaborate with in maintaining, managing and raising funds for a clearinghouse.

- **A Convener.** Rather than attempting to tackle complicated rural development problems alone, state rural development offices should act as conveners, focusing attention on critical issues and serving as catalysts for action on these issues. This process might include, initially, some disciplined but limited research on critical rural development issues and possible solutions, as well as conversations with rural experts inside and outside the state, rural development practitioners, and residents of rural areas. Out of this process, a few key issues, and possibly solutions, could be identified for further exploration, along with partner institutions. The rural development office could then convene a meeting with organizations and create a working group to tackle one or more of these issues.

Rural Small Business Development Strategies

Over the last decade, there has been a resurgence of interest in manufacturing and entrepreneurship among policymakers at the national and state levels. This has become a special area of interest to rural policymakers as well. We chose to focus on three broad strategies especially relevant to rural areas: manufacturing modernization, natural resource business development and microenterprise development. Although the application of Third Wave principles to these strategies has been limited, CFED set out to assess nine state programs to gain insight into the choices and challenges that program designers face in adopting the principles, and to identify what might be required to make them more applicable to rural business development initiatives.[13]

Three Case Studies in Manufacturing Modernization

The principal purpose of manufacturing modernization is to help small and medium-sized enterprises (SMEs) design their products so they can take advantage of new technologies, and to help firms incorporate cutting-edge technologies into their production lines. Effective modernization programs and systems should be able to grapple with the litany of problems facing manufacturers, including the lack of capital to retool, ignorance of established modernization methods, fear of new technologies, insufficient technology skills, a workforce that is uncomfortable with advanced technology and an inability to select the proper product specifications and vendors. An effective modernization program also must be able to meet the technical needs of different industrial clients, respond in a timely fashion and tailor services and organizational structure to the needs of the customer. A program that incorporates the Third Wave principles should also demonstrate a way to meet the scale of the problem; be readily accessible; be sustainable; respond to and stimulate demand; complement and expand private services rather than duplicate them; involve owners and managers of SMEs and their workers in planning and design; improve a region's level of skills, wages and quality of work life; and focus on a return on the public's investment. The following examples in Arkansas, Georgia, and Minnesota illustrate promising ways to apply these design principles.

An effective modernization program also must be able to meet the technical needs of different industrial clients, respond in a timely fashion and tailor services and organizational structure to the needs of the customer.

The Arkansas Science and Technology Authority
Arkansas, a small rural state, is wrestling with the effects of generations of poverty and underdevelopment. In recent years the state has created a number of innovative institutions that are working to break the cycle. They include the Arkansas Science and Technology Authority (ASTA), which is charged with upgrading technology in existing enterprises. Created by the legislature in 1983, ASTA's budget for the 1993-95 biennium is about $18 million. While ASTA's role has been quite broad, its principal concern has been higher-end research and technology development. ASTA provides support for incubator development, science and technology research and development, basic and applied research grants, technology transfer, networks and start-up capital. ASTA has worked to form partnerships with other institutions, especially university and vocational-technical colleges, to expand its outreach.

Georgia Tech Economic Development Laboratory
Georgia is a state with both significant wealth and extreme poverty. While Atlanta can aspire to world-class status, much of rural Georgia is troubled by problems typical of the rural South. To spread the benefits of manufacturing throughout the state, Georgia Tech created a university-based industrial extension service that is now the largest in the country and accounts for nearly one-fifth of all state expenditures on industrial extension. Started in 1950, the Economic Development Lab now has a budget of approximately $12 million and a staff of about 100 to provide a comprehensive array of services. Most of the services are delivered through EDL's Industrial Extension Service, with its 12 field offices located across the state, but projects often draw in faculty and private sector service providers.

Minnesota Technology, Incorporated
Like Georgia, Minnesota has thriving cities and struggling rural regions. But it took a different course: Minnesota created an independent nonprofit corporation charged with stimulating development in rural Minnesota, particularly through technological development. Following several controversial and difficult years, the Minnesota legislature restructured the corporation in July 1991 as Minnesota Technology, Incorporated (MTI). Under new leadership, the corporation is now charged with modernizing the state's industrial base and introducing new technology throughout Minnesota. Rather than being established as a state office or a partnership with a university, MTI has been structured as a public nonprofit organization so that firms will perceive it as part of the business community, rather than as a typical state agency. This approach, while laudable, may face considerable barriers to success, however, since MTI still depends largely on the legislature for its funding. With a budget of about $6 million, augmented by federal technology-development funds, MTI's 65-person staff provides services through six regional offices. MTI focuses on strategic planning and education services, information services, and early-stage capital. It places special emphasis on four strategic industries: computers, metals fabrication, polymer composites and non-electrical machinery.

Lessons from the Manufacturing Modernization Case Studies

1. *The public sector has to prove its ability to effectively serve the manufacturing community; there is widespread skepticism about the usefulness of services provided by public agencies and universities.* Effective manufacturing modernization initiatives must provide specific services that firms need at a high level of quality, and within a timeframe that meets firms' needs. Public sector services that redirect existing programs or rely exclusively upon university personnel (who often must fit their technical assistance timing to the university calendar) have generated frustration and distrust. A better approach, such as that taken by the Economic Development Laboratory at Georgia Tech, relies upon engineers who can offer or acquire a particular expertise. They are often recruited from industry to build credibility.

2. *Manufacturing modernization activities may generate other needs, such as financing, management or worker training, that the program must be prepared to meet.* The introduction of new technologies or production processes will likely have ramifications beyond their immediate focus. Companies may face difficulties financing new equipment, retraining workers to properly operate new equipment, or modifying management and decision-making processes to provide greater flexibility on the shop floor. One solution is establishing partnerships with other state agencies that can meet the needs. But this option may be frustrated by conflicting goals — for instance, a desire by the assisting agency to act on its own to create new jobs or attract outside investment, rather than modernizing existing plants for long-term competitiveness.

3. *States may have to concentrate on particular industrial sectors in order to provide competent service.* Current technical assistance services to industry, such as those offered through federal Small Business Development Centers, have typically been wide and shallow, offering an array of technical services common to all small firms. Some technical services for manufacturing firms do cross industry sectors, but for higher-level services, industry specialization is often required. States cannot afford to provide equal levels of expertise across all manufacturing sectors. This makes identifying and serving sectors that are now or could be central to the state's economic development an important component of manufacturing modernization.

4. *Combining into a single entity the dual missions of new product/new technology development and the modernization of existing enterprises can confuse an organization's mission and strain its limited resources.* The research and development required to design and commercialize new, high-end products and technologies, and the effort involved in modernizing small and medium-sized enterprises are very different tasks that may conflict. Georgia Tech's services are strengthened by concentrating on the needs of small and medium-sized enterprises. Minnesota Technology has a dual mission, but its large resource base and the division of its missions into two distinct services helps avoid potential conflicts. The conflict is most evident in Arkansas, where ASTA's limited resources and broad mandate inhibit it from accomplishing its dual missions very well.

5. *Decentralizing services through field offices or partnering organizations is a key element in addressing the needs of rural enterprises.* All three organizations have decentralized services in order to effectively serve rural areas. Decentralization is integral to the overall structure of Minnesota Technology and Georgia Tech; in fact, all services are delivered through regional centers rather than a central office. Decentralization has increased the flow of resources to Georgia Tech, as rural legislators allocate funds to establish offices that will better serve their constituents.

   ASTA, with more limited resources and a mission less focused on modernization than its Minnesota and Georgia counterparts, has relied on building alliances with other institutions. These partnerships have enabled ASTA to spread its activities to previously inaccessible areas. Results have been mixed, since the effectiveness of this approach depends upon a sound matching of particular activities with the expertise and interests of host institutions.

6. *Distance remains an obstacle to providing specialized services to rural companies.* Decentralized delivery is effective in reducing costs to enterprises while providing easily accessible, timely services. But, firms may also need more highly specialized services and providing those services remains problematic in rural areas. If highly specialized services must be brought in from other regional offices or a central office, time delays and cost increases result. Private sector providers are less likely to be available in rural areas, so subsidized purchases of services from them may not be an option.

Three Case Studies in Natural Resource-based Business Development

Natural resource-based industries have been and always will be an important and distinctive element of rural economies. Although some of these industries have fared well in recent years, the 1980s were hard on these sectors in many communities. Because there is increasing competition for low-cost land near metropolitan areas and for pristine land for environmental protection, these strategies appear most appropriate for truly remote regions. To minimize dislocation and maximize growth from industry changes, state governments should:

- Encourage ranchers, farmers and other producers to take on entrepreneurial approaches by keeping up with market changes, identifying new product niches and targeting new markets;
- Assist producers in working with processors or help producers become processors themselves;
- Create new collaborative initiatives;
- Explore new opportunities in high value-added activities; and
- Foster new efforts to improve the environmental health and sustainability of the natural resource base.

The Nebraska Food Processing Center

The Nebraska Food Processing center is a partnership between the University of Nebraska-Lincoln and the state Department of Economic Development, dedicated to providing the R&D and business management and marketing assistance necessary for creating a larger, more dynamic, food processing industry. The center has 19 staff people and a budget of $500,000, not counting extensive service grants or faculty associates who serve as project consultants. One of its most important contributions has been its role in creating the Nebraska Food Industry Association (NFIA), a private nonprofit organization of food industry representatives that serves as an active industry partner with the center.

The Oregon Wood Products Competitiveness Corporation

The Oregon Wood Products Competitiveness Corporation (WPCC) was created in 1991 to fill a gap in service support to the secondary wood products industry. This corporation is an independent agency committed to making Oregon a major processor of its timber resources and the future home of a world-class secondary wood products industry. It uses a range of tools that include finance programs, workforce preparation and manufacturing networks. The program was funded initially from a state lottery and had a biennial budget of about $2 million; WPCC is now privatized and its designers expect it to become self-sufficient. It is governed by a seven-member board of directors, composed of industry representatives who are elected for four-year terms. WPCC uses its board actively as extension staff and regional advocates and eventually hopes to have five staff members. This was one of the few programs we reviewed that was designed after intensive discussions with industry.

The Maryland Aquaculture Office

The Maryland Aquaculture Office (MAO) was created in 1988 to promote Maryland's aquaculture industry (including the commercial rearing of finfish, shellfish and aquatic plants for sale, barter or shipment); coordinate policies across a variety of state agencies; and design, test and construct environmentally sound wastewater treatment for fish farm operations. MAO is supported primarily through general tax revenues and has a budget of about $700,000. More than half of MAO's budget is dedicated to aquaculture activities, with the rest put into seafood marketing. The office has a staff of six.

Lessons from the Natural Resource-based Case Studies

Of all the rural development strategies, this area is probably the least developed in terms of applying Third Wave principles. Why? Partly because the institutions concerned about natural resource-based businesses are steeped in the traditions and attitudes of the past. Service providers and trade associations in these sectors generally resist changing their accustomed practices, even in the face of direct threats to their survival.

1. *A comprehensive program for natural resource business development must provide R&D and conduct feasibility studies, along with capital and technical assistance.* Most resource-based business development programs aim at one target such as research and development, risk capital or management assistance. And, typically, each program is delivered by an office within a state government department or a separate agency. The Nebraska program's strength lies in bolstering technology, but it is weak in supporting other enterprises. Similarly, the Maryland Aquaculture Office provides help in some technical assistance areas, but virtually none in others. While the solution to this problem of program gaps and fragmentation does not necessarily involve creating the proverbial "one-stop shop," this challenge must be taken seriously for natural resource-based business development programs to succeed in achieving both more value-added production and a greater customer friendliness. To date, none of these three models have licked the problem of program fragmentation.

   In addition, programs should be not only broad, but deep. Fostering increased value-added production requires that firms receive highly specialized assistance. For instance, program staff need to have an in-depth understanding of an industry, be able to identify potential market niches where state investment could make a difference, and then provide the appropriate assistance. Again, the Nebraska and Maryland programs fall short. They presume too much about the states and industries and investigate too little.

Programs to stimulate value-added production must provide sound marketing research and advice, since many markets for new products must be developed, not simply targeted.

2. *Programs to stimulate value-added production must provide sound marketing research and advice, since many markets for new products must be developed, not simply targeted.* Most of the cases examined in this chapter were too driven by technology. Research and development is undoubtedly important, and testing new product concepts is critical. But some universities and colleges are setting too much of the rural economic development agenda. Greater direct participation by industry would produce clearer definition of its needs and better program quality, as well as stimulate businesses' and producers' appetite for business development services. These programs also need to be shaped by a stronger marketing perspective. For instance, aquaculture in Maryland will not develop to new levels unless careful attention is paid to aquaculture market identification, sales and negotiation. Similarly, aquaculture projects will breed fish that are unknown to American consumers. Thus, extensive promotional and sales efforts may be required to help new and existing companies increase demand.

3. *Natural resource-based business development programs that focus on working with universities and colleges must seek to change the culture of academia.* The typical rules, incentives and career advancement systems of colleges discourage university researchers from working with businesses. Professors advance in their fields by undertaking research and publishing papers at the cutting edge, not by exploring the commercial implications of their work and helping entrepreneurs to take advantage of it. Two of the natural resource models — Nebraska and Maryland — we studied involved the university extensively in their program design and delivery but left businesses in the background. This could lead to very disappointing results. To avoid these problems, partnerships involving academia must have business clients in the driver's seat.

Second, reforms may be needed in typical university practices regarding promotions, remuneration from outside consulting and proprietary research issues, as long as these reforms protect the educational and basic research goals of colleges. Third, natural resource-based development programs might copy a proven strategy in state advanced technology initiatives: awarding matching grants to industry-university research projects. Several states have established initiatives that bring together university and industry researchers by offering matching funds to businesses that hire academic researchers or teams for specific projects. These programs offer a number of benefits. They tend to focus on the development and commercialization end of the research spectrum. They are market-driven. They establish new relationships between entrepreneurs and researchers. They create financial incentives for academics to work with business. And funds are largely restricted to research costs, not more bricks and mortar.

4. *Redefining and revitalizing trade associations and creating new ones is critical.* If farmers, ranchers, and entrepreneurs are to embrace these new approaches, their organized representatives must do so as well. Much can be learned from Oregon's experience. In addition, trade associations must follow the lead of their European counterparts, which do not restrict themselves to simply lobbying and disseminating information. They also provide services to their members that range from finance to R&D, and from purchasing health insurance to developing collaborative ventures. This shift is no easy task, since most existing food, timber and fiber associations hold strong traditional outlooks and usually focus on yesterday's, and not tomorrow's, issues.

5. *In developing natural resources, state policymakers must not neglect environmental protection.* In Oregon, for example, environmental concerns played a key role in the creation and the structure of the resource-based strategy. For example, some of the crisis in Oregon's secondary wood products industry was created by poor forest management practices in the past, coupled with today's stricter regulations, such as protecting the spotted owl. Thus, natural resource-based strategies must consider best management practices. This will require innovative program design and integration of previously distinct functions and agencies to achieve common goals. In Maryland, financing new wastewater treatment technologies for fish farms represents a small step in the right direction.

6. *Rural areas need effective communication about program services, new market intelligence and best practices in natural resource management.* Since rural producers are isolated from markets, they require sustained and innovative mechanisms for education, training and technical assistance. All three programs either tapped a network of partnering organizations or tried to establish satellite offices.

7. *Because of the unprecedented changes affecting many rural communities, much of their leadership is ill prepared to tackle these challenges.* In Oregon, for instance, timber-dependent communities have been slow to recognize that many of their traditional ways of living may be obsolete and that they must begin to "think outside the box." Some local businesses also have shown reluctance to explore collaborative projects with other Oregon-based firms in the wood products sector. Finding ways to cooperate for profit instead of simply competing against each other is a foreign notion to these businesses.

8. *Finance can pose a problem in many rural areas.* To undertake new product development or processing activities, rural firms will need access to capital. But the problem of obtaining financing for start-ups and expansion is even more acute in rural areas than in urban ones. Banks and other sources of risk capital are smaller and less creative. Many of these ventures, such as startups, technology development and product marketing, are novel to conventional lenders. This boosts the information and transaction costs of the new deals. Success will require such creative finance policies as R&D matching grants, loan insurance programs, loan consortia, and training programs in loan packaging. The Maryland program demonstrates the wrong approach to tackling financing problems. Maryland set up a direct loan program with a small amount of money that tries to

replace local bank capital. Even if the state gets its money back, it will have done nothing to educate lenders or to better leverage its money.

<u>Three Case Studies in Microenterprise Development</u>

Microenterprises are commonly defined as small-scale businesses that employ fewer than six people and require access to small amounts of business credit. Programs to promote microenterprises are designed to create jobs in areas where other development strategies appear to have little chance of success, and to provide low-income individuals with a new avenue for self-sufficiency. These programs often assume that potential entrepreneurs have strong business-relevant skills — that they know, for example, how to cook, repair cars or make crafts — and that a lack of credit and business management skills keep them from starting or expanding a business. This strategy holds great potential for many rural areas where self-employment offers a significant source of jobs and income.

The Montana Microenterprise Finance Program
Montana operates a Microenterprise Finance Program that wholesales microenterprise loan funds through Microenterprise Business Development Centers (MBDC) located across the state. Loan providers must be nonprofits, a requirement that helps ensure that funds are directed to the target populations. The state plans to locate an MBDC in each of the state's 12 geographic regions, and a statewide MBDC will be created to provide support in the event a regional MBDC becomes dysfunctional. Funding comes through the Montana Department of Commerce to MBDCs in the form of a $250,000 loan at four percent interest rate. The loans are interest-only and payable on a quarterly basis. The maximum loan to any given business is $20,000. MBDCs can make direct loans as well as guarantee bank loans. Services include assisting customers with loan proposals, packaging and servicing loans, and monitoring performance. The state's efforts were driven by surveys indicating a strong demand for loans under $50,000 but minimal interest among banks in making these loans.

Vermont's Job Start Loan Program and Community Linkage Program
Vermont has operated its Job Start Program since the late 1970s. Vermont, a small rural state with only one community with a population greater than 25,000, boasts a high self-employment rate in rural areas. The state saw Job Start as an economic development program that focuses on low-income residents. Created by the legislature in 1978, the program provides loans through a centralized pool, using regionally-based loan committees. The state also offers technical assistance through its network of Community Action Agencies. The maximum allowable loan for a single business is $10,000, at 8.5 percent interest, for a period up to four years. Initially, the loan fund was severely undercapitalized but is now supported as a line item in the state's budget, augmented through various contracts with government agencies.

North Carolina Rural Development Center's Microenterprise Loan Program
The Microenterprise Loan Program (MLP) operates through the nonprofit North Carolina Rural Development Center. The program, created after the Rural Center commissioned a two-year study of gaps in capital availability, works to exploit the potential for small business development in the state's many small rural areas by providing loans and technical assistance to potential entrepreneurs. The Rural Center disburses all loan proceeds and maintains documentation, while local-site sponsors issue credit and deliver technical assistance services. At peer-lending sites, borrowing groups and program staff have the job of approving loans; at institutional sites, loan committees take on this task. With guidance from the Rural Center, local sites are responsible for developing underwriting standards as well as monitoring and collecting loan payments.

<u>Lessons from Microenterprise Initiatives</u>

1. *There is a tension between the use of microenterprise development as an economic development strategy and its use as a strategy for individual economic self-sufficiency.* Each of the three states reflects elements of both goals. For example, each state has an expressed desire to serve low-income individuals and create self-employment enterprises and jobs. But, the extent of targeting

varies. Vermont focuses explicitly on low-income individuals, while the Rural Center has a broader focus on women, minorities and rural residents who lack access to credit.

These dual goals are compatible if microenterprise development can be a strategy for achieving both ends. Furthermore, many residents of rural areas are low-income individuals, and therefore the potential clients of microenterprise programs. But, although related, the human development and economic development goals of these programs are clearly distinct. These differences have not been articulated, nor is there a clear understanding of when and how they are related. Reconciling these goals has emerged as a key issue across the entire field of microenterprise development.

This lack of clarity creates difficulties from a Third Wave perspective because a well-defined strategic focus and the ability to assess program impact and accountability requires a clear statement of goals. In the states we examined, no decision seems to have been made concerning which program outcomes are most important. Is the pre-eminent goal starting more businesses, or generating a certain number of full-time jobs, or raising the income levels of a certain number of individuals, or simply filling a capital gap? Clarifying goals is crucial in setting performance standards and assessing accountability.

Finally, this tension can be exacerbated by competing goals among state staff and the local organizations that deliver microenterprise services. As funders, states typically place a greater emphasis on a program's economic development goals. However, program providers often prefer to focus on making a difference in the lives of their clients. In addition, a local organization's goals are shaped by its mission. Groups that serve low-income individuals, for instance, may have a different set of goals than groups that support the development of local economy.

Successful microenterprise development programs combine the provision of credit and technical assistance.

2. *Successful microenterprise development programs combine the provision of credit and technical assistance.* State policymakers, believing the cause of low levels of microenterprise development to be a capital gap, typically respond by creating lending programs. In each of the three programs examined, the bulk of the state's investment has been aimed at providing loan capital. Each state, though, has also taken steps to ensure that loan recipients receive technical assistance, which is seen as essential to successfully extending (and repayment of) credit. These programs have learned that providing technical assistance that can help borrowers assess and understand the skills and risks entailed in starting businesses is essential for creating a greater and better loan demand. As a result, some states have placed a stronger emphasis on technical assistance in recent years.

   The growing emphasis on technical assistance presents a challenge to state microenterprise programs: enabling locally-based programs to raise sufficient operational funds to cover the technical assistance and marketing activities required to sustain the demand for loans. North Carolina provides funding to its local program partners to cover part of their administrative costs, but it was initially envisioned that these funds would be provided for only two years. Vermont currently appropriates a small amount of General Fund revenues to cover part of the costs of technical assistance that community action agencies provide; the rest of these costs are paid for through short-term federal grants and other funding sources. Finally, Montana played a key role in securing a grant from the telecommunications company, U.S. West, to cover the costs of MBDC technical assistance and administration. But, as in other states, this grant is for a limited period of time. Vermont's experience suggests that loan demand will dry up if technical assistance cannot be provided as well. States may face the choice, then, of either identifying funds to offset the costs of technical assistance to borrowers, finding ways to charge fees for service or seeing demand for loans decline.

3. *The level of demand for microenterprise lending in rural areas is still unclear.* It has become apparent through program experience that microenterprise programs are engaged in a process of creating as well as filling demand. Borrowers need assistance in building their skills and planning their operations, both to encourage them to take on a loan and to reduce loan losses to the lender.

Microenterprise programs, then, clearly need to involve more than lending, and program designers need to understand that the level of demand for capital depends directly on the level and quality of technical assistance provided to potential borrowers.

Indeed, each of the state microenterprise programs is built on the premise that a capital gap exists for loans to very small businesses. And each state has assessed the level of demand for such loans. North Carolina's program stemmed from a Rural Center report on capital availability in rural areas. Montana's initial work included surveys that were used to estimate the level of potential demand. Recently, the Vermont Job Start program commissioned a report on the potential for recapitalizing its loan fund that included an assessment of demand, based on interviews with program staff.

But while each state has tried to assess the level of demand for microenterprise loans, the actual demand once money is available is unknown. Vermont has clearly exhausted its small store of capital in the past. Originally, Montana anticipated no problem of lending out its capital in most of its regions. Despite these assurances, a back-of-the-envelope analysis suggests that, given an average loan size of $10,000, 25 loans will exhaust the lending pool of an individual MBDC. Neither state has yet raised an amount of capital close to the level of estimated demand. North Carolina, on the other hand, has raised substantial amounts of capital for its loan fund and is in the process of significantly expanding its program. Whether demand exists for additional capital is not known. It is also unclear if states will consider microenterprise programs successful if demand for loans is less than originally anticipated.

4. *Distance to markets presents an obstacle for some microentrepreneurs.* This problem poses great concern in Montana and Vermont, where the rural regions are more thinly populated than in other states. Distance to markets is a twofold problem. First, entrepreneurs who need a retail setting may be forced to acquire space in a regional center located many miles from their homes. This can increase a business owner's travel costs — a particular problem for lower-income entrepreneurs. The need to be close to markets can also make it difficult for entrepreneurs to operate businesses out of their homes, which increases start-up costs and the breakeven point, and, as a result, the risk. Second, some entrepreneurs require access to markets outside their immediate region. They need access to specialized expertise about catalog marketing, trade shows and other means of identifying and reaching remote customers. Several microenterprise programs across the country are looking into providing these services to their customers through marketing efforts that focus on bringing products to external markets. Such assistance, though, requires additional resources and staff expertise that further increase operational funding.

5. *Organizational and staff capacity can be particularly limited in rural areas.* Microenterprise programs, both rural and urban, typically target individuals with few business skills. Thus, the lack of capacity requires the existence of a technical assistance component in the program. However, a lack of staff capacity is a particular challenge in rural settings. Staff need to be trained in business lending, and also possess a fairly broad range of business management skills. These capacities appear harder to find in rural areas, where business lending is relatively sparse, even by commercial banks. In addition, rural areas typically have fewer organizations with lending experience than urban areas.

   Staff also need experience in business management which they typically gain from their own experiences as business owners. Such skills can be tough to come by in rural areas. In some regions of Montana, for example, the program has had difficulty identifying organizations with the capacity to become MBDCs. In response, state program administrators may decide to play a stronger role in helping MBDCs build organizational and staff capacity. In contrast, North Carolina's success in finding qualified sites partly results from the public and private sectors' previous commitment to building the capacity of nonprofit development organizations in the state.

6. *Microenterprise development initiatives may be particularly appropriate in rural areas because of the nature of rural economies.* Each of the states profiled here has elected to support microenterprise development because of their economies' rural nature. Their research and analysis has shown that self-employment is a significant source of income in rural communities, and that very small businesses can profitably provide important services in rural areas.

   In spite of the fact that these programs were designed without studying the particulars of their regional credit markets, national research suggests the existence of a small firm and rural business financing gaps. Indeed, the structure of the rural banking industry is such that banks will not make small loans to these microentrepreneurs because of the higher proportional transaction and information costs, a lack of competition for loan services, and bank inexperience in doing micro-deals.

What Is the Government's Role in Creating Third Wave Systems?

There are many exciting program initiatives underway that employ elements of the Third Wave principles. The use of these principles is still so limited, however, it is difficult to determine how much impact they have on rural business development. The programs that have gone the furthest — Oregon's WPCC, Minnesota Technology, Inc., and the North Carolina and Montana microenterprise initiatives — are so young that it is too early to tell whether they will make a difference.

States should focus on building non-governmental institutions... rather than the direct delivery of services.

Our research, nevertheless, points to several key lessons that could help states take better advantage of Third Wave principles.

States should focus on building non-governmental institutions (either for profit or nonprofit, depending upon which is most appropriate), rather than the direct delivery of services. Although it sounds strange in the world's largest market economy, the most important role of government programs for business development may be to help the private sector help itself; especially in economically disadvantaged rural areas, firms and their advocacy organizations must learn how to cooperate with each other in order to compete. ("You can lead a horse to water but you can't make him drink," as the saying goes. Government programs typically only make the water available, but industry has to thirst for change before industry-wide change is to occur.)

This can be accomplished either by bolstering private groups, such as trade associations, or by fostering the creation of entirely new entities. Only by finding or creating lead partners in the private and nonprofit sectors can programs hope to reduce fragmentation or achieve scale and accountability. Most of the programs examined have sought to reduce fragmentation by creating partnerships with other public agencies; few have looked at private firms or institutions as part of a system to strengthen the delivery of technical assistance. And, although government agencies now routinely involve the private sector as "partners" to leverage private dollars, these programs have defined "scale" simply to mean more services, rather than as a level of services that is appropriate to the size of the problem. Moreover, the typical private sector partnership is superficial and too exclusively funding-based and fails to involve industry in assessing needs and designing responses. The price is distrust and disuse. Finally, in survey after survey, businesses voice intense skepticism over the effectiveness of government-run programs, whether they are administered out of university offices or state agencies. Even programs that report to a private sector board, such as the Oregon WPCC, are often held suspect if they are predominantly funded through legislative appropriations.

In many situations the government's role may be to create demand for services, not to subsidize them over the long term. (This may be less true for microenterprise programs. Ongoing public incentives are more justified in this case because the program often serves other public purposes, such as welfare reform and community preservation.) Small manufacturers and natural resource-based industries may fail to understand that they face competitive challenges and, hence, not generate enough interest in technical assistance to support such a private service structure. This is especially

... in cases where a decision has been made not to privatize service delivery, wholesaling through regional institutions was found to ease the transition to performance-based management.

true in rural areas, where the proper role of government may be to educate these firms in order to create actual demand. In the case of the Georgia Economic Development Laboratory, the state is essentially stimulating the creation of a private market for services by stimulating companies' interest in services and their willingness to pay for them. Governments can also promote private sector institution-building by providing small challenge grants for organizations to support up-front training for organizations interested in developing expertise.

States should focus on removing bottlenecks and seeking new economic opportunities. This level of selectiveness typically requires a thorough understanding of the state economy and, in rural regions, the key industries and firms that have the potential to drive regional growth and economic health. An analysis would help to clearly define just who is a program's customer. By ignoring this apparently simple but often overlooked first step in program design, most programs set out to serve any and all customers, without a sense of how to target their services to those firms that could make the greatest contributions to the communities in which they operate.

A strategic focus also requires analyzing the needs of key firms and industries, and the gaps in public and private services. For example, few of the modernization or natural resource-based development programs we considered promote either workforce development or financing as key elements of their programs; rather, they focus almost solely on technology transfer and market information to help clients stay competitive. Those programs that start out by developing a clearer understanding of the size and nature of the problems facing key industries also appeared more likely to recognize and respond to the need for addressing the weaknesses of an industry comprehensively, to offer customers choice, and to use other Third Wave design principles.

States can better meet customer needs through wholesaling services through locally- or regionally-based institutions. A decentralized delivery system is necessary to reach businesses effectively, and the case studies illustrate that using a partly competitive process, rather than a system of program field offices, allows for greater customization of services to meet customer needs and closer connections to local markets. In considering whether to wholesale funds, however, program designers should recognize that wholesaling may conflict with the need to develop highly specialized services. For example, manufacturers and processing firms often need quite specific market and product information. In cases where there is a need to develop highly specialized staff skills, states face a choice about where to locate these skills. One option is to build a cadre of staff who can operate statewide, as Nebraska did with its Food Processing Center. A second option, used by both Georgia and Minnesota, is to have regional field offices or service-delivery organizations to develop specific skills in sectors in which their region is most highly concentrated. States that want to wholesale program services in rural areas may need to invest in building the capacity of potential program deliverers. This is especially true for sparsely-populated, remote regions which may require the state to invest in local organizations.

Wholesaling not only permits customization, it encourages continuous improvement. Particularly, in cases where a decision has been made *not* to privatize service delivery, wholesaling through regional institutions was found to ease the transition to performance-based management. In Montana, performance records will serve as the basis for recertifying regional service providers, which will take place every four years. It is much harder to implement performance-based management when services are delivered through a single state agency or through a designated delivery system, such as a Community Action Agency. In such cases it may be possible to set performance standards, but it is unclear what recourse is available if standards are not met. (States could deal with this problem in part by dividing program support into two areas — core support and bonus payments for meeting agreed-upon targets.) At a minimum, the requirement that clients pay some costs for the services received would provide a rough, market-like test of performance.

Accountability requires clearly stated program outcomes and performance-based budgets. The recent laudable practice of securing feedback from customers in the form of surveys and follow-up calls is largely wasted without a formal process for systematically using the information to evaluate and improve program services. Most of the programs we studied reported annually to the legislature on their progress and achievements during the year. In most cases, progress is measured through a few basic indicators: number of firms assisted, number of contact hours, number of technical assistance visits — in other words, in terms of program inputs or outputs rather than outcomes or impact. The exceptions were the Nebraska Food Processing Center, which assesses the overall strength and performance of the food processing industry, and Minnesota Technology, Inc., which is involved in a benchmarking process to measure changes over time in the state's manufacturing sector. Only a few programs use a funding process or management structure that penalizes providers for poor performance, and none have a means of rewarding excellence. Most depend on legislative authorizations, a process that often allocates funds based, not on performance, but on quantity of demand and time spent providing services.

States should explore regional solutions to the problem of program scale. Tackling the problem of scale is particularly important in rural areas, as the size of the programs focused on such communities is often smaller in resources than in urban areas, while at the same time programs are expected to cover a wider area. However, the case studies reveal few programs have made sufficient headway in addressing this issue. More region-wide efforts may be one alternative worth pursuing.

States should explore regional solutions to the problem of program scale.

Conclusion

To summarize, many of the Third Wave design elements are interdependent. Thus, implementing one element may make it easier to implement others. For example, starting with a clear focus on the type of businesses targeted, and their role and impact in the overall economy of a state or region, makes it easier to establish benchmarks or standards for program performance and impact. More accurate means of measuring performance and accountability facilitate the process of allocating money to the most effective programs and providers. This enables states to better address the issue of scale. Similarly, a competitive selection process can only be used when services are wholesaled, not when a central state agency or central institution receives funds directly through a legislative appropriation. Program designers or administrators who are using or considering adopting a Third Wave design element in their programs, then, may want to consider how implementing complementary elements might improve the overall quality and impact of their programs. [15]

Our analysis of state rural development offices and of initiatives for rural business development also reveals that the use of Third Wave principles is limited. However, a close look at the limitations of existing programs and the efforts by a few newer programs to more fully incorporate Third Wave principles suggests there is potential for these principles to increase the impact of rural programs. Most notably, these principles seem to hold promise for helping programs better define and target their customers, to take more comprehensive approaches to the needs of the businesses they serve, to leverage private sector resources in order to increase the scale of their efforts, and to improve their ability to measure and account for their performance. Given the challenges that rural areas face, strengthening development initiatives along these lines is critical to their long-term health.

Chapter 5

A Process for Designing Effective (Rural) Development Policy

CFED's understanding of the problems that confront the states and rural areas with which we worked has demonstrated the need for new approaches to rural development. To help states get started, we have distilled the lessons learned into a workable and effective strategic planning process consisting of seven steps in devising a state development policy that meets the special needs of rural areas.[14]

Seven Steps for Designing Rural Development Efforts

#1 **Build a Consensus for Action**

#2 **Enunciate a Clear Vision**

#3 **Create a Strategic Program Focus**

#4 **Engage in Capacity Building**

#5 **Bolster Regional and Local Access to Analytical Tools**

#6 **Actively Promote Regional Planning and Action**

#7 **Monitor Performance**

Principle #1: Build a Consensus for Action

State officials need to reach out to communities to shatter the mythologies of rural development. Until the general public better understands the realities of the new business climate and regional economies, rural constituents will continue to pressure state governments to deliver branch plants, provide infrastructure for empty industrial parks and reduce corporate taxes.

Texas state officials saw the state's recent history of strong economic growth threatened by new forces. They found, however, that their vision of an impending downhill slide was not widely shared across Texas. Conditioned to the boom-and-bust cycles of oil and agriculture, Texans were reluctant to acknowledge that structural transformations were causing the hard times in the state economy. A wait-and-see attitude prevailed. Before Texas officials could reorganize state development programs around a new vision of the future, they had to generate a consensus that a new vision was needed. This was especially challenging in a "lone cowboy" state with a weak program record. Texas had no history of state strategic planning for economic development, nor of the state playing a strong role in economic development policy.

Until the general public better understands the realities of the new business climate and regional economies, rural constituents will continue to pressure state governments to deliver branch plants, provide infrastructure for empty industrial parks and reduce corporate taxes.

Texas officials conducted research and interviews with industry leaders, academics, national policy think tanks, and others to identify the major economic, demographic, political and social forces facing the state in the next two decades. Subsequent publications, meetings and regional hearings publicized their findings and solicited public input to generate a mandate for restructuring public and private initiatives.

Like their Texas counterparts, Virginia officials worried that the people of rural Virginia may not have grasped the full significance of the transformations taking place around them. Virginia's Center on Rural Development responded by conducting a series of regional forums, using a variety of discussion aids, including trend analysis, survey forms and outside facilitators.

Nebraska chose a more intensive leadership education and discussion process by creating a Community Academy. The Academy's three staff offered regular economic development educational services, some of which lead to certification, and tailored services such as community capacity "mapping" and mediation. Perhaps the most interesting service is their Community Builders project that selects three to five leaders from each county in a substate region. The six month course exposes participants to a variety of economic development strategies through monthly meetings, each of which is conducted in a different community. This type of program provides experiential-based training for local leaders in a manner appropriate for small, volunteer-based community governments.

Principle #2: Enunciate a Clear Vision

Because economic development experts are often desperate to move quickly to spur job creation, and because the legislative funding process dictates a certain programmatic focus, there is a strong tendency to concentrate on means rather than ends. This misguided focus is abetted by the explosion of Second Wave program initiatives launched by state and local government, the nonprofit sector and private industry. Although these program models are exciting, practitioners must first ask *why* they are needed. Specifically:

- What are our basic economic development goals?
- Who are we really trying to serve?
- Can government influence the broader economy?
- Ten years from now, how will we know whether we have succeeded or failed?

These superficially easy questions become difficult to answer in practice because, if answered honestly, they involve hard choices. Yet, only when these questions are answered can program resources be applied efficiently and effectively.

Several years ago, Michigan faced up to these difficult choices because its economy was largely based on outmoded principles of mass production. Although the production techniques had made the state one of the world's wealthiest places during the first two-thirds of the 20th Century, the state appeared doomed to massive obsolescence in a world filled with lean, productive competitors. Policymakers concluded that Michigan businesses had three options: get poor, get out, or get smart.

Michigan's leaders chose a vision of "getting smart" by upgrading technology in existing enterprises, generating greater amounts of risk capital for investment and stimulating worker retraining and mobility.

Michigan's vision is also notable for what it lacks. It directly addresses neither distressed areas nor low-income families. Instead it directly focuses on bolstering the competitiveness of Michigan's industrial base, implicitly assuming that without restoring manufacturing, none of its other goals can be attained.

Like Michigan, Oregon faced steep employment losses in a key industry, forestry. Oregon sought to improve the wood industry's competitiveness by promoting value-added production. Subsequent program innovations were viewed as potential means to that end. While the Oregon Wood Products Competitiveness Corporation is exploring the use of manufacturing networks, capital pools, and export promotion programs, WPCC keeps a single-minded focus on increasing employment per board foot harvested. All new programs will be judged effective only to the extent they serve this purpose.

Nebraska's development leaders believed that limited program resources meant the state could play only a minor direct role creating jobs. The Department of Economic Development developed a vision of the state working not to create jobs, but competitive people, enterprises and communities. The state wanted to deploy its resources so that communities could better understand the economic environment, build capacity to act and make sound choices. The state focused on creating flexible resources at the state level to support local action.

Visions also must be capable of being translated into concrete action. Unfortunately, in Virginia the vision statement in the governor's plan included so many broad goals that it was ineffective at either rallying initial support for CORD or in giving the agency clear direction.

The first step in ensuring greater impact and quality in business development programs is to start with a clear focus on who the customer is and the nature of the customer's problem that the program is designed to tackle.

Principle #3: Create a Strategic Program Focus

The first step in ensuring greater impact and quality in business development programs is to start with a clear focus on who the customer is and the nature of the customer's problem that the program is designed to tackle. Developing a clear strategic focus for a program typically requires understanding the state economy, and in rural regions, the key industries and firms that have the potential to drive regional growth and economic health. It also involves analyzing the needs of those targeted firms and industries, and the gaps in public and private services that address those needs. And it requires a realistic assessment of the capacities and resources available to mount an effective response.

A strategic program planning process, then, can become the vehicle for introducing Third Wave concepts as well as regional delivery systems.

Rather than undertake a strategic planning process or commission a study to identify needs, most rural development programs are started because of a *presumption* that a particular type of business or business service is important. Programs generally set out to serve any and all customers without a sense of how to target their services to those firms that will make the most difference. The rare exception to this role is illustrated in the genesis of the North Carolina Microenterprise Loan Program, which was created as the result of a broad audit of the state's capital markets *and* potential rural service providers. Oregon staff, too, undertook a detailed analysis of the wood industry and its needs prior to launching their program.

Oregon's WPCC program is all the more notable because it involved key industry representatives in designing the program. If programs do include constituents it is usually for program review and oversight after the initiative is up and running. Programs that omit industry or customer representative in their design stage run the risk of having to redesign services that could have been designed correctly from the start. In addition, having solid industry support and involvement early on can facilitate leveraging private sector funding for the program.

Only a few of the programs we examined have explicitly taken on the challenge of trying to measure or estimate the potential demand for services. Most that have taken steps in this direction have done so through a fairly rudimentary process, such as surveying bankers to estimate demand for microenterprise loans. A state strategic planning process can also help to define the scale of the problem, which in turn forces attention to the means for augmenting local capacity.

The most important duty of a state department of economic development, however, may be to develop the competitive capacity of whole communities rather than the sales records of individual businesses.

Principle #4: Engage in Capacity Building

Some programs, such as export promotion, may generate a significant return on investment in the form of new sales, tax revenue and jobs. The most important duty of a state department of economic development, however, may be to develop the competitive capacity of whole communities rather than the sales records of individual businesses. This view is widely shared in state agencies concerned with community assistance and community development, but it has made only limited inroads into state departments of economic development. Control over the state's economic development resources typically remains within a single state agency.

Large urban areas have more potential delivery mechanisms than rural areas; service organizations tend to be more numerous, have adequate capacity and operate closer together. As a result, it takes more energy and effort in rural areas to knit a broad range of actors into an effective program delivery system. Typically, it becomes apparent that public sector resources alone are insufficient to create a program that can have a significant impact on development in rural and smaller urban areas. This discovery leads to serious attempts to leverage state dollars with other public and private sector resources.

Of the nine rural business development programs we examined, almost every one used a decentralized delivery system as a means to better reach rural business owners. Typically, the choice to use a wholesaling approach was driven by the sense that tapping existing, locally-based institutions would be a more effective way of customizing services, leveraging resources and meeting customers' needs than using a field office structure.

Some very sparsely populated areas will have only one, if any, local organization capable of providing the necessary services. Where scant capacity exists, states need to decide what role they can play in capacity building. One approach is providing small challenge grants for organizations, or providing up-front training for organizations interested in developing capacity. In North Carolina, for example, the Z. Smith Reynolds Foundation took a lead role in stimulating the creation of rural community development corporations and a statewide CDC association. The state of North Carolina has since followed their lead.

Few Third Wave prototypes used a competitive bid process to select rural service providers. An effective process for selecting the most qualified local providers probably requires a combination of both a competitive process and strong working knowledge of the applicants on the part of the state staff making the selection. This may require more up-front work on program design. For example, the North Carolina Microenterprise Loan Program spent several months investigating microenterprise programs before defining their selection criteria.

A few state economic development departments have attempted to overhaul their entire operations around local capacity building. Some, such as those in Louisiana and Mississippi, have been hamstrung by state government leadership changes and institutional skepticism. Nebraska, however, has developed and sustained one of the most comprehensive systems to build local capacity for economic development. Nebraska defines community capacity building as the central role of the state Department of Economic Development rather than as an ancillary activity. The Nebraska Development Network, which was at first supported principally through resources committed by the Department of Economic Development, is now a nonprofit organization that serves as the state's principal vehicle for local development. While Nebraska's goal remains maximizing state growth, the network encourages localities and regions to take responsibility for growth in their own areas by providing program resources and diagnostic tools.

Knowledge is power, yet states often permit localities to remain clueless about the economic and social roller coaster to which they are strapped . . . these efforts must be more than one-time . . . briefings.

Principle #5: Bolster Regional and Local Access to Analytical Tools

Knowledge is power, yet states often permit localities to remain clueless about the economic and social roller coaster to which they are strapped. Consensus-building activities in the state labs were well-received, but these efforts must be more than one-time, resource-intensive briefings. Continuing regional economic analysis and dialogue are essential to maintaining regional initiatives and enabling localities to confidently initiate projects.

For instance, the North Carolina Rural Economic Development Center developed *The Rural Profile*, a comprehensive database comparing metropolitan and nonmetropolitan counties. It is designed to deepen rural North Carolina's understanding of its position in the economy. Periodically updated, the information is supplied in both published and electronic formats. The Profile could be further enhanced by devoting greater attention to analysis and prescription rather than simply describing economic conditions. In publishing *Regional Outlook*, Texas analyzes the historical forces that shape each region, and their current and projected economic health, and assesses key occupations and sectors.

Several states have begun online information services. For example, Nebraska's service now logs over 1,000 electronic connections per week and envisions expanding its services. Some state services, though, merely provide information on programs.

Data and program information, even with the added feature of interactive communication, should augment rather than supplant regional discussion forums. States should avoid the pitfall of providing easily accessible information with little utility for practitioners. Several measures would strengthen the usefulness of electronic information services:

- Issue the information through multiple formats, including paper copies, electronic diskettes and online data services;
- Coordinate the release of information with regional forums, discussion groups or other services to assist local communities in interpreting and applying data, at least initially;

- Make presentations readable and readily digestible, incorporating charts, graphs and comparative tables;
- Make the information timely through regular updates;
- Employ user surveys to hone the product's usefulness, since excessive detail kills interest; and
- Mine the data to analyze problems and suggest solutions instead of relying upon descriptive statistics.

Finally, the information should be shaped for different audiences. Nebraska officials found little appetite among smaller communities for information originally intended for regional economic health assessments. The regional diagnostic process did not match local officials' span of control which only added to their frustration over problems they could do little to solve. The Nebraska Development Network subsequently developed a simpler assessment process that placed greater reliance on local knowledge and input.

Although regional cooperation among counties and municipalities is often praised, it is rarely supported, much less achieved.

Principle #6: Actively Promote Regional Planning and Action

Local economic development programs, especially in very small communities, cannot effectively address fundamental issues affecting jobs, income and long-term economic prospects. That requires regional action. Although regional cooperation among counties and municipalities is often praised, it is rarely supported, much less achieved. Unable to control the forces that shape their economic destiny, local leaders choose to ignore them and focus solely on local initiatives. Many reasons can be offered. Local officials are held accountable for police and fire protection, solid waste removal, and other services. In the race to secure the industrial tax base necessary to support these services, the neighboring jurisdiction represents the competition. For example, although regional infrastructure planning seems worthwhile, regional initiatives will often garner little local support. Few local leaders will risk letting a regional authority redirect industrial development to another jurisdiction. Similarly, regional rather than local loan pools can be much more productive, but local officials will not easily cede control over a regional lending program that will be capitalized through local contributions. And, regional educational facilities can use economies of scale to offer more course options and purchase better equipment, but this limits the number of schools, which provide a source of community identity and sports entertainment.

To overcome barriers to cooperation, policymakers must provide incentives for communities to envision themselves as part of a regional economy and to act accordingly. Indiana found that although it officially encouraged regional cooperation, state policies actually discouraged cooperation. Legislation enacted to foster regional cooperation by granting regional districts limited tax and regulatory authority, with the goal of discouraging small, fragmented private and municipal systems, instead had precisely the opposite effect. Regional authorities proved reluctant to offend any community by limiting options, and consequently approved the construction of many small, independent systems outside municipal corporate boundaries.

The Nebraska Development Network emphasized regional capacity by making regional groups the principal determinants of how state programs are to be delivered in their regions. The Network has considered a variety of ways to adapt policies and programs to each region's unique economic environment, including:

- Providing incentive grants for regional planning and program design;
- Gradually making participation in certain state-funded programs conditional upon greater regional planning and cooperation;

- Establishing clear performance goals for local programs and services supported with state funds, and linking local goals to regional and state performance targets; and
- Decentralizing authority and decision-making to give greater flexibility to those regions already practicing regional cooperation.

Regional identity also can be promoted from the local level. Regional economic development planners in a 15-county region in northeastern Mississippi encouraged local institutions to change their names to reflect a new regional identity. The local newspaper's name changing from the *Tupelo Journal* to the *Northeastern Mississippi Daily Journal* predated the planners' efforts and perhaps lent credibility to them. Local organizers also convened their state representatives annually in a December regional meeting, just prior to each new legislative session, to discuss their priorities. This makes the region's state representatives more likely to vote as a block.

Principle #7: Monitor Performance

Program evaluation is program development. By identifying what works and what does not, policymakers can build a high-impact, high-quality program that accomplishes set goals. In a politicized environment, however, program evaluation is more often used as a weapon or marketing device. Moreover, the public sector has limited experience with total quality management and other feedback mechanisms. State legislators and other monitors of state performance may be unaware of how to ask for or utilize anything other than the traditional measures of activity (or "busy-ness").

For programs that choose not to privatize their services, performance-based management mechanisms are easiest to introduce in programs that wholesale services through other institutions.

It is not surprising, then, that in a review of Third Wave business development initiatives in nine states, we found the weakest elements were accountability and performance monitoring systems. The programs used typical accountability and management processes. Most report annually to the legislature on their progress and achievements, which usually are measured in terms of a few basic indicators such as number of firms financed, number of contact hours and number of technical assistance visits.

In other words, accomplishments were measured in terms of program inputs (like how many dollars were spent) or outputs (such as how many loans made), rather than impact (like how many jobs created or how much progress in creating high performance workplaces). Few of the programs have undertaken formal, outside evaluations. More common are surveys of customer satisfaction and internal reviews aimed at revising program activities. Where the planning process did not achieve a consensus, meaningful performance standards were impossible to develop. Programs that are seeking to privatize much or all of their activities have the clearest mechanisms for evaluating their performance. For programs that choose not to privatize their services, performance-based management mechanisms are easiest to introduce in programs that wholesale services through other institutions. Performance standards are harder to implement when services are delivered through a single state agency or through a designated delivery system. In these cases, it may be possible to set standards for performance, but it is unclear what recourse exists if standards are not met.

In the Virginia and Indiana state labs, goals and performance standards were beyond the scope of the programs underway at the time of our study. Indiana intended to use its regional diagnostic tools as a basis for future regional performance goals. Texas, too, envisions eventually creating specific performance goals and standards for the entire state and for regional economies.

Nebraska provides the most interesting model for integrating program evaluation into the state development process. The early drafts of the Network Development business plan proposed the development of outcome measures linked to specific network goals, including:

- Measures of new enterprise formation;
- Increases in local access to development financing;
- Increases in local involvement in economic development actions; and
- Productivity improvements in state economic development technical assistance and financing programs.

The use of the Nebraska Development Network as a program performance monitoring system, however, remained a fringe concept rather than central concern. The sheer level of effort required to organize the overall network drained staff time away from fleshing out and pursuing performance monitoring.

Performance goals were developed, however, by the Division of Community and Rural Development of the Nebraska Department of Economic Development for its own program purposes. The exercise transformed the planning, budgeting and management processes in the division, redirecting program resources toward measurable outcomes. If Nebraska succeeds, it will establish a prototype for answering the most fundamental question about economic development activities: Do they really make a difference?

Chapter 6

Conclusion

We have described a series of new and related underpinnings for a new rural development policy:

- First and foremost, a single, uniform state rural development policy will likely be unproductive.

- Second, state government cannot possibly intervene effectively in every county or town; local economic development requires effective local action. State policy must build the capacity of local communities to understand their options, to make sound choices, to identify appropriate resources and to work in concert with state policy.

- Third, a capacity-building and bottom-up approach to development does not claim that all problems can be solved at home. Instead, this new "rural" development policy recognizes that local economies cross town, city, and county boundaries, and therefore also seeks creative solutions in new inter-local and regional alliances.

- Fourth, an essential element of capacity building and sound decision-making is useful information that is provided in a form that helps shape policy and programmatic decisions. Policymakers are already suffering from information overload; and, unfortunately, systems to convert aggregate data into usable intelligence are relatively undeveloped. Quality information can serve as a catalyst, pinpointing problems and opportunities in a new and insightful manner, thereby generating more creative responses.

- Fifth, the concept of government-as-usual is bankrupt. New attention to organizing development program delivery for greater quality and impact in rural America is essential.

- Sixth, the term "rural development policy" is something of a misnomer. As we repeatedly argued, rural economic and community development policy is actually the application of specific policy tools to the particular conditions of substate regions. Neither microenterprise development, flexible manufacturing networks, nor other tools are identifiable as rural policy, yet they are essential elements of a more effective state development agendas. We also believe that separate and distinct rural development policies and legislation can be counterproductive; the challenge for state policymakers is to make the array of state policies, programs and tools effective in rural as well as urban regions. Rural policy itself needs to be brought into the mainstream.

Finally, despite these challenges, rural America is still in a good position to seize new opportunities. It may be true that it is trapped forever in the grip of forces it cannot control. The push and pull of the economies and values of remote cities and foreign countries will continue to orchestrate its future. But creative rural leaders and state policymakers can better position themselves to prosper from these new global and national developments. Indeed, by improving the capacities of regions and communities to plan and implement new development strategies, these areas will possess the proper skills and resources to compete in a rapidly restructuring economy. And already many states are showing how building this capacity can be done.

ENDNOTES

[1] For a full overview of the project, see CFED publication, *States, Communities and The New Economy: Toward More Effective Substate Development Policies* (March 1993).

[2] See CFED's *Rural Policymakers and Practitioners: State Resource Directory of People and Organizations in Rural Development* (March 1993).

[3] See CFED publication, *The Texas Laboratory: Building Consensus and Understanding of Economic Forces of Change* (March 1993).

[4] For more detailed information, see CFED's report, *The Nebraska Laboratory: Building Regional and Local Capacity* (March 1993).

[5] See CFED publication, *The Indiana Laboratory: Building Regional Consensus on Economic Issues* (March 1993).

[6] See CFED publication, *The Regional Benchmarks System: Policymaker's Guide and User's Manual* (1993).

[7] For more information, see CFED's report, *The Virginia Laboratory: Defining State Roles in Rural Development* (March 1993).

[8] For a more detailed treatment than this publication, see CFED's report, *Restructuring Rural Business Development Programs* (March 1993).

[9] Thomas Bonnet, *Strategies for Rural Competitiveness: Policy Options for State Government*, Washington, D.C.: Council of Governors' Policy Advisors, 1993, p 26.

[10] CFED has developed an analytic tool, the Regional Performance Benchmarking System, to characterize substate regional economies by economic features and distance from urban centers. Working with state officials, CFED grouped the U.S. Census Bureau's 779 "commuting zones" into 18 regional "typologies" based on an array of economic and demographic variables. Performance of a given substate region anywhere in the U.S. can then be compared to other regions across the nation with similar traits. Data is also provided for each county in the substate region. The Benchmarks System was designed to:

- Help state and local officials better understand the different economic structures of regions within their state;
- Measure regional performance of those regions through economic and demographic indicators;
- Identify their strengths and weaknesses;
- Set appropriate goals; and
- Identify appropriate development strategies.

The Benchmarks tool, available from CFED, comes with a diskette and user guide that also documents the experience of the six states (Minnesota, Maryland, Florida, Texas, Nebraska, and Indiana) that participated in designing and testing the system.

[11] Beth Honadale, "Rural Development Policy: Breaking the Cargo Cult Mentality," *Economic Development Quarterly*, Volume 7, Number 3, August 1993, pp. 228-229.

[12] *Measure by Measure: The South Will Lead the Nation*, the final report of the 1992 Commission on the Future of the South, pp. 39-40.

[13] The treatment of these issues in this publication only covers a few of the lessons learned. For more in-depth detail, see CFED publication, *Restructuring Rural Business Development Programs* (March 1993).

[14] Complete descriptions of the CFED "labs" and the evidence behind these principles are available in published form through CFED.

[15] Readers wishing to understand what a true third wave business development system would look like, should see: CFED's *"Putting the Customer First: A Strategy for Improving Pennsylvania's Development Service Delivery System."* Available from Pennsylvania Department of Commerce, 433, Forum Bldg, Harrisburg, PA 17120.

The Aspen Institute

About the Rural Economic Policy Program

Established in 1985, the Rural Economic Policy Program (REPP) of the Aspen Institute fosters collaborative learning, leadership and innovation to advance rural economic development in the United States. REPP aims to create a shared agenda for future policy learning and experimentation, to help rural decision-makers better understand how local choices fit into the larger economic context, and to speed the adaptation and application of a comprehensive set of public and private initiatives that will sustain rural progress. Headquartered at the Aspen Institute in Washington, D.C., REPP is funded by the Ford and W.K. Kellogg Foundations. The Aspen Institute is an independent, nonprofit educational organization founded in 1949 whose broad purpose is to seek consideration of human values in the areas of leadership development and public policy formulation.

About CFED

The Corporation for Enterprise Development (CFED) is a nonprofit organization that seeks to promote economic vitality and opportunity for all, and especially for low-income populations and communities, by fostering increased economic competitiveness and economic opportunity. Founded in 1979 and headquartered in Washington, D.C., CFED works to improve the quality of policy and practice in economic development, human investment and governance by providing research and development, consulting services, and technical assistance, while disseminating and communicating ideas to a wide audience. CFED's clients and collaborators come from the broadest possible range, including policymakers and practitioners in local, state and the federal government, private corporations, foundations, trade associations, labor unions and nonprofit organizations.

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