



CAPITALIZING ON RURAL AMERICA A POLICY FORUM

FACT SHEET CAPITALIZING ON RURAL AMERICA: CRAFTING A COMPETITIVE FUTURE A Study by SRI International for the Federal Home Loan Bank of Des Moines

Background

The Federal Home Loan Bank of Des Moines is America's rural Home Loan Bank. The Bank serves 1,200 members, many of them Main Street banks in small towns, in its five states – Iowa, Minnesota, Missouri, North Dakota, and South Dakota.

In 2004, the Home Loan Bank sponsored a landmark symposium, “Capitalizing on Rural America.” Participants ranged from rural experts, to policymakers and committed citizens. Harvard Law Professor Arthur Miller led a distinguished panel in his Socratic Dialogue process.

The symposium dialogue identified five themes important to a flourishing rural economy. Public policy was one of the five themes.

In 2005, the dialogue continues with “Capitalizing on Rural America: A Policy Forum” in the nation's capital. Arthur Miller returns to engage a panel of Washington policymakers in a Socratic Dialogue to focus on issues and programs that affect the fortunes and future of rural America.

Rural Study

As a platform for the Washington Forum, the Federal Home Loan Bank of Des Moines commissioned SRI International and its Center for Science, Technology, and Economic Development, to conduct a study of rural America.

The study is unique in that SRI reviewed thousands of pages of existing studies, reports, and papers on rural America; studied myriad federal programs and policies, and organized the information into a forward looking report for the advancement of rural America.

The purpose of the report is threefold:

- To summarize recent trends and conditions in rural America;
- To review federal policies and programs aimed at stimulating rural America's economic performance; and
- To develop a conceptual framework and potential policy/program thrusts to serve as a foundation for a new start.

Assets and Liabilities

Most people, businesses and government agencies perceive the economy of rural America as the same as the agricultural economy. In fact, rural is not synonymous with agriculture. Today's rural economy is multi-faceted with such diverse "sectors" as entrepreneurship and quality of life.

Rural regions enjoy a number of strengths or "assets" on which to build strategies for the future. They also face several important challenges or "liabilities" in preparing for the future.

| Summary of Rural "Assets" and "Liabilities" | |
|---|--|
| <p><i>Strengths</i></p> <ul style="list-style-type: none"> ■ Low cost of doing business ■ High quality of life ■ Steadily improving educational attainment ■ Increasingly high levels of entrepreneurship and small business development | <p><i>Weaknesses</i></p> <ul style="list-style-type: none"> ■ Uncertainties and resistance to change needed to adjust to structural economic change ■ Declining population (except in concentrated rural counties) ■ Difficulty retaining educated residents ■ Lack of employment opportunities, particularly in growing economic sectors |

Conclusions

The study's overarching conclusion: It is time for a fresh start in formulating strategies to strengthen rural America.

The framework for these strategies can be called "Rural America's Value Proposition," an approach that shifts the focus from problems to solutions. Rural America needs to rediscover its economic value and use it to build new, productive activities.

These building blocks are central to a viable framework for revitalizing rural America.

- Driven by diverse rural needs and local/regional initiative
- Reduction of duplication
- Greater flexibility in terms of assistance, timeframes, etc.
- Consolidation of programs for ease of access and use
- Co-investment by rural communities, businesses, and institutions

REPORT HIGHLIGHTS

I. The Status of Rural America

Economic facts and trends that have an impact on the future of rural America:

- Two major structural changes in the global economy affect rural America: the increased competitiveness of manufacturing and agricultural production in developing countries.
- The rural economy today is much more diverse and less dependent on agriculture than ever. Agriculture is no longer a major economic driver in the vast majority of rural counties. Among the nation's 2,000 rural counties, only one-fifth were classified as farm counties in 2000.
- While urban areas have cultivated an advantage in producer services, a growing sector, the rural economy has been dominated by traditional manufacturing, a declining sector.

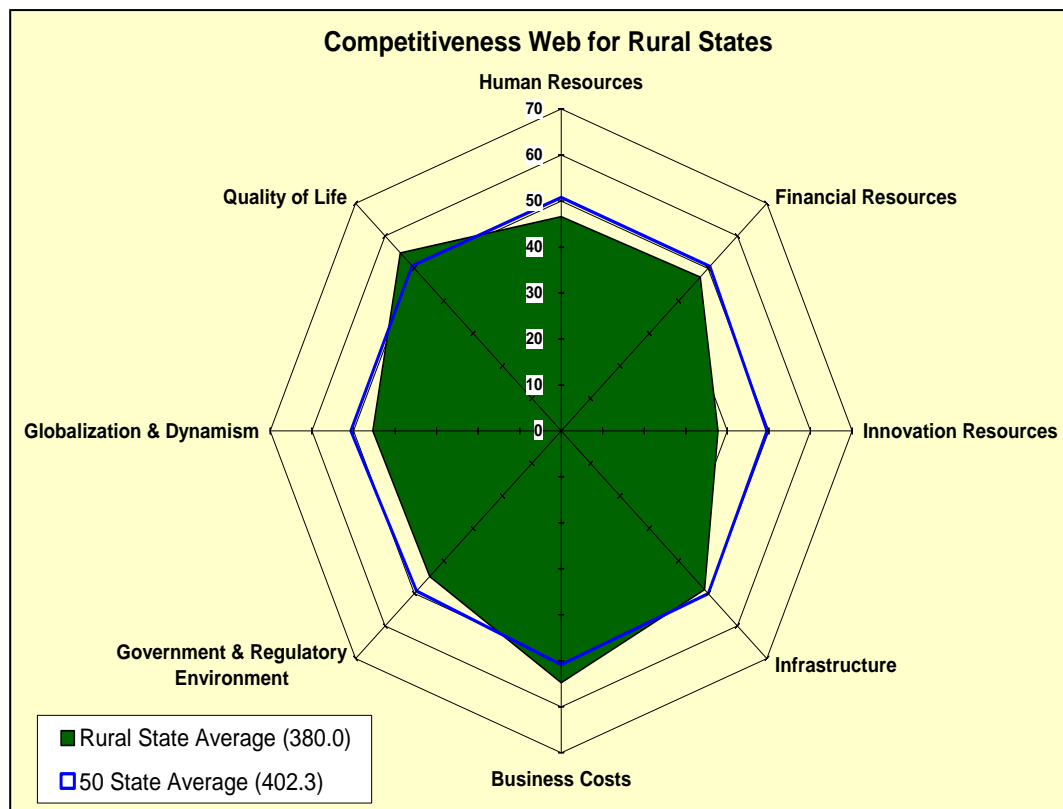
- A U.S. Department of Agriculture analysis indicates producer services are 31 percent of metro earnings and 11 percent of rural earnings. Manufacturing accounts for 12 percent of metro earnings and 19 percent of rural earnings.
- The “modern economy” is knowledge-intensive and technology-based with entrepreneurs and small businesses supplying much of the innovation and ideas for advanced technology and information tools.
- Using U.S. Census data on self-employer firms, the Corporation for Enterprise Development found that the states served by the Federal Home Loan Ban of Des Moines have many counties in the top third nationwide in numbers of small businesses as a share of county jobs.

Social facts and trends that have an impact on the future of rural America:

- Counties classified as “completely rural” have experienced the most significant population decline or stagnation over the past decade.
- Out-migration of young people has contributed to the rapid aging of rural counties.
- Some rural counties such as northern Michigan, northwestern Arizona, and parts of North Carolina, have become magnets for retirement and accounted for rural population growth from 1990 to 1998.
- Rural counties have experienced significant increases in their Hispanic population.
- Rural regions have higher poverty rates.
- Educational attainment, particularly in higher education, is lower in rural regions than in urban areas.

Competitiveness in Rural America

A look at the competitiveness of rural America is useful to determine strengths to build on. SRI has developed a Competitiveness Web model, a comprehensive set of 136 indicators in eight economic foundation categories that demonstrate overall competitiveness of a state.



Here are the Bank’s five states and how they rank in the SRI Competitiveness Web model.

| Competitiveness Web for Rural States and States Served by the Federal Home Loan Bank of Des Moines | | | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|------------------------------------|-----------------------------|
| Competitiveness Category | Iowa | Minnesota | Missouri | North Dakota | South Dakota | 25 Most Rural States Average Score | All 50 States Average Score |
| Human Resources | 58.6 | 62.6 | 52.9 | 46.3 | 45.8 | 46.6 | 50.8 |
| Financial Resources | 29.0 | 65.3 | 54.7 | 51.7 | 33.2 | 47.3 | 50.6 |
| Innovation Resources | 48.9 | 70.3 | 52.0 | 28.8 | 14.6 | 37.7 | 49.5 |
| Infrastructure | 54.0 | 53.7 | 61.3 | 44.0 | 46.1 | 48.8 | 50.0 |
| Business Costs | 52.1 | 33.9 | 56.8 | 63.8 | 77.7 | 54.7 | 50.8 |
| Govt. & Regulatory Environment | 51.4 | 45.8 | 53.1 | 37.8 | 51.4 | 44.8 | 49.2 |
| Globalization & Dynamism | 39.4 | 60.2 | 44.5 | 39.0 | 39.8 | 45.4 | 50.6 |
| Quality of Life | 64.3 | 73.9 | 52.5 | 64.6 | 67.2 | 54.7 | 50.7 |
| Total Competitiveness Score | 397.7 | 465.9 | 427.6 | 375.9 | 375.6 | 380.0 | 402.3 |
| Total possible score in each competitiveness category is 100. Total possible overall competitiveness score is 800. | | | | | | | |

Iowa is moderately competitive among the rural states at 27th. It ranks just below the national average. Iowa’s key strengths include its quality of life and human resources. In spite of strong universities and colleges, Iowa has not stimulated sufficient business investments in recent years to create a vibrant economy, a weakness that is reflected in its low scores for globalization and dynamism and financial resources.

Minnesota is a highly competitive state, ranking 4th in the nation in SRI’s Competitiveness Web model. While its greatest strength is quality of life, it also ranks very high in innovation resources. However, much of those resources are concentrated in two metropolitan areas that have strong medical research clusters. The state’s government and regulatory environment is below average, but its main competitive weakness is its business costs (48th in the nation).

Missouri ranks right in the middle of all U.S. states (21st) in human resources, financial resources, and innovation resources. The combination of two major cities and many small towns and rural areas produces indicators that balance each other out to create scores that mirror the national average. Overall, Missouri is an “average” state that does not seem to have outstanding advantages to attract investment and stimulate growth in a highly competitive environment.

North Dakota ranks 35th in the nation for its overall competitiveness score and places just below average among the 25 rural states. The state’s competitive advantages lie in its quality of life and low costs of doing business. However, it compares unfavorably nationwide and with many

rural states in providing innovation resources, infrastructure, and government and regulatory environment necessary for business growth.

South Dakota ranks 36th among all U.S. states in its overall competitiveness score. While it has very strong ratings in business costs and quality of life, the state has weak indicator in innovation resources, financial resources, and globalization and dynamism.

II. Federal Government Initiatives Targeting Rural America

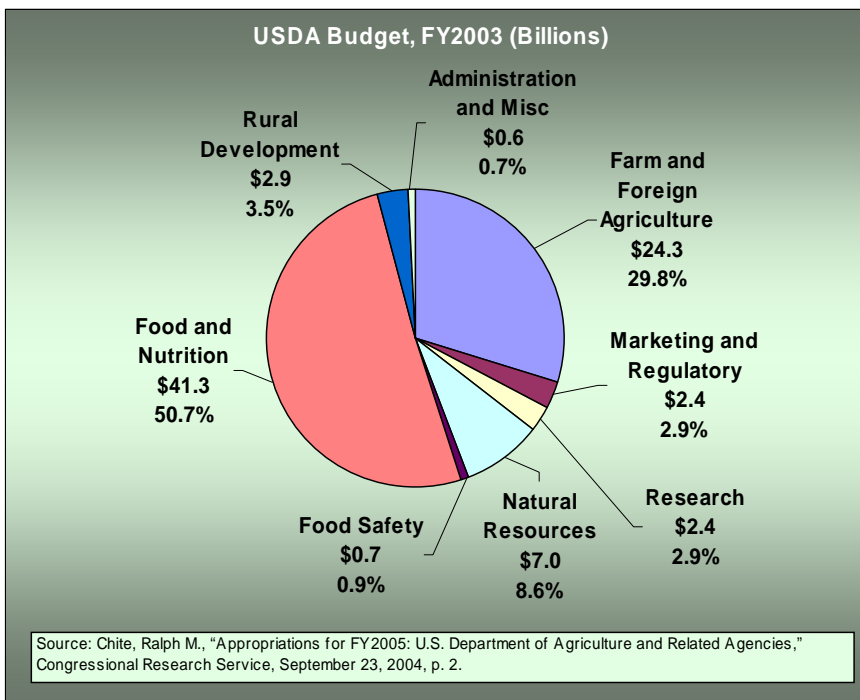
Observers note that federal programs targeting rural America are large in number but deficient in achieving the goal of improving the prospects of rural communities. The programs are fragmented among many departments and agencies, offer little flexibility to accommodate differing circumstances among communities, and make accessing resources difficult.

Summary of Federal Government Initiatives:

- Federal support for rural regions focuses on two areas: direct subsidies to agricultural producers and programs such as economic development, infrastructure, and human resources.
- Although agriculture has a declining share of the rural economy, the bulk of the U.S. Department of Agriculture (USDA) budget for rural areas goes to farm subsidies.
- Over the last decade, new federal programs for rural areas have increasingly begun to focus on broader business development initiatives.
- The sheer number of federal programs for rural areas, spread across twenty government agencies, makes it difficult for rural communities to identify and access these programs.
- Federal rural development initiatives remain ill-coordinated, difficult to use, and poorly understood by rural residents and businesses.
- Recent federal programs targeting economic development in rural areas have suffered from complex requirements, lack of funding, and lack of implementation.

Federal Support for rural America

Federal support for rural areas is primarily in direct subsidies to agricultural producers and in programmatic efforts. The SRI study focuses on program initiatives, since agriculture is not expected to play a growing role in the rural economy’s future. Economic development efforts relate more to the goal of re-framing and strengthening rural America’s prospects.



Current Programs

This table summarizes information from the USDA's Rural Information Center database. The number of "key" federal programs for rural areas is 337, while total programs available to rural areas number 1,399. Twenty federal agencies offer at least one "key" program targeted to rural America.

| Federal Government Agencies Providing Services to Rural Areas | | |
|---|--|---|
| Department | Number of "Key"* Programs for Rural Areas | Total Number of Programs Serving Rural Areas |
| 1. Department of Agriculture | 58 | 159 |
| 2. Appalachian Regional Commission | 6 | 6 |
| 3. Department of Commerce | 8 | 90 |
| 4. Department of Defense | 4 | 35 |
| 5. Denali Commission | 1 | 1 |
| 6. Department of Education | 37 | 164 |
| 7. Department of Energy | 2 | 26 |
| 8. Environmental Protection Agency | 15 | 78 |
| 9. Federal Emergency Management Agency | 8 | 8 |
| 10. Department of Health and Human Services | 70 | 307 |
| 11. Department of Homeland Security | Not available | 58 |
| 12. Department of Housing and Urban Development | 22 | 102 |
| 13. Department of Interior | 48 | 112 |
| 14. Department of Justice | 16 | 96 |
| 15. Department of Labor | 6 | 49 |
| 16. National Credit Union Administration | 1 | 2 |
| 17. National Endowment for the Arts/National Foundation on the Arts and Humanities | 6 | 12 |
| 18. Institute of Museum and Library Sciences | 3 | 8 |
| 19. Small Business Administration | 8 | 18 |
| 20. Department of Transportation | 14 | 58 |
| 21. Corporation for National and Community Service | 4 | 10 |
| TOTAL | 337 | 1,399 |
| <p>* "Key" funding programs for rural America are defined by the USDA's Rural Information Center based on program focus, eligibility requirements, and use of funds. Source for number of "key" programs: U.S. Department of Agriculture (USDA), Rural Information Center (RIC), "Key Federal Funding Programs for Rural Areas Listed by Department": http://www.nal.usda.gov/ric/ricpubs/funding/federalfund/fedcont.htm Source for total number of programs: USDA, RIC, http://grande.nal.usda.gov/ric/funding.php Data compiled by SRI by counting programs listed on the websites. Programs that were listed under more than one department were counted once and attributed to what appeared to be the most relevant department.</p> | | |

Summary of Federal Economic Development Initiatives

In recognition of agricultural change and rural diversification, federal initiatives developed since the early 1990s have revolved around support for business development and entrepreneurship. These have incorporated various forms of assistance, including attraction of equity capital, availability of other types of financing, and tax incentives for individuals and businesses locating in rural regions.

Empowerment Zones, Empowerment Communities, Renewal Communities:

This program supports development in economically distressed regions of the United States, both urban and rural. To qualify, communities are required to demonstrate their areas' level of poverty, overall unemployment, population, geographical area, and "general distress." Four federal agencies are involved in implementing these programs: HUD, USDA, HHS, and the IRS.

According to a 2004 GAO report, little data exists to measure the impact of this program. The GAO estimated zero funding for FY 2005, so the future of the programs is uncertain.

Rural Business Investment Corporations (RBICs)

The "Farm Security and Rural Investment Act of 2002" (farm bill) authorized establishment of RBICs to encourage equity investments in rural businesses. Funding in the farm bill totaled \$44 million in grants and \$280 million in debt guarantees for the businesses.

To qualify, an entity must be founded and led by experienced venture capitalists and community development financiers. Its founders must raise \$5 million in private capital which is matched 3:1 by USDA loans. Seventy-five percent of its capital must be invested in small, rural businesses.

RBIC funding has been limited, but the Small Business Administration (SBA) announced start-up to select three RBIC's by June 2005. Actual funding of the three RBICs would begin in the second half of 2006, four years after passage of the legislation.

Support for Rural Entrepreneurs

Most federal support for entrepreneurs is composed of loans or loan guarantees, although some technical assistance, education, and networking efforts have been implemented in Appalachia and some equity capital is now available. Federal entrepreneurship development programs are at the USDA, SBA, and the Department of Treasury.

New Homestead Act

The New Homestead Act aims to attract people and businesses to rural areas. If passed by Congress, the act would provide a number of tax and financial incentives for individuals and companies who locate in rural counties that have experienced out-migration of 10 percent or greater during the previous 20 years.

Benefits for individuals would include student loan repayments, tax incentives for new home buyers, tax deductions for losses in home value, and tax-favored accounts to promote savings

and increase access to credit. Benefits for businesses would include investment and micro-enterprise tax credits.

The act would also establish a venture capital fund to invest in rural counties with high out-migration.

III. Strategic Options for Capitalizing on Rural America

Rural regions of the country face difficult challenges in re-defining and re-tooling themselves for the prospective economy. But the personal qualities and community characteristics that provided rural America with a sound foundation during the agricultural era are reasons for optimism that rural regions can restore their fortunes in the future. SRI extrapolates these suggestions

Guiding Principles

Principle #1: Focus on opportunities, not problems.

Much attention in the literature on rural areas, both by practitioners and analysts of rural development, has been focused on the “plight” of rural America. A shift to identify assets can generate movement toward developing strategies to capitalize on realistic opportunities. The short-term returns may not be quick or great, but it is important to re-direct attitudes and resources to what can be done, rather than what is not working.

Principle #2: Use existing rural entities and people

One of the lessons learned from the strategy of attracting manufacturing firms to rural areas is that, without deep ties to the region, companies are more likely to leave when profitability declines. Future rural strategies should center on leveraging strengths and increasing networks between existing organizations and people. Looking internally and connecting regionally, rather than searching for external solutions, will build a sustainable advantage for rural communities.

Principle #3: Marshall the lessons of success

Much can be learned from identifying rural “success stories,” defining root causes of change in rural areas, and then using these lessons to craft strategies for other rural regions. While no two rural areas are alike, examining the factors that propelled selected rural areas to grow will contribute to marshalling resources and designing realistic, place-based plans to build rural America’s future.

Strategic Thrusts

The report lays out three strategic thrusts to generate creative thinking and active discussion to revitalize and capitalize on rural America.

Strategic Thrust #1: ANCHORS – Build critical mass around key assets

1. Identify Anchors. Every community has one or more “centerpieces,” ranging from a business to community college, “box store” to interstate highway. Build on these anchors rather than starting from scratch.

2. Leverage Neighboring Growth Poles. Inter-connectedness is a key characteristic of the modern economy. Embracing and strengthening linkages can help rural areas maintain their unique characteristics while building new foundations to grow.
3. Create Productive Networks. Isolation generally inhibits creativity, since interaction is a key source of new ideas, experiences, and opinions. Today's communications technology makes interaction easy. Concerted efforts to establish and maintain "networks of knowledge" among rural organizations and individuals, especially entrepreneurs, are needed.

Strategic Thrust #2: EMPOWERMENT – Expand and replicate home-grown success

1. Use Information Technology to Spread the Stories of Success. Break the cycle of pessimism by sharing examples of how rural individuals, communities, or regions have seized on opportunities and leveraged their strengths to encourage entrepreneurs and attract in-migration.
2. Highlight and Nurture Entrepreneurship. Fostering an entrepreneurial culture is vital in today's economy. There are many options for support, from providing capital resources to instilling the value of entrepreneurship in grade school.
3. Promote the Value of Rural Life. Twenty-four percent of Americans would prefer to live in rural areas, and an additional 36 percent prefer small-town life. Rural regions should forcefully articulate the advantages of rural quality of life.

Strategic Thrust #3: INNOVATION – Identify and nurture new productive activities

1. Unearth Existing "Innovation Space." Rural areas should pinpoint and build on value-added, innovation-based clusters, particularly in agriculture and agri-business, manufacturing and services that have potential in the emerging economy.
2. Increase Return on Existing Investments. Overall resources for rural areas are plentiful – the issue is how the monies are being directed. One clear initiative should be a comprehensive assessment of federal programs and policies to define appropriate changes.
3. Maximize Human Capital Advantages. Returns on human capital investments would be increased if university and community college systems were to move toward demand-driven curricula addressing the knowledge and skills needed to succeed in rural America's increasingly diverse economy.

For more information on the SRI report, contact Angie Richards at 800.544.3452, ext. 1014 or arichards@fhlbdm.com. The complete report is available online at www.sri.com.

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The Federal Home Loan Bank of Des Moines is \$50 billion wholesale bank with more than 1,200 members which include commercial banks, saving institutions, credit unions and insurance companies. The Bank is owned by its members and receives no taxpayer funding. The Des Moines-based Bank serves Iowa, Minnesota, Missouri, North Dakota, South Dakota, and is one of 12 regional banks that make up the Federal Home Loan Bank System.