



Written Statement for the Record

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The Rural Policy Research Institute provides objective analysis and facilitates public dialogue concerning the impacts of public policy on rural people and places.

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Thank you, Chairman Stabenow, Ranking Member Roberts, and members of the Committee. It is an honor to appear before you again, as we begin a new Farm Bill process. Thank you for inviting me to testify today, and for holding this hearing. I applaud your leadership in ensuring that rural development concerns receive greater attention in Farm Bill discussion and decisionmaking, and encourage you to craft a bold and innovative rural policy framework for rural economic and community development.

I am Charles W. Fluharty, President and CEO of the Rural Policy Research Institute, and a Research Professor in the Harry S Truman School of Public Affairs at the University of Missouri. RUPRI is a non-partisan, external policy research institute, originally envisioned in 1990 by the Agriculture Committees of the Congress, and funded since then to provide objective analyses regarding the rural implications of public policies and programs. We are honored to have entered our third decade of service to the Congress last year.

RUPRI is a national research institute, with founding sponsorship from Iowa State University, the University of Missouri, and the University of Nebraska. Continual service is provided to Congressional members and staff, executive branch agencies, state legislatures and executive agencies, county and municipal officials, community and farm groups, and rural researchers. Collaborative research relationships also exist with numerous institutions, organizations, and individual social scientists worldwide. To date, over 300 scholars representing 16 different disciplines in 100 universities, all U.S. states, and 30 other nations have participated in RUPRI projects, which address the full range of policy and program dynamics affecting rural people and places. Collaborations with the OECD, the EU, the German Marshall Fund, the Inter-American Institute for Cooperation on Agriculture, the International Rural Network, and other international organizations are framing RUPRI's comparative rural policy foci.

Rural Policy Recommendations

Madam Chairman, and members of the Committee, in this testimony I offer three specific policy recommendations, to advance this more innovative Rural Development framework:

- I. Given current budgetary challenges, it is critical that this Committee create a more innovative, streamlined, flexible, and regional approach to enable USDA RD to administer the remaining suite of recently-downsized, but very effective economic development programs in a more integrated, aligned, and leveraged framework, and wherever possible, in a regional context.**
- II. This regional framework should advance asset-based innovation and entrepreneurship, and above all else, align much more effectively and efficiently with other programs at sister federal agencies addressing similar needs.**
- III. Given past, current and future RD funding reductions, this Committee must ensure a sufficient level of rural debt, venture and equity capital, as well as an appropriate and flexible suite of federal instruments through which they are delivered, to meet rural**

financing need. In addition, this Committee should also explore why there continues to be a glaring lack of rural investment by our nation's major foundations.

Overview

Madam Chairman, as you know, I have been honored to appear before this Committee many times, over the years. With each Farm Bill reauthorization, I have attempted to frame a federal policy perspective which outlines the most critical dynamics to be addressed, in order to lessen the differential comparative disadvantage to rural people and places. During the past three Farm Bill hearings, my testimony has been quite detailed, and, frankly, little has changed in terms of the RUPRI perspective regarding these critical elements. In testimony before the House and Senate Agriculture Committees in 2001, I offered seven recommendations to build a more relevant rural policy framework in the 2002 Farm Bill:¹

- 1. Develop a comprehensive national rural policy, driven by specific federal policy goals and outcomes measures*
- 2. Sustain existing categorical program and funding support.*
- 3. Build rural community capacity, collaboration, and leadership.*
- 4. Develop a more integrative, cross-sectoral, place-based policy approach.*
- 5. Address the lack of rural venture and equity capital.*
- 6. Support approaches which exploit the interdependency of agriculture and the broader rural economy.*
- 7. Support rural entrepreneurship, in both the public and private sector.*

Six years later, during testimony preceding passage of the Farm, Nutrition, and Bioenergy Act of 2007, I returned to that testimony to assess whether the intervening years had altered our policy perspective, or policy prescriptions recommended had been so successfully executed, as to no longer merit policy action.² In that very detailed testimony, I offered the *raison d'être* for an innovative rural policy change, and suggested priorities below which should frame a 21st century U.S. rural policy. I urge members seeking more substantive detail to refer to that testimony. Here were those recommendations:

1. Three critical federal policy dynamics must be addressed:

- The federal government must increase the current level of federal rural investment in essential public services, including infrastructure, broadband and community capacity.
- To do this, the federal government must overcome a significant and ongoing rural federal funding disadvantage.
- In doing so, the federal government must also reverse recent disinvestments in rural programs.

¹ U.S. Senate Committee on Agriculture, Nutrition and Forestry. *Charles W. Fluharty Written Statement for the Record, testimony re: Farm, Nutrition, and Bioenergy Act of 2007.* February 13, 2007. 100th Congress.

<http://www.rupri.org/Forms/testimony021307.pdf>

² *ibid*

2. *A new rural policy framework must be created:*

- It should center upon rural innovation, entrepreneurship, collaboration and strategic investments.
- This must incent public, private and philanthropic investment cooperation, and build regional frameworks for action.
- Special attention must be given to diversity, gender, poverty and immigration concerns.

3. *Several “North Star” principles must drive program design, including:*

- Asset-based development.
- Flexibility and local input.
- Investment in new intermediaries.
- Attention to the importance of working landscapes and natural resources; arts, heritage and culture; and renewable fuels, energy and entrepreneurial agriculture.

4. *The federal government must create a framework which acknowledges and builds upon the growing interdependence of urban, suburban and rural areas and constituencies.*

As you may recall, I also suggested several important contexts which should focus federal investments in this more innovative rural policy. These remain unchanged:

- *Current ag policy has many goals, but we must acknowledge it has failed to adequately assure broad-based rural economic growth. This Committee must, finally, address this structural challenge within your jurisdiction.*
- *Rural development investments must move beyond categorical programs and grants. A new vision must be sought, and systemic commitments to change the rural landscape must be funded.*
- *Rural entrepreneurship and innovation systems are essential, if we are to optimize new federal commitments to assist rural regions in capturing their competitive advantage in a global economy. These approaches must be framed in systemic ways, to link with other public, private, NGO and philanthropic resources.*
- *New governance models must be lifted up, and successful new public and social entrepreneurship efforts replicated.*
- *There is no one rural America. It is a diverse, dynamic and ever-changing landscape, and public policy must address these new realities.*
- *Rural poverty remains a searing and silent national tragedy.*

While successes have occurred in the ensuing period, major structural challenges remain. In testimony before the House Committee on Rural Development, Research, Biotechnology, and Foreign Agriculture a year ago this week, I offered this assessment of where we stand on the journey:

“It is gratifying to acknowledge major advances on a number of these issues, since passage of the last Farm Bill. However, we are all aware that we are in a very different place today. As tectonic structural shifts in our economy have transformed broader economic policy approaches, driven by global competition, policy innovations to adapt to these dynamics in ways which specifically address our nation’s rural regions have lagged behind. This challenge has been exacerbated by the Great Recession, which has created unprecedented budget deficits for state and local governments, and reduced available resources to support innovative efforts to address these capacity disadvantages.

For over a decade, RUPRI has encouraged new policy and practice approaches to create a brighter future for rural communities, families, and economies. These have been posited upon asset-based development, entrepreneurship, innovation, and new governance models, within a regional framework. Many of these once misunderstood or resisted approaches are now becoming mainstream rural economic development components. However, if these innovations are to succeed, we must acknowledge that in today’s world, rural and urban outcomes are increasingly intertwined, and are becoming ever more interdependent, as are their citizens and economies.

Acknowledging this reality will challenge those with entrenched political advantage from continuing reliance upon categorical programs and grants, in both rural and urban constituencies. However, while these categorical grants are very necessary for rural communities, particularly those in underserved regions, they are no longer sufficient. Just as rural communities must unite in regional innovation collaborations, metropolitan policymakers and advocates also must acknowledge the dependence of their citizens upon the rural resources which sustain their urban existence.

For these innovations to truly advantage rural people and places, the Agriculture Committees of Congress must move to a new Rural Development vision. This must link rural communities, small urban areas, and rural regions, while providing new approaches to scale and leverage federal, state, and local investments, across the public, private, and philanthropic sectors.”³

New Rural Development Priorities, Given New Economic and Budgetary Realities

The challenges and opportunities facing rural America are both daunting and exciting. The impacts resulting from the global recession, constrained public resources, global competition and

³ February 15, 2011, U.S. House Agriculture Committee, Subcommittee on Rural Development, Research, Biotechnology, and Foreign Agriculture. Charles W. Fluharty Written Statement for the Record, February 15, 2011. http://www.rupri.org/Forms/Fluharty_HouseAg_Feb2011.pdf

instability, limited institutional capacity, and the need for new forms of governance have serious repercussions across rural America today. Yet opportunities in local and regional food systems, bio-energy, telecommunications, stewardship of natural resources and amenities, and climate change mitigation and adaptation all represent game-changing prospects for rural economies.

However, the global recession will have a lasting impact upon U.S. federalism, forcing local jurisdictions to do even more with far less. Rural communities must build regional strategies to address these deepening capacity disadvantages, which will further exacerbate these dynamics. This will demand fresh and innovative approaches in funding, strategy, policy and program design, service delivery, and program and policy evaluation.

One of RUPRI's most valuable policy contributions has been our prescience in identifying emerging public policy opportunities for rural America, and seeking to advantage them through public discourse, policy research, and policy development. Over a decade ago, we identified the growing importance of regional innovation and entrepreneurship—both public and private—for sustainable rural regions. In 1990, with founding support from the Ewing Marion Kauffman Foundation, RUPRI created its Center for Rural Entrepreneurship, designed to provide research and assessment of promising practices related to rural entrepreneurship development, strategic engagement with communities committed to entrepreneur-focused economic strategies, and outreach to practitioners and policymakers to share what we are learning. The Center has completed numerous Transfer of Wealth (ToW) studies for regions across the nation, collaborated with state partners - including the Entrepreneurial Communities work in Kansas, in partnership with Kansas Farm Bureau, Network Kansas, and other partners, and continues work supported by the Ford Foundation regarding Wealth Creation and Retention in rural regions.

At approximately the same time, in collaboration with the Kansas City Federal Reserve Bank, RUPRI began to explore the rural potential for regional competitiveness, innovation and new governance strategies, and held numerous national convenings to engage public sector stakeholders, and seek their counsel. Shortly thereafter, this led to the creation of RUPRI's Center for Regional Competitiveness, which has now evolved into our Regional Rural Innovation Initiative.

Over a decade later, we believe these are the two most critical policy opportunities which this Committee can and must advantage in this Farm Bill process, given the federal government's scarce resources, the groundbreaking work exploding across rural America to achieve these advantages, and their singular impact upon rural competitiveness, job and wealth creation, and rural resilience. Finally, if we are to truly benefit from these approaches, we must ensure linked and leveraged investment strategies among the federal, state, and local governments, as well as our private, not-for-profit, and foundation partners.

In each of these issues, the people appear ahead of the policy development process. Regional innovation and entrepreneurship based development are occurring in very diverse rural geographies, and in very different organizational and jurisdictional contexts. But it is clear that rural communities have realized how critical these collaborations are to their future competitive advantage.

As but one example, I have been honored to assist in the development of an exciting new initiative in Ranking Member Roberts' home state, where 17 counties in southeast Kansas recently formed a regional initiative, designed to create a new framework for economic development there. With support from Governor Brownback, four state senators representing those counties, county and municipal officials, and a diverse set of private and not-for-profit organizations and institutions, a new future is being envisioned, aligning federal, state, and local investments, contributions from the public, private, and philanthropic sectors, and strong support from state, regional, and community colleges and universities, as well as the private sector.

This "Project 17 Economic Development Initiative" anticipates support from many of the state's leading organizations and institutions, including Kansas Farm Bureau, the Kansas Leadership Center, USDA Rural Development, the Advanced Manufacturing Institute at Kansas State, the University of Kansas, the Kansas Department of Commerce, Network Kansas, the Southeast Kansas Regional Planning Commission, the Southeast Prosperity Foundation, the Kansas Association of Community Foundations, and the Kansas Association of Regional Development Organizations, among others.

At the federal level, we are encouraged by the practical policy and program progress made since the Obama Administration's August, 2009 guidance regarding a "Place-Based" domestic policy framework. Since then, we have witnessed a rather amazing collaboration across numerous federal agencies, and rural America has been an important beneficiary. As but one example, RUPRI is honored to be collaborating with the National Association of Development Organizations (NADO) and the National Association of Counties (NACo) in support of a capacity building and technical assistance program to assist rural and small city grantees under the Partnership for Sustainable Communities, a collaboration between the Departments of Housing and Urban Development, and the Department of Transportation, as well as the Environmental Protection Agency. Nearly 40% of the first round grantees under this program were located in rural regions.

Several recent GAO reports regarding duplicative federal programs in economic development highlight our nation's need for further integration across these sister agencies, and USDA Rural Development, the Small Business Administration, and the Economic Development Administration/Commerce should continue their exploration of further program alignments, wherever possible.

Secretary Vilsack has been a very strong champion for USDA engagement in these efforts. Unfortunately, economic development practitioners always attest to the fact that USDA RD programs remain among the most cumbersome for which to seek funding, and the most time-consuming for which to apply. USDA administrators, state offices, and field staff are not to blame. The statutory mandates under which these civil servants must operate are among the least flexible and most onerous within the federal suite of economic development programs. As this Committee reassesses current Rural Development programs under your purview, we would urge that rational consolidation be accompanied by greatly increased flexibility, and that strong statutory support be developed to enable these programs to operate in a more rigorous regional

framework, and/or leveraging concomitant funding commitments from other federal, state, and local agencies, as well as the private and philanthropic sectors.

Expanding, Aligning and Leveraging Rural Investments

This is now becoming essential. The very significant reductions in Rural Development Budget Authority, resulting from continuing reductions in annual RD appropriations over the past decade, are now being reflected in one of the largest rural disadvantages in federal per capita community and economic development funding ever witnessed, in comparison to urban per capita spending on the same program categories. In 2010, metropolitan counties received \$1,519 per capita for these programs, compared to only \$929 per capita in nonmetro counties⁴. This difference would represent over \$28 billion more in rural community and economic development resources, were the same level of per capita funding delivered to nonmetropolitan counties.

Unfortunately, the USDA RD program areas with some of the larger percentage funding reductions are smaller but very flexible business and community development programs, which are also known for the leveraging they achieve. The Intermediary Relending Program, the Rural Community Development Initiative, and the Rural Business Enterprise and Opportunity Grants all have been downscaled so severely that national program impact as a standalone entity must be examined.

As we all know, the importance of diverse public sector programs that can be layered to meet regional capital needs is key. While IRP is excellent for larger deals, and SBA programs work well, but present challenges in covering the up-front technical assistance costs needed to make responsible, small loans, the Rural Microentrepreneur Assistance Program (RMAP) provided a good mix of technical assistance support, quick turnaround and low paperwork, which justified the cost of microloans. Together, these three provided intermediaries a suite from which to choose. Without RMAP, some small loans will not be made. Finally, none of these address the micro-equity issue, or firm start-up, thus the angel investor component remains critical.

In a similar vein, assuring that larger rural business entities have access to credit and capital on the same basis as urban competitors, through as diverse a suite of private lenders and secondary markets as possible, augments declining federal credit program funding, and should be strengthened wherever appropriate.

As part of a cooperative agreement between RUPRI and USDA, a RUPRI research team has been reviewing literature and data regarding rural capital access. Several early observations are relevant for this hearing, related to the federal role in ensuring that rural entrepreneurs and business owners have access to a range of capital resources and the support to effectively use that capital to grow their businesses. In general, we are making some progress in increasing rural capital access. While the aggregate amount of loans to small businesses in both urban and rural regions declined over the past four to five years, detailed National Federation of Independent

⁴ USDA Economic Research Service analysis of Consolidated Federal Funds Data, FY2010.
<http://www.ers.usda.gov/Data/FederalFunds/>

Business survey data show the ability to obtain credit and loans is relatively strong for most business.⁵ These data also indicate that a greater portion of rural businesses are obtaining desired levels of credit than their urban counterparts. This may result from relatively stronger local networks connecting businesses and financial institutions. These strong relationships may play a role in the relative success with which rural businesses seeking capital from local banks actually acquire needed capital, and may underscore the importance of local relationships and local banking institutions across rural America. We need to understand whether these patterns also hold true in our nation's more distressed rural regions.

Our initial assessment suggests that there are real opportunities for equity funding in rural and micro regions. Data clearly show that rural-based venture investments performed just as well in terms of return on investment and job creation as counterparts in places such as California or Massachusetts. So performance is not the primary obstacle to equity funding. Large venture funds are not the only source of equity capital; there is as much equity capital coming from non-institutional sources such as angel investors, angel funds, corporate or strategic investors and community-development venture funds. These sources tend to invest in smaller scale and more diverse businesses than venture capital institutions. Exploring the public sector role in expanding the scale and scope of rural angel investors and community development financial institutions remains an important topic for further analysis.

Supply side considerations related to the amount of debt and equity capital flowing into rural regions provide only one side of the capital access equation. Research suggests that you need a skilled and growth-oriented entrepreneur (the demand side) in combination with a diverse mix of capital (the supply side), and that with access to quality business advisors and networks, entrepreneurs are more able to obtain and effectively use capital, as well as being more successful in operating their business. This points to the importance of intermediary organizations that provide robust advisory and entrepreneurial services beyond basic business formation planning, that provide advanced hands-on mentoring, as well as connections to regional, national and international networks. The public sector could have an important role to play here, recognizing the critical link between business advisory services and capital, and offering programs to support the provision of these services in rural regions where private sector service provider alternatives are often lacking.

We will keep this Committee apprised as this research moves forward.

Beyond these public sector challenges, a concomitant rural disadvantage in philanthropic funding also remains significant. A 2004 report by the National Committee for Responsive Philanthropy, "Beyond City Limits: The Philanthropic Needs of Rural America,"⁶ found that out of 65,000 grant-making foundations, only 184 made grants characterized as "rural development."

⁵ William J. Dennis, Jr. Financing Small Business: Small Business and Credit Access, NFIB Research Foundation, January 2011

⁶ "Beyond City Limits: The Philanthropic Needs of Rural America," http://www.ncrp.org/files/Beyond_City_Limits.pdf

Rural America remains challenged by this long-standing, differential disadvantage in philanthropic investment in its people, organizations, and institutions. And this is now more critical than ever, as federal, state and local government resources continue to decline. Because of the generous tax subsidies granted foundations and their donors, their presidents and trustees enter into a covenant with the American people, in which our government and these institutions jointly assume an obligation to steward this awesome public trust so as to optimize the public good achieved, in exchange for the lost public sector revenues and resources, as a result of tax deductions and exemptions. An awesome challenge, indeed.....As with all subsidies, deductions, and exemptions, federal budgetary pressures are again calling these dynamics into question, as both more research and more transparency are sought.

While redlining has been decried by national foundations for years on the part of government, a current *de facto* foundation redlining of rural America simply must be addressed. Federal funding for community capacity continues to decrease, and rural safety net resources are in dire need. Yet, American philanthropy continues to distribute less than 3% of its annual payout to the people and places of rural America, which comprise 20% of our population and 80% of our natural resource base. In fact, foundations have withdrawn further from rural commitments in the past five years, as need has increased exponentially. These foundations, and the generous tax subsidies provided to donors, create a public partnership in pursuit of the public good. This geographic inequity must be named. It is an institutional and moral failure; and one so long-standing that serious inquiry regarding whether this is an abuse of a solemn public trust should be considered.

Chairman Baucus explored this question, and sought some rural accommodation, five years ago. Chairman Stabenow, you may recall a conversation we facilitated with then Chairman Harkin, and a number of national foundation leaders prior to the development of the last Farm Bill, seeking a similar outcome. Regional and community foundations are doing excellent work in seeking to fill this gap. But the gap remains, and it is vast. Current arguments center around whether the total outlay in rural America is one or three percent, and yet we are unable to calculate the exact number, as pathetic as it is, because zip code data is not required. This should be rectified. Such a public trust merits greater transparency.

With payouts to rural America so ridiculously small, shouldn't the current rural capacity and safety net crisis warrant a percentage payout increase, as a good faith gesture from America's largest foundations to rural America, in exchange for the revenue losses incurred, without the benefit of proportional foundation giving, over these many years?

Thank you, Madam Chairman, Ranking Member Roberts, and members of this Committee, for the opportunity to testify before you today. I would be pleased to answer any questions you may have.