

Economic Development America

COMPETING GLOBALLY ★ GROWING REGIONAL ECONOMIES ★ CREATING JOBS

SUMMER 2004

IN THIS ISSUE

New Directions in Rural Economic Development

Features:

- ★ Crafting a New Rural Development Strategy
- ★ Tapping Innovation Entrepreneurship
- ★ Using Value-Added Agriculture to Create a New Rural America

Upcoming Events:

- ★ Regional Economic Development Forums; National Telecast September 9



ECONOMIC DEVELOPMENT INFORMATION COALITION



A Message from David A. Sampson

Assistant Secretary of Commerce for Economic Development



Welcome to the third issue of *Economic Development America*. This edition focuses on rural economic development, covering a range of issues from workforce development and innovation entrepreneur networks to value-added agriculture and more. The Economic Development Administration hopes you find tools and ideas in this issue to foster the kinds of rural economic development opportunities that President Bush is committed to expanding.

In June, the U.S. Department of Commerce released *Competitiveness in Rural U.S. Regions*, a report funded by EDA and produced by Professor Michael Porter and the Institute for Strategy and Competitiveness at Harvard Business School. The report is an important step in achieving a contemporary understanding and approach to addressing the economic needs of rural America.

The report describes a significant opportunity to move thinking and practice in this field to a new level. There is a clear willingness to act; what seems to be missing is the unifying approach that can rally different participants around a common agenda. The underlying strength of the U.S. economy is its regional economies, an approach that now needs to be better leveraged for rural areas as well.

Rural communities throughout our nation can grow and prosper; however, they must respond to the fact that the world economy is changing. Through regional economic development, cluster development or some other means, rural communities can be fully engaged in the growing economies of their regions. The change is difficult, but by embracing it - differentiating communities by their unique assets and discovering innovative ways of growing economies - rural areas can prosper in an ever-changing world.

David A. Sampson

Announcing the Winners of the Economic Development Administration's Excellence in Economic Development Awards 2004

EDA congratulates the following winners for their outstanding work:

Excellence in Urban or Suburban Economic Development

- City of San Diego Community & Economic Development
Specific Program: Business Finance Section
San Diego, California

Excellence in Rural Economic Development

Two winners:

- Utah State University
Specific Program: Utah State University Innovation Campus
Logan, Utah
- City of Lincoln, Alabama
Specific Program: Water infrastructure improvements for Honda

Excellence in Regional Competitiveness in Economic Development

Two winners:

- Tennessee Valley Corridor, Inc.
Knoxville, Tennessee

- Research Triangle Regional Partnership
Raleigh, North Carolina

Excellence in Economic Adjustment Economic Development

- Team Taylor County
Campbellsville, Kentucky

Excellence in Technology-led Economic Development

- Advanced Technology Development Center
Atlanta, Georgia

Excellence in Community and Faith-Based Economic Development

- Goodwill Industries of South Florida, Inc.
Miami, Florida

Excellence in Innovation in Economic Development

- Maryland Department of Business and Economic Development
Specific Program: Maryland Venture Fund
Baltimore, Maryland



U.S. DEPARTMENT OF COMMERCE
Economic Development Administration

Donald L. Evans
Secretary of Commerce

Dr. David A. Sampson
Assistant Secretary of Commerce
for Economic Development

Matthew Crow
Director of Public Affairs

Louise Anderson
International Economic Development Council
Editor

Economic Development America is a quarterly production of the Economic Development Information Coalition (EDIC).

To provide information about economic development practices and programs, the Economic Development Administration (EDA) created the Economic Development Information Coalition (EDIC). EDIC comprises the International Economic Development Council (IEDC), the National Association of Regional Councils (NARC), and the National Association of Development Organizations (NADO). They have joined EDA to disseminate information to economic development practitioners serving distressed communities through a monthly e-mail newsletter; quarterly telecasts; 20 community forums held throughout the country; and a quarterly magazine. For more information, visit the EDIC home page: From EDA's Web site, www.eda.gov, click on the "EDIC News" link in the lower left corner.

Story ideas are invited and should be addressed to editor **Louise Anderson**, telephone (828) 350-8855, email landerson@iedconline.org.

The next edition of *Economic Development America* will be published in October 2004 and will focus on Economic Development Strategies in a Worldwide Economy.

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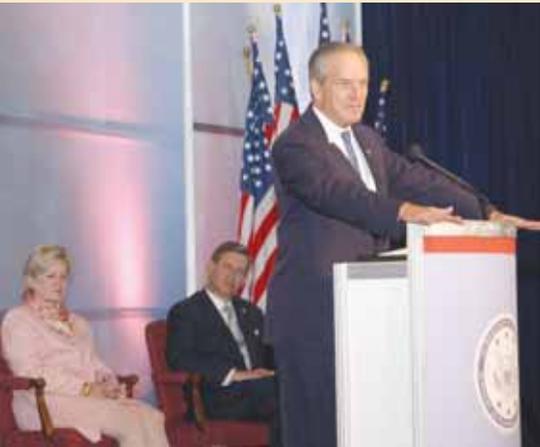
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The Innovation Imperative:

Translating Ideas Into Regional Prosperity

EDA's 2004 National Conference Attracts 1,000 Attendees

By Deborah L. Wince-Smith, President, Council on Competitiveness



U.S. Secretary of Commerce Donald L. Evans discusses the Administration's vision and action agenda for regional economic growth at the opening of the 2004 EDA National Conference.

The Economic Development Administration held its annual conference on June 8-10 at the Omni Shoreham Hotel in Washington D.C. The conference, titled "The Innovation Imperative: Translating Ideas Into Regional Prosperity," was co-hosted by the Council on Competitiveness and drew a national audience of 1,000

attendees representing business, government, academia, and various nonprofit and community groups involved with economic and workforce development.

As the title suggests, the theme of this year's conference was fostering economic growth through innovative regional strategies. Attendees heard from 70 national and international experts who offered their perspectives on how regions can take advantage of opportunities provided by the worldwide economy. U.S. Secretary of Commerce Don Evans opened the conference by highlighting the necessity of partnerships – a recurrent message during the week – in his keynote address: "Regional development leverages strengths and expands possibilities. Cities, towns, counties, and regions must start thinking beyond boundaries. They need to see that succeeding in a global economy requires them to define their shared interests and capitalize on their regional assets."

EDA is playing a vital role in helping local leaders meet the challenge of creating broad-based, regional partnerships for economic development initiatives. Nine Excellence in Economic Development awards were presented at the conference to organizations that particularly exemplified that spirit of innovative collaboration. Additional examples of best practices in the field were presented in every conference breakout session.

The worldwide economy is creating incredible opportunities for U.S. companies willing to compete based on high value-added products and services. On one panel, former Chair of the President's Council of Economic Advisors Glenn Hubbard argued that continued U.S. productivity growth supports an optimistic forecast for economic growth based on U.S. exports.

The importance of private sector leadership for innovation-based economic development strategies cannot be overstated. While the federal government plays an important support role in creating the conditions for regional economic development, local leaders accomplish the real work on the ground, and many of the best minds in the business were on hand to share best practices and lessons learned. Duane Ackerman, CEO of BellSouth, and Wayne Clough, President of Georgia Institute of Technology shared their perspectives on efforts to develop regional partnerships in Georgia. In describing the Georgia Research Alliance, Clough identified private sector commitment and state government openness to new ideas as critical to successfully forming a six-university collaboration that focuses on attracting and maintaining eminent scholars in specific fields.

Arthur Hollingsworth, a partner in the North Texas Opportunity Fund (NTOF), discussed how this private equity firm is reinventing the traditionally underserved economy of South Dallas by rallying support from local leaders around the "dual bottom line" of return on investment and community development. The NTOF has used this innovative strategy to attract investments from several large employers to South Dallas, particularly for women- and minority-owned companies.

The conference provided important tools and insights that economic development professionals can bring back to their respective communities to develop those successful regional partnerships. As Phillip Bond, Under Secretary for Technology, noted in his presentation, the U.S. is the "innovation headquarters" of the world. Judging from the quality of local leaders and information presented at the conference, the U.S. is poised to remain at the forefront of innovation-driven economic development. ★★

For more information on the conference, including copies of the presentations from the panel sessions, please visit the conference Web site at <http://www.edanationalconference.com>.



Timothy C. Draper, founder and Managing Director of the Draper Fisher Jurvetson venture capital firm, delivers a luncheon keynote address entitled "Building an Entrepreneurial Culture."

A New Map for Rural America's New Economic Frontier

By **Mark Drabenstott**

Vice President and Director, Center for the Study of Rural America, Federal Reserve Bank of Kansas City

Rural America is on a bold quest for a new economy in the 21st century. Although no stranger to economic change, rural regions throughout the nation have been pushed onto a new economic frontier by powerful forces. Productivity gains in traditional rural industries, including agriculture and manufacturing, have been one push for change. But the bigger force has been the world market. Relentless competition in the commodity markets that have long been the bread and butter of rural economies has led to widespread consolidation in agriculture, manufacturing and mining. The result has been more and more rural communities wondering how to build a new economic engine.

Thankfully, the same march of technology that is redrawing industries is also opening new rural opportunities. Pharmaceutical crops, precision products from advanced manufacturing, and freshly-branded regional products marketed via the Internet are three of many markets that simply did not exist a few short years ago.

The push of new economic forces has resulted in a highly uneven rural economy today. Roughly six of every 10 rural areas are lagging behind the national economy in terms of adding new jobs. The nation's vast heartland stands out as a region that is looking for new economic engines, though lagging rural regions can be found in many other pockets of the nation. It is no coincidence that lagging rural areas often are heavily dependent on agriculture and manufacturing, industries that have undergone rapid consolidation. Conversely, regions with significant scenic amenities, such as the Intermountain West and the North Woods lakes regions, appear to have a built-in strategy for growth.

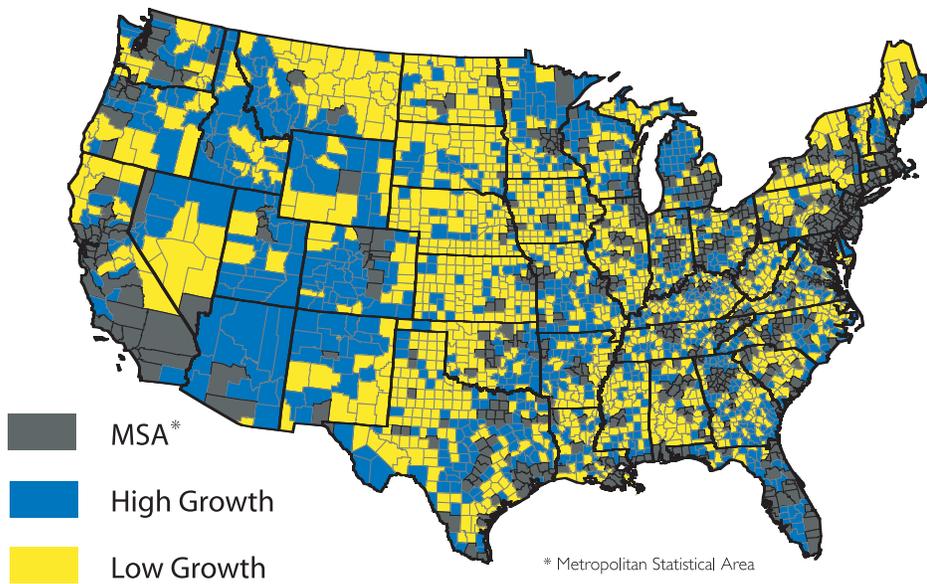
How can rural regions tap into the power of the new economy? While technologies offer good reasons to be bullish, the new frontier will require a different map to guide economic development decisions. The new map features three new strategies for rural economic development: thinking and acting regionally; finding a new economic niche for a region; and putting a premium on entrepreneurs.



Locally grown companies – the ones that create local jobs and grow local wealth – offer much more economic return than the “big game hunting” of industrial recruitment, a hunt that has become far more expensive and far less rewarding than in the past.

Economic Growth is Uneven Across Rural America

Rural Employment Growth 1990 - 2000



Thinking and acting regionally

Probably no single strategy has become more important to rural regions than *thinking and acting regionally*. Economic strategies are becoming more regional in scope as the globalization deepens that regions are where the impacts of globalization are felt. Economists refer to this as *the new economic geography*, but the evidence is widely seen in budding efforts to think regionally.

Last year, nearly 20 new rural “regions” contacted our Center seeking help on new development efforts. These groups ranged in size from four to 20 counties. Representing every corner of the nation and yet very different cultures and economic assets, the regions had two things in common: They had concluded that they needed a new economic engine, and, communities within each region realized they could no longer have a “one water tower” development strategy. Despite the lively competition among communities that has long been a hallmark of the rural economic landscape, communities now understand they no longer have enough “water in the tower” to go it alone in the worldwide marketplace.

In scores of cases, regional thinking is driven by the realization that competing successfully in worldwide markets requires a critical mass that towns or counties can no longer muster on their own. Thinking regionally is, in fact, the transcending answer to the question of how regions reinvent their economies.

Defining an economic niche

Finding a world-class niche is the next step in reinventing the economy of a rural region. A niche approach to regional economic development flies in the face of existing practice in many corners of the nation. Copycat development has been widespread, driven by the longstanding view that industrial recruitment can succeed at the expense of one’s neighbor.

But every region in America, rural or urban, must figure out its unique source of competitive advantage. That niche will be defined by pairing a region’s distinct economic assets with an insightful analysis of new market opportunities. The region’s competitiveness strategy then becomes the path from assets to opportunity.

For most rural regions, the competitiveness strategy will include exporting *something* beyond the region. Because few if any regions have the size and balance to be self-sufficient and simply sell things among their residents, it is especially crucial for rural regions to be able to sell products or services to other places, in the U.S. or beyond. To be sure, some rural regions will still focus on traditional natural resource-based products, such as agricultural commodities, timber, minerals, or energy, and others will stay focused on industrial commodities. But the fact remains that fewer and fewer rural regions will be successful in an

overall commodity approach, simply due to the unyielding forces of consolidation at work in these sectors.

New economic niches to explore include industries such as product agriculture, advanced manufacturing and professional services. These and other new economic engines will be driven mainly by technology and knowledge, underscoring the importance of higher education in implementing new strategies.

Many regions will pursue more than one niche, but in most cases the new economic menu is not long. Being of world-class quality is a demanding challenge, and few regions will be able to succeed in several niches at once. At most, regions may discover a few niches that suit their distinct economic assets.

A new premium on homegrown entrepreneurs

In economic development, as in baseball, it often is easy to go after home run hitters. But buying free agents is an expensive strategy, and the strategy pays off most in the biggest markets – the Yankees syndrome. Smaller markets, like Kansas City, are finding new success in growing the “farm system,” an approach that can pay off but takes a lot more patience.

In economic development, industrial recruitment is the free agent model. It remains the most pervasive economic development strategy in America. More and more regions, however, are beginning to recognize its shortcomings. In an increasingly worldwide market, where costs are compared not between parts of the nation but between parts of the globe, industrial recruitment has become both high-cost and high-risk.

In 2003, Maytag closed its refrigerator plant in Galesburg, Illinois. *The Quad City Times* put this headline above its lead editorial the following Sunday: “Maytag Delivers Costly Lesson.” The lesson was costly because the region gave

Maytag sizable financial incentives a few years earlier to keep the company in Galesburg. The editorial urged the region to “aim higher in its economic development strategy,” with a clearer focus on local companies, local jobs, and local wealth. Many other regions are reaching similar conclusions, although the inertia behind existing recruitment strategies remains powerful and persistent.

Especially in rural regions, the future lies in growing more entrepreneurs - particularly those who can start high-growth businesses that create jobs and wealth. Such businesses will be the real key to growing new economic engines. The good news is that rural areas appear to be much more likely to spawn small businesses than are metro areas. The bad news is that rural areas are much less successful in turning a business start into a high-growth business, the kind that produces lots of new jobs (see charts at right).

As in farm club baseball teams, rural entrepreneurs need great coaches in order to grow. Rural entrepreneurs often have one strong skill but need help rounding out the competencies that make businesses successful. In many cases, the coaches needed to mentor rural business owners and move them into the major leagues are missing.

Thus, rural regions actually face two big challenges as they reinvent their regional economies. The first is deciding to give up on industrial recruiting and move more resources to supporting entrepreneurs in the region. That is not an easy switch, since growing the farm system takes patience. The second is beefing up the region’s business coaching ranks, an issue that places new demands on public and private institutions.

Put simply, rural America can no longer build its economic future on cheap labor, land, and taxes. It must put a premium on the entrepreneurs that can harness the power of innovation and technology and, in the process, transform rural regions into major league teams in the knowledge-based economy.

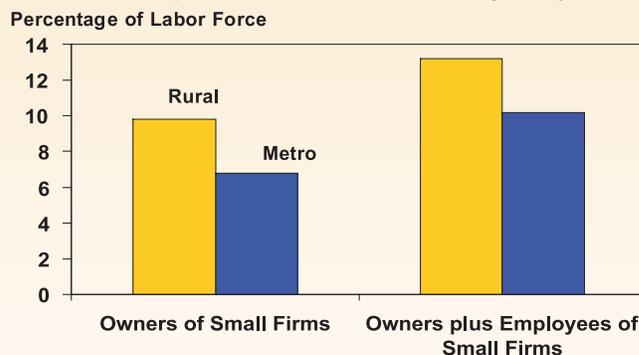
The three-point plan

To succeed, communities must think and act regionally to assemble the critical mass that worldwide markets now demand. Every region must also select an economic niche that leverages its distinct assets to capture new opportunity. There is no longer one economic tide to lift all rural regions; the future belongs to regions that have a world-class strategy and execute it with distinction. Finally, regions must find ways to support a new generation of entrepreneurs. Locally grown companies – the ones that create local jobs and grow local wealth – offer much more economic return than the “big game hunting” of industrial recruitment, a hunt that has become far more expensive and far less rewarding than in the past.

The world market has put rural America on a quest for new economic engines. Fortunately, technology is opening the door to new opportunities at exactly the same time, and the economic promise is great. Harnessing that promise, however, requires rural communities to think very differently about their economic development strategies. ★★★

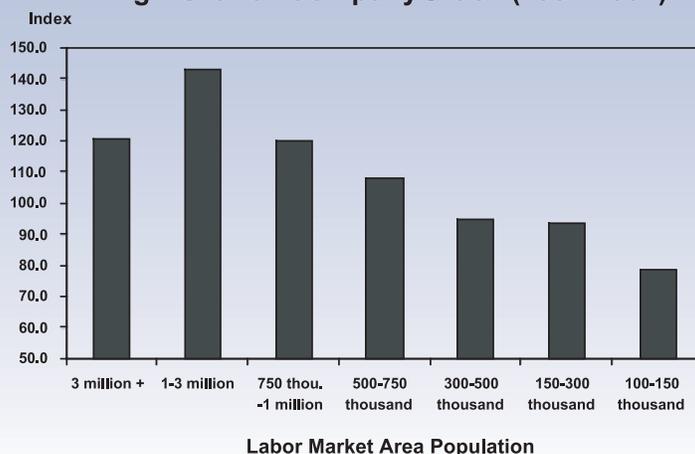
Entrepreneurism Runs High in Rural America

Percent of Labor Force Employed in Small Firms (Fewer than 10 Employees), 2001



But High Growth Entrepreneurs Are Scarce in Rural Areas

High-Growth Company Index (1991-1997)



Every region must select an economic niche that leverages its distinct assets to capture new opportunity.

Competitiveness *in Rural Regions*

Principal Associate, Institute for Strategy and Competitiveness, Harvard Business School

By Christian Ketels Competitiveness – the conditions that enable companies to be productive and innovative, thus supporting high and rising levels of prosperity – is an issue for all U.S. regions. Yet too often it seems that competitiveness in rural regions is treated as separate from competitiveness in metropolitan regions; it is frequently studied by different researchers, targeted by different policies, and dealt with through different government agencies. Is this divide between rural and metropolitan regions justified, or does it actually hamper effective policy to improve economic development in rural regions?

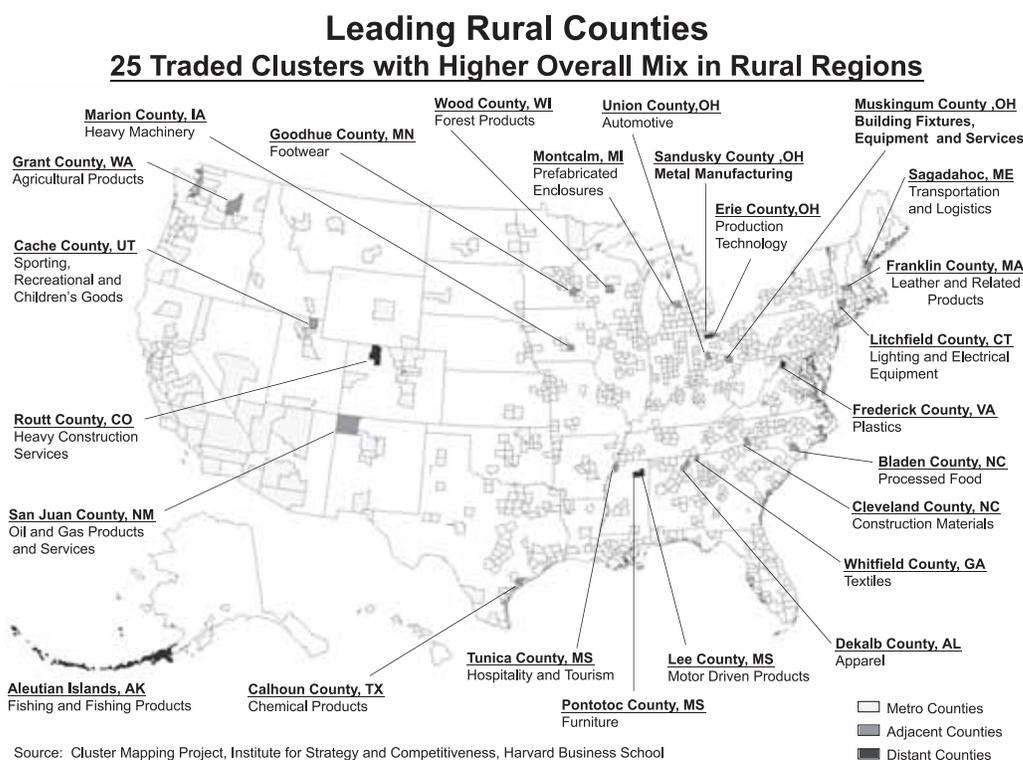
Wanting to take a closer look at this question, EDA found a partner in Professor Michael E. Porter and his Institute for Strategy and Competitiveness (ISC) at Harvard Business School, which has recently undertaken a long-term project on the competitiveness of rural areas.¹ A project report now available on EDA's Web site (www.eda.gov, under the Research Reports page) reviews existing work on the economic performance and underlying foundations of rural economies across the United States.² It includes significant new analysis, drawing on the ISC's extensive database on U.S. regional economies (available at www.isc.hbs.edu).³ The report provides recommendations for further research, con-

cludes with the authors' interpretation of the state of rural competitiveness, and highlights the opportunity to take rural policy to the next stage. This article provides an overview of some of the report's main findings.

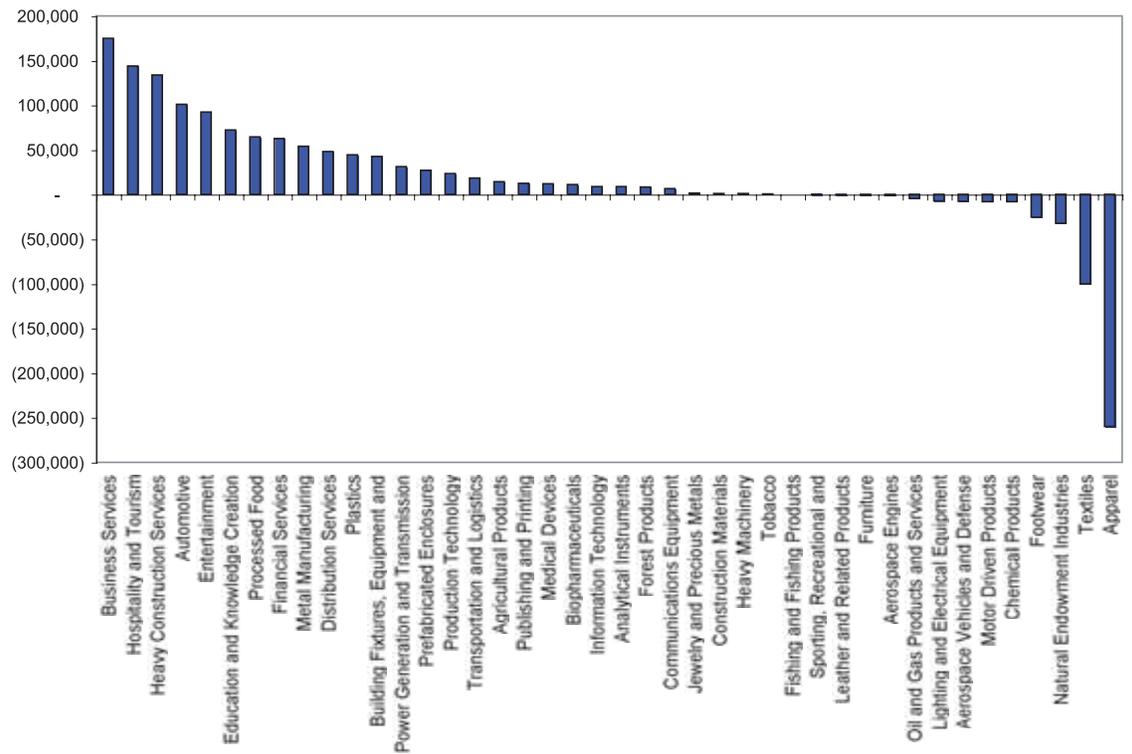
The challenge: Why we need to rethink rural economic development

Worldwide policies to improve the economic performance of rural regions are, by and large, not working. This is increasingly the consensus among policy makers across political parties, not only in the United States but also in many other countries around the globe. Not only is the performance of rural regions lagging, but the gap in performance levels between rural and urban areas seems to be widening. This state of affairs exists despite significant efforts to boost rural regions through a wide variety of policies with budgets of billions of dollars in the United States alone.

These policies have many costs. First, they draw on limited government resources at a time of budget deficits and cuts in spending. With many other competing demands on public sector funds, policies that fail to generate results are increasingly hard to defend. Second, rural counties account for 80 percent of land area and 20 percent of U.S. population. Weak performance in rural regions retards national productivity and prosperity, and fails to use the nation's resources effectively. As the growth of the U.S. workforce slows, making all parts of the economy productive is an important priority. Third, the inability of rural areas to achieve their potential creates an inefficient spa-



Rural Job Creation in Traded Clusters, 1990-2001



tial distribution of economic activity: Activities that could be performed more efficiently in rural areas either migrate offshore or add to the congestion of urban centers. Fourth, weak rural performance creates demands for interventions, such as import barriers, that threaten to erode the incentives for productive economic activity without addressing the underlying challenges that specific regions or sectors face.

These broad conclusions about rural economic development are not surprising. The United States has the need and the opportunity to lead in this field.

Advances in thinking on competitiveness and regional economic development over the last decade provide an opportunity now to examine rural regions in new ways.

Existing research on rural economic development

The literature reveals remarkable consensus on many issues. There is agreement around the performance gap and the challenges confronting rural regions; there is widespread recognition of several important components of rural business environments that require upgrading; there is universal agreement on the lack of coordination within the institutional network supporting rural development, and among policy makers, thought leaders, and practitioners; there is a growing understanding that the central issue is competitiveness; and there is widespread agreement on the importance of cluster thinking in rural economic development.

There are also some areas in which research progress has been more limited. There is still no rich understanding of the composition and evolution of rural economies at the industry cluster level; there is no detailed understanding of the evolution of rural development policy; aside from case studies, there is little comprehensive evidence on regional, state, and local rural initiatives; and finally, there is an overwhelming focus on the problems of rural areas, with much less attention on the opportunities.

Overall, many participants in the research debate lament the disconnect between what is advocated in the literature and current U.S. rural economic development policy. Policy does not seem to drive rural development, but responds to special interests, and the many sensible ideas proposed by experts are not acted upon. The evidence that we have reviewed for this report confirms this view. Without a strong conceptual foundation, it is not surprising that economic

development efforts for rural regions have been particularly vulnerable to political pork battles between small but well-organized interest groups, frequent institutional redesigns without lasting effect, and the reinvention of old policies under new names.

The challenge of formulating a clear strategy for rural development may also be a symptom of a larger problem. Economic development in rural regions has often been framed as a task inherently different from economic development more generally. This has created policies and institutions that are not well integrated with regional development activities in metropolitan regions. And it has tied rural regions too strongly to agriculture, both by focusing too much emphasis on this sector and by unjustifiably blaming agriculture for disappointing rural economic performance.

Findings of the Porter report

First, the report finds that rural regions should be an integrated part of an overall approach to regional economic development, not a separated policy area. Rural regions rise or fall economically based on the same principles as other regions; treating them differently runs the risk of concentrating on peripheral issues, not fundamental drivers. Rural regions, like metropolitan regions, are a heterogeneous group. Focusing on the characteristics they share ignores many of the most important factors driving an individual region's performance. And rural regions are in many cases *tightly linked to nearby metropolitan regions*; approaching rural regions as self-contained economies will obscure policy choices.

Measures of Regional Economic Performance

Current Economic Performance	Innovation Performance
<ul style="list-style-type: none"> • Employment / employment growth • Workforce participation • Unemployment rate • Average wages / average wage growth • Cost of living • Poverty rate • Gross regional product per employee • Regional export levels / annual growth in exports • Inward business investment 	<ul style="list-style-type: none"> • Patents / patent growth • Venture capital investments • New establishments / new establishment growth • Fast growth firms • Initial public offering proceeds per 1,000 firms

Second, many of the perceived truths about the economic performance of rural regions are misleading. Rural areas clearly have economically underperformed urban areas between 1990 and 2001, and have been disproportionately hard-hit in the recent economic downturn. However, the perception of rural economic performance has been affected by *negative trends in a few, regionally concentrated clusters*, notably apparel, footwear and textiles. Many rural regions have done much better over time. Rural regions have, in fact, grown employment faster than metro areas in most clusters, including many large and growing clusters.

Third, the different composition of rural economies in the traded sector of the economy is an important factor in understanding rural economic performance. Rural regions have largely similar economic compositions in the local (non-traded) economy, as we would expect. Rural regions have strong positions in traditional manufacturing, though a lower base of advanced services. Across all rural regions most clusters are growing, including services. Agriculture is, contrary to what some believe, a relatively small part of rural economies. Even in counties with the highest reliance on agriculture, this sector accounts for only a modest portion of overall employment.

Fourth, business environments in rural regions need to be analyzed at a much more granular level. There are some common business environment weaknesses shared by many rural areas, often associated with low population density. These areas naturally have been the overwhelming focus of policy. However, many other characteristics of business environments vary significantly among rural regions, and these collectively appear to be more important in explaining rural economic performance.

Fifth, there are emerging policy implications for economic development in rural regions: Rural economic development must focus on the unique strengths of each area, rather than concentrating on ameliorating generic weaknesses. Rural regional economies need to better leverage the potential of their clusters and of clusters located in nearby metropolitan areas. Among the economic opportunities available to many rural areas are hospitality and tourism, including second homes and retirement homes; outsourcing of services from labor-constrained urban areas; and specialty agriculture focused on serving urban markets. Overall, the growing congestion and scarcity of land in urban areas, and the demographic trends that will produce workforce shortages as the economy grows, will increase the attraction of rural regions and their workforce.

Sixth, any new strategy for economic development will require a new policy process. The current institutional framework for rural policy is fragmented and uncoordinated, and needs to be radically restructured. Traditional rural constituencies and current institutional structures have failed to develop policies that mobilize the potential of rural regions – not as a result of neglect, but of the absence of a consistent strategy based on sound understanding of rural economies. Given the heterogeneity of rural areas, policy for rural areas must be set at the *local and regional level*, not at the state or national level.

Overall, the report describes a significant opportunity to move thinking and practice in this field to a new level. There is a clear willingness to act; what seems to be missing is the unifying approach that can rally the different participants around a common agenda. The report hopes to make a first contribution by analyzing the evidence consistent with such an approach. The underlying strength of the U.S. economy is based on its regional economies; what has worked for them now needs to be better leveraged for rural areas as well.

★★★

The Institute for Strategy and Competitiveness, led by Professor Michael E. Porter, studies competition and its implications for company strategy; the competitiveness of nations, regions and cities; and solutions to social problems. Based at Harvard Business School, the Institute is dedicated to extending the research pioneered by Professor Porter and disseminating it to scholars and practitioners.

ENDNOTES:

¹ EDA contributed a grant of \$100,000 to defray a portion of the cost of this ongoing project.

² Porter, Michael E., with Christian Ketels, Kaia Miller, and Richard Bryden, 2004, *Competitiveness in Rural U.S. Regions: Learning and Research Agenda*, Washington, DC: Economic Development Administration.

³ For more detail on this research see Porter, M. E., 2003, "The Economic Performance of Regions," *Regional Studies*, Vol. 37, No. 6&7, pp. 549–678; Porter, M. E., Council on Competitiveness, and Monitor Group, 2001, *Clusters of Innovation Initiative: Regional Foundations of U.S. Competitiveness*. Washington, DC: Council on Competitiveness; and the ISC web site at www.isc.hbs.edu.

Crafting a New Rural Development Strategy

By Stuart Rosenfeld Richard Florida's 2002 book, *The Rise of the Creative Class*, describes a new way of thinking about supporting knowledge- and creativity-based economies. This new way requires nurturing those amenities that attract and keep talent: arts, culture, entertainment, green space, and – most important – high levels of tolerance. But the examples used by urban planners and economists are almost all of heavily populated areas that for decades have been drawing skilled youth from smaller and rural communities, urban areas that now are attracting talent of all ages as well as the high-tech companies in which many work. What promise, then, does creativity hold for the economic future of rural America?

Principal, Regional Technology Strategies, Inc.

The rise of the creative rural economy

Many small cities and towns, of course, can and do cultivate creative and cultural environments. But location matters, and the most successful of these are near enough to recreational or historic areas to attract tourists, seasonal residents, and urban expatriates. Taos, New Mexico; Boone, North Carolina; Camden, Maine; Livingston, Montana; and Fort Walton Beach, Florida, are examples of thriving small cities or towns. More isolated rural communities, though, have a much harder time building and benefiting from their cultural assets.

There is an expanded view of creativity, however, that allows even out-of-the-way towns to benefit. This is creativity as an economy's engine, not frame, driving the design, packaging, and marketing of goods and services to increase their competitiveness and reach growing numbers of people who are searching for authenticity and meaning in what they own. Creativity becomes not a type of place or class of person, but *the defining characteristic of a specific kind of enterprise*. And the kinds of enterprises may be surprising: Plumbing fixture giant Kohler Corporation in Wisconsin has internationally recognized artists and employees working side by side in its pottery and iron foundry in long-term residencies, which has produced its successful Artists Edition product line. ACEnet, in Athens, Ohio, helps local food processing companies design imaginative labeling and tell stories about their products in order to create brand recognition and get higher prices.

Creativity and talent are just as prevalent in rural communities as they are in cities, but are not as evident when measured solely by advanced degrees or patents. In the broadest sense of the term, creativity defines a type of cluster

composed of companies and entrepreneurs that take their principal competitive advantage from a distinctive appearance, form, content, or sound that they embed or embody in their products or services (Table 1).

Table 1
The Creative Enterprise Cluster

- People and companies whose product *is* art or design (e.g., potters, writers, jewelers, and web page designers)
- Companies in which art or design provides the *distinguishing feature or competitive advantage* of a product or service (e.g., designer home furnishings, high fashion clothing or CDs)
- Companies with services that are *defined* by art or design (e.g., advertising agencies, landscapers and architects)
- Companies that *sell, supply, or contribute* to art or design-dependent products or services (e.g., galleries, craft and supply distributors, and arts councils, arts or craft schools and art foundries)

Under the magnifying glass

Taken together, these individuals and companies can make a significant contribution to non-metro economies, but it requires a stronger lens to identify them. Despite growing worldwide agreement on the sectors that comprise this increasingly sought-after cluster, many operate under the radar screen in rural regions.



Kohler Corporation's Artist Edition product line is a result of artists working alongside employees in its potteries and foundries, using design to create competitive, higher-value products.

The most obvious obstacle to finding the cluster is its large number of microenterprises, freelancers, and unrecorded members. Even the use of non-employer statistics – which few studies use – misses those not registered in any government business database. Within the North American Industry Classification 711 (artists, entertainment, and recreation), for example, about 30 percent of the workforce is officially self-employed. A study in Montana found that even when national figures on self-employment were included, more than half of those working in this

classification were omitted. The most realistic estimates were obtained from state nonprofit organizations.

Creativity is also a direct source of secondary income for those who struggle to make their art or craft a full-time job, seek something more fulfilling than their full-time employment, or supplement income from an otherwise unsustainable enterprise, such as a family farm. In Montana, more than 700 farms or ranches earn income from creative pursuits or related tourism, income that is overlooked in most analyses.

Perhaps the most difficult segment of the cluster to identify is firms with goods or services that are distinguished by their look, sound, or relationship to the consumer. These are the companies that depend on art, design, or stories for their competitive advantage but are grouped with companies that do not. Fashion furniture, apparel, and niche food products are examples of creative enterprises that are classified along with companies that use quality, delivery, or cost as their principal advantage. This segment of the cluster may offer the greatest new opportunity for rural areas with a declining manufacturing base.

Creativity expands economic opportunity

Creativity opens up a range of possibilities for rural growth. Although creativity resides in the individual, for policy purposes the term can apply to a community, enterprise, product, or service. The most common use by economic developers is to influence the location of creative individuals and companies. Communities realize that to do so, they need to spruce up their downtowns, celebrate their heritage, provide sufficient venues for culture and entertainment, and support diversity. Maine, for instance, is reinventing its downtowns and expanding public art because, as Governor Balducci said, it means “a stronger creative economy for all Maine’s

communities.” The city of Auburn has a zoning ordinance that “supports a creative economy.”

The second, and less recognized, possibility for rural growth resides in the enterprises that produce and sell art or crafts in various forms – which, not incidentally, also produce the culture that attracts others. Because these microenterprises are “off the charts,” they are vastly underappreciated as revenue and job generators. Where they cluster, they can become a major economic force. Around Seagrove, North Carolina, a town of 300, more than 100 potteries – supported by college programs, a pottery center and a pottery museum – anchor the region’s economy. Even where concentrations of these enterprises are lower, those that choose to network and aggregate their output through coops, guilds, and nonprofits achieve significant impact.

The third possibility for rural growth resides in creative product lines, which perhaps hold the greatest potential. To achieve this potential will require a new mindset among manufacturers and a return to their craft-based roots. In addition to “*making things better*,” companies and the agencies that assist them will have to work at “*making better things*.” Success depends as much on the design and aesthetic appeal of their products as productivity.

Over the past two decades, government programs such as the Manufacturing Extension Partnership (MEP) have tried to stem the loss of rural manufacturing, helping companies compete by adopting new technologies and better methods. Even advanced technologies, however, have not solved the problem. At the same time, regions in competitor nations with as high or higher labor costs continued to compete in traditional industries. Their secret was design. Among the experts who studied northern Italy and brought back lessons for the U.S. in the form of networks, clusters, and social capital (Piore, Sabel, Porter, and Putnam), none emphasized that art and design were key ingredients of the region’s market advantage. The resources of the technology center for the knitwear industry in Carpi, Italy, concentrated on design and fashion while the leading U.S. centers concentrated on production technologies and methods.

Finally, and equally important, homegrown creativity is found in all classes, races, genders and ethnic groups; does not require advanced degrees; and is not regional or urban. It can therefore offer economic opportunities to people and places that have not been able to advance using traditional educational pathways or economic development routes.



The EnergyXchange Center in rural North Carolina uses methane from a 6-acre landfill to power glass and ceramic studios, greenhouses, galleries, and a visitor's center.

Public policies and private practices for creative enterprise clusters

Creative industry clusters are not all that different from traditional or high-tech industry clusters. They generate externalities, but also need and deserve access to targeted, public-sector, cluster-based services that other clusters receive.

1. Add art and design services to the Manufacturing Extension Partnership (MEP) and Cooperative Extension.

The MEP has done an excellent job of helping small and medium enterprises (SMEs) adopt better practices such as lean manufacturing, just-in-time, and Six Sigma. Their view of design, however, is the official U.S. government definition of finding the “best combination of materials and technologies to meet needs and plan for most efficient manufacturing and distribution.” It says nothing about aesthetics or making more appealing products. The addition of artistic expertise would add new value and address new forms of competitive advantage. Cooperative Extension, too, could expand its marketing expertise to art and craft-based enterprises.

2. Designate a lead Small Business Development Center for creative enterprises.

Artists and craftspeople need better business skills and marketing assistance, but rarely look to small business centers because center staff often don't understand their needs. A center designed to work with this cluster and staffed by people with creative enterprise savvy could reach artists and craftspeople more effectively. Creative Enterprises in Wales in the United Kingdom provides a business mentoring and information system that is funded in part by the Welsh Development Agency.

3. Support networks and networking. Despite the demise of most formal statewide network programs, networking remains the best way for small employers to achieve economies of scale and impact, and many specialized networking programs remain in place. Nonprofit arts organizations do this very effectively, not only providing real services and opportunities for learning and collaboration, but also generating well over \$100 billion in economic activity each year.

4. Bundle arts and design with entertainment and cultural tourism. Arts, crafts and music, and the festivals that promote them, are major tourism drawing cards. HandMade in America in western North Carolina has used these most effectively, publishing guidebooks and maps to artists, galleries and gardens, and producing an estimated 25 percent increase in income for artists and galleries.

5. Embed art and design in education. Art has been shown to increase achievement levels in core subjects and innovation. In addition, more art and design in technical and commercial programs in community colleges would help future entrepreneurs, technicians, and managers appreciate the value of art and design in products and marketing.

6. Make greater use of community colleges. Community colleges are our most accessible, flexible, and responsive education and training institutions. While most view crafts as hobbies or marginal occupational programs, colleges that recognize their value have had considerable economic impact. Haywood Community College in western North Carolina not only has outstanding programs but also provides entrepreneurial skills and support services, including an artisans'



ACEnet in Athens, Ohio, helps food processing companies design imaginative labeling to distinguish their products.

Table 2 Ingredients for Success

- Social capital/networking among artisans
- Tolerance for diversity
- Critical mass of talent
- Priority in local schools and colleges
- Perceived as real economic development
- Accessible & knowledgeable business assistance
- Related nonprofits
- Design-oriented industry base
- Business-oriented arts and crafts base

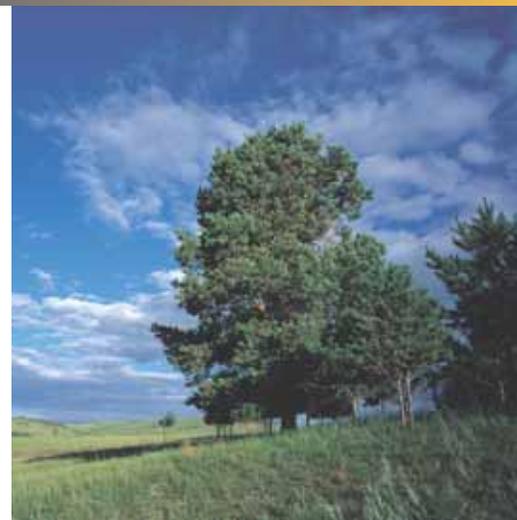
“boot camp” for business skills. The benchmark tourism program and new programs in American crafts at Hocking Community College in southwestern Ohio have revitalized that Appalachian region. CraftNet, an alliance of 14 colleges across the United States, is working collectively to develop more effective programs for creative enterprises (www.rtsinc.org/craftnet).

Basis for a creative enterprise cluster

Creativity has the greatest impact on local economies where it is recognized, nurtured, supported, and networked (Table 2). It is most effective where artisans are willing to think and act like business people, and manufacturers and services are willing to think and act like artists. There was a time in the mid-19th century when art and technology were intertwined and artists reigned among technologists; there was even a machine art movement.

For too long, creative enterprises have been overlooked by economic developers and public services that have consistently cast their nets for the big fish, rather than the more abundant – and ultimately more self-sustaining – schools of small fish. ★★

Tapping Innovation Entrepreneurship as a Force to Drive Rural Economic Growth



Vice President,
Golden Capital
Network

By **Jim Mikles**

For a young company, innovation, flexibility and calculated risk often mean the difference

between expansion and growth or stagnation and decline. The same can be said for economic development. Most communities understand that supporting entrepreneurship is an integral part of fostering the growth of new, dynamic companies. What is less understood is how exactly to support entrepreneurial innovation on a local level, especially in more rural areas located farther from traditional centers of technology, research and e-commerce.

Rural economic developers struggle with risks, with questions of efficacy, with budget priorities and with the simple fact that many have not done it before. But clusters of successful innovation entrepreneurs have popped up in some pretty surprising places – such as rural Montana, northern California’s Grass Valley, and around Boise, Idaho – and there are meaningful, concrete measures that every community can undertake to develop this important sector.

Much as a large mountain can create its own weather, the success of just one or two emerging growth companies can spur entire storms of entrepreneurial activity in their wakes.

Embracing entrepreneurship

A good definition of innovation in the context of entrepreneurship comes from a white paper authored by the Council on Competitiveness, which describes innovation as the ability to transform new ideas and new knowledge into advanced, high-quality products or services.

“Lifestyle” companies that provide products and services to a local region are certainly entrepreneurial. But other types of entrepreneurs exist and have a greater chance, in lower numbers, to substantially impact regional and national economies. These are the *innovation entrepreneurs*, born largely from the technology age, who have products, solutions and aspirations that go well beyond the local jurisdictional boundaries. Their “emerging growth companies” start small, grow fast, and can become driving economic forces in their own rights. Much as a large mountain can create its own weather, the success of just one or two emerging growth companies can spur entire storms of entrepreneurial activity in their wakes.

Rural economic developers can support the development of emerging growth companies – and the offshoot clusters that tend to occur more frequently in their presence – by embracing them as an important, separate and distinct subset of the local startup community, with a different set of needs than are on the menus of most traditional small business counseling agencies.

The entrepreneur network

Understanding entrepreneur networks is critical to understanding how economic developers can help emerging growth companies find the resources they need. For example, there's less of a chance that the founder or CEO of an emerging growth company can find his or her next strategic partner, CFO, patent attorney, angel investor or venture capitalist through the local small business development network, which is primarily (and importantly) focused on bringing startups to a point where they can receive funding from a traditional commercial lender or revolving loan fund.

Erik Pages, former policy director for the National Commission on Entrepreneurship, conducted a number of recent landmark studies on this subject funded by the Ewing Marion Kauffman Center for Entrepreneurship. He concludes that "soft" entrepreneur networks play a vital role in fostering introductions and links between the emerging growth entrepreneur and the resources he or she needs to succeed. These resources include *access to capital, access to talent, access to strategic operational partners and access to infrastructure.*

As opposed to being driven by a government entity, Pages identifies entrepreneur networks as groups of like-minded, independent, mainly private-sector participants that provide resources to nurture companies through their various stages of growth. They typically consist of entrepreneurs, investors and professional service providers. They are a very important piece of the local business development strategy, and although economic developers cannot be the main driving entity in an entrepreneur network, they can play an integral role in cultivating, promoting and supporting the group.

Of course, most communities have an existing business network through the local Chamber of Commerce or a similar group that consists of many regional private sector leaders. Just as we distinguish emerging growth companies from local, lifestyle companies, we distinguish a network that provides primarily local connections from one that works on a larger, multi-regional scale to deliver high value to innovation entrepreneurs.

Another distinguishing characteristic of the entrepreneur network, and the reason why public-sector involvement is so critical, is the potential for inefficiency due to the competitive and secretive nature of the innovation sector. A neutral third party, such as an economic development organization, needs to sit as the hub of such a network, in order to generate buy-in from all the relevant players and avoid becoming housed too heavily in a single "camp."

The rural conundrum

For early stage entrepreneurs, getting connected to an entrepreneurial network is a critical piece of the success equation, but public sector involvement to help build and support networks – particularly in more rural regions – is hampered by risk and a lack of understanding. Entrepreneurship programs are relatively new to the economic developers' toolbox, and by nature are inherently riskier, as they focus on young and dynamic companies with an admittedly higher chance of failure.

What to Do

Help Develop Cross-Regional Entrepreneur Networks to Identify and Cultivate Emerging Growth Companies

An entrepreneur network needs champions from within the private sector to be successful. Economic developers can be a driving force by:

- recruiting existing successful entrepreneurs and other private sector opinion leaders to add value and credibility to the network;
- promoting the network through private sector contacts; and
- providing administrative support to the network.

Many communities have existing regional organizations or forums that can be developed, linked and leveraged to this end, as long as they strive to be innovative themselves and reach beyond the usual suspects.

Promote Policy Initiatives That Focus on Emerging Growth Companies

Economic development policies often move slower than economic realities of the day. Promoting a strategy that specifically supports emerging growth companies is a critical element in helping educate policy officials and persuading them to allot resources to support innovation entrepreneurship. For example, the California Workforce Investment Board lacks a specific policy to support the growth entrepreneurship cluster, which is a barrier to getting dollars allocated for the kinds of initiatives detailed in this sidebar.

Engage and Support Incubators & Clusters

Incubator and technology park managers know it takes more than a building and some bandwidth to build a thriving entrepreneurial cluster, but having facilities is an important piece of the equation. In conjunction with the "soft" network that provides critical resources, a physical location can act as a lightning rod to attract innovation-based emerging growth companies.

Promote and Support Technology Commercialization

Many communities have research and development institutions of some type that can act as a source for innovation. It takes entrepreneurs to commercialize the technology, but too often the institution is not a closely engaged part of the entrepreneurial network. Greater relationships with, and understanding of, the institutions is a critical piece in facilitating the technology transfer process.

Continued on page 16

What to Do (continued)

Identify and Cultivate Capital Sources Within and Outside a Region to Support Emerging Growth Companies

“Angel investing,” whereby an independent, accredited, high net-worth individual seeds a company’s startup, has a long tradition in American entrepreneurship. As Jeffrey Sohl, director for the Center for Venture Research, writes, Alexander Graham Bell, Henry Ford and Jeff Bezos (founder and CEO of Amazon.com) all relied on seed stage angel investors to help commercialize their innovations. Local high net-worth individuals who can be tapped as angels for local seed stage ventures exist in nearly every community. These individuals can benefit by networking with other angels from within and outside of their immediate area to learn the process and pitfalls.

Provide Seed Funding Sources and Incentives

A variety of public and public/private seed funding sources and incentives can be duplicated and/or leveraged to help emerging growth companies, including Small Business Innovation Research (SBIR) grants, tax credits for research and development or seed investments, and direct, publicly supported seed investment funds.

Traditional players are still important, but a network based on innovative entrepreneurship needs to broaden its horizons to thrive.

Entrepreneur support programs also take longer to show measurable results; these organically-grown companies generate wealth, create jobs and become stable only after a tumultuous startup period that typically lasts three or more years. They also require resources such as risk capital, knowledge and peer networks that are not often found within a single jurisdictional boundary.

So why would economic developers from rural, emerging markets pursue such a strategy? Noted economist and author Joel Kotkin argues in his book, *The New Geography: How the Digital Revolution Is Reshaping the American Landscape*, that our new technology-driven economy has spurred an “outmigration” of talent from urban regions of the country to more rural areas. Kotkin provides statistical data to support his conclusions and surmises that in the 21st century, there is an opportunity for rural, emerging markets to capitalize on this migration to become new entrepreneurial powerhouses. “Increasingly, wherever intelligence clusters, in a small town or big city, in any geographic location, that is where wealth will accumulate,” Kotkin writes.

Start small, grow well

The most successful networks are those with a larger, regional focus that crosses jurisdictional boundaries. “Regional cooperation may be an important vehicle for sharing the risk associated with entrepreneurial development efforts,” states a January 2003 study co-authored by Pages and Kenneth Poole, president of the Center for Regional Economic Competitiveness. This is especially true for rural regions, where a purely jurisdictional effort that involves the same set of players that have been involved in all previous programs to date may fail to garner critical mass. Traditional players are still important, but a network based on innovative entrepreneurship needs to broaden its horizons to thrive.

Based on trends that show a more technologically-savvy workforce and a migration to the rural, emerging markets of the nation, it only stands to reason that there are more talented people in a community with the skills, ambition and wherewithal to start and grow successful emerging growth companies than the typical economic development official knows about through the traditional tools of small business outreach.

Innovative economic developers have discovered that a new paradigm of cross-regional connections and collaboration may be successfully leveraged to build entrepreneurial networks. Only by understanding the importance of innovation entrepreneurship – and by helping coalesce the often-fragmented resources available – can economic developers increase their influence on creating successful entrepreneurship initiatives in America. ★★★

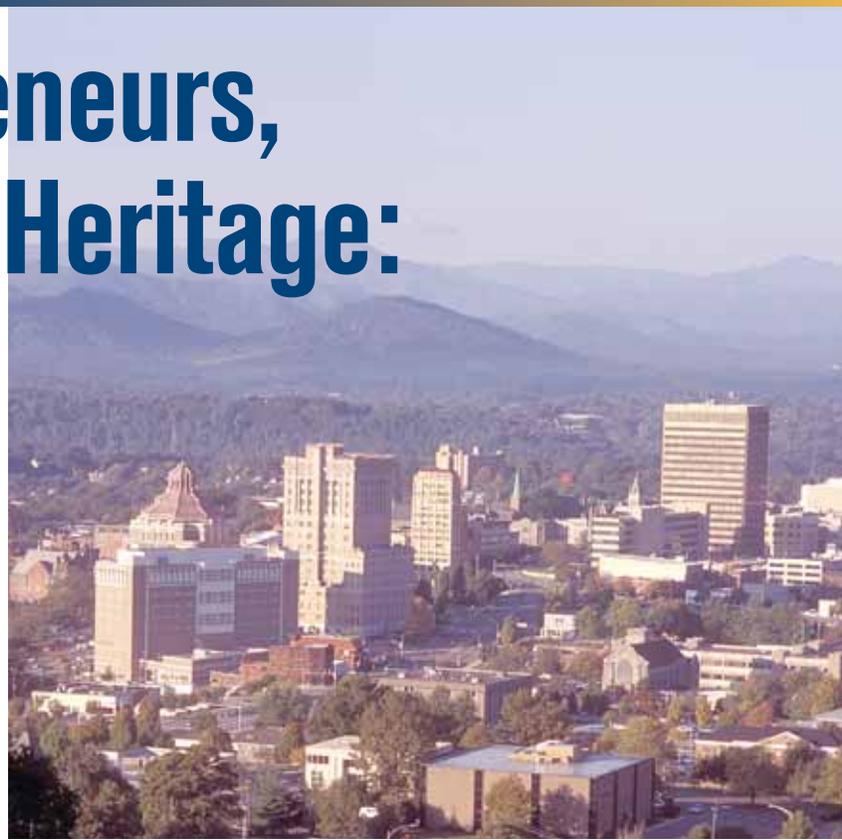
Golden Capital Network is a nonprofit, rural Northern California-based entrepreneur and investor network (www.goldencapital.net).

Angels, Entrepreneurs, Technology and Heritage:

A Diversified Approach to Economic Development in Western North Carolina

By Louise Anderson, IEDC People are increasingly

consumers of 'place.' Fortunately for western North Carolina, place is something it has in spades.



The 23 counties in western North Carolina cover an area larger than eight other states – roughly the size of Maryland – yet have a total of just over 1 million residents. Dominated by the southern Appalachians, the region contains 34 of the 46 mountains that exceed 6,000 feet on the east coast, and over half the land is publicly owned. The region's largest city is Asheville, population 71,000. National forests, rafting-quality rivers, the Blue Ridge Parkway, a strong craft heritage and small, historic towns in picturesque settings are assets that make the region attractive to growing numbers of tourists and new residents each year.

Tourism and manufacturing are, historically, the region's primary export industries. But it was well before six manufacturers announced the lay-off of 1,475 jobs within the first two months of 2004 that regional leaders recognized the need to embrace new sources of economic growth. So when you want to create a more sustainable, recession-proof economy – based on growing a greater number of small companies, rather than relying on the location decisions of a handful of larger employers – and you want high-growth companies too, though you lack a major research university, what do you do?

The Blue Ridge Entrepreneurial Council and Blue Ridge Angel Investor Network

You develop a new philosophy, of creating jobs by creating business. To accomplish this, the Blue Ridge Entrepreneurial Council (BREC), and later, the Blue Ridge Angel Investor Network (BRAIN), were created by AdvantageWest North Carolina,

the region's economic development commission. "We had to look at what alternatives we had to recruiting the manufacturing jobs of the past," says Gordon Myers, AdvantageWest's board chairman and vice president of supermarket chain Ingles Markets. "Jobs that aren't highly skilled are moving off-shore and I don't see those coming back. Looking at the statistics, most growth is in small business."

To say that entrepreneurial development and angel investing are new ideas to western North Carolina is an understatement. So it might come as a surprise to some that BREC and BRAIN – both underway for less than two years – are experiencing success that no one anticipated.

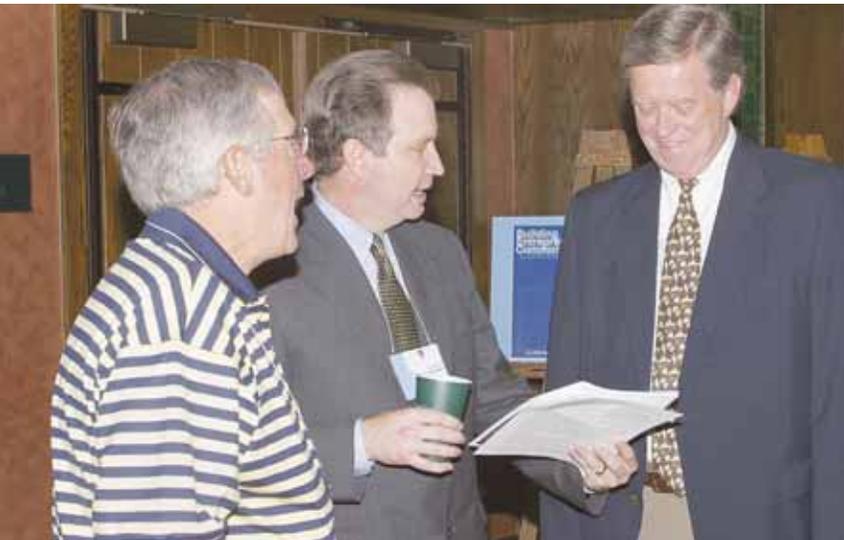
"I recognize that I am not the answer; I just connect people to the answer." That's how BREC Executive Director Jim Roberts sees his role – bringing together people who need to know each other to help innovation-based businesses grow and succeed. Not so good at writing a business plan? BREC hopes to help solve such common business problems, for example, by connecting the writer of the business plan with the entrepreneur who needs one. "The challenge is to get the creative resources of the region to market; to help people understand the value of their creativity," Roberts says.

Growing tech and talent

BREC has hosted brand-name speakers at some of its monthly events, such as Matthew Szulik, CEO of Raleigh-based Red Hat Software (company

The Blue Ridge Mountains reach beyond downtown Asheville, North Carolina. Photos courtesy of the Asheville Convention & Visitors Bureau.

“We had to look at what alternatives we had to recruiting AdvantageWest’s board chairman. “Jobs that aren’t highly skill



AdvantageWest Director David Reeves (left), CEO Dale Carroll (center) and Chairman Gordon Myers (right) discuss the agenda at a Blue Ridge Entrepreneurial Council/Appalachian Regional Commission joint conference last fall. The event drew entrepreneurs, economic developers and venture capitalists from around the nation.

executives will return this summer to host a seminar on open source entrepreneurship), and Tom Fisher, Information Technology Vice President at Qualcomm (and former technology vice president at eBay and Gateway). BREC also hosts networking events such as “Speed Dating for Business,” held at a bar it rented for the evening: Entrepreneurs paired off to explain who they are, their business and their challenges. At the end of eight minutes, they exchanged business cards on which they’d written down three people or ideas to help the other person’s business, before pairing up with another entrepreneur.

Western North Carolina has had no problem attracting talented young people because of its place-based assets, but because of the relative lack of “new economy” jobs, people often end up underemployed or leaving the area to find a good job. So besides helping grow the area’s technology base, Roberts sees the retention of talented young adults as a key focus of BREC. Following the theory that the more emotional investment you have in a city, the less likely you are to move away, Roberts plans to launch an Asheville-based initiative called BALANCE (an acronym for Business, Arts, Lifestyle, Authenticity, Nature, Community, Economics), in which a group of young professionals will meet monthly to report on the state of each of those topics in the community, and share concerns and ideas.

Money is key

In September 2003, with the Appalachian Regional Commission, BREC held western North Carolina’s inaugural venture capital and entrepreneurship conference. More than 360 people attended, representing over \$1 billion in private equity capital.

BRAIN is BREC’s sister organization for capital formation, a key tool for improving the region’s technology infrastructure. Meeting for just over a year now, BRAIN operates as an informal network to review pre-screened business plans on a quarterly basis. In its search for companies with intellectual property but barriers to capital, BRAIN reviews business plans from four to five entrepreneurs per meeting, out of an average of 12-15 companies that apply. One company has raised over \$600,000 since its initial meeting with BRAIN. This year, with support from the Appalachian Regional Commission, BRAIN hopes to raise a \$5 million fund with help from wealthy retirees in the region.

“Capital has been the missing piece,” says Roberts. “People hadn’t realized what was possible with an organized capital channel.” His challenge lies primarily in educating entrepreneurs on how to *approach* capital, and in educating high-net worth individuals on what amounts to a new type of investing for them, because most have invested very differently their whole lives, in real estate or stocks.

In Roberts’ words, western North Carolina is not unique, it’s just being proactive.

Media Arts Project

How else can a place build on its strengths to move into the technology-based, twenty-first century economy? In the case of Asheville, a magnet for many years for artists and other creative types, the plan is to do it through digital multimedia. (Multimedia companies use more than one medium, such as video, audio or text, to create content that is delivered via television, the Web, DVDs or CD-ROMs.) There is no shortage of multimedia artists who want to live in the region; finding job opportunities for them is the challenge.

The Media Arts Project (MAP) is a regional nonprofit created in early 2002 to enable networking and interaction among the spectrum of multimedia artists in the region, in order to develop western North Carolina’s digital media sector. Recognizing that access to communications technology and skill sets is critical, MAP hopes to provide training and practice to people wanting to learn or advance careers in multimedia, and serve as a focal point where IT and multimedia businesses considering relocation to the region can link with local businesses as potential vendors and partners, and gain access to a skilled workforce.

The applications for digital multimedia and potential for growth are as limitless as the artists’ imaginations, ranging from education to art to promotion and well beyond. For example, MAP held a symposium in April called “From Quarks to Quasars: the Art and Technology of Visualizing Science.” As one role for the multimedia sector, MAP envisions bringing artists together with scientists to help them create clear ways of communicating abstract scientific data about their projects. Visualization technologies can be used for weather research (the National Climatic Data Center, the world’s largest active archive of weather data, is located in Asheville, and the University of North Carolina-Asheville has

the manufacturing jobs of the past,” says Gordon Myers, led are moving off-shore and I don’t see those coming back.”

just established the National Environmental Modeling and Analysis Center); astronomical research (Pisgah Astronomical Research Institute is in the heart of the region) and geographical research (the National Forest Service has extensive holdings in the area). Of course, multimedia artists also create training videos, educational CDs, interactive displays and exhibits, video games, visual art, and any kind of Web-based design or application.

MAP is currently working on a strategic plan for the industry and ultimately hopes to serve an association-type role, aligning and promoting the interests and activities of various multimedia development groups, educating students and youth in media arts, facilitating funding and promoting the development of science-based visual content.

Heritage tourism

Recreation and scenery have always been major tourist draws to western North Carolina, home of the two most-visited national parks in the country, the Great Smoky Mountains and the Blue Ridge Parkway. The region also is building on its resources for heritage tourism and is finding visitors’ interest growing every year. The cultural heritage visitor typically stays longer and spends more money than other tourists.

Authenticity is key to the region’s successful approach to heritage tourism, according to Kelly Miller, Executive Director of the Asheville Convention and Visitors’ Bureau. He believes that local tourism wasn’t as hard hit after September 11, 2001 as many other places because the region offers experiences and attractions that aren’t contrived, unlike theme parks or resorts. Betty Huskins, a vice president at AdvantageWest, agrees. “People feel safe here; they’re going back to their roots and doing family things,” she says. (It doesn’t hurt that the region also is within a relatively short drive of much of the southeastern United States, making it an easy place for a short getaway.)

While the area has always promoted its heritage, a regional effort, targeted internationally, seemed like a logical next step. MountainSouth USA is a campaign to promote “America’s Southern Highlands” – western North Carolina, eastern Tennessee and southwestern Virginia – to British travelers. Now in its third year, the program promotes bluegrass music, traditional Cherokee dancing, and the region as home of “the real Cold Mountain” (the book was a top seller in the United Kingdom) to interest travelers who want an authentic American experience. Funding for the program comes from AdvantageWest and is matched by private partners. Most promotion takes place at travel shows abroad, through advertising, and by developing relationships with group tour operators in the UK to help them understand itineraries.

Western North Carolina got another boost for heritage tourism in late 2003 with the federal designation of 25 counties as the Blue Ridge National Heritage Area. The designation brings \$500,000 in federal funds for brand strategy

development in the first year; once approved, the region can receive up to \$1 million per year for the next nine years for domestic and international promotion. The program also will preserve and interpret the region’s Scot-Irish tradition, Cherokee culture, traditional vocal and instrumental folk music, folklife traditions, traditional arts, historic sites and agriculture heritage.

No discussion of regional economic development and heritage tourism would be complete without mention of the role of HandMade in America, an Asheville-based nonprofit widely recognized for its success in promoting the region’s craft industry. In addition to its craft work, HandMade works with numerous groups throughout the area to promote farm and garden tourism.

“Western North Carolina has done a fantastic job of organizing and working collectively across county lines to carve out a piece of the market,” says Miller, through guidebooks, cross-promotions and advertising. “It’s hard because of the size of the region and because we don’t have any big cities with corporate and business travelers. We have to work together and pool our dollars to get our message out there.”

There’s more yet

There is still more that western North Carolina is doing to diversify its economy – such as a commercial kitchen incubator currently under construction, which already has more than 75 family farmers interested in participating, and a successful and growing film industry – too much more to detail. And because many of these initiatives are so new, their success in the long-term is yet to be realized...but you can’t say they aren’t trying. ★★



The real Cold Mountain, after which the best-selling Charles Frazier novel is named, is located in the Blue Ridge Mountains.



EDA's Role in Creating Jobs in Rural Areas

By EDA Senior Staff

EDA's primary objective is job creation in economically distressed communities, a role that is particularly important in rural areas. EDA strives to promote a favorable business environment in which the private sector will invest capital, because the greater the amount of private sector investment in a region, the greater the likelihood that higher-skill, higher-wage jobs will be created.

Experts Agree

The leading economists in the field of economic development agree with this conclusion and approach. In their *Clusters of Innovation Initiative*, the Council on Competitiveness joined with Professor Michael E. Porter of Harvard Business School in stating that the economic goal for regions should be a high and rising standard of living, and that this depends upon creating a high-quality business environment that fosters innovation and productivity.¹ They agreed that while government can help foster a favorable business environment, companies and industries must ultimately achieve and sustain competitive advantage.² Similarly, an article by Global Insight, Inc. noting the 42.9 percent reduction in capital investment in Tennessee between 2002 and 2003, stated: "Because investment is a prerequisite for job growth, the lack of investment last year could be read as a sign that job growth will slow correspondingly."³

Results

Since 2000, EDA has shown impressive results in attracting private capital investment in distressed communities. It increased the average ratio of private capital investment per every EDA dollar invested across its infrastructure projects portfolio by 405 percent, from 8.7:1 to 43.9:1. In rural areas, EDA increased that ratio 115 percent, from 10.5:1 to 22.6:1 (Chart A), while the percent of EDA's investments in rural areas had not changed significantly (69 percent in 2000 versus 66 percent to date in 2004). This increased ratio is a leading indicator of future job creation.

Strategy

To accomplish its job-creation objective, EDA developed a three-pronged strategy: 1) expand deal flow; 2) emphasize funding priorities; and 3) establish investment policy guidelines. This strategy will maximize private sector investment, resulting in higher-skill, higher-wage jobs. The strategy is also significant because EDA operated unauthorized and without any robust management processes in place for over a decade, and had no objective criteria with which to evaluate grant proposals. This strategy does not include a requirement that investment proposals contain a ratio of private-sector investment to EDA investment of 22:1.

Investment Policy Guidelines: Among EDA's five investment policy guidelines, only one emphasizes private-sector leverage, and within that guideline, private-sector leverage is only one among four other criteria used to determine whether a proposed investment has a high degree of commitment from local business, economic developers, and elected leaders. The other three investment policy guidelines recommend that proposals have strong organizational leadership; advance productivity, innovation, and entrepreneurship; and look beyond the immediate economic horizon, anticipate economic changes, and diversify the local and regional economy.

EDA Drives Significantly Increased Private Sector Investment in Rural Areas

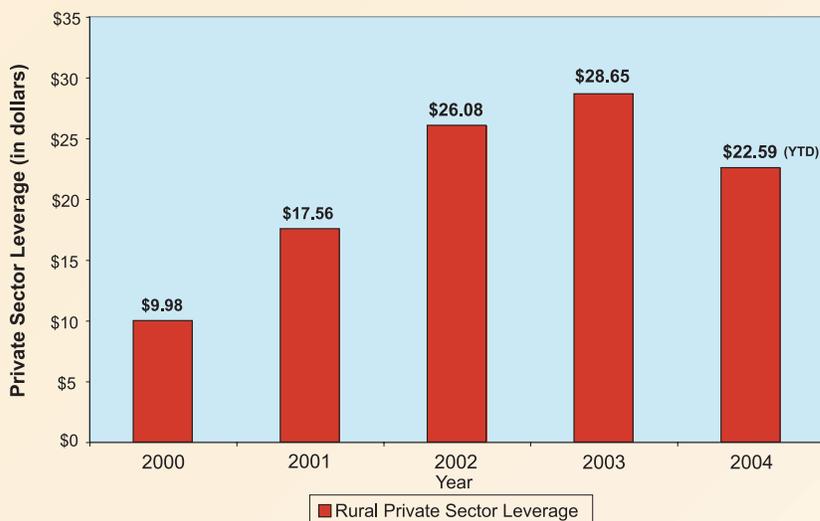


Chart A

¹ Michael E. Porter et al., Council on Competitiveness, *Clusters of Innovation: Regional Foundations of U.S. Competitiveness* at ix (2001).

² Ibid.

³ Mohammad Iqbal, Special Topics, *Southern U.S. Markets*, St. Econ. (Global Insight, Inc., Boston, Mass.), Winter 2003-04, at 113.

“Balanced Scorecard” Strategy Management System

In 2002, EDA introduced a Balanced Scorecard strategy management system to determine whether it is successfully executing its strategy, and whether the strategy is accomplishing its mission. The strategy management system consists of 35 separate leading indicators, only one of which measures the average amount of private sector capital leveraged per every EDA dollar invested across its infrastructure projects portfolio.

While many of the leading indicators complement each other and portray the cause-and-effect relationships that lead to high job creation, some of the indicators intentionally do not. For instance, maximizing private-sector investment is balanced with the objective to emphasize EDA’s funding priorities. Three of EDA’s four funding priorities typically do not draw significant private-sector investment: helping communities plan and implement economic adjustment strategies in response to sudden and severe economic dislocations; supporting technology-led economic development and the important role of linking universities and industry; and advancing faith- and community-based social entrepreneurship in redevelopment strategies for areas of chronic economic distress.

Maintaining Flexibility

Over the past three years, EDA has communicated with its customers the importance of significant private capital investment for successful economic development efforts, and many regions across the country have embraced this approach. While it is important to support those communi-

Two-Thirds of EDA Investments Are Below 10:1 Private Sector Leverage (2000 - 2004)

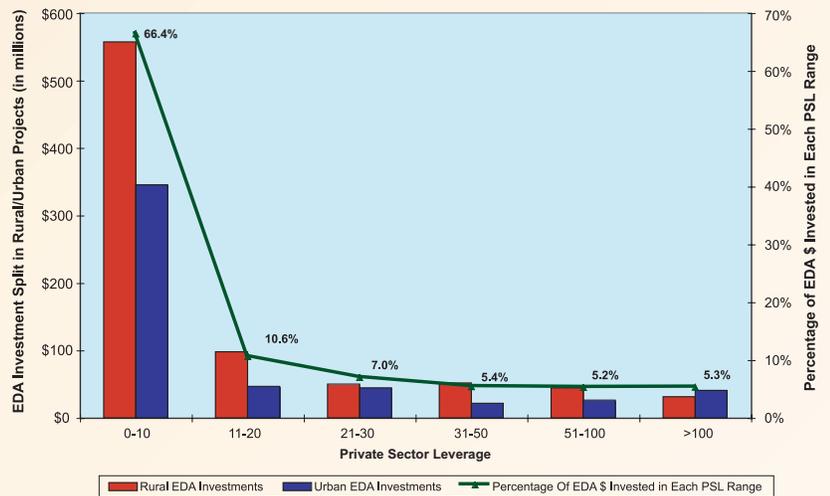


Chart B

ties, particularly given that demand for EDA’s capital far exceeds its resources, EDA also recognizes the importance of maintaining enough flexibility to assist those communities that are taking the first steps toward economic growth. While EDA recently has seen significant increases in the amount of leveraged private capital investment, two-thirds of EDA’s dollars invested from 2000 to the present have a 10:1 or less private-sector leverage ratio (Chart B). ★★★

Examples of Rural EDA Investments Depicting a Wide Range of Private-Sector Leverage

ALABAMA

A central Alabama town used a \$2 million EDA investment for the development of an industrial park, expecting to generate \$25 million in new private-sector capital in the area – a ratio of 12:1.

CALIFORNIA

A California community used a \$1.2 million EDA investment for the development of water and sewer extensions to serve a commerce park, expecting \$10 million in new private-sector capital in the area – a ratio of 8.4:1.

IDAHO

An Idaho community will use a \$2 million EDA investment to support a technology and manufacturing facility that will replace lost mill jobs, generating \$9.3 million in private-sector investment – a ratio of 5:1.

NEW YORK

A rural region in upstate New York using a \$2.8 million EDA investment for water, sewer, and road improvements to support an entrepreneurial business incubator expects private investment of \$24 million – a ratio of 9:1.

OREGON

A small coastal community in Oregon received a \$1 million EDA investment for port infrastructure improvements that is estimated to attract \$980 million in investment from the private sector – a ratio of 980:1.

PENNSYLVANIA

A small Pennsylvania community used a \$1.3 million EDA investment to help develop a commercial park that is expected to generate \$9 million in private-sector leverage – a ratio of 7:1.

SOUTH CAROLINA

A South Carolina community used a \$1.5 million EDA investment to support the automotive manufacturing cluster in this rural area, resulting in expected private investment of \$67 million – a ratio of 45:1.

SOUTH DAKOTA

An eastern South Dakota town used a \$780,000 EDA investment for road and infrastructure improvements that is expected to spur \$40 million in private-sector funds – a ratio of 51:1.

VERMONT

A rural town in Vermont used a \$1.2 million EDA investment to support a multi-tenant manufacturing facility that will attract \$4.5 million in private-sector investment – a ratio of 4:1.

VIRGINIA

A rural Virginia community secured a \$1.65 million investment to develop a technology infrastructure initiative that is expected to generate over \$40 million in private-sector investment – a ratio of 24:1.

WASHINGTON

A rural community in Washington State accessed a \$480,000 EDA investment to support a retail complex that is expected to attract over \$45 million in private-sector investment – a ratio of 98:1.

WYOMING

A rural Wyoming town secured an \$800,000 EDA investment in a university-related infrastructure project that is expected to spur \$3.3 million – a ratio of 4:1.

Using Value-Added Agriculture to Create a New Rural America

Director, Iowa
State University
Extension
Value-Added
Agriculture
Program
Co-Director,
Agriculture
Marketing
Resource Center

By Mary Holz-Clause How can we stoke the fire of economic development in rural areas? How can we take advantage of the passion and entrepreneurial spirit that built rural America? Value-added agriculture can be a key component of rural economic development, fostering job growth, economic vitality and local wealth creation. Most rural communities have a strong agricultural production component that has historically contributed to the local economy. Value-added agriculture includes efforts to increase the value of these commodities and to do so before they exit the local area.



Gaining more direct access to markets is one way to increase the return on local producers' goods.

Value-added agriculture capitalizes on the consumer shift from mass markets to a market of mass niches, where goods and products are tailored for specific needs. Although use of the term 'value-added agriculture' varies, an accepted version defines it as the process of *converting agricultural outputs into products of greater value; increasing the economic value of an agricultural commodity through changes in genetics, processing or diversification; or the process of increasing the consumer appeal of an agricultural commodity.*

Today, we see a huge variety of market-driven ideas emerging that are either triggered or nurtured by small, passionate groups at the local level. These local groups may include farmers, local businesses and leaders who have a common interest in the vitality of an area. Many of these stakeholders are developing businesses that contribute different attributes to the food, fiber and energy industries and that provide customers with new products and services.

Finding the market is important, but getting products to that market – and making a profit – is how successful value-added agriculture initiatives move from a dream to reality. Often, the goal is to retain control of commodities through further processing and to gain more direct access to markets. The opportunity for success is primarily about using that control to change the market value of what local producers have to sell.



U.S. Premium Beef helps farmers and ranchers adjust their cattle production to meet consumer preferences.



Pear nutrition bars have become a healthy part of school lunch programs in the northwestern U.S.

A new way of thinking

The essence of value-added agriculture is about changing the vision for agriculture and rural America. Technology plays a role, markets are key and all ventures take money, but it is ultimately about people developing a new vision for agriculture and for their communities. In the end, it is great leadership and great ‘followership’ that makes the difference for successful ventures. Value-added agriculture is a great motor for building that community wealth measure of “social capital.” When these deals work, they make the greatest examples of the whole exceeding the sum of its parts.

But like many things, this movement is more evolutionary than revolutionary. Participants are learning and adjusting their efforts as they observe the successes and failures of others. Programs and expert assistance are evolving, too. Confidence and the willingness to take risks remain vital components in tapping the power of cooperation and common goals.

And for inspiration, there are significant successes, a few of which are detailed below.

Ethanol production

Ethanol production, from corn, grain sorghum or other bio-stock, is a recent and significant farmer-owned, value-added agriculture business sector; over 10 percent of the U.S. corn crop is used in ethanol production. More than 30 percent of the gasoline in the United States is blended with ethanol – typically at 10 percent – to produce a fuel that emits less air pollution and helps lessen U.S. dependence on foreign oil. Thousands of farmers have invested in ethanol plants, profiting from the plants’ proceeds as well as ensuring a reliable market for their crops.

At the end of 2003, 32 of the 72 ethanol plants across the U.S. were farmer-owned. Taken as a whole, farmer-owned ethanol plants represent the single largest source of ethanol, comprising 40 percent of U.S. production. Iowa has 12 producer-owned ethanol plants; South Dakota has 11 and Minnesota has 14.

Beef supply chain with processing

Cattle producers in Kansas and surrounding states formed a cooperative in 1996 called U.S. Premium Beef (USPB). USPB is an integrated system in which farmers and ranchers receive information about the cattle supplied to USPB and have partial ownership in the processing. By producer and processor working together, producers can make changes to their cattle production if needed; consumers receive the product they asked for; and producers are able to participate in the profits. Today, less than 10 years later, USPB is the fourth largest beef processing entity in the United States, in a field of big competitive giants which includes Tyson, Cargill and Con Agra.

Niche dairy production with processing

Nestled in the rolling hills of Randolph Center, Vermont is Neighborly Farms. In this picturesque setting, complete with a red barn and white post-and-beam farmhouse, is an organic dairy and cheese processing facility. Through one side of the viewing room, visitors can watch 48 black and white Holstein cows being milked, or turn to the other side of the room and watch as cheese is made. The cheeses produced at family-owned Neighborly Farms – mozzarella, provolone, feta, muenster, herbed and cheddar – are all certified organic and are sold throughout the northeastern United States.

The same keys to success that apply to all businesses apply to value-added agricultural ventures: good management and a good governance structure; a solid marketing plan; and a strategy for growing the marketplace for the product.

Help is available

- The USDA Rural Development agency has staff throughout the U.S. to assist groups in cooperative development and has a loan guarantee program. The agency also has a small grant program to assist in developing feasibility and marketing plans for value-added ag and bio-energy programs and working capital for these projects. To assist on a local level, 10 agricultural innovation centers provide technical assistance to value-added agriculture groups. These centers are located in Indiana, Iowa, Kansas, Minnesota, Michigan, Montana, New Jersey, New York, North Dakota and Pennsylvania. For more details on the USDA Rural Development programs, visit the Web site at <http://www.rurdev.usda.gov/rbs/>.
- USDA Rural Development also funds a Web-based value-added agriculture center. The Agriculture Marketing Resource Center (www.AgMRC.org) provides current information on more than 180 market opportunities, as well as information on business development and contacts for local, state and federal assistance.
- Many states have extensive assistance and programs available for business development, strategic community planning and fostering entrepreneurship through Cooperative Extension Service. See www.csrees.usda.gov/ for a complete listing.
- Many states' departments of agriculture and economic development also have staff and programs to assist with value-added agriculture development. A listing of resources by state is available at <http://www.agmrc.org/directories/dir.html>.

From waste fruit to high-value meal replacement

Gary Willis, a fruit grower in Oregon, decided several years ago that if he and other fruit growers in the area didn't do something different, there wouldn't be enough profitability in the business for the next generation of orchardists to return to farming operations. Willis and another like-minded farm family started a company that produces sliced and packed fresh fruit and a pear nutrition bar. The firm, Gorge Delights, now has a 19,000-square-foot manufacturing facility with 20 employees. It sells its products throughout the northwestern United States, including providing the nutrition bars to school lunch programs and other government purchasers. The bars have created a new market for excess produce that previously had little or no value, and are increasing the consumption of fruit in Oregon and Washington schools.

Many forms of soybeans

South Dakota Soybean Processors (SDSP) was organized in the mid-1990s and is a successful, producer-owned business. SDSP's state-of-the-art soybean crushing plant, east of Volga, South Dakota, was built to crush 16 million bushels annually and has since expanded to 28 million bushels. Locally-grown soybeans are processed annually into about 600,000 tons of soybean meal, 157,000 tons of crude soybean oil and 49,000 tons of soybean hulls. SDSP has been profitable since it began operations in 1996.

Not a guaranteed success story

Despite the stories above, value-added agriculture is not a guaranteed success strategy. The same keys to success that apply to all businesses apply to value-added agricultural ventures: good management and a good governance structure, a solid marketing plan, a plan for protecting a market once it is created (e.g., trademarking) and a strategy for growing the marketplace for the product. Anyone who gets involved in value-added business development – whether producers, economic developers, investors, bankers or professional consultants – needs to recognize that these enterprises often take more time, energy, emotion and money to get going than originally thought.

And it may be easy to overlook the impact of value-added agricultural startups. The direct job creation may be small, or the physical plant may not be large and impressive. But the activity is there, generated by and in the local community, where the dollars start and where the dollars spend lots of time. Community leaders benefit from acknowledging the possibilities of these new enterprises because of their potential to build on themselves.

Sometimes, the key to success is in linking production to processing or marketing in unique ways or with unique products. Sometimes the nuance is in the process itself, by creating better food safety or “story” attributes for customers. Sometimes value is found through providing services, or through marketplace relationships. Regardless of *how* value is added to agricultural products, local stakeholders who think creatively usually are surprised to find more possibilities available than first imagined. ★★

Embracing Uncertainty:

The Strategic Partnership of Workforce and Economic Development

By **Larry Good**

President, Corporation
for a Skilled Workforce

At first glance, north central Indiana looks like hundreds of other rural regions. Across its six counties (Cass, Fulton, Howard, Miami, Tipton and Wabash) are a handful of small cities separated by miles of tree-lined driving. The only mid-size city is Kokomo, population 46,000, and the region's edges are still an hour from larger cities such as Indianapolis, South Bend, or Fort Wayne.

Population is growing at an annual rate of just 3 percent – about half the rate that is occurring in Indiana statewide – and the region is aging. Unemployment tends to run higher than the statewide level. North central Indiana enjoys a strong, heavily automotive manufacturing sector, but leaders worry about the likelihood of shrinking employment in this crucial part of the economy.

At the surface, north central Indiana looks like a region facing a path of slow, continuing decline, but that impression would be wrong. A strong and growing coalition of community leaders is emerging, determined to create a sense of urgency and tackle systemic changes to ensure that north central Indiana can compete effectively in the worldwide economy. These changes aren't small in scope, either: They include raising educational attainment levels and increasing the ability of small businesses and workers to frequently adjust to the new paradigms of a fast-changing economy.

The partnership piece

A long-term partnership between the region's economic developers and the workforce investment board is at the core of the regional coalition. The scope of the partnership is not commonly found around the country, but offers a great model for effective rural economic and community development. Over the past decade that workforce and economic

developers have been growing their partnership, they have jointly become a force for leadership in an area where few if any natural regional leaders exist.

So far, the partnership has succeeded in:

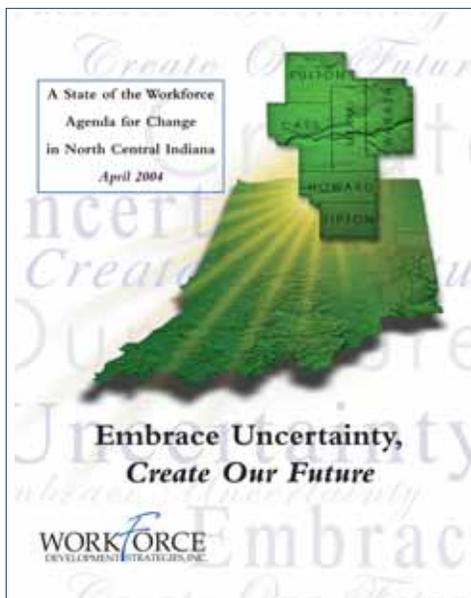
- **Establishing regional identity.** Historically, most residents have identified with the city and/or county they lived in; few have thought of themselves as part of “north central Indiana.” The partners have succeeded in building a leadership consensus that regional identity is both valid (84 percent of the region's workforce both lives and works within the six counties) and crucial to economic development marketing.
- **Repositioning economic development from purely local to increasingly regional.** The collaboration has resulted in economic developers increasingly focusing their energy on how to help the region grow, and much less on competing with each other for location leads. The economic developers crafted a “gentlemen's agreement” to share leads and try to offer the best region-wide solutions to those companies.
- **Recognizing that workforce skills and agility are a central component of an economic competitiveness strategy.** Both sides agree that a strong workforce is at the heart of the region's ability to attract, retain, and grow businesses.
- **Building regional leadership consensus, both to identify changes required to increase regional competitiveness and to collaborate to bring about those changes.** The coalition, including business leaders, K-12 and post-secondary educators, labor organizations, community organizations, and local elected officials, is building a diverse and powerful leadership committed to tackling tough challenges over the long-term.

The role of the workforce board

Workforce Development Strategies, Inc. (WDSI), the region's workforce board, has diverse and strategic connections with local economic developers. For example, WDSI



Population in rural north central Indiana is growing at an annual rate of just 3 percent - about half the rate that is occurring in Indiana statewide.



WDSI's most recent "State of the Workforce" report.

strengths on which to build and gaps to fix. Finally, the workforce-economic development partnership has provided leadership and brought in other stakeholders, resulting in an economic strategy for the region that is now moving from creation to implementation.

How did it happen?

To understand why the partnership works so well, it helps to look at how it began. First, the Private Industry Council (PIC) that was the forerunner to WDSI was a key force in the creation of several county economic development organizations in the region during the late 1980s.

Then in the early 1990s, the PIC invited the six counties' economic developers to participate on a committee together, creating the first regular venue for the group to build relationships among themselves, as well as with the workforce developers. The committee initially focused on simply sharing information, then later developed the aforementioned agreement to cooperate on marketing leads.

Most significant, however, has been the undertaking of a series of jointly-funded, jointly-led research studies and strategic plans. These include development of a Comprehensive Economic Development Strategy (CEDS), labor shortage research, and two *State of the Workforce* reports. In each of these instances, the workforce developers organized and managed the research and strategy development, while economic developers led broad-based community leadership task forces that assessed data and developed strategies.

Today, the partners are leading a multi-year effort to steer the region's economic future, based on four key strategies:

- Increasing educational attainment and engagement in lifelong learning;
- Using the aging workforce as a competitive asset;
- Growing small businesses and encouraging entrepreneurs; and
- Thinking and acting like a region.

staffs the regional economic development district and the Small Business Development Center, and is housed at Grissom Aeroplex, a key redevelopment site in the region and former Air Force base. In addition, regional and county economic development directors meet regularly as a committee of the workforce board to discuss regional strategies.

WDSI and the economic developers jointly fund and manage research to assess the state of the region's workforce and employers, which helps them identify

Why it works

What has made this partnership a success, both in terms of the partners' own collaboration and their ability to reach out to engage other key community leaders?

- **The partners have led the development of a shared, compelling vision for the region.** "Having a shared vision of where you're trying to go holds things together," says Dan Goddard, Executive Director of the Grissom Redevelopment Authority. "We need to change the culture in the region. We must get people to understand that just because they have a job today, there is no guarantee they'll have one in the future."
- **WDSI acts as a convener and catalyst, not as the group "in charge."** "It doesn't matter who gets credit; we want communities where people are going to choose to live and work," says WDSI President and CEO Vicki Byrd.
- **Economic developers believe their regional work is the most strategic part of their job.** "We don't do much if we just trade companies. We have to build the entrepreneurs and attract new companies to the region," says Goddard. "It makes much more sense to market North Central Indiana than 100-plus individual communities," adds Mike Busch, Executive Director of the Fulton Economic Development Corporation.
- **Both sides see value emanating from the collaboration.** For the economic developers, that value includes WDSI's quality staff support, as well as the expertise and relationships the workforce developers bring to the table. For the workforce developers, the economic developers offer access to and credibility with businesses. "If we just walked in the door as a nonprofit organization, most wouldn't know who we are," says Byrd.
- **The partners use strategic research as a powerful tool.** The studies that have been overseen by diverse stakeholder task forces have helped develop a common understanding about economic and workforce trends, issues and opportunities. The studies also laid clear paths for action. The most recent State of the Workforce report defines the action agenda now being implemented.
- **The partnership creates a mechanism for pooling resources to do solid research, marketing and other change management work.** "I can't imagine rural communities having the resources to devote to this on their own. The only way to achieve scale is to work together," says Busch.
- **The partners have created a sense of urgency around the need to tackle major change in the region.** "We need to accept the fact that communities and their economies are going to change. We can affect that change or sit back and watch it happen to us," says Busch. ★★

Founded in 1991, Corporation for a Skilled Workforce (CSW) is a national nonprofit policy, research, and consulting organization. CSW has worked with leaders in 43 states to develop strategic economic and workforce solutions.

Rural Regional Alliances –

Coming Together to Solve Common Problems

By Pearl Kaplan, IEDC While the United States as a whole experienced a tremendous economic expansion in the 1990s, many rural communities were struggling to stem steady declines in population and industry. Between 1970 and 2000, nearly a third of rural counties experienced population loss and the problems associated with it – such as a shrinking local tax base, reduced services, and weakened ability to hold on to businesses and skilled workers. Population declines are compounded by inherent challenges such as already-low population density; one in every four counties has fewer than 10 people per square mile. Maintaining and improving infrastructure, providing basic services, and supporting and attracting businesses are challenging in these highly dispersed areas.

As a result, many rural leaders grappling with economic decline have realized that by forming regional alliances, they can pool resources and create the critical mass necessary to develop and implement new economic development strategies. Like rural communities themselves, these alliances are often loose-knit and informal, sometimes getting started when a group of people from neighboring communities come together to talk about a pressing problem and discover that they face many of the same economic issues. For example, one regional alliance evolved when people came together to talk about an endangered chicken.

This article profiles three rural regional alliances – what led to their creation, what they aim to accomplish and how they are doing it: The Prairie States Center for Entrepreneurial Leadership, The Elkhorn Valley Economic Development Council in Nebraska, and the Northeast (Minnesota) Higher Education District. These alliances are all relatively new, and while their initiatives are promising, how they will impact their local communities has yet to be seen.

Prairie States Center for Entrepreneurial Leadership

When people from the five states that cover the historical range of the lesser prairie chicken gathered to discuss their concerns about the bird possibly being listed as an endangered species, they discovered that they had a lot more than wildlife issues in common. The prairie states shared declining and aging populations, decreases in tax revenue, and the loss of businesses. The region, which includes the southern Great Plains area of Colorado, Kansas, New Mexico, Oklahoma, and Texas, was officially declared in “economic distress” by the U.S. Secretary of Agriculture in 1998.



Wind turbines produce electricity on the prairie.



The Great Plains Trail in both Texas and Oklahoma will be extended soon to Kansas. The trail is a showcase for regional wildlife, such as this elk herd in western Oklahoma.

So in 2000, with the assistance of the Western Governors' Association and funding from EDA, three organizations – the Comanche Pool Prairie Resource Foundation, the High Plains Resource Conservation and Development Council, and the Texas Prairie Rivers Region, Inc. – formed the Prairie States Coalition to address economic development in the region. Their first step was to conduct an extensive resource assessment and strategy development study.

Poverty, unemployment, underemployment, and lack of access to capital are a few of the issues that the region grap-



Norfolk, Nebraska proudly honors one of its own.

ples with. As Tom Lucas of the High Plains Resource Conservation and Development Council explains, while it's helpful to get or grow a business that will employ four or five people in the area, that isn't enough to attract venture capital to the region, and without capital it's hard to attract businesses. And because of the shortage of businesses, a high rate of underemployment leaves skilled workers to operate cash registers at supermarkets.

The coalition is combining resources to create the Prairie States Center for Entrepreneurial Leadership, a one-stop center for regional planning, implementation and funding. The coalition believes that without a regional framework, economic programs will be too fragmented to have any significant impact at the regional or local level. The center will serve as an advocate for business and industry in the region; provide training, research, and funding for projects and partnerships developed by the coalition; and will focus its efforts on developing new markets for the region's agricultural and natural resources. Lucas believes that the road to recovery is the region's natural resources, and the challenge is to figure out how to make them most productive.

The regional approach has begun to yield results. Industrial projects underway total \$149.1 million and are expected to create 235 jobs. The region has received over \$3 million in tourism and wildlife grants for eight different projects, including habitat restoration, watershed protection and heritage trails. Funding for entrepreneurial development, including employee training, marketing and business attraction, totals \$249,000. "We want to create new opportunities so people will stay," says Lucas, "and we can only get things done by thinking and working as a region."

The Elkhorn Valley Economic Development Council, Nebraska

Like most rural regional alliances, The Elkhorn Valley Economic Development Council (EVEDC), covering four counties with 16 communities in northeast Nebraska, is the first of its kind in the state. EVEDC grew out of a long-range planning session conducted by the chamber of commerce in Norfolk, the largest community (population 23,500) and the retail and employment center of the region. As the Norfolk chamber group began discussing how to reinvigorate the town's economy, it realized how closely tied the town's economic health was to its surrounding communities. With the input of communities in the four-county region and the support of local elected officials, what began as a planning session led to the formation of a regional economic development council.

One of the most pressing problems in the region, according to EVEDC Executive Director R.J. Baker, is out-migration of people and jobs: in the last four years, the region has lost over 1,500 jobs. And with much employment concentrated in a few industries – the meat industry alone, for example, accounts for around 3,000 jobs in the area – the future of much remaining employment is uncertain as well. Diversifying the economy of the region is, therefore, a primary concern for the council.



True North is investing to transform vacant storefronts on community Main streets to computer programming and software design centers.

EVEDC has three main economic development goals: to assist existing businesses and industry, to attract new businesses to the area, and to support the development of local entrepreneurship. A marketing campaign to promote available sites and buildings to companies outside the region is under way. And while progress is slow, a California computer company recently established operations in the area.

Cultivating a culture of entrepreneurship and growing local entrepreneurs is seen as an essential element to bringing the region's economy into pace with the country's. To this end, EVEDC is preparing to hire a full time entrepreneurial specialist. However, a good chunk of the work is still the nitty-gritty of keeping existing businesses from leaving – by making calls, site visits, and trying to understand what businesses need to succeed and grow locally.

Northeast Higher Education District / True North, Minnesota

As president of Minnesota's Northeast Higher Education District (NEHED), Joe Sertich presides over a group of five technical and community colleges that have joined together to address the needs of the region more effectively. Each college has its own mission, campus and provost, but shares a regional governance structure.

The NEHED encompasses the rural northeast quadrant of the state, an area about the size of West Virginia with a population of around 130,000. According to Sertich, the greatest threat to higher education in northeast Minnesota is the economic health of the region. Realizing that the colleges can serve as an economic engine, the NEHED chose to dedicate its resources to promoting economic development in the multi-jurisdictional area through a concept called True North.

The Elkhorn Valley Economic Development Partnership strives to retain people and jobs in the region.

True North aims to revitalize the economy of northeast Minnesota by facilitating connections among business, industry and education, and by aligning higher education resources with existing regional economic development and community organizations. One of its programs has received \$1 million in federal funds to transform vacant storefronts on community Main streets to computer programming and software design centers, providing a low-cost advantage to attract the tech business that has been locating outside the region. True North also started a professional harvester program to find new ways to process timber and keep the industry alive in the region. In addition to industry retention and attraction, True North relies on the resources of NEHED to help organize worker retraining programs in response to layoffs, helping people make the transition to other industries and keeping residents from leaving northeast Minnesota.

Promising prospects

While none of these ideas is new in itself – a one-stop center for regional planning and implementation that provides training, research and funding; a regional business attraction, retention and entrepreneurial development organization; and a coalition of colleges dedicated to economic diversification – they are new approaches to the regions that are implementing them. Common among the approaches are regional leaders' recognition of the need to cooperate politically and pool resources to create the foundations for improved economic health, concepts that can be applied successfully anywhere. ★★

Preservation and Revitalizing Rural Downtowns

By **Lisa Henderson**

State Coordinator, Arizona Main Street Program

Coast to coast, American cities and towns are finding catalytic rebirth on Main Street. Here, honoring the past fuels the economic engines of the future.

Why revitalize downtown? A healthy, viable downtown equals a stronger tax base. But also, the spaces in historic downtowns are well-suited to incubating many types of small businesses, and small businesses account for most new employment growth.

In addition, dollars spent at small businesses stay in the community longer. The Small Business Administration reports that of every dollar spent in a community, small business returns about 80 cents directly back to the community – because owners buy, shop and live locally – while a national retailer provides only 6 cents back. And of course, a vibrant downtown is a symbol of community pride and quality of life, factors that help create a positive environment to retain, expand and attract businesses.

To improve the quality of life in its rural communities, the Arizona Main Street Program (housed at the Arizona Department of Commerce) provides assistance based on an approach developed by the National Trust for Historic Preservation. The national model is a comprehensive, four-point approach to revitalization, emphasizing organization, design, economic restructuring and promotion.

Since 1986, the Arizona Main Street Program can account for helping leverage more than \$1.45 billion in local reinvestment in rural communities throughout the state. Job creation and retention, increased sales tax revenues, increased property values, and improved community pride all have resulted from state-led, locally-driven revitalization efforts.

Qualities of competitive places

Donovan D. Rypkema, author of *Place Economics*, delivered the opening keynote address at the 2002 Governor's Rural Development Conference in Yuma, Arizona. Rypkema's list of *Qualities of the Competitive Place in the 21st Century* sites that communities should:

- define economic development locally;
- avoid being lost in a sea of international, undifferentiated sameness;
- forge formal ties to educational institutions at every level and partnerships with local public, private and nonprofit organizations;
- focus on sustainability and diversity;
- cultivate a vision with a long-term perspective; and
- recognize interdependence among property owners; among business owners; between the private and public sectors; between business and labor; and among landlords and tenants.

And at the heart of every 21st century competitive place, says Rypkema, is a strong, vibrant urban center or commercial district that includes the streets and sidewalks of downtown, along with parks, squares and public gathering places of all types. The commercial core is still where the bulk of property and infrastructure lies for most small towns. Making sure that commercial districts are meeting the needs of their communities is the way to keep them viable.

Arizona Main Street Program Cumulative Community Reinvestment Figures, 1987-2002

Building projects		Property acquired		Public improvements		Net increase in new	
Number of	Total dollars	Number of	Total dollars	Number of	Total dollars	Businesses	Jobs
3,774	\$362.8 million	1,503	\$260.8 million	628	\$112.5 million	1,529	8,186

Arizona's experience

Steeped in history that far precedes statehood, many rural Arizona cities and towns have long depended on tourism to survive. The devastating events of September 11, massive forest fires and the ensuing fire restrictions in state parks provided a double-barreled wake-up call. Consequently, Arizona's Main Street program is trying to help communities diversify their downtowns' economic bases by not focusing exclusively on retail. Personal and professional services, such as hair salons, real estate and insurance offices, and small banks are among the services that are moving back or staying downtown.

Small business owners have capitalized on a range of assets that have helped to improve the economies of their business districts. Following are some examples of the range of approaches in the towns of Florence, Cottonwood, Payson and Sedona.

Florence

As Wal-Mart planned to open its first store in the Florence region, the owners of the local True Value hardware business began an extensive renovation project, ultimately investing over \$250,000 of their own money to renovate their historic building. Recognizing that while they couldn't compete on price, they could compete on differentiation and service. They brought back an old-time feel with the look of the building (winning an Arizona Main Street award for best renovation) and with individualized service, creating an atmosphere where customers want to shop – in fact, people travel from around the state to visit it.

Cottonwood

During eight years in the Arizona Main Street program, Cottonwood has recorded \$12.7 million invested in 180 building projects and property acquisitions, and \$890,000 in public improvements (20 projects). Part of this can be attributed to creative solutions property owners devised to blend business growth with preservation. When The Gallery Store needed affordable manufacturing space, its owners met the need by rehabilitating a building in the heart of the district. The street level space serves as the retail gallery, office and administrative space, and the entire basement is used to manufacture virtually everything they sell. The project preserves a bit of the town's history and expands the ways in which properties are used, as well as increasing both the number and types of jobs available in the district.

Payson

In Payson, community leaders dedicated \$100,000 to be used as matching grants for a commercial district façade improvement program. For independent business owners in rural communities, even these relatively small grants can produce significant results in a short period of time. The owners of one property received a grant for siding replacement, exterior paint, landscaping and accessibility improvements, and

contributed considerable sweat equity in addition to matching the grant funds. The work turned Minette's Place hair salon into a project that helped draw people back into the community; since its renovation, the salon has attracted several new customers each week, mostly people who are impressed with or curious about the work.

Sedona

Successful revitalization is not dependent solely on historic assets. Though cities like Sedona, Lake Havasu City and Page have fewer historic properties with which to work, the advantages of centrality, a variety of available services and existing infrastructure are key to developing the value that attracts people to their downtowns.

Sedona, for example, is visited by nearly four million people each year but has a non-historic central business district. The program has been most effective in helping property owners communicate with and refer customers to each other, promote the district, and work together to advocate for their interests. Main Street management and the business owners alike understand the importance of organizing as a district to create benefits for tourists and for themselves.

Downtown sends a message

The greatest underlying principle of historic preservation and downtown revitalization is more than preserving what has been; downtown can define a place. Main Street is the center of a community, reflecting the values, character and commitment of its residents.

Refurbishing buildings, signs and public areas has a dramatic impact on revitalization efforts by creating visible proof of change. In the short term, a few small but significantly located rehabilitation projects can go a long way toward reversing negative impressions and generating positive momentum for larger revitalization efforts. Communities that demonstrate change is afoot and offer a vision for the long term can sustain this momentum and successfully bring renewed vibrancy to their commercial centers. ★★



Owners of the True Value hardware store in Florence, Arizona, completed extensive renovations to their building, recreating the atmosphere of an old-fashioned hardware store – customer service included.

About Economic Development Information Coalition (EDIC) Partners

Part of the United States Department of Commerce, the **Economic Development Administration (EDA)** provides grants for infrastructure development, local capacity building, and business development to help communities alleviate conditions of substantial and persistent unemployment and underemployment in economically distressed areas and regions. Since 1965, EDA has invested more than \$16 billion in grants across all programs, including local public works and special initiatives such as responding to natural disasters and defense conversion, and has generated more than \$36 billion in private investment. For more information, visit www.eda.gov.



The **International Economic Development Council (IEDC)** is the premiere organization for the economic development profession. Serving close to 4,000 members, IEDC is the world's largest professional membership organization providing a diversity of economic development services, including research and advisory services, conferences, professional development and legislative tracking. Visit IEDC's website at www.iedconline.org to learn more about membership, upcoming events and IEDC services.



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The **National Association of Regional Councils (NARC)** is the preeminent alliance for fostering regional cooperation and building regional communities. For more than three decades,



NARC
Building Regional Communities

NARC has represented multi-purpose regional councils of government that assist community leaders and citizens in developing common strategies for addressing cross-cutting transportation, economic development, air and water quality, social equity, growth, and other challenges, through advocacy, training, technical assistance and research. For more information, visit www.narc.org.

The **National Association of Development Organizations (NADO)** provides training, information and representation for regional development organizations in small metropolitan and rural America. The association, a public interest group founded in 1967, is the largest and leading advocate for a regional approach to community, economic and rural development and provides a network for its members to share ideas and innovations. For more information, visit www.nado.org.

NADO

Last Economic Development Forums Coming Up in September

EDIC will hold its last three forums in September, 2004. Dates and locations are:

- September 15: Weirton, West Virginia
- September 21: Beloit, Wisconsin
- September 23: Bemidji, Minnesota

The forums bring together economic development practitioners, public officials, business owners, private sector individuals and other stakeholders to discuss the key factors needed to enhance the environment for business growth.

The afternoon component includes training hosted by representatives from the EDA regional offices. Topics will include CEDS, construction and an overview of EDA programs and investment guidelines.

Forum agendas, location addresses, speaker information and an on-line registration form are available at www.nado.org/meetings, or call (202) 624-7806 for information.

EDIC Telecast on Succeeding in a Worldwide Economy to Be Held on September 9

The next EDIC telecast is scheduled for September 9, 2004 and will focus on Succeeding in a Worldwide Economy. More information can be found on the EDIC Web site or by contacting Peggy Tadej at (202) 986-1032, ext. 244, or tadej@narc.org.

For more information about the Economic Development Information Coalition, visit the EDIC homepage: from EDA's Web site, www.eda.gov, click on the "EDIC News" link in the lower left corner.

International Economic Development Council
734 15th Street, NW, Suite 900
Washington, DC 20005