

COMMUNITY INVESTMENTS

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Addressing Community and Economic Development in Rural America

Trends, Challenges, and Opportunities

Si Se Puede

Developing Farmworker Housing in the 12th District

Lending for Rural Development Projects

Infrastructure, Community Facilities, and Affordable Housing

Morphing Rural Community Development Models

The Nexus between the Past and the Future

Native Community Development Financial Institutions

Building a Foundation for Strong Native Economies

Big Lessons from Small Rural Communities

Working to Reduce Poverty Long Term

COMMUNITY INVESTMENTS

This publication is produced by the Community Development Department of the Federal Reserve Bank of San Francisco. The magazine serves as a forum to discuss issues relevant to community development in the Federal Reserve's 12th District, and to highlight innovative programs and ideas that have the potential to improve the communities in which we work.

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CI Notebook

by Joy Hoffmann

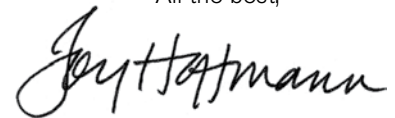
Group Vice President

The more things change, the more things... change! I'd like to take this opportunity to announce some shifts within the San Francisco Federal Reserve Bank's Community Development Department. After over 10 years with the Fed, with the last two as Community Affairs Officer, Jack Richards moved on in February to pursue his entrepreneurial goals. Throughout his career, Jack played a significant role in establishing innovative programs in our District, and he recruited and mentored a stellar team. Jack will be missed by all of us, and we want to thank him for his many contributions to the department and offer best wishes in his new endeavors.

It is also my pleasure to announce that Scott Turner has been named Director and Community Affairs Officer for the Fed's 12th District. He came to the Bank in 2002 as a Community Affairs Specialist, then assumed management of the Community Development staff and was instrumental in establishing a community development research team. Before joining the Fed, Scott was an Executive Director at Morgan Stanley in New York City, and prior to that served as the Deputy Commissioner for Policy for New York City's Housing Department.

In this issue of *Community Investments*, you'll read about the changes that are taking place in rural areas in the 12th District and beyond. Whether on native lands or in small towns, rural community and economic development efforts are starting to focus on the development of internal assets, such as building leadership and entrepreneurial capacity, and practitioners and policy-makers are increasingly looking for innovative ways to leverage limited resources to build housing, improve infrastructure, and reduce poverty. We hope that the initiatives highlighted here will spark further thought and discussion on how public, private, and nonprofit organizations can better reach remote and underserved areas to help support sustainable community and economic development strategies.

All the best,



Joy

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Addressing Community and Economic Development in Rural America

Trends, Challenges, and Opportunities

By Naomi Cytron

In 1908, concerned about the declines in rural America following urban and industrial expansion, President Roosevelt established the Country Life Commission to investigate options for improving the conditions of rural life. “I warn my countrymen,” he wrote, “that the great recent progress made in city life is not a full measure of our civilization; for our civilization rests at bottom on... the completeness, as well as the prosperity, of life in the country.”¹ Nearly 100 years later, in his 1999 State of the Union Address, President Clinton drew attention to the continued lagging economic conditions in rural America, saying, “We must do more to bring the spark of private enterprise to every corner of America – to build a bridge from Wall Street to Appalachia, to the Mississippi Delta, to our Native American communities... Our greatest untapped markets are not overseas, they are right here at home and we should go after them.”²

“Going after” rural markets is not easy, however. Rural places pose unique challenges in terms of both economic and community development. Remoteness, lack of public infrastructure, and low population densities all make attracting private enterprise difficult. And the sheer diversity of rural America means that there are no one-size-fits-all solutions. But in recent years the rural community and economic development fields have been working toward bolstering economic opportunities and quality of life in rural areas through approaches that seek to build upon the unique strengths and capacities of rural places.

Trends in Rural America

According to the U.S. Department of Agriculture, the latest estimates indicate that approximately 50 million people, or one in five Americans, live in rural areas.³ (See Box 1.1) The share of the rural population in the U.S. has declined steadily since the 1930s, but in recent decades many rural areas have nevertheless seen an increase in population, not a decrease. Rural areas in the Federal Reserve’s 12th District have witnessed particular growth. (See Figure 1.1)

The recent growth in the rural population is driven by a number of factors. Immigration, which has altered the demographic composition of many urban areas, has also changed the face of many rural towns; while in 2003 the Hispanic population still only constituted six percent of the rural population, the Hispanic population increased

dramatically in many rural areas in the 1990s (See Figure 1.2), and is the most rapidly growing group in nonmetro areas.⁴ In addition, a number of rural areas in Western states are increasingly being chosen as retirement destinations, and as a result have experienced higher than average rates of growth in recent years. These shifting demographics have a number of environmental, social, and political implications, including the encroachment onto agricultural and forest lands, the increased demand for housing and public infrastructure such as roads and schools, and the challenges of cultural assimilation and integration.

The economic landscape of rural America has also shifted in significant ways, and is difficult to characterize in broad strokes. In a survey conducted by the William K. Kellogg Foundation in 2001 to assess perceptions of rural America, the overwhelming majority of respondents expressed the belief that agriculture is the dominant industry in rural America.⁵ In reality, though, over the past 30 years, the proportion of agricultural jobs in rural and small-town America has dropped in half to compose only six percent of employment.⁶ Natural resource extraction has also declined in many areas. Manufacturing jobs, which accounted for nearly 20 percent of jobs in rural areas in the late 1970s, composed 12 percent of jobs in 2005 in those same counties. These shifts are in large part due to global changes in the siting of manufacturing plants and increases in productivity in both farm-related and manufacturing industries.

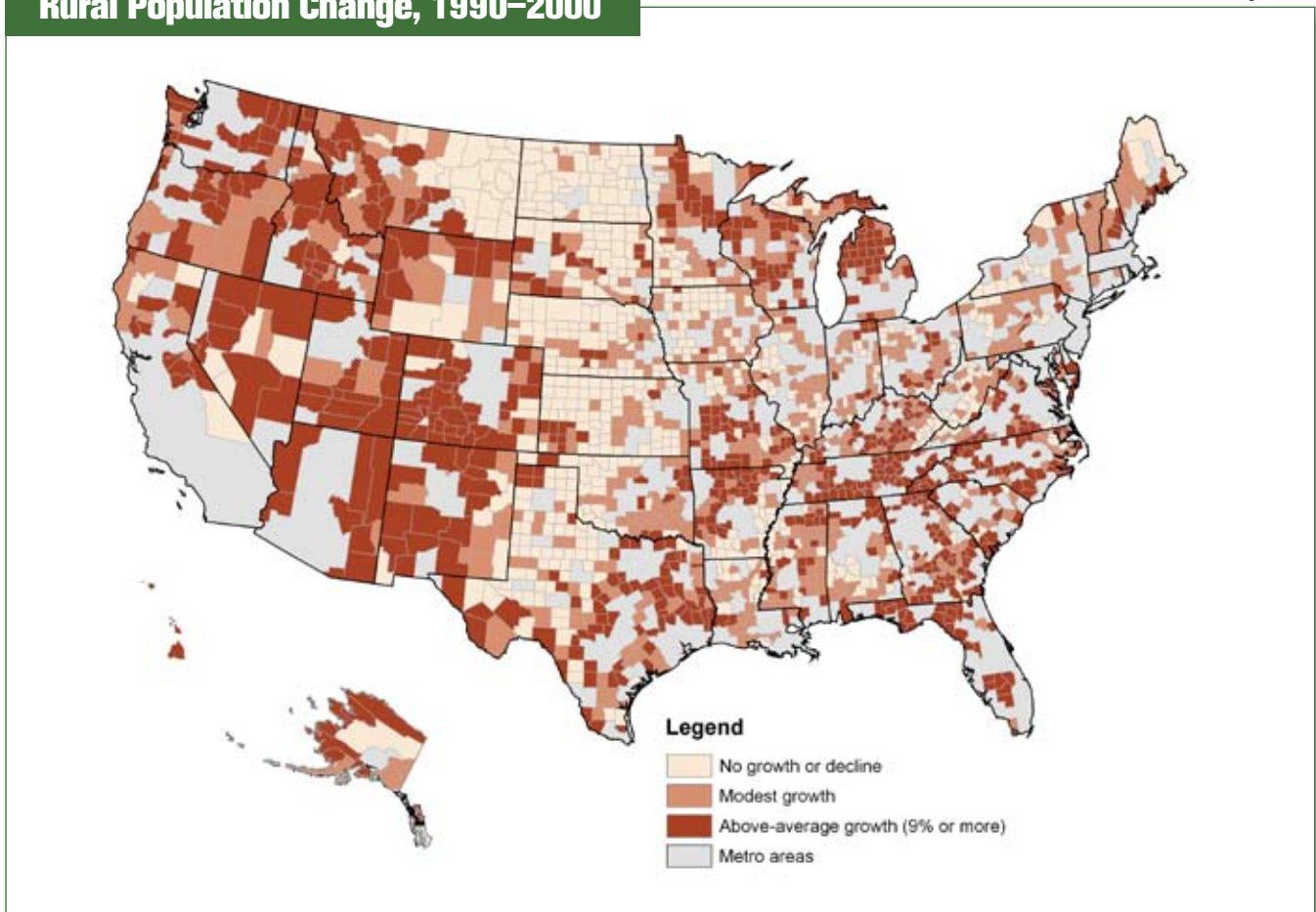
What is a Rural Area?

Box 1.1

What do we mean when talking about rural places? Population size, population density, distance from a large metropolitan area, commuting patterns and other measures can be used to define the “rural” nature of a place. The United States Department of Agriculture (USDA), which conducts research on a broad range of topics relevant to rural America, notes that many researchers and policy planners have adopted a designation system for “rurality” that includes “all places and people living outside the primary daily commuting zone of cities of 50,000 people or more.”¹⁶

Rural Population Change, 1990–2000

Figure 1.1



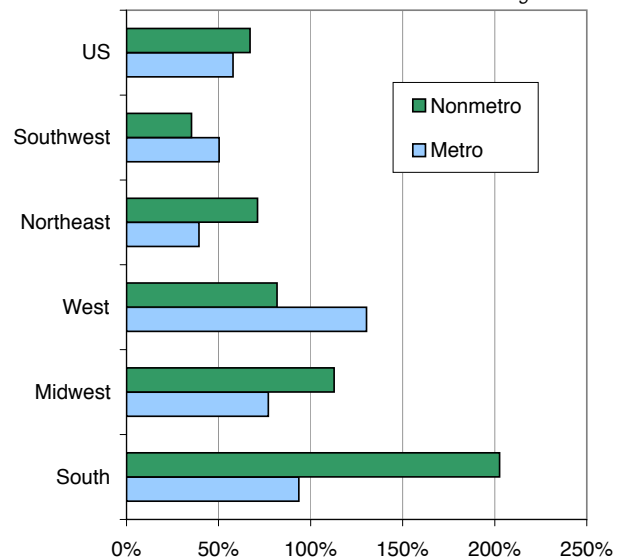
In some rural communities, these losses have contributed to widespread unemployment and entrenched poverty. Rural poverty, though it varies by region and along racial and ethnic lines, is consistently higher than urban poverty (See Figure 1.3) and is more persistent. Nearly all of the counties experiencing persistent poverty, defined as decade-over-decade rates of poverty above 20 percent, are rural and concentrated mostly in Appalachia, the Mississippi Delta, the Great Plains, portions of the Southwest, and Native American reservations. (See Figure 1.4) While the majority of the rural poor are white, racial and ethnic minorities make up a disproportionate share of the rural poor; in three-quarters of the 442 nonmetro counties classified as high-poverty counties in 2000, either a majority of the poor were Black, Hispanic, or Native American, or it was only the prevalence of poverty among these minority groups that drove the county's overall poverty rate above 20 percent. (See Figure 1.5) Child poverty is also of particular concern in rural areas. In all, 48 of the 50 counties with the highest child poverty rates in America are rural, and the gap between urban and rural child poverty has widened since the late 1990s.⁷

Rural areas in the West have not, however, faced the same levels of worker displacement as areas in the Midwest or the Northeast, and have featured higher rates of employment growth in new industries in recent years. Service sector

and retail jobs tied to growing tourist and recreation industries have shown particular growth in a number of Western rural counties, and harvesting and other agriculturally-related industries continue to offer significant employment op-

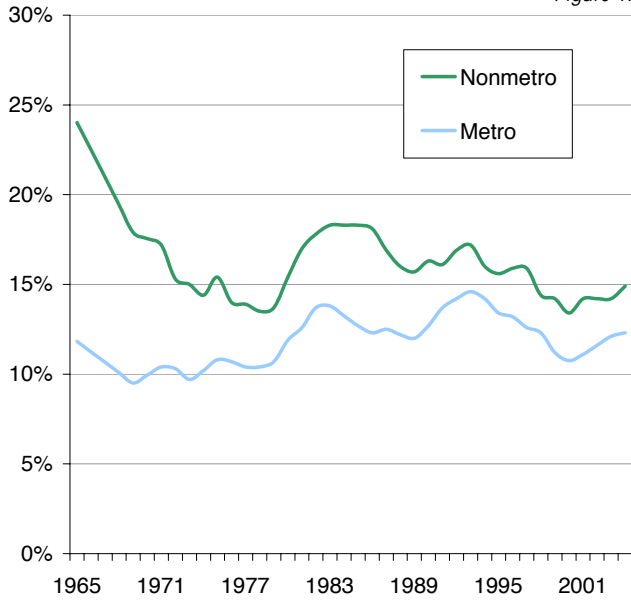
Growth in the Hispanic Population by Region (percent change), 1990–2000

Figure 1.2



Nonmetro Poverty Rates are Consistently Higher Than Metro Poverty Rates

Figure 1.3



portunities. The downside to this story is that these jobs are commonly low-wage and part-time, leaving many still struggling to make ends meet. In Washington, for instance, non-farm jobs in rural areas in 2004 paid on average \$31,500,

while those in urban areas paid \$48,000⁸— and farming jobs typically pay less than half this amount. While growth in wages in some rural areas in 12th District states has recently outpaced that in urban areas, the gap in earnings remains significant in all Western states, and is not made up for by lower cost-of-living in rural areas.⁹

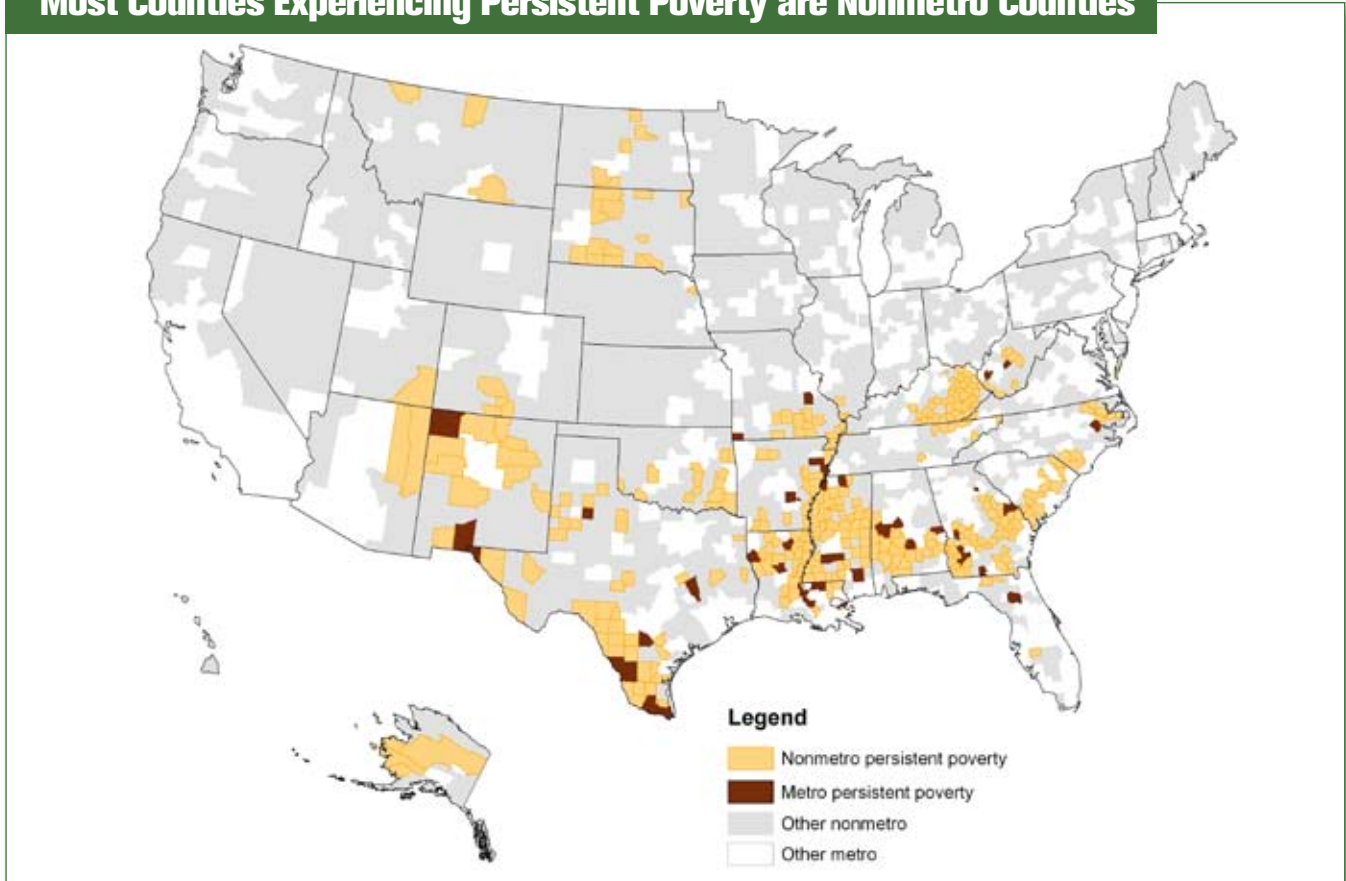
Assets and Needs in Rural Places

Aggregate statistics mask the wide spectrum of opportunity and experience in places classified as rural. Within the Federal Reserve’s 12th District alone, communities in rural areas range from towns in the San Joaquin Valley where populations are doubling every decade and where job opportunities are found in industries revolving around farming and value-added food production, to small towns in Oregon that have seen population loss while experiencing declines in local employment associated with extractive industries such as mining and logging. The District is also home to a number of Native communities, including the Navajo Nation in Arizona. There are also hundreds of remote Alaskan tribes and villages where Alaska Natives are dependent on fishing and hunting both for sustenance and income. Towns built near natural and recreational amenities, with their attendant seasonal tourist flows, abound in the 12th District, too.

The assets and needs of these rural communities are no less diverse than the communities themselves. Broadly

Most Counties Experiencing Persistent Poverty are Nonmetro Counties

Figure 1.4



speaking, though, there are a number of characteristics of rural places that complicate the replication of community and economic development programs and projects typically employed in urban areas. Tax bases are generally limited in rural places, which hampers the ability of local governments to produce and deliver a range of services. This can result in limited or low-quality public infrastructure, such as roads, public transportation, utilities, and information technology systems, which can impede the growth of businesses and industries in rural and remote areas. Low population densities and geographic dispersion can also mean that community and civic organizations, such as local libraries and health providers, have difficulty developing or maintaining operations. There is also a general trend of “brain drain” in rural areas, with those who attain higher educational levels seeking residence and employment in metropolitan areas rather than in the rural communities in which they were raised.

As a result, a number of community development concerns have surfaced in rural areas. Even housing, which tends to be more affordable in rural areas, poses a challenge in many rural areas in the 12th District. The 2000 Census showed that many of the non-metro counties in Northern California, Oregon, and Washington qualified as “housing

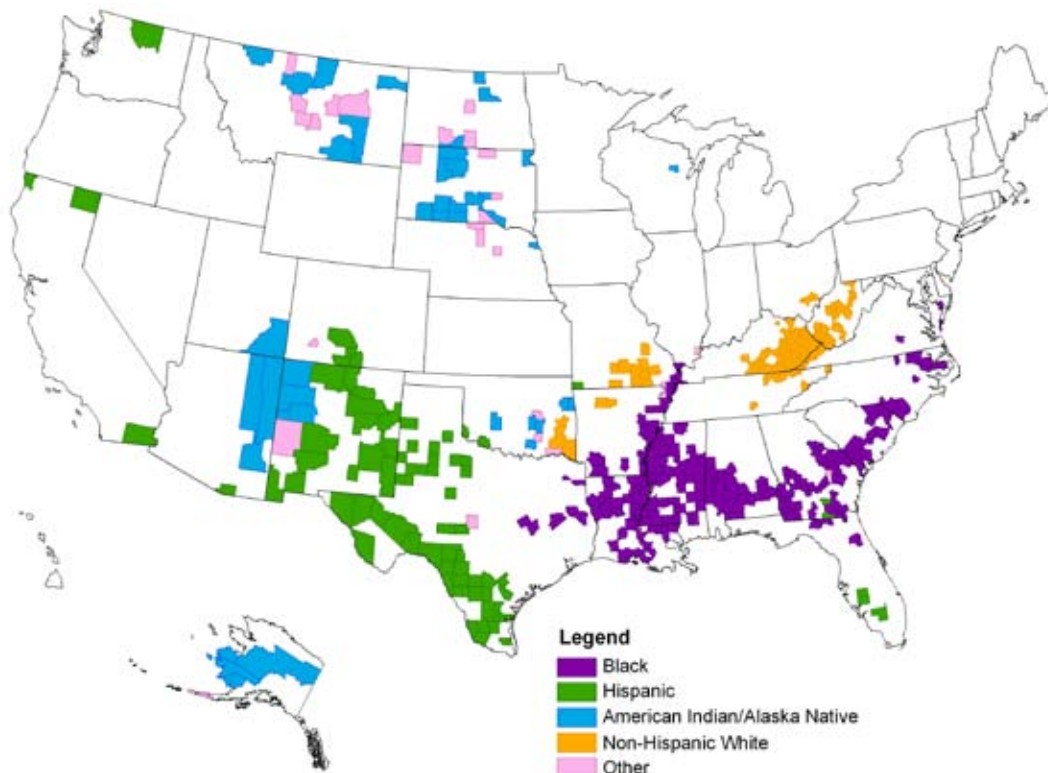
stress” counties in 2000, meaning that households were facing one or more of the following conditions: lack of complete plumbing, lack of a complete kitchen, payment of 30 percent or more of income for housing costs, or overcrowding.¹⁰ In those areas seeing population growth, affordability is a major challenge with demand for housing outstripping supply. This tipped balance is due in part to limited capacity and difficulties in financing affordable housing development in rural areas; for instance, USDA subsidies for multifamily rental housing have diminished considerably in the past 10 years, resulting in a decline in production from nearly 12,000 units in 1994 to 800 units in 2006.¹¹ In addition, low wages and limited availability of sites where housing units can be built complicate the development and maintenance of safe and affordable housing for the many farmworkers who harvest fields and process agricultural products. (See “Si Se Puede: Developing Farmworker Housing in the 12th District”).

Other community development efforts that pose challenges in rural areas include providing funding and technical assistance to entrepreneurs, promoting workforce development, and improving access to health care and other social services. As a number of articles in this issue argue, the development of entrepreneurial capacity may be

Figure 1.5

High-Poverty Rural Counties, 2000

Racial and ethnic minorities experience disproportionate poverty levels in rural areas, and there are regional variations in the composition of the poor population in high-poverty areas – those with a poverty rate above 20 percent. This map shows the majority racial and ethnic composition of the poor population in each high-poverty county in 2000. For example, in counties shaded in purple, the majority of the poor are Black; in green, the majority of the poor are Hispanic. The diversity both across and within high-poverty areas means that there is no single recipe for building wealth and assets.



particularly important in helping to build rural economies and provide living wage jobs. Training workers with the new skills required for shifting economies and emerging industries is also critical. Issues surrounding the provision of health care are of vital importance as well, particularly in communities with aging populations. Large metropolitan counties have nearly four times as many physicians per 100,000 residents as do rural counties with only small towns, and specialized medical care is even more difficult to access. For communities coping with a rapid influx of new residents, there is a need for new schools, roads, sewer systems, and emergency services. All of these community and economic development demands—along with their financial costs—often surpass the ability of local rural governments to provide them. This public finance challenge is compounded by historic limitations in private investment and nonprofit activity in rural areas.

Shifts in the Community and Economic Development Landscape

While there are certainly a host of challenges rural America, attention has started to turn to the question of how to adjust community and economic development strategies to address the local needs—and build on the local assets—of rural areas.

In particular, rural economic development strategies have begun to shift. Rural areas have traditionally built economic development plans around offering incentive packages to large corporations and manufacturing plants, which, in relocating to rural areas, can provide much-needed high wage jobs and generate multiplier effects in a local economy. However, policy-makers, academics, and practitioners have begun to advocate for a more home-grown approach to rural development that seeks to identify and build upon internal community assets, such as development of entrepreneurship capacity. (See “Morphing Rural Community Development Models”) The National Governor’s Association (NGA), for instance, has put forth a rural policy agenda that emphasizes the development of local and regional business clusters, agricultural diversification, and the promotion of entrepreneurship. The NGA notes that “however they are formed and implemented, rural economic development policies must build upon the inherent strengths of rural America, chief among them are abundant natural resources, close-knit communities, strong local business networks and a largely untapped tradition of entrepreneurial creativity.”¹²

Community development corporations, which often play a significant role in setting the stage for entrepreneurship as well as developing other community assets, have become increasingly active in rural areas. It is estimated that as of 2005, there were over 3,000 rural community development organizations pursuing activities such as housing development, small business and entrepreneurship training, transportation assistance, and health care provision.¹³ This is nearly double the number of rural community developers estimated as active in 1998.

Despite this growth, however, rural communities need

“However they are formed and implemented, rural economic development policies must build upon the inherent strengths of rural America . . .”


additional leadership development and training to effectively implement programs for change. To address this, several foundations, including the W.K. Kellogg Foundation and the Northwest Area Foundation, are devoting resources to help improve the vitality and wealth of rural communities through the development of local leadership and entrepreneurial capacity. (See “Big Lessons from Small Rural Communities”) The USDA also recently announced a new wave of matching grants under its Rural Community Development Initiative, which provides funding for technical assistance and capacity building for rural community developers across the nation. Building the capacity of rural communities to implement community development strategies will ensure that projects incorporate the values of local residents and respond to local strengths and needs.

Leadership capacity is not the only challenge in rural areas; additional financial capacity for comprehensive community and economic development initiatives in rural areas is also needed. Factors like remoteness and low population density have traditionally limited the range of financial institutions active in rural areas. Rural community development activities in areas have thus tended to garner less financial support from banks, as well as from corporations and foundations, than urban areas¹⁴ and have depended heavily on federal financing that streams through the USDA, such as its Housing and Community Facilities Programs and its Water and Environmental Programs. There are, however, a number of organizations that are seeking to increase rural access to financial resources. For example, on the lending side, Rural Community Assistance Corporation works in partnership with financial institutions to fill financing gaps in rural areas through a loan fund for community development and infrastructure projects. (See “Lending for Rural Development Projects”) In response to the financial and economic development needs in Native communities, there has also been an emergence of Native Community Development Financial Institutions. (See “Native Community Development Financial Institutions”)

On the equity side, organizations such as the Kentucky Highlands Investment Corporation have worked to increase the availability of venture capital and technical assistance for rural entrepreneurs. These organizations build on the efforts of federal initiatives such as the New Markets Tax Credit program and Rural Business Investment Companies to increase the availability of equity capital in rural markets. Although critical, this sector remains limited in its ability to substantially promote and support rural small business development and innovation. (See Box 1.2)

Conclusion

The diversity of experience in rural places demands that more attention be paid to the dynamics of opportunity in rural areas, and to appropriately target resources to remedy the “poverty of services” that often occurs in low-wealth places and even more so in remote, rural areas. Designing innovative ways to enhance levels of human capital and boost the availability of financial capital will be critical to these

endeavors, as will finding ways to leverage limited federal spending in rural areas; government statistics show that from 1994 through 2001 federal spending on a per-person basis from all federal departments and agencies to rural areas lagged spending to metro areas.¹⁵ Developing new avenues for a range of investments is vital for facilitating the expansion of economic opportunity and improvement in the quality of life in rural areas, both in the 12th District and nationwide. 

Financing Rural Innovation with Community Development Venture Capital

Box 1.2

The creation and growth of innovative companies is a path to economic prosperity for many rural regions. It also is a means to economic opportunity for rural residents. Access to equity capital is a critical component of business entrepreneurship— young companies need patient capital, such as equity and near-equity, to develop and get their products ready for market.

Rural economies, however, rarely attract traditional venture capital. This is due in part to the structural impediments they pose for the traditional venture capital model. Because the primary driver of traditional venture capital is profit maximization, the industry tends to gravitate to geographies that maximize potential investment opportunities and minimize operating costs; examples include Silicon Valley in California and Route 128 in Massachusetts. Such geographies have a critical mass of potential investment opportunities and the supporting infrastructure in the form of technological, managerial, legal and financial expertise necessary to take ideas to market. Their proximity to desirable quality-of-life amenities also enables these geographies to attract venture capitalists, who can minimize travel time and operating expenses by living near their investments.

By contrast, rural geographies are characterized by limited deal flows and supporting infrastructures, and remoteness that makes oversight difficult. Because of these structural impediments, the venture capital that exists in rural areas tends to be developmental in nature. Unlike traditional venture capital, which has a primary objective of financial returns for investors, developmental venture capital is designed to foster both social and financial returns. In the case of rurally-focused developmental venture capital firms, the social returns are often in the form of economic growth, either general or specifically targeted at helping low- and moderate-income populations.

Community development venture capital (CDVC) is one form of developmental venture capital that has evolved in rural areas. Like traditional venture capitalists, CDVC providers make equity and near-equity investments in small businesses.¹ However, their investments are predicated on a company's potential for high-quality job creation for low- and moderate-income individuals as well as its likelihood of rapid economic growth. As a result of this dual-bottom-line, CDVCs are willing to invest in companies in numerous industries, stages of development, and locations. This flexibility, as well as the operating model that it has fostered, further differentiates CDVC funds from traditional venture capital, and makes this model particularly well suited to address the structural impediments that rural areas present.

The obstacle to growing more rurally-focused CDVC funds is this model's need for subsidy. The present economic, political and normative environments seem hostile to overtly subsidy-based models, particularly those intended to benefit low- and moderate-income populations. This has limited both the growth of new CDVC funds and the capitalization levels of existing ones.

The federal government and commercial banks have provided support for this industry, but changes in public policy are necessary to encourage the continuation of their support. There also are several funding sources that could play a greater role in capitalizing new CDVC funds, including state governments, pension funds, and individual investors. Once again, public policy is essential in providing incentives for these actors to play a greater role. A well-coordinated policy approach can result in significant resources for fostering the innovation and entrepreneurship that will enable rural areas to participate in the knowledge economy.

Note: Adapted from “Financing Rural Innovation with Community Development Venture Capital: Models, Options and Obstacles,” by Julia Sass Rubin. To read this article in its entirety, as well as other articles on this topic published in the Community Development Investment Review, please visit <http://www.frbsf.org/publications/community/review/122006/index.html>

Si Se Puede*

Developing Farmworker Housing in the 12th District

By Vivian Pacheco

The community of Mecca, California, gained attention in the 1980s as a site for Cesar Chavez and the United Farm Workers' efforts to mobilize for farmworker rights and bring an end to farmworkers' exposure to crop pesticides. In a recent documentary, *Mecca: Legacy to Cesar Chavez*, the town's unity—formed through its history of struggle for farmworker rights—is set against a backdrop of its current challenges, including globalization, industrial restructuring, and urban encroachment on farmland.

Perhaps one of the leading challenges, however, is providing farmworker housing. The population of Mecca—just over 5,000 people most of the year—triples every June, as migrant¹ farmworkers come to town to help harvest the nation's supply of table grapes. The community has figured out how to creatively accommodate the population influx by increasing the number of laundromats and pay phones, and renting empty lots where migrants can pitch their tents. Other Mecca residents clear out their garages and backrooms to rent to the working visitors. These housing solutions may be workable for unaccompanied seasonal farmworkers, but where do those who find year-round work live? What about those workers with children? Despite common perceptions, many farmworker households do include children, and finding safe and affordable housing is vital to their well-being. In this article, we examine some of the issues around providing farmworker housing in the Federal Reserve's 12th District, from the barriers to financing temporary housing to the solutions being implemented in places such as California's Coachella Valley and Washington State.

Farmworker housing is a critical issue within the Federal Reserve's 12th District, particularly when examined in light of the importance of the agricultural economy in states like California, Oregon, and Washington and the role that farmworkers play in contributing to population and economic growth in rural communities. California, for instance, is the world's fifth largest supplier of food and agricultural commodities.² To harvest these crops, California employs an estimated 732,000 farmworkers, many of them migrants.³ The farmworker populations in other agricultural regions of the 12th District are large as well,⁴ and increasingly, migrant

farmworkers are finding year-round work in rural communities from Eastern Washington to San Diego County. In fact, more than half of all farmworkers live in the same community all year long—a statistic that stands in stark contrast to the image of the itinerant farmworker.⁵ While exact figures of the farmworker housing need are difficult to track, a significant number of farmworkers and their families live in overcrowded, overpriced, substandard dwellings, or make do in cars, tents, or under trees.⁶

The costs of inadequate farmworker housing are high. Public health issues are a primary concern—crowded and unsanitary housing can, for instance, contribute to the incidence of highly infectious conditions such as tuberculosis and influenza.⁷ Children of workers may be especially at risk of contracting such illnesses. Children housed in older, substandard housing may also be at risk of exposure to lead, or to mold and pests that can contribute to the incidence of asthma.⁸ In addition to health impacts, research has shown that children's learning ability, attention span, and overall confidence are strongly correlated with housing quality and stability.⁹

Farmworkers and their families are not the only ones who bear the costs of inadequate housing, however. Agricultural businesses also can be affected, particularly when the lack of housing makes it harder to find workers during critical harvesting seasons. Historically, farm owners provided their employees with shelter during the harvest, but deteriorating housing structures and code enforcement made them

Farmworkers at a Glance¹⁸

Box 2.1

- The majority of crop workers are men who are on average 33 years old.
- Most were born outside of the U.S., about 75 percent of whom were born in Mexico.
- In 2005-2006, the average farmworker earned approximately \$9 an hour¹⁹ and the average work week consisted of 42 hours. The average farmworker is employed by crop work 34.5 weeks a year. This totals to approximately \$13,120 in annual earnings.
- Approximately 80 percent of workers lack health insurance.

* Spanish for "It Can Be Done"—A phrase coined by Cesar Chavez and the United Farm Workers Union

too expensive to maintain. As a result, employer-provided housing has sharply declined in recent decades.¹⁰ However, growers are realizing that providing affordable housing can help them attract workers and allow them to develop a stable workforce that returns annually.¹¹ As described below, farm owners and agricultural businesses have become key partners in innovative strategies to provide housing for farmworkers.

Barriers to Providing Farmworker Housing

Providing affordable housing, as well as other infrastructure and services, is critical to ensuring stable economic and community development in rural places, but a number of factors create significant barriers to developing housing accessible to farmworkers. Issues revolving around immigration status and the gap between earnings and housing costs are compounded by a lack of both funding and land for development.

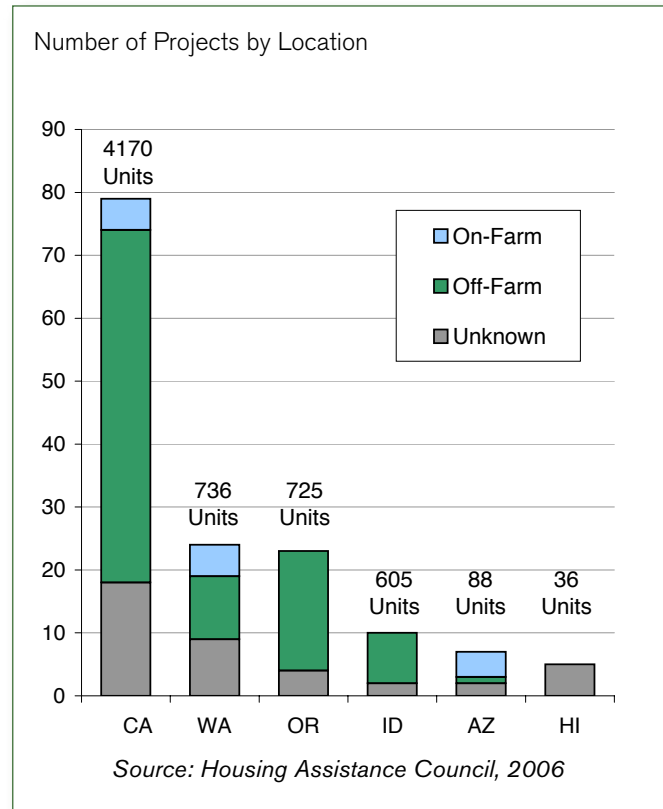
One key barrier to providing affordable and adequate housing for farmworkers is immigration status. Approximately three-quarters of farmworkers are foreign-born, and as many as half of these farmworkers are unauthorized to work in the United States.¹² The lack of legal immigration status can affect housing opportunities in a number of ways. For example, the majority of farmworker housing developments are funded by the United States Department of Agriculture's (USDA) Rural Development Agency. Federally funded housing requires lease signers to be legal residents, shutting out many farmworkers in need. Housing providers have also found that unauthorized farmworkers may fear that accepting subsidized housing will bring them to the attention of immigration authorities. In addition, continued debate and tension about how the U.S. should treat undocumented immigrants can affect public support for farmworker housing programs.

A second barrier, and perhaps the most significant, is the gap between farmworker wages and housing prices, particularly in high-cost real estate markets like California and Washington. Approximately 30 percent of all farmworkers fall below the national poverty line.¹³ Housing is only affordable when families or workers "double up."¹⁴ For some farmworkers, earning a low wage means deciding between housing and sending a significant portion of their earnings home to support their family.

Exacerbating the problem is a lack of funding for farmworker housing projects. Since the 1960s, \$1 billion in federal funds have contributed to close to 800 active farmworker housing projects across the country. This investment has resulted in 144 existing Section 514/516¹⁵ funded projects and nearly 6,300 units in the 12th District (see Figure 2.1). However, currently, most of the funding is spent on the maintenance of projects built 15 years ago, not on the development of new projects, despite advocates' efforts and requests for funding of new developments. As the number of farmworkers has increased, the gap between the supply and demand for housing has grown. In addition, construction costs have

USDA Section 514/516 Farm Labor Housing in the 12th District

Figure 2.1



risen relative to the amount of funding available, which further limits the number of units that can be financed under existing subsidy programs.

Developers also face significant challenges in securing land for farmworker housing projects. According to Nadia Villagran, Director of Community Services for the Coachella Valley Housing Coalition, the lack of funding and the lack of land are linked. "As a nonprofit, we compete with for-profit developers for land," she said. "And in many of these areas, the price of land is unaffordable for 'affordable' housing." Zoning laws that restrict housing development can also contribute to the shortage of land. NIMBYist or "Not In My Back Yard" attitudes against farmworkers, low-wage workers, and immigrants can also derail projects and add to the costs of planning and construction.

Developing Solutions to Farmworker Housing Needs

Despite these barriers and challenges, farmworker housing groups are working on ways to improve housing conditions for farmworkers and their families. These solutions, though not always free from controversy, are responding to local needs and building on local assets, and range from providing temporary shelter to developing permanent housing as well as community facilities and infrastructure.

At one end of the spectrum, government agencies and farm owners have been developing innovative solutions to provide short-term housing for migrant farmworkers. Washington State provides one example of this type of strategy. The cherry harvest during the months of June and July demands an unusually large labor force to quickly pick the fruit from the branches. Noting the negative impacts of homeless migrant workers, in 1995 the state government approved a program that licensed growers to provide camp sites with sanitary facilities to their workers, who could bring their own tents for the season.¹⁶ This successful program has expanded into a Rent-a-Tent program that allows workers to rent a six-person tent, and provides access to a refrigerator, showers, and toilets. This program has been a cost-efficient way to provide housing for the quick two-week harvest, and mitigates the health costs associated with unsanitary housing conditions.

For longer growing seasons, more permanent structures are needed, but financing these units is a challenge. Since farmworker wages are low and often unstable, covering the costs of operations and debt service through rent receipts is difficult. As such, seasonal housing must generally be free of debt, despite the fact that grants and subsidies for this type of housing are scarce. The Coachella Valley Housing Coalition (CVHC) is one of a handful of affordable housing providers that has developed seasonal housing in the 12th District. Recently, CVHC developed Las Mañanitas, a 128-unit migrant housing project, in Mecca—the only development in the region targeted specifically to migrant workers. To make this possible, project development and construction costs were funded through debt-service free sources, such as the California’s Joe Serna, Jr. Farmworker Housing Grant and Farmworker Housing Tax Credits. Throughout the process, CVHC partnered with Riverside County, which allocated Community Development Block Grants (CDBG) funds to subsidize the operating costs of the seasonal housing units. To maximize resources, Las Mañanitas is located in proximity to CVHC’s other affordable farmworker housing complexes, allowing the project and maintenance managers to split their time between the developments. The proximity also allows



Las Mañanitas Apartments in Mecca, California, a 128-bed migrant farmworker housing complex, was developed by Coachella Valley Housing Coalition. Operations are subsidized through CDBG funds.

the complexes to share the community room that houses a computer lab, a visiting clinic that offer wellness health checks and prenatal care, ESL classes, and child care and pre-K education provided by the Migrant Head Start program. Although in winter months the occupancy level drops to 30 percent, CDBG funds allow the project to continue operations throughout the year.

At the opposite end of the spectrum are organizations enlisting broader approaches to housing and community development for farmworker communities that incorporate opportunities for homeownership and asset-building. In the Central Valley, Self-Help Enterprises (SHE) has used a mutual-help model of producing single family homes that has opened the opportunity for affordable homeownership to farmworker families. The program allows a family to exchange their labor for a down-payment, which requires families to work together and contribute at least 1,300 hours

Overcrowding in Farmworker Housing, Including Crowded Units with Children

Box 2.2

(Excluding Dormitory/Barracks, Campsite/Tent and No Shelter Classifications)

State	Percent Crowded	Percent of Crowded Units with Children
California	43.1	89.5
Idaho	27.3	100.0
Oregon	40.5	85.4
Washington	57.9	98.7

These numbers are based on a survey conducted in 1997 with a sample of 2,840. This survey used the U.S. Census Bureau and American Housing Survey’s definition of crowding: units with a mean of more than one person per room, excluding bathrooms. In comparison, the American Housing Survey (AHS) found that only 2 percent of all U.S. households and 3 percent of all nonmetropolitan households are crowded.

Source: Housing Assistance Council, 2001



The Housing Authority of Chelan County and the City of Wenatchee operate housing units for both seasonal and permanent farmworkers in East Wenatchee, Washington.

of labor building homes, in addition to their work and personal schedules, to mutually assist in the construction of each home.¹⁷


Over the past 42 years, SHE has used the self-help model to construct 5,000 new homes, which in turn has helped to create a connected community of neighbors who continue to care and provide for each other. SHE further supports community development by providing technical assistance and labor for infrastructure development, most commonly building safe drinking water sources and sewer systems. Peter Carey, executive director of SHE, notes that “investment in housing at all economic levels is investment in community. We see that the children are more confident and happier, and have the energy and attention to do their schoolwork. Over the long-term, the up-front investment will pay for itself many times over. Unfortunately, the USDA Section 502 program, the major source of funding for the mutual-help housing, is not included in the 2008 proposed federal budget.”

In Washington, U.S. Senator Patty Murray spearheaded an effort to develop a long-term comprehensive approach to farmworker housing by establishing the Washington State

Farmworker Housing Trust (the Trust). The Trust has adopted a multi-faceted strategy in their efforts to comprehensively meet both seasonal-occupancy and permanent farmworker housing needs, and is unique in that its board is comprised of equal representation from growers, labor advocates, local developers, and community members. “Farmworker housing has been a highly contentious issue for decades,” said Brien Thane, executive director of the Trust. “But the Trust has forged a strong coalition with a common mission. Having labor, employers and affordable housing interests at the same table working together has changed the tenor of the discussion, allowing us to move forward on increasing the development of farmworker housing in new ways.” The Trust has completed a state-wide survey of farmworkers to measure housing and community issues to ensure their projects are aligned with farmworkers’ interests—the survey results are projected to be released this summer.

The Trust is also working to build a Community Capacity Fund which will raise \$4 million in 4 years to help increase the rate of production of farmworker housing and improve sustainability and asset management. The Trust’s partners have undertaken a number of pilot projects experimenting with innovative strategies such as mixing permanent and seasonal-occupancy housing, cooperative leasing arrangements among growers, green building, and solar power generation. In their future plans, the Trust hopes to more systematically collect data on the community benefits of decent, affordable farmworker housing, such as improved health, education and employment. Such information will help address neighborhood concerns and strengthen local support.

Conclusion

As Thane noted, the farmworker housing discussion is changing in many areas of the 12th District, reflecting a greater appreciation for the need to address the shortage of housing in agricultural rural areas. This change in the discussion has enabled new programs to emerge. Partnerships between local and state governments, employers, developers, social service providers, and community organizations are leading to comprehensive projects that can help integrate farmworkers and their families into their communities. The wide range of services offered contributes to safe, healthy and stable housing, and opens up new opportunities to children of farmworkers. Ultimately, these partnerships and solutions can have a positive economic and social impact on rural communities throughout the 12th District. 

Lending for Rural Development Projects

Infrastructure, Community Facilities, and Affordable Housing

By Robert Longman, Credit Officer, Rural Community Assistance Corporation (RCAC), a nonprofit CDFI Loan Fund.

Lending for community development projects in rural areas presents unique challenges and opportunities. A number of complexities arise because rural communities often lack the organizational infrastructure and capacity to plan, undertake and manage community development projects.¹ Community development projects in rural areas may consist of infrastructure projects such as water, sewer and solid waste, community facilities to house essential services such as health care, public safety and education, as well as affordable housing projects. In cities, these types of projects are typically planned ahead of need and financed by bonds supported by a fiscal base, and services are often provided by a single governmental body. In rural areas, however, services and infrastructure may be provided by a number of different entities, including nonprofit corporations. These issues affect the ability of rural entities to finance and develop housing and other projects essential for a community's economic development and overall viability.

Rural Community Assistance Corporation (RCAC), a nonprofit CDFI Loan Fund that operates in 13 Western states including all the states in the Federal Reserve's 12th District, seeks to overcome these barriers to financing community development projects in rural communities. Supported through partnerships with public and private entities, RCAC operates a Loan Fund that helps meet the capital needs of nonprofits and municipalities engaged in a range of projects in rural areas. With over 25 years of experience of service in rural areas, RCAC has learned important lessons about creating opportunities for banks to meet the credit needs of rural communities, either on their own or in partnership with groups like RCAC.

Infrastructure Projects

Long-term financing for infrastructure in rural communities is typically provided by federal or state programs that provide below-market interest rates and grants. However, these funds are typically not accessible until a project is ready to start construction. Therefore, small municipalities and other service provider entities often need to borrow funds for feasibility studies, environmental reports, legal costs, design engineering services and other predevelopment expenses in order to access federal or state construction

and permanent financing funds. Nonprofit loan funds like RCAC and local community banks are good sources.

The community of Mineral in Northern California's Sierra Nevada foothills wrestled with the issue of finding predevelopment funds when it sought to upgrade its water system. Redwood water storage tanks, sited on a hillside above the picturesque community of 300 residents, were the community's sole water storage for a privately-owned water system constructed in the 1920s. The system had fallen into a state of disrepair over the years, resulting in a Health Department boil water notice, a building moratorium, high insurance rates and unreliable water service. In 2002, the local Water District decided to purchase the system from the private owner, but because it had no experience in running a water system or in obtaining financing for improvements, the District Board faced a formidable task.



Mineral, California was able to upgrade its water storage system through funding from bank, nonprofit, and government sources.

The financing solution came from RCAC and a local community bank, which provided the foundation for grant funding to upgrade the water system. First, a local community bank in Red Bluff, California, was able to make a short term loan for the system acquisition. RCAC was then able to make a predevelopment loan for a preliminary engineering and environmental report, which were necessary for the District to apply for permanent financing from federal or state agencies. The short term bank loan was also repaid as part of the RCAC loan. The District was then able to secure United States Department of Agriculture (USDA) Rural Development program funding as well as emergency grant funding, resulting in an approximate 70 percent grant for the overall funding needed to replace the deteriorated system. Only two years after funding approval—extremely fast for this type of project—the community had a modernized system in place. Today, Mineral has a bright future with a safe and dependable water supply, adequate fire flow protection, lower insurance rates, and renewed capacity for new construction.

In many rural towns, lack of critical infrastructure limits other forms of community and economic development. Mineral was fortunate in having a local community bank that was willing to provide the initial funds to start the ball rolling, a nonprofit loan fund that could provide funding for predevelopment costs, and extra grant funds from USDA that made the water rates feasible for end users. The effort provides an excellent example of marrying several types of funding from bank, nonprofit, and government sources to provide for a basic infrastructure need.

Community Facilities

Providing essential services like health care, education, and public safety in rural areas is difficult principally due to lack of economic feasibility. Primary facilities or services may be available in larger communities within a reasonable distance, but localities may only be able to support smaller scope facilities. For example, most small communities lack a hospital but may be able to support a satellite clinic, and students may need to go some distance to attend high school, although elementary grades are available locally. To finance even these smaller scale projects, rural entities often need to find innovative ways to leverage financial resources.

Although financing for these types of community facilities is far from mainstay lending, government guarantees provide an excellent mechanism for private lenders to be involved in these worthwhile projects. For example, lenders can utilize the USDA Rural Development Community Facilities guaranteed loan program, which provides a 90 percent guarantee. Not only is risk greatly reduced, but the guarantees are readily marketable on the secondary market. USDA also provides other guaranteed loan programs for water/waste projects, business, industry and multifamily housing. USDA guaranteed loan programs may also be utilized with direct agency funding, resulting in a lower interest rate when necessary for project feasibility.



New medical facilities in Colusa, California, financed through USDA guarantees.

The northern California farming community of Colusa was able to leverage USDA guarantees when it launched an effort to retain its hospital. Many rural community hospitals have closed over the last decade due to lack of economic viability and an inability to attract and retain health care professionals. When the absentee owner of Colusa's hospital announced plans to close the facility, the citizens of Colusa decided to make every effort possible to save their hospital. Despite lack of experience in hospital operations or finance, the citizens formed a nonprofit corporation for the purpose of purchasing the facility. The nonprofit succeeded in negotiating a framework for purchase and resolved myriad regulatory issues, but lacked the financing necessary to complete the transaction. RCAC was able to utilize the USDA Rural Development Community Facilities guaranteed loan program, in conjunction with USDA direct funding, to structure a long term loan. On the day the hospital was scheduled to close its doors, the loan closed and the hospital remained in operation. Today, some five years later, the hospital has not only remained viable but just completed two new medical arts buildings on the hospital campus to provide much needed space for health care providers. RCAC was involved in this project also, this time as the construction lender for the project with USDA providing the permanent financing.

In financing a project, it is important to note that facilities such as medical clinics, charter schools, and assisted living facilities produce revenue streams and can carry long term debt. But this is not always true of all the community facilities needed to support rural development. For example, community centers, police facilities, and libraries are largely non-revenue producing and generally cannot carry debt, and therefore are typically provided by public bodies through revenues generated by a tax base. In rural areas with limited availability of public financing, innovative mechanisms are needed to finance these types of facilities.

Affordable Housing

Most rural communities are in dire need of both single family and multifamily affordable housing. In urban areas, affordable units can often be cross-subsidized by higher-cost housing within a development; in rural areas this is generally not an option, and more subsidies are needed. Cost write-downs, such as those provided through self-help housing programs and Low Income Housing Tax Credits (LIHTC), represent excellent mechanisms for providing affordable housing in rural areas.


As with community facilities, nonprofit loan funds can play an integral role in both single family and multifamily affordable housing development. Nonprofit loan funds are particularly important in providing financing for raw land acquisition and predevelopment expenses. But they can't do it alone. Bank funding is often needed to provide the larger loans necessary for site development of a single family subdivision or construction of a multifamily project. And, in most instances, funding is also needed from federal or state programs that can provide forgivable loan or grant funds needed to write-down single family mortgages or rents in multifamily housing projects.

A good example of an affordable single family housing development bringing all of these resources together is near Marysville in Yuba County, California. A nonprofit affordable housing developer had the opportunity to acquire a subdivision tentatively mapped for 101 lots. RCAC was able to complete the acquisition loan and also provide needed predevelopment funds; however, the site development loan amount needed was in excess of the nonprofit loan fund capacity. A major bank stepped up to provide a loan for the site development work. The housing is currently being developed via the USDA self-help housing program with lot sales repaying the RCAC and bank loans. The self-help participants provide sweat equity, and with the use of other federal and state resources, the entire subdivision will serve low- and very-low-income families.

In high cost rural areas like Sonoma County, California, it is particularly difficult to develop affordable housing, and even more layers of financing are necessary. In Santa Rosa, RCAC worked with a local nonprofit affordable housing developer to develop a 56 unit multifamily project. A

Nonprofit loan funds can play an integral role in both single family and multifamily affordable housing development.

local bank provided a loan for 80 percent of the acquisition cost, and RCAC was able to offer a loan for the remainder as well as for some predevelopment expenses. The State of California, through its Department of Housing and Community Development (HCD), provided additional predevelopment funds. The development subsequently received an allocation of LIHTCs, which is the mechanism that enables the housing to be affordable. A major bank working with the CalHFA state bond program was able to provide favorable construction financing as well as a portion of the long term financing. Other funding resources included the HCD Joe Serna farmworker grant program, HOME funds, AHP funds, CDBG funds and state MHP funds. The project was successfully completed and provides affordable housing for families whose incomes range from 30 to 60 percent of county median income, with 14 units set aside for agricultural worker households and seven units set aside for households with a developmentally disabled or mentally ill family member. While the multiple sources of funding and partners made this project extremely complex, the end result was housing for a population that would otherwise not be able to afford to live and work in the area.

As these few examples show, there are many opportunities for banks, nonprofit loan funds and federal and state programs to work together to finance the various elements needed to not only sustain the viability of our rural communities but to provide opportunities for economic growth. Creation of high-wage jobs and retention of youth in rural areas are critical, and are all the more likely if essential services and housing are available. Innovative partnerships between various lending sources can ensure that rural areas will have the facilities and infrastructure to support a vibrant future. 

Morphing Rural Community Development Models

The Nexus between the Past and the Future

By John C. Allen, Ph.D., Director, Western Rural Development Center

Rural community development has a long and diverse history in the United States and encompasses a wide range of objectives ranging from solving local problems, addressing inequalities of wealth and power, and promoting democratic values and practices to improving the potential of individual residents and building a sense of community.¹ Given these diverse goals, community development has been defined as economic development, political empowerment, integrated service provision, comprehensive planning, as well as job training and housing programs.² These diverse objectives and definitions have often left rural places questioning what is in their best interest when it comes to local and regional development.

Traditional rural economies were successful when they effectively captured the income generated from local farms, ranches, mills, fishing, and industries and provided products and services that met the needs of local residents.³ As rural economies began to undergo economic, social and demographic changes—such as industrial relocation, migration from urban areas, increased competition for development monies, and an increase in social pathologies such as rural crime⁴—communities struggled to respond.

Rural community and economic development strategies that were established to address these changes typically focused on enhancing the profitability of agriculture and industrial recruitment.⁵ But these approaches have in many cases been unsuccessful, and found to be short-term solutions to long-term problems. Industrial recruitment, for

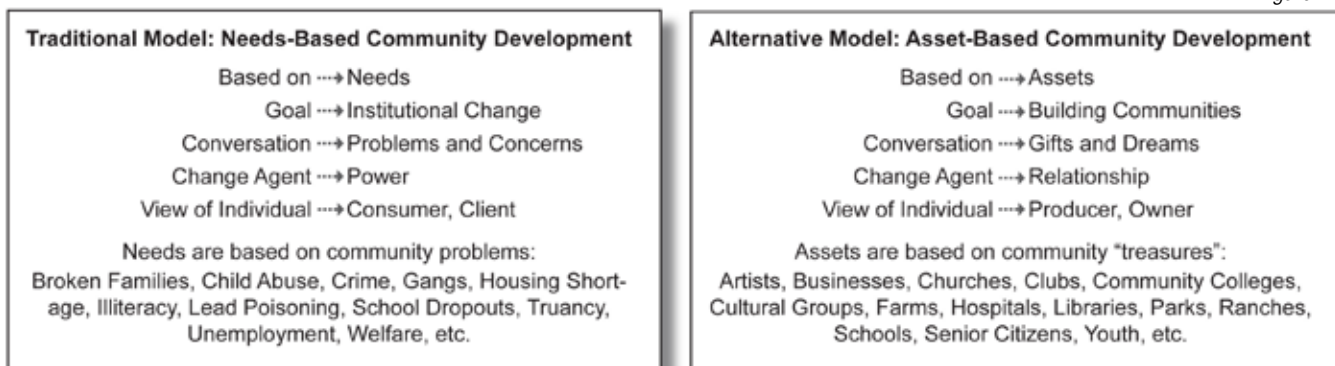
instance, has played out in many places as a game of winners and losers, sometimes simultaneously, as rural communities used local and state resources to entice manufacturers to relocate to their communities.

Today, new models of rural economic development are emerging to deal with the changing landscape of rural economies. These models are linking past, current, and future strategies together as they attempt to provide rural communities an opportunity to create a new and invigorating future.

Needs-Based vs. Asset-Based Community Development

One conceptual framework gaining ground in rural economic development is “asset-based” development.⁶ This framework, originally developed based on experiences in inner-city neighborhoods, reorients development from a “needs-based” approach. Needs-based models seek to identify weaknesses in a local community and then implement strategies to overcome those weaknesses. John Kretzmann and John McKnight, co-directors of the Asset-Based Community Development Institute at Northwestern University, suggest that this method of mobilizing citizens focuses on negative characteristics of a community and demoralizes local residents, thus limiting proactive action at the local level (See Figure 4.1). They go on to suggest that focusing on local assets, instead of needs and deficits, allows residents to identify possibilities for change that they can control, and energizes residents to take action.

Figure 4.1



While the needs-based approach focuses on garnering external resources to solve problems, the alternative asset-based approach looks for residents' personal skills and dreams and links them to action through a public articulation of these local assets. The view of the individual is that of a producer or owner rather than that of a consumer or client. While the differences between owner and producer, and consumer and client may seem small, they provide a dramatic shift in where responsibility for the future lies. Financial resources are also viewed differently within the assets-based model; grants and loans, for instance, are seen as gap-filling instruments, rather than as guiding forces for the direction taken by the community.

The concept of asset-based community development is rather straightforward, even if its implementation can be difficult. In this approach, a community first organizes itself to identify local assets and, once these are identified, the community residents become mobilized and reorganize their local assets to create a positive future. Local assets may include individual, associational (voluntary organizations), institutional, economic (including hidden economic assets such as the transfer of wealth upon death), cultural and historic, and natural resource assets. Representatives of the community then map the assets for visual presentation to the community. Generally a large town hall meeting is organized and local residents collectively examine their community's assets and identify activities that are aimed at improving their lives. Examples of activities can include new businesses, recreational facilities, health care cooperatives, or other forms of community development.

Pursuit of these new activities often requires enhancements of community networks. When new relationships are built or emphasized in a rural community or region, they can develop new norms for interacting and increase trust among residents. These changes at the local level create an environment for mobilizing local citizens around their current assets, rather than dreamed-of assets that don't exist or

that aren't under the control of local residents. This model of self development (See Figure 4.2) has been used across the United States and in countries as varied as Romania, Australia, and India. The important point in the asset-based model is that mobilization of local citizens is a key component of local development efforts.

Fostering Entrepreneurship in Rural Areas

Drawing upon the concept of asset-based development, new models are emerging wherein many rural economic developers have begun drawing upon local assets in fostering entrepreneurship within their community. These contemporary models of rural economic development have several methods in common. First, they view industrial recruitment as a secondary activity for successful rural economic development. Second, they view local entrepreneurs as the foundation for developing a viable economy in the future. Third, they focus on local assets of the community and region. Finally, they pay particular attention to enhancing local and regional relationships and networks as they create their own future. Several of these models will be discussed below.

Economic Gardening

The first model, known as "Economic Gardening", evolved from a changing economy in rural Colorado. In 1987 a recession was occurring and the largest employer in Littleton, Colorado, laid off thousands of employees. According to local residents, there were nearly a million square feet of vacant retail space and downtown vacancies were approaching 30 percent.⁷ The town of Littleton began using local resources to grow their own jobs through entrepreneurial activity—Economic Gardening—instead of recruiting them from outside the community, or Economic Hunting. The idea evolved from work by Dr. David Birch at MIT who argued that a majority of all new jobs in any local economy were produced by small local businesses. The core elements

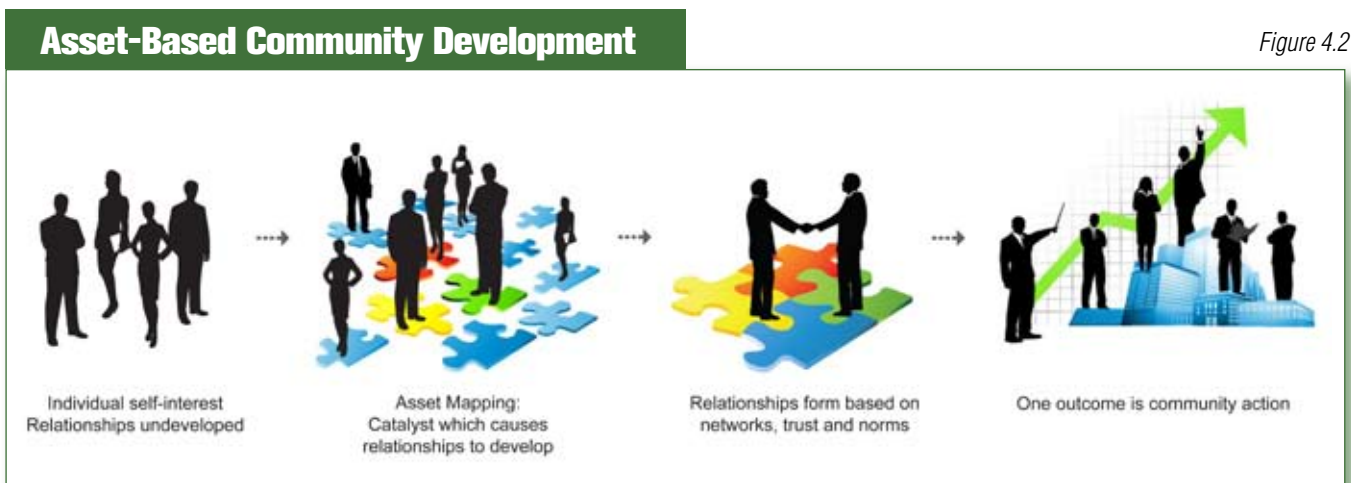


Figure 4.2

While the needs-based approach focuses on garnering external resources to solve problems, the alternative asset-based approach looks for residents' personal skills and dreams and links them to action through a public articulation of these local assets.

of Economic Gardening are: 1) providing information, infrastructure and connections for local growth companies; 2) providing connections between industry and academia; and 3) focusing on quality of life and amenities.

The Littleton community assumed that not only were most industrial recruitment efforts unsuccessful but that there was a “darker side of recruiting that bothered them”.⁸ The dark side of business recruitment as they saw it was that these highly mobile businesses were looking for rural towns with cheap land, free buildings, tax abatements, and especially low-wage labor. Their experience had been that once the wages started improving the companies would often move to where costs were even lower, which often times meant moving to “Third World countries”.⁹

Yet as Littleton embarked on a new model for local economic development, several issues emerged that challenged some of their thinking. They found that only three to five percent of the companies being started were high-growth companies and yet they created a majority of the new employment. The term Dr. Birch coined for these high-growth companies was “gazelles”.¹⁰ This was a turning point for the community as they “got out of the small versus large debate”.¹¹ After studying characteristics of high-growth companies the community found that it was not the size of a company that predicted business success and growth, but the focus on innovation, new ideas and processes, and unique products. Since then, Littleton has been successful in creating high-quality jobs and maintaining a high quality of life. A diverse cross section of businesses and jobs have been created or expanded, ranging from businesses selling Scottish and Irish merchandise to high-end playthings for children such as elaborate pirate ships, space ships and Victorian mansions costing from \$30,000 to \$90,000. These businesses illustrate the concepts of innovation and uniqueness stressed by Economic Gardening advocates.

However, the very proximity of Littleton to Denver, and its approximate size of 20,000 people, means that Littleton’s approach may not represent an appropriate model for small, geographically isolated rural communities that are still stuck in the “commodity trap.” The commodity trap can be described as a community that is tightly linked to resource extraction where

price is the only variable of importance. In these communities additional models have emerged that potentially deal with the issue of scale and historical economic conditions.

Enterprise Facilitation

Another asset-based model that has seen success in very rural communities is derived from the work of Ernesto Sirolli, who has exported his community-based model of economic development across the globe. His model is called “Enterprise Facilitation”.¹² In the enterprise facilitation model, local community facilitators are identified and provide moral and technical support for residents with dreams of becoming entrepreneurs. Where numerous models of rural economic development are action-oriented, this particular model relies on word of mouth to advertise the availability of an entrepreneurial facilitator. Enterprise facilitators are “passive” in that they do not initiate any projects until a committed individual comes forward with the enthusiasm to move the idea for a new or expanding business forward. After this individual comes forward, the facilitator helps the individual find a “team” to help with all of the functions that the individual may not have the skills or interest in completing for a business to be a success. The facilitator helps build the team to support the potential entrepreneur. Then the facilitator provides support to the potential entrepreneur by developing a formal business plan and securing financing for the business. This model focuses on individual entrepreneurs who have dreams (assets) of owning their own business in a rural community.



Data has suggested that developing local coalitions focused on supporting entrepreneurial activity locally increases the number of jobs created as well as the benefits paid for the newly created jobs.

An example of the businesses supported by Enterprise Facilitation is La Dolce Vita (The Sweet Life) in Baker City, Oregon, where Enterprise Facilitation was the base of the BEGIN, or Baker Enterprise Growth Initiative, project. Baker City is a very remote community in eastern Oregon traditionally based in agriculture, logging and mining. Donna Stone's new business focuses on roasting and creating unique coffee blends. She sells much of her coffee to her sons who have drive-through coffee shops in four eastern Oregon communities, and also sells locally and through mail order (www.oregonmade.net). She credits her success to the support she received through local enterprise facilitation.

Hometown Competitiveness

Based in Lincoln, Nebraska, the Hometown Competitiveness Collaborative (HTC) is another model of rural community and economic development. The national HTC model is a capacity-building strategy and its outcome is to build community capacity to support local entrepreneurs and enhance the local economy. As their materials state, "HTC is about people development".¹³ The HTC process is built on the foundation of four main tenets. They are: 1) mobilizing local leaders; 2) energizing entrepreneurship; 3) capturing wealth transfer; and 4) attracting young people. Their philosophy is that small rural towns must tap into a diverse leadership base if they are to be competitive in the twenty-first century. They, as do the economic gardeners, believe that too many rural communities invest in businesses that export rather than build local wealth. Therefore the HTC provides a variety of training programs to help communities support their local entrepreneurs.

The HTC program also works with communities to develop planned giving structures as a means to capture the local wealth that is transferred upon the death of a resident. Their research shows that a window of opportunity exists for communities to access these monies.¹⁴ These local financial assets can be the bedrock for future economic development activities. Community foundations can play an important role in rural communities as a vehicle to identify local wealth and to provide a mechanism for planned giving to the community. The HTC sets a target goal of converting at least five percent of the local wealth into charitable assets endowed in community foundations to fund community and economic development.

The final tenet of the HTC is youth attraction. Many rural communities see their young residents leaving the area because of a lack of economic and social opportunities. The HTC program provides communities with training to retain rural youth in their community through youth engagement, creating career opportunities and entrepreneurial support, and nurturing a sense of ownership in the community's future leaders.

Ord, Nebraska, provides an excellent illustration of a community that has applied the HTC concepts to local rural economic development. Ord is a primarily agricultural community that has seen its population age and its young residents leave with little hope of returning over the past 100 years. However, after organizing the community to focus on entrepreneurship and identify those businesses with potential for growth, the community has seen an increase in its population and has been successful in developing local businesses. In addition, Ord succeeded in its efforts to recruit a call center. This success, according to local residents, was linked to the community's support of entrepreneurial activity. Ord has seen 10 young couples relocate to its town of about 2,200 people since initiating HTC, with six of the new couples receiving some form of relocation assistance from the Valley County Foundation. One couple bought the practice of a retiring dentist. The capture of local wealth and transference to a new generation of entrepreneurs is providing a renewed entrepreneurial attitude among many residents; this outlook has recently resulted in the development of an ethanol plant that will create 35 permanent jobs in the community.



Community-Based Entrepreneurial Training

Another model of community and economic development is community-based entrepreneurial training and support. This model, originally called EDGE (Enhancing Developing and Growing Entrepreneurs) and first launched in Nebraska (<http://nebraskaedge.unl.edu/>), has now been adapted in the West through support and facilitation of the Western Rural Development Center (<http://extension.usu.edu/wrdc>). The Western EDGE program and the EDGE program in Nebraska focus on developing local community capacity to identify emerging and existing entrepreneurs and provide technical support to them.¹⁵ Research conducted on this model illustrates the importance of building community capacity and culture to support entrepreneurial activity in rural communities and regions. Statistical data has suggested that developing local coalitions focused on supporting entrepreneurial activity locally increases the number of jobs created as well as the benefits paid for the newly created jobs.¹⁶ Drawing upon an asset-based approach the Western EDGE model has five primary objectives. They include:

1. Assisting entrepreneurs create and evaluate their business plans.
2. Assisting new and current small business owners develop and implement their business plans, and plan for business growth and expansion.
3. Providing program participants with follow-up support from their local communities.
4. Creating and retaining jobs through the start-up and expansion of small businesses.
5. Facilitating community capacity building by enhancing the structural field around entrepreneurial endeavors.

Through a conscious effort of organizing a coalition of local citizens, businesses, and service providers a community changes its network and relationship structures, providing a foundation for the emergence and support of entrepreneurial activity. A coalition that represents the diversity of the community provides a structure for sustained support of new entrepreneurial efforts. An example of how the Western EDGE or EDGE program operates on the ground is in North Platte, Nebraska. North Platte created a local coalition including local lenders, media, main street and home-based businesses to support entrepreneurship in their rural community. This coalition identifies potential entrepreneurs, supports a thirteen-week training course and provides follow-up services for those initiating a new or expanding business. Local lenders provide scholarship support for participants, reduced-interest-rate loans and an environment of moral and strategic support for the new businesses.

One example of a business supported by this coalition is the Fire House Gym in North Platte. The gym had been in operation under previous owners for many years. After participating in the EDGE program, the owner saw an increase in revenues of 7.4 percent the first year and 15.3 percent the second year. A personal training business also evolved as locals saw the emerging interest in physical fitness in their community.

Conclusion

As these new models illustrate, rural community and economic development is taking on new forms. While many states still focus their public resources on business recruitment, the new models successfully use public and private resources to develop community capacity for fostering and sustaining local entrepreneurial activity. As opportunities for innovation in rural communities emerge, identifying local assets and reorganizing the social and economic structure around unique products and services may provide a foundation to support small entrepreneurial efforts as well as fast-growing businesses in rural areas.

Lenders and public officials interested in generating new economies and job creation may find it more effective to work with a community and use public resources to fill in the gaps of the community's local resources. Financial institutions have an important role to play in supporting the emergence of rural entrepreneurship. The roles include participation in local coalitions focused primarily on supporting entrepreneurial activity in their community, identifying potential entrepreneurs, and providing guidance for business plan development and financing options for these future business owners. Lenders can also support and help develop local foundations for wealth transfer to provide alternative funding support for entrepreneurial activities, and CRA-motivated loans and investments may be one way to leverage local wealth transfer and capacity building in this particular area. To maximize the impact of their individual efforts, lenders, public agencies, and the private sector will be more successful creating new business and jobs by working together and leveraging their combined resources, and by focusing on local assets, local innovation, and local uniqueness. ■

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Native Community Development Financial Institutions

Building a Foundation for Strong Native Economies

By Carolina Reid

A couple of years ago, the Community Affairs Department of the Federal Reserve Bank of San Francisco held a series of meetings with tribal leaders to discuss barriers to mortgage lending on Native lands. As an icebreaker, participants were asked which movie title best characterized their ability to access credit for homeownership. The resulting list of movies was long and varied, and included such titles as “Smoke Signals,” “Dream Catcher,” “Home Alone,” “The Road to Nowhere,” and “The Good, the Bad, and the Ugly.” The titles provided apt metaphors for the frustrations of tribal members and pointed to the continued lack of access to credit and capital in Native communities.

The Native American Lending Study, published in 2001 by the Community Development Financial Institutions Fund (CDFI Fund), documented for the first time the true scale of the problem, noting that the “lack of access to capital and financial services” was a significant factor limiting economic development on Native lands.¹ The study found an “investment gap” of \$44 billion, and revealed that more than 60 percent of respondents felt it was “difficult” or “impossible” to obtain a small business loan. The study also pointed to the lack of basic financial services on reservations—15 percent of those surveyed reported that they travel more than 100 miles to reach a bank or automatic teller machine. In its analysis of the problem, the study documented 17 barriers to providing credit in Native communities, including the use of trust land as collateral, uncertain tribal commercial laws, high levels of poverty, a lack of financial education, and cultural issues.²

For many mainstream financial institutions, overcoming these barriers has been difficult. In Native communities that have not yet adopted a standard set of commercial codes and lending guidelines, it can often take several years to garner tribal support and establish the legal infrastructure needed to facilitate private capital investment. In addition, the product needs of Native communities tend to be specialized, and in many cases loans require significant oversight and technical assistance in order to be successful. The costs associated with providing these types of small scale, time intensive loans often outweigh the returns that can be generated from lending on Native lands. Historical distrust

between banks and tribes can further impede the development of successful business relationships.³

This is where Native Community Development Financial Institutions (Native CDFIs) stand to make a difference.⁴ Across the country, Native CDFIs are creatively addressing the financial services needs of Native communities by recasting tribal sovereignty and diversity as assets rather than liabilities. And, if recent numbers are any indication, there may soon be a reason for a more optimistic set of movie titles. In the last five years, the number of certified Native CDFIs has grown four-fold, from nine in 2001 to forty today. Another 60 or so Native financial institutions—including credit unions, commercial banks, and revolving loan funds—provide credit and services on Native lands. (Many of these are “emerging” CDFIs, which means that they are working towards certification.) A large number of these Native financial institutions are located within the Federal Reserve’s 12th District, including twelve out of the forty certified Native CDFIs.⁵ (See Table 5.1)

Certified Native CDFIs Located in the Federal Reserve’s 12th District

Table 5.1

Affiliated Tribes of Northwest Indians Economic Development Corporation
Alaska Growth Capital
Cook Inlet Lending Center
First Hawaiian Homes Federal Credit Union
Haa Yakaawu Financial Corporation
Hoopa Development Fund
Hopi Credit Association
Kulia Ohana Federal Credit Union
Lokahi Pacific
Molokai Community Federal Credit Union
Navajo Partnership for Housing, Inc.
Valley Credit Association

Often referred to as “nation building,” this approach focuses on building effective governing institutions and articulates a long-term development strategy that incorporates tribal values and ownership.

The growth in Native CDFIs has been remarkable, and reflects a broader shift in thinking about how to promote economic development in Native communities. Often referred to as “nation building,” this approach focuses on building effective governing institutions and articulates a long-term development strategy that incorporates tribal values and ownership. This approach differs significantly from the “standard” model which relied on support from outside of the Tribe—usually in the form of government grants—to provide short-term solutions to the problems of poverty on the reservation. According to researchers at Harvard University, the “nation building” model promotes economic development from within, and creates an environment in which development projects are more likely to succeed and remain sustainable over the long term.⁶ Elsie Meeks, the Executive Director of First Nations Oweesta Corporation⁷ (Oweesta), has provided perhaps the most eloquent expression of this shift in thinking: “So many tribes have existed by selling poverty. We’ve gotten our federal support, and our grants and all that, by being poor. . . . We’re not selling poverty anymore. The message is about opportunity.”⁸

Native CDFIs mirror this new focus on opportunity and ownership, and build on Native strengths to develop and deliver financial services. Unlike most mainstream financial institutions, Native CDFIs are vested in the community and can tailor their products to the local market. In addition, Native CDFIs often provide a continuum of services associated with making and sustaining a successful loan, including financial education, credit counseling, small business training, and ongoing technical assistance and support. These “high-touch” services are particularly important in Native communities, since residents often have minimal business expertise, a lack of collateral, and poor or no credit histories. Native CDFIs can further target their training by developing culturally appropriate materials and providing business models that recognize the unique needs of reservation economies. For example, recognizing that curricula developed for small businesses in urban areas wouldn’t work for their community, Four Bands Community Fund in South Dakota created a comprehensive business development class that focuses on starting and growing a business in a remote, economically distressed reservation community.⁹

According to Bettina Schneider, a graduate student at UC Davis studying the emergence of Native Financial Institutions in the United States and Aboriginal Financial Institutions in Canada, Native CDFIs also lay a foundation for greater tribal sovereignty and self-determination.¹⁰ “Many Native CDFIs are catalysts not only for economic development, but also for nation building,” she notes. “By incorporating tribal values into financial education curricula, aligning private capital with tribal goals, and establishing a rubric of ownership and self-determination, several Native CDFIs are making nation building a focal point of their work.”

Building a Strong Foundation for Native CDFIs

The rapid growth in the number and capacity of Native CDFIs reflects a sustained effort on the part of the CDFI Fund, as well as a number of partner institutions, to provide the necessary funding and training to tribes interested in developing their own financial institutions.

Building on recommendations in the Native American Lending Study, the CDFI Fund has been working to promote the development of Native CDFIs by providing training administered through partnerships with other organizations as well as monetary awards (see below). The Native Communities Financing Initiative, a partnership between Oweesta and the Opportunity Finance Network (formerly known as National Community Capital Association), is a comprehensive training program that provides technical assistance to Native individuals and organizations interested in starting a CDFI.¹¹ Recognizing that starting a Native CDFI is rarely about simply capitalizing a loan fund, the program helps create the institutional foundation for a strong CDFI. For example, the program helps tribes develop strategies for educating their leaders and council about the role of CDFIs, developing Uniform Commercial Codes and procedures for resolving business disputes, creating independent judiciaries, and fostering stronger relationships with county and state governments.¹² The Native Communities Financing Initiative also provides opportunities for Native CDFIs to share best practices (and mistakes) with one another—something that wasn’t possible as recently as ten years ago.

Another key component of the Native Communities Financing Initiative is working with Native CDFIs to analyze market demand and create viable business plans. This is a critical step in the process, according to Stewart Sarkozy-Banoczy, Director of Training and Technical Assistance at Oweesta Corporation. “The focus on demand rather than need can really help the CDFI to define its product and service niche. The need in Native communities is great. But strong business plans are built on demand,” he said. Existing Native CDFIs have been able to identify areas where Native peoples are already accessing financial services but at a high cost—predatory lending and high cost auto loans are prevalent on many reservations. “By offering a lower cost alternative and coupling it with financial education and technical

assistance, the Native CDFI ensures that tribal members can access financial services at a fair price, while at the same time generating business for the CDFI and stimulating positive economic development on the reservation,” notes Sarkozy-Banoczy. “In many cases, the CDFI itself generates new jobs and economic growth for the tribe, so everyone benefits.”

In addition to its training programs, the CDFI Fund supports Native CDFIs through direct monetary awards. Technical assistance (TA) awards—limited to under \$150,000—are designed to help Native CDFIs develop or refine their strategic plans and cover key operating or start-up expenses such as computers, staff salaries, or training.¹³ According to William Luecht of the CDFI Fund, the applications for TA awards reflect the diversity of approaches Native CDFIs are taking in meeting the financial service needs of their community: “In the grant applications, it becomes clear that Native CDFIs reflect local priorities and build on the strengths of organizations in the community, be it an individual, a tribal college, or the tribal council itself.”

Once certified, Native CDFIs can apply to the CDFI Fund for financial assistance awards. The CDFI Fund provides financial assistance through a combination of equity investments, grants, loans, deposits, and credit union shares. Since 2002, the CDFI Fund has made 129 awards totaling \$19.5 million through its various funding programs aimed at benefiting Native communities.¹⁴ But available funds still fall well short of demand. This year, the CDFI Fund received 29 applications requesting over \$11 million in awards from Native institutions, yet it only has approximately \$3.5 million available to disburse.¹⁵


Native CDFIs can apply for additional funding from a range of sources to supplement and leverage these awards, and the majority of CDFIs are capitalized through a combination of funds from tribal governments, foundations, banks, and other support organizations such as Oweesta and First Nations Development Institute.¹⁶ A few tribes have reinvested profits from Native-owned businesses into Native CDFIs, strengthening tribal ownership over financial resources and providing both a financial and social return on their investment dollars.¹⁷

Nevertheless, raising funds to capitalize their loan pools and to cover operating costs remains the biggest challenge for Native CDFIs. According to Sarah Dewees of First Nations Development Institute, there is a strategic opportunity for non-Native banks to fill this gap by supporting and funding Native CDFIs as part of their overall CRA strategy. “Financial institutions have struggled with how to lend and

invest in Native communities. Today’s Native CDFIs can serve as an intermediary, helping to remove these barriers and present banks with a viable investment that can provide the foundation for a longer-term business relationship,” she said. For example, small business loans provided by Native CDFIs often grow demand for depository services—down the road, the tribal enterprise may require a larger loan that is best offered by a commercial bank. Mamata Datta, Senior Associate at the Opportunity Finance Network, similarly notes that Native CDFIs can help provide a bridge between mainstream financial institutions and Native American borrowers: “CDFIs create the borrower. By providing the initial technical assistance and financial education that often impedes Native communities from accessing mainstream financial services, Native CDFIs provide a pipeline for new customers.”

Conclusion

Datta believes more Native CDFIs will emerge in the next five to ten years. “It’s not going to happen overnight,” she said. “Many of the barriers to credit in Native communities are the result of a long history of exclusion from the economic mainstream, and building the institutional infrastructure to support private capital takes time. But we’re seeing new levels of capacity among Native CDFIs, and they’re making a positive economic impact on their communities.”

The Navajo Partnership for Housing (NPH) provides evidence that the Native CDFI model can effectively help to facilitate access to mortgage credit and homeownership in Native communities. Celebrating their 10th anniversary this year, NPH has provided over 350 grants and loans to Navajo families. “Becoming a CDFI has opened up doors to new funding, and has allowed us to be more creative in designing programs and products that meet demand for credit and financial services in our community,” says Lanalle Smith, the Executive Director of NPH. Since becoming a CDFI in January 2002, NPH has been able to arrange over \$27 million in financing, helping them to build a multi-faceted program that includes financial education, EITC outreach, free tax preparation, Individual Development Accounts, homeownership counseling, and mortgage loans. “We think holistically about the community and the families who live here,” notes Smith. “This integrated approach to asset building works to help Native families become homeowners, and can work to overcome the historical barriers to homeownership in Native communities.” 



Big Lessons from Small Rural Communities

Working to Reduce Poverty Long Term

By Karl Stauber, President and CEO, Northwest Area Foundation

Diesel truck mechanic Chris Wolfe had always wanted to start his own business. A failed repair shop located on a primary trucking route in Central Oregon seemed a perfect opportunity, but the risk was high and financing was scarce. Wolfe, however, was able to take advantage of a three-year pilot program between the Central Oregon Partnership—a 10-year community partner with the Northwest Area Foundation—and Seattle-based Cascadia Revolving Loan Fund¹, which provides financing and related assistance to underserved entrepreneurs.

In addition to offering financing, Cascadia helped Wolfe analyze the business opportunity, negotiate a non-compete clause with the previous owner, and set up a book-keeping system. The program also brought a loan officer to the Central Oregon area, thereby increasing the region's capacity to support entrepreneurship as a key approach to rural economic development.

Often considered a “fly-over” zone by conventional media and lending institutions, the rural Upper Midwest and Pacific Northwest are quietly, and sometimes not-so-quietly, demonstrating atypical attitudes and actions when it comes to addressing persistent poverty. Hundreds of rural communities, large and small, are aggressively regrinding the lens through which they view poverty and hope. They are using altered perspectives to identify and access local assets in new ways. They are also harnessing economic and community development resources differently to achieve long-term change: increased opportunities for prosperity for everyone, and particularly those in the lowest economic quintile.

These are some of the shifts noted by the Northwest Area Foundation (the Foundation), which has been working intensively with many partner communities within this region. After nearly half a century of conventional grant-making across a range of issues, in 1998, the Foundation decided to apply its assets to a single purpose - to help communities reduce poverty. The Foundation also determined that it would adopt an approach that engages entire communities.² It provides technical assistance and financial resources so that communities can build their capacity to design, lead and implement sustainable strategies.

To this end, the Foundation operates three programs and uses two investment strategies which are supported with a

Hundreds of rural communities, large and small, are aggressively regrinding the lens through which they view poverty and hope.

total of \$200 million over 10 years (1999-2009). Through its programs and community partners, the Foundation operates outside of the traditional philanthropic frame with the goal of achieving systemic and structural change within the Foundation's eight-state region. (See Box 6.1) This is a commitment to work that is neither fast nor easy, but one that will leverage positive and sustainable change.

Over the last several years, well over 200 rural communities have joined in this innovative approach. They have shown that they are not waiting to be saved; that they are willing to see and name the poverty in their towns; and, that they recognize that an infusion of money isn't a complete answer. They are investing their collective and personal time, ideas, reputations, and social and political capital to these efforts.

They are taking the lead: whether small communities of several hundred people, American Indian nations, or communities that may spread across one or more counties and are linked by history or common economic centers.

Seeing Leadership as Infrastructure

With a population hovering around 1,100, Eureka, South Dakota, faces challenges common throughout rural America: an aging population, a shortage of living-wage jobs, and higher than average poverty rates. Although the city had initiated a number of anti-poverty activities, none had created traction for long-term change. When community members learned about the Foundation's Horizons program—a community leadership program oriented toward reducing poverty—they saw it as an opportunity for their future.

But before stepping forward to become one of 44 small rural communities in the Horizons pilot initiative (2003-2005), Eureka decided to unload some “old baggage.” As reported in *USA Today*³, community members held a mock funeral and, with the help of the local fire department, incinerated a casket filled with lists of the negative feelings and attitudes that plagued them in the past.

The Horizons program, created for small rural communities of 5,000 and fewer, and with histories of economic decline and demographic change, provided Eureka and the other pilot communities with 18 months of leadership development training, coaching, and connections. Eight organizations—university extension services and tribal colleges—all of whom already work within these communities,

delivered this technical assistance. Horizons is based on the theory that a small community will be able to address poverty and build prosperity more successfully if it has a strong leadership system. The communities involved in the Horizons pilot ranged from 100 to 4,800 in population, and with poverty rates from 10 percent to 96 percent. One-third were within or near American Indian reservations.⁴

Armed with new perspectives and skills, Eureka’s growing circle of leaders created a common vision. They agreed upon the need for moderate-income housing. They also joined with nearby Ellendale and Ashley, North Dakota to secure a new cell-phone tower, a service that directly benefits local businesses. The Eureka Community Development Corporation raised over \$100,000 in grants to initiate a needed retail

NWAF’s Programs and Investment Strategies

Box 6.1

The Northwest Area Foundation’s mission is to help communities reduce poverty. It provides technical and financial assistance to entire communities so that they can build the skills, knowledge and connections needed to design, lead and implement systemic and structural change for long-term poverty reduction.

The Foundation’s three programs and two investment strategies operate in its eight-state region: Minnesota, Iowa, North Dakota, South Dakota, Montana, Idaho, Oregon and Washington. In the last eight years, the foundation invested about \$160 million in its initiatives and expects to invest another approximately \$40 million within the next three years.

- Ventures Program – 10-year partnerships with 10 communities, each anchored by a community-developed strategic plan to address the root causes of poverty in that community. Eight partnerships are with rural communities, including three American Indian Nations, and two are with urban centers. Grants range from approximately \$5 million to \$11 million per partnership over the 10-year relationship. One partnership, the Indian Land Tenure Foundation, was launched with a \$20 million grant.
- Horizons Program – an 18-month community leadership program whose purpose is poverty reduction. It focuses on small rural communities with populations of 5,000 and fewer and with histories of economic decline and demographic change. Forty-four communities participated in its pilot effort (2003-2005). The program began its second phase in late 2006 with the participation of 163 communities from across seven states. Eight local institutions – colleges and university extension services – are the grantees of this program and deliver Horizons training, coaching, and information in the communities. The program is delivered in four phases. Communities must meet threshold requirements to move from one phase to the next and those that complete all four phases will be eligible for grants up to \$10,000 to help implement their plans.
- Connections Program – Launched in 2004, Connections identifies and promotes practical approaches and tools any community could use in its own poverty reduction efforts. Information is disseminated through a range of products, including templates that provide guidance on how to write ordinances, DVDs that describe best practices, web-based calculators, curricula and reports, as well as through meetings sponsored for community leaders.
- Program-related investments – To date, the Foundation has made 17 PRI’s (valued at \$11.7 million) to Community Development Financial Institutions which, in turn, have made these funds available to start-up or early-stage businesses considered too high-risk by conventional lenders.
- Mission-related investments – In 2004, the Foundation allocated \$10 million (2 percent of assets) to Invest Northwest, a new private equity fund created to meet the capital needs of established private, middle-market, growth- and later-stage for-profit companies in the region. Investments in these businesses help support local economies by retaining or creating jobs and paying living wages and benefits. To date, \$3.9 million is actively invested.

For information about the Foundation, please visit www.nwaf.org.



Diesel truck mechanic Chris Wolfe in his repair shop financed through Central Oregon Partnership.

mall, anchored by a new hardware store, as well as plans for new housing.

“The pilot phase yielded several critical lessons,” said Jean Burkhardt, program lead. “We’ve learned that leadership development is critical infrastructure—and that with technical assistance and encouragement, these communities will confront poverty and take strategic action,” said Burkhardt.

In response to community demand, the Foundation enlisted the help of the Study Circles Resource Center⁵ to develop and field-test a guide to help communities talk about poverty and develop ways to address it. Called “Thriving Communities: Working together to move from poverty to prosperity for all,”⁶ this guide is being used by the more than 160 small rural communities in seven states now participating in the second phase of the Horizons program (2006-2008).

All Horizons communities also participate in LeadershipPlenty®, which entails 30-40 hours of leadership training developed by The Pew Partnership for Civic Change.⁷

“We’ve found that communities need help to stay focused on poverty,” said Burkhardt. “Without specific goals, communities can drift back to conventional models of economic development, approaches that tend not to directly benefit those in persistent poverty,” she said.

“We’ve learned that leadership development is critical infrastructure—and that with technical assistance and encouragement, these communities will confront poverty and take strategic action.”

New relationships and leadership structures have emerged in three-quarters of Horizons’ pilot communities. In one American Indian nation, four out of six open seats on the tribal council were filled by Horizons participants. In another city, the mayoral race was fought between two program participants. When the race ended in a tie, the candidates settled the election with a coin toss on Main Street.

Local leadership can also help to ensure that policies are responsive to local needs. In Bridgeport, Washington, a town where 65 percent of the population is Hispanic, the city council took the simple – but significant – step to translate its minutes into Spanish, for the first time providing civic information to more than half of the town. The program also provides participants opportunities to share best



NWAF's Raices Initiative brings community members together to build leadership and capacity for change.

practices. Bridgeport's experiences are informing the 163 communities currently enrolled in the Horizons program, including three in Washington with Hispanic populations of at least 70 percent.

"Modest Foundation investment is yielding unexpected large returns," said Burkhardt. "Although these communities progressed unevenly, some in fits and starts, all made progress from where they began."

As significantly, all the program delivery organizations are adopting poverty reduction as a key work area. Because these organizations work across many communities, the skills they developed with Horizons are now being used broadly. They have collaborated across state boundaries, and in some cases helped change state policies.

Partnering for Change

In addition to providing leadership development support, the Foundation has established 10-year partnerships with 10 communities as part of its Ventures program. Each of these long-term commitments began after a roughly 2-year phase during which community members came together to develop a single strategic plan to address the root causes of poverty within their community.

Regardless of location or scale – whether composed of 13 neighborhoods in North Minneapolis, a county in South

Dakota⁹, or 16 counties and an American Indian tribe in Eastern Idaho – none of the Ventures partnerships operate as a conventional charity. Rather than funding existing programs and nonprofits, each partnership applies its grant dollars to help create systemic change. Grants go to developing a better understanding of the systems, policies and practices that create barriers to poverty reduction, promoting an ongoing stream of collaborations among public and private entities to develop, fund and implement integrated solutions, attracting outside resources, and gathering and sharing lessons.

Although in different phases of implementation, these partnerships have experienced a range of common challenges, and are contributing to emerging patterns of achievement. Each illustrates the impact of place in understanding and addressing poverty in its many dimensions.

One of these communities, BuRSST for Prosperity, has already demonstrated the effectiveness of this approach. Distinguished by a growing immigrant population, BuRSST includes five communities south of Seattle: Burien, Renton, SeaTac, Skyway and Tukwila. Established in 2005, BuRSST⁸ invested \$182,000 in a workforce demonstration involving Port Jobs and South Seattle Community College. In its first year, the demonstration resulted in 699 employment placements, a 33 percent increase over the previous workforce model.

In Oregon, the Central Oregon Partnership (COP)⁹ is working to tackle issues related to remoteness and isolation, loss of conventional agricultural markets, and global competition that affect many rural areas. In response, COP is engaging leaders in the secondary timber industry to address their labor shortages and the community's under-employment. In 2002, COP began working with hospital administrators, elected officials, public health agencies and low-income residents to create federally qualified health care clinics in their region. An initial COP investment of \$60,000 leveraged \$600,000 in investments to open the first clinic. Today, Ochoco Health System services 18,000 visitors annually at clinics in Prineville, Bend and Madras. In January 2007, a new \$3.6 million clinic replaced the Prineville facility, sparking revitalization in the district. An additional clinic will open in LaPine soon. School-based clinic expansions are planned. Ochoco Health System has created 50 jobs, half of them filled by low-income wage earners who are now making living wages. An estimated additional 25 jobs have been created by other health-related businesses.

A separate Foundation effort, the Rural Latino Capacity-Building Initiative (RLCBI), works to increase the capacities of rural Latinos to organize and take on poverty-reduction work. It focuses on recognizing, reinforcing and renewing a community's economic, social, and cultural strengths and assets. RLCBI will identify, share and advocate for models, tools and processes that work. One of these is Raices (roots in Spanish), a four-year partnership among the Foundation and the University of Iowa Institute for the Support of Latino Families and Communities, and the Main Street Project (a Minnesota-based nonprofit associated with the League of Rural Voters). Anchored in principles of community leadership and accountability, broad participation by people most affected by poverty, cultural competency and language accessibility, respect of the rural context, and building capacities on assets, Raices is being piloted in clusters of communities in Idaho, Iowa, Minnesota and Oregon.

Investments

When Neil Sheldon of Stevensville, Montana, wanted to expand his polyethylene pipe manufacturing business, Poly Warehouse, venture capital wasn't readily available. Instead Sheldon got an equity investment of \$1.5 million through InvestAmerica, a private equity management group that includes the Foundation's Invest Northwest venture fund. InvestAmerica learned about Sheldon from contacts at the Montana Fund, a local funding source supported by a Foundation program-related investment. The company now has international markets, annual sales of \$7 million, 20 employees at its manufacturing site, and 10 more in sales


The Foundation aims to gather the lessons learned – about strategies that work, practical tools, and stumbles to avoid – and share them with the many hundreds of rural communities hungry for solutions.

locations in Wyoming, Utah, and Washington. Sheldon expects sales to triple in the next five years.¹⁰

Sheldon's story illustrates the impact that investment funds can have on small businesses in rural areas, a strategy that the Foundation has been pursuing for over 15 years. In the late 1990s, the Foundation decided it would apply a greater part of its portfolio to support its mission through program-related investments. In 2004, the Foundation established a second investments strategy, mission-related investments, and allocated \$10 million (2 percent of assets) to Invest Northwest, a new private equity fund. To date, the Foundation has made 17 program-related investments with a total principle value of \$11.7 million. Of the \$10 million authorized for mission-related investments, \$3.9 million has been actively invested. In addition, the Foundation is working to encourage linkages between the communities involved in its programs and community foundations within their states.

"We encourage foundations to consider this approach because we're finding it provides a framework that aligns asset-management and grant-making practices while delivering both social and financial returns," said Millie Acamovic, the Foundation's vice president of finance and administration and CFO.

There are currently hundreds of communities partnered with the Foundation in efforts to identify and attack poverty at its roots. The Foundation aims to gather the lessons learned – about strategies that work, practical tools, and stumbles to avoid – and share them with the many hundreds of rural communities hungry for solutions. The Foundation is investing in capturing and analyzing this knowledge, and is making many lessons available now through conferences, meetings and a variety of publications.

The Foundation is also committed to sharing strategies and tools tested and evaluated by other foundations, nonprofits, agencies and communities. If you have a proven approach or instrument to share, please contact the Foundation at nwaf-solutionsdepot@nwaf.org. 

Addressing Community and Economic Development in Rural America: Trends, Challenges, and Opportunities

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Morphing Rural Community Development Models: The Nexus between the Past and the Future

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Native Community Development Financial Institutions: Building a Foundation for Strong Native Economies

- 1 Community Development Financial Institutions Fund (2001) *The Report of the Native American Lending Study* (Washington, D.C.: The CDFI Fund).
- 2 As sovereign nations, tribal areas are not subject to state and federal laws, and lenders seeking to act on their leasehold collateral must work with the tribal judiciaries for the administration of foreclosure, eviction, and priority of lien procedures. The trust status of many tribal lands further complicates the home-buying process. Land held in trust cannot be sold or encumbered by a lien unless first approved by the Bureau of Indian Affairs (BIA), which often entails a lengthy process. See Craig Nolte (2000). "Sovereign Lending: Bringing Housing to Indian Country," *Community Investments 12(1)* for more information on the barriers to mortgage lending in tribal areas.
- 3 See, for example, the Statement of William V. Fischer, President, American State Bank, Hearing before the Subcommittee on Financial Institutions of the Committee on Banking, Housing and urban Affairs, United States Senate, one hundred Seventh Congress Capital Investment in Indian Country, June 6, 2002; and Valerie Van Winkle (2007). "Canyon National Bank Sets the Pace for Tribal Outreach," *Community Developments Online*, Office of the Comptroller of the Currency, Winter 2006-2007.
- 4 Sarah Dewees (2004). *Investing in Community: Community Development Financial Institutions in Native Communities* (Kyle, SD: First Nations Oweesta Corporation).
- 5 For articles that examine the role of Native CDFIs in the Federal Reserve's 9th District, see the March 2006 issue of *fedgazette*, published by the Federal Reserve Bank of Minneapolis. Available online at www.minneapolisfed.org/pubs/fedgaz/06-03.
- 6 Stephen Cornell and Joseph P. Kalt (2006). *Two Approaches to Economic Development on American Indian Reservations: One Works, the Other Doesn't*. (Harvard Project on American Indian Economic Development and the Native Nations Institute for Leadership, Management, and Policy on behalf of the Arizona Board of Regents.)
- 7 The Oweesta Corporation began as the Oweesta Program and Fund of First Nations Development Institute. In 1999, Oweesta became a separate corporation and is the only Native CDFI intermediary in the country.
- 8 Jerry Reynolds (2006). "Financial Development Movement Comes of Age," *Indian Country Today* (November 3, 2006).
- 9 The program is called CREATE (Cheyenne River Entrepreneurial Assistance Training and Education).
- 10 Bettina Schneider is also a consultant for Oweesta, First Nations Development Institute, and Opportunity Finance Network, and completed the Native Financial Institution Research Project for Oweesta in December 2005.
- 11 The CDFI Fund also provides for training in the area of Individual Development Accounts and Financial Education. See www.cdfifund.gov for a full description of their programs.
- 12 Stephen Cornell and Joseph P. Kalt (2006). *Two Approaches to Economic Development on American Indian Reservations: One Works, the Other Doesn't*. (Harvard Project on American Indian Economic Development and the Native Nations Institute for Leadership, Management, and Policy on behalf of the Arizona Board of Regents.)
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- 14 CDFI Fund (2006), "Press Release: US Treasury Awards \$4.3 Million to Organizations Serving Economically Distressed Native American Communities," August 24 2006, available at www.cdfifund.gov.
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Big Lessons from Small Rural Communities: Working to Reduce Poverty Long Term

- 1 Cascadia Revolving Loan Fund is now part of ShoreBank Enterprise Pacific, of Ilwaco, Washington.
- 2 "Focusing for Impact: The Northwest Area Foundation's Evolving Strategies for Optimal Benefit," prepared for NWAFF by Genie Dixon, March 2005.
- 3 Neuharth, Al (June 3, 2004). "Eureka! How to keep 'it' after you find it," *USA Today*.
- 4 "Prevailing in the Long Run: New Leaders & New Structures Spur Action On Poverty". *The Impact of the Horizons Program*.
- 5 Study Circles Resource Center, www.studycircles.org
- 6 Thriving Communities: www.studycircles.org/en/Resource.85.aspx
- 7 Pew Partnership for Civic Change: www.pew-partnership.org
- 8 BuRSST Partnership, www.chs-wa.org/burstst.htm
- 9 Central Oregon Partnership, www.copartnership.org
- 10 Christensen, Tyler (December 21, 2006). "Stevensville pipemaker draws \$1.5 million from national fund". *The Missoulian*.



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