

# BUILDING A BETTER RURAL DEVELOPMENT ECOSYSTEM



# Why Aren't There Stronger – and More – Rural Development Hubs?

There are likely thousands of rural and regional intermediaries. Why haven't more become Rural Development Hubs? Why aren't some Hubs more robust? Here are some hindrances and challenges that face Hubs – and would-be Hubs – in their pursuit to transform their communities.

## 1. **There is no business model or blueprint for Hubs. Sustaining a Hub is hard creative work that requires constant attention.**

Hubs work to transform regional community and economic development outcomes. To do this, a Hub – regardless of whether it's a CDFI, a community foundation, a community college or another type of intermediary – must constantly identify, raise, blend and braid streams of funds, large and small, from multiple sources. Each source requires its own use restrictions, outcome expectations, relationship development and maintenance, and evaluation and reporting duties. This happens because most funding, public or philanthropic, that Hub organizations can tap is structured to advance specific and limited activities or projects – usually related to a particular issue: education, housing, financial literacy, and so forth. In some cases, the activities a grant funds align with the Hub's plans. In many cases, Hubs must shoehorn what they are doing to match a grant program's design and requirements. In both cases, a Hub must still braid the funded activity with other funded efforts and manage all these distinct components in order to implement a silo-crossing initiative or system-changing effort.

What is not specifically or easily supported here is the Hub's core staff and capacity to set and advance its overall strategy, develop and manage its internal operations, conduct regular analysis, act nimbly and flexibly to address unanticipated developments – and to raise and braid funds. Hubs generally shave off small pieces of whatever project funding sources they can to

support these core activities and to build contingency funds. But this, of course, creates yet another time-consuming puzzle project for Hubs. **In short, although Hubs pursue transformational work, most funding available to them remains siloed and transactional.** The sources don't match some critical uses.

Three factors add to this challenge of sustaining both the core capacity and the mission activities of a Rural Development Hub:

- **Working in rural regions costs more – in time and money, wear and tear.** The common assumption that doing anything in rural places costs less than in metro areas does not hold. Doing development work in rural regions with small populations spread across a wide geography adds challenges and costs. A needed one-hour face-to-face meeting even within the region itself might take hours or a whole day. Beyond that, just getting to a metro area or state capital for a critical funder or policymaker conversation, or for a conference, can take an entire day or two, plus there's the cost of gas, wear and tear on a vehicle, and the strain and fatigue of frequent long drives. But Hubs must keep showing up – in order to build the relationships and trust essential to their work. Distance and low population density also increase the per-capita costs of service delivery.

Many public programs are funded on a per-capita basis without regard to rural cost differentials. As a result, Hubs often must find ways to subsidize service delivery when per capita formulas fall short of actual costs.

- **It's hard to fund capacity-building and participation.** It is commonly asserted that rural places and entrepreneurs lack access to business lending capital. This is true in some places. But a more common concern voiced by Hubs is the lack of a pipeline of local businesses sufficiently ready to use available capital. Many rural places have few or no business assistance organizations and are located far from any business assistance.

It's hard to integrate horizontally if you live on grants and programs. We have over 200 different funding streams in our accounting system. We are constantly striving to make those funds work for our mission. Sometimes we do it well, other times it's a real challenge.

Duane Yoder  
Garrett County  
Community Action Committee



Hubs that conduct lending take this seriously and develop technical assistance, coaching and other services to foster entrepreneurship and prepare businesses for financing – but this fundamental “readiness” work is harder to fund. Likewise, Hubs that help low-income families get ahead may be able to find funding for essential components such as financial education or skills training classes, but not to cover “soft costs” like the gas and child care that families need to participate – which due to distance, are critical in rural places.

- Trust-building and collaboration is hard to fund.** Hubs, by necessity, use a range of partnerships and coordinated work to improve rural outcomes. Where the bench of organizations that can help is lean, collaboration is especially critical for making progress. But rarely does collaboration generate self-supporting revenue – and it always takes extra time and effort, usually more than anticipated. Although many investors and funders require and applaud collaboration – and understand its necessity – few fund what it takes to collaborate well, especially beyond the start-up phase. Hubs generally must patch together resources needed to sustain collaboration.

Each Hub must address its sustainability essentially as a separate project on top of the work they are doing to change regional outcomes. This massive effort typically requires an enormous amount of time from a Hub’s executive director and/or top deputy, if there is one. In short, a Hub’s most creative and entrepreneurial doers often spend more time securing and managing funds than figuring out how to best deploy funds in their community

Even Hubs that appear to have a stable revenue base face challenges. CDFIs, which collect revenue from lending activities, still must find funding to build the know-how of striving businesses or to develop innovative products. Community foundations collect fees on the funds they hold – a model that was designed to sustain them when they were first founded over 100 years ago. But rural community foundations that go beyond grantmaking to spark collaborative action on critical issues must identify additional funding and partners to support this work, like any other rural Hub. Some Hubs thread this needle by working in both rural and urban areas or in both low- and high-income areas to balance their risks and revenue streams. Others create products that fill a need while also providing some revenue in return. For example, some CDFIs offer financial products to higher income markets, and others create technology and training products that are in demand – and saleable – to others around the country.

Hubs’ entrepreneurial activity is impressive – and laudable. But it’s hard work. The simple truth is: The challenge of establishing and maintaining Hubs as sustainable businesses keeps existing Hubs scrambling and keeps would-be Hubs from forming.

- Hubs need entrepreneurial, cross-discipline, systems-savvy, innovative leaders committed to a rural region over the long term. Where’s the recruitment, training and sustaining program for this?**

Hubs take on aspects of economic and community development that cross disciplines. A Hub leader who is trained in social work and runs a community action agency may need to learn about water infrastructure, business and construction finance in order to build

affordable housing. Another Hub leader trained in business finance and running a CDFI may need to learn about building people's credit scores and entrepreneurship training pedagogy. Leaders trained in English literature or non-profit management and running a Hub community foundation find they must learn how to "map a value chain" for their manufacturing, tourism or child care sectors. For Hub leaders, in the words of the old Department of Education postage stamp: "Learning Never Ends."

This challenge extends to hiring talented young staff who might move into Hub leadership positions as part of a succession plan. Young people likely don't even know that Hub jobs – which can be relatively exciting as jobs go – exist. Typically, young people have never imagined running a regional multi-disciplinary intermediary as a career track – and their school counselors haven't either. Even if they do, they likely won't find a college major that prepares them. Urban and regional planning curricula rarely focus much on rural, on the people side of economic development, or on non-profit management – and other relevant college majors are similarly narrow in scope. Of the young adults who do move or return to rural areas in their 30s with young families – and they increasingly do in some rural places – many have already established professions. Meanwhile, rural young people who don't go to college or don't leave the area also don't know that good Hub jobs exist. Although they might be recruited for lower-level Hub jobs, they face the same cross-discipline and cross-function learning challenges as their degreed peers do in order to move up the "Hub career ladder."

Even existing Hub leaders who seek useful training can't easily find it in one place. They must seek out multiple association and issue-focused learning groups and opportunities on the many topics their job entails. When they do attend a conference, workshop or webinar to learn about a relevant development strategy or tactic, they rarely hear a presenter based in a rural place or one who has an intentional sensitivity to rural differences and approaches. This challenge is compounded by the typically higher cost (in time and money) of traveling from rural places; a generally lower budget for professional development; and unreliable broadband coverage to access all-things-Web, including webinars and online meetings.

The challenge of finding people to run rural Hubs is not due to a lack of leadership will or potential in rural places. It has more to do with specific knowledge about the job and how to do it. Rural Hubs' hurdles to recruiting talent are akin to those that other rural

professions face – with a twist. If it is hard to find a doctor to move to rural America – and it is – imagine finding someone to lead a multi-issue, multi-faceted, cross-place and cross-sector regional development organization *for which there is no training program*. Despite this, we interviewed several field-leading Hub CEOs who moved to rural for their Hub job. They have sought and gained the additional learning they need, in typical entrepreneurial fashion. But it has not been easy. And it is not the norm.

### **3. Rural communities and leaders that might build Hubs are isolated from "what is possible."**

What you don't know *can* hurt you. Organizations that could play a transformative role by becoming a Hub often do not because they don't know the art of the possible. Why? Rural organizations often work in relative isolation due to geographic distance, or they lack a connection to strong networks of like-minded organizations because those networks are not easily accessible or simply don't exist.

This "not knowing what is possible" is born out in the experience of many Hubs. For example, Hub community foundation leaders cite gatherings where peers explain something unusual that they do related to economic development – such as business lending, running an Earned Income Tax Credit program, buying a building, community organizing, or managing a workforce development collaborative. Some colleague rural foundation leaders respond with raised eyebrows and say, "I didn't know you could do that as a community foundation." Leaders of other types of Hub organizations tell similar stories.

Even if an organization's staff recognizes the potential to play a Hub role, getting the board on board to move in this direction is a lot of work. Explaining this potential to board members is especially essential and useful. When board leaders see what organizations *that look like them* have accomplished as Hubs, a fire is lit – stoked by hope for their community's future and by the competitive impulse inherent in some rural places. They begin to think: *If they can do it there, we have what it takes to do it here.*

**The difficult problems that we are up against in place are best addressed by leaders in communities who are supported by expertise and capital – not programs, not projects. Programs and projects are great, but leaders in a place are ultimately how you create change.**

**Jim King  
Fahé**

#### 4. Some rural communities resist change.

Rural America is sometimes characterized by rugged individualism, competitive spirit, skepticism – and a reluctance to change. Some rural places that *do* resist change can be tough nurturing ground for Hubs. Resistance can stem from four primary – and not mutually exclusive – conditions:

- **The power dynamic is threatened.** Hubs can develop position and influence by doing effective work and producing results. But Hubs sometimes threaten the powers that be – the “old guard” or the rising “up-and-comers” – when they do things differently or take on some functions of a less effective local organization. Hubs build relationships and collaborations to overcome this, but they don’t always succeed.
- **A negative perception persists of being “done to” by outsiders rather than “doing with others.”** Rural communities can be understandably skeptical of non-local or national initiatives, especially if they have been burned in the past by failed promises resulting from short-term investments or by the damage left behind by extractive industries. Even within a region, a Hub may be perceived as an outsider; if it is headquartered in the region’s largest community, smaller towns in the area may deem it suspect. When a national organization sponsors that Hub’s initiative to benefit these skeptic communities, their concern can rise even further.
- **Political divides eclipse action.** Varying perceptions about who is doing the acting, why, and with what agenda can also foster resistance. Although rural leaders are typically unfailingly civil to each other, they also typically know each other’s small and large “p” politics. In rural places where politics has caused great rifts in the past, it can be hard to move any agenda that differs from the status quo.
- **There is no will to change.** Some places are comfortably intransigent. Their attitude is: *What is new will never be better than the old – and what we have is just fine.* Hubs – or anyone – can struggle to find partners or participation in these places.

These resistance factors can hamper the development of new Hubs and slow the success of existing Hubs. Getting over these hurdles can take generations of work. But it can be done.

#### 5. Current and historic racism, discrimination, poverty and power inequities impede Hub development.

There is a direct correlation between communities with persistent poverty and communities with concentrations of people of color – in rural as well as urban America. In rural America, persistent poverty counties cluster in the Delta, in southern border states, in the Southeast, on American Indian reservations (the self-governing American Indian communities collectively defined in federal law as Indian Country) and in Appalachia. African American, Latinx and American Indian people comprise the majority population in most of these places, except Appalachia. In many, systemic racism persists in the economy and institutions, from the education system to hiring by local businesses to the health care system to social circles. This continues to generate inequities in power, wealth and income, as well as poor social, economic and health outcomes.

Also, the simple truth is: Size Matters. The needs and priorities of a rural town of 800 are often subsumed by the will of a neighboring rural town of 20,000. The interests of that rural town of 20,000 rarely register on the priority radar of a nearby city with a million, or of the state that houses them all. This power disparity repeats itself in domains from business investment to health care to education to funding formulas to elective office, and on and on.

Taken together, poverty, racism, structural discrimination and community size create an unmistakable power differential between rural and urban America. Rural places and populations have tremendous individual, social and cultural capital and potential. But they are victim to chronic disinvestment, weak infrastructure, limited financial capital, and a scarcity of durable, productive connections to power, critical resources and funding streams. This manifests in rural America as poor broadband, a lack of good jobs, low wages, scarce or distant services, prices for basic goods, poor quality housing, unaffordable health insurance, low access to quality health care, and diminishing opportunity.

Structural racism, poverty and low opportunity also rob a region of the future talent needed to revitalize rural America. Immigrants are the fastest growing population segment in rural America – and the poorest. Immigrants, when welcomed and assisted with their dreams, create new local businesses, increase enrollment to keep rural schools open, and contribute new leadership energy and cultural riches. They enliven

**If we start asking the right questions, members of diverse communities show up en masse. Key new opportunities and shifting mindsets are coming from Black community leaders in our region who historically were not included in decision-making processes.**

**Ines Polonius**  
Communities Unlimited

the place. The same can be said of any population that is included, welcomed and helped to achieve. A rural place that locks immigrants and other people of color out of opportunity drains its future chance to prosper. For rural America, this is the brain drain to fear.

Some rural regions experiencing persistent poverty and powerlessness have strong Hubs, but more need them. When an effective regional Hub emerges in a region with persistent poverty or historic discriminatory practices, it must work even harder than the average Hub for sustainability. A Hub with diverse leadership can even be perceived as a threat to the existing social order and thus struggle – or even be defunded. The work of operating a Hub in poor rural places that are home to populations of color is indeed even more challenging. And even more necessary.

## 6. Funding for Hub organizations, leaders and innovation is restricted and scarce.

Rural America is not a monolith. Action in a rural region must be tailored to its history, culture, story and current dynamics. There is no single blueprint that a Hub can pick up and apply to transform its local economy. Tailoring action to transform a rural economy requires flexibility and a long-term horizon. But for the most part, to the extent that funding is available to help in this mission, it comes in the form of short-term investments, project-restricted and inflexible investments, and investments with high match requirements. On top of that, funding to support a Hub's core operational capacity, its strategy-setting and collaboration efforts, and its professional and leadership development is in very short supply.

Short-term investment leads to starting and stopping programs. It disrupts services and can lead to destabilizing boom and bust cycles for a Hub, making it even harder to develop trust and sow hope. Funding that is restricted to specific activities or outcomes can help, but the Hub must typically find and braid this with other streams to really get a multi-faceted job done. This is more work and not always possible. Moreover, because restricted funding is often designed with urban-level scale and outcomes in mind, rural must scramble to meet – or cannot meet – that bar. Likewise, match formulas and amounts designed with urban in mind are hard or prohibitive for rural areas that have far fewer local donor, foundation or government resources to provide match. And the task of landing and weaving many investments that are restricted only to implementing projects of *the Hub* can starve

the time, energy and focus needed to work on *the Hub* organization's own viability, effectiveness and longer-term strategy – much less innovation.

This funding situation does not serve the needs of rural communities. But challenges with restricted and inflexible funding persist. For example:

- **Federal Government Resources.** For decades, federal rural development policy proposals have favored investments in physical infrastructure (including broadband), loan capital and human services. While essential, these are not a substitute for funding that builds and sustains strong local institutions and their leadership. While the federal government invests billions of public dollars a year in critical rural transportation, water, broadband, health care, loan funds, tax incentives, education and housing, it spends a fraction of that on technical assistance, training, planning, capacity building and operational support for the local organizations and leaders making the decisions to ensure that federal investments are strategically deployed.<sup>53</sup>

Few federal funding streams provide steady support to Hubs and other intermediaries. The Community Development Financial Institutions Fund, which helps build the capacity of CDFIs, and the Community Services Block Grant, a key funding source for Community Action Agencies, are exceptions – although each is frequently on the chopping block. USDA Rural Development's Rural Community Development Initiative (RCDI) Grants program is useful, but at \$4 million a year for all of rural America, the budget is miniscule. Other federal funding can be tapped via grant competitions and formulas to finance specific projects or services. But there is stiff competition for this relatively small pool, which makes planning ahead difficult for a Hub's budget, staffing or work assignments. And the allowed use for these funds is often designed with urban in mind, carrying restrictions or specific performance measures that rural can find hard to meet or mold under rural conditions. Even when Hubs do get these funds, they face federal reporting requirements – burdensome even for well-resourced urban organizations – that can sap the funds and energy of low- resourced rural ones.

- **State and Local Government Resources.** The state resource situation is similar to the federal one.<sup>54</sup> Add to that the fact that very few states have anyone in charge of rural development to help.

So much of what is decided in D.C. and state capitals doesn't translate in rural regions. It often feels like we are being impacted in ways that are the exact opposite of what is intended.

Stacy Caldwell  
Tahoe Truckee Community Foundation

Rural places and organizations, especially in states with sizeable cities, must compete for scarce state dollars with urban and metropolitan places, which tend to have more political clout with the state legislatures and state agency staff in decision-making positions.

When it comes to local government funding, rural is also at a disadvantage. Though some regions have a coordinating council of governments, there truly is no “government” for a rural region. Instead, there are multiple governments – or jurisdictions – in any one region, many with limited or no taxing power. Most that do have some tax revenues are hard pressed to fund their basic functions and services. Occasionally, Hubs can tap local governments for small contributions for a specific effort, or for match dollars, or for staff time and in-kind resources when partnering on an effort. But local public funds are the least likely source of flexible funding for the work of Hubs.

- **National and Multi-State Philanthropic Investors.** National funders do not invest in rural America at rates comparable to their investment in urban America.

Only 5.5 percent of the real value of grants made by large foundations domestically from 2005 to 2010 went to rural-based organizations, and the trend turned slightly downward during that period.<sup>55</sup> Over the last decade, several national funders who historically and specifically funded rural America activity cut back or eliminated this focus amidst changes in staffing, leadership and organizational strategy.<sup>56</sup> More recently, a few national foundations are showing interest again in rural, which is welcome. And several multi-state regional and statewide foundations have deepened their commitments to rural people and places, especially in regions of persistent poverty.

Even so, investments typically center on the foundation’s priority issue areas or strategies (e.g., education, future of work, community organizing). This focus on specific issues or strategies – as opposed to cross-cutting work – can make it hard for Hubs to access or meet national and regional funders’ expectations. That’s because Hubs, by definition, work across sectors, addressing various issues using a variety of methods; thus, their work rarely fits neatly into the categories a foundation uses to organize its work. For example, a Hub might work to increase local prosperity, ownership and jobs by using value chain analysis to develop

The place-rooted rural foundation may be the only organization in some regions that has a mission mandate to achieve a prosperous economy for all.

Deb Markley  
LOCUS Impact Investing

local for-profit and non-profit enterprises and provide access to in-depth capacity-building technical assistance and affordable capital in a historically underserved, persistently poor place with little racial diversity. This Hub may have a hard time figuring out how to approach a funder that articulates its strategies as education, workforce development and organizing for equity, even though the Hub’s value chain work may end up focusing on those very pursuits. In short, there is often a gap between how Hubs organize and think of their work and how national and regional funders articulate and structure their strategies.

- **Rural -Based Philanthropic Investors.** Rural areas have fewer place-based funders than urban areas. The good news is the number and coverage of rural-based community foundations have increased dramatically over the last few decades, and they are slowly getting bolder. This includes thousands of “geographic affiliate” funds, established within a “lead” foundation, that target their funds and community-building to specific communities or counties.<sup>57</sup> Also on the rise are health legacy foundations covering urban-rural regions served by a major medical facility or system.<sup>58</sup> And family foundations devoted to rural areas dot the

landscape. But with the exception of health legacy foundations and a few rural community and family foundations, many rural-based foundations have only modest resources to distribute and divide the little they have among the many who ask, which results in grants that are fairly small. Plus, many of these foundations are young, still establishing their strategies and not yet risk-takers. At this stage, they are likely sources of funding for discrete Hub projects and services; the hope is that, as these foundations grow, they will fund core operational funding for Hubs in the future, but that remains to be seen.

The interesting news about rural-rooted foundations – especially, but not only, community foundations – is that some have become Rural Development Hubs themselves, leading significant transformation in their regions. More are doing so as their board and staff really examine and take on the mission of “improving quality of life for all” in their geographic areas – along with the accompanying risks. But this does not solve the funding problem. Community foundations, once they take on Hub characteristics, must do the same as other Hubs: search for funding from other sources to sustain their role and the work – because the roles they

take on require more staff time than they can fund through their fee revenues, and because many of their endowed funds have restrictions and cannot be devoted to Hub efforts.

## 7. Reduced federal funding streams have strapped local government, civic institutions and community action.

American history is marked, in part, by a healthy and ongoing debate about the appropriate role of the federal government and the tension between national priorities and states' rights. Often wildly independent and short on sources of potential revenue, rural places are caught in the crosshairs of this debate.

In our nation's early years, most functions of government, such as providing for public safety and general welfare, were considered the states' responsibility. In the 20th Century, federal support for state and local governments increased, and rapidly so, in response to the Great Depression and to national social movements on poverty and civil rights. In the 1960s, significant increases in federal aid to state and local governments helped create and finance critical family- and community-building organizations like community action agencies and community development corporations, many of them rural. Growth in such federal support for states and localities slowed in the 1970s, amidst the fiscal pressures of the Vietnam War. In 1981, Congress approved the largest

**You cannot develop the economy  
without also developing  
community and civic institutions.**

**Rob Riley**  
Northern Forest Center

reduction in the number of federal grants to state and local governments in U.S. history.

A Congressional Research Service report offers evidence of another major shift in federal grants to state and local governments since the 1980s: While the share of federal grants to state and local governments going to education, infrastructure and governance has declined, federal direct investments to Social Security and health insurance have grown.<sup>59</sup> These social investments, targeted at individuals, are vital to improving family economic security and health.

However, *concurrent* investment in local organizations and factors fundamental to the functioning of a community are essential to secure system changes,

sustain improvements and reduce persistent and emerging inequity over the long run. Reduced federal and state support has hamstrung the capacity of many local governments. This, in turn, has increased the importance of community-based organizations like rural Hubs. Disinvestment in state and local government as well as government's inherent risk-

aversion helps explain why Hubs have sprung up and become epicenters for coordination, collaboration and innovation. Ironically, the very same reductions in federal support for state and local governments also have made it harder for existing Hubs to survive and for aspiring innovative intermediaries to evolve into Hubs.

