

{As prepared for delivery}

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Thank you for the opportunity to join this distinguished panel on ‘rethinking governance’.

Rural Development in America requires analyzing past policies, economic factors affecting rural economies, and recognizing the need to create policies that results in new opportunities for economic growth.

I will say on the onset that I am optimistic about the economic future for rural America. There are challenges, but the in midst of these challenges – there lies opportunity.

On May 10, 2002, during a conference on the study of ‘Rural America’ hosted by the Federal Reserve Bank of Kansas City, Deputy Secretary Moseley presented a position paper entitled, How Regions Change the Future of Rural Policy, where he discussed the drivers of change for rural development, what USDA brings to the table, intriguing new industries and identified some challenges yet to be solved.

This position paper in conjunction with the Bush Administration’s unveiling in 2001 of agriculture and rural policy principles recognizing rural policy and agriculture policy are not the same, have helped us lay the groundwork for our focus today at USDA Rural Development.

Rural America is at a crossroads. We recognize that we must be innovative in developing strategies to create economic opportunity. While agriculture once was the sustaining staple in many local economies, it no longer provides the stimulus needed for long-term viability. It remains an important element, but it may no longer be the economic driver.

Change has been dramatic in rural America over the past half century. In 1950, there were 2053 agricultural dependent counties in the United States. Moving forward a half century, there were only 258 clustered in the Great Plains, Western Middle West, and the Mississippi Delta, where population losses have been greatest.

60 million people live in rural areas – 2 million depend on agriculture – 58 million on the development of rural policies.

The data reflects two important realities: First, the development challenge affects more than agriculture. Second, the development solutions must be a good deal broader than agriculture.

Further, there are two components I believe will lead to a successful economic development in rural communities: 1) diversifying their economic base; and 2) the development of regional economies.

In support of these two components, America's rural communities will also benefit from the development of local leadership that focuses on facilitating access to high-speed telecommunications, workforce development, and access to capital.

If a community neither has the critical mass or the resources to develop the diversity, it is incumbent upon them to look for solutions that may reach beyond their local community, to a more regional approach to economic development.

We constantly hear that it is not wise to place all of our retirement investment in one stock, mutual or saving fund ----that it is better to diversify --- to allow us to sustain cyclical financial market fluctuations, the same rule should apply to a community that is looking for long-term economic sustainability. The recruitment of commercial investments should be balanced; it should bring stability to the local economy.

#### What the Drivers of Change Mean for Rural Development

Let me expand further on the four drivers of change in rural America:

The first driver, is the impact technology is having on rural areas.

A second driver is the evolution of domestic and export markets.

A third driver is the advance in communication and logistic management.

Fourth, and perhaps most importantly, people move to opportunity. While many decry the loss of population in rural areas and question whether it can be reversed, the reality is that people move toward economic opportunity. When we create opportunities in rural America, reversal in out-migration occurs.

These drivers of change lead to several conclusions about rural development.

Successful economic development in rural communities comes through Regional Development:

If we are to be successful, we must work together. It is difficult for organizations, public and private, to break down their 'stove piping' and increase communication, coordination and cooperation. But it must be done! Education and training will be key to this effort.

Critical Mass is important if we are going to encourage private sector investments. To create sustainable economic growth and the development of human capital, critical mass is important to successful economic development.

As businesses require access to a range of complementary private and public services; - including education, culture, and recreational services, demand for mass and scalability is critical and should not be overlooked in charting a development strategy.

In rural areas this typically means a regional approach encompassing the cooperative efforts of several communities.

Technology has opened new ways to define regions as well as to create critical mass and scales. Communities now can be linked in non-traditional ways to help achieve the benefits of regionalism. Flexible manufacturing or service production systems linked via technology can provide and support shared input sourcing, production coordination, worker training and marketing.

A virtual cluster of business activity can achieve many of the advantages of physical clustering. This can largely overcome the isolation of remote business locations while linking firms with suppliers and customers.

Skilled entrepreneurship and a passion for excellence in business product and performance are absolutely essential ingredients in successful development. This will be particularly true in rural development. Any such approach to rural development must include training in entrepreneurship and business management. Moreover, access to ongoing technical and business management education/work force training are bedrock essential to supporting rural economic development.

### What USDA Brings to Regional Development

At the federal level USDA has a long and credible history in playing a role in empowering rural people, rural businesses and rural institutions, to adapt to change while being change agents in building new opportunities. It is our vision to assist rural Americans and their communities by:

- Creating economic opportunity, and
  - Improving the quality of life.
- Let me repeat:
- Creating economic opportunity, and
  - Improving the quality of life.

We, like many others, have a range of programs supporting economic development, and we are working to make access to those programs as transparent as possible.

## Rural Development

Rural Development is essentially a large investment bank -- with \$86 billion in our portfolio. Last year alone, we invested over \$13 billion in the future of rural America, which will result in creating or saving of over 300,000 jobs.

Since the beginning of the Bush Administration, USDA Rural Development has provided over \$37 billion in investment financing and assisted with the creation or saving of over 500,000 jobs.

\$8.8 Billion 1998

\$9.5 Billion 1999

\$9.6 Billion 2000

\$10.7 Billion 2001

\$12.8 Billion 2002

\$12.9 Billion 2003

As the only Federal organization that can essentially build a town from the ground up through investments in infrastructure, homeownership, and job creation through business development, Rural Development is helping rural Americans achieve the American Dream.

Rural Development is working to increase the competitive advantage in rural communities.

Rural Development is working with Federal partners, education and private sector, along with local leaders; we will help bring economic opportunities to rural communities.

An example of this scale of collaboration is the model President Bush established with the successful minority homeownership initiative he unveiled two years ago.

His goal to increase minority homeownership by 5.5 million minority families by 2010 was aggressive and required unprecedented coordination between Federal agencies and the private sector.

This model has yielded tangible positive results – Since the President announced his initiative in June of 2002, the Census estimates an increase of 1.53 million new minority homeowners.

To assist communities – Rural Development is:

- Helping rural communities diversify their economic base;
- Working to increase the flow of capital to increase homeownership/ and support the development of small businesses;

- Working to maintain, sustain, and rebuild existing community water, sewer, electric and broadband infrastructure; and
- Facilitating the development of hi-speed Internet access needed to enable rural America to compete both domestically and globally.

President Bush introduced into the new economy the Value-added Development Grant program and Renewable Energy and Energy Efficiency System Improvement (9006) programs – programs that further enhance the competitiveness and create jobs.

### Challenges Yet To Be Resolved

I believe that regional approaches to rural development are essential to the ability of rural communities to survive and thrive. Opportunities to use regionalization and clustering to support sustainable rural development are both promising and uncertain. There are four challenges that I believe must be successfully met to make this a reliable and successful tool to support rural development.

First, regionalization and clustering will require a high level of cooperation with all parties. That is not easy to achieve. One of the most difficult tasks is that of ensuring effective local governance while maintaining information flows across agencies within the USDA and across other departments and agencies in government. Regional rural development may require new structures to bridge these communication and cooperation gaps.

Rural areas are often burdened with multiple layers of government that no longer meet their emerging needs.

It will be important to think through how one adapts public sector governance to the new economic opportunities that can become available to rural America. Public institutions and public policy can play a catalytic role in helping market based regions and clusters coalesce in rural America. This may be a new direction in public policy, one that may require new public institution models and alliances. And one that provides the necessary incentives to encourage participation.

Second, private sector firms must be at the table/involved in the development process to achieve sustainable progress. They are the entities that create jobs, invest capital and produce goods and services for sale. Yet, non-profit and government entities will need to play a role, as well.

How does one facilitate creative partnerships among business and these other players – and remain attentive to benefits from local equity investment and control?

Finally, mechanisms for tapping private sector capital to support rural development must become more effective. It is time to think creatively about how venture capital can be better harnessed to address development opportunities in rural America.

On several levels, USDA programs can provide support to regional approaches in rural economic

development -- where that is the decision of grass roots stakeholders.

This Administration intends that USDA fill an important catalytic and support role in rural development. Constructive and thoughtful engagement by all stakeholders, including business and creative alliances of government and non-profit organizations, also is needed for communities and regions to build on the emerging opportunities.

#### Advantages of doing business in Rural America

Rural communities can be competitive in recruiting businesses to make commercial investments based on several factors: physical infrastructure; economic infrastructure; and quality of life.

Commercial investment has been thriving across rural America. According to Conway Data, Inc.'s New Plant Database, for the 2000-2002 period the 134 most successful U.S. small towns have hosted a total of 1,500 business start-ups or expansions.

Examples:

- Kentucky Highlands - Kentucky
- Spearfish, S.D.

What has made these communities successful? Generally it is a multitude of factors, from successfully leveraging of existing resources, geographic placement such as convenience to transportation modes, skilled workforce, capital and other factors.

Incentives to increase private investments in rural areas.

If the community can market their assets, combine or leverage their resources, and establish local leadership to drive their efforts, they can bring new opportunities to their community.

Communities must partner with institutions, both private and public, to bring a complimentary array of resources to bear that will help build the community's capacity to attract and retain commercial enterprises.

To support the increase in economic investments in rural America, I am working toward implementation of two important business investment programs: Rural Business Investment Program and a low documentation business and industry guarantee loan program.

#### Close

Let me close by sharing with you my belief that rural America has many opportunities to not only survive, but to thrive.

Governance does begin at the local level.

Rural Development is firmly committed to the future of rural communities, and it is our desire to work in partnership with other Federal agencies, and private and public organizations to support a strong economy and create a brighter future for rural America.

Thank you.