

Written Statement for the Record

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GROW IOWA FOUNDATION provides capital for small business, industrial, manufacturing and affordable housing projects within southwest Iowa. Since 1996, Grow Iowa has invested more than \$5.4 million, creating approximately 1100 jobs and 109 housing units.

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Thank you Mr. Chairman for this opportunity to address ways in which the Rural Development portion of the 2007 Farm Bill can help create the vibrant rural communities that we all desire.

I am Debra Houghtaling, Executive Director of the Grow Iowa Foundation. Grow Iowa is a nonprofit organization that provides capital for small business, industrial, economic development and affordable housing projects in 21 counties in southwest Iowa through 8 lending/development pools. In its 11-year history, Grow Iowa has invested \$5.4 million back in southwest Iowa -- \$4 million into business and economic development projects and \$1.4 million into affordable housing projects. These investments have leveraged an additional \$17 million of capital invested into our region and helped facilitate the creation/retention of approximately 1100 jobs and 109 housing units.

Grow Iowa was started in 1995 by the Southwest Iowa Coalition, Iowa's oldest regional economic development membership organization, because of the recognition of the importance of having our own financing entity in southwest Iowa. The original seed money came from \$800,000 through the USDA's Intermediary Relending Program (IRP) matched by \$200,000 raised from participating counties. Since that time, Grow Iowa has expanded its capitalization to include grant and loan funds from state and local government, corporate and foundation sources. We continue, however, to enjoy a productive partnership with USDA Rural Development – Grow Iowa is currently the largest IRP lender in the state of Iowa with three IRP loan pools of \$2.1 million, has received a Rural Business Enterprise Grant, and has been a capacity building grantee for two regional Rural Community Development Initiative grants. In addition, our borrowers access several additional USDA programs.

As we look to crafting the 2007 Farm Bill, I'd like to share with you what has worked in our region, what struggles we have faced and what needs to be done in partnership with the federal government. My comments focus on three key areas that I believe will help create the vital rural communities we all desire: fostering regional collaboration, promoting entrepreneurship and sparking private investment.

Foster regional collaboration. Out of necessity, southwest Iowa seemed to figure out the importance of acting regionally long before it was an economic development buzzword. The Southwest Iowa Coalition (SWICO) was formed in 1991 with the recognition of the fact that the small individual communities dotted across southwest Iowa faced an uphill battle to access resources, economic development tools, and attention. A constituency (exclusive of the Council Bluffs, Iowa metropolis) of almost 185,000 rural residents, however, had much more powerful voice and could play a more active role in defining its future. SWICO currently boasts dues paying members that include city and county governments, chambers, economic development organizations, cooperatives, businesses, banks and individuals. It focuses its work on economic development in a variety of forms and has standing committees that include transportation, housing, technology training, value-added agriculture, lobbying/legislative issues, rural water, workforce development and regional marketing. Although working regionally is critical for rural communities to succeed, there is very little financial support or resources to stimulate collaboration.

What Will Be Important Moving Forward: The proposed Rural Collaborative Investment Program is an important commitment to regional rural competitiveness strategies. RCIP recognizes the lesson that SWICO learned 16 years ago – rural communities must band together to build new approaches to compete in today's economy and it's most helpful if regions can define themselves, their most urgent needs and possible solutions. One of the keys to SWICO's long-term success is its open and collaborative approach – the fact that anyone who has

something to contribute can become involved helps to empower local leaders to participate and address local issues. It would be a mistake for RCIP to be “pick winners” by a process that grants too much power and control to a single purpose regional entity rather than a regional approach that allows for the involvement of diverse interests, networks and local leaders.

Promote entrepreneurship. Rural people have always been entrepreneurial, but for too long economic development success in rural regions has rested on recruiting large manufacturing and industrial businesses away from other locations. To reverse the damages wrought by job loss and out migration, rural communities need to focus more attention on homegrown entrepreneurs. Homegrown companies tend to be smaller, are less likely to relocate, and provide a more diversified economic base than towns with a large single employer. We have a perfect opportunity right now to convince young people to stay in rural America or to recruit them, and others, “back home.” Technological advances and the burgeoning e-commerce industry can allow someone in Greenfield, Iowa to access markets and employment opportunities that previously had only been available if they were located in major metropolitan areas. The opportunities are at hand and endless; what is needed are systems that promote and support entrepreneurship as an increasingly important form of economic development in our communities.

Because of the need for training, supporting and financing rural entrepreneurs, Grow Iowa Foundation has joined forces with the Southwest Iowa Coalition, Wallace Foundation for Rural Research and Development, Iowa State University Extension and Southwestern Community College to form the Rural Development Resource Center (RDRC). With a communications hub located in Red Oak, Iowa, the RDRC has mobile specialists that are providing business development consulting one-on-one and in a classroom setting, financial packaging, value-added agriculture services and product to market avenues for both existing and potential business owners within a 22-county service in southwest Iowa.

The RDRC will also serve as a support system to local economic development directors in the region that will reduce or eliminate duplication of effort on their part and will provide them with additional resources and area-specific experts. The combination of technical assistance and marketing channels will help current and prospective entrepreneurs and will help create more economically vibrant communities. Also, as rural regions strive to re-emphasize entrepreneurship, it is increasingly important to focus on young people. A rural community benefits by keeping a young people in the community or recruit back its former residents because they can create their own livelihood. The RDRC has explored ways to create young entrepreneur centers or incubators that would give these young people an environment to create their own income while learning the new opportunities of entrepreneurship in rural communities.

Grow Iowa’s current loan pools are certainly an important component to the region’s entrepreneurial support system. Over half of the businesses that we have financed were startups while another third were business expansions. Although Grow Iowa has achieved a very low loss rate that rivals that of most banks, there is a critical need for additional technical assistance to both potential and current borrowers. Even most of our successful borrowers need assistance with accessing markets, using technology, managing day-to-day operations and expanding their business. Furthermore, most of the capital programs are focused on financing for real estate and equipment financing needs, leaving very little capital available for very small and micro business financing needs or for technology-driven businesses that once needed an urban environment in which to thrive. There is a critical need for microloans which are defined as financing of less than \$35,000 – most banks and even intermediaries shy away from this form of lending because of its time and resource commitment as well as the necessary technical assistance many smaller businesses require to succeed. While access to capital in rural areas is critical and USDA Rural

Development has played a major role in providing capital to intermediaries, there are few technical assistance resources that allow intermediaries to help ensure that the businesses they finance remain successful.

What Will Be Important Moving Forward: The proposed rural microenterprise program ensures access to additional forms of capital needed by prospective and current entrepreneurs. Its addition of technical assistance and capacity building grants will be critical to ensure the success and sustainability of both the financing intermediaries and the ensuring businesses.

Spark private investment. It's an obvious conclusion that government resources – whether they are federal, state or local – cannot be the only financial lifeline for rural communities. Through the 2007 Farm Bill, Rural Development can take key steps to ensure that additional private investment is also helping to improve rural communities. Private investment may come in a variety of forms – community foundations, equity and venture capital, and financial leverage. Rural philanthropy is a critical component for reinvestment into communities that have historically received underinvestment from outside sources. According to Iowa's Community Vitality Center study, there is \$5 billion in wealth that annually transfers through probate. Harnessing a portion of that wealth could make a substantial contribution to rural areas. Rural philanthropy has received renewed attention in Iowa which has a tax credit for grantors as well as a means to invest gambling revenues in mostly rural counties. Rural Development should encourage should encourage community foundations and endowment building for entrepreneurship, economic development, and other areas of community life. This encouragement can be important in helping communities organize themselves and tap their own wealth as it increasing passes to the next generation who may no longer live locally. The burgeoning renewable fuels industry in Iowa and other states also creates an opportunity for additional investment into rural regions. Private investment can also occur through intermediaries such as Grow Iowa which is a US Treasury Department-certified community development financial institution (CDFI) and member of Opportunity Finance Network (OFN), a national CDFI trade association. CDFIs have a history of using their own financing to significantly leverage additional funds into under-invested communities. OFN reports that CDFIs leverage an average of \$27 additional dollars of investment for every one dollar of financing.

What Will Be Important Moving Forward: Through its Rural Development programs, USDA can place an emphasis on sparking private investment through two main channels. 1) Encouragement of community foundations and endowment building for entrepreneurship, economic development and other areas of community life. 2) Because of their history of leveraging additional resources, USDA should specifically add CDFIs as an eligible applicant for its business programs.

Thank you again Mr. Chairman for the opportunity to testify before you today. The future vitality of our rural communities depends upon crafting new Rural Development approaches that meet the current realities and opportunities facing these communities. I would be pleased to answer any questions you have.