uses for the PEG channel and more funds become available for such programming, both of which events usually occur over a short period of time if the operator and the government cooperate, additional channels and equipment can be added to the PEG access program.

... Local officials initially will need help in acquiring the basic knowledge and skills to regulate cable in a more aggressive fashion. The following organizations can provide information and assistance to interested officials to help them adopt a more appropriate and contemporary attitude toward cable television. The first two organizations can provide a more complete set of desirable franchise provisions than given in this article. The third organization is especially useful for more information on PEG access channels.

Cable Television Information Center (CTIC)
1500 North Beauregard St., Suite 205
Alexandria, VA 22311
(703) 845-1705

National Association of Telecommunications Officers and Advisors (NATOA)
1301 Pennsylvania Ave., N.W.
Washington, DC 20004
(202) 626-3115

National Federation of Local Cable Programmers (NFLCP)
906 Pennsylvania Ave., S.E.
Washington, DC 20003
(202) 544-7272

Telecommunications Research and Action Center (TRAC)
P.O. Box 12038
Washington, DC 20005
(202) 462-2520

Small cities and rural areas have few guidelines on how to organize and plan for local development without large infusions of outside money. This article may help change that situation. The authors identify characteristics of successful local development organizations, their strategies, and how State government can help. Their findings and examples are based on interviews with State officials, local development organization staffs, and business development consultants.

Smaller cities and rural areas face a range of economic development problems. Though their responses differed, we found many examples of locally controlled, community-based efforts aimed at local economic development. Those projects built on the resources already in the local economy: natural resources, existing businesses, and, most important, the talents, skills, and energies of the local population. These small-scale projects were undertaken to strengthen the local business sector and guided by people living in the area, often with some help from State or Federal Government or other outside sources. Their aim is to influence economic activity for the benefit of all residents by:

- Improving income, employment and self-employment opportunities, and net tax revenues,
- Improving the long-term stability of the local economy.
- Improving, or at least maintaining, the local quality of life and work,
- And otherwise enhancing the well-being of the local population.

Joint public-private initiative is essential in local economic development efforts. Many projects are not sufficiently profitable to attract strictly private investments, yet they require an approach more flexible and entrepreneurial than usual for public agencies. Economic development, a long-term process, requires strong committed leadership to sustain the effort. This leadership can be more effective if it operates through and is supported by a local development organization (LDO): a private agency with close ties to both the private and public sectors.

Local Development Organizations

Whatever their form, successful LDO's share certain characteristics: flexibility, strong and creative leadership, solid local support, adequate funding, and competent, dedicated staff.

Flexibility means that LDO's must be willing to experiment, to learn from mistakes, to respond to changing circumstances, and to seize opportunities. The Mendocino Fisheries Improvement Program (Mendocino County, Calif.) exemplifies these traits. Begun in 1978, it evolved over 3 years from a project funded by the Comprehensive Employment Training Administration (CETA) into a permanent stream clearance operation funded by California's Renewable Resources Investment Fund. During the 3-year period, the organization's leaders tested and reassessed a variety of activities, seeking the right
mix of marketable services to provide a stable base of support. After an unsuccessful venture with marketing wood-waste products, the program settled into stream reclamation and three related activities: salvaging redwood from streams and manufacturing redwood products, counting salmon populations (for the State’s Fish and Game Department), and advising timber companies on stream clearance methods.

In addition, the program director worked for State legislation in support of stream restoration; for example, a proposed tax incentive allowing timber companies to write off restoration expenses. Any such incentive for stream clearance would increase the private sector demand for the services of the Fisheries Improvement Program.

Despite the benefits of flexibility, some development organizations carry flexibility too far. They take on a wide range of disparate activities, changing from year to year depending on funding. An organization with limited staff may thus spread itself too thin, losing its effectiveness and its primary focus on economic development.

Leaders of LDO’s must have a vision of how the local economy can be developed. They need sustained commitment, and they must realize that rewards will be slow in coming.

A classic example of strong leadership resulting in a strong organization is the Economic Development Corporation (EDC) of Shasta County, Calif. The EDC’s director believed that development in the local economy had to start with intensive community education, that new investment could be attracted only by a well-prepared community, and that expansion of locally based companies was the area’s best strategy. He also believed that the EDC had to cultivate a good relationship with bankers and business leaders and stay aloof from politics.

After a 2½-year educational campaign, he sold $250,000 worth of no-interest, nonguaranteed 15-year notes to local residents and businesses. That seed money, supplemented by an Economic Development Administration (EDA) grant, built the first phase of an industrial park in the late 1960’s. Park locations sold quickly. The park expanded and, after 11 years, the EDC boasted 60 tenants, 1,200 employees, and more than $12 million in sound loans. (The EDC acts as a loan packager for EDA and Small Business Administration 502 loans.) The director, with a 15-year track record, also had gained respect as an intermediary between industrial and environmental interests.

While some of the success of EDC’s industrial park and loan program is due to the area’s natural potential as a regional center, we give much credit to the director’s vision, steadfast commitment to expansion of local business, and leadership ability.

Local support is essential for a successful LDO, since an LDO functions best as catalyst and facilitator, rather than as independent actor. One of the first audiences to be wooed is the local business community, particularly bankers and investors. To gain their support, the LDO must make clear that it intends to help local businesses and banks, not compete with them. It must convince the local financial and business establishment that a revolving loan fund, for example, will not take business away from local banks, but will instead open up new deals for bank participation and help develop new businesses. Acceptance by local business community usually leads to political support.

The Corporation for New Enterprise Development (CNED) of western Louisiana shows how an organization undertook more and more successful projects as it gradually won the business community’s support. Funded by the local community action agency in 1975, CNED floundered for its first few years. It was then restructured, the staff was reduced, and board members with needed skills and connections were recruited, including a banker, a lawyer, and an accountant. It built credibility by undertaking small, manageable projects, and by 1984 was operating a $600,000 self-supporting revolving loan fund and loan guarantee program with the participation of local banks and businesses. In the first year of lending, CNED’s own loans and guarantees totaled $300,000 and were responsible for creation or retention of about 100 jobs.
LDO’s Vary in Size, Mission

A typical LDO in small cities and rural areas is structured as a local development corporation or private nonprofit association. Most have small professional staffs (1–5 members) and boards of directors, which often represent local bankers, business owners, professionals, and community leaders. Some LDO’s, especially those with low-income orientation, are structured as membership organizations, open to all voting citizens of the area. Others have no membership but are private nonprofit organizations.

The mission of LDO’s includes creating or preserving jobs, often placing particular emphasis on jobs for low-income residents. LDO’s can perform a variety of functions, from developing industrial parks and packaging business loans to counseling individuals who wish to start businesses. Many LDO’s offer financing to local businesses, while others concentrate on nonprofit services such as business counseling, organizing marketing cooperatives, or conducting market research to identify new local opportunities for business starts.

Rural LDO’s arise from a variety of sources. Some have grown out of Federal antipoverty programs (community action programs, federally assisted community development corporations, CETA programs, or low-income housing development efforts). Others have spun off from regional councils of government. Still others were created by business leaders to take advantage of Small Business Administration or other public loan assistance programs. Others were organized by church-related civic groups.

LDO’s range in scale from small organizations that operate a single project (such as a farmers’ marketing cooperative) to large, sophisticated local development corporations that administer multimillion dollar business financing programs.

Regardless of an LDO’s overall funding, local fundraising is a good strategy since it allows the organization to build local support while it raises money. The EDC of Shasta County, as noted, raised $250,000 from local businesspeople and bankers after an intensive community education program.

An innovative funding approach is used by the Maine Development Foundation, a statewide private, non-profit development organization with close ties to both State government and private industry. The foundation solicits annual contributions from corporations, towns, and other public and private entities, who in return for their contribution become voting members of the foundation. Money from the solicitation is matched by a State appropriation.

In addition to administrative funds to support staff, many LDO’s seek money to administer revolving loan programs or other business financing tools. In the past, local organizations secured funding from the EDA or the National Rural Development Loan Fund. Some LDO’s created credit unions to use members’ deposits as a source of development capital. Others obtained Community Development Block Grant (CDBG) funds, State grants, or funds from the Local Initiatives Support Corporation (LISC). Yet others, HEAD, for example, an Appalachian regional association of cooperatives, created a revolving fund using interest-free loans from churches.

Staff of LDO’s include volunteers, but the organizations need paid staff to operate successfully. As discussed earlier, leaders of many successful LDO’s believe that it is most important to hire staff who know the local area and can communicate with local people. Technical skills such as business counseling or loan packaging can be learned on the job, especially if experienced local people can advise the staff. Basic interpersonal skills are harder to acquire.

Some organizations recruit board members with needed skills. Others look to their funding sources (foundations, State government, or others) for organizational development and technical assistance.

The ideal LDO serves as an initiator, catalyst, and facilitator of development projects and a source of technical and financial assistance to local businesses. In doing so, the organization may take on a number of functions: business counseling, market research and venture initiation, mediation, loan packaging/financing, and industrial development. The range of activities undertaken should depend on local circumstances: the services lacking in the area, the capacity of the local economy to use new services, and the ability and resources of the organization itself. Few organizations, of course, spring up full-blown, performing the complete array of development functions. They evolve over a period of years, adding some functions and dropping others, depending on what works best.

\[1\text{LISC is a national organization based in New York City that mobilizes and orchestrates regional foundation and corporate support for community economic development projects.}\]
Many LDO’s have suffered for want of viable development strategies. Some are involved in efforts to attract industries to their areas. Yet that strategy has had uneven impacts in rural areas. Other activities provide LDO’s with more options and allow them to rely more heavily on local resources and talents. Three such approaches are:

- helping existing industries expand;
- developing local small business, through counseling or financing;
- spurring initiation of new enterprises.

While these approaches are relevant to all smaller cities and rural areas, they may be absolutely essential to economically depressed areas and places unattractive as locations for new branch plants recruited by State agencies.

**Expanding Existing Industry**

LDO’s can often help local manufacturing companies expand. Such companies have great needs for physical capital: land, infrastructure (roads, waterlines, rail spurs, and the like), buildings, and equipment. They are also likely to be stable well-managed enterprises, financially solvent, but having trouble financing growth. Programs for expanding such industries generally offer two types of assistance: infrastructure contributions and financing for plants and equipment purchases.

The public sector can provide the important industrial infrastructure in smaller cities and rural areas lacking basic facilities like water and sewer services. Industrial parks are particularly appropriate in rural areas because they concentrate industrial activity in a small area and thus save land for agriculture, forestry, and other nonindustrial uses. However, industrial development should be approached cautiously. Many smaller cities that have built industrial parks, usually with Federal aid, have ended up with idle and costly infrastructure. Infrastructure construction should be either part of a larger economic development strategy or designed to meet the needs of locally owned plants that have already committed themselves to expand in the area.

Financial assistance to expanding industries is another widely provided service that LDO’s should consider. Companies often seek tax-exempt sources or public programs to finance expansions. For example, industrial development bonds have been used extensively for expansions. States and localities have become more active in financing development and will assume larger roles in response to the Federal restrictions on the issuance of industrial development bonds.

The lack of an appropriately trained work force can cause plants to look elsewhere for expansion. A publicly funded training program can allow a company to expand locally. Subsidized training can also help ensure that the economically disadvantaged share in the new hiring. In its first year (1984), Tennessee Valley Authority’s Existing Industries Program offered access to these services plus others such as energy audits and operational cost analyses through its local power distributors.

Public support for expanding industries can be an effective approach to local economic development when there is a healthy local economy, a solid base of locally owned industries, local support for industrial development, and, of course, local firms with the market and desire to expand. The strategy involves little risk because it builds on existing investments in strong firms. And it can generate a relatively large number of new jobs directly and through multiplier effects with infrastructure development, financing, skills training, and other services.

**Developing Small Business**

In most smaller cities and rural areas, small businesses (50 or fewer workers) are the mainstay of the local economy. These businesses are usually operated in the retail, service, or light manufacturing sectors. Most are owner-operated, undercapitalized, and earn low profits. Many owners have little or no formal business training. Some may lack basic skills in bookkeeping, financial planning, and marketing; others are beset by personnel and tax problems. Others need more sophisticated planning and marketing skills. All of these small businesses rely heavily on commercial bank financing but, for several reasons, have difficulty in borrowing capital at affordable rates: they lack sufficient collateral, they cannot present a convincing business prospectus, and they are generally perceived as high-risk ventures.

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**About the Research**

This article is based on two studies, The Facilitator’s Role in Collaborative Rural Development, published in 1981 by MDC, Inc. (Chapel Hill, N.C., telephone (919) 968-4531), is a 200-page study which includes detailed case studies of local economic development activities in California, Kentucky, Maine, Massachusetts, North Carolina, Oklahoma, and Vermont. In seeking organizations and projects to study, the authors tried to select success stories. Success was, however, hard to quantify, especially since many of the organizations studied were young and few had data on the long-term impact of their projects.


The U.S. Department of Labor (1979-1981), the Tennessee Valley Authority (1982-83), and the Ford Foundation (1983-84) provided support for the research used to develop this article. The authors are responsible for the conclusions drawn from the research, which do not necessarily reflect the opinions of the organizations funding the research or the organizations with whom they are affiliated.
An effective small business development strategy must address the basic needs of small businesses for financial, managerial, and technical assistance. Such a strategy will help new businesses start and help existing businesses expand into more profitable and viable ventures.

Business counseling is the least expensive and possibly the most cost-effective approach to small business development, particularly for business owners untrained in financial analysis, marketing, and business planning. They do not always need sophisticated or complex help. A program staffed by a generalist with access to consultants for special problems can help businesses improve their profitability, assess their expansion potential, and obtain bank financing. Often a person who can communicate well with local business owners can help more than one with formal business training.

The essence of counseling and technical assistance programs lies in helping business owners identify and solve their specific problems. The programs lead the business owner through a series of questions about goals (short-term and long-term), the current state of business, known risks, and other basic issues. The result may be simply a decision to expand or to change the business’s focus, or counseling may result in preparation of a detailed business plan for presentation to a bank loan officer.

Although business counseling and technical assistance programs can help small businesses obtain bank financing, many businesses need additional financing as well. Consequently, many LDO’s offer supplemental financial assistance to small businesses: direct loans, loan guarantees, or equity capital. Direct loans are most common. LDO’s can make capital available to businesses not otherwise able to get a loan, they increase the amount of money a business can borrow by leveraging bank financing, and they can lower the cost of capital by offering below-market interest rates.

Vermont’s Job Start Program, for instance, a $500,000 fund capitalized by State appropriations in 1977, lends money to very small businesses (“cottage industries”) that cannot qualify for private financing and helps them get off the ground by offering low-interest loans. In its first 2 operating years, with 178 loans totaling $425,000, Job Start claimed to have created 98 jobs and sustained an additional 111. All borrowers had annual household income below $12,000. The Mountain Association for Community Economic Development (MACED) in eastern Kentucky draws on a $500,000 revolving loan fund capitalized by EDA in 1980 and has access to additional funds from the Appalachian Regional Commission, made available through the State development finance authority. In its first year of operation, the revolving loan program made 10 investments totaling $170,000 and creating approximately 200 jobs. For every $1,000 it loaned to local businesses, MACED leveraged $5,000 in private financing.

The two most critical elements for small business development are technical assistance and financial assistance. Although business counseling alone can help businesses expand, it can achieve much more in combination with a revolving loan fund. Today, with only two remaining sources of Federal capitalization for revolving loan funds (CDBG and

LDO’s in Action

The Wimbledon (N. Dak.) Community Improvement Corp. bought this old bank building for $1 and converted it to a community health clinic. It’s been in operation since 1983. The remodeling of the building was paid for by donations and a number of fund raisers.

The Community Improvement Corp. also built a new cafe building and helped finance startup of a lumber company within the past 4 years.

^The Small Business Administration has many useful publications to assist in the business planning process. Other sources geared to small businesses include Upstart Publishing Company’s Business Planning Guide, The Business Owner (monthly publication), and Capital Publishing Corporation’s Guide to Venture Capital Sources.
Developing New Enterprise

The less economic activity an area has, the smaller the economic foundation for expanding existing industries and small businesses, but the greater the role and challenge for an LDO to initiate new enterprises. To do so, an LDO must research local opportunities for new businesses and seek people to start such businesses, or even start the ventures itself. This approach entails higher risk and requires a stronger LDO than other strategies. But when successful, the approach can boost the local economy by sparking the creation of a network of local businesses that build on local resources and provide mutual support.

In seeking opportunities for new enterprises, the LDO should first inventory the local economy, looking for underused resources: natural resources, human resources, or infrastructure to provide the bases for new businesses. Next, it should examine carefully the local and nonlocal markets for new products to determine whether a product or service can be produced competitively and how the LDO can capture an adequate market share.

Natural-resource-based development is of particular interest because so many rural areas have renewable resources such as timber, fish, and waste products of primary industries, that have never been tapped to their full market potential. Such development not only creates new jobs by spawning new ventures, it also enables people already working in farming, fishing, logging, and similar occupations to raise their income and gain a more stable livelihood. New products based on natural resources may be able to build on skills already present in the local population and create jobs for many of the area's unemployed workers. Finally, the creation of one natural-resource-based business often stimulates other businesses, thus creating linkages throughout the local economy. The LDO should also consider the input requirements of local businesses, especially manufacturers. Local businesses may be importing items that could be produced locally.

After the product has been identified, developed, and test-marketed, the LDO must either find an individual to operate the business or run the enterprise itself. To initiate the venture, the LDO must arrange debt and equity financing.

Eastern Kentucky's MACED stimulated the development of new enterprises built on an underused local resource: wood. MACED researched business opportunities, conducted feasibility studies, scouted out entrepreneurs, and helped them obtain financing. The resulting businesses include sawmills and wood products manufacturing plants, linked together in buyer/supplier relationships.

The State Role

While these strategies are all local, initiated in most cases by a local development organization, State government support can be critical. State efforts at economic development traditionally focus on recruiting branch facilities and helping to finance industrial development. Indirect influences are derived from the State's taxing, spending, and regulatory policies. We sought out models for a different State role: support for locally initiated, locally controlled economic development efforts. We found three categories of such State activities: providing technical assistance and funding for LDO's, financing local business development, and coordinating the activities of economic development agents.

California offered an instructive model. In the late 1970's and early 1980's, two State agencies approached economic development by building up the capability of local development organizations and nurturing small businesses. The State's Employment Development Department's rural economic development strategy was based on the realization that economic development requires time, local commitment, and support. Over the years, the Department supported fledgling organizations, tolerating their mistakes as part of the learning process. California's Office of Local Development similarly helped build up LDO's by contracting them to provide technical assistance to other local development groups.

If a State adopted the approach advocated in this article, it would concentrate on helping LDO's to promote industrial expansion, small business development, and new enterprise development. It would target its assistance to areas where organizations were ready to take local initiative, and give priority to depressed parts of the State and areas experiencing local economic crises such as plant closings.

Services and technical assistance from the State to train local practitioners are especially crucial to smaller cities and rural areas where local support is inadequate. The State should help build skills within local organizations to increase self-reliance. In most cases, the State may need to provide specific technical assistance through con-
consultants, State personnel, university staff, or other resources. The State's role in this area can range from the minimal (educating local organizations about project ideas) to the ambitious (helping to create LDO's where none exist). In the latter case, the State will need to identify local leadership and to support that leadership in its efforts to build an organization. Massachusetts's Community Economic Development Assistance Corporation illustrates how a State can provide a nearly complete package of technical assistance and capacity-building services to local organizations.

On the matter of State financing for local projects, the evidence we collected supports two points. First, federally supported revolving loan funds in rural areas have been effective in leveraging bank loans for businesses that otherwise could not have started or expanded. Since Federal funds have become scarce in recent years, States should consider establishing their own revolving loan funds for smaller cities and rural areas. Second, State financing works best when accompanied by a strong staff to help develop business opportunities, to counsel local businesses on their expansion plans, to ensure that local workers benefit from business development, and to do competent credit analysis. This suggests that States would be wise to use LDO's as intermediaries for State financing programs targeted to smaller cities and rural areas.

Coordination is central to such State activities. To achieve success in economic development efforts, the State must coordinate its actions with local organizations and with Federal programs, State agencies must cooperate with each other and, most important, with the private sector. Coordination must also link LDO's activities with capacity-building and financing activities provided by State governments.

Rural southern Georgia's economic growth in 1976-81 enhanced the employment and income prospects for the area's white workers but had little effect on its blacks. The percentage of employed blacks declined, their weeks of work per year dropped, and most remained mired in low-skill, low-wage occupations. General economic development efforts may be unable to overcome the economic disparity persisting between blacks and whites.

Most rural development policies focus on increasing job opportunities to promote economic independence for rural families and improve their quality of life. Yet, little is known about who gets the new jobs, and more specifically, to what extent economic growth benefits those with few marketable skills. Such information will help rural planners devise development strategies to distribute economic benefits more equally.

A recent survey in rural Georgia suggests that the benefits from economic growth are not evenly distributed by race. Whites benefited more than blacks in terms of increased employment and movement up the job ladder. The employment benefits associated with migrating to a high-growth area also accrued more to whites than blacks.

A household's economic well-being depends mainly on the number of workers in the household, the wages they earn, and the total number of persons in the household. The economic position of the area's black households reflects larger households but fewer employed persons (table 1).

Table 1—Black households in Georgia larger, poorer, have fewer workers than white households (January 1982)

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>White</th>
<th>Black</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Persons</td>
<td></td>
</tr>
<tr>
<td>Total households</td>
<td>54,960</td>
<td>20,170</td>
<td>75,130</td>
</tr>
<tr>
<td>Average household size</td>
<td>2.7</td>
<td>3.4</td>
<td>2.8</td>
</tr>
<tr>
<td>Employed persons per household (1981)</td>
<td>1.3</td>
<td>1.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Average household income (1981)</td>
<td>17,030</td>
<td>10,450</td>
<td>15,200</td>
</tr>
<tr>
<td>Per capita income (1981)</td>
<td>6,410</td>
<td>3,080</td>
<td>5,313</td>
</tr>
<tr>
<td>Participated in:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public assistance programs¹</td>
<td>6.5</td>
<td>24.1</td>
<td>11.2</td>
</tr>
<tr>
<td>Food Stamp Program</td>
<td>6.8</td>
<td>27.4</td>
<td>12.3</td>
</tr>
</tbody>
</table>

¹Aid to Families with Dependent Children and Supplemental Security Income.