Transfer of Wealth in Rural America

Understanding the Potential
Realizing the Opportunity
Creating Wealth for the Future



By
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The Center for Rural Entrepreneurship is the focal point for energizing entrepreneurial communities where entrepreneurs can flourish. Created in 2001 with founding support from the Kauffman Foundation and the Rural Policy Research Institute (RUPRI), the Center is located jointly in Nebraska and North Carolina. The Center's work to date has been to develop the knowledge base of effective practices and to share that knowledge through training and strategic engagement across rural America. Working with economic development practitioners and researchers, the Center conducts practice-driven research and evaluation that serves as the basis for developing insights into model practices and other learning. The Center is committed to connecting economic development practitioners and policy makers to the resources needed to energize entrepreneurs and implement entrepreneurship as a core economic development strategy. To learn more about the Center, visit www.energizingentrepreneurs.org.

The Rural Policy Research Institute (RUPRI), founded in 1990, provides objective analysis and facilitates public dialogue concerning the impacts of public policy on rural people and places. RUPRI's research infrastructure includes diverse teams of researchers and practitioners, both across the U.S. and internationally, investigating the complex challenges and emerging opportunities in rural and regional development. This portfolio includes policy analysis and decision support, research and outreach, coordinated through a core team in Missouri and Washington, D.C., who support the work of national initiatives, panels and centers, **including the Center for Rural Entrepreneurship**. To learn more about RUPRI, visit www.rupri.org.

The Inter-Generational Transfer of Wealth (TOW) analysis is a service of the RUPRI Center for Rural Entrepreneurship. Original founding support to develop the TOW analysis was provided by the Nebraska Community Foundation (NCF). For more information about NCF, visit www.nebcommfound.org. Subsequent support was provided by RUPRI and regional funding partners. The TOW analysis is designed to help rural communities understand the potential behind the inter-generational transfer of wealth so that they can become more strategic about realizing this potential and reinvesting in ways that create greater wealth in rural America in the future.

CHAPTER 5

The Right Moment for Community Development Philanthropy



The first section of this book provided the framework for understanding American wealth and the fundamental national and global economic restructuring that stands to impact wealth creation in this country in the years and decades ahead. We introduced new scenarios for the transfer of wealth opportunity that take into consideration this restructuring and, as a result, we assume that households will be more challenged to accumulate assets and create wealth as compared to the past. And, we shared evidence of communities and states that are using this scenario analysis to make the case for community give back in a variety of important ways.

Now we turn our focus to realizing the wealth creation opportunity – to making the important connection between wealth creation, wealth capture, and the reinvestment of that wealth in ways that stimulate community economic development. In many ways, this is the right moment to consider how communities and regions across the country can create a homegrown pool of development resources. There are significant and likely long term constraints on the traditional development resources that communities and states have come to rely on to fund infrastructure, housing, and business development – in essence, the building blocks for community economic development. At the same time, access to locally controlled development resources can:



- **Empower local and regional decision making as leaders have a means to translate vision into strategy and action**
- **Encourage civic democracy as more people become stakeholders in determining the community's vision for the future**
- **Enhance social and environmental justice as community residents exercise more control over how their assets are used and for whose benefit**

The Current Funding Context

Just as the Great Recession has impacted the wealth holdings of most Americans, this economic crisis has had a profound impact on federal, state and local units of government and on the philanthropic community – important supporters and funders of local and regional economic development. In commenting on the impact of the economic crisis on community development finance, Mark Pinsky, CEO of Opportunity Finance Network, defined the "new normal":[1]

> "The new normal" reflects the seismic shift underway that will result in fundamentally and permanently different market practices, rules, and realities than those anyone working in financial services and community development has ever known. The systemic and structural changes of the past two years, and those likely over the next one to two years, create a financial marketplace that is distinctly different from the market of the past thirty years.

What does this "new normal" mean in terms of access to development resources, particularly in rural regions? Funding for economic and community development has become more constrained at all levels – federal, state and local, and among philanthropic institutions. There are no easy answers to the challenge of accessing resources for economic and community development but it is clear that no single unit of government or even the public sector at all levels will be able to provide the support needed without working together with private and philanthropic institutions.

At the federal level, the budget crisis has risen to historic levels. In March 2011, Congress passed the sixth continuing resolution for the FY 2011 budget – almost six months into the 2011 fiscal year. Over those six months, the failure to pass a budget and commit federal resources to authorized economic development programs created uncertainty that trickled down from federal agencies to state governments, regional development organizations, and local communities. The ever increasing budget deficit has placed intense pressure on elected leaders to curb discretionary spending, including community and economic development programs. As one example, President Obama's FY 2012 proposed budget called for significant reductions in three program areas that have historically been important sources of funding for economic development in local communities and regions – U.S. Department of Agriculture Rural Development programs, Community Development Block Grants administered by U.S. Department

of Housing and Urban Development, and Community Services Block Grants administered by U.S. Department of Health and Human Services.[2] Additional cuts in economic development funding resources proposed by the Congress suggest that, regardless of the outcome of future budget negotiations in Washington, D.C., the "new normal" in terms of federal spending on economic development is likely to be one of limited resources. As further evidence of this new austere environment, you need look no further than the highly partisan debate in summer 2011 leading up to the last minute deal to raise the debt ceiling and cut over $2 trillion in federal spending.

In the immediate wake of the Great Recession, the federal government provided some emergency fiscal relief to state governments designed to help them weather the economic storm. In spite of this assistance, most states made deep cuts in spending in 2009-2011 to address budget deficits. And the pain is expected to continue – for FY 2012, 44 states and the District of Columbia are projecting budget shortfalls of $112 billion.[3] At the same time, the federal government's temporary fiscal relief will drop to only $6 billion in FY 2012, or about 5% of these projected shortfalls.[4] As a result, state and local units of government will be forced to make tough decisions about discretionary spending; providing essential services will take precedence over more strategic, long term investments in economic and community development.

One trend that is likely to continue in terms of allocating federal and, perhaps in response, state resources is the emphasis on cross-jurisdictional and cross-agency collaboration. The U.S. Department of Housing and Urban Development Sustainable Communities program provides one example of this emphasis.

> When they formed the Partnership for Sustainable Communities, the Department of Housing and Urban Development (HUD), the Department of Transportation (DOT), and the Environmental Protection Agency (EPA) agreed to collaborate to help communities become economically strong and environmentally sustainable. Through the Partnership and guided by six Livability Principles, the three agencies are coordinating investments and aligning policies to support communities that want to give Americans more housing choices, make transportation systems more efficient and reliable, reinforce existing investments, and support vibrant and healthy neighborhoods that attract businesses.[5]

This collaborative focus has drawn the attention of other federal agencies, including the Department of Agriculture. If this initiative indeed represents a trend in how public sector resources are allocated, the implications for communities and regions are clear.[6] Working in isolation, hanging onto generational community animosities (e.g., old high school sports rivalries), and competition across county lines must be replaced by an attitude of regional collaboration and a willingness to work hand in hand with the private sector, including philanthropic institutions, to move community economic development forward.

The philanthropic community, often an important resource for community economic development programs, has also been shaken by the Great Recession. According to the Foundation Center:

> The worst economic crisis since the Great Depression resulted in the biggest reduction in U.S. foundation giving on record. In 2009, the nation's more than 75,000 grantmaking foundations cut their giving by an estimated 8.4 percent, or $3.9 billion . . . Findings from the Foundation Center's annual "Foundation Giving Forecast Survey" suggest that 2010 foundation giving will remain flat . . . Should poor housing sales, increasing oil prices, persistent unemployment, or other unforeseen factors not derail the economic rebound that began late last year, it appears likely that foundation giving will show positive, albeit very modest growth in 2011.[7]

History suggests that while foundation giving does bounce back after a downturn, such as the recession in the early 1980s, it does take time.[8] For regional economic development organizations and non-profits across the country, the coincident decline in public and philanthropic resources has created a particularly steep challenge – one that many organizations have been unable to overcome. Rip Rapson, President of the Kresge Foundation, commented on how the economic downturn "continues to reverberate through the nonprofit sector, imposing unimaginable hardship on millions of people unable to navigate their way in the new economic order and tightening the vice-like squeeze nonprofits feel between heightened demand for their services on one side and reduced revenue flows on the other."[9]

Homegrown Development Resources

With the decline and uncertainty associated with traditional development resources, communities and regions across the country are searching for alternatives. One way to create a sustainable, long term source of development resources, or assets, in rural regions is to create appropriate vehicles for capturing some portion of the wealth created in rural places and investing it to support future development and innovation. There is broad appreciation for the importance of helping *individuals* build assets – financial assets they build and control; skills they acquire through education, training and/or job experience; the home they own. These individual assets represent investments – they improve the prospects for meaningful and living wage employment, they represent the "nest egg" for starting or growing a business or educating a child. There is much less emphasis on the importance of *community asset building* – creating a pool of resources or wealth that the community owns and controls and invests for the future. However, communities across the country are experimenting with models of local ownership and control of assets as a key part of their economic development strategies.

The need for homegrown development resources is not just a post-Great Recession phenomenon. In a 2007 publication on rural philanthropy from the National Committee for Responsive Philanthropy, the importance of local philanthropy was described this way:

> Without locally-controlled philanthropies, rural states, regions, and communities risk losing potential wealth… In today's climate, it appears that rural communities are working against more forces than with them. Federal policy has been sluggish at best in responding to persistent rural poverty, addressing widening telecommunications gaps in remote place, cultivating environments ripe for entrepreneurship and forward-thinking economic development, and redressing ineffective farm policy. These mounting struggles are only met by an uninterested private sector that won't profit from serving small rural bases, and a largely absent philanthropic sector. Rural foundations, therefore, make sense.[10]

Suggesting a need for more "rural foundations" begs the question of how to create and support such foundations. Fortunately, community foundations are an important and growing part of the American philanthropic landscape with particular relevance to rural places. According to the Coun-

cil on Foundations, there were 717 community foundations in the U.S. in 2007. In 2008, these institutions were responsible for $4.6 billion in giving and they served 86% of the U.S. population.[11] Earlier research supported by the Aspen Institute found that 90% of community foundations served at least some rural territory. In addition, these foundations were creating a growing number of "geographic component funds" – established to serve a particular place and guided to some extent by the people in that place. And, almost ¾ of these funds were primarily rural.[12]

While there are other models for "keeping wealth local",[13] community foundations offer one well articulated means of capturing and institutionalizing wealth for individual and community betterment.[14] At the same time, harnessing locally grown wealth – building endowments that can support sustainable investments in regional development – is not a short term strategy. Leaders must continue to pursue partnerships with public agencies, rural utilities, regional foundations, and other organizations that can provide support for operations and programs in the near term. To insure sustainability and resilience for the future, community and regional leaders must be willing to shift their focus from getting by in the short run to investing for the long run. Having access to homegrown development resources is a necessary part of this long term vision. It also requires moving toward a more strategic form of community philanthropy that works hand in hand with economic and community development.

Community Development Philanthropy

There has been a movement of sorts over the last decade to define a new philanthropic niche or focus – community development philanthropy. Janet Topolsky, co-director of the Community Strategies Group at the Aspen Institute, defines community-based philanthropy as "any philanthropic fund created through giving and investment from local or outside sources that is dedicated to benefit a specific rural place and its people."[15] Community economic development has been defined as:

> A specific kind of economic development that explicitly recognizes the social and political aspects of community life that influence an economic situation in a particular geographic region. It engages people in face-to-face discussions regarding local control and community development. It is grassroots, empowering, synergistic, and inclusive. It is forward thinking and asset-based yet considerate of local resources

and the natural environment. It provides direct, tangible benefits to the community in economic and noneconomic ways.[16]

Community *development* philanthropy combines the tools of community economic development with community-based philanthropy. It is the *intentional marriage of community economic development and philanthropy*.[17] Community development philanthropy provides a powerful complement to the transfer of wealth analysis by helping to answer the important question raised at the end of Chapter 4 – capturing wealth to invest in what?

The Aspen Institute, using the term *rural development philanthropy*, describes it as:

A community-led approach that creates locally controlled assets and invests them to strengthen rural places. It builds a community's ability to shape a better future and promote the well-being of all community members. It unites the tools of community, economic and resource development, engaging all people to come together with their ideas, strategies, talents, and giving.[18]

What does all this mean for rural communities and regions? One, the emphasis on "locally controlled assets" – homegrown development resources as we have defined them – means that communities are empowered to use these assets to support the development strategies that matter most to them, an antidote to following the dollars and losing strategic focus. For example, if a community embraces entrepreneurship education for high school and community college students as one way of creating an entrepreneurial environment, they may choose to invest local dollars in such efforts, even when most funding resources are focused solely on job creation outcomes. Two, rural development philanthropy encourages community leaders to focus on making investments that "strengthen rural places." This approach implies a long term view of development, a focus on creating wealth, and consideration for sustainability and not just short term job or income creation. Three, by emphasizing the "well-being of all community members," rural development philanthropy is a community building strategy. As described by Janet Topolsky, "Low-population rural areas must tap every resource possible to build a sizeable endowment, so they are motivated to work across class and race and culture boundaries to build them together."[19] This process will bring new energy and insights

to the table – building social capital at the same time that the community works together to strengthen the local economy.

What is distinctive about community development philanthropy is that it is about more than amassing charitable resources. It goes beyond *giving to growing* – building stronger, more sustainable and resilient rural places because of the investment of locally generated and leveraged philanthropic assets. This pool of development resources can be influential in attracting both private and public sector dollars to rural communities. It is evidence that a community believes in itself and is willing to invest for the future – an alluring attitude for other potential funders.

While community foundations can be found across the rural landscape, there is a smaller but very committed core group of foundations that have embraced rural development philanthropy. To really understand how these foundations are taking a different and more strategic approach to community philanthropy, the next chapter will share some of their stories and the lessons from this important work.

The Case for Community Development Philanthropy

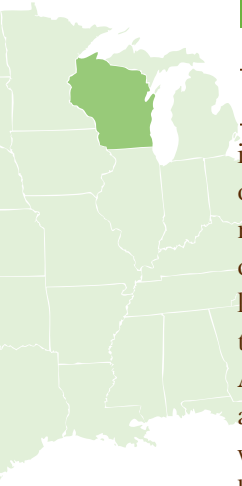
In our currently challenging economic environment, it is not unreasonable for rural community and regional leaders to wonder if they can afford to have a long term vision, if they can afford to invest with an eye toward long term sustainability and not short term gains. The pressure to create jobs is being felt from the office of a local economic developer in rural Montana to the Oval Office in Washington D.C. But, the case for community development philanthropy is not an *either-or situation*. Community leaders must be focused on making the immediate investments needed to create economic opportunities today while also taking the steps to build development capacity and sustainable wealth for the future. Community development philanthropy provides one way of thinking and acting to bridge these two time horizons.

Part of the case for community development philanthropy is tied to the transfer of wealth potential that was described earlier. When the first TOW study was completed in Nebraska, the striking result was not only the amount of wealth that could be expected to transfer across generations but also the *timing* of that transfer. Some rural counties had mere decades to respond and create the institutional infrastructure and imperative to

capture a portion of that wealth for community betterment. As rural regions continue to experience outmigration and population shifts, they are facing an enormous potential loss of wealth as current generations retire or pass on and their assets flow to family who reside outside rural areas. Rural community and regional leaders who act now and create the institutional capacity to capture and invest homegrown wealth are better positioned to support the type of strategic investments that will be needed to insure that their communities remain strong and competitive in the years ahead.

Perhaps the best way to articulate the case for community development philanthropy is to see it in action. While the next chapter explores lessons from across the country in greater detail, the story of South Wood County Wisconsin paints a picture of community development philanthropy in action.

The Community Progress Initiative in South Wood County Wisconsin



Located in central Wisconsin, South Wood County lost almost 40% of its employment from 2000 to 2004 with the perfect storm of a declining market for cranberries, an agricultural mainstay for the county, and the closure of a large paper company. The loss of the paper plant in particular meant a loss of higher paying jobs and a decline in community leadership capacity. While the need for short term solutions was strong, the county launched a three-year Community Progress Initiative (CPI) – a collaborative partnership between the Heart of Wisconsin Business and Economic Alliance (the county's chamber and economic development organization) and the Community Foundation of South Wood County. The goal of CPI was to "create vibrant communities with prosperous local economies"[20] by focusing on supporting new business development, building endowed charitable assets, fostering a stronger community spirit and creating a shared vision across the county.

Although all the pieces of this innovative initiative were instrumental in its success, according to a case study of CPI, "the importance of private philanthropic support cannot be underemphasized. Private money offered local residents an immediate opportunity to invest in development efforts that they believed would stimulate the kinds of changes they wanted to see."[21] Working through the community foundation, Progress Funds were established for each of the seven communities covered by the initiative.

These funds provided a source of homegrown development resources that could be used for investments that might not have attracted funding from outside the community. To encourage community support for the Progress Funds, CPI drew on the transfer of wealth analysis completed by the Center for Rural Entrepreneurship for the Donor Forum of Wisconsin and encouraged residents throughout the county to "Plant the Seed – Build a Stronger Community."[22]

The end result for South Wood County? During the initiative's three years, the community witnessed the creation and/or diversification of 30 businesses – creating 245 and retaining 77 jobs. The initiative built social capital – a resource network of 3500 people who can be mobilized to address future issues and who, for the most part, had not previously partnered for the benefit of the community. Initiative leaders have brought the latest and best thinking to the region, and have taken community leaders on study tours to learn from other innovative leaders. As importantly, hope for the future has replaced the despair that had become prevalent by 2004.[23]

The community foundation played a key leadership role with the Community Progress Initiative. It continues to take the lead in community development philanthropy through its Workforce Central Funders Collaborative – a project that uses philanthropy to create a pool of $2 million to support workforce efforts in the county, a critically important piece of a community development strategy. This capacity was rewarded with the only federal Social Innovation Fund grant received by an organization serving a rural region.[24]

A Note on Shared Value

In a *Harvard Business Review* article, Michael Porter and Mark Kramer make the argument that creating shared value is the path toward innovation and growth for the U.S. and world economies. Shared value is defined as the "policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates."[25] This idea moves beyond the concept of corporate social responsibility to embrace what Jason Saul calls "social innovation" – creating economic value through positive social change.[26] Social innovation answers a critically important question – "how do you generate business value through solving social problems?"[27]

Where does the concept of creating shared value or social innovation fit

into a discussion of American wealth and community development philanthropy? In the new challenged funding environment for rural communities and regions, engaging the private sector – from small, locally owned businesses to major corporations – is critically important. How to structure and facilitate that engagement, however, becomes the challenge for rural leaders. By framing discussions in terms of shared value, rather than philanthropy, communities and regions have a stronger case to make to potential private sector partners. The interdependency of communities and businesses is at the heart of shared value. As articulated by Porter and Kramer:

> At a very basic level, the competitiveness of a company and the health of the communities around it are closely intertwined. A business needs a successful community, not only to create demand for its products but also to provide critical public assets and a supportive environment. A community needs successful businesses to provide jobs and wealth creation opportunities for its citizens.[28]

Embracing the concept of creating shared value will require a change in thinking on the part of rural economic development leaders. The focus must be on creating value – benefits minus costs – and not simply implementing programs. It will also require a regional focus, and recognition of rural – urban interdependencies, particularly in terms of identifying potential business partners. It will also require organizational capacity to facilitate conversations between and among community and regional leaders and businesses. Community foundations, particularly those who have embraced community development philanthropy, could play a role in facilitating these conversations.

Final Thoughts

With diminished federal funding, limited national foundation focus on rural people and places, and continued economic challenges that must be addressed, rural communities and regions are between the proverbial rock and a hard place. If community leaders want to create a brighter future for themselves and their children, they need to have more control over how rural assets are used to generate wealth and how that wealth is captured for the benefit of rural residents. President Bill Clinton offers hope to rural leaders through stories and lessons learned from a new generation and tradition of American philanthropy in his book,

Giving. He emphasizes a new philanthropy rooted in the "Three Ts" of time, treasure and talent. Today, we recognize that gifts, both large and small are important. The time given by one resident of a community to mentor another is as valuable as the financial gift from a high net worth family. Both advance a collective commitment that we all should give based on our means and passion. None in society should take a pass and all are obligated to be philanthropic. This vision of philanthropy enhances and embraces democracy where everyone is a part of defining needs and supporting solutions.

Community development philanthropy provides the tool needed to turn this hope into reality – to make an intentional connection between the power of community-based philanthropy and the strategic focus provided by community economic development. The transfer of wealth opportunity scenarios described earlier in this book provide the compelling storyline for taking action – suggesting that the time is now for harnessing homegrown development resources of time, talent and treasure. Providing inspiration through the stories of how this is being done across rural America is the topic of the next chapter.

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About the Authors



Don Macke is a co-founder of the RUPRI Center for Rural Entrepreneurship. He pioneered the first state and county level transfer of wealth study for the Nebraska Community Foundation in 2001 and 2002. Since then Don has been part of the TOW Research Team evolving a robust and ever expanding collection of TOW and community development philanthropy related work. Don has over 35 years of community economic development experience working throughout North America.



Dr. Deborah Markley is a co-founder of the RUPRI Center for Rural Entrepreneurship where she serves as the Managing Director and research team leader. Deb has served as the editor for this book and contributed to the writing of numerous chapters. Deb has extensive experience in rural community economic development leading a team that has conducted extensive documentation and evaluation work focusing on successful development strategies.



Ahmet Binerer joined the RUPRI Center for Rural Entrepreneurship shortly after graduating from the University of Nebraska with a degree in information management. Ahmet is a core member of the TOW Research Team. He leads research and scenario modeling efforts. Ahmet's talents have greatly enhanced the Center's ability to expand the quality and breadth of our TOW and community development philanthropy work. Ahmet is currently working on a Masters degree in economics and is a new first time father.

Questions & Additional Information

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Thoughts from our Partners

The Nebraska Community Foundation uses an asset-based approach in its community building work. We're interested in helping local leaders transform their communities. To change and evolve, community leaders must first believe. NCF uses the transfer of wealth opportunity to help community leaders better understand the indigenous assets that exist in their community and to motivate them to reach out and ask their friends and neighbors to invest in the future of their hometown. Then, once the philanthropic assets are endowed, NCF works with community leaders to make impact grants that generate greater opportunities for everyone to live and work in their hometown. This book shares lessons learned from the genesis of rural Transfer of Wealth in Nebraska to ongoing initiatives in other regions as motivation for leaders in rural communities to embrace community development philanthropy.

Jeff Yost
President and CEO
Nebraska Community Foundation

After members of our local community foundation Board and other community leaders visited the Nebraska Community Foundation in September 2006, we came back to Pickaway County Ohio with new enthusiasm. While in Nebraska, we learned about HomeTown Competitiveness (HTC) and the Transfer of Wealth (TOW). Through a process of visioning and community focus, we developed a community agenda targeting philanthropy in support of education, leadership and agriculture. As part of an ongoing process, we continue to learn about, develop, and adapt the TOW resources to the unique perspectives of our community.

Shirley Dunlap Bowser
Founding member
Pickaway County Community
Foundation (Ohio)

In rural America, there are many who believe population loss and economic decline are foregone conclusions. While a global answer may be difficult to find, there are opportunities to reverse these trends at the local level. The Transfer of Wealth analysis provides an opportunity to pinpoint the areas where assets are leaving communities most rapidly, and to communicate a strategy to capture some of those assets before they are gone. Ultimately, these assets are used to address the issues that brought a particular rural place to the brink in the first place. This tool is the starting point for re-investment into rural areas.

Bob Sutton
President
South Dakota Community Foundation

The extraordinary changes facing this nation leave an uncertain picture of our future. Don Macke and his colleagues at the RUPRI Center for Rural Entrepreneurship have given states and local communities insights into one powerful way to prepare for whatever lies ahead. They demonstrate that, collectively, we have tremendous wealth and that if we all set aside even a small amount of that wealth in community endowments, we can assure that our communities prosper and are positioned to take advantage of the opportunities that change will offer.

Mike Hammons
Executive Director
Kentucky Philanthropy Initiative

Transfer of Wealth in Rural America demystifies the community foundation's role in Community Development Philanthropy. This book is a must for community foundations engaged in rural economic development that are looking for a guide to tie wealth transfer, regional leadership, civic democracy and social justice to their missions and visions.

Donnell Snite Mersereau
Vice President, Community Foundations
Council on Michigan Foundations

Center for Rural Entrepreneurship
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TOW Transfer Of Wealth

ISBN 978-0-615-55830-1