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 7

The Wealth Creation Process

Understanding community development philanthropy, both in theory and in practice, is an important first step for communities interested in creating pools of development resources that can supplement increasingly constrained public sector funding. While philanthropy cannot replace the core functions of government, it can provide the necessary institutional structure and resources to enable the process of community development. But, it is not enough to focus on the *process* of community development philanthropy. Rural regions in particular also need to figure out how to *create and retain more wealth* that can fuel both give back and community building. To do that, community leaders need to have a better understanding of the wealth creation process – its foundational elements and the importance of cultivating a give back ethic. Those topics are the subject of this chapter. The wealth creation process, in turn, is driven by the entrepreneurial energy, creativity and skills that are resident in each region. We will turn our attention to understanding this important driver of wealth creation in Chapter 8.

Foundations of Wealth Creation

The wealth building process for communities and nations is complex and dynamic. Within this complexity, however, are critical leverage and tipping points that offer opportunities to change wealth creation in a regional context. For community and regional leaders, understanding this process and how it can be energized and supported is a key first step in designing development strategies that move beyond a narrow, more traditional focus on job creation to a more holistic development approach.

The first critical step in understanding this process is to define what we mean by *wealth*. We tend to associate wealth with financial assets, and indeed the focus of the TOW scenario analysis is on understanding the dollars that will flow from one generation to the next. However, the process of wealth creation is really about creating *multiple forms of wealth* – the skills and abilities of individuals, creativity and innovation, infrastructure, natural resources and amenities, networks of people who get things done, political influence and voice, and financial wealth that is directed by local people. While we may focus our economic development efforts on generating financial wealth, the process of creating that financial wealth is dependent upon increasing the stock of the other components of wealth at the same time.

It is also important to distinguish between the creation of *community* wealth and the creation of *individual* wealth. For communities, building wealth is a process of asset-based development – identifying the assets that can be the inputs to a development process, connecting those assets to demand, and building the organizational capacity to respond. It is also dependent on the creation of institutional capacity to capture wealth for community betterment. The creation of individual wealth is more dependent on the skills and capacities of individuals, and to some extent their families – creativity, innovation, education. However, a nurturing environment can facilitate and strengthen this process. Building wealth requires attention to both the community and the individual wealth building processes, and the many parallels between them.

Creating Community Wealth. In the mid-1990s, through the work of Kretzmann and McKnight, asset-based development became an increasingly accepted way of looking at the process of community economic development.[1] Asset-based development is fundamental to community wealth building in three ways. One, it is an appreciative process; it looks positively at what capacities communities and regions have rather than focusing solely on constraints. It asks what communities have to build upon rather than focusing on the holes that need to be filled or the deficits faced. These assets are the ingredients with which wealth is built over time. Two, asset-based development is locally driven. It is based on the community's vision – what it values and wants for the future – rather than an agenda imposed by outside interests. The process depends upon and is directed by the creativity, passion, talents and entrepreneurial spirit of local residents and leaders. These traits are as important to the process of building community wealth as they are to building the wealth of individuals. Three, asset-based development is a shared responsibility. It is not something one organization can do on its own, whether an economic development corporation, local government, or a community-based organization. It requires collaboration and relationship building. The process helps to build social and political capital, key components of community wealth overall.

In the mid-2000s, the community capitals framework added additional insight to the process of building community wealth.[2] By focusing on the need to build multiple forms of capital, or wealth, Flora and others articulated a framework for turning assets into capital. Assets, when invested in ways that create additional resources in a community or region, become capital. For example, "a community rich with elders has assets in historical knowledge, a diverse population, and a base of information about the past and wisdom for the future. If a mentoring program is developed with the elders and youth, then the asset is invested, becoming capital."[3] The community capitals framework has become a planning tool for considering the impact of development or investment decisions on multiple forms of wealth. For example, a decision to support the location of a new manufacturer in a community could increase the skills of local residents who are trained to work in the plant while also degrading the natural environment through pollution. The framework helps local decision makers think more broadly about how wealth is, or is not, created in the community by the economic development decisions that are made.

More recently, the Ford Foundation has supported a new approach to creating wealth particularly in distressed rural communities. In addition to the principles of building on assets, encouraging collaboration and focusing on the creation and measurement of multiple forms of wealth, Ford's work goes beyond asset-based development and community capitals in three important ways:[4]

- It takes a systems perspective, recognizing that efforts to create wealth need to focus not only on creating multiple forms of capital but also on the interactions between them. The approach is guided by a principle of "do no harm" – that you do not build financial capital, for example, by destroying natural capital.
- The wealth creation approach intentionally connects rural communities to the larger economy by connecting with demand – demand for the products and services derived from rural assets. These connections are based on the development of *value chains* – business models that are built on a series of mutually beneficial relationships between participants all along the chain, from producers to processors to wholesalers to consumers. Through the construction of value chains, such as sustainable agriculture or certified sustainably produced forest products, lower-wealth areas are connected to higher-wealth areas in ways that benefit both regions and create more wealth.
- The approach emphasizes the need to create new institutional arrangements for keeping wealth local. It is not enough to create more wealth if some of that wealth is not owned by the community and used for the benefit of the community. As discussed throughout this book, community foundations are one organization that has the capacity to capture some of this wealth for community betterment. However, cre-

ating institutional capacity is not sufficient. It is also important that community foundations create strategies for making investments in the community that reinforce the wealth building cycle. In short, they need to practice community development philanthropy.

Creating community wealth requires building on assets, making strategic investments that turn those assets into multiple forms of wealth, and then creating the capacity to capture and institutionalize a portion of this wealth for individual and community betterment. In this way, a virtuous cycle of wealth creation is possible even in the most economically distressed rural regions. Foundational to the process of building community wealth is increasing the assets and wealth of the individuals that are committed to that place.

Creating Individual Wealth. Just as community wealth building is an asset-based process, an individual's ability to create wealth starts with an initial set of assets – personal attributes, inherent creativity, family support and circumstances, financial resources. Key among the personal attributes that form the foundation for individual wealth building are motivation, or drive, and passion. Motivation can come from an inner drive, a desire to achieve beyond humble beginnings or to overcome some adversity, or a need to live up to the expectations of family and peers. Passion, on the other hand, is deeply felt and personal – it comes from a commitment to a particular direction or endeavor. It is what propels an entrepreneur forward, from a nascent idea to a successful business, and what sustains those who fail and try again.

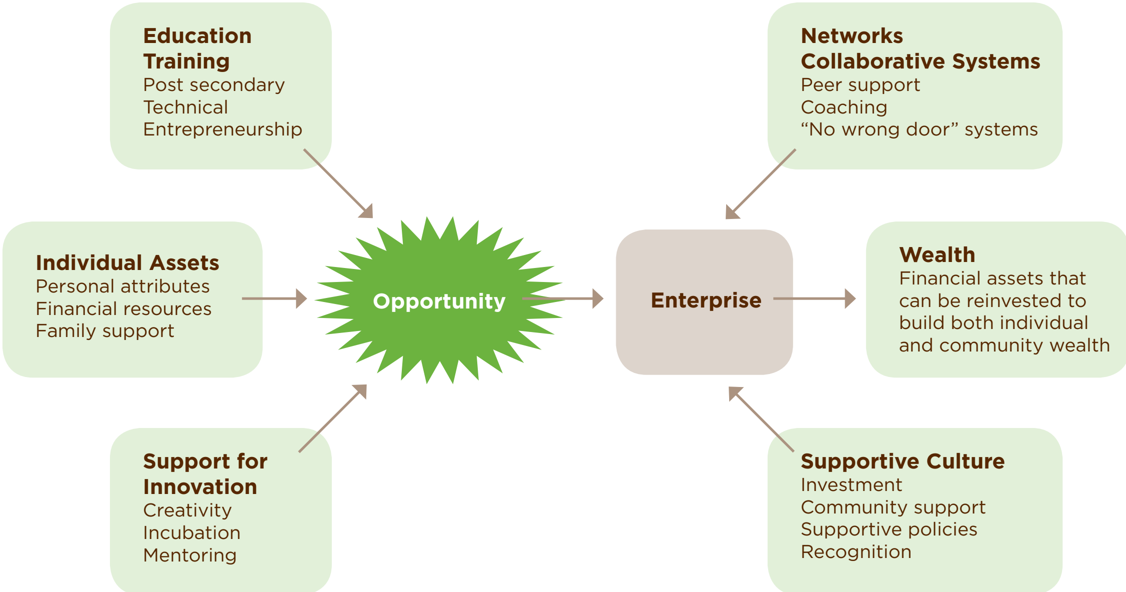
In entrepreneurship circles, there is an ongoing debate about whether entrepreneurs are made or born – whether you can become an entrepreneur through skill building or whether it is, essentially, in your genes. While most entrepreneurship development practitioners accept that entrepreneurs can be created with the right set of supports, there is also evidence that your exposure to entrepreneurship, through family and even co-workers, can play a part in decisions to take an entrepreneurial path in life.[5] This underlying set of experiences, then, becomes another part of the asset mix from which you are able to build wealth over time.

Assets are the starting point to the process of individual wealth building. However, the real engine of the wealth creation process is an opportunity or at least a belief that an opportunity exists. A hallmark of the American experience is the belief that, with hard work and initiative, opportunities can be seized and realized. By the millions, people throughout the world have come to America because of this belief and history is full of the achievements of immigrants who have turned opportunities into wealth for themselves and their families. There are also far too many examples of what happens in communities that lack opportunity or hope for the future. The despair and lack of vision for a better tomorrow can be overwhelming and inhibit the ability of individuals and families to build wealth over time. One of the key leverage points for communities in the individual wealth creation process is helping to create a stronger sense of hope and opportunity for community residents through such initiatives as Individual Development Accounts (matched savings plans), first-time home buyer tax credits, scholarships for education and training, and microenterprise development programs.

Creating Wealth through Enterprise Development. While the combination of assets with an opportunity can put an individual on the path to wealth creation, there are a number of factors that influence the success and potentially the magnitude of wealth creation in a particular place. Our experience at the Center suggests that enterprise development plays an important role in wealth creation. Chapter 8 will explore the importance of entrepreneurship to individual wealth creation, and the ways in which communities across the country are supporting the process of enterprise development as one way of growing both the economy and rooted wealth. Just as the TOW scenarios have stimulated conversations about the potential for wealth capture, this wealth creation process suggests possible intervention points for community and regional leaders, as discussed later in this chapter. Figure 26 provides a simple illustration of wealth creation through enterprise development.

Education and Training. Education has proven to be a remarkably powerful tool in enabling and driving progress. As described earlier in this book, educational attainment is a primary indicator of personal success as measured by household wealth. Education and training continue to be pathways from poverty to expanded personal choice and success. It is important to note that education today is so much more than the "3 Rs." True education embraces how to lead, work in teams, and think creatively, as well as an understanding of the global nature of the world today that is acquired through life experiences rooted in travel, meeting other kinds of people and discovering the full range of art, culture and landscape.

Figure 26 - Creating Wealth through Enterprise Development



Support for Innovation. There is growing consensus that the future of the American economy lies in our ability to support innovation. In the face of a continued slow recovery from the Great Recession, the word has become a standard feature of political speeches on both sides of the aisle. Fareed Zakaria summarized the importance of innovation in this way:

> America's future growth will have to come from new industries that create new products and processes. Older industries are under tremendous pressure. Technological change is making factories and offices far more efficient. The rise of low-wage manufacturing in China and low-wage services in India is moving jobs overseas. The only durable strength we have – the only one that can withstand these gale winds – is innovation.[6]

From the perspective of building wealth, providing support for innovation means encouraging creativity. Richard Florida and others have researched and written about the growing importance of creativity and the creative class to the rise of the knowledge-based economy. But just fostering creativity is not sufficient; creativity must lead to innovation and ultimately commercialization of ideas for new wealth and prosperity to be realized. Supports such as incubation and mentoring can be important tools for moving creativity from the mind to the marketplace.

As assets and opportunity, combined with support for education/training and innovation, are networked in meaningful ways, new wealth creation becomes possible through the vehicle of enterprise development. The importance of entrepreneurship to the wealth creation process was evidenced earlier by the strong positive relationship between self-employment and wealth holding in the U.S. (chapter 2).

Networks and Collaborative Systems. Enterprise development requires the motivation and passion of the entrepreneur, among other assets, unleashed in pursuit of an opportunity, but these alone are not enough to achieve success. Building a business requires experience, gained in the trenches and shared by peers. Malcolm Gladwell talks about the 10,000 hour rule – when someone has invested 10,000 hours into learning how to do something, they reach a proficiency tipping point.[7] While spending 10,000 hours does not guarantee that one will become a world class architect, engineer or sports figure, it does suggest that gaining deep and extensive experience enables a level of proficiency that, in our example, can transform motivation and passion into the knowledge necessary to launch and grow a successful venture. This knowledge and experience can be gained through peer networking, coaching relationships with experienced entrepreneurs, and connecting to service providers who can help to shorten the learning curve. Some entrepreneurs will use this experience to create the best coffee shop in town and others will create transformative ventures like Google, Microsoft, or Apple.

Supportive Culture. Entrepreneurs do not create businesses in a vacuum – they are affected at every turn by the culture within which they operate. The U.S., with its relatively stable and business-friendly legal and regulatory systems, has demonstrated a consistently strong environment for entrepreneurship compared to other developed countries.[8] There are regions across the country that are notable for their support of start-up activity and nurturing new enterprises – Silicon Valley in California, Research Triangle Park in North Carolina, and Austin, Texas. And there are suburban and rural communities that have achieved recognition for their support of entrepreneurs, including Littleton, Colorado and Fairfield, Iowa.[9]

A supportive culture goes beyond regulations and infrastructure however. A community culture of entrepreneurship recognizes and appreciates what it takes to create a new business – hard work, passion, commitment, willingness to fail and try again. It is a culture that celebrates the personal success that can come with business success, and the new wealth that is created. And, it encourages – even *requires* as the Tupelo, Mississippi experience attests – a spirit of giving back to support the further development of this culture over time, enabling communities and regions to renew themselves economically and socially.

Connecting Individual and Community Wealth Creation

For the wealth creation process to become robust and sustainable, it must be nurtured and supported, and there must be a strong connection between individual and community wealth. If individual wealth is created through enterprise development, as described earlier, there must be vehicles for capturing some of this wealth for community betterment. Chapters 5 and 6 explored the importance of community development philanthropy as one mechanism for capturing some portion of the individual wealth created over time in a community or region, and investing in ways that increase wealth for individuals, families and the community.

Using the TOW scenario analysis demonstrates the potential behind strategies to capture even a small portion of individual wealth created in particular places. As one example illustrates, this potential is great:

> In a typical American community with 25,000 residents, the 50-year transfer of wealth potential is $2.5 billion. This is not a particularly wealthy community but average with respect to its level of household wealth. If just 5% of the wealth created over this period were given back to the community via endowment building, a foundation of over $125 million could be grown. A foundation of this size, in a community of this size, could generate conservatively $6 to $10 million each year in perpetuity – money that could be invested for community betterment. Imagine the power of having such an institution in your community and what this kind of annual investment could mean in supporting community and economic development projects.

These transfer of wealth numbers represent *potential*; to realize this potential will require the cultivation of a strong spirit or ethic of giving back in communities and regions across the country.

Cultivating a Give Back Ethic. A give back ethic moves people from ownership of their personal success to embracing the value and responsibility of supporting the very systems that enabled their success. We see this give back ethic deeply cultivated within systems of higher education. Universities and colleges have built elaborate approaches that ensure alumni remain connected and are aware of give back opportunities. Collegiate sports, the arts, humanities and engagement in development provide case statements that can motivate alumni to contribute their time, talent and wealth. Through the endowments this give back culture has built, we have witnessed the growth and development of higher education in this country, and its expanded impact both here and abroad.

Community foundations across America are beginning to learn these lessons and deploy increasingly sophisticated give back strategies. As we have worked with foundations across the country, there appear to be three key elements that are essential to stimulating and growing a give back ethic – engagement, expectations, and opportunities.

Engagement. Growing a philanthropic culture requires community engagement. Individuals who feel they are an important part of a community, whether through participation in a small informal social group or a larger formal organization, take ownership of their community. This ownership creates the potential and the drive for active engagement and, ultimately, give back. The desire for engagement extends to a community's youth as well as adults. Through the Center's youth engagement work, there is evidence that the attitudes of young people change with active and appropriate engagement in the community. They begin to see themselves as a real part of the community, and typically develop a far more favorable view of the community as a place to live and work. Ultimately, youth are more inclined to return home as engagement increases. These lessons suggest that communities can build engagement strategies that will grow social capital, expand civic capacity and promote give back that generates development resources over time.

Expectations. Modeling values early in life creates lasting impressions. Children who grow up in families and communities that actively encourage giving back of time, talents and treasure are likely to embed these values into their lives going forward. At the same time, adults, like children, are not immune to peer pressure and, as an expression of social norms, this pressure can be important and valuable. The simple act of a respected couple leaving part of their life's work and wealth to the community through a legacy gift sends a powerful message. With each such gift, the community creates an expectation that giving back is important and something that *everyone* should do, according to their ability. As the experience in Tupelo, Mississippi suggests, expectations can play a powerful role in encouraging a "community culture" of giving back.[10]

Opportunities. For the ethic of giving back to truly root and become robust, community leaders must assume responsibility for creating a persuasive and broadly shared vision for the future, presenting to donors how their gifts can build a better community. The case statement for giving back does not stand alone; it must be supported by a track record of sound management and accountability. Compelling and well articulated opportunities for give back become powerful motivators and can increase and broaden the range of philanthropic giving the community experiences. Images of a new library with space for all – children to elders – may spark the imagination of one set of donors; a youth entrepreneurship camp and business plan competition may excite another. Communities must invest in processes of public visioning, project development and communication of opportunities for giving back; there are no short cuts. This process creates passionate and informed advocates who can illustrate and share opportunities with donors, and ultimately leads to greater success with both endowment and community building.

Creating an Ethic –
Lessons from the World of Recycling

While the idea of recycling is old – whenever resources become constrained, we tend to engage in recycling to make due – the ethic of recycling is relatively new. The environmental benefits of recycling are pretty straight forward. By recycling what we have already produced, we dramatically decrease the environmental footprint and impact as compared to new product development. In spite of the relatively clear value associated with recycling, it moved from an activity associated with environmentalists to an ethic as it became more mainstream. Children across America took recycling lessons and ideas home from school, 4-H Clubs and Scouts. They engaged parents, grandparents and neighbors in recycling. The industry responded with recycling symbols and broader opportunities to recycle. Ultimately recycling reached an economic and social tipping point and it became widely accepted and adopted.

Considering how quickly recycling transitioned from an isolated idea to a mainstream ethic, there are lessons to be learned and applied to cultivating an ethic of giving back. During the development of the first state-level transfer of wealth study for the Nebraska Community Foundation in the 1990s, discussions were held with board members about possible goals for community give back. True to the conservative and practical culture of Nebraskans, someone suggested a 5% give back rate and it took root. As more and more community leaders explored this rate of giving back, it assumed credibility as reasonable to achieve yet significant in its potential impact. Just as with the concept of recycling, the idea of setting a community give back goal became accepted practice. Local residents understood the rationale for giving back – communities nurture and enable individuals and families to succeed; they provide education, recreation, health care, markets and workers for factories and farms. Given all that communities provide, giving back just 5% of the wealth grown in each place made intuitive sense. A give back ethic was born.

Final Thoughts

Our transfer of wealth work suggests a significant and looming opportunity – or threat – for regions across the country, particularly in rural places, as the wealth created by the current generation passes to the next. Equally important, however, is a discussion about how to grow and retain wealth in these regions – to increase the multiple forms of wealth or capital that are necessary ingredients for resilient, thriving communities and regions. Based on the Center's work over the past decade, creating more wealth, particularly in persistently poor rural communities and regions, will require focused efforts to build the assets, broadly defined, of individuals, families, and communities; to support the entrepreneurial aspirations of rural people, particularly those entrepreneurs who launch businesses with growth potential; to establish institutionalized structures for capturing some component of this rooted wealth; and to create strategies for making investments in the community that reinforce the wealth building cycle.

The process of building individual wealth intersects with the process of growing community wealth in two important ways. One, the community has an important role to play in helping individuals and families create wealth. For example, support for individual asset building strategies such as Individual Development Accounts can build wealth at the mouth of the pipeline by making possible investments in education, home ownership and business ownership/entrepreneurship.[11] Investments in entrepreneur-focused economic development strategies provide the support infrastructure that will encourage innovation and make it possible to help some entrepreneurs grow from micro to Stage 1 and 2 businesses, creating both individual and community wealth. Two, by establishing an ethic of giving back and building institutional capacity through a community foundation, the community creates both the rationale and vehicle for capturing a portion of the individual wealth created in place. Both roles for the community are essential if a virtuous cycle of wealth creation is to take hold in rural regions across the country.

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10 Vaughn Grisham and Rob Gurwitt, p. 60.

11 For those interested in learning more about effective strategies for building individual assets, we suggest starting with CFED's website – www.cfed.org. A good overview of rural asset building can be found in Roy C. Lopez, Asset Building Taking Root in Rural Communities, *Banking and Community Perspectives,* Federal Reserve Bank of Dallas, Issue 1, 2011, http://dallasfed.org/ca/bcp/2011/bcp1101-1.pdf.

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

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TOW Transfer Of Wealth

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