

# **101 Ideas**

## **For Stimulating Rural Entrepreneurship and New Business Development**

*Council of State Policy & Planning Agencies  
400 North Capitol St., N.W.  
Suite 285  
Washington, D.C. 20001  
(202) 624-5386*

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REPP.

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## **INTRODUCTION:**

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The 1980s have been marked by economic stress in rural America. The financial squeeze on the nation's agricultural sector has spread to small town main streets, while mining, forestry, and rural manufacturing businesses are also declining. The economic renaissance of the 1970s has ended and the fortunes of many rural areas have dimmed.

There is no simple formula for rural revitalization. Yet the plight of rural areas compels us to act. With little likelihood of aggressive new federal help, the impetus for rural economic development must come from state and local governments.

CSPA has long emphasized the role of entrepreneurship in economic development. More recently, our research in such diverse rural states as Arkansas, Iowa, Maine, and North Dakota showed that new businesses are a key to producing growth in rural areas. In fact, a recent national report concluded that 88 percent of the net new job growth in the rural United States came from new businesses.

Entrepreneurship or new business development has not been the traditional approach to rural development. However, while it is not a panacea, it should be an important part of any comprehensive development strategy. In some cases, this strategy may be customized to reflect unique rural conditions. In others, a statewide approach without a specified rural component may be the best approach.

The following pages list ways that states can stimulate business development by nurturing and rewarding entrepreneurial activity. The ideas in this listing are not prescriptive. Rather, they are intended to suggest the array of approaches that could be considered in constructing a rural development strategy focused on entrepreneurship or new business development. Some of these policies have already proven effective. Others are promising ideas that merit consideration. Their relevance to any individual state depends on the state's constitutional and statutory constraints, administrative practices, and the specific challenges and opportunities confronting the state's rural areas. Model programs seldom prosper when transplanted, but they can serve as the starting point for crafting a rural entrepreneurship or new business development strategy.

Finally, we list publications at the back of this brochure to provide more detailed discussions of the policies outlined in this paper.

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## **TECHNICAL ASSISTANCE, EDUCATION, AND TRAINING -- *Building the Human Resource Base***

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People willing to take a risk and start a new business abound in rural areas. Most, however, will not have entrepreneurial experience. If they are properly designed and delivered, training, technical assistance, and networks may help them succeed in business. Building effective support services and networks -- public, private, or through partnerships -- should be a goal of technical assistance efforts.

- 1. WORKING WITH LENDERS:** Encourage banks to create and support technical assistance/financing programs. Lenders are key intermediaries. If they know about programs, they can refer applicants who may have a good idea but need to develop a solid business or marketing plan. Lenders can also be encouraged to become more involved in local community development efforts and can be direct providers of technical assistance and advice to new businesses.
- 2. PROGRAM CATALOGUE:** Create a user-friendly guide listing all sources of technical assistance or training available to entrepreneurs. To someone seeking help to address a specific business problem, the alphabet-soup of agencies can be bewildering. A well designed catalogue can reach a wide audience.
- 3. POSSIBLE FUNDING SOURCE:** A surcharge on the unemployment insurance tax could fund expanded technical assistance and other supportive programs for entrepreneurs and new businesses.
- 4. RETIRED BUSINESS OWNERS:** Harness the experience of retired business owners. For a small investment to help cover expenses, the SCORE program provides one-on-one counseling from a person with credibility in the eyes of an entrepreneur.
- 5. COLLEGE AND UNIVERSITY COURSES:** Expand training programs at colleges and universities. Courses in entrepreneurship are now offered at more than 250 of the nation's colleges and universities. Formal course work can ready students to follow their entrepreneurial inclinations.
- 6. JTPA AND VOCATIONAL EDUCATION PROGRAMS:** Include entrepreneurship training in Job Training Partnership Act programs and other vocational training services. The unemployed and economically disadvantaged are often interested in pursuing self-employ-

ment. Some states have experimented successfully with using JTPA programs for entrepreneurship training for dislocated farmers and others.

**7. EXTENSION SERVICE:** Encourage Extension Service to help entrepreneurs and new business owners. This jointly-funded program has a well-developed delivery system. In many states, Extension Service has made rural development a priority. States can push for a greater emphasis on technical assistance services.

**8. SMALL BUSINESS DEVELOPMENT CENTERS:** Encourage SBDCs to provide more comprehensive services and follow-up support to new businesses. Many clients will benefit from more intensive technical assistance services than can be provided by a few hours of consultation by a graduate student or university professor. As such, many SBDCs may need to expand the range of services they provide.

**9. PRIVATE SECTOR CONSULTANTS:** Provide limited funding to new businesses to buy advice and TA from the private sector. This would also build the state's business services and consulting infrastructure as an alternative to or supplement to public sector services.

**10. INNOVATIVE DELIVERY ALTERNATIVES:** Expand the audience for training and technical assistance services through use of the media, video, and audio tapes. Since many new business owners work six day, 50 hour weeks, they can only be reached through innovative means.

**11. ADVISORY AND COORDINATING GROUPS:** Local committees, modeled after local JTPA governing bodies, could be used to advise and coordinate the many organizations that provide training and technical assistance services that may be needed by new businesses.

**12. SELF-HELP NETWORKS:** Support local efforts to build new business self-help networks. Local chambers of commerce or business groups can build contacts between new businesses and others in the community who can serve as advisors or help in problem solving.

**13. INCUBATORS:** Experiment with incubators. Incubators are a more specialized tool for supporting new business development. In addition to providing space and common support services, they should also offer technical assistance and might also offer financing.

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## **MARKETING -- Gauging New or Existing Markets**

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Information on markets is scarce in rural areas and for small or new businesses. These problems might be addressed by efforts to disseminate market information. The state or others could also help organize cooperative efforts to conduct new studies and gather more detailed information.

**14. BUILDING SKILLS:** Publish a "how-to" manual to guide new business owners in gauging client needs and market opportunities.

**15. MARKET RESEARCH COOPERATIVES:** Organize marketing cooperatives. Universities and small business development centers have the expertise to conduct market surveys. Cooperative efforts would allow small or new rural businesses to buy blocks of questions in more comprehensive marketing studies.

**16. PRODUCT CATALOGUES:** Provide seed funds for catalogues for cottage industry crafts. A hobby can become a profitable business if more market outlets can be found for these products. A catalogue could also be linked to increasing the use of telemarketing.

**17. RETAILING AT PUBLIC FACILITIES:** Lease concession space in parks and at other tourist attractions as outlets for local products. The marketer becomes a new business and can generate sales for established and new businesses alike.

**18. TRADE SHOWS AND PROMOTIONS:** Include new firm products in trade shows and missions. Existing efforts to market state products can benefit new businesses and push innovative products.

**19. NEW PRODUCT R&D:** Provide matching funds for joint university-private sector research tied to new product development. Partnerships have already been used in some states to ensure that more of the universities' R&D capacity is dedicated to practical applications.

**20. PROMOTIONAL NETWORKS:** Organize and spin off new market promotion networks. Joint promotional networks could produce and distribute catalogues and/or purchase advertising space in newspapers and magazines. In some cases, the state can serve as the spark to organize cooperative efforts that will become self-sustaining.

**21. SUPPLIER NETWORKS:** Assist in the formation of business consortiums of small or new firms to pursue larger private sector or government contracts.

**22. EXPORT INFORMATION:** Create an export information and problem-solving team with expertise in new business problems.

**23. SPOTLIGHT NEW BUSINESS PRODUCTS AND SERVICES:** Provide low-cost display space for new businesses with promising products or services at state fairs or other high-profile public events.

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### **TECHNOLOGY TRANSFER -- *Harvesting the Benefits of Technical Innovation***

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While most new businesses are not built around the development of new technology, many are involved in applying technology to their products and services. Easing the transfer of new technologies can enhance productivity and may improve the competitive staying-power of some new businesses.

**24. INCENTIVES FOR UNIVERSITY FACULTY:** Ease restrictions on outside employment by university employees and permit them to take an equity position in new ventures. This step can create more direct incentives for highly-skilled university researchers to bring innovations out of the lab and into businesses.

**25. ROYALTY AND PATENT PROFITS:** Allow the sharing of royalty or patent profits with state-employed researchers. Again, appropriate incentives can spur increased activity.

**26. TECHNOLOGY DEPLOYMENT SERVICES:** Create comprehensive technology deployment services that begin by analyzing the specific needs of new or existing businesses and provide consulting expertise on the available technologies and processes. Additional assistance on installation, worker and management skills retraining, and efforts to develop new markets should also be provided.

**27. FUNDING R&D:** Establish a matching fund to participate in partnership with others in undertaking customized research or development.

**28. COMMERCIALIZATION PRIZE:** Award an annual cash prize to the university researcher or team who have completed research with the most commercial potential.

**29. FOCUSING TECHNOLOGY TRANSFER:** Decentralize technology transfer programs into regional



organizations that are focused on specific industries and which actively involve the private sector as partners.

**30. TECHNOLOGY SEMINARS:** Sponsor sector-specific technology information seminars. The rapid pace of technological change will challenge the ability of new businesses to keep current.

**31. CLEARINGHOUSE:** Establish a technology clearinghouse to provide all state businesses with data on new patents and new ideas relevant to their industry.

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### **FINANCING -- *Improving Access to Capital***

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Financing is the most common rural development program offered by states. Where "capital gaps" exist, state funding can be used to make loans directly, share some of the lending risks, or to encourage more lending by establishing a secondary market. State-imposed regulations on lenders also effect the financing environment and merit attention as an alternative to direct state lending.

State policies must first be based on the careful analysis of hard facts. Policymakers must determine whether assumptions about rural capital "gaps" are true. For example, reports filed regularly by lenders with the Federal Reserve (call reports) provide detailed information on what portion of their portfolio is dedicated to commercial and industrial lending. Complaints filed under federal or state community reinvestment acts are another source of data.

**32. LOAN LOSS RESERVES:** Create a shared government/lender/borrower loan loss reserve pool. A kind of loan insurance pool, loan loss reserves involve payments from these partners to a fund that will help offset losses from defaulted loans.

**33. ENTREPRENEURIAL LOAN PORTFOLIOS:** Allow lenders who are in sound financial condition to create Entrepreneurial Loan Portfolios. Under current regulations, each individual loan can be reviewed by regulators and may be classified if the borrower is highly leveraged, has little long-term experience, or fails to meet other criteria. Once classified, the lender's administrative costs rise sharply. State-chartered banks (and savings and loans) could be allowed to establish "entrepreneurial portfolios" (that cannot exceed one or two percent of net worth) of riskier loans to new and young enterprises that will not be classified but will be judged on the overall performance of the portfolio.

**34. BIDCO SPONSORSHIP:** Initiate the investment of state funds in Business and Industrial Development Corporations - BIDCOs. BIDCO sponsorship may be either by private parties or by public agencies. The BIDCO, once authorized and capitalized, can become a specialized intermediary and yet another source of financing for new ventures.

**35. PENSION FUND INVESTMENTS:** Bid out a small portion of state-managed pension funds to private venture capital managers. While some states have created venture capital funds, it may be difficult to create the expertise in state government to successfully manage such investments.

**36. REGULATORY LIMITATIONS:** Ease lender efforts to work cooperatively with financially stressed businesses. For example, one state reformed its loan loss write-off regulations to give lenders more flexibility in working with financially-stressed farmers.

**37. BRANCH AND INTERSTATE BANKING:** Authorize expanded branch banking or interstate banking. Competition may encourage banks to serve local needs better.

**38. SECURITY REGULATIONS:** Set up security regulations that allow for the easy issue of new small issues.

**39. LENDER TRADE GROUPS:** Urge banking and lender associations to provide information, materials, and training on lending to new ventures for loan officers.

**40. MATCHING INVESTORS AND BORROWERS:** Establish a computerized network to match investors and new firms. Such systems are already in place in some sub-state regions.

**41. INVESTMENT LIMITATIONS:** Replace restrictions on the investment opportunities of public pension funds and state-chartered savings and loans and insurance companies with a "prudent investor" rule.

**42. EXISTING FINANCING PROGRAMS:** Review existing state financing program requirements to ensure that they can accommodate, where appropriate, lending to new businesses. Minimum loan amounts and other restrictions may preclude participation by new businesses.

**43. DIRECT LENDING AND GUARANTEES:** Experiment with using loan guarantees and direct state lending to prove the "bankability" of lending to new ventures. If the evidence shows a poor financing environment for new enterprises, the state could seek to prove the profitability of such lending through direct state involvement.

**44. SPECIAL LENDING PROGRAMS:** Set up a state lending agency that specializes in financing non-tradition-

al forms of ownership -- such as producer and marketing cooperatives and employee stock ownership plans.

**45. INCENTIVES FOR VENTURE CAPITAL FUNDING:** Provide a credit against personal income taxes for investments in public venture capital corporations that make investments in small and new businesses.

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### **THE INCOME MAINTENANCE SYSTEM --** *Entrepreneurship and the Economically Disadvantaged*

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Safety net programs, such as unemployment insurance, food stamps, and welfare, are the margin of survival for some poor households. Perhaps because self-employment has not generally been seen as a common route out of dependency, both the design and administration of these programs can make this expectation a self-fulfilling prophecy.

Self-employment or business creation are important routes to economic independence for some transfer recipients. In one survey, about a third of AFDC recipients named a specific business they wanted to start. And, as of 1984 about a third of the full-time year-round working poor were self-employed. The state and federal income maintenance system can be made more supportive of new business creation by its clients.

**46. REDUCING DISINCENTIVES:** Disregard financial aid for direct educational or training expenses when computing benefit levels or recipients will be financially penalized from participating in these programs.

**47. SUPPORT SERVICES:** Maintain support services -- medical assistance, day care, etc. -- for participants in educational and training programs.

**48. INFORMING CASEWORKERS:** Provide information to caseworkers on training, assistance, and educational opportunities that support new business development.

**49. REACHING THE CLIENTS:** Create brochures with information on education/training and assistance programs, their costs, and problems that may arise under IM system regulations as a result of starting a business or participating in education/training programs for distribution to assistance recipients.

**50. SETTING BENEFIT LEVELS:** Allow year-long budgeting in setting benefit levels for those pursuing self-employment.

**51. TREATING BUSINESS EXPENSES:** Deduct business expenses from income before calculating benefit levels under AFDC. The use of income disregards will ensure more equitable treatment of recipients who are starting businesses.

**52. WORK REQUIREMENTS:** Free recipients who are starting businesses from participation in work search or other program requirements.

**53. THE U.I. SELF-EMPLOYMENT PILOT PROGRAM:** Expand the current federal pilot program which allows Unemployment Insurance benefits to be used to support efforts by recipients to create new businesses.

**54. ENTERPRISE ALLOWANCE SYSTEMS:** Experiment with lump-sum enterprise assistance programs modeled after the British Enterprise Allowance Scheme.

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### **REGULATORY REFORM -- *Reducing Barriers and Creating New Opportunities***

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State occupational licensing and other entry barriers may thwart the development of new businesses. Other state laws may disproportionately disadvantage new businesses or create unnecessary paperwork burdens. The state's regulatory system can be reformed in an effort to improve the overall environment for entrepreneurship.

**55. REDUCING ENTRY BARRIERS:** Limit the granting of unnecessary monopoly power to businesses such as passenger transportation, freight hauling, and cable television to reduce barriers to entry for new businesses.

**56. PAPERWORK REDUCTIONS:** Consolidate permit applications to reduce paperwork and investigate paperwork reduction options for all business regulations.

**57. OCCUPATIONAL LICENSING:** Create a task force to review state occupational licensing and other regulatory requirements.

**58. IMPACT STATEMENTS:** Require business impact statements for new regulations.

**59. EASE PERMITTING RED TAPE:** Expand opportunities for one-stop permitting.

**60. TIERING REGULATIONS:** Consider tiering some regulations to reflect differences in the size of businesses which are affected.

**61. SUNSETTING REGULATIONS:** Sunset occupational licensing and other business regulations. If the

statutory basis for business regulations must periodically be renewed, oversight may be strengthened.

**62. HOTLINES:** Set up a "hotline" to solicit business input on regulations and to identify particular regulations that merit reform.

**63. HOMEWORKING REGULATIONS:** Review state home-working regulations. In some cases, home-based businesses or contracting to perform work in the home may be limited by unnecessarily restrictive state regulations.

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## **LOCAL COMMUNITY LEADERSHIP --**

### *Building Capacity*

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Local rural development efforts have traditionally focused on branch plant recruitment. Entrepreneurship and homegrown development can supplement or replace these efforts but will require community leaders to assume new roles. The ability of local community organizations and leaders to successfully undertake these new tasks will be especially important in forming a supportive climate for entrepreneurship. States can help build effective leadership with information and ideas on business creation as an economic development alternative.

**64. GAUGING THE IMPACT OF NEW BUSINESSES:** Complete region-specific entrepreneurial vitality studies showing the number of new businesses being formed and their impact on employment growth.

**65. ADVICE AND INFORMATION:** Publish "how to" booklets that can guide local communities in gauging the opportunities for and barriers to entrepreneurship in their region.

**66. TRAINING SEMINARS:** Sponsor regional economic development training seminars for community leaders and organizations.

**67. GETTING THE GOOD WORD OUT:** Disseminate examples showing how local officials have supported new business creation.

**68. STATE/LOCAL PARTNERSHIPS:** Create a special competitive fund to share expenses with innovative local self-development efforts.

**69. REGIONALIZED ECONOMIC DEVELOPMENT:** Strengthen regional planning and economic development organizations which have adopted entrepreneurship as part of their development strategy. Local leaders should also be encouraged to take a more regionalized perspec-

tive on development plans. For example, incentives for cooperation would be increased if the state required that some portion of the benefits of an expanding commercial and industrial tax base be shared among adjoining local governments.

**70. STATE SWAT TEAMS:** Establish a state advisory team that can work one-on-one with local leaders who are designing or implementing homegrown development programs.

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### **INFRASTRUCTURE -- *Investing in Basic Infrastructure Systems***

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The importance of basic infrastructure services, such as roads, water, and waste treatment to economic vitality is well understood. And the deficiency in these systems in some rural communities is also recognized. Telecommunications systems also provide essential support, and should not be overlooked. Rural telephone systems in some areas are antiquated and cannot offer some of today's advanced telecommunications services.

**71. CAPITAL BUDGETING AND PLANNING:** Establish a reliable capital budgeting and planning process to address long-term infrastructure needs.

**72. REDUCING DISPROPORTIONATE COSTS:** Set up a circuit breaker system for the distribution of waste water treatment facility construction funds. A circuit breaker will help small rural communities finance these investments.

**73. OPPORTUNITY FUNDS:** Set aside a portion of available funds to resolve critical economic development bottlenecks in rural communities.

**74. TECHNICAL ASSISTANCE:** Set up a state technical assistance team that is prepared to help rural communities with infrastructure investment budgeting, accounting, and financing issues.

**75. INVESTING IN TELECOMMUNICATIONS:** Use regulatory policies -- such as the treatment of depreciation -- to encourage upgrading of telecommunications equipment.

**76. EXPANDING LOCAL TELEPHONE LINKS:** Change regulations to allow or promote expanded local service calling zones in rural areas. This change could expand the market for goods and services across community boundaries.

**77. INTRASTATE PHONE SERVICES:** Permit more competition in providing intrastate telephone service.

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**RECOGNITION AND AWARENESS --**  
*Marshalling Community Attitudes*

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An individual's decision to risk forming a new business is based on perceptions of benefits, risks, and the options available to him or her. The strength of the entrepreneurial inclination may well be influenced by shared or community perceptions about the value of this effort. Supportive public attitudes can be reinforced through information and examples, or by the opinions of public leaders.

**78. AWARDS:** Establish a "State Entrepreneur of the Year" award to highlight the contribution of new businesses to economic development and/or encourage the awarding of "Entrepreneur of the Year" honors in rural communities.

**79. GAUGING THE IMPACT:** Issue an annual report on the level and impact of entrepreneurial vitality in the state. The report could also identify policy or program changes needed to improve the entrepreneurial climate.

**80. GETTING THE MESSAGE ACROSS:** Encourage the media to feature entrepreneurs and new businesses in their communities.

**81. NEW BUSINESS ROSTERS:** Provide information to newspapers that will allow them to print an annual roster of new businesses.

**82. DEVELOPMENT ADVERTISING:** Include examples of successful new businesses in the state's development advertising.

**83. SELLING THE ENTREPRENEURIAL ENVIRONMENT:** Development advertising could be used to stress the attributes that make the state a good place to start a new business.

**84. POWER IN NUMBERS:** Urge state business groups to organize a caucus of new business owners who can contribute to new self-help networks for these businesses.

**85. SPEAKERS BUREAUS:** Organize a "speakers bureau" of experienced entrepreneurs and officials involved in successful self-development strategies.

**86. THE SCHOOLS:** Encourage schools to include successful entrepreneurs in career days and to have local

business people cooperate as mentors for students interested in pursuing careers in business.

**87. ENTREPRENEURSHIP CLUBS:** Encourage the formation of clubs and other activities for both adults and youth to stimulate entrepreneurial exploration.

**88. SCHOOL-BASED BUSINESSES:** Establish programs in the schools in which students plan, then start, their own businesses.

**89. STATE COORDINATION AND STRATEGY SETTING:** Form a cabinet council of state agencies involved in development, education, and training programs to investigate and report on the state's entrepreneurial climate and to recommend alternative approaches to improving it.

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### **OUTREACH -- *Getting the Word (In and) Out***

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To some, starting a business will require negotiating a maze of requirements and regulations and sorting out the programs and agencies that are involved in regulating or assisting businesses. Outreach efforts should establish two-way communication -- giving businesses more readily digestible information and soliciting their advice on how state policies and programs can be made more responsive to their needs.

**90. PUBLIC MEETINGS:** Hold statewide or regional forums to tap the ideas of new business owners on regulatory reform and better gauge the barriers to new business development.

**91. "HOW-TO" GUIDES:** Create a "New Business Information" packet with brochures on crafting a business and marketing plans and how to meet regulatory and permit requirements.

**92. REFERRAL HOTLINE:** Establish a toll-free clearinghouse for businesses to call for advice and referrals on business problems.

**93. ADVERTISING AND MEDIA COVERAGE:** Use television/newspaper stories or paid advertising to disseminate information on state efforts to assist in the development of new businesses.

**94. AN ADVOCATE FOR ENTREPRENEURSHIP:** Designate a new business advocate within state government.



**95. IDENTIFYING NEW BUSINESSES:** Use the state unemployment administrative files to identify new businesses and use these lists to contact them with information and assistance. Development agencies and local lenders can also be regularly surveyed to identify those just starting to explore the idea of starting a new business.

**96. NEWSLETTERS:** Publish a newsletter for new businesses with regular information on programs, regulations, and other issues which affect them.

**97. GENERATING NEW BUSINESS IDEAS:** Encourage local newspapers to help generate new business ideas by surveying readers to identify unmet service or product needs in the community.

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### **GENERAL PRINCIPLES -- *Enforcing Accountability***

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As the demand for new rural development policies has continued to rise, state and local governments have begun to move beyond more limited and traditional approaches, and to invest in new alternatives. But innovation must be tempered by concerted efforts to ensure that clients are well served and that taxpayer funds are effectively spent. Accountability is now demanded of development programs, and rural initiatives should not be exempt.

**98. USER FEES AND USER SATISFACTION:** Many programs -- such as business assistance, financing, and some training and information programs -- can be funded, at least in part, from user fees. With base support in place, these programs could be placed on enterprise budgets which can ensure that funding is allocated in proportion to the demand for services. Where fees can only cover a portion of service costs, state funds could be made available on a matching basis.

Even where program fees are not possible, at least one state is experimenting with "customer satisfaction" surveys to find out if programs are effectively meeting real needs.

**99. SETTING PERFORMANCE GOALS:** Specific performance goals should be negotiated with the providers of each program. Setting clear objectives is the first step in creating a system for monitoring and enforcing accountability.

**100. PERFORMANCE-BASED FUNDING:** Fund programs based on performance. In many cases, competition between public, nonprofit, and for-profit

providers can be used to create additional pressures for delivering more effective services in the most cost-effective way. For example, some states have begun to terminate vocational educational programs which fail to meet graduation and placement standards.

**101. EXPANDING CLIENT CHOICES:** Allow customers to choose between alternative programs and service providers. Vouchers would empower the clients to make providers more responsive to their needs. First, however, the state must ensure that information on how well each program has performed in the past is readily available. For example, a few states are requiring vocational education programs to report the social security number of their students. The state's employment service files are then used to generate information on the employment status and average wages of former students.

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