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Community Empowerment
A New Approach for Rural Development

The 1993 legislation creating the Empowerment Zones and Enterprise Communities program represents a departure in Federal policy toward developing low-income rural and urban communities. By combining flexible, long-term financing with strategic planning and performance benchmarking, the program helps impoverished communities to address structural problems comprehensively, rather than applying "stovepipe" programs to isolated issues. Although the program is only 3 years into implementation, the results are already remarkable. Rising congressional interest in the program's success points to an expansion of the empowerment approach in coming years.

The Empowerment Zones and Enterprise Communities (EZ/EC) program was enacted into law as part of the Omnibus Budget Reconciliation Act of 1993 (Liebschutz). That act authorized 9 Empowerment Zones (EZ) and 95 Enterprise Communities (EC) for round I of the program. Of these, 3 zones and 30 communities were to be established in rural areas. The Taxpayer Relief Act of 1997 authorized 20 round II Empowerment Zones to be designated by January 1, 1999; 15 of these were for urban areas and 5 for rural. The Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999 (P.L. 105-277) provided grant funding for these 20 round II rural and urban EZ's and authorized 20 additional rural EC's.

The EZ/EC legislation built upon earlier efforts under Federal and State legislation to establish enterprise zones by including tax credits and other supply-side incentives for business investment (see "Benefits for Rural Empowerment Zones and Enterprise Communities"). Unlike previous initiatives, EZ/EC added major new features that make it a very different program. Designated EZ's and EC's receive block grants that can be used for a wide range of purposes. Although an existing block grant program—the Social Services Block Grant (SSBG) program authorized by title XX of the Social Security Act—has been employed to fund round I, the eligible uses of these funds have been broadened to include virtually anything that might fall into a comprehensive community and economic development program. The funds, which are administered through State agencies—in most cases the same ones that administer the regular SSBG program—are to remain available throughout the 10-year period of the EZ/EC designations.

The principal difference between Empowerment Zones and Enterprise Communities is in the level and type of financial resources provided to them. Empowerment Zones receive much larger SSBG grants—$100 million for urban zones, $40 million for rural zones—than Enterprise Communities, which receive $2.95 million each. Businesses located in EZ's also receive tax credits and other tax incentives not available within EC's. By creating this two-tiered approach, Congress in effect established a test to determine

Eligibility Requirements for Round I Rural EZ's and EC's

Population: Up to 30,000

Area: Up to 1,000 square miles

Poverty rate: Minimum of 20 percent in all census tracts, 25 percent in 90 percent of the census tracts, and 35 percent in half of the census tracts; some waivers of these rates are possible

Distress: Area is one of pervasive poverty, unemployment, and general distress

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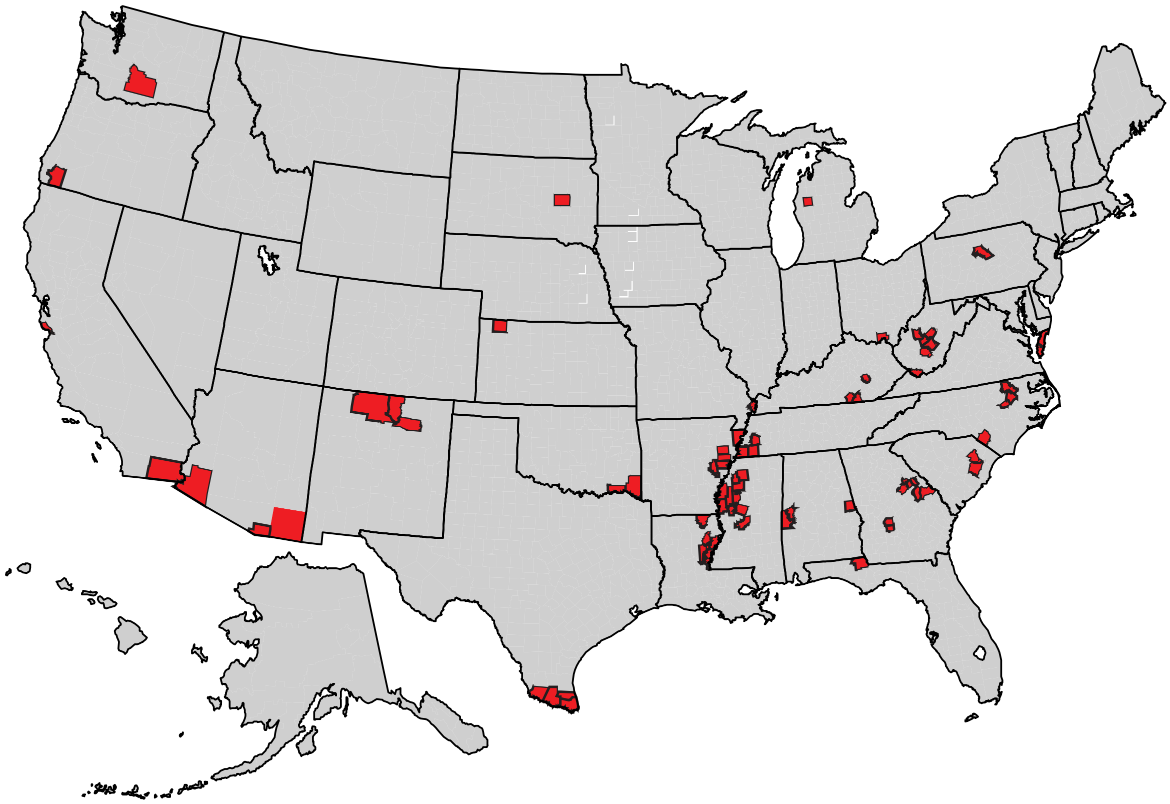
Figure 1

Counties with rural Empowerment Zones and Enterprise Communities



the importance of these financial incentives for stimulating development in high-poverty communities.

In important ways, the EZ/EC program is more of a community development program than an economic development program. Applications for EZ/EC designations were competitive and had to be supported by comprehensive, long-term strategic plans for development. The planning process itself had to include broad public participation, and not merely the product of a planning office or consulting firm. In effect, the application procedure constituted a significant process of community development, and communities that took the process seriously found themselves mobilized for action and in possession of an implementable plan. Recognizing the value of this planning process and the desirability of sustaining the progress made by the 227 round I applicants, USDA designated most unsuccessful applicants as Champion Communities and provided them with special financial and technical assistance to implement parts of their strategic plans. USDA in particular used the Champion Communities as the basis for significant outreach to spur development in these hard-to-reach communities and to date has invested some $290 million in its business and infrastructure development programs in these communities.

The program was unique in one other respect; communities were defined not on the basis of existing political subdivision boundaries but on census tracts. Tracts were eligible according to a somewhat complicated combination of poverty rates, which assured that almost all areas had a minimum poverty rate of 20 percent and most had rates of 25 or 35 percent (see "Eligibility Requirements for Round I Rural EZ's and EC's"). The poverty rate requirements were most stringent for Empowerment Zones. Not surprisingly, although designated rural EZ/EC's are located in 24 States, they are concentrated in Appalachia, areas of historically high Black population along the east coast and across the South, and in Hispanic communities in the Southwest (fig. 1). The other major concentrations of poverty—on Indian reservations—were expressly excluded by the round I enabling legislation.

The Empowerment Staircase: Building Sustainability

Empowerment is no mere catchword. It is an approach to development that enables low-income citizens to improve their communities through active involvement in decisionmaking and project implementation. It replaces the "do for" or "do to" approach to governing by implementing a "do with" model.

It is helpful to think about empowerment as a process. One way to conceive the process is as a staircase—the empowerment staircase (see "The Empowerment

Staircase"). Communities in poverty often find themselves mired in hopelessness about the possibility of improving the incomes and living conditions of their citizens. In rural areas, they have been frequently bypassed by developments in the rest of society because of social or geographic isolation. Empowerment occurs as they discover that they have within themselves the power to achieve great results. As the process unfolds, their capabilities expand, their partnerships are enriched, and their self-confidence grows.

Helping impoverished communities to move from hopelessness into self-confidence may require some form of external intervention to provide the incentive and direction to start moving the community in a positive direction. Beyond that, however, it is essential to empowerment that the remaining steps be climbed by the community itself, and that governments and other organizations offer technical and financial assistance in support of the community's goals, as reflected in its strategy and workplan. In other words, the community itself must remain in the driver's seat.

Implementing the Initiative: Process

For the communities that participated in round I of the Community Empowerment Initiative, the application process itself provided the stimulus to move out of hopelessness toward the community's vision. Reflecting the importance of planning to the entire process, the applications consisted of a community-developed long-term, comprehensive strategic plan. Though often assisted by government and private community development agents, the plans were developed by the communities themselves, and were required to be the product of broad-based community participation that included low-income residents. USDA and HUD provided publications explaining the empowerment program and the strategic planning process, and held numerous workshops across the Nation to both publicize the competition and assist applicants in understanding and meeting its requirements.

> **The Empowerment Staircase**
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> For impoverished and neglected communities, community empowerment cannot be achieved in a single step, but requires a sequence of accomplishments—much like climbing the steps of a staircase. For each community, these steps may come in different order, but in all communities they will require development over a period of years. They include the following:
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> Building hope that a different, better future is possible
>
> Creating a vision of a better future and a strategy for achieving it
>
> Turning the strategy into a concrete workplan with measurable objectives
>
> Finding resources to implement parts of the workplan
>
> Achieving initial successes that build confidence and relieve the most pressing needs
>
> Refocusing actions to achieve long-term, sustainable goals
>
> Revising the strategic plan to reflect changed conditions and experience from past projects
>
> Leveraging additional funding from new sources
>
> Building community capacity to plan, manage projects, and evaluate outcomes

President Clinton formally announced the competition on January 17, 1994, and the Notice Inviting Applications and Interim Rule governing the rural program were published the following day. Workshops were held during the succeeding 6 weeks. Applications were due on June 30, 1994, giving applicants less than 6 months to complete their strategic plans. Many, including applicants and the U.S. General Accounting Office (GAO), argued for more time to develop the plans. Designations of the 3 rural EZ's and 30 rural EC's were made on December 21, 1994.

After designation, communities were required to develop performance benchmarks for their strategic plans. Applying the statewide benchmarking process used in Oregon, communities were asked to develop work objectives for the next 2 years, establish baseline measures for their strategic plan objectives, and specify in measurable terms the expected results. USDA and HUD were required by the authorizing legislation to monitor community progress, and in cases of insufficient progress, they could de-designate EZ/EC's. This benchmarking process was difficult for communities to complete. Benchmarking was not only new to them, but to USDA and HUD officials as well. Accordingly, much of 1995 was spent in developing benchmarks, finalizing the Memoranda of Agreement (MOA) among the Federal Government, the State agency that administers the SSBG funds, and the community. To help expedite operations by the EZ/EC's, USDA authorized communities to begin immediate drawdown of SSBG funds for administrative costs. This enabled communities to establish the organizations that would implement their strategic plans and hire the staff who would do the community's business.

Outcomes: Short-Term Achievements Are Impressive

As of 1998, the rural Empowerment Zones and Enterprise Communities were just about 3 years into implementation of their strategic plans. While most of the 10-year period of their strategic plans remains ahead of them, their achievements, nonetheless, have been significant in this short time.

One measure of their activity is use of funds. As of January 1998, the rural EZ/EC's had "drawn down" for expenditure $62.3 million, about 30 percent of the $208.5

Benefits for Rural Empowerment Zones and Enterprise Communities

The Omnibus Budget Reconciliation Act of 1993 provided block grants and tax benefits to round I zones and communities:

- Social Services Block Grants (SSBG):

  Zones—$40 million

  Communities—$2.95 million

- Tax benefits:

  Both—authority to issue tax-exempt private activity bonds

  Zones—20 percent wage credit for the first $15,000 of qualified wages paid to a zone resident who works in the zone; section 179 expensing of business capital investments up to $20,000

- Subsequent legislation gave tax benefits for special invest ments to round I and round II zones and communities:

  Tax deductions for certain brownfields cleanup expenses

  Work Opportunity Tax Credits (WOTC) for 40 percent of first $6,000 of first-year wages for "high risk youth" who live in zone or community

- The Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999, provided first year funding, to be administered by USDA, for round II zones and communities:

  Zones—$2 million each

  Communities—$250,000 each

million in SSBG funds that was awarded to them upon designation. While some criticism of this pace has been made by those who wished to see an immediate "capital shock" to local economies, USDA urged the communities to pace their spending carefully so that these flexible funds would be available throughout the implementation period. Only 3 of the 33 rural communities had drawn down all of their funds as of January 1998, and even so, this did not indicate immediate spending; one of these communities "spent" its funds by investing them in certificates of deposit (CD's) to capitalize local revolving loan funds, which would then operate in perpetuity. The fact that 30 percent of the funds had been used at 3 years into the 10-year period suggests that the rural EZ/EC's have followed USDA's advice about pacing their expenditures.

The SSBG funds, in fact, amount to a fairly small share of the total investments the rural EZ/EC's have been able to apply to implementation of their strategic plans. As of January 1998, the 33 rural communities had received almost $680 million from all sources (table 1). By far, the largest share of these funds came from other Federal programs, especially rural development programs operated by USDA itself. But private sector investments accounted for a quarter of all funds, and State dollars were a sixth. Overall, the EZ/EC's have acquired $10 from other sources for every $1 from their SSBG grants.

The amount of funds received is a measure of resources available for use. But what have the communities achieved? Even though implementation is only about one-third completed, communities have reported some impressive numbers. Job creation was a principal objective for these communities, the workforces of which are typically characterized by high unemployment and underemployment, low wages, and high rates of poverty. As of January 1998, USDA's Office of Community Development reported that the rural zones and communities had created or saved 9,944 jobs.

Meeting pressing gaps in public infrastructure and expanding the availability of community services was another principal objective of the EZ/EC communities' strategic plans, and many of the reported actions address these issues. By January 1998, 110 water and waste-disposal projects were under construction, and 2,140 housing units, 78 educational facilities, and 29 health care facilities had been built or renovated.

Creating new businesses, raising the skills of local workers, and promoting entrepreneurship was another critical area for most communities. Rural EZ/EC's have established 102 revolving loan or microlending funds, created 61 job training facilities, began 98 job training programs, and trained 14,229 workers. Computer training for workers and area youth is a priority in many of the communities, and about 130 computer learning centers have been established or upgraded. Bringing local schools into the information age is a related objective, and many have made visible progress toward this objective, aided by USDA, which arranged for the donation of more than 4,400 excess Federal personal computers.

Addressing the needs of local youth was also a high priority of rural EZ/EC's. By January 1998, 212 youth development programs had been established, serving more than 25,000 youth.

In addition to results that can be measured numerically, observation of the communities indicates that most have

Table 1
Resource use by round I rural EZ's and EC's, January 1998

	Million dollars
Social Services Block Grants (SSBG)	62.3
Other Federal funds	276.5
State government	117.7
Local government	41.0
Private sector	170.1
Nonprofit	12.0
Total	679.6

Source: USDA Rural Development, Office of Community Development.

made considerable progress in climbing the empowerment staircase. Although some communities have progressed further than others, all have implemented some projects and leveraged funds from multiple sources. Aided by USDA-sponsored training for EZ/EC governing boards and staff members, the communities have made considerable progress in building the organizational capacity needed to ensure sustainability of their development programs. Many communities—some of which initially targeted low-wage industries as the quickest way to cut unemployment—have begun to promote industries that offer higher-wage, career-track jobs and to establish business ownership programs for low-income residents.

The benefits of the Community Empowerment Initiative extend far beyond the 33 designated communities. Over 180 unsuccessful applicants form the corps of rural Champion Communities, so designated by USDA because they succeeded in building local organizations and preparing a long-term, comprehensive strategic plan for development. USDA has provided about $290 million in rural development funding to projects in Champion Communities, held numerous workshops and networking conferences, provided onsite technical assistance, and published a regular newsletter to keep them informed about opportunities, techniques, and materials useful to implementing their strategic plans.

Implications for the Future

The Community Empowerment Initiative is in many ways an experiment in promoting the development of some of America's neediest communities. Not only does it contain within it two significantly different funding packages, it is novel in the degree of local control over objectives and implementation methods, the 10-year Federal commitment to the communities, the flexibility of the block grant funds, and the self-evaluation mechanism employed. While the experiment is still young, it is by no means too early to learn from its lessons.

In August 1997, the Taxpayer Relief Act of 1997 authorized a second round of Empowerment Zones, 15 urban and 5 rural. The statute provided tax benefits to the new zones, but grant funding had to be requested in separate legislation. The Clinton administration requested $1.7 billion over 10 years for Social Services Block Grants to round II zones—the same level as for round I. In October 1998, Congress provided $55 million in first-year funding for the 20 round II zones, as well as $5 million in first-year funds for 20 new rural EC's. In April 1998, Vice President Gore announced the beginning of competition for the Round II designations and both HUD and USDA held an extensive series of regional workshops for applicants, whose strategic plans had to be submitted by October 9, 1998. The designations of round II EZ's and EC's were announced on January 13, 1999.

The round II legislation broadens eligibility for the EZ/EC program by lowering the maximum required poverty rate from 35 percent to 25 percent, making Indian reservations eligible for round II zones, and permitting one of the five rural zones to be designated in an area experiencing high population "emigration." One of the new rural EZ's and one of the round II EC's qualified based on outmigration. One EZ and four EC's are Indian reservations and another five EZ's and ECs include tribes as partners.

At the same time, Congress has shown considerable interest in expanding the initiative to include larger numbers of communities, broaden eligibility even further, and provide small amounts of funding to help applicants with the strategic planning process. In June 1998, Representative Maurice Hinchey (New York) introduced HR 4071, which would have used half of the title XX funds proposed for rural round II Empowerment Zones to fund 33 new rural Enterprise Communities at $3 million each, in effect creating a round III of the initiative. The Hinchey proposal would have also broadened program eligibility to include other criteria besides poverty and established a small program of grants to assist applicants develop their strategic plans. Similar legislation (S. 2418) was introduced in the Senate. Ultimately, Congress chose to add 20 rural Enterprise Communities without changing the eligibility criteria. Given the level of interest exhibited during the 1998 congressional debates, it seems likely that community empowerment is an idea whose time has indeed come, and that it has the potential to set the agenda for community development in the United States for years to come.

For Further Reading . . .

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