

A Unique Moment for Small Towns

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Highlights:

- Every month, I visit small towns and hear directly from business and community leaders about what's working, what's not working and what they need. And everywhere — across every issue — I hear one critical need that constrains how much change a community can make: money.
- Multiple rounds of federal stimulus means that billions of dollars are being made available for small towns across the country, on top of those available through private grant-makers.
- This is a game-changing amount of money. But wherever I go, local leaders say it will be very difficult to access. Why is that? I hear three key barriers. First, grants are complicated. Second, they often require organizations to raise money. Third, there's a bias towards experience.
- Communities need help building their capacity, and they need it now. They need help finding and training leadership. They need help writing grant applications that meet funder specifications. They need help acquiring match funding. They need help distributing and administering funds effectively. And they need help assessing impact.

Thanks for joining us today. This the fourth time we have brought rural practitioners together and our third attempt to do so in North Carolina. I'm so pleased that COVID-19 has finally decided to cooperate. On the bright side, the pandemic taught us virtual could work and massively extend our reach. So, welcome to all of you joining us online.¹

At the Richmond Fed, we are committed to understanding the unique challenges faced by the many small towns across our district. The data is clear. On average, small towns have lower employment rates, less educational attainment and worse health outcomes than bigger cities. These communities are too often distanced from quality jobs, transportation, child care and anchor institutions. This isolation can be deepened by a lack of adequate broadband to stay connected. And we all know that COVID-19 exacerbated these issues — which we discussed at last year's conference.

I don't need to linger on the challenges. The practitioners in this room know them better than anyone. Every month, I visit small towns and hear directly from business and community leaders about what's working, what's not working and what they need. And everywhere — across every issue — I hear one critical need that constrains how much change a community can make: money.

But we are in a unique moment. Multiple rounds of federal stimulus (combined with healthy state and local government balance sheets) means that billions of dollars are being made available for small towns across the country, on top of those available through private grant-makers.

But getting access to all this funding is hard. And not without reason: We want governments to be careful with our tax dollars. Funders only want to invest if they can be convinced they will see impact. But the constraints they place on accessing funding don't always align with local capacity, needs and opportunities.

Today, I want to talk about some of the funding that is available, the barriers small towns face in accessing this funding and what those of us who want to make a difference can do to reduce these barriers.

Let's start with the funding itself. At the federal level, the opportunities are breathtaking. There are grants to support environmentally impacted communities, to rebuild food supply chains, to build infrastructure, to connect communities technologically, to finance innovation, to provide access to quality health care in places without local hospitals or providers and to fund pandemic recovery.

Taken together, the available funds have the potential to move the needle on some key rural challenges. Look at **broadband**. Our research has suggested that it could cost roughly \$80 billion to get ubiquitous broadband coverage across the country. If we take the money dedicated to broadband before the pandemic, the additional funds available through pandemic relief bills, plus the allocations within the infrastructure bill, there is nearly 50 percent more than that appropriated. If I did my math right, that's more than enough to close the gap.

How about **health care**? Almost \$20 billion has already been distributed to providers in rural or small metropolitan areas. And there's more to come from additional grants designed to strengthen rural community health by focusing on quality and access.

On **transportation**, the American Rescue Plan Act allocated funds for COVID-19-related transit within rural areas and to support bus travel within these areas. For example, the Rural Formula Program provides capital, planning and operating assistance to support public transportation. Plus, there's money to support the completion of the Appalachian Development Highway System.

This is a game-changing amount of money. But wherever I go, local leaders say it will be very difficult to access. Why is that? I hear three key barriers.

First, grants are complicated. They require intensive research and documentation. Applications are often dozens — or even hundreds — of pages long, requiring sophisticated data interpretation, technical writing and dozens of attachments. And the administrative requirements can feel burdensome. Many organizations don't have the necessary time or expertise, particularly for grants that require unique data. For example, ARC POWER grants help coal-impacted communities. But we heard from one recipient that organizations should set aside a *whole month* for the application process. And ARC is regarded by grantees as one of the more flexible federal agencies — Economic Development Administration (EDA), U.S. Department of Agriculture (USDA) and other agency grant programs are often more restrictive and more complicated. Grant processes can be complicated for the agency making the grant too, which all too often finds itself understaffed.

Second, they often require organizations to raise money. Many grants require matching funds that small communities can't raise. For example, the Rural Surface Transportation Grant Program requires a 20 percent match. Sometimes funders will allow applicants to waive match requirements, but that waiver can still lead to a lower application score. Additionally, you usually can't match federal grants with other federal funds — even from another agency. This means you need private funders or local governments that are ready to step up and provide time-sensitive match commitments, which often isn't possible in resource-constrained rural communities. Because of this, some low-resource communities either self-select out of applying for grants, or they significantly downgrade the size of their projects.

Third, there's a bias toward experience. Grantors quite naturally prefer to invest with someone they have confidence has the capacity to deliver. So, they favor organizations with a proven track record or with a leader they already know, which can leave less experienced organizations and under-resourced regions out of the running. It is possible, or even likely, that the lion's share of federal funds will flow to the institutions and organizations that are already established and well-resourced.

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So, let's help them. The stimulus money is coming, so let's leverage states, localities, foundations and local organizations to get the money where it is most needed. I'm struck by the experience we all just had with rent relief and the varying degrees of success communities had in delivering that money to its intended recipients. As I have tried to think about it, I see three tangible, practical opportunities, and you might see even more.

Help communities write grants. This could be done by hiring or funding experienced, proven grant writers directly. There is subject matter expertise out there, and foundations can play a meaningful role helping to connect experts to small towns with opportunities. Alternatively, this could be done by providing targeted advice. For example, Generation West Virginia and the Benedum Foundation work together to provide communities with grant writing support and other forms of technical assistance to coach them through the complicated process of planning for and accessing broadband funding.

Create pools of match funding. This could be a great role for states. If match funding is the barrier, create a pool which goes to communities and local organizations that earn the match. Localities with excess funds coming out of the pandemic could step up too. This would increase the number of grants applied for and productively leverage local money with federal money. And anything a state can do to adequately resource the distribution of funds would be of value too.

Help build local capacity. I am intrigued by the idea of "rural development hubs," as defined by the Aspen Community Strategies Group. These regional organizations build local capacity. They foster creative development strategies and build connections between states, funders and localities. They are close to their communities' needs and wants. They serve as conveners, coordinators and intermediaries for grassroots efforts, allowing collections of projects and organizations to come together and pursue funding and strategies that are only possible through collaboration.

But hubs take time to build, and they're hard to start from scratch. Regional collaboration is difficult, as communities struggle to balance collaboration and competition for scarce resources. And some of the challenges to building hubs are similar to the challenges in accessing grant funding: They're costly to launch and to scale.

To build local capacity for the long run, organizations need targeted support in the near term. For example, funding from Rural LISC — a national organization — allowed the Garrett County Community Action Committee to expand to serve adjoining counties.

Funders can also seed promising new approaches. The West Virginia Community Development hub, which Stephanie Tyree will tell you more about today, often heard complaints that there was “nothing going on” in West Virginia. They created the Cultivate West Virginia program, which distributes small-scale investments over a short time period to build momentum in communities. Teams of volunteers work alongside a coach to identify needed projects, often leading to a broader shared vision. With this foundation, the communities can then collaborate on a larger scale. They start with small projects, like creating a new welcome sign, and eventually, they are redeveloping their historic school that's been out of use for 30 years.

Capacity building isn't limited to local communities. Regionally, the Central Appalachian Network provides space for like-minded organizations to coordinate projects across state lines and to participate in regional sector development strategies, accessing federal funding for large-scale initiatives related to local and regional food systems, clean energy development, waste reduction and workforce development. They help grow organizational capacity through peer learning, mentorship and shared resources. New platforms like Invest Appalachia offer a pathway for grant-funded projects and enterprises to transition toward financial self-sufficiency, partnering with other financial intermediaries like Community Development Financial Institutions (CDFIs) to provide a blend of capital that includes credit enhancements and flexible financing. And, while I know it isn't rural, I was impressed when I was in Petersburg, Virginia, last month to learn about an industry-focused regional cluster, which is attracting funding to build infrastructure that supports the growth of that town and its pharmaceutical industry.

Helping communities write grants, creating pools of match funding and supporting hubs to help build local capacity aren't the only ways we can help small towns access this historic opportunity for funding. Perhaps there are better ideas than these, which I of course welcome and hope we can surface today. Getting money to communities that need it isn't easy. But this is a unique moment.

Thanks, and enjoy the conference.

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