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to the

Senate Agriculture Committee

The 2007 farm bill presents an opportunity. Small scale entrepreneurship is a proven strategy to revitalize rural communities. It can create genuine opportunity across rural America with the support of a modest investment by the federal government.

As concluded the Kansas City Federal Reserve Bank, "entrepreneurs can generate new economic value for their communities. Entrepreneurs add jobs, raise incomes, create wealth, improve the quality of life of citizens and help rural communities operate in the global economy."

The importance of small entrepreneurship is particularly profound in the most rural areas. Our analysis of economic conditions in the farm and ranch counties of Iowa, Kansas, Minnesota, Nebraska and the Dakotas found that nearly 60 percent of job growth in the 1990s came from people creating their own job by starting a small non farm business. Small entrepreneurship is the one development strategy that consistently works in these communities.

It is also the strategy that has the capacity to bring back young people - including those who earn a college degree. Our surveys of rural youth in northeast Nebraska found that half would like to one day own their own farm or business. That opportunity has the potential to draw them back to rural America. Eight dollar per hour jobs in call centers won't.
Small business development helps rural people acquire assets and create wealth. That is essential. Asset and wealth-building through home ownership, business ownership and enhanced education lead to important long-term psychological and social effects that cannot be achieved by simply increasing income.

Assets like businesses and houses bond one to a place and help to build sustainable communities. A commitment to rural asset- and wealth-building strategies can lead to stronger individuals, families, and communities.

Rural Entrepreneur and Microenterprise Assistance Program
We strongly support Senator Ben Nelson's proposed Rural Entrepreneur and Microenterprise Assistance Program to tap the rural development potential of small entrepreneurship. The Program is modeled after a provision in the Senate version of the 2002 farm bill (but not the conference report) and also a program initiated in Nebraska by then Governor Nelson.

The program would provide $50 million of mandatory farm bill funding annually for grants to organizations to provide training, technical assistance and loans to rural entrepreneurs, principally those with five or fewer employees. A portion of the funding would be committed to developing new programs for currently underserved areas.

The Nebraska legislation that provides the model for this bill has made it possible for microenterprise development programs to lend $6,895,324 and provide training and technical assistance to 15,000 businesses over the last ten years. In 2006, each dollar of state funding for this program leveraged over $12 from other sources. Last year alone it helped create or save 7,500 jobs at a cost of $330 per job.

The Nebraska legislation has had a significant impact on participants' lives and the success of their businesses. Fewer than half of the new participants in the Rural Enterprise Assistance Program, which received funding through the legislation, had business assets of $5,000. But after three years, 2/3 had business assets in excess of $5,000 and ¼ had business assets of over $50,000.

The Program helped Jim and Marilyn Gaster of Indianola, Nebraska and their son Jeremy turn a coopering hobby into a highly successful enterprise, Beaver Buckets. The business has a nationwide customer base including Walt Disney, 20th Century Fox Studios, and the Smithsonian Institution for wooden barrels and casks such as old pioneer flour barrels, water kegs and cracker barrels. You'll find an amazing variety of coopered items ranging from an authentic replica of a "War of 1812" canteen to a pioneer era water keg on their web site - www.beaverbuckets.com.

Though the Nebraska legislation has helped thousand of rural entrepreneurs like the Gasters, the programs it funds are currently reaching only three percent of the state's microbusinesses. In Nebraska alone, an additional $2 million per year is needed to meet the full demand.

The Value Added Producer Grants Program

The next farm bill should also invest in agricultural entrepreneurship. The opportunities are significant.

Some of the greatest opportunities for small and mid-size farms are in market niches, made up of consumers willing to pay premium prices for products with unique attributes and food produced in ways they support. For example, two-thirds of participants in a Better Homes and Gardens consumer panel said they would pay more for pork produced on small farms that treat animals humanely and are environmentally responsible. Other opportunities lie in producing specialty crops, processing agricultural products and other farmer owned and controlled initiatives.

The USDA Value Added Producer Grants Program is the most significant achievement of the rural development title of the 2002 farm bill. It has funded a multitude of farmer and rancher initiatives to increase income, secure new markets, add value to products and link consumers willing to pay a premium for food produced in ways they support with family farmers who have what they want.

The Program should be reauthorized and provided $60 million annually in mandatory funding. In addition, the program should be improved and refined, including:

? Place an explicit statutory priority on proposals that increase the profitability and viability of small- and medium-sized farms and ranches and encourage protection of natural resources. The 2002 farm bill included a statement of intent that such projects be prioritized. But USDA has never implemented that priority. We analyzed the 2001 and 2002 grants awarded under the Program. Over 40% of the funds went to projects that we gave a grade of "F" for relevance to small and mid size farms.

? Set-aside 10-15 percent of program funding for projects concerning beginning and socially disadvantaged farmers and ranchers. Few of the projects funded by the Program to date have included significant participation by new or minority farmers.

? Allow a small portion of the funds to be used for innovative strategies to strengthen mid size farms other than value added agriculture. For example, a group of mid-size Iowa farmers is exploring creation of a cooperative to share ownership of the most expensive equipment and thereby lower machinery costs to competitive levels. But it takes legal work and research to launch such initiatives. A limit portion of the grants awarded through the Value Added Producer Grants Program should be available to support other innovative strategies to strengthen mid-size farms.

? Direct outreach to states with little or low participation in the program and set-aside a portion of total funding for grants to non-profit and educational organizations to provide technical assistance for grant proposals, especially in low participation areas.

Beginning Farmers and Ranchers

The future of agriculture depends on the ability of new family farmers and ranchers to enter agriculture. Providing opportunities for beginning farmers and ranchers is also important for rural communities - the viability of rural businesses, schools, and other community institutions are all dependent in part on the existence of new agriculturalists on the land. The new farm bill should include a comprehensive, multi-title new farmer initiative. I will touch on a few key parts that should be included in such an initiative.

The Beginning Farmer and Rancher Development Program should be reauthorized and providing $20 million in mandatory funding by the 2002 farm bill. Originally passed as Section 7405 of the 2002 farm bill, this program was to provide grants to collaborative networks and partnerships to support training, mentoring, linking, education, and planning activities to assist beginning farmers and ranchers. However, the program never received funding.

Escalating land values across the nation have priced most beginning farmers and ranchers out of the market for land, the most valuable commodity in any agricultural operation. The 2002 Farm Bill established the Beginning Farmer Land Contract pilot program to allow USDA to provide loan guarantees to sellers who self-finance the sale of land to beginning farmers and ranchers. The 2007 Farm Bill should permanently and nationally implement this provision.

Current tax law should also be modified to provide incentives to sellers of land to beginning farmers and ranchers. The 2002 farm bill removed the prohibition on USDA loan guarantees being used in conjunction with state beginning farmer "aggie" bonds, but that provision will not go into effect until the parallel prohibition in tax law is removed. Combined with federal "first time farmer bonds," which make interest income tax exempt if earned on contract land sales (seller financed) to beginning farmers, USDA guarantees would provide a powerful incentive to sell land on contract to beginners.

Finally, the 2002 farm bill should include a pilot program on individual development accounts targeted to beginning farmers. The Beginning Farmer and Rancher Individual Development Account Program would provide matching funds for dollars place in savings accounts for using in starting in farming or ranching. The accounts could be use for capital expenditures for a farm or ranch operation (e.g., expenses associated with purchases of land, equipment or livestock).

Rural Asset- and Wealth-Building

Asset- and wealth-building strategies have both individual and community benefits. They help individuals and families build an asset base that lifts the veil of poverty and dependence on low-wage work. Communities become stronger and more viable as opportunities and ownership are expanded to a wider group of people.

The issues of depopulation, poverty, and low-wage employment facing many rural communities are largely a function of a lack of opportunity in those communities. In order to create a future for those communities and their residents, a commitment must be made to enhancing opportunity through the building of assets and wealth.

The 2007 Farm Bill should include the Individual Homestead Account provision of the New Homestead Act (Section 104 of S. 675, 2005). Individual Homestead Accounts- like Individual Development Accounts employed primarily in urban settings - are savings accounts matched (generally with public funds) that allow tax-free withdrawals for certain purposes.

Allowable purposes for the accounts would include developing a small business, higher education, first-time home purchases in qualifying counties, unreimbursed medical expenses, and qualified retirement account rollovers. Any individual who is a bona fide resident of a qualifying county and of low or moderate income would qualify for matching funds to create an account.

Qualifying counties include 698 counties in 38 states that have experienced net out-migration of 10 percent or more over the past 20 years. These counties are also generally suffering from the greatest economic distress. As such, they are the segments of rural America most in need of hope and opportunity.

Rural Development Proposals in Other Farm Bill Titles

In the Research and Education title, we propose $50 million of mandatory funds for the Entrepreneurship Education Program. The Program would make grants to four-year and community colleges, extension services, non-profit organizations and primary and secondary schools to provide entrepreneurship education rural Americans. It would serve adult learners in both credit and noncredit settings. It would serve youth in primary and secondary schools and as traditional college students. Too often in rural America, we educate our young to move away. This program would help educate rural people to create their future in rural America.

In the Conservation title, we propose that the 2002 farm bill's Partnership and Cooperation Initiative be reauthorized as the Cooperative Conservation Partnership Initiative (CCPI) and significantly expanded. The new CCPI should support special projects for multiple producers to address specific resource concerns or opportunities on a local, state, or regional scale. The full range of resource concerns should be eligible, with a priority for projects which simultaneously address community development opportunities and environmental enhancement.

Public access to natural space can be a development asset for communities. It can draw young family to start businesses, populate schools and revitalize communities. And it can provide the basis for new tourism related self-employment opportunities involving bed and breakfasts, hunting, horseback riding, hiking, biking, wildlife viewing, etc.

The CCPI should be implemented on a competitive basis with public and private entities eligible to submit initiative proposals covering the full range of resource concerns. Up to 20 percent of a state's farm bill conservation program funding allocation should be available for cooperative conservation projects. Funds for selected projects should include financial and technical assistance, education and outreach, and monitoring and evaluation.

There should be flexibility in program rules to tackle specific local problems and opportunities. For example, the flexibility would allow for bonus payments to landowners who enroll in the Conservation Reserve Program, Wetland Reserve Program or the Grassland Reserve Program as part of a community plan to use access to natural space as a development asset.