



# Mapping Rural Entrepreneurship



W.K. KELLOGG FOUNDATION



Corporation for Enterprise Development

## **About the W.K. Kellogg Foundation**

The W.K. Kellogg Foundation was established in 1930 “to help people help themselves through the practical application of knowledge and resources to improve their quality of life and that of future generations.” Its programming activities center around the common vision of a world in which each person has a sense of worth; accepts responsibility for self, family, community, and societal well-being; and has the capacity to be productive, and to help create nurturing families, responsive institutions, and healthy communities.

To achieve the greatest impact, the Foundation targets its grants toward specific areas. These include health; food systems and rural development; youth and education; and philanthropy and volunteerism. Within these areas, attention is given to the cross-cutting themes of leadership; information systems/technology; capitalizing on diversity; and social and economic community development programming. Grants are concentrated in the United States, Latin America and the Caribbean, and the southern African countries of Botswana, Lesotho, Mozambique, South Africa, Swaziland and Zimbabwe.

More information about the W.K. Kellogg Foundation and its programs is available on the Foundation’s Web site at [www.wkkf.org](http://www.wkkf.org).

## **About the Corporation for Enterprise Development**

The Corporation for Enterprise Development is a nonprofit organization that creates economic opportunity by helping the poor save and invest, succeed as entrepreneurs, and participate as contributors to and beneficiaries of the economy. By helping individuals and communities harness latent potential, we build long-term models to help people move from poverty to prosperity while strengthening the overall economy. The Corporation for Enterprise Development identifies and researches promising ideas, collaborates with the private and public sectors to test them, and helps drive the application and adoption of proven concepts.

Established in 1979, the Corporation for Enterprise Development works nationally and internationally through its offices in Washington, DC, Durham, North Carolina, San Francisco, California, and St. Louis, Missouri.

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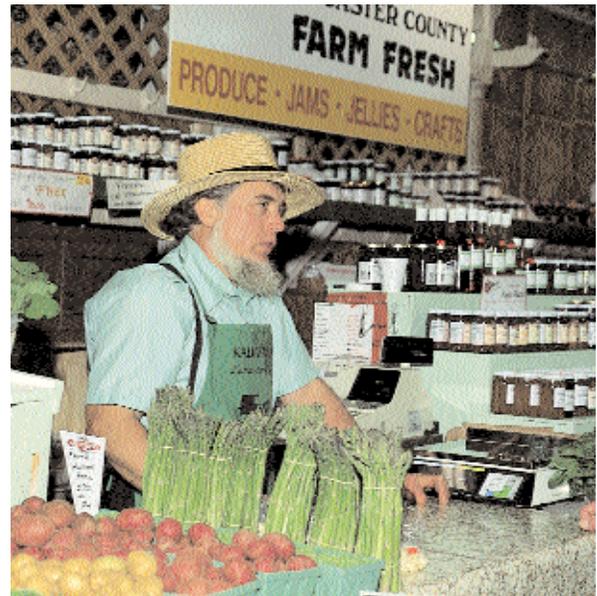
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## Executive Summary

At the invitation of the W. K. Kellogg Foundation, the Corporation for Enterprise Development conducted a study to gather information on institutions, programs, and activities that support entrepreneurship in rural America; to assess the distribution and scale of entrepreneurial activity; and to identify potentially influential contextual factors. The study included the collection of best available published data to map entrepreneurial activity, an extensive literature and Internet search, and a series of telephone interviews with 60 experts and practitioners. In addition, site visits and personal interviews were held with practitioners and entrepreneurs in Kentucky and Nebraska.

Rural America comprises an extraordinary and dynamic variety of economic, geographical, and cultural characteristics. Many rural communities face enormous economic challenges of low population size and density and remoteness, which in turn bring diseconomies of scale and increased costs of doing business. Poorly educated and low-skilled workers, weak entrepreneurial cultures, and entrenched racial inequalities inhibit full participation in the new economy. The public policy context is not encouraging with rural policy dictated by agri-business interests, fiscal crises at the state and county levels, and no organized constituency for rural America in all its diversity. There is an urgent need for rural people and communities to define the future they want for themselves and their children. This will take vision, innovation, and risk-taking – the work of the entrepreneur.

There is growing understanding that economic development strategies founded primarily on business recruitment are not in rural America's best interests and that there needs to be a greater emphasis on homegrown development. Many observers see entrepreneurship as being a critical, if not major piece of rural economic development, although not all are convinced that entrepreneurship is likely to be an engine of economic growth in rural areas. However, there is a compelling argument that creating an



entrepreneurial climate where all kinds of entrepreneurs can succeed, lays the groundwork for the five out of 100 small businesses that evolve into the fast-growing drivers of the national economy.

Efforts to measure entrepreneurial activity and performance across rural America are still in their developmental stages, but it is possible to create an initial impression of the scale and distribution of entrepreneurial activity. Whereas such activity is broadly distributed across the country, there appear to be particular concentrations in heartland and northern mountain states and in Appalachia.

Using a two-part framework – creating a pipeline of entrepreneurs and enhancing business services for entrepreneurs – the study team gathered a large amount of information on national, regional, and local programs and initiatives. The components of the pipeline are entrepreneurship education in kindergarten through the 12<sup>th</sup> grade and at the post-secondary level and entrepreneurship networks; for business services, the components are training and technical assistance, and access to capital. There is a very wide array of programs and initiatives, ranging from the old-established to

exciting new experiments, but it is impossible to gauge whether on the ground these come together in coherent, entrepreneurial systems of support or as disconnected, bureaucratic programs. These were the concerns that became the focus of site visits and interviews in Kentucky and Nebraska.

The study concludes that what is needed is a new framework that will animate people and institutions at all levels around four principles for entrepreneurship development in rural America:

- **Community-driven:** Local communities need the tools and resources to identify and build upon their assets; to make choices that appropriately balance economic, social, and environmental imperatives; to learn from the experiences of others; and to be open to experimentation and innovation.
- **Regionally oriented:** Only through regional cooperation across multiple jurisdictions and through regional institutions can there

be sufficient scale, resources, and expertise to enable individual communities to play their full role. There are issues and concerns common to both urban and rural areas that can best be addressed through regional solutions; regions represent the economic engines and markets that rural enterprises have to serve.

- **Entrepreneur-focused:** Systems thinking is required to align the plethora of training, technical assistance, and financing programs to meet the variety of needs of entrepreneurs and their different levels of education, skills, and maturity.
- **Continuously learning:** Networks for peer support and learning are essential for entrepreneurs and for practitioners, community leaders, and policymakers. Learning about entrepreneurship should be part of the school curriculum. The need for rigorous evaluation of the effectiveness of entrepreneurship strategies and returns on investment is pressing.



The study also highlighted a number of other important essentials for promoting an entrepreneurial climate:

- **Anchor institutions:** Universities, community colleges, community development financial institutions, and research and advocacy groups can play a vital role in articulating a vision, building partnerships, and attracting and mobilizing resources for entrepreneurship development.
- **Supportive public policy:** Creative public policy can unlock resources and channel efforts into rural counties, but demonstrating effectiveness and returns on investment is crucial for generating further support at federal and state levels. The need is not necessarily to create special legislation for entrepreneurship in rural areas but to ensure that all programs have the capability and flexibility to be tailored to the needs of different rural regions and their entrepreneurs.
- **All entrepreneurs welcome:** Fostering a diverse pool of entrepreneurs with different motivations, whether for survival, lifestyle, or wealth, increases the odds that there will be some that will become the fast-growth enterprises that will bring improvement to economic conditions to rural communities and regions.

Four main strategies are recommended to create a more supportive environment climate in rural America:

- **Investment strategies:** Create incentives and long-term investments that encourage urban-rural and regional collaborations and the development of effective systems and accountable systems of entrepreneurial support. Invest in innovations in entrepreneurial education, technical assistance and training, capital access, and networking that show promise for widespread replication in rural communities.
- **Learning strategies:** Ensure rigorous evaluation of strategies, systematic case studies, training programs for elected officials and opportunities for peer exchanges. Encourage experiential education in schools, colleges, community centers, and camps.
- **Advocacy strategies:** Energize networks of organizations and institutions that can use the results of the investment and advocacy strategies to support entrepreneurship development in rural America.
- **Information strategies:** Develop methodologies and statistical tools that adequately describe and measure entrepreneurial activity and climates, including report cards and other benchmarking and assessment tools.

The study presents ample evidence of organizations, institutions, and agencies pursuing various types of programs and initiatives that are meant to encourage greater entrepreneurship in rural America. The task ahead is to make their efforts more community-driven, regionally oriented, entrepreneur-focused, and continuously learning.

# Introduction

## Scope of Work

The W. K. Kellogg Foundation invited the Corporation for Enterprise Development (CFED) to carry out a consulting assignment that would:

- Gather data on current institutions, programs, and activities that support rural entrepreneurship;
- Develop a narrative and graphic presentation of the data in ways that would highlight “hotspots” of activity that might offer models and/or potential investment targets;
- Determine the factors that influence the development of these “hotspots;” and
- Present an analysis of the findings leading to observations and options for Foundation intervention.



## Definitions

For the purposes of this report, the following definitions have been used:

- **Rural** refers to geographical areas outside statistical metropolitan areas and thus includes over 80 percent of the U.S. land mass and its wide array of economic, physical, cultural, and demographic characteristics.
- **Entrepreneurs** are people who create and grow enterprises. This definition is deliberately widely drawn to encompass the following types of entrepreneurs:
  - **Aspiring entrepreneurs:** those who are attracted to the idea of creating enterprises, including young people.
  - **Survival entrepreneurs:** those who resort to creating enterprises to supplement their incomes.
  - **Lifestyle entrepreneurs:** those who create enterprises in order to pursue a certain lifestyle or live in a particular community.
  - **Growth entrepreneurs:** those who are motivated to develop and expand their businesses that create jobs and wealth.
  - **Serial entrepreneurs:** those who go on to create several growth businesses.
- **Social entrepreneurs** are people who create and grow enterprises or institutions that are primarily for public and community purposes.
- **Entrepreneurship** is the process through which entrepreneurs create and grow enterprises. This process includes four critical elements: opportunity recognition, idea creation, venture creation and operation, and creative thinking.
- **Entrepreneurship development** refers to the infrastructure of public and private supports that facilitate entrepreneurship.
- **Entrepreneurial communities** are those where there is significant economic and social entrepreneurial activity and where there is an effective system of entrepreneurship development.



## Methodology

The consulting assignment was conducted in three main stages:

- A quantitative assessment that used best available published data to prepare maps of entrepreneurial activity across rural America;
- An assessment of institutions, programs, and activities that support entrepreneurship development in rural America based on an extensive literature and Internet search and a series of telephone interviews with 60 experts and practitioners; and
- Site visits and interviews with practitioners and entrepreneurs in Kentucky and Nebraska.

## Report Structure

This report begins with an overview of the economic realities and options for rural America and explores the role that entrepreneurship plays (or could play) as a rural economic development strategy. The next section presents the quantitative assessments, including some of the challenges for measuring rural entrepreneurship, followed by a description of both the policy context at national, regional, and local levels and of the institutions and programs that support different facets of entrepreneurship. This national overview is then followed by a closer look at entrepreneurship development in Kentucky and Nebraska. The report concludes with some thoughts about what the assessments have revealed and what opportunities may exist for policy and practical action.

## Economic Context for Rural America

Within rural America, there is an extraordinary variety of economic, geographical, and cultural characteristics. Moreover, the situation is very dynamic, with significant depopulation across the Great Plains and net population growth in rural counties that are within reach of sprawling metropolitan regions or in areas of high amenity. In addition, many counties with manufacturing or food processing plants are experiencing a rapid growth in immigrant workers and the challenges associated with sudden expanding diversity.

Poverty rates tend to be higher in rural areas – 7.5 million rural residents are in poverty. Two-thirds of them live in households where at least one member is working. Measures of persistently high poverty levels or of economic distress show that the greatest hurt found in the Delta and the Cotton Belt, Appalachia, the Texas border, and Native American reserva-

tions. Map 1 shows the location of distressed rural counties using an index devised by the Appalachian Regional Commission (ARC) for its 10-state region and applied to all non-metropolitan America. The index combines measures of a three-year average of unemployment, per capita market income, and poverty rates.

A critical issue for many rural counties is education. Although overall, rural high school graduation rates match or exceed their urban counterparts, out-migration of the youngest and more highly-educated is a primary export for many communities. The result is that the adult workforce is less well-educated. In fact, a study of the rural South showed that 38 percent of adults do not have high school diplomas.

From an economic development viewpoint, rural communities, especially those located some distance from larger cities, face a number



**Map 1: Distressed Rural Counties**

*(Source: Bureau of Labor Statistics, Bureau of Economic Analysis, Census Bureau, Appalachian Regional Commission)*



of major challenges. Low population size and density and associated limited local demand, make it difficult for rural businesses and service providers to achieve economies of scale. This has an impact on the cost and availability of goods and services and drives many attempts to achieve efficiencies through consolidation in everything from schools to banking. Remoteness from markets and from key infrastructure limits the range of economic opportunities that can be supported and often results in a lack of connection to regional and global possibilities. Poorly educated and low-skilled workers, weak entrepreneurial cultures, and entrenched racial inequalities all serve to inhibit the participation of rural families and communities in the new economy.

The public policy context for rural America is not encouraging. Powerful agri-business interests have ensured that commodity price support is the primary rural policy, leaving little scope for diversified rural development. Large

tracts of federally-owned land have become battlegrounds around forestry, mining, recreational, and water rights issues, with local communities and local jobs left as merely bystanders. Fiscal crises at the state level are being passed onto counties in the form of reduced financial support, resulting in severe service cuts with disproportionate impacts on the rural poor. Unfortunately, there is no organized constituency for rural America, with political power increasingly suburban and no coherent public understanding of how and where national and rural interests intersect.

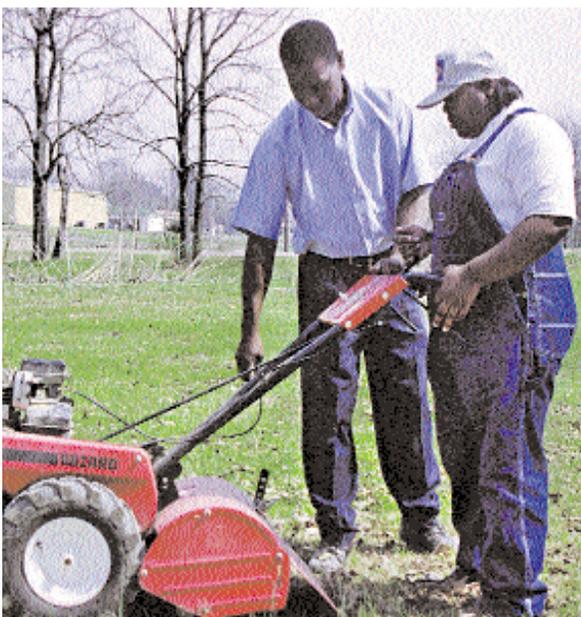
So what of the future? One of the more thoughtful and thought-provoking analyses comes from Northwest Area Foundation president, Karl Stauber.<sup>1</sup> He first divides rural America into four main types:

- **Urban periphery:** rural areas within a 90-minute commute of urban employment, services, and social opportunities;

- **High amenity:** rural areas of significant scenic beauty, cultural opportunities, and attraction to wealthy and retired people;
- **Sparsely populated:** areas where the population density is low and often declining and therefore demand for traditional services, employment, and social opportunities are limited by isolation; and
- **High poverty:** rural areas characterized by persistent poverty or rapid declines in income.

Stauber then lays out four outcomes for a rural public policy: increased human capital, conservation of the natural environment and culture, increased regional competitive investments, and investments in infrastructure that support the expansion of new competitive advantage. From these elements, he then proposes a set of strategic directions:<sup>2</sup>

- Redefine and restructure the rural-serving **college and university** so as to increase human capital in sparsely populated and high poverty rural areas – essentially dismantling the 19<sup>th</sup> century land-grant system in favor of a 21<sup>st</sup> century information grant system.



- Create **new markets and linkages** so as to increase regional competitive investments in urban periphery and sparsely populated areas – primarily investments in value-added production rather than commodity price supports.
- Develop and use **new technology** to overcome remoteness to produce an infrastructure that expands competitive advantage in sparsely populated and high-poverty areas – creating and reinforcing links between metropolitan and rural economies.
- Encourage **immigration** to rural communities to increase human capital in sparsely populated and high-poverty areas – with a particular emphasis on attracting **entrepreneurs**.

Two other expert rural observers, Thomas Rowley and David Freshwater, contend that the answers to the current challenges of rural America will only be found “by finally coming to terms with what we as a nation want our rural areas to be. If we want them to be sources of cheap commodities, then the people who will provide [them]...will be low-wage labor. If we desire pristine wilderness, the people will not fit at all. If receptacles for our refuse are what we seek, then trash heaps are what we will get. What we want (and what we are willing to pay for) will go a long way in determining what we get.”<sup>3</sup>

There is no shortage of urban, suburban, and newly settled rural dwellers willing to define a future for rural America, but if rural people and communities are to take matters into their own hands and succeed, it will take vision, innovation, and risk – the work of the entrepreneur.

# Entrepreneurship as a Rural Economic Development Strategy

Among researchers, policy advocates, and others engaged in community and economic development in rural America, there is broad agreement that relying on recruiting companies from other states or overseas should not and cannot be the answer to struggling rural economies. Yet each year, state governments have been willing to commit through tax incentives, tax breaks and direct investments, billions of dollars to snag a car assembly plant, a high technology production unit, or some other potentially transformative industrial activity. Increased public scrutiny has shed light on some of the more egregious examples of “investments” that were poorly structured, had inadequate reporting or accountability requirements, or yielded disappointingly low returns in terms of jobs and local multiplier effects. And this in turn has led to a greater emphasis on transparency, clear expectations on returns on investment, and clawbacks if expectations are not met. But concern remains that recruitment has to be balanced, if not replaced altogether by policies that support homegrown development.

An **Aspen Institute** report that looks at the economy of rural Kentucky, noted: “Traditional approaches to economic development...have their place, but only as they help to create the conditions for dynamic, indigenous economic activity. In a very real sense, Kentucky’s future rests on its ability to nurture homegrown firms and to encourage the innovation, risk-taking and investment that are the hallmarks of a vital economy...In short, entrepreneurship must become a matter of course and a habit of mind if Kentucky is to thrive.”<sup>4</sup>

The **National Commission on Entrepreneurship** in its guide for candidates for elected office put the argument this way: “While winning a new manufacturing facility may be a home run in economic development terms, these home-run opportunities are becoming scarcer every day. As a result of globalization, technological evolution, and other

economic changes, fewer communities are hosting large facilities that provide jobs over long periods of time...At the same time, small and medium-sized businesses are growing in importance...Entrepreneurial growth companies – fast-growing new businesses – account for at least two-thirds of new jobs in the American economy...These firms will drive the future of innovation and prosperity in nearly every American community, and thus should be the focus of our economic development efforts.”<sup>5</sup>

The **Federal Reserve Bank of Kansas City** observed: “Rural policymakers, who once followed traditional strategies of recruiting manufacturers that export low-value products, have realized that 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...Rural policymakers are responding to these challenges by making entrepreneurship the cornerstone of many economic development strategies.”<sup>6</sup> In a similar vein, the **ARC** “views entrepreneurship as a critical element in the establishment of self-sustaining communities that create jobs, build local wealth, and contribute broadly to economic and community development.”<sup>7</sup> And this was the basis of a commitment by the Commission in 1997 to commit \$17.6 million over a number of years to an initiative to build entrepreneurial communities across Appalachia.

In 1999, the **National Governors Association (NGA)** surveyed its members to gauge each state’s perspective on entrepreneurship and its importance as part of an overall state economic development strategy. While 34 of the 37 states that responded indicated that they did indeed consider entrepreneurship as part of their economic development strategy, only four had a clearly articulated statement within the strategy document. Jay Kayne observed a “distinction between states that try to meet the specific



needs of aspiring and emerging entrepreneurs and states that view entrepreneurs as a segment of the state economy who can take advantage of state programs.”<sup>8</sup> In other words, the survey emphasized the difference between active and passive support for entrepreneurship. Interestingly enough, given the assessments described later in this report, Kentucky was identified as having one of the best articulated goals of creating an entrepreneurial economy.

An important obstacle to a more vigorous pursuit of entrepreneurship as an economic development strategy is the lack of hard evidence that it actually yields the results claimed. As the Federal Bank of Kansas City noted, “As policymakers stretch the frontier of entrepreneurial development, the impacts of these programs will need to be assessed to identify the costs and benefits of supporting high-growth entrepreneurs in rural America.”<sup>9</sup>

The **Global Entrepreneurship Monitor (GEM)** was created in 1997 by Babson College and the London Business School with support from the Kauffman Center for Entrepreneurial Leadership as a long-term, multi-national

investigation into the relationship between entrepreneurship and economic growth. By 2002, 37 countries were being surveyed according to a common protocol. The national report on the United States<sup>10</sup> provides some good contextual information on the role and importance of entrepreneurship:

GEM estimates that 10.5 percent of the U.S. adult population (aged 18-64) are engaged in some form of “entrepreneurial activity,” defined by the 2002 GEM as being involved in the start-up process or is the owner/manager of an active young business less than 42 months old. This population can be divided into two broad categories: opportunity entrepreneurs, those who are starting a business to take advantage of a business opportunity, and necessity entrepreneurs, those who are starting a business because they had no better choices for work.

In the United States, approximately 90 percent fall into the opportunity category. This high level of opportunity entrepreneurship appears to be the result of a strong economy, although recession, mass layoffs, and increasing unemployment are likely to spur a

sharp rise in necessity entrepreneurship. As the 2001 GEM report notes: “The difficulty with this scenario is that although necessity entrepreneurship often creates self-employment, it is not a strong driver for creating new jobs. Because the primary concern of necessity entrepreneurs is survival, they typically have a limited vision for growth. Opportunity entrepreneurs, however, tend to create high-potential, high-growth ventures. The majority of jobs created from entrepreneurial activity in the United States is a result of fast-growth businesses.”<sup>11</sup>



U.S. entrepreneurs, compared with their counterparts overseas, tend to be older – 36 percent of entrepreneurs are in the 45 to 64 age bracket. Older Americans, the report asserts, are more likely to have deep industry experience and networks that help with identifying and financing opportunities. At the same time, the proportion of women entrepreneurs is increasing. There is one female entrepreneur for every 1.5 male entrepreneurs, with parity in the 45 to 64 age bracket.

The relationship between level of education and entrepreneurial activity is not straightforward. The highest entrepreneurial participation rate is for those who have completed high school; for those who do not have a high school diploma, the tendency is self-employment and little vision for job creation; for those with college degrees, there is some drop-off in participation, possibly because of the greater opportunities to earn high incomes as employees of other businesses.

A potentially contentious conclusion comes from the 2002 GEM report, which makes the point that entrepreneurship is an urban phenomenon, presumably as urban areas are where the highest density of entrepreneurship is to be found. The report went on to assert: “It should be noted that entrepreneurship in rural areas may not be the best mechanism for economic growth.”<sup>12</sup>

Another recent effort to provide evidence of the effectiveness of entrepreneurial strategies is an **Organization for Economic Development and Cooperation (OECD)** publication, *Entrepreneurship and Local Economic Development*, researched and written by Alistair Nolan. He noted: “For a variety of reasons, promoting entrepreneurship enjoys support from governments at both ends of the political spectrum. Pro-entrepreneurship policies have been embraced as a means of increasing economic growth and diversity, ensuring competitive markets, helping the unemployed to generate additional jobs for themselves and others, countering poverty and welfare dependency, encouraging labor market flexibility, and drawing individuals out of informal economic activity. In short, an enterprise initiative has been charged with addressing a broad array of economic and social aspirations...However, given the widespread interest in promoting enterprise, it is perhaps surprising that few empirical studies have systematically examined the relationship between the birth of new firms and local economic change.”<sup>13</sup>

The following are some of the main conclusions of Nolan's analyses of 30 OECD countries:

- There are many obstacles that hinder entrepreneurship in disadvantaged areas, influencing both the extent and form of entrepreneurial activity and its prospects for survival. Such obstacles range from limited networks, low levels of effective local demand, finance constraints, lack of role models, and cultural barriers – all familiar to rural communities in the United States.
- Efforts to stimulate self-employment can raise incomes and provide a cost-effective alternative to paying unemployment insurance, but only for the small sub-section of the unemployed who are more motivated, have work experience, and some accumulated assets.
- Entrepreneurship strategies yield important benefits but do not constitute a panacea. Such strategies inevitably favor those who possess superior financial, human, and social assets. There may not be a significant expansion in employment opportunities for the most disadvantaged. Entrepreneurship strategies are long-term in their effects and therefore not appropriate to short-term crises. There may be issues of displacement in local markets as new entrants cause losses in revenues or employment among existing enterprises rather than create an expanded economy.
- Although every community hopes to encourage fast-growing businesses that will generate wealth and good jobs, the reality is that in most cases, the direct employment effects will be modest – a reflection of the small average size of start-ups, low survival and growth rates, and displacement. Moreover, employment in small enterprises does not necessarily translate into good jobs with family-supporting wages and benefits.

Research on the impact of microenterprise development in the United States by **The Aspen Institute**<sup>14</sup> provides some counter-evidence:

- Low-income microentrepreneurs reduced their reliance on government assistance by 61 percent with the greatest reduction in the amount of cash benefits received. Average benefits fell by \$1,679 per year.
- Seventy-two percent of low-income microentrepreneurs experienced gains in household income over five years. The average gain was \$8,485.
- Fifty-three percent of low-income entrepreneurs had large enough household gains to move out of poverty, with the business being the major source of earnings.
- Average household assets of low-income entrepreneurs grew by \$15,909 over five years.

Earlier research conducted by **CFED**<sup>15</sup> indicated that:

- Forty-nine percent of microenterprises owned by low-income entrepreneurs survived after five years – a rate comparable to the national average for all small businesses.
- On average, microenterprises create 1.5 full- and part-time jobs per business

During field work in Kentucky, there was some suggestion that a significant number of emerging entrepreneurs were in fact making the transition from the informal to the formal economy. A recent literature review on the informal economy by **Institute for Social and Economic Development** and **The Aspen Institute**,<sup>16</sup> confirms that the informal economy – defined as individuals operating unregistered businesses or engaging in “under the table” work – is indeed especially important to rural residents:

- Essential services are more likely to be unavailable or deficient in less densely settled areas, forcing people to develop and rely on informal alternatives.

- The extent to which informal activities require access to land – crops, wood products, game – increase their prevalence in rural areas.
- Austerity – in the form of lower wages and declining demand for labor and less public spending – promotes informal economies as an important survival strategy.
- Informal economies exist in part because of the social interdependence of community members, thus the “connected feeling” typical of rural places makes them more conducive to informal economic activity.

The authors point to the fact that there are in fact two main components of the informal economy – in total estimated to represent

around 10 percent of the gross domestic product. Those who work in some form of subcontracting capacity, often outside the framework of regulation, benefits, and health and safety protections. And those who work in odd jobs for cash or operate microenterprises outside the realm of regulation and taxation. “In all cases, the greatest competitive advantage that these workers bring to the market is a price advantage built on lower labor and overhead costs. While this creates access to income and employment for many, it also constrains earning power...and...for many microentrepreneurs it is not clear whether the benefits of formalization would outweigh the costs involved. [It would appear that] the desire to grow and a corresponding need for financing [are] the most compelling triggers.”<sup>17</sup>

## Commentary

The conclusion to be drawn from these expert observations and research is that entrepreneurship development appears to be a logical and appropriate counterpoint to business recruitment strategies in rural America. There are strong advocates and arguments at the national level for lauding and supporting opportunity-driven entrepreneurs – those most likely to create jobs and wealth at any scale.

There are also benefits for encouraging necessity-driven entrepreneurs and those with only modest aspirations for their small enterprises. For some, microenterprise offers

scope for income supplementation and a way out of poverty. While this is undoubtedly important for individual families, it is unlikely that in the aggregate, such enterprises will have a significant transforming impact on local economies. Nevertheless, in many hard-pressed communities, small improvements can make the difference between community survival and collapse. Moreover, there is the compelling argument that creating an entrepreneurial climate where all kinds of entrepreneurs can succeed, lays the groundwork for the five out of 100 small businesses that develop into the fast-growing drivers of the economy.

# Rural Entrepreneurship by the Numbers

Efforts to measure entrepreneurial activity and performance by geographical area are still in their developmental stages. Progress is hampered by a lack of any agreed and coherent framework for understanding the essential factors (and their interactions) that shape the entrepreneurial process and by the dearth of available data that serve as meaningful proxies for these factors.

Goetz and Freshwater in a recent paper<sup>18</sup> presented their framework for capturing state-level determinants of entrepreneurship and for measuring what they called “entrepreneurial climate.” They focused on states, recognizing that although these are not functional economic units, they do have the power to influence many of the factors important to economic development. Using a regression model that equated entrepreneurial activity<sup>i</sup> within a state with a set of inputs that related to ideas and innovation, human capital, and financial capital, they derived a measure of entrepreneurial climate. If entrepreneurial activity exceeded the level of inputs, that would suggest a positive entrepreneurial climate – a set of factors conducive to or supportive of entrepreneurship. Conversely, if the level of entrepreneurial activity did not match the level of inputs, a poor entrepreneurial climate would be assumed. Goetz and Freshwater also thought it important to distinguish entrepreneurial activity that involves fundamental change in an economy based on new products, combination of inputs, or production processes from that which is driven by income and population growth.

The resultant entrepreneurial climate measures ranked Colorado, California, Massachusetts, Virginia, and Maryland as the top five states,

which generally accorded with expectations. However, the authors observed, “Some results are perplexing: Florida, Nebraska, and Kentucky do not make large investments in entrepreneurial activity, but they perform far better than the model predicts...they get very strong returns.”<sup>19</sup> As will be described later, this became one factor in the selection of Nebraska and Kentucky for further assessment.

The strong technology and innovation bias in the Goetz and Freshwater analysis and the absence of any differentiation between urban and rural makes this less than ideal as a means to measure entrepreneurship in rural America. Nevertheless, the authors did draw some interesting preliminary conclusions, the most significant of which was that entrepreneurship activity can be expanded by improving the human capital base of a state – a better educated workforce increases the effectiveness with which ideas are translated into entrepreneurial opportunities.

In 2002, the **National Commission on Entrepreneurship** published the results of research<sup>20</sup> on the location of the fastest growing companies across the United States. The research led to the creation of the Growth Company Index, which weighs the percentage of existing firms with high growth (at least 15 percent per year over the period 1992-1997) and the percentage of firms that started in 1992 or 1993 and had at least 20 employees by 1997. The data was presented at the level of Labor Market Areas as defined by the U.S. Department of Agriculture.

Map 2 shows the top-performing labor market areas with populations between 100,000 and

<sup>i</sup> “Entrepreneurial activity” for the purposes of the model was measured by the number of Inc Magazine’s 500 fastest growing firms in the state and the number of initial public offerings (IPOs) per million population. “Ideas and innovation” was measured by the number of Small Business Innovation Grants and patents, “human capital” by the proportion of college graduates in the population, and “financial capital” by the number of venture capital commitments and Small Business Investment Companies. Goetz and Freshwater’s definition of “entrepreneurial climate” was based on the work of David Birch on what constituted “entrepreneurial hotspots” – a series of intangibles relating to political engagement, media interest, and supportive public policies.

150,000 (the smallest and assumed to be the most rural). Each of the nine labor market areas shown on Map 2 had between 109 and 232 high-growth companies with their strongest business sectors being local market (4), extractive (3), retail (2), distributive (1), and manufacturing(1). The strengths of this Index are that it uses the Census Bureau’s Business Information Tracking System database that allows researchers to track the employment growth of individual firms over time and it seeks to measure the number of entrepreneurial companies rather than local economic growth. Its weaknesses are that the data is somewhat out of date and it makes no distinction between size of company.

CFED’s initial approach to the challenge of mapping rural entrepreneurship was heavily influenced by its *Development Report Card for the States* methodology where multiple indica-

tors are ranked and combined into indexes which in turn are ranked and graded. However, the need to determine entrepreneurial activity within *rural* areas raised a number of data availability and methodological challenges.

The basic unit of measurement is the county and for the purpose of this analysis, the focus was on non-metropolitan counties – the generally accepted definition of rural, encompassing as it does a wide range of economic and demographic characteristics. But there are immediate limitations on the availability of key data at the county level. For instance, SBA data on new firm starts is only available at the state level, as is information on small company payroll; moreover, the level of analysis achieved by Goetz and Freshwater seems currently unattainable for rural areas. The closest available proxies for entrepreneurial activity were measures of self-employment and small firms:



**Map 2: Top-performing Small Labor Market Areas for Fast Growing Companies**  
 (Source: National Commission on Entrepreneurship)

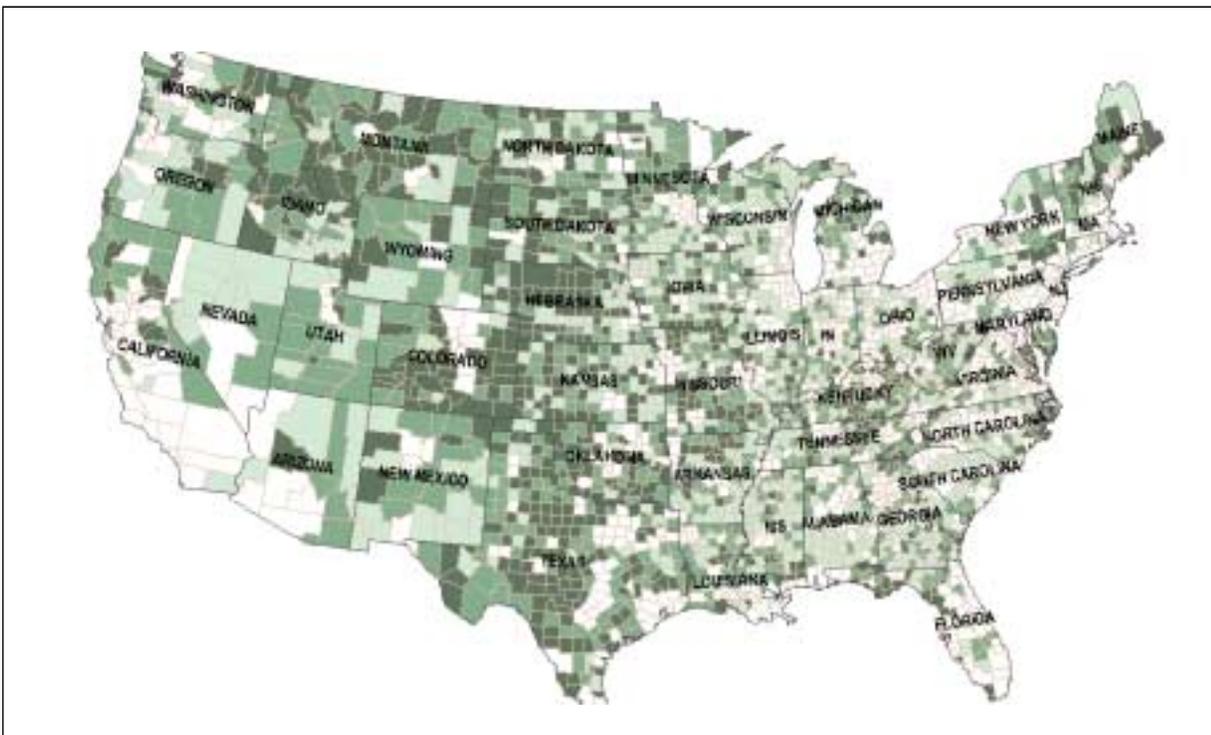
- Number of firms with no paid employees, annual business receipts of \$1,000 or more, and subject to federal income taxes, by county. (Source: Census Bureau, 2000 and change 1997-2000)
- Number of companies that employ 20 employees or less by county. (Source: Census Bureau's County Business Patterns, 2000 and change 1997-2000)
- Number of private, non-farm jobs by county. (Source: Bureau of Economic Analysis, 2000)

At a special meeting on rural entrepreneurship research convened by the RUPRI Center for Rural Entrepreneurship and the Farm Foundation in May 2003, CFED staff presented proposals for creating multi-factor indices that included the above measures along with firm income data. However, it was the consensus of the academic researchers that it would be advisable to avoid such indices and present the

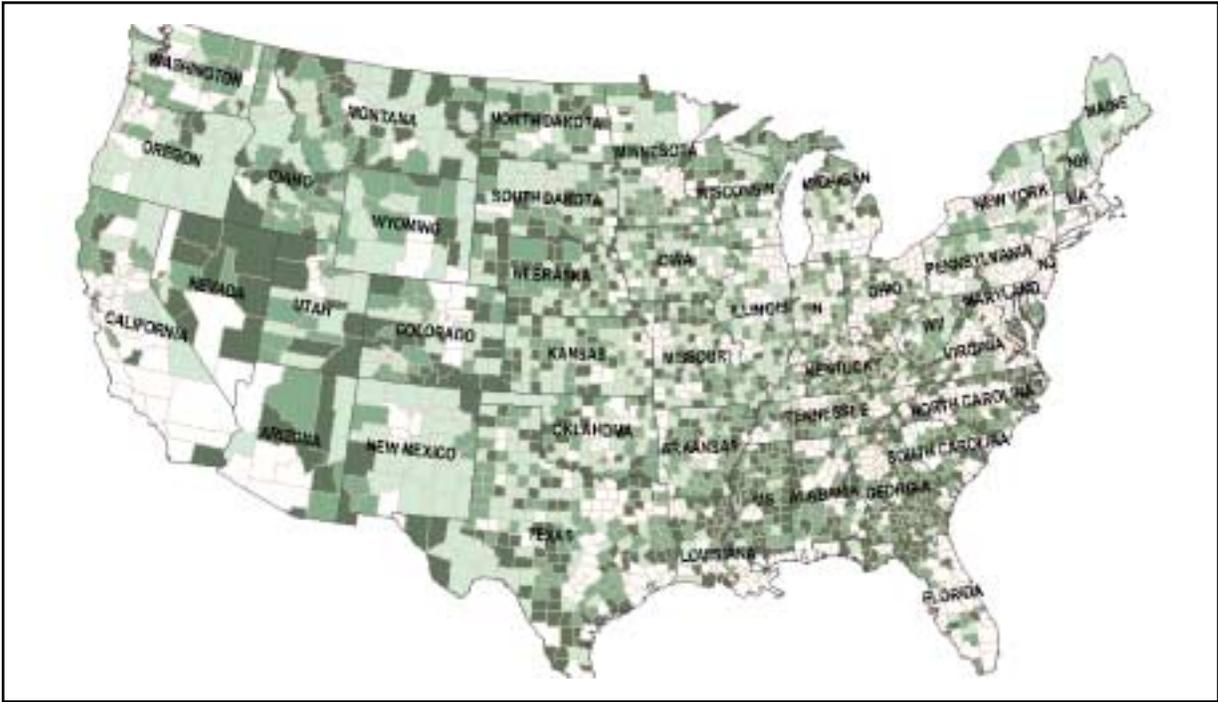
data, with all its limitations, in a separate and straightforward manner.

Map 3 shows the distribution of self-employer firms expressed as a proportion of jobs in each county in 2000. The darkest green counties are those in the top third of counties nationwide. These are concentrated in the Central Belt from North Dakota to Texas, in the northern mountain states, central Appalachia, and northern New England.

Map 4 shows the change that counties have experienced in the number of self-employer firms expressed as a proportion of jobs in each county from 1997 to 2000. Again, the darkest green counties are those in the top third of counties nationwide. These are more broadly scattered across the Southeast, Appalachian and mid-Atlantic states, the Western mountain states and across the Heartland.



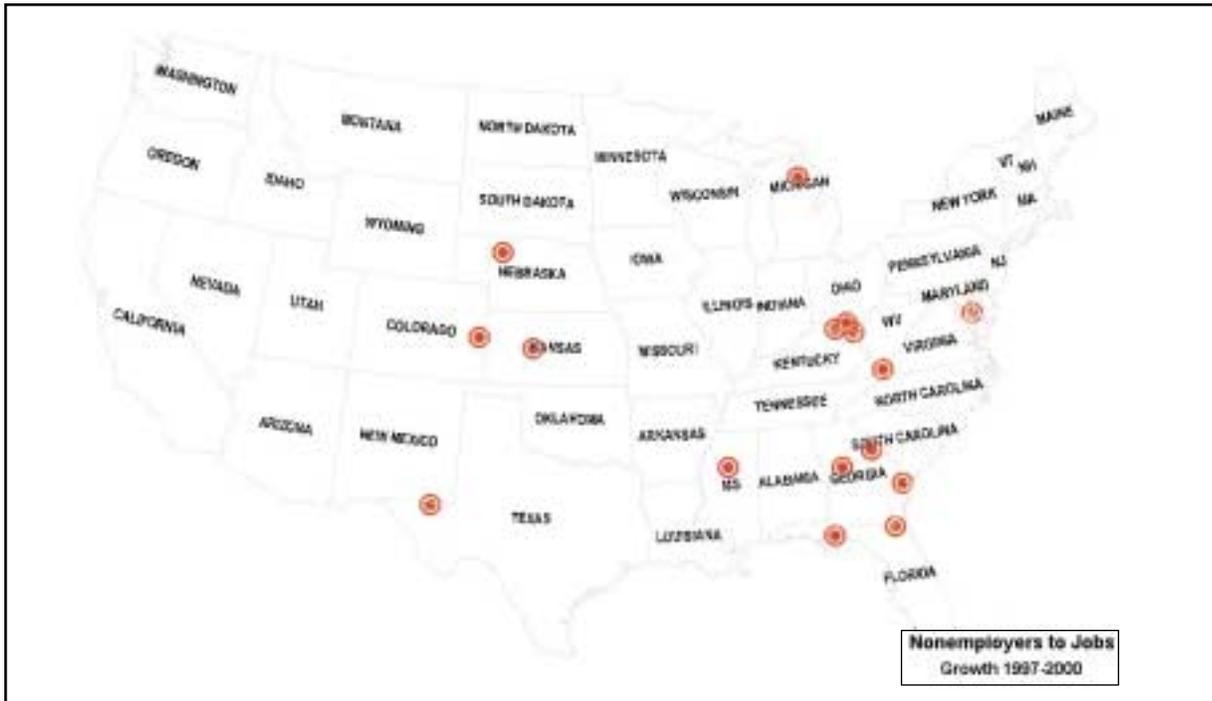
**Map 3: Self-Employer Firms 2000**  
 (Source: Census Bureau, Bureau of Economic Analysis)



**Map 4: Growth in the Number of Self-Employer Firms 1997-2000**  
 (Source: Census Bureau, Bureau of Economic Analysis)



**Map 5: "Top-performing" Counties for Self-employer Firms, 2000**



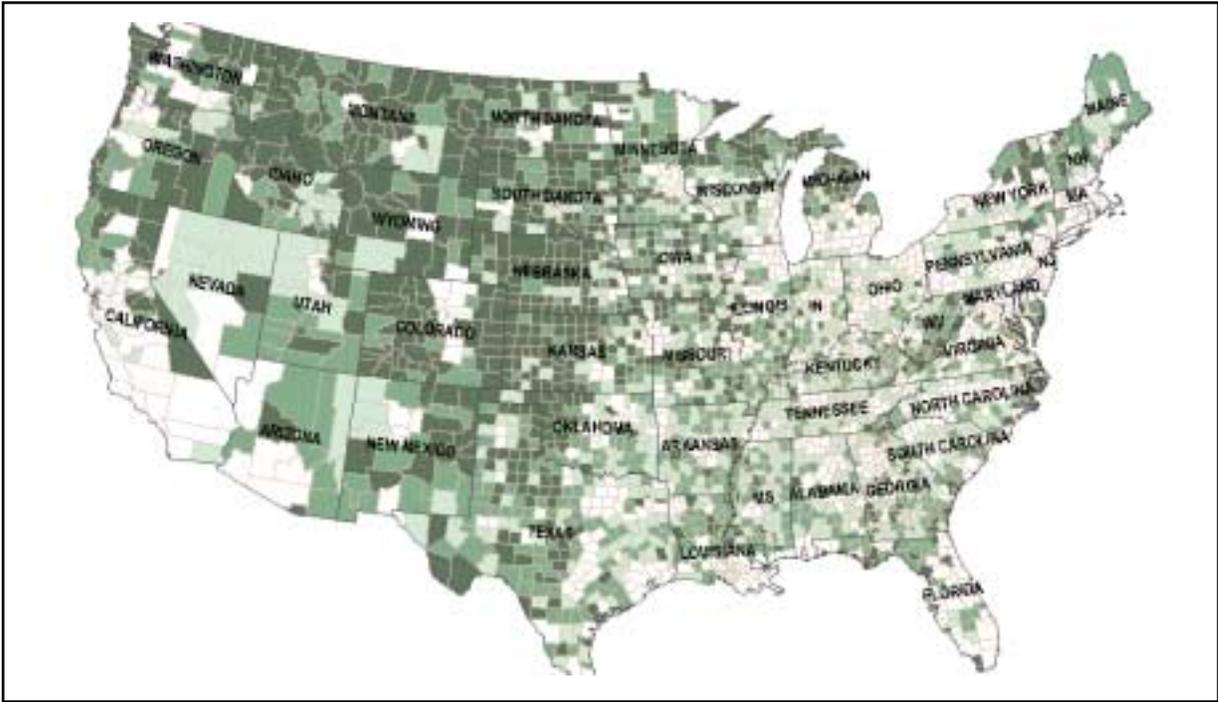
**Map 6: "Top-performing" Counties for Growth in Self-employer Firms, 1997-2000**

Maps 5 and 6 show the results of a Z-score analysis to identify those counties whose indices were positive two or more standard deviations from the mean; in other words the "top-performing" counties for self-employer firms in 2000 and growth from 1997-2000.

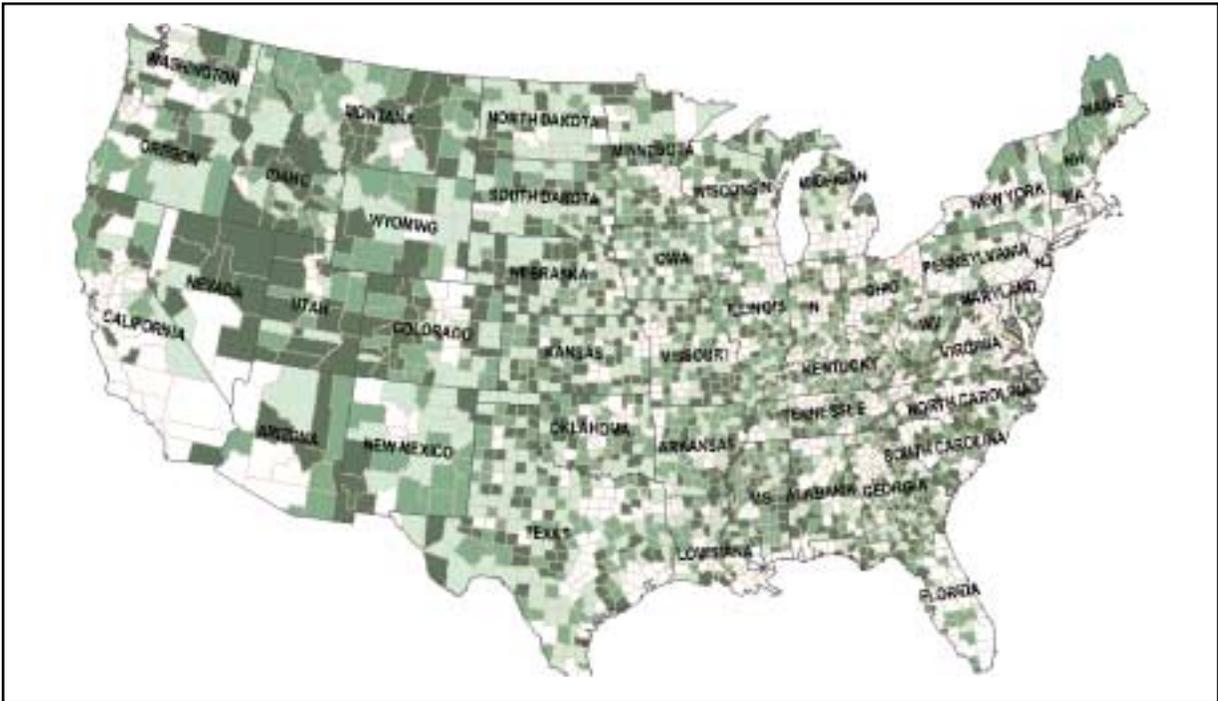
In Map 5, there is broad distribution across 17 states, with clusters of counties in Nebraska and Kentucky.

In Map 6, the distribution is mainly to the east of the country with a few in the central states; clusters are evident in Kentucky and Georgia.

*The following maps begin a second series of similar presentation using data on small companies that employ 20 or fewer people.*



**Map 7: Small Companies, 2000**  
*(County Business Patterns, Bureau of Economic Analysis)*



**Map 8: Growth in the Number of Small Companies, 1997-2000**  
*(Source: County Business Patterns, Bureau of Economic Analysis)*



**Map 9: "Top Performing" Counties for Small Companies, 2000**

Map 7 shows the distribution of small firms expressed as a proportion of jobs in each county in 2000. The darkest green counties are those in the top third of counties nationwide. These are concentrated in the central and north-west states.

Map 8 shows the change that counties have experienced in the number of small firms expressed as a proportion of jobs in each county from 1997 to 2000. Again, the darkest green counties are those in the top third of counties nationwide. These more broadly scattered across the country.

Maps 9 and 10 show the results of a Z-score analysis to identify those counties whose indices were positive two or more standard deviations from the mean; in other words the "top-performing" counties for small firms in 2000 and growth from 1997-2000.

Map 9 shows a concentration in western states with two outliers in the east and clusters of counties in Colorado and Nebraska.

Map 10 indicates a broader spread across the central and south-eastern states.



Map 10: "Top-performing" Counties for Growth in Small Companies, 1997-2000

### Commentary

The data presented in this chapter provide only glimpses of what constitutes entrepreneurial activity in rural America. It shows that high-performing small labor markets are found widely distributed across the country – there appears to be no obvious common locational characteristics. Counties in the heartland and northern mountain states and in Appalachia appear consistently as being comparatively strong for both small business and self-employment. But there is no sense of how much of this activity is opportunity- or

necessity-driven, or what the underlying factors are that make one area more active than another. As mentioned previously, the challenge is the lack of both data at the county level that adequately captures entrepreneurial activity and of an accompanying framework of the kind developed by Goetz and Freshwater. It is evident that some considerable intellectual and statistical resources need to be invested so that entrepreneurship can be measured with greater confidence.

# Policy Context

## National Policy

Ten years ago, CFED suggested that the notion of rural development policy was misplaced. “Because rural areas are evolving into distinctly different economic entities...an off-the-rack federal strategy or state development policy based on outmoded assumptions about rural areas is likely to be ineffective...Instead, state and federal policymakers should focus on building local and regional capacity to use flexible programs and tools, designing effective delivery systems, and creating supportive development institutions.”<sup>21</sup> The report went on to recommend that “Rural advocates must work to ensure that mainstream programs are designed so that rural people, as well as urbanites and suburbanites, can benefit from them, and to ensure that rural community leaders are well-equipped to be active and equal participants in local and regional development efforts. Effective urban and rural development policies cannot be developed separately, but instead must recognize their interrelationships. Thus regional strategies are increasingly important.”<sup>22</sup>

In any event, many rural economic development leaders regard America’s national rural policy as unfocused, if not non-existent. Organizations such as RUPRI note that federal rural development policies and programs “consist of a fragmented constellation of programs dispersed among several agencies... [and] a comprehensive, goal-driven, community-based and regionally appropriate national rural policy doesn’t exist.”<sup>23</sup>

While fiscal crises have hit government funding at all levels, including rural community development in the federal policy agenda is still a priority for rural advocates nationwide, including the Center for Rural Affairs, the National Association of Development Organizations (NADO), National Rural Development Partnership, National Association of Towns and Townships, and the National Association of Counties. In the past, rural poli-



cy was narrowly defined as funding for agriculture through programs supported by the United States Department of Agriculture (USDA), but the changing nature of the rural economy has spurred a broadening of the rural economic development policy framework. There appears to be a growing national, state, and local policy consciousness that rural communities matter and that entrepreneurship development should be a core component of economic development policy for rural America.

Despite increased attention to non-farm rural development issues, a national policy around rural entrepreneurship still has a long way to go. A recent analysis by the USDA Economic Research Service found that the highest level of per capita business financial assistance from federal government programs was concentrated in the West, North Central, and New England regions of the country and that 332 non-metro counties received no federal assistance at all.<sup>24</sup> Additionally, numerous federal agencies invest more resources in rural development than the

USDA (when agricultural programs are excluded) – the agency congressionally mandated to promote the economic interests of rural America.

Industry leaders note a vacuum in the field with regard to organizations that promote federal rural entrepreneurship development policy. The Ewing Marion Kauffman Foundation has significantly scaled back the policy activities of the National Commission on Entrepreneurship, once the primary champion for federal entrepreneurship development policy. Other potential champions for rural entrepreneurship are either in their early stages of development (such as the newly formed rural subcommittee of the Association for Enterprise Opportunity [AEO]), are not primarily focused on policy (such as the RUPRI Center for Rural Entrepreneurship), or are not specifically focused on entrepreneurship development issues (such as the Congressional Rural Caucus or the National Rural Development Partnership).

Consequently, the majority of national rural development policies and programs still focus on natural resource conservation and industrial development, and very few resources support entrepreneurs specifically and directly.<sup>25</sup> The following is not intended to be a comprehensive overview of every government program or policy effort that contributes to rural entrepreneurship development, but rather highlights some key efforts that have recently emerged and/or have significant impact on rural America.

- **USDA** business assistance programs primarily function through loan guarantees or support to community entrepreneurship development initiatives and institutions. Programs such as the Business and Industrial Guarantee and Direct Loan Programs, Intermediary Re-lending Program, Rural Business Enterprise and Opportunity Grants, Rural Economic Development grants and loans and Rural Enterprise and Empowerment Zones all

contribute (either directly or indirectly) to promoting entrepreneurship development in rural areas by creating incentives for private investments in rural enterprises or building the capacity of communities or institutions to support rural entrepreneurs. Rural economic development advocates maintain that rural community development is not getting adequate support from the USDA and would like to see it more involved in promoting rural entrepreneurship. The good news is that although there is a long way to go in equalizing support between entrepreneurship focused programs and agricultural subsidies through the USDA, within the last few years the budgets for USDA business development programs have increased.

- **The U.S. Small Business Administration's (SBA) SBA 7(a) guaranteed lending program** continues to be the largest single business assistance program. However, financing per capita data shows that non-metropolitan areas receive less than three-quarters of their counterparts in metropolitan areas, the result of both lower levels of economic activity and fewer private lending institutions. The main rural beneficiaries are counties specializing in services, retirement-destination counties, and non-metropolitan areas in Western states.<sup>26</sup> Other programs such as the 504 Certified Development Program, Microloan Program, Program for Investment in Microentrepreneurs (PRIME), Women's Business Centers program, Service Corps of Retired Executives program, and Small Business Development Center (SBDCs) program, among others, are all elements of the national small business development infrastructure that can support entrepreneurship in low-income rural areas.

The potential benefits of these programs, however, have not been fully realized in rural areas, according to a 2001 report by the SBA Office of Advocacy, *Advancing Rural America*, as well as from feedback



from six rural roundtable meetings sponsored by the SBA in 2000. The roundtables and report revealed that rural communities face significant barriers in accessing SBA programs. Specifically, there has been a decline in SBA guaranteed rural lending and a lack of outreach by SBA programs such as the 504 and SBDCs to rural entrepreneurs. Participants in the rural roundtables cited the high cost of fees, lower guaranty levels, centralization of servicing, lack of decision-making authority at the local level, high levels of paperwork, and difficulties obtaining technical assistance as key reasons for inadequate rural deal flow.<sup>27</sup>

Also of concern are the attempts by the current administration to cut SBA programs, particularly those that serve low-income entrepreneurs such as the PRIME, Microloan, and New Markets Venture Capital Programs. Moreover, the SBA's rural initiative, created during the Clinton administration in response to the findings of the Rural Roundtable, has been stalled and its

status within the SBA is unclear. Funding for SBA programs that support disadvantaged (rural and urban) entrepreneurs is tenuous. Quoting the Administration's 2003 budget rationale, "economically distressed communities and individuals have access to a wide range of private for-profit and non-profit microenterprise organizations including federally supported CDFIs, which calls into question the necessity for separate SBA programs." SBA Microloan and PRIME programs, the only two supporting microenterprise development, are consistently underfunded.

- **Other federal programs include the CDFI Fund of the U.S. Department of Treasury**, which provides capital to community development financial institutions (CDFIs) in distressed areas and could potentially be a valuable source of funding for organizations that promote and support rural entrepreneurship. However, in 2002, only 11 percent of these awards went to rural America, reflecting the relative lack of eligible rural CDFIs. According to NADO, the majority of rural

and small metropolitan regional development organizations are ineligible for CDFI certification and support due to their quasi-governmental status.<sup>28</sup> Other agencies, such as the **Economic Development Administration** and **ARC** have for years funded local and regional intermediaries (Economic Development Districts and Local Development Districts) that support local economic development across rural America.

In recent years, efforts have been made to enable some of these regional development organizations to play greater and more effective roles in entrepreneurship and business development. ARC's **Entrepreneurship Initiative** is an example of a focused public sector effort to promote entrepreneurial education and training, entrepreneurial networks and clusters, technology transfer, access to capital and financial assistance, and technical and managerial assistance to rural entrepreneurs. Through September 2001, ARC's Entrepreneurship Initiative had funded 237 projects, providing a total of more than \$20.1 million of support and leveraging an additional \$19.3 million. Ninety-one projects had been completed, creating 389 new businesses and retaining 1,283 jobs. One hundred forty-six ongoing programs were projected to create 859 new businesses and create or retain 2,726 jobs.<sup>29</sup> The initiative, although clearly successful, has been constrained by the continuing lack of local institutional capacity in rural Appalachia to support entrepreneurs.

The **Department of Health and Human Services (HHS)** also offers programs and funding that support entrepreneurship development in rural communities, such as the Job Opportunities for Low-Income Individuals Program, Office of Refugee Resettlement Microenterprise Development Project, Asset for Independence Demonstration Program and Community Services Block Grant funding. HHS also recently launched a new rural

initiative, charged with ensuring that all HHS programs and policies meet the needs of HHS's rural constituents.

Although there have been significant shifts in federal policy in recent years, the major focus remains on farming and on physical infrastructure investment. Rural entrepreneurship development is still a new concept to many local, state, and federal policymakers. While, there is no shortage of government programs that, in various ways, provide some sort of small business support, there is much that can be done to increase the effectiveness and outreach of federal entrepreneurship programs in rural areas. Findings from the ARC initiative reveal that effective rural entrepreneurship development policy needs to be brought to scale, sustained over time, focused on enhancing the capacity of local and regional intermediary institutions, and valued as a legitimate economic development strategy.

## State Policy

According to a 1999 report by the Kaufman Center for Entrepreneurship Leadership (KCEL), *State Entrepreneurship Policy and Programs*, state commitment in support of entrepreneurs is mixed. The report notes that, "while state funding for entrepreneurship development lags behind other economic development activities, many states have created programs or adopted policies that have a positive impact on entrepreneurs."<sup>30</sup> Some states are intentionally providing direct or indirect financing, promoting entrepreneurship support services, and providing tax incentives to emerging entrepreneurs, while other states are focused primarily on business recruitment, which translates into resources for marketing and incentives and continued expenditures on basic physical infrastructure. In addition, many states lack a vehicle for entrepreneurs and entrepreneurship development organizations to network, share best practices, build new skills



and competencies, or pursue an agenda of policy advocacy. Overall, findings from the Kaufman study revealed that state entrepreneurship programs:

- Do not generally focus on the needs of entrepreneurs during the start-up stage.
- Provide debt, either through direct loans or loan guarantee programs, rather than equity capital.
- Support entrepreneurship education at the post-secondary, rather than early education level.
- Promote linkages to innovation and research primarily through universities.

While these elements of support are important, they do not make up a comprehensive “package” of services for emerging or established entrepreneurs. Yet, researchers and advocates agree that state support is critical to the success of entrepreneurship development programs. A recent three-state study of Maine, Nevada, and Pennsylvania by the National Commission on Entrepreneurship and ACCRA’s Center for Regional Competitiveness found that state funding represents an important revenue source (between 37-42 percent of a program’s budget) for entrepreneurship development organizations in these states. In addition, find-

ings from the USDA Economic Research Service’s Rural Manufacturing Survey reveal that state business assistance programs benefited three fifths of rural manufacturing establishments. The national research notes, however, that only a “modest” amount of state business development services are targeted to small manufacturing establishments in non-metro distressed areas as compared to their larger urban counterparts. To encourage states to increase their funding for [rural] entrepreneurial friendly policies and programs, a variety of foundations and state policy stakeholders have sponsored state entrepreneurship policy and research initiatives:

- NGA convened two **State Entrepreneurship Policy Academies** in 2000 and 2001 to assist nine state economic development teams (Idaho, Illinois, Maryland, Michigan, Mississippi, Nevada, Utah, Washington, and Wyoming). These teams learned about the role that entrepreneurship plays in state economic competitiveness and about developing strategic and implementation plans to promote a positive state entrepreneurial climate. The initiative provided state economic development officials with exposure to the leading thinking on entrepreneurship development strategies and individualized technical assistance in the development of an implementation plan.

While state budget crises retarded much of the potential impact of the academies, there were some notable successes. Michigan integrated entrepreneurship development into the formal mission of the state economic development administration. Nevada linked networks of angel investors and technology centers into formal economic development planning activities and integrated entrepreneurship education into the state’s economic education standards. Washington is developing a statewide entrepreneurship assistance portal managed by the governor’s office to serve as a central

clearinghouse for all organizations serving entrepreneurs.

NGAs Center for Best Practices is developing a Governor's Guide to Entrepreneurial Policies and Programs drawing from the findings of the research and the policy academies.

- Rural Entrepreneurship Initiative was launched in 1999 with support from the Ewing Marion Kauffman Foundation, Partners for Rural America, the National Rural Development Partnership, and the Nebraska Community Foundation. The initiative assisted six state teams (Colorado, Maine, Minnesota, Missouri, Texas, and West Virginia) in enhancing their climate for entrepreneurship development in rural areas and was designed to provide a national learning forum on rural entrepreneurship. The state teams received guidance and customized technical assistance in assessing their state entrepreneurship climate and developing a strategy and action plan for implementing policies and programs that benefit rural entrepreneurs:
  - **Maine:** The Rural Development Council launched a “prototype” rural entrepreneurial community and completed a study on the needs of rural entrepreneurs in the state. The project grew into a collaboration with the Ewing Marion Kauffman Foundation and the Maine governor's office to develop a comprehensive statewide entrepreneurship development plan.
  - **Minnesota:** Practitioners have expanded the Minnesota Virtual Entrepreneurship Network, linking entrepreneurs throughout the state to resources, markets, and support services. A number of other states, including North Dakota and Nebraska have or are in the process of adopting this approach.

- **Missouri:** The state team is building a more focused and integrated support system for Missouri's small businesses and has launched an initiative to promote core skill development for recipients of public assistance.
- **Texas:** Higher education institutions and nonprofit organizations are leading an effort to implement a statewide community-focused entrepreneurial support system.
- **West Virginia:** A public-private partnership is working to develop a statewide intermediary organization to build entrepreneurial capacity and programs among non-governmental organizations, and promoting demonstration projects such as the Entrepreneurial League System and the Virtual Entrepreneur Network.

Of the six states, only Colorado failed to make progress. There, the rural development council folded due to federal and state budget cuts. The state's SDBC system also has been defunded. Results of the initiative thus far suggest that those efforts rooted outside state government have proved to be the most robust and consistent over time. As Don Macke observed, “While state governments tend to think in terms of programs, comprehensive state entrepreneurship policy development cannot be a programmatic approach and the role of nonprofit organizations is crucial to its success.”<sup>31</sup>

## The Components of Entrepreneurship Development

The starting point for gathering information on entrepreneurship development efforts across rural America was a framework developed by CFED for the Winthrop Rockefeller Foundation and published early in 2003.<sup>33</sup> This framework has two main parts: creating a pipeline of entrepreneurs and enhancing business services for entrepreneurs. The pipeline notion was that “there should be an infrastructure of lifelong learning from elementary school to the golden age, based on the simple principle that it is never too early or too late to be an entrepreneur... The aim is to create a large and diverse pool of people, across a spectrum of entrepreneurial motivations, out of which there will flow a steady stream of high achievers with an interest in creating jobs and wealth in their communities.”<sup>34</sup> With business services, “the aim is to “graduate” significant numbers of start-up enterprises into companies and organizations that will provide quality jobs...”<sup>34</sup>

The key components of the pipeline are entrepreneurship education and entrepreneur networks; for business services, the components are training and technical assistance and access to capital. For this assessment, some 65 publi-

cations were reviewed and 60 experts and practitioners were interviewed. The result is not a comprehensive directory of national, regional, and local programs and initiatives, but a cross-section of efforts that currently have or potentially have a significant impact on stimulating entrepreneurship in rural America in each of these four components.

### Entrepreneurship Education

For the past two years, ARC in partnership with the U.S. Department of Education has held an awards competition – the Springboard Awards – to recognize outstanding youth entrepreneurship education programs targeted at rural communities across the region. ARC’s Federal Co-Chair, Ann Pope, captured the essence of this component when she commended the 2003 winners, “The educators receiving this award are inspiring Appalachian youth to reach as far as their imagination and energy can take them...By giving our young people the confidence and know-how to initiate their own business ventures, they are helping to prepare the region for the challenges of the 21st century.”<sup>35</sup>



The **Consortium for Entrepreneurship Education (CEE)**, an association of entrepreneurship educators and advocates, reports that entrepreneurship education is becoming a priority within all systems of education beginning in kindergarten and continuing through college as well as for adults in continuing education and entrepreneurship training programs. CEE has developed an on-line guide, with support from ARC, which highlights model entrepreneurial education initiatives and provides a clearinghouse of information on entrepreneurship education resources. This year in Seattle, CEE will sponsor its 21st annual Entrepreneurship Education Forum, bringing together hundreds of practitioners from across the country.<sup>36</sup>

In the mid-1990s, the **Ewing Marion Kauffman Foundation** commissioned Gallup to survey youth on knowledge of and attitudes towards entrepreneurship and small business. One significant finding was that 65 percent of youth surveyed expressed interest in starting their own business. Walstead and Kourilsky noted, "This interest in entrepreneurship is an untapped reservoir with the potential to directly affect standards of living and the economy. If just a third of the youth who expressed an interest in starting a business actually acted on their aspirations at some point over their lifetimes, such initiative could significantly increase new business formation in the United States."<sup>37</sup>

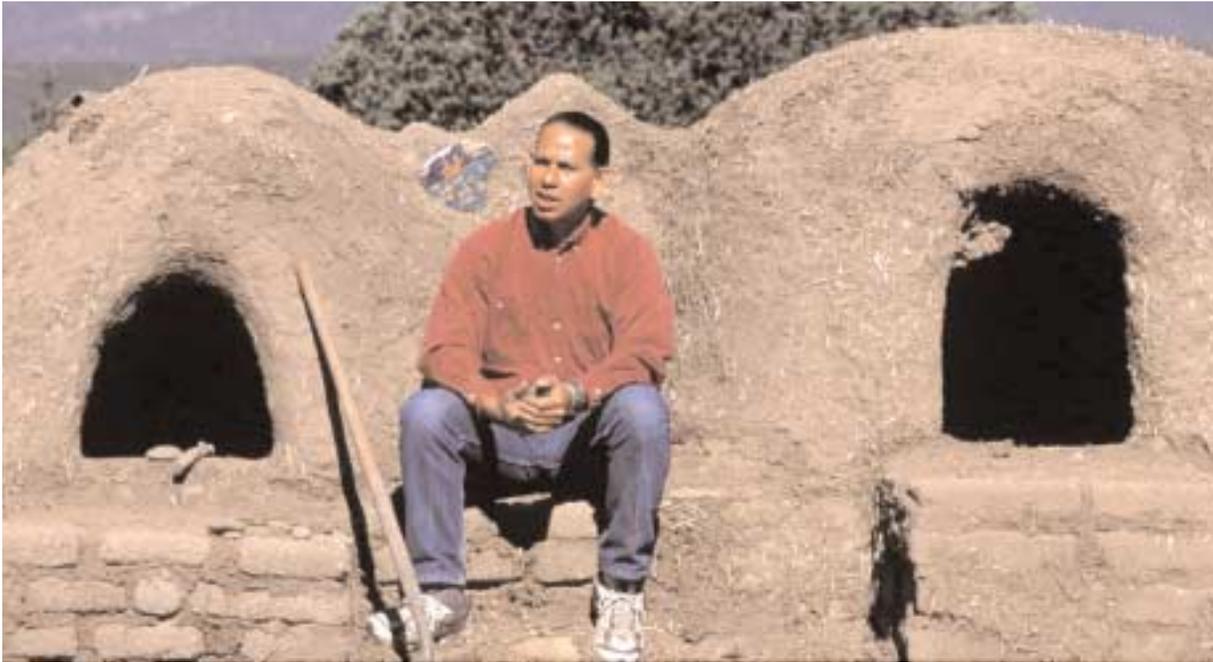
Additionally, recent conferences on rural development and interviews with rural economic development leaders underline the importance of entrepreneurship and youth development in any rural economic development strategy as a means to population retention, leadership development, and economic growth. In response, an increasing number of programs, both in-school and after school, are providing entrepreneurship education to rural youth. Some programs cast a wide net and have smaller impact on a greater number of students, while others focus more in-depth programs on

target markets. Still others choose to provide broad support and development of tools for young entrepreneurs of all ages.

### **Elementary Through High School**

The following is a selection of efforts currently underway in the mainstream education systems and through special initiatives.

- **Public schools and vocational education tracks** traditionally have been closely linked to vocational education the majority of entrepreneurship efforts within the public school systems.<sup>38</sup> The vocational tracks and their corresponding associations such as Distributive Education Clubs of America (DECA) – an association of marketing students, Future Farmers of America (FFA), Business Professionals of America (BPA), Future Business Leaders of America (FBLA), and Family, Career, and Community Leaders of America (FCCLA) see entrepreneurship as a career opportunity for students who may not go on to college. Neither the Department of Education nor these associations track penetration of their programs into rural schools or encourage state departments of education or state affiliates to reach out to rural students. That said, it was reported that the education departments in Nebraska and New Mexico have model efforts underway.<sup>39</sup>
- **Junior Achievement** is distinguished by its program design that links real world entrepreneurs with students and its strong partnership with classroom instruction. Junior Achievement programs are offered in 120 countries, all 50 states and reach 4 million U.S. high school and 2.8 million U.S. elementary school students. Currently, Junior Achievement does not track its outreach into rural areas or gather demographic data from individual students. There is no focused effort at the national level to promote outreach into rural communities, although there



are efforts to develop a distance learning initiative for hard-to-reach areas. Examples of model programs include Ft. Wayne, Indiana and Pueblo Colorado Springs.<sup>40</sup>

- **National Council for Economic Education (NCEE)** offers Economics America, a classroom and standards-based curriculum, which is focused on economics education, with entrepreneurship as one part of the broader curriculum. NCEE courses are integrated into K-12 classroom curricula. NCEE does not track its outreach into rural communities. Examples of model states include Virginia, Indiana, Illinois, and Washington.<sup>41</sup>
- **Rural Entrepreneurship through Action Learning (REAL) Enterprise** program began in 1990 and was originally designed for school students in rural communities. Whereas REAL Enterprises offers a full range of entrepreneurship development products and teacher training services across the country, it is the only national program specifically developed for and targeted to a rural target market. REAL currently has nine

active state organizations (Alabama, Georgia, Mississippi, North Carolina, Upper Peninsula Michigan, Vermont, Virginia, Washington, and West Virginia) and the curriculum is being offered in over 20 additional states nationwide. There has been little sustained evaluation of REAL programming due to lack of funding. The best example of a statewide commitment to REAL is North Carolina where REAL programming is represented in 84 out of 100 counties in the state.

- **National Foundation for Teaching Entrepreneurship (NFTE)** aims to teach entrepreneurship to low-income youth (ages 11-18). Historically much of its work has been targeted to inner-city youth and has not had any targeted rural focus. Since 1987 NFTE has trained 1,200 teachers and more than 30,000 youth in 43 states and 14 countries. The most recent analysis of programs found that NFTE graduates had improved communications skills, increased interest in starting a business, and started a business at much higher rates than non-NFTE students. NFTE's internet-based learning program,

BizTech, may be particularly useful for rural youth.

- **The Ewing Marion Kauffman Foundation** has developed a variety of curricula and programs to support young entrepreneurs of all ages. Its Mini-Society program targets 3rd and 7th graders and provides teacher training. The accompanying curricula is correlated to state standards and designed for integration directly into the core classroom instruction. While Mini-Society does not explicitly track data on rural outreach or outcomes, the primary vehicle for implementing Mini-Society into rural areas has been through USDA's 4-H system. Kauffman has also partnered with American Indian Business Leaders (AIBL) to provide entrepreneurship development training to 85 Native American elementary school teachers from reservations nationwide. AIBL has continued to sponsor this "train the trainers" effort nationally. Other programs provided by Kauffman include: Making a Job, designed for middle school students; Entrep, an entrepreneurship institute and internship program targeted to 11th and 12th graders; and Entrepreneurship 101, a curriculum adaptable for high school, community college, and university students.
- **4-H** is found at 105 land-grant universities in all states and territories and 3,150 counties nationwide. Data on entrepreneurship efforts have not been collected to date, although National 4-H will gather this data in the future due to its growing popularity among its member organizations and funders. In partnership with the Kauffman Foundation, over the last four years Mini-Society entrepreneurship programs have spread to 4-H programs in 47 states. Those communities that have successfully implemented Mini-Society programs are now demanding curricula for older youth and, in response, the National 4-H Cooperative Curriculum System is currently creating an entrepreneurship curriculum to meet this

need. Examples of model programs include the University of Illinois 4-H and 4-H programs in Virginia and West Virginia.<sup>42</sup>

- **Boys and Girls Clubs** promote community leadership and character building for youth through a variety of programming. Increasingly, Boys and Girls Clubs are forming on Native American reservations and have grown from one in 1992 to 145 in 2003. Some of these clubs run small enterprises and entrepreneurship programs for tribal youth. Examples of effective reservation-based Boys and Girls Club entrepreneurship development models include programs on the Navajo reservation, Tulalip reservation in Washington, and Lac Courte Oreilles reservation in Wisconsin.<sup>43</sup>

#### Post-Secondary Institutions

It is estimated that over 400 institutions of higher education offer coursework in entrepreneurship across the country; there also has been a 253 percent increase in entrepreneurship faculty positions from 1989 to 1998.<sup>44</sup> Recent findings on the impact of entrepreneurship education conclude that entrepreneurship graduates are:

- Three times more likely to start new businesses or be self-employed;
- Have annual incomes that are 27 percent higher and own 62 percent more assets than their counterparts; and
- Are more satisfied with their jobs.<sup>45</sup>

**Public community colleges** are important anchor institutions in rural America and often play a critical role in community economic development. They are found in nearly every county, they serve a greater percentage of minorities and women as compared to four-year institutions, and they tend to be employer driven. Within the last decade, rural community colleges have increasingly diversified their

programming to embrace entrepreneurship education as a local rural economic development strategy. Although, there has been no formal analysis conducted on the scale and scope of these programs, recent research from the Kauffman Foundation found that 20 percent of the 1,300 community colleges have at least one course in entrepreneurship.<sup>46</sup>

National and regional initiatives to promote community college-based entrepreneurship education include:

- **The National Association for Community College Entrepreneurship (NACCE)** was founded in 2002 to promote entrepreneurship and incubation education at the community college level nationwide. NACCE intends to be the “major channel of distribution for best practices.” While anecdotal evidence suggests “tremendous interest” from rural constituencies, there has been no formal tracking of the number of, much less effective practices in, entrepreneurship education at rural community colleges. The first national conference focused on effective practices took place on October 12-15, 2003. An example of a model program includes the Pappajohn Entrepreneurial Center at the North Iowa Area Community College.<sup>47</sup>
- Nationally, **USDA’s Regional Rural Development Centers** are implementing a Rural Community College Initiative, designed to incorporate entrepreneurship training as part of the core missions of rural community colleges in low-income communities across the country. This initiative emerged from a \$28 million project sponsored by the Ford Foundation to support 16 colleges in very low-income areas across the country. The Regional Rural Development Centers are now working to spread this effort to community and tribal colleges and land grant universities. Current efforts are underway in Minnesota, North Dakota, New Mexico, North Carolina, Mississippi, and Texas.
- **Regional Technology Strategies (RTS)** has benchmarked successful entrepreneurship development practices at community colleges and highlight Elizabethtown, Kentucky; Hagerstown, Maryland; Clyde, North Carolina; Meridian, Mississippi; El Rito, New Mexico; Cumberland, Kentucky; and Albemarle, North Carolina as effective practice models in community college-based entrepreneurship development efforts.
- Some initiatives are using **community colleges as community entrepreneurship education and training centers** not only students, but also for community members. North Carolina, for instance, appropriates money for a Small Business Center at every community college. Many of these are in rural areas and are the only support for entrepreneurs in those regions. Another example is the ARC Rural Entrepreneurship Initiative that supports, in part, entrepreneurship centers at rural community colleges. An example of a model ARC program is The Advanced Technology Center at Hagerstown Community College in Appalachian Western Maryland.<sup>48</sup>



**Four-year colleges and universities** are increasingly viewing entrepreneurship education as a vehicle for innovative business research and student development. Several have been creating specific entrepreneurship training programs integrated into traditional courses of study with a focus on business start-ups, capital sources, stages of business development, and effective marketing. National and regional initiatives to support entrepreneurship development at colleges and universities include:

- **Lifelong Learning for Entrepreneurship Professionals**, funded by the Ewing Marion Kauffman Foundation, is a national teaching clinic for professors from any discipline interested in teaching entrepreneurship. The foundation also provides grants ranging from \$12,000-\$50,000 to 51 colleges and universities currently engaged in varying levels of entrepreneurship activity including awareness, faculty development, curriculum development, experiential learning, and peer learning. Although many of these grants have gone to colleges in rural areas, to date there has been no intentional effort to specifically target students from rural communities. The foundation also manages the **Kauffman Collegiate Entrepreneurship Network** of 120 colleges and universities with an interest in advancing entrepreneurship. The strategy is designed to support the development of more and better entrepreneurship teaching, research, and service through peer learning and to assist institutions in institutionalizing entrepreneurship into their “permanent fabric.” Babson College is noted as offering a model entrepreneurship studies program.<sup>49</sup>
- Approximately 22 of the total 36 land grant **tribal colleges and universities** offer entrepreneurship education as a course of study or through their extension programs. Examples of model programs include Haskell University in Kansas, Salish Kootenai College in Montana, Sitting Bull College in North Dakota, and College of Menominee Nation in Wisconsin.

## **Entrepreneurship Networks**

The **National Commission on Entrepreneurship**, a strong advocate of entrepreneurship networks, argued that, “Successful entrepreneurs are consummate networkers who thrive in communities. Entrepreneurs know it is critical to their success that they have access to networks of their peers. Networks are essential because they are the links to potential sources of capital, new employees, strategic alliance partners, and service providers – such as lawyers, accountants, and consultants. They also allow entrepreneurs to share information and assessments of markets and technology as well as lessons learned from their own entrepreneurial experiences.”<sup>50</sup> The Commission argues that thriving regions offer a range of formal and informal networks, with the informal predominating in more entrepreneurial regions encouraged by the larger numbers of entrepreneurs and a more open culture of information sharing and networking. This highlights one of the many challenges that rural entrepreneurs face: lower density of entrepreneurs and supporting services and local cultures that often tend to be inward-looking and less open.

However, rural entrepreneurship development organizations honored by NADO agreed that the absence of entrepreneurial networks hindered entrepreneurs in their area. In response, they each created local or regional entrepreneurship networks through business incubators, business-to-business websites, buyers’ groups, and clubs.<sup>51</sup>

Despite the benefits of such networks, they are not necessarily easy to begin or maintain. Research by the National Commission on Entrepreneurship shows they will be more successful if they are created by and for entrepreneurs, rather than as a government program.<sup>52</sup> The public sector may play a valuable role in sparking and supporting a networking organization, but entrepreneurs have to be the driving force behind the evolution of the network.



The Commission recently published a guide to building entrepreneurial networks, complete with 10 action steps to consider.<sup>53</sup>

Networks can be started, revitalized, or injected into existing organizations. Because of unique challenges in rural areas, many rural entrepreneurial support programs have integrated a networking component into their activities rather than creating a separate network. For example, **Northeast Alabama Entrepreneurial System** and **Unlimited Future, Inc** in West Virginia both offer networking opportunities along with other services, such as business incubation facilities, micro loans, and business training.<sup>54</sup> The **Center for Rural Affairs** in Nebraska, as part of its Rural Enterprise Assistance Program, facilitates groups of current or aspiring businesses in a particular area into associations to network and manage business loans.<sup>55</sup> The **Minnesota Virtual Entrepreneur Network** is both on-line and place-based. Bizpathways.com connects rural entrepreneurs with services they need and place-based clusters connect them to other entrepreneurs in their region. The Network is currently conducting “Rural Resource Roundups” in communities to introduce and demonstrate useful tools. The

Minnesota Rural Partnership supports the Network with funding from the Department of Commerce.<sup>56</sup>

Other efforts identified as exemplary during expert interviews included Appalachian Center for Economic Networks (ACEnet) in Appalachian Ohio; Foodworks Culinary Center in Arcada, California; Northeast Mississippi Business Incubation System; Kentucky Highlands Investment Corporation in London, Kentucky; Sustainable Urban Rural Enterprise in Richmond, Indiana; and the Center for Economic Options in Charleston, West Virginia.<sup>57</sup>

## Training and Technical Assistance

Aspiring and existing entrepreneurs need access to high-quality entrepreneurial support programs including issue-specific training and technical assistance in order for them to flourish. The following is a selection of programs and initiatives that particular relevance in rural America.

- **SBDCs**, a national network of federally funded business development centers, represent the most widely available training and technical assistance resource for emerging and existing entrepreneurs. Mainly located on university and college campuses with state-level coordination, they provide business plan development assistance and entrepreneurship training through curricula such as FastTrac and NxLevel. While SBDC staff noted that state networks, such as Texas and Colorado, are partnering with other business support organizations to provide joint trainings and more customized assistance, many experts interviewed maintained that few SBDCs provide such coordinated assistance. Congressional expectations are that SBDCs serve the needs of all aspiring entrepreneurs. But with growing funding restrictions there is a tendency for them to be numbers-driven

rather than impact-oriented, which in turn leads to them being labeled as somewhat bureaucratic and reactive. Assessments of the Arkansas SBDC network showed that the quality of an individual SBDC is greatly enhanced when there is a team of three advisors with the expertise and experience to offer finance, marketing, and training services. Because not all SBDCs meet this requirement, the scope and quality of services varies from region to region.<sup>58</sup>



- The Corporation for National Service's Americorps MBA Entrepreneurship Mentors and SBA's Service Corps of Retired Executives are both important national programs that provide **mentoring** to entrepreneurs, linking people with more sophisticated business knowledge to entrepreneurs who are just beginning and building their business. While these are national programs, they may not be available in every area – especially not in rural areas. Many industry experts cited the lack of and dire need for avenues to link the existing business sector with start-up entrepreneurs.
- **Business Incubators** are growing in prominence for the field of entrepreneurship. According to the **National Business Incubation Association** (NBIA), there are 950 business incubators in North America, which together assisted over 35,000 start-up companies in 2001. By providing entrepreneurs with training and networking opportunities, about 87 percent of all firms that graduate from incubators are still in business. Thirty-one percent of incubators report drawing their clients from rural areas. NBIA cites insufficient financial resources and limited entrepreneurial mass as challenges for rural incubators. Examples of successful rural business incubators include Scholl Entrepreneurial Center in Alabama; Owatonna Incubator Incorporated in South Central Minnesota; CAPsell Center in Wautoma, Wisconsin; MEDZ incubator in McAlister, Oklahoma; and the Northeast Mississippi Incubator Network.<sup>59</sup> As incubators can be expensive to create and operate, it is not uncommon for them to progressively reduce the level of business services and revert to conventional real estate projects.<sup>60</sup> Therefore it is to be expected that the idea of “incubators without walls” is attracting considerable attention. One often-cited example is operated by the **Eastern Maine Development Corporation**, which embraces regional cooperation with a number of community action agencies to meet the challenges of scale, absence of rural entrepreneurial networks, distance to markets and services, and limited capital availability.<sup>61</sup>
- According to the NADO, 60 percent of **regional development organizations** (Local Development Districts, Economic Development Districts, Tribal Planning organization) are engaged in entrepreneurship development and are often the only institutionalized vehicles for promoting enterprise development in rural communities. Primary products include small business and micro loan funds as well as entrepreneurship development training and technical assistance. These organizations receive federal support through the Economic

Development Administration or the ARC, together with an array of other federal, state, and local sources. Examples of successful regional development organizations include the Northwest New Mexico Council of Governments' Entrepreneurial Development and Tourism Industry Project and the Northwest Wisconsin Enterprise Program.<sup>62</sup>

- **USDA** promotes entrepreneurship training and technical assistance through a variety of programs. The **Resource Conservation and Development Councils** is designed to assist communities in developing sustainable community economic development strategies, including entrepreneurship development programs. The **Cooperative State Research, Education, and Extension Service** works in partnership with land grant universities, tribal colleges, and other schools to support a variety of community building initiatives. The system reaches every county in the country, primarily impacts rural communities, and provides services directly to both students attending university as well as community members. Many extension programs are providing entrepreneurship development programming to their local communities. USDA's Rural Development's **Office of Community Development** partners with institutions of higher education to operate eight **National Centers of Excellence** to promote economic development in their respective regions, often through technical assistance to entrepreneurs and small businesses.<sup>63</sup>
- **Economic Development Administration's University Center program** supports 69 University centers in 45 states to promote economic and entrepreneurship development in their local service area through direct technical assistance to individual businesses, nonprofit capacity building services, applied research, and information dissemination. Two rural programs of note are Ohio University's Institute for Local Government and Rural Development, which

is dedicated to business incubation and Ball State University programs, which is focused on business development assistance in Indiana's Amish community.

- **Microenterprise Development Organizations** more often than not target low-income entrepreneurs, many starting businesses as a result of downsizing, unemployment, or underemployment. According to AEO, the trade association of microenterprise programs in the United States, 120 of its nearly 500 microenterprise organization members work in rural areas. Recent studies show that most microentrepreneurs require a minimum of 45 hours of technical assistance before a micro-loan (\$500-\$35,000) can be made.<sup>64</sup> As a special initiative, AEO has initiated a two-year Rural Microenterprise Successful Practices Project, bringing together 34 sector-specific groups into learning clusters that in turn identify successful practices in rural microenterprise development in the food, sustainable tourism, and artisan sectors. Examples of these effective programs include ACEnet in Appalachian Ohio; San Juan 2000 Development Corporation, San Juan, Colorado; and Women's Rural Entrepreneurial Network, New Hampshire.<sup>65</sup>
- **Community-based organizations** such as the **Rural Local Initiatives Support Corporation and Neighborhood Reinvestment Corporation (NRC)** coordinate networks of community based organizations, traditionally focused on housing, but increasingly offering entrepreneurship development services and extending their outreach to organizations serving rural areas. Of the existing 220 chartered members of NRC, approximately 50 are involved in some type of enterprise development activity; fewer still are rural programs, although the numbers are growing annually. Rural community based organizations involved in model entrepreneurship development work include Community Ventures

Corporation in Lexington, Kentucky; Centex Certified Development Corporation in Austin, Texas; and NHS of Dimmit County, Texas which works primarily with low-income immigrants.<sup>66</sup>

Two major initiatives in the area of technical assistance for entrepreneurs have emerged that have attracted a great deal of attention and enthusiasm. The **Entrepreneurial Development System** is the brainchild of Tom Lyons and Greg Lichtenstein. In essence, this system recognizes that entrepreneurs differ in the extent of their technical, managerial, entrepreneurial, and personal maturity skills. These skills can be learned, measured, and monitored by this assessment tool, which places entrepreneurs into “a hierarchy of skill development” based on the professional baseball league system – essentially a system for developing talent. Depending upon their assessed level of skill, entrepreneurs are identified as Rookie, Single A, Double A or Triple A. Complete mastery of the skills... qualifies them for the Major Leagues of entrepreneurship.”<sup>67</sup>

The advantage of this approach is that the path to success is clear both to the entrepreneur and to those who would provide assistance. The aim is to drive changes in the way entrepreneurship is delivered so that it is both tailored to the appropriate skill level of the entrepreneur and is integrated into a seamless system of providers. The Entrepreneurial Development System is currently operating or being introduced in Kentucky in an urban context and in North Carolina and West Virginia as a regional initiative engaging both urban and rural communities.

**Enterprise Facilitation**, like the Entrepreneurial Development System, is a people-centered approach to economic development. Developed by the Sirolli Institute, Enterprise Facilitation enables communities, through the appointment of a trained, full-time local facilitator, to recognize local talent and mobilize leadership around the support of entrepreneurs and small busi-

nesses. The Sirolli Institute has been actively involved in implementing programs in Oregon, Idaho, Montana, California, and Kansas. Success rates in many communities are said to be impressive, but the Enterprise Facilitation model has not yet been implemented and assessed on a large-scale. Accordingly, the Sirolli Institute, the National Association of Regional Councils, and the RUPRI Center for Rural Entrepreneurship are inviting expressions of interest for participating in a rigorously monitored six-community, three-year demonstration to test its effectiveness against other economic development approaches.

### Access to Capital

A recent Congressional study conducted by the USDA found that rural financial markets are distinct from urban markets in that equity financing is more difficult to obtain and that rural areas typically have far fewer lenders and more segmented markets, resulting in reduced competition among lenders.<sup>69</sup> It also found, however, that while the financial markets differ in nature from each other, rural and urban financial service organizations that provide debt financing generally perform equally with regard to both provision and cost of credit.<sup>69</sup>

The **RUPRI Center for Rural Entrepreneurship** recently completed an analysis<sup>70</sup> on capital for rural entrepreneurs and found that:

- Rural entrepreneurs are under and inappropriately capitalized;
- Rural deals tend to be smaller in size, have somewhat less growth potential, generally a lower return on investments, are removed from investors, and have thinner management teams; and
- There is a significant “capital literacy” gap about rural business financing. Rural entrepreneurs, service providers, community leaders, and capital providers all have different levels of experience with and perceptions about access to capital for rural entrepreneurs.

Findings from focus groups and interviews conducted by the RUPRI Center for Rural Entrepreneurship also revealed that:

- Rural entrepreneurs were generally debt-adverse due to lack of experience with business financing, are completely unaware of the basic requirements for leveraging equity investments, and for those living in lower income areas, have a preference for remaining in the informal economy.
- Rural service providers, although working to prepare entrepreneurs to be “deal ready”, were found to have little understanding of or direct experience with complicated financing arrangements.
- Rural community leaders, while in the past networked residents to invest in local enterprises and projects, now focus primarily on business recruitment.
- Large traditional capital providers simply are not present in rural America, while alternative financial institutions are working on the “margins” in terms of deal flow, outreach, and linkages to the larger capital markets.

### Debt Capital

The issue of access to debt capital is heavily debated in rural America between those who maintain that there is a lack of affordable debt capital and those who believe there is considerable available debt financing, but inadequate deal flow. The most prominent rural lenders continue to be commercial banks, the Farm Credit System, savings and loan associations and Federal credit programs administered by the USDA and other federal agencies. But many start-up firms, particularly those run by minority or low-income entrepreneurs, are increasingly turning to alternative sources for financing.<sup>71</sup>

**The commercial banking system** is the largest supplier of credit services to existing/growing rural business and nonprofit development

organizations and serves the widest range of borrowers and loan types. Research findings show that the major suppliers of commercial credit in rural areas are financially strong and have increased their rural lending in recent years. However, the same research also notes that the banking industry is undergoing radical change brought about by consolidations, competition, and increased uses of technology, which have left rural communities with far fewer banks.<sup>72</sup> National trends indicate that



small loans of under \$250,000 as a category represent a shrinking share of total bank lending in rural America. The traditional community bank is increasingly being consolidated into regional or national banks (undermining the relationship-based lending model currently prevalent in rural communities) and the remaining small banks are reluctant to engage significantly in lending to entrepreneurs and early stage businesses.<sup>73</sup>

**Alternative financial providers** such as CDFIs and micro/small business revolving loan funds (often housed in regional development organizations or nonprofit microenterprise organizations)

not only provide training and technical assistance to rural entrepreneurs but also fill critical debt capital needs not met through mainstream financial institutions. As the banking sector becomes more consolidated and less rooted in individual communities, rural customers are increasingly turning to more costly, though



often more accessible, services such as check-cashers and payday lenders.<sup>74</sup> In response, CDFIs and other alternative lenders are not only engaging in advocacy against predatory lending, but are also offering a variety of affordable financial products to meet this need. There are 800 to 1,000 CDFIs operating in all 50 states and the District of Columbia. CDFIs are finance-led organizations, but also offer an array of training and technical assistance services to their clients. The four main types of CDFIs are community development loan funds, community development venture capital funds, community development credit unions, and community development banks. Together reach a base of 53 percent female, 64 percent minority, and 74 percent low-income customers. CDFIs are predominantly local institutions –

51 percent serve a single county or smaller area and only 12 percent serve multi-state or national markets.<sup>75</sup>

The majority of revolving loan funds run by regional development organizations operate in rural communities, and one quarter to one third of CDFIs and microenterprise programs serve rural communities.<sup>76</sup> The **Enterprise Corporation of the Delta** (ECD) is an excellent example of a regional CDFI that provides a spectrum of financial services to rural entrepreneurs. ECD serves low-and moderate-income residents of the Delta and rural regions of Arkansas, Louisiana, and Mississippi. ECD's commercial financing products include working capital lines of credit, construction financing, short-term bridge financing, letters of credit, and medium to long-term loans for fixed assets. Since 1995 ECD has closed 171 loans totaling more than \$27 million, leveraged \$33 million in additional financing from other sources. Nearly 40 percent of its loans were made to minority and women owned businesses.<sup>77</sup>

Through traditional banks and development finance organizations (as well as equity capital initiatives – see next section), there is a growing infrastructure in place that could facilitate a greater deal flow in rural America, but greater collaboration between banks and CDFIs is an essential prerequisite for addressing the capital access challenges in rural areas. One example of linking banks to CDFIs and microloan funds is an initiative of the Nebraska Microenterprise Partnership Fund, the **Microenterprise Information Referral System** (MIRS). MIRS creates the infrastructure, procedures, and institutional commitments needed to operate an informed customer referral process between Nebraska's commercial and micro/small-business lenders. The MIRS product is designed to network the state's entire spectrum of business lenders into a more accountable referral system, while giving micro and start-up businesses a one-stop contact point.<sup>78</sup>

## Equity Capital<sup>79</sup>

Entrepreneurs seeking non-debt financing primarily rely on personal savings, retained business earnings, and support from friends and family. Studies on access to equity in rural America have found that venture and equity capital are concentrated in metropolitan areas and that equity investors generally focus on markets that are geographically close or have higher concentrations of high tech, high growth firms – a strategy that does not match the conditions of rural communities. Industry leaders agree that rural equity markets tend to be “unorganized or nonexistent.” The challenge of making equity capital available to rural entrepreneurs has become a widely accepted priority for state agencies and the private sector.<sup>80</sup>

Despite strong agreement on the need for increased equity sources that serve rural entrepreneurs, there are varying opinions as to why equity capital is so sparse in rural communities. RUPRI created the Rural Equity Capital Initiative to explore these impediments, identify current innovation in the field, and promote rural equity finance strategies. Research from the initiative and the work of the **RUPRI Center for Rural Entrepreneurship** reveal that there is limited investment in rural areas by traditional venture capital funds because of three characteristics of rural equity markets:

- Rural businesses are relatively concentrated in low, tech, slow-growth sectors.
- Venture capitalists face higher costs for making and managing investments in rural areas.
- Rural communities generally provide a limited business infrastructure to meet the management and technical assistance needs of the entrepreneur and small business.<sup>81</sup>

In response to the lack of access to equity capital in rural communities, public policy-makers, nonprofits, and private investors are experimenting with a variety of institutional

vehicles to provide equity financing to rural entrepreneurs.<sup>82</sup>

- **National efforts:** Small Business Investment Corporations (SBICs), New Markets Venture Capital Companies (NMVCCs), the New Markets Tax Credit (NMTC) program, Rural Business Investment Companies (RBIC), and the Angel Capital Electronics Network (ACENetwork) are the five principal national efforts, in varying stages of development, currently in place to serve the equity needs of entrepreneurs. SBICs are privately owned and operated lending and investing firms, licensed by the SBA, that provide equity, long-term loans and management assistance to small businesses. Despite the widespread geographic distribution of SBIC offices, rural businesses have relatively limited access to SBIC funding. Of the approximately 350 SBICs that exist in over 42 states, only five SBICs are located outside of metropolitan areas.<sup>83</sup>

The NMVCC program, also administered by the SBA, provides up to \$150 million in debenture guarantees and \$30 million in technical assistance grants for approved NMVCC companies that target small businesses in low-income communities. As of March 2001, there were only four conditionally approved NMVCC companies in rural service areas.<sup>84</sup> The NMTC program, managed by the CDFI Fund, is designed to increase equity capital in low-income areas through the availability of tax credits to private investors. Only 20 percent of the allocations of tax credits are targeted at rural areas. RBICs are for-profit entities created by the recent passage of the Farm Bill, charged with providing equity capital for small businesses in rural areas. To date this is the only national equity program particularly focused on rural America, however, despite their Congressional authorization, no funding for RBICs have been approved.

- **State efforts:** 2000 data from the NGA and RUPRI have found that approximately half the states have allocated state funds or dedicated state revenues in public or private venture capital funds. Although effective “laboratories” for experimentation, the programs have had varying degrees of success in implementation. There are only a handful of state funds particularly targeted to rural enterprises, one such fund being the **Kentucky Rural Innovation Fund**. States have also developed tax credit programs designed to stimulate private investments in local venture capital funds, such as the **Iowa Capital Investment Tax Credit** as well as angel investor networks, such as the **Oklahoma Capital Network** and the **Montana Private Capital Network**. Tax credits vary from 20-60 percent depending on the state.
- **Private efforts:** Private development venture capital funds that seek to use the tools of venture capital to promote business growth in distressed areas have grown in importance in rural America. Today, the United States has approximately 50 such funds. Early studies of rural development venture capital funds, such as the **Kentucky Highlands Investment Corporation**, show a strong performance in both financial and social returns. Targeting rural, unemployed, or low-income entrepreneurs, the fund has invested more than \$65 million in more than 145 companies, creating more than 8,000 jobs. There is also a growing movement in rural America to develop angel investor networks such as the Minnesota Investor Network Corporation (MINICORP)’s **Regional Angel Investor Network (RAIN)**. The RAIN program is “designed to ease the task of creating angel networks and to provide a framework for discovering deals, undertaking due diligence, and structuring investments.” Based on the RAIN model, MINICORP has developed a template for helping other angels organize angel

investor networks and funds.<sup>85</sup> Private, community development organizations also provide equity financing to low-income rural entrepreneurs, although there are still currently very few programs in rural communities. These nonprofit vehicles include Individual Development Account (IDA) programs and other national entrepreneurship grant programs such as, “Trickle Up” and the Four Times Foundation, which link grants to intense technical assistance services for disadvantaged entrepreneurs.

Research findings reveal that lower deal flow and insufficient support services makes for a challenging environment for rural equity investors. According to a recent paper by David Barkley<sup>86</sup> on policy options for financing rural entrepreneurs, in addition to experienced management, adequate funding, and a clear focus on profitability, successful rural venture capital programs have to:

- Promote deal flow through expansion of service areas and local and regional partnerships;
- Assist rural entrepreneurs through customized technical support services;
- Assume active management role in a portfolio company (if needed); and
- Provide an array of financing products that are not (necessarily) available to the rural entrepreneur elsewhere.

Recent analysis of funds for rural equity initiatives reveal that it is unlikely that another round of foundation support and its patient capital will be available to venture capital funds and rural funds must develop a clear strategy for continuing to leverage public or private investor capital. This is a major challenge as local private investors are sparse in rural communities and rural equity funds may need to consider creative means of subsidizing their operating costs through nonprofit subsidiaries.

## A Closer Look at Two States

From the mapping exercises and the collection of information on programs and initiatives that support entrepreneurship, it became clear that in order to understand the reality of entrepreneurial development in rural America, a closer look would be necessary. Of particular interest was whether and to what extent these supports operated as entrepreneurial systems or as bureaucratic and disconnected programs, and how important they are as enhancements of entrepreneurial climate and culture.

Kentucky and Nebraska were chosen for further assessment because they were highlighted in Goetz and Freshwater's study as having strong entrepreneurial climate despite only moderate investments in the critical inputs of ideas and innovations, human capital, and financial capital. Moreover, in the National Commission on Entrepreneurship's Growth Company Index, a labor market in Kentucky is shown as one of the highest performing, and in CFED's analyses, both states have high performing counties for self-employer firms and small companies.

### Kentucky

The **Mountain Association for Community Economic Development**, better known as MACED, was created over 25 years ago by 10 community development corporations to create economic opportunity and build community capacity in the 51 counties that comprise eastern Kentucky. Its latest strategic planning document provides a succinct summary of the economic and social environment in rural Kentucky.

"While many traditional indicators of conditions in the region have improved over the last 15 years, the number of children in poverty remains too high; the available economic opportunities too few; the level of educational attainment too low; and the environmental problems too many. The region is also one of natural beauty; possesses a strong sense of cultural identity; experiences pockets of successful entrepreneurship; and reflects elements of real community change."<sup>87</sup>



An **Aspen Institute** report<sup>88</sup> prepared seven years ago, which sought to draw lessons from Kentucky in developing entrepreneurial economies in rural areas, pointed to a number of major hurdles that were preventing Kentucky from becoming an entrepreneurial region. Many of these hurdles were attitudinal, others related to a shortfall of the essential components of an entrepreneurial support system. *CFED's 2002 Development Report Card for the States*<sup>89</sup> ranks Kentucky 44th on its "entrepreneurial energy" sub-index, while the **Progressive Policy Institute's 2002 New Economy Index**<sup>90</sup> ranks the state 33rd for "economic dynamism" and 44th for "innovative capacity." The Goetz and Freshwater study<sup>91</sup> ranked Kentucky 49th in ideas and innovations, 46th in human capital, and 35th in financial capital – their three entrepreneurial inputs – yet in entrepreneurial climate the state is ranked 9th in the nation. So is there any evidence that, all these rankings notwithstanding, something is happening in Kentucky that could mark the birth of an entrepreneurial culture? Could it be that either this data is measuring the wrong things or is so out of date to be missing new trends?

Many observers described state economic development policy as being driven by the priority to recruit new firms to Kentucky. Much of the resources, both financial and staffing, of the Kentucky Cabinet for Economic Development appear to go into marketing the state to attract investment from elsewhere in the United States and internationally. Supporters can point to notable successes such as a recent Toyota factory near Lexington, but detractors bemoan the few resources targeted at encouraging home-grown development – a story that is hardly unique to Kentucky.

But there has been one state initiative that offers considerable hope and potential for the future – the Kentucky Innovation Act of 2000. This legislation envisioned a "strong entrepreneurial economy in Kentucky, characterized by knowl-

edge, innovation and speed." The force behind this Act was the **Kentucky Science and Technology Corporation (KSTC)**, a Lexington-based nonprofit organization committed to the advancement of science, technology, and innovative economic development founded on Kentucky know-how. It has an interest in the whole system from education and entrepreneurial development to investment in university and industrial research to commercialization. KSTC defines entrepreneurship in very broad terms: "the unconstrained pursuit of new ideas resulting in an innovative creation," which allows them to talk to a wide audience including policymakers and educators as well as the business and economic development communities.

Programs under the Innovation Act are housed in the Economic Development Cabinet, the Council on Postsecondary Education, and the Kentucky Community and Technical College System, as well as KSTC itself, with oversight from the Kentucky Innovation Commission and the Office of the Commissioner for the New Economy. There are five main groups of programs: research and development, commercialization, high skill education and training, infrastructure development, and technology support. Available statewide, these programs include peer-reviewed investments in applied research to develop emerging technologies and scientific ideas (43 investments were made in 2002), research and development vouchers to enable small and medium-sized firms to undertake such work in partnership with Kentucky university research partners, and underwriting of workforce training.

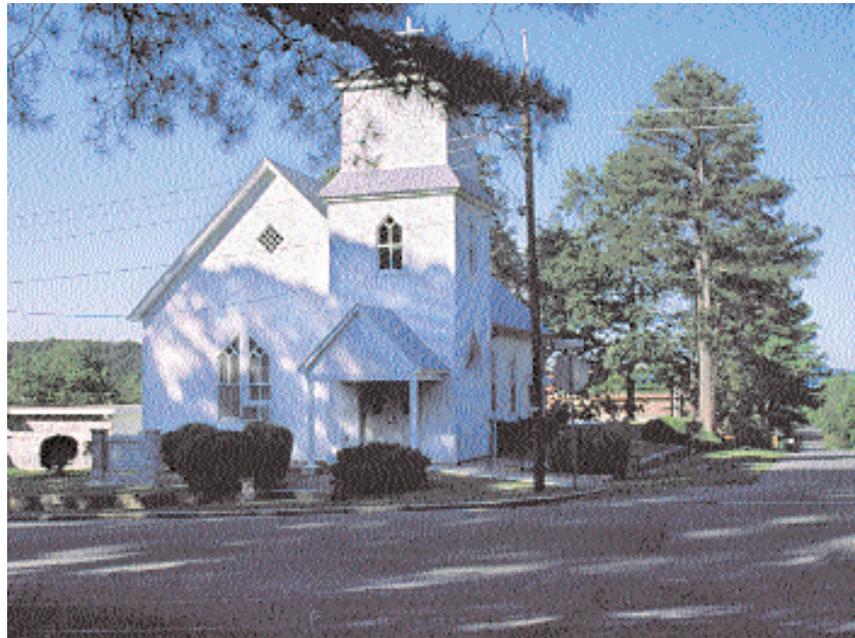
But of particular interest for this assessment are two novel programs targeted specifically at rural parts of the state. KSTC's **Rural Innovation Fund** is designed to help small, rural, Kentucky-based firms carry out research and development through a university or other third party. The fund provides \$7,500 for business plan development and patent creation. For those who move to the next level, investments

can be made of up to \$100,000 over two years. At the end of 2002, the Fund had made 23 awards totaling over \$400,000 in a range of projects, including an equine medical device, chicken house heating, design software for the home woodworker, a new internal combustion engine, and heat drywall panels.

The other initiative introduces a series of **Innovation and Commercial Centers (ICCs)** together with 14 satellites geared to the special challenges faced by rural communities in the new economy. ICCs are intended to serve entrepreneurs who want to create technology-based businesses and scientists who want to commercialize technologies. Described as a virtual incubator, there is a network of six centers in Murray, Bowling Green, Lexington, Louisville, Covington, and Richmond. The aim of the network is to increase quality deal flow of investments; increase understanding of entrepreneurship, start-up processes, and investment practices; and provide value-added services to existing businesses, start-ups, and the investment community.

Extending out from the ICC housed at Eastern Kentucky University in Richmond, which serves 46 counties in what is called the Eastern Innovation Region, there will be six satellites. Also known as business accelerators, these will be located in community colleges, libraries, and community facilities across Appalachian Kentucky. Each satellite will seek to foster entrepreneurial opportunities, assist clients with the application of appropriate technology, expand existing businesses, and provide access to a synchronized statewide New Economy Network of capital, web-based resources, technical guidance, reference materials, and ICC protocols.<sup>ii</sup>

An important design feature of the rural satellites is that they will be structured as partnerships with regional Small Business Centers, Manufacturing and Cooperative Extension services, colleges and universities, chambers,



local governments, local banks, credit unions, businesses, and the ICC network, reinforced by the fact that for each center a local funding match of 20 percent is required.

The role of Eastern Kentucky University, and in particular, its **Center for Economic Development, Entrepreneurship, and Technology (CEDET)** is unusual. It is an Economic Development Administration-supported University Center, which acts as an incubator for economic development initiatives. Apart from the ICC satellites, these have included the Kentucky Wood Products Competitiveness Corporation and the new Kentucky Artisan Center in Berea. Interestingly,

<sup>ii</sup> ICC protocols refer to a process aimed at growing a company to a “pitchable” (for venture capital) level and involve two steps: a half-day financial workshop that introduces entrepreneurs to the ICC financial model, and a second workshop on company valuation. The aim is to take companies to venture capitalists – there are already over 50 qualified Kentucky angel investors in ICC’s network.

the ICC satellites are, at least in part, modeled on an earlier CEDET initiative, the **Jackson County Entrepreneur Center**.

The idea for an Entrepreneur Center in rural Jackson County came from a county strategic plan facilitated by CEDET. It became a reality when the Kentucky Highlands Enterprise Zone was approved in 1994, which provided \$700,000 over seven years in funding for the Center. Over a period of five years, out of a population of just 12,000 in one of the poorer counties in Kentucky, the manager worked with 200 clients, translating into over 60 business start-ups with a failure rate of just one in four. Two 12-week classes (two three-hour sessions per week) were offered per year with 15 people per class. A key lesson from this experience was the value of intensive support to local entrepreneurs provided by someone living in the community who they could trust and to whom they could relate.

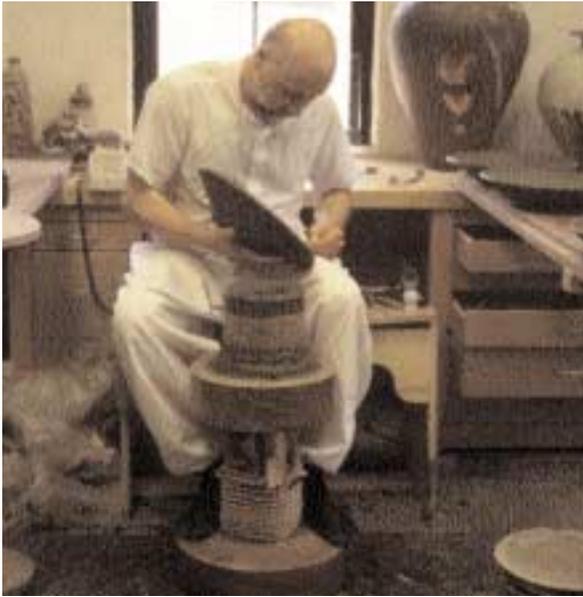
The credit for securing an Enterprise Zone for eastern Kentucky goes to the **Kentucky Highlands Investment Corporation (KHIC)**, based in London. KHIC was formed 35 years ago to stimulate growth and create employment opportunities in a nine-county area of south-eastern Kentucky. It became a venture capital provider in 1972, investing in businesses located in its area that would hire unemployed residents, by providing hard-to-access start-up capital and fair financing terms in return for an equity stake. KHIC is a certified CDFI and provides a range of equity and debt products. The **RUPRI Center for Rural Entrepreneurship** describes KHIC as one of a small number of established Entrepreneurial Support Organizations in the country: “[they] place primary focus on entrepreneurs rather than the enterprises they create; they build a support system that nurtures entrepreneurs during the idea phase, provides the resources and tools needed to create new enterprises, and guides the entrepreneur through the process of growing a business; and they contribute to the cre-

ation of entrepreneurial environments where entrepreneurship is supported in both the public and private sectors.”<sup>92</sup>

KHIC is a highly-regarded institution both locally and nationally. Many factors contribute to this reputation, but four are particularly important. The first is philosophy. Recognizing that strategies based on implanted companies serving outside markets or local companies serving only local markets do not work well in poor rural regions, KHIC looks to invest in companies in local markets that bring in external dollars. An example might be an adult day care business that provides a local service and local jobs while pulling in Medicaid and Medicare dollars into the community.

A second factor is KHIC’s strong focus on grantsmanship, ensuring access to any new federal program that might be useful to local entrepreneurs. The Enterprise Zone brought in \$30 million, KHIC is one of eight Rural Tax Credit community development corporations, and one of its subsidiary companies is a Small Business Investment Corporation. The third, and related factor is its membership of national organizations, such as Rural Local Initiatives Support Corporation, National Congress of Community Economic Development, National Community Capital Association, and the Community Venture Capital Alliance, which help keep eastern Kentucky connected to new ideas from around the country.

The fourth factor, and most critical for this assessment, is KHIC’s willingness to partner with other organizations to create a positive entrepreneurial climate in rural Kentucky. The latest example of this is the creation of the **Appalachian Development Alliance**. The Alliance is a private nonprofit organization formed by a consortium of eight multi-county community economic development organizations – Appalbanc, Community Ventures Corporation, MACED, Mountain Economic Development Fund, Southern Kentucky



Economic Development Corporation, Pine Mountain Community Development Corporation, and KHIC.

All of these organizations operate revolving loan funds and provide technical assistance to small businesses located in eastern Kentucky. As many of their service territories overlap and good deals are few and far between, there is obvious potential for competition, but the consortium members have come together to leverage more resources and share information and expertise. With \$1 million from Coal Severance Funds and \$400,000 contributed by the members, the aim is seek funds from the CDFI Fund, the SBA, and other federal and state sources. These additional funds will be used to finance deals that the individual members would not be able to do on their own.

Two of the members of the consortium members provide other complementary approaches to rural economic development and entrepreneurship. The Berea-based **Mountain Association for Community Economic Development (MACED)** was formed in 1976 by 10 local community development corporations to serve 51 counties of eastern Kentucky.

MACED's strategy has four elements: creating economic opportunity through building the assets of individuals, institutions, and communities; building capacity of individuals and organizations to be more effective in their development efforts; impacting public policy by informing decision-makers and the public by documenting and sharing lessons; and demonstrating innovation. Within its portfolio of activities, MACED has a \$5 million loan fund for business start-ups and expansions through which it offers a variety of innovative financing options.

**Appalbanc**, also based in Berea, seeks to attack the root causes of rural poverty by providing access to business, consumer, and housing finance to low- and very low-income people. Its Central Appalachian community loan fund provides technical assistance and credit to individuals, cooperatives, and organizations starting or expanding small businesses. In 14 years, it has made 100 small business loans totaling \$30 million to businesses employing 400 workers. Alongside its business lending, Appalbanc provides savings and loans to low and moderate income members of its federal credit union, as well as home financing products and various services to connect local people to the labor market.

Another important piece of the entrepreneurship infrastructure is the statewide **SBDC** network, headquartered at the University of Kentucky in Lexington. There are 14 centers that provide a range of counseling, training, and information services. Training programs are free or low-cost on topics such as business plan development, advertising methods, and loan options; counseling is on a confidential one-on-one basis. The Kentucky SBDC network is one of the earliest systems in the country. It follows the typical higher education model involving all of the state and regional campuses, and combines local presence with access to statewide resources. There are strong stakeholder expectations that the SBDCs will

serve everyone who needs help, and with limited resources, the counselors tend to be thinly spread, although the range of expertise in the network enables it respond to a wide range of needs. The SBDCs do not bring capital to the table although they do work closely with the banks and with the other funding institutions in the state.

The SBDCs and Kentucky Highlands Investment Corporation are also part of yet another new network, the **Kentucky Entrepreneurial Accelerator Network (KEAN)**. This provides services and connections through meetings, websites, and videoconferencing with the aim of accelerating business development and diversification by linking entrepreneurs and those in business to educational, technical assistance, and funding resources. Access to the network is gained through offices of the

partners – Center for Rural Development, Southeast Community College, the University of Kentucky county extension network, the McConnell Technology Transfer Center, as well as KHIC and the SBDCs – and through CenterNet and the Internet. KEAN is housed at **Southeast Community College**, which among other things has an Office of Entrepreneurship, a regional business incubator, a loan fund, and provides consulting and brokerage services.

The growing interest in the potential power of telecommunications to reach rural entrepreneurs and communities is evident in **CenterNet**, an initiative of the Center for Rural Development. CenterNet is a regional network that brings Internet and videoconferencing facilities in 34 locations across rural south and east Kentucky, one of the locations being at the offices of KHIC.

## Commentary

In south and eastern Kentucky, there are in place a number of critical components that comprise an entrepreneurial rural region. There are a number of long-established non-profit institutions that provide high-quality entrepreneurial support services. There has been innovative legislation that has taken a comprehensive view of what it takes to stimulate innovation and entrepreneurship in the state, with special outreach efforts into the rural regions. There is a growing number of institutional and virtual networks and alliances that are weaving together the work of multiple nonprofit organizations, educational institutions, and public agencies. There are people of vision and energy. There is recognition that there are entrepreneurs of all kinds in the rural communities but that special efforts have to be made to engender trust and confidence. Finally, there is a readiness

to use technology to supplement outreach into rural communities and an understanding of the importance of community capacity-building as a complement to economic development.

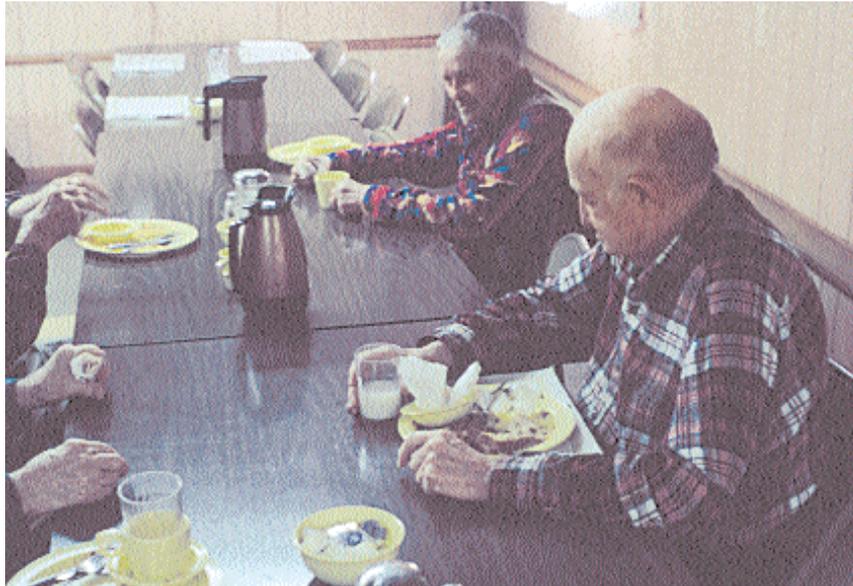
Much of what has been described is new and untested, but putting all these together should enable rural Kentucky to offer something close to a seamless system of support services. However, there appears to be no concerted effort at scale to create a pipeline of entrepreneurs through the engagement of young people in Kentucky's rural communities. That said, the Kentucky Science and Technology Corporation's pilot **entreSchools Initiative**, a competition with the aim of encouraging "student-created, student-powered ventures" that help young people to learn in new ways, looks like a promising start.

## Nebraska

Half of Nebraska's residents live in rural communities. Of the 532 incorporated communities in the state, only 11 have a population of over 15,000. Poverty rates in the rural farm counties are 33 percent higher and per capita incomes are \$6,700 lower than in the metropolitan counties. Ten Nebraska counties with populations of less than 1,500 appear among the Bureau of Economic Analysis' annual lists of the 250 counties nationwide with the lowest per capita income. Indeed, Loup County, Nebraska had the dubious distinction in 2001 of having the nation's lowest per capita income of \$6,235. A recent poll<sup>93</sup> found that farmers and ranchers in the state expect to be worse off in the next 10 years. In addition, Nebraska is experiencing significant demographic changes as refugees and other immigrants make the state their home.

Small businesses represent a large proportion of the Nebraska economy. In 2000, 86 percent of the state's businesses had fewer than 20 employees and were responsible for creating one third of all new jobs.<sup>94</sup> According to U.S. Commerce Department data,<sup>95</sup> businesses with five or fewer employees accounted for 90 percent of the total in Nebraska's most rural counties. In the 10 year period to 1997, 70 percent of all job growth in rural Nebraska was in non-farm self-employment and small businesses,<sup>96</sup> making the state unique in that new business start-up and survival rates in rural areas are as strong as or stronger than those in metropolitan areas.<sup>97</sup>

CFED's *2002 Development Report Card for the States*<sup>98</sup> ranks Nebraska 30th on its "entrepreneurial energy" sub-index, while the Progressive Policy Institute's *2002 New Economy Index*<sup>99</sup> ranks the state 41st for "economic dynamism" and 34th for "innovative capacity." The Goetz and Freshwater study<sup>100</sup> ranked Nebraska 44th in ideas and innovations, 24th in human capital, and 33rd in



financial capital. While these rankings are somewhat stronger than those for Kentucky, they do not capture the apparent extent of entrepreneurial activity in rural Nebraska. The exception is Goetz and Freshwater's entrepreneurial climate measure that shows Nebraska as ranking 7th in the nation.

Like Kentucky, and indeed many other states, Nebraska's economic development priorities focus on business recruitment. According to the Center for Rural Affairs,<sup>101</sup> for every dollar it spends on support for small business and entrepreneurial development, the state provides \$286 in tax incentives and other programs for large corporate business development. Moreover, rural areas generally do not benefit from such support. That said, the state does currently provide over \$700,000 per year in staff and financial resources to assist microenterprise and small business owners.

Much of the credit for raising awareness about the importance of entrepreneurship to Nebraska's economy and communities goes to the **Center for Rural Affairs**, a 30-year old non-profit organization that provides a range of research, education, advocacy, and other services

in support of rural Nebraska. The Center's mission is a powerful statement about the interconnectedness of economy and community in rural America: The Center for Rural Affairs is committed to building communities that stand for social justice, economic opportunity, and environmental stewardship. We encourage people to accept both personal and social responsibility for creating such communities. We provide opportunities for people to participate in the decisions that shape the quality of their lives and the futures of their communities.<sup>102</sup>

Initially the Center had a strong agricultural focus but in 1990 with its seminal *Half a Glass of Water* publication became heavily engaged in economic development and entrepreneurship.<sup>103</sup> Regarded as radical at the time, the report drew attention to the lack of a rural economic development policy, the detrimental effects of business recruitment tax incentives, and the role of self-employment in Nebraska. More recently, the Center has been active in many areas, but three are particular relevant to this assessment.

The first is federal advocacy where the Center was active in arguing for funding for rural development and microenterprise in the 2002 Farm Bill, and in designing the New Homestead Act, sponsored by Senators Dorgan, Hagel and others, to provide incentives to live and establish businesses in counties that have lost at least 10 percent of their population over the last 20 years. These incentives would include a 30 percent tax credit for investing in small owner-operated businesses and a \$3 billion venture capital fund for investments in rural businesses, as well as other measures to encourage savings, education, and home purchase.

State advocacy is the second area of note. Here the Center has been calling for increasing support for small business<sup>104</sup> and microenterprise development and for legislation for a statewide Individual Development Account program. Thirdly, the Center provides technical assistance through two programs, REAP and Project Hope.

Having provided services to farmers, ranchers, and small businesses for several years through



individual projects, the Center began in 2000 to offer farm and ranch communities a package of options for revitalizing their communities through **Project HOPE** – Hope and Opportunity for People and the Environment. The package, which varies from community to community, includes information on alternative agriculture production systems, business management training and loans, help in forming cooperatives for marketing specialty agricultural products, linkages between retiring farmers and beginning farmers or ranchers, technical assistance, and leadership and advocacy training. Two years ago, the project received over 300 requests to assist the development of value-added production systems but could only respond to 10, with the Cooperative Extension service assisting another 40.

**The Rural Enterprise Assistance Project (REAP)** is a 10-year old microenterprise development program that reaches out to entrepreneurs in communities with a population of 15,000 or less. The program offers small business training, group-based e-commerce training, monthly networking opportunities, individual technical assistance, and both individual and peer micro-lending. Peer groups or associations have to be organized in each small community in order to receive REAP services; currently there are 46 such associations serving 400 businesses. REAP also hosts a Rural Women's Business Virtual Center. In a concerted effort to scale-up its activities and impact, REAP has established six field offices and is increasing collaboration through formal partnerships with organizations such as GROW Nebraska, and Nebraska EDGE.

**Grassroots Resources and Opportunities for Winners (GROW) Nebraska** is a marketing and training organization that works with crafters, artisans, and other home-based entrepreneurs. It has 167 members in 88 counties across the state. Modeled after ACEnet in Appalachian Ohio, GROW Nebraska has a

national reputation for its juried services, product development assistance, and networking and educational activities.

**Nebraska EDGE** – Enhancing, Developing, and Growing Entrepreneurs – is a program of the University of Nebraska's **Center for Applied Rural Innovation (CARI)**. EDGE is an entrepreneurial training program for small businesses, including agricultural enterprises. It partners with REAP to provide rural-oriented training for microentrepreneurs. Since its inception in 1993, EDGE has served 1,600 individuals. CARI also runs a number of other programs such as **Connecting Nebraska**, a community-based technology training course to teach businesses how to use technology to increase their markets, and communicate with suppliers and providers, and the **Nebraska Cooperative Development Center**, which helps agricultural producers and multi-owner businesses with cooperative development efforts particularly around value-added agriculture.

The University of Nebraska has recently launched a Rural Initiative to focus resources and faculty on tackling the economic and social challenges that face rural Nebraska. One of the Initiative's first ventures is the **Coalition for Rural Economic Advancement, Training, and Entrepreneurship Team (CREATE)**. This is an emerging collaborative strategy among the key players in entrepreneurship and economic development in the state. Its purpose is to raise awareness in rural communities about the value of nurturing entrepreneurs in building their economies and the work needed to create a supportive entrepreneurial climate. The intention is to make the most effective use of limited training and financial resources in Nebraska to assist entrepreneurs. By the end of 2003, CREATE will have finalized its community engagement strategy, trained team members, and selected three or four pilot communities. The pilots will be carefully documented based on a framework developed by the RUPRI

Center for Rural Entrepreneurship, and there will be an ongoing effort to develop tools and resources, and to publicize the effort.

Another important player in rural Nebraska is the **Nebraska Community Foundation**, which has been recognized as a national model by the Aspen Institute, the National Rural Funders Collaborative, and the Ford Foundation. With the prospect of \$94 billion being transferred by rural Nebraskans to their heirs over the next 20 years and the potential that offers for philanthropy across the state, the Foundation has assisted over 150 affiliated community funds in 63 counties.

One of the Foundation's latest programs is the **Hometown Competitiveness Initiative**, which seeks to employ a three-part strategy of wealth creation, community capacity, and entrepreneurship to demonstrate ways in which leaders can link charitable giving to economic and community development. A number of counties are experimenting with the initiative, and various strategies are emerging including entrepreneurship recruitment, encouraging young families who have left their hometowns to return, and retention of businesses that may be going to close or relocate.

An affiliate of the Nebraska Community Foundation is the **Nebraska Microenterprise Partnership Fund**, a statewide financial intermediary with the aim of creating a coordinated and permanent infrastructure for microenterprise programs. The Fund is a nonprofit organization and a certified CDFI that served as the model for the creation of National Fund for Enterprise Development. It raises funds from a variety of national and state sources and then awards grants, loans, and related products to microenterprise programs through an annual "request for proposal" process. The Fund's and the microenterprise community's greatest challenge is the reduction and uncertainty of state funding. Other activities include training, tech-

nical assistance, and peer learning services for microenterprise development organizations, and the preparation of an annual report to state legislators on outcomes of Nebraska microenterprise programs. In 2002, 3,225 people received loans and training in business practices that created or retained 1,421 jobs. The Fund also supports another piece of statewide infrastructure, **Nebraska Enterprise Opportunity Network (NEON)**, which is a network of 35 member organizations, including microenterprise programs, banks, and foundations. NEON provides information, effective practices, and networking opportunities to programs and is engaged in state and federal policy advocacy to increase funding for microenterprise.

A long-established part of the small business development landscape is the **Nebraska Business Development Center** network based at the University of Nebraska at Omaha. The network comprises seven centers across the state and offers the usual array of business consulting and business plan development services, training and workshops, procurement assistance and financial packaging. The network, however, does have some unusual features, including a requirement that staff have to obtain an MBA and be certified by the National Development Council. Client interactions are extensively documented and there is in place an evaluation process. Sixty percent of businesses employ fewer than five people. As was noted in the Kentucky SBDC network, there is an expectation that all-comers will be served, but in Nebraska a "response to inquiry" system has been introduced to separate out "tire kickers" from serious entrepreneurs. This requires the entrepreneur to fill out a consulting request form and a business plan outline.

The network is increasingly challenged by the need to serve rural entrepreneurs. A declining population and little in the way of outreach has led to reduced activity and performance, in turn resulting in the closing of two centers serving rural counties when funding cuts were made. In

addition, as the population diversifies, there are increasing numbers of Latino entrepreneurs whose needs are not being met by the network. Entrepreneurship education in Nebraska is primarily focused on career and technical courses in the 9<sup>th</sup> and 12<sup>th</sup> grades. There are stand-alone courses and entrepreneurship classes are infused into agricultural, business, family and consumer sciences, and marketing programs, and high schools host entrepreneurship-oriented events through DECA, FBLA, FCCLA, FFA, and VICA. There appears to be little in the way of experiential learning in the core curriculum although the Department of Education is a member of the Consortium for Entrepreneurial Education and offers two scholarships annually to educators to attend the national Entrepreneurship Forum. The **Center for Entrepreneurship** at the University of Nebraska at Lincoln has introduced a number of initiatives to engage young people in entrepreneurship. These include Kids Invent Toys Camp for the 4<sup>th</sup> and 8<sup>th</sup> grades, where students are encouraged to invent a toy, write a business plan, create an advertising campaign and a webpage; Entrepreneur of the

Future, a five-day summer camp for high school students, and the annual Allen Dayton Young Entrepreneur Contest to recognize outstanding potential entrepreneurs which offers scholarships to the university as prizes. The Center also offers a number of undergraduate entrepreneurship courses.

An example of a local entrepreneurship initiative is one jointly created by a tribal enterprise, Ho Chunk, Inc which is known nationally for its financing of tribal enterprises and for its e-commerce site, AllNative.com, and Ho Chunk Community Development Corporation, with a mission to raise the socio-economic and education levels for Native Americans in Thurston County. The corporation's business development activities include leasing incubator space to start-ups, a revolving loan fund, training workshops, and technical assistance, while Ho Chunk, Inc is helping seed self-employed vendors to meet the needs of tribal businesses. Together, the two organizations are developing a mixed use commercial and residential site on the Winnebago reservation to create a town center.

## Commentary

Nebraska typifies the enormous challenges facing the heartland states. With some of the poorest rural counties in the nation, the need to pursue economic opportunity beyond the farm gate is of paramount importance. Entrepreneurship, particularly microenterprise, has proved to be an effective strategy that has attracted a steady, if modest stream of state funding for several years, in spite of the priority given to business attraction efforts. There are some significant key institutions that advocate for and support entrepreneurship development across the state, including the Center for Rural Affairs, the

Center for Applied Rural Innovation, and the Nebraska Microenterprise Partnership Fund. And there are a number of established networks such as the SBDCs and NEON as well as emerging coordination networks such as CREATE. The state also clearly benefits from the presence of the RUPRI Center for Rural Entrepreneurship. In spite of apparently significant gaps in the availability of debt and equity capital, and in entrepreneurial education, the Goetz and Freshwater study indicates that Nebraska offers a comparatively supportive environment for entrepreneurs.

## Orchestrating an Entrepreneurial Climate in Rural America

For the purposes of this study, entrepreneurship has been defined as the process through which entrepreneurs create and grow enterprises. This process has four principal elements:

- Identifying an opportunity for taking action or a need that might be met.
- Developing an idea to seize that opportunity or meet that need.
- Creating a venture that would bring together the necessary resources – intellectual, physical, financial – to translate the idea into a reality, make it effective, and sustain it.
- Embracing creative thinking to resolve problems, remove obstacles, and identify further opportunities.

Although this process is usually applied to creating and sustaining business ventures, it has equal power in the worlds of social services, the arts, the sciences, and in community development – anywhere in fact where complex problems have to be solved in an uncertain environment. In government, certain and essential constraints are placed on officials and the extent of their entrepreneurial behaviors in order to ensure appropriate levels of consistency, trans-

parency, and accountability. But even there, there is room (and often a crying need) for creativity, flexibility, and openness to new ideas.

Entrepreneurship, contrary to common view, is neither an exercise in rash risk-taking nor a solo occupation. In fact, it is just the opposite. Entrepreneurship is about carefully assessing the balance of risk and reward (costs and benefits). It flourishes in an environment where there are many entrepreneurs of all types. Moreover, entrepreneurship is not the prerogative of hard-charging Alpha males or rugged individualists. People of all kinds are and can be entrepreneurs. Some may be naturally inclined to be entrepreneurial, others learn to be entrepreneurs, but there is nothing in the rule book that prevents groups and communities working together for a common cause in an entrepreneurial fashion.

Ensuring that a community, state, or nation has the right climate or culture in which entrepreneurs and entrepreneurship can flourish is in itself a creative process – one which requires identifying opportunities, developing ideas, creating mechanisms for marshaling resources, and embracing creative thinking. From the



research and experience described in this study, it is clear that no “one size fits all” set of programs driven by some federal policy will achieve the desired results. Instead what is required is a new framework that will animate people and institutions at all levels and of all persuasions to be part of a movement that embraces a set of four organizing principles:

- **Community-driven:** The community – whether small city, county, or tribal reservation – provides the immediate environment which will determine whether entrepreneurship flourishes or withers. Local communities need the tools and resources to identify and build upon their assets, to make choices that appropriately balance economic, social, and environmental imperatives, to learn from the experiences of others, and to be open to experimentation and innovation. It requires that all sectors of the community are invited and expected to contribute.
- **Regionally oriented:** A regional focus to rural development and entrepreneurship is critical in three ways. First, for the most part, political jurisdictions make little sense in economic terms and the resources available in any given rural county or reservation are inadequate to match the scale of need (or opportunity). Only through regional cooperation across multiple jurisdictions, and through regional institutions can there be sufficient scale, resources, and expertise to enable individual communities to play their full role. Second, arbitrary distinctions between urban and rural interests both mask the issues and concerns that are common to all residents and businesses and prevent the search for regional solutions that might be of particular benefit to rural areas. Third, for entrepreneurs, local markets are generally inadequate to sustain their businesses; they need access to the main regional economic drivers to survive and expand.
- **Entrepreneur-focused:** Current groundbreaking work on entrepreneurship develop-

ment points to the ineffectiveness of entrepreneurial development supports that are both programmatic and uncoordinated. The notion that entrepreneurs have different needs that are a function of their education, skills, and maturity seems obvious, but tailoring the plethora of training, technical assistance, and financing programs and products to these needs requires major adjustments to current practice. Such a focus also brings along the need for systems thinking, requiring providers of entrepreneurship development services to align themselves as parts of regional systems rather than independent fiefdoms with turf and resources to protect.

- **Continuously learning:** Entrepreneur networks have been stressed by many as essential ingredients of a supportive entrepreneurial environment because they provide individual entrepreneurs the opportunity to learn from their peers. This is (or should be) true for practitioners, community leaders, and policymakers. The notion of a pipeline of entrepreneurs suggests that learning about entrepreneurship should be openly available – and integrated into school curricula. Students can learn the essential elements of entrepreneurship from a young age and be encouraged to apply them throughout life, as part of preparing them for the changes and uncertainties of life in the new economy. At another level, there is a pressing need for rigorous evaluation of the effectiveness of entrepreneurship strategies and the returns on investment that can reasonably be expected.

This study has also highlighted a number of other important essentials for promoting an entrepreneurial climate:

- **Anchor institutions:** The presence of non-profit institutions with the capacity to articulate a vision and/or advocate for change, build partnerships, and attract and mobilize resources has been critical to entrepreneur-

ship and homegrown economic development. These can be universities, community colleges, CDFIs, community development corporations, or nonprofit research and advocacy groups. They are particularly



effective when they embrace the above four principles by directly engaging in local communities, operating at a regional scale, focusing on the particular needs of entrepreneurs as part of integrated systems of support, and providing opportunities for exchange and reflection.

- **Supportive public policy:** The Kentucky Innovation Act is an example of a comprehensive and creative approach to state policy to encourage innovation and entrepreneurship. Working through nonprofit and higher educational institutions with significant resources and a mandate to reach out to entrepreneurs in the most remote and poorest rural counties provides a powerful model. Otherwise there are mixed messages from government. At the federal level, there

is a vacuum of leadership for pursuing an entrepreneurship agenda. This is reflected in repeated attempts to cut back resources for programs targeted at small business, development finance, microenterprise, and community-based economic development. At the state level, some legislators are showing interest and support for comprehensive approaches to entrepreneurship development and education, while others are cutting back on supportive programs, even as they continue to endorse expensive business recruitment policies. Demonstrating effectiveness and returns on investment as compared with other more conventional methods of stimulating economic development is critical to encouraging more supportive public policy. Another imperative at both federal and state level is to not create more legislation and programs to support rural entrepreneurship but to ensure all programs have the capability and flexibility to be tailored to the particular needs of different rural regions across the country.

- **All entrepreneurs welcome:** The distinctions drawn between opportunity – and necessity – driven entrepreneurs or between lifestyle and growth businesses are both valid and useful. The fact that these opportunity-driven growth entrepreneurs are the ones that become the engines for wealth and job creation means that they should attract priority attention both nationally and locally. That said, most entrepreneurs start from modest beginnings – 69 percent of the Inc Magazine’s 500 fastest growing firms in the United States started with less than \$50,000 in capital; 50 percent had businesses that were non-technology-related, and 56 percent started their business at home.<sup>105</sup> It is a powerful idea to create a diverse pool of entrepreneurs – with different motivations, whether for survival, lifestyle, or wealth – who develop fast-growth enterprises. It represents part of the American Dream that anyone can make it with a little bit of support

and encouragement. So a microenterprise in Loup County, Nebraska or in Owsley County, Kentucky could be just a means to provide supplementary income to a poor family or it could be the beginning of a rapidly growing venture with a global market.

This is a daunting set of requirements. But there are a number of entry points that advocates, communities, governments, foundations, and businesses should consider in order to create a supportive entrepreneurial climate in rural America. These can be grouped into four main strategies:

- **Investment strategies:** Encouraging behavioral changes in communities, institutions, and governments will require the creation of a set of incentives and a willingness to invest for the long haul. For instance, capacity-building and challenge grants should be used to encourage urban-rural and regional collaborations and the development of effective and accountable systems of entrepreneurship support. In addition, investments should be made in innovations in entrepreneurial education, technical assistance and training, capital access, and networking that show promise for widespread replication in rural communities.
- **Learning strategies:** Rigorous evaluation of entrepreneurship strategies, systematic case studies of effective practices and initiatives, “how to” guides, training programs for elected officials and policymakers, and opportunities for peer exchanges all represent a vital strand of learning strategies. Other approaches might include experiential (hands-on) entrepreneurship education efforts in schools, colleges, clubs, community centers, and camps.
- **Advocacy strategies:** Whether it involves moving the New Homestead Act or fighting the defunding of a statewide SBDC network, there has to be information, organizing, and advocacy to get the job done. The disbanding

of the National Commission on Entrepreneurship leaves a vacuum in national leadership for entrepreneurship development policies. There is uncertainty around the direction the Ewing Marion Kauffman Foundation may be heading in its advocacy and support for entrepreneurship. The RUPRI Center for Rural Entrepreneurship is focused on learning strategies. What is needed is to energize networks of organizations and institutions across the country that can use the results of the investment and learning strategies to generate public and private resources to support entrepreneurship development, particularly in rural America.

- **Information strategies:** One of the challenges is the absence of information tools that adequately describe and measure entrepreneurial activity and climates. As discussed earlier, data and methodological deficiencies currently prevent a clear picture of status and trends from emerging. But there could be considerable value in developing an Entrepreneurship Report Card to provide comparative data about the performance of rural regions and labor markets nationwide, as other benchmarking and assessment tools.

As noted at the Center for the Study of Rural America conference two years ago, “Starting and growing a business anywhere is fraught with well-documented perils. These are compounded in rural America by low population density and remoteness, with their implications for access to markets, capital, labor, peers, and infrastructure, as well as the way they shape cultural attitudes towards entrepreneurship.”<sup>106</sup> Yet this study presents ample evidence of organizations, institutions, and agencies pursuing all manner of programs and initiatives that are meant to encourage greater entrepreneurship in rural America. The task ahead is to make their efforts more community-driven, regionally oriented, entrepreneur-focused, and continuously learning.

## Endnotes

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