



RURALWORKS



WHITE PAPER 2022

A Blueprint for a Rural Renaissance

Executive Summary:

This is a pivotal time for rural America. As the 2020-2022 COVID-19 pandemic subsides, the inequities present in rural economies have been laid bare and are receiving renewed attention. We believe that a rural renaissance is upon us, a moment in American history when investment in rural businesses can make an outsized impact on all aspects of rural communities, states, and the entire country. But persistent challenges to revitalizing rural America still exist. This paper explores these challenges while highlighting recent trends and strategies that harness local solutions, collaboration and integrated capital to support innovative businesses and trigger a rural American renaissance.

Defining the Rural Renaissance

A 2020 study by Endeavor Insight and Google for Startups found that entrepreneurship is a reliable and robust pillar of rural economic development. The Kauffman Foundation found that communities in rural America are hotbeds of entrepreneurship.¹ There is tremendous potential for rural businesses to transform rural communities – that is, if they are able to scale.

Unfortunately, business founders in rural areas tend to have access to fewer resources than their peers in urban areas and face unique challenges that hinder their ability to scale. But when rural businesses succeed, the positive impact is obvious: new and better paying jobs, a more robust local service economy, and new enterprises springing up to support a growing community.

Entrepreneurs who scale their companies in their local communities, especially ones operating in highly productive and tech-enabled sectors, can offer quality jobs to their employees. This growth and employee empowerment not only create business success, it provides prosperity to their employees and families, which in turn builds community wealth and economic resilience. The successful scaling of rural businesses creates a virtuous upward cycle of success.

Rural entrepreneurship – measured as the proportion of self-employed people per capita – grew only 7.8 percent between 2008 and 2018, while more densely populated areas experienced growth of nearly 11 percent during the same period

¹ <https://www.kauffman.org/currents/rural-america-most-innovative-place-in-united-states/>

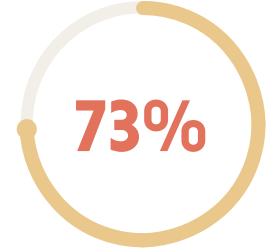
History of Rural America and Small Business Investment

Rural America has a long history of making considerable contributions to the American economy. In the 20th century, as the Great Depression raged, the New Deal brought both business and infrastructure investment to rural cities and towns through creation of the Rural Electrification Administration (1935) and the Farmer's Home Administration (1935). As a result, during World War II, rural America played a crucial role in the war effort, as cotton, rayon, and manufactured commodities were used to support rubber, plastic, and steel manufacturing for armaments and munitions.

Over the following decades, business and industry favored urban and suburban geographies due to nearby labor pools, municipal infrastructure improvements like sewer, water and recently broadband, and ample tax credits for building in or relocating to "blighted" urban neighborhoods. Rural communities were largely overlooked.

Today, these same rural geographies are being held back by a lack of economic opportunity brought forth by failing infrastructure, a lack of access to financial services, and a failure to connect to and participate in the advancing digital economy. Lack of opportunity also created a migration of young workers and families to urban areas, a "brain drain" phenomenon that further weakened rural economies and limited opportunity for those who remained.

In this transformational moment for rural America, there is a greater understanding that rural America and its 60 million inhabitants have tremendous unrealized potential. Rural communities are desirable places to both work and to live.



73% of rural businesses say a lack of opportunity holds them back

<1.5% of venture capital goes to rural communities

Only

5% of digital economy jobs

+

15% of the workforce

are located in rural communities

Changing the Narrative About Rural America

Land O'Lakes CEO Beth Ford has made rural economic growth a key priority for the company.

<https://www.fastcompany.com/90753688/beth-ford-change-narrative-rural-america>

There is also an increasing awareness of the important role that rural businesses play in tapping the potential of rural economies. According to RuralRise.org, we not only need to recognize the unique challenges and opportunities that exist in rural America, we need to quickly allocate appropriate resources.² Prompt action is required!

Promising Trends in Rural America

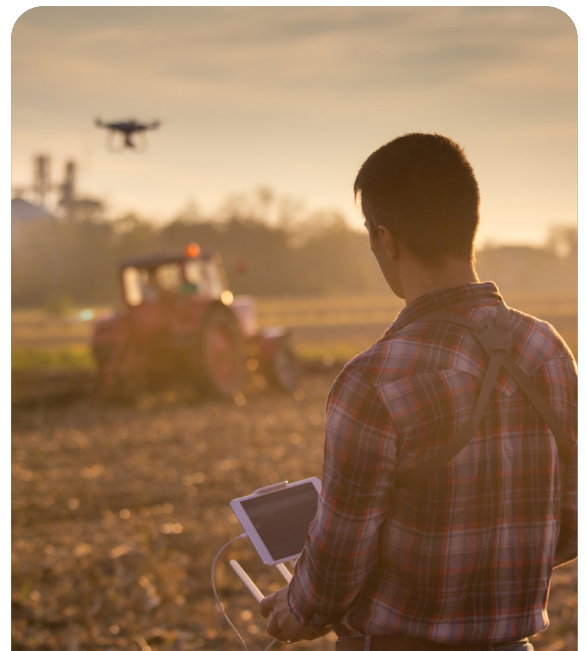
Several factors are currently at play which collectively have the potential to transform the rural economic landscape, help businesses scale in a manner that creates quality jobs, and generate thriving and resilient rural communities.

Support for digital infrastructure is growing

\$64 billion in federal funds has been earmarked for rural broadband and infrastructure to help connect rural communities to the digital economy, and more than \$1.4 billion in US Department of Agriculture (USDA) money is going to rural communities as part of various aid and budget packages passed by Congress and signed by the president since 2020. Private initiatives such as Elon Musk's Starlink, Jeff Bezo's Blue Origin and Land O'Lakes' American Connection Project are also actively engaged in bringing broadband access to rural communities.

Agriculture and related industries are rapidly digitizing

In recent years – at least since the advent of the Internet – technology has held great promise for advancing agricultural yields. However Rural America is much more than the output from its farms. All aspects of agriculture are being incorporated into the digital economy, bringing new technologies to bear that will require local, digitally astute workers to deploy. Not only is farm productivity increasing, related industries are also creating wealth and prosperity in the rural communities in which they are located. This digitization is also accelerating broadband access.



² A non-profit focused on increasing opportunities and prosperity for small and rural communities across the United States

Recent rural migration is driven by quality-of-life and telecommuting options

Existing workforce migration patterns have long created “brain drain” in rural communities, a phenomenon that weakens rural economies and limits opportunity for those who remain. The pandemic, however, has seen some reversal of these trends, with many families and young, skilled workers returning to rural communities, often after decades living in urban or suburban settings, due to relaxed telecommuting and work-from-home policies. Rural economies can capitalize on these trends by continuing to provide the resources, technologies, and tools needed to lure businesses (and residents) back to rural communities.

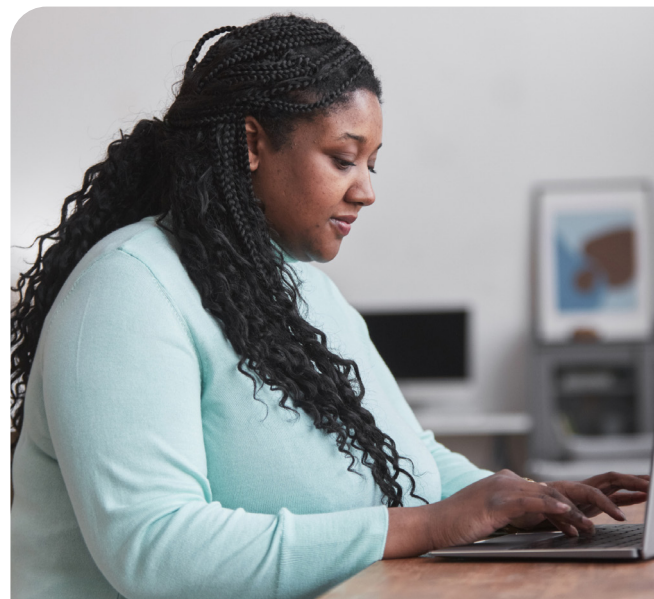
The rise of economic development experts

Local economic development agencies and organizations, Community Development Financial Institutions (CDFIs) and nonprofits such as Center on Rural Innovation (CORI) have become increasingly important in supporting the economic growth of rural communities. The Aspen Institute refers to these collaborative networks as Rural Development Hubs. Their research shows that these Hubs are “full of the creative adaptation and ingenuity critical to doing the hard work of rebuilding economies and communities for the 21st century.”³

While these trends are helping revitalize rural America, more needs to be done. According to the Federal Reserve, a real commitment to rural opportunity and prosperity must:

- Improve access to capital for rural small business owners
- Ready the rural workforce for the jobs of the future
- Safeguard competitive markets both in the U.S. and overseas
- Eliminate the systems that perpetuate racial and economic injustice

³ <https://www.aspeninstitute.org/blog-posts/rural-development-hubs-report/>



Scaling Rural Small Businesses.

At the heart of the Rural Renaissance is the rural entrepreneurial spirit, the creation and support of small rural businesses and ultimately the ability of rural growth-oriented businesses to scale. These businesses are best able to scale when able to access different types of capital: financial, human, social, and natural that provide the resources necessary for their unique situations (Integrated Capital). This support includes financing, technical assistance, business counseling, mentoring, and connections to both local and non-local networks and markets.

While this support can come from a variety of sources, research by Brookings has shown that involvement of local and regional economic development/revitalization organizations is key.⁴ Not only do these organizations provide on-the-ground support to rural businesses, these Hubs enhance community entrepreneurial ecosystems by advancing broadband, encouraging the development of local talent (skilled labor), fostering creativity and positioning their local communities as desirable places to live and work. The stronger a rural community ecosystem is, the better positioned its businesses will be to thrive and grow.

Conversely, as rural businesses scale, particularly in sectors benefiting from the digital economy, the more benefit will be gained by their local communities. These businesses will be able to offer more and higher quality jobs to their workers, thus building employee prosperity. Workforce wealth and stability not only translate to the success of the business but foster the creation and growth of other local businesses and ultimately the creation of more wealth and resilience in their local community.



⁴ <https://www.brookings.edu/research/rural-small-businesses-need-local-solutions-to-survive/>

What An Intentional Approach Looks Like

Knowledge is the foundation of an intentional approach to rural small business development. There are deep resources available to guide this approach, including extensive research, best-practice identification, and experienced partners to lead the way.

Tapping existing ecosystems

There is no need to “reinvent the wheel” in rural communities; networks of resources already exist. These local and regional organizations include small business development centers, community development financial institutions (CDFIs – mission-based nonprofit lenders), and strong public advocates for rural small business development who can provide much assistance and support. These networks are built simply by assessing each contributor’s competencies and resources and bringing them to the table of co-creation.

The Center on Rural Innovation (CORI) has identified three things rural communities need to support business growth: foundational elements, necessary infrastructure and direct drivers. Their approach created a nationwide community of practice for rural leaders to come together and learn, delivering data-driven tools to provide insights to community leaders, ensuring early-stage investment flows to rural entrepreneurs, and publishing research on the successful models and practices that rural communities are building.

“Rural leaders, entrepreneurs, and communities must now move with urgency to implement the solutions they have long understood to be necessary: Rebuild critical systems pushed to their limits through years of under-investment.”⁵

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⁵ <https://www.kauffman.org/currents/rural-america-most-innovative-place-in-united-states/>

Investment of patient capital and flexible capital solutions

The needs of rural small businesses that need to scale have not been met by traditional financial systems. Traditional loans have become less accessible, as rural bank branches have closed and rural communities have been overlooked in favor of solving urban economic issues.⁶ When available, loans do not necessarily provide the economic flexibility and timeframes for a company to expand; a lack of equity capital has further stifled small business growth. This lack of access to capital is often the difference between success and failure for these businesses and ultimately the prosperity of the communities where they are located. In addition, if businesses can access capital, the location of the capital provider influences where the company's growth will occur; investors who are not local or not committed to the local community often drive business locations outside of the rural community that spawned the enterprise.

However, new capital sources – including venture capital – are beginning to have an impact on rural small business growth. In 2017, \$3.2 billion in venture capital went to rural communities (0.188% of total VC investment)⁶. By 2021, \$42.5 billion in VC went to rural communities (1.42% of the total investment)⁶. While encouraging, these trends must continue – and must include access to capital beyond the early stage – in order for these rural businesses to grow to a scale that truly impacts the community.

Creative investment structures, such as royalty-based financings, convertible debt and various combinations of debt/equity tools, are also being used by investors to provide small businesses the financial capital they need in a manner that is flexible and supportive of shared business and impact goals.



⁶ <https://www.sec.gov/files/sbcfac-111621-robb-presentation.pdf>

“Regional collaboration is not only a vehicle for pursuing growth in rural communities, but a precondition for achieving the goal of equitable rural development. The governments, institutions and organizations that serve rural communities simply do not have the resources and technical capacity to achieve this goal on their own. This does not mean that they must forfeit their independence and local control, nor does it mean that they must submit to additional levels of bureaucracy. But it does mean that they find ways to work with and find common ground with their rural and urban neighbors, and to plan and work collaboratively with new partners in the public, private and nonprofit sectors⁷.”

⁷ https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/community-development/investing-rural/13_dabson_mcfarland.pdf

Success Story: Glavel

How a Rural Business Creates Community Impact and Opportunity

When Rob Conboy set off for Germany in 2016, he was in search of technologies that would lower the cost of doing energy-efficient construction projects in the U.S. What he found was a product that had existed in Europe for decades but hadn't yet taken off in the states: foam glass gravel.

Foam glass gravel looks and feels like a chunk of lava. It is lightweight and made from recycled glass that has been ground into a powder. Foam glass gravel is used in commercial and residential construction projects, as insulation for roofs, walls, and underneath slabs.

Conboy realized that this product not only repurposes recycled glass and keeps it out of landfills; it serves as a practical replacement for gravel and petroleum-based foam board in building projects, which drive demand for fossil fuels and can leak chemicals into the soil. Inspired by what he had seen, Conboy returned to his home in Burlington, Vermont and launched his own foam glass gravel company: Glavel, Inc.

Conboy eased Glavel into the marketplace, proving the concept first by selling foam glass gravel imported from Europe. Once the sales and demand were there, the next step was to open his own plant and begin manufacturing the product. The company hired locally and grew quickly, but further growth would require a multimillion-dollar piece of equipment: a kiln.

"We had talked to different lenders here in Vermont, but they just didn't have the capacity or the risk appetite for us being a startup," Conboy said. However, through RuralWorks Partners, a new source of Integrated Capital for rural businesses (RWx), Conboy was able to access connections, get introductions to RWx's national and global resources, and receive advice and expertise for his specific needs. RWx also provided



Photos courtesy of Erica Houskeeper

Conboy assistance in evaluating lenders and loan/investment opportunities to help him grow Glavel. Through these connections, he was able to obtain a loan with a mission-aligned lender, obtain a capital investment and expand his customer base.

In addition to financing the purchase of the kiln, a portion of the company's small business loan was used as working capital, which helped Conboy hire a production team in rural Vermont. And decreasing the carbon impact of the construction industry isn't Glavel's only mission – Conboy is creating quality jobs, including profit-sharing, and working to create a diverse and welcoming workplace. Glavel's staff includes a female plant manager, several new Americans, and several formerly incarcerated individuals, all who live in the rural community.

As Conboy looks to the future of Glavel, he plans to make the plant fully functional and begin manufacturing glass powder on-site, which he anticipates will happen in the next year. And while he has come a long way since his trip to Germany in 2016, getting Glavel to its current position in the rural community of Burlington, Vermont hasn't been easy. Collaboration, finding the right partners and community support have been key.

Critical to our success was partnering with a mission-driven capital provider that believed in the broader vision of what we were trying to achieve: to be a force for positive change in the communities that we serve.

What comes next?

While the COVID-19 pandemic has made life difficult for rural communities, it also created an opportunity to revitalize rural America. After decades of being overlooked, rural America is experiencing the building of digital infrastructure, digitization of agriculture and related industries, and renewed attention by government and private resources. Rural communities are also benefitting from an influx of young, skilled workers and the increased activity of economic community development organizations. What were once seen as sleepy small towns dominated by agriculture are now being tapped as sources for economic growth for cities, counties, and states.

To support this economic growth, rural growth-oriented businesses need to scale. Local and regional entrepreneurial and innovation ecosystems that bring together all stakeholders must be created and harnessed to provide a range of resources and assets to a rural community and its businesses. Partners – be they local, regional or national – must provide Integrated Capital to growth-oriented businesses, with financial capital tailored to be patient and flexible. As the Federal Reserve advised rural communities, collaborative efforts, public-private partnerships, and broad-based initiatives that support workers and their families on the road to economic recovery and opportunity are critical.⁸

Unlike the sleepy rural hamlets of old, today's rural communities are on the cusp of again becoming the new workhorses of the U.S. economy. We have a unique opportunity to reset and amplify our goals for economic development in rural America. But it truly will take a proverbial village to help rural small businesses garner the same opportunities as those operating in population centers and to scale in a manner that creates business success, employee prosperity and mobility and ultimately rural community wealth and resilience.

The time is right for a rural economic transformation – a rural Renaissance.

⁸ Investing in Rural Prosperity - <https://www.stlouisfed.org/community-development/publications/invest-in-rural>