THE STATE *of* RURAL SMALL BUSINESS *and* ACCESS TO CAPITAL

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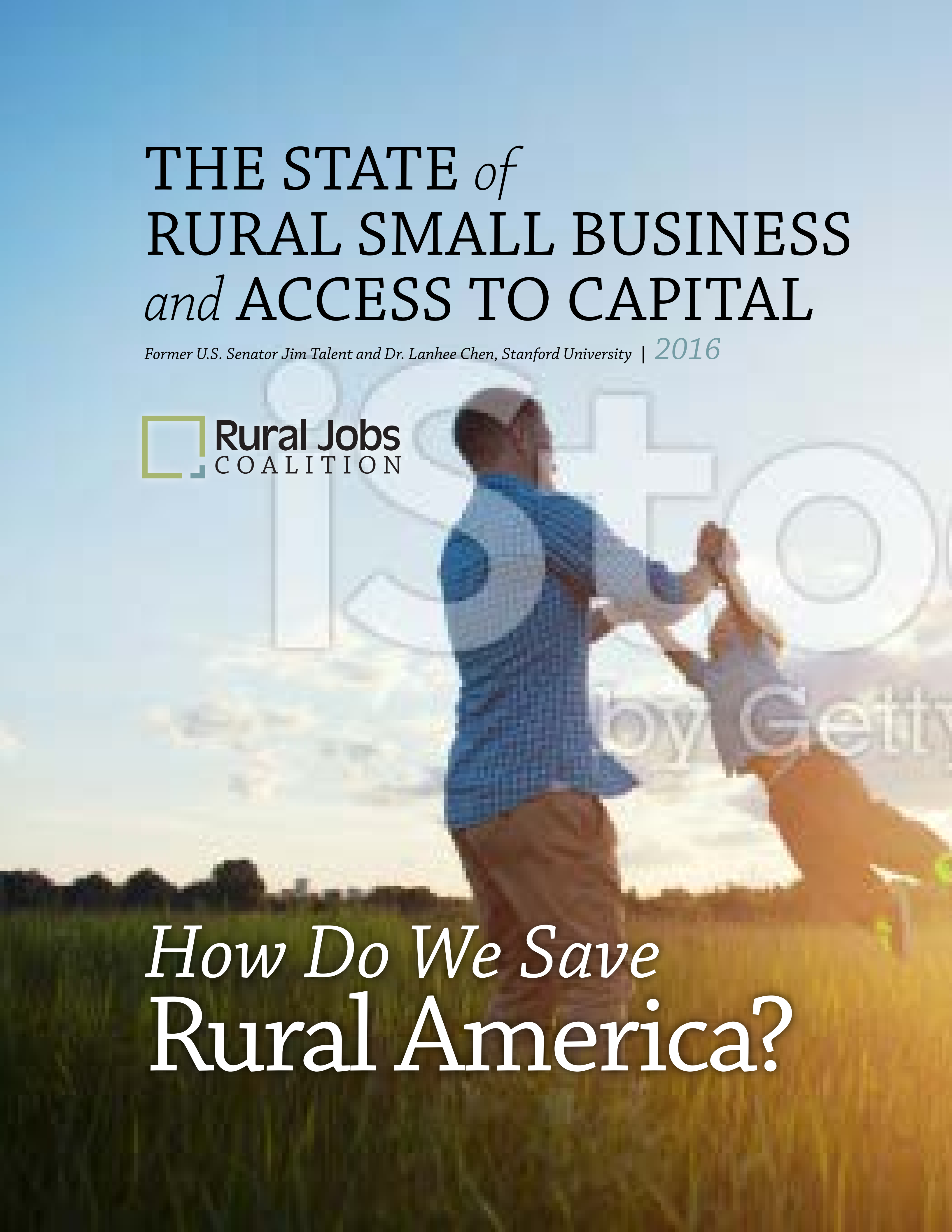
Rural Jobs COALITION



How Do We Save
Rural America?

Executive Summary

For well over a hundred years, America, and the American economy, have continued to become increasingly urban. There are many reasons for that; urban areas, on the whole, have economic advantages that tend to outweigh the advantages – like a lower cost of living – that characterize rural communities. As a result, urban areas have for decades been growing faster, economically and by population, than rural areas.

In the last five years, however, the difference in opportunity between urban and rural communities has become much more pronounced. Before 2010 rural areas were experiencing less population growth than cities; but they were still growing. They are losing population now. Before 2010, rural America had slower job growth than urban areas, but the number of jobs was steadily increasing. Job growth in rural America has slowed to a virtual standstill. There was a wage gap between rural and urban America six years ago; that wage gap has widened considerable since.

So what caused the accelerated decline in the economic prospects of rural communities? It's not educational attainment; residents of rural America are no less well educated, versus their urban counterparts, than they were before 2010. The difference is lack of investment capital, primarily due to impact of the Dodd-Frank regulations on the community banking system that disproportionately serves smaller communities. Dodd-Frank had the praiseworthy goal of reducing risk in the banking system, but to accomplish that goal it imposed a "one size fits all" regulatory system that disproportionately increases costs on smaller financial institutions. As a result, almost a fifth of the community banks in America have closed.

There are plenty of people in the United States outside of major urban areas who have the desire and the ability to start and grow businesses in their communities. But the lifeblood of business, big or small, is investment capital. Rural areas have always depended for capital on the local community bank – lenders who were committed to their communities, understood the local economy, and were accessible to the small town entrepreneur who wanted to start and grow a business in the community where he lived. As those banks have closed, the entrepreneurs have been forced to take their ideas elsewhere.

This paper examines how rural and urban disparities came to be, why these trends should be reversed, and – most importantly – what can be done to close the gap. America's future depends upon a vibrant, diverse economy throughout the entire country, in rural and urban regions alike. Nonmetropolitan areas will be unable to recover fully from the financial collapse of 2007-2009, let alone surpass pre-recession economic growth rates, unless they have access to the same levels of economic opportunity as their urban counterparts. State-level action to level the playing field for rural small businesses, so that they are able to access the capital they need to grow and create jobs, is critical to promoting economic recovery and success throughout the entire country. ▶

Rural America, 2007-Present

Most U.S. towns cannot be easily defined as urban or rural, and the criteria used by researchers and policymakers to characterize these areas often depends on the nature of the discussion; for example, definitions vary if the topic is labor markets, land use or economic patterns. Because this analysis examines economic trends, it employs the U.S. Census Bureau classification that the U.S. Department of Agriculture (USDA) Economic Research Service applies to study conditions in nonmetropolitan (nonmetro) counties. For the purpose of this discussion, the definition of a rural area includes the combination of open countryside, rural towns of fewer than 2,500 residents, and urban areas of 2,500 to 29,999 residents not part of a larger labor market (metro) area.[1]

In December 2007, after more than a decade of steady growth in both rural and urban sectors, the U.S. plunged into the deepest recession the country had seen since the Great Depression. The bursting of an $8 trillion housing bubble, the resulting loss of wealth that led to sharp cutbacks in consumer spending, and the financial market chaos triggered by the bursting of the bubble, collectively led to a collapse in business investment. As consumer spending and business investment dried up, massive job loss followed.[2] From 2007 to 2009, 82 percent of all U.S. counties lost jobs.[3]

The Great Recession hit rural America especially hard. Rural areas suffered declines in employment and population, and continue to lag behind metro counties today. Furthermore, nonmetro median incomes fell, poverty rates rose, and the wage gap between workers in metro and nonmetro areas expanded. Rural areas also lost younger adult workers through outmigration[4], and residents were left increasingly dependent on transfer payments such as Social Security, Medicare, Medicaid, veteran's benefits and unemployment insurance.[5]

Stagnant Job Growth, Population Declines

Rural employment, which peaked in the first quarter of 2007, began falling even before the financial bubble burst, and by the end of 2009 had dropped by 5.4 percent. Urban employment, in contrast, grew during 2007 and did not begin to decline until the first quarter of 2008, nearly a full year after the rural employment peak. After a two-year decline, urban employment reached its lowest point at the end of 2009, at 5 percent below its peak.

As the national economic recovery began over the ▶

[1] USDA Economic Research Service, Rural Classifications, http://www.ers.usda.gov/topics/rural-economy-population/rural-classifications.aspx.

[2] The State of Working America, The Great Recession, http://stateofworkingamerica.org/great-recession/.

[3] USDA Economic Research Service, "Rural Employment and Recession in Recovery," http://www.ers.usda.gov/amber-waves/2014-october/rural-employment-in-recession-and-recovery.aspx#.VtXuv-b3icZ.

[4] Outmigration is the process of people moving out of their area within their country, to move to another area in their country permanently. Outmigration typically refers to a large-scale or ongoing movement from one area to another. Most reasons for outmigration involve people wanting a better life in a new area, such as for a better job or better cost-of-living.

[5] Council of State Governments, Knowledge Center, "Economic Trends in Rural America," http://knowledgecenter.csg.org/kc/content/economic-trends-rural-america.

course of 2010, employment grew at a comparable pace in metro and nonmetro counties; however, nonmetro employment growth slowed in 2011 and fell to zero or slightly below thereafter. As shown in **Figure 1** below, the employment gap between rural and urban America widened significantly from 2011 through 2014. For example, total nonmetro employment was estimated at 20.1 million in the 4th quarter of 2013, reflecting stagnant, slightly negative growth when compared to an estimate of 20.2 million in the 4th quarter of 2011. Conversely, the figure below shows that metro employment has continued to increase, and by the beginning of 2014 began to surpass pre-recession levels.

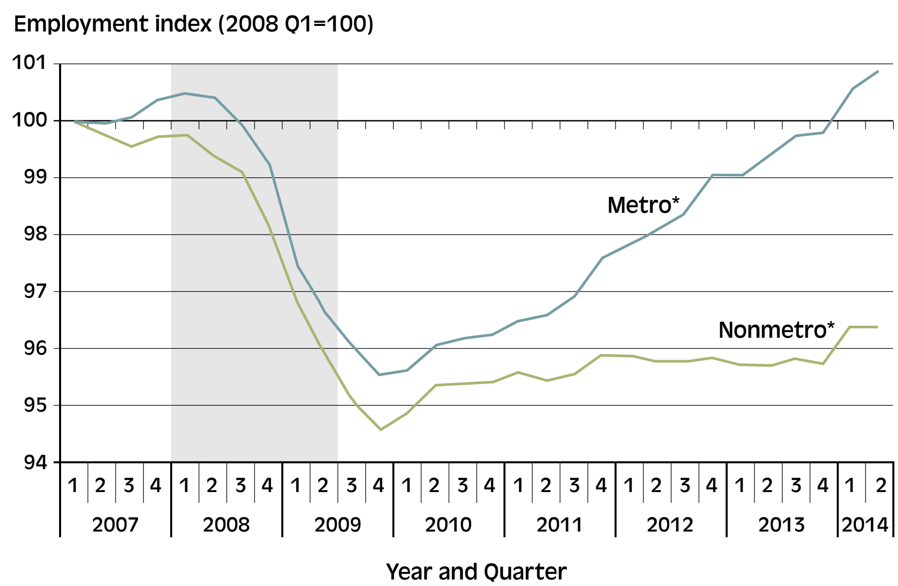
Rural employment grew more slightly between 2014 and 2015, but remains well below the pre-recession peak in 2007. In contrast, urban employment grew nearly two percent during the same period and is now well above its pre-recession peak.

With the loss of jobs has come a loss of people. Just before the recession, the rural population was growing at less than half the rate of the urban population (0.5 percent per year versus 1.2 percent). As jobs disappeared from and failed to return to rural areas after the Great Recession, the population began to decline in absolute terms. Outmigration accelerated, as younger residents left to seek employment in the cities.

By the end of 2014, just over 46 million Americans lived in rural areas, accounting for an estimated 15 percent of all U.S. residents.[10] From 2010 to 2014, about two-thirds of rural counties lost population, because of the outmigration of younger residents, leaving a greater percentage of older and disabled residents in rural communities.

...According to the USDA, 2010-2014 represented "the first period of overall population decline on record for rural America as a whole."

Rural Employment Growth Stalled in 2012-13 *(Figure 1)*



Source: USDA, Economic Research Service, using data from Bureau of Labor Statistics, Local Area Unemployment Statistics.

[6] USDA Economic Research Service, "Rural Employment and Recession in Recovery," http://www.ers.usda.gov/amber-waves/2014-october/rural-employment-in-recession-and-recovery.aspx#.VtXuv-b3icZ.

[7] Ibid.

[8] USDA, "Rural America at a Glance, 2015 Edition," http://www.ers.usda.gov/media/1952235/eib145.pdf.

[9] Ibid.

[10] USDA, "Rural America at a Glance, 2015 Edition," http://www.ers.usda.gov/media/1952235/eib145.pdf.

*Note: Metro/nonmetro classification follows the 2013 Office of Management and Budget (OMB)categories in all years. New popultaion controls were introduced following the April 2010 Census, leading to an increase in estimated employment in the second quarter of 2010. The data shown have been corrected to compensate for this change, but the correction is aproximate and caution should beused in comparing employment levels before and after this date.

This trend is depicted in **Figure 2** below, where areas in blue represent rural counties, and those in yellow represent urban counties. The dark blue, rural population growth areas on the map correspond to regions that created jobs in hydraulic fracking energy production during this time period. That represented only one-third of all rural counties in the U.S. The vast majority of other rural counties lost population. Furthermore, according to the USDA, 2010-2014 represented "the first period of overall population decline on record for rural America as a whole." Data for 2015 is not available, but since the fracking boom has now ended, the rural population loss is probably increasing.

Widening Income, Education Gaps

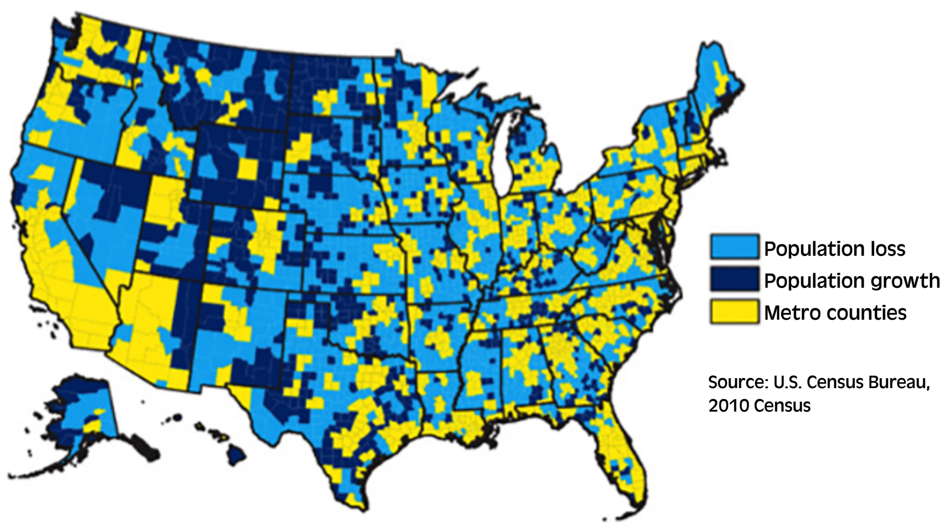
By 2010, the average nonmetro job paid just 69 percent of what the average metro-area job paid, down from a high of 81 percent in the late 1970s.[11] Furthermore, by 2012, nonmetro median household income had declined 8.4 percent, to $41,198, from its 2007 pre-recession peak of $44,974 (in 2012 inflation-adjusted dollars).[12]

It is important to note that the decline in economic prospects of rural America, relative to urban areas, is not because rural populations have become less skilled relative to their urban counterparts. While the share of rural adults with a college degree remains well below that of urban adults, the gap has not widened significantly in the last fifteen years. Furthermore, educational attainment rates have risen in both rural and urban areas in recent years. In short, rural areas do not necessarily produce less-skilled workers (compared to the past) than do urban areas; however, outmigration continues to bring skilled employees to urban areas from rural towns because they are drawn by better job prospects.

At the same time, rural county populations have become substantially older on average than their urban counterparts. Gallup polling data from 2013 revealed that the average age of those in rural counties is over 50 years old, whereas in urban communities the average age is around 45.[13] Though the numbers seem close, five years represents a big difference when considering an average age comparison between two types of regions. Data ▶

About two of three rural counties Lost Population Between 2010 and 2014

Nonmetro Population Change, 2010-14 *(Figure 2)*



[11] Council of State Governments, Knowledge Center, "Economic Trends in Rural America," http://knowledgecenter.csg.org/kc/content/economic-trends-rural-america.

[12] USDA Economic Research Service, Rural Poverty & Well-being, "Income" (Updated May 2015), http://www.ers.usda.gov/topics/rural-economy-population/rural-poverty-well-being/income.aspx.

[13] Dante Chinni, "Urban, Rural Divide Growing Deeper Throughout US" NBC News, November 7, 2014, http://www.nbcnews.com/meet-the-press/urban-rural-divide-growing-deeper-throughout-us-n243996.

also shows that 20 percent of the population in rural counties is over the age of 62 – whereas in urban counties, that number is closer to 15 percent. Especially when young workers leave rural areas, it's harder to retrain older workers for new jobs than to train younger workers.

Risk capital in the U.S. is concentrated in coastal states ... and this tendency has accelerated in the past 15 years, even though the majority of Americans live elsewhere.

Today, there are more high-skilled work opportunities in urban areas – a reality due, at least in part, to the fact that people are investing in metro-area businesses more frequently and in greater amounts than in those located in nonmetro areas. In addition to this trend, rural areas have suffered from the decline in investment that often accompanies recessions and communities in decline – for instance, in public infrastructure, including transportation, energy, education, broadband and communications. This decline in capital investment relative to urban America has uniquely affected rural areas, and is perhaps best attributed to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. While Dodd-Frank impaired access to financial capital for all small businesses, urban small businesses have been able to recover more quickly, as they were not as dependent on community banks as their rural counterparts.

Capital Formation: Issues & Opportunities

It has always been more difficult to raise money in rural rather than urban areas. In 2008, a researcher explained, "because the primary driver of traditional venture capital is profit maximization, investments tend to occur in locations with strong deal flow in the form of potential investment opportunities, as well as the supporting infrastructure (technological, managerial, legal, and financial expertise) necessary to take ideas to market."[14]

Risk capital in the U.S. is concentrated in coastal states such as New York, Massachusetts, and California, and this tendency has accelerated in the past 15 years, even though the majority of Americans – presumably many with viable business plans – live elsewhere.[15] In February 2016, researchers Richard Florida and Karen M. King used detailed data from Thomson Reuters to measure the geography of risk capital investment by metro and zip code. Specifically, they discovered that the top 50 U.S. metros account for 97 percent of all venture capital investment; the top 20 account for nearly 90 percent; and the top 10 account for more than 75 percent of all risk capital nationwide.[16] Overall, capital investment ▶

[14] Julia Sass Rubin, "Community Development Venture Capital in Rural Communities" (Rutgers University, October 2008).

[15] Amy Nordrum, "Finding Venture Capital Far From The Coasts," International Business Times, January 9, 2016, http://www.ibtimes.com/finding-venture-capital-far-coasts-2257959

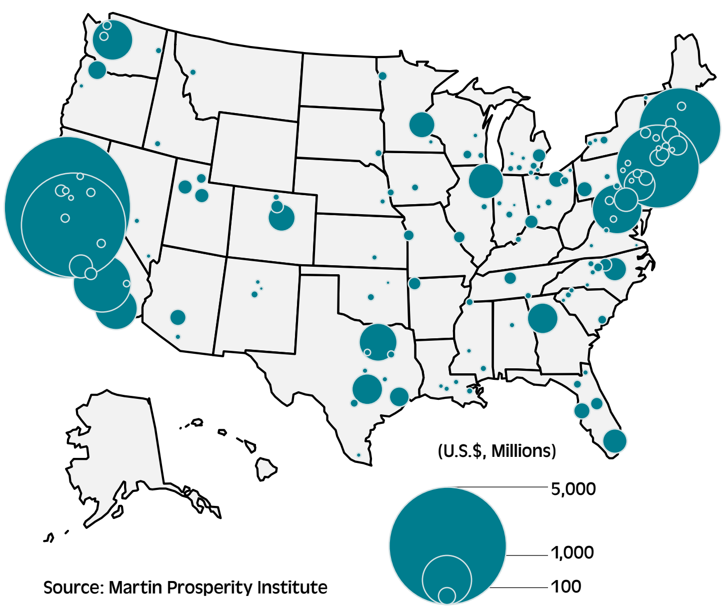
[16] Richard Florida, "A Closer Look at the Geography of Venture Capital in the U.S.," CityLab, The Atlantic, February 23, 2016, http://www.citylab.com/tech/2016/02/the-spiky-geography-of-venture-capital-in-the-us/470208/

is concentrated in three broad clusters, accounting for more than 80 percent of all investment.[17] These areas are, unsurprisingly: The San Francisco Bay Area, including San Francisco, San Jose, and several smaller metros; the Boston-New York-Washington, D.C. corridor; and Southern California, spanning Los Angeles, San Diego, Santa Barbara, and Orange County.

Figure 3 below depicts the researchers' results, demonstrating how tightly clustered and concentrated venture capital investment is across the U.S.

To put a number on the greater trend, investors provided $48.3 billion in venture capital in 2014, with five states receiving 80 percent of those dollars. Oklahoma, for example – one primarily rural state according to the USDA definition – represented just 0.18 percent of the 4,356 venture capital deals struck nationwide that year.[18] Similarly, Nevada represented 0.18 percent of all deals, and 0.25 percent took place in Kansas.[19]

Vemture Capital Investment *(Figure 3)*



Source: Martin Prosperity Institute

A few hypothesized reasons for the uneven distribution are that most investors are based on the coasts, prefer to work face-to-face with the companies they support and generally like to invest alongside nearby partners.[20] Furthermore, as risk firms have become larger, they may be less willing to fund small rounds for established small businesses – choosing instead to follow the trend of making large capital injections into coast-based companies. As a result, companies that are not in traditional venture capitals must look elsewhere to raise early dollars.[21]

In the past, the gap has been filled, at least partly, by the banking system. Rural entrepreneurs who were at a disadvantage in the venture capital system have been able to turn instead to their local community bank. But that avenue of financing for rural America is being throttled; and the problem, ironically, is the federal government.

Dodd-Frank Impacts

In the aftermath of the financial collapse of 2008-2009, the extraordinary decline in rural economies occurred not because those areas were less desirable than they were before the recession, but because of a shortage of investment capital in its aftermath. What has always been a problem for rural America, then, was made manifestly worse, albeit unintentionally, with Congressional action through the Dodd-Frank reforms.

Since passage of Dodd-Frank in 2010, the nation's biggest banks have become even bigger and more concentrated. According to data published by the Chicago Federal Reserve Bank, the five largest U.S. bank holding companies have grown by $638 billion since 2010 and now account for 51 percent of total assets in the system, which has $17.6 trillion domestically.[22] In the years since, excessive, ▶

[17] Ibid.

[18] SSTI.org, "Useful Stats: Share of U.S. Venture Capital Investment by State, 2009-2014" (February 26, 2015), http://ssti.org/blog/useful-stats-share-us-venture-capital-investment-state-2009-2014.

[19] Ibid.

[20] Nordrum.

[21] Ibid.

[22] Richard Shelby, "The Trouble with Dodd-Frank" (Harvard Law School, Cambridge, Massachusetts, October 14, 2015).

unfocused regulations are undoubtedly changing the way we do business. Rules requiring larger reserves and placing tighter restrictions on lending have consolidated operations, reduced lending to consumers and businesses, and resulted in closed branches of banks of all sizes, taking a particular toll on small, rural community banks.

Especially when compared with metro areas, the fallout from Dodd-Frank in nonmetro areas has been particularly negative. Jim Chessen, chief economist for the American Bankers Association, explained that the increased regulatory burden has been particularly hard on community banks, noting, "The American Bankers Association has continually pressed the regulatory agencies to have regulations commensurate with business structure and true risk. If the regulators continue to put requirements on small banks that are designed for large complex institutions, we will see fewer and fewer community banks."[23]

In his October 2015 testimony in front of the Senate Subcommittee on Financial Institutions and Consumer Protection, Terry Foster, Executive Vice President and CEO of Mifflin County Savings Bank in Lewiston, PA discussed the unique efficiency challenges faced by rural-area banks in terms of serving dispersed populations, as compared to more densely-populated suburban and urban areas. He explained that every dollar of cost institutions must occur to maintain compliance with new or heightened regulatory requirements, such as those put forth in Dodd-Frank, yields disproportionate impacts on these rural banks, as opposed to larger urban or suburban institutions.[24]

The regulatory burden for community banks has increased dramatically over the past several years. For example, Roger Porch, Vice President of First National Bank in Philip, South Dakota, testified that the role of community banks in serving their rural communities has been placed in jeopardy by the broad array of new regulations between 2010 and present. First National Bank has one branch in Faith, South Dakota, located 85 miles north of Philip, and the environment in which the bank operates is one of sprawling prairies with miles between towns. The bank serves customers as far west as Wyoming, as well as south to Nebraska, with their main business supporting the financing of farmers and ranchers with lines of credit and real estate and machinery loans. Even small regulatory changes can have a big impact on customers, reducing credit availability, raising costs and driving consolidation in the industry.[25] With regulatory costs rising since 2010, Porch noted that it ▸

[23] Victor Epstein, "Bank Branches "Vanishing in Small Towns," USA Today. DesMoines Register, March 2, 2014, http://www.usatoday.com/story/money/business/2014/03/02/bank-branches-vanishing-in-small-towns/5931551/.

[24] Congress, Senate, Committee on Banking, Housing and Urban Affairs, Subcommittee on Financial Institutions and Consumer Protection. Hearing on "The State of Rural Banking: Challenges and Consequences." 114th Cong., 1st sess., October 28, 2015 (written testimony of Terry Foster).

[25] Congress, Senate, Committee on Banking, Housing and Urban Affairs, Subcommittee on Financial Institutions and Consumer Protection. Hearing on "The State of Rural Banking: Challenges and Consequences." 114th Cong., 1st sess., October 28, 2015 (written testimony of Roger Porch).

is becoming increasingly hard to meet the needs of their local customers. "It is no surprise," he said, "that nearly 18 percent of community banks disappeared in that period."[26]

Based on data from the Small Business Administration, today there are over 1,524 fewer banks with assets under $1 billion than there were in June 2010, before Dodd-Frank became law.[27] In June 2010, there were 5,742 U.S. Depository Institutions with assets under $500 million, and 655 with assets between $500 million and $1 billion.[28] A decrease of 1,524 banks represents a loss of close to a quarter of all community banks. Community banks' total share of U.S. banking assets and lending markets, however, has fallen from over 40 percent in 1994 to around 20 percent today. Since the second quarter of 2010 – Dodd-Frank's passage – community banks have lost market share at a rate double the rate between Q2 2006 and Q2 2010: 12 percent vs. 6 percent.[29] Particularly troubling is community banks' declining market share in several key lending markets, their decline in small business lending volume, and the disproportionate losses being realized by particularly small community banks.[30]

The forced changes that have resulted from regulatory overkill have also decreased the amount of credit available in small, rural communities. "Even in crowded markets," noted one MIT researcher, "[bank] closings can have large effects on local credit supply. The number of new small business loans is 13 percent lower for several years, and this decline persists even after the entry of new banks."[31] While bank closings are detrimental for both rural and urban areas, they have a particularly harmful impact on rural markets.

Community banks are disproportionately affected by excessive regulations, since there is a small asset base over which to spread the costs.[32] In 2015, First National Bank, testified Porch, spent $222,000 on regulatory expenses, which represented 19 percent of overhead, not including salaries.[33] The financial burden of unnecessary regulations has forced many community banks to modify their own product offerings to put increased time and resources toward regulatory compliance efforts. Porch noted that 58 percent of banks have held off or cancelled the launch of new products – initially designed to meet consumer demand – due to expected increases in regulatory costs or risks. Additionally, 44 percent have been forced to ▶

[26] This statistic is a product of two Congressional testimonies: One, from a June 25, 2014 hearing of the House Committee on Agriculture, entitled "A review of credit availability in America." The Independent Community Bank Association of America testified that there were 7,000 community banks in the U.S. as of June 2014. The second source, a testimony by David Williams, Chairman and CEO of Centennial Bank, to the House Committee on Financial Services in a March 18, 2015 hearing, "Preserving Consumer Choice and Financial Independence," cited that 1,342 community banks had closed since 2010. Roger Porch used these figures to come up with the 18 percent statistic.

[27] Richard J. Parsons, "Warring Ideologies Dash Small Banks' Hopes for Reg Relief" American Banker, September 25, 2015, http://www.americanbanker.com/bankthink/warring-ideologies-dash-small-banks-hopes-for-reg-relief-1076927-1.html.

[28] U.S. Small Business Administration, Office of Advocacy, "Small Business Lending in the United States, 2009-2010" February 2011, p. 21, https://www.sba.gov/sites/default/files/files/sbl_10study.pdf.

[29] Carrie Sheffield, "Dodd-Frank Is Killing Community Banks" Forbes, February 9, 2015, http://www.forbes.com/sites/carriesheffield/2015/02/09/dodd-frank-is-killing-community-banks/#2da9507045ca.

[30] Harvard Kennedy School, M-RCBG Associate Working Paper Series, "The State and Fate of Community Banking," Marshall Lux and Robert Greene, February 2015, http://www.hks.harvard.edu/content/download/74695/1687293/version/1/file/Final_State_and_Fate_Lux_Greene.pdf.

[31] MIT Department of Economics, "Do Bank Branches Still Matter? The Effect of Closings on Local Economic Outcomes," Hoai-Luu Q. Nguyen, December 2014, http://economics.mit.edu/files/10143.

[32] U.S. Congress, Senate 2015 (Roger Porch).

[33] Ibid.

reduce existing consumer products or services due to compliance or regulatory burden.[34] Furthermore, the more time people must devote to compliance matters means less time available for them to spend on volunteer and charitable endeavors, which are often common in and important to small communities. Larger organizations with distant headquarters, on the other hand, may lack the appreciation and commitment to these local needs in rural areas.[35]

In an October 2015 speech at Harvard Law School, Senator Richard Shelby (R-AL) remarked:

> Small and mid-size businesses who rely on community and regional bank loans to invest in capital improvements or meet payroll…experience the impact of Dodd-Frank more acutely when they are forced to forego hiring productive workers due to direct or indirect costs of regulatory compliance. And while the financial compliance business may be booming these days, economic prosperity should not be something for a select few. It should be rooted in private sector growth sustained by the drive and innovation of an unencumbered workforce, not rooted in government regulation sustained by the desire of bureaucrats to assert their own power.[36]

"At the end of the day, this isn't about banks…It is about people. It is about communities and lifestyles of those who populate rural America."

Overall, there is widespread agreement among business and policy experts that a fundamental means to combat an economic downturn is through initiatives aimed at creating and expanding employment. But the reverse is also true; cultivating small businesses and entrepreneurs through initiatives to increase capital investment in them would be an effective way to support the resurgence of rural America.

It is imperative that Congress take steps to ensure and enhance the banking industry's ability to facilitate job creation and economic growth, and the time to address these issues is now, before it becomes impossible to reverse the negative impacts. As Roger Porch noted, regulations that take the "one size fits all" approach don't understand the unique relation rural banks play in individuals' lives and communities. "At the end of the day, this isn't about banks…It is about people. It is about communities and lifestyles of those who populate rural America."[37]

The Solution

It's not within the authority of States to change Dodd-Frank, but the States can help fill the gap Dodd-Frank has created. In fact, States have already begun ▶

[34] Ibid.

[35] Ibid.

[36] U.S. Congress, Senate 2015 (Terry Foster).

[37] Shelby.

innovative and workable solutions that replace community bank lending in rural areas with venture capital.

Venture capital has begun to flow into places like Oklahoma, Kentucky and Maine, as some states have launched their own investment funds to fill the gap. A local investor in a predominantly-rural state, William Paiva manages the Oklahoma Life Science Fund in Oklahoma City, an early-stage venture capital fund that invests in promising Oklahoma life science startups, offering crucial support for homegrown and potentially high-growth businesses. The Kentucky Highlands Investment Corporation offers entrepreneurs in rural East Kentucky financial and technical assistance – two essential components for a successful start-up company that are often elusive in a predominantly rural state like Kentucky.[38] Similarly, Konza Valley Capital, Inc. (KVCI), formerly Kansas Venture Capital, Inc. from 1977 to 2000, invests in Midwestern-based companies. KVCI partners with many successful companies in manufacturing, service, distribution, retail and technology-related industries, offering flexible, long-term capital solutions to portfolio partners for expansion, acquisitions, ownership transitions and turnaround situations. According to the KVCI mission statement, which pledges "we believe that people, not capital, are the primary ingredient to any successful private equity investment," the group seeks to invest in companies with experienced management teams and a unique market opportunity with excellent growth potential.[39]

Growing small businesses and creating jobs and wealth in rural areas today require the availability of capital to be used as a tool in the hands of entrepreneurs. According to two researchers, the proficiency with which that tool is used can be improved and accelerated by including professionally managed, rural-focused venture capital funds in the process.[40] Some rural startups have found success through community development venture capital (CDVC) providers, which, like traditional risk capitalists, contribute equity and near-equity investments in small businesses. Unlike traditional risk capitalists, however, CDVC investments are founded on a company's potential to create high-quality jobs for low- and moderate-income individuals, as well as its likelihood for rapid economic growth.[41] While there are many potential benefits to this solution, the majority of the equity-focused funds capitalized after 2001 have been capitalized with the assistance of the New Markets Venture Capital or Rural Business Investment Capital programs, suggesting a need for added incentives to motivate investors to capitalize new CDVC funds. The researcher poses tax credits as a solution to encourage investments in rural and otherwise underserved geographies by reducing the risk of capital loss.[42]

As journalist and researcher Richard Florida noted, "venture capital is the fuel that powers America's innovation economy."[43] Our challenge now is to ensure that all rural communities have the opportunity to choose the path toward economic growth. ▶

[38] Kentucky Highlands Investment Corporation, "Equity Investments," http://www.khic.org/equity-investments.

[39] Konza Valley Capital, Inc, "Philosophy," http://kvci.com/philosophy.php.

[40] Kentucky Highlands Investment Corporation, "A Vision for the Future of Rural Development Venture Capital," L. Ray Moncrief and Grady S. Vanderhoofven, in Community Development Investment Review, 29.

[41] Sass Rubin.

[42] Ibid.

[43] Florida, 2016.

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