

SMALL BUSINESS DEVELOPMENT

THE IMPERATIVE

Small businesses are the heart of the rural economy—indeed the heart of our national economy. Very small businesses—defined as those with fewer than 10 employees—make up 75 percent of all business establishments in rural North Carolina. Yet, we are experiencing disturbing trends in the number of very small firms in the state. While the number of very small firms statewide has grown by 2,393 establishments (two percent) since 2005, *our rural counties have lost 4,289 establishments—a decline of seven percent.*

What is causing these closures?

The decline in entrepreneurial startups since the Great Recession is a national story, and economists have put considerable effort into understanding stalled business creation. In rural North Carolina, the causes of this decline are complex, but they include:

- An aging and declining workforce
- Underfunding of entrepreneurial education
- Lack of investment in and coordination among existing business support networks
- Deficient and outdated physical and digital infrastructure
- Access to capital for new and growing businesses

What are the statewide issues?

The Rural Center does not claim to have all the answers, nor do we believe that the actions of any one player—the government, financial institutions, educational institutions, or advocacy organizations—can wholly solve this problem. Still, there are statewide issues we can work together to address.

First, **we need a greater statewide emphasis on creating new firms and growing existing companies.** Recruitment is important. We were all cheering for Toyota-Mazda to locate to North Carolina. We want large companies to bring thousands of jobs to North Carolina, and we want our state to be the best in the nation at recruitment.

Economic development, though, is not all about recruitment. Eighty-seven percent of the private-sector jobs created in rural North Carolina are formed by companies that are already located in the state or by homegrown entrepreneurs.

In rural areas, we must also focus on the industries that provide the greatest opportunities for small business growth. Sectors like tourism, arts and culture, agriculture, aquaculture, value-added food processing, and homegrown manufacturing are all poised to transform and diversify. We must stand ready to support new businesses formed right here in the state along with with our attempts to recruit large out-of-state firms.

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Next, **we need better funding of and coordination among the existing ecosystem of support for small businesses.** Statewide agencies and networks, such as the Economic Development Partnership of North Carolina (EDPNC), the Small Business Technology Development Center (SBTDC), and the NC Community College System's Small Business Center Network (SBCN), are performing above and beyond their funding capacity to support budding entrepreneurs and keep successful companies in our state. We must do a better job of funding these vital support structures, while also better coordinating among them to maximize the number of firms receiving their guidance.

Finally, **we need to increase and leverage the capital available for small businesses.** Bank lending to small businesses has experienced a precipitous decline since 2005. From 2005 to 2015, loans to small businesses (here defined as firms with less than \$1 million annual revenue) declined statewide by 26,299 loans, for a loss of \$3.5 billion. For rural North Carolina, there were 19,688 fewer small business loans made in 2015 than in 2005, resulting in a reduction of total loan value by \$1.6 billion.

The need for capital is greater than any one lender or even one state program can address by itself. Existing resources must be better leveraged to help fill the gaps, and new private and public funding must be wisely invested to meet critical needs.

The trends facing small business creation, capital access, and wrap-around supports are daunting, but turning them around is vital to the health of our rural economies. Rural advocates must be constantly looking for ways to expand and enhance the ecosystem of financial, organizational, educational, and infrastructural support small businesses need in order to succeed.

75% OF RURAL BUSINESSES
ARE VERY SMALL BUSINESSES
WITH <10 EMPLOYEES

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THE SOLUTIONS

The Rural Center recommends that the Legislative Research Commission authorize a Joint Study Committee to research and recommend policies to the 2019 Session of the General Assembly around the following four issues:

1. Create a balanced approach to state funding of economic development, with an added emphasis on creating new firms and retaining existing firms.

Our state's approach to economic development can be put in better balance through several means, including:

- Adding capacity for organizations focused on small business support
- Expanding digital literacy education in school systems
- Enhancing entrepreneurship education programs at the K-12 and community college levels
- Increasing public awareness of the success of local small businesses and inspiring potential entrepreneurs to recognize opportunities for business creation
- Reducing barriers to entry and growth for entrepreneurs and existing businesses

2. Support increased local capital access through sustainable solutions.

Capital access is one of the most frequently-cited challenges of small business owners. It is essential that the state work with private entities to catalyze increased lending and equity access for small firms.

The new Opportunity Zones program through the federal Tax Cuts and Jobs Act of 2017 provides the opportunity for the State of North Carolina to identify additional measures to attract capital investment in low-income areas of the state.

The state can stimulate private capital distribution to rural enterprises by working with existing banks, federal government programs (e.g., SBA, USDA), and community development financial institutions that have a history of supporting our state's small businesses.

Several models could be utilized that have proven successful both in North Carolina and other states, but the Rural Center believes any state funding model should include these basic principles:

- Allocate funds via a competitive and open process to qualified, experienced in-state lenders and investors
- Require an evergreen fund in which the corpus is continually reinvested into rural businesses
- Structure program to ensure meaningful and reportable rural impact

3. Strengthen the existing ecosystem of small business supports and technical assistance.

Capital access is not the only challenge facing new and growing businesses. There are various state and private entities working to holistically support rural small businesses, but that network is often too fractured or under-resourced to meet the demand. We must make sure that small business owners have access not just to financial resources but also to the technical expertise and mentorship needed to launch a successful business model.

There are more than 80 organizations across the state involved in various aspects of providing technical support to businesses. These include small business centers, community development finance organizations, and state-level organizations such as EDPNC, NC Department of Commerce, SBTDC, and the NC Rural Center. These organizations are providing much needed services to businesses, but the size of this network often leads to confusion and difficulty for business owners trying to access support.

Stronger coordination among these organizations (along with increased public investment to expand capacity) is essential to streamlining these supports and making them more accessible to small businesses. One opportunity would be the formalization of the Business Resource Alliance, an informal network made up of many of the 80 business support organizations.

4. Invest in long-term disaster recovery for small businesses and the infrastructure that will prepare the state for future disasters.

We are approaching two years since Hurricane Matthew hit Eastern North Carolina, and in too many communities, relief is still making the slow turn toward recovery. The Rural Center is committed to ensuring that small businesses hurt by this disaster come back stronger than before and that the communities of our state build the infrastructure to be prepared for future disasters.

The Small Business Administration provides disaster loans and assistance for businesses affected by physical damage or economic injury, but our experience reveals funding gaps and businesses underserved following a disaster. The state should stand ready to address these gaps by funding programs that provide:

- Immediate access to bridge loans designed to meet financial needs while businesses work on Small Business Administration funding requests and await insurance payouts
- Short-term employment opportunities for workers displaced by disasters to assist in recovery and cleanup efforts
- Longer-term loan programs designed to address funding gaps for businesses unable to obtain federal assistance based on credit or eligibility requirements
- Funding for technical assistance to improve small business disaster resiliency and preparedness;
- Increased access for local and minority-owned contractors to bid for recovery and rebuilding projects

Finally, state leadership should take proactive steps to ensure we are prepared for the next event before it happens. Federal relief sources including FEMA and Community Development Block Grant Disaster Recovery are complicated, and we must train our leaders and build our institutional capacity to navigate the red tape as they respond to future disasters. Natural disasters disproportionately affect low-income and minority communities, and major catastrophes only magnify gaps in affordable housing, resilient infrastructure, and the capacity of local and state organizations charged with long-term economic recovery. Now is the time to invest in rebuilding our rural communities and strengthening the grassroots and statewide organizations supporting their recovery efforts.

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