

**High-Impact, Low-Cost Policy
Recommendations for States to Pursue to
Better Promote a Sustainable Rural
Entrepreneurial Infrastructure.**

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Executive Summary

Every state must figure out how best to achieve overall economic growth, but many struggle to achieve positive results for rural areas. Rural areas face specific challenges that policymakers must attempt to overcome, including lack of infrastructure, brain drain, inadequate health services, lower educational attainment and low levels of private investment. Recently, state support of rural entrepreneurship as an engine for sustainable rural economic growth has gained much attention. This movement towards promotion of rural growth from within, rather than through traditional industry attraction represents a profound shift in the mindset of economic development officials. Still, many states are unsure of how best to promote this form of grassroots, homegrown development. This report sheds light on how states can locate, nurture, and support rural entrepreneurs by looking at different policy options, including tax and financial strategies, training, and human capital investments. A survey was sent to various officials in every state to glean information on state perceptions of their own rural entrepreneurial policies. Supplementing the survey was additional research and interviews with officials, resulting in specific, detailed examples of programs and projects that states have undertaken to promote rural entrepreneurship. Finally, these observations were combined to generate a series of policy recommendations that states can follow, as well as recommendations for future research by the NGA. The policy recommendations are as follows:

1. Foster a **shift in the paradigm** of the approach to rural economic development, towards an appreciation of entrepreneurship and away from traditional methods. This shift must occur at the local, regional, and state levels. In turn, this development should generate an increase in rural entrepreneurial human capital and sustainable rural economic growth.

2. Reform and establish **new tax and financial strategies** to promote access to capital and the creation of new rural enterprises.
3. **Leverage research universities** as centers of knowledge and technology, as well as training grounds for entrepreneurs.
4. **Improve rural physical infrastructure**, especially broadband internet and transportation networks to rural areas, as these are vital for rural entrepreneurs to compete globally.
5. **Encourage regional cooperation** in order to end wasteful competition among neighboring regions and pool resources.
6. **Establish partnerships** with non-governmental organizations and promote cooperation between these groups and rural entrepreneurs; many times, these organizations include experts that can make starting a small business an easier task.
7. **Reduce bureaucratic obstacles** so as to make starting and maintaining a small business as simple as possible. Potential entrepreneurs can be daunted by bureaucratic obstacles.
8. **Improve access to information** for rural entrepreneurs. Steps towards business creation are difficult enough without barriers presented by procedural ambiguity.
9. **Develop stronger methods of tracking entrepreneurial development** across the state and within regions. Cooperation and communication with regional and local organizations can provide important information.

End of Executive Summary

1. Rural Entrepreneurship – A Success Story

In a recent New York Times report entitled “Farmyard Stills Quench a Thirst for Local Spirits,” Susan Saulny profiled a cattle rancher by the name of Seth Fox. Two years ago, Fox decided to try his hand at mass-producing his family’s seven-generation-old recipe for moonshine. In the process he became the first distiller in the state of Kansas since Prohibition. Starting with no business plan, no employees, only about \$100 in his checking account and unable to find backing from any bank, Fox pieced together a still made from old parts to an old food processing plant. Fox had good timing, opening his operation on the cusp of a boom in American consumption of high-end spirits. Last year the High Plains liquor company, Mr. Fox’s once-small endeavor, had over \$1 million in sales. There are millions of Seth Foxes across the United States. They are small-business owners in rural areas trying to run inventive, successful businesses in areas which, as we will see, face challenging economic and infrastructural circumstances. His story serves as a beacon for what can be accomplished by these rural entrepreneurs with a mixture of luck, ingenuity, confidence and bravery.

State support of rural entrepreneurship has gained much attention over the last fifteen years. Today, many states are acutely aware of the economic struggles of many of their rural regions and have discovered the development of local, sustainable small businesses to be a productive engine for economic growth. This paper aims to shed light on how states can locate, nurture, and support future Seth Foxes by looking at different policy options, including tax and financial strategies and human capital investments (training, education and information programs). The first portion of the report will discuss the challenges and circumstances facing America’s rural communities today. It continues with a discussion of why rural entrepreneurship

is viewed to be a promising avenue of development to pursue. We then cover our research methodology, including a summary of the results of a survey sent to state government employees actively thinking and working on either rural development or entrepreneurship. Specific state policies are then discussed, divided into a number of archetypes, with descriptions of why they are potentially useful to states. Much of this portion of the paper is devoted to examining state, private, and non-government programs and legislation. Finally, we present our policy recommendations and conclusions.

2. Acknowledgements

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3. Results in Brief

Based on our research, we have come to the conclusion that entrepreneurship is an achievable, desirable engine for rural economic development. We have developed the following recommendations as to what states should aim to do if they hope to develop a sustainable entrepreneurial infrastructure:

1. Foster a **shift in the paradigm** of the approach to rural economic development, towards an appreciation of entrepreneurship and away from traditional methods. This shift must occur at the local, regional, and state levels.
2. Reform and establish **new tax and financial strategies** to promote access to capital and the creation of new rural enterprises.
3. **Leverage research universities** as centers of knowledge and technology, as well as training grounds for entrepreneurs.
4. **Improve rural physical infrastructure**, especially broadband internet and transportation networks to rural areas, as these are vital for rural entrepreneurs to compete globally.
5. **Encourage regional cooperation** in order to end wasteful competition among neighboring regions and pool resources.
6. **Establish partnerships** with non-governmental organizations and promote cooperation between these groups and rural entrepreneurs; many times, these organizations are experts that can make starting a small business an easier task.
7. **Reduce bureaucratic obstacles** so as to make the process of starting and maintaining a small business as simple as possible. Potential entrepreneurs can be daunted by procedural hurdles.
8. **Improve access to information** for rural entrepreneurs. Rural entrepreneurs lack access to information in many cases due to poor internet availability and lack of appropriate local training officials or facilities.

9. **Develop stronger methods of tracking entrepreneurial development** across the state and within regions. Cooperation and communication with regional and local organizations can provide important information.

3. The Case for Rural Economic Development

Every state in the union must figure out how best to achieve overall economic growth, but many states struggle to achieve positive results for rural areas. This report aims to discover some of the most promising policies currently being undertaken by states and suggests directions states can go in the future. Most directly, it encourages state officials to first acknowledge rural-urban differences, to begin looking at entrepreneurship as a way forward, to transition from thinking about an industry to thinking of a place, and to begin implementing measurement protocols that gauge success.

A persuasive argument is being made across the world by those, such as Thomas Friedman in his book The World is Flat, that globalization demands higher skills and a more competitive marketplace. If rural areas are to survive, they must learn to compete not just with their neighboring county or the places their high school football teams play against, but also the surging number of educated Indians and Chinese. Rural areas, with their high potential for growth, have tremendous upside in meeting this 21st Century challenge.

Rural areas suffer from some acute disadvantages. Compared to urban areas, they have lower levels of educational attainment, too little investment in physical infrastructure, inadequate health care services, and a loss of population and knowledge capital. The United States has roughly 3,100 counties; of those in persistent poverty (consistent poverty stretching over a period of years), 90% are rural. Of the 310 counties comprising the top 10% in job creation during the 1990s, only eight were classified as rural. These eight all had some unique characteristic—they

were especially scenic, they were on the border of an urban area, or they contained regional health centers—that made their success atypical. Policymakers cannot simply copy what those eight have done, because those models are simply not scalable.

One might ask exactly why state officials should invest scarce resources into the development of geographic areas that have already demonstrated poor returns on investment. After all, rural areas contain fewer voters too. Policymakers need to be convinced of the merits of investing in underdeveloped areas precisely because the returns on investment in rural areas *are* high. The types of development policies instituted by officials have not effectively utilized the advantages possessed by rural areas. Additionally depressed regions within a state represent untapped economic potential. Policymakers who ignore a portion of people, goods, and services risk more than alienating this population. They risk not being able to efficiently utilize the human and natural resources of their state’s population and land. Neglecting an area leads to under-utilization and inefficiency.

Typically, urban areas have advantages over rural ones for a number of reasons, the first of which is economies of scale. Because of advantages in geographic proximity and capital and population density, urban economies are able to pool their resources to lower the overall costs of production. Successful urban areas also utilize knowledge clusters to innovate and expand, and the availability of low cost labor greatly favors urban areas. Traditionally, rural regions have not been targets for investment. Urban areas exhibit a quicker payoff on investment, with more opportunity for rapid job growth. Officials must develop ways to “seed” rural areas to encourage investors and entrepreneurs to take chances that may otherwise be deemed excessively risky. Policymakers can also frame the debate as an issue of equity—since rural dwellers have fewer

assets and resources, policies must be specifically targeted towards them in order to offset inherent biases.

Continued urban growth creates its own problems. Too much population growth in urban centers depresses labor markets and requires the city to manage growth carefully. Urban sprawl can negatively impact neighboring rural areas and over-industrialization can have environmental effects. New influxes of people or capital lead to more construction and congestion, and the problems associated with both. Population flight from rural areas is a direct cause of city congestion. One way to remedy this problem could be to reframe the debate and encourage state and capital investments in rural areas.

Policymakers today must be careful not to mischaracterize rural areas. It is overly simplistic to believe the rural economy is driven only by agricultural activity. In fact, the food Americans eat today comes from only about 150,000 very large farms. Of 65 million Americans living in rural areas, 63 million do not farm; ninety-six percent of the income in rural areas comes from non-farming activity. Similarly, almost all job growth comes from non-farm-related ventures.

Unfortunately, federal policies and private foundations do not systematically address these statistics. Community Development Block Grants (CDBGs) are made available to localities through the department of Housing and Urban Development to fund affordable housing and infrastructure investments, among other things, and are largely used at the discretion of the recipients for whatever development they identify. Yet, from 1994-2001, rural areas received block grants between two and five times less per capita than their urban counterparts. And, of the \$30 billion awarded out by the nation's private foundations in 2004, only \$100 million was spent on rural development. Although one would likely expect the amount of money going to

rural areas to be lower than that going to urban communities, but this does not mean that it is an efficient or effective allocation of funds. In addition, it is important to note that foundations help shape the fabric of a community by funding worthwhile endeavors and projects with potentially large positive impacts. The management and results demanded by foundations can have as substantial an impact as the money. It is also troubling that of the nation's 65,000 active foundations, only 184 grant money specifically for rural development. Of these funds, one can imagine that an even smaller amount is actually dedicated to rural entrepreneurial development.

Nor does it help when one of the main federal agencies charged with rural development, the USDA's Rural Business-Cooperative Service, targets its efforts without heed of results or long-term effects. A recent investigative report by the *Washington Post* found the agency distributing nearly \$1 billion annually in loans in part to large corporations such as Welch's, the grape juice giant, and Sunkist, the citrus conglomerate. As we will see shortly, large firms such as these are typical targets of traditional methods of economic development in rural areas. The results achieved by investment in attracting large firms have not been impressive. Moreover, other "investments" included, "a car wash in Milford, Del.; a country club in Great Falls, Mont.; a movie theater in Smithfield, N.C.; a water park in Myrtle Beach, S.C.; an alligator hunter in Dade City, Fla.; snowmobile clubs in Maine; and dozens of gas stations and convenience stores in Maryland, Ohio, Pennsylvania and Arkansas." Many of these loans may be to small entrepreneurs, but there is little oversight, and over 75% of the agency's loans went to *save* jobs, including some minimum wage jobs where the USDA was spending over \$260,000 per job saved.

Finally, one must think about how to develop rural areas without drastically altering their defining characteristics. Certainly, the end result of developing rural areas should not simply be

to urbanize them, but to improve quality of life and opportunities for rural citizens. More often than not, however, politicians do think of rural development in terms of urbanization. A more useful paradigm, however, is to think about what rural citizens need- things like health care, job opportunities, and education. This is certainly a delicate balance.

4. Why Entrepreneurship?

"The number one opportunity to revitalize rural areas across the country is rural entrepreneurship." --Glen Sink, Executive Director of the Center and the Council for Rural Virginia.

Entrepreneurship is a promise to address urban-rural disparities without significant financial input from state or local policymakers. Homegrown growth is both low-cost and efficient, since it simultaneously utilizes the skills of innovators and addresses the needs of the local population. Sink called those economic development advisors who seek to attract large businesses into the area through traditional tax and other incentives "buffalo hunters." The phrase is instructive—buffalo are large animals that are quite rare in today's world. Perhaps more importantly, buffalo are nomadic, always looking for the next best plot of land. Buffalo provide a large amount of temporary nourishment, but they inevitably move on to the next region. Similarly, large corporations are attractive targets for economic development officials in rural areas. They can provide a quick source of job growth, giving a community something to potentially take pride in. However, large firms are also movers--they are constantly looking for the lowest cost of land, labor, and capital. Contrarily, entrepreneurs are local community members; they stay. Although small firms do tend to have higher failure rates than larger firms, this is not necessarily a reason to avoid policies that promote their creation. On the contrary, if a state utilizes policies we outline below that focus on making sure each firm created has a higher chance of succeeding (by making sure the entrepreneur understands common business practices, etc.), it can reduce the number of failing firms, creating a large number of lasting small firms.

Additionally, by increasing the number of firms created, more successes occur. Other entrepreneurs will see these successes and be motivated to start their own business. This turnover is one other benefit of entrepreneurship.

Traditionally, entrepreneurship is defined as the opening of a new business by an individual with the hope of creating a successful firm, whether it is small or large, or in the hands of the entrepreneur. Entrepreneurial firms can be innovative, using cutting-edge technology to reach new markets. They can also simply fill a gap in the existing community, providing a product or service at a competitive price that meets demand. When we refer to rural entrepreneurship throughout this report, we are defining it as: *the creation of a business of 20 or fewer in a rural area, whether the firm is high-tech or otherwise*. In this way, we encompass most rural small businesses but are not limited to high-tech enterprises, as not all entrepreneurs will seek to create technology-based businesses.

Research has consistently shown that areas with the highest GDP growth also have the highest rates of new business start-ups and innovations. These trends capture the essence of entrepreneurship, namely, many small businesses opening, succeeding and failing, generating turnover and growth in the economy. This has been demonstrated in countless foreign countries and all 50 states. Rapid creation and innovation lead to better economic outcomes on balance even if many innovations ultimately fail. The successes stimulate growth in the long run and inspire new entrepreneurs. It follows, then, that policymakers at all levels should attempt to create an environment where entrepreneurs and innovators are nurtured to think creatively and to take risks.

Scholarship on this issue tends to focus on either rural economic development or entrepreneurship, but rarely does it focus on both. In the rural economic development literature

and common wisdom, most of the attention is on traditional forms of development—bringing in a factory to a depressed area or offering tax savings to preserve firms interested in moving away—that can be expensive and self-defeating. In a never-ending race to the bottom, competing states and localities employ identical measures to draw these large firms. Homegrown growth, growth based on community members starting their own businesses and developing them rather than seeking a job with a firm from elsewhere, is viewed to be a bonus, not a strategy to be developed and implemented. In academia and at foundations, there is attention on entrepreneurship as a potential cure for stagnation and foreign competition. But only a small portion of this targets rural areas directly. Merging these two concepts, that of rural economic development and entrepreneurship, into one concept—Rural Entrepreneurship—is key to our first recommendation, that of a paradigm shift, and offers great promise to policymakers. It would be to the benefit of groups like the National Governors Association and other groups attuned to the needs of rural communities to expand this literature.

5. Methodology

Our group consists of three students from the College of William and Mary's Thomas Jefferson Program in Public Policy. This project is the capstone of the two-year program, in which groups work for various clients and research various policy subjects. As our client, NGA provided direction and assistance to our research, as well as input on the final format and content of the report.

The research for this report took a three-pronged approach. First, we issued a survey through the NGA to a large number of contacts maintained by our client, who in turn may have forwarded it to additional officials. The survey asked respondents for their perspectives on a variety of subjects, including challenges to rural entrepreneurship, their state's efforts, non-state

partners with whom they cooperate, and their benchmarking process. The responses varied, with some questions receiving similar answers from many states and other questions seeing some officials reporting unique problems. The survey did not aim to generate hard statistics or establish generalized causal relationships, but rather to inform us of what states are aware of regarding their own efforts. It also provided a list of programs and projects that states felt were doing a good job which formed a sound base for the rest of our research.

The next phase of our research consisted of interviews with various officials, including some who responded to our survey and others we located independently. These interviews provided us with a more in-depth look at specific state programs and the overall state of rural entrepreneurial policy. The details of these interviews are interspersed throughout the remainder of the report.

Finally, we gleaned the bulk of our information through research of state websites and reports, as they are the best-documented sources of state policy. Given the nature of our project--namely to identify a broad range of successful programs and policies that provide low-cost, high-impact solutions for states--our research examined a number of programs across the nation from states with varying political, social and economic characteristics. Though our research does not cover every state or every relevant official in polled states, it does attempt to produce results that can be applied broadly.

In our attempt to locate good state practices there is no guarantee that what we found (and discuss in the following sections) is the best possible route for a state to take. Our survey was sent and responded to by state leaders already actively engaged on the issue of rural entrepreneurship, which is a start in its own right, as it demonstrates that states are in fact thinking about rural entrepreneurship. This is also a source of bias in our report, as most of our

responses came from officials that are involved in the area. They understand what is being done and what they need to continue. In conducting research into what policies states are pursuing, we were limited to states with publicly available information. This may be to some degree a bias of our findings. Moreover, the field of rural economic development, and even more so, rural entrepreneurship, is highly decentralized. We easily found many examples of small, localized efforts that may or may not be linked to larger strategic plans or be involved in some larger systemic effort. We found these through their websites or through information from state officials. We did our best to sort those into categories and identify the most promising policy options, such as financial policies, policies aimed at improving infrastructure, policies that developed human capital, etc. These evolved into our recommendations. This report will not ignore the good in search of the great - a perfect policy is impossible to identify. States and programs that make good efforts to improve the prospects of rural entrepreneurs, even though these efforts may be partially flawed, are still good examples that other states can follow to make improvements. At least one survey respondent, speaking from a state and an agency that we considered thoughtful and progressive, worried that they were not doing enough. To alleviate this concern, several survey respondents, when asked what help they sought from the NGA, answered that they would appreciate knowing what other states are doing so as to benchmark their own work. We lay out our thoughts on this below. Our goal is to identify existing policies that are making a positive change, regardless of how large that change is.

6. Discussion of Survey Results

As noted above, the survey went out to officials in various positions across the U.S. It consisted of 28 open-ended and list-type questions. The table below offers a sample of survey questions which demonstrate the breadth of the survey (the full survey is attached in the appendix). Respondents were also polled on their time in office, as well as whether they were willing to discuss their policies in more detail over the phone

As of January 1st, 2008, there have been 22 survey respondents. These respondents came from 12 different states. Three states (Kentucky, Pennsylvania, and Maryland) had more than one respondent, with seven, four, and two respondents respectively.

As many of the respondents are political appointees, approximately half of the respondents had been on the job for fewer than three years (question 3). It goes without mention that as states begin to think more about rural entrepreneurship, many of these positions will need to have stability. The more experience appointees in charge of these policies have, the better a job they will be able to do in modeling effective programs for specific regions. Job titles of the respondents range from director of economic development to analyst to director of rural policy (question 2).

The most telling result was that 81% of respondents felt their state made efforts to promote entrepreneurship in rural areas (questions 6 and 7). Only two states, West Virginia and Connecticut did not have a respondent that felt their state was making an effort (this *does not* mean that these two states are not actually making an effort). This is helpful, as it shows us that states are in fact thinking about entrepreneurship in rural areas and are making efforts to promote it, even if they do not make rural entrepreneurship a policy focus. Also worth noting was that more than half of respondents claim that their state places a high priority on development of rural

areas, showing us that of the states polled, many are interested in developing their rural areas economically (question 5).

Table 1. Sample of Survey Questions

Question
What is your current position?
How long have you held your current position?
On a scale of 1-5, with 5 being highest, how high of a priority does your state consider the development of rural areas?
Does your state actively promote entrepreneurship in any form (tax benefits, subsidies, research institutions, business development, etc.)?
What measures, if any, have proven to be most effective?
What efforts, if any, has your state made to develop its entrepreneurial capacity (via education, training programs, etc.)?
What efforts, if any, has your state made to improve the attitude of rural communities towards entrepreneurship?
What efforts, if any, has your state made to improve the economic and regulatory environment facing potential entrepreneurs?
How, if at all, does your state measure results of rural development?
How, if at all, does your state measure results of entrepreneurial advancement?
Does your state rely heavily on research universities playing a dominant role in developing entrepreneurs and their ideas?
Does your state actively facilitate the use of Department of Defense Small Business Innovative Research grants by rural entrepreneurs?
Does your state actively partner with any non-profits or foundations to promote rural development?
Does your state actively partner with any non-profits or foundations to promote entrepreneurship?

Table 2 Number of respondents per state

State	Number of Respondents
Pennsylvania	4
Oregon	1
New Mexico	1
Maryland	2
Iowa	1
Connecticut	1
Kentucky	7
Alabama	1
South Dakota	1
Montana	1
West Virginia	1
Kansas	1
Total:	22

Seventy-seven percent of the respondents said that so-called “brain drain” is perhaps the largest obstacle to rural growth. This was followed by low levels of education and poor infrastructure, both at 59% of respondents (question 4). It is possible to infer that when educating rural citizens about entrepreneurship, one of the biggest hurdles will be convincing them to remain in their rural communities. It will be important to stress that entrepreneurial small businesses contribute to the local economy by generating income and a strong business environment, which should in-turn improve the local community’s quality of life.

About 86% of respondents noted that their state places heavy reliance on research universities when promoting rural entrepreneurship and over 70% said that they actively facilitate or encourage grant applications to the federal government by rural entrepreneurs (questions 17, 18 and 19). Finally, around 70% of respondents said that their state actively partners with non-profits and foundations (question 22). These responses tell us that states polled are active in their attempts to find effective help to promote rural entrepreneurship. States wishing to make rural entrepreneurship a policy focus should likely follow suit.

When asked to describe effective efforts by their state to promote entrepreneurship, respondents provided a variety of answers (questions 6, 7, 8, 9 and 10). Some specific programs and organizations detailed below were mentioned as being quite effective, including the training programs of the Rural Development Initiative organization in Oregon, and the Kentucky Enterprise Fund. Other state-run programs respondents identified as relatively effective were microloans and other financial incentives, incubators, innovation centers, cooperation with officials in localities, and, not surprisingly, blind luck.

Efforts to promote the image of entrepreneurship as an idea within a community so as to improve the operating climate for rural entrepreneurs were more mixed (questions 11 and 12). 3

respondents indicated that the inability to demonstrate to rural citizens that entrepreneurship was a viable endeavor was a large problem and that their state was struggling to enact effective policy. Other states focused on the promotion of entrepreneurship on a state-wide level and did not focus specifically on rural citizens. Positive efforts that were said to be working included small business development centers, training and outreach programs, the utilization of partner organizations at a grassroots level, the promotion of interaction between community members and entrepreneurial programs, and even the hiring of outside experts to go and provide seminars on entrepreneurship.

Finally, respondents also identified partner non-governmental organizations that they felt played a role in the development of rural entrepreneurship within their state (questions 22, 23, 24 and 25). These are outlined further in the section on non-governmental partners.

Other findings include:

- Survey results demonstrated that states generally opt for economic solutions to the question of how best to promote rural entrepreneurship. This makes sense as a key to generating small businesses is to make their creation attractive financially. Thus, that incentives and other strategies are common is not surprising.
- Job creation and unemployment rates are the most often used evaluation metrics for entrepreneurial growth (question 15 and 16).
- Many survey respondents identified excessive red tape as a pressing problem.

States have different methods of fostering relationships between entrepreneurs and these resources. The Kentucky Innovation Act of 2000 (discussed in greater detail later) is one such example of a state effort to bring innovation to the forefront. This legislation connects

entrepreneurs with resources, funding, and infrastructure to promote economic development. Management of the project is handled by an outside firm, selected based on competitive bidding.

Additionally, respondents have noted that entrepreneurial networks have arisen between different counties or economic regions within a state, or sometimes across several states. These networks often work independently of state efforts to aid up-and-coming entrepreneurs. It is evident from survey results that collaboration between states and these networks are felt to greatly benefit entrepreneurs, as they provide a low-cost method. Other areas that states are turning towards to help spark entrepreneurship are centers of innovation and business incubation centers.

8. State Strategies

a. Building entrepreneurial capital

“We’ve been selling our best heifers.” – participant at a forum hosted by the Southern Growth Policies Board, in reference to brain drain from rural areas.

Like in other areas such as education, human capital, that is, human innovation and ideas, rather than technology or economic forces, are at the forefront of entrepreneurship.

Entrepreneurs must think creatively and aggressively to implement new ideas. Entrepreneurs must also be equipped with the business acumen to develop a raw idea into a business plan and a real profit-producing company. The communities in which they reside must support ideas that may seem disruptive of the status quo, especially difficult in the close-knit communities of rural regions. Entrepreneurial success can be furthered by states providing basic skills to the potential entrepreneurs themselves. These include marketing and advertising, legal, managerial, and budgeting and accounting skills. States can help facilitate this process by teaching innovators to be entrepreneurs through education and training and by improving attitudes toward entrepreneurship.

Two examples are the Center for Rural Virginia (CFRV) and its sister organization, the Council for Rural Virginia, are at the forefront of state support of rural entrepreneurial development in Virginia. Both state-sponsored organizations actively promote rural entrepreneurship at multiple levels of government and seek to shift the perception of entrepreneurship in rural areas. The Center for Rural Virginia is an advocacy group established by the Virginia state legislature to represent the interests of rural Virginia at the state level. Similarly, the Council for Rural Virginia is a collection of officials from various state and federal agencies, as well as Virginia and other businesses, whose aim is to promote rural Virginia at the federal level. According to an interview with the Center's director and records on its website, the Center for Rural Virginia has succeeded in reaching a large audience at various levels of society on the topic of rural entrepreneurship.

The activities of the CFRV reflect this goal: first, it maintains regular regional meetings of state and local officials and business representatives to identify issues facing rural communities, among which rural entrepreneurship and its promotion is a key factor. CFRV is also developing a financial resource directory for entrepreneurs and banks to better promote the interaction between the two. The goal of this program is to create a singular resource which lenders and borrowers can utilize to identify one another, thus engendering a smoother flow of capital between the groups.

Even Virginia's Governor Tim Kaine has involved himself in CFRV's activities, sponsoring a roundtable to promote awareness of the critical lack of broadband infrastructure in rural areas. When combined with its regular advocacy of rural areas, it is clear that CFRV is a strong example of a state-enabled organization that is shifting the paradigm towards a stronger focus on and better understanding of rural entrepreneurship.

In Pennsylvania, the Center for Entrepreneurial Assistance is the state's primary agency for promoting entrepreneurial growth. The center maintains individual Small Business Development Centers (SBDCs) throughout the state that provide grassroots entrepreneurial training to citizens. Many other states have similar programs. This training ranges from free consultation on business practices to educational workshops, and the sites maintain libraries of small business resources that are always on-hand. As part of Pennsylvania's overall economic stimulus plan, the SBDCs play an important role in creating a synergy with the efforts of the Enterprise Zones. These zones provide grants to localities that demonstrate financial need to build sustainable small business growth. Localities use these funds to promote specific businesses through grants, incentives such as tax cuts, and loans. The role of the Small Business Development Centers is to provide the education necessary for new entrepreneurs to better leverage the grants from the enterprise zone fund, thereby improving the overall efficiency of both programs. The SBDCs, like many state efforts to build entrepreneurial capital, appear to be passive programs that do not directly reach out to entrepreneur – they depend on interested entrepreneurs to approach the centers for help. These tend to not produce tangible results like microloan or microcredit programs which offer attractive financial assistance rather than educational help. They are also not necessarily targeted towards rural areas. However, the services they provide are critical for rural entrepreneurs to be able to properly utilize the funds provided by other programs.

According to Glen Sink, head of the CFRV, one of the largest obstacles is "the lack of encouragement to young people that you don't have to go to work for a major corporation to be successful." Sink expressed a sense of urgency at getting the entrepreneurial spirit into the hearts and minds of the state's young people, reflected in the Southern Growth Policies Board's 2008

slogan, "Youth--The Real Future of the South." To target the next generation of entrepreneurs, policymakers should look to models that have been successfully implemented elsewhere. The National Foundation for Teaching Entrepreneurship has created curriculum for middle school and high school students that focuses on teaching business skills like negotiation and pricing. The curriculum also includes a field trip to a local wholesaler, where students purchase in bulk and re-resell wares back in their community. The foundation also operates a two-week summer experience called BizCamp, which is an intensive program for 13-18 years that teaches them the essentials in formulating a business. It culminates in a competition to win small cash awards to fund start-ups developed during the camp.

States can also develop Invention Conventions. They can vary by state, but typically in this science-fair type competition, elementary students compete in two divisions to develop ideas into marketable products. Students compete at the school level before moving on to districts or regionals and finally a statewide competition. The projects can be incorporated into science or English lessons as students are asked to write narrative pieces justifying why their invention is needed and how they developed the physical product. Finally, community members are asked to help judge the projects, and the final state convention can be a celebration of the ingenuity of the state's youth. In the past these events have been limited to elementary age children, but attempts to copy the formula for young adults or aspiring entrepreneurs of all ages could also be effective.

b. Economic and Regulatory Strategies

Economic incentives have to-date been the modus operandi by which most states promote rural development and entrepreneurship. Thus, we expect this trend to naturally continue as states begin to look at rural entrepreneurship as one distinct package. There are, however, several means through which states can reform their economic incentives in ways which will

benefit entrepreneurs and society. To do this, states will need to move out of the mindset of simply attracting big business towards an understanding that accounts for a more diversified, mobile economic system of smaller businesses.

By tailoring grant and loan allocations toward small business entrepreneurs, particularly entrepreneurs who provide a rare valuable service to a community, states can promote the meeting of a crucial need of rural entrepreneurs: access to capital. Many small businesses, especially in distressed or rural areas (often interchangeable terms), have problems getting bank loans. Typically, this is due to the risky nature of their portfolios and the nature of investing in a less lucrative rural area. State programs, by lowering the risk threshold that banks and other lenders have for loans can greatly increase the chance that a small business will be able to secure funds and take off. Tax incentives and abatement – allowing a firm to not pay taxes for period of time - policies must not be thought of as just a tool to bring in large firms to a state, they must be considered as a mechanism which can aid small business by improving their access to capital. Something as simple as a 50% angel-investment tax credit, such as that created by Kansas in 2004, can provide a significant incentive to increase interest in rural small-business investment. To promote rural entrepreneurship, states need to discover new and innovative methods of providing economic incentives to both small rural businesses and the financial institutions which support them.

A recent legislative example of a promising state strategy to provide economic assistance to underserved small businesses which lack access to funding is the Nebraska Microenterprise Partnership Act, LB 327, of 1997. The act appropriates funding each year for dispersal to small businesses under the control of the Nebraska Microenterprise Partnership Fund (NMPF), a contractor also funded through the state. One intriguing facet of the act is the multi-tier system it

utilizes to generate matching contributions from private donors. Under this system, the NMPF first provides a 25% match of any state appropriations (raised by the NMPF through private donations and fund-raising). Next, the NMPF selects a number of actual micro-lending institutions that deal with entrepreneurs directly to receive resources; these organizations are required to match 25% of the funds, thus creating a large pool of financial resources available to entrepreneurs. Although these funds are set up to assist urban small-business owners as well, seven of the 12 organizations which received funds from the NMPF in 2007 were in rural areas. These funds also are linked to training that enhances the abilities of entrepreneurs to maximize the loans.

The NMPF is a model that other states could potentially follow to develop a functioning micro-loan infrastructure. The multi-tier system appears to be an effective method of leveraging additional funds while keeping state costs low. The judicious targeting of grant funds to proven loan agencies by the Nebraska Microenterprise Partnership Act greatly improves the ability of assistance to reach entrepreneurs.

Other states have implemented legislation to provide and promote microenterprise finance, including California, through AB 816. This act, passed in 2007, utilizes the Business, Transportation, and Housing Agency to disperse \$5 million in grants annually to microenterprise organizations, which, in-turn, pass it on to small businesses. Forty percent of the money must be used to aid organizations that serve rural areas. These funds can be used by the grantees to either directly provide grants to small businesses or to fund training and educational programs. The law requires the grantees to be small businesses (defined as five or fewer employees) and to lack access to traditional sources of funding. Additionally, at least 50% of the grantees must be low-income small businesses.

A third and more targeted example of state financial strategies is the aforementioned Kentucky Innovation Act, which sought to develop innovation as a means for developing entrepreneurship. The act legally bound the Kentucky Science and Technology Corporation to manage the Kentucky Enterprise Fund (KEF), which provides grant funds for high-tech small-businesses (defined as fewer than 50 employees). The KEF has a special program for rural entrepreneurs, entitled the Rural Innovation Fund. This fund provides grants specifically to rural firms that are engaging in high-tech industry with fewer than 50 employees. Any grants must be spent on a third-party company, which can provide expertise, research, and accounting, among other things. This is to make sure that the funds are being used to promote the actual development of new technology and ideas as opposed to just padding the firms' salaries. Although this is a highly specialized form of state financial assistance to small, entrepreneurial firms in rural areas, it does achieve the very specific goal of aiding small firms in developing their high-tech product that they may not have been able to afford before. The high-tech sector is currently lucrative, does not require huge property investment, and does not depend on an urban location. For these reasons, it is one sector that is highly attractive to those wishing to promote rural entrepreneurship. The Kentucky Innovation Act takes a step towards developing a core of modern small businesses in rural Kentucky.

Many states also possess online microenterprise networks – internet portals that allow entrepreneurs to connect with other entrepreneurs, researchers, angel investors and other sources of capital in an easier fashion. These portals come in various forms. Some, such as Network Kansas are authorized through the state legislature but are run by contractors. Others, like the California Investment Network, are owned and operated by private firms, while others, including Pennsylvania's PA Open for Business Site, are run by the governor's office. In Virginia, the

CFRV pairs with Entrepreneur Express. This agency does a number of impressive things. To begin with, its website is www.vastartup.org, which subtly and immediately emphasizes the importance of creating new enterprises. Second, the main page prominently features a box where users can get "live assistance from a Virginia Business Information Center representative." Or, users can call toll-free to speak directly with "experienced business counselors." All of the sites, regardless of who controls them, provide important support to entrepreneurs looking for sources of start-up capital. Awareness of and cooperation with these efforts on behalf of governors' offices would be a low-intensity option for improving access to capital sources.

Finally, major improvements to the regulatory environment must take place. States like Alabama and Connecticut are considering "one stop shops" where entrepreneurs can come to central locations instead of traveling in circles to get much-needed permits. In other cases, state regulation actually works against entrepreneurs. One survey respondent from Oregon told a story of how new reporting laws for independent wineries actually resulted in many stores dropping these independent wines from their sales inventories. Some of these regulations, while well-intentioned, do not consider the impact on small businesses.

c. Managing Research Universities

States that are thinking heavily about rural entrepreneurship are making use of research universities to promote the cause statewide. As entrepreneurship can be seen as an extension of education, in that entrepreneurs are constantly learning and developing new techniques in their fields, many community colleges and universities provide a unique opportunity to offer courses to assist up-and-coming entrepreneurs and many already do so. Research universities have also played a crucial part in the innovation of new technologies that can be utilized and improved

upon by rural entrepreneurs. Put more succinctly, research universities provide three important benefits that make them vital as sources of assistance for rural entrepreneurs. First, they provide courses and training to entrepreneurs, whether through their curriculum or otherwise. Second, as a center of research, they generate new ideas and technologies that entrepreneurs can improve upon. And third, as they grow with their community, universities will begin to establish outreach programs and other methods of aiding the community, which in-turn help local entrepreneurs (among other businesses).

Places of higher learning play important roles in reaching out to rural communities. State universities are often a rallying point for citizens, fostering state pride. Therefore, initiatives from these universities carry a lot of weight. Programs like the Cooperative Extension Service, originally developed for agricultural education, are starting to take on an entrepreneurial tint, providing resources to budding entrepreneurs.

Research universities are also a mechanism for involving younger generations in problems facing rural communities. This could be an important tool down the road in combating the problem of brain drain, as the next generation becomes involved in policymaking. As youth begin to learn about their communities and specific problems facing them, they can develop a sense of pride and a desire to solve them. There is the possibility that some youth will realize that rural communities do indeed face many difficulties and wish to move to more successful areas. However, a successful curriculum would demonstrate that although these problems exist, solutions exist as well. By participating in a program such as this, students would hopefully want to remain in their communities and help them develop.

A number of states have already leveraged their university resources in an effort to promote entrepreneurship, including rural entrepreneurship. For instance, Pennsylvania has

established a series of “Keystone Innovation Zones” (KIZs). KIZs are partnerships between universities and businesses or local development organizations that receive multiple benefits from the state, including grants and tax credits, to develop small businesses and innovations within the region. The zones bring universities and other groups together to collaborate in planning the small business development of the region in a manner that utilizes the research capabilities of the university and benefits all parties involved. Other states with strong geographic distribution of its colleges and universities in rural areas could use a similar strategy to foster high-tech entrepreneurial growth.

The Nebraska EDGE (Enhancing, Developing and Growing Entrepreneurs) program is an outgrowth of the University of Nebraska at Lincoln’s Center for Applied Rural Innovation, which actively promotes rural entrepreneurship from the perspective of a state educational institution. The EDGE program provides entrepreneurial training programs all over Nebraska which are led by local development organizations under the supervision of the university center. These programs cover topics including IT training, business planning, and management and human resources assistance. EDGE training programs stress one-on-one interaction between the instructors and the individual start-ups, a characteristic shared with a majority of entrepreneurial training programs. The important trait of the Nebraska EDGE program to recognize as a possibility for replication in other states is the use of the university administrative structure as a basis for a training program. Universities and their economic development offices possess an intimate understanding of their immediate region and many possess a strong understanding of similar regions throughout their states. Embedding a community entrepreneurial training program within a university provides stability and recognition for that program, as well as an

established administrative process, making it easier for the program to take off and begin making a difference.

One other path to promote research that identified by a number of respondents was the Small Business Innovative Research Program (SBIR) and the Strategic Technology Transfer Program (STTR). Both of these federal programs offer grant funds to small high-tech firms to develop technologies valuable to the federal government. Funding comes from over 10 agencies, translating into a potential windfall of additional support for entrepreneurs. State governments could certainly augment their own efforts by encouraging appropriate start-ups in their state to seek these grants.

d. Rural Infrastructure Development

On the whole, rural communities are allocated an average of \$500 per capita less in federal aid dollars than cities. This lack of funding has a range of effects on rural communities, including an inability to initiate new programs and a need to focus on proven programs that are known to bring results. This can also lead to a scarcity in funding for physical infrastructure, such as power lines and roads, which can lead to decay in their quality. This decay is on the one hand absolute, meaning that infrastructure requires upkeep that rural areas may be unable to meet due to shrinking budgets. The decay is also relative, as better funded urban areas will have infrastructure of superior quality and maintenance to rural areas. States are beginning to focus on transportation infrastructure, which will aid in bringing in supplies, as well as supporting industries such as tourism.

One of the biggest infrastructure challenges to come, however, will be the lack of broadband access and advanced telecommunications. One respondent listed broadband access as a "transformative technology" which will take entrepreneurs to a new level. In a global economy,

entrepreneurs are not just competing with Wal-Mart or a business in a neighboring town; they will be competing with businesses in nations like China and India. The internet is a double-edged sword, as it allows entrepreneurs to reach distant markets, but it also puts them into direct competition with foreign sellers of similar products which may have lower cost levels. Despite this, the access to markets should allow rural entrepreneurs to do more business than they otherwise would.

Additionally, access to broadband and advanced telecommunications can aid rural communities through the spread of information. Programs like long-distance learning are not possible without up-to-date Internet technology. Policymakers should consider the implementation of broadband similar to the rural electrification movement. Both are large infrastructure advancements that have the potential to pay large dividends in the future in terms of economic growth and development. Truly universal broadband may have to wait until federal action similar to the Rural Electrification Act of 1936, which made direct loans and loan guarantees to electric companies to expand into rural areas. Broadband appears to hold notable significance for rural entrepreneurs, given their need to reach outside markets. A rural community can provide only so much demand for products and services. By expanding broadband access, entrepreneurs (and non-entrepreneurs) will be better able to contact consumers, as well as generally lead higher quality lives. Because of this, we feel that broadband expansion will benefit rural areas in general and rural entrepreneurs in particular. State policymakers can advocate for expansion of Internet accessibility into rural areas, and they should look for innovative ways they can push broadband development forward.

Another California bill provides an example of recent legislative attempts at the state level to improve the infrastructure situation facing entrepreneurs. AB 1107, introduced in 2007,

mandates the California Business, Transportation and Housing Agency to analyze the transportation and shipping needs of California microenterprises with the assistance of a multi-agency advisory board. This board will also examine how existing legislation affects and assists microenterprises. Its recommendations will be used to modify the California Goods Movement Action Plan, the state's comprehensive transportation infrastructure plan, so as to better interact with small businesses. Bills such as this demonstrate an understanding on a state's part that small and entrepreneurial business play an important role within the economy, and that they have different needs from larger firms. Transportation infrastructure can be critical to aiding isolated rural small businesses in reaching markets. Given the need to get their goods and services to market, policies and analyses targeting intra- and interstate transportation infrastructure can greatly benefit rural entrepreneurs. Other states could benefit from a similar reassessment of the impact of their current infrastructure on small and rural businesses with little tailoring necessary.

In Oregon, another piece of legislation has sought to remedy deficits in infrastructure tailored to rural small businesses. The bill, the Small Business Opportunity Act, explicitly recognizes the role of small business in Oregon's economy (86% of Oregon businesses employ five people or fewer) and the need to support the development of new entrepreneurial businesses in 'distressed' areas (including rural areas). The bill appropriates \$1 million per year to be used by the Oregon Office of Economic and Community Development. This money will then be used to improve the infrastructure necessary to provide electricity, transportation and other services to rural entrepreneurs. The bill seemed to have strong support and was recommended to pass by the legislature. However, it appears to have died in committee, although we were unable to find out why. Despite this, it remains an example of state legislation specifically targeted to improve rural infrastructure.

e. Measure for Results

An important question to ask a state which aims to develop the entrepreneurial spirit in rural areas is how it will know whether or not its efforts have succeeded. The answers to these questions may be difficult to ascertain, but it is clear from general modern governance best practices that states need to set comprehensive strategies and benchmarks in order to develop effective and efficient programs. The vast majority of survey respondents fell into one of two camps: they measured either unemployment rate and/or job growth (40% of respondents), or they used no measure at all to rate the success of entrepreneurial policies (27%).¹ This trend became more evident when looking at states' self-assessments. It appears that although these are the most common methods of tracking entrepreneurial growth, they may not be the most effective. For instance, respondents from Kentucky, a state that, in our opinion, is actually leading the pack in rural entrepreneurship believed that their state was performing poorly. Other state responses expressed similar concern about efforts to track entrepreneurial growth.

In order for states to accurately measure where they have come from and where they want to go, comprehensive measurements subjects relevant to rural entrepreneurship must be used. While a perfect metric is likely not identifiable, we believe that a good start includes the following measures: human and financial capital created, standard of living, number of new business start-ups, and the number of federal and private grants received. States should also consider conducting surveys of grant-receiving entrepreneurs asking what efforts helped or what assistance they would have liked to have had.

States could also achieve success in benchmarking by developing metrics that focus on connecting very specific issues with rural entrepreneurship. This could include things like the

¹ Again, please note that these numbers refer to respondents and not states, so states with multiple respondents may be overrepresented

number of high school students voicing interest in becoming entrepreneurs, the number of participants at regional conferences on entrepreneurial issues or the amount of new business license applications received. These specific examples are metrics that have relevance for rural entrepreneurship. A growth in entrepreneurially minded students, participants in entrepreneurial conferences and new small business licenses can all indicate a trend toward increased state entrepreneurship. All of these would be numerical baselines from which a state can measure progress. Moreover, they steer the state towards accountability and results on metrics that will track numbers important for rural entrepreneurship.

While states may not be able to easily track or compile all of the same statistics that individual programs might, attempting to better coordinate benchmarking with program offices could be highly beneficial for governors' offices so as to better understand the state of rural entrepreneurship in their states. Individual program offices and non-governmental organizations are in the best position to obtain data on entrepreneurial development and the success of small businesses in rural areas, given their proximity to businesses at the ground level. By leveraging existing data and coordinating data gathering methods governors' offices can quickly develop a nuanced point of view. Precise measurement would also lend credence to claims of success or cries for help.

f. Philanthropic Partners and Non-state Programs

State governments possess a range of policy options that allow them to promote rural entrepreneurship on their own. Many of the policies identified, however, represent partnerships between state governments and contractors or non-governmental, non-profit organizations. Our research and survey results indicated that private and non-governmental organizations provide a significant amount of rural entrepreneurial development efforts. For example, we were able to

identify organizations in every state that focused on rural entrepreneurship within a region. A majority of respondents (68%) indicated that their state utilized or relied on non-state partners to promote rural entrepreneurship. These organizations comprise local business councils and training centers, specialized venture capital groups and angel investors, larger regional development initiatives seeking to develop an entrepreneurial movement in their areas, and specialized technical centers that focus on one area of technological entrepreneurial development. Such efforts can be found in nearly every state.

The prevalence of smaller, non-governmental development efforts is likely due to the fact that they are specialized to whichever region or goal they are promoting. Smaller organizations, those that are made up of far fewer employees than a state economic development office, are more focused and quickly come to comprehend the specific challenges facing potential entrepreneurs in a community and tailor its efforts to remedying them. Their independence from state legislative and executive demands allows them to pursue policies that may seem radical to many state officials. State government agencies may also lack the intimate familiarity with specific regions and communities to enact meaningful change and will likely have a generalized set of development objectives. States could certainly acquire this understanding with some effort, but it seems that it would be to a state's advantage to acquire it by partnering with and leveraging an organization that already possesses this knowledge.

Table 3. Sample non-governmental organizations

Organization Name	State	Policy Activities
Rural Development Initiative	Oregon	Conferences, coordination of other organizations, free public relations, and marketing, training, tech support and access to capital.
National Enterprise Development Corporation d/b/a	Montana and South Dakota	Entrepreneurial development, management systems, capital access while preserving traditional culture.
Regional Development Corporation	New Mexico	Partners with other groups to establish pathways for entrepreneurial development. Develops infrastructure through other groups and maintains a knowledge base to assist new businesses
Rural Economic Development Center, Inc	North Carolina	Micro-enterprise loan program, capital Access program, homegrown jobs workshops. Establishes business-to-business networks, local entrepreneurs' clubs, mentor/apprentice arrangements and regional angel networks,
Appalachian Regional Commission	Appalachian States	Access to capital (through committee recommendations, 12 new development venture capital funds), education and training (youth education, conferences, etc), sector-based development, support for incubators
Kentucky Entrepreneur Accelerator Network	Kentucky	Access to resources and technical assistance through internet portal.
Kentucky Highlands Investment Corporation	Kentucky	Microloans, targeted to greatly needy areas.
California Association for Microenterprise Opportunity	California	Training and technical assistance, education, advocacy
Rural Local Initiatives Support Corporation	37 States	Provides training and assistance to local and regional community development groups. Not all groups supported are focused on rural entrepreneurship (many are housing initiatives).
Coastal Enterprises, Inc	Maine	Small and micro loans to targeted businesses, as well as training and education
Network Kansas	Kansas	Provides an online portal to connect entrepreneurs to economic and educational resources
Mountain Association for Community Economic Development	Kentucky	Provides microloans to rural small businesses
Northeast Louisiana Delta Community Development Corporation	Louisiana	Training and assistance and loans to small businesses and entrepreneurs
Quitman County Development Organization	Mississippi	Microloans to non-bankable enterprises and startups
Rural Opportunities Inc.	New York (and regional)	Loans and training to rural small businesses
Nebraska EDGE	Nebraska	Training programs for entrepreneurs of various kinds (youth, agri-, start-up, micro, etc)
Midlands Venture Forum	Nebraska	Online Portal that provides Nebraska entrepreneurs with information and contacts. Also holds conferences and educational sessions

Funding for private and non-governmental initiatives can come from a number of sources, including wealthy donors, banks and the state or federal government. The W.K. Kellogg and the Ewing Marion Kauffman Foundations are the two primary sources of private funding for programs that focus on entrepreneurial endeavors (among other areas). They possess substantial budgets (\$286 million for Kellogg, \$2 billion overall budget for Kauffman) which they use to promote rural entrepreneurship through initiatives and grants. These organizations provide vital funding, without which many local development endeavors would not exist. Additionally, as these two foundations specifically target rural economic development or rural entrepreneurship as goals and already have a grantee-selection structure in place, it is often simpler for non-governmental development organizations to approach these foundations for funding rather than a state legislature, which may require extensive lobbying efforts. It is to the benefit of state governments, as many have already realized, to leverage these agile organizations in promoting their overall economic development goals in regard to rural entrepreneurship.

One such agency, the Rural Development Initiative (RDI), an Oregon non-profit organization which provides services for rural Oregon communities including strategic planning and training sessions was described by a survey respondent as “very effective.” They have assisted over 200 rural towns in progressing toward growth that focuses on developing the entrepreneurial abilities and business opportunities of community members. In terms of programs specifically promoting rural entrepreneurship, RDI provides these services through its Connecting Oregon for Rural Entrepreneurship (CORE) program. CORE focuses on five specific regions within Oregon in which it feels it is best able to provide assistance to potential entrepreneurs. Most of its services are training-oriented, with numerous workshops and outreach programs that teach potential entrepreneurs the financial, managerial, and innovative skills

necessary to start a small business. The largest of these workshops is the “Regards to Rural” series of annual conferences, which brings leaders from across the state to discuss topics in rural development. The majority of RDI’s funding comes from the Kellogg Foundation. According to Jim Azumano, CORE has been a successful partner of the state in promoting rural entrepreneurship, as it has reached hundreds of local business owners, fostering an entrepreneurial spirit that should result in increased small business growth. He hopes to see its funding extended beyond 2009.

The Rural Policy Research Institute's Center for Rural Entrepreneurship, located in Lincoln, Nebraska, is a research and policy center funded by the Kauffman Foundation. Since its inception in 2001, it has provided insights into the concept of rural entrepreneurship, producing reports on specific regions and state programs. The Center's reports provided us with a sound base of knowledge of the area of rural entrepreneurial policy and represent an important tool that states can use to inform themselves. The director, Deborah Markley, also provided us with a number of insights. Despite its position as a research organization dedicated to rural entrepreneurship, the Center faces a problem of outreach. Most of the Center’s work is on a request-basis: states, regions or organizations request research on a specific question. Although this practice is standard for many independent research institutions, this limits the dissemination of the report. States or regions that did not request the work may not be aware of the project’s results, which, for a topic such as rural entrepreneurship that has implications for regions all across the nation, is inefficient. The Center is making efforts to work with other organizations that can provide connections at a national (though not necessarily federal) level and is an example of an organization that governors could potentially leverage to learn more about rural entrepreneurship.

9. The Politics of Entrepreneurship

None of the proposals, suggestions, or examples contained above is controversial. In fact, a governor who adopted rural entrepreneurship as a focus would likely do well politically. Primarily, a focus on rural entrepreneurship as a vehicle for economic development demonstrates a nuanced understanding of the challenges facing rural communities and a sense of leadership to enact needed policies. By preparing his or her state for global competition, the governor would be relishing the challenge while promoting hope for the future. It would create a sense of purpose or mission within the state and among its people. Challenging its citizens to think creatively and aggressively, without reliance on traditional economic development policies would show bold leadership. Communicating to voters that they are they, as potential entrepreneurs and small business owners, are the direct beneficiaries of the funding and training that result from entrepreneurial policies is key. Moreover, promoting entrepreneurship can, at its core, consist of simply providing training and assistance potential entrepreneurs, cutting red tape for them, and finding and encouraging youth to become entrepreneurs in the future. None of these policies need cost the state vast amounts of dollars.

Promoting rural entrepreneurship is a challenge that may seem daunting to policymakers. It is often the case that so much needs to be done that no one really knows where to begin. Additionally, it will require efforts on all parts to create consensus between legislators and the executive branches, as well as a willingness to try new policies. To do this, we must avoid the traditional mentality of rural versus urban areas, with one improving at the cost of the other, and instead focus on solving the problems facing both.

10. Recommendations

Our recommendations stem from many of the state and non-state programs that we have highlighted above in addition to examples from research and the state surveys we conducted. In parenthesis following each recommendation is a list of states, programs, organizations or pieces of legislation that are illustrations of that recommendation. These lists are certainly not comprehensive, but they do provide a number of examples that readers can use to visualize what we are discussing.

1. There must be a **paradigm shift**, specifically from policy makers, in thinking about rural areas. Old ways of thinking about rural versus urban life need to be revisited. This paradigm shift must also reach rural residents. They need to view entrepreneurship and business ownership as not only a road to success, but as a way of life that can also bring success to an individual. Educational programs and governor-led advocacy can change the way both the state legislature and the population think about rural entrepreneurship. Specifically, policymakers must begin to view rural areas as untapped sources of economic growth, on par with urban areas (although requiring different solutions). They must then understand that old policies of buffalo hunting do not possess great long-term benefits for rural areas. Instead, entrepreneurship and the promotion of communities of homegrown small businesses must come to be viewed as a desirable and advantageous path to rural growth. (*Center for Rural Virginia, Rural Action Commission (Kentucky), Small Business Development Centers, Rural Development Initiative, Oregon's use of Ernesto Sirolli, an expert on entrepreneurship, as a motivational speaker*)
2. States must **reform tax and financial strategies** in order to encourage entrepreneurs, instead of, or in addition to past policies of simply bringing in large firms. Improved

access to capital is central, as is reducing tax burdens. This can be accomplished primarily through aid to loan agencies and abatements for rural small businesses during the start-up period. (*Kansas Angel-Investor Tax Credit, Nebraska Microenterprise Partnership Act, California AB 816, Kentucky Innovation Act, Pennsylvania Open for Business Site*)

3. States should **work with research universities** in the area of rural entrepreneurship. Universities, especially those in rural areas, typically possess a unique understanding of the circumstances in the region. They present an opportunity to combine that understanding with an existing apparatus for research and innovation, as well as strong administrative organs that can facilitate effective training and education programs. The development of partnerships between a region's universities and its entrepreneurial community brings many advantages to a region's entrepreneurs, including skills and technology, as well as new ideas. (*Nebraska Edge, Pennsylvania Keystone Innovation Zones, University of Kentucky Entrepreneurship Initiative Program*)
4. States should continue to **build and repair infrastructure** in rural areas. This refers not only to transportation and shipping, but also to information technology. State appropriations that promote rural broadband development are critical to entrepreneurial success. (*Center for Rural Virginia's broadband roundtables, California AB 1107, Oregon Small Business Opportunity Act*)
5. States should **encourage regional cooperation** among rural areas. Similarly to promoting cooperation between universities and entrepreneurs, cooperation among various localities in a region allows them to pool their resources and provide training to entrepreneurs around the region at potentially lower cost. The sharing of resources also

allows exchange of information and policy ideas, which should in-turn lead to more effective government and non-government programs, as well as a sense of community and shared goals of economic growth among the localities involved. (*Appalachian Regional Commission, Council and Center for Rural Virginia, Kentucky Highlands Investment Corporation, Rural Action Commission*)

6. Policymakers should **actively facilitate partnerships** between the state, and federal governments, rural entrepreneurs, and private/non-profit organizations. These organizations possess expertise and knowledge that a state can tap to better promote its policy goals at a lower cost. (*Rural Development Initiative (Oregon), Kellogg and Kaufman Foundations, Kentucky Science and Technology Corporation*)
7. States should work to **reduce bureaucratic obstacles** and facilitate an easy start-up process for new entrepreneurs. Entrepreneurs can often feel daunted by the amount of paperwork and bureaucracy they must navigate. This reduction in procedural hurdles facing entrepreneurs should have far reaching effects for both new and existing firms, making it more convenient and cheap for entrepreneurs to maintain their businesses. (*Small Business Development Centers, One-stop Shops and reductions in regulation*)
8. **Improve access to information** for rural entrepreneurs, including the requirements for starting a business, sources of revenue, small-business regulation and legislation, and potential markets for new ventures. Avenues such as internet portals and one-stop permit shops allow entrepreneurs to more easily enter and navigate the business environment. (*California Investment Network, Network Kansas, Midlands Venture Forum, Small Business Development Centers*)

9. States should **develop comprehensive measures for results**. As mentioned earlier, employment rate and jobs are the most common current measures of success or failure, and they tell only a small part of the entrepreneurship story. Communicating and collaborating with regional, local, and non-government organizations can provide state agencies with the data they need to properly assess entrepreneurial development in their state. (*Kentucky Innovation Network. Kentucky seems to be doing a good job of tracking metrics at a state level. The most improvement of any recommendation can be done here*)

11. Conclusion

Developing a valuable rural entrepreneurial infrastructure is a long-term process; building a large factory for a big firm may bring immediate results, but it lacks the same long-term growth potential of rural entrepreneurship. Potential entrepreneurs must first be convinced to follow-through with their ideas. They must then find the resources necessary to start and maintain a business easily accessible. These businesses must then find it relatively convenient to stay in business, and their examples must be shown to other potential entrepreneurs. State governments can play a large role in each step of this process.

One important point that we would like to stress once more is that rural entrepreneurship as we envision it can take the form of high- or low-tech business. Both can lead to sustainable development within a rural community. It will likely be easier to train entrepreneurs to engage in more traditional markets, but cutting-edge firms will likely bring greater profits and do more business. However, a mix of the two will likely be most successful.

As for what NGA can do in the future, survey respondents identified a number of suggestions that they feel would assist them in their efforts. First, they requested case-studies

illuminating state best-practices in rural entrepreneurial development. We suggest pursuing identifying case-studies and analyzing them in terms of our above recommendations. Second, they would encourage NGA to provide coordination, or possibly play the role of clearinghouse for pilot and start-up programs. A few respondents wanted NGA to examine and analyze regional entrepreneurship conferences so as to provide a specific best-practices recommendation. Lastly, we believe that NGA should continue to promote rural entrepreneurship through additional research that seeks to further merge the two fields of rural economic development and entrepreneurship.

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1.

* 1. Please answer the following background information.

Name:

State/Province:

* 2. What is your current position?

* 3. How long have you held your current position?

6 months or less

between 6 months and 1 year

between 1 and 3 years

more than 3 years

4. Please select which of the following you view as the largest obstacles to rural growth. Please select all that apply.

low levels of education

too little infrastructure

inadequate health care services

brain drain

Other (please specify)

5. On a scale of 1-5, with 5 being highest, how high of a priority does your state consider development of rural areas?

1

2

3

4

5

6. Does your state actively promote entrepreneurship in any form (tax benefits, subsidies, research institutions, business development, etc.)?

Yes

No

Other (please specify)

7. If the answer was yes to question 6, are any of those efforts to encourage entrepreneurship focused on rural areas?

Yes

No

8. If the answer was yes to question 6, what are some examples of efforts made by localities?

9. If the answer was yes to question 6, what efforts, if any, are being undertaken by any state agencies?

10. What measures, if any, have proven to be most effective?

11. What efforts, if any, has your state made to develop its entrepreneurial capacity (via education, training programs, etc)?

12. What efforts, if any, has your state made to improve the attitude of rural communities towards entrepreneurship?

13. What efforts, if any, has your state made to improve the economic and regulatory environment facing potential entrepreneurs?

14. How, if at all, does your state measure results of rural development?

15. How, if at all, does your state measure results of entrepreneurial advancement?

16. If the answer to question 15 was yes, how does your state measure their effectiveness? Check all that apply.

- Number of grants
- Number of patents
- Revenue generated
- Business start-ups
- Business collaborations

Other (please specify)

17. Does your state rely heavily on research universities playing a dominant role in developing entrepreneurs and their ideas?

- Yes
- No

Other (please specify)

18. Does your state actively facilitate the use of Department of Defense Small Business Innovative Research grants by rural entrepreneurs?

- Yes
- No

19. Does your state actively encourage citizens to seek grants from the U.S. Small Business Administration?

- Yes
- No

20. Are there any other federal partners with which your state has found success in promoting rural entrepreneurship?

Yes

No

If yes, please specify

21. If you answered yes to question 20, how did you discover those opportunities?

22. Does your state actively partner with any non-profits or foundations to promote rural development?

Yes

No

If yes, please specify

23. If the answer to question 22 was yes, how did the partnership begin?

24. Does your state actively partner with any non-profits or foundations to promote entrepreneurship?

Yes

No

25. If your answer to question 24 was yes, how did the partnership begin?

26. What assistance, if any, would be helpful from the NGA? Are there any resources on which your state could use more information or more investigation?

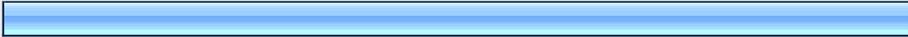
27. In our research efforts, we are attempting to find innovative state government programs geared towards rural economic development, especially those that encourage entrepreneurship. Is there a person or an agency in your state you suggest we speak with? Why do you recommend this person?

* 28. Would you be willing to spend 15 minutes speaking with graduate student researchers to follow up on these questions?

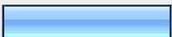
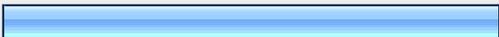
Yes

No

Thank you so much for your time. If you have any questions about this survey, please contact cmald2@wm.edu

1. Please answer the following background information.			
		Response Percent	Response Count
Name:		100.0%	22
State/Province:		100.0%	22
		<i>answered question</i>	22
		<i>skipped question</i>	0

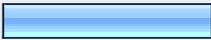
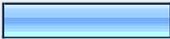
2. What is your current position?		
		Response Count
		22
		<i>answered question</i>
		22
		<i>skipped question</i>
		0

3. How long have you held your current position?			
		Response Percent	Response Count
6 months or less		9.1%	2
between 6 months and 1 year		18.2%	4
between 1 and 3 years		18.2%	4
more than 3 years		54.5%	12
		<i>answered question</i>	22
		<i>skipped question</i>	0

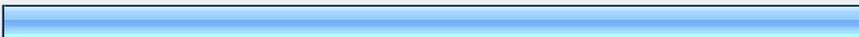
4. Please select which of the following you view as the largest obstacles to rural growth. Please select all that apply.

		Response Percent	Response Count
low levels of education		59.1%	13
too little infrastructure		59.1%	13
inadequate health care services		27.3%	6
brain drain		77.3%	17
Other (please specify)			11
		answered question	22
		skipped question	0

5. On a scale of 1-5, with 5 being highest, how high of a priority does your state consider development of rural areas?

		Response Percent	Response Count
1		4.5%	1
2		22.7%	5
3		18.2%	4
4		40.9%	9
5		13.6%	3
		answered question	22
		skipped question	0

6. Does your state actively promote entrepreneurship in any form (tax benefits, subsidies, research institutions, business development, etc.)?				
			Response Percent	Response Count
Yes		100.0%	22	
No		0.0%	0	
Other (please specify)			2	
answered question			22	
skipped question			0	

7. If the answer was yes to question 6, are any of those efforts to encourage entrepreneurship focused on rural areas?				
			Response Percent	Response Count
Yes		94.7%	18	
No		5.3%	1	
answered question			19	
skipped question			3	

8. If the answer was yes to question 6, what are some examples of efforts made by localities?			Response Count
			21
answered question			21
skipped question			1

9. If the answer was yes to question 6, what efforts, if any, are being undertaken by any state agencies?		Response Count
		22
answered question		22
skipped question		0

10. What measures, if any, have proven to be most effective?		Response Count
		19
	<i>answered question</i>	19
	<i>skipped question</i>	3

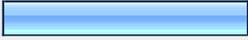
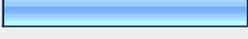
11. What efforts, if any, has your state made to develop its entrepreneurial capacity (via education, training programs, etc)?		Response Count
		20
	<i>answered question</i>	20
	<i>skipped question</i>	2

12. What efforts, if any, has your state made to improve the attitude of rural communities towards entrepreneurship?		Response Count
		20
	<i>answered question</i>	20
	<i>skipped question</i>	2

13. What efforts, if any, has your state made to improve the economic and regulatory environment facing potential entrepreneurs?		Response Count
		18
	<i>answered question</i>	18
	<i>skipped question</i>	4

14. How, if at all, does your state measure results of rural development?		
		Response Count
		18
	<i>answered question</i>	18
	<i>skipped question</i>	4

15. How, if at all, does your state measure results of entrepreneurial advancement?		
		Response Count
		19
	<i>answered question</i>	19
	<i>skipped question</i>	3

16. If the answer to question 15 was yes, how does your state measure their effectiveness? Check all that apply.			
		Response Percent	Response Count
Number of grants		80.0%	12
Number of patents		26.7%	4
Revenue generated		73.3%	11
Business start-ups		93.3%	14
Business collaborations		26.7%	4
		Other (please specify)	4
	<i>answered question</i>		15
	<i>skipped question</i>		7

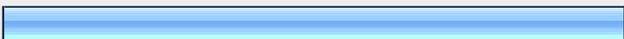
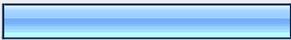
17. Does your state rely heavily on research universities playing a dominant role in developing entrepreneurs and their ideas?

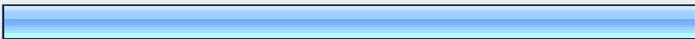
		Response Percent	Response Count
Yes		85.7%	18
No		14.3%	3
Other (please specify)			6
answered question			21
skipped question			1

18. Does your state actively facilitate the use of Department of Defense Small Business Innovative Research grants by rural entrepreneurs?

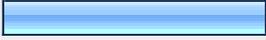
		Response Percent	Response Count
Yes		75.0%	12
No		25.0%	4
answered question			16
skipped question			6

19. Does your state actively encourage citizens to seek grants from the U.S. Small Business Administration?

		Response Percent	Response Count
Yes		68.4%	13
No		31.6%	6
answered question			19
skipped question			3

20. Are there any other federal partners with which your state has found success in promoting rural entrepreneurship?			Response Percent	Response Count
Yes			76.5%	13
No			23.5%	4
			If yes, please specify	15
			answered question	17
			skipped question	5

21. If you answered yes to question 20, how did you discover those opportunities?		Response Count
		12
		answered question
		12
		skipped question
		10

22. Does your state actively partner with any non-profits or foundations to promote rural development?			Response Percent	Response Count
Yes			71.4%	15
No			28.6%	6
			If yes, please specify	14
			answered question	21
			skipped question	1

23. If the answer to question 22 was yes, how did the partnership begin?		
		Response Count
		11
		<i>answered question</i>
		<i>skipped question</i>
		11
		11

24. Does your state actively partner with any non-profits or foundations to promote entrepreneurship?			
		Response Percent	Response Count
Yes		85.0%	17
No		15.0%	3
		<i>answered question</i>	20
		<i>skipped question</i>	2

25. If your answer to question 24 was yes, how did the partnership begin?		
		Response Count
		16
		<i>answered question</i>
		<i>skipped question</i>
		16
		6

26. What assistance, if any, would be helpful from the NGA? Are there any resources on which your state could use more information or more investigation?		
		Response Count
		15
		<i>answered question</i>
		<i>skipped question</i>
		15
		7

27. In our research efforts, we are attempting to find innovative state government programs geared towards rural economic development, especially those that encourage entrepreneurship. Is there a person or an agency in your state you suggest we speak with? Why do you recommend this person?

		Response Count
		17
	<i>answered question</i>	17
	<i>skipped question</i>	5

28. Would you be willing to spend 15 minutes speaking with graduate student researchers to follow up on these questions?

		Response Percent	Response Count
Yes		72.7%	16
No		27.3%	6
	<i>answered question</i>		22
	<i>skipped question</i>		0