Committee on Small Business Subcommittee on Rural Development, Agriculture, Trade, and Entrepreneurship

"Kick Starting Entrepreneurship and Main Street Economic Recovery"
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Testimony of Mark Rembert
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Introduction:

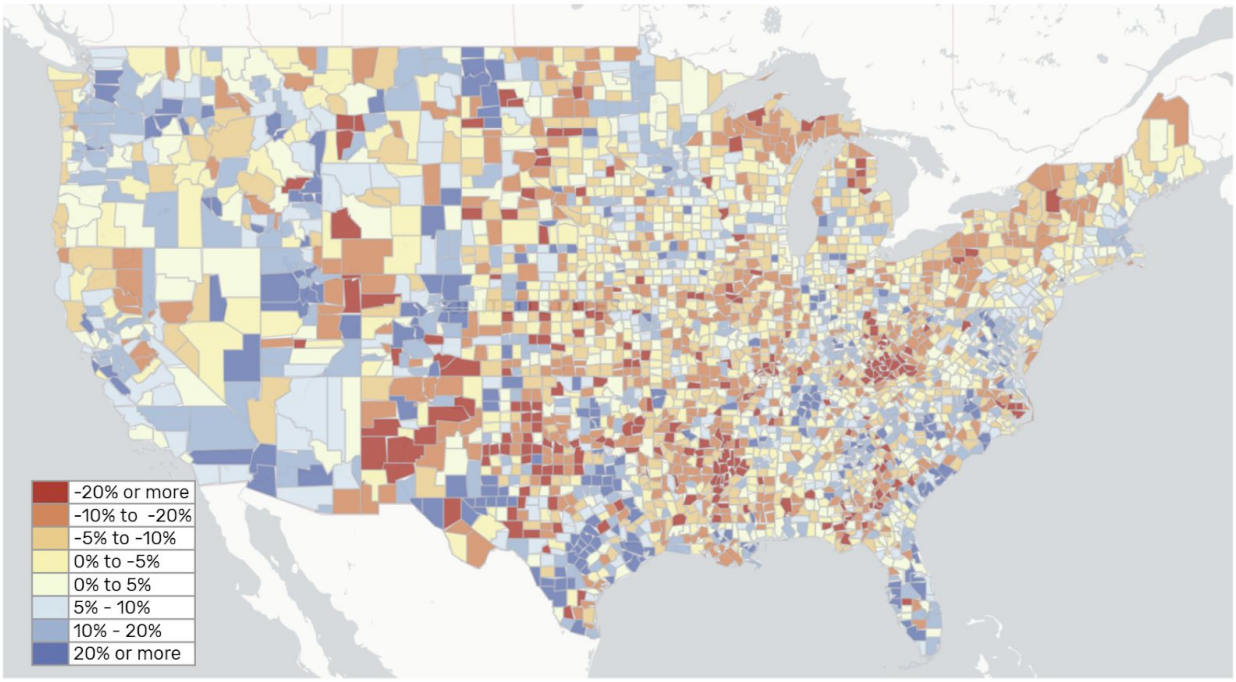
Chairwoman Finkenauer, Ranking Member Joyce, and Members of the Subcommittee, my name is Mark Rembert and I am the head of the Rural Innovation Network at the Center on Rural Innovation. I am a regional economist by training, with a focus on rural development, and I spent nearly a decade leading economic development efforts in my hometown of Wilmington, Ohio following the Great Recession. I am pleased to be here today to discuss the role of entrepreneurship in economic development.

Revisiting the Great Recession:

Before I discuss rural America's current economic challenges I'd like to step back and reflect on the effects of the Great Recession. The Great Recession was not only a deep and painful economic downturn, it also redistributed millions of jobs across regions of the U.S., resulting in growing geographic inequality. While urban and suburban communities have largely bounced back, rural places have failed to replace the jobs lost in the last recession, let alone grow their economies. As recently as February 2020, more than 1,200 non-metro counties had not recovered employment lost during the Great Recession, collectively losing nearly 1.5 million jobs.[1] These counties represent the majority of non-metro employment and population. This decline in rural economic dynamism has corresponded with decades of falling rural entrepreneurship.[2]

[1] Bureau of Labor Statistics Local Area Unemployment Statistics
[2] Whilmoth, D. (2017). The Retreat of the Rural Entrepreneur. U.S. Small Business Administration Office of Advocacy.

Figure 1: Change in employment from 2007 (annual average) to February 2020



Source: Center On Rural Innovation analysis of Bureau of Labor Statistics Local Area Unemployment Statistics

One key factor driving economic inequality has been the growth of the digital economy. Between 2002 and 2016, the share of jobs requiring digital skills tripled from 4.8% to 23%,[3] and digital economy employment grew at twice the rate as the economy as a whole from 2005 to 2018.[4] Yet, this growth has been highly concentrated in a few "superstar cities," and rural America has largely missed out on the economic opportunities it has created. Today, rural America is home to just 5% of the workers in computer occupations, even though it accounts for nearly 15% of the national workforce.[5]

One conclusion that we can draw from the Great Recession is that the standard model for rural economic development is broken. For the past several decades, the dominant approach to rural development has focused on farm payments, natural resource extraction, tourism, and industrial recruitment. The experience of rural communities during the Great Recession shows that this approach on its own has not delivered economic prosperity in the majority of non-metro communities. For Main Streets to

[3] Muro, M., Liu, S., Whiton, J., & Kulkarni, S. (2017). Digitalization and the American workforce. Brookings Metropolitan Policy Program.
[4] CORI analysis of Bureau of Economic Analysis data
[5] CORI analysis of 2018 5yr American Community Survey data

thrive, rural communities need high paying jobs in industries that are growing and resilient to economic shocks.

COVID-19 and the Digital Divide:

COVID-19 has laid bare the realities of the digital divide and the ways in which rural America is vulnerable. Lack of broadband availability in rural areas limits access to education, challenges employees forced to work remotely, and diminishes productivity for small businesses scrambling to quickly adopt technology and move their business online. While it is still too early to predict the long-term effects of the pandemic and recession, it seems likely that it will accelerate trends in automation as firms try to maintain operations while reducing staff to minimize the risks of spreading COVID-19. This could result in significant job losses in rural America.

Addressing the immediate economic issues faced by small businesses is critical, but it's not enough. Restoring rural America to its pre-COVID-19 trajectory will mean that most rural communities will continue to lag behind the rest of the country. Rural America needs a new economic model.

Digital Economies and Rural Entrepreneurship:

At the Center on Rural Innovation, we believe that for rural communities to thrive, they must participate in the digital economy. Through our work, we partner with diverse rural communities working to develop digital economy ecosystem strategies. We support them with programming and connect them with resources to execute on their strategy. A core component of this strategy is scalable tech entrepreneurship. We believe that closing the digital divide will require new scalable tech startups that can create digital jobs in rural places.

Supporting rural startups requires a very different model than supporting Main Street businesses. Just like their metro counterparts, rural startups need access to equity based risk capital, deep mentor and advisor networks that can connect them to a national or global customer base, incubator and accelerator programs to get the support they need to raise capital and grow, and a trained digital workforce to draw upon. Yet, in most rural communities, these resources are lacking or don’t exist.

Figure 2: The differences in programs needed to support high-growth entrepreneurs vs Main Street entrepreneurs

	High-Growth Firms	Main Street Businesses
Access to Capital	• Angel and R&D Tax Credits • Regional VC Support (SBIC) • SBIR/STTR • Scale Up Capital • Grants / Business Plan Competitions	• Bank Loan Guarantees (SBA) • Fintech / Challenger Banks • Tax Policy
Advice / Education	• Entrepreneurship, education, and mentorship programs • Startup academies	• Small Business Development Centers / SCORE Advisors
Ecosystems	• Accelerators / Incubators • Clusters	• Main Street Associations • Small Business Saturday

Source: Mills, Karen G., and Annie Dang. "Creating 'Smart' Policy to Promote Entrepreneurship and Innovation." *NBER Chapters* (2020).

For rural communities to participate in the digital economy, there needs to be a greater focus from all levels of government to build capacity and supply resources. Unfortunately, one of the biggest obstacles we encounter is the shared skepticism and doubt that rural America can in fact build thriving digital economies. But I am here today to tell you that based on our experience, we can confidently say that rural communities can *and are* building thriving digital economies. As the head of the Center On Rural Innovation's's Rural Innovation Network, I have the pleasure of working with leaders from 18 rural communities in 17 states that are at the forefront of digital economic development. Each community has a unique set of assets and challenge, but all are committed to building a digital economy in their rural communities:

Here are a few examples from our network:

- In Red Wing, Minnesota, Red Wing Ignite innovation hub created the E1 (Entrepreneurs First) Collaborative to build regional connectivity among entrepreneurs and ecosystem leaders across 11 counties in southeastern Minnesota. Through the E1 Collaborative, any new startup within the region will be able to access entrepreneurship support resources, receive educational offerings including Design Thinking and Lean Startup classes, and take part in 1:1 mentorship and funding guidance that is customized according to where that

entrepreneur is on their startup journey. During the second quarter of 2020 and the peak of COVID-19, the E1 collaborative provided virtual support to 734 entrepreneurs.

- In Durango, CO, SCAPE, the Southwest Colorado Accelerator Program for Entrepreneurs, is helping create more high growth, job-creating companies in Southwest Colorado by providing education, mentoring, and access to funding for startups and early-stage companies. Since its founding in 2013, SCAPE has worked with 31 startups that have raised $22 million in capital, achieved exits worth $170 million, and created 120 jobs.
- In Waterville, ME, the Central Maine Growth Council is leading efforts to develop an innovation hub strategy to support the growth of tech-based businesses that will drive local economic growth. Through a unique set of partnerships with institutions of higher education, career technical education, and a local coworking space, Central Maine Growth Council is leading the way towards building an accelerator program to support students, faculty, and community members as they start and grow scalable tech-based businesses.
- In Wilson, NC, the City of Wilson is leveraging its state-of-the-art municipal fiber network to build a 21st century economy. Led by GigEast, Wilson is developing an entrepreneurial ecosystem to support the growth of technology companies and accelerate local innovation. The city also understands the importance of educating and training future generations to participate in the local tech economy. Through WAAT, the Wilson Academy of Applied Technology, students are gaining digital skills and building a network of mentors from major local employers like Firestone, BB&T, and Purdue Pharmaceuticals who see value in hiring locally.

Supporting Rural America:

The federal government has already played an important role in supporting the success of the communities in the Rural Innovation Network. Each community in the Rural Innovation Network has received technical assistance from CORI's sister organization, Rural Innovation Strategies, Inc (RISI) through a cooperative agreement with the Economic Development Administration (EDA). RISI supports communities as they develop digital economic development strategies, and then provides assistance as they apply for the EDA's Build to Scale Venture Challenge program (formerly the i6 program). This program is unique within the federal government for its focus on building regional entrepreneurship ecosystems to support the growth of scalable businesses. RISI has worked with 18 rural communities over the past two years. Last year, 3 out of

the 8 communities that RISI supported received an i6 grant (now Build to Scale)[6], raising more than $5.6 million in grant funding and local matches to expand their digital economy ecosystem work.

After a community develops their strategy, they enter CORI's Rural Innovation Network and receive ongoing support as they implement their strategy. From my perspective, the technical assistance RISI provided was absolutely essential to preparing the communities to submit successful i6/Build to Scale applications. Even though not every community that joins the Rural Innovation Network secures a grant award, the technical assistance they receive from RISI to develop their strategy is still of great value. It provides them with a strategy and a foundation from which they can continue to grow their digital economy.

There are also other federal programs that can help accelerate scalable entrepreneurship in rural America. The SBA's Small Business Innovation Research program has a strong track record of spurring innovation that creates jobs by funding research and development aligned with federal priorities. In theory, the SBIR can offer a critical source of capital for rural tech entrepreneurs. Yet, the SBIR awards are highly concentrated in non-rural areas and reflect the geographic concentration of the tech industry. Over the history of the SBIR program, half of the SBIR awards have been made to firms located in just 5 states--California, Massachusetts, Virginia, Maryland, and Colorado, and according to Brookings Institution, just over 3% of awards have been to firms located in rural areas.

Looking Forward:

The Build to Scale program and SBIR programs illustrate two key insights for the role the federal government can play in supporting tech entrepreneurship in rural communities. First, the Build to Scale program offers evidence that federal programs can accelerate the development of digital economy ecosystems in rural areas. While federal support for rural small businesses has traditionally focused on Main Street businesses, there should be more focus on supporting programs that build innovation driven entrepreneurship ecosystems like Build to Scale. Second, the SBIR program shows that availability of federal funding alone is not enough. Adopting a new economic model is difficult work, especially in rural areas where resources and capacity are often scarce. Without targeted funding for technical assistance to promote access in rural areas, programs aimed at supporting scalable entrepreneurship are likely to end up concentrated in areas where tech jobs already exist.

[6] Red Wing Ignite from Red Wing, MN; 20Fathoms from Traverse City, MI; Codefi and the Marquette Tech District Foundation from Cape Girardeau, MO.

There are several other federal programs that can contribute to the development of rural entrepreneurial ecosystems--Small Business Investment Company program, the Rural Business Investment Company program, and the new Rural RISE program the USDA enacted as part of the 2019 Farm Bill. As we focus on recovering from this current recession, I encourage you to expand programs like these that support innovation based entrepreneurship, but do so with a specific focus on increasing access in rural areas. This can include changing that eligibility requirements to make the programs more accessible to rural communities, and ensuring that funding is allocated for technical assistance. While there is still great uncertainty about the long-term effects of COVID-19, one thing that we know for sure is that rural America can't wait for the next recession to join the digital economy. In the age of the Internet there should be no limit to where digital economy jobs and scalable entrepreneurship can take place.