

Strategies to Revitalize Rural America

Strategy #2: Small Entrepreneurship

Rural Economic Development Depends on Small Entrepreneurship

The most effective and desirable economic development strategy for many agricultural communities is small entrepreneurship – development based on locally owned and owner operated small businesses.

Often called micro enterprise development, small entrepreneurship has been proven to work in the agricultural areas that have not been successful in attracting manufacturers or other large employers from outside. In Nebraska's farm and ranch counties, over 70 percent of the net job growth is coming from non-farm self-employment, people creating their own jobs.

It works because the people in these areas have an entrepreneurial bent. Farm and ranch counties in the nation's mid-section have long had two to three times the rate of self-employment as metropolitan counties. It has worked in Nebraska in part because of deliberate efforts to cultivate small business development.

Small entrepreneurship is especially important today, as opportunities shrink to attract large employers to remote rural areas. Companies that formerly looked to rural communities for lower wage labor are now moving offshore for even lower wage labor.

There are also social advantages to development strategies based on small entrepreneurship. It keeps profits in the community. It creates a mix of opportunities. Small business development creates some low wage jobs, but it also provides significant numbers of opportunities for people to build assets and earn middle class incomes as business owners. In an era when real wages are falling in many industries, creating a chance for people who work to be business owners creates more equality and opportunity.

Finally, nurturing locally owned businesses puts the economic future of the community in the hands of its own members – people committed to its future. That builds local leadership and reduces dependency on outside forces.

The importance of local ownership was recently illustrated for me by a community developer from a rural Appalachian mining community. She said the people of her home community grew dependent on the mining corporations for income and employment. Over time, they lost faith in their capacity to take charge of their own future. So she was working on small business development to break dependency on outside corporations and rebuild the capacity of the community to control its own future.

We are not starting from scratch in family farm and ranch communities. We have the good fortune to have inherited communities with strong traditions of self-employment and small scale entrepreneurship. We should never lose sight of the value of that. We should nurture it and build on it.

Strategies to Nurture Small Entrepreneurship

Most small enterprise development strategies have been based on public/private partnerships – typically non-profit organizations working with rural communities and rural people often with partial government funding. The Center's Rural Enterprise Assistance Program (REAP), which works in rural Nebraska, provides a model for nurturing entrepreneurial development in agricultural communities.

REAP provides loans, training, networking, and technical assistance opportunities for startup and existing rural businesses (with 5 or fewer employees) across Nebraska. REAP works with communities in forming local associations of entrepreneurs, through which it makes business loans, provides extensive training on business management, and assists entrepreneurs in developing business plans. REAP also makes loans and provides technical assistances to individuals who are not part of local associations.

REAP partners with other institutions and service providers. It partners with the University of Nebraska to provide electronic commerce and business management training. It receives grant and loans funds from the U.S. Small Business Administration, the Nebraska Department of Economic Development, the Nebraska Micro enterprise Partnership Fund, and private sources.

REAP works closely with local banks. The majority of its clients do not receive loans, but rather training, technical assistance, and business planning services that make them better customers for local banks.

More than 2,000 rural businesses have been assisted by REAP. They include, for example, wood craft businesses, bird house makers, a pottery maker, picture framers, a Christmas tree ornament maker, a meeting planner, caterers, day care centers, a fitness center, tanning salons, carpenters, auto repair businesses, makers of wooden barrels and casks for movie sets and many, many others.

While REAP is the nation's largest rural provider of such services, it is not alone. There are a number of programs across the region that communities can tap for such services. To learn more about where your community can obtain these services, in Nebraska contact Jeff Reynolds with the Center 402.656.3091, jeffr@alltel.net . Outside of Nebraska, contact the Association for Enterprise Opportunity (AEO) at 703.841.7760 or via the web at www.microenterpriseworks.org.

There is also a need to expand the types of small enterprise development services available. A large proportion of rural business owners are nearing retirement age. The opportunity is ripe for establishing programs to link business owners nearing retirement with potential successors.

Such programs could assist the retiree and potential successor in planning a transfer and provide them with model contracts for transferring ownership in a manner that is workable and fair to both parties, including seller financing. Communities can help by

actively anticipating retirements and recruiting community members with entrepreneurial skills or perhaps young people who have left the community to take over.

Help in Tapping Bigger Markets

One key for increasing opportunities for rural small business is developing strategies to tap markets beyond the local area and link rural small businesses into larger regional economies.

Electronic commerce provides one opportunity to expand the market available to rural small businesses. Businesses with unique products have used it reach customers far beyond their home community. Training in electronic commerce is a critical element of small business development programs.

It might also be possible to use electronic commerce to link several small communities together in a single larger market that can support small businesses that otherwise would not be feasible. For example, some have proposed that retail and service businesses in a county or multi-county region link together on a single website where customers could go to find any good or service available in the area.

Perhaps the greatest opportunities for rural small enterprises to expand their markets lie in regional metropolitan centers. Rural areas have traditionally looked to large businesses in such centers to move a factory or call center into a rural community.

Perhaps instead, we should look to such businesses as a market for goods and business services provided by rural small businesses. Increasingly large businesses are “out sourcing” – focusing on the things they do best while contracting with outside businesses for other goods and services.

In Italy, small rural manufacturers have long worked through established networks to gain contracts to provide “out sourced” components to large Italian corporations based in metropolitan areas. These networks have provided a ready conduit for large companies to gain bids and contracts from many small rural manufacturing businesses – typically operating 10-person shops. The networks made it possible for small manufacturing firms to flourish in rural Italy by producing components for larger companies.

The Italian networks of small rural manufacturers may provide some lessons for rural small business here, though the opportunities of today are probably not focused in traditional manufacturing. There are opportunities in crafts and specialty manufacturing, and in providing business services to metropolitan businesses.

For example, Joy Marshall operates a service business called Performance Planners out of Arthur in the Nebraska Sandhills. It provides assistance in planning and organizing meetings to businesses in Omaha, Lincoln and across the state.

But it's hard for rural businesses to market to metropolitan businesses without established networks for doing so. To overcome that, perhaps consortia sponsored by both large

metropolitan businesses and small rural businesses should be formed to help them do business together. Alternatively, rural small businesses within a region could form cooperatives to market goods and services to metropolitan businesses in their region.

Small entrepreneurship is one of the most promising strategies for creating genuine opportunity in rural communities. But whether it reaches its full potential depends on whether more communities embrace it and public policy support it.

More government funding of small business development programs will be needed if all rural communities are to be served. And tax and business incentives programs now focused on large employers must be modified to provide support and incentives for small business development, as we discussed in our December Newsletter feature on creating a National Rural Policy.